

28 July 2023

Horizon Oil Limited (HZN)

BUY**Share Price: A\$0.15**

Asset suite continues to deliver

Target Price: A\$0.21

HZN's Jun. Q'23 was highlighted by impressive operational performance at its key assets – Beibu and Maari – which were marginally ahead of expectations and drove a A\$9m cash build for Jun. Q'23 (ex-dividend payment). Maari ended June with 41kbbbls of oil inventory in hand, equating to an additional US\$3.5m at spot prices. We expect an increase in Maari production into Sep. Q'23 with the recent work over of MN1 delivering 1,000bopd, partially offset by eight days of planned and unplanned outages at Beibu at the beginning of July (production back online at 12,500bopd). A final debt repayment of US\$7.9m on 31 July 2023 will see HZN debt free and well placed to pursue further returns to shareholders or value-accretive M&A. **Maintain BUY, PT A\$0.21/sh (unch).**

Jun. Q'23 production and sales (Figure 1)

- Production 460kbbbls (+3% vs. Petra 449kbbbls)
- Sales volumes 453kbbbls (-8% vs. Petra 491kbbbls)
- Revenue US\$34.4m (-11% vs. Petra US\$38.5m)
- Sales, volume and revenue miss reflect timing and sizing of Maari shipments; HZN ended Jun. Q'23 with 41kbbbls of oil in inventory worth US\$3.5m.
- Maari MN1 well has been successfully worked over and has added an incremental 1,000bopd to Maari production. Maari production is now consistently above 5,000bopd and ahead of our initial estimates.
- Beibu shut-in for eight days in July because of planned maintenance and Typhoon Tai Li. Production was successfully restored a normalised level of 12,500bopd.

Valuation support

- HZN has an exceptionally strong balance sheet with a net cash position of US\$35.6m. Final debt repayment of US\$7.9m on 31 July 2023 will see HZN debt free.
- We anticipate FY24 free cash flow of US\$53m at US\$83/bbl oil, equating to a 50% yield on EV.
- Strong cash position allows for additional shareholder returns or value accretive M&A opportunities.
- We forecast an FY24 dividend yield of 24% based on a 75% FCF payout ratio; HZN does not provide guidance on dividend payout ratios.
- If pursued, we expect value accretive M&A deals to comprise of non-operator interests in producing oil & gas assets.
- We have updated our modelling to account for the June result (Figure 1). PT remains unchanged at A\$0.21/sh.

Key Dates Ahead

- August '23 – Full year results
- Ongoing – China infill drilling

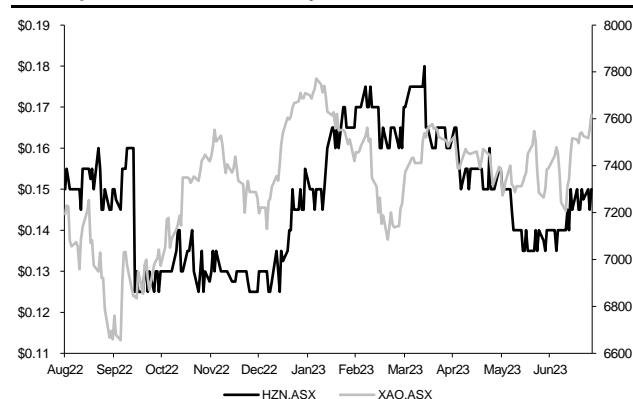
Company Data

Shares – ordinary (M)	1601.4
Dilution (M)	27
Total (fully diluted) (M)	1628
Market capitalisation (\$M)	244
12 month low/high (\$)	0.11/ 0.18
Average monthly turnover (\$M)	2.5
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2022A	2023F	2024F	2025F	2026F
Revenue (\$M)	108	151	124	117	110
Costs (\$M)	(33)	(48)	(35)	(33)	(31)
EBITDAX (\$M)	75	103	89	84	79
Exploration (\$M)	(1)	(5)	(2)	(2)	(2)
NPAT (\$M)	26	34	28	27	26
EPS (¢ps)	2.2	3.1	2.5	2.3	2.1
EPS Growth (%)	248	40	(21)	(4)	(9)
PER (x)	6.7	4.8	6.1	6.4	7.0
Op. Cashflow (\$M)	57	56	68	64	60
OCFPS (¢ps)	4.8	5.1	6.1	5.5	4.9
POCFPS (x)	3.1	2.9	2.5	2.7	3.1
Enterprise Value (\$M)	182	166	171	158	144
EV / EBITDAX (x)	2.0	1.4	1.6	1.8	2.0
Payout Ratio (%)	132	134	148	139	138

HZN – performance over one year



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Figure 1: Jun. Q'23 production and sales results vs. Petra estimates

	Units	Mar. Q'23 Actual	Jun. Q'23 Actual	Jun. Q'23 PETRA EST.	Diff	% Diff
Production						
China	kbbls	430	348	346	2	1%
New Zealand	kbbls	94	112	103	9	9%
Total production	kbbls	524	460	449	11	3%
Sales Volumes						
China	kbbls	395	319	321	-2	-1%
New Zealand **	kbbls	125	134	170	-36	-21%
Total sales volumes	kbbls	520	453	491	-38	-8%
Revenue (ex-hedging)						
China	US\$m	30.1	23.6	24.7	-1.1	-4%
New Zealand	US\$m	11.5	10.8	13.8	-3.1	-22%
Total revenue (ex-hedging)	US\$m	41.6	34.4	38.5	-4.1	-11%
TOTAL PRODUCTION	kbbls	524	460	449	11	3%
TOTAL SALES VOLUMES	kbbls	520	453	491	-38	-8%
TOTAL REVENUE (EX-HEDGING)	US\$m	41.6	34.4	38.5	-4.1	-11%

Source: Petra Capital, Company announcements

Figure 2: Summary of changes

		FY23F			FY24F			FY25F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	151	156	-3%	124	122	1%	117	118	-1%
EBITDAX	US\$m	103	111	-7%	89	87	2%	84	85	-1%
EBITDA	US\$m	97	105	-7%	87	85	2%	82	83	-1%
NPAT (normalised)	US\$m	34	39	-13%	28	26	5%	27	27	-1%
NPV/sh	A\$/sh	0.21	0.21	0%						
Price target	A\$/sh	0.21	0.21	0%						
Brent oil	US\$/bbl	87	87	0%	83	83	0%	88	88	0%
AUD/USD	FX	0.67	0.67	0%	0.69	0.69	0%	0.71	0.71	0%
Production	MMbbls	1.92	1.90	1%	1.54	1.56	-1%	1.41	1.42	-1%

Source: Petra Capital

Most notable earnings revisions include:

- Quarterly reconciliation for Jun. Q'23 actuals
- Deferral of Maari sales volumes from FY23 into FY24 (41kbbls inventory on hand at Jun. Q'23)
- Reduction in China production volumes for Sep. Q'23 to account for eight-day outage in early July.

Figure 3: Map of HZN’s Beibu field in China



Source: Company announcements

Figure 4: Map of HZN’s Maari field in New Zealand



Source: Petra Capital, Company announcements



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