

## Stanley development drilling complete

### Event – We review the outlook for HZN post its quarterly update

- Production and revenue down qoq.** Production of 0.312mboe was down 11% qoq, with Beibu production impacted by a platform shutdown as a result of typhoon activity. Revenue of USD29.6m was down 8.5% qoq mainly due to lower sales volumes (down 2.2% qoq) and softer realised oil prices.
- Stanley development drilling complete.** Development drilling for the Stanley gas condensate project in PNG has now been completed, following the completion of the Stanley-3 injection well. This followed the successful Stanley-5 development well which intersected a gas column with 96m of net pay across the Toro and Kimu reservoirs, with better-than-expected reservoir characteristics observed. On production test Stanley-5 flowed at 68mmscf/d, in line with expectations. Liquids content of 30bbls/mmscf are supportive of economics of the project. Other development activities remain ongoing with the field expected to commence at production levels of ~4kbbbls/d of condensate in 2H CY16.
- Beibu exploration campaign successful.** Subsequent to quarter end, HZN announced the results of the second and final well in its Beibu exploration campaign, with the WZ12-10-2 well intersecting an 11m net oil column in the primary Jiaowei formation. The well is located 1.6km north east of the existing WZ12-8W production platform. The success of the WZ12-10-2 well follows the earlier success of the first exploration well in the campaign (WZ 12-10-1) which successfully intersected a 4.2m net oil column in the top of the Jiaowei T42 formation. A side track well was then drilled to investigate reservoir updip, encountering a thicker net oil pay of 5.5m. No oil pay was encountered in the deeper targeted Weizhou formation. With wireline testing complete, the well was plugged and abandoned pending further decisions on development potential. The WZ 12-10-1 well is located ~2.7km west of existing oil discoveries (WZ 12-8E, Beibu East wells) and 4.7km north east of the existing production platform for the Beibu fields (WZ 12-8W). The results from these exploration wells will be assessed for possible development in conjunction with other discoveries in the region. The JV partners have been conducting a feasibility study for development of the nearby Beibu 12-8 East oil discovery, with completion targeted by end 2014.
- Further PNG exploration drilling set to commence in early December.** Good progress has been made on site preparations for the Nama-1 well in PPL 259 near the Stanley field in the PNG Western Province. Drilling on the Nama gas/condensate prospect is set to commence in early December. The potential resource size for the prospect is thought to be in line with Stanley (399bcf gas and 13mmbbl condensate).

### Investment view

- We retain our Overweight recommendation and price target of \$0.50ps.** We consider HZN to have a solid underlying business, with production from Maari and Beibu providing a strong base with upside potential. The addition of Osaka Gas to the PNG JV should enhance development potential. Drilling success at Elevala, Ketu and Tingu has resulted in resource upgrades and should offer further growth potential.

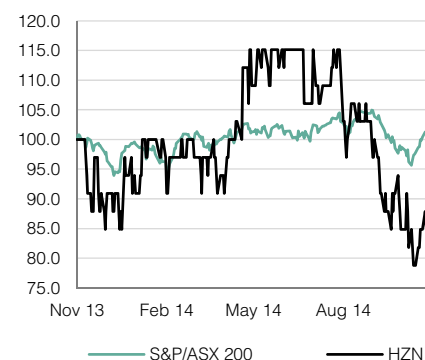
## Overweight

Price target	\$0.50
Share price	\$0.31
52-week range	\$0.26 - \$0.39
Forecast price return	63.9%
Forecast dividend return	0.0%
Forecast total return	63.9%
Market cap	\$397m

### Forecasts and ratios

Year end Jun	13	14	15f	16f	17f
NPAT \$m	3	-4	32	29	40
EPS c	0.3	-0.3	2.5	2.2	3.0
EPS growth %	-55.0	-200.0	917.7	-8.8	35.2
P/E x	97.9	-110.2	10.9	12.0	8.9
EV/EBITDA x	18.8	8.0	4.3	5.1	3.8
DPS c	0.0	0.0	0.0	0.0	0.0
Yield %	0.0	0.0	0.0	0.0	0.0

### Price relatives Starting index and share price rebased to 100



## Financials

Profit & Loss (USDm)	FY13	FY14	FY15f	FY16f	FY17f	Market Information					
<b>Production (mmboe)</b>	<b>0.5</b>	<b>1.4</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>	Recommendation	Overweight				
Sales Revenue	48	144	163	152	174	Price Target (AUD)	0.50				
<b>EBITDAX</b>	<b>28</b>	<b>99</b>	<b>107</b>	<b>98</b>	<b>120</b>	Last Price (AUD)	0.31				
Exploration expense	-1	-11	-3	-3	-2	Issued Capital (m)	1,302				
<b>EBITDA</b>	<b>27</b>	<b>89</b>	<b>104</b>	<b>95</b>	<b>118</b>	Market Capitalisation (AUDm)	397				
Depn & Amortisation	-9	-40	-34	-28	-36	Year end	June				
Impairments	0	0	0	0	0						
<b>EBIT</b>	<b>18</b>	<b>49</b>	<b>70</b>	<b>66</b>	<b>82</b>						
Net Interest	-8	-19	-17	-17	-18	<b>Pricing</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>
Profit Before Tax	10	30	53	49	64	EPS Underlying (USc)	0.3	-0.3	2.5	2.2	3.0
Tax expense	-7	-17	-21	-20	-24	PE Ratio	97.9	-110.2	10.9	12.0	8.9
<b>NPAT (Reported)</b>	<b>3</b>	<b>13</b>	<b>32</b>	<b>29</b>	<b>40</b>	P/B	2.0	1.9	1.4	1.2	1.1
Preference Div Paid						DPS (USc)	0.0	0.0	0.0	0.0	0.0
Exceptional Items (post-tax)	0	17	0	0	0	Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
<b>NPAT (Underlying)</b>	<b>3</b>	<b>-4</b>	<b>32</b>	<b>29</b>	<b>40</b>						
<b>EPS (Underlying)</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>						
						<b>Valuation</b>	<b>AUDm</b>	<b>AUDps</b>	<b>Risk</b>	<b>Reserves</b>	<b>USD/boe</b>
<b>Balance Sheet (USDm)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>	<b>Operations</b>	<b>mmboe</b>				
Cash and equivalents	19	99	88	54	16	Maari	189	0.15	100%	9	19.1
Receivables	20	15	17	16	19	Beibu Gulf	229	0.18	100%	7	27.4
Inventories	8	5	6	6	6	Stanley Liquids	53	0.04	100%	2	19.1
Other current assets	1	2	2	2	2	Elevala/Ketu Liquids	212	0.16	100%	10	18.8
<b>Current assets</b>	<b>47</b>	<b>121</b>	<b>113</b>	<b>78</b>	<b>43</b>	<b>Total Operations</b>	<b>682</b>	<b>0.52</b>		<b>28</b>	<b>21.1</b>
Oil & Gas properties	286	293	311	355	347	Other Assets	71	0.05			
Exploration asset	93	75	93	111	124	Net Cash/(Debt)	-96	-0.07			
Other non-current assets	50	26	26	26	26	<b>Total Valuation</b>	<b>658</b>	<b>0.51</b>			
<b>Non-current assets</b>	<b>429</b>	<b>394</b>	<b>429</b>	<b>492</b>	<b>497</b>						
<b>Total Assets</b>	<b>476</b>	<b>515</b>	<b>542</b>	<b>570</b>	<b>540</b>	<b>Production</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>
Payables	40	36	31	29	30	Sales Gas, Ethane (PJ)	0	0	0	0	0
Interest bearing liabilities	15	44	44	44	44	Condensate (mmbbl)	0.0	0.0	0.0	0.0	0.3
Other current liabilities	2	20	20	20	20	LPG (kt)	0	0	0	0	0
<b>Current Liabilities</b>	<b>57</b>	<b>100</b>	<b>95</b>	<b>94</b>	<b>94</b>	Crude Oil (mmbbl)	0.5	1.4	1.9	1.6	1.4
Interest bearing liabilities	181	143	143	143	73	<b>Total (mmboe)</b>	<b>0.5</b>	<b>1.4</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>
Other non-current liabilities	71	49	49	49	49	Maari (mmboe)	0.3	0.2	0.5	0.5	0.5
<b>Non Current Liabilities</b>	<b>252</b>	<b>192</b>	<b>192</b>	<b>192</b>	<b>122</b>	Beibu Gulf (mmboe)	0.2	1.2	1.3	1.1	0.9
<b>Total Liabilities</b>	<b>309</b>	<b>292</b>	<b>287</b>	<b>286</b>	<b>216</b>	Stanley (mmboe)	0.0	0.0	0.0	0.0	0.3
<b>Net Assets</b>	<b>167</b>	<b>223</b>	<b>255</b>	<b>284</b>	<b>323</b>	Elevala/Ketu (mmboe)	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder funds</b>	<b>167</b>	<b>223</b>	<b>255</b>	<b>284</b>	<b>323</b>						
						<b>Divisional EBIT (USDm)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>
<b>Cash Flow (USDm)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>	Maari	13	-10	37	36	38
<b>Net Operating Cash Flow</b>	<b>15</b>	<b>65</b>	<b>91</b>	<b>89</b>	<b>122</b>	Beibu Gulf	9	53	47	43	38
Capital expenditure	-96	-50	-51	-73	-28	Stanley	0	0	0	0	20
Exploration expenditure	-30	-42	-22	-22	-15	Elevala/Ketu	0	0	0	0	0
Other	20	77	0	0	0	Other	-4	-18	-13	-13	-13
<b>Investing Cash Flow</b>	<b>-105</b>	<b>-16</b>	<b>-73</b>	<b>-94</b>	<b>-43</b>	<b>Total EBIT (underlying)</b>	<b>18</b>	<b>25</b>	<b>70</b>	<b>66</b>	<b>82</b>
Dividends Paid	0	0	0	0	0						
Equity raised	1	47	0	0	0						
Net Borrowings	89	-15	0	0	-70						
Other	0	0	0	0	0						
<b>Financing Cash flow</b>	<b>89</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>-70</b>						
<b>Increase/(decrease) in cash</b>	<b>0</b>	<b>80</b>	<b>18</b>	<b>-6</b>	<b>9</b>						
						<b>Financial Ratios</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>
EBITDA margin	56.8%	45.0%	63.8%	62.3%	67.7%	EBITDA margin	56.8%	45.0%	63.8%	62.3%	67.7%
EBIT margin	37.9%	17.2%	43.0%	43.7%	47.0%	EBIT margin	37.9%	17.2%	43.0%	43.7%	47.0%
Return on equity	2.1%	-2.0%	13.4%	10.9%	13.0%	Return on equity	2.1%	-2.0%	13.4%	10.9%	13.0%
Net Debt (m)	177	89	100	133	102	Net Debt (m)	177	89	100	133	102
Gearing (ND / ND+E) (book)	51%	28%	28%	32%	24%	Gearing (ND / ND+E) (book)	51%	28%	28%	32%	24%
Gearing (ND / ND+E) (market)	35%	17%	22%	28%	23%	Gearing (ND / ND+E) (market)	35%	17%	22%	28%	23%
Interest cover	2	1	4	4	5	Interest cover	2	1	4	4	5
						<b>Assumptions</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15f</b>	<b>FY16f</b>	<b>FY17f</b>
AUD/USD	1.03	0.92	0.89	0.85	0.88	AUD/USD	1.03	0.92	0.89	0.85	0.88
WTI Oil (USD/bbl)	92.2	96.9	90.2	99.8	106.3	WTI Oil (USD/bbl)	92.2	96.9	90.2	99.8	106.3
Brent Oil (USD/bbl)	109.1	105.2	97.5	99.7	106.2	Brent Oil (USD/bbl)	109.1	105.2	97.5	99.7	106.2

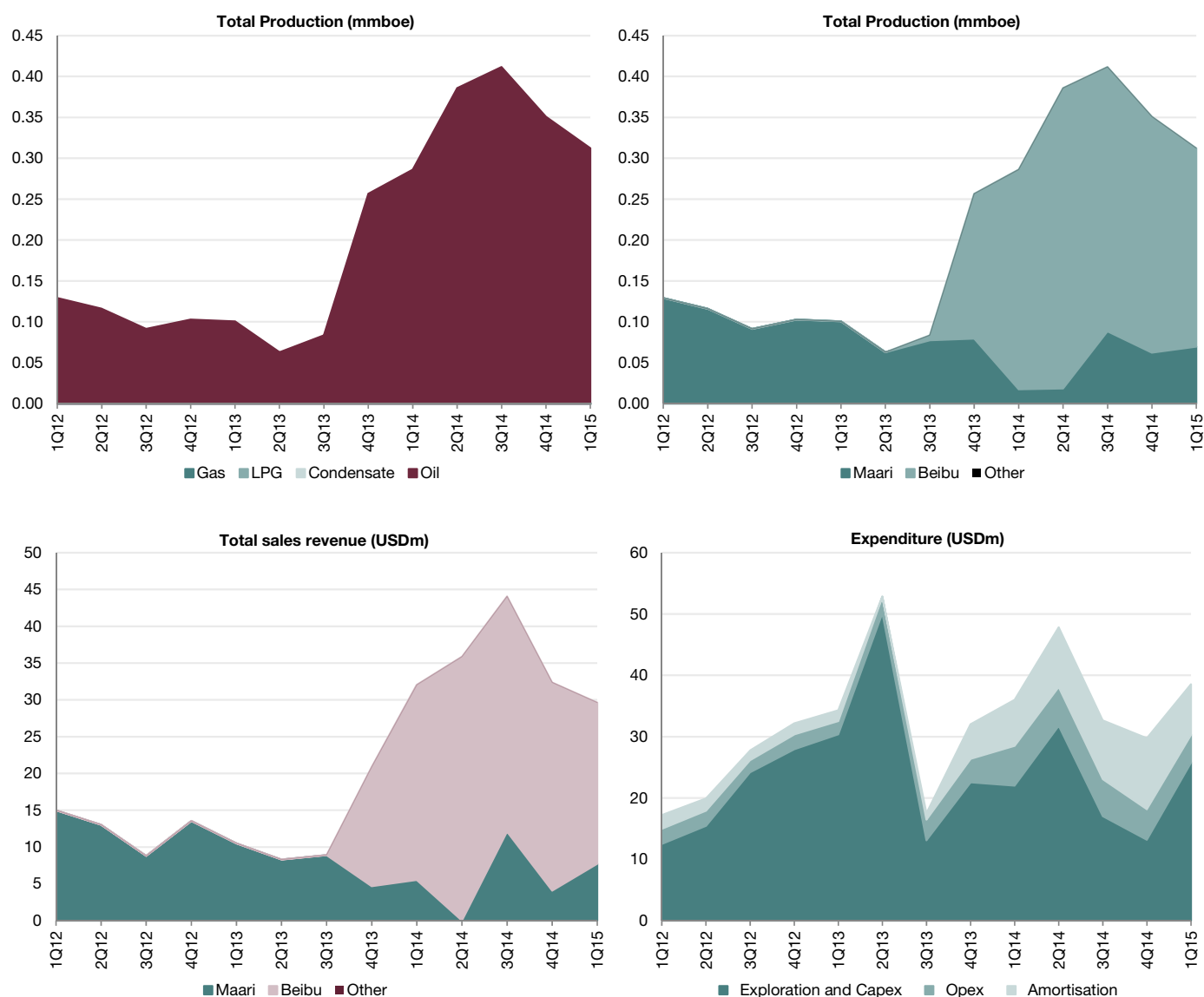
Source: Company data, CBA estimates

Figure 1: HZN - Quarterly production and sales data

Summary	1Q15	4Q14	1Q14	% qoq	%yoy	ytd15	ytd14	%ytd
<b>Volumes (mmboe)</b>								
Production - Crude Oil	0.312	0.351	0.286	-11.0%	9.1%	0.312	0.286	9.1%
Sales - Crude Oil	0.299	0.305	0.300	-2.2%	-0.3%	0.299	0.300	-0.3%
<b>Revenue (USDm)</b>								
Crude Oil (USDm)	29.6	32.4	32.1	-8.5%	-7.6%	29.6	32.1	-7.6%
Realised Oil Price (USD/bbl)	99.2	106.0	107.0	-6.4%	-7.3%	99.2	107.0	-7.3%

Source: Company data

Figure 2: HZN - Quarterly production and sales trends



Source: Company data

### Company outlook

- **Stanley development drilling complete.** Development drilling for the Stanley gas condensate project in PNG has now been completed, following the completion of the Stanley-3 injection well. This followed the successful Stanley-5 development well which intersected a gas column with 96 metres of net pay across the Toro and Kimu reservoirs, with better-than-expected reservoir characteristics observed. On production test Stanley-5 flowed at 68mmscf/d, in line with expectations. Liquids content of 30bbbls/mmscf are supportive of the economics of the project. Other development activities remain ongoing with the field expected to commence at production levels of ~4kbbbls/d of condensate in 2H CY16.
- **Beibu exploration campaign successful.** Subsequent to quarter end, HZN announced the results of the second and final well in its Beibu exploration campaign, with the WZ12-10-2 well intersecting an 11 metre net oil column in the primary Jiaowei formation. The well is located 1.6km north east of the existing WZ12-8W production platform. The success of the WZ12-10-2 well follows the earlier success of the first exploration well in the campaign (WZ 12-10-1) which successfully intersected a 4.2 metre net oil column in the top of the Jiaowei T42 formation. A side track well was then drilled to investigate reservoir updip, encountering a thicker net oil pay of 5.5 metres. No oil pay was encountered in the deeper targeted Weizhou formation. With wireline testing complete, the well was plugged and abandoned pending further decisions on development potential. The WZ 12-10-1 well is located ~2.7km west of existing oil discoveries (WZ 12-8E, Beibu East wells) and 4.7km north east of the existing production platform for the Beibu fields (WZ 12-8W). The results from these exploration wells will be assessed for possible development in conjunction with other discoveries in the region. The JV partners have been conducting a feasibility study for development of the nearby Beibu 12-8 East oil discovery, with completion targeted by end 2014.
- **Elevala/Ketu/Tingu FEED studies continue, ahead of possible FID in early 2015.** Work continues on FEED studies for the development plan of the Elevala/Tingu/Ketu fields. The JV submitted an Environmental Impact Statement (EIS) in June and is progressing the project, targeting to be in a position to make a development decision in early 2015. The JV is acquiring a further 102km of 2D seismic primarily over the Elevala/Tingu area. Seismic acquisition is expected to complete in mid-November with processing to commence in 4QCY14. The JV has had encouraging test results to date from the fields. Production testing of the Ketu-2 appraisal well delivered strong gas and condensate flows, with the well flowing consistently at 35-40mmscfd with no water and minimal CO<sub>2</sub> and H<sub>2</sub>S. Liquids content is also positive, with a stabilised rate of 50-60bbbl/mmscf. The positive results from Ketu-2 follow good initial results from nearby Tingu-1, which produced a good initial average production rate of 48mmscf/d with no water, which is positive for future development from the Elevala sandstone reservoir. Also encouraging was the initial average liquids content of 65bbbl/mmscf achieved over the test period.
- **Further PNG exploration drilling set to commence in early December.** Good progress has been made on site preparations for the Nama-1 well in PPL 259 near the Stanley field in the PNG Western Province. Drilling on the Nama gas/condensate prospect is set to commence in early December. The potential resource size for the prospect is thought to be in line with Stanley (399bcf gas and 13mmbbl condensate).
- **Maari growth development program continues.** The Maari growth program incorporates four new production wells, one new injection well and a workover of an existing horizontal production well. HZN intends to complete the growth drilling campaign in FY15, and is targeting increasing gross production to 20kbbbls/d.

### Investment view

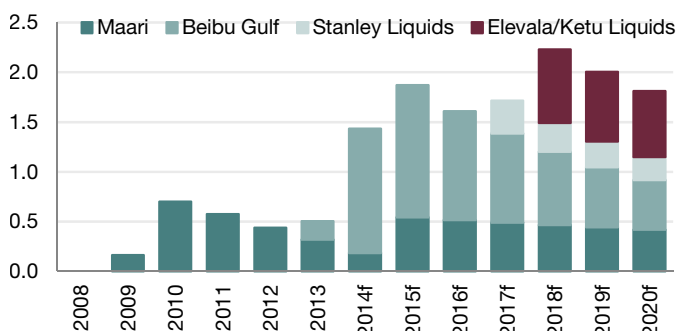
- We retain our **Overweight recommendation and price target of \$0.50ps.**
- We consider HZN to have a solid underlying business, with production from Maari and Beibu providing a strong base with upside potential. The addition of Osaka Gas to the PNG JV should enhance development potential. Drilling success at Elevala, Ketu and Tingu has resulted in resource upgrades and should offer further growth potential.

Figure 3: HZN - Valuation breakdown

HZN Valuation	AUDm	AUDps	Risk	Reserves mmboe	USD/boe
Maari	189	0.15	100%	9	19.1
Beibu Gulf	229	0.18	100%	7	27.4
Stanley Liquids	53	0.04	100%	2	19.1
Elevala/Ketu Liquids	212	0.16	100%	10	18.8
<b>Total operations</b>	<b>682</b>	<b>0.52</b>		<b>28</b>	<b>21.1</b>
Other assets	146	0.11			
Net cash/(Debt)	-96	-0.07			
Corporate	-75	-0.06			
<b>Total valuation</b>	<b>658</b>	<b>0.51</b>			

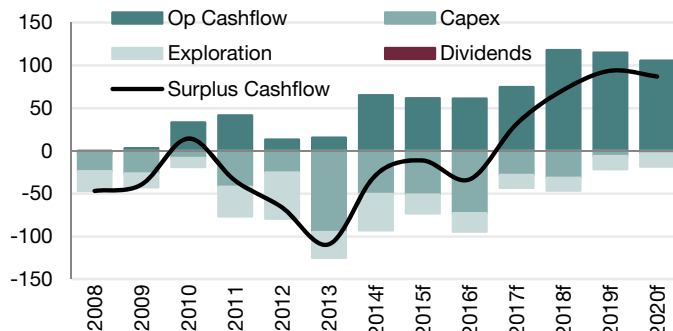
Source: Company data, CBA estimates

Figure 4: HZN - Production (mmboe)



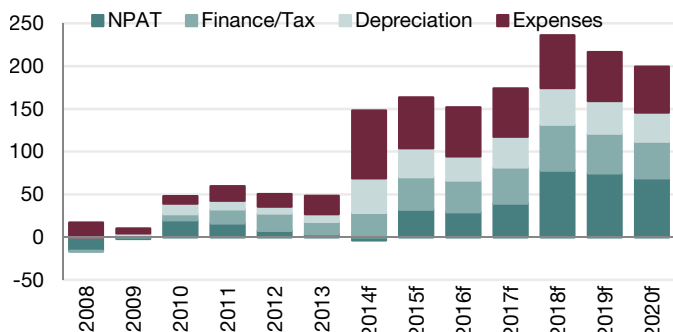
Source: Company data, CBA estimates

Figure 5: HZN - Cash flow (USDm)



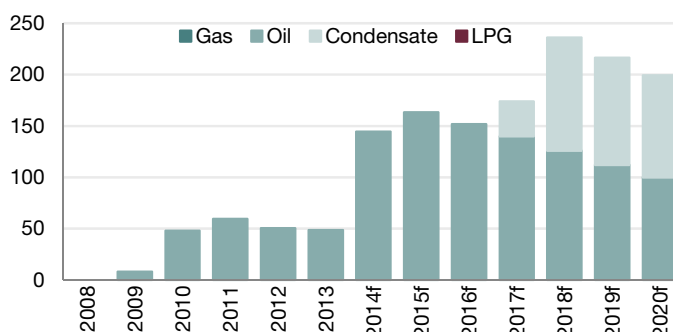
Source: Company data, CBA estimates

Figure 6: HZN - Revenue to NPAT (USDm)



Source: Company data, CBA estimates

Figure 7: HZN - Revenue by commodity (USDm)



Source: Company data, CBA estimates

**Current recommendation definitions**

CBA Institutional Equities investment recommendations are determined by the covering analyst and reflect the analyst’s assessment of a stock’s expected total shareholder return (TSR). Stock expected TSR is calculated as the difference between the analyst’s 12-month price target and the current share price plus the forecast dividend yield.

**Overweight:** Stocks with an Overweight recommendation represent the most attractive stocks under the analyst’s coverage. They are generally forecast to generate higher TSR compared to the rest of the analyst’s coverage.

**Neutral:** Stocks with a Neutral recommendation are less attractive than stocks with an Overweight recommendation. They are generally forecast to generate lower TSR compared to stocks with an Overweight recommendation in the analyst’s coverage.

**Underweight:** Stocks with an Underweight recommendation are the least attractive stocks. They are generally forecast to generate lower TSR compared to stocks with a Neutral recommendation in the analyst’s coverage.

**Note:** CBA’s previous recommendations prior to 9 November 2012 were:

**Buy:** Stocks with a Buy recommendation represent the most attractive stocks under the analyst’s coverage. They are forecast to generate significantly positive expected total shareholder returns.

**Hold:** Stocks with a Hold recommendation are less attractive than stocks with a Buy recommendation. They are forecast to generate flat to slightly positive expected total shareholder returns.

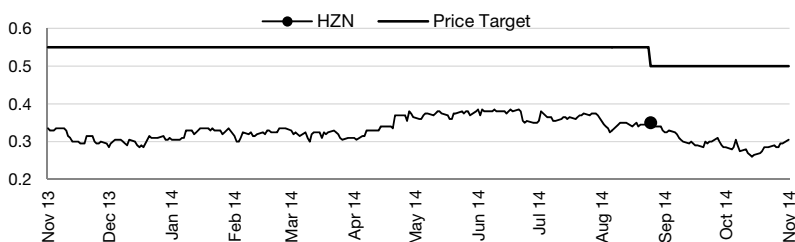
**Sell:** Stocks with a Sell recommendation are the least attractive stocks. They are forecast to generate flat or negative expected total shareholder returns.

CBA’s previous recommendations prior to 25 January 2010 were:

Short term (over 6 months): Buy – appreciate by >10%, Accumulate – increase between 2% and 10%, Reduce – increase by less than 2% or fall by up to 5%, Sell – fall by >5%.

Long term (24 months) Outperform (O / P) – exceed market return by >5%, Market Perform (M / P) – be in line with market return, +/-5%, Under Perform (U / P) – be less than market return by >5%.

**One year history of price target and recommendation changes**



Date	Price Target (\$)	Recommendation
27/08/2014	0.50	OVERWEIGHT

Source: CBA Equities, IRESS

## Disclosure and Disclaimer Appendix

### Companies Mentioned

Company Name	
Horizon Oil Limited	HZN, AUD0.30, Overweight, PT AUD0.50
Osaka Gas Co Ltd	9532.T, JPY441, Not Rated

1. The U.S. Broker-Dealer or its affiliates beneficially own 1% or more of a class of common equity securities of HZN as of the end of the month immediately preceding the date of this research report (or as of the end of the second most recent month preceding the date of this research report, if this report is dated less than 10 calendar days after the end of the most recent month). Any such computation of beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act; and
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