

Karooon on cusp of transformational deal

- MATT CHAMBERS
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Karooon Gas Australia is on the cusp of a transformational Brazilian acquisition that would give it oil reserves rivalling that of Woodside Petroleum and make it a significant producer in its own right.

Two years after Karooon struck a well-timed \$US600 million deal to sell its Poseidon gas field stake, off Western Australia, to Origin Energy (just three months before oil global oil prices tanked), managing director Bob Hosking is finally close to a deal amid low oil prices to spend the takings on.

Having taken positions in Brazil's Santos Basin in recent years, Melbourne-based Karooon is now taking advantage of a big sell-off by state-controlled oil giant Petrobras and is close to securing interests in two fields at or close to production in the basin after a 12-month bidding process.

Karooon on Friday confirmed it has been awarded the right to negotiate a final agreement with Petrobras and conduct confirmatory due diligence for the acquisition of a 100 per cent operating interest in the Bauna project and a 50 per cent non-operating stake in the Tartaruga Verde development project.

The move pushed shares 14 per cent higher in Friday trade.

It is believed the exclusivity period will run for six weeks.

The deal, if it is finalised, has the potential to provide around 120,000 barrels per day of oil production for Karooon.

Bauna, which is just 40km from Karooon's Echinda and Kangaroo prospects, is currently producing 45,000 barrels of oil a day and Tartaruga Verde is expected to come into production next year with peak output of 150,000 barrels a day.

Details on the fields are few and far between.

It has been reported the block that contains Tartaruga Verde has an estimated 350 million barrels of oil and that Bauna's block contains about 200 million barrels, although it is unclear if the latter has been depleted by production.

The reserves would see Karooon rival Woodside on oil (but not gas) reserves and give it more oil reserves than Santos and Oil Search, whose reserves are predominantly gas.

It would set Karoon up as a decent sized choice for energy investors keen to get exposure to oil rather than gas.

Karoon is expected to bring in a partner if it finalises the deal and is understood to be in talks with potential candidates.

The Australian's DataRoomcolumn reported last week that Woodside Petroleum and BHP Billiton may be interested in teaming up on Brazilian acquisitions.

No details have been given about the value of the purchase but it would expected to be more than \$US1 billion, based on the reserves.

Karoon has about \$480 million in cash, which shows why it is keen to take on a partner. to fund the deal.

On Friday afternoon, Karoon's shares rose 19c to a four-month high on the back of the announcement, adding to a 7 per cent gain on Thursday.

But even after those gains, the company's market value of \$390m is well below its cash balance.

Despite being cashed up at a time of low oil prices, good assets have proven hard to find, with sellers hanging on as long as they can and buyers, particularly listed ones, unwilling to value assets at more than current depressed prices.