

# Quick Comment

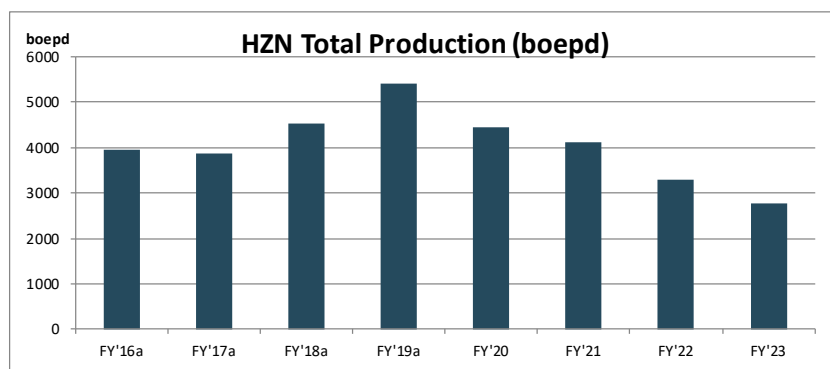
## Horizon Oil Ltd (HZN \$0.14) Buy

Analyst	Date	Price Target
Jon Bishop	24 <sup>th</sup> October 2019	\$0.15/sh

### Sep Q'ly FY'20 Report

#### Key Points

- Sep Q saw a drop in production (-6.5%) and sales (-7.3%) vs the Jun Q;
  1. Production of 380.9kbbbls vs 407.5kbbbls (-6.5%);
  2. Sales of 400.8kbbbls vs 432.5kbbbls (-7.3%) at average realised price of US\$67.73/bbl;
- This was driven by scheduled workovers and maintenance at Beibu (prod down 12.2% Q-on-Q);
- Net operating cashflow of \$US20.8m down from \$US25.0m in previous Q;
- Operating costs remained below US\$20/bbl for Q;
- Net sales affected by timing of Maari lifting – sales down 34.4%, inventory up -336%;
- WZ 12-8 East, development project:
  1. Overall development plant finalised;
  2. FID expected later this FY;
  3. First production by FY21 targeted.
- HZN has now exhausted its recovery oil entitlement under Beibu Production Sharing Contract;
- 280kbbbls oil swaps to Mar'20 at Weighted avg. price of US\$68.99/bbl;
- US\$19.1m Cash at Q end and a further \$13m received in Oct. Debt of US\$39.4m (after US\$10m payment in Q);
- Effective net Debt of US\$7m as at report date. HZN will be net cash by FY'20 end.
- Ex the development of Wei Zhou 12-8E Area at Beibu (currently first prod. slated for 2021) in our profile (awaiting firm timing, capex and likely production) our av group production profile is:



- PNG remains uncertain regarding resolution (and timing therein) to the PDL10 license standing as well as PRL 21 development license proposal and application;
- 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;
- Buy maintained on fundamental valuation and strong operating cashflow basis;
- Strengthened Balance Sheet may yet embolden HZNs Management to consider opportune and accretive inorganic growth opportunities in a market short of buyers given the persistently abject commodity price.

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### Investment Thesis

HZN has continued to strengthen its Balance Sheet, enjoying high operating margin oil production from its China and NZ assets. It will be net cash by FY end on our forecasts. Natural field decline and the 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.

### Horizon Oil Ltd (HZN)

Share Price	0.14	A\$/sh	Enterprise Value	255	A\$m
Price Target	0.15	A\$/sh	Debt	59	A\$m
Valuation	0.21	A\$/sh	Cash	47	A\$m
Shares on issue	1733	m(dil)	Largest Shareholder	IMC	31%
Market Capitalisation	243	A\$m			

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