

29 April 2022

Horizon Oil Limited (HZN)

BUY**Share Price: A\$0.13**

Production growth on cheap multiples

Target Price: A\$0.22

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 318kbbbls (-6% vs. Petra 337kbbbls).
- Sales Volumes 318kbbbls (-6% vs. Petra 339kbbbl).
- 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

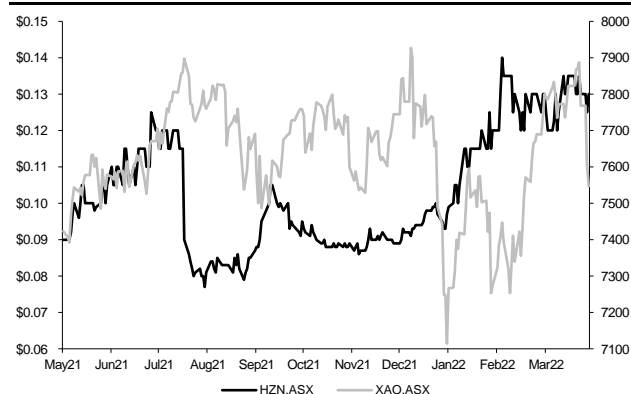
Company Data

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)	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

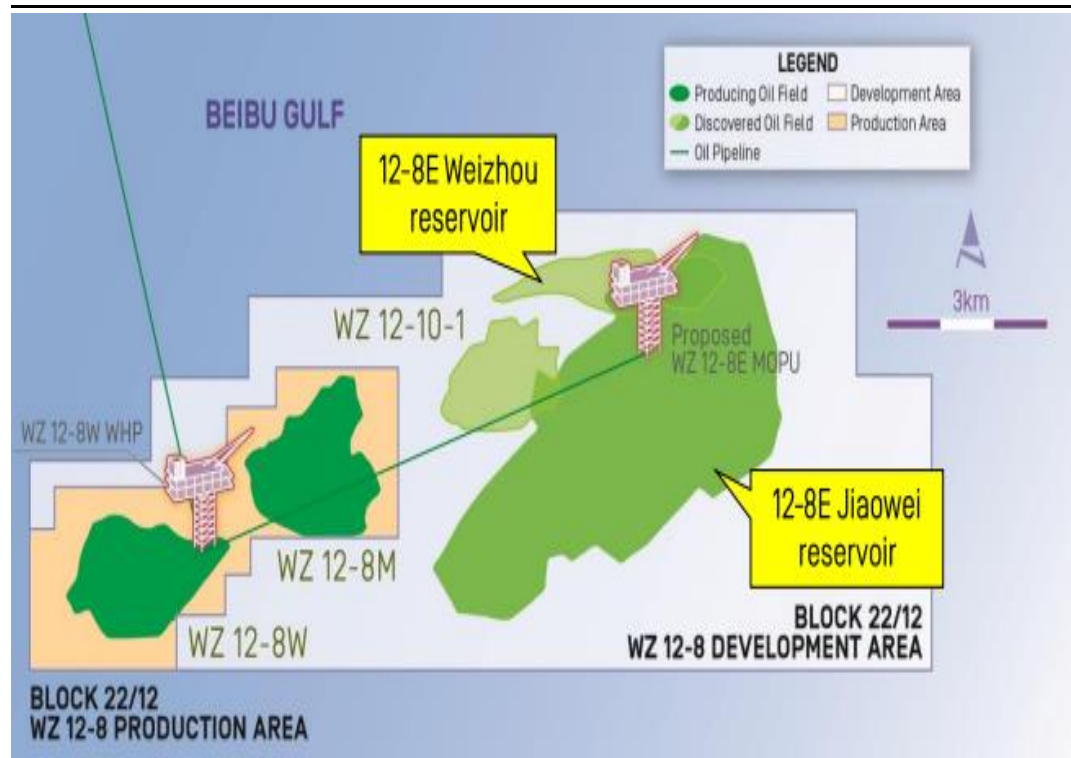
HZN – performance over one year



Disclosure and Disclaimer

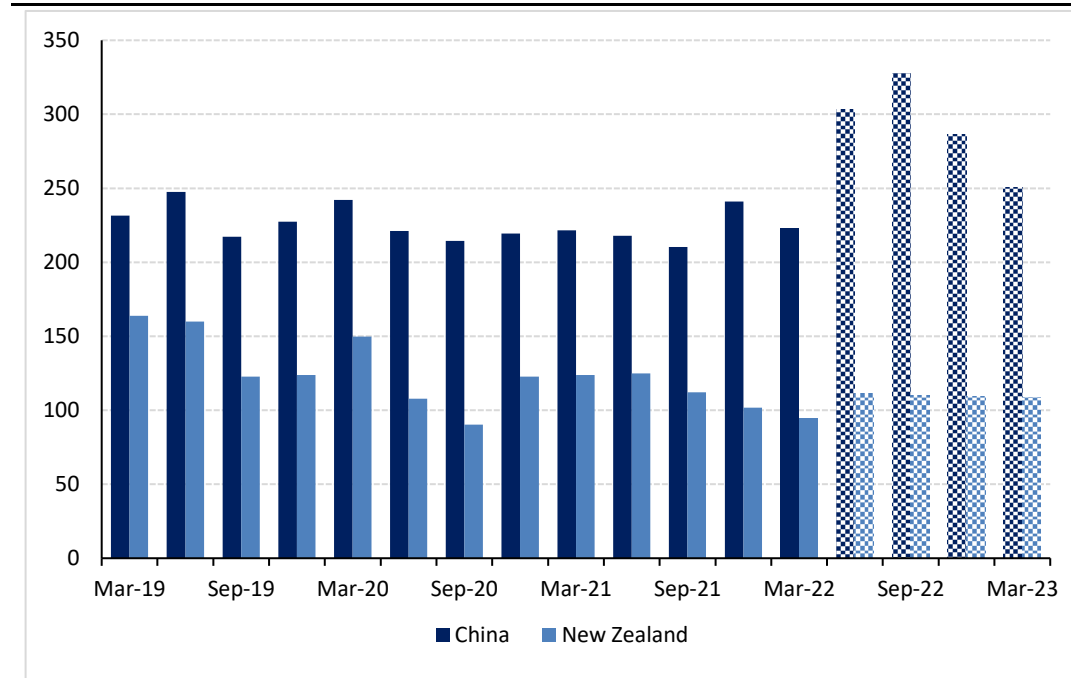
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Figure 1: Map of WZ12-8E



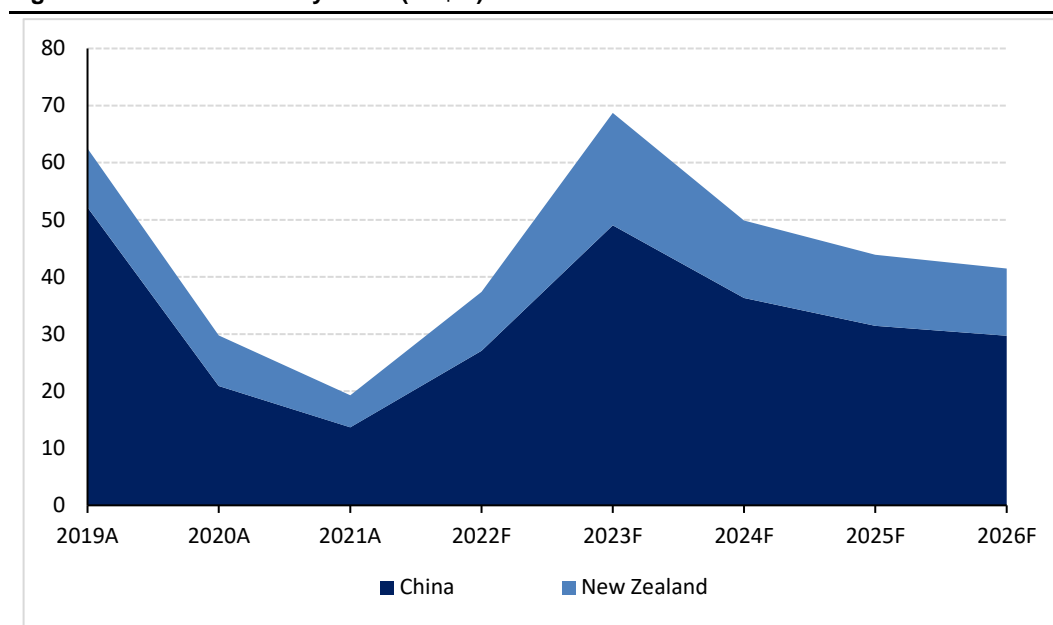
Source: HZN

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



Source: Petra Capital

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



Source: Petra Capital

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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