

28 January 2022

Horizon Oil Limited (HZN)

Looking for value? Look no further.

HZN reported production 1% ahead of Petra estimates, driven by stronger than anticipated output from its China oil field. Sales and revenue fell 30% and 27% short of our forecasts, respectively, but were impacted by the deferral of a material 116kbbl lifting initially scheduled for Dec'21 (now Jan'22). On a like-for-like comparison, sales and revenue were 7% and 15% ahead of our estimates and provide forward tailwinds for Mar.Q'22. We see exceptional value in HZN at 1.3x FY23 EBITDA (vs. peers 4.1x), with FCF generation of A\$131m across FY22/23, or 92% of its A\$143m EV, based on conservative oil pricing of US\$78-79/bbl, respectively. We view this cash generation as creating significant downside protection to any volatility in oil prices, and provides investors excellent defensive attributes as a transition from growth to value takes shape. Maintain BUY and raise TP to A\$0.19/sh (from A\$0.17/sh) on higher oil price forecasts.

Strong Dec.Q'21 Report (Figure 1)

- Production 345kbbl (+1% vs. Petra 341kbbl)
- Sales Volumes 219kbbl (-30% vs. Petra 313kbbl). Impacted by deferral of a 116kbbl lifting from Dec'21 into Jan'22. This will now be realised in Mar.Q'22.
- Sales Revenue US\$17.4m (-27% vs. Petra US\$23.8m) impacted by ~US\$10m cargo deferral into Mar.Q'22.
- Mar.Q'22 revenue will be well supported by the additional 116kbbl NZ cargo delivered in January. China production will rise significantly thereafter as the ~4,000bopd (+28% on current production) development comes online early in the Jun.Q'22 (Figure 2).

Welcome to value paradise (with catalysts!)

- EV / FY23 EBITDA of 1.3x compares favourably to the peer average of 4.1x (Figure 4). Our assumed oil price would need to drop to ~US\$38/bbl to facilitate an EV / FY23 EBITDA multiple in-line with the E&P peer avg.
- Net cash at 31 Dec of US\$14.7m will grow as midpoint FY22 FCF guidance is US\$30m (Petra US\$40m) relative to an enterprise value of ~A\$140m. By end-FY25, we forecast net cash of ~A\$175m, inclusive of A\$60m in dividends over the period (Figure 3).
- We expect HZN to pay its remaining US\$12m debt on schedule (end-FY22) before looking at alternative capital mgmt., incl. buybacks, dividends and/or M&A.
- We have increased our PT to A\$0.19/sh (from A\$0.17/sh) as a result of oil price revisions (Figure 6).

Key Dates Ahead

- Early Jun.Q'22 - China 4,000bopd development online

BUY

Share Price: A\$0.10

Target Price: A\$0.19

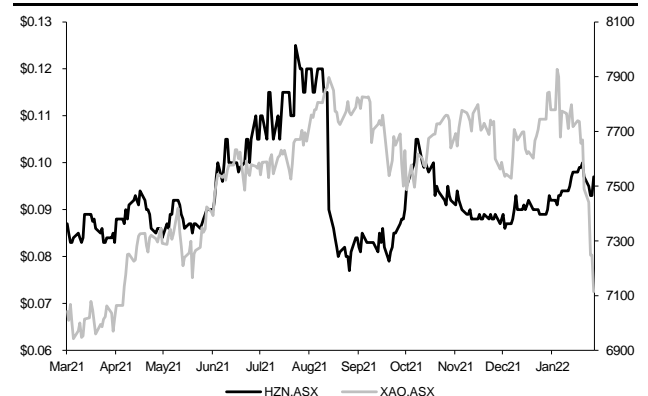
Company Data

Shares – ordinary (M)	1582
Dilution (M)	104
Total (fully diluted) (M)	1686
Market capitalisation (\$M)	164
12 month low/high (\$)	0.05/ 0.1
Average monthly turnover (\$M)	3.2
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022F	2023F	2024F	2025F	2026F
Revenue (\$M)	109	115	100	92	85
Costs (\$M)	(30)	(32)	(30)	(30)	(29)
EBITDAX (\$M)	79	83	70	62	57
Exploration (\$M)	(2)	(2)	(2)	(2)	(2)
NPAT (\$M)	33	34	27	23	20
EPS (¢ps)	2.7	2.7	2.1	1.8	1.6
EPS Growth (%)	331	2	(21)	(15)	(12)
PER (x)	3.6	3.6	4.5	5.3	6.0
Op. Cashflow (\$M)	62	64	54	48	44
OCFPS (¢ps)	5.0	5.1	4.3	3.8	3.5
POCFPS (x)	1.9	1.9	2.3	2.5	2.8
Enterprise Value (\$M)	115	63	20	(19)	(54)
EV / EBITDAX (x)	1.5	0.8	0.3	(0.3)	(0.9)
Payout Ratio (%)	113	52	53	51	58
Dividends (¢ps)	3.0	1.4	1.1	0.9	0.9
Yield (%)	31	14	12	10	10

HZN – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was broker for HZN's on-market buyback announced on 17 February 2021, in which 20.3m shares were purchased and fees were received. The buyback ceased on 28 June.

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Analysis

Horizon Oil (HZN)

27-Jan-22

Year End June

PROFIT & LOSS	2021A	2022F	2023F	2024F	2025F	2026F
Revenue (inc. hedging)	US\$m 64	109	115	100	92	85
Operating Costs	US\$m -22	-25	-26	-25	-24	-23
Other	US\$m -3	-6	-6	-6	-6	-6
EBITDAX	US\$m 39	79	83	70	62	57
Exploration	US\$m -2	-2	-2	-2	-2	-2
D&A	US\$m -24	-27	-28	-25	-23	-22
EBIT	US\$m 13	49	53	43	37	33
Net Interest	US\$m -5	0	0	0	0	0
Pre-Tax Profit	US\$m 8	49	53	43	37	33
Tax & Royalties	US\$m 0	-17	-19	-16	-14	-13
Net Profit	US\$m 8	33	34	27	23	20
Abnormal	US\$m 0	0	0	0	0	0
Reported Profit	US\$m 8	33	34	27	23	20
Dividends Paid	US\$m 0	-37	-18	-14	-12	-12
CASHFLOW	2021A	2022F	2023F	2024F	2025F	2026F
Net Operating Cash Flow	US\$m 23	62	64	54	48	44
Net Capex	US\$m -7	-22	-7	-7	-7	-6
Other	US\$m 4	0	0	0	0	0
Investing Cash Flow	US\$m -3	-22	-7	-7	-7	-6
<i>Free cash flow</i>	US\$m 16	40	57	47	41	38
Net Borrowings	US\$m -13	-12	0	0	0	0
Dividends	US\$m 0	-37	-18	-14	-12	-12
Equity Issues	US\$m 0	0	0	0	0	0
Other	US\$m 11	0	0	0	0	0
Financing Cash Flow	US\$m -1	-49	-18	-14	-12	-12
Net Increase Cash	US\$m 19	-9	39	32	29	26
BALANCE SHEET	2021A	2022F	2023F	2024F	2025F	2026F
Cash	US\$m 44	36	75	108	137	163
Other Current	US\$m 21	21	21	21	21	21
Current Assets	US\$m 65	56	96	128	158	184
Fixed Assets	US\$m 113	105	82	63	45	27
Exploration	US\$m 0	0	0	0	0	0
Other	US\$m 9	9	9	9	9	9
Non Current Assets	US\$m 122	114	91	71	53	36
Total Assets	US\$m 187	170	187	200	211	219
Borrowings	US\$m 11	0	0	0	0	0
Payables	US\$m 16	16	16	16	16	16
Other	US\$m 2	2	2	2	2	2
Current Liab	US\$m 29	18	18	18	18	18
Borrowings	US\$m 1	0	0	0	0	0
Provisions	US\$m 31	31	31	31	31	31
Other	US\$m 15	15	15	15	15	15
Non Current Liab	US\$m 47	46	46	46	46	46
Total Liabilities	US\$m 77	64	64	64	64	64
Total Equity	US\$m 110	106	123	135	147	155
RATIO ANALYSIS	2021A	2022F	2023F	2024F	2025F	2026F
EPS	¢ 0.6	2.7	2.7	2.1	1.8	1.6
PER	x 15.7	3.6	3.6	4.5	5.3	6.0
EPS Growth	% 0%	331%	2%	-21%	-15%	-12%
CFPS	¢ 1.8	5.0	5.1	4.3	3.8	3.5
PCFR	x 5.3	1.9	1.9	2.3	2.5	2.8
DPS	¢ 0.0	3.0	1.4	1.1	0.9	0.9
Yield	% 0%	31%	14%	12%	10%	10%
Payout Ratio	% 0%	113%	52%	53%	51%	58%
Gearing NDE	% -29%	-34%	-61%	-79%	-93%	-105%
Interest Cover	x 3	>100	>100	>100	>100	>100
Enterprise Value	A\$m 88	115	63	20	(19)	(54)
EV/EBITDAX	x 2.2	1.5	0.8	0.3	(0.3)	(0.9)
EBITDAX Margin	% 61%	72%	72%	70%	68%	67%
EBIT Margin	% 20%	45%	46%	43%	40%	39%
Return On Assets	% 7%	29%	28%	21%	18%	15%

Share Price	(\$)	0.10
Issued shares	(M)	1,582
Other	(M)	104
Fully Diluted	(M)	1,686
Mkt Cap.	(\$M)	164
Enterprise Value	(\$M)	143

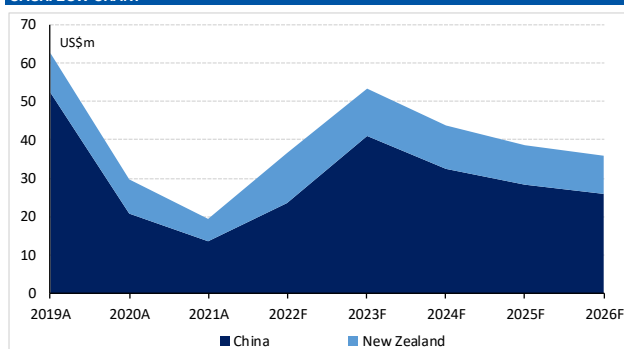
ASSUMPTIONS	2021A	2022F	2023F	2024F	2025F	2026F	
Brent Crude	US\$/bbl	58	78	79	78	76	75
WTI	US\$/bbl	53	73	74	73	71	70
East Coast Gas	A\$/GJ	9.50	9.50	9.50	9.50	9.50	9.50
West Coast Gas	A\$/GJ	5.50	5.50	5.50	5.50	5.50	5.50
AUD/USD	FX	0.75	0.73	0.75	0.75	0.75	0.75

OPERATIONS (HZN share)	2021A	2022F	2023F	2024F	2025F	2026F	
Production							
China	mboe	0.9	1.0	1.1	0.9	0.8	0.8
New Zealand	mboe	0.5	0.4	0.4	0.4	0.4	0.4
Other	mboe	0.0	0.0	0.0	0.0	0.0	0.0
Total Production (m mboe)	mboe	1.3	1.4	1.5	1.3	1.2	1.2

Revenue	2021A	2022F	2023F	2024F	2025F	2026F
Natural Gas	US\$m	0	0	0	0	0
Condensate	US\$m	0	0	0	0	0
Oil	US\$m	70	110	115	100	92
Other	US\$m	0	0	0	0	0
Total	US\$m	70	110	115	100	92
Percentage Split (Revenue)						
Natural Gas (%)	%	0%	0%	0%	0%	0%
Condensate (%)	%	0%	0%	0%	0%	0%
Oil (%)	%	100%	100%	100%	100%	100%

Capital Expenditure	2021A	2022F	2023F	2024F	2025F	2026F
CAPEX						
China	US\$m	11	20	6	6	6
New Zealand	US\$m	3	1	1	1	1
Other	US\$m	0	0	0	0	0
Total	US\$m	14	22	7	7	6

CASHFLOW CHART



EBITDAX	2021A	2022F	2023F	2024F	2025F	2026F
China	US\$m	32	59	63	51	46
New Zealand	US\$m	15	27	26	24	21
Other	US\$m	-8	-7	-5	-6	-6
Total	US\$m	39	79	83	70	62

NPV (+1Yr)	A\$m	A\$/sh.
China	230	0.14
New Zealand	76	0.05
Corporate	-30	-0.02
Net cash / (debt)	49	0.03
Total	325	0.19

Source: Petra Capital

Strong Dec.Q'21 result to end the calendar year...

HZN ended the year with a strong Dec.Q'21, particularly in China, where production was 7% ahead of our forecast. Production in NZ fell short of our expectations, due to the timing of well workovers, and a deferral in the timing of a Maari lifting, from December to January. This led to sales volumes and revenues 30% and 27% lower than forecast, respectively. Importantly, however, these are not simply 'lost volumes' and will be recovered in the Mar.Q'22 and likely at more favourable pricing due to an elevated underlying oil price. HZN expects to recover ~US\$10m from the 116kbbbl cargo, which on a like-for-like basis, led to a 7% and 15% stronger sales and revenue result vs. our forecasts, respectively. Refer to Figure 1 below for an overview of the Dec.Q'21 result.

Figure 1: Dec.Q'21 Result vs. Petra Forecasts

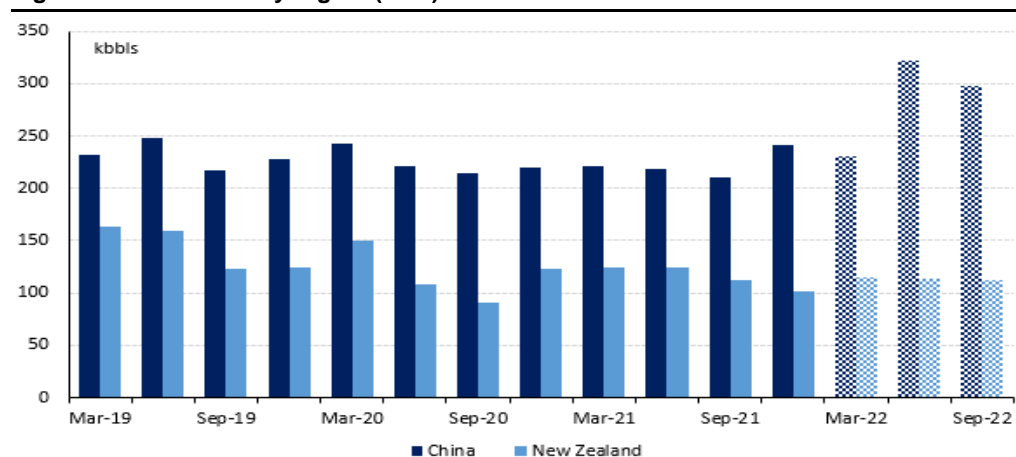
	Units	Sept. Q '21 Actual	Dec. Q'21 Actual	Dec. Q'21 PETRA EST.	Diff	% Diff
Production						
China	kbbbls	210	241	224	17	8%
New Zealand	kbbbls	112	103	117	-14	-12%
Total production	kbbbls	322	345	341	4	1%
Sales Volumes						
China	kbbbls	192	219	192	27	14%
New Zealand**	kbbbls	121	0	121	-121	-100%
Total sales volumes	kbbbls	313	219	313	-94	-30%
Revenue (ex-hedging)						
China	US\$m	14.0	17.4	14.0	3.3	24%
New Zealand**	US\$m	9.2	0.0	9.7	-9.7	-100%
Total revenue (ex-hedging)	US\$m	23.3	17.4	23.8	-6.4	-27%
TOTAL PRODUCTION	kbbbls	322	345	341	4	1%
TOTAL SALES VOLUMES**	kbbbls	313	219	313	-94	-30%
TOTAL REVENUE (EX-HEDGING)**	US\$m	23.3	17.4	23.8	-6.4	-27%
Net cash	US\$m	3.5	14.7	10.3	4.4	42%

Source: HZN, Petra Capital. **Total sales for the Q were impacted by a delay of the scheduled Maari lifting (116kbbbl (net)) to early January. ~US\$10m received in early-Jan.

Significant production uplift from Jun.Q'22

HZN has guided to the commencement of production from its Chinese WZ-128E oil development from early in Jun.Q'22. Production over the first 12 months is expected to average 4,000bopd, with flush production initially supporting much larger volumes than that. Oil production of 4,000bopd equates to 28% of HZN's existing production base, and is therefore material to future cash flows and provides a catalyst for investors to look forward to.

Figure 2: Production by region (kbbbl)



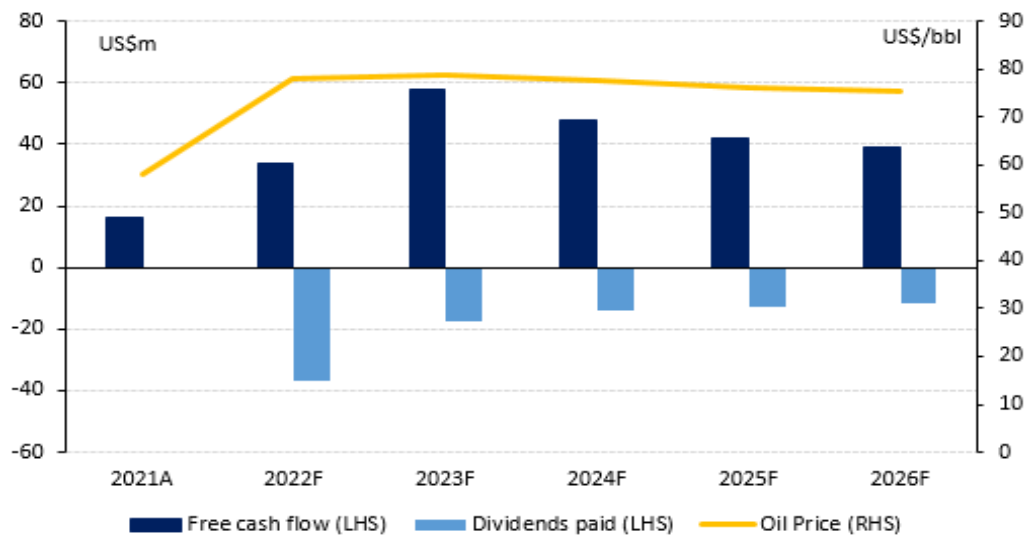
Source: Petra Capital

Material free cash flow generation

HZN's status as a small cap free cash flow positive pure play oil producer makes it a one of a kind company on the ASX. Net cash rose US\$11.2m during the quarter, which excludes revenue of ~US\$10m from the delayed Maari lifting, due to be realised in the Mar.Q'22. Principal cash outflows over the next 6 months include capex for WZ-128E (US\$15m) and debt repayment (US\$12m).

We forecast FY22 FCF of US\$40m, approximately 30% above midpoint FCF guidance of US\$30m. Based on our oil price assumption for FY22-23 of US\$78-79/bbl, we forecast free cash flow generation of US\$97m (A\$131m) over that time period, which is only 8% shy of HZN's entire Enterprise Value. By FY25, we anticipate net cash of ~A\$175m, inclusive of ~A\$60m of dividends.

Figure 3: HZN free cash flow, dividends, and oil price

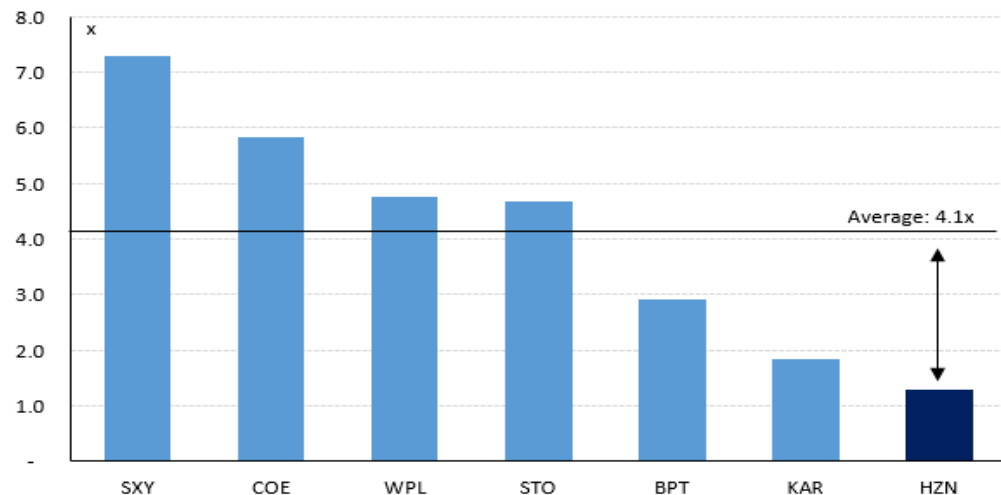


Source: Petra Capital

Cheap vs. Peers

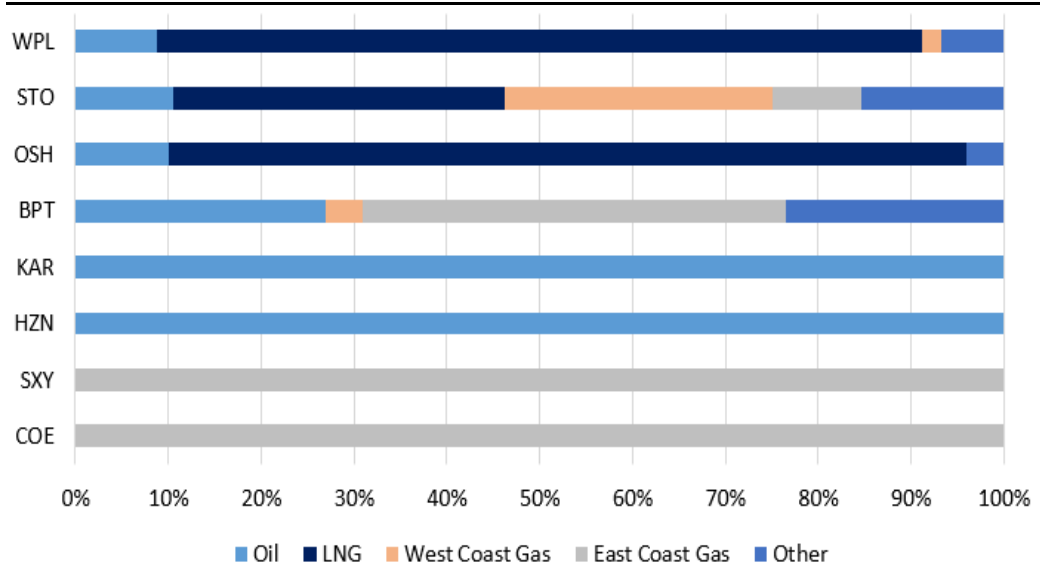
HZN compares favourably on valuation metrics. HZN trades cheaply on an earnings basis in conjunction with strong free cash flow generation alluded to above. Our Petra forecast EV / FY23 EBITDA of 1.3x compares favourably to the consensus listed E&P peer average of 4.1x (Figure 4). We think this is particularly cheap given the rarity of pure oil exposure on the ASX (Figure 5).

Figure 4: EV / FY23 EBITDA (x)



Source: Iress, Petra Capital. All based on Iress consensus, except HZN which is a Petra forecast.

Figure 5: Sales mix of ASX E&P Producers



Source: Petra Capital

Earnings Revisions

We have made revisions to our modelling as displayed in Figure 10 below. We have marked to market Dec.Q'21 actuals, and revised our oil price forecasts. Our Brent oil price forecasts per bbl for FY22, '23, '24, & LT have risen from US\$76, 74, 71, & 70 to US\$78, 79, 78, & 75.

As a result, our PT rises A\$0.02/sh to A\$0.19/sh (from A\$0.17/sh).

Figure 6: Summary of changes

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	109	105	4%	115	109	6%	100	93	7%
EBITDAX	US\$m	79	75	5%	83	77	8%	70	63	10%
EBITDA	US\$m	77	71	8%	81	74	9%	68	61	10%
NPAT (normalised)	US\$m	33	27	20%	34	28	19%	27	20	32%
NPV/sh	A\$/sh	0.19	0.17	12%						
Price target	A\$/sh	0.19	0.17	12%						
Pricing										
Brent	US\$/bbl	78	76	3%	79	74	7%	78	71	9%
AUD/USD		0.73	0.74	-1%	0.75	0.75	0%	0.75	0.75	0%

Source: Petra Capital

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