

# Quick Comment

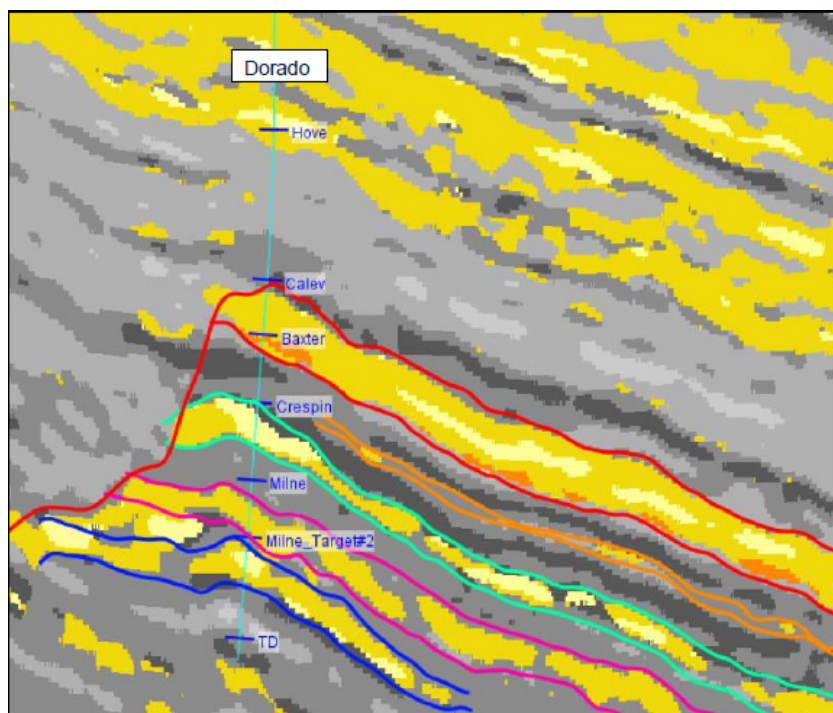
## Carnarvon Petroleum Ltd (CVN \$0.26) Speculative Buy

Analyst	Date	Price Target
Jon Bishop	18 <sup>th</sup> July 2018	Under Review

### Oil Discovery at Dorado

#### Key Points

- Wireline has confirm an oil discovery within the Primary Caley Sandstone reservoir at the Dorado-1 location;
- Results have confirmed:
  - A primary sequence over a 96.1m interval;
  - Net oil pay of 79.6m;
  - Highly porous (20% av.) and permeable (100-1,000mD) reservoir;
  - Oil saturation of 82.5%;
- The Caley is mapped to contain P50 gross mean volumes of 125mmbboe (CVN - 20%), comprising 30mmbbls condensate and 545Bcf gas;
- However, wireline appears to indicate that the hydrocarbon mix is dominantly light (49.6° API) oil;
- Volumetric estimates will take circa 4 weeks to compile after the completion of the well (we est. a further 2wks to TD);
- The well also encountered oil in the lower Baxter Sandstone Formation;
- The well will drill ahead from 3,990m currently to 4,575m to evaluate deeper Baxter, Milne and Crespin Sandstone secondary targets:



Seismic inversion section colouring potential reservoir sections in yellow: Source: CVN

- Additional wireline will be run in the event of hydrocarbons being observed in the secondary zones at the completion of drilling;
- Secondary deeper targets of the Milne and Crespin Sandstones will also be penetrated with the Milne mapped to hold in excess of 260mmbboe prospective resources gross;

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- We are reviewing our Valuation and Price Target. We look to the nearest peer in FAR as a relevant comparison, noting that the market ascribes A\$7.8/bbl for its net (post Govt carry) 2C discovered 70mmbbls contingent resource;
- Applying this to CVN's current net 2C plus pre-drill Dorado resource est of ~45mmbboe, we suggest discovered resources command \$351m of EV or ~\$0.30/sh;
- This is pre-cash and value ascribed to Buffalo and the broader exploration portfolio and notably pre any discovery at Phoenix South-3 and the deeper zones at Dorado;
- What we like about an oil discovery as the commercialisation pathway is much simpler. We look to recent adjacent fields in Wanaea-Cossack, Mutineer-Exeter and Legendre as yardsticks:
  - Wanaea-Cossack - FID taken on 60mmbbls 2P gross;
  - Mutineer-Exeter - FID taken on 61mmbbls 2P gross;
  - Legendre - FID taken on 40mmbbls 2P gross;
- Notably, all took circa 5yrs from appraisal to first oil.

### Investment Thesis

Dorado appears a material oil discovery with clear standalone potential. Moreover, the Oil Water Contact has not been encountered and the well continues to drill through oil shows. What we like is that oil discoveries in shallow water and benign jurisdictions have relatively low barriers to commercialisation. Recovering oil prices are stimulating permitting and M&A activity in the E&P industry: this result will clearly shine a corporate spotlight on CVN. 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.

### Carnarvon Petroleum (CVN)

Share Price	0.26	A\$/sh	Enterprise Value	265	A\$/m
Price Target	Under Review	A\$/sh	Debt	0	A\$/m
Valuation	Under Review	A\$/sh	Cash est	50	A\$/m
Shares on issue	1190	m(dil)	Largest Shareholder	Mgmt	-6%
Market Capitalisation	315	A\$m			

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## Contact Details

**Euroz Securities Limited** +61 8 9488 1400

### International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Associate Adviser	+61 8 9488 1431

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