

17 Feb 2010

Share Price: \$0.240  
6mth Price Target: \$0.43

## STRIKE ENERGY LTD

### What happened?

Strike has reported gas shows in the main objective of its Gardner Duncan 1 exploration well located onshore USA. STX has a 30% interest in this well, which is targeting 30 billion cubic feet of recoverable gas.

The Company has also reported delays due to extreme weather conditions in Central South Australia that have prevented rig access. STX is planning to drill 3-4 coreholes to test coal seam gas prospectivity at PEL96, now likely to commence in 4-6 weeks.

Due diligence over the acquisition of the Cadlao oilfield in block SC6 in the Philippines is scheduled for completion at the end of this month.

### What does it mean?

Gas shows are certainly a positive for the exploration well in the USA; however, reservoir quality in this area is crucial to commerciality. This will not be known for another 1-2 days after wireline logging operations have been completed. At this time, a decision will be made on whether to complete the well as a producer. It is likely to be another 4-6 weeks before the well is flow tested into sales. We estimate that this well could add 7-10cps for Strike if successful.

Strike will participate in up to 8 more exploration wells at its USA acreage this year, the next of which is targeting 100 billion cubic feet of gas and could add >30cps for the Company.

Significant activity is also approaching for the Southern Cooper coal seam gas project and for the Cadlao acquisition, although both of these projects have experienced slight delays.

### Hartleys Initial View

Strike has four project areas (USA, PEL96, SC6 and Hybrid), which individually could easily justify its current share price based on peer comparatives of similar projects. The stock has pulled back recently on very little news and we view this as a significant opportunity for exposure to growth assets that have large upside potential with a relatively low risk profile.

We rate Strike as a Buy, with a short term price target of 43cps.

Share Price Valuation (NAV)	\$m	\$/share
Rayburn (NPV @ 10%)	40.1	0.12
PEL 96 (Risked Valuation)	50.0	0.15
SC6 (Risked Valuation)	17.1	0.05
Mesquite (NPV @ 10%)	2.2	0.01
Exploration	92.4	0.28
Hybrid (NPV @ 10%)	38.8	0.12
Cash	16.0	0.05
Corporate Overheads	(14.9)	(0.04)
Total Debt	(5.8)	(0.02)
Tax Losses	0.0	0.00
Options & Other Equity	2.86	0.01
<b>Total</b>	<b>239.78</b>	<b>0.72</b>

### Brief Business Description:

Production assets in the US. CSG appraisal in Australia. Shallow oil development Philippines.

### Hartleys Brief Investment Conclusion

Valuation underpinned by US assets. One of several projects could be transformational.

### Chairman & CEO:

Jeffrey Schneider (Chairman)  
Simon Ashton (Managing Director)

### Top Shareholders:

Plato Prospecting Pty Ltd (6.9%)  
Calm Holdings Pty Ltd (6.1%)  
National Nominees Limited (5.7%)

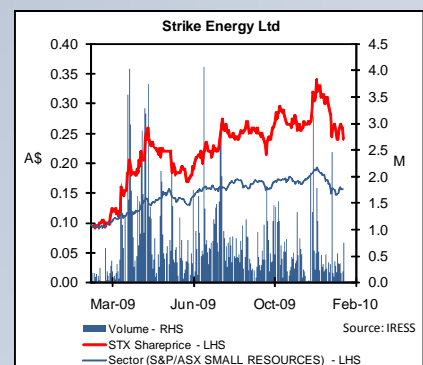
### Company Address:

Level 9, 40 The Esplanade  
Perth, WA, 6000

<b>Valuation:</b>		\$0.72	
<b>Issued Capital:</b>		328.6m	
- fully diluted		334.3m	
<b>Market Cap:</b>		\$78.9m	
- fully diluted		\$80.2m	
<b>Debt (30 Jun '09):</b>		-\$5.8m	
<b>Cash Equiv (30 Jun '09):</b>		\$17.0m	
	<b>FY09a</b>	<b>FY10e</b>	<b>FY11e</b>
Prodn (mboe)	0.612	0.420	0.300
Op Cash Flw	\$22.8m	\$15.5m	\$10.2m
Free Cash Flw	\$7.0m	\$5.5m	\$0.2m
NPAT* (A\$m)	\$10.2m	\$2.4m	\$2.4m
EPS (\$, bas)*	3.0x	0.7x	0.7x
P/E (basic)*	7.9x	33.5x	34.0x
EV / EBITDA	4.8x	10.5x	12.5x
DPS (\$)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	17%	17%	15%
Chg in Cash	4.8	5.9	1.2
- per share			
Net Cash End	\$13.9m	\$22.7m	\$31.5m
2P Reserve (bcfe)		19.30	
EV / 2P Reserve		\$3.56	

\*normalised

Source: Hartleys Research



### Authors:

Dave Wall  
Oil and Gas Analyst  
Ph: +61 8 9268 2826  
E: david\_wall@hartleys.com.au

Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Strike Energy Limited. See disclosure on back page for details.

## SUMMARY MODEL

Strike Energy Limited		Share Price				February 2010	
STX		\$0.24				BUY	
<b>Key Market Information</b>							
Share Price		\$0.24					
Market Capitalisation		\$79m					
52 Week High-Low		\$0.35-\$0.31					
Issued Capital		328.6m					
Issued Capital (fully diluted inc. ITM options)		334.3m					
Options		12.0m@A\$0.26					
Hedging							
Yearly Turnover/Volume		\$41.9m/185.8m shares					
Liquidity Measure (Yearly Turnover/Issued Capital)		57%					
<b>Valuation</b>							
Discounted Cashflow @ 10% Real		\$0.72					
6 Month Price Target		\$0.43					
<b>Financial Performance</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
Net Revenue	A\$m	41.2	18.9	16.5	11.8		
Total Costs/Writeoffs	A\$m	(26.9)	(12.4)	(11.0)	(5.4)		
EBITDA	A\$m	14.3	6.5	5.5	6.4		
Depreciation/Amort	A\$m	(4.0)	(2.9)	(2.2)	(1.3)		
EBIT	A\$m	10.3	3.6	3.3	5.1		
Net Interest	A\$m	(0.1)	0.1	0.4	0.3		
Pre-Tax Profit	A\$m	10.2	3.7	3.7	5.4		
Tax Expense	A\$m	-	(1.4)	(1.4)	(2.0)		
NPAT	A\$m	10.2	2.4	2.4	3.4		
Abnormal Items	A\$m	-	-	-	-		
Reported Profit	A\$m	10.2	2.4	2.4	3.4		
<b>Financial Position</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
Cash	A\$m	13.3	19.1	20.3	17.1		
Other Current Assets	A\$m	17.8	7.2	6.5	6.0		
Total Current Assets	A\$m	31.1	26.3	26.9	23.1		
Property, Plant & Equip.	A\$m	22.4	20.7	19.7	19.2		
Exploration	A\$m	13.9	22.7	31.5	40.7		
Investments/other	A\$m	1.0	1.0	1.0	1.0		
Tot Non-Curr. Assets	A\$m	37.3	44.4	52.2	60.9		
Total Assets	A\$m	68.4	70.7	79.1	84.1		
Short Term Borrowings	A\$m	3.0	3.0	3.0	3.0		
Other	A\$m	18.0	20.8	25.7	25.7		
Total Curr. Liabilities	A\$m	21.0	23.8	28.7	28.7		
Long Term Borrowings	A\$m	4.1	4.1	4.1	4.1		
Other	A\$m	0.3	0.3	0.3	0.3		
Total Non-Curr. Liabil.	A\$m	4.4	4.4	4.4	4.4		
Total Liabilities	A\$m	25.4	28.2	33.1	33.1		
Net Assets	A\$m	42.9	42.5	46.0	51.0		
<b>Cashflow</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
Operating Cashflow	A\$m	29.3	19.8	11.1	6.8		
Income Tax Paid	A\$m	-	(1.4)	(1.4)	(2.0)		
Interest & Other	A\$m	(6.5)	(3.0)	0.4	0.3		
Operating Activities	A\$m	22.8	15.5	10.2	5.2		
Property, Plant & Equip.	A\$m	(7.2)	-	-	-		
Exploration/Development	A\$m	(11.2)	(10.0)	(10.0)	(10.0)		
Investments	A\$m	2.6	-	-	-		
Investment Activities	A\$m	(15.8)	(10.0)	(10.0)	(10.0)		
Draw/Repay Borrowings	A\$m	(2.2)	-	-	-		
Equity	A\$m	-	-	1.1	1.6		
Financing Activities	A\$m	(2.2)	0.4	1.1	1.6		
Net Cashflow	A\$m	4.8	5.9	1.2	(3.2)		
<b>Ratio Analysis</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
Cashflow Per Share	A¢	6.7	4.7	3.1	1.5		
Cashflow Multiple	X	3.6	5.1	7.9	15.7		
Earnings Per Share	A¢	3.0	0.7	0.7	1.0		
Price to Earnings Ratio	X	7.9	33.5	34.0	23.6		
Dividends Per Share	A¢	-	-	-	-		
Dividend Yield	%	-	-	-	-		
Interest Cover	X	191.3	na	na	na		
Return on Equity	%	24%	6%	5%	7%		
<b>Directors</b>							
Mr David Wrench				Level 9, 40 The Esplanade			
Mr Jeffrey Schneider				Perth, WA, 6000			
Mr Simon Ashton				Tel: (08) 6103 0999			
Mr Tim Clifton				Fax: (08) 6103 0990			
				Web: http://www.strikeoil.com.au			
<b>Company Information</b>							
<b>Top 10 Shareholders (as at 11/09/07)</b>							
		m shares	%				
Plato Prospecting Pty Ltd		22.52	6.9				
Calm Holdings Pty Ltd		20.00	6.1				
National Nominees Limited		18.57	5.7				
ANZ Nominees Limited		12.33	3.8				
S & Y Ashton Nominees Pty		8.53	2.6				
Mr James Michael Durrant		8.09	2.5				
D B Angliss Pty Ltd		6.00	1.8				
Sassey Pty Ltd		5.11	1.6				
J P Morgan Nominees		4.51	1.4				
Australia Limited		2.80	0.9				
<b>Reserves (30 Jun 09)</b>							
	Unit	1P	2P*				
*estimate							
Rayburn / Mesquite	bcfe	9.20	19.30				
<b>Production Summary</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
*Attributable							
Liquids	mmbbl	0.08	0.05	0.04	0.03		
Gas	bcf	3.21	2.19	1.56	1.08		
Total	m mboe	0.61	0.42	0.30	0.21		
Daily Production	boe/d	1,677	1,152	821	570		
<b>Price Assumptions</b>							
	Unit	CY2009	CY2010	CY2011	CY2012		
US Gas Price	US\$/mcf	3.85	6.00	6.50	7.00		
Oil	US\$/bbl	61.03	75.00	85.00	85.00		
Exchange Rate	A\$/US\$	0.79	0.90	0.85	0.75		
<b>Hedging</b>							
	Unit	FY2009A	FY2010F	FY2011F	FY2012F		
Total Forward Sales - Oil	mmbbl	-	-	-	-		
Forward Oil Price	A\$/bbl	-	-	-	-		
<b>Sensitivity Analysis</b>							
	Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)			
Base Case	0.71	2.4	0.7	4.7			
Gas Price +10%	0.71	3.0	0.9	4.8			
Gas Price -10%	0.70	1.7	0.5	4.6			
Exchange Rate +10%	0.78	3.6	1.1	5.0			
Exchange Rate -10%	0.65	1.4	0.4	4.5			
Oil Price +10%	0.76	2.4	0.7	4.7			
Oil Price -10%	0.65	1.9	0.6	4.7			
*N.B. NPAT, EPS, CFPS forecasts are for FY2010							
<b>Share Price Valuation (NAV)</b>							
		\$m	\$/share				
Rayburn (NPV @ 10%)		40.1	0.12				
PEL 96 (Risked Valuation)		50.0	0.15				
SC6 (Risked Valuation)		17.1	0.05				
Mesquite (NPV @ 10%)		2.2	0.01				
Exploration		92.4	0.28				
Hybrid (NPV @ 10%)		38.8	0.12				
Cash		16.0	0.05				
Corporate Overheads		(14.9)	(0.04)				
Total Debt		(5.8)	(0.02)				
Tax Losses		0.0	0.00				
Options & Other Equity		2.86	0.01				
Total		239.78	0.72				
10% real discount rate used for DCF (~13.3% nominal)							
Analyst: David Wall				Last Updated: 17/02/2010			
Phone: +61 8 9268 2826							
Sources: IRESS, Company Information, Hartleys Research							

# HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage					Hartleys Research Recommendation		Industry
Name	Ticker	Last Price*	M. CAP (A\$m)	EV (A\$m)			
<b>Oil &amp; Gas</b>							
1. Woodside Petroleum Ltd	WPL	44.06	32,992	39,121	Buy		Major
2. Eastern Star Gas Ltd	ESG	0.810	711	656	Ceasing Coverage		Producer / Explorer
3. Carnarvon Petroleum Ltd	CVN	0.515	354	324	Buy		Producer / Explorer
4. Nexus Energy Ltd	NXS	0.245	235	416	Speculative Buy		Developer / Explorer
5. Tap Oil Ltd	TAP	0.990	155	95	Buy		Producer / Explorer
6. Cooper Energy Ltd	COE	0.485	142	46	Buy		Producer / Explorer
7. Red Fork Energy Ltd	RFE	0.815	112	84	Buy		Explorer / Producer
8. Strike Energy Ltd	STX	0.255	84	74	Buy		Explorer / Producer
9. Amadeus Energy Ltd	AMU	0.220	67	113	Buy		Producer / Explorer
10. Adelphi Energy Ltd	ADI	0.265	39	32	Speculative Buy		Junior
11. First Australian Resources Ltd	FAR	0.057	37	18	Speculative Buy		Explorer / Producer
12. Sun Resources NL	SUR	0.079	27	17	Speculative Buy		Explorer / Producer
13. Oilex Ltd	OEX	0.110	24	4	Neutral		Explorer / Producer
14. European Gas Ltd	EPG	0.105	21	85	Speculative Buy		Producer / Explorer
			Sub-Total	34,999		41,087	
<b>Resources</b>							
1. Riversdale Mining Limited	RIV	8.37	1,577	1,309	Speculative Buy		Coal
2. Atlas Iron Limited	AGO	2.180	974	794	Buy		Iron Ore
3. Western Areas NL	WSA	4.44	795	974	No Rating		Nickel
4. Dominion Mining Limited	DOM	3.050	314	335	Speculative Buy		Gold
5. Gold One International Limited	GDO	0.270	217	160	Buy		Gold
6. Jabiru Metals Limited	JML	0.375	207	182	Buy		Zinc-Copper
7. Silver Lake Resources	SLR	1.060	189	159	Speculative Buy		Gold
8. Focus Minerals Ltd	FML	0.063	180	171	Speculative Buy		Gold Producer
9. Magma Metals Limited	MMB	0.715	116	96	Speculative Buy		PGM-Cu-Ni
10. Intrepid Mines Limited	IAU	0.260	111	64	Speculative Buy		Gold
11. Peninsula Minerals Ltd	PEN	0.048	66	57	Speculative Buy		Uranium Developer / Explorer
12. Emmerson Resources Limited	ERM	0.225	46	33	Speculative Buy		Junior Explorer
13. Shaw River Resources Limited	SRR	0.200	40	33	Speculative Buy		Junior Explorer
14. YTC Resources Limited	YTC	0.200	33	20	Buy		Junior Explorer
15. Ausquest Limited	AQD	0.130	30	3	Speculative Buy		Junior Explorer
16. Orion Gold NL	ORN	0.038	28	25	Speculative Buy		Gold
17. Impact Minerals Limited	IPT	0.170	20	16	Speculative Buy		Junior Explorer
18. Ferrum Crescent Limited	FCR	0.120	19	17	Speculative Buy		Iron Ore
19. Hazelwood Resources Ltd	HAZ	0.185	19	15	Speculative Buy		Junior Explorer
20. Southern Gold Limited	SAU	0.120	17	13	Speculative Buy		Junior Explorer
			Sub-Total	4,923		4,415	
<b>Industrials</b>							
1. West Australia News Hdgs Ltd	WAN	7.34	1,701	1,976	#REF!		Media
2. Monadelphous Group Limited	MND	14.090	1,196	1,066	Neutral		Mining Services
3. Clough Limited	CLO	0.880	588	634	No Rating		Oil & Gas Services
4. Mermaid Marine Australia Ltd	MRM	2.84	518	570	Buy		Oil & Gas Services
5. Macmahon Holdings Limited	MAH	0.650	477	449	Buy		Mining & Civil Construction
6. Austal Limited	ASB	2.43	457	363	Speculative Buy		Capital Goods
7. Fleetwood Corporation	FWD	8.35	431	442	Neutral		Consumer & Mining Services
8. Ausdrill Limited	ASL	1.965	411	633	Buy		Mining Services (Drilling & Construction)
9. NRW Holdings Ltd	NWH	1.48	371	431	Buy		Mining & Civil Construction
10. Cash Converters Limited	CCV	0.670	244	195	Buy		Retail & Consumer Finance
11. Neptune Marine Ltd	NMS	0.410	178	190	Neutral		Oil & Gas Services
12. Decmil Group Limited	DCG	1.40	171	148	Buy		Mining & Civil Construction
13. Southern Cross Electrical	SXE	1.370	164	141	Speculative Buy		Mining Services (Electrical)
14. Index Ltd	IMD	0.670	130	152	Buy		Oil & Gas / Mining Drilling
15. RCR Tomlinson Ltd	RCR	0.940	124	173	Buy		Mining & Industrial Services
16. Lycopodium Limited	LYL	3.100	117	114	Buy		Mining & Industrial Services
17. VDM Group Limited	VMG	0.430	90	125	Buy		Mining & Civil Construction
18. Swick Mining Services Ltd	SWK	0.460	70	124	Buy		Mining Services (Drilling)
19. LogiCamms Limited	LCM	1.02	61	51	Buy		Resource Services
20. Nomad Building Solutions Ltd	NOD	0.255	34	61	Neutral		Residential & Mining Services
			Sub-Total	7,534		8,037	
			GRAND TOTAL	47,457		53,538	

Source: IRESS, Hartleys Research. \* 17 Feb 2010

# HARTLEYS CORPORATE DIRECTORY

## Research

Trent Barnett	Head of Research	+61 8 9268 3052
Andrew Muir	Senior Resources Analyst	+61 8 9268 3045
Mike Millikan	Resources Analyst	+61 8 9268 2805
David Wall	Oil and Gas Analyst	+61 8 9268 2826
Nikki Ermongkonchai	Industrial Analyst	+61 8 9268 2837
Janine Hodges	Research Assistant	+61 8 9268 2831

## Corporate Finance

Grey Egerton-Warburton	Head of Corporate Finance	+61 8 9268 2851
Richard Simpson	Director Corporate Finance	+61 8 9268 2824
Paul Fryer	Director-Corporate Finance	+61 8 9268 2819
Dale Bryan	Assoc Director-Corp Finance	+61 8 9268 2829
Ben Wale	Manager - Corporate Finance	+61 8 9268 3055
Scott Weir	Corporate Finance Exec.	+61 8 9268 2821

## Registered Office

Level 6, 141 St Georges Tce  
Perth WA 6000  
Australia

Postal Address  
GPO Box 2777  
Perth WA 6001  
Australia

### Contact Details

Telephone: +61 8 9268 2888  
Facsimile: +61 8 9268 2800  
Website: [www.hartleys.com.au](http://www.hartleys.com.au)  
Email: [info@hartleys.com.au](mailto:info@hartleys.com.au)

Note: personal email addresses of company employees are structured in the following manner:  
[firstname\\_lastname@hartleys.com.au](mailto:firstname_lastname@hartleys.com.au)

## Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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Hartleys has provided and continues to provide corporate advice to Strike Oil Limited for which it has received fees.

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## Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 2887
Simon van den Berg	+61 8 9268 3062
Steven Boyce	+61 8 9268 2867
Nick Wheeler	+61 8 9268 3053

## Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Christian Marriott	+61 8 9268 2828
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Nicole Morcombe	+61 8 9268 2896
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Ian Plowman	+61 8 9268 3054
Margaret Radici	+61 8 9268 3051
Charlie Ransom (CEO)	+61 8 9268 2868
Elliott Rowton	+61 8 9268 3059
Conlie Salvemini	+61 8 9268 2833
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Marlene White	+61 8 9268 2806