StockAnalysis

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By Peter Strachan

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HORIZON OIL RESTRUCTURES

HZN Price History

HZN - Capital Structure		
Shares	1302	m.
Partly Paids	1.5	m.
SARS	38.7	m.
Con Note	US$80	m @41.6 US cts
Options	4.3	m. Av 29 cts
Net Cash (est)	$ (199)	m.
Price	$ 0.105	
Market Cap	$ 137	m.
EV	$ 335	m.

Recommendation: ***Horizon Oil's net high debt level creates an opportunity and a threat. Estimated servicing costs of ~A$10 million pa equate to a cost of about $7 per barrel of production at current rates, but the company has huge leverage to oil price recovery and trades with an EV of $4 per barrel of 2P plus 2C Reserves and Resources.***

Last week's 'StockAnalysis Feedback' question concerning proposed refinancing and repayment of Horizon Oil's convertible note facility was indeed prescient since the company has since outlined a new debt facility with which it plans to repurchase US$80 million of low cost, 5.5% pa convertible note debt using a facility that is likely to cost the company closer to 4% pa.

It is now highly likely that the bonds will not convert to shares, avoiding any further equity dilution. Horizon will redeem its notes for cash on or before June 2016 when they mature. The company is well placed to achieve this outcome since:

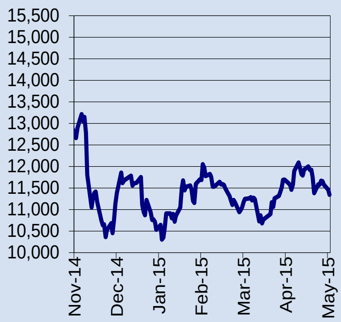
- It has a cash balance of approximately US$40 million at 1 April 2015 and additional undrawn debt capacity of US$10 million under the revised debt facility,
- The company's forecast net operating income to June 2016, **inclusive of hedging gains**, amounts to over US$110 million (assuming current oil prices),
- Horizon has reduced its budgeted capital expenditure profile over the coming 15 months to approximately US$50 million,

(Continued on page 2)

Indices and Prices	
All Ordinaries	5,619.40
Energy Index	11,341.00
Brent AU$/bbl	81.27
AUS$/US$	0.7912
As at Close May 19th, 2015	

All Ordinaries

S&P ASX 200 Energy Index



Brent Crude Oil $A/barrel

A$/US$

- The company has eliminated scheduled amortisation under the renegotiated debt facility and to the extent required,
- Horizon has potential to draw down up to US$50 million of additional debt capacity under an "accordion" feature of the newly negotiated revolving cash advance facility.

Since issue in 2011, Horizon's Bonds have provided unsecured financing of Beibu Gulf development in China at a rate of 5.5% pa. These oilfields are now strong cash generators with upside development and exploration appeal.

Horizon valuation matrix

Asset	mmBOE	Value $m	$ per Shr	Comment
Cash (est)		50	0.04	@ Mar '15
Project Debt		(149)	(0.11)	Beibu, Other
Con Note		(100)	(0.07)	To be paid out
Maari 10%	5.8	151	0.11	
Beibu I 26.95%	5.8	104	0.08	
Beibu I A 26.95%	2.7	49	0.04	recent discoveries
Beibu II	4.9	44	0.03	Heavy oil
PRL-4 23.3%	18.5	128	0.10	$197m look-through
PRL-21 20.9	48.6	321	0.24	Upgraded reserves
Option cash		-	-	all above 21 cents
Other		(22)	(0.02)	Corporate
Sub-total			0.43	
Risk Adjusted Exploration Value			0.04	
Total Value			0.47	
Source:		*Strachan Corporate*		

Based on a long term valuation that assumes an oil price of around US$100/ bbl as a sustaining price for the industry, **StockAnalysis assesses an underlying value of 43 cps** for the company's known oil Reserves and Contingent Resources that are mostly in PNG. The company holds strong development appeal for PNG gas assets and additional exploration appeal around its Maari oilfield, where no further work is likely for 2-3 years, in the Beibu Gulf, where recent discoveries are likely to be tied in during 2017 and in PNG, where drilling of a duster at the Nama prospect does little to reduce overall prospectivity of its permits for additional gas and condensate.

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