

18 January 2023

## Horizon Oil Limited (HZN)

**BUY****Share Price: A\$0.14**

### China Phase 2 exceeding expectations

**Target Price: A\$0.23**

HZN has successfully completed and brought onto production a further four development wells at its existing WZ12-8E project in China. Individual well performance is tracking ahead of (i) pre-drill expectations and (ii) our Petra forecasts due largely to longer horizontal production intervals. The positive result will provide a tailwind to Dec.Q'22 and Mar.Q'23 results, with our production estimates rising 18% and 23%, respectively. HZN provides pure oil exposure, with a low-cost (<US\$20/bbl), cash generative portfolio of assets (FY23 FCF yield 46%), with a US\$18m net-cash balance sheet post A3cps capital return. Maintain BUY and raise PT to A\$0.23/sh (prior A\$0.22/sh) after accounting for additional near-term production offset in part by a downward revision to our near-term oil price deck.

#### Production beats expectation in China

- HZN has brought on four new development wells at its flagship WZ12-8E development (Phase 2).
- Individual well performance is ahead of pre-drill expectations due to longer lateral production intervals and offsets from the underlying oil-water contact.
- Average production from China in December was over 19kbopd, and in January has averaged nearly 20kbopd.
- Jan'23 is expected to represent peak oil production.
- We have increased our FY23 group production estimate by 9% reflecting the factors above and the drilling of an extra well (4 total vs. Petra est. 3).
- We estimate 25% QoQ production growth in Dec.Q'22 from China with further growth in Mar.Q'23 (Figure 1).
- The JV is investigating the potential for further development drilling in China in 2023.

#### Free cash flow & valuation support

- HZN trades on an FY23e EV/EBITDAX of 1.1x.
- We anticipate FY23 free cash flow of US\$71m equating to a 46% FCF yield based on US\$92/bbl oil (Figure 2).
- At Sep'22 HZN is net cash US\$18m post capital return.
- We expect further capital management initiatives over the balance of FY23. HZN has paid out a total of A\$0.06/sh in dividends over the past two financial years.
- We have updated our modelling to account for increased China production numbers, an additional US\$2.5m for an extra development well, and a -5%/-4% downward revision to our FY23/24 oil deck (Figure 3).

#### Key Dates Ahead

- 24<sup>th</sup> Jan 2023 – Quarterly production report
- February 2023 – Half-year result
- 2023 – Further capital management initiatives

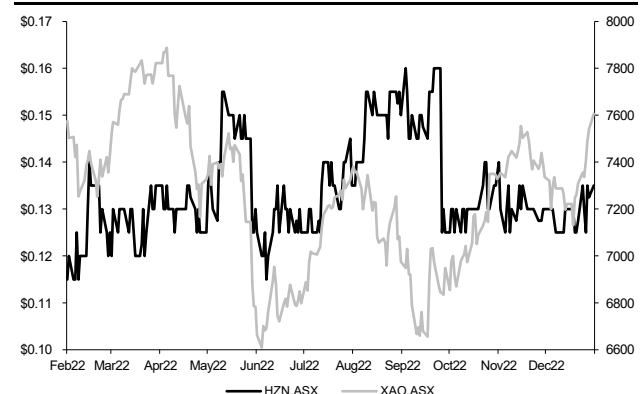
#### Company Data

Shares – ordinary (M)	1601
Dilution (M)	27
Total (fully diluted) (M)	1628
Market capitalisation (\$M)	224
12 month low/high (\$)	0.08/ 0.15
Average monthly turnover (\$M)	1.2
GICS Industry	Oil, Gas & Consumable Fuels

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

Year end June	2022A	2023F	2024F	2025F	2026F
Revenue (\$M)	108	167	124	113	103
Costs (\$M)	(36)	(40)	(33)	(31)	(30)
EBITDAX (\$M)	72	126	90	82	74
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	23	45	32	28	25
EPS (¢ps)	2.0	4.0	2.8	2.4	2.1
EPS Growth (%)	209	104	(30)	(14)	(14)
PER (x)	7.0	3.4	4.9	5.7	6.7
Op. Cashflow (\$M)	57	95	68	61	55
OCFPS (¢ps)	4.8	8.5	5.9	5.2	4.5
POCFPS (x)	2.9	1.6	2.3	2.7	3.1
Enterprise Value (\$M)	161	69	102	77	50
EV / EBITDAX (x)	2.0	1.1	1.5	1.8	2.0
Payout Ratio (%)	149	112	103	87	85
Dividends (¢ps)	3.0	4.5	2.9	2.1	1.7
Yield (%)	22	33	21	15	13

#### HZN – performance over one year

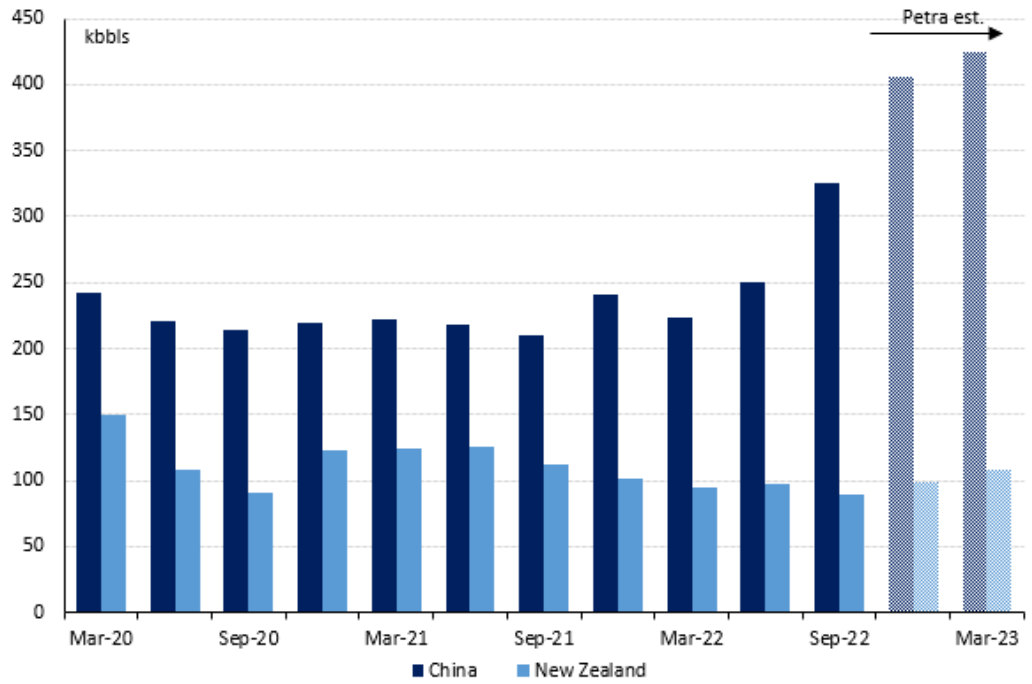


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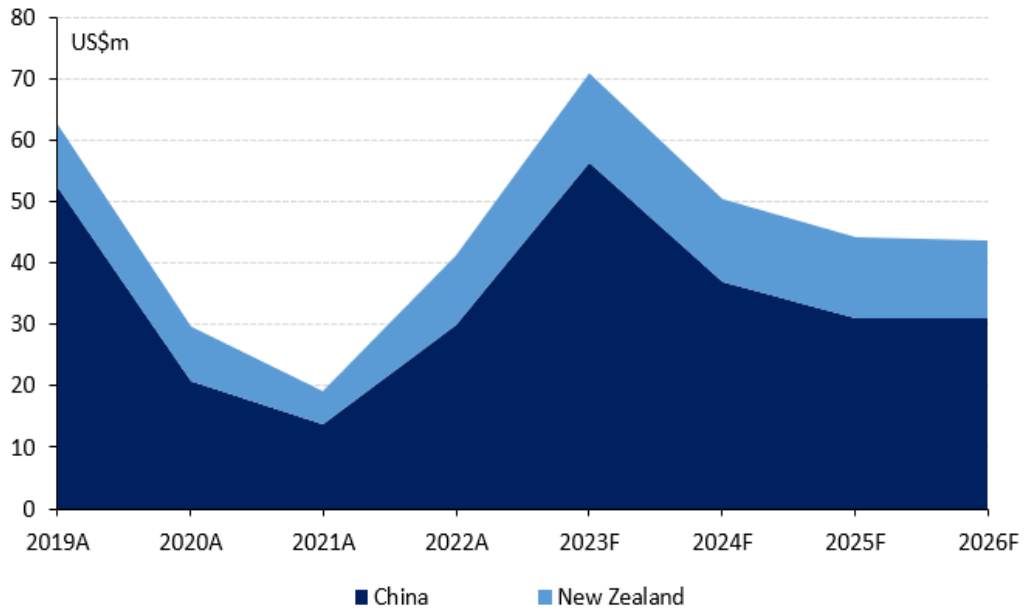


**Figure 1: Quarterly Petra production forecasts by asset (kbbbls)**



Source: Petra Capital

**Figure 2: Free cash flow by asset (US\$m)**



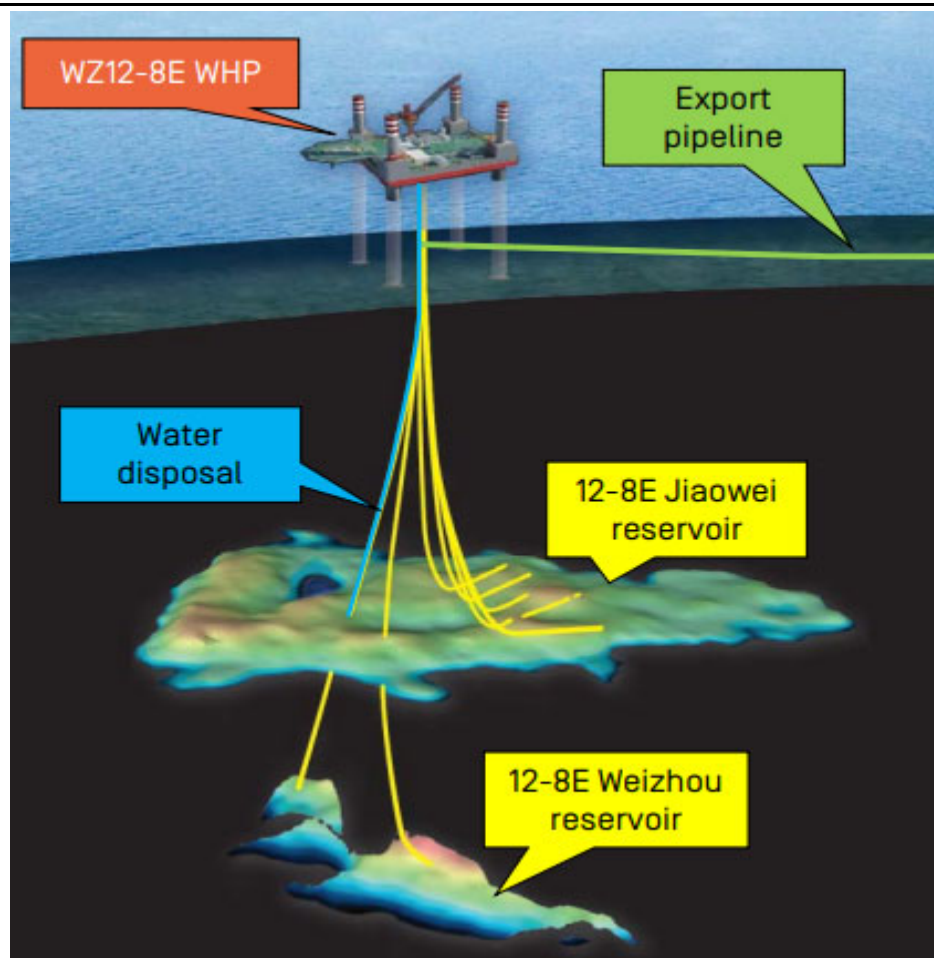
Source: Petra Capital

Figure 3: Summary of changes

		FY23F			FY24F			FY25F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	167	161	3%	124	125	-1%	113	111	2%
EBITDAX	US\$m	126	123	2%	90	92	-2%	82	80	1%
EBITDA	US\$m	124	121	2%	88	90	-2%	80	78	2%
NPAT (normalised)	US\$m	45	45	-1%	32	34	-6%	28	28	1%
NPV/sh	A\$/sh	0.23	0.22	2%						
Price target	A\$/sh	0.23	0.22	2%						
<b>Pricing</b>										
Brent oil	US\$/bbl	92	96	-5%	90	94	-4%	90	91	-1%
AUD/USD	FX	0.69	0.67	3%	0.70	0.70	0%	0.73	0.73	0%
<b>Production</b>										
Production	MMbbls	1.9	1.7	9%	1.5	1.4	3%	1.3	1.3	3%

Source: Petra Capital

Figure 4: WZ12-8E development



Source: HZN



18 January 2023

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