

Quick Comment

Horizon Oil Ltd (HZN \$0.115) Buy

Analyst	Date	Price Target
Jon Bishop	30 th January 2019	\$0.20/sh

Dec Q'ly FY'18 Report

Key Points

- Dec Q saw stronger production (+11%) and sales (28.8%) vs the Sep Q driven by:
 - Operational performance from China – production up 15.7%;
 - Cost recovery mechanism under Beibu PSC – equiv sale vols up 29.5%;
 - Inventory movements in NZ – oil on hand down 65.7% driving 27.0% inc. in sales vol.;
- Dec Q net operating cash flow of US\$26.5m rose from US\$20.7m in the Sep Q despite 22% fall in av. oil price received (av. US\$60.49/bbl for the Q);
- Net sales of 575kbbbls up from 446kbbbls in the Jun Q driven largely by the inventory movement at Maari and the cost recovery mechanism currently active for the Beibu PSC;
- 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\$19.5m (vs. Sep 30 balance 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;
- Notably, late in the Q, the PNG Govt has mandated - alongside the obligation to supply the domestic market - the PNG-LNG expansion project will have to allow third-party access to its pipelines to avoid stranded gas fields held by other companies (<https://www.afr.com/business/energy/gas/png-lng-expansion-obliged-to-reserve-gas-for-domestic-market-20181203-h18mo3>);
- This may yet provide alternate (to the proposed Western PNG LNG concept) means to commercialise HZN (and its JVP's) interests in its large discovered condensate rich gas resources in the Western Forelands;
- Cash generation from the business has continued to improve the Company's net debt position to US\$64.2m (from US\$74.6m at Sep 30) comprising US\$20.4m Cash and US\$84.6m Debt.

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	0.115	A\$/sh	Enterprise Value	290	A\$/m
Price Target	0.20	A\$/sh	Debt	118	A\$/m
Valuation	0.20	A\$/sh	Cash	28	A\$/m
Shares on issue	1,733	m(dil)	Largest Shareholder (*fully dil.)IMC	44%*	
Market Capitalisation	200	A\$m			

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