

Quick Comment

Horizon Oil Ltd (HZN \$0.145) Buy

Analyst	Date	Price Target
Jon Bishop	30 th October 2018	\$0.20/sh

Sep Q'ly FY'18 Report

Key Points

- HZN has delivered a solid operational performance over the Sep Q impacted marginally by enhancement works at Maari. Key highlights include;
 - Revenue of US\$28.8m was down on the Jun Q (US\$39.6m);
 - Q net operating cash flow of US\$20.7m fell from US\$28.4m in the Jun Q;
 - Net sales of 446kbbbls down from 599kbbbls in the Jun Q at an average realised price of US\$73.90/bbl (vs US\$72.23/bbl in the Jun Q);
 - Production fell Q-on-Q by 26% to 380.2kbbbls vs 479.3kbbbls in the Jun Q;
- Whilst the headline numbers relative to the Jun Q look weaker, it must be made clear that the elevated sales and production achieved in the Jun Q were reflective of the realisation of the Todd 16% interest acquired, effective Jan 1 but complete May 31, 2018;
- On a normalised basis, whilst Maari was impacted by productivity enhancement works, Beibu continued to perform strongly with two infill development wells boosting production 6% (vs Jun Q) to 9,783bopd;
- Cost recovery mechanism under the PSC continues to deliver elevated cash flow from the asset. As at Sep 30, HZN has remaining entitlement of US\$37.5m;
- The JV remains engaged on taking the 12-8E Field to FID later this CY;
- The Company and its JV remain engaged with the PNG Govt to resolve the PDL10 (containing the Stanley Field) termination notice. Independent advice remains that the claims are without merit;
- Cash generation from the business has continued to improve the Company's net debt position to US\$74.6m (from US\$86.6m at Jun 30) comprising US\$41.6m Cash and US\$116.2m Debt;
- Post report date, a further US\$20m of the Snr Debt Facility was repaid – Euroz pro forma est. current Cash US\$20m and Debt US\$96.2m.

Investment Thesis

HZN operating performance remains solid and in the current oil price environment is resulting in consistent reduction in debt. 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. The uncertainty of PDL 10 disappointing and removes the blue sky for now as it has inevitably stoked 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.

Horizon Oil Ltd (HZN)

Share Price	0.145	A\$/sh	Enterprise Value	361	A\$/m
Price Target	0.20	A\$/sh	Debt	137	A\$/m
Valuation	0.22	A\$/sh	Cash	28	A\$/m
Shares on issue	1,733	m(dil)	Largest Shareholder (*fully dil.)IMC	44%*	
Market Capitalisation	251	A\$m			

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