

Quick Comment

Carnarvon Petroleum Ltd (CVN \$0.17) Speculative Buy

Analyst	Date	Price Target
Jon Bishop	12 th July 2018	\$0.25/sh

Dorado-1 Operations Update

Key Points

- The Dorado-1 has entered the Primary Caley Sandstone reservoir target;
- Initial Logging Whilst Drilling analysis has highlighted:
 - A primary sequence over a 94m interval;
 - Sandstone intervals consistent with pre-drill interpretation;
 - Porous and permeable reservoir;
 - Elevated gas and high resistivity suggestive of the presence of hydrocarbons;
- The well will drill ahead from 3,990m currently to 4,575m to evaluate deeper Milne and Crispin Sandstone secondary targets;
- Results to date warrant running of wireline logs over the primary interval at completion of drilling, and will include pressure testing and fluid sampling. This will serve to improve understanding of:
 - Reservoir quality;
 - Net to Gross;
 - Hydrocarbon type;
 - Presence of any “nasties”/inert gases;
- The Caley is mapped to contain P50 gross mean volumes of 125mmbboe (CVN – 20%), comprising 30mmbbbls condensate and 545Bcf gas;
- However, located updip of the Roc location and noting that Roc contained live oil in the overlying Hove Member, there is potential for the Dorado accumulation to lie within the oil generation window;
- Secondary deeper targets of the Milne and Crispin Sandstones will also be penetrated with the Milne mapped to hold in excess of 260mmbboe prospective resources gross;
- Success at either Phoenix South-3 (currently drilling ahead into primary Caley target) or the Dorado locations represents a material discovery for CVN, noting large volumes(-20mmbboes inc. 8.6mmbbbls net 2C) have already been discovered at the Roc and Phoenix locations:
- Moveable volumes at Dorado and/or Phoenix South-3 more than doubles net 2C volumes, making for a standalone commercial development in our view;
- On that basis volumes should therefore be priced more towards the peer group EV:2P average of US\$10-20/boe: Directionally, ~45mmbboe net CVN at US\$10/boe = \$600m EV (vs CVN's current \$150m EV);
- Speculative Buy maintained.

Investment Thesis

Preliminary results from Dorado are highly encouraging: Discovery of moveable hydrocarbons, in line with pre-drill estimates, will substantiate standalone development of the Phoenix Hub. We expect the stock to trade up through the drilling campaign, particularly with a high probability of success at the Phoenix South-3 well. In parallel, recovering oil prices are stimulating permitting and M&A activity in the E&P industry. The WPL transaction with Finder Exploration is a good example and we believe similar moves are afoot particularly focused on the Dampier Sub-Basin and emerging Triassic play that CVN and Quadrant have identified at the Phoenix Hub. We retain our Speculative Buy recommendation believing that CVN has identified a new commercial discovery in the NWS and can also take the Buffalo oil project through to commercialisation. In either instance, CVN will realise a much higher share price.

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Share Price	0.17	A\$/sh	Enterprise Value	150	A\$/m
Price Target	0.25	A\$/sh	Debt	0	A\$/m
Valuation	0.25	A\$/sh	Cash est	50	A\$/m
Shares on issue	1152.6	m(dil)	Largest Shareholder	Mgmt	-6%
Market Capitalisation	200	A\$m			

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