

# Horizon Oil Ltd

## (HZN \$0.14) Buy

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**Analyst**  
Jon Bishop

**Date**  
September 2019

**Price Target**  
\$0.15/sh

### Investment Case

Record production and free cash generation was a product of strong underlying operating performance at Beibu, enhanced by cost recovery Entitlement Production under the PSC. The FY saw c.US\$65m in debt retired over the year; the Company saw net debt fall from US\$75m to US\$25m by FY end. Natural field decline and completion of accelerated cost recovery (relating to previous phases of development) at Beibu will see earnings and production fall from here. Beibu Phase 2 development will provide some additional production to offset this decline in the medium term. Whilst PNG requires resolution before the market begins to factor its potential for long term growth. Nevertheless, a vastly improved Balance Sheet and good op cashflow may present the Business with new growth opportunities in time. Our \$0.15/sh Price Target is effectively a 'net of PNG' valuation. Consequently, we retain our Buy recommendation on a deep value fundamentals basis.

### Comments

- HZN's FY'19 Financial Result outperformed our forecasts benefitting from actual production of 1.9mmbbls (vs ESL - 1.7mmbbls est) due to stronger than forecast production from China;
- The Company retired c.US\$65m in debt as a consequence, finishing the FY with net debt of US\$25m vs c.US\$75m at end FY'18;
- US\$9.5m in debt is current this H and we est. US\$20m over the next FY and FY'21, very manageable on forecast op CF and capital requirements;
- Strong operating cash flow and low capital requirements will increasingly afford HZN the ability to pursue alternative growth options should it so choose;
- Whilst no FY'20 guidance has been given, ESL forecasts 1.5mmbbls (20% decline yr-on-yr) for EBITDA of US\$62m EBITDA (31% decline assuming flat Dtd Brent pricing vs FY'19);
- However, note we do not incorporate phase 2 development of Wei Zhou 12-8E Area at Beibu (currently first prod. slated for 2021) in our profile awaiting further detail;
- PNG remains uncertain regarding resolution to the PDL10 license standing as well as PRL 21 development license proposal and application. Resolution will likely trigger a change of control for Repsol's interests providing a market valuation look-through;
- Our Valuation is \$0.21/sh but we set our \$0.15/sh Price Target effectively net of any risked resource value we ascribe to HZN's PNG interests.

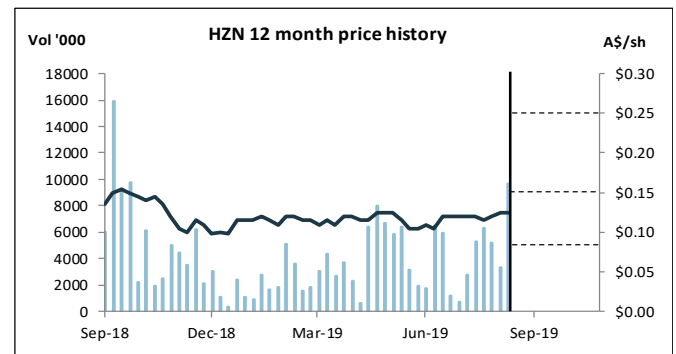
Val/ Sh	Brent Oil								
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.21	\$0.188	\$0.196	\$0.204	\$0.211	\$0.217	\$0.223	\$0.229	\$0.234	\$0.239
15%	\$0.187	\$0.195	\$0.204	\$0.210	\$0.216	\$0.222	\$0.228	\$0.233	\$0.238
10%	\$0.187	\$0.194	\$0.203	\$0.209	\$0.216	\$0.222	\$0.228	\$0.232	\$0.237
5%	\$0.186	\$0.193	\$0.202	\$0.208	\$0.215	\$0.221	\$0.227	\$0.232	\$0.236
0%	\$0.185	\$0.192	\$0.201	\$0.208	\$0.214	\$0.220	\$0.226	\$0.231	\$0.236
-5%	\$0.184	\$0.191	\$0.200	\$0.207	\$0.213	\$0.219	\$0.225	\$0.230	\$0.235
-10%	\$0.183	\$0.190	\$0.199	\$0.205	\$0.212	\$0.218	\$0.224	\$0.228	\$0.233
-15%									

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 RESOURCES QUARTERLY SEPTEMBER 2019

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### Share Price Performance



### Market Statistics

<b>Share Price</b>	<b>\$0.140 A\$/sh</b>
Issued Capital	
FP Ord	1,302.0 m
Op @ 6cps	302.5 m
Share Rights	130.4 m
<b>Total Dil. FPOrd</b>	<b>1,733.4 m</b>
<b>Market Capitalisation</b>	<b>\$224 m</b>
Enterprise Value	\$261 m
Debt	\$(66) m
Cash	\$30 m

### Year End 30 June

<b>Directors</b>	
M Harding	Chair
M Sheridan	CEO
G Bittar	NE Dir
S Birkenleigh	NE Dir
G de Nys	NE Dir
B Lorenzon	NE Dir
C Hodge	NE Dir
<b>Shareholders</b>	
IMC	31.0%
Spheria	8.4%
Colonial	7.3%

### Our Market Sensitivity

**Valuation - \$0.21/sh**  
**Price Target - \$0.15/sh**

#### Bull Scenario - \$0.25/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 Reserves are 8.8mmbbls. FY'19 production of +5,300boepd is anticipated to fall through FY'20 through natural field decline and end to Recovery Entitlement production from Beibu. Cash of \$21m and \$47m debt as at Jun 30, 2019.

Val/ Sh	US\$ Gas - PNG								
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.21	\$0.217	\$0.217	\$0.217	\$0.217	\$0.217	\$0.217	\$0.217	\$0.217	\$0.217
15%	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216
10%	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216
5%	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216	\$0.216
0%	\$0.215	\$0.215	\$0.215	\$0.215	\$0.215	\$0.215	\$0.215	\$0.215	\$0.215
-5%	\$0.214	\$0.214	\$0.214	\$0.214	\$0.214	\$0.214	\$0.214	\$0.214	\$0.214
-10%	\$0.213	\$0.213	\$0.213	\$0.213	\$0.213	\$0.213	\$0.213	\$0.213	\$0.213
-15%	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212

Asset Valuation	A\$m	A\$/sh
NZ - Maari	99	0.06
China - Wei	173	0.10
China - WZ 12-8E undev. - nom. risked	36	0.02
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked 111		0.06
Hedging	1	0.00
Corporate (inc tax credits)	(30)	(0.02)
Unpaid Capital	18	0.01
Debt	(66)	(0.04)
Cash	30	0.02
<b>Total</b>	<b>372</b>	<b>0.21</b>

F/Cast Production (US\$m)	2019a	2020f	2021f	2021f
<b>Attrib. Prod'n (mmboe)</b>				
Maari (NZ)	0.7	0.6	0.5	0.4
Wei (China)	0.9	0.7	0.5	0.5
Wei (cost recovery oil equiv)	0.3	0.3	0.2	0.1
Western Foreland (PNG)	-	-	-	-
<b>Total Attrib (mmboe)</b>	<b>1.9</b>	<b>1.5</b>	<b>1.2</b>	<b>1.0</b>
boepd	5,095	4,188	3,283	2,687
<b>Assumptions</b>				
Avg Brent Oil Price (US\$/bbl)	68.4	67.5	75.0	75.0
USD:AUD	0.73	0.69	0.70	0.70

Ratio Analysis (US\$m)	2019a	2020f	2021f	2021f
CF (US\$m)	65	34	46	38
CF / Sh (Ac/sh)	5	3	4	3
CF Ratio (x)	2.3	5.0	3.7	4.5
Earnings (US\$m)	36	14	19	19
EPS (Ac/sh)	3	1	2	2
EPS Growth (%)	na	-59%	35%	1%
Earnings Ratio (x)	4.2	12.1	8.9	8.9
E'prise Val. (A\$m)	244	218	159	107
EV : EBITDA (x)	2.9	4.2	4.3	5.1
EV : EBIT (x)	4.5	9.7	8.0	9.0
Net Debt / ND+Eq (%)	16%	na	na	na
Interest Cover (x)	5.0	30.6	na	na
EBIT Margin (%)	46%	28%	34%	35%
ROE (%)	25%	7%	8%	7%
ROA (%)	22%	11%	13%	10%
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)	4.4	-	-	4.4
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	4.4	-	-	4.4
<b>Total</b>	<b>8.8</b>	<b>-</b>	<b>-</b>	<b>8.8</b>
2C Resources Maari-Manaia (NZ)	4.3	-	-	4.3
2C Resources Beibu (China)	3.2	-	-	3.2
2C Resources Stanley (PNG)	-	18.6	606.0	126.8
<b>Total</b>	<b>7.4</b>	<b>18.6</b>	<b>606.0</b>	<b>134.3</b>
<b>EV / 2P boe (A\$)</b>				<b>29.5</b>
<b>EV / 2P+ 2C boe (A\$)</b>				<b>1.8</b>

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Brent Oil	\$68	\$68	\$75	\$75	\$75	\$75
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.73	\$0.69	\$0.70	\$0.70	\$0.70	\$0.70

Profit and Loss (US\$m)	2019a	2020f	2021f	2021f
Oil Equivalent Sales	87	62	95	82
Hedging Revenue	21	33	-	-
Deferred Revenue	13	-	-	-
Interest Revenue	1	1	2	3
Other Revenue	5	-	-	-
<b>TOTAL REVENUE</b>	<b>127</b>	<b>96</b>	<b>97</b>	<b>85</b>
Operating Costs	30	27	29	25
Dep/Amort	39	34	25	20
O/H + New Bus Dev	6	6	6	6
W/O & Provisions	(7)	2	3	3
EBITDA	90	62	60	51
EBIT	58	27	33	29
Interest Expense	10	2	1	(0)
NPBT	48	26	34	32
Tax	11	7	9	9
NZ royalty	2	5	5	4
Minorities	-	-	-	-
<b>NET PROFIT</b>	<b>36</b>	<b>14</b>	<b>19</b>	<b>19</b>
Net Abnormal Gain/(Loss)	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>36</b>	<b>14</b>	<b>19</b>	<b>19</b>

Cash Flow (US\$m)	2019a	2020f	2021f	2021f
Net Profit	36	14	19	19
+ Working Capital Adj.	16	(8)	-	-
+ Dep/Amort	39	34	25	20
+ Provisions	(7)	2	3	3
+ Tax Expense	11	7	9	9
- Tax Paid	14	9	8	9
<b>Operating Cashflow</b>	<b>73</b>	<b>39</b>	<b>48</b>	<b>41</b>
- Capex + Development	8	6	1	3
- Exploration	3	3	5	5
- Assets Purchased	-	-	-	-
+ Asset Sales	-	-	-	-
+ Other	-	-	-	-
<b>Investing Cashflow</b>	<b>(10)</b>	<b>(9)</b>	<b>(6)</b>	<b>(8)</b>
+ Equity Issues/Opt conv	-	-	-	17
+ Loan D'down/Receivable	95	-	-	-
+Other	(2)	-	-	-
- Loan Repayment	161	20	20	8
- Dividends	-	-	-	-
<b>Financing Cashflow</b>	<b>(69)</b>	<b>(20)</b>	<b>(20)</b>	<b>9</b>
<b>Period Sur (Def)</b>	<b>(6)</b>	<b>11</b>	<b>21</b>	<b>41</b>
Adj. FX effects	-	-	-	-
<b>Cash Balance</b>	<b>22</b>	<b>33</b>	<b>54</b>	<b>95</b>

Balance Sheet (US\$m)	2019a	2020f	2021f	2021f
<b>Assets</b>				
Cash	22	33	54	95
Current Receivables	8	8	8	8
Other Current Assets	10	10	10	10
Non-Current Assets	223	198	180	168
<b>Total Assets</b>	<b>263</b>	<b>249</b>	<b>251</b>	<b>281</b>
<b>Liabilities</b>				
Borrowings	48	28	8	(0)
Current Accounts Payable	12	12	12	12
Non Current Liabilities	58	-	-	-
Other Liabilities	5	5	5	5
<b>Total Liabilities</b>	<b>121</b>	<b>44</b>	<b>24</b>	<b>16</b>
<b>Net Assets</b>	<b>141</b>	<b>204</b>	<b>227</b>	<b>265</b>

