

# Horizon Oil Ltd

## (HZN \$0.12) Buy

**Analyst**  
Jon Bishop

**Date**  
September 2018

**Price Target**  
\$0.20/sh

### Comments

- Sustainable 4kbbbls/d production fully developed for next 5yrs at breakeven of <US\$35/bbl;
- US\$50m/yr in FCF vs current EV of US\$225m = trading at 50% EV:FCF multiples of peers;
- Short term growth with ODP at Beibu Gulf Stage 3 development;
- Blue sky potential with corporate M&A landscape in PNG moving in on Western Forelands PNG project;
- However, upside capped until PDL-1o (Stanley Field license) is resolved;

Val/ Sh		Brent Oil								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.22										
15%		\$0.18	\$0.19	\$0.20	\$0.22	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27
10%		\$0.18	\$0.19	\$0.20	\$0.21	\$0.23	\$0.24	\$0.24	\$0.26	\$0.26
5%		\$0.18	\$0.19	\$0.20	\$0.21	\$0.22	\$0.23	\$0.24	\$0.25	\$0.26
0%		\$0.17	\$0.18	\$0.19	\$0.21	\$0.22	\$0.23	\$0.24	\$0.25	\$0.26
-5%		\$0.17	\$0.18	\$0.19	\$0.20	\$0.22	\$0.23	\$0.23	\$0.25	\$0.26
-10%		\$0.17	\$0.18	\$0.19	\$0.20	\$0.21	\$0.22	\$0.23	\$0.24	\$0.25
-15%		\$0.16	\$0.17	\$0.18	\$0.19	\$0.21	\$0.22	\$0.23	\$0.24	\$0.25

Val/ Sh		US\$ Gas - PNG								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.22										
15%		\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23
10%		\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23
5%		\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22
0%		\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22
-5%		\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22
-10%		\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
-15%		\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Brent Oil	\$83	\$85	\$85	\$85	\$85	\$85
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.75	\$0.74	\$0.75	\$0.75	\$0.75	\$0.75

### Investment Case

The uncertainty of PDL 10 disappointing as it has inevitably stoke deep seeded market concerns regarding sovereign risk pertaining to PNG. We view that this issue will be rectified in due course, effectively removing the cap to current share price upside. To that end, the current share price is underwritten to 15cps by the producing assets net of Balance Sheet on our numbers. Buy maintained: HZN offers pure 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. Yet it trades a steep discount to the peer group.

### Our Market Sensitivity

**Valuation - \$0.22/sh**  
**Price Target - \$0.20/sh**

#### Bull Scenario - \$0.25/sh

Oil price continue to strengthen, rising at 20% above our assumptions. Whilst M&A and/or organic development momentum crystallises value for the PNG portfolio.

#### Base Scenario - \$0.20/sh

Oil price rise in line with our assumptions. M&A and/or organic development momentum crystallises value for the PNG portfolio.

#### Bear Scenario - \$0.08/sh

Oil prices fall 20%.

### Company Summary

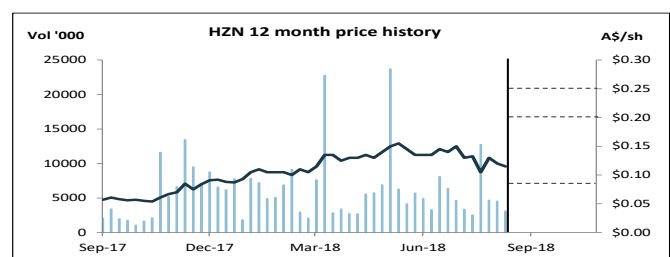
Horizon Oil Ltd (HZN) is an oil & gas exploration, development and production company. HZN focusses on three main projects, producing the Maari field offshore New Zealand and Chinese Beibu Gulf. The production asset underwrite the current share price whilst PNG - on account of its size and increasingly strategic value - offers substantial blue sky potential.

Liquids rich 2P/2C reserves are 10.64 and 153.18 mmb. Dec H production of 3374 boepd is anticipated to rise to 5316boepd for FY'19.

### Market Statistics

			Year End 30 June	
<b>Share Price</b>	<b>\$0.12</b>	<b>A\$/sh</b>	<b>Directors</b>	
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
<b>Total Dil. FPOrd</b>	<b>1,602.0</b>	<b>m</b>	G de Nys	NE Dir
			M Sheridan	CFO
<b>Market Cap'n (dil)</b>	<b>174</b>	<b>\$m</b>	<b>Shareholders</b>	
Enterprise Value	289	\$m	IMC	31.0%
Debt	(151)	\$m	Colonial	7.8%
Cash	36	\$m		

### 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.

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RESOURCES QUARTERLY SEPTEMBER 2018

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Asset Valuation	A\$m	A\$/sh
NZ - Maari	134	0.08
China - Wei	193	0.12
China - WZ 12 8E undev. - nom. risked	56	0.03
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked 111		0.07
Hedging	(8)	(0.00)
Corporate (inc tax credits)	(38)	(0.02)
Unpaid Capital	18	0.01
Debt	(151)	(0.09)
Cash	36	0.02
<b>Total</b>	<b>351</b>	<b>0.22</b>

F/Cast Production (A\$m)	2017a	2018f	2019f	2020f
<b>Attrib. Prod'n (mmboe)</b>				
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)	-	-	-	-
<b>Total Attrib (mmboe)</b>	<b>1.4</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>
boepd	3,836	4,591	4,547	4,265
<b>Assumptions</b>				
Avg Brent Oil Price (US\$/bbl)	48.6	72.5	82.5	85.0
USD:AUD	0.77	0.78	0.76	0.76

Ratio Analysis (A\$m)	2017a	2018f	2019f	2020f
CF (US\$m)	31	38	40	35
CF / Sh (Ac/sh)	3	3	3	3
CF Ratio (x)	1.5	3.9	3.6	4.1
Earnings (US\$m)	(1)	(3)	21	21
EPS (Ac/sh)	(0)	(0)	2	2
EPS Growth (%)	na	na	na	0%
Earnings Ratio (x)	na	na	6.7	6.7
E'prise Val. (A\$m)	202	283	232	192
EV : EBITDA (x)	6.5	4.3	3.8	4.1
EV : EBIT (x)	17.3	8.9	6.3	7.1
Net Debt / ND+Eq (%)	26%	47%	12%	na
Interest Cover (x)	1.8	0.9	6.1	40.2
EBIT Margin (%)	24%	32%	39%	37%
ROE (%)	0%	-3%	10%	9%
ROA (%)	6%	10%	13%	12%

#### Reserves and Resources

	Oil	Cond	Gas	Total
	mmbbls	mmbbls	Bcf	mmboe
2P Reserves Beibu (China)	5.2	-	-	5.2
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	5.4	-	-	5.4
<b>Total</b>	<b>10.6</b>	<b>-</b>	<b>-</b>	<b>10.6</b>
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
<b>Total</b>	<b>21.2</b>	<b>18.6</b>	<b>603.0</b>	<b>147.5</b>

EV / 2P boe (A\$)	30.0
EV / 2P+ 2C boe (A\$)	2.0

Profit and Loss (A\$m)	2017a	2018f	2019f	2020f
Oil Equivalent Sales	69	106	117	109
Hedging Revenue	17	(6)	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	-	0	1	3
Other Revenue	0	1	-	-
<b>TOTAL REVENUE</b>	<b>69</b>	<b>100</b>	<b>119</b>	<b>112</b>
Operating Costs	18	28	32	30
Dep/Amort	26	29	28	27
O/H + New Bus Dev	7	4	8	8
W/O & Provisions	1	6	3	3
EBITDA	44	67	77	71
EBIT	17	32	46	41
Interest Expense	13	35	6	4
NPBT	4	(2)	41	40
Tax	4	(1)	12	11
NZ royalty	1	1	8	8
Minorities	-	-	-	-
<b>NET PROFIT</b>	<b>(1)</b>	<b>(3)</b>	<b>21</b>	<b>21</b>
Net Abnormal Gain/(Loss)	(1)	10	-	-
<b>NET PROFIT After Abn'l</b>	<b>0</b>	<b>(12)</b>	<b>21</b>	<b>21</b>

Cash Flow (A\$m)	2017a	2018f	2019f	2020f
Net Profit	0	(12)	21	21
+ Working Capital Adj.	4	16	-	-
+ Dep/Amort	26	29	28	27
+ Provisions	1	6	3	3
+ Tax Expense	4	(1)	12	11
- Tax Paid	0	0	9	12
<b>Operating Cashflow</b>	<b>36</b>	<b>38</b>	<b>55</b>	<b>50</b>
- Capex + Development	5	-	15	15
- Exploration	3	8	5	5
- Assets Purchased	0	30	-	-
+ Asset Sales	-	-	-	-
+ Other	-	(0)	-	-
<b>Investing Cashflow</b>	<b>(8)</b>	<b>(38)</b>	<b>(20)</b>	<b>(20)</b>
+ Equity Issues/Opt conv	-	-	17	-
+ Loan D'down/Receivable	46	-	100	-
+ Other	-	-	-	-
- Loan Repayment	65	17	109	30
- Dividends	-	-	-	-
<b>Financing Cashflow</b>	<b>(19)</b>	<b>(17)</b>	<b>8</b>	<b>(30)</b>
<b>Period Sur (Def)</b>	<b>8</b>	<b>(16)</b>	<b>43</b>	<b>(0)</b>
Adj. FX effects	-	(1)	-	-
<b>Cash Balance</b>	<b>25</b>	<b>28</b>	<b>70</b>	<b>70</b>

Balance Sheet (A\$m)	2017a	2018f	2019f	2020f
<b>Assets</b>				
Cash	25	28	70	70
Current Receivables	6	15	15	15
Other Current Assets	4	4	4	4
Non-Current Assets	236	262	254	247
<b>Total Assets</b>	<b>271</b>	<b>310</b>	<b>344</b>	<b>337</b>
<b>Liabilities</b>				
Borrowings	133	112	100	70
Current Accounts Payable	10	19	19	19
Non Current Liabilities	20	69	-	-
Other Liabilities	0	14	14	14
<b>Total Liabilities</b>	<b>164</b>	<b>214</b>	<b>133</b>	<b>103</b>
<b>Net Assets</b>	<b>304</b>	<b>95</b>	<b>211</b>	<b>234</b>

