

25 May 2022

Horizon Oil Limited (HZN)

BUY

Share Price: A\$0.14

Increased FY22 Guidance

Target Price: A\$0.22

HZN has increased its FY22 revenue and EBITDAX guidance. Midpoint revenue guidance has increased 14% to US\$105-110m (from US\$90-100m) and EBITDAX 8% to US\$65-75m (from US\$60-70m). Production from its China oil development at WZ12-8E is delivering within expectations and a further 4,000bopd is expected from June at wells A3 & A4, a 34% increase in existing production from China. In a more volatile broader market, we view HZN's upgraded guidance, cheap EV of A\$197m (1.4x FY23 EBITDAX), strong balance sheet (net cash US\$28m), and cash flow generative nature (Petra FY23 FCF US\$66m) as providing relative certainty and safety for investors. Maintain BUY and PT A\$0.22/sh.

FY22 Guidance Upgrades

- FY22 Revenue +14% to US\$105-110m (Petra unch. US\$106m).
- FY22 EBITDAX +8% to US\$65-75m (Petra prior US\$77m, revised to US\$73m).
- FY22 production (1.35-1.45MMboe) and sales (1.2-1.3MMboe) guidance unchanged.
- Production in China (Figure 1) has averaged 11.8kbopd in May, consistent with expectations.
- At WZ12-8E, two development wells (A1 & A2) have been brought online, with a further two wells (A3 & A4) expected online next month with each to provide an additional 2,000bopd initially. A3 & A4 will initially increase overall China production by 34%.

Production growth & valuation support

- HZN has a strong balance sheet with net cash at March-31 of US\$28m.
- We anticipate FY23 free cash flow of US\$66m equating to a 47% FCF yield based on US\$95/bbl oil (Figure 2).
- HZN trades on an FY23 EV/EBITDAX of 1.4x.
- Due to the strong balance sheet and cash flow generation, we see a strong possibility for capital management initiatives including a buyback or dividend following the near-term spend at WZ12-8E and debt repayment in July.
- We expect HZN to be largely unhedged through FY23 as the forward capital expenditure commitments abate.
- We have made minor amendments to our modelling, consistent with updated guidance, with no change to our PT of A\$0.22/sh (Figure 3).

Key Dates Ahead

- Ongoing – Production from devt wells at WZ-128E
- August '22 – FY22 result
- 2H 2022 – Capital management initiatives

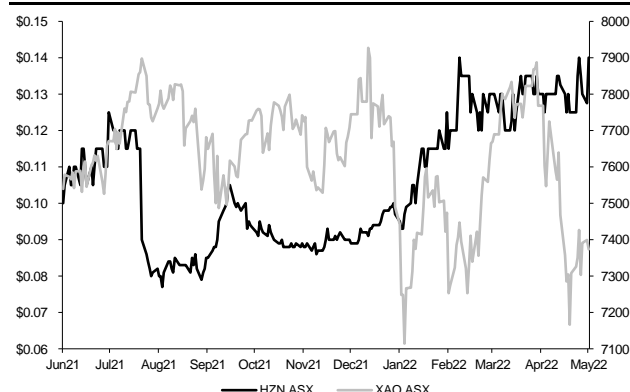
Company Data

Shares – ordinary (M)	1578.99
Dilution (M)	104
Total (fully diluted) (M)	1683
Market capitalisation (\$M)	236
12 month low/high (\$)	0.06/ 0.14
Average monthly turnover (\$M)	3.9
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022F	2023F	2024F	2025F	2026F
Revenue (\$M)	106	143	112	102	94
Costs (\$M)	(33)	(35)	(31)	(30)	(28)
EBITDAX (\$M)	73	108	80	72	66
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	25	47	30	26	22
EPS (¢ps)	2.0	3.7	2.4	2.0	1.8
EPS Growth (%)	219	89	(36)	(15)	(13)
PER (x)	7.1	3.7	5.8	6.9	7.9
Op. Cashflow (\$M)	60	78	57	51	46
OCFPS (¢ps)	4.8	6.2	4.5	4.0	3.7
POCFPS (x)	2.9	2.3	3.1	3.5	3.8
Enterprise Value (\$M)	165	128	83	45	9
EV / EBITDAX (x)	2.0	1.4	1.8	2.1	2.2
Payout Ratio (%)	142	43	47	51	53
Dividends (¢ps)	3.0	1.6	1.1	1.0	0.9
Yield (%)	21	11	8	7	7

HZN – performance over one year



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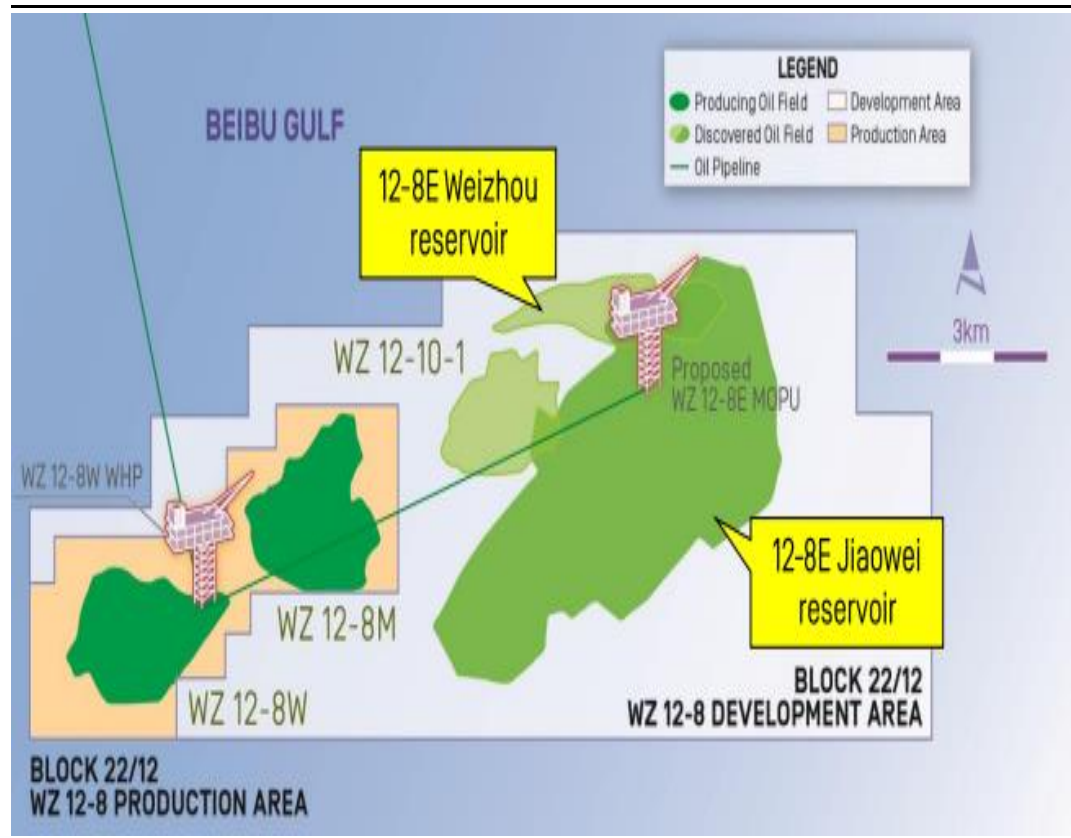
This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was broker for HZN's on-market buyback announced on 17 February 2021, in which 20.3m shares were purchased and fees were received. The buyback ceased on 28 June.

Analysis

Horizon Oil (HZN)							
24-May-22							
Year End June							
PROFIT & LOSS		2021A	2022F	2023F	2024F	2025F	2026F
Revenue	US\$m	64	106	143	112	102	94
Operating Costs	US\$m	-22	-26	-30	-26	-24	-23
Other	US\$m	-3	-6	-6	-6	-6	-6
EBITDAX	US\$m	39	73	108	80	72	66
Exploration	US\$m	-2	-1	-2	-2	-2	-2
D&A	US\$m	-24	-26	-28	-25	-23	-22
EBIT	US\$m	13	46	78	53	47	42
Net Interest	US\$m	-5	-1	0	0	0	0
Pre-Tax Profit	US\$m	8	45	78	53	47	42
Tax & Royalties	US\$m	0	-20	-30	-23	-21	-20
Net Profit	US\$m	8	24	47	30	26	22
Abnormal	US\$m	0	0	0	0	0	0
Reported Profit	US\$m	8	25	47	30	26	22
Dividends Paid	US\$m	0	-37	-20	-14	-13	-12
CASHFLOW		2021A	2022F	2023F	2024F	2025F	2026F
Net Operating Cash Flow	US\$m	23	60	78	57	51	46
Net Capex	US\$m	-7	-22	-11	-9	-9	-7
Other	US\$m	4	0	0	0	0	0
Investing Cash Flow	US\$m	-3	-22	-11	-9	-9	-7
Free cash flow	US\$m	16	37	66	48	42	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
Financing Cash Flow	US\$m	-1	-39	-29	-14	-13	-12
Net Increase/Cash	US\$m	19	-2	38	34	29	27
BALANCE SHEET		2021A	2022F	2023F	2024F	2025F	2026F
Cash	US\$m	44	43	81	114	143	170
Other Current	US\$m	21	18	18	18	18	18
Current Assets	US\$m	65	61	98	132	161	188
Fixed Assets	US\$m	113	109	90	73	57	40
Exploration	US\$m	0	0	0	0	0	0
Other	US\$m	9	8	8	8	8	8
Non Current Assets	US\$m	122	117	98	80	64	48
Total Assets	US\$m	187	178	196	212	225	235
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
Current Liab	US\$m	29	28	19	19	19	19
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
Non Current Liab	US\$m	47	47	47	47	47	47
Total Liabilities	US\$m	77	74	66	66	66	66
Total Equity	US\$m	110	103	130	146	159	170
RATIO ANALYSIS		2021A	2022F	2023F	2024F	2025F	2026F
EPS	¢	0.6	2.0	3.7	2.4	2.0	1.8
PER	x	22.6	7.1	3.7	5.8	6.9	7.9
EPS Growth	%	0%	219%	89%	-36%	-15%	-13%
CFPS	¢	1.8	4.8	6.2	4.5	4.0	3.7
PCFR	x	7.6	2.9	2.3	3.1	3.5	3.8
DPS	¢	0.0	3.0	1.6	1.1	1.0	0.9
Yield	%	0%	21%	11%	8%	7%	7%
Payout Ratio	%	0%	142%	43%	47%	51%	53%
Gearing ND/E	%	-29%	-33%	-62%	-78%	-90%	-100%
Interest Cover	x	3	47	>100	>100	>100	>100
Enterprise Value	A\$m	160	165	128	83	45	9
EV/EBITDAX	x	3.7	2.0	1.4	1.8	2.1	2.2
EBITDAX Margin	%	61%	69%	75%	72%	71%	70%
EBIT Margin	%	20%	43%	54%	48%	46%	45%
Return On Assets	%	7%	26%	40%	25%	21%	18%
Share Price	(\$)	0.140					
Issued shares	(M)	1,579					
Other	(M)	104					
Fully Diluted	(M)	1,683					
Mkt Cap.	(\$M)	236					
Enterprise Value	(\$M)	197					
ASSUMPTIONS		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
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 (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	0
Condensate	US\$m	0	0	0	0	0	0
Oil	US\$m	70	111	143	112	102	94
Other	US\$m	0	0	0	0	0	0
Total	US\$m	70	111	143	112	102	94
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	2022F	2023F	2024F	2025F	2026F
CAPEX							
China	US\$m	11	22	10	8	8	6
New Zealand	US\$m	3	1	1	1	1	1
Other	US\$m	0	-2	0	0	0	0
Total	US\$m	14	20	11	9	9	7
CASHFLOW CHART							
EBITDAX		2021A	2022F	2023F	2024F	2025F	2026F
China	US\$m	32	63	75	58	52	47
New Zealand	US\$m	15	21	39	27	26	24
Other	US\$m	-8	-11	-6	-5	-5	-6
Total	US\$m	39	73	108	80	72	66
NPV10							
China	A\$m	248					
New Zealand	A\$/sh.	97					
Corporate		-30					
Net cash / (debt)		48					
Total		362					

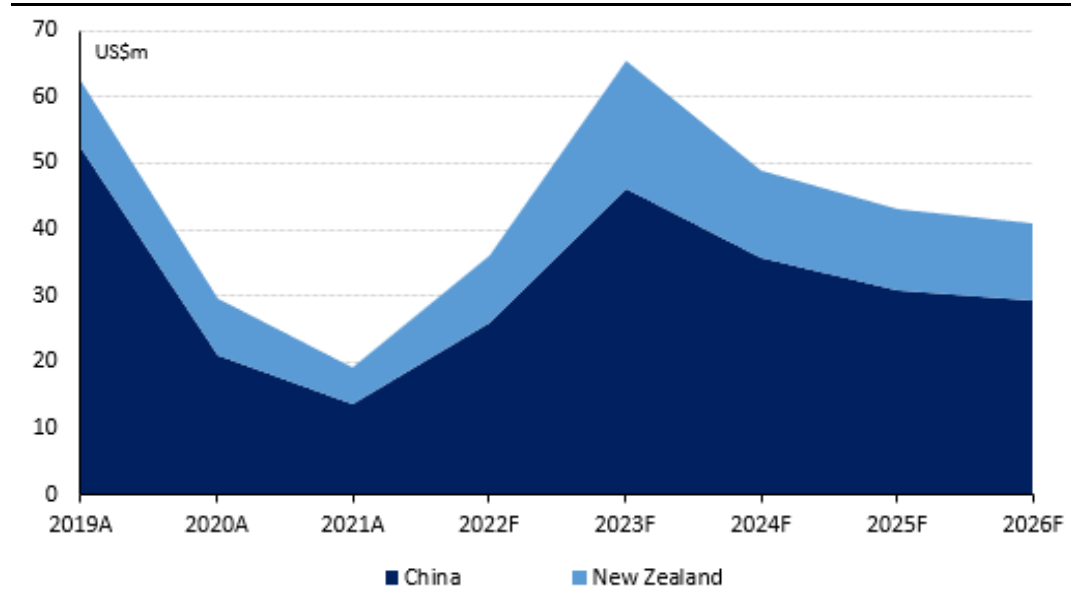
Source: Petra Capital

Figure 1: Map of WZ12-8E



Source: HZN

Figure 2: Free cash flow by asset (US\$m)



Source: Petra Capital

Summary of changes

We have updated our modelling to incorporate HZN's updated FY22 guidance. We had largely flagged and incorporated upgrades to prior guidance based on higher prices, and hence the upside to our estimates is limited. We have made a minor revision to our FY22 EBITDAX, consistent with guidance, with higher operating costs, which are partially rolled through into future years. Our target price remains unchanged at A\$0.22/sh.

Figure 3: Summary of changes

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	106	106	0%	143	143	0%	112	112	0%
EBITDAX	US\$m	73	77	-5%	108	110	-2%	80	81	-2%
EBITDA	US\$m	72	76	-6%	106	108	-2%	78	79	-2%
NPAT (normalised)	US\$m	24	27	-9%	47	49	-3%	30	31	-3%
NPV/sh	A\$/sh	0.22	0.22	0%						
Price target	A\$/sh	0.22	0.22	0%						
Pricing										
Brent oil	US\$/bbl	87	87	0%	95	95	0%	89	89	0%
AUD/USD	FX	0.73	0.73	0%	0.75	0.75	0%	0.75	0.75	0%

Source: Petra Capital



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