

Quick Comment

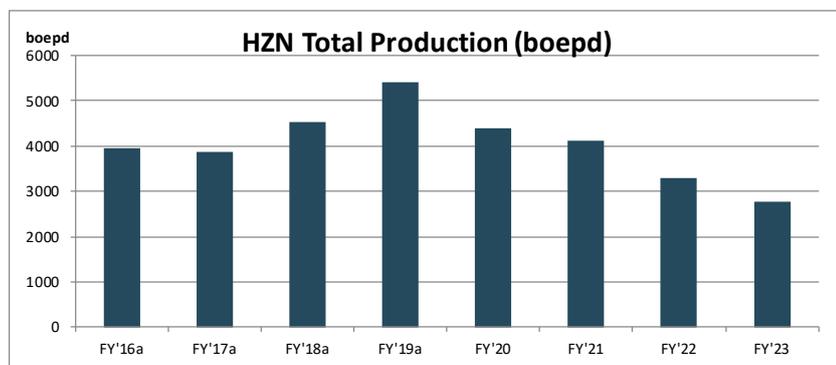
Horizon Oil Ltd (HZN \$0.125) Buy

Analyst	Date	Price Target
Jon Bishop	29 th January 2020	\$0.15/sh

Dec Q'ly FY'20 Report

Key Points

- Dec Q saw a drop in production (-1.8%) and sales (-7.7%) vs the Sep Q;
 1. Production of 374.0kbbbls vs 380.9kbbbls (-1.8%);
 2. Sales of 370.0kbbbls vs 400.8kbbbls (-7.7%) at average realised price of US\$68.97/bbl (vs Sep Q av. US\$67.73/bbl);
- This was driven by scheduled workovers and maintenance combined with ongoing natural field decline at Maari (prod down 10.4% Q-on-Q);
- Beibu showed 4.7% growth to production after successfully completing the enhanced well workover program in the Sep Q;
- Successful near field exploration at WZ 6-12 M1 has proven c.0.6mmbbls gross of 2C Resource within tie-back to WZ6.12 platform. This has served to upgrade several other nearfield tie-back prospects, likely to be evaluated later in 2020;
- Net operating cashflow of \$US15.8m down from \$US20.8m in previous Q, and c.US\$10m in the 6mnths to Dec 31 despite steady av. oil price received;
- This reflects the cessation of cost recovery at China as much as field decline;
- US\$22.1m Cash at Q end (vs. US\$19.1m at Sep 30). Debt of US\$29.4m (after US\$10m payment in Q);
- Effective net Debt of US\$7.4m 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 however the current portfolio lacks tangible growth in the short to medium term. And likely lacks medium term growth should the PNG tenure issues resolved;
- We view more value to HZN shareholders via selling the attaching FID triggered Osaka Gas payment on its PNG interests rather than awaiting long dated commercialisation routes (either organic or inorganic);

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- 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, however Management track record suggests that this is unlikely.

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	0.125	A\$/sh	Enterprise Value	228	A\$m
Price Target	0.15	A\$/sh	Debt	43	A\$m
Valuation	0.21	A\$/sh	Cash	32	A\$m
Shares on issue	1733	m(dil)	Largest Shareholder	IMC	42%
Market Capitalisation	217	A\$m			

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