

White Energy Company, Ltd. (WECFY)

Buy

November 14, 2008

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White Coal Pilot Plant Operating Above Expectations; Pushing Forward in Indonesia and Entering African Markets; Reiterate Buy

Key Metrics

Price:	\$6.05
Rating:	Buy
52-Week Range:	NA
3-Year EPS Growth:	NM
Cash (M):	\$22.4
Debt (M):	\$30.3
Debt/Capital:	40.0%
Book Value/Share:	\$0.36

Market Data

Market Cap (M):	\$152
Enterprise Value (M):	\$160
Adj. Shares Out. (M) ⁽¹⁾ :	25.2
Float (M):	NA
3-Mo. Avg. Vol. (M):	NA
Institutional Ownership:	NA

Stock Performance



Source: otcx.com
Note: ASX:WEC

Valuation

P/E FY10E:	NM
EV/FY09E Sales:	NM
EV/FY10E Sales:	8.5x

Company Description

White Energy is focused on the commercialization of coal upgrading technologies. The company owns the global marketing rights to the White Coal Technology, a patented process that incorporates dehydrating and briquetting of lower-grade coals to achieve a higher-grade equivalent.

Investment Conclusion

White Energy Company is focused on the commercialization of coal upgrading technologies. By leveraging its coal upgrading process, the company can take advantage of the price differential between lower quality (brown an sub-bituminous) coals and higher quality (bituminous) coals, ultimately yielding a high margin business which simultaneously improves plant emissions. Moving forward with construction of its Indonesian plant, and quickly penetrating new markets, we believe the company is well positioned for profitable growth.

Summary

- **Indonesia plant quickly coming together.** White Energy's 51% owned subsidiary, PT Kaltim Supacoal, is constructing a 1M tonne per annum binderless coal briquetting plant in Indonesia. Today the plant stands at approximately 80% complete, and the company is on track for plant commissioning in C1Q09. This will be the first commercial scale plant White Energy commissions, however we believe this to be only the beginning of a global rollout plan.
- **Process performance exceeding expectations.** Parallel to the plant construction, White Energy has been testing a variety of coals at its pilot plant in Australia. The plant has exceeded expectations in its ability to process particularly low grade coal. Where initially intended for the processing of roughly 30% moisture sub-bituminous coal, the plant has processed even higher moisture brown coal into export-grade coal. With this added functionality, the technology can be more versatile in its deployment, and potentially give the company an opportunity to take advantage of bigger pricing spreads.
- **Solid first step in Africa.** The company recently announced the signing of a joint venture agreement with Black River Asset Management LLC for the deployment and commercialization of White Energy's technology throughout Africa. Not only is it good to see White Energy enter a new market, but the JV comes with favorable terms and a significant capital commitment (US\$70M) from Black River. Where White Energy has 51% ownership, they will only be responsible for 34% of the equity contributions to any future build-out.

MCF Estimates

	FY08A		FY09A	FY10E
SALES (M)	Prev			
1Q				
2Q				
3Q				
4Q				
FY (June)	A\$1.2	A\$4.0	A\$0.3	A\$18.9
EV/S	NM	NM	NM	8.5x
EPS				
1Q				
2Q				
3Q				
4Q				
FY (June)	(A\$0.10)	(A\$0.12)	(A\$0.09)	A\$0.01
P/E	NM	NM	NM	NM

*Pro-Forma

(1) Adjusted for 5-1 ADR

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Commercialization Approaching

One aspect of the company's technology that we find particularly attractive is its "cookie-cutter" nature. Rather than being a massive version of the company's pilot plant which would come with potential scaling issues and possible delays, the 1 million tonne per annum plant is a series of smaller units in which all key components are exactly the same as that of the pilot plant. The following picture shows the company's first commercial scale plant in Indonesia under construction. The plant is now approximately 80% complete and on track for early CY09 commissioning.

White Energy's Indonesian Plant



Source: White Energy Company, Ltd.

Black River

The company recently announced the signing of a joint venture agreement with Black River Asset Management LLC for the deployment and commercialization of White Energy's technology throughout Africa. Not only is it good to see White Energy enter a new market, but the JV comes with favorable terms and a significant capital commitment of US\$70M from Black River. Where White Energy has 51% ownership, they will only be responsible for 34% of the equity contributions to any future build-out.

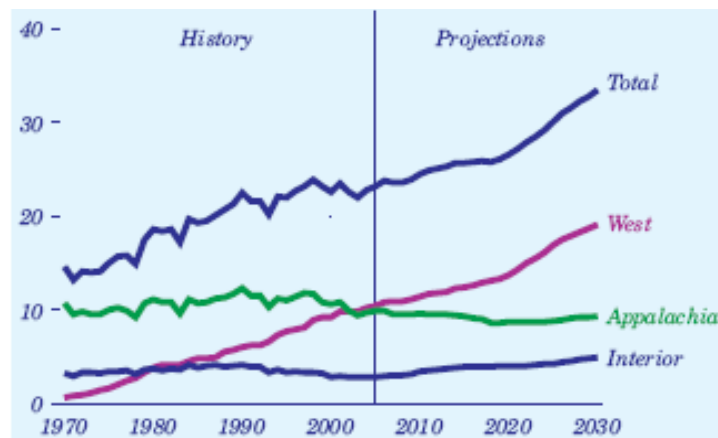
The \$70 million that is earmarked at Black River for the JV will come in a number of steps. Over the next few months White Energy will receive \$8 million at the parent company level and the JV will receive another \$2 million from Black River and \$1M from White Energy. The initial capital at the JV level will be used to get the JV off the ground and as working capital for a detailed analysis of opportunities throughout Africa. Assuming a positive outcome, Black River will contribute \$60 million and White Energy will contribute \$30 million to commence commercial build-out.

US Market Opportunity

We fully expect the company to make a strong push into the US markets given both the size of the opportunity and the geographic distribution of lower and higher-grade coals. Coal has maintained its status as a viable long-term energy source throughout the world, due in large part to the pricing and supply constraints placed on other existing energy sources and the US is no exception.

Powder River Basin and Western Coal. The center of the domestic coal resurgence may come from the Powder River Basin, a region spanning the Montana–Wyoming border. As of February 2005, the United States has an estimated 268 billion tons of recoverable coal in existing mines, which is two or three times as much energy in coal as Saudi Arabia has in oil. Nearly half of that coal is located in the Powder River Basin. Although Eastern coal from Appalachia has dominated the coal industry in the past, the supply is beginning to run short (or is harder to access), and the price has climbed significantly over the past few years. The price of Powder River Basin coal, on the other hand, has fluctuated by very little over the same period.

Coal Production by Region (Billion of Tons)



Source: DOE's Energy Information Administration

Central and Northern Appalachia. Typically mined in the regions of West Virginia, Ohio and Maryland, the coal is becoming somewhat harder to access because of its high use in the past. The coal is generally of higher quality, with higher energy content; however, it comes at an additional cost. We estimate that White Energy's technology can take advantage of this price differential and the increased use of Western coals in a very profitable way.

Earnings Model and Valuation

In order to execute on its business plan, and to fulfill its obligations to the various plans underway, we are looking for White Energy to raise additional capital over the next few years. We are assuming that the company has 51% ownership in all joint ventures going forward. **Our model currently looks for production volumes of 3 million tons per annum by the end of FY11 - we view this production volume as extremely conservative.**

We estimate the company will earn A\$0.33 per share on revenue of A\$78.6 million in FY11, up from EPS of A\$0.01 on revenue of A\$18.9 million in 2010. Applying a 25-30x multiple (contracted from 30-35x due to market conditions) to our FY11 earnings estimate and discounting it back indicates a fair value for the ADR the US\$20-24 range, well above where it is currently trading at US\$6.05 per share.

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White Energy Company, Ltd.**Balance Sheet**

(\$ in thousands, except ratios)

	FY07	FY08
CURRENT ASSETS:		
Cash and cash equivalents	15,073	34,956
Trade and other receivables	3,338	5,100
Inventory	0	0
<i>Total current assets</i>	<i>18,411</i>	<i>40,056</i>
NON-CURRENT ASSETS		
Property, plant and equipment	9,378	52,014
Exploration assets	2,374	2,581
Intangible asset, net	55,730	53,518
<i>Total non-current assets</i>	<i>67,482</i>	<i>108,113</i>
Total assets	85,893	148,169
CURRENT LIABILITIES:		
Trade and other payables	7,959	29,786
Derivative financial instruments	465	0
<i>Total current liabilities</i>	<i>8,423</i>	<i>29,786</i>
NON-CURRENT LIABILITIES		
Borrowings	0	47,388
<i>Total non-current liabilities</i>	<i>0</i>	<i>47,388</i>
Total liabilities	8,423	77,173
Net assets	77,470	70,996
Equity		
Contributed equity	84,135	97,131
Reserves	4,441	2,866
Accumulated losses	(12,151)	(26,963)
<i>Parent entity interest</i>	<i>76,425</i>	<i>73,035</i>
Minority interest	568	(2,039)
Total equity	76,992	70,996
	FY07	FY08
Current Ratio	2.2	1.3
Debt as % Total Capital	0.0%	40.0%
Net Cash per Share	\$0.13	\$0.28
Book Value per Share	\$0.65	\$0.56

Source: company reports and Merriman Curhan Ford & Co. estimates

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**White Energy Company, Ltd.
Earnings Model**

(\$ in thousands, except per share amounts)

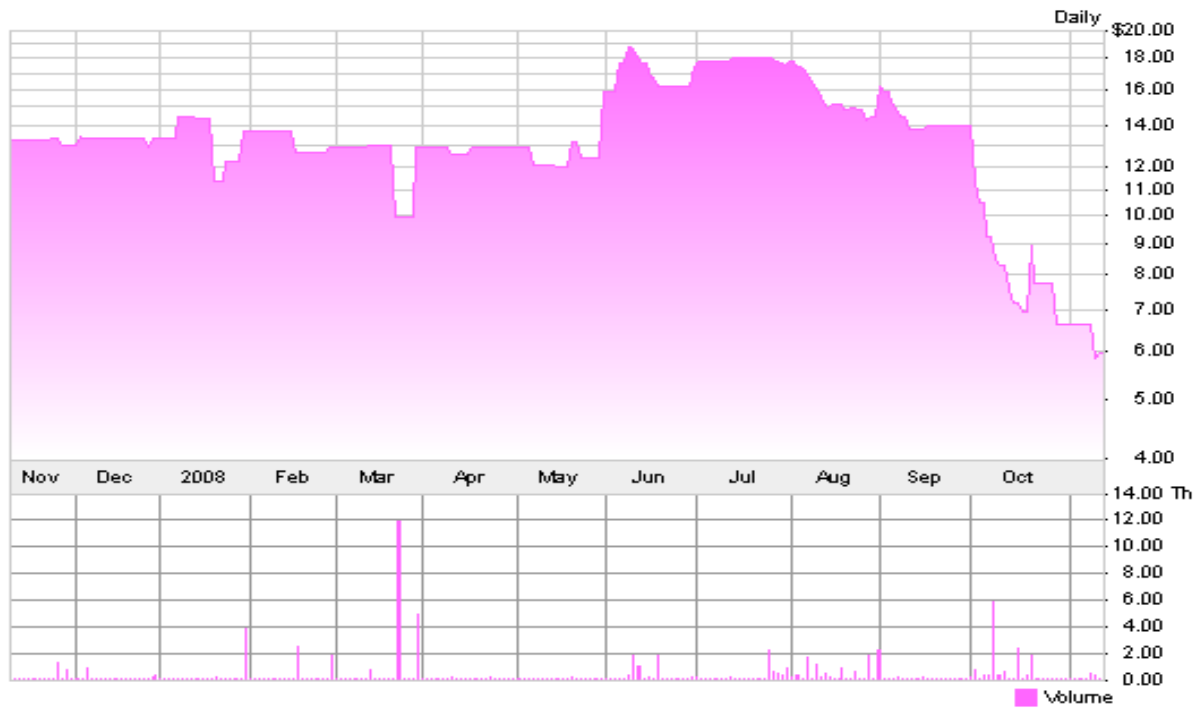
(Fiscal Year ends December)

	2008E			2009E			FY07A	FY08E	FY09E	FY10E	FY11E
	H1A	H2E		H1E	H2E						
	Dec-07	Jun-08	FY08E	Dec-08	Jun-09	FY09E					
Net revenues	1,239	2,749	3,988	0	301	301	1,303	301	18,910	78,556	
Operating expenses:											
Accounting and audit fees	24	238	262	125	125	250	228	250	250	250	
Employee benefits expense	2,624	3,361	5,984	2,750	2,800	5,550	3,865	5,550	6,000	7,000	
D&A	1,671	1,924	3,595	1,700	1,750	3,450	3,320	3,450	3,500	3,750	
Finance cost	741	1,870	2,611	800	850	1,650	1	1,650	1,800	2,000	
External advisory fees	1,637	2,266	3,903	1,700	1,700	3,400	2,682	3,400	3,500	3,800	
Write-off of deferred exploration costs	0	0	0	0	0	0	0	0	0	0	
Occupancy expense	442	245	686	445	445	890	511	890	800	800	
Travel	628	367	995	700	700	1,400	474	1,400	1,500	1,500	
Other	163	805	967	200	200	400	828	400	500	500	
Total operating expenses	7,928	11,075	19,003	8,420	8,570	14,300	11,909	14,300	17,850	19,600	
Operating income (loss)	(6,690)	(8,325)	(15,015)	(8,420)	(8,269)	(13,999)	(10,606)	(13,999)	1,060	58,956	
Income Tax	0	0	0	0	0	0	0	0	0	0	
Net income (loss)	(6,690)	(8,325)	(15,015)	(8,420)	(8,269)	(13,999)	(10,606)	(13,999)	1,060	58,956	
Earnings per share (basic and diluted)	(0.05)	(0.07)	(0.12)	(0.05)	(0.05)	(0.09)	(0.09)	(0.09)	0.01	0.33	
Basic and diluted share count	117,832	126,001	125,889	156,001	157,001	156,501	117,832	156,501	160,000	180,000	
Operating Ratios											
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	5.6%	75.0%	
Year/Year Change											
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	6185%	315%	
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	-108%	5461%	
EPS as Reported (Diluted)	NA	NA	NA	NA	NA	NA	NA	NA	-107%	4843%	

Source: company reports and Merriman Curhan Ford & Co. estimates
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Merriman initiated coverage of WECFY shares at Buy on 9/15/08.

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Neutral	31%	28	MCF & Co believes the stock price is fairly valued at current levels. Maintain position or take no action.	3%
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