

10 February 2021

## Horizon Oil Limited (HZN)

### More production at higher oil prices

Horizon Oil (HZN) has successfully completed two infill wells at the WZ6-12N and WZ6-12M fields in Block 22/12 China. Both wells have now commenced production with initial production test rates resulting in an additional 2,473 bopd gross, lifting gross production to above 10,000 bopd in China. This is in line with HZN strategy to maintain plateau production at around 10,000 bopd from these fields, noting HZN is taking advantage of higher oil prices giving it the ability to generate strong cash flow from these low cost fields (<US\$10/bbl). We maintain our BUY and lift our production profile by 7% to match HZN's plateau rate. This increases our TP to A\$0.15/sh (A\$0.14/sh previous).

#### HZN commences production from infill wells

- HZN has completed two infill wells in the Weizhou 6-12 fields (Block 22/12) in the Bebiu Gulf in China.
- Initial production test rates resulted in 2,473 bopd gross, lifting plateau production in China to 10,000 bopd gross from these fields.
- CNOOC, the operator delivered the drilling on time and on budget, incident free.
- The timing of first production from the infill wells has coincided with a strengthening oil price to approximately US\$60/bbl which bodes well for additional cash generation for HZN over the medium term.

#### Share price has improved considerably since Nov 20

- We note the share price has had a significant run off the back of higher oil prices alongside management's ability to execute on its strategy of delivering improved value to shareholders.
- We believe HZN, following its PNG divestment can now take advantage of nearer term development or production opportunities as well as potentially return cash to shareholders.

#### HZN is still cheap on multiple valuation metrics

- HZN is in a strong financial position with net cash of US\$10m and we expect this to continue to grow throughout FY21.
- HZN trades at a significant discount to its peer group:
  - EV/EBITDAX of 0.7x vs 5x peers.
  - EV/Production of \$28/bbl vs \$175/bbl.
  - EV/ Free Cash Flow of \$2.6/bbl vs \$18/bbl.
- Ascribing a simple average of these metrics, implies a valuation of A\$237m or A\$0.14/sh vs our NPV-derived valuation of A\$250m, or A\$0.15/sh.

**BUY**

**Share Price: A\$0.08**

**Target Price: A\$0.15**

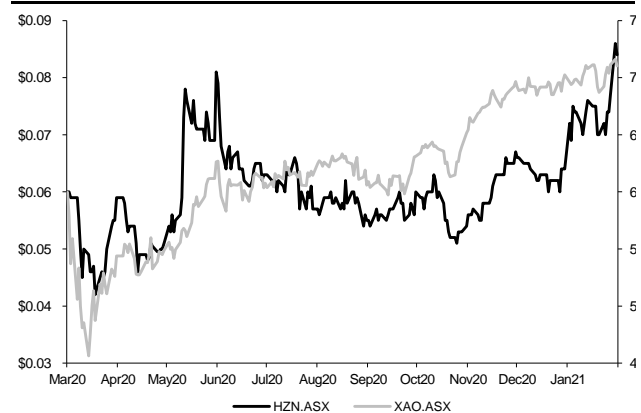
#### Company Data

Shares – ordinary (M)	1302
Dilution (M)	341
Total (fully diluted) (M)	1,644
Market capitalisation (\$M)	109
12 month low/high (\$)	0.04/ 0.1
Average monthly turnover (\$M)	4.3
GICS Industry	Oil, Gas & Consumable Fuels

#### Financial Summary (fully diluted/normalised)

Year end June	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue (\$M)	127	84	75	75	73
Costs (\$M)	(34)	(33)	(30)	(29)	(27)
EBITDAX (\$M)	93	51	46	46	46
Exploration (\$M)	(5)	(5)	(6)	(7)	(8)
NPAT (\$M)	36	14	4	5	6
EPS (¢ps)	2.2	0.8	0.2	0.3	0.4
PS Growth (%)	>100%	-61%	-74%	>100%	17%
PER (x)	5	7	26	18	15
Op. Cashflow (\$M)	77	37	42	42	42
OCFPS (¢ps)	0.06	0.03	0.03	0.03	0.03
POCFPS (x)	1	3	3	3	3
Enterprise Value (\$M)	174	73	42	4	(45)
EV / EBITDAX (x)	1.3	1.0	0.7	0.1	(0.7)
Payout Ratio (%)	nm	nm	nm	nm	nm
Dividends (¢ps)	nm	nm	nm	nm	nm
Yield (%)	nm	nm	nm	nm	nm

#### HZN – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document.

## Analysis

Horizon Oil (HZN)								
Summary		Profit and Loss US\$m						
		FY19A	FY20A	FY21F	FY22F	FY23F		
<b>Recommendation</b>	<b>BUY</b>	<b>Sales revenue</b>	<b>127</b>	<b>84</b>	<b>75</b>	<b>75</b>	<b>73</b>	
<b>Share Price (A\$)</b>	<b>0.084</b>	<i>Growth</i>	26%	-34%	-10%	-1%	-2%	
<b>Target Price (A\$)</b>	<b>0.15</b>	Operating costs	(34)	(33)	(30)	(29)	(27)	
Upside (Downside) (%)	81%	<b>EBITDAX</b>	<b>93</b>	<b>51</b>	<b>46</b>	<b>46</b>	<b>46</b>	
Gross Yield (%)	0.0%	<i>Growth</i>	30%	-46%	-10%	0%	1%	
<b>Total Stock Return (%)</b>	<b>81%</b>	Exploration & Development	(5)	(5)	(6)	(7)	(8)	
Shares (m)	1,303	<b>EBITDA</b>	<b>88</b>	<b>46</b>	<b>40</b>	<b>39</b>	<b>38</b>	
Effective shares outstanding (m)	1,644	D&A	(39)	(27)	(28)	(26)	(24)	
Market Capitalisation (\$m)	109	<b>EBIT</b>	<b>49</b>	<b>19</b>	<b>12</b>	<b>13</b>	<b>14</b>	
		Net interest	(1)	4	(3)	(3)	(2)	
		<b>PBT</b>	<b>48</b>	<b>23</b>	<b>8</b>	<b>11</b>	<b>12</b>	
		New Zealand royalty tax	(2)	(3)	(3)	(3)	(3)	
		Tax	(11)	(6)	(2)	(2)	(3)	
		<b>Profit</b>	<b>36</b>	<b>14</b>	<b>4</b>	<b>5</b>	<b>6</b>	
		Minority interests	-	-	-	-	-	
		<b>Underlying NPAT</b>	<b>36</b>	<b>14</b>	<b>4</b>	<b>5</b>	<b>6</b>	
		Non-recurring items	(7)	(69)	(1)	(1)	(1)	
		<b>Reported NPAT</b>	<b>28</b>	<b>(55)</b>	<b>3</b>	<b>4</b>	<b>5</b>	
NPV (+1Yr)		Cashflow US\$m						
	AUD\$m	A\$/sh.	FY19A	FY20A	FY21F	FY22F	FY23F	
China (Beibu Gulf)	202	0.12	<b>Operating EBITDAX</b>	<b>93</b>	<b>51</b>	<b>46</b>	<b>46</b>	<b>46</b>
New Zealand (Maari)	57	0.03	Change in working capital	4	1	0	(0)	(0)
Corporate Costs	(51)	0.03	Net interest	(6)	(3)	(1)	(0)	0
<b>Enterprise Value</b>	<b>208</b>	<b>0.13</b>	Royalties & Tax paid	(14)	(11)	(3)	(3)	(3)
Net cash (debt)	25	0.02	Other	-	-	-	-	-
Option Exercise	17	0.01	<b>Operating cashflow</b>	<b>77</b>	<b>37</b>	<b>42</b>	<b>42</b>	<b>42</b>
<b>Total</b>	<b>250</b>	<b>0.15</b>	Capital expenditure	(10)	(8)	(19)	(11)	(5)
			Net Divest/ (Acquisitions)	-	-	4	-	-
			Other	-	-	-	-	-
			<b>Investing cashflow</b>	<b>(10)</b>	<b>(8)</b>	<b>(16)</b>	<b>(11)</b>	<b>(5)</b>
			Change in Debt	(67)	(24)	(10)	(9)	(4)
			Change in Equity	-	-	-	-	-
			Dividends paid	-	-	-	-	-
			Other	(2)	(0)	-	-	-
			<b>Financing cashflow</b>	<b>(69)</b>	<b>(24)</b>	<b>(10)</b>	<b>(9)</b>	<b>(4)</b>
			Net cashflow	(2)	4	16	22	33
			Balance Sheet US\$m					
			FY19A	FY20A	FY21F	FY22F	FY23F	
			Cash	21	26	41	63	96
			Receivables	8	8	7	7	7
			Inventory	6	4	3	3	3
			Other	4	1	1	1	1
			<b>Total Current Assets</b>	<b>39</b>	<b>39</b>	<b>53</b>	<b>75</b>	<b>108</b>
			Exploration phase expenditure	57	8	13	16	17
			Oil and Gas assets	157	117	103	86	66
			Other	9	8	8	7	7
			<b>Total Non Current Assets</b>	<b>223</b>	<b>133</b>	<b>124</b>	<b>109</b>	<b>90</b>
			<b>Total Assets</b>	<b>263</b>	<b>172</b>	<b>177</b>	<b>184</b>	<b>198</b>
			Payables	12	7	6	6	6
			Short Term Debt	10	12	9	6	4
			Other	4	4	4	4	4
			<b>Total Current Liabilities</b>	<b>26</b>	<b>23</b>	<b>20</b>	<b>17</b>	<b>14</b>
			Long term debt	38	12	7	2	0
			Deferred tax	29	19	19	19	19
			Other	29	34	34	34	34
			<b>Total Non Current Liabilities</b>	<b>96</b>	<b>65</b>	<b>60</b>	<b>55</b>	<b>54</b>
			<b>Total Liabilities</b>	<b>121</b>	<b>89</b>	<b>80</b>	<b>72</b>	<b>68</b>
			Shareholders Equity	175	175	175	175	175
			Retained Earnings/(Losses)	(49)	(105)	(102)	(98)	(92)
			Reserves/Other	16	13	24	34	48
			Minority Interests	-	-	-	-	-
			<b>Total Equity</b>	<b>141</b>	<b>83</b>	<b>97</b>	<b>112</b>	<b>130</b>
Production		FY19A	FY20F	FY21F	FY22F	FY23F		
China (Beibu Gulf)	0.8	0.8	0.9	0.9	0.8			
New Zealand (Maari)	0.7	0.6	0.6	0.5	0.5			
<b>Total (mmbbls)</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>			
Reserves								
FY19 (Pro forma)	Gas (bcf)	Liquids (mmbbl)	Total (mmboe)					
Beibu Gulf	0	2	2					
New Zealand	0	1	1					
Papua New Guinea	0	0	0					
<b>Total Reserves (1P)</b>	<b>0</b>	<b>3</b>	<b>3</b>					
Beibu Gulf	0	4	4					
New Zealand	0	4	4					
Papua New Guinea	0	0	0					
<b>Total Proven &amp; Probable (2P)</b>	<b>0</b>	<b>8</b>	<b>8</b>					
Beibu Gulf	0	2	2					
New Zealand	0	6	6					
<b>Total Contingent Resources (2C)</b>	<b>0</b>	<b>8</b>	<b>8</b>					
Beibu Gulf	0	53	53					
New Zealand	0	0	0					
<b>Prospective Resources</b>	<b>0</b>	<b>53</b>	<b>53</b>					
US\$/bbl		FY19A	FY20A	FY21F	FY22F	FY23F		
Brent Oil	68	58	51	55	58			
WTI	62	53	47	51	53			
AUD:USD	0.71	0.67	0.75	0.77	0.76			
Financial Metrics		FY19A	FY20A	FY21F	FY22F	FY23F		
Reported EPS (c)	2.2	(4.2)	0.2	0.3	0.4			
Underlying EPS diluted (c)	2.2	0.8	0.2	0.3	0.4			
Underlying P/E (diluted) (x)	4.8	6.8	26.2	18.0	15.4			
<b>DPS (Ac)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>			
Dividend yield (%)	0%	0%	0%	0%	0%			
<b>Gross Yield (%)</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>			
Multiples		FY19A	FY20A	FY21F	FY22F	FY23F		
Net Debt (Cash) A\$	37	(2)	(34)	(71)	(121)			
Market Equity (Y/E) A\$	137	76	76	76	76			
<b>EV</b>	<b>174</b>	<b>73</b>	<b>42</b>	<b>4</b>	<b>(45)</b>			
<b>EV/EBITDAX (x)</b>	<b>1.3</b>	<b>1.0</b>	<b>0.7</b>	<b>0.1</b>	<b>(0.7)</b>			
<b>Net Debt/EBITDAX (x)</b>	<b>0.3</b>	<b>(0.0)</b>	<b>(0.6)</b>	<b>(1.2)</b>	<b>(2.0)</b>			

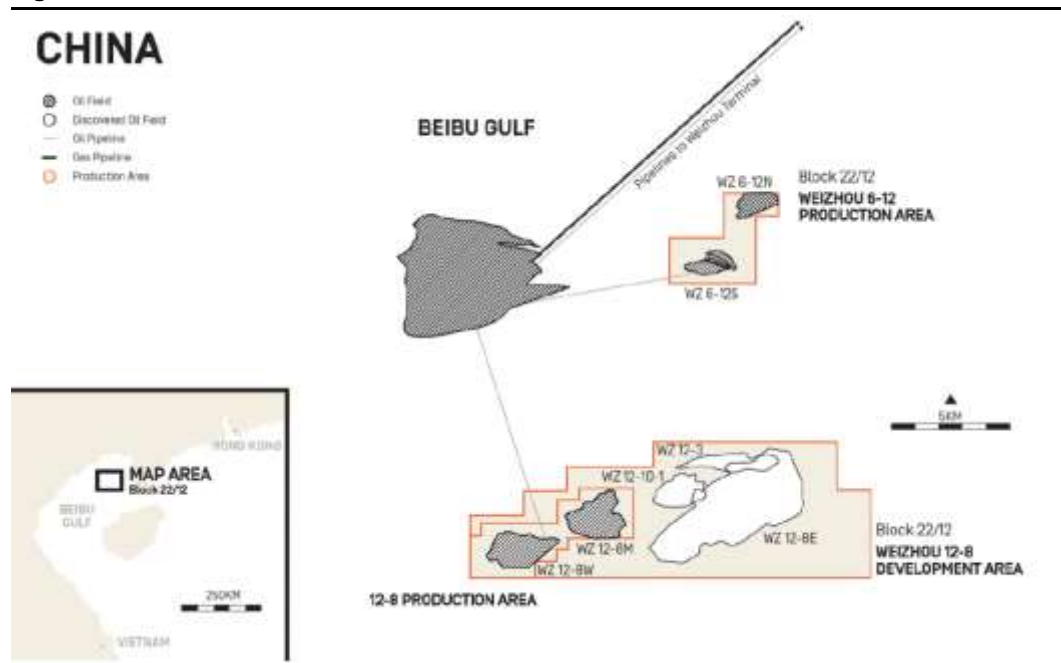
Source: Petra Capital

Figure 1: Summary of changes

		FY21F			FY22F			FY23F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	75	73	3%	75	72	4%	73	70	4%
EBITDAX	US\$m	46	43	7%	46	43	7%	46	43	7%
EBITDA	US\$m	40	37	8%	39	36	8%	38	36	6%
NPAT (normalised)	US\$m	4	2	100%	5	4	25%	6	5	20%
EPS	Ac/sh	0.2	0.1	100%	0.3	0.3	-	0.4	0.4	-
DPS	Ac/sh	-	-		-	-		-	-	
NPV/sh	A\$/sh	0.15	0.14							
Price target	A\$/sh	0.15	0.14							
<b>Pricing</b>										
Brent	US\$/bbl	51	51		55	55		58	58	
AUD/USD		0.75	0.75		0.77	0.77		0.76	0.76	
<b>Production</b>										
China	mmbbls	0.9	0.8	13%	0.9	0.8	13%	0.7	0.7	-
New Zealand	mmbbls	0.6	0.6	-	0.5	0.5	-	0.5	0.5	-
<b>Total</b>	<b>mmbbls</b>	<b>1.5</b>	<b>1.4</b>	<b>7%</b>	<b>1.4</b>	<b>1.3</b>	<b>8%</b>	<b>1.2</b>	<b>1.2</b>	<b>-</b>

Source: Company data, Petra Capital

Figure 2: Block 22/12, Beibu Gulf, China



Source: HZN

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