

Carnarvon Petroleum Ltd

(CVN \$0.15) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	11 th May 2018	\$0.25/sh

Successful \$16m Placement & \$4m SPP

Investment case

Potential development of Buffalo adds another string to CVN's bow, representing a high margin, low risk appraisal-development of a proven oil field. The asset builds on CVN's counter-cyclical, technical approach to building a material portfolio of high equity interest, high value and strategically valuable oil and gas appraisal-development opportunities. Buffalo alone could significantly overwhelm the Company's modest EV should a successful farm-down process be undertaken. The capital raised ensures that CVN can continue to progress Buffalo on a 100% basis, improving its negotiating position in the event of possible farm-down. Beyond which, current drilling at the Phoenix hub will capture market attention as drilling of Phoenix South-3 and Dorado progresses. We retain our Speculative Buy recommendation with an inc. \$0.25/sh Price Target.

Key points

- A Single Tranche Placement has successfully raised \$16.0m (-123m FPO Shares) at \$0.13/sh;
- Carnarvon will seek to raise the balance of the targeted \$20m by way of an SPP at \$0.13/sh:
 - SPP capped at \$4.0m (approx. 30.8m FPO Shares);
 - SPP is expected to open Thursday, May 17th & close Friday, June 1st;
- Funds raised will be applied to;
 - Procuring long lead items for the proposed Buffalo-10 appraisal-production well in CY'19;
 - Securing a rig to drill the well; and
 - General working capital;
- Our Price Target inc. to \$0.25/sh (prev. \$0.20/sh), in-line with our revised Valuation of \$0.25/sh (prev. \$0.27/sh) due to dilution;
- We have inc. our Price Target as we are bullish on the opportunity CVN presents in the short to medium term:
 1. High impact appraisal well at Phoenix South-3 (first results from mid to late Jun);
 2. High impact exploration well at Dorado-1 (first results mid to late Jun);
 3. A material oil development opportunity at Buffalo emerging;
 4. Multiple farm-down/corporate opportunities;
- In our view, success at Phoenix South-3 results in a standalone economic proposition which – on account of CVN's open register – would solicit corporate interest in our view;
- In parallel, 100% working interest in Buffalo and with the means now to fund initial appraisal, strengthens CVN's negotiating position should they look to farm-down the asset;
- For these reasons combined with a strong oil price macro, we expect CVN to perform strongly post deal.

Carnarvon Petroleum Ltd	Year End 30 June	
Share Price	0.15	A\$/sh
Price Target	0.25	A\$/sh
Valuation	0.25	A\$/sh

Shares on issue*	1184	m, diluted
Market Capitalisation*	178	A\$m
Enterprise Value*	110	A\$m
Debt	0	A\$m
Cash est.*	68	A\$m
Largest Shareholder		Mgmt -6%

*Pro forma assumes full \$20m raised @ 13cps

Directors

P Leonhardt	Chair
A Cook	MD
T Jacobson	NE Dir
W Foster	NE Dir
P Moore	NE Dir

Shareholders

Mgmt	-6%
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Share Price Chart



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Carnarvon Petroleum Ltd

(CVN \$0.15) Speculative Buy

Analysis

A Single Tranche Placement has successfully raised \$16.0m (-123m FPO Shares) at \$0.13/sh.

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- Securing a rig to drill the well; and
- General working capital.

IMPACT TO VALUATION & PRICE TARGET

Our Price Target inc. to \$0.25/sh (prev. \$0.20/sh).

This is set in-line with our revised Valuation of \$0.25/sh (prev. \$0.27/sh) due to the assoc. dilution.

Our Valuation is based upon CVN's 20% net interest of circa 20mmbboe discovered and flow tested at an in-ground valuation of A\$10/bbl.

Combined with circa \$68m est. cash underpins a ~300m market capitalisation or \$0.25/sh.

However, we view our Valuation as largely cosmetic: Should the current drilling campaign prove successful (specifically at Phoenix South-3), discovered volumes will increase substantially but moreover, the Phoenix Hub will become a viable economic standalone development.

This alone should drive a substantial re-rating of the Company's share price.

Beyond which, commercial progress at Buffalo and/or success at Dorado are Company makers in their own right.

Clearly we are bullish on the opportunity CVN presents in the short to medium term:

- High impact appraisal well at Phoenix South-3 (first results from mid to late Jun);
- High impact exploration well at Dorado-1 (first results mid to late Jun);
- A material oil development opportunity at Buffalo emerging;
- Multiple farm-down/corporate opportunities;

CURRENT DRILLING CAMPAIGN

The Phoenix South-3 well spud last month.

The well is expected to take up to 90 days to TD at 5,500m ND with staged entry and progress through the primary Caley Sandstone target.

We remind investors that the primary Caley Sandstone formation is a proven play defined at the Phoenix South and Roc discovered locations.

Phoenix South-3 follows the Phoenix South-2 well that was plugged and abandoned in early 2017 after the previous rig was unable to manage significant well bore pressures upon entering the Caley target.

PS2 recovered oil and gas upon entering the primary target: Therefore we view that the Phoenix South-3 well carries a high probability of success.

Well spud marks the commencement of a material campaign for CVN. The rig to drill the Dorado prospect - targeting large structure, updip (and likely oiler) of the Roc discoveries - is due to arrive on location shortly.

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Carnarvon Petroleum Ltd

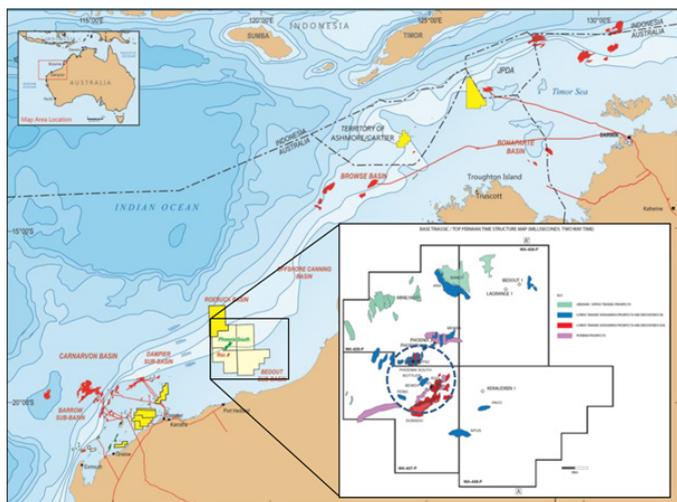
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Results are expected from late June on that basis. Success at either location represents a material discovery for CVN:

- Phoenix South-3 - P50 net (to CVN) recoverable resource of 29mmbboe (Caley Sandstone);
- Dorado-1 - 25mmbboe net (primary Caley target); 89mmbboe net (secondary Milne Target);

Material volumes have already been discovered at the Roc and Phoenix locations: -20mmbboes (8.6mmbbls oil-condensate) net contingent resources (2C).

Success with Phoenix South and/or Dorado will represent a potential material development hub within a 25km radius:



Source: Carnarvon Petroleum Ltd

BUFFALO OIL DEVELOPMENT

CVN has advanced planning for its proposed Buffalo Development, with preparations underway to drill the Buffalo-10 well.

The newly mapped Buffalo structure is independently (RISC) determined to hold 31mmbbls of oil (2C Resource), largely in the crest of the field ("attic oil"), missed by the original development drilling.

Buffalo-10 will be positioned to appraise the attic accumulation as mapped and completed as a producer.

Development concept economics – 3 sub-sea well heads connected to a leased FPSO – is summarised in the table below:

Resource (2C mmbbls)	31
Field Life (Yrs)	5
Capex (US\$m)	150
Opex (US\$m/yr)	90
Abandonment (US\$m est.)	40
Operating Margin @ Spot (US\$/bbl)	52
Revenue Gross (US\$m @ spot)	2,263
EBITDA Gross (US\$m @ spot)	1,643
Contractor Take (est. 40%)	657
NPV10 (US\$m pre-tax)	245
NPV10 (A\$m pre-tax)	326
IRR (%)	82

Source: Euroz Assumptions & Company Data

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Potential field economics are compelling with a pre-tax IRR of +80%. We foresee little issue in CVN attracting interest with a potential farm-down process, particularly with a dearth of high margin conventional oil opportunities available within Australasia;

Previous operations highlighted the technical qualities of the Field, with 50,000bopd initially produced from the first two wells;

20mmbbls of oil were produced during Buffalo's field life of ~5yrs, with operations abandoned when the field was still producing 4,000bopd;

Historical well data indicates that the 4 production wells (Buffalo 3,5,7 & 9) were all in communication and showed little pressure depletion late in field life. This augers wells for re-development;

Full development funding will require debt, equity or realisation of proceeds/carry via farm-down of Buffalo and/or sale of CVN's Phoenix interests upon success from the current campaign;

Never-the-less, the pre-tax NPV of +A\$300m supports a doubling of the current share price potentially;

Or, given the open register and material interests in both Phoenix Hub plus Buffalo, little to dissuade corporate approaches in a sector buoyed by rising commodity periods and a 4yr hiatus in terms of field development and exploration.

We note that with the rising oil price, the E&P industry - dormant for the past 3 years - is seeking to re-invigorate its new ventures' portfolios (<http://www.finderexp.com/wp-content/uploads/2017/09/Media-Release-WA-520-P-Finder-Woodside-Farmin-1-Sept-2017-Final.pdf>).

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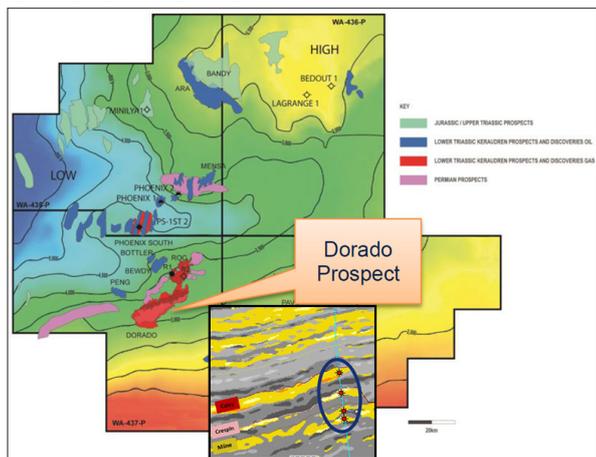
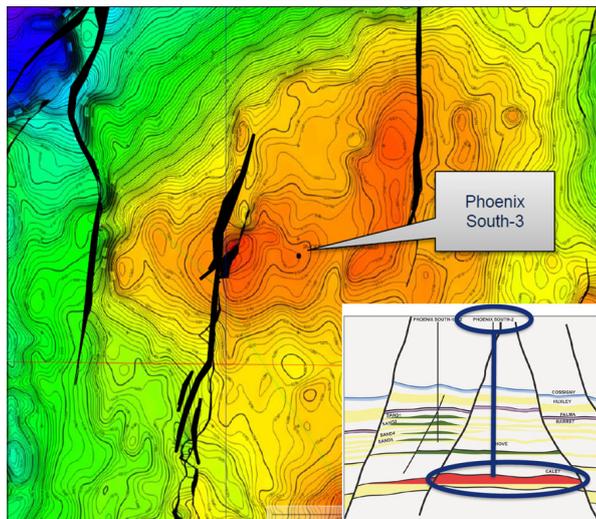
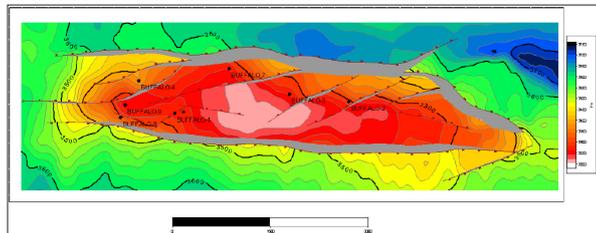
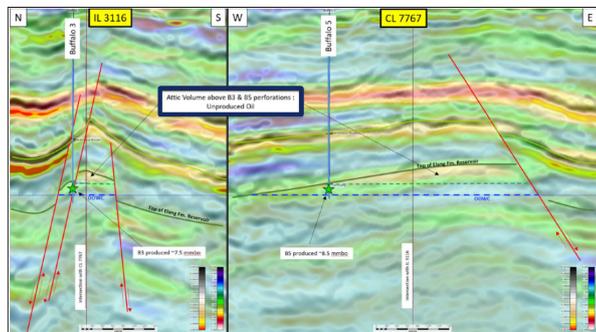
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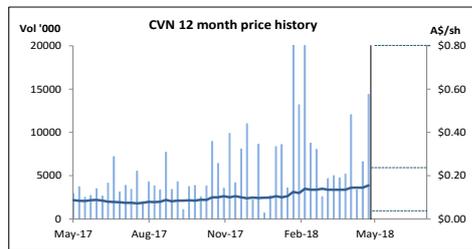


Key Variables

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Brent US/bbl	\$59	\$65	\$73	\$75	\$75	\$75
AUDUSD	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.25/sh

Price Target - \$0.25/sh

Bull Scenario - \$0.80/sh

Success at Phoenix South-3 and or Dorado confirms a standalone economically viable project. Oil prices continue to rise beyond our long term US\$75/bbl WTI forecast from 2020. High oil price attracts greater opportunistic interest for JV farm-in and debt funding, enabling project development of Buffalo and Labrynth prospects.

Base Scenario - \$0.25/sh

Oil prices trend gradually towards our long term oil price assumption of US\$75/bbl from 2020. CVN have leveraged themselves by exploring undeveloped oil prospects and readying them for M&A opportunities.

Bear Scenario - \$0.05/sh

Oil prices fall to below US\$50/bbl over the medium to long term. Funding for prospect development diminishes. Projects remain idle.

Company Summary

Carnarvon Petroleum Ltd (CVN) is an oil and gas exploration and development company. CVN has secured multiple assets and arceage on the North West Shelf, developing with the aim to attract farm-in or acquisitions.

Drilling campaigns of Phoenix Sth-3 and Dorado-1 represent near-term catalysts for CVN to trade upwards.

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