

15 June 2022

## Horizon Oil Limited (HZN)

**BUY****Share Price: A\$0.125**

### Production outage at WZ12-8E

**Target Price: A\$0.22**

HZN has reported a production outage at its WZ12-8E development in China due to an issue with a flexible hose connecting the WZ12-8E field to the WZ12-8W production platform. The field was producing 5,600bopd gross or approximately 30% of the overall portfolio and is expected to be offline for 1-2 months. We estimate the outage to equate to 44-88kbbbls, prior to the addition of 4,000bopd gross from A3 & A5, which was expected to be online over the coming weeks. FY22 production guidance has been reduced 5% at the midpoint to 1.3 – 1.35mmbbls (Petra est. 1.33mmbbls) with minor spill over expected into FY23. Revenue and EBITDAX guidance remain unchanged. We maintain BUY and PT A\$0.22/sh.

#### Outage at WZ12-8E

- Production from WZ12-8E has been temporarily suspended following a power outage (leading to a flexible hose issue) on 10 June.
- Repair work is underway; expected to take 1-2 months.
- WZ12-8E had been producing 5,600bopd gross, or ~30% of overall production volumes, via 3 development wells (A1, A2, A4) with 2 additional development wells (A3 & A5) expected online in the coming weeks.
- Based on the existing production rate, excluding A3 & A5, and a 1-2 month timeframe, we anticipate the outage to reduce production by 44-88kbbbls. Assuming a net Brent oil price of US\$100/bbl, this would equate to \$4.4 – 8.8m in lost revenue.
- Nevertheless, FY22 revenue and EBITDAX guidance remain unchanged due to a buoyant oil price (current US\$122/bbl).
- Following completion operations at A5, the final development well in the first phase project, A6, will be drilled. The JV will then review field performance before considering additional development drilling.

#### Valuation support

- HZN has a strong balance sheet with net cash at March-31 of US\$28m. FY23e FCF of US\$65m equating to a 42% FCF yield based on US\$95/bbl oil.
- HZN trades on an FY23e EV/EBITDAX of 1.2x.
- We see a strong possibility for capital management initiatives including a buyback or dividend following the near-term spend at WZ12-8E and July debt repayment.
- We have made minor amendments to our modelling, consistent with updated guidance, with no change to our PT of A\$0.22/sh (Figure 1).

#### Key Dates Ahead

- Ongoing – Resumption of production at WZ12-8E
- 2H 2022 – Capital management initiatives

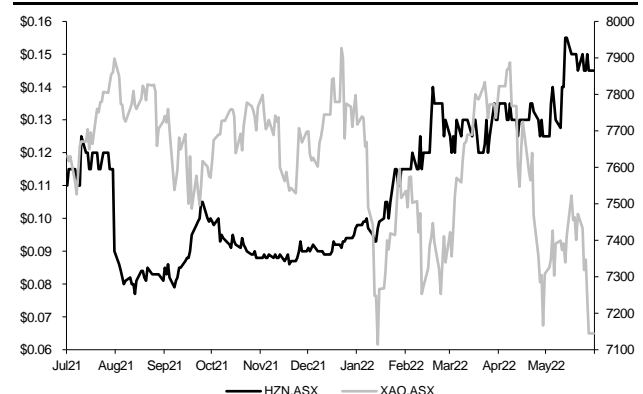
#### Company Data

Shares – ordinary (M)	1,579
Dilution (M)	104
Total (fully diluted) (M)	1683
Market capitalisation (\$M)	210
12 month low/high (\$)	0.07/ 0.16
Average monthly turnover (\$M)	14.1
GICS Industry	Oil, Gas & Consumable Fuels

#### Financial Summary (fully diluted/normalised)

Year end June	2022F	2023F	2024F	2025F	2026F
Revenue (\$M)	100	142	112	102	94
Costs (\$M)	(34)	(35)	(31)	(30)	(28)
EBITDAX (\$M)	66	106	80	72	66
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	21	46	30	26	22
EPS (¢ps)	1.7	3.7	2.4	2.0	1.8
EPS Growth (%)	168	120	(34)	(15)	(13)
PER (x)	7.5	3.4	5.2	6.1	7.0
Op. Cashflow (\$M)	54	76	57	51	46
OCFPS (¢ps)	4.4	6.0	4.5	4.0	3.7
POCFPS (x)	2.8	2.1	2.8	3.1	3.4
Enterprise Value (\$M)	147	112	67	29	(7)
EV / EBITDAX (x)	1.9	1.2	1.6	1.8	2.0
Payout Ratio (%)	169	44	47	51	53
Dividends (¢ps)	3.0	1.6	1.1	1.0	0.9
Yield (%)	24	13	9	8	8

#### 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.

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## Analysis

Horizon Oil (HZN)							
14-Jun-22	Share Price	(\$)	0.125				
	Issued shares	(M)	1,579				
	Other	(M)	104				
	Fully Diluted	(M)	1,683				
	Mkt Cap.	(\$M)	210				
	Enterprise Value	(\$M)	171				
<b>Year End June</b>							
<b>PROFIT &amp; LOSS</b>		2021A	2022F	2023F	2024F	2025F	2026F
Revenue	US\$m	64	100	142	112	102	94
Operating Costs	US\$m	-22	-27	-30	-26	-24	-23
Other	US\$m	-3	-6	-6	-6	-6	-6
<b>EBITDAX</b>	US\$m	39	66	106	80	72	66
Exploration	US\$m	-2	-1	-2	-2	-2	-2
D&A	US\$m	-24	-25	-28	-25	-23	-22
<b>EBIT</b>	US\$m	13	40	76	53	47	42
Net Interest	US\$m	-5	-1	0	0	0	0
Pre-Tax Profit	US\$m	8	39	76	53	47	42
Tax & Royalties	US\$m	0	-18	-30	-23	-21	-20
<b>Net Profit</b>	US\$m	8	21	46	30	26	22
Abnormal	US\$m	0	0	0	0	0	0
<b>Reported Profit</b>	US\$m	8	21	46	30	26	22
Dividends Paid	US\$m	0	-37	-20	-14	-13	-12
<b>CASHFLOW</b>		2021A	2022F	2023F	2024F	2025F	2026F
<b>Net Operating Cash Flow</b>	US\$m	23	54	76	57	51	46
Net Capex	US\$m	-7	-22	-11	-9	-9	-7
Other	US\$m	4	0	0	0	0	0
<b>Investing Cash Flow</b>	US\$m	-3	-22	-11	-9	-9	-7
Free cash flow	US\$m	16	32	65	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
<b>Financing Cash Flow</b>	US\$m	-1	-39	-29	-14	-13	-12
<b>Net Increase Cash</b>	US\$m	19	-7	36	34	29	27
<b>BALANCE SHEET</b>		2021A	2022F	2023F	2024F	2025F	2026F
Cash	US\$m	44	38	74	108	136	163
Other Current	US\$m	21	18	18	18	18	18
<b>Current Assets</b>	US\$m	65	56	92	125	154	181
Fixed Assets	US\$m	113	111	92	74	58	42
Exploration	US\$m	0	0	0	0	0	0
Other	US\$m	9	8	8	8	8	8
<b>Non Current Assets</b>	US\$m	122	118	99	82	66	49
<b>Total Assets</b>	US\$m	187	174	191	207	220	230
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
<b>Current Liab</b>	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
<b>Non Current Liab</b>	US\$m	47	47	47	47	47	47
<b>Total Liabilities</b>	US\$m	77	74	66	66	66	66
<b>Total Equity</b>	US\$m	110	99	125	141	154	165
<b>RATIO ANALYSIS</b>		2021A	2022F	2023F	2024F	2025F	2026F
EPS	¢	0.6	1.7	3.7	2.4	2.0	1.8
PER	x	20.2	7.5	3.4	5.2	6.1	7.0
EPS Growth	%	0%	168%	120%	-34%	-15%	-13%
CFPS	¢	1.8	4.4	6.0	4.5	4.0	3.7
PCFR	x	6.8	2.8	2.1	2.8	3.1	3.4
DPS	¢	0.0	3.0	1.6	1.1	1.0	0.9
Yield	%	0%	24%	13%	9%	8%	8%
Payout Ratio	%	0%	169%	44%	47%	51%	53%
Gearing ND/E	%	-29%	-29%	-59%	-76%	-88%	-99%
Interest Cover	x	3	42	>100	>100	>100	>100
Enterprise Value	A\$m	135	147	112	67	29	(7)
EV/EBITDAX	x	3.3	1.9	1.2	1.6	1.8	2.0
EBITDAX Margin	%	61%	66%	75%	72%	71%	70%
EBIT Margin	%	20%	40%	54%	48%	46%	45%
Return On Assets	%	7%	23%	40%	26%	21%	18%
Share Price	(\$)	0.125					
Issued shares	(M)	1,579					
Other	(M)	104					
Fully Diluted	(M)	1,683					
Mkt Cap.	(\$M)	210					
Enterprise Value	(\$M)	171					
<b>ASSUMPTIONS</b>		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
<b>OPERATIONS (HZN share)</b>		2021A	2022F	2023F	2024F	2025F	2026F
<b>Production</b>							
China	mmbse	0.9	0.9	1.1	0.9	0.8	0.8
New Zealand	mmbse	0.5	0.4	0.4	0.4	0.4	0.4
Other	mmbse	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Production (mmbse)</b>	mmbse	1.3	1.3	1.5	1.3	1.2	1.2
<b>Revenue</b>		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	105	142	112	102	94
Other	US\$m	0	0	0	0	0	0
<b>Total</b>	US\$m	70	105	142	112	102	94
<b>Percentage Split (Revenue)</b>							
Natural Gas (%)	%	0%	0%	0%	0%	0%	0%
Condensate (%)	%	0%	0%	0%	0%	0%	0%
Oil (%)	%	100%	100%	100%	100%	100%	100%
<b>Capital Expenditure</b>		2021A	2022F	2023F	2024F	2025F	2026F
<b>CAPEX</b>							
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
<b>Total</b>	US\$m	14	20	11	9	9	7
<b>CASHFLOW CHART</b>							
<b>EBITDAX</b>		2021A	2022F	2023F	2024F	2025F	2026F
China	US\$m	32	56	73	58	52	47
New Zealand	US\$m	15	21	39	27	26	24
Other	US\$m	-8	-11	-6	-5	-5	-6
<b>Total</b>	US\$m	39	66	106	80	72	66
<b>NPV10</b>		A\$m AS/sh.					
China		255 0.15					
New Zealand		97 0.06					
Corporate		-30 -0.02					
Net cash / (debt)		41 0.02					
<b>Total</b>		363 0.22					

Source: Petra Capital

## Summary of changes

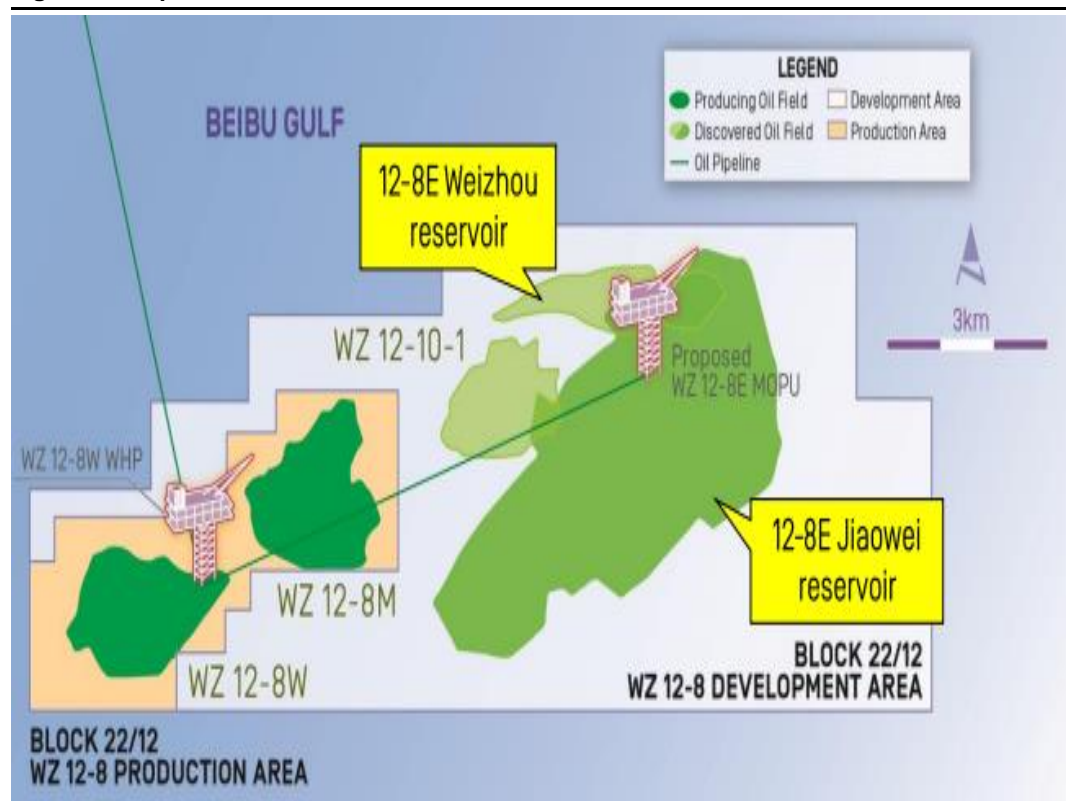
We have updated our modelling to incorporate HZN's updated FY22 guidance (Figure 1). We have reduced our FY22 production by ~70kbbbls (-5%) to 1.33MMbbls, or approximately the midpoint of revised guidance. We also assume minor spill over of lost production into FY23 as a result of the outage. Our revised FY22 revenue estimate of US\$100m is below guidance of US\$105-110m, and our EBITDAX estimate of US\$66m is at the bottom end of guidance of US\$65-75m, entirely driven by oil price assumptions (Petra est. US\$100/bbl for Jun.Q '22).

Figure 1: Summary of changes

		FY22F			FY23F			FY24F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	100	105	-5%	142	143	-1%	112	112	0%
EBITDAX	US\$m	66	71	-7%	106	107	-2%	80	80	0%
EBITDA	US\$m	65	70	-8%	104	105	-2%	78	78	0%
NPAT (normalised)	US\$m	21	24	-13%	46	47	-2%	30	30	0%
NPV/sh	A\$/sh	0.22	0.22	0%						
Price target	A\$/sh	0.22	0.22	0%						
<b>Pricing</b>										
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

Figure 2: Map of WZ12-8E



Source: HZN


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