

25 January 2023

Horizon Oil Limited (HZN)

BUY

Share Price: A\$0.15

Growing production accelerates cash flow

Target Price: A\$0.23

Production from HZN's portfolio in Dec. Q'22 has continued its upward growth trajectory, underscored by a 29% improvement QoQ in China and a 9% improvement QoQ in New Zealand. Group production was 3% ahead of our forecast and is likely to remain elevated with initial China decline rates lower than expected. Strong production led to net cash of US\$24.8m at end-Dec, with a further US\$10.4m received in January for Dec.Q sales of China oil, and a further US\$10m (Petra estimate) to be realised for crude oil in inventory at end-Dec in New Zealand (lifting late Jan). Maintain BUY and PT A\$0.23/sh (unchanged).

Dec. Q'22 Result (Figure 1)

- Production 518kbbbls (+3% vs. Petra 505kbbbls).
- Sales volumes 389kbbbls (-21% vs. Petra 493kbbbls). HZN finished Dec. Q'22 with 110kbbbls of crude oil in inventory, which when factored in represents a 1% beat to our estimates.
- Revenue US\$33.5m (-23% vs. Petra US\$43.7m). Impacted again by shipment timing. We estimate crude oil inventory on hand is worth a further US\$10m. Factoring this in, revenue was in line with our estimates.
- Net cash US\$24.8m. HZN has received a further US\$10.4m in early Jan from Chinese oil sales related to Dec.Q and we estimate crude oil inventory in NZ of US\$10m (to be lifted in late January).

Strong production creates further opportunities

- Dec. Q'22 production vs. Sep. Q'22 rose by 29% in China and by 9% in New Zealand (Figure 2). Importantly, in China, HZN alluded to slower than expected decline rates, which will prolong production and likely create further development opportunities.
- HZN trades on an FY23e EV/EBITDAX of 1.2x.
- We anticipate FY23 free cash flow of US\$63m equating to a 37% FCF yield based on US\$92/bbl oil (Figure 3).
- HZN's net cash balance sheet and cash flow generation enables capital management optionality.
- We assume a 50% FCF payout ratio, implying a 1cps dividend paid in February for the half year result and 2.9cps for the full year, resulting in a 17% dividend yield. We note that this is conservative given (i) existing net cash of US\$24.8m, and (ii) a 1HFY23 capex skew.
- We have updated our modelling to account for the latest result and NZ lifting deferral (Figure 3). Our PT remains unchanged at A\$0.23/sh.

Key Dates Ahead

- February 2023 – Half-year result
- 2023 – Further capital management initiatives

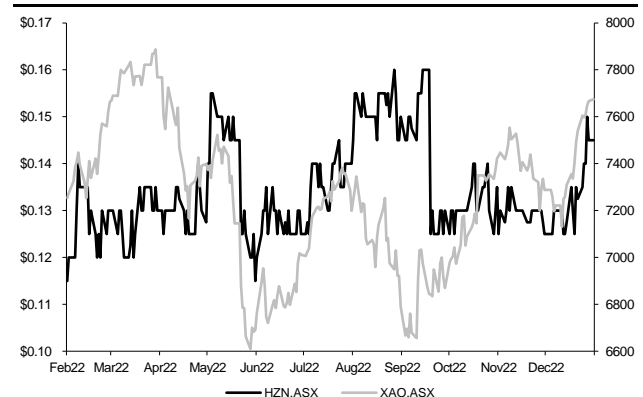
Company Data

Shares – ordinary (M)	1601.4
Dilution (M)	27
Total (fully diluted) (M)	1628
Market capitalisation (\$M)	244
12 month low/high (\$)	0.08/ 0.15
Average monthly turnover (\$M)	2
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022A	2023F	2024F	2025F	2026F
Revenue (\$M)	108	162	130	116	106
Costs (\$M)	(36)	(45)	(34)	(32)	(30)
EBITDAX (\$M)	72	118	96	84	76
Exploration (\$M)	(1)	(2)	(2)	(2)	(2)
NPAT (\$M)	23	38	33	28	25
EPS (¢ps)	2.0	3.4	2.9	2.4	2.0
EPS Growth (%)	209	71	(14)	(19)	(14)
PER (x)	7.6	4.4	5.2	6.4	7.4
Op. Cashflow (\$M)	57	91	72	63	57
OCFPS (¢ps)	4.8	8.1	6.3	5.4	4.7
POCFPS (x)	3.1	1.8	2.4	2.8	3.2
EV / EBITDAX (x)	2.1	1.2	1.5	1.8	2.1
Payout Ratio (%)	149	118	110	93	91
Dividends (¢ps)	6.0	2.9	2.6	2.1	2.0

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.



Analysis

Horizon Oil (HZN)

24-Jan-23							Share Price	(S)	0.150										
							Issued shares	(M)	1,601										
							Other	(M)	27										
							Fully Diluted	(M)	1,628										
							Mkt Cap.	(\$M)	244										
							Enterprise Value	(\$M)	208										
Year End June							ASSUMPTIONS												
PROFIT & LOSS		2021A	2022A	2023F	2024F	2025F	2026F	2021A	2022A	2023F	2024F	2025F	2026F						
Revenue	US\$m	64	108	162	130	116	106	Brent Crude	US\$/bbl	58	90	92	90	90	90				
Operating Costs	US\$m	-22	-24	-34	-28	-26	-24	WTI	US\$/bbl	53	85	87	85	85	85				
Other	US\$m	-3	-12	-11	-6	-6	-6	East Coast Gas	A\$/GJ	9.50	9.50	12.00	12.00	12.00	12.00				
EBITDAX	US\$m	39	72	118	96	84	76	West Coast Gas	A\$/GJ	5.50	5.50	5.50	5.50	5.50	5.50				
Exploration	US\$m	-2	-1	-2	-2	-2	-2	AUD/USD	FX	0.75	0.73	0.69	0.70	0.73	0.75				
D&A	US\$m	-24	-27	-51	-37	-34	-30	OPERATIONS (HZN share)						2021A	2022A	2023F	2024F	2025F	2026F
EBIT	US\$m	13	44	65	57	48	44	Production											
Net Interest	US\$m	-5	-2	-3	0	0	0	China	mboe	0.9	0.9	1.5	1.0	0.9	0.8				
Pre-Tax Profit	US\$m	8	42	62	57	48	44	New Zealand	mboe	0.5	0.4	0.4	0.4	0.4	0.4				
Tax & Royalties	US\$m	0	-18	-24	-24	-20	-19	Other	mboe	0.0	0.0	0.0	0.0	0.0	0.0				
Net Profit	US\$m	8	23	38	33	28	25	Total Production (mboe)	mboe	1.3	1.3	1.9	1.5	1.4	1.2				
Abnormal	US\$m	0	0	0	0	0	0												
Reported Profit	US\$m	8	23	38	33	28	25												
CASHFLOW							Revenue												
Net Operating Cash Flow	US\$m	23	57	91	72	63	57	Natural Gas	US\$m	0	0	0	0	0	0				
Net Capex	US\$m	-7	-10	-27	-15	-15	-10	Condensate	US\$m	0	0	0	0	0	0				
Other	US\$m	4	0	0	0	0	0	Oil	US\$m	70	113	162	130	116	106				
Investing Cash Flow	US\$m	-3	-10	-27	-15	-15	-10	Other	US\$m	0	0	0	0	0	0				
Free cash flow	US\$m	16	46	63	57	48	47	Total	US\$m	70	113	162	130	116	106				
Net Borrowings	US\$m	-13	-12	20	-20	0	0	Percentage Split (Revenue)											
Dividends	US\$m	0	-35	-44	-36	-26	-22	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	-1	0	0	0	0	Oil (%)	%	100%	100%	100%	100%	100%	100%				
Financing Cash Flow	US\$m	-1	-47	-24	-56	-26	-22	Capital Expenditure											
Net Increase/Cash	US\$m	19	0	39	1	22	24	2021A	2022A	2023F	2024F	2025F	2026F						
BALANCE SHEET							CAPEX												
Cash	US\$m	44	44	83	84	106	130	China	US\$m	11	19	25	14	14	9				
Other Current	US\$m	21	25	25	25	25	25	New Zealand	US\$m	3	1	2	1	1	1				
Current Assets	US\$m	65	69	108	108	131	155	Other	US\$m	0	-2	0	0	0	0				
Fixed Assets	US\$m	113	107	81	57	37	15	Total	US\$m	14	18	27	15	15	10				
Exploration	US\$m	0	0	0	0	0	0	CASHFLOW CHART											
Other	US\$m	9	7	7	7	7	7												
Non Current Assets	US\$m	122	114	88	64	44	22												
Total Assets	US\$m	187	182	196	172	174	177												
Borrowings	US\$m	11	1	1	1	1	1												
Payables	US\$m	16	26	26	26	26	26												
Other	US\$m	2	9	9	9	9	9												
Current Liab	US\$m	29	37	37	37	37	37												
Borrowings	US\$m	1	0	20	0	0	0												
Provisions	US\$m	31	33	33	33	33	33												
Other	US\$m	15	13	13	13	13	13												
Non Current Liab	US\$m	47	46	66	46	46	46												
Total Liabilities	US\$m	77	83	103	83	83	83												
Total Equity	US\$m	110	99	92	89	91	93												
RATIO ANALYSIS																			
EPS	¢	0.6	2.0	3.4	2.9	2.4	2.0												
PER	x	23.4	7.6	4.4	5.2	6.4	7.4												
EPS Growth	%	0%	209%	71%	-14%	-19%	-14%												
CFPS	¢	1.9	4.8	8.1	6.3	5.4	4.7												
PCFR	x	7.9	3.1	1.8	2.4	2.8	3.2												
DPS	¢	0.0	6.0	2.9	2.6	2.1	2.0												
Yield	%	0%	40%	19%	17%	14%	13%												
Payout Ratio	%	0%	149%	118%	110%	93%	91%												
Gearing ND/E	%	-29%	-43%	-67%	-92%	-115%	-138%												
Interest Cover	x	3	22	22	>100	>100	>100												
Enterprise Value	AS\$m	169	182	92	123	97	69												
EV/EBITDAX	x	4.0	2.1	1.2	1.5	1.8	2.1												
EBITDAX Margin	%	61%	67%	72%	74%	73%	72%												
EBIT Margin	%	20%	40%	40%	44%	42%	41%												
Return On Assets	%	7%	24%	33%	33%	28%	25%												
							NPV10												
							AS\$m AS/sh.												
							China						218	0.13					
							New Zealand						101	0.06					
							Corporate						-30	-0.02					
							Net cash / (debt)						91	0.06					
							Total						380	0.23					

Source: Petra Capital

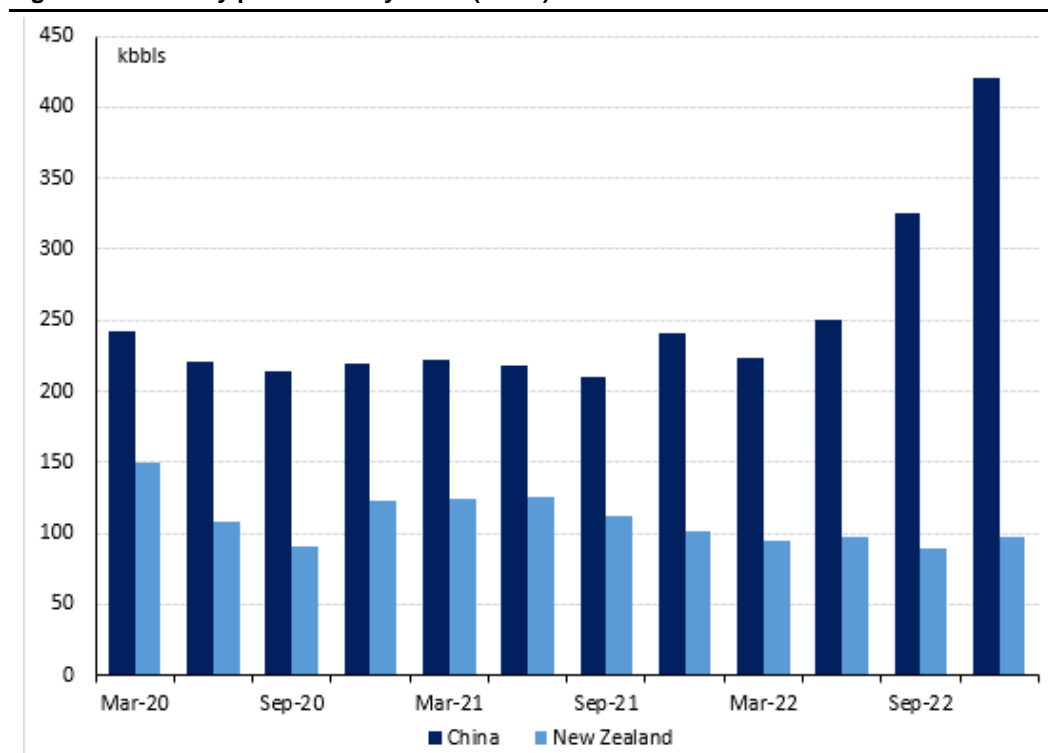
Figure 1: Dec. Q'22 results vs. Petra estimates

	Units	Sep. Q'22 Actual	Dec. Q'22 Actual	Dec. Q'22 PETRA EST.	Diff	% Diff
Production						
China	kbbbls	325	421	406	14	4%
New Zealand	kbbbls	89	97	98	-1	-1%
Total production	kbbbls	414	518	505	13	3%
Sales Volumes						
China	kbbbls	300	389	370	20	5%
New Zealand **	kbbbls	111	-	123	-123	-100%
Total sales volumes	kbbbls	411	389	493	-103	-21%
Revenue (ex-hedging)						
China	US\$m	29.1	33.5	32.4	1.2	4%
New Zealand	US\$m	11.9	-	11.3	-11.3	-100%
Total revenue (ex-hedging)	US\$m	41.1	33.5	43.7	-10.2	-23%
TOTAL PRODUCTION	kbbbls	414	518	505	13	3%
TOTAL SALES VOLUMES	kbbbls	411	389	493	-103	-21%
TOTAL REVENUE (EX-HEDGING)	US\$m	41.1	33.5	43.7	-10.2	-23%

** HZN finished Dec.Q with 110kbbbls of crude oil inventory on hand in New Zealand

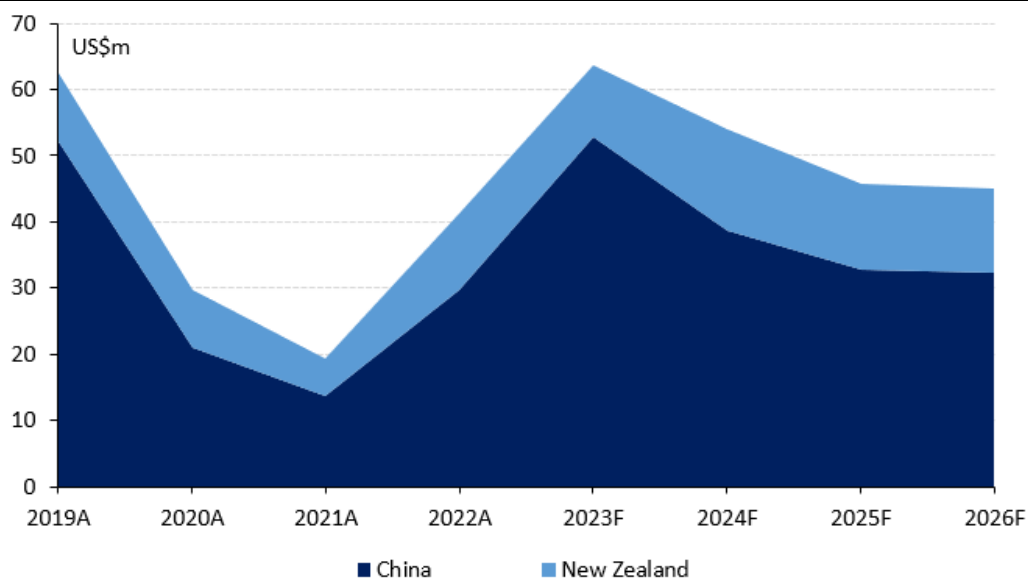
Source: Petra Capital, Company announcements

Figure 2: Quarterly production by asset (kbbbls)



Source: Company, Petra Capital

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



Source: Petra Capital

Figure 4: Summary of changes

		FY23F			FY24F			FY25F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	162	167	-3%	130	124	5%	116	113	2%
EBITDAX	US\$m	118	126	-7%	96	90	6%	84	82	2%
EBITDA	US\$m	116	124	-7%	94	88	7%	82	80	2%
NPAT (normalised)	US\$m	38	44	-14%	33	32	3%	28	28	-1%
NPV/sh	A\$/sh	0.23	0.23	0%						
Price target	A\$/sh	0.23	0.23	0%						
Pricing										
Brent oil	US\$/bbl	92	92	0%	90	90	0%	90	90	0%
AUD/USD	FX	0.69	0.69	0%	0.70	0.70	0%	0.73	0.73	0%
Production										
	MMbbls	1.90	1.90	0%	1.48	1.50	-1%	1.35	1.33	2%

Source: Petra Capital



Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000
Level 5, 1 Collins Street, Melbourne VIC 3000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Resources):	Kieran Barratt	+61 (0)2 9239 9610	kbarratt@petracapital.com.au
Research (Resources):	Colin McLelland	+61 (0)2 9239 9639	cmcllland@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Sam Haddad	+61 (0)2 9239 9633	shaddad@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Research (Industrials):	Daniel Ireland	+61 (0)2 9239 9647	direland@petracapital.com.au
Research (Industrials):	Mark Yarwood	+61 (0)2 9239 9646	myarwood@petracapital.com.au
Research (Healthcare):	Tanushree Jain	+61 (0)2 9239 9649	tjain@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)2 9239 9620	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherty@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Andrew Richards	+61 (0)2 9239 9638	arichards@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Denise Wong	+61 (0)2 9239 9650	dwong@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@petracapital.com.au
Administration:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Administration:	Lacinda Browne	+61 (0)2 9239 9624	lbrowne@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Emma Pagalday	+61 (0)2 9239 9621	epagalday@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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