

13 April 2022

## Horizon Oil Limited (HZN)

BUY

Share Price: A\$0.13

### First oil at WZ12-8E

Target Price: A\$0.22

HZN has reported first oil production from its WZ12-8E oil development in China (Figure 1). Guidance for average oil production of 4,700bopd from the field over the remainder of 2022 represents a 34% uplift in daily portfolio production. First production timing coincides with a favourable oil price environment as spot prices hover around US\$100/bbl, representing cash margins of approximately US\$80/bbl. We expect HZN's net cash balance sheet, in addition to its ability to generate strong cash flows (FY23 FCF yield of 46%) to facilitate capital management initiatives following WZ12-8E completion and remaining debt repayment. We maintain BUY and increase our PT 23% to A\$0.22/sh (from A\$0.18/sh) reflecting oil price upgrades.

#### Material production uplift in China

- First production has been achieved from the first of 6 development wells at WZ12-8E.
- Construction and drilling activities to date are within budget and on schedule.
- The Project is expected to reach an average daily gross production rate of 4,700bopd during 2022. This represents a 34% increase in daily portfolio production (Figure 2).
- Peak production from WZ12-8E is anticipated at 10,000bopd. These rates are expected to be short lived due to the viscous nature of the oil which will lead to elevated water rates over time (Figure 2).
- An additional 5 development wells from the platform will be brought on incrementally over a 3-4 month period.

#### Attractive valuation with catalysts to come...

- We anticipate FY23 free cash flow of US\$68m equating to a 46% FCF yield based on US\$95/bbl oil (Figure 3).
- We see strong potential for HZN to beat FY22 EBITDAX guidance of US\$60-70m (Petra US\$78m) given an elevated oil price since issuing the guidance.
- We expect HZN to be largely unhedged through FY23 following first production at WZ12-8E and repayment of remaining debt obligations. Backwardation in the forward strip is currently disincentivising forward hedging adoption.
- We expect further indications of capital management policies at the FY22 result in August. We forecast a net cash position of US\$33m at end-FY22.
- We have increased our PT to A\$0.22/sh (from A\$0.18/sh) after upgrades to our oil deck (Figure 4).

#### Key Dates Ahead

- Ongoing – Production from devt wells at WZ-128E
- 2H 2022 – Capital management initiatives

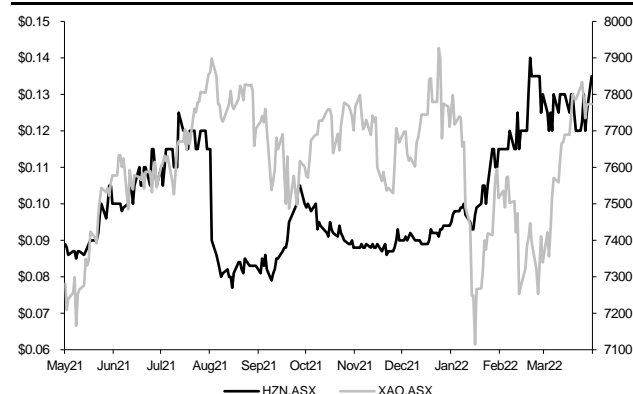
#### Company Data

Shares – ordinary (M)	1579
Dilution (M)	104
Total (fully diluted) (M)	1683
Market capitalisation (\$M)	219
12 month low/high (\$)	0.06/ 0.14
Average monthly turnover (\$M)	4.6
GICS Industry	Oil, Gas & Consumable Fuels

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

Year end June	2022F	2023F	2024F	2025F	2026F
Revenue (\$M)	107	142	112	102	95
Costs (\$M)	(29)	(33)	(30)	(29)	(28)
EBITDAX (\$M)	78	109	82	73	67
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	29	48	31	26	23
EPS (¢ps)	2.4	3.8	2.5	2.1	1.8
EPS Growth (%)	280	61	(35)	(16)	(13)
PER (x)	5.5	3.4	5.3	6.3	7.2
Op. Cashflow (\$M)	60	77	57	51	46
OCFPS (¢ps)	4.9	6.1	4.5	4.0	3.6
POCFPS (x)	2.7	2.1	2.9	3.2	3.6
Enterprise Value (\$M)	151	111	66	28	(8)
EV / EBITDAX (x)	1.9	1.0	0.8	0.4	(0.1)
Payout Ratio (%)	120	42	46	50	52
Dividends (¢ps)	3.0	1.6	1.1	1.0	0.9
Yield (%)	23	12	9	8	7

#### HZN – performance over one year



#### Disclosure and Disclaimer

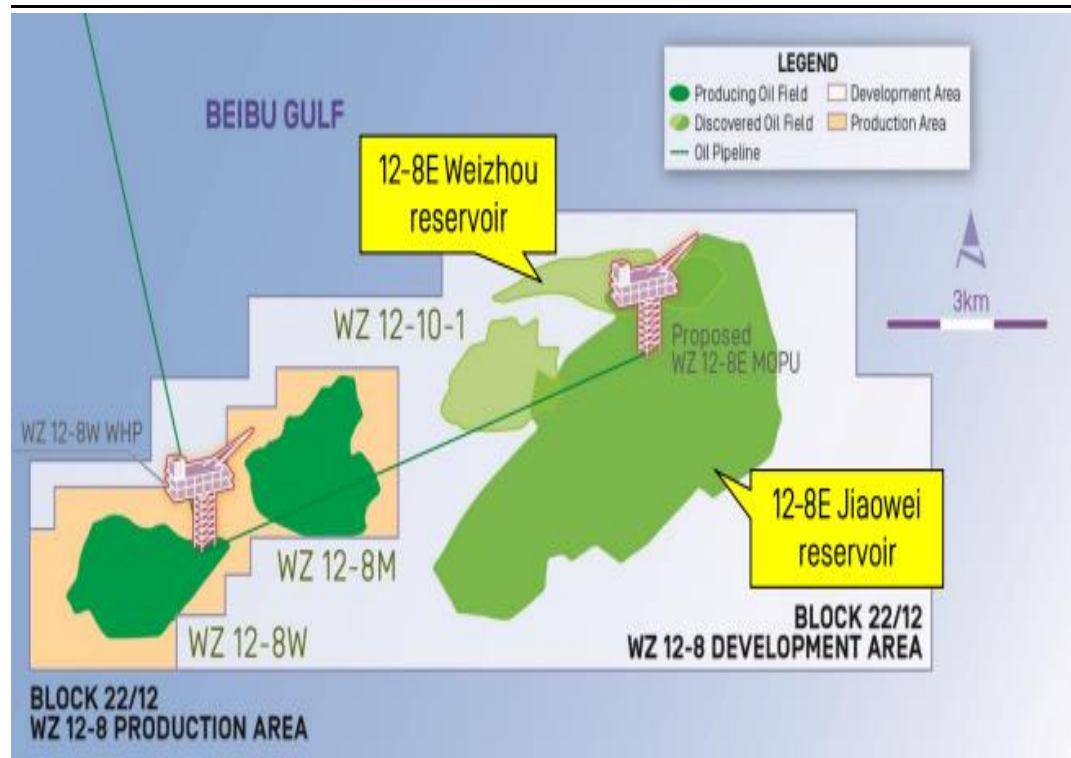
This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was broker for HZN's on-market buyback announced on 17 February 2021, in which 20.3m shares were purchased and fees were received. The buyback ceased on 28 June.

## Analysis

Horizon Oil (HZN)						
12-Apr-22						
<b>Year End June</b>						
<b>PROFIT &amp; LOSS</b>		2021A	2022F	2023F	2024F	2025F 2026F
Revenue	US\$m	64	107	142	112	102 95
Operating Costs	US\$m	-22	-25	-27	-25	-24 -22
Other	US\$m	-3	-3	-6	-6	-6 -6
<b>EBITDAX</b>	<b>US\$m</b>	<b>39</b>	<b>78</b>	<b>109</b>	<b>82</b>	<b>73</b> <b>67</b>
Exploration	US\$m	-2	-1	-2	-2	-2 -2
D&A	US\$m	-24	-25	-27	-24	-23 -21
<b>EBIT</b>	<b>US\$m</b>	<b>13</b>	<b>51</b>	<b>80</b>	<b>56</b>	<b>48</b> <b>44</b>
Net Interest	US\$m	-5	-1	0	0	0 0
Pre-Tax Profit	US\$m	8	50	80	56	48 44
Tax & Royalties	US\$m	0	-21	-32	-25	-22 -21
<b>Net Profit</b>	<b>US\$m</b>	<b>8</b>	<b>29</b>	<b>48</b>	<b>31</b>	<b>26</b> <b>23</b>
Abnormal	US\$m	0	0	0	0	0 0
<b>Reported Profit</b>	<b>US\$m</b>	<b>8</b>	<b>29</b>	<b>48</b>	<b>31</b>	<b>26</b> <b>23</b>
Dividends Paid	US\$m	0	-37	-20	-14	-13 -12
<b>CASHFLOW</b>		2021A	2022F	2023F	2024F	2025F 2026F
<b>Net Operating Cash Flow</b>	<b>US\$m</b>	<b>23</b>	<b>60</b>	<b>77</b>	<b>57</b>	<b>51</b> <b>46</b>
Net Capex	US\$m	-7	-25	-9	-9	-9 -7
Other	US\$m	4	0	0	0	0 0
<b>Investing Cash Flow</b>	<b>US\$m</b>	<b>-3</b>	<b>-25</b>	<b>-9</b>	<b>-9</b>	<b>-9</b> <b>-7</b>
Free cash flow	US\$m	16	36	68	48	41 39
Net Borrowings	US\$m	-13	-4	-9	0	0 0
Dividends	US\$m	0	-35	-20	-14	-13 -12
Equity Issues	US\$m	0	0	0	0	0 0
Other	US\$m	11	0	0	0	0 0
<b>Financing Cash Flow</b>	<b>US\$m</b>	<b>-1</b>	<b>-39</b>	<b>-29</b>	<b>-14</b>	<b>-13</b> <b>-12</b>
<b>Net Increase/Cash</b>	<b>US\$m</b>	<b>19</b>	<b>-3</b>	<b>39</b>	<b>34</b>	<b>28</b> <b>27</b>
<b>BALANCE SHEET</b>		2021A	2022F	2023F	2024F	2025F 2026F
Cash	US\$m	44	41	81	115	143 170
Other Current	US\$m	21	18	18	18	18 18
<b>Current Assets</b>	<b>US\$m</b>	<b>65</b>	<b>59</b>	<b>99</b>	<b>132</b>	<b>161</b> <b>188</b>
Fixed Assets	US\$m	113	112	92	75	60 44
Exploration	US\$m	0	0	0	0	0 0
Other	US\$m	9	8	8	8	8 8
<b>Non Current Assets</b>	<b>US\$m</b>	<b>122</b>	<b>120</b>	<b>100</b>	<b>83</b>	<b>68</b> <b>52</b>
<b>Total Assets</b>	<b>US\$m</b>	<b>187</b>	<b>179</b>	<b>198</b>	<b>215</b>	<b>228</b> <b>239</b>
Borrowings	US\$m	11	9	0	0	0 0
Payables	US\$m	16	15	15	15	15 15
Other	US\$m	2	4	4	4	4 4
<b>Current Liab</b>	<b>US\$m</b>	<b>29</b>	<b>28</b>	<b>19</b>	<b>19</b>	<b>19</b> <b>19</b>
Borrowings	US\$m	1	0	0	0	0 0
Provisions	US\$m	31	33	33	33	33 33
Other	US\$m	15	14	14	14	14 14
<b>Non Current Liab</b>	<b>US\$m</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>47</b> <b>47</b>
<b>Total Liabilities</b>	<b>US\$m</b>	<b>77</b>	<b>74</b>	<b>66</b>	<b>66</b>	<b>66</b> <b>66</b>
<b>Total Equity</b>	<b>US\$m</b>	<b>110</b>	<b>105</b>	<b>133</b>	<b>150</b>	<b>163</b> <b>173</b>
<b>RATIO ANALYSIS</b>		2021A	2022F	2023F	2024F	2025F 2026F
EPS	¢	0.6	2.4	3.8	2.5	2.1 1.8
PER	x	21.0	5.5	3.4	5.3	6.3 7.2
EPS Growth	%	0%	280%	61%	-35%	-16% -13%
CFPS	¢	1.8	4.9	6.1	4.5	4.0 3.6
PCFR	x	7.1	2.7	2.1	2.9	3.2 3.6
DPS	¢	0.0	3.0	1.6	1.1	1.0 0.9
Yield	%	0%	23%	12%	9%	8% 7%
Payout Ratio	%	0%	120%	42%	46%	50% 52%
Gearing ND/E	%	-29%	-31%	-61%	-77%	-88% -98%
Interest Cover	x	3	53	>100	>100	>100 >100
Enterprise Value	A\$m	143	151	111	66	28 (8)
EV/EBITDAX	x	3.6	1.9	1.0	0.8	0.4 (0.1)
EBITDAX Margin	%	61%	73%	77%	73%	72% 71%
EBIT Margin	%	20%	48%	56%	50%	47% 46%
Return On Assets	%	7%	29%	40%	26%	21% 18%
Share Price	(\$)					0.13
Issued shares	(M)					1,579
Other	(M)					104
Fully Diluted	(M)					1,683
Mkt Cap.	(\$M)					219
Enterprise Value	(\$M)					199
<b>ASSUMPTIONS</b>		2021A	2022F	2023F	2024F	2025F 2026F
Brent Crude	US\$/bbl	58	87	95	89	86 85
WTI	US\$/bbl	53	82	90	84	81 80
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
<b>OPERATIONS (HZN share)</b>		2021A	2022F	2023F	2024F	2025F 2026F
<b>Production</b>						
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
<b>Total Production (mboe)</b>	<b>mboe</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b> <b>1.2</b>
<b>Revenue</b>		2021A	2022F	2023F	2024F	2025F 2026F
Natural Gas	US\$m	0	0	0	0	0 0
Condensate	US\$m	0	0	0	0	0 0
Oil	US\$m	70	112	142	112	102 95
Other	US\$m	0	0	0	0	0 0
<b>Total</b>	<b>US\$m</b>	<b>70</b>	<b>112</b>	<b>142</b>	<b>112</b>	<b>102</b> <b>95</b>
<b>Percentage Split (Revenue)</b>						
Natural Gas (%)	%	0%	0%	0%	0%	0% 0%
Condensate (%)	%	0%	0%	0%	0%	0% 0%
Oil (%)	%	100%	100%	100%	100%	100% 100%
<b>Capital Expenditure</b>		2021A	2022F	2023F	2024F	2025F 2026F
<b>CAPEX</b>						
China	US\$m	11	22	8	8	8 6
New Zealand	US\$m	3	1	1	1	1 1
Other	US\$m	0	0	0	0	0 0
<b>Total</b>	<b>US\$m</b>	<b>14</b>	<b>24</b>	<b>9</b>	<b>9</b>	<b>9</b> <b>7</b>
<b>CASHFLOW CHART</b>						
<b>EBITDAX</b>		2021A	2022F	2023F	2024F	2025F 2026F
China	US\$m	32	62	75	59	53 48
New Zealand	US\$m	15	25	40	28	26 25
Other	US\$m	-8	-8	-6	-5	-6 -6
<b>Total</b>	<b>US\$m</b>	<b>39</b>	<b>78</b>	<b>109</b>	<b>82</b>	<b>73</b> <b>67</b>
<b>NPV10</b>						A\$m A\$/sh.
China						254 0.15
New Zealand						99 0.06
Corporate						-30 -0.02
Net cash / (debt)						46 0.03
<b>Total</b>						<b>368</b> <b>0.22</b>

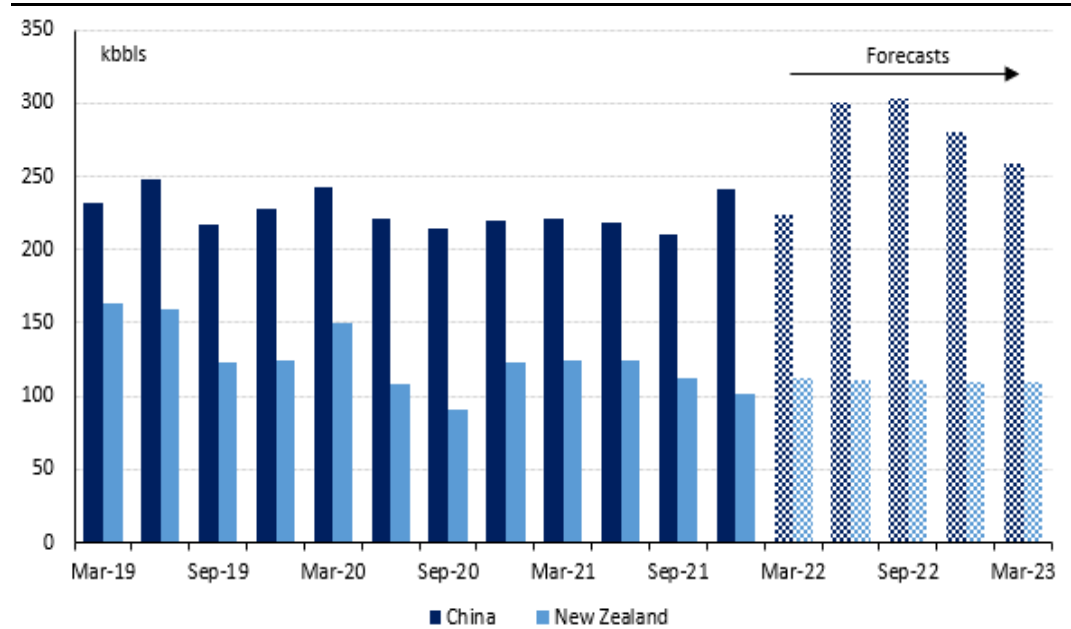
Source: Petra Capital

**Figure 1: Map of WZ12-8E (China)**



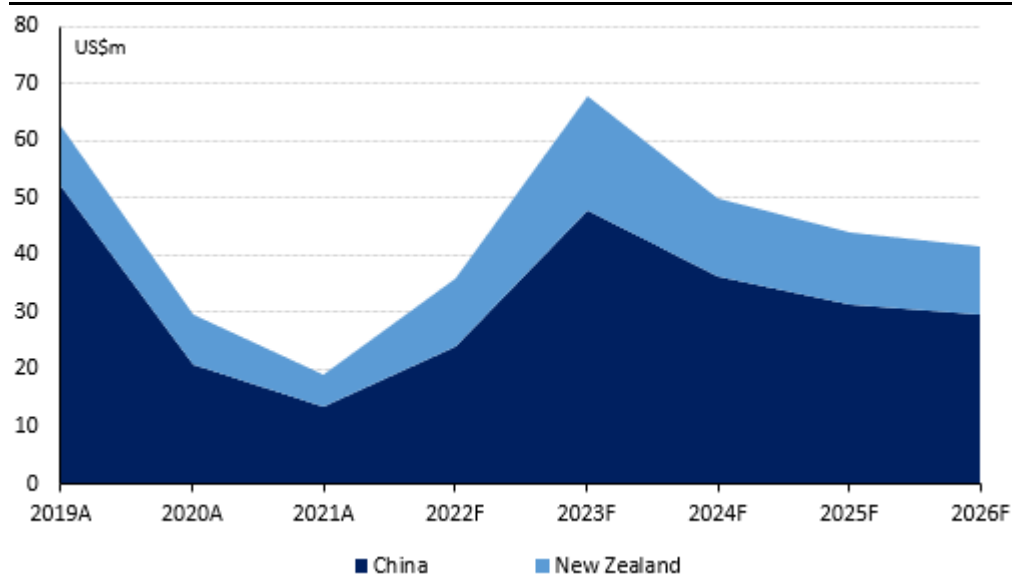
Source: HZN

**Figure 2: Quarterly Petra production forecasts by asset (kbbbls)**



Source: Petra Capital

**Figure 3: Free cash flow by asset (US\$m)**



Source: Petra Capital

**Figure 4: Summary of changes**

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	107	96	12%	142	121	17%	112	99	13%
EBITDAX	US\$m	78	67	17%	109	88	24%	82	69	18%
EBITDA	US\$m	77	65	18%	107	86	24%	80	67	19%
NPAT (normalised)	US\$m	29	22	34%	48	35	38%	31	24	31%
NPV/sh	A\$/sh	0.22	0.18	23%						
Price target	A\$/sh	0.22	0.18	23%						
<b>Pricing</b>										
Brent oil	US\$/bbl	87	78	12%	95	79	21%	89	78	15%
AUD/USD	FX	0.73	0.73	0%	0.75	0.75	0%	0.75	0.75	0%

Source: Petra Capital


**Petra Capital**  
 Level 17, 14 Martin Place, Sydney NSW 2000

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Sam Haddad	+61 (0)2 9239 9633	shaddad@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Research (Industrials):	Trevor Huynh	+61 (0)2 9239 9648	thuynh@petracapital.com.au
Research (Healthcare):	Tanushree Jain	+61 (0)2 9239 9649	tjain@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)2 9239 9620	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherty@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Andrew Richards	+61 (0)2 9239 9638	arichards@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Denise Wong	+61 (0)2 9239 9650	dwong@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Administration:	Katya Beidar	+61 (0)2 9239 9645	kbeidar@petracapital.com.au
Administration:	Nicole Sarapata	+61 (0)2 9239 9635	nsarapata@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Emma Pagalday	+61 (0)2 9239 9621	epagalday@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

**Disclosure**

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX and Chi-X Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent. 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.

**Disclaimer**

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

**Ratings**

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>. Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

**US Investors**

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: [www.globalalliancecurities.com](http://www.globalalliancecurities.com)) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

**Other International**

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.