

# Horizon Oil Ltd

## (HZN \$0.12) Buy



Analyst	Date	Price Target
Jon Bishop	28 <sup>th</sup> August 2019	\$0.15/sh

### Excellent FY'19 Result

#### 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.

#### Key points

- 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;
  - Revenue of US\$122.4m beat our US\$114m forecast;
  - Operating costs were also lower at US\$67.4m (vs ESL at US\$75m);
  - EBITDA of US\$90m was well ahead of our last pub. US\$67m forecast;
  - Underlying NPAT of US\$37.3m also beat our forecast (US\$23.6m) due to lower NZ royalty tax expense, lower tax and aforementioned opex delta;
- 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, we forecast:
  - Production (inc. cost recovery oil) - 1.5mmbbls (20% decline yr-on-yr);
  - Revenue - US\$96m (24% decline assuming similar av. Dtd Brent price received);
  - EBITDA - US\$62m EBITDA (31% decline);

Horizon Oil Ltd	Year End 30 June	
Share Price	0.120	A\$/sh
Price Target	0.15	A\$/sh
Valuation	0.22	A\$/sh

Shares on issue	1733	m, diluted
Market Capitalisation	190	A\$m
Enterprise Value	226	A\$m
Debt	66	A\$m
Cash	30	A\$m
Largest Shareholder		IMC - 31.0%

Production F/Cast	2019a	2020f	2021f
Maari (NZ)	0.7	0.6	0.5
Wei (China)	0.9	0.7	0.5
Western Foreland (PNG)	0.0	0.0	0.0
Total Attrib (mmboe)	1.9	1.5	1.2

Assumptions	2019a	2020f	2021f
Avg Brent Oil Price (US\$/bbl)	68	68	80
AUDUSD	0.73	0.69	0.70

Key Financials	2019a	2020f	2021f
Revenue (US\$m)	127	96	103
EBITDA (US\$m)	90	62	66
NPAT (US\$m)	36	14	23
Cashflow (US\$m)	65	34	50

CFPS (Ac)	5	3	4
P/CFPS (x)	2.3	4.3	2.9

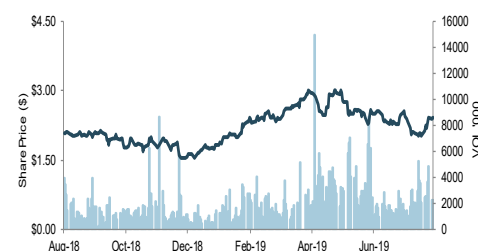
EPS (Ac)	3	1	2
EPS growth (%)	na	-60%	63%
PER (x)	4.2	10.4	6.4

EV:EBITDA (x)	2.5	3.6	3.4
EV:EBIT (x)	3.9	8.4	5.9

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	16%	na	na
Interest Cover (x)	5.0	30.8	na

#### Share Price Chart



#### Disclaimer

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Horizon Oil Ltd during the last year. Euroz Securities has received a fee for these services.

#### Euroz Securities Limited

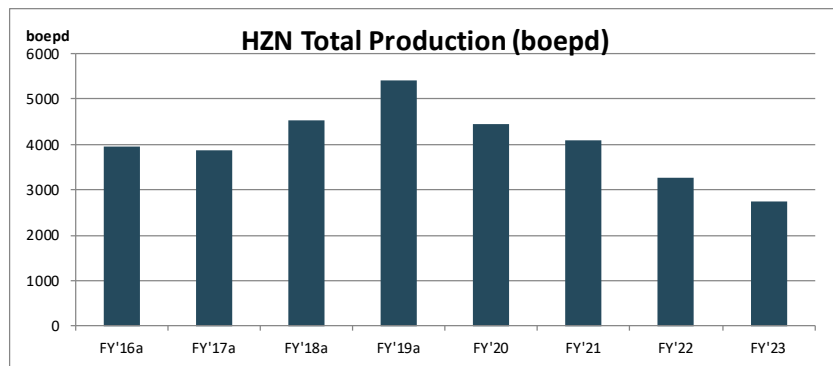
All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.



## Horizon Oil Ltd

(HZN \$0.12) Buy

- 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 firm timing, capex and likely production:



- 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 \$0.22/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.

**Euroz Securities Limited**

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.