

Quick Comment

Horizon Oil Ltd (HZN \$0.11) Buy

Analyst	Date	Price Target
Jon Bishop	4 th April 2019	\$0.20/sh

PRL21 Development Concept to be Revised

Key Points

- HZN has advised that its previous development concept for the Elevala-Ketu Fields in PRL21 requires review, redesign and resubmission to the PNG Petroleum Minister for approval;
- The Minister has advised that his Department can no longer approve the pre-existing concept (lodged in 2014) in its current form ie condensate stripping and gas 'warehousing' via re-injection, awaiting commercialisation pathways for gas development to emerge;
- The JV has, since 2014, reviewed several alternative commercialisation options including the Western LNG Development to aggregate the Western Foreland gas resources for export;
- The emergence of potential PNG Govt mandated access to third party infrastructure ie PNG-LNG, has also more recently presented as an alternative avenue (<https://www.afr.com/business/energy/gas/png-lng-expansion-obliged-to-reserve-gas-for-domestic-market-20181203-h18mo3>);
- In parallel the Company and its JV remain engaged with the PNG Govt to resolve the PDL10 (containing the Stanley Field) termination notice. Independent advice remains that the claims are without merit;
- We make no change to our 20cps Valuation for now nor our Buy recommendation given that at the current share price and noting that the remainder of the portfolio supports circa 15cps of value;
- However, we are increasingly of the view that the market quite rightly should ascribe no value for HZN's PNG portfolio.

Investment Thesis

Given the PDL-10 (Stanley Field) situation and recent changes in stance ie a more 'use it or lose it' approach, by the PNG Govt, we are not surprised by today's announcement. We are however, increasingly concerned regarding HZN's ability commercialise its PNG interests within a market relevant time frame. Moreover, we are increasingly fearful that the landscape is shifting in PNG and that this may yet undermine the standing of HZN and its JVs PNG interests. Combined with the PDL-10 situation, the PNG asset situation removes the blue sky for now as it has inevitably stoked deep seeded market concerns regarding sovereign risk pertaining to PNG. If this issue can be rectified in due course, it should effective remove the cap to current share price. We see value in the current share price vs the producing assets and retain our Buy recommendation as a consequence. We do qualify however, that without PNG, HZN does lack tangible growth and significant upside.

Horizon Oil Ltd (HZN)

Share Price	0.11	A\$/sh	Enterprise Value	290	A\$/m
Price Target	0.20	A\$/sh	Debt	118	A\$/m
Valuation	0.20	A\$/sh	Cash	28	A\$/m
Shares on issue	1,733	m(dil)	Largest Shareholder (*fully dil.)		IMC
Market Capitalisation	200	A\$m			44%*

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