

11 May 2009

Amadeus Energy

Hedging still works

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Lifting costs of US\$12.04/boe and a realised oil price of US\$35.82/bbl generated operating profit of US\$4.8m in the March quarter, and US\$1.6m after exploration and development costs, with four of eight wells drilled completed for production.

Mod-High Volatility

Target price
A\$0.60

Price
A\$0.29

Short term (0-60 days)
n/a

AMU90511

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	23.50	44.60	8.04 ▼	30.80 ▼	44.80 ▼
Reported net profit (A\$m)	3.12	-1.27	20.00 ▼	9.01 ▼	21.50 ▼
Normalised net profit (A\$m) ¹	3.12	30.70	-18.8 ▼	8.99 ▼	21.40 ▼
Normalised EPS (c) ¹	1.72	14.70	-9.47 ▼	4.53 ▼	10.80 ▼
Normalised EPS growth (%)	-66.8	756.3	n/a	n/a	138.6
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	16.90	1.97	n/m	6.40	2.68
EV/EBITDA (x)	6.14	2.47	13.00	2.90	1.36
Price/net oper. CF (x)	19.40	8.53	4.30 ▲	2.52 ▲	1.61 ▲
ROIC (%)	5.21	14.30	-2.45	7.90	14.90

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

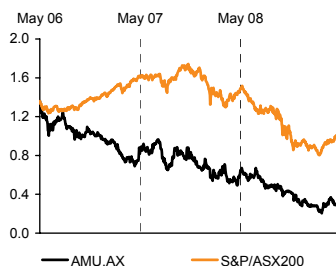
1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.29	0.28	0.57
Absolute (%)	-1.7	1.8	-49.6
Rel market (%)	-9.7	-10.4	-26.8
Rel sector (%)	-15.0	-16.2	-23.1



Market capitalisation
A\$57.53m (US\$43.47m)

Average (12M) daily turnover
A\$0.07m (US\$0.06m)

RIC: AMU.AX, AMU AU
Priced at close of business 8 May 2009.
Source: Bloomberg

Analyst

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March quarter 2009 – some low-margin production shut in

Oil production was down 13% at 109,417bbl (125,418bbl previously) and gas production off 11.1% to 366,169mcf (411,416mcf previously). This reflected the shut-in of uneconomic production. Revenue from operations was US\$6.7m (US\$11.2m previously) with the weaker prices and lower production. It reflected US\$1.1m from hedging, with 72,000bbl delivered into the hedge with a floor price of US\$55/bbl. After production costs net revenue was US\$4.8m, and after exploration charges cash flow was US\$1.6m from operations.

For June half 2009 and beyond – we expect good margins to remain

AMU has committed to deliver 24,000bbl of oil per month throughout 2009 into its hedge. The US\$55.00-85.30 cap/collar will deliver a minimum of US\$55/bbl for an estimated 60% of oil production. AMU reports that it expects to maintain operating margins in the short to medium term, and we anticipate maintenance of the operating performance from the March

quarter throughout the balance of the year. Given the lower cash flow we project a lower exploration spend, but we retain a projected full-year operating profit of A\$20.0m after the exploration writedown of A\$18.2m in the December half.

And the balance sheet

Current borrowings remain at A\$56.8m. A US\$46m facility at LIBOR plus 2.0% is drawn down to US\$39m and matures on 29 November 2009. At 31 December 2008 current assets were A\$20.4m against current liabilities of A\$1.6m, excluding the A\$56.8m in borrowings. AMU has strong cash flow with its oil price hedge, and is well placed to service and refinance this debt. It has scaled back its exploration and development programme, although it will maintain an active exploration schedule that may add substantial value.

Company overview

Amadeus Energy (AMU) is a publicly listed oil and gas producer and explorer based in Perth, Western Australia. The company owns long life proven producing oil and gas fields in the US, primarily in Texas, Kansas and Southern Oklahoma. The primary objective of Amadeus is to acquire, upgrade and expand proven and probable onshore oil and gas reserves to increase production and cash flow, together with identifying and participating in exploration opportunities. By maintaining a balanced debt/equity mix and small debt payback periods on acquisitions, Amadeus has been able to reinvest up to 75% of net operating cash flow to enhance and grow company assets.

TNT Engineering Inc of Wichita Falls, Texas is the managing petroleum engineer overseeing US operations. By searching and identifying producing properties that fit the company's investment and production criteria, Amadeus has formulated a strategy to enhance production and cash flow by increasing recovery through water flooding, drilling moderate risk step-out wells on established producing leases, upgrading existing recovery systems and cutting operating costs. All oil produced is committed through sale contracts to major refining companies in Texas. The company has achieved steadily climbing production levels through its field enhancement activities, timely acquisitions and exploration.

March quarter 2009 production

AMU realised an average oil price of US\$35.82/bbl, compared with the WTI average for the quarter of US\$43.31/bbl. Despite 72,000bbl sold into hedged production, the received price was below the three-month average, reflecting the timing of deliveries.

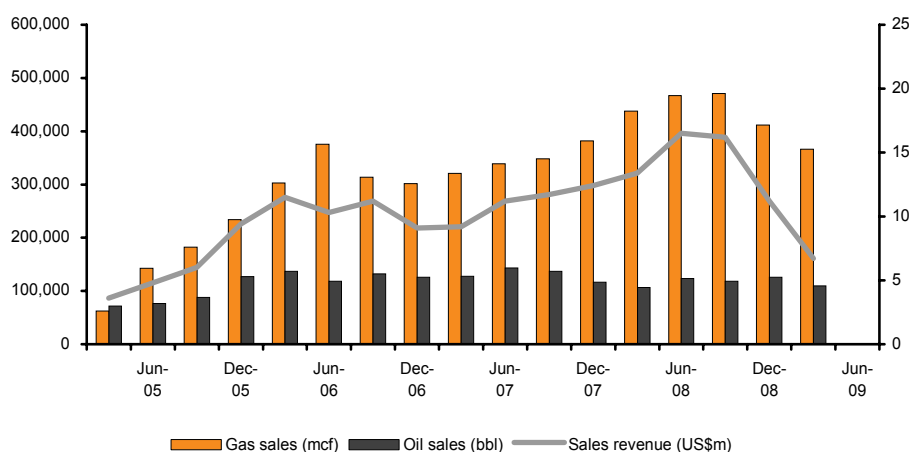
Chart 1 : WTI oil price – March quarter 2009



Source: IRESS

Oil production was down nearly 13% at 109,417bbl (125,418bbl previously) and gas production was off 11.% to 366,169mcf (411,416mcf previously). This reflected the shut-in of uneconomic production, with oil and gas production both down. Revenue from operations was US\$6.7m (US\$11.2m previously) with the weaker prices and lower production.

Chart 2 : Quarterly production (LHS) and revenues (RHS)



Source: AMU; ABN AMRO Morgans

March quarter 2009 exploration and outlook

Amadeus classifies its wells as 'low-risk' and 'medium-risk' (effectively development and step-out wells), and 'high-risk' (exploration wells). Success in the low- and medium-risk wells enables AMU to incrementally increase its production profile and reserve base. Success in the high-risk exploration wells could prove transformational for AMU, and potentially enable it to move into a higher production/reserve league and to significantly higher-value multiples. Its current production and cash flow enable AMU to maintain its low- to medium-risk program and mount its high-risk exploration programme without recourse to shareholders.

Of the eight-well program in the March quarter, one medium-risk well was drilled in Texas, and was plugged and abandoned. Of the 7 higher risk wells, 4 were completed for production, with 3 of these at the Longville project, Louisiana, and the fourth at Falcon, Louisiana.

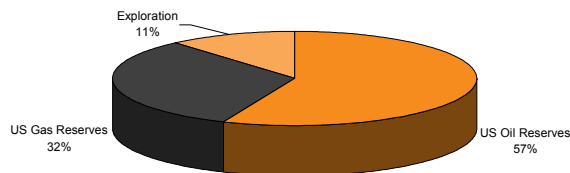
Valuation and risks

We value AMU's US assets on the basis of gas in place at US\$2.50/mcf and oil at US\$10/bbl. Coupled with some value for exploration upside of A\$0.18/AMU share, and offset by debt and projected corporate overheads of A\$0.50/AMU share, our valuation is now A\$0.81 per AMU share, previously A\$0.81. The target price of A\$0.60 remains, a discount of 25% to the valuation. The market still displays some aversion to junior resource companies with some debt, regardless of the demonstrated sustainability of the business plan and the track record of management, but this risk aversion appears to be diminishing.

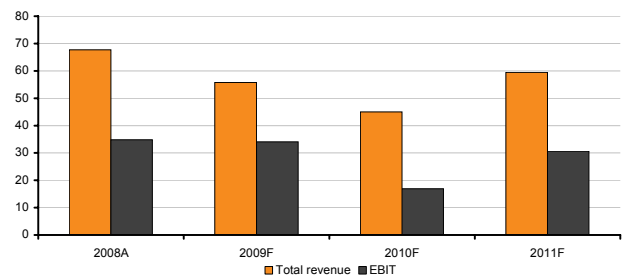
AMU – financial summary

Year to 30 Jun (US\$m)	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	AIFRS 2012F	Price target (A\$)	0.60
Income statement	2008A	2009F	2010F	2011F	2012F	Valuation (A\$)	\$ 0.81
Divisional sales	66.0	53.8	43.0	57.3	65.5	Valuation summary	A\$m A\$ps DCF valuation inputs
Total revenue	67.6	55.8	45.0	59.4	67.7	US Oil Reserves	143.3 0.72 Rf 5.25%
EBITDA	44.6	8.0	30.8	44.8	52.4	US Gas Reserves	82.0 0.41 Rm-Rf 6.00%
Depreciation & amortisation	-9.8	26.0	-13.8	-14.2	-14.9	Exploration	29.2 0.15 Beta 1.58
EBIT	34.8	34.0	16.9	30.6	37.4	Total operations	254.5 1.28 CAPM (Rf+Be 14.7%
Net interest expense	-7.3	-5.5	-4.1	0.1	0.1	Net Cash	-74.7 -0.38 Tax rate (t) 30.0%
Pre-tax profit	26.5	-10.2	12.8	30.6	37.5	Corporate & Other	-20.0 -0.10 WACC 11.35%
Income tax expense	4.2	-8.6	-3.9	-9.2	-11.3	Total valuation	159.8 0.81 Shares 198.4
After-tax profit	30.7	-18.8	9.0	21.4	26.3		
Minority interests	0.0	0.0	0.0	0.0	0.0		
NPAT	30.7	-18.8	9.0	21.4	26.3		
Significant items	-32.0	0.0	0.0	0.0	0.0		
NPAT post abnormalities	-1.3	20.0	9.0	21.5	26.3		
						Production (Mt)	2008A 2009F 2010F 2011F
Divisional sales revenue	2008A	2009F	2010F	2011F	2012F	Oil production (mmbbl)	462.1 446.9 469.2 492.7
Oil	40.1	29.2	21.1	30.8	36.2	Gas production (mmcf)	1635.0 1581.0 1660.1 1743.1
Gas	14.3	9.8	9.1	10.5	11.0		
						Key assumptions	2008A 2009F 2010F 2011F
Growth ratios	2008A	2009F	2010F	2011F	2012F	USD / AUD exchange rate	0.90 0.73 0.70 0.72
Sales growth	34%	-19%	-20%	33%	14%	Oil Price (US\$/bbl)	96.82 65.31 45.00 62.50
Operating cost growth	#DIV/0!	432%	-91%	-102%	10%	Gas Price (US\$/mcf)	8.46 6.22 5.50 6.00
						Per share data	2008A 2009F 2010F 2011F
Cash flow statement	2008A	2009F	2010F	2011F	2012F	No. shares	208.4 198.4 198.4 198.4
EBITDA	44.6	8.0	30.8	44.8	52.4	EPS (cps)	-0.6 10.1 4.5 10.8
Cash flow from ops (1)	7.1	13.4	22.8	35.7	41.2	EPS (normalised) (c)	14.7 -9.5 4.5 10.8
Capex (2)	-8.2	-8.2	-8.2	-8.2	-8.2	Dividend per share (c)	0.0 0.0 0.0 0.0
Disposals/(acquisitions)	9.9	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0 0.0 0.0 0.0
Cash flow from invest (3)	2.3	-7.6	-7.6	-7.6	-7.6	Dividend yield (%)	0.0 0.0 0.0 0.0
Incr/(decr) in equity	14.9	0.0	0.0	0.0	0.0		
Incr/(decr) in debt	-7.8	-30.0	-20.0	-20.0	0.0	Operating performance	2008A 2009F 2010F 2011F
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EBIT growth	168% -80% 195% 81%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	NPAT growth	n.m. -303% -55% 139%
Cash flow from fin (5)	7.0	-30.0	-20.0	-20.0	0.0	Normalised EPS growth	756% n.m. n.m. 139%
Forex and disc ops (6)	-0.2	0.0	0.0	0.0	0.0	Asset turnover (%)	370.7 151.0 120.7 160.9
Incr/(decr) cash (1+3+5+6)	16.2	-24.2	-4.8	8.0	33.5	EBITDA margin (%)	67.6 15.0 71.6 78.1
Equity FCF (1+2)	-1.1	5.2	14.7	27.5	33.0	EBIT margin (%)	52.7 63.3 39.4 53.3
						Net profit margin (%)	-1.9 37.3 21.0 37.5
Balance sheet	2008A	2009F	2010F	2011F	2012F	Return on net assets (%)	45.5 35.3 16.1 24.1
Cash & deposits	19.2	-5.1	-9.9	-1.9	31.7	Net debt (A\$m)	52.5 46.8 31.6 3.6
Trade debtors	8.7	28.1	28.1	28.1	28.1	Net debt/equity (%)	68.8 48.5 30.0 2.8
Inventory	2.5	2.5	2.5	2.5	2.5	Net interest/EBIT cover (x)	4.8 6.2 4.1 -450.2
Investments	2.0	2.0	2.0	2.0	2.0	ROIC (%)	14.3 -2.5 7.9 14.9
Other intangible assets	0.0	0.0	0.0	0.0	0.0		
Fixed assets	147.4	142.3	136.1	129.5	122.2	Comparable multiples (x)	2009F 2010F 2011F
Other assets	8.9	8.9	8.9	8.9	8.9	Amadeus Energy	EV/EBITDA 4.6 2.1 0.8
Total assets	188.7	178.7	167.7	169.2	195.4	Year to 30 Jun	PE -8.8 5.0 2.3
Short-term debt	0.4	0.4	0.4	0.4	0.4	Texon Petroleum	EV/EBITDA 4.6 3.2 1.7
Trade payables	3.6	3.6	3.6	3.6	3.6	Year to 31 Dec	PE 32.6 19.2 7.9
Long-term borrowings	71.3	41.3	21.3	1.3	1.3	Horizon Oil	EV/EBITDA 6.2 0.7 -0.1
Provisions	6.8	6.8	6.8	6.8	6.8	Year to 30 Jun	PE -900.8 1.8 1.2
Other liabilities	30.2	30.2	30.2	30.2	30.2		
Total liabilities	112.3	82.3	62.3	42.3	42.3		
Share capital	66.5	66.5	66.5	66.5	66.5		
Other reserves	0.0	0.0	0.0	0.0	0.0		
Retained earnings	27.1	47.1	56.1	77.5	103.8		
Total equity	76.4	96.5	105.4	126.9	153.1		
Minority interest	0.0	0.0	0.0	0.0	0.0		
Total shareholders' equity	76.4	96.4	105.4	126.8	153.1		
Total liabilities & SE	188.7	178.7	167.7	169.2	195.4		

Valuation breakdown



Total revenues and EBIT (A\$m)



Source: Company data, ABN AMRO Morgans estimates

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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

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A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

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Subject companies: AMU.AX.

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