

Senex Energy Limited

Downgrade to UW on relative outperformance, and limited visibility on some catalysts

*Senex has experienced a very strong share price run in the past fortnight, appreciating 20% from A\$0.675/share to \$0.81/share. It now trades at a modest 7% discount to our price target, in the context of a generally undervalued sector. We continue to think SXY has strong potential to grow its base oil business, but note the timeframe is weighted towards FY15+. There is also a lack of visibility regarding the timeframe to realise value for its CSG and shale assets. On a relative basis, we prefer BRU, AWE or AUT for upside potential. We are downgrading our SXY recommendation to **Underweight**.*

- Valuation gap closes significantly – time to switch horses.** SXY is now trading just 7% below our A\$0.86/share price target. We think it has benefitted from the positive sector news (particularly the BPT Chevron farm-in, and BPT-ORG gas contract) that confirms the tightness in the East Coast gas market post 2014. However proving up its Cooper unconventional gas will take substantial time, despite more promising flow results recently (e.g. Hornet-1 2mmscfd IP rate). SXY is shouldering the substantial capex by itself, and the timing is opaque regarding it finding a major farm-in partner. We also have little visibility on the sale process for the QLD CSG licences that was originally intended to happen in FY13 – it increasingly appears the M&A activity and price tension in this area has taken a breather. We think the Cooper oil business that underpins SXY's cashflows will not demonstrate a strong ramp up in production until FY15, because it will rely largely on new discoveries from the extensive 3D seismic work currently being undertaken.
- An upgrade to production guidance was unsurprising.** SXY upgraded FY13 guidance from >1mmbbls to 1.2mmbbls. Based upon its production run rate in Q1 and Q2, the original guidance was a rather conservative target, and the stock did not outperform on the news. The 2H production rate has been lower partly because two wells at Growler are offline (one workover is ongoing). We have reduced our full year forecast by -4% but remain above guidance at 1.24mmbbls as we believe the revised guidance is still set conservatively.

Senex Energy Limited (Reuters: SXY.AX, Bloomberg: SXY AU)

	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (A\$ mn)	16	67	140	163	212
EBITDA (A\$ mn)	(2)	20	56	81	123
Net Profit (A\$ mn)	(4)	9	40	60	52
EPS (A\$)	(0.01)	0.01	0.04	0.05	0.05
P/E (x)	NM	83.2	22.4	15.3	17.9
EV/EBITDA (x)	NM	33.3	13.0	9.2	6.1
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Normalised EPS (A\$)	0.01	0.01	0.04	0.05	0.05
Normalised EPS Growth	134.3%	(34.8%)	287.1%	45.4%	(14.2%)
Normalised PE	56.2	86.2	22.3	15.3	17.9

Source: Company data, Bloomberg, J.P. Morgan estimates.

Underweight

Previous: Neutral

SXY.AX, SXY AU

Price: A\$0.81

Price Target: A\$0.86

Previous: A\$0.88

Australian Energy

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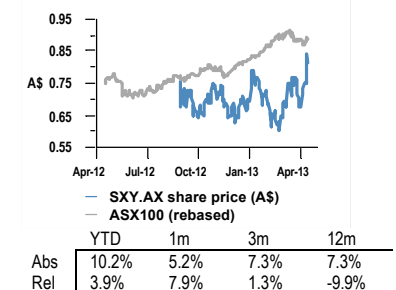
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J.P. Morgan Securities Australia Limited

Price Performance



Company Data

Shares O/S (mn)	1,141
Market Cap (A\$ mn)	924.05
Market Cap (\$ mn)	970.95
Price (A\$)	0.81
Date Of Price	15 Apr 13
Free Float(%)	-
3mth Avg daily volume (mn)	3.69
3M - Avg daily value (A\$ mn)	2.63
3m Avg. Daily Value (\$ mn)	2.8
ASX100	4109.50
Exchange Rate	0.95
Fiscal Year End	Jun

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Earnings and valuation revisions

Our revisions to our SXY earnings forecasts for FY13+ and our valuation are displayed in the table below. The impact is driven by -4% downgrades to production in FY13 and FY14 which reduce NPV by just -1%. Our risk weighted DCF valuation now stands at A\$0.86/share.

Table 1: SXY earnings and valuation revisions

	Revised	Previous	Change %
FY 2013			
Normalised NPAT (A\$m)	40.3	43.0	-6.4%
Normalised EPS (Ac)	3.6	3.9	-6.2%
DPS (Ac)	0.0	0.0	n/m
Operating CF(A\$m)	47.9	49.8	-3.8%
Op CF / share (Ac)	0.0	0.0	-3.8%
Oil price WTI (US\$/bbl)	91.4	91.4	0.0%
Exchange rate (US\$/A\$)	1.04	1.04	0.0%
Production (kboe)	1244	1292	-3.7%
FY 2014			
Normalised NPAT (A\$m)	60.3	61.6	-2.1%
Normalised EPS (Ac)	5.3	5.4	-2.1%
DPS (Ac)	0.0	0.0	n/m
Operating CF(A\$m)	68.1	71.2	-4.3%
Op CF / share (Ac)	0.1	0.1	-4.3%
Oil price WTI (US\$/bbl)	109.0	109.0	0.0%
Exchange rate (US\$/A\$)	1.05	1.05	0.0%
Production (kboe)	1355	1407	-3.7%
DCF valuation (A\$/shr)	0.86	0.88	-1.2%

Source: J.P. Morgan estimates

Price Target

Our revised SXY price target for Dec-13 is A\$0.86/share, which represents ~7% upside to the last spot price of A\$0.65. We carry an **Underweight** recommendation given the relatively slim discount to NAV, and because SXY is yet to monetise its QLD CSG assets, or farm out its Cooper unconventional plays – both of which are key to crystallising long term value.

Our DCF valuation includes a 100% risk weighting on a 20% success rate scenario for Cooper conventional oil exploration and a 70% risk weighting on reaching a 40% success rate on additional targets defined by its large 3D seismic program. For the Queensland CSG assets we risk weight our 1tcf gross development scenario at 60% and our more speculative Cooper unconventional gas 2tcf scenario at 20%. We employ a 10% WACC for SXY.

The key risks to our UW recommendation include the ability to define new oil targets or achieve a success rate that is typical in the Cooper Basin, the outcome of the planned monetisation process for the QLD CSG assets, and whether SXY can attract a farm in partner and/or show unconventional flows could reach commercial rates.

Sector Scenario Valuation Table

Oil price (LT Brent oil US\$/bbl) FX rate (LT A\$/US\$)			70 0.80		90 0.80		110 0.80	
Company	Valuation Scenario (incl. unrisks projects)	Share price (A\$)	DCF val (A\$/shr)	Upside to DCF	DCF val (A\$/shr)	Upside to DCF	DCF val (A\$/shr)	Upside to DCF
WPL	Base Case: Existing projects, Laverda 50%, CO2	36.00	32.37	-10%	38.62	7%	44.81	24%
	+ Pluto 2 assuming 3rd party gas only		35.58	-1%	41.84	16%	48.03	33%
	+ Sunrise FLNG		38.19	6%	46.21	28%	54.15	50%
	+ Leviathan onshore FLNG		42.11	17%	54.05	50%	65.93	83%
	+ either (A) Browse tie back to North West Shelf		44.47	24%	57.72	60%	71.32	98%
	+ or (B) Browse Floating LNG (31.3%)		45.44	26%	61.45	71%	77.34	115%
STO	Base Case: Existing projects excl growth LNG, CO2	12.40	3.66	-71%	4.85	-61%	5.88	-53%
	+ PNG LNG project T1/T2		8.43	-32%	11.07	-11%	13.48	9%
	+ 2 train GLNG		11.31	-9%	16.86	36%	21.98	77%
	+ PNG LNG T3 expansion		12.77	3%	18.96	53%	24.65	99%
OSH	Base Case: Oil business (excl. PNG LNG and debt)	7.30	0.88	-88%	1.06	-85%	1.24	-83%
	- less net debt, incl PNG LNG project debt		-1.39	-119%	-1.21	-117%	-1.03	-114%
	+ PNG LNG T1/T2		5.09	-30%	7.16	-2%	9.23	26%
	+ PNG LNG T3 expansion, 3tcf, 30% OSH share		6.42	-12%	9.26	27%	11.94	64%
	+ Mananda 5 development	6.50	-11%	9.46	30%	12.26	68%	
AUT	Base Case: EFS 80 acre well spacing, 164 wells pa	3.09	1.54	-50%	2.62	-15%	3.69	20%
	+ EFS well spacing to 60 acres (440')		1.86	-40%	3.59	16%	5.31	72%
	+ EFS well spacing to 40 acres (330')		3.45	12%	6.07	96%	8.68	181%
	+ AC well spacing to 80 acres, 70% of acreage		3.71	20%	6.40	107%	9.09	194%
BPT	Base Case: Incl. A\$23/t CO2	1.43	1.14	-21%	1.46	2%	1.78	24%
	+ GLNG Cooper Basin contract participation		1.12	-22%	1.49	4%	1.86	30%
AWE	Base Case: Incl. Netherby reserves, A\$23/t CO2	1.15	0.99	-14%	1.27	10%	1.53	33%
	+ Trefoil 2 & Rockhopper 1 unrisks		1.12	-2%	1.45	26%	1.77	54%
	+ Ande Ande Lamut (oil) unrisks		1.62	41%	2.26	97%	2.88	151%
	+ Risked exploration value upside		1.66	45%	2.33	103%	2.98	159%
SXY	Net debt/cash, other assets, corporate costs, CO2	0.81	-0.05	-106%	-0.05	-107%	-0.06	-107%
	+ Cooper oil (20% expl success)		0.32	-60%	0.37	-54%	0.42	-48%
	+ Cooper oil (40% expl success)		0.48	-41%	0.57	-30%	0.65	-19%
	+ Queensland CSG (1 tcf gross)		0.78	-3%	0.87	7%	0.95	18%
	+ Cooper unconventional gas (2 tcf)		1.52	88%	1.74	115%	1.97	143%
BRU	Net debt/cash, other assets, corporate costs, CO2	2.20	0.07	-97%	0.07	-97%	0.07	-97%
	+ Ungani oil (20mmbbls)		0.71	-68%	0.87	-60%	1.02	-54%
	+ Valhalla initial development (1 tcf, 50mmbbls)		0.86	-61%	1.52	-31%	2.13	-3%
	+ Valhalla stage 2 (2 tcf, 100mmbbls)		2.52	15%	3.47	58%	4.41	100%
	+ Conventional oil targets		7.91	260%	10.55	380%	13.19	500%
ROC	Base Case: CO2, excl. Beibu Gulf and Expl. Value	0.48	0.17	-64%	0.21	-57%	0.24	-50%
	+ Beibu Gulf, Exploration Value		0.44	-8%	0.50	4%	0.55	15%
	+ Balai Cluster Malaysian RSC		0.72	49%	0.82	72%	0.93	93%

Source: J.P. Morgan estimates

Senex Ltd

Underweight, PT: \$0.86

Share price A\$0.81
Shares o/s (m) 1140.2
Market cap A\$924m

Year end: 30 June

Profit & Loss Statement

(A\$ millions)	FY10A	FY11A	FY12E	FY13E	FY14E
Sales revenue	11	10	64	135	159
Other revenue	2	6	3	5	3
Total revenue	12	16	67	140	163
Production costs (incl royalties, CO2)	(4)	(6)	(28)	(49)	(48)
Admin (corporate)	(3)	(10)	(14)	(23)	(24)
Other costs	-	(1)	-	-	-
EBITDAX	5	(0)	25	67	90
Exploration write-off	(2)	(2)	(5)	(11)	(9)
EBITDA	2	(2)	20	56	81
Depreciation & amortisation	(1)	(2)	(12)	(20)	(21)
EBIT	1	(4)	8	36	61
Net Interest Expense	1	2	3	5	3
Pre-Tax Profit	2	(2)	11	41	63
PRRT	-	-	-	-	(3)
Corporate tax expense	0	12	(2)	(1)	(0)
NPAT (pre-significants)	3	10	9	40	60
Significant items (after tax)	0	(14)	-	-	-
Reported NPAT	3	(4)	9	40	60

Sales growth rate (%)		-6%	554%	110%	18%
Sales / boe	0.1	0.1	0.1	0.1	0.1
Cash costs (excl royalty) growth rate (%)		118%	159%	74%	-1%
Cash costs (excl royalty) / BOE	0.1	0.2	0.1	0.1	0.1
EBITDAX growth rate (%)		n/m	n/m	165%	35%
EBITDAX margin (%)	39%	-2%	38%	48%	56%
Effective income tax rate (%)	-4%	612%	16%	2%	0%
EPS reported (A cps)	(0.2)	(0.5)	0.9	3.6	5.3
EPS pre-sig diluted (A cps)	0.5	1.4	0.9	3.6	5.2
DPS (A cps)	-	-	-	-	-
Payout ratio (%)	0%	0%	0%	0%	0%

Cashflow Statement

(A\$ millions)	FY10A	FY11A	FY12E	FY13E	FY14E
Net op cash flow	7	(7)	21	48	68
Capex & Exploration	(20)	(14)	(68)	(166)	(72)
Asset Sales	0	0	-	12	-
Other investing cash flows	(25)	29	(4)	(22)	(22)
Debt drawdown / (repayment)	-	(8)	-	-	-
Equity funding	38	26	136	77	-
Dividends	-	-	-	-	-
Other financing cash flows	(1)	(1)	(4)	(3)	-
Net cashflow	(1)	26	81	(54)	(26)
OpCF / share (A cps)	0.0	(0.0)	0.0	0.0	0.1
Free CF	(13)	(22)	(47)	(118)	(4)
Free CF / share (A cps)	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)

Balance Sheet

(A\$ millions)	FY10A	FY11A	FY12E	FY13E	FY14E
Cash	37	42	124	70	43
Other current assets	3	8	25	43	53
Oil & Gas PP&E	28	83	93	106	118
Other non current assets	6	40	104	253	316
Total assets	74	172	346	471	530
Total debt	-	-	-	-	-
Other liabilities	5	15	46	54	53
Total liabilities	5	15	46	54	53
Shareholder funds	69	158	300	417	478
Net debt / (net cash)	(37)	(42)	(124)	(70)	(43)
Working capital balance	-	(1)	1	0	18
Ave diluted shares (m)	496	634	931	1,129	1,157

Source: J.P. Morgan estimates and Company data

Production Volumes (kboe)

Net volumes	FY10A	FY11A	FY12E	FY13E	FY14E
Cooper conventional oil	118	82	602	1,244	1,355
Cooper unconventional wet gas	-	-	-	-	-
QLD CSG	-	-	-	-	-
Other (Perth Basin oil etc)	5	-	-	-	-
Total BOE (000's)	123	82	602	1,244	1,355
% liquids	100%	100%	100%	100%	100%

Note: production shown as working interest

Oil & Gas Reserves

Last update adjusted for production	2P	EV/2P
Cooper oil (mmbbl)	7.2	
Cooper unconventional (mmboe)	n/a	
QLD CSG (PJ)	157	
QLD CSG (mmboe)	25.5	
Total mmboe	32.7	24

Key Commodity Price and Financial Rate Assumptions

	FY10A	FY11A	FY12E	FY13E	FY14E
A\$/US\$ FX	0.88	0.99	1.03	1.04	1.05
Brent Oil (US\$/bbl)	74.9	97.1	113.2	111.0	120.0
Henry Hub gas (US\$/mcf)	4.24	4.15	3.04	3.44	4.69
Australia CO2 price (A\$/t)	-	-	-	23.00	24.15

Financial Ratios

	FY10A	FY11A	FY12E	FY13E	FY14E
Price					
P/E reported (x)		(151.2)	86.2	22.3	15.3
P/E normalised diluted (x)		58.2	88.1	22.6	15.5
EV/EBITDAX (x)		(2,281.8)	30.6	11.5	8.6
P/GCFPS (x)		(69.7)	35.2	19.1	13.8
Dividend yield (%)		0%	0%	0%	0%
Performance					
ROE (%)		6.4%	3.0%	9.7%	12.6%
ROIC (%)		4.5%	1.7%	7.5%	11.4%
Gearing					
Gearing (ND/ND+E)		<0%	<0%	<0%	<0%
Interest cover (EBITDA/ cash net interest)		nm	-	-	-

Sum of the parts DCF Valuation at 10% WACC

	Risk wt.	A\$m	A\$	%
LT US\$90/bbl & US\$/A\$0.8				
Cooper oil (20% expl success)	100%	489	0.43	54%
Cooper oil (40% expl success)	70%	153	0.13	17%
Cooper unconventional gas	20%	200	0.18	22%
Qld CSG	60%	206	0.18	23%
Corporate costs	100%	(140)	(0.12)	-15%
Operational DCF		908	0.80	100%
Exploration (excl. risked scenarios above)		-	-	
Investments (OGY AU, etc)		3	0.00	
Misc financial assets/liabilities		5	0.00	
Other assets		8	0.01	
EV		917	0.80	
Net Cash / (Debt)		70	0.06	
Group Equity Value		986	0.86	
Current SXY share price			0.81	
JPM valuation upside to SXY share price			7%	

JPM Q-Profile

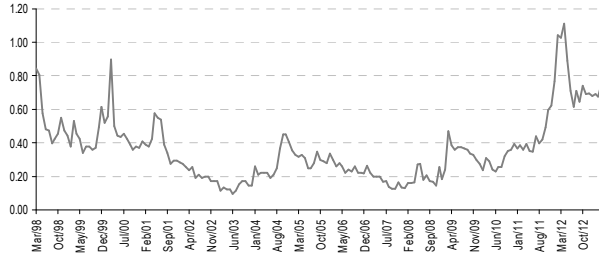
Senex Energy Ltd. (AUSTRALIA / Energy)

As Of: 12-Apr-2013

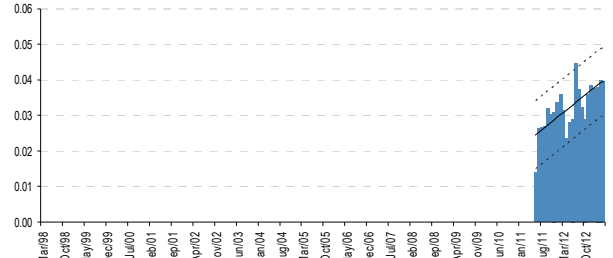
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

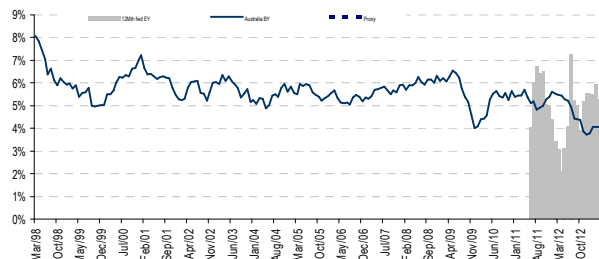
Local Share Price Current: **0.75**



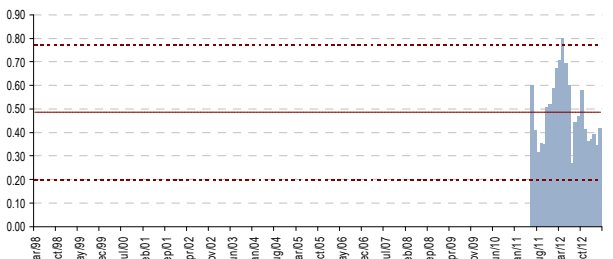
12 Mth Forward EPS Current: **0.04**



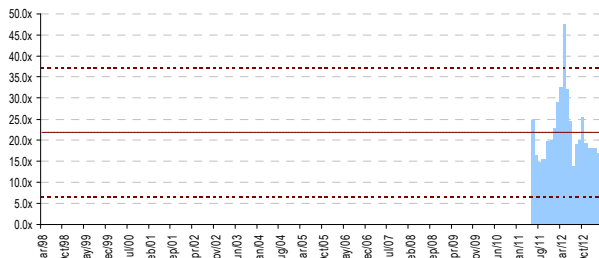
Earnings Yield (& local bond Yield) Current: **5%**



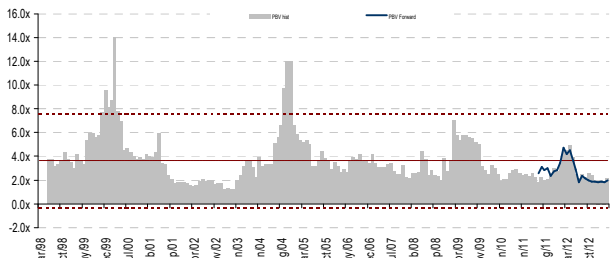
Implied Value Of Growth* Current: **41.87%**



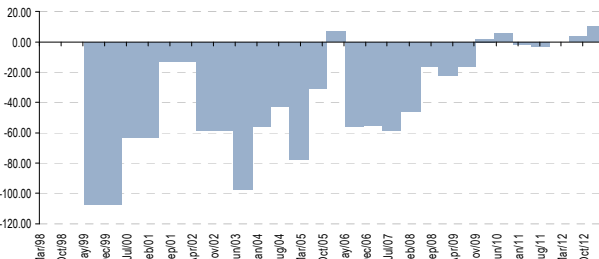
PE (1Yr Forward) Current: **19.0x**



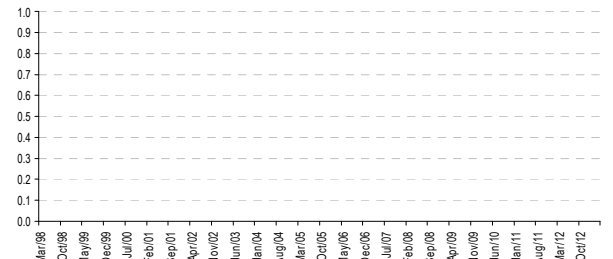
Price/Book Value Current: **2.1x**



ROE (Trailing) Current: **9.85**



Dividend Yield (Trailing) Current: **0.00**



Summary

Senex Energy Ltd.		SEDOL		6929325		As Of:		12-Apr-13			
AUSTRALIA						Local Price:		0.75			
Energy						EPS:		0.04			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	18.99x	13.77	47.58	19.26	21.88	37.15	6.61	-27%	151%	1%	15%
P/BV (Trailing)	2.14x	1.14	14.00	3.19	3.63	7.60	-0.34	-47%	555%	49%	70%
Dividend Yield (Trailing)	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
ROE (Trailing)	9.85	-107.25	9.85	-43.04	-37.32	32.65	-107.28	-1189%	0%	-537%	-479%
Implied Value of Growth	41.9%	0.27	0.80	0.44	0.49	0.78	0.20	-36%	91%	6%	16%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Other Companies Recommended in This Report (all prices in this report as of market close on 15 April 2013)

AWE Limited (AWE.AX/A\$1.15/Overweight), Aurora Oil & Gas (AUT.AX/A\$3.09/Overweight), Buru Energy (BRU.AX/A\$2.20/Overweight)

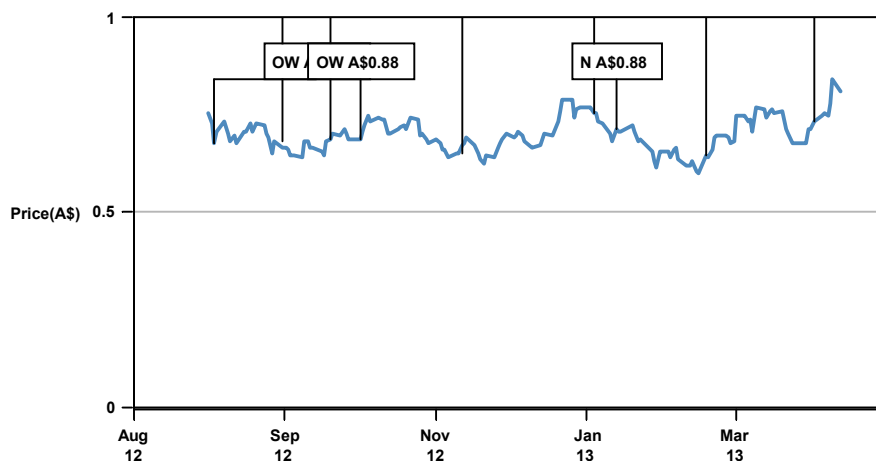
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Senex Energy Limited (SXY.AX, SXY AU) Price Chart



Date	Rating	Share Price (A\$)	Price Target (A\$)
30-Aug-12	OW	0.68	0.92
24-Sep-12	OW	0.68	0.89
11-Oct-12	OW	0.68	0.87
22-Oct-12	OW	0.68	0.88
28-Nov-12	OW	0.65	0.89
15-Jan-13	N	0.76	0.90
23-Jan-13	N	0.72	0.88
25-Feb-13	N	0.64	0.89
05-Apr-13	N	0.74	0.88

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 30, 2012.

31-Jan-12	OW	1.50	2.17
28-Feb-12	OW	1.78	2.26
04-Apr-12	OW	1.88	2.28
23-Apr-12	OW	1.91	2.19
30-Apr-12	OW	1.73	2.20
06-Jun-12	OW	1.60	2.19
26-Jun-12	OW	1.28	2.09
13-Jul-12	OW	1.39	1.85
31-Jul-12	OW	1.48	1.83
27-Aug-12	UW	1.60	1.75
11-Oct-12	OW	1.37	1.75
15-Oct-12	OW	1.39	1.76
30-Oct-12	OW	1.32	1.75
15-Jan-13	OW	1.20	1.83
30-Jan-13	OW	1.24	1.82
26-Feb-13	OW	1.33	1.84
05-Apr-13	OW	1.16	1.85

Aurora Oil & Gas (AUT.AX, AUT AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jan 25, 2012.

Date	Rating	Share Price (A\$)	Price Target (A\$)
25-Jan-12	UW	3.26	2.91
06-Mar-12	UW	3.40	3.10
30-Mar-12	N	3.88	4.05
04-Apr-12	N	3.78	4.03
30-Apr-12	N	4.15	4.11
15-May-12	N	3.88	4.16
06-Jun-12	UW	3.42	4.18
26-Jun-12	UW	2.92	3.98
03-Jul-12	UW	3.18	3.90
11-Jul-12	UW	3.25	3.89
24-Jul-12	UW	3.37	3.91
10-Aug-12	UW	3.48	4.01
11-Oct-12	UW	3.80	3.72
31-Oct-12	UW	3.90	3.64
19-Dec-12	UW	3.66	3.95
15-Jan-13	UW	3.63	3.75
31-Jan-13	UW	3.78	3.86
28-Feb-13	UW	3.66	3.95
14-Mar-13	N	3.58	4.15
05-Apr-13	OW	3.10	4.03

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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Coverage Universe: Butcher, Daniel: Aurora Oil & Gas (AUT.AX), Senex Energy Limited (SXY.AX)

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J.P. Morgan Global Equity Research Coverage	43%	44%	13%
IB clients*	54%	47%	38%
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IB clients*	74%	64%	57%

*Percentage of investment banking clients in each rating category.

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