

29 April 2022

Horizon Oil Limited (HZN)

Production growth on cheap multiples

HZN's 3Q FY22 report was marginally below our Petra forecasts due predominantly to a 10-day maintenance period in New Zealand. Nevertheless, cash generation remains elevated with first production from WZ12-8E in early April. HZN's WZ12-8E oil development will generate a ~30% uplift in production volumes with the added tailwind of elevated oil prices. We anticipate production growth to drive an FY23 FCF yield of 48%, underscored by a low-cost portfolio with operating costs <US\$20/bbl. After a material capex program in China through 1H 2022, and following debt repayment in July, we then anticipate capital management initiatives to follow, including dividends and/or buybacks. We maintain BUY and PT of A\$0.22/sh.

3Q FY22 Production and Sales Report

- Production 318kbbls (-6% vs. Petra 337kbbls).
- Sales Volumes 318kbbls (-6% vs. Petra 339kbbl).
- Sales Revenue US\$31.1m (-4% vs. Petra US\$32.3m).
- The 6% miss to production was mainly due to a 10-day shutdown in New Zealand, which flowed through into minor sales volumes and revenue misses.
- Following maintenance NZ production has been reinstated at a normalised level of 4,800bopd and the installation of desanding equipment at MR6A will drive further improvements.
- NZ decommissioning legislation has been enacted. A final decision from NZ government on Jadestone's acquisition of OMV's operatorship interest in the Maari field is expected in 2022.

Production growth & valuation support

- HZN's WZ12-8E is expected to reach an average daily gross production rate of 4,700bopd during 2022, or a ~30% 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).
- HZN trades on an FY23 EV/EBITDAX of 1.3x. We anticipate FY23 free cash flow of US\$70m equating to a 48% 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 development at WZ12-8E and repayment of remaining debt obligations.

Key Dates Ahead

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

BUY Share Price: A\$0.13

Target Price: A\$0.22

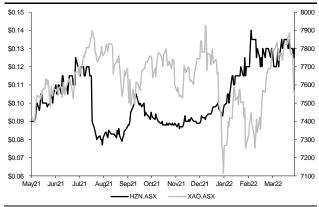
Company Data

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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)	3.6
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)	(28)	(33)	(30)	(29)	(28)
EBITDAX (\$M)	78	110	81	73	67
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	29	49	31	26	23
EPS (¢ps)	2.3	3.9	2.5	2.1	1.8
EPS Growth (%)	277	65	(36)	(16)	(13)
PER (x)	5.6	3.4	5.2	6.2	7.2
Op. Cashflow (\$M)	61	79	58	51	47
OCFPS (¢ps)	4.9	6.3	4.6	4.1	3.7
POCFPS (x)	2.6	2.1	2.8	3.2	3.5
Enterprise Value (\$M)	147	106	60	21	(16)
EV / EBITDAX (x)	1.9	1.0	0.7	0.3	(0.2)
Payout Ratio (%)	120	44	45	49	52
Dividends (¢ps)	3.0	1.7	1.1	1.0	0.9
Yield (%)	23	13	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.

Kieran Barratt



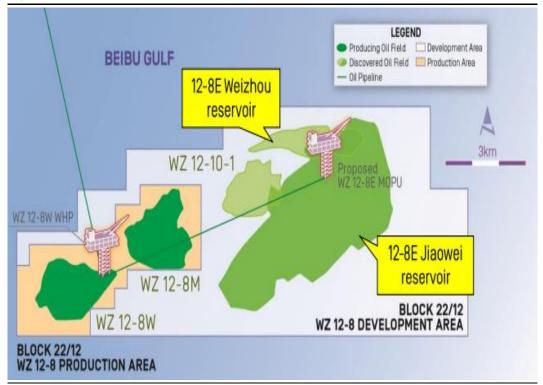
Analysis

Horizon Oil (HZN)															
								Share Price	(\$)	0.13					
								Issued shares	(M)	1,579					
28-Apr-22								Other	(M)	104					
								Fully Diluted	(M)	1,683					
Year End June								Mkt Cap.	(\$M)	219					
PROFIT & LOSS		2021A	2022F	2023F	2024F	2025F	2026F	Enterprise Value	(\$M)	199					
Revenue	US\$m	64	106	143	112	102	94	ASSUMPTIONS		2021A	2022F	2023F	2024F	2025F	2026F
Operating Costs	US\$m	-22	-24	-27	-25	-23	-22	Brent Crude	US\$/bbl	58	87	95	89	86	85
Other	US\$m	-3	-3	-6	-6	-6	-6	WTI	US\$/bbl	53	82	90	84	81	80
EBITDAX	US\$m	39	78	110	81	73	67	East Coast Gas	A\$/GJ	9.50	9.50	9.50	9.50	9.50	9.50
Exploration	US\$m	-2	-1	-2	-2	-2	-2	West Coast Gas	A\$/GJ	5.50	5.50	5.50	5.50	5.50	5.50
D&A	US\$m	-24	-26	-28	-25	-23	-22	AUD/USD	FX	0.75	0.73	0.75	0.75	0.75	0.75
EBIT	US\$m	13	51	80	55	48	43	ODERATIONS (UZN - b)		20244	20225	20225	20245	20255	20205
Net Interest	US\$m	-5	-1 50	0	0	0	0	OPERATIONS (HZN share)		2021A	2022F	2023F	2024F	2025F	2026F
Pre-Tax Profit	US\$m US\$m	8	50 -21	80 -31	55 -24	48 -21	43 -20	Production China		0.9	4.0	4.4	0.9	0.8	0.8
Tax & Royalties Net Profit	US\$m	8	29	-31 49	-24 31	26	-20 23	New Zealand	mmboe mmboe	0.5	1.0 0.4	1.1 0.4	0.9	0.4	0.4
Abnormal	US\$m	0	0	49	0	0	0	Other	mmboe	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	US\$m	8	29	49	31	26	23	Total Production (mmboe)	mmboe	1.3	1.4	1.5	1.3	1.2	1.2
Dividends Paid	US\$m	0	-37	-21	-14	-13	-12	rotal rroduction (miniboc)	minoc	1.5		1.5	1.5	1.2	1.2
CASHFLOW	000	2021A	2022F	2023F	2024F	2025F	2026F	Revenue		2021A	2022F	2023F	2024F	2025F	2026F
Net Operating Cash Flow	US\$m	23	61	79	58	51	47	Natural Gas	US\$m	0	0	0	0	0	0
Net Capex	US\$m	-7	-22	-9	-9	-9	-7	Condensate	US\$m	0	0	0	0	0	0
Other	US\$m	4	0	0	0	0	0	Oil	US\$m	70	111	143	112	102	94
Investing Cash Flow	US\$m	-3	-22	-9	-9	-9	-7	Other	US\$m	0	0	0	0	0	0
Free cash flow	US\$m	16	39	70	49	42	39	Total	US\$m	70	111	143	112	102	94
Net Borrowings	US\$m	-13	-4	-9	0	0	0	Percentage Split (Revenue)							
Dividends	US\$m	0	-35	-21	-14	-13	-12	Natural Gas (%)	%	0%	0%	0%	0%	0%	0%
Equity Issues	US\$m	0	0	0	0	0	0	Condensate (%)	%	0%	0%	0%	0%	0%	0%
Other	US\$m	11	0	0	0	0	0	Oil (%)	%	100%	100%	100%	100%	100%	100%
Financing Cash Flow	US\$m	-1	-39	-30	-14	-13	-12								
Net IncreaseCash	US\$m	19	0	40	35	29	28	Capital Expenditure		2021A	2022F	2023F	2024F	2025F	2026F
BALANCE SHEET		2021A	2022F	2023F	2024F	2025F	2026F	CAPEX							
Cash	US\$m	44	44	84	119	148	176	China	US\$m	11	22	8	8	8	6
Other Current	US\$m	21	18	18	18	18	18	New Zealand	US\$m	3	1	1	1	1	1
Current Assets	US\$m	65	62	102	137	166	194	Other	US\$m	0	-2	0	0	0	0
Fixed Assets	US\$m	113	109	88	71	55	38	Total	US\$m	14	20	9	9	9	7
Exploration Other	US\$m	0 9	0	0	0	0	0	CASHFLOW CHART							
Non Current Assets	US\$m US\$m	122	8 117	8 96	8 78	8 62	8 46								
Total Assets	US\$m	187	179	198	215	228	239	US\$m							
Borrowings	US\$m	11	9	0	0	0	0	70							
Payables	US\$m	16	15	15	15	15	15								
Other	US\$m	2	4	4	4	4	4	60							
Current Liab	US\$m	29	28	19	19	19	19	50							
Borrowings	US\$m	1	0	0	0	0	0	40							
Provisions	US\$m	31	33	33	33	33	33	70							
Other	US\$m	15	14	14	14	14	14	30							
Non Current Liab	US\$m	47	47	47	47	47	47	20							
Total Liabilities	US\$m	77	74	66	66	66	66								
Total Equity	US\$m	110	105	132	149	163	174	10							
RATIO ANALYSIS		2021A	2022F	2023F	2024F	2025F	2026F	0							
EPS	¢	0.6	2.3	3.9	2.5	2.1	1.8	2019A 2020A 2021	A 2022F	2023	3F 2	024F	2025F	202	6F
PER	x	21.0	5.6	3.4	5.2	6.2	7.2		China	■ Ne	ew Zealar	nd			
EPS Growth	%	0%	277%	65%	-36%	-16%	-13%								
CFPS	¢	1.8	4.9	6.3	4.6	4.1	3.7	EBITDAX		2021A	2022F	2023F	2024F	2025F	2026F
PCFR	×	7.1	2.6	2.1	2.8	3.2	3.5	China	US\$m	32	65	76	59	53	48
DPS	¢	0.0	3.0	1.7	1.1	1.0	0.9	New Zealand	US\$m	15	22	40	28	26	24
Yield	%	0%	23%	13%	9%	8%	7%	Other	US\$m	-8	-8	-6	-6	-6	-6
	%	0%	120%	44%	45%	49%	52%	Total	US\$m	39	78	110	81	73	67
Payout Ratio			-34%	-64%	-80%	-91%	-101%								
Gearing ND/E	%	-29%													A\$/sh.
Gearing ND/E Interest Cover	% x	3	53	>100	>100	>100	>100	NPV10						A\$M	
Gearing ND/E Interest Cover Enterprise Value	% x A\$M	3 143	53 147	>100 106	60	21	(16)	China						255	0.15
Gearing ND/E Interest Cover Enterprise Value EV/EBITDAX	% × A\$M ×	3 143 3.6	53 147 1.9	>100 106 1.0	60 0.7	21 0.3	(16) (0.2)	China New Zealand						255 98	0.15 0.06
Gearing ND/E Interest Cover Enterprise Value EV/EBITDAX EBITDAX Margin	% x A\$M x %	3 143 3.6 61%	53 147 1.9 74%	>100 106 1.0 77%	60 0.7 73%	21 0.3 72%	(16) (0.2) 71%	China New Zealand Corporate						255 98 -30	0.15 0.06 -0.02
Gearing ND/E Interest Cover Enterprise Value EV/EBITDAX	% × A\$M ×	3 143 3.6	53 147 1.9	>100 106 1.0	60 0.7	21 0.3	(16) (0.2)	China New Zealand						255 98	0.15 0.06

Source: Petra Capital

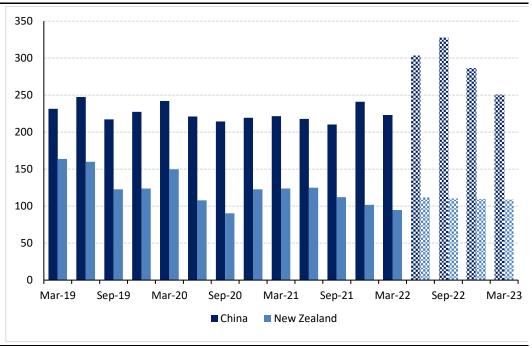


Figure 1: Map of WZ12-8E



Source: HZN

Figure 2: Quarterly Petra production forecasts by asset (kbbls)



Source: Petra Capital



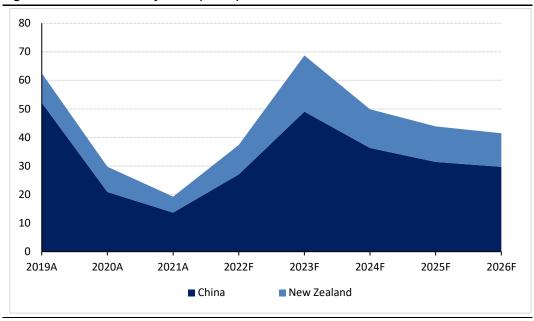


Figure 3: Free cash flow by asset (US\$m)

Source: Petra Capital

Summary of changes

We have updated our modelling to incorporate 3Q FY22 results. The results drive marginal shifts in our production forecasts (due to natural well decline rates), along with marginal shifts in our assumptions for phased WZ-128E timing. These changes flow through into minor adjustments to our earnings displayed below. Our target price remains unchanged at A\$0.22/sh.

Figure 4: Summary of changes

		FY22F			FY23F			FY24F			
		New	Old	% var	New	Old	% var	New	Old	% var	
Revenue	US\$m	106	107	-1%	143	142	1%	112	112	0%	
EBITDAX	US\$m	78	78	0%	110	109	1%	81	82	-1%	
EBITDA	US\$m	77	77	0%	108	107	1%	79	80	-1%	
NPAT (normalised)	US\$m	29	29	0%	49	48	2%	31	31	-1%	
NPV/sh	A\$/sh	0.22	0.22	1%							
Price target	A\$/sh	0.22	0.22	1%							
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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