



## AUSTRALIA

HZN AU Outperform

Price (at 06:10, 26 Aug 2015 GMT) A\$0.08

Valuation A\$ 0.34

- DCF (WACC 10.2%, beta 1.7, ERP 5.0%, RFR 3.8%)

12-month target A\$ 0.25

12-month TSR % +212.5

Volatility Index High

GICS sector Energy

Market cap A\$m 104

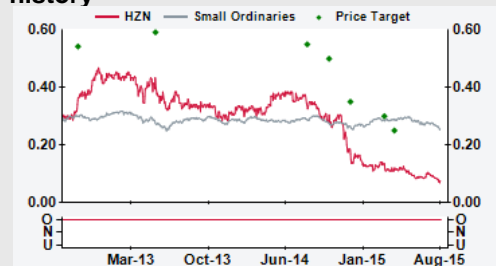
30-day avg turnover A\$m 0.1

Number shares on issue m 1,302

## Investment fundamentals

Year end 30 Jun		2015A	2016E	2017E	2018E
Revenue	m	83.7	104.9	130.4	144.5
EBIT	m	19.0	39.2	51.5	57.8
Reported profit	m	18.3	15.4	22.0	28.7
Adjusted profit	m	2.3	15.4	22.0	28.7
Gross cashflow	m	56.3	62.3	70.2	79.6
CFPS	¢	4.3	4.8	5.4	6.1
CFPS growth	%	31.6	10.6	12.7	13.4
PGCFPS	x	1.3	1.2	1.1	0.9
PGCFPS rel	x	0.15	0.15	0.15	0.14
EPS adj	¢	0.2	1.2	1.7	2.2
EPS adj growth	%	nfm	562.6	43.0	30.4
PER adj	x	32.2	4.9	3.4	2.6
PER rel	x	2.02	0.36	0.30	0.26
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	3.7	7.8	10.7	11.7
ROE	%	1.0	5.8	7.8	9.3
EV/EBITDA	x	2.8	2.4	2.1	1.9
Net debt/equity	%	51.9	36.5	21.1	8.9
P/BV	x	0.3	0.3	0.3	0.2

## HZN AU vs Small Ordinaries, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2015  
(all figures in USD unless noted, TP in AUD)

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26 August 2015

Macquarie Securities (Australia) Limited

# Horizon Oil

## Capital intensity set to roll off

## Event

- **HZN reported FY15 financial results:** Excluding U\$6.6m in insurance claims and a U\$9.1m positive revaluation of the convertible note, an underlying NPAT of U\$2.3m was inline with our U\$2.5m forecast. EBITDAX and operating cash flow was 4% and 18% ahead respectively, supported by a U\$20m hedging gain.

## Impact

- **Beibu resource growing, but notable debooking at Maari:** The discovery of the WZ 12-10-1&2 fields in the Beibu Gulf last year saw a 1.9mboe uplift to 2P+2C. Indeed, HZN plans to drill the 12-10-2 A6H appraisal well in 2HCY15 as a future producer (pointing to unit capex of merely U\$8/boe), potentially adding a further ~1,500bopd of production. Meanwhile, while the completion of the delayed Maari Growth program now sees productivity improvements (currently at 16,500bopd with the July work-over likely to see production increase to 20,000bopd) HZN has debooked a notable 27% of Maari 2P reserves since December 2014 (without subsequent resource reclassification) which sees reserve life fall by ~2 yrs at current production rates.
- **Jockeying for a seat at table:** Feasibility studies for the 2-4mtpa Daru Barge LNG concept are expected in FY16. With P'nyang appraisal drilling forthcoming and with an MoU stipulating FID by 2017, the next 12 months could prove pivotal for HZN's gas commercialisation strategy. However, we note OSH's active 8-well exploration program in 2016 (all up targetting an additional 6-7tcf of resource) throughout the Highlands/Gulf (which could defer or diminish the possibility of third party supply at PNG LNG in the event of success).
- **Gearing set to roll off:** After a capital intensive few years, HZN's gearing appears to have peaked at 34%. The Maari workover is likely to see production tick up to 20,000bopd and with exploration cost recovery at Beibu Gulf seeing an increase in gross revenue share (from 25% to 40%), FY16 is set to see a meaningful 25% uplift in production. Additionally, HZN is targetting a significant 50% cut in capex and G&A across FY16, with the recent Investor Day pointing to formalised capex guidance of ~U\$33m (down from ~U\$85m in FY15).

## Earnings and target price revision

- **NAV falls 3% to A\$0.34/sh:** We have re-risked PNG LNG 3<sup>rd</sup> party supply and strip out a A\$10m post money raising. Resource adds at Beibu Gulf have been offset by reserves de-booking at Maari. U\$1-2m medium term NPAT upgrades driven by a slight reduction in overheads.

## Price catalyst

- 12-month price target: A\$0.25 based on a DCF methodology.
- Catalyst: Production improvements at Maari following well optimisation in 2H15.

## Action and recommendation

- **Maintain an Outperform rating and A\$0.25/sh target:** Despite HZN now being well funded to manage the U\$80m convertible note redemption, the current share price continues to track well below core NAV, implying a steep 65% discount on the Maari, Beibu and Stanley assets.

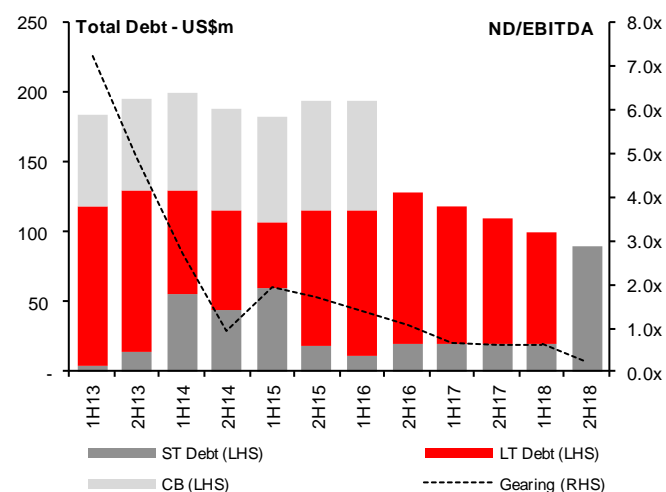
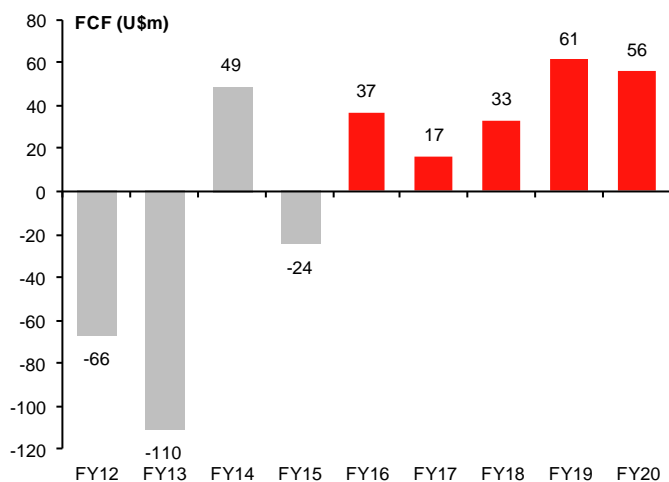
**Fig 1 Horizon Oil - FY15 Financial Results Summary – Macquarie vs. Actual**

US\$m	Actual	Macq/	Delta	Comments
Production Volume (mmboe)	1.31	1.31	0%	Production rates fell to ~3,600bopd, but are expected to improve with Maari growth initiatives
Oil & Gas Revenue	83.7	83.7	0%	Sales Revenue fell by 42% due to lower realisations
Other Revenue	20.4	20.3	0%	Gains relating the hedge book totalled U\$20m
Operating Costs	-22.9	-23.2	-1%	Unit opex (ex royalties) of U\$15/bbl fell 30% y/y
Other Costs	-6.9	-9.2	-25%	Underlying corporate overheads fell 7% yoy, while lease costs halved
<b>EBITDAX</b>	<b>74.3</b>	<b>71.6</b>	<b>4%</b>	<b>EBITDAX was 4% ahead of forecast due to lower operating/overhead costs</b>
Exploration expensed	-16.2	-12.7	27%	~44% of exploration capex expensed during the period (relating to unsuccessful Nama-1 well)
DD&A	-37.8	-37.4	1%	DD&A/boe of U\$28.8/boe reflects a greater mix of Beibu Gulf and higher Maari DD&A
Other non-cash charges	-1.3	-0.6	130%	
<b>EBIT</b>	<b>19.0</b>	<b>20.9</b>	<b>-9%</b>	<b>EBIT was U\$2m below forecast due to higher exploration expense</b>
Net Financing Costs	-17.2	-15.5	11%	Higher interest expense due to commitment and financing fees
Income Tax	4.9	-1.4	-454%	Benefit due to U\$3m movement in deferred tax movements
APT	-4.3	-1.5	182%	Higher due to deferred tax movements
<b>Adjusted NPAT</b>	<b>2.3</b>	<b>2.5</b>	<b>-6%</b>	<b>Adjust NPAT in line with forecasts</b>
Significant Items	16.0	8.5		Revaluation of the convertible note and insurance claim related to loss of production at Maari
<b>Reported Profit</b>	<b>18.3</b>	<b>11.0</b>	<b>67%</b>	

Source: Macquarie Research, August 2015

**Fig 2 With the Maari Growth Project and Stanley drilling now completed, HZN are set to transition to positive free cash flow in FY16 (supported by a 50% reduction in capex and G&A)...**

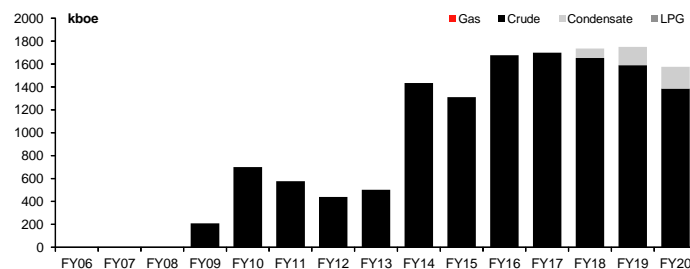
**Fig 3 ...which should see ND/EBITDA remain below 2x over the forecast period**



Source: Macquarie Research, August 2015

Fig 4 Horizon Oil financials

Horizon Oil (HZN-AU)							Share Price: A\$0.08								
Outperform							Shares: 1302m								
<b>Profit &amp; Loss</b>							<b>Price assumptions</b>								
Sales revenue	US\$m	49	49	84	105	130	145	US\$/A\$	¢	0.77	0.69	0.81	0.71	0.70	0.77
add other income	US\$m	5	8	20	14	-	-	Oil - Brent	US\$/bbl	56.56	63.00	73.50	60.75	76.50	82.50
<b>Total revenue</b>	<b>US\$m</b>	<b>53</b>	<b>58</b>	<b>104</b>	<b>119</b>	<b>130</b>	<b>145</b>	<b>Production</b>							
less operating costs	US\$m	(18)	(17)	(30)	(33)	(31)	(36)	Natural gas	PJ	-	-	-	-	-	-
<b>EBITDAX</b>	<b>US\$m</b>	<b>36</b>	<b>41</b>	<b>74</b>	<b>86</b>	<b>100</b>	<b>109</b>	Crude & condensate	kbbls	618.7	796.3	1,310.5	1,676.3	1,698.7	1,651.8
less exploration expensed	US\$m	(11)	(3)	(16)	(6)	(9)	(12)	<b>Total production</b>	<b>kboe</b>	<b>618.7</b>	<b>796.3</b>	<b>1,310.5</b>	<b>1,676.3</b>	<b>1,698.7</b>	<b>1,734.6</b>
<b>EBITDA</b>	<b>US\$m</b>	<b>25</b>	<b>38</b>	<b>58</b>	<b>80</b>	<b>91</b>	<b>97</b>	Production rate	bopd	3,390	4,363	3,590	4,593	4,654	4,752
less dep. & amort.	US\$m	(17)	(20)	(38)	(41)	(39)	(39)	<b>Reserves</b>							
less other non-cash costs	US\$m	(1)	(1)	(1)	-	-	-	Natural gas	Tcf	-	-	-	-	-	-
<b>EBIT</b>	<b>US\$m</b>	<b>7</b>	<b>18</b>	<b>19</b>	<b>39</b>	<b>52</b>	<b>58</b>	Crude & condensate	mmbbl	13.8	12.1	10.4	8.7		
less net interest	US\$m	(8)	(5)	(17)	(11)	(10)	(7)	<b>Total reserves</b>	<b>mmbboe</b>	<b>13.8</b>	<b>12.1</b>	<b>10.4</b>	<b>8.7</b>		
<b>Pre-tax operating profit</b>	<b>US\$m</b>	<b>(1)</b>	<b>13</b>	<b>2</b>	<b>28</b>	<b>41</b>	<b>51</b>	2P reserve life	years	8.2	7.1	6.0	5.0		
less tax expense (incl APT)	US\$m	(1)	(5)	1	(13)	(19)	(22)	Mkt cap / 2P reserves	US\$/boe	5.8	5.9	7.2	9.4		
<b>Net operating profit</b>	<b>US\$m</b>	<b>(1)</b>	<b>7</b>	<b>2</b>	<b>15</b>	<b>22</b>	<b>29</b>	EV / 2P reserves	US\$/boe	15.1	17.2	20.0	24.0		
add non-recurring items	US\$m	9	-	16	-	-	-	<b>Per bbl statistics</b>							
<b>Reported profit</b>	<b>US\$m</b>	<b>7</b>	<b>7</b>	<b>18</b>	<b>15</b>	<b>22</b>	<b>29</b>	Sales Revenue / boe	US\$/boe	104.3	78.6	63.9	62.6	76.8	83.3
<b>Adjusted profit</b>	<b>US\$m</b>	<b>(1)</b>	<b>7</b>	<b>2</b>	<b>15</b>	<b>22</b>	<b>29</b>	EBIT / boe	US\$/boe	25.4	11.8	14.5	23.4	30.3	33.3
<b>EPS (Adjusted)</b>							<b>NPV @ WACC of 10.2%</b>								
EPS Growth	%	81%	113%	125%	563%	43%	30%	Developing assets	US\$m	115	A\$ps	0.11	%		
DPS	USc	-	-	-	-	-	-	Maari							
DPS	Ac	-	-	-	-	-	-	<b>Static assets &amp; exploration</b>							
Franking	%	0%	0%	100%	100%	100%	100%	Maari /M2A water injection	5	0.00					
EFPOWA shares on issue	m	1,302	1,302	1,302	1,302	1,302	1,302	Beibu Gulf (+WZ 12-10-2)	219	0.21					
<b>Cashflow Analysis</b>							<b>Financial assets</b>								
Cash receipts from operations	US\$m	54	53	104	112	126	138	Corporate	(19)	(0.02)					
less operating costs	US\$m	(24)	(8)	(34)	(25)	(30)	(30)	Cash & Investments	61	0.07					
less interest paid	US\$m	(4)	(5)	(9)	(8)	(8)	(7)	Risked Osaka Gas Payment	9	0.01					
less tax paid	US\$m	(5)	(5)	(3)	(13)	(19)	(22)	Debt	(182)	(0.19)					
<b>Gross cashflow from operator</b>	<b>US\$m</b>	<b>22</b>	<b>34</b>	<b>59</b>	<b>66</b>	<b>69</b>	<b>79</b>	<b>Group NPV</b>	<b>374</b>	<b>0.34</b>					
less expl & devlp	US\$m	(59)	(15)	(83)	(29)	(53)	(46)	Shareprice prem/(disc) to NPV		-77%					
less acq./inv.	US\$m	-	-	-	-	-	-	- core NPV per share (A\$)		0.22					
less dividends	US\$m	-	-	-	-	-	-	- risked NPV per share (A\$)		<b>0.34</b>					
add debt movements	US\$m	(9)	-	(1)	(70)	(20)	(20)	- unrisked NPV per share (A\$)		1.34					
add equity/other	US\$m	(10)	-	-	-	-	-	<b>Valuation</b>							
<b>Net cashflow</b>	<b>US\$m</b>	<b>(56)</b>	<b>19</b>	<b>(38)</b>	<b>(33)</b>	<b>20</b>	<b>13</b>	EV/EBITDAX ratio	x	6.4 x	4.7 x	3.9 x	3.4 x	2.9 x	2.7 x
+exchange rate adjustments	US\$m	0	-	(0)	-	-	-	P/E ratio	x	nmf	10.2 x	83.8 x	4.8 x	3.3 x	2.8 x
<b>Increase in cash</b>	<b>US\$m</b>	<b>(56)</b>	<b>19</b>	<b>(38)</b>	<b>(33)</b>	<b>20</b>	<b>13</b>	P/CEPS ratio	x	11.6 x	2.5 x	3.7 x	1.2 x	1.0 x	1.0 x
<b>Net debt (cash)</b>	<b>US\$m</b>	<b>139</b>	<b>114</b>	<b>133</b>	<b>99</b>	<b>62</b>	<b>29</b>	FCF yield	%	nmf	25.7%	nmf	50.4%	22.7%	41.8%
<b>Balance sheet</b>							<b>Sensitivities (Adjusted Earnings)</b>								
Cash	US\$m	44	81	61	28	48	62	Oil price (+US\$/bbl)	US\$m	<b>0.35</b>	<b>2</b>	<b>16</b>	<b>23</b>	<b>29</b>	
Other current Assets	US\$m	51	39	34	42	46	53	delta		0.00	0	1	1	1	
Fixed Assets	US\$m	427	420	428	410	391	386	%		1%	1%	4%	3%	3%	
<b>Total Assets</b>	<b>US\$m</b>	<b>521</b>	<b>540</b>	<b>523</b>	<b>480</b>	<b>485</b>	<b>500</b>	<b>Ratio analysis</b>							
Current Liabilities	US\$m	93	129	128	58	59	135	ND/ND+E	%	35%	30%	34%	27%	17%	8%
Total Liabilities	US\$m	264	276	267	208	192	177	Interest cover	x	0.9 x	3.6 x	1.3 x	4.8 x	6.8 x	8.0 x
<b>Shareholder equity</b>	<b>US\$m</b>	<b>256</b>	<b>264</b>	<b>256</b>	<b>272</b>	<b>294</b>	<b>322</b>	Dividend payout ratio	%	0%	0%	0%	0%	0%	0%
<b>Ratio analysis</b>							<b>Developing assets</b>								
ROA	%	1%	3%	4%	8%	11%	12%	Maari	US\$m	115	A\$ps	0.11	%		
ROE	%	0%	3%	1%	6%	8%	9%	<b>Static assets &amp; exploration</b>							
ROIC	%	2%	4%	5%	6%	8%	10%	Maari /M2A water injection	5	0.00					
Effective tax rate	%	71%	30%	-276%	30%	30%	30%	Beibu Gulf (+WZ 12-10-2)	219	0.21					
EBITDA margin	%	67%	70%	71%	72%	77%	75%	Stanley liquids	30	0.03					
EBIT margin	%	14%	31%	18%	33%	40%	40%	Elevala/Ketu/Tingu Liquids	63	0.06					
Free cash flow	US\$m	(37)	19	(24)	37	17	33	Static & Exploration	72	0.07					
<b>Valuation</b>							<b>Financial assets</b>								
EV/EBITDAX ratio	x	6.4 x	4.7 x	3.9 x	3.4 x	2.9 x	2.7 x	Corporate	(19)	(0.02)					
P/E ratio	x	nmf	10.2 x	83.8 x	4.8 x	3.3 x	2.8 x	Cash & Investments	61	0.07					
P/CEPS ratio	x	11.6 x	2.5 x	3.7 x	1.2 x	1.0 x	1.0 x	Risked Osaka Gas Payment	9	0.01					
FCF yield	%	nmf	25.7%	nmf	50.4%	22.7%	41.8%	Debt	(182)	(0.19)					
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	<b>Group NPV</b>	<b>374</b>	<b>0.34</b>					
<b>Sensitivities (Adjusted Earnings)</b>							<b>Shareprice prem/(disc) to NPV</b>								
Oil price (+US\$/bbl)	US\$m	<b>0.35</b>	<b>2</b>	<b>16</b>	<b>23</b>	<b>29</b>	- core NPV per share (A\$)		0.22						
delta		0.00	0	1	1	1	- risked NPV per share (A\$)		<b>0.34</b>						
%		1%	1%	4%	3%	3%	- unrisked NPV per share (A\$)		1.34						



Source: Macquarie Research, August 2015

Fig 5 Horizon Oil NAV breakdown

Production Assets	Interest	Unrisked mmboe	Unrisked USD (m)	Risk	Risked mmboe	Risked USD (m)	USD/boe	Aps		% NPV	Sensitivity			
								risked	unrisked		-\$10	Base	+\$10	
Maari	10.0%	3.2	115	100%	3.2	115	35.5	0.11	0.11	31%	0.09	0.11	0.12	
Beibu Gulf (+WZ 12-10-2)	27.0%	7.1	219	100%	7.1	219	30.8	0.21	0.21	60%	0.14	0.21	0.18	
<b>Sub Total</b>		<b>10.4</b>	<b>334</b>		<b>10.4</b>	<b>334</b>		<b>0.31</b>	<b>0.31</b>	<b>91%</b>	<b>0.23</b>	<b>0.31</b>	<b>0.30</b>	
<b>Developing Assets</b>														
Maari /M2A water injection	10.0%	0.7	13	40%	0.3	5	17.5	0.00	0.01	1%	0.01	0.00	0.01	
Stanley liquids	23.3%	2.4	49	60%	1.5	30	20.4	0.03	0.05	8%	0.02	0.03	0.03	
Elevala/Ketu/Tingu Liquids	20.9%	11.7	209	30%	3.5	63	17.9	0.06	0.20	17%	0.04	0.06	0.06	
<b>Sub Total</b>		<b>14.8</b>	<b>272</b>		<b>5.3</b>	<b>98</b>		<b>0.09</b>	<b>0.25</b>	<b>27%</b>	<b>0.06</b>	<b>0.09</b>	<b>0.10</b>	
<b>Static assets and exploration</b>														
Beibu Gulf: WZ 12-8E & 12-10-1	27.0%	2.6	49	30%	0.8	15	18.5	0.01	0.05	4%	0.01	0.01	0.01	
PRL 21: Toro (liquids)	34.9%	4.2	58	15%	0.6	9	16.3	0.01	0.05	2%	0.00	0.01	0.01	
Stanley contracted gas	23.3%	2.3	20	25%	0.6	5	8.6	0.00	0.02	1%	0.01	0.00	0.00	
Daru mid-scale LNG	12.9%	39.5	167	10%	3.9	17	4.2	0.02	0.16	5%	0.01	0.02	0.02	
PNG LNG 3rd Party Supply	21.0%	48.9	143	10%	4.9	14	2.9	0.01	0.13	4%	0.02	0.01	0.02	
PEP 51313: Matariki	21.0%	23.1	116	2.5%	0.6	3	7.0	0.00	0.11	1%	0.00	0.00	0.00	
PEP 51313: Te Wahtu	21.0%	11.8	37	2.5%	0.3	1	7.0	0.00	0.04	0%	0.00	0.00	0.00	
PEP 51313: Pukeko NE	21.0%	7.0	4	2.5%	0.2	0	7.0	0.00	0.00	0%	0.00	0.00	0.00	
PPL 259: Other	35.0%	39.0	369	2.5%	1.0	9	10.0	0.01	0.35	3%	0.01	0.01	0.01	
<b>Sub Total</b>		<b>178</b>	<b>963</b>		<b>12.8</b>	<b>72</b>		<b>0.07</b>	<b>0.90</b>	<b>20%</b>	<b>0.06</b>	<b>0.07</b>	<b>0.08</b>	
<b>Financial &amp; Corporate</b>														
Cash						61		0.07	0.07	19%	0.07	0.07	0.07	
Post-money raising						-		-	-	0%	0.01	-	0.01	
Risked Osaka Gas Payment						9		0.01	0.01	3%	0.00	0.01	0.00	
Debt						(115)		(0.12)	(0.12)	-36%	(0.09)	(0.12)	(0.10)	
Hedge Book						14		0.01	0.01	4%	0.01	0.01	0.01	
Convertible Bond						(80)		(0.07)	(0.07)	-22%	(0.06)	(0.07)	(0.06)	
Corporate costs						(19)		(0.02)	(0.02)	-5%	(0.02)	(0.02)	(0.02)	
<b>Sub Total</b>						<b>(130)</b>		<b>(0.13)</b>	<b>(0.13)</b>	<b>-38%</b>	<b>(0.08)</b>	<b>(0.13)</b>	<b>(0.09)</b>	
<b>Overall total</b>		<b>204</b>	<b>mmboe</b>				<b>374</b>	<b>USDm</b>	<b>0.34</b>	<b>1.34</b>	<b>100%</b>	<b>0.28</b>	<b>0.34</b>	<b>0.39</b>
- core NPV per share (A\$)		10						0.22			0.18	0.22	0.25	
- risked NPV per share (A\$)		28						0.34			0.28	0.34	0.39	
- unrisked NPV per share (A\$)		204						1.34			0.97	1.34	1.27	
Diluted shares outstanding (m)								1,302.0						
Ordinary Shares on Issue (m)								1,302.0						
Post-money shares (m)								-						
New shares from convertible debt (m)								-						
Exchange Rate								0.82						
WACC (post tax)								10.2%						
Share Price								0.08						
Price premium to NPV								-77%						

Source: Macquarie Research, August 2015

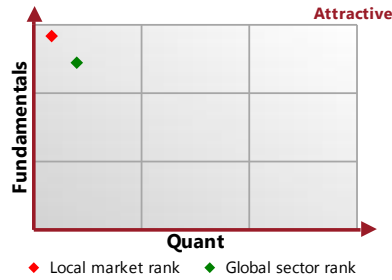
## Macquarie Quant View

The quant model currently holds a strong negative view on Horizon Oil. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

**537/618**

Global rank in Energy

**% of BUY recommendations** 60% (3/5)  
**Number of Price Target downgrades** 1  
**Number of Price Target upgrades** 1

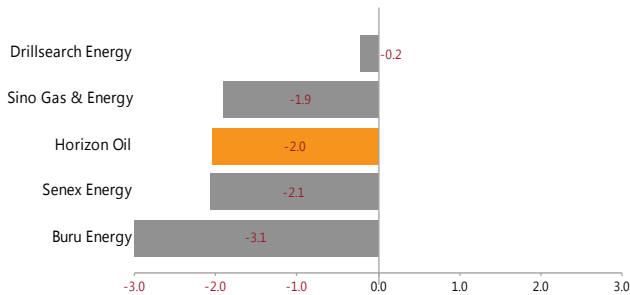


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Energy)

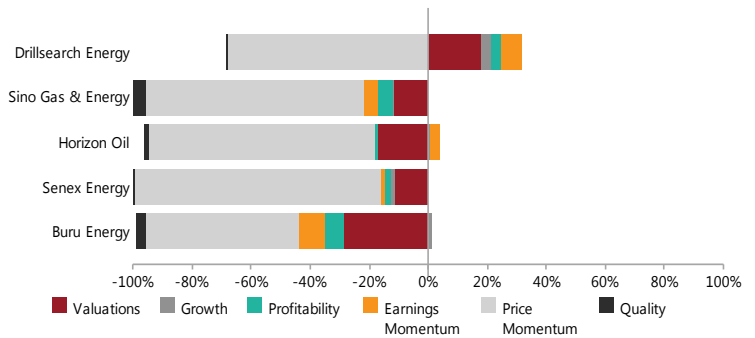
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



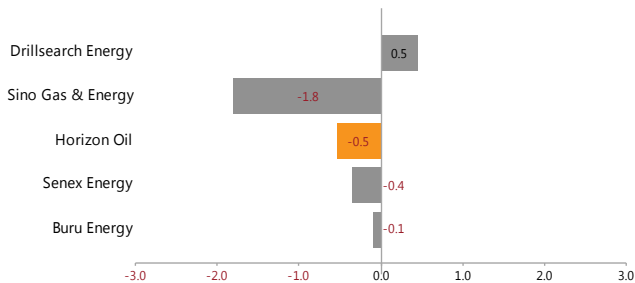
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



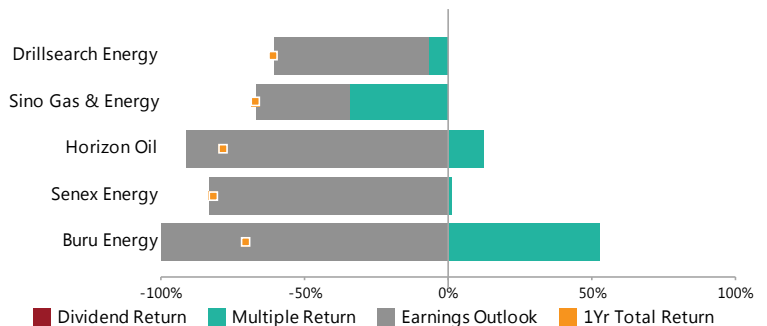
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



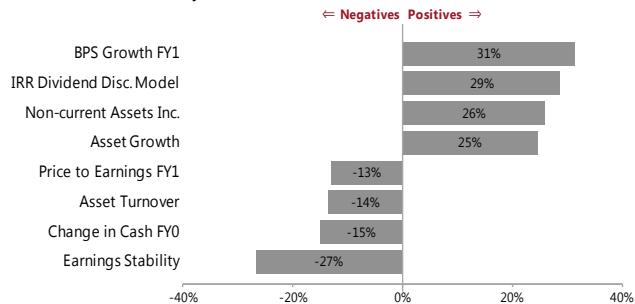
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



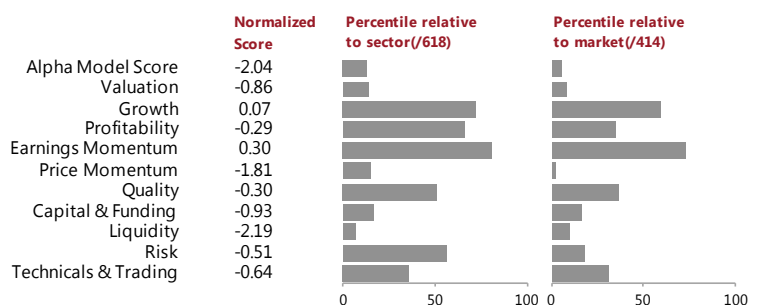
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpg@macquarie.com](mailto:cpg@macquarie.com))

## Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p><b>Macquarie - Australia/New Zealand</b>            Outperform – return &gt;3% in excess of benchmark return            Neutral – return within 3% of benchmark return            Underperform – return &gt;3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p><b>Macquarie – Asia/Europe</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b>            Outperform – return &gt;5% in excess of benchmark return            Neutral – return within 5% of benchmark return            Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b>            Outperform (Buy) – return &gt;5% in excess of Russell 3000 index return            Neutral (Hold) – return within 5% of Russell 3000 index return            Underperform (Sell) – return &gt;5% below Russell 3000 index return</p>	<p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Asia/Australian/NZ/Canada stocks only</p> <p><b>Recommendations</b> – 12 months  <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made:            Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense            Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation            *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

## Recommendation proportions – For quarter ending 30 June 2015

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.23%	58.36%	47.27%	44.20%	60.65%	43.01%	(for US coverage by MCUSA, 9.68% of stocks followed are investment banking clients)
Neutral	37.67%	25.65%	29.09%	49.29%	34.19%	40.93%	(for US coverage by MCUSA, 5.53% of stocks followed are investment banking clients)
Underperform	16.10%	15.99%	23.64%	6.52%	5.16%	16.06%	(for US coverage by MCUSA, 1.38% of stocks followed are investment banking clients)

## HZN AU vs Small Ordinaries, &amp; rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2015

## 12-month target price methodology

HZN AU: A\$0.25 based on a DCF methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
15-Apr-2015	HZN AU	Outperform	A\$.25
17-Mar-2015	HZN AU	Outperform	A\$.30
09-Dec-2014	HZN AU	Outperform	A\$.35
08-Oct-2014	HZN AU	Outperform	A\$.50
06-Aug-2014	HZN AU	Outperform	A\$.55
24-May-2013	HZN AU	Outperform	A\$.59
12-Oct-2012	HZN AU	Outperform	A\$.54

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