Karoon Gas buoyed by strong Brazil oil flows

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KAROON Gas Australia has delivered good news amid sliding oil prices in the form of strong production tests from offshore Brazil that bode well for the development of its Kangaroo project and success in planned wells.

The success at the Kangaroo-2 appraisal well in the Santos Basin left Karoon shares flat at $2.64 yesterday. But this was a good result on a day when the rest of the energy sector shed more than $10 billion of value after US oil prices had slumped to near $US50 a barrel the previous night.

Karoon last year sold its interest in the Poseidon gas fields, off Western Australia, to Origin Energy, choosing to focus on potential quicker returns from its Brazil oil acreage.

The Kangaroo-2 flow rates were decent and probably at the higher range of company expectations. But what could become equally as important is that the success at the two wells Karoon has drilled so far increases the chances that planned wells at its nearby, and similar, prospects will be a success.

It also increases the chance Melbourne-based Karoon will be able to bring in a partner and that an oil and gas discovery by Spain's Repsol to the north, known as Piracuca, could be developed in conjunction with Kangaroo and the other Karoon prospects.

Those prospects include the Echidna target, a similar salt-flank play to Kangaroo about 20km to the northeast, which could host a well in the current four-well program. Echidna is 7km away from Piracuca.

At the Kangaroo-2 appraisal well — where Karoon in November announced a 250m gross oil column with 135m of net pay — the company yesterday said it had flowed oil at a rate of 3700 barrels a day and that no carbon dioxide, hydrogen sulfide, water or sand had been present.

"Karoon is very pleased with the production testing results from Kangaroo-2," managing director Bob Hosking said.

"A vertical well could produce 6000 to 8000 barrels a day from the combined reservoirs, while horizontal production wells could be expected to produce at higher rates."

The company plans to drill two sidetrack wells off Kangaroo-2 to better define the resource size and how much gas can be recovered.

Analysts said the results were encouraging and supported the case for a commercial development, although the presence of five separate oil-bearing zones could create some complexities.

Macquarie analyst Kirit Hara, who left his $4.30 target price and "buy" rating on Karoon unchanged after the announcement, said the results supported Kangaroo's previous contingent resource of 135 million barrels of oil, despite uncertainty about resource size and complexity. Karoon owns 65 per cent of the field, so its share is 88 million barrels.

While the oil prices will affect the value of any reserves Karoon proves up, the company is hoping it could translate into a sweet spot for drilling costs when it comes to development.

Drill rig hire costs of about $US300,000 ($369,120) a day could fall by 30 per cent in the next six months as demand dies down, industry sources estimate.