

Horizon Oil Ltd

(HZN \$0.12) Buy

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Analyst
Jon Bishop

Date
May 2019

Price Target
\$0.15/sh ▼ \$0.20/sh

Comments

- Sustainable 3kbbbls/d production fully developed for next 5yrs at breakeven of <US\$35/bbl;
- US\$50m/yr in FCF vs current EV of US\$225m = trading at 50% EV:FCF multiples of peers;
- Short term growth with ODP at Beibu Gulf Stage 3 development;
- Blue sky potential with corporate M&A landscape in PNG moving in on Western Forelands PNG project;
- The PNG Petroleum Minister has motioned to allow 3rd Party access to PNG-LNG pipeline infrastructure for stranded gas resources;
- However, upside capped until PDL-10 (Stanley Field license) is resolved, and we are increasingly uncomfortable with the Government's "use it or lose it" rhetoric.

Val/ Sh		Brent Oil								
AUD/USD		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.20										
15%	\$0.172	\$0.178	\$0.186	\$0.195	\$0.203	\$0.211	\$0.218	\$0.226	\$0.233	
10%	\$0.171	\$0.176	\$0.185	\$0.194	\$0.202	\$0.210	\$0.217	\$0.225	\$0.232	
5%	\$0.169	\$0.175	\$0.184	\$0.193	\$0.201	\$0.208	\$0.216	\$0.224	\$0.231	
0%	\$0.168	\$0.174	\$0.183	\$0.191	\$0.199	\$0.207	\$0.215	\$0.222	\$0.230	
-5%	\$0.167	\$0.173	\$0.182	\$0.190	\$0.198	\$0.206	\$0.214	\$0.221	\$0.229	
-10%	\$0.165	\$0.171	\$0.180	\$0.189	\$0.197	\$0.205	\$0.212	\$0.220	\$0.227	
-15%	\$0.164	\$0.170	\$0.179	\$0.187	\$0.195	\$0.203	\$0.211	\$0.219	\$0.226	

Val/ Sh		US\$ Gas - PNG								
AUD/USD		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.20										
15%	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203
10%	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202
5%	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201
0%	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199
-5%	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198
-10%	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197	\$0.197
-15%	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195	\$0.195

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Brent Oil	\$68	\$79	\$85	\$85	\$85	\$85
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.73	\$0.71	\$0.74	\$0.75	\$0.75	\$0.75

Investment Case

HZN operating performance dipped QoQ but in general remains solid and in the current oil price environment is resulting in consistent reduction in debt. However, we are increasingly fearful that the landscape is shifting in PNG and that this may yet undermine the standing of HZN and its JVs PNG interests. Combined with the PDL-10 situation, the PNG asset situation removes the blue sky for now as it has inevitably stoked deep seeded market concerns regarding sovereign risk pertaining to PNG. If this issue can be rectified in due course, it should effectively remove the cap to current share price. We see value in the current share price vs the producing assets and retain our Buy recommendation as a consequence. We do qualify however, that without PNG, HZN does lack tangible growth and significant upside. Our revised 15cps Price Target reflects the PNG issue.

Our Market Sensitivity

Valuation - \$0.20/sh
Price Target - \$0.15/sh

Bull Scenario - \$0.22/sh

Oil price continue to strengthen, rising at 20% above our assumptions. Whilst M&A and/or organic development momentum crystallises value for the PNG portfolio.

Base Scenario - \$0.15/sh

Oil price rise in line with our assumptions. PNG issues remain unresolved.

Bear Scenario - \$0.08/sh

Oil prices fall 20%.

Company Summary

Horizon Oil Ltd (HZN) is an oil & gas exploration, development and production company. HZN focusses on three main projects, producing the Maari field offshore New Zealand and Chinese Beibu Gulf. The production asset underwrite the current share price whilst PNG - on account of its size and increasingly strategic value - offers substantial blue sky potential.

Liquids rich 2P/2C reserves are 10.64 and 153.18 mmboc. Dec H production of 3374 boepd is anticipated to rise to 5316boepd for FY'19.

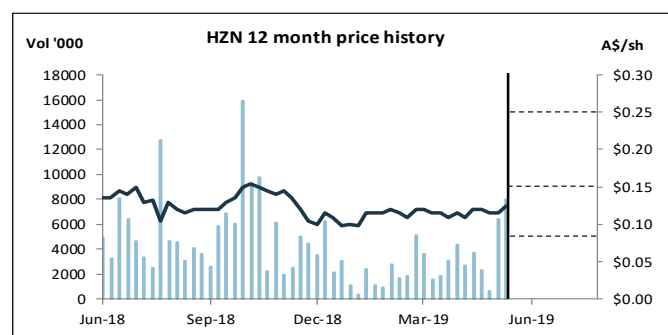
Market Statistics

Share Price	\$0.120	A\$/sh
Issued Capital		
Fully Paid Ord	1,302.0	m
Op @ 6cps	302.5	m
Share Rights	130.4	m
Total Dil. FPOrd	1,733.4	m
Market Cap'n (dil)	\$190	m
Enterprise Value	\$ 263	m
Debt	\$(117)	m
Cash	\$ 48	m

Year End 30 June

Directors	
R Harding	Chair
M Sheridan	CEO
G Bittar	NE Dir
S Birkenleigh	NE Dir
G de Nys	NE Dir
B Lorenzon	NE Dir
Shareholders	
IMC	31.0%
Spheria	8.4%
Colonial	7.3%

Share Price Performance



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RESOURCES QUARTERLY MAY 2019

Euroz Securities Limited

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Asset Valuation	A\$m	A\$/sh
NZ - Maari	112	0.06
China - Wei	172	0.10
China - WZ 12-8E undev. - nom. risked	36	0.02
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	111	0.06
Hedging	(3)	(0.00)
Corporate (inc tax credits)	(27)	(0.02)
Unpaid Capital	18	0.01
Debt	(117)	(0.07)
Cash	43	0.02
Total	346	0.20

F/Cast Production (A\$m)	2018a	2019f	2020f	2021f
Attrib. Prod'n (mmboe)				
Maari (NZ)	0.5	0.7	0.6	0.5
Wei (China)	0.9	0.6	0.6	0.5
Wei (cost recovery oil equiv)	0.3	0.4	0.4	0.1
Western Foreland (PNG)	-	-	-	-
Total Attrib (mmboe)	1.7	1.7	1.5	1.2
boepd	4,591	4,547	4,194	3,216
Assumptions				
Avg Brent Oil Price (US\$/bbl)	66.9	68.4	79.0	85.0
USD:AUD	0.78	0.73	0.71	0.74

Ratio Analysis (A\$m)	2018a	2019f	2020f	2021f
CF (US\$m)	38	40	33	55
CF / Sh (Ac/sh)	3	3	3	4
CF Ratio (x)	3.9	3.8	4.5	2.8
Earnings (US\$m)	(3)	24	10	27
EPS (Ac/sh)	(0)	2	1	2
EPS Growth (%)	na	na	-59%	172%
Earnings Ratio (x)	na	6.4	15.5	5.7
E'prise Val. (A\$m)	283	304	268	197
EV : EBITDA (x)	3.9	3.5	4.3 #DIV/O!	
EV : EBIT (x)	8.1	5.9	10.5 #DIV/O!	
Net Debt / ND+Eq (%)	47%	30%	20%	na
Interest Cover (x)	0.9	3.1	9.3	52.1
EBIT Margin (%)	32%	40%	26%	42%
ROE (%)	-3%	15%	6%	13%
ROA (%)	10%	16%	10%	18%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	-	-	-	-
Div. Yield	-	-	-	-
Div. Franking	-	-	-	-

Reserves and Resources

	Oil mmbbls	Cond mmbbls	Gas Bcf	Total mmboe
2P Reserves Beibu (China)	4.6	-	-	4.6
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	4.4	-	-	4.4
Total	9.1	-	-	9.1
2C Resources Maari-Manaia (NZ)	4.3	-	-	4.3
2C Resources Beibu (China)	3.2	-	-	3.2
2C Resources Stanley (PNG)	-	18.6	603.0	126.3
Total	7.4	18.6	603.0	133.8
EV / 2P boe (A\$)				29.1
EV / 2P+ 2C boe (A\$)				1.8

Profit and Loss (A\$m)	2018a	2019f	2020f	2021f
Oil Equivalent Sales	106	87	98	113
Hedging Revenue	(6)	21	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	0	1	1	1
Other Revenue	1	1	-	-
TOTAL REVENUE	100	114	99	114
Operating Costs	28	33	30	32
Dep/Amort	29	39	34	25
O/H + New Bus Dev	4	6	6	6
W/O & Provisions	6	(9)	3	3
EBITDA	67	75	62	75
EBIT	32	45	25	47
Interest Expense	35	10	3	2
NPBT	(2)	35	22	46
Tax	(1)	8	6	13
NZ royalty	1	4	7	6
Minorities	-	-	-	-
NET PROFIT	(3)	24	10	27
Net Abnormal Gain/(Loss)	10	-	-	-
NET PROFIT After Abn'l	(12)	24	10	27

Cash Flow (A\$m)	2018a	2019f	2020f	2021f
Net Profit	(12)	24	10	27
+ Working Capital Adj.	16	4	-	-
+ Dep/Amort	29	39	34	25
+ Provisions	6	(9)	3	3
+ Tax Expense	(1)	8	6	13
- Tax Paid	0	10	5	11
Operating Cashflow	38	55	48	57
- Capex + Development	-	15	15	1
- Exploration	8	4	5	5
- Assets Purchased	30	-	-	-
+ Asset Sales	-	-	-	-
+ Other	(0)	-	-	-
Investing Cashflow	(38)	(19)	(20)	(6)
+ Equity Issues/Opt conv	-	-	-	-
+ Loan D'down/Receivable	-	100	-	-
+ Other	-	(7)	-	-
- Loan Repayment	17	141	30	30
- Dividends	-	-	-	-
Financing Cashflow	(17)	(49)	(30)	(30)
Period Sur (Def)	(16)	(13)	(2)	20
Adj. FX effects	(1)	-	-	-
Cash Balance	28	15	13	33

Balance Sheet (A\$m)	2018a	2019f	2020f	2021f
Assets				
Cash	28	15	13	33
Current Receivables	15	15	15	15
Other Current Assets	4	4	4	4
Non-Current Assets	262	243	229	210
Total Assets	310	277	261	263
Liabilities				
Borrowings	112	85	55	25
Current Accounts Payable	19	19	19	19
Non Current Liabilities	69	-	-	-
Other Liabilities	14	14	14	14
Total Liabilities	214	118	88	58
Net Assets	95	159	173	205

