

27 October 2023

## Horizon Oil Limited (HZN)

**Solid Sep.Q with strong free cash**

HZN's Sep. Q'23 production was in-line with Petra estimates, impacted by natural decline and a pre-reported outage early in the period at its primary Beibu asset in China. Nevertheless, cash generation remains strong with a cash build of +US\$10m through the period taking net cash to US\$46m. A further US\$11.7m relating to Sep.Q Maari shipments was received immediately after period end. Significant cash generation will continue to underpin shareholder returns; we estimate FY24F dividend yield of 28% based on an 85% FCF payout ratio. Maintain BUY, PT unchanged at A\$0.21/sh after accounting for Sep. Q '23 results and minor revisions to our near-term price deck.

### Sep. Q '23 production and sales (Figure 1)

- Production 389kbbbls (-1% vs. Petra 392kbbbls)
- Sales volumes 391kbbbls (-5% vs. Petra 410kbbbls)
- Revenue US\$34.9m (in-line vs. Petra US\$34.8m)
- China production impacted by an 8-day outage in July. NZ production benefitted from a full period of production from the recently worked over MN1 well (Figure 2).
- Net cash at end-Sept of US\$45.9m. A further US\$11.7m from the Maari September lifting was received shortly after quarter end.
- The China JV continues to assess further drilling options for 2024, in addition to liquid handling capacity upgrade initiatives.

### Solid and improving outlook

- Final debt repayment of US\$7.9m paid in July leaves HZN debt-free to pursue growth and shareholder returns.
- We estimate FY24F FCF of US\$54m based on a US\$85/bbl oil price to support shareholder returns, representing a FCF yield (on EV) of 40% (Figure 3).
- Without a formal dividend policy, we forecast a dividend yield of 28% in FY24F, based on an 85% FCF payout ratio, increasing to a div yield of 31% by FY27F.
- HZN trades on an EV / EBITDAX of 1.6x.
- We have updated our modelling to account for (i) the Sep.Q'23 result and (ii) minor revisions to our near-term oil price deck (Figure 6). PT remains unchanged at A\$0.21/sh.

### Key Dates Ahead

- Dec. Q'23 – NZ MR6A well workover completion
- February '24 – Half year results + FY24 guidance
- 2024 – China infill drilling & liquids handling upgrades

**BUY**

**Share Price: A\$0.16**

**Target Price: A\$0.21**

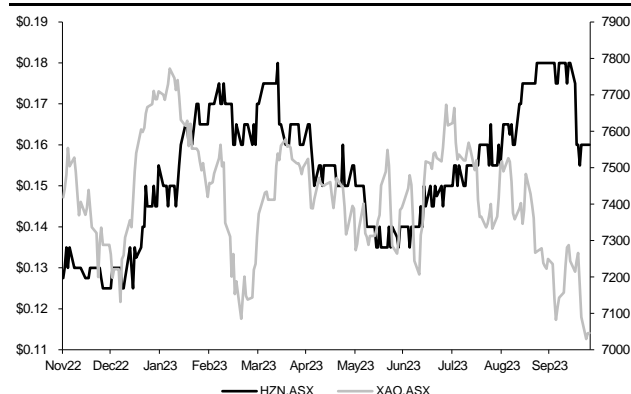
### Company Data

Shares – ordinary (M)	1618
Dilution (M)	30
Total (fully diluted) (M)	1648
Market capitalisation (\$M)	251
12 month low/high (\$)	0.12/ 0.18
Average monthly turnover (\$M)	10.5
GICS Industry	Oil, Gas & Consumable Fuels

### Financial Summary (fully diluted/normalised)

Year end June	2023A	2024F	2025F	2026F	2027F
Revenue (\$M)	152	126	133	142	133
Costs (\$M)	(49)	(39)	(37)	(38)	(36)
EBITDAX (\$M)	103	87	95	104	97
Exploration (\$M)	(5)	(2)	(2)	(2)	(2)
NPAT (\$M)	43	31	35	39	36
EPS (¢ps)	3.9	2.9	3.2	3.5	3.2
EPS Growth (%)	75	(25)	10	11	(9)
PER (x)	4.0	5.4	4.9	4.4	4.8
Op. Cashflow (\$M)	72	71	77	84	78
OCFPS (¢ps)	3.7	5.0	5.0	5.5	5.6
POCFPS (x)	4.2	3.1	3.1	2.8	2.8
Enterprise Value (\$M)	(77)	(64)	(84)	(95)	(116)
EV / EBITDAX (x)	1.3	1.5	1.4	1.3	1.4
Payout Ratio N.I. (%)	109	156	115	133	133
Dividends (¢ps)	3.5	4.4	4.3	4.8	4.9
Yield (%)	23	28	28	31	32

### 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)								
26-Oct-23							Share Price (\$)	0.155
							Issued shares (M)	1,618
							Other (M)	30
							Fully Diluted (M)	1,648
							Mkt Cap. (\$M)	251
							Enterprise Value (\$M)	196
Year End June		2022A	2023A	2024F	2025F	2026F	2027F	
PROFIT & LOSS								
Revenue	US\$m	108	152	126	133	142	133	
Operating Costs	US\$m	-24	-32	-30	-32	-33	-31	
Other	US\$m	-9	-17	-9	-6	-6	-6	
<b>EBITDAX</b>	<b>US\$m</b>	<b>75</b>	<b>103</b>	<b>87</b>	<b>95</b>	<b>104</b>	<b>97</b>	
Exploration	US\$m	-1	-5	-2	-2	-2	-2	
D&A	US\$m	-27	-39	-38	-41	-43	-40	
<b>EBIT</b>	<b>US\$m</b>	<b>47</b>	<b>60</b>	<b>47</b>	<b>53</b>	<b>59</b>	<b>55</b>	
Net Interest	US\$m	-2	-4	0	0	0	0	
Pre-Tax Profit	US\$m	45	56	47	53	59	55	
Tax & Royalties	US\$m	-18	-13	-16	-18	-20	-19	
<b>Net Profit</b>	<b>US\$m</b>	<b>26</b>	<b>43</b>	<b>31</b>	<b>35</b>	<b>39</b>	<b>36</b>	
Abnormal	US\$m	0	0	0	0	0	0	
<b>Reported Profit</b>	<b>US\$m</b>	<b>26</b>	<b>43</b>	<b>31</b>	<b>35</b>	<b>39</b>	<b>36</b>	
CASHFLOW								
Net Operating Cash Flow	US\$m	57	72	71	77	84	78	
Net Capex	US\$m	-10	-31	-17	-23	-23	-15	
Other	US\$m	0	-1	0	0	0	0	
<b>Investing Cash Flow</b>	<b>US\$m</b>	<b>-10</b>	<b>-32</b>	<b>-17</b>	<b>-23</b>	<b>-23</b>	<b>-15</b>	
Free cash flow	US\$m	46	41	54	54	61	63	
Net Borrowings	US\$m	-12	7	-8	0	0	0	
Dividends	US\$m	-35	-47	-48	-40	-52	-48	
Equity Issues	US\$m	0	0	0	0	0	0	
Other	US\$m	-1	0	0	0	0	0	
<b>Financing Cash Flow</b>	<b>US\$m</b>	<b>-47</b>	<b>-40</b>	<b>-56</b>	<b>-40</b>	<b>-52</b>	<b>-48</b>	
<b>Net Increase/Cash</b>	<b>US\$m</b>	<b>0</b>	<b>-1</b>	<b>-2</b>	<b>14</b>	<b>9</b>	<b>15</b>	
BALANCE SHEET								
Cash	US\$m	44	44	41	56	64	79	
Other Current	US\$m	25	23	23	23	23	23	
<b>Current Assets</b>	<b>US\$m</b>	<b>69</b>	<b>66</b>	<b>64</b>	<b>79</b>	<b>87</b>	<b>102</b>	
Fixed Assets	US\$m	107	105	82	62	41	14	
Exploration	US\$m	0	0	0	0	0	0	
Other	US\$m	7	12	12	12	12	12	
<b>Non Current Assets</b>	<b>US\$m</b>	<b>114</b>	<b>117</b>	<b>94</b>	<b>74</b>	<b>53</b>	<b>26</b>	
<b>Total Assets</b>	<b>US\$m</b>	<b>182</b>	<b>183</b>	<b>158</b>	<b>153</b>	<b>140</b>	<b>128</b>	
Borrowings	US\$m	1	8	0	0	0	0	
Payables	US\$m	26	13	13	13	13	13	
Other	US\$m	9	7	7	7	7	7	
<b>Current Liab</b>	<b>US\$m</b>	<b>37</b>	<b>28</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	
Borrowings	US\$m	0	0	0	0	0	0	
Provisions	US\$m	33	54	54	54	54	54	
Other	US\$m	13	5	5	5	5	5	
<b>Non Current Liab</b>	<b>US\$m</b>	<b>46</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>59</b>	
<b>Total Liabilities</b>	<b>US\$m</b>	<b>83</b>	<b>88</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>	
<b>Total Equity</b>	<b>US\$m</b>	<b>99</b>	<b>96</b>	<b>78</b>	<b>73</b>	<b>60</b>	<b>48</b>	
RATIO ANALYSIS								
EPS	¢	2.2	3.9	2.9	3.2	3.5	3.2	
PER	x	7.0	4.0	5.4	4.9	4.4	4.8	
EPS Growth	%	n.m.	75%	-25%	10%	11%	-9%	
CFPS	¢	3.9	3.7	5.0	5.0	5.5	5.6	
PCFR	x	4.0	4.2	3.1	3.1	2.8	2.8	
DPS	¢	6.0	3.5	4.4	4.3	4.8	4.9	
Yield	%	39%	23%	28%	28%	31%	32%	
Payout Ratio	%	132%	109%	156%	115%	133%	133%	
Gearing ND/E	%	-43%	-37%	-53%	-76%	-107%	-165%	
Interest Cover	x	23	16	>100	>100	>100	>100	
Enterprise Value	AS\$m	(62)	(77)	(64)	(84)	(95)	(116)	
EV/EBITDAX	x	1.9	1.3	1.5	1.4	1.3	1.4	
EBITDAX Margin	%	69%	68%	69%	72%	73%	73%	
EBIT Margin	%	43%	39%	38%	40%	42%	41%	
Return On Assets	%	26%	33%	30%	35%	42%	43%	
ASSUMPTIONS								
Brent Crude	US\$/bbl	90	87	85	88	90	90	
WTI	US\$/bbl	85	82	80	83	85	85	
East Coast Gas	A\$/GJ	9.50	12.00	12.00	12.00	12.00	12.00	
West Coast Gas	A\$/GJ	6.50	6.50	6.50	6.50	6.50	6.50	
AUD/USD	FX	0.73	0.67	0.65	0.67	0.68	0.69	
OPERATIONS (HZN share)								
<b>Production</b>								
China	mmboe	0.9	1.5	1.0	1.1	1.2	1.1	
New Zealand	mmboe	0.4	0.4	0.5	0.5	0.5	0.5	
Other	mmboe	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Total Production (mmboe)</b>	<b>mmboe</b>	<b>1.3</b>	<b>1.9</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.6</b>	
REVENUE								
Natural Gas	US\$m	0	0	0	0	0	0	
Condensate	US\$m	0	0	0	0	0	0	
Oil	US\$m	113	151	126	133	142	133	
Other	US\$m	0	0	0	0	0	0	
<b>Total</b>	<b>US\$m</b>	<b>113</b>	<b>151</b>	<b>126</b>	<b>133</b>	<b>142</b>	<b>133</b>	
PERCENTAGE SPLIT (REVENUE)								
Natural Gas (%)	%	0%	0%	0%	0%	0%	0%	
Condensate (%)	%	0%	0%	0%	0%	0%	0%	
Oil (%)	%	100%	100%	100%	100%	100%	100%	
CAPEX								
China	US\$m	19	20	14	20	20	12	
New Zealand	US\$m	1	2	3	3	3	3	
Other	US\$m	-2	0	0	0	0	0	
<b>Total</b>	<b>US\$m</b>	<b>18</b>	<b>23</b>	<b>17</b>	<b>23</b>	<b>23</b>	<b>15</b>	
CASHFLOW CHART								
EBITDAX								
China	US\$m	65	98	66	72	80	74	
New Zealand	US\$m	23	21	30	29	30	29	
Other	US\$m	-13	-15	-9	-6	-6	-6	
<b>Total</b>	<b>US\$m</b>	<b>75</b>	<b>103</b>	<b>87</b>	<b>95</b>	<b>104</b>	<b>97</b>	
NPV10								
China	AS\$m					241	0.15	
New Zealand	AS\$m					62	0.04	
Corporate	AS\$m					-28	-0.02	
Net cash / (debt)	AS\$m					64	0.04	
<b>Total</b>	<b>AS\$m</b>					<b>339</b>	<b>0.21</b>	

Source: Petra Capital

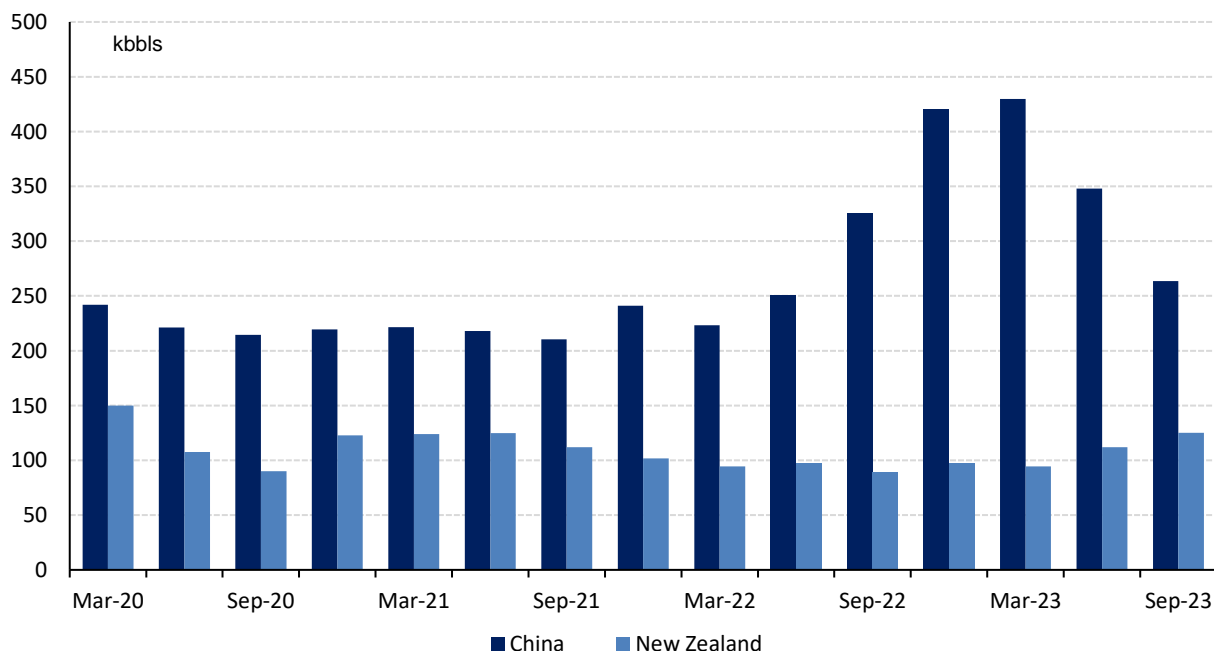


**Figure 1: Sep. Q'23 production and sales results vs. Petra estimates**

	Units	Jun. Q'23 Actual	Sep. Q'23 Actual	Sep. Q'23 PETRA EST.	Diff	% Diff
<b>Production</b>						
China	kbbls	348	264	279	-15	-6%
New Zealand	kbbls	112	125	113	12	10%
<b>Total production</b>	<b>kbbls</b>	<b>460</b>	<b>389</b>	<b>392</b>	<b>-4</b>	<b>-1%</b>
<b>Sales Volumes</b>						
China	kbbls	319	272	257	15	6%
New Zealand **	kbbls	134	119	153	-34	-22%
<b>Total sales volumes</b>	<b>kbbls</b>	<b>453</b>	<b>391</b>	<b>410</b>	<b>-19</b>	<b>-5%</b>
<b>Revenue (ex-hedging)</b>						
China	US\$m	23.6	23.2	21.3	1.9	9%
New Zealand	US\$m	10.8	11.7	13.6	-1.9	-14%
<b>Total revenue (ex-hedging)</b>	<b>US\$m</b>	<b>34.4</b>	<b>34.9</b>	<b>34.8</b>	<b>0.0</b>	<b>0%</b>
<b>TOTAL PRODUCTION</b>	<b>kbbls</b>	<b>460</b>	<b>389</b>	<b>-392</b>	<b>-4</b>	<b>-1%</b>
<b>TOTAL SALES VOLUMES</b>	<b>kbbls</b>	<b>453</b>	<b>391</b>	<b>410</b>	<b>-19</b>	<b>-5%</b>
<b>TOTAL REVENUE (EX-HEDGING)</b>	<b>US\$m</b>	<b>34.4</b>	<b>34.9</b>	<b>34.8</b>	<b>0.1</b>	<b>0%</b>

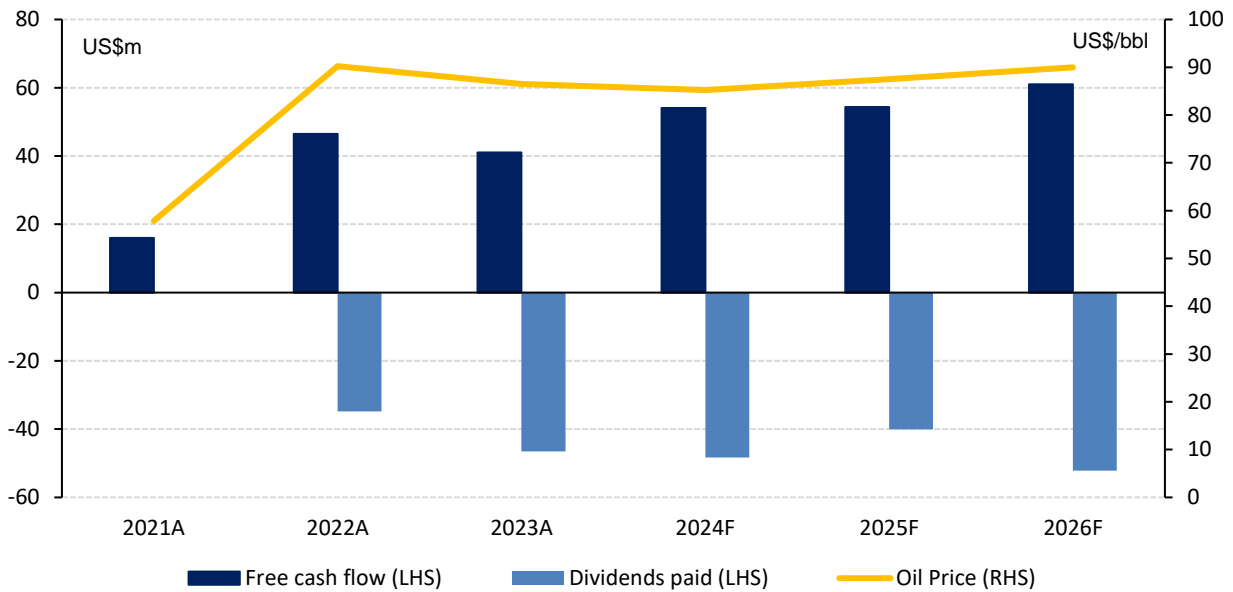
Source: Petra Capital, Company announcements

**Figure 2: HZN quarterly production by asset**



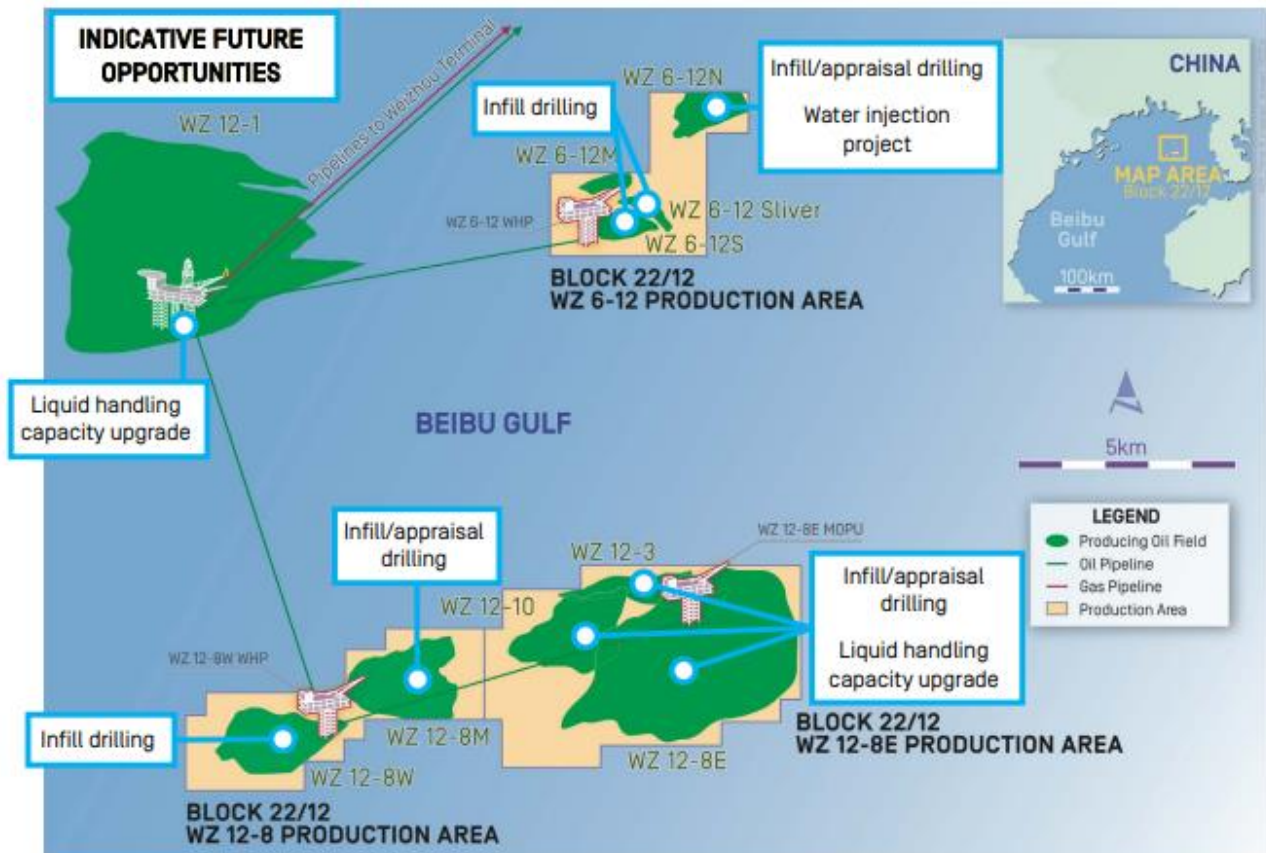
Source: Petra Capital, Company announcements

**Figure 3: HZN FCF & dividends paid (LHS) vs. Brent oil price (RHS)**



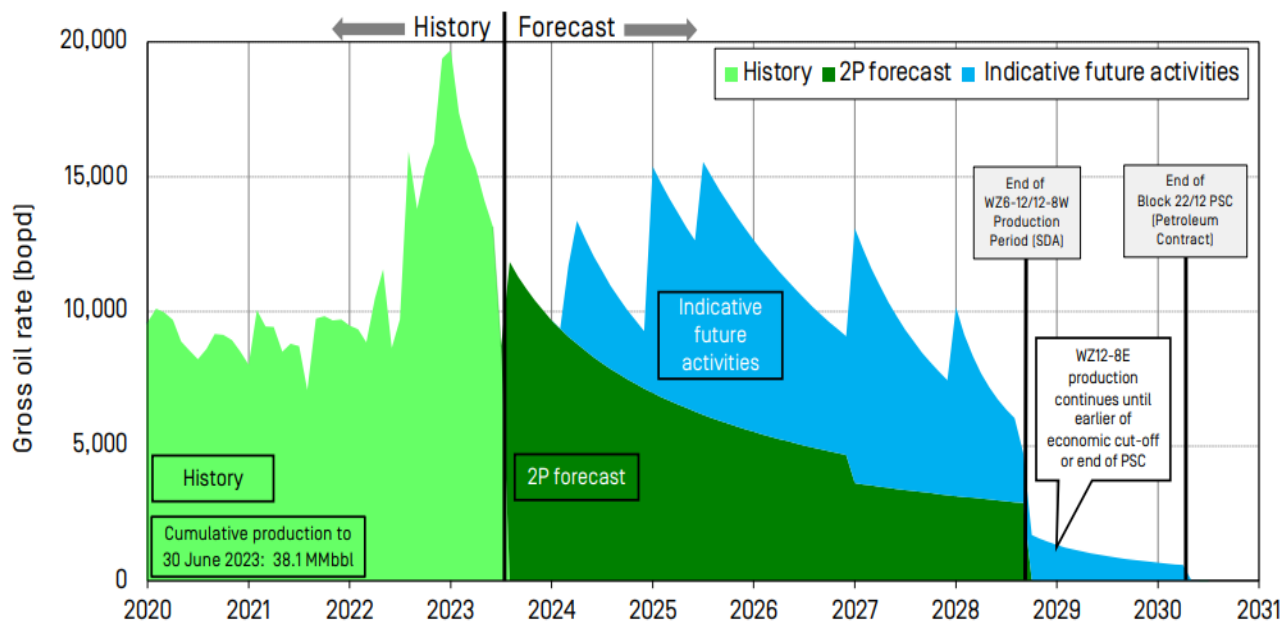
Source: Company, Petra Capital forecasts

**Figure 4: Indicative future production growth opportunities at Beibu**



Source: HZN

Figure 5: Beibu production guidance



Source: HZN

Figure 6: Summary of changes; Sep. Q '23 actuals + near-term Brent price revision (FY24 US\$83/bbl to US\$85/bbl, L/T unchanged)

		FY24F			FY25F			FY26F		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	126	125	1%	133	134	-1%	142	144	-1%
EBITDAX	US\$m	87	85	3%	95	97	-2%	104	106	-2%
EBITDA	US\$m	85	83	3%	93	95	-2%	102	104	-2%
NPAT (normalised)	US\$m	31	28	9%	35	36	-2%	39	40	-2%
NPV/sh	A\$/sh	0.21	0.21	0%						
Price target	A\$/sh	0.21	0.21	0%						
Brent oil	US\$/bbl	85	83	3%	88	88	0%	90	90	0%
AUD/USD	FX	0.65	0.66	-1%	0.67	0.68	-1%	0.68	0.69	-2%
Production	MMbbls	1.54	1.58	-3%	1.63	1.65	-1%	1.70	1.72	-1%
Capex	US\$m	17	20	-15%	23	23	0%	23	23	0%

Source: Petra Capital



## Petra Capital

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

Level 17, 14 Martin Place, Sydney NSW 2000 Office: +61 2 9239 9600  
Level 5, 1 Collins Street, Melbourne VIC 3000 Office: +61 3 9123 3000

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 (Resources):	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Research (Industrials):	Liam Cummins	+61 (0)2 9239 9607	lcummins@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
Research (Industrials):	Joanne Condopoulos	+61 (0)2 9239 9635	jcondopoulos@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)400 740 842	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	pdoherly@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
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Sales:	Stacey Dinnage	+61 (0)425 764 907	sdinnage@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Corporate (ECM):	Maureen Baker	+61 (0)438 571 970	mbaker@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@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

### Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX and Chi-X Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent.

### Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

### Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>. Petra Capital uses the following ratings system and definitions: Buy - Forecast to re-rate by more than 5% in 12 months; Hold - Forecast to perform up to 5% above or below the current market price in 12 months, or alternatively, where a share price exceeds Petra Capital's valuation but there is a belief that business growth opportunities or commodity price moves, may result in material valuation and share price upside within 12 months; Sell - Forecast to underperform by more than 5% in 12 months; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time.

### US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: [www.globalalliancesecurities.com](http://www.globalalliancesecurities.com)) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

### Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.