

Quick Comment

Horizon Oil Ltd (HZN \$0.14) Buy

Analyst	Date	Price Target
Jon Bishop	2 nd May 2018	\$0.20/sh

PNG Social Media Speculation

Key Points

- HZN has been forced to respond to what appears to be misinformed social media speculation in PNG regarding the status of PDL 10, the Stanley Field production licence;
- PDL 10 represents 20% of HZN's total PNG gas resource;
- Speculation relates to receipt of a 'Notice of Intention to cancel Petroleum Development Licence 10 and Pipeline Licence 10' (Notice) signed by Dr Fabian Pok, Minister for Petroleum, PNG;
- Repsol (Operator) and the JV have determined the Notice as procedurally invalid and that there is no basis upon which to cancel licence per the issues identified in the Notice;
- Subsequent consultation to the Minister by the PDL 10 participants regarding the proposed Western LNG aggregation scheme and proposed development has prompted the Minister to confirm that no action will be taken in respect to PDL 10;
- A presentation regarding the Western Foreland LNG proposal and development concepts for PDL10 is to be undertaken by the JV before Oct 1, 2018;
- We anticipate that the notice will be deemed invalid by the Minister as a consequence. In any event, on our analysis, we see little downside to the current share price noting that the NPV of the producing NZ and Chinese assets net of Balance Sheet equates to 13cps: PNG remains a free option:

ASSET VALUATION		
	A\$m	A\$/sh
NZ - Maari	111	0.07
China - Wei	165	0.10
China - WZ 12-8E undev. - nom. risked	56	0.03
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	111	0.07
Hedging	(3)	(0.00)
Corporate (inc tax credits)	(37)	(0.02)
Unpaid Capital	18	0.01
Debt	(149)	(0.09)
Cash	28	0.02
Total	300	0.19

- Buy maintained.

Investment Thesis

Today's announcement is disappointing in so much as there appeared little grounds for disclosure given procedure with the PNG Govt implies there is little grounds to endorse the Notice and cancel PDL10. Never-the-less, this feeds deep seeded concerns regarding sovereign risk pertaining to PNG. We view that this is a non-event. And in any event, the current share price is underwritten to 13cps by the producing assets net of Balance Sheet. Buy maintained: HZN offers pure oil price leverage with firming oil prices. Its core assets and fully developed production of +4,000bopd for the next 5yrs will generate over US\$50m/yr in free cash flow (after capex) on average, systematically and aggressively de-gearing the balance sheet. Yet it trades a steep discount to the peer group.

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Share Price	0.14	A\$/sh	Enterprise Value	327	A\$/m
Price Target	0.20	A\$/sh	Debt	149	A\$/m
Valuation	0.19	A\$/sh	Cash	28	A\$/m
Shares on issue	1,602	m(dil)	Largest Shareholder	IMC	31%
Market Capitalisation	206	A\$m			

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Horizon Oil Ltd (HZN \$0.14) Buy

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Jon Bishop	30 th April 2018	\$0.20/sh

Mar Q'ly FY'18 Report

Key Points

HZN has delivered strong operational performance and benefited from rising oil prices over the Mar Q. Key highlights:

- Net operating cash flow of US\$20m before incorporation of the recently announced acquisition of a further 16% interest in Maari-Manaia from Todd Oil;
- Net sales of 388kbbbls for the Q at an average realised price of US\$65.70/bbl;
- Production was flat Q-on-Q at 282.4kbbbls despite a 5 day shutdown at Maari resulting in a 10% decline in asset production vs the Dec Q;
- The Beibu Gulf asset showed inc. production Q-on-Q (220kbbbls vs 213.9kbbbls in Dec Q) following scheduled workover of the WZ 6-12 fields during the Q delivering production inc. from 7,800bopd to 9,300bopd;
- Subsequent, workover programme at the WZ 12-8W has resulted in current rates of around 10,000bopd. A further 2 infill wells are planned for mid CY'18;
- Importantly realised the benefit of preferential cost recovery with sales inc. 10% Q-on-Q to 320kbbbls;
- Remaining net entitlement under the PSC cost recovery is US\$63.5m;
- The planned development of WZ 12-8E is awaiting final approval of commercial terms pertaining to the mobile production platform. FID is planned for mid-Dec H, CY'18;
- Net debt improved to US\$85.6m (from US\$94.3m at Dec 31) comprising US\$30.7m cash and US\$116.2m debt;
- However, with the payment for the Todd Oil interest in Maari due to fall this Q, we forecast a small inc. to the net debt position as at Jun 30: EZL forecast net debt of US\$87m (US\$22m cash and US\$109m debt) by Jun 30.

Investment Thesis

HZN offers pure oil price leverage with firming oil prices. Its core assets and fully developed production of +4,000bopd for the next 5yrs will generate over US\$50m/yr in free cash flow (after capex) on average, systematically and aggressively de-gearing the balance sheet. Despite this, the Company trades at around 50% of its peer group on EV:flowing boe & EV:EBITDA (FY'18, 19) basis; and less than 20% on an EV:2P+2C basis. The Company is fundamentally cheap and still offers clear blue sky potential with its 150mmbboe interest in discovered PNG Resources that have increasing strategic value. The current price trades at a ~40% discount to our \$0.19/sh Valuation. We retain our BUY and set a \$0.20/sh Price Target reflecting a number of tangible organic and in-organic catalysts.

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