

1 March 2023

Interim result comes with a maiden \$0.015 distribution

NEED TO KNOW

- EBITDAX up US\$24m to US\$52m; FY23 guidance of US\$105-US\$115m.
- Production volume up 0.27 mm bbls to 0.93 bbls; FY23 guidance of 1.85-1.95 mm bbls.
- Maiden distribution of A\$0.015 (unfranked), ex 13 April.
- Forecast provision abandonment costs lifted to US\$48m. Funding for the Maari decommissioning to be set aside over the remaining field life.
- Revised 2P reserves (net to HZN) for WZ 12-8E (up from 0.49 mm bbls at June 2022 to 0.91 mm bbls at December 2022.
- Additionally, the forecast production profile for Block 22/12 has lifted given the strong performance of the WZ12-8E Phase 1 and 2 performance.

Investment Thesis

HZN's strategy is to:

- Maximise free cash flow from its current producing assets.
- Make further distributions to shareholders.
- Continue to invest in existing assets to maximise production and field life while keeping an eye out for opportunities to pursue value enhancing investments.

Based on our forecasts HZN will generate over US\$200m of free cash flow over FY23 to FY26 which it can either return to shareholders, spend on existing assets to maximise production, pursue new investments, or as we foresee, a mixture of all of the above.

HZN has effectively given back A\$0.06 to shareholders over the last two years (an A\$0.03 capital return paid in August 2021, an A\$0.0135 capital return and an A\$0.0165 unfranked distribution (conduit foreign income) paid in October 2022.

At the interim HZN announced its maiden interim distribution of A\$0.015 per share (unfranked).

Valuation

Our fully diluted base case valuation for HZN is ~A\$0.23 (up from \$0.20) at the spot AUDUSD exchange rate of 0.70. The lift in valuation primarily reflects the higher forecast production out of HZN's Block 22/12 permit.

Risks

The key risk to our forecasts and valuation are the asset production volume forecasts and the oil price.

Equities Research Australia

Energy

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HORIZON

Horizon Oil Ltd. is an oil and petroleum exploration, development and production company.

It operates in New Zealand (26% interest in the Maari field) and in China (26.95% production interest and a 55% exploration interest in Block 22/12 in the Beibu field).

For an overview of the company, asset details and recent performance please see our report:

["US\\$200m of free cash flow out to FY26 to fund strong distributions"](#)

<https://horizonoil.com.au>

Valuation	A\$0.23 (Previously A\$0.20)
Current price	A\$0.17
Market cap	A\$272 m
Net cash (dec 2022)	US\$24.8 m

Upcoming Catalysts / Next News

Period	
April 2023	Quarterly cash flow report released
CY 2023	Block 22/12 production enhancement projects investigated
CY 2023	Maari workovers to enhance production
CY 2023	Preliminary planning for potential WZ12-8E Phase 3
Ongoing	Field life extension post 2027

Share Price (\$A)



Source: FactSet, MST Access

Horizon Oil Financial Data

Horizon Oil

Year end 30 June

MARKET DATA

Price	\$				0.170
52 week high / low	A\$			0.170	0.105
Valuation	A\$				0.23
Market capitalisation	A\$m				272.2
Shares on issue (basic)	m				1601.4
Partly paid	m				1.5
Share rights	m				39.4
Potential shares on issue (diluted)	m				1642.4

INVESTMENT FUNDAMENTALS

		FY22	FY23E	FY24E	FY25E	FY26E
EPS reported	US ¢	1.5	1.1	1.4	1.5	0.9
EPS reported diluted	US ¢	1.5	1.0	1.4	1.4	0.9

P/E reported	x	5.4	10.8	8.1	7.8	12.3
P/E underlying	x	5.4	10.8	8.1	7.8	12.3
P/E underlying (diluted)	x	5.6	11.1	8.3	8.0	12.6

Year end AUDUSD	x	0.69	0.67	0.67	0.67	0.67
Free cash flow per share	A ¢	4.3	4.5	4.9	5.3	4.1
Distribution	A ¢	3.0	3.5	4.0	4.0	4.0
Yield (Y/E / spot)	%	25.0%	20.6%	23.5%	23.5%	23.5%
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Yield (Y/E / spot)	%	25.0%	20.6%	23.5%	23.5%	23.5%

NTA / share	US ¢	6.3	7.1	5.7	4.4	2.5
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Year end shares

		FY22	FY23E	FY24E	FY25E	FY26E
Year end shares	m	1,580	1,601	1,601	1,601	1,601
Average diluted shares	m	1,637	1,639	1,641	1,641	1,641

Year end share price	A\$	0.12	0.17	0.17	0.17	0.17
Year end share price	US\$	0.08	0.11	0.11	0.11	0.11
Market cap (Y/E / Spot)	US\$m	130.4	183.7	183.7	183.7	183.7
Net debt / (cash)	US\$m	(42.9)	(44.3)	(54.2)	(67.8)	(68.3)
Enterprise value	US\$m	87.5	139.4	129.6	116.0	115.4

EV/EBITDAX	x	1.2	1.3	1.3	1.1	1.6
Gearing (net debt / EBITDAX)	x	(0.6)	(0.4)	(0.5)	(0.7)	(0.9)

Free cash flow	US\$m	46.5	48.5	53.3	57.1	44.0
Free cash flow per share	US ¢	2.9	3.0	3.3	3.6	2.7
Price to free cash flow	x	2.8	3.8	3.4	3.2	4.2
Free cash flow yield	%	36%	26%	29%	31%	24%

DIVISIONAL

	FY22	FY23E	FY24E	FY25E	FY26E
Brent Oil price forecast (US\$/bbl)	90.1	87.7	88.8	87.3	88.2

HZN Crude Oil Production ('000 bbls)

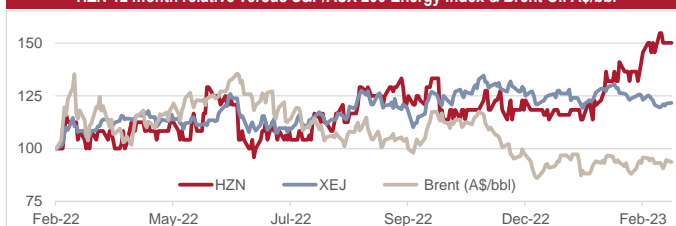
China (Beibu Gulf)	925	1,489	1,233	1,328	934
New Zealand (Maari)	407	437	533	522	498
Total ('000 bbls)	1,332	1,926	1,766	1,850	1,433

Valuation

US\$m	Low	Base	High
Discount rate used in NPV10 calculations	12%	10%	8%
China (Beibu Gulf) (FY21 NPV @ 12%, 10%, 8%)	149	173	205
New Zealand (Maari) (FY21 NPV @ 12%, 10%, 8%)	56	67	80
Corporate Costs Allocation	(21)	(22)	(23)
Enterprise Value	184	218	262
Net Debt / (Cash) (FY23)	(45)	(44)	(45)
Equity	229	263	308
Diluted Shares on Issue	1,642	1,642	1,642
Per Share US\$	0.14	0.16	0.19
AUDUSD exchange rate	0.65	0.70	0.75
Per Share A\$	0.21	0.23	0.25

HZN-AU

HZN 12 month relative versus S&P/ASX 200 Energy Index & Brent Oil A\$/bbl



PROFIT AND LOSS (US\$m)

	FY22	FY23E	FY24E	FY25E	FY26E
Sales post hedging	108.1	158.1	147.6	151.4	119.8
Other income	0.0	0.0	0.0	0.0	0.0
Total Income	108.1	158.1	147.6	151.4	119.8
Operating costs	(35.9)	(54.0)	(46.8)	(47.4)	(46.3)
EBITDAX	73.0	109.1	101.5	104.5	73.5
Exploration expenditure	(0.8)	(5.0)	(0.8)	(0.5)	0.0
EBITDA	72.2	104.1	100.8	104.0	73.5
Depreciation & Amortisation	(27.5)	(57.9)	(51.6)	(54.5)	(41.2)
EBIT	44.7	46.2	49.1	49.5	32.3
Net interest	(2.0)	(1.0)	1.2	2.2	2.9
Pretax Profit	42.7	45.2	50.3	51.8	35.3
New Zealand Royalties	(3.5)	(5.2)	(7.0)	(6.6)	(6.2)
Tax expense	(14.9)	(23.1)	(20.7)	(21.6)	(14.1)
NPAT (underlying)	24.3	16.9	22.6	23.5	15.0
NPAT (reported)	24.3	16.9	22.6	23.5	15.0

BALANCE SHEET (US\$m)

	FY22	FY23E	FY24E	FY25E	FY26E
Cash	44.1	44.3	54.2	67.8	68.3
Maari Abandonment Fund (Reserved cash)	0.0	3.1	9.2	15.4	21.6
Receivables	18.1	26.5	24.7	25.3	20.1
Inventory	4.2	6.1	5.7	5.9	4.6
Other	2.5	6.5	6.1	6.2	4.9
Current assets	68.9	86.4	99.9	120.6	119.5
Exploration phase expenditure	0.0	0.0	0.0	0.0	0.0
Oil and Gas assets	106.9	119.0	82.8	42.7	14.9
Other	6.7	9.4	9.4	9.4	9.4
Non current assets	113.6	128.4	92.2	52.1	24.3
Total Assets	182.5	214.8	192.0	172.6	143.8
Accounts Payable	26.4	32.0	30.1	30.6	30.2
Borrowings	1.2	0.0	0.0	0.0	0.0
Other	9.2	12.0	12.0	12.0	12.0
Current liabilities	36.8	44.0	42.1	42.6	42.2
Borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	33.3	48.0	49.2	50.4	51.7
Other	13.2	8.5	8.7	8.9	9.2
Non current liabilities	46.5	56.5	57.9	59.4	60.8
Total Liabilities	83.2	100.5	100.0	102.0	103.1
Equity	159.3	159.3	159.3	159.3	159.3
Retained earnings / Reserves	(60.1)	(45.0)	(67.3)	(88.7)	(118.7)
Total equity	99.2	114.3	92.0	70.7	40.7

CASH FLOW (US\$m)

	FY22	FY23E	FY24E	FY25E	FY26E
EBITDAX	73.0	109.1	101.5	104.5	73.5
Change in working capital	(0.8)	0.0	0.7	(0.4)	7.4
Net interest	(1.0)	(0.3)	1.2	2.2	2.9
Royalties & Tax paid	(14.3)	(28.3)	(27.8)	(28.2)	(20.3)
Other	0.0	0.0	0.0	0.0	0.0
Operating cash flow	56.9	80.5	75.6	78.1	63.6
Capital expenditure	(10.4)	(28.9)	(16.2)	(14.9)	(13.4)
Maari cash abandonment fund contribution	0.0	(3.1)	(6.2)	(6.2)	(6.2)
Net investment / Other	0.0	0.0	0.0	0.0	(6.2)
Investing cash flow	(10.4)	(32.0)	(22.3)	(21.1)	(19.6)
Change in Equity	(34.8)	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	(11.5)	(1.2)	0.0	0.0	0.0
Distributions	0.0	(46.9)	(43.2)	(43.2)	(43.2)
Other	(0.6)	(0.2)	(0.2)	(0.2)	(0.2)
Financing cash flow	(46.8)	(48.3)	(43.4)	(43.4)	(43.4)
Change in Cash / FX	(0.4)	0.2	9.9	13.6	0.6

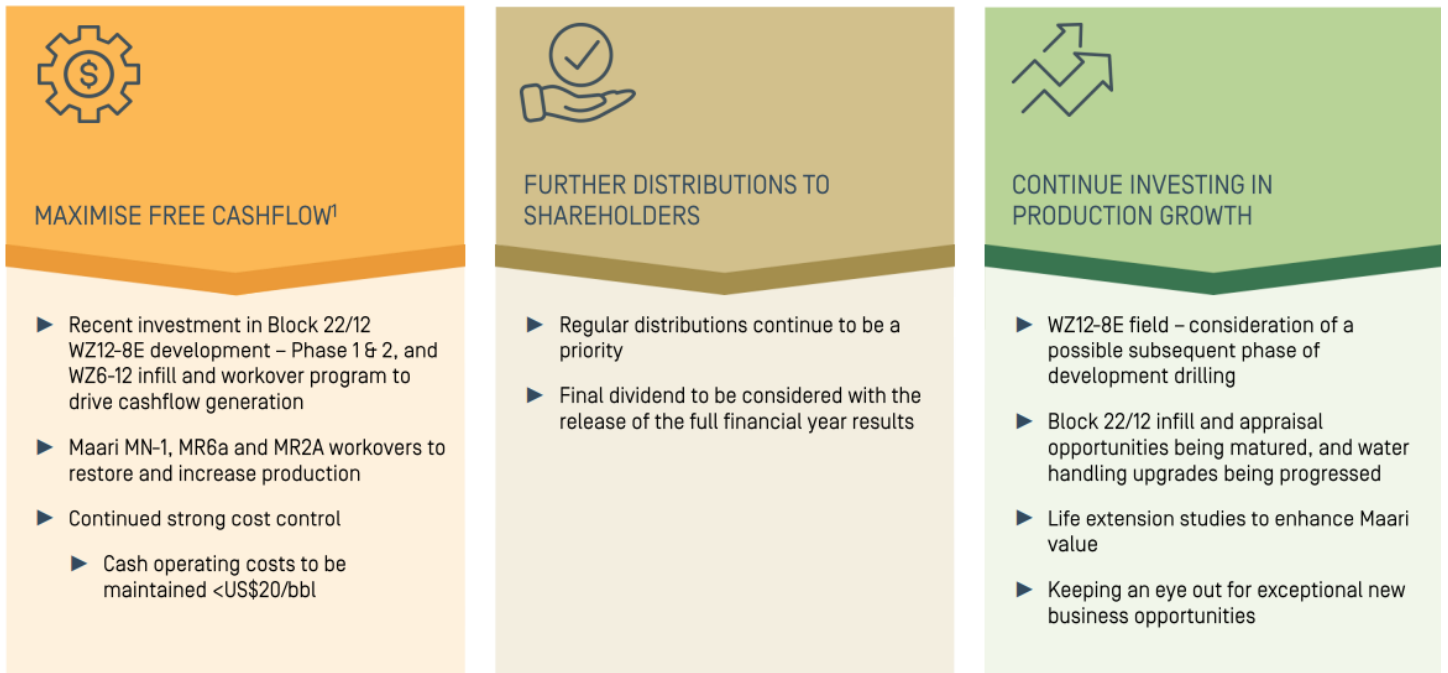
Source: Company data. MST Access

Outlook

In keeping with HZN's strategy to:

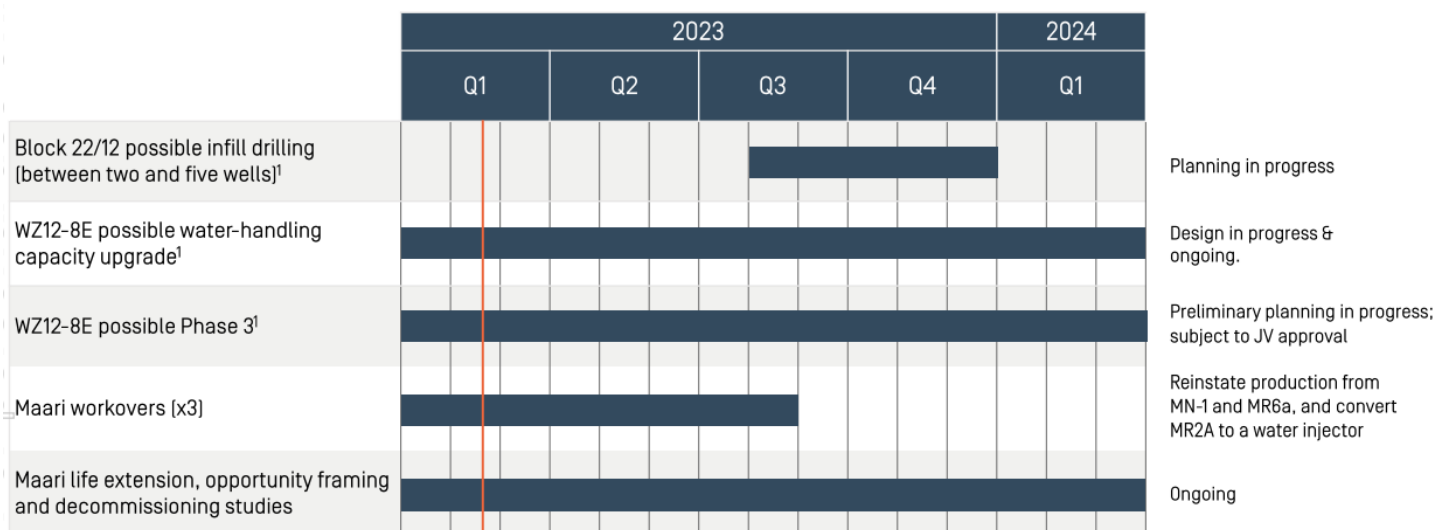
- Maximise free cash flow from its current producing assets,
 - Make further distributions to shareholders, and to
 - Continue to invest in existing assets to maximise production and field life while keeping an eye out for opportunities to pursue value enhancing investments,
- the company has a number of projects it is progressing.

Figure 1: CY 2023 Horizon Oil Activity Outlook



Source: Company

Figure 2: Horizon Oil plans for the next 12 months



Source: Company Notes. 1 Indicative only and subject to technical and economic evaluation, joint venture and regulatory approvals.

Interim Results and Outlook

HZN had a strong half reflecting:

- Better production volumes (China up 65% on pcp)
- Oil product pricing up 29% on pcp (including hedging)
- Lower cash operating costs

We are forecasting stronger production and sales volume in both China and New Zealand with a marginally lower oil price received in 2H23.

Figure 3: Horizon Oil Interim Result

Production, Sales and Pricing	1H22	2H22	FY22	1H23	2H23E	FY23E	1H on1H
Maari & Manaia ('000 bbls)	215	192	407	186	250	437	(13%)
Beibu ('000 bbls)	451	474	925	746	743	1,489	65%
Total Production ('000 bbls)	666	666	1,332	932	994	1,926	40%
Maari & Manaia ('000 bbls)	124	242	366	111	325	437	(11%)
Beibu ('000 bbls)	411	431	842	689	675	1,365	68%
Total Sales ('000 bbls)	536	673	1,208	801	1,001	1,801	49%
Brent (US\$/bbl)	76	104	90	93	83	88	22%
US\$/bbl (excl. hedging)	76	107	93	93	83	87	23%
US\$/bbl (incl. hedging)	73	102	90	95	83	88	29%
US\$/bbl Cash op. costs	17	19	18	16	16	15	(7%)

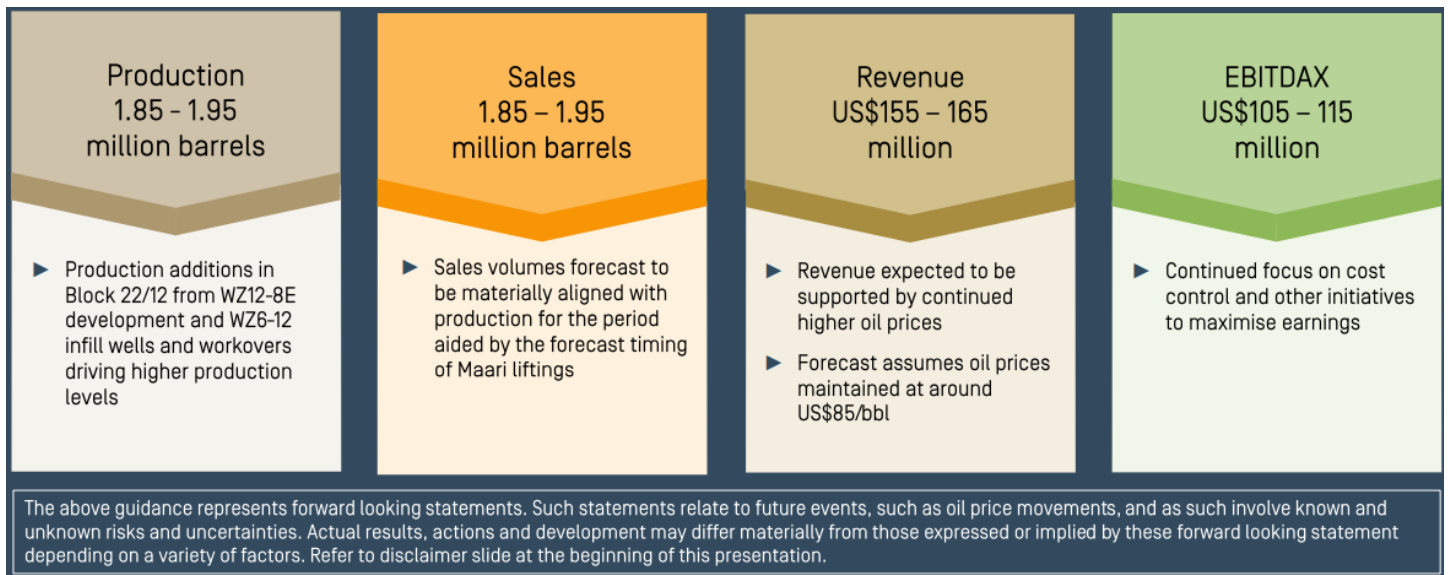
US\$m	1H22	2H22	FY22	1H23	2H23E	FY23E	1H on1H
Sales Revenue	40.7	71.9	112.6	74.6	82.4	157.0	83%
Oil hedging gains (losses)	(1.4)	(3.1)	(4.5)	1.1	0.0	1.1	(179%)
Total Sales	39.3	68.8	108.1	75.7	82.4	158.1	93%
Other income	0.0	0.0	0.0	0.0	0.0	0.0	n/m
Total Income	39.3	68.8	108.1	75.7	82.4	158.1	93%
Total operating expenditure	(11.3)	(23.9)	(35.1)	(23.5)	(25.5)	(49.0)	108%
EBITDAX	28.0	45.0	73.0	52.2	56.8	109.1	87%
Exploration & Development	(0.4)	(0.4)	(0.8)	(4.4)	(0.6)	(5.0)	n/m
EBITDA	27.6	44.5	72.2	47.9	56.2	104.1	73%
Depreciation	(0.2)	(0.2)	(0.4)	(0.2)	(0.2)	(0.4)	0%
Amortisation	(12.0)	(14.5)	(27.0)	(21.5)	(35.9)	(57.4)	80%
EBIT	15.4	26.7	44.7	26.1	20.1	46.2	69%
Interest income	0.0	0.0	0.0	0.2	0.4	0.7	n/m
Interest expense	(1.0)	(1.0)	(2.0)	(1.5)	(0.2)	(1.7)	60%
Net Interest	(1.0)	(1.0)	(2.0)	(1.3)	0.3	(1.0)	35%
Underlying PBT	14.5	28.3	42.7	24.8	20.3	45.2	72%
NZ Royalty expense	(1.3)	(3.5)	(3.5)	(2.2)	(3.0)	(5.2)	71%
Taxation	(5.2)	(7.4)	(14.9)	(3.1)	(19.9)	(23.1)	(40%)
Underlying NPAT	7.9	16.4	24.3	19.5	(2.6)	16.9	146%

Source: Company, MST Access

Guidance

HZN provided guidance for FY23 at the interim result. Our forecasts (Figure 3) are largely in line with the lower end of the ranges provided by HZN.

Figure 4: Horizon Oil guidance for FY23



Source: Company

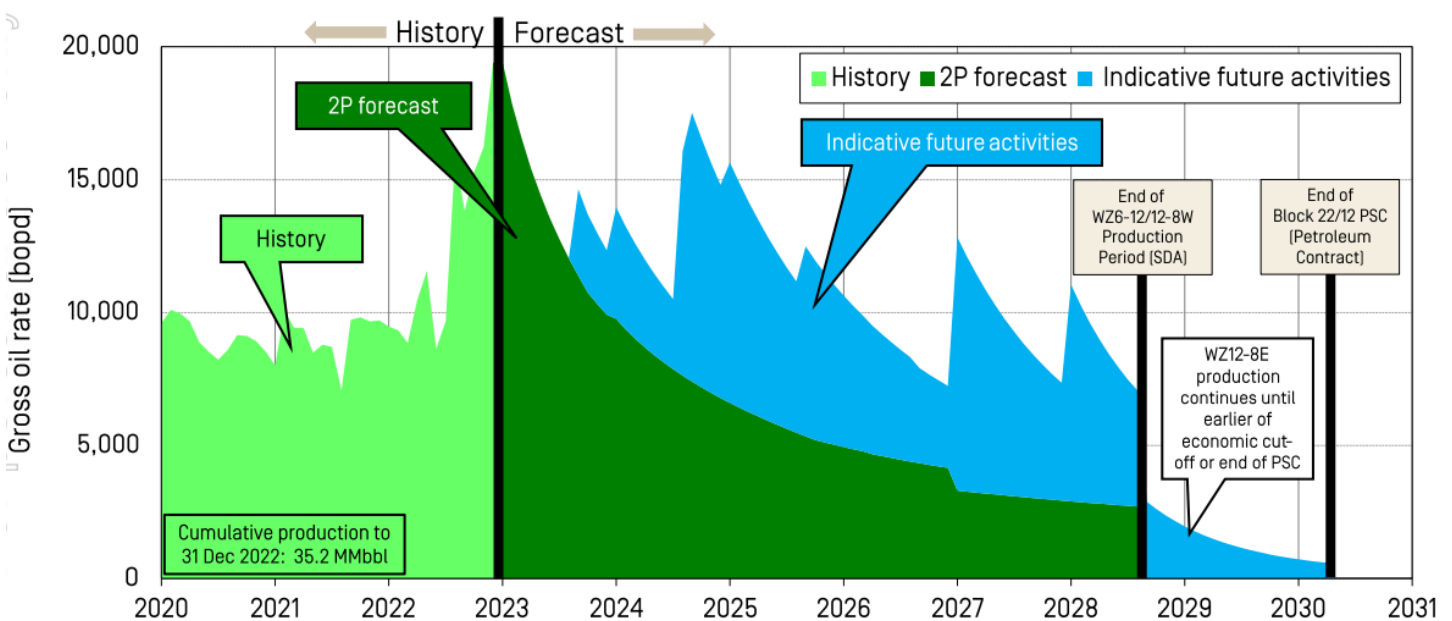
How our forecasts have changed

Given we only resumed coverage of Horizon Oil in early February, we have not had cause to change many of our assumptions or forecasts.

Block 22/12 oil production

The key change is the updated production profile for the Block 22/12 asset in China (see Figure 5 below) and the lift in 2P reserves (net to HZN) for WZ 12-8E (up from 0.49 mm bbls at June 2022 to 0.91 mm bbls at December 2022).

Figure 5: Block 22/12 historical and forecast production profile



Source:

This has lifted our FY23 China valuation in our sum of the parts HZN valuation from US\$141 m to US\$173 m. See our resumption of coverage report for detailed forecasts.

[“US\\$200m of free cash flow out to FY26 to fund strong distributions”](#)

Maari abandonment

Our previous FY28 gross abandonment cost for HZN was US\$154 m translating to a forecast FY28 abandonment cost to HZN of \$24 m (post a tax credit allowance given HZN has been paying tax and royalties since it acquired its stake in Maari).

HZN and its partners have revised the abandonment cost (1H23) to a gross level of ~US\$185m. We inflate that to FY28 by 3.5% p.a. implying a gross FY28 abandonment cost of US\$219 m. This has lifted our forecast FY28 abandonment cost to HZN of \$34 m (post tax credit allowance).

An additional change to our forecasts relates to the Maari abandonment costs and our forecast free cash flows is an assumption that HZN puts aside (on a straight-line basis) cash into a fund for the FY28 requirement; i.e. ~US\$3 m in 2H23 and then ~US\$6 m p.a. out to abandonment in FY28.

Subsequently our FY23 Maari valuation has lowered from US\$73 m to US\$67m reflecting the higher cost in FY28.

Debt

We have assumed HZN repays the current debt facility (US\$15.5m) at the end of FY23 and HZN moves forward with a zero debt position.

Dividends

Reflecting the lower forecast free cash flow in FY23 given the debt repayment and a requirement to put cash aside in an abandonment fund going forward we have revised down our free cash flow forecasts and dividends.

We have revised down our FY23 dividend forecast from A\$0.045 to A\$0.035 and lowered our FY24, FY25 and FY26 dividend forecasts from A\$0.045 to A\$0.040 per share.

We believe there is scope for higher dividends given our forecasts have HZN reporting a cash position of ~US\$90 m by FY26 of which ~US\$22 m will be restricted in the abandonment fund.

Valuation

Our base case diluted valuation for HZN has lifted from A\$0.20 to A\$0.23 at an AUDUSD exchange rate of 0.70 (spot currently 0.67). This lift primarily reflects the stronger forecast production profile out of China.

We note our valuation calculation includes a corporate cost allocation of over A\$0.02 per share. Therefore, if a larger company acquired HZN and assumed these costs, the stock may be more valuable as an investment in “another’s” portfolio.

If we assume our Brent Oil price assumption appreciates by US\$10/bbl from FY24 across the forecast period, our FY23 valuation lifts from US\$0.16 (A\$0.23) to US\$0.19 (A\$0.25). NB: For the higher oil price forecast we use a higher AUDUSD exchange rate of 0.75 versus 0.70 for our base case.

Likewise, if we assume our Brent Oil price assumption is lower by US\$10/bbl across the forecast period, our FY23 valuation lowers from US\$0.16 (A\$0.23) to US\$0.14 (A\$0.21) at an AUDUSD cross rate of 0.65.

Figure 2: Horizon Oil Valuation Sensitivity

US\$m	Low	Base	High
FY24 Brent oil price (US\$/bbl)	79	89	100
Discount rate used in NPV ₁₀ calculations	12.0%	10.0%	8.0%
China (Beibu Gulf) (FY21 NPV @ 12%, 10%,	149	173	205
New Zealand (Maari) (FY21 NPV @ 12%, 10	56	67	80
Corporate Cost allocation	(21)	(22)	(23)
Option Exercise	0	0	0
Enterprise Value	184	218	262
Net Debt / (Cash) (FY23)	(45)	(45)	(45)
Equity	229	263	308
Diluted Shares on Issue	1,642	1,642	1,642
Per Share US\$	0.14	0.16	0.19
AUDUSD	0.65	0.70	0.75
Per Share A\$	0.21	0.23	0.25

Source:

Risks

Key risks to our forecasts and valuation include:

- Oil price risk.
- Movement in New Zealand and United States exchange rates.
- Production forecasts from existing operations.
- Process equipment failure.
- Regulatory changes impacting royalty and tax rates and abandonment requirements.
- Operating cost appreciation.
- Sovereign risk associated with owning and operating assets in international arenas.
- Future investments failing to meet financial and operational targets including acquisitions, exploration, development and production capital expenditure, forecast production profiles etc.
- Interest rates impacting any future financing and discount rate used in valuation. Body text.

Methodology & Disclosures

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