

24 February 2022

Horizon Oil Limited (HZN)

BUY

Share Price: A\$0.12

Multiple catalysts to drive near term re-rating

Target Price: A\$0.18

HZN produced a solid 1H FY22 result with underlying EBITDAX of US\$28m (+11% vs. Petra US\$25m) and NPAT of US\$7.5m (in-line vs Petra US\$7.5m). Midpoint maiden FY22 sales guidance of 1.2-1.3MMboe was 10% below our prior forecast due in part to the timing of Maari shipments, with the next lifting expected in mid May, leaving 6 weeks of crude oil inventory on hand at year end. We estimate the crude oil inventory to equate to ~60kbbbls or a little over US\$5m. We see exceptional value in HZN at 1.5x FY23 EBITDAX and an FY23 FCF yield of 42%. HZN's net cash position of US\$14.7m has it well placed to capitalise on a busy program in China, expected to add ~30% to portfolio production from early Jun.Q '22 with the onset of WZ-128E. We maintain our BUY recommendation with TP of A\$0.18/sh (from A\$0.19/sh) or A\$0.26/sh at spot oil.

Strong 1H FY22; maiden full-year guidance issued

- Underlying EBITDAX US\$28m (+11% vs. Petra US\$25m). Underlying NPAT US\$7.5m (in-line vs. Petra US\$7.5m). Figure 1.
- FY22 production guidance 1.35 – 1.45MMboe (Petra 1.41MMboe).
- FY22 sales volume guidance 1.2 – 1.3MMboe (Petra 1.27MMboe)
- FY22 EBITDAX guidance US\$60-70m (Petra US\$67m)

Attractive valuation with catalysts to come...

- We anticipate FY23 free cash flow of US\$55m which equates to a 42% FCF yield (Figure 3). At spot oil, this increases to US\$74m and a 57% yield.
- FY23 EV / EBITDA of 1.5x compares favourably to the peer average of 4.2x (Figure 5). Our assumed oil price would need to drop to US\$41/bbl to facilitate an EV / FY23 EBITDA multiple in-line with the E&P peer avg.
- We expect HZN to be largely unhedged through FY23 with US\$15m capital spend associated with the WZ-128E oil development and an US\$8.6m debt repayment (due July '22) in the rear view mirror. Heavy backwardation in the forward oil curve is currently disincentivising forward hedging.
- We expect further indications of capital management policies at the FY22 result in August. We forecast a net cash position of US\$26m at end-FY22.
- We have reduced our PT to A\$0.18/sh (from A\$0.19/sh) after accounting for maiden FY22 guidance (Figure 6).

Key Dates Ahead

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

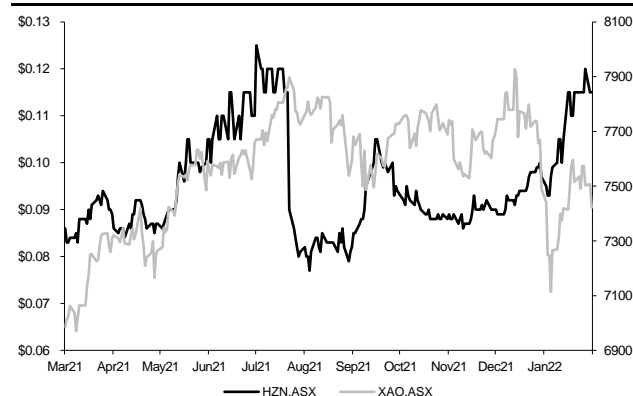
Company Data

Shares – ordinary (M)	1579
Dilution (M)	104
Total (fully diluted) (M)	1683
Market capitalisation (\$M)	202
12 month low/high (\$)	0.06/ 0.12
Average monthly turnover (\$M)	5.9
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022F	2023F	2024F	2025F	2026F
Revenue (\$M)	96	121	99	92	85
Costs (\$M)	(29)	(33)	(30)	(29)	(28)
EBITDAX (\$M)	67	88	69	63	57
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	22	35	24	20	18
EPS (¢ps)	1.8	2.8	1.9	1.6	1.4
EPS Growth (%)	186	56	(32)	(15)	(14)
PER (x)	6.8	4.3	6.4	7.5	8.6
Op. Cashflow (\$M)	53	64	50	45	41
OCFPS (¢ps)	4.3	5.1	3.9	3.6	3.2
POCFPS (x)	2.8	2.3	3.0	3.4	3.7
Enterprise Value (\$M)	143	116	78	45	13
EV / EBITDAX (x)	2.1	1.3	1.1	0.7	0.2
Payout Ratio (%)	160	47	50	52	54
Dividends (¢ps)	2.8	1.3	0.9	0.8	0.8
Yield (%)	24	11	8	7	6

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)								
23-Feb-22								
Year End June								
PROFIT & LOSS								
		2021A	2022F	2023F	2024F	2025F	2026F	
Revenue	US\$m	64	96	121	99	92	85	
Operating Costs	US\$m	-22	-25	-27	-25	-24	-22	
Other	US\$m	-3	-3	-6	-6	-6	-6	
EBITDAX	US\$m	39	67	88	69	63	57	
Exploration	US\$m	-2	-1	-2	-2	-2	-2	
D&A	US\$m	-24	-25	-27	-24	-23	-21	
EBIT	US\$m	13	40	59	43	38	34	
Net Interest	US\$m	-5	-1	0	0	0	0	
Pre-Tax Profit	US\$m	8	39	59	43	38	34	
Tax & Royalties	US\$m	0	-17	-24	-19	-18	-17	
Net Profit	US\$m	8	22	35	24	20	18	
Abnormal	US\$m	0	0	0	0	0	0	
Reported Profit	US\$m	8	22	35	24	20	18	
Dividends Paid	US\$m	0	-37	-16	-12	-11	-9	
CASHFLOW								
		2021A	2022F	2023F	2024F	2025F	2026F	
Net Operating Cash Flow	US\$m	23	53	64	50	45	41	
Net Capex	US\$m	-7	-25	-9	-9	-9	-7	
Other	US\$m	4	0	0	0	0	0	
Investing Cash Flow	US\$m	-3	-25	-9	-9	-9	-7	
Free cash flow	US\$m	16	28	55	41	36	34	
Net Borrowings	US\$m	-13	-4	-9	0	0	0	
Dividends	US\$m	0	-35	-16	-12	-11	-9	
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	-25	-12	-11	-9	
Net Increase Cash	US\$m	19	-10	30	29	25	24	
BALANCE SHEET								
		2021A	2022F	2023F	2024F	2025F	2026F	
Cash	US\$m	44	34	64	93	118	142	
Other Current	US\$m	21	18	18	18	18	18	
Current Assets	US\$m	65	52	82	111	136	160	
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	
Non Current Assets	US\$m	122	120	100	83	68	52	
Total Assets	US\$m	187	172	182	194	203	211	
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	98	116	128	137	145	
RATIO ANALYSIS								
		2021A	2022F	2023F	2024F	2025F	2026F	
EPS	¢	0.6	1.8	2.8	1.9	1.6	1.4	
PER	x	19.4	6.8	4.3	6.4	7.5	8.6	
EPS Growth	%	0%	186%	56%	-32%	-15%	-14%	
CFPS	¢	1.8	4.3	5.1	3.9	3.6	3.2	
PCFR	x	6.5	2.8	2.3	3.0	3.4	3.7	
DPS	¢	0.0	3.0	1.3	0.9	0.8	0.8	
Yield	%	0%	25%	11%	8%	7%	6%	
Payout Ratio	%	0%	160%	47%	50%	52%	54%	
Gearing ND/E	%	-29%	-26%	-55%	-73%	-86%	-97%	
Interest Cover	x	3	42	>100	>100	>100	>100	
Enterprise Value	A\$m	126	143	116	78	45	13	
EV/EBITDAX	x	3.2	2.1	1.3	1.1	0.7	0.2	
EBITDAX Margin	%	61%	70%	73%	70%	68%	67%	
EBIT Margin	%	20%	42%	49%	43%	42%	40%	
Return On Assets	%	7%	23%	32%	22%	19%	16%	
Share Price	(\$)	0.12						
Issued shares	(M)	1,579						
Other	(M)	104						
Fully Diluted	(M)	1,683						
Mkt Cap.	(\$M)	202						
Enterprise Value	(\$M)	181						
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 (mboe)	mboe	1.3	1.4	1.5	1.3	1.3	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	100	121	99	92	85	
Other	US\$m	0	0	0	0	0	0	
Total	US\$m	70	100	121	99	92	85	
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	8	8	8	6	
New Zealand	US\$m	3	1	1	1	1	1	
Other	US\$m	0	0	0	0	0	0	
Total	US\$m	14	24	9	9	9	7	
CASHFLOW CHART								
EBITDAX								
		2021A	2022F	2023F	2024F	2025F	2026F	
China	US\$m	32	55	62	52	47	42	
New Zealand	US\$m	15	20	31	23	22	21	
Other	US\$m	-8	-8	-6	-6	-6	-6	
Total	US\$m	39	67	88	69	63	57	
NPV								
		A\$m						A\$/sh.
China		216						0.13
New Zealand		78						0.05
Corporate		-30						-0.02
Net cash / (debt)		35						0.02
Total		300						0.18

Source: Petra Capital

1H FY22 Result

HZN reported a solid 1H FY22 result with EBITDAX of US\$28m (+11% vs. Petra est. US\$25m) and NPAT of US\$7.5m (in-line vs. Petra est. US\$7.5m). Refer Figure 1 below.

Maiden FY22 guidance is as follows:

- 1) Production 1.35 – 1.45MMboe (Petra est. 1.41MMboe).

We had previously forecast production of 1.45MMboe, largely reflecting more aggressive timing and phasing of the WZ-128E oil development. Rather than initial flush production rapidly tapering off, we have now flattened the near-term production curve to account for the phased approach as individual development wells come online incrementally.

- 2) Sales volumes 1.2 – 1.3MMboe (Petra est. 1.27MMboe)

We had previously forecast sales volumes of 1.38MMboe. The primary driver of the difference is the timing of Maari liftings, with 6 weeks of crude oil now expected in inventory at end-FY22. We expect the impact to be ~60kbbbls (or US\$5.5m revenue). We have shifted these volumes into FY23.

- 3) Underlying EBITDAX US\$60-70m (Petra est. US\$67m)

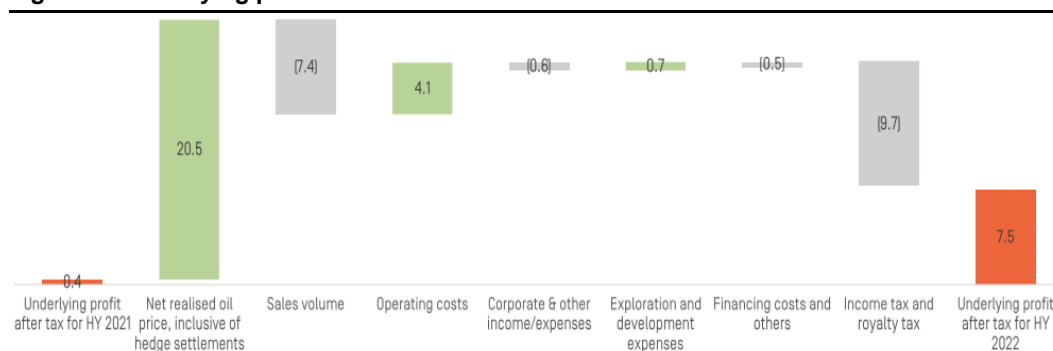
We had previously forecast EBITDAX of US\$79m. The primary drivers of the difference include the timing of Maari lifting and the phased timing to WZ-128E from early Jun.Q '22.

Figure 1: 1H22 Result vs. Petra Forecasts

		1H FY21a	1H FY22a	1H FY22e		
		30-Dec-20	30-Dec-21	30-Dec-21	Diff.	Diff.
		Actual	Actual	Petra est.	US\$m	%.
Revenue	US\$m	24.6	39.3	39.3	0.0	0%
Production Costs	US\$m	-15.1	-11.3	-14.3	3.0	-27%
EBITDAX	US\$m	9.4	28.0	25.0	3.0	11%
Exploration expense	US\$m	-1.0	-0.4	-1.0	0.6	-150%
EBITDA	US\$m	8.4	27.6	24.0	3.6	13%
Depreciation & amortisation	US\$m	-11.7	-12.7	-12.5	-0.2	1%
EBIT	US\$m	-3.3	14.9	11.4	3.5	23%
Interest & taxes	US\$m	-2.6	-7.0	-3.9	-3.1	45%
Statutory NPAT	US\$m	-6.0	7.9	7.5	0.4	5%
Underlying NPAT	US\$m	-6.0	7.5	7.5	-0.1	-1%
Cash on hand	US\$m	33.0	23.6	23.6	0.0	0%
Senior debt facility	US\$m	23.0	8.9	8.9	0.0	0%
Net cash	US\$m	10.0	14.7	14.7	0.0	0%

Source: HZN, Petra Capital.

Figure 2: Underlying profit 1H FY21 vs 1H FY22



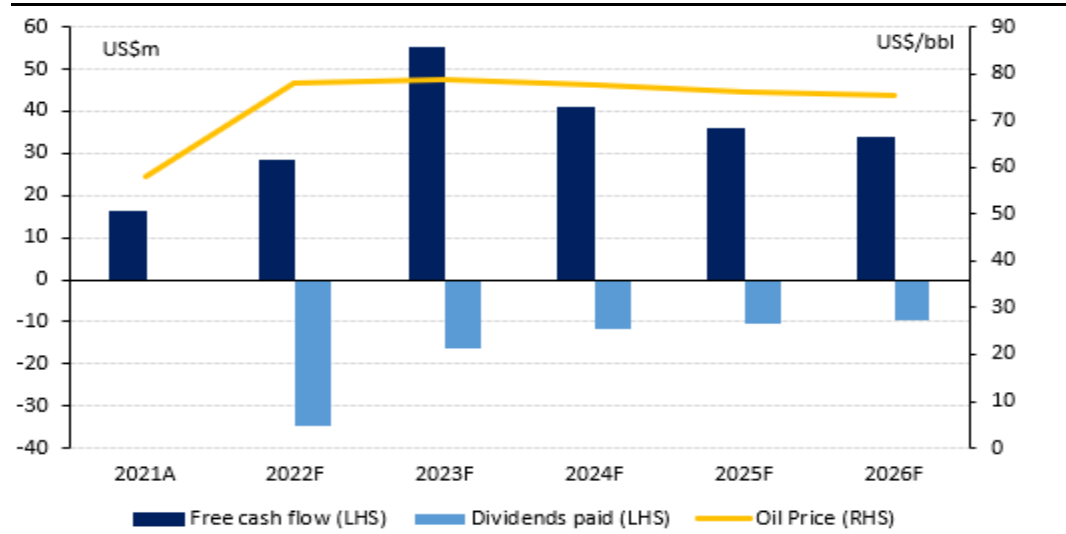
Source: HZN

Material FCF 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. We forecast FY23 FCF of US\$55m or a 42% FCF yield. Principal cash outflows over the next 6 months include capex for WZ-128E (US\$15m) and debt repayment (US\$9m). Once these expenditures are behind HZN we see plenty of opportunity for material cash generation.

Ultimately we expect further clarity on capital management initiatives (buyback / dividend) at the FY22 result in August once material free cash flow generation is bedded down following the conclusion of the WZ-128E oil development.

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

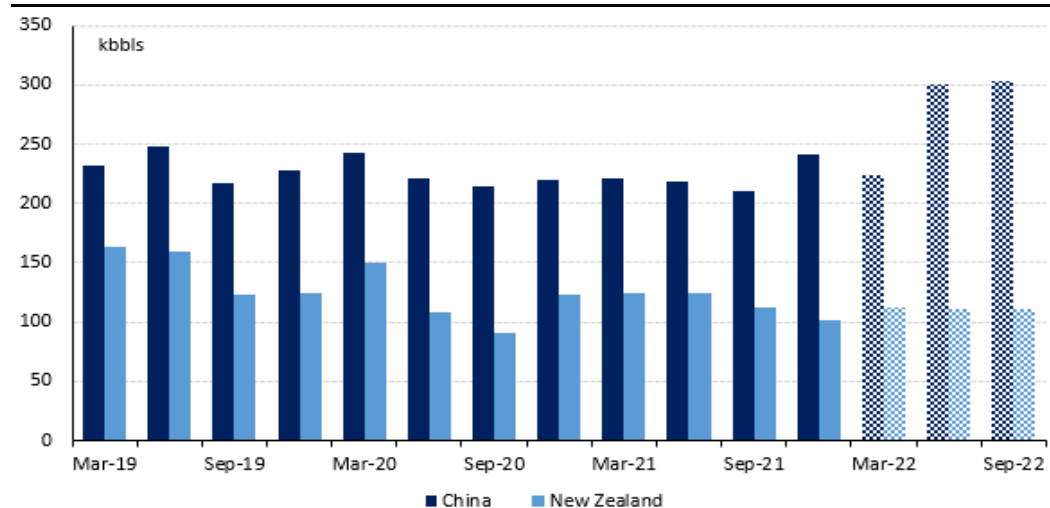


Source: Petra Capital

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, albeit phased with incremental well developments. Oil production of 4,000bopd equates to ~30% 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 4: Production by region (kbbbl)

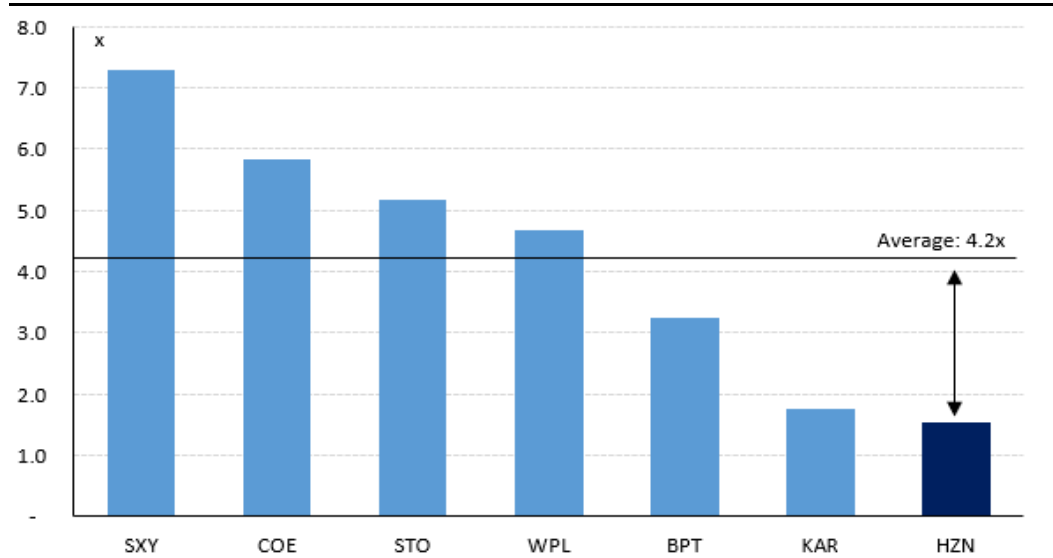


Source: Petra Capital

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 FY23 EV / EBITDA of 1.5x compares favourably to the consensus listed E&P peer average of 4.2x (Figure 4). We think this is particularly cheap given the rarity of pure oil exposure on the ASX (Figure 5).

Figure 5: FY23 EV / EBITDA (x)



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

Earnings Revisions

We have made revisions to our modelling as displayed in Figure 6 below. We have marked to market and accounted for revised guidance. As a result we have reduced our FY22 estimates, primarily reflecting the timing of Maari liftings and phasing of the WZ-128E development, which both benefit our FY23 estimates. As a result, our PT drops A\$0.01/sh to A\$0.18/sh (from A\$0.19/sh).

Figure 6: Summary of changes

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	96	109	-12%	121	115	5%	99	100	0%
EBITDAX	US\$m	67	79	-15%	88	83	6%	69	70	0%
EBITDA	US\$m	65	77	-15%	86	81	6%	67	68	0%
NPAT (normalised)	US\$m	22	31	-30%	35	32	8%	24	24	-2%
NPV/sh	A\$/sh	0.18	0.19	-8%						
Price target	A\$/sh	0.18	0.19	-8%						
Pricing										
Brent	US\$/bbl	78	78	0%	79	79	0%	78	78	0%
AUD/USD		0.73	0.73	0%	0.75	0.75	0%	0.75	0.75	0%

Source: Petra Capital



24 February 2022

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