

Indices and Prices	
All Ordinaries	6,068
Energy Index	10,233
Brent AU\$/bbl	\$82
AUS\$/US\$	\$0.760
Live Gold/AU\$	\$1,701
At close 28 November 2017	

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Buru – forging ahead

Ungani-4

Oil and gas exploration and development is a tricky and costly business that always throws up geological and engineering challenges.

Buru - Capital Structure	
Shares	432.0 m.
Options	3.2 m.
Price	\$ 0.285
Market Cap	\$ 123 m.
Cash (est)	\$ 16 m.
Debt	\$ 7.5
EV	\$ 115 m.
EV/2C	\$ 2.34 /BOE
EV/2C	\$ 0.39 /Bcfe

Buru Energy (BRU) understands these risks all too well. Drilling of the Ungani-4 appraisal and development well went smoothly but when it came time to run electric logs down the hole, there was a problem with the contractor's logging tool. By the time the tool issue was resolved, the shale zone overlying the oil bearing Ungani dolomite had begun to swell and slough into the hole, preventing access by the logging tool!

Buru has seen enough at the Ungani-4 well during drilling and conditioning the well to be confident that it will produce oil and is thus wasting no time to prepare the well for production, even without the benefit of formal electric logs.

The company knows enough about the target reservoir at Ungani to be comfortable that it has a winner with Ungani-4, having seen oil coming across the shaking tables that separate drill chips from the drilling fluids.

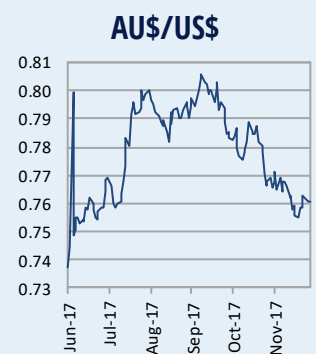
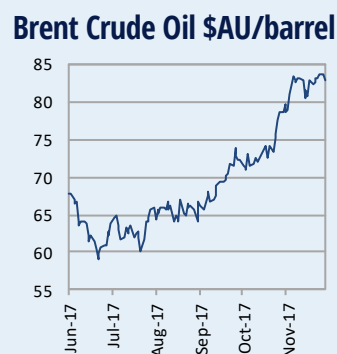
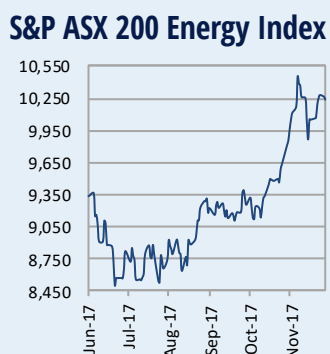
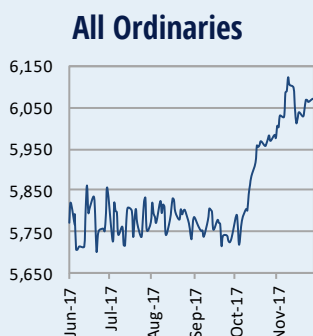
Ungani-5

Since the contractor does not have on-site equipment required to clear Ungani-4 to make access for the logging tool, the well has now been suspended while the drilling rig prepares to drill the Ungani-5 development well, which is an effective twin of the Ungani-3 well, about 200 metres east of that well.

Once drilling at Ungani-5 is completed, a logging tool and well clearing equipment will be on-site to log both wells and then test oil flows from both. By January 2018, Buru should have a flow line in place to Ungani-4 so that a successful flow test can be rapidly translated into oil flowing to the central production facility, with a likely lift of oil production towards 3,000 BOPD by mid '18 or earlier.

Oil production

Electric submersible pumps (ESP) in the U-1 & U-2 wells are delivering a combined 1,800 bbls per day on their lowest setting. Currently, the ESPs are used cyclically to match output to transport capacity of about 1,200 BOPD. However, additional trucks and storage tanks are on order, aimed at lifting production capacity to 4,900 BOPD by Q1 '18.



The company will be able to link in oil production from Ungani-4 during January '18. Once all new transport equipment is in place, output of around 3,000 BOPD is likely by the end of Q1 '18 and could lift further, depending on results from Ungani-5. Doubling or tripling oil production will lead to a massive reduction of unit production costs, since field costs are largely fixed and only transport costs are unit based. Longer term, establishment of a tank facility in Broome would further cut unit costs by about \$5/bbl, reducing a 9 hour trip to Wyndham to under a three hour trip to Broome.

Cash flow & Value

Buru has just sold a ~55,000 bbl cargo of oil at a price of A\$75/bbl, which should deliver about \$2.2 million of operating cash flow to the company.

At the current oil price of ~A\$84 per barrel, StockAnalysis estimates that production of 1 million barrels of oil during FY '19 would translate into an operating cash flow of around A\$45 million or about \$11 million per quarter for Buru.

If the Ungani-4 well upgrades 3 million barrels of oil from Resource to Reserve category, StockAnalysis estimates this would crystallise a value of \$60 million for Buru. In total, StockAnalysis estimates that success at Ungani -4 & -5 will lift the field's value to \$170 million, which translates to 39 cps for the stock and compares favourably with the company's current enterprise value of \$115 million.



After making conservative assumptions about farming down exploration projects and assuming additional equity of \$20 million is raised at current market pricing, StockAnalysis assesses a total risked target value of \$707 million or \$1.40 per share for Buru.

Exploration

Buru has a portfolio of exciting and with one exception, 100% owned exploration plays for conventional oil along the Ungani trend and elsewhere in the Canning Basin where large conventional gas and tight petroleum targets have also been mapped on seismic data. The company is now running a data room with an aim of attracting farm-in funding to drill at least four targets in CY 2018. Ongoing success at the Ungani field and newly identified targets will lift the profile for oil in this location.

Assuming that Buru retains a 40% working interest and that the Yakka Munga, Bickley, Rafael and Kilty targets are selected exploration candidates, StockAnalysis estimates that success in all cases would add a value of close to \$2 per share for Buru.

Recommendation: Buru is a speculative buy with potential to self fund exploration and development of new prospects from enhanced Ungani cash flow, while also attracting selected farminees to fund individual projects.

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