

Horizon Oil Ltd

(HZN \$0.12) Buy

Analyst
Jon Bishop

Date
March 2019

Price Target
\$0.20/sh

Comments

- Sustainable 4kbbbls/d production fully developed for next 5yrs at breakeven of <US\$35/bbl;
- US\$50m/yr in FCF vs current EV of US\$225m = trading at 50% EV:FCF multiples of peers;
- Short term growth with ODP at Beibu Gulf Stage 3 development;
- Blue sky potential with corporate M&A landscape in PNG moving in on Western Forelands PNG project;
- Most recently, the PNG Petroleum Minister has motioned to allow 3rd Party access to PNG-LNG pipeline infrastructure for stranded gas resources;
- However, upside capped until PDL-10 (Stanley Field license) is resolved.

Val/ Sh		Brent Oil								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUD/USD	0.20	\$0.168	\$0.178	\$0.187	\$0.196	\$0.204	\$0.212	\$0.220	\$0.228	\$0.236
	15%	\$0.167	\$0.177	\$0.186	\$0.195	\$0.203	\$0.211	\$0.219	\$0.227	\$0.235
	10%	\$0.166	\$0.175	\$0.185	\$0.193	\$0.202	\$0.210	\$0.218	\$0.226	\$0.234
	5%	\$0.166	\$0.175	\$0.185	\$0.193	\$0.202	\$0.210	\$0.218	\$0.226	\$0.234
	0%	\$0.164	\$0.174	\$0.183	\$0.192	\$0.201	\$0.209	\$0.217	\$0.225	\$0.232
	-5%	\$0.163	\$0.173	\$0.182	\$0.191	\$0.199	\$0.207	\$0.216	\$0.224	\$0.231
	-10%	\$0.161	\$0.171	\$0.180	\$0.189	\$0.198	\$0.206	\$0.214	\$0.222	\$0.230
	-15%	\$0.160	\$0.169	\$0.179	\$0.188	\$0.196	\$0.205	\$0.213	\$0.221	\$0.229

Val/ Sh		US\$ Gas - PNG								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUD/USD	0.20	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204
	15%	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204
	10%	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203	\$0.203
	5%	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202
	0%	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201	\$0.201
	-5%	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199
	-10%	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198	\$0.198
	-15%	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Brent Oil	\$72	\$79	\$85	\$85	\$85	\$85
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.73	\$0.73	\$0.75	\$0.75	\$0.75	\$0.75

Investment Case

HZN operating performance remains solid and has translated to a consistent reduction in debt up until the price fall since Sep. The current share price is underwritten to 15cps by the producing assets net of Balance Sheet on our numbers. Buy maintained: HZN offers pure oil price leverage with firming oil prices. Its core assets and fully developed production of +4,000bopd for the next 5yrs will generate over US\$35m/yr in free cash flow (after capex) at spot Brent price, systematically de-gearing the Balance Sheet. The uncertainty of PDL 10 is disappointing and removes HZN's blue sky for now as it has inevitably stoked deep seeded market concerns regarding sovereign risk pertaining to PNG. We are confident that this issue will be rectified in due course. The push for 3rd Party access to PNG-LNG pipelines may expedite value crystallization for HZN's large Western Foreland gas resources and the US\$130m Osaka Gas payment on FID.

Our Market Sensitivity

Valuation - \$0.20/sh
Price Target - \$0.20/sh

Bull Scenario - \$0.25/sh

Oil price continue to strengthen, rising at 20% above our assumptions. Whilst M&A and/or organic development momentum crystallises value for the PNG portfolio.

Base Scenario - \$0.20/sh

Oil price rise in line with our assumptions. M&A and/or organic development momentum crystallises value for the PNG portfolio.

Bear Scenario - \$0.08/sh

Oil prices fall 20%.

Company Summary

Horizon Oil Ltd (HZN) is an oil & gas exploration, development and production company. HZN focusses on three main projects, producing the Maari field offshore New Zealand and Chinese Beibu Gulf. The production asset underwrite the current share price whilst PNG - on account of its size and increasingly strategic value - offers substantial blue sky potential.

Liquids rich 2P/2C reserves are 10.64 and 153.18 mmbob. Dec H production of 3374 boepd is anticipated to rise to 5316boepd for FY'19.

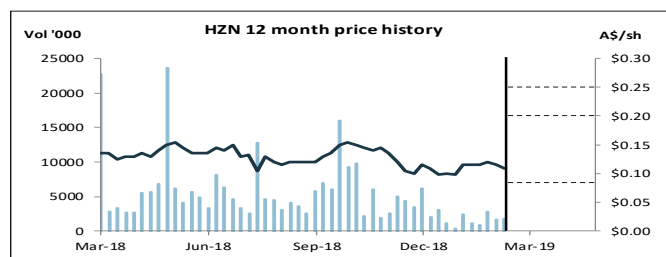
Market Statistics

Share Price	\$0.120	A\$/sh
Issued Capital		
Fully Paid Ord	1,302.0	m
Op @ 6cps	302.5	m
Share Rights	130.4	m
Total Dil. FPOrd	1,733.4	m
Market Cap'n (dil)	\$190	m
Enterprise Value	\$ 295	m
Debt	\$(133)	m
Cash	\$ 28	m

Year End 30 June

Directors	
R Harding	Chair
M Sheridan	CEO
G Bittar	NE Dir
S Birkenleigh	NE Dir
G de Nys	NE Dir
B Lorenzon	NE Dir
Shareholders	
IMC	31.0%
Spheria	8.4%
Colonial	7.3%

Share Price Performance



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.

[CLICK HERE FOR THE MOST RECENT RESEARCH NOTE](#)
[CLICK HERE FOR THE MOST RECENT QUICK COMMENT](#)
RESOURCES QUARTERLY MARCH 2019

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.

Asset Valuation	A\$m	A\$/sh
NZ - Maari	117	0.07
China - Wei	182	0.11
China - WZ 12-8E undev. - nom. risked	56	0.03
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	111	0.06
Hedging	(5)	(0.00)
Corporate (inc tax credits)	(27)	(0.02)
Unpaid Capital	18	0.01
Debt	(133)	(0.08)
Cash	28	0.02
Total	348	0.20

F/Cast Production (A\$m)	2018a	2019f	2020f	2021f
Attrib. Prod'n (mmboe)				
Maari (NZ)	0.5	0.7	0.6	0.5
Wei (China)	0.9	0.6	0.6	0.5
Wei (cost recovery oil equiv)	0.3	0.4	0.3	0.1
Western Foreland (PNG)	-	-	-	-
Total Attrib (mmboe)	1.7	1.7	1.5	1.2
boepd	4,591	4,547	4,148	3,216
Assumptions				
Avg Brent Oil Price (US\$/bbl)	66.9	71.5	79.0	85.0
USD:AUD	0.78	0.73	0.73	0.75

Ratio Analysis (A\$m)	2018a	2019f	2020f	2021f
CF (US\$m)	38	41	34	55
CF / Sh (Ac/sh)	3	3	3	4
CF Ratio (x)	3.9	3.7	4.5	2.8
Earnings (US\$m)	(3)	24	11	27
EPS (Ac/sh)	(0)	2	1	2
EPS Growth (%)	na	na	-54%	132%
Earnings Ratio (x)	na	6.2	13.5	5.8
E'prise Val. (A\$m)	283	303	263	194
EV : EBITDA (x)	4.4	3.9	4.6 #DIV/O!	
EV : EBIT (x)	9.1	6.3	10.8 #DIV/O!	
Net Debt / ND+Eq (%)	47%	30%	18%	na
Interest Cover (x)	0.9	3.2	10.2	61.6
EBIT Margin (%)	32%	40%	27%	42%
ROE (%)	-3%	15%	6%	13%
ROA (%)	10%	17%	10%	18%

Div. (Ac/sh)	-	-	-	-
Div. payout ratio	-	-	-	-
Div. Yield	-	-	-	-
Div. Franking	-	-	-	-

Reserves and Resources

	Oil mmbbls	Cond mmbbls	Gas Bcf	Total mmboe
2P Reserves Beibu (China)	4.6	-	-	4.6
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	4.4	-	-	4.4
Total	9.1	-	-	9.1
2C Resources Maari-Manaia (NZ)	4.3	-	-	4.3
2C Resources Beibu (China)	3.2	-	-	3.2
2C Resources Stanley (PNG)	-	18.6	603.0	126.3
Total	7.4	18.6	603.0	133.8

EV / 2P boe (A\$)	32.6
EV / 2P+ 2C boe (A\$)	2.1

Profit and Loss (A\$m)	2018a	2019f	2020f	2021f
Oil Equivalent Sales	106	89	100	113
Hedging Revenue	(6)	21	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	0	1	1	1
Other Revenue	1	1	-	-
TOTAL REVENUE	100	116	101	114
Operating Costs	28	33	31	32
Dep/Amort	29	39	34	25
O/H + New Bus Dev	4	6	6	6
W/O & Provisions	6	(9)	3	3
EBITDA	67	76	64	75
EBIT	32	46	27	47
Interest Expense	35	10	3	2
NPBT	(2)	37	25	46
Tax	(1)	8	7	13
NZ royalty	1	5	7	6
Minorities	-	-	-	-
NET PROFIT	(3)	24	11	27
Net Abnormal Gain/(Loss)	10	-	-	-
NET PROFIT After Abn'l	(12)	24	11	27

Cash Flow (A\$m)	2018a	2019f	2020f	2021f
Net Profit	(12)	24	11	27
+ Working Capital Adj.	16	4	-	-
+ Dep/Amort	29	39	34	25
+ Provisions	6	(9)	3	3
+ Tax Expense	(1)	8	7	13
- Tax Paid	0	10	5	11
Operating Cashflow	38	56	49	57
- Capex + Development	-	15	15	1
- Exploration	8	4	5	5
- Assets Purchased	30	-	-	-
+ Asset Sales	-	-	-	-
+ Other	(0)	-	-	-
Investing Cashflow	(38)	(19)	(20)	(6)
+ Equity Issues/Opt conv	-	-	-	-
+ Loan D'down/Receivable	-	100	-	-
+ Other	-	(7)	-	-
- Loan Repayment	17	141	30	30
- Dividends	-	-	-	-
Financing Cashflow	(17)	(49)	(30)	(30)
Period Sur (Def)	(16)	(11)	(1)	20
Adj. FX effects	(1)	-	-	-
Cash Balance	28	16	15	35

Balance Sheet (A\$m)	2018a	2019f	2020f	2021f
Assets				
Cash	28	16	15	35
Current Receivables	15	15	15	15
Other Current Assets	4	4	4	4
Non-Current Assets	262	243	229	210
Total Assets	310	279	264	265
Liabilities				
Borrowings	112	85	55	25
Current Accounts Payable	19	19	19	19
Non Current Liabilities	69	-	-	-
Other Liabilities	14	14	14	14
Total Liabilities	214	118	88	58
Net Assets	95	161	176	207

