

Horizon Oil Ltd

(HZN \$0.135) Buy, Initiation of Coverage

EUROZ

Analyst
Jon Bishop

Date
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Price Target
\$0.20/sh

Comments

HZN is one of few pure oil leveraged producers on the ASX and the only pure Brent proxy;

The Company produces ~ 4,500bopd net (100% oil) from its NZ and China offshore developments;

Flowing bbl metric of A\$53,000/bbl (100% oil) vs peer av. of A\$111,000/boe;

Plus US\$30/bbl operating margin at US\$65/bbl Brent;

Forecast EBITDA of US\$50m FY'18 rising to +US\$60m/yr in FY'19-20;

EV:EBITDA FY'18 of 4.3x and FY'19 of 2.3x vs peer group average of 12.8x and 6.1x;

Current 2P Reserves of 10.6mmbbls (100% oil) with a further ~3mmbbls to be booked with sanction of Wei 12-8E this CY and first production 2019;

Current 2C Contingent Resources of 153.2mmbboe (15% condensate);

EV:2P+2C of A\$1.60/boe vs a peer group average of A\$8.70/boe;

Significant upside via its large PNG 150mmbboe wet gas portfolio:

- an outstanding agreement for a US\$130m payment at FID for proposed LNG development;
- tangible M&A in PNG regarding the LNG developments suggests HZN's interests are material enough to attract corporate interest;

Our \$111m nominal risked in-ground valuation of the PNG portfolio is underwritten by the implied pro rata A\$200m OSH bid for the Talisman (now Repsol) JV interests and the US\$130m in outstanding FID payment in effect with the Osaka transaction.

The Company's free cash generation is systematically de-leveraging its Balance Sheet; currently US\$94m net Debt vs a peak of over US\$150m in 2015.

Market Statistics

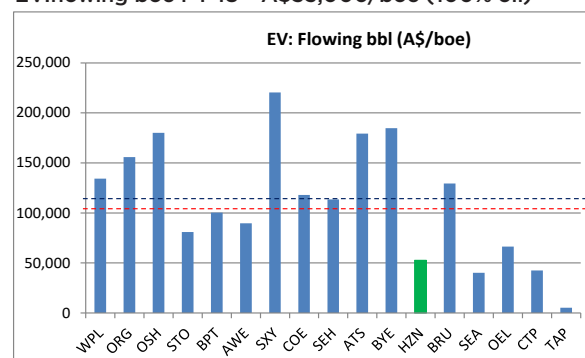
Share Price		A\$/sh		Directors	
Issued Capital				J Humphrey	Chair
Fully Paid Ord	1,302.0		m	B Emmett	CEO
Op @ 6cps	301.5		m	G Bittar	NE Dir
Share Rights	141.0		m	S Birkenleigh	NE Dir
Total Dil. FPOrd	1,602.0		m	G de Nys	NE Dir
				M Sheridan	CFO
Market Cap'n (dil)		\$m		Shareholders	
Enterprise Value	271		\$m	IMC	31.0%
Debt	-162		\$m	Colonial	7.8%
Cash	41		\$m		

Year End 30 June

Investment case

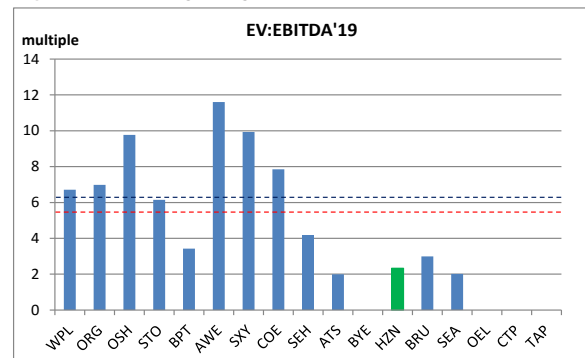
HZN offers significant oil price leverage with firming oil prices. Its core assets and fully developed production of +4,000bopd for the next 5yrs will generate over US\$50m/yr in free cash flow (after capex) on average, systematically and aggressively de-gearing the balance sheet. Despite this, the Company trades at less than 50% of its peer group on EV:flowing boe; EV:EBITDA (FY'18, 19); and less than 20% on an EV:2P+2C basis. The Company is fundamentally cheap and still offers clear blue sky potential with its 150mmbboe interest in discovered PNG Resources that have increasing strategic value. The current price trades at a ~40% discount to our \$0.19/sh Valuation. We initiate coverage with a Buy and set a \$0.20/sh Price Target reflecting a number of tangible organic and in-organic catalysts.

EV:flowing boe FY'18 – A\$53,000/boe (100% oil)



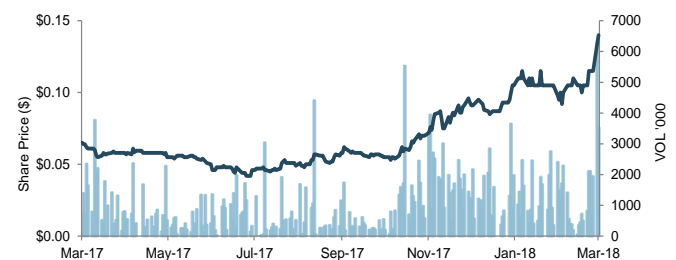
Below peer average of A\$111,000/boe
Below to its ex-100 peers of A\$103,000/boe

EV:EBITDA FY'19 – 2.3x



Below peer average of 6.2x
Below to its ex-100 peers of 5.5x

Share Price Performance



Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Horizon Oil Ltd during the last year. Euroz Securities has received a fee for these services.

Asset Valuation	A\$m	A\$/sh
NZ - Maari	111	0.07
China - Wei	165	0.10
China - WZ 12-8E undev. - nom. risked	56	0.03
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	111	0.07
Hedging	(3)	(0.00)
Corporate (inc tax credits)	(37)	(0.02)
Unpaid Capital	18	0.01
Debt	(162)	(0.10)
Cash	41	0.03
Total	300	0.19

F/Cast Production (A\$m)	2017a	2018f	2019f	2020f
Attrib. Prod'n (mmboe)				
Maari (NZ)	0.3	0.5	0.7	0.6
Wei (China)	0.8	0.9	0.6	0.6
Wei (cost recovery oil equiv)	0.3	0.3	0.4	0.4
Western Foreland (PNG)	-	-	-	-
Total Attrib (mmboe)	1.4	1.7	1.7	1.6
boepd	3,836	4,591	4,547	4,270
Assumptions				
Avg Brent Oil Price (US\$/bbl)	48.6	65.0	67.5	75.0
USD:AUD	0.77	0.78	0.78	0.78

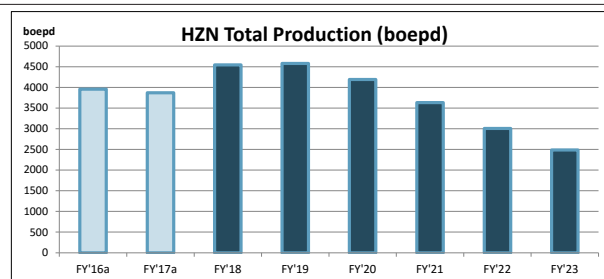
Ratio Analysis (A\$m)	2017a	2018f	2019f	2020f
CF (US\$m)	31	37	27	29
CF / Sh (Ac/sh)	3	3	2	2
CF Ratio (x)	1.5	4.6	6.3	5.9
Earnings (US\$m)	(1)	(7)	10	14
EPS (Ac/sh)	(0)	(1)	1	1
EPS Growth (%)	na	na	na	36%
Earnings Ratio (x)	na	na	16.4	12.0
E'prise Val. (A\$m)	202	310	278	248
EV : EBITDA (x)	6.1	5.4	4.6	4.5
EV : EBIT (x)	16.3	21.4	9.5	9.0
Net Debt / ND+Eq (%)	26%	41%	24%	12%
Interest Cover (x)	1.8	2.8	4.0	14.6
EBIT Margin (%)	24%	15%	29%	31%
ROE (%)	0%	-6%	7%	8%
ROA (%)	6%	5%	10%	11%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	-	-	-	-
Div. Yield	-	-	-	-
Div. Franking	-	-	-	-

Reserves and Resources	Oil mmbbls	Cond mmbbls	Gas Bcf	Total mmboe
2P Reserves Beibu (China)	5.2	-	-	5.2
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	5.4	-	-	5.4
Total	10.6	-	-	10.6
2C Resources Maari-Manaia (NZ)	18.0	-	-	18.0
2C Resources Beibu (China)	3.2	-	-	3.2
2C Resources Stanley (PNG)	-	18.6	603.0	126.3
Total	21.2	18.6	603.0	147.5
EV / 2P boe (A\$)				25.5
EV / 2P+ 2C boe (A\$)				1.7

Profit and Loss (A\$m)	2017a	2018f	2019f	2020f
Oil Equivalent Sales	69	43	98	97
Hedging Revenue	17	44	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	-	1	1	2
Other Revenue	0	-	-	-
TOTAL REVENUE	69	88	99	100
Operating Costs	18	30	31	29
Dep/Amort	26	26	28	27
O/H + New Bus Dev	7	7	8	8
W/O & Provisions	1	11	3	3
EBITDA	44	50	59	60
EBIT	17	13	28	30
Interest Expense	13	11	6	4
NPBT	4	2	23	29
Tax	4	5	6	8
NZ royalty	1	5	6	7
Minorities	-	-	-	-
NET PROFIT	(1)	(7)	10	14
Net Abnormal Gain/(Loss)	(1)	-	-	-
NET PROFIT After Abn'l	0	(13)	10	14

Cash Flow (A\$m)	2017a	2018f	2019f	2020f
Net Profit	0	(7)	10	14
+ Working Capital Adj.	4	16	-	-
+ Dep/Amort	26	26	28	27
+ Provisions	1	11	3	3
+ Tax Expense	4	5	6	8
- Tax Paid	0	2	6	8
Operating Cashflow	36	49	42	44
- Capex + Development	5	13	15	15
- Exploration	3	4	5	5
- Assets Purchased	0	18	-	-
+ Asset Sales	-	-	-	-
+ Other	-	-	-	-
Investing Cashflow	(8)	(34)	(20)	(20)
+ Equity Issues/Opt conv	-	-	17	-
+ Loan D'down/Receivable	46	-	100	-
+ Other	-	-	-	-
- Loan Repayment	65	18	109	30
- Dividends	-	-	-	-
Financing Cashflow	(19)	(18)	8	(30)
Period Sur (Def)	8	(3)	30	(6)
Adj. FX effects	-	-	-	-
Cash Balance	25	22	52	45

Balance Sheet (A\$m)	2017a	2018f	2019f	2020f
Assets				
Cash	25	22	52	45
Current Receivables	6	9	9	9
Other Current Assets	4	3	3	3
Non-Current Assets	236	224	216	208
Total Assets	271	257	278	265
Liabilities				
Borrowings	133	109	100	70
Current Accounts Payable	10	18	18	18
Non Current Liabilities	20	-	-	-
Other Liabilities	0	4	4	4
Total Liabilities	164	131	122	92
Net Assets	304	126	157	173



Source: Euroz Ltd