

Buru Energy Ltd

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Buru Energy attracts speculative buy rating from broker Taylor Collison

Buru Energy Ltd (ASX:BRU) has carved out a niche for itself on the back of the Ungani oil discovery in the Canning Basin of Western Australia.

The company has a 50% operating interest in the currently producing Ungani oilfield.

Adelaide-based broker Taylor Collison has initiated coverage on Buru with a speculative buy rating.

The following is an extract from Taylor Collison's research report:

Our View

Buru Energy sits in the middle of the spectrum as a leveraged play over the prospectivity of the Canning Basin which has teased with finds that keep investors and the company interested without yet delivering the big breakthrough.

The Ungani Oil Project is a perfect example as a producing field, not quite delivering sufficient operating margins and hinting at the potential of a transformative oil trend.

The Canning Basin offers enormous potential but also requires significant capital.

The company is cashed up and carried through \$20 million of exploration spend which puts it in a strong financing position and a return to drilling from mid-April should provide some investment excitement.

Although there is oil production and a gas opportunity, the company is looking for the next development to provide commercial scale and we suggest is still to be considered as an exploration play.

It's all down to the next set of wells.

Key Points - Initiation

- Cashed up and ready to go - A deal with Roc Oil sees BRU cashed up with some \$71 million as at 30-Sep and a carry through \$20 million of exploration expenditure...a strong balance sheet position effectively affording the company a free shot at 2019 drilling.

BRU can accelerate work programmes and fast-track a development on success but the Ungani analogue points to caution - project capex can be high and with an extensive acreage spread, the next success could require many wells...\$70 million may not last as long as we think.

Price: \$0.27

Market Cap: \$116.66 m

1 Year Share Price Graph



Share Information

Code: BRU

Listing: ASX

52 week High Low
0.36 0.195

Sector: Energy

Website: www.buruenergy.com

Company Synopsis:

Buru Energy Ltd (ASX:BRU) petroleum assets and tenements are located onshore in the Canning Basin in the southwest Kimberley region of Western Australia.

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The basin has teased for a long time, with Ungani being the first oil development in some 30 years. We still consider the Canning Basin as a frontier play and frontier plays need capital.

- Ungani highlights the uncertainties - A project that has produced >1 million barrels and yet still has only contingent resource bookings is a conundrum.

Well performance has been variable and an optimal development plan is uncertain matching the risk to the recoverable reserves estimate.

Ungani could point to greater things as we don't see it on balance as being a one-off, but dolomitic reservoirs can be fickle, growing margins requires production scale and the company is still evaluating an optimal well design, with a horizontal well likely to be drilled in 2019 - could that be a game changer?

- The share price reflects an exploration play - Reserves metrics suggest BRU is 'fully' priced on Ungani volumes (assuming 2C = 2P) although this is a relative rather than absolute outcome.

Given the uncertainties associated with future oil recoveries and the long dated nature of the Yulleroo gas discovery we see the company as an exploration play chasing the oil trend with the share price linked to drilling success.

Although success rates have been low, we see the 2019 drilling programme as critical with perhaps the potential to support the oil trend geological model and providing a development solution to any next phase projects.

We assign a rating of Speculative BUY but do highlight the high-risk nature of the investment opportunity.

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