BELL POTTER

3 October 2011

Analyst
Johan Hedstrom 612 8224 2859
Associate Analyst
Judith Kan 612 8224 2844

Authorisation
Justin Hilford 613 9235 1966

Jupiter Energy (JPR)

Kazakh oil production gets key approvals

Recommendation
Spec Buy (unchanged)
Price
$0.525
Target (12 months)
$2.42 (unchanged)

Expected Return

Capital growth	361%
Dividend yield	0%
Total expected return	361%

Company Data & Ratios

Enterprise value	$58m
Market cap	$61m
Issued capital	116m
Free float	67%
Avg. daily vol. (52wk)	0.5m
12 month price range	$0.45 - $1.17
GICS sector	Energy

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.60	0.77	0.62
Absolute (%)	-8.3	-28.1	-10.6
Rel market (%)	0.0	-12.9	4.4

Two Trial Production Licenses approved

JPR has announced that Trial Production Licenses (TPL) have been approved by the Kazakh Central Development Committee for wells J-50 and J-52. While production won't start immediately as other steps are required, this is very good news for JPR shareholders. The ability to commence oil production and exports of about 900bopd will signal the commencement of first cash flows for the company before year end. Subsequent TPLs should also be approved much quicker following the testing of upcoming wells. TPLs are for individual wells and valid for three years, ahead of a full field Production License.

Encouraging results at J-51 oil well

JPR also released some additional information on the J-51 well recently drilled in between the two existing wells, and it has intersected a thicker oil column than either of those. A net oil reservoir of 83m is 20% more than the J-50, and 38% thicker than the J-52 well. Flow testing will commence when a lower cost work-over rig arrives on site.

No change to valuation

The larger net oil column in the J-51 well is encouraging as it could indicate a potential 2P reserves upgrade from the current certified 24mmbbl. However, we are not making any adjustments to our valuation yet as we await production testing to be completed over the next three months and any commentary by the company.

A clear Spec Buy

We maintain a Spec Buy on JPR as it trades on a massive discount to its valuation of $2.42/share. JPR is the cheapest stock on the ASX for certified 2P reserves at around $2.50/bbl. The "Kazakhstan discount" remains excessive, particularly now that the concerns about regulatory approvals appear to have been allayed.

Absolute Price

SOURCE: IRESS

Earnings Forecast

Year ending 30 Jun	2011A	2012E	2013E	2014E
Revenue ($m)	-	26.2	55.7	110.9
EBITDA ($m)	(4.0)	10.2	28.2	65.9
NPAT - reported ($m)	(4.9)	(1.3)	3.1	16.4
NPAT - adjusted ($m)	(3.9)	(1.3)	3.1	16.4
EPS - underlying (c/sh)	(0.3)	(1.1)	2.7	14.1
EPS growth (%)		274%	-337%	432%
PER (x)	-174.5x	-46.7x	19.7x	3.7x
FCF yield (%)	-2%	-23%	-16%	-12%
EV/EBITDA	-170.1x	6.0x	2.5x	1.2x
Dividend (c/sh)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	-	-	-	-
ROE (%)	-12%	-3%	7%	31%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Some really good news from Kazakhstan

TPLs for both J-50 and J-52

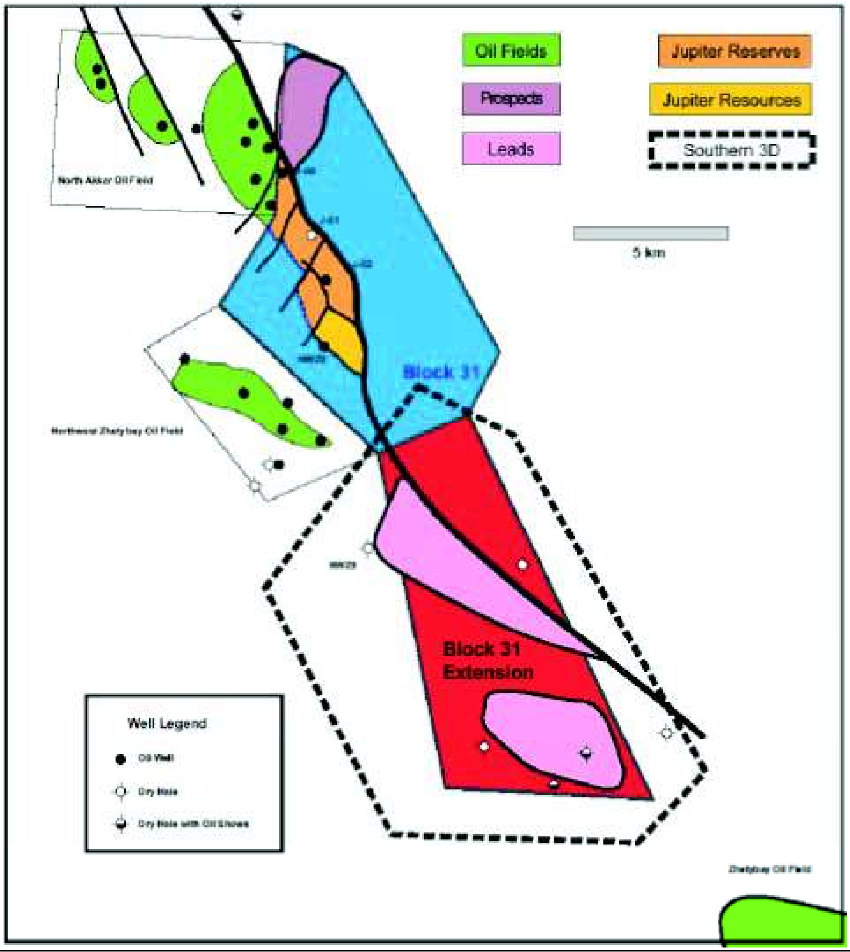
We were expecting a TPL for J-52 in October, but it is very pleasing to get a TPL for J-50 at the same time. The company has made no comment with regard to the unitisation of J-50 as this well was delayed because of its proximity to the neighbouring license boundary owned by MMG. We can only assume that a proportion of the oil produced from J-50 will be attributed to MMG, but whether this is 10% or 50% would be interesting to know.

Nevertheless the approvals are most welcome as it enables JPR to commence commercial oil production. The company states that once the written protocol is received in the coming week, a number of operational steps will be taken in order to start production. This includes some local approvals and a final agreement with a nearby collection point and pipeline transporter. The company “expects to begin production before the end of 2011” which is a longer time period than we had anticipated but may be a deliberately careful statement by the company to ensure the deadline can be met.

J-51 looks encouraging

The company also revealed some additional information on the J-51 well drilled in between the J-50 and J-52 wells, as shown on the map below.

Figure 1 - Block 31 Kazakhstan



SOURCE: COMPANY DATA

The J-51 well has intersected the Mid-Triassic reservoir pretty much as expected and while we still don't have some data, both the gross and net oil columns show an improvement on the previous two wells drilled. While the thickening of the reservoir is good, it is not until we confirm flow rates that any revision to reserves should be considered. This testing is about to commence and will take up to three months.

Table 1 - Well data in Block 31

Well results	J-50	J-52	J-51	Diff J-50	Diff J-52
Top of reservoir (m)	2,939	2,994	N.A.		
Gross reservoir (m)	110	104	161	46%	55%
Net reservoir (m)	69	60	83	20%	38%
Flow rate on 8mm choke (bopd)	360	516	Not yet		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

J-53 and J-54 next

The drilling rig is now moving to drill J-53 to the south-south-east of J-52. This will assess the extension of the structure and potentially increase the reserves by about 10mmbbl. This will be followed by J-54 to be drilled in the Extension area of Block 31, where 3D seismic has recently been acquired.

AIM listing and financing package

JPR continues with its plans to list on the UK AIM exchange and expects a compliance listing in October. Due to the weakness in equity markets, the company will not be raising any new equity funds at the time of the AIM listing, preferring to wait until 1H 2012.

This will allow oil production and cash flow to become established and the drilling results from both J-53 and J-54 to be incorporated for any revised reserves estimates.

In order to fund these activities, JPR has agreed to issue a US$3.45m convertible note with its 7% shareholder Soyuzneftegas. Key terms of the convertible note are as follows:

- Coupon rate 15%
- Term 24 months with interest payable quarterly in arrears
- Conversion price US$0.75, a premium of approximately 50% to yesterday's share price
- 4.6m shares to be issued if converted, representing 4% of issued capital.

While the coupon rate is high, it is not a large amount of money, and the conversion price is at a substantial premium to the market. We understand current cash is just under $10m so the additional funds are required in order to cover the next 12 months of expenditure, a requirement of a compliance listing on AIM.

COMPANY DESCRIPTION

JPR is an oil company with a single asset in Kazakhstan. Block 31 in the Mangistau basin is 100% owned and has drilled two successful oil wells to date. Reserves for the first two wells have been independently certified by Senergy Australia at 24.2mmbbl in the mid Triassic reservoirs. Additional reserves of 1-10mmbbl may exist in the younger Jurassic sandstone but a recent test in J-52 failed to flow oil, which was disappointing.

The oil is mainly found in mid Triassic reservoirs of low to average quality, and neighbouring oil fields show low recovery factors of the oil in place but long life, low decline rates for these types of wells.

INVESTMENT STRATEGY

The company enhanced its second oil well through fracking and will prepare a field development plan based on the results of the next round of drilling and testing of three wells. The reservoir is well suited to fracking which will maximise productivity and reserves recovery. Further enhancements may be possible through horizontal production wells but the company is not contemplating this approach yet. Enhanced recovery factors from oil-in-place of over 100mmbbl plus extensions of the existing license to the south-east represent future growth options in the short to medium term.

Longer term, the company will use its cash flow from Block 31 to expand into new licenses in Kazakhstan. The Board and management of JPR are very well connected and will look to grow the company from the current modest base.

VALUATION

Our valuation of JPR is $2.42/share. This is based on the assumption of a 24mmbbl oil field worth $1.96/share plus resource potential of 85mmbbl currently valued at $1/bbl or $0.71/share. Cash and corporate costs bring the net to $2.42.

An EGM held on 12 August 2011 approved a share consolidation of 1 for 15 to reduce the very large capital structure of 1.7B pieces of paper to 116m shares now on issue.

RISKS

JPR faces normal oil and gas industry risks, and has some more specific issues:

- Prices for oil are inherently volatile, and strongly linked to the world economy and market conditions. JPR is leveraged to oil prices.
- Project execution is always a risk, and to manage a project in Kazakhstan as an Australian company presents some challenges. However, the local operating office and staff appear very well qualified to do the job.
- Kazakhstan political risks exist although perception is much higher than the reality. Regulatory and administrative issues such as procurement need to be managed properly.
- Operational and environmental risks are high in the oil and gas industry, with high safety standards required to avoid explosions, fires, oil spills etc. The Mangistau basin is primarily an oil producing region with no competing land use as it is a desert.
- Financing issues exist as JPR does not have the balance sheet or cash flow to fund the development of Block 31. JPR is planning to list the company's shares on the UK AIM market which will raise equity for the development.

Jupiter Energy
as at 3 October 2011

Recommendation	Spec Buy
Price	$0.525
Target (12 months)	$2.42

Table 2 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
Revenue	$m	-	26	56	111
Operating expense	$m	(4)	(16)	(27)	(45)
EBITDA	$m	**(4)**	**10**	**28**	**66**
Depreciation	$m	(0)	(2)	(4)	(8)
EBIT	$m	**(4)**	**8**	**24**	**58**
Net interest expense	$m	0	1	0	1
PBT	$m	**(4)**	**9**	**25**	**59**
Tax expense	$m	-	(10)	(21)	(43)
NPAT (underlying)	$m	**(4)**	**(1)**	**3**	**16**
Abnormal items	$m	(1)	-	-	-
NPAT (reported)	$m	**(5)**	**(1)**	**3**	**16**

CASH FLOW

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
OPERATING CASHFLOW					
NPAT	$m	(5)	(1)	3	16
Add: non-cash items	$m	0	2	6	10
Change in working capital	$m	0	(3)	(4)	(8)
Operating cashflow	$m	**(4)**	**(2)**	**5**	**18**
INVESTING CASHFLOW					
Net PP&E	$m	(1)	(12)	(10)	(21)
Exploration & evaluation	$m	(8)	-	(5)	(5)
Other	$m	-	-	-	-
Investing cash flow	$m	**(9)**	**(12)**	**(15)**	**(26)**
FINANCING CASHFLOW					
Share capital	$m	27	-	2	-
Dividends paid	$m	-	-	-	-
Interest-bearing debt	$m	-	8	17	24
Financing cash flow	$m	**27**	**8**	**19**	**24**
Change in cash	$m	13	(6)	9	17

BALANCE SHEET

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
ASSETS					
Cash	$m	14	8	17	33
Accounts receivable	$m	1	8	17	33
Oil & gas properties	$m	0	10	16	29
Exploration & evaluation assets	$m	25	25	28	30
Other	$m	1	1	1	1
Total assets	$m	**42**	**52**	**78**	**127**
LIABILITIES					
Accounts payable	$m	1	3	6	11
Tax payable	$m	-	1	3	6
Borrowings	$m	-	8	25	49
Provisions	$m	0	0	0	0
Other	$m	-	-	-	-
Total liabilities	$m	**1**	**12**	**34**	**66**
SHAREHOLDER'S EQUITY					
Share capital	$m	71	71	73	73
Retained earnings	$m	(28)	(30)	(26)	(10)
Reserves	$m	(2)	(2)	(2)	(2)
Total equity	$m	**41**	**40**	**44**	**61**
Weighted average NoSh	m	1,312	116	116	116

PRODUCTION

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
Total	mbbl	16	329	624	1,186

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
VALUATION					
Reported NPAT	$m	(5)	(1)	3	16
Underlying NPAT	$m	(4)	(1)	3	16
Underlying EPS	c/sh	(0.3)	(1.1)	2.7	14.1
EPS growth	%		274%	n.m	432%
PER	x	-174.5x	-46.7x	19.7x	3.7x
OpCFPS (ex. abnormals)	c/sh	(0.3)	(2.0)	4.4	15.7
Price/OpCFPS	x	-154.8x	-26.9x	11.8x	3.3x
DPS	c/sh	-	-	-	-
Yield	%	-	-	-	-
EV/EBITDA	x	-170.1x	6.0x	2.5x	1.2x
PROFITABILITY RATIOS					
EBITDA margin	%		39%	51%	59%
EBIT margin	%		31%	44%	53%
Return on assets	%	-12%	-3%	5%	16%
Return on equity	%	-12%	-3%	7%	31%
Dividend cover	x	-	-	-	-
LIQUIDITY & LEVERAGE					
Net debt / (cash)	$m	(14)	0	8	16
ND / E	%	-34%	1%	19%	26%
ND / (ND + E)	%	-52%	1%	16%	21%

ASSUMPTIONS

Year ending 30 Jun	Unit	2011A	2012E	2013E	2014E
Oil price (Brent)	US$/bbl	97.5	97.5	100.0	100.6
AUD / USD		1.03	1.07	0.98	0.94

SUM-OF-PARTS

2012E valuation	Gross mmbbl	Net mmbbl	NPV ($m)	$/boe	$/sh
Block 31 certified reserve (2P)	24.2	24.2	234	9.65	1.96
Block 31 contingent resources (3C)	85.0	85.0	85	1.00	0.71
Total Reserves & Resources	**109.2**	**109.2**	**319**	**2.92**	**2.67**
(Net debt) / cash			3		0.03
Corporate costs			(33)		(0.28)
Equity value			**289**		
Diluted NoSh (m)			119		
Total					**2.42**

VALUATION SENSITIVITIES

OIL PRICE		**US$/bbl**	**A$m**	**A$/sh**	**% diff**
	Base	97.5	289	2.42	
-10%	Low	87.8	243	2.04	-16%
+10%	High	107.3	339	2.84	17%
EXCHANGE RATE (long term)		**AUD/USD**	**A$m**	**A$/sh**	**% diff**
	Base	0.85	289	2.42	
+0.1	Low	0.95	239	2.01	-17%
-0.1	High	0.75	347	2.91	20%
WACC (post tax)		**%**	**A$m**	**A$/sh**	**% diff**
	Base	12%	289	2.42	
	Low	13%	273	2.29	-6%
	High	11%	307	2.58	6%

EPS SENSITIVITIES

OIL PRICE		2011A	2012E	2013E	2014E
US$97.5/bbl	Base	(0.3)	(1.1)	2.7	14.1
-10%	Low	(0.3)	(2.4)	0.3	9.3
+10%	High	(0.3)	(0.0)	5.0	18.8
EPS	Low	0%	116%	-90%	-34%
	High	0%	-100%	87%	33%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 32, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 8224 2811
Facsimile +61 2 9231 0588
www.bellpotter.com.au

Research Team

Steve Goldberg
Head of Research
T 612 8224 2809
E sgoldberg@bellpotter.com.au

Trent Allen
Resources Analyst
Emerging Growth
T 612 8224 2868
E tcallen@bellpotter.com.au

Daniel Blair
Industrial Analyst
Telco/Media
T 612 8224 2886
E dblair@bellpotter.com.au

Peter Chapman
Resources Analyst
Gold/Uranium
T 612 8224 2847
E pchapman@bellpotter.com.au

David George
Resources Analyst
Diversifieds
T 613 9235 1972
E dgeorge@bellpotter.com.au

Fleur Grose
Resources Analyst
Iron Ore
T 613 9235 1678
E fgrose@bellpotter.com.au

Johan Hedstrom
Resources Analyst
Energy
T 612 8224 2859
E jhedstrom@bellpotter.com.au

Justin Hilford
Industrial Analyst
Emerging Growth
T 613 9235 1966
E jhilford@bellpotter.com.au

Stuart Howe
Resources Analyst
Coal & Base Metals
T 613 9235 1782
E showe@bellpotter.com.au

Tanushree Jain
Associate Industrial Analyst
Healthcare/Biotech
T 612 8224 2849
E tnjain@bellpotter.com.au

Judith Kan
Associate Resources Analyst
Energy
T 612 8224 2844
E jkan@bellpotter.com.au

TS Lim
Financials Analyst
Banks/Regionals
T 612 8224 2810
E tslim@bellpotter.com.au

Toby Molineaux
Associate Industrial Analyst
Retail
T 612 8224 2813
E tmolineaux@bellpotter.com.au

John O'Shea
Industrial Analyst
Emerging Growth
T 613 9235 1633
E joshea@bellpotter.com.au

Paresh Patel
Industrial Analyst
Retail/Beverages
T 612 8224 2894
E ppatel@bellpotter.com.au

Stuart Roberts
Industrial Analyst
Healthcare/Biotech
T 612 8224 2871
E sroberts@bellpotter.com.au

Emma Sellen
Executive Assistant
T 612 8224 2853
E esellen@bellpotter.com.au

Jonathan Snape
Industrial Analyst
Emerging Growth
T 613 9235 1601
E jsnape@bellpotter.com.au

Karen So
Associate Analyst
Quant & Production
T 612 8224 2895
E kso@bellpotter.com.au

Mathan Somasundaram
Quantitative Analyst
Head of Quant & Data Services
T 612 8224 2825
E mathan@bellpotter.com.au

Lafitani Sotiriou
Financials Analyst
Diversified Financials
T 613 9235 1668
E lsotiriou@bellpotter.com.au

Janice Tai
Quantitative & System Analyst
T 612 8224 2833
E jtai@bellpotter.com.au

Stephen Thomas
Resources Analyst
Emerging Growth
T 618 9326 7647
E sthomas@bellpotter.com.au

Sam Thornton
Associate Industrial Analyst
Telco/Media
T 612 8224 2804
E sthornton@bellpotter.com.au

Fred Truong
Associate Resources Analyst
Resources
T 613 9235 1629
E ftruong@bellpotter.com.au

James Tsinidis
Associate Financials Analyst
Financials
T 613 9235 1973
E jtsinidis@bellpotter.com.au

Chris Whitehead
Associate Resources Analyst
Emerging Growth
T 612 8224 2838
E cwhitehead@bellpotter.com.au