

Quick Comment

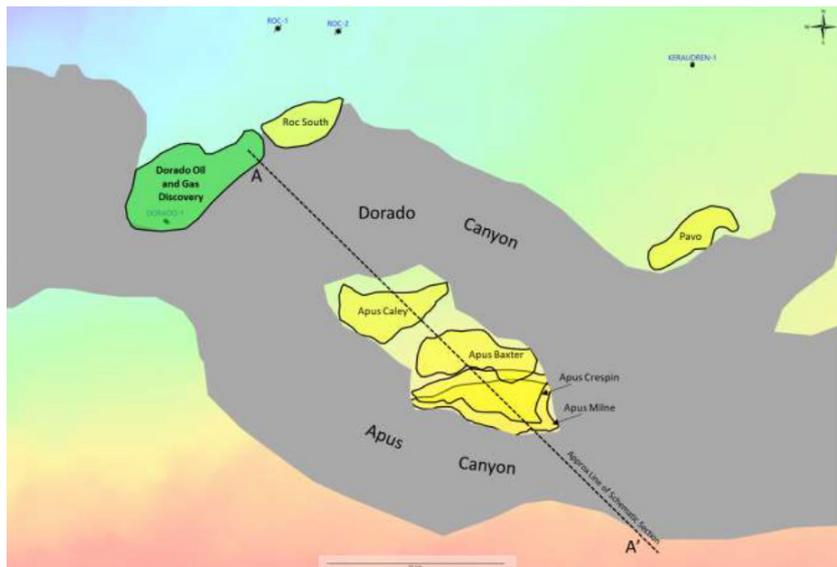
Carnarvon Petroleum Ltd (CVN \$0.40) Buy

Analyst	Date	Price Target
Jon Bishop	15 th October 2018	\$1.00/sh

Greater Dorado Prospectivity

Key Points

- CVN has tabled a maiden estimates of Prospective Resources for several mapped structures, proximal to the recent Dorado discoveries:



Source: Carnarvon Petroleum Ltd

- Recoverable volumetric estimates are internally generated and based upon probabilistic and deterministic methodologies adhering to SPE “PRMS” Guidelines:
 - Roc South (CVN – 20%) – 74mmboe (56mmbls of oil & 100Bcf gas) P50 mean gross; CVN 15mmboe net. 63% Geological Probability of Success (“GPOS”);
 - Pavo (CVN – 30%) – 101mmboe (82mmbls of oil & 108Bcf gas) P50 mean gross; CVN 30mmboe net. 34% GPOS;
 - Apus (CVN 20-30%) – 753mmboe (612mmbls of oil & 805Bcf gas) P50 mean gross; CVN 176mmboe net. 21% GPOS;
- Roc South, due to its proximity and similarities (on seismic) to the Dorado structure is given a high GPOS;
- On seismic, there are grounds to believe individual units (specifically the Baxter Member) within the Roc South location are within closure incorporating the broader Dorado and Roc South structure;
- We expect the Roc South would likely form part of the 2019 appraisal drilling campaign on that basis, and in a success case, Roc South be incorporated into the overall development concept for the Dorado discovery;
- Pavo (CVN 30%) and Apus (CVN 20-30%) likely await additional 3D seismic (to be shot in 2019) and interpretation ahead of possible drilling as early as 2020;
- Geologically, the results from Dorado substantially enhance the GPOS given proof of concept in terms of sealing mechanism of the Dorado-Apus Canyon, for these locations;
- Whilst we believe evidence of hydrocarbons in the units below the Milne Sandstone discovery are encouraging of migration to potentially charge (at least) the Apus structure;

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- It is for this reason, that we believe that CVN's interest will be coveted by industry and lead to potential M&A: the Dorado discovery has essentially opened up 4 new oil prone plays within a largely untested, large basin, within shallow waters, Australia;
- We retain our \$1/sh Price Target;
- What we like about an oil discovery as the commercialisation pathway is much simpler. We look to recent adjacent fields in Wanarea-Cossack, Mutineer-Exeter and Legendre as yardsticks:
 - Wanarea-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 less than 5yrs from appraisal to first oil;
- Looking at industry comparisons, we determine full cycle capex+opex of A\$25/bbl for a 100kbbbls/d FPSO operating in shallow water Australia. Accounting for 40% PRRT (but not accounting for PRRT credits and development capex and opex cost pools), at the current A\$ oil price of over \$95/bbl, the Dorado Contingent Resource oil bbls are wildly economic;
- Moreover, the upside case to the 2C number plus possible future success at Roc South, offers significant leverage to an economic scenario in this instance. We see little downside to the current share price as a consequence and contest that CVN will be a target of M&A in the short to medium term.

Investment Thesis

Dorado is a material oil discovery and one of the largest ever in Australian waters. Moreover, the discovery has opened up 4 new oil prone plays within a largely untested, large basin, within shallow waters, Australia. What we like is that oil discoveries in shallow water and benign jurisdictions have relatively low barriers to commercialisation. It is for this reason that we believe that CVN's interest will be coveted by industry and lead to potential M&A. 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. ACCC endorsement of STO's purchase of Quadrant's assets in the coming weeks is the first point where we feel initial corporate approaches for CVN's interests will be made. We retain our 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 Ltd (CVN)

Share Price	0.40	A\$/sh	Enterprise Value	420	A\$/m
Price Target	1.00	A\$/sh	Debt	0	A\$/m
Valuation	0.94	A\$/sh	Cash	50	A\$/m
Shares on issue	1190	m(dil)	Largest Shareholder	Mgmt	-6%
Market Capitalisation	470	A\$m			

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