

26 August 2022

Horizon Oil Limited (HZN)

BUY

Share Price: A\$0.155

Hit 'em up; Distributions key to FY22 Result

Target Price: A\$0.22

HZN has reported a largely in-line financial result highlighted by a A3¢ps (US\$34m) distribution to shareholders (A1.65¢ps dividend & A1.35¢ps capital return). The distribution results in an effective 21% dividend yield and represents a 73% free cash flow payout ratio. HZN has now paid A6¢ps in distributions over a 12-month period, almost double its COVID-induced share price low of 3.1¢ in March 2020. We continue to see shareholder returns as the focus going forward and forecast >10% dividend yields out to 2026, based on a 50% FCF payout; we note no explicit HZN dividend policy has been set and conditions will be monitored on an ongoing basis. We maintain BUY and PT A\$0.22/sh.

FY22 Financial Result Highlights (Figure 1)

- Revenue US\$108.1m (in-line vs. Petra US\$107.7m)
- EBITDAX US\$73.0m (-6% vs. Petra US\$77.1m) mostly driven by inventory adjustments and FX movements.
- EBITDA US\$72.2m (-5% vs. Petra US\$75.7m).
- Underlying NPAT US\$24.3m (-9% vs. Petra US\$26.6m)
- A3¢ps distribution; split 1.65¢ps unfranked dividend and 1.35¢ps capital return. The ATO is expected to restrict future capital returns over the near term, with our revised dividend payment forecast at 50% of FCF, equating to >10% dividend yields out to FY26F.
- No formal FY23 guidance provided, however indicative forecasts have led us to marginally increase FY23F Maari production to ~4,850bopd (Figure 4).

Valuation support

- HZN has an exceptionally strong balance sheet. We forecast a net cash position of US\$55m at end-FY23F, despite US\$34m of distributions with this FY22 result.
- HZN's net cash position provides it with hedging flexibility. The current hedge position of ~60kbbbls is significantly less onerous than in past periods due to its reduced debt burden.
- We expect FY23F FCF generation of US\$64m providing scope for further capital management activities (Figures 3, 5).
- HZN trades on an FY23F EV / EBITDAX of 1.2x and EV / FCF of 2.1x.
- Changes to our model include incorporating the FY22 result, a 6-month DCF roll forward, and an upwardly revised oil deck (Figure 2). Our TP remains unchanged at A\$0.22/sh.

Key Dates Ahead

- 12 October – Ex-date for distributions
- 2H 2022 – WZ6-12 workovers, appraisal, and infill drilling

Company Data

Shares – ordinary (M)	1,579
Dilution (M)	104
Total (fully diluted) (M)	1,683
Market capitalisation (\$M)	261
12 month low/high (\$)	0.08/ 0.16
Average monthly turnover (\$M)	7.2
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022A	2023F	2024F	2025F	2026F
Revenue (\$M)	108	147	121	111	100
Costs (\$M)	(35)	(36)	(33)	(31)	(29)
EBITDAX (\$M)	73	110	89	80	71
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	24	47	35	31	26
EPS (¢ps)	2.0	3.9	2.8	2.4	2.0
EPS Growth (%)	222	94	(28)	(12)	(16)
PER (x)	7.8	4.0	5.5	6.3	7.6
Op. Cashflow (\$M)	57	79	64	58	51
OCFPS (¢ps)	4.7	6.5	5.1	4.6	4.1
POCFPS (x)	3.3	2.4	3.1	3.4	3.8
Enterprise Value (\$M)	198	183	155	129	101
EV / EBITDAX (x)	2.0	1.3	1.7	1.9	2.1
Payout Ratio (%)	143	111	74	74	77
Dividends (¢ps)	3.0	4.3	2.1	1.8	1.6
Yield (%)	19	28	13	12	10

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)								
25-Aug-22								
Year End June								
PROFIT & LOSS	2021A	2022A	2023F	2024F	2025F	2026F		
Revenue	US\$m	64	108	147	121	111	100	
Operating Costs	US\$m	-22	-24	-31	-27	-25	-24	
Other	US\$m	-3	-11	-6	-6	-6	-6	
EBITDAX	US\$m	39	73	110	89	80	71	
Exploration	US\$m	-2	-1	-2	-2	-2	-2	
D&A	US\$m	-24	-27	-30	-27	-25	-23	
EBIT	US\$m	13	45	78	60	53	45	
Net Interest	US\$m	-5	-2	0	0	0	0	
Pre-Tax Profit	US\$m	8	43	78	60	53	45	
Tax & Royalties	US\$m	0	-18	-31	-25	-22	-19	
Net Profit	US\$m	8	24	47	35	31	26	
Abnormal	US\$m	0	0	0	0	0	0	
Reported Profit	US\$m	8	24	47	35	31	26	
Dividends Paid	US\$m	0	-71	-32	-24	-21	-21	
CASHFLOW	2021A	2022A	2023F	2024F	2025F	2026F		
Net Operating Cash Flow	US\$m	23	57	79	64	58	51	
Net Capex	US\$m	-7	-10	-16	-15	-15	-10	
Other	US\$m	4	0	0	0	0	0	
Investing Cash Flow	US\$m	-3	-10	-16	-15	-15	-10	
<i>Free cash flow</i>	US\$m	16	46	64	49	43	41	
Net Borrowings	US\$m	-13	-12	0	0	0	0	
Dividends	US\$m	0	-35	-52	-26	-23	-20	
Equity Issues	US\$m	0	0	0	0	0	0	
Other	US\$m	11	-1	0	0	0	0	
Financing Cash Flow	US\$m	-1	-47	-52	-26	-23	-20	
Net Increase/Cash	US\$m	19	0	11	23	20	21	
BALANCE SHEET	2021A	2022A	2023F	2024F	2025F	2026F		
Cash	US\$m	44	44	55	78	98	119	
Other Current	US\$m	21	25	25	25	25	25	
Current Assets	US\$m	65	69	80	103	123	144	
Fixed Assets	US\$m	113	107	91	77	65	50	
Exploration	US\$m	0	0	0	0	0	0	
Other	US\$m	9	7	7	7	7	7	
Non Current Assets	US\$m	122	114	97	84	72	57	
Total Assets	US\$m	187	182	177	186	194	200	
Borrowings	US\$m	11	1	1	1	1	1	
Payables	US\$m	16	26	26	26	26	26	
Other	US\$m	2	9	9	9	9	9	
Current Liab	US\$m	29	37	37	37	37	37	
Borrowings	US\$m	1	0	0	0	0	0	
Provisions	US\$m	31	33	33	33	33	33	
Other	US\$m	15	13	13	13	13	13	
Non Current Liab	US\$m	47	46	46	46	46	46	
Total Liabilities	US\$m	77	83	83	83	83	83	
Total Equity	US\$m	110	99	94	103	111	117	
RATIO ANALYSIS	2021A	2022A	2023F	2024F	2025F	2026F		
EPS	¢	0.6	2.0	3.9	2.8	2.4	2.0	
PER	x	25.0	7.8	4.0	5.5	6.3	7.6	
EPS Growth	%	0%	222%	94%	-28%	-12%	-16%	
CFPS	¢	1.8	4.7	6.5	5.1	4.6	4.1	
PCFR	x	8.4	3.3	2.4	3.1	3.4	3.8	
DPS	¢	0.0	3.0	4.3	2.1	1.8	1.6	
Yield	%	0%	19%	28%	13%	12%	10%	
Payout Ratio	%	0%	143%	111%	74%	74%	77%	
Gearing ND/E	%	-29%	-43%	-58%	-74%	-87%	-100%	
Interest Cover	x	3	22	>100	>100	>100	>100	
Enterprise Value	A\$m	185	198	183	155	129	101	
EV/EBITDAX	x	3.8	2.0	1.3	1.7	1.9	2.1	
EBITDAX Margin	%	61%	68%	75%	73%	72%	71%	
EBIT Margin	%	20%	41%	53%	49%	48%	45%	
Return On Assets	%	7%	25%	44%	32%	27%	23%	
Share Price	(\$)	0.155						
Issued shares	(M)	1,579						
Other	(M)	104						
Fully Diluted	(M)	1,683						
Mkt Cap.	(\$M)	261						
Enterprise Value	(\$M)	198						
ASSUMPTIONS	2021A	2022A	2023F	2024F	2025F	2026F		
Brent Crude	US\$/bbl	58	90	98	94	91	88	
WTI	US\$/bbl	53	85	93	89	86	83	
East Coast Gas	A\$/GJ	9.50	9.50	12.00	12.00	12.00	12.00	
West Coast Gas	A\$/GJ	5.50	5.50	5.50	5.50	5.50	5.50	
AUD/USD	FX	0.75	0.73	0.72	0.75	0.75	0.75	
OPERATIONS (HZN share)	2021A	2022A	2023F	2024F	2025F	2026F		
Production								
China	mboe	0.9	0.9	1.1	0.9	0.8	0.8	
New Zealand	mboe	0.5	0.4	0.5	0.5	0.4	0.4	
Other	mboe	0.0	0.0	0.0	0.0	0.0	0.0	
Total Production (mboe)	mboe	1.3	1.3	1.5	1.4	1.3	1.2	
Revenue	2021A	2022A	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	113	147	121	111	100	
Other	US\$m	0	0	0	0	0	0	
Total	US\$m	70	113	147	121	111	100	
Percentage Split (Revenue)								
Natural Gas (%)	%	0%	0%	0%	0%	0%	0%	
Condensate (%)	%	0%	0%	0%	0%	0%	0%	
Oil (%)	%	100%	100%	100%	100%	100%	100%	
Capital Expenditure	2021A	2022A	2023F	2024F	2025F	2026F		
CAPEX								
China	US\$m	11	19	15	14	14	9	
New Zealand	US\$m	3	1	1	1	1	1	
Other	US\$m	0	-2	0	0	0	0	
Total	US\$m	14	18	16	15	15	10	
CASHFLOW CHART								
EBITDAX	2021A	2022A	2023F	2024F	2025F	2026F		
China	US\$m	32	65	77	62	56	49	
New Zealand	US\$m	15	23	39	32	30	27	
Other	US\$m	-8	-15	-5	-5	-6	-6	
Total	US\$m	39	73	110	89	80	71	
NPV10							A\$m	A\$/sh.
China							212	0.13
New Zealand							109	0.06
Corporate							-30	-0.02
Net cash / (debt)							75	0.04
Total							366	0.22

Source: Petra Capital

Figure 1: FY22 Result vs. Petra est.

		FY21	FY22	FY22F		
		Actual	Actual	Petra est.	US\$m	%.
Revenue	US\$m	63.6	108.1	107.7	0.4	0%
Production Costs	US\$m	-22.3	-23.4	-24.1	0.7	-3%
Other costs	US\$m	-4.9	-11.7	-6.5	-5.2	45%
EBITDAX	US\$m	36.4	73.0	77.1	-4.1	-6%
Exploration expense	US\$m	-2.1	-0.8	-1.4	0.6	-73%
EBITDA	US\$m	34.3	72.2	75.7	-3.5	-5%
Depreciation & amortisation	US\$m	-23.9	-27.5	-27.1	-0.4	1%
EBIT	US\$m	10.5	44.7	48.6	-3.9	-9%
Interest & taxes	US\$m	-2.4	-20.4	-22.3	1.9	-9%
Statutory NPAT	US\$m	8.1	24.3	26.2	-2.0	-8%
Significant items	US\$m	-0.3	0.0	0.4	-0.4	0%
Underlying NPAT	US\$m	7.8	24.3	26.6	-2.3	-9%
Cash on hand	US\$m	33.0	44.1	48.4	-4.3	-10%
Senior debt facility	US\$m	23.0	1.2	8.6	-7.4	-598%
Net cash	US\$m	10.0	42.8	39.8	3.1	7%

Source: HZN

Summary of changes

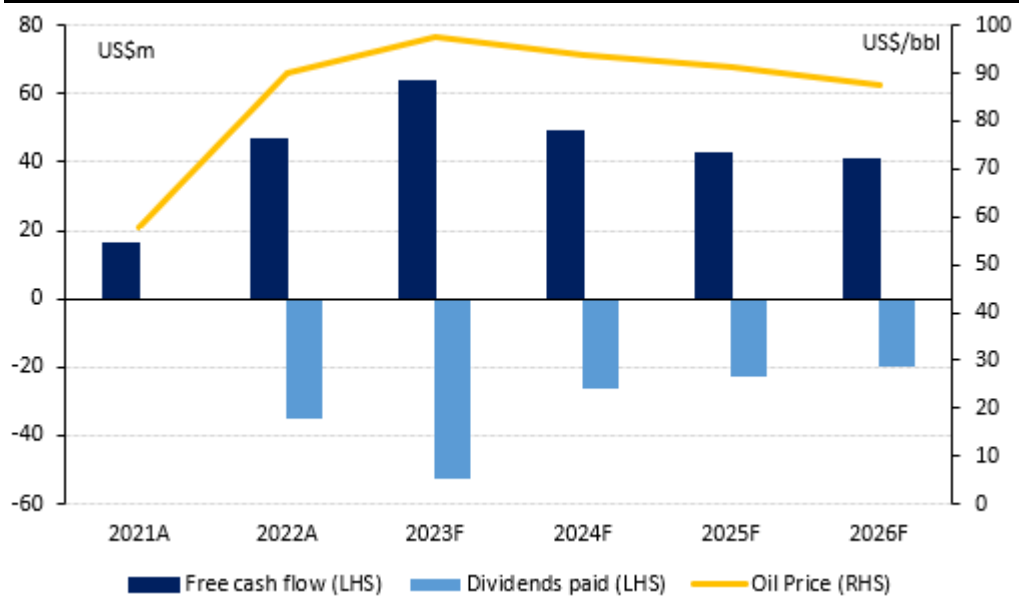
We have updated our modelling to incorporate HZN's FY22 Result leading to small downward revisions in our FY22 numbers, primarily driven by inventory adjustments and FX differences at the EBITDAX line (Figure 2). We have also upgraded our FY23/24/25/26/LT oil price deck per barrel to US\$98/94/91/88/85. Despite no formal FY23 guidance HZN provided indicative production forecasts by asset which has led us to increase our production forecasts at Maari (Figure 2, 4). These upward revisions are offset by a 6-month roll-forward of our DCF, which due to the short-life nature of the assets leads to a downgrade, and the 3¢ps capital return. These changes result in an unchanged TP of A\$0.22/sh.

Figure 2: Summary of changes

		FY22A			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	108	108	0%	147	142	4%	121	112	9%
EBITDAX	US\$m	73	77	-5%	110	106	4%	89	80	11%
EBITDA	US\$m	72	76	-5%	108	104	4%	87	78	11%
NPAT (normalised)	US\$m	24	27	-9%	47	46	2%	35	30	17%
NPV/sh	A\$/sh	0.22	0.22	0%						
Price target	A\$/sh	0.22	0.22	0%						
Brent oil	US\$/bbl	90	90	0%	98	95	3%	94	89	6%
AUD/USD	FX	0.73	0.73	0%	0.72	0.75	-4%	0.75	0.75	0%
Production	MMbbls	1.3	1.3	0%	1.5	1.5	2%	1.4	1.3	3%

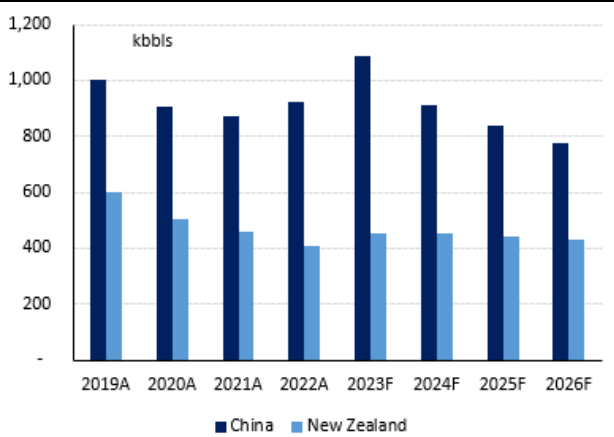
Source: Petra Capital

Figure 3: Free Cash Flow, Dividends Paid & Brent Crude Oil Price



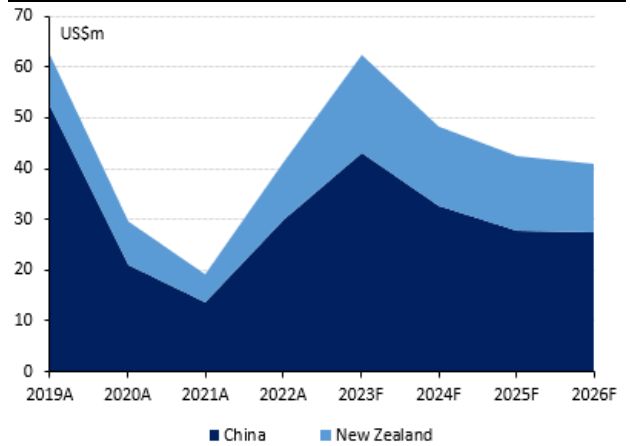
Source: Petra Capital

Figure 4: Production by Asset (kbbbls)



Source: Petra Capital

Figure 5: Free Cash Flow by Asset (US\$m)



Source: Petra Capital


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