

OZEQUITIES NEWSLETTER

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FEATURE

Week's Special

MBT: AUSSIE BIOFUEL COMPANY HAS ACHIEVED CRITICAL MASS, HAS MARKET SAVVY, R&D EXPERTISE AND A MAJOR OFFTAKE AGREEMENT WITH VALERO INC IN A GREAT GLOBAL GROWTH SECTOR

By Jenny Prabhu and Gerald Stanley

Mission New Energy Ltd, that listed as Mission Biofuels on May 4 2006, in December 2009 announced that Valero Energy, the largest US refiner has agreed to a 5 year deal with MBT to purchase biodiesel made from jatropha, supplying up to 60 million gallons of biodiesel a year, starting in 2010 (can be doubled with the contract extended an additional five years), with the value of the contract up to \$A3.5 billion. Valero Inc also has an option to acquire up to 25% of MBT.

On April 20, 2009 MBT's wholly owned subsidiary Mission Biotechnologies Sdn Bhd (MBTSB) became the first biodiesel manufacturer in the world to receive attestation under the German Government supported International Sustainability and Carbon Certification Project.

Germany is the world's largest market for biodiesel and will require that all biodiesel used in the country from 1st January 2010 has to be compliant with new sustainability laws. The rest of Europe will be required to adopt the same compliance procedure by 2011.

Biofuels for transport - a great growth story

As part of the global push to reduce the use of fossil fuels through wind power, solar energy, nuclear energy and other fuel sources for generators, the demand for biofuels for transport - either bioethanol or biodiesel - with road transport responsible for 25% of all green house gas (GHG) emissions and rising, is also a major focus in developed and many developing nations.

The Global Renewable Fuels Alliance (GRFA) a non profit organisation reported on November 3 last year that in a recent life cycle assessment study of biofuels, the International Energy Agency found that green house gas reductions from ethanol production will more than double between 1995 and the projected levels in 2015.

While most of the top 15 participants of the 190 participants in the UN Framework Convention on Climate Change Conference in Copenhagen have quotas for biofuel inclusion for petroleum suppliers, these vary and are not always mandatory.

In the US, the diesel market is to increase from 1.7% of the transport market to 10% by 2030 and biodiesel to increase to 1.5% of diesel demand by 2030 or 1.5 billion gallons per annum.

In the UK, in the year to April 2009 fossil fuel companies were obliged to supply 2.5% biofuel in UK road fuel with more biodiesel (84%) supplied than bioethanol (16%).

The UK government has also set a target that companies should report 50% of the data required by the Renewable Fuels Agency (RFA) in four categories - feedstock, country of origin, sustainability standard met and land use change.

In Germany, the most advanced in the use of biofuels so far and the largest market in the world for biodiesel, the target was 9%.

In 2008 the most widely reported biodiesel feedstock was American soy (25% of all biodiesel) and the most widely used bioethanol feedstock was Brazilian sugarcane (74% of all bioethanol).

While the Copenhagen conference failed to make any cast-in-stone decisions (there is another meeting scheduled for November/early December this year in Mexico), governments remain totally committed to steadily replacing fossil fuels with fuels that produce less or no green house gases - including biofuels for transport.

While early attempts - fostered by President Bush in the US - focussed on corn and soyabeans for biofuel, this has been more or less sidelined, since prime agricultural land is needed to grow foodstock - and the input of fossil fuels (eg tractors, harvesters, the whole chain to manufacture) to achieve biofuel production was seen as almost equal to, or in some cases in excess of, each litre of biofuel produced.

Instead the pursuit of biofuels from waste products, and crops grown on land unsuitable for agriculture, has now become the focus. Biofuels from sugarcane waste - bagasse - (produces bioethanol, long a major industry in Brazil), palm oil (sourced from Malaysia, Indonesia and elsewhere and perhaps the most cost effective product), used cooking oil, tallow, and algae are among other renewable energy sources that have come into prominence.

The Jatropha Curcas opportunity

A crop that has sprung into prominence is Jatropha, a perennial shrub with a 30 year life span that can grow on marginal land, is not edible, and yields oil from its seeds. Oil from seeds is available after two years, the plant reaches maturity in 5 years, yielding for the remainder of its lifecycle.

Oil content is 30/35%, oil per acre at maturity is one ton per year. Seed cake per acre at maturity is 2 tonnes per year.

Its yield, among various bio fuel plants, is second only to palm oil in litres per acre.

There are now 660 suppliers of Jatropha seeds, oil or other products in India, 46 in the UK, 613 in the Cameroon, 44 in the US, 42 in Indonesia and 228 in China.

Air New Zealand, Boeing, Continental Airlines, Virgin Atlantic and Rolls Royce are testing a mix of JetA aviation fuel with Jatropha based oil with good results.

The Indian Railways has planted Jatropha along rail tracks and is using a blend of Jatropha and diesel oils for its locomotives on several runs.

In Australia, Mission New Energy, the subject of this report, and Jat Oil Ltd, which listed in January 2008, are two currently listed producers of biofuel from renewable sources focussed on production from Jatropha.

Mission New Energy in December last year signed a major 5 year supply contract with Valero Inc, the US's largest refiner, which may acquire a 25% stake in MBT. The board is prestigious, the company is high profile and well aware of the need to market itself and its products.

While profits in the early years are likely to be sporadic as the company continues a huge growth path in an expanding industry, with a major offtake agreement, proprietary technology and ongoing investment in R&D - at around 50c, trading at half the IPO price in 2006 - MBT seems to offer a significant opportunity - enhanced when crude oil trades at around \$US80 a barrel - once plantations reach maturity, MBT expects breakeven to be around \$US40 a barrel.

The company is tightly held, with the Top 20 accounting for 89.20% of shares on issue.

MISSION NEW ENERGY LTD - A SNAPSHOT

Mission New Energy listed as Mission Biofuels Ltd on May 4 2006 after an over subscribed IPO at \$1 per share. It is now an integrated global renewable energy company with operations located in Australia, Malaysia, India and Mauritius. The head office remains in Perth.

The key areas of business comprise of the production of biodiesel, pharmaceutical grade refined glycerine (currently because of a dramatic fall in the margin for pharma grade glycerine the company is selling crude glycerine as the by-product) while the core business is biodiesel from *Jatropha Curcas*.

While the company's initial focus was solely biodiesel produced from palm oil in Malaysia, MBT is now wholly focussed on producing biodiesel - and by products - from *Jatropha Curcas*. It also uses agricultural waste and has diversified into wind power in India. To accommodate its expanded focus and better reflect its position as an emerging player in the renewable energy sector, on 8 August 2008 the Company changed its name from Mission Biofuels Limited to Mission NewEnergy Limited.

MBT's 100,000 tonnes per annum biodiesel refinery at Kuantan port in Malaysia is operational and yesterday announced it has received ISO9001:2008 certification. The 250,000 tonnes per annum biodiesel refinery adjacent to the existing refinery is being commissioned. The company has approximately 350,000 acres of *Jatropha Curcas* under cultivation in India with the production of biodiesel from *Jatropha* now its core business. Its goal is to increase its *jatropha* plantation to 1.5 million acres.

It has 450 full time employees, 3,000 field representatives, covers 51 districts and 6000 villages in India and has 3,000 acres of captive nurseries for sapling production in 2008. It has 30 year contract farming agreements with 123,000 farmers.

Mission maximises every acre of *Jatropha* plantation. One acre yields 1 ton of oil and 2 tons of biomass at maturity.

The fruit shells are sold to the organic fertiliser market (Phase one) with R&D being undertaken to convert the fruit shells to ligno cellulosic ethanol.

MBT plans to implement a Marginal Lands Integrated Farming Systems and Good Agricultural Practices approach to its *Jatropha Curcas* plantations, including reforestation on degraded forest lands in a food+fuel+forest program. It has so far planted over 350 million trees.

The company also owns wind turbines that supply electricity to the state utility in India - it has two 1.65 MW wind turbines and plans to add to its wind turbines every year.

Mission New Energy says it is "effectively a 30 year call option on crude oil at below \$US40/bbl" (i.e. break even price when plantations reach maturity to the end of their life cycle is expected to be \$US40/bbl).

On December 11 2009 Valero Energy, the largest American refiner based in San Antonio agreed to a 5 year deal with MBT to supply Valero with up to 60 million gallons of biodiesel a year, starting in 2010. Under the terms of the agreement, Valero can double that amount and extend the contract by an additional five years, with the total value of the contract worth up to \$A3.5 billion.

Valero may also acquire up to 25% of MBT.

On April 20, 2009 MBT's wholly owned subsidiary Mission Biotechnologies Sdn Bhd (MBTSB) became the first biodiesel manufacturer in the world to receive attestation under the German Government supported International Sustainability and Carbon Certification Project.

Germany is the world's largest market for biodiesel and will require that all biodiesel used in the country from 1st January 2010 has to be compliant with new sustainability laws. The rest of Europe will be required to adopt the same compliance procedure by 2011.

This followed an earlier certification by Germany in May 2008 when MBT became the first non German biodiesel producer to be certified as up to AGQM standard (Arbeits Gemeinschaft fuer Qualitaet Management).

R&D

*In June 2008 MBT announced a pilot plant in India is producing ethanol (as distinct from biodiesel, being produced in its Malaysian refinery) from jatropha and other agricultural waste in India, in j/v with an Indian scientific team.

The company is conducting research into ligno-cellulosic ethanol and algae, two highly potential second generation feedstock

MISSION NEW ENERGY FINANCIALS

Last Traded price 47 cents

Shares Issued 244.2 mln

Market Cap \$114.8 mln

Year ended December 31, Values in \$000s

INCOME	2009	2008	2007
Op Revenue	52.8	28.8	-
Op Profit (loss)	(23.3)	5.6	(1.7)
Net profit (loss)	(25.0)	4.9	(1.9)
EPS (Cents)	(25.3)	5.24	(2.0)
PERatio (times)	.na	9.0	.na

BALANCE SHEET	2009	2008	2007
Current Assets	26.3	54.3	79.7
Non Current Assets..	91.7	60.3	23.6
Current Liabilities	9.5	10.4	2.7
Non Current Liabilities	59.3	56.1	53.1
Net Assets & Shareholders' Funds	49.2	48.1	47.5
Intangibles	1.0	1.0	0.7
Net Tangible Assets	48.2	47.1	46.8
Gearing (Net of Cash) %	45.9	41.5	.nil
NTA per share (cents)	24.8	50.0	51.5
Shares Issued (Millions)	194.2	94.2	91.0

Cash Flows:	2009	2008	2007
Cash on hand (at open)	24.7	78.8	35.0
Operating Activities	(10.9)	(16.5)	(1.9)
Investing	(14.4)	(37.3)	(15.0)
Financing Activities	12.4	7.2	62.6
Foreign Exchange impacts	4.4	(7.5)	(1.9)
Cash on hand at Year end	16.2	24.7	78.8

Directors :

Dario Amara, non exec chair. An engineer with over 27 years experience. He was formerly managing director of GRD Minproc and CEO of John Holland. He is currently also a non exec director of Austal Ltd.

Admiral (Ret) Tan Sri Darto Sri Mohd Anwir bin Jaji Mohd Nor appointed an independent non exec director in June 2009. Formerly Chief of Defence Force in Malaysia and a corporate advisor to Sime Darby Bhd.

Arun Bhatnagar appointed to the board as an independent non exec director in June 2009, and is chairman of MBT's Indian subsidiary, Mission Biofuels India Pvt Ltd from June 2008.

Datuk Mohamed Zain Bin Mohamed Yusuf Datuk Zain has over 25 years experience in Shell Malaysia. From 1986 to 1988 he was seconded to Shell International United Kingdom and worked as Marketing Consultant in Shell UK and Shell Caribbean. Upon his return to Malaysia he was made Marketing

Director of Shell Malaysia. He subsequently served on the board of Directors of Shell Group Malaysia as Executive Director with responsibility over a total of 18 group subsidiaries involved in both the upstream and downstream petrochemical business.

Datuk Zain is currently chairman of the Malaysian Australia Business Council and serves as a director of Airod Sdn Bhd NADI BhdMalacca Securities Sdn BhdFaber Group BhdPJ Bumi Bhd and as chairman of Confoil (Malaysia) Bhd a Malaysian - Australian joint venture company in Malaysia.. He has been a board member since January 24 2006.

Nathan Mahalingam MD, has over 25 years management experience in banking and finance. He has been involved in setting up numerous start up manufacturing operations in Malaysia during his tenure with a large Malaysian conglomerate. Between 1995 and 2000 he was project director in the Westport Group, developers of one of Malaysia's largest privatised port and transshipment facilities. He resides in Malaysia.

Guy Burnett, Finance Director. A Chartered Accountant, Mr Burnett qualified as a Chartered Accountant at the University of Natal in South Africa, joining Umgeni Water in 1996, a large corporatized water utility in South Africa, later Manager, Corporate Accounting & Tax with Western Power in Perth before joining MBT.

Major shareholders:

Citicorp Nominees 27.46%

HSBC Custody Nominees 24.98%

Mission Equities Sdn Bhd 12.69%.

Tiger Global Investment Partners 8.24%.

(Valero has an option to acquire 25% of MBT)

The register is largely institutional. The Top 20 hold 89.20% of shares on issue.