

Horizon Oil Ltd

(HZN \$0.087) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Jon Bishop	9 th February 2021	\$0.13/sh ▲ from \$0.10/sh

Horizon Oil Ltd	Year End 30 June	
Share Price	0.087	A\$/sh
Price Target	0.13	A\$/sh
Valuation	0.13	A\$/sh

Shares on issue	1733	m, diluted
Market Capitalisation	132	A\$m
Enterprise Value	117	A\$m
Debt	35	A\$m
Cash	50	A\$m
Largest Shareholder		IMC - 31.0%

Wei Field Infill Development Boosts Production

Investment case

Infill development at HZNs Wei Field, offshore China, will boost production from the field by around 25% from previous rates. The announced Beibu Phase 2 development will provide additional production to offset natural field decline in the medium term. Wei as is a high margin oil field, and, combined with the mature Maari development, will continue to provide strong cash flow. Despite weak oil prices over the second half of the last decade, HZN has managed to retire significant debt and has been in an increasing net cash position since Jun 30, 2020. The appointment of a new MD, refreshment of the Board, combined with a vastly improved Balance Sheet and good op cashflow may present the Business with new growth opportunities in time. At this point, with over 8mmbbls of 2P oil reserves, negligible capex requirements and net production of around 3,500bbls/d over the next couple of year, HZN offers deep fundamental value, strong FCF and low risk oil price leverage to the recent recovery in benchmark pricing. Buy maintained.

Production F/Cast	2020a	2021f	2022f
Maari (NZ)	0.6	0.4	0.4
Wei (China)	0.9	0.8	0.8
Western Foreland (PNG)	0.0	0.0	0.0
Total Attrib (mmboe)	1.5	1.2	1.2

Assumptions	2020a	2021f	2022f
Avg Brent Oil Price (US\$/bbl)	52	50	65
AUDUSD	0.67	0.75	0.75

Key Financials	2020a	2021f	2022f
Revenue (US\$m)	84	64	84
EBITDA (US\$m)	50	43	59
NPAT (US\$m)	-58	14	28
Cashflow (US\$m)	31	33	35

CFPS (Ac)	3	3	3
P/CFPS (x)	1.9	3.4	3.3

EPS (Ac)	-6	1	2
EPS growth (%)	na	na	103%
PER (x)	na	8.1	4.0

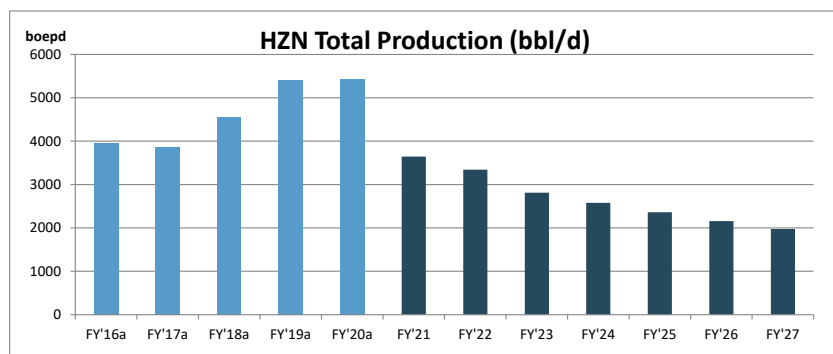
EV:EBITDA (x)	1.6	2.0	1.5
EV:EBIT (x)	-1.9	3.9	2.1

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

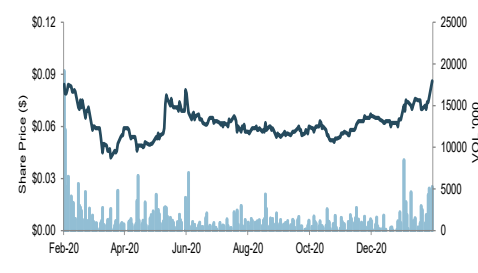
ND:Net Debt+Equity (%)	na	na	na
Interest Cover (x)	7.1	na	na

Key points

- HZN has announced that recent infill development activity at the Beibu Gulf, Wei oil development (HZN 26.95% interest) has been successfully tied-in to production;
- The new development wells are expected to yield around a 25% inc. to average gross production to around 10,000bbls/d;
- Tie-in adds an estimated 0.5mmbbls net of developed-producing Reserves from the Jun 30, 2020 2P Reserves position of 8.1mmbbls;
- Combined test rates of 2,473bbls/d were in excess of expectation;
- We have inc our Jun H, FY'21 production assumptions to 10kbbbls/d gross, extending our plateau rate of 3,300bbls/d for FY'21 into FY'22, moderating to 3,000bbls/d from FY'23;
- Our resulting production profile for HZNs interests in its respective production assets is per below:



Share Price Chart



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- Our LT dtd Brent (US\$) and forex assumptions are summarised below:

Euroz Forecast	FY'21	FY'22	FY'23	FY'24	FY'25	FY'26
Brent Oil	\$50	\$65	\$65	\$70	\$75	\$75
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.75	\$0.75	\$0.74	\$0.74	\$0.74	\$0.74

- Rolling forward to Jun H and adjusting the Dec end Balance Sheet, Our Valuation increases to 13cps (from 12cps):

ASSET VALUATION	A\$m	A\$/sh
NZ - Maari	56	0.03
China - Wei	160	0.09
Exploration - nom	10	0.01
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	-	-
Hedging	-	-
Corporate (inc tax credits)	(28)	(0.02)
Unpaid Capital	18	0.01
Debt	(35)	(0.02)
Cash	50	0.03
Total	231	0.13

- Our Price Target inc. in-line to 13cps (prev. 10cps).
- Buy maintained.

Horizon Oil Ltd

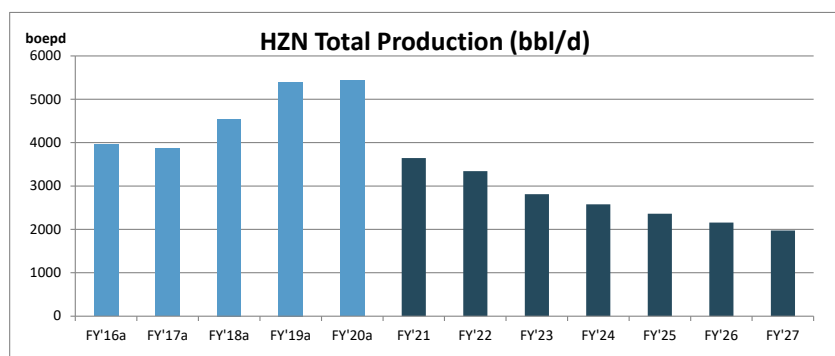
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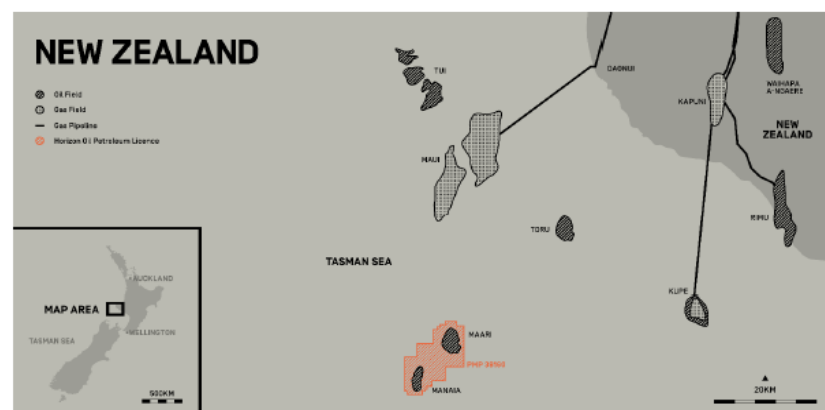
Key Variables

Val/ Sh	Brent Oil									
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUDUSD	0.13									
	15%	\$0.094	\$0.102	\$0.109	\$0.116	\$0.124	\$0.131	\$0.138	\$0.146	\$0.153
	10%	\$0.093	\$0.101	\$0.108	\$0.115	\$0.123	\$0.130	\$0.138	\$0.145	\$0.152
	5%	\$0.092	\$0.100	\$0.107	\$0.114	\$0.122	\$0.129	\$0.137	\$0.144	\$0.151
	0%	\$0.091	\$0.099	\$0.106	\$0.113	\$0.121	\$0.128	\$0.136	\$0.143	\$0.150
	-5%	\$0.090	\$0.097	\$0.105	\$0.112	\$0.120	\$0.127	\$0.134	\$0.142	\$0.149
	-10%	\$0.088	\$0.096	\$0.104	\$0.111	\$0.118	\$0.126	\$0.133	\$0.140	\$0.148
	-15%	\$0.087	\$0.095	\$0.102	\$0.110	\$0.117	\$0.124	\$0.132	\$0.139	\$0.146

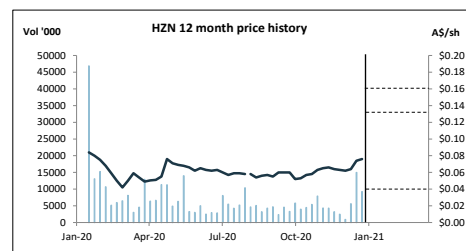
Euroz Forecast	FY'21	FY'22	FY'23	FY'24	FY'25	FY'26
Brent Oil	\$50	\$65	\$65	\$70	\$75	\$75
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.75	\$0.75	\$0.74	\$0.74	\$0.74	\$0.74



PMP 38160, Maari/Manaia fields, Taranaki Basin, offshore New Zealand (Horizon Oil: 26%)



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.13/sh

Price Target - \$0.13/sh

Bull Scenario - \$0.16/sh

Oil price continue to strengthen, rising at 20% above our assumptions and the A\$ weakens.

Base Scenario - \$0.13/sh

Oil price rise in line with our assumptions.

Bear Scenario - \$0.04/sh

Oil prices fall 20%.

Company Summary

Horizon Oil Ltd (HZN) is an oil & gas exploration, development and production company. HZN focusses on the producing the Maari field (offshore New Zealand) and offshore Chinese Beibu Gulf 'Wei' production hub. The production assets represent pure, high margin oil production.

Liquids rich 2P Reserves are 8.8mmbbls. FY'20 production of +5,300boepd is anticipated to fall through FY'21 through natural field decline and end to Recovery Entitlement production from Beibu.

Cash of US\$33m and US\$23m debt as at Dec 31, 2020.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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EUROZ HARTLEYS

Market Statistics Year End 30 June

Share Price	\$0.087	A\$/sh	Directors	
Issued Capital			R Harding	Chair
FP Ord	1,302.0	m	C Hodge	MD
Op @ 6cps	302.5	m	G Bittar	NE Dir
Share Rights	130.4	m	S Birkenleigh	NE Dir
Total Dil. FPOrd	1,733.4	m	G de Nys	NE Dir
			B Lorenzon	NE Dir
			B Clement	NE Dir
Market Capitalisation	\$132	m	Shareholders	
Enterprise Value	\$117	m	IMC	31.0%
Debt	\$(35)	m	Spheria	10.7%
Cash	\$50	m		

Asset Valuation	A\$m	A\$/sh
NZ - Maari	56	0.03
China - Wei	160	0.09
Exploration - nom	10	0.01
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked - Hedging	-	-
Corporate (inc tax credits)	(28)	(0.02)
Unpaid Capital	18	0.01
Debt	(35)	(0.02)
Cash	50	0.03
Total	231	0.13

F/Cast Production (US\$m)	2020a	2021f	2022f	2023f
Attrib. Prod'n (mmboe)				
Maari (NZ)	0.6	0.4	0.4	0.3
Wei (China)	0.8	0.8	0.8	0.7
Wei (cost recovery oil equiv)	0.1	-	-	-
Western Foreland (PNG)	-	-	-	-
Total Attrib (mmboe)	1.5	1.2	1.2	1.1
boepd	3,980	3,283	3,252	2,985
Assumptions				
Avg Brent Oil Price (US\$/bbl)	52.22	49.65	65.00	65.00
USD:AUD	0.67	0.75	0.75	0.74

Ratio Analysis (US\$m)	2020a	2021f	2022f	2023f
CF (US\$m)	30.7	33.1	34.6	40.3
CF / Sh (Ac/sh)	3.2	2.6	2.7	3.1
CF Ratio (x)	1.9	3.4	3.3	2.8
Earnings (US\$m)	(55.1)	14.0	28.5	26.7
EPS (Ac/sh)	(5.7)	1.1	2.2	2.1
EPS Growth (%)	na	na	103%	-5%
Earnings Ratio (x)	na	8	4	4
E'prise Val. (A\$m)	85	95	51	2
EV : EBITDA (x)	2	2	2	2
EV : EBIT (x)	(2)	4	2	2
Net Debt / ND+Eq (%)	na	na	na	na
Interest Cover (x)	7	na	na	na
EBIT Margin (%)	na	35%	52%	51%
ROE (%)	-66%	9%	14%	11%
ROA (%)	-24%	13%	19%	15%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%

Profit and Loss (US\$m)	2020a	2021f	2022f	2023f
Oil Equivalent Sales	50	63	82	75
Hedging Revenue	33	-	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	1	1	2	4
Other Revenue	-	-	-	-
TOTAL REVENUE	84	64	84	79
Operating Costs	27	14	17	16
Dep/Amort	26	18	13	12
O/H + New Bus Dev	7	6	6	6
Writeoffs (explor)	72	3	3	3
Provisions	(8)	-	-	-
EBITDA	50	43	59	53
EBIT	(41)	22	43	38
Interest Expense	4	1	(0)	(0)
NPBT	(44)	23	45	42
Tax	8	6	13	12
NZ royalty	3	3	4	4
Minorities	-	-	-	-
NET PROFIT	(55)	14	28	27
Net Abnormal Gain/(Loss)	-	-	-	-
NET PROFIT After Abn'l	(58)	14	28	27

Cash Flow (US\$m)	2020a	2021f	2022f	2023f
Net Profit	(58)	14	28	27
+ Working Capital Adj.	7	10	-	-
+ Dep/Amort	26	18	13	12
+ Provisions	65	3	3	3
+ Tax Expense	8	6	13	12
- Tax Paid	11	10	10	12
Operating Cashflow	36	42	47	41
- Capex + Development	6	9	12	1
- Exploration	2	6	5	5
- Assets Purchased	-	-	-	-
+ Asset Sales	-	-	-	-
+ Other	-	-	-	-
Investing Cashflow	(8)	(14)	(17)	(6)
+ Equity Issues/Opt conv	-	-	17	-
+ Loan D'down/Receivable	-	-	-	-
+ Other	-	-	-	-
- Loan Repayment	24	20	5	-
- Dividends	-	-	-	-
Financing Cashflow	(24)	(20)	12	-
Period Sur (Def)	4	8	41	35
Adj. FX effects	-	-	-	-
Cash Balance	26	33	75	110

Balance Sheet (US\$m)	2020a	2021f	2022f	2023f
Assets				
Cash	26	33	75	110
Current Receivables	8	8	8	8
Other Current Assets	5	5	5	5
Non-Current Assets	133	129	132	126
Total Assets	172	175	220	249
Liabilities				
Borrowings	25	5	(0)	(0)
Current Accounts Payable	7	7	7	7
Non Current Liabilities	53	-	-	-
Other Liabilities	4	4	4	4
Total Liabilities	89	17	11	11
Net Assets	83	159	209	238

Reserves and Resources

	Oil mmbbls	Cond mmbbls	Gas Bcf	Total mmboe
2P Reserves Beibu (China)	4.3	-	-	4.3
2P Reserves Maari/Manaia (NZ)	3.8	-	-	3.8
Total	8.1	-	-	8.1
2C Resources Maari-Manaia (NZ)	4.3	-	-	4.3
2C Resources Beibu (China)	3.2	-	-	3.2
Total	7.4	18.6	606.0	134.3
EV / 2P boe (A\$)				14.5
EV / 2P+ 2C boe (A\$)				0.8

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