Equities: Horizon Oil Limited

05 May 2011 | ASX Code: HZN | Energy

CommSec

Horizon rising

Initiate with a Buy recommendation and AUD0.50ps price target

- *We initiate coverage of Horizon Oil (HZN) with a Buy recommendation and price target of AUD0.50ps.* We believe Horizon remains undervalued despite recently regaining control of the Elevala and Ketu gas-condensate fields in PNG. Horizon is focused on commercialisation of its development portfolio, with cashflows from operations to largely be reinvested in existing developments, rather than high-risk exploration and acquisitions.

Australasian focused portfolio: New Zealand, China and PNG

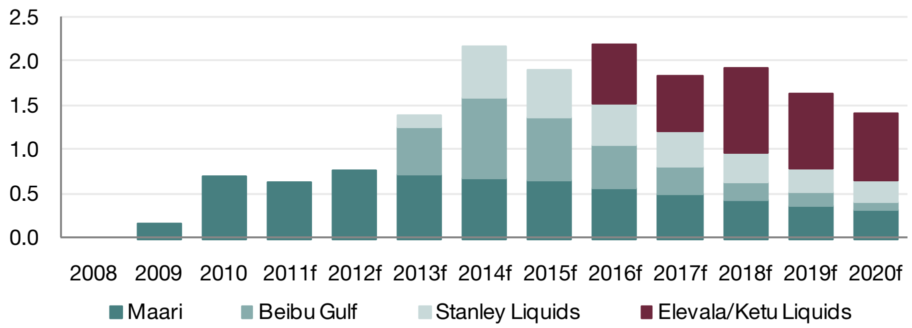
- *The Maari oil field provides a base for growth.* The Maari oil field is set to generate operating cashflows of AUD40-50m over the FY10-16f period. Development and potential reserves growth at the Manaia and M2A sands, plus near-field Greater Maari Area exploration offers near-term upside potential.

- *Beibu Gulf oil the next leg.* Early development activities are underway with first production targeted in 2H12 at up to 20kbopd oil processing capacity. Incremental development of WZ 12-8E and exploration offers further upside; four wells are set to test 20-40mmbbl gross oil potential from late-2011.

- *PNG liquids-stripping initial commercialisation route for gas fields.* FID is targeted mid-2011 for the Stanley liquids-stripping development, with assumed first production in early 2013. Horizon's PNG liquids resources (10.6mmb) have the potential to roughly double the company's 2P reserves base.

- *PNG gas commercialisation options offer further upside.* Negotiations are ongoing with regional customers for gas supply from Horizon's PNG portfolio (221bcf net resources). Talisman, Horizon's JV partner, is also looking to aggregate 2-4Tcf of gas for export which offers long-term valuation upside.

Figure 1: HZN – Production (mmboe)



Source: Company data, CBA Equities

Catalysts and risks

- *Key catalysts:* (1) Maari production optimisation; (2) Stanley project sanction mid-2011 (3) Appraisal of Elevala/Ketu in 2H11; (4) Maari Area exploration late-CY11; (5) Beibu Gulf exploration late-2011/12; (6) Manaia and Maari-M2A sands; (7) Beibu Gulf WZ 12-8E incremental; (8) PNG gas commercialisation.

- *Key risks:* (1) Ongoing issues at Maari; (2) Development risk; (3) Funding risks – potential equity raising; (4) Exploration risk — conservative approach to be maintained; (5) Acquisition risk; and (6) Commodity risk.

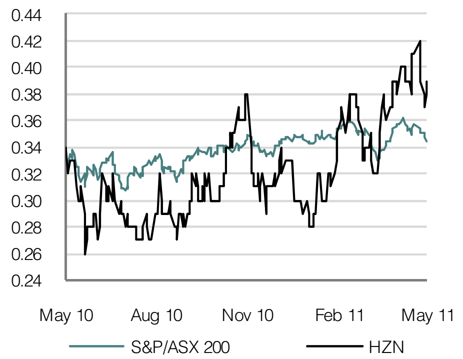
Buy

Price target	$0.50
Share price	$0.39
52-week range	$0.26 - $0.42
Forecast price return	28.2%
Forecast dividend return	0.0%
Forecast total return	28.2%
Market cap	$441m

Forecasts and ratios

Year end Jun	09	10	11f	12f	13f
NPAT $m	-2	20	17	20	34
EPS c	-0.2	1.7	1.5	1.7	3.0
EPS growth %	88.6	839.1	-15.0	17.4	71.9
P/E x	-76.3	17.5	26.3	22.4	13.0
EV/EBITDA x	104.2	9.1	11.1	9.5	5.8
DPS c	0.0	0.0	0.0	0.0	0.0
Yield %	0.0	0.0	0.0	0.0	0.0

Price relatives ($)



The S&P/ASX200 has been re-based to the stock's starting share price.

Financials

Profit & Loss (USDm)	2009	2010	2011f	2012f	2013f
Production (mmboe)	**0.2**	**0.7**	**0.6**	**0.8**	**1.4**
Sales Revenue	8	48	63	81	131
EBITDAX	**-3**	**72**	**67**	**62**	**97**
Exploration	1	0	4	8	8
EBITDA	**-4**	**72**	**63**	**55**	**89**
Depn & Amortisation	3	12	11	15	26
EBIT	**-7**	**60**	**52**	**40**	**63**
Net Interest	-3	-3	-2	-1	-5
Profit before tax	-9	57	49	39	58
Tax expense	1	-4	-10	-19	-24
NPAT	**-8**	**52**	**39**	**20**	**34**
Exceptional Items (post-tax)	-6	33	22	0	0
NPAT Underlying	**-2**	**20**	**17**	**20**	**34**
EPS Underying	**0**	**2**	**1**	**2**	**3**

Balance Sheet (USDm)	2009	2010	2011f	2012f	2013f
Cash and equivalents	10	27	2	9	16
Receivables	1	4	8	12	20
Inventories	0	3	4	5	9
Other current assets	0	0	0	0	0
Current assets	**11**	**34**	**14**	**26**	**45**
Oil & Gas properties	92	88	110	185	209
Exploration assets	35	45	49	56	64
Other non-current assets	2	5	5	5	5
Non-current assets	**129**	**138**	**164**	**246**	**278**
Total Assets	**140**	**172**	**178**	**272**	**323**
Payables	7	8	5	5	12
Interesting bearing liabilities	34	21	1	1	1
Other current liabilities	0	0	0	0	0
Current Liabilities	**41**	**29**	**6**	**6**	**12**
Interesting bearing liabilities	35	20	10	85	95
Other non-current liabilities	4	9	9	9	9
Non-current Liabilities	**39**	**29**	**19**	**94**	**104**
Total Liabilities	**80**	**57**	**24**	**99**	**116**
Net Assets	**61**	**114**	**154**	**173**	**207**
Ordinary equity	61	114	154	173	207
Minority Interests	0	0	0	0	0
Total shareholder funds	**61**	**114**	**154**	**173**	**207**

Cash Flow (USDm)	2009	2010	2011f	2012f	2013f
Profit after tax from operations	-8	52	39	20	34
Depreciation & amortisation	3	12	11	15	26
Net change in working capital	-3	-4	-8	-6	-4
Other	12	-27	-7	-4	8
Net operating cash flows	**3**	**33**	**35**	**25**	**63**
Capital & Exploration	-42	-19	-41	-105	-65
Other	0	30	11	11	0
Investing cashflow	**-42**	**11**	**-30**	**-94**	**-65**
Dividends paid	0	0	0	0	0
Equity raised	25	0	1	0	0
Net borrowings	6	-29	-30	75	10
Other	0	0	0	0	0
Financing cashflow	**30**	**-29**	**-29**	**75**	**10**
Increase/(decrease) in cash	**-9**	**16**	**-25**	**7**	**8**

Financial Ratios	2009	2010	2011f	2012f	2013f
Profitability ratios					
EBITDA margin	30.8%	82.2%	64.4%	67.7%	67.8%
EBIT margin	-5.4%	56.8%	47.1%	49.4%	48.3%
Return on assets	-5.6%	38.4%	29.5%	17.7%	21.3%
Return on equity	-3.9%	22.5%	12.5%	12.1%	17.8%
ROIC	-3.8%	32.5%	22.2%	11.2%	15.7%

Market Information	
Recommendation	Buy
Price Target (AUD)	0.50
Last Price (AUD)	0.39
Current AUD/USD	1.090
Issued Capital (m)	1,131
Market Capitalisation (AUDm)	441
Year end	June

Pricing	2009	2010	2011f	2012f	2013f
Average shares (m)	847	1,128	1,129	1,131	1,131
EPS Underlying (USc)	0	2	1	2	3
PE Ratio	-123	20	29	24	14
BVPS	0.1	0.1	0.1	0.2	0.2
P/B	1.9	2.5	2.8	2.2	1.8
DPS (USc)	0	0	0	0	0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Valuation	AUDm	AUDps	Risk	Reserves	USD/boe
Operations				**mmboe**	
Maari	258	0.23	100%	7	31.6
Beibu Gulf	54	0.05	100%	4	12.0
Stanley Liquids	70	0.06	100%	3	15.8
Elevala/Ketu Liquids	118	0.10	100%	7	13.2
Total Operations	**500**	**0.44**		21	24.0
Other Assets	130	0.12			
Net Cash/(Debt)	-14	-0.01			
Corporate	-50	-0.04			
Total Valuation	**566**	**0.50**			

Production	2009	2010	2011f	2012f	2013f
Sales Gas (PJ)	0.0	0.0	0.0	0.0	0.0
Condensate (mmbbl)	0.0	0.0	0.0	0.0	0.1
LPG (kt)	0.0	0.0	0.0	0.0	0.0
Crude Oil (mmbbl)	0.2	0.7	0.6	0.8	1.3
Total (mmboe)	0.2	0.7	0.6	0.8	1.4
Maari (mmboe)	0.2	0.7	0.6	0.8	0.7
Beibu Gulf (mmboe)	0.0	0.0	0.0	0.0	0.5
Stanley (mmboe)	0.0	0.0	0.0	0.0	0.1
Elevala/Ketu (mmboe)	0.0	0.0	0.0	0.0	0.0

Divisional EBIT (USDm)	2009	2010	2011f	2012f	2013f
Maari	2	19	39	54	49
Beibu Gulf	0	0	0	0	21
Stanley	0	0	0	0	9
Elevala/Ketu	0	0	0	0	0
Other	-3	9	-10	-14	-14
Total EBIT (Underlying)	**0**	**27**	**30**	**40**	**63**

Assumptions	2009	2010	2011f	2012f	2013f
AUD/USD	0.75	0.88	0.96	0.92	0.85
WTI Oil (USD/bbl)	70.0	75.0	88.8	102.5	97.7

Financial Ratios	2009	2010	2011f	2012f	2013f
Balance sheet ratios					
Net Debt	59	14	9	77	79
Gearing (ND/ND+E) (book)	49%	11%	5%	31%	28%
Gearing (ND/ND+E) (market)	28%	5%	2%	17%	17%
Interest cover	-1.3	23.2	25.7	61.7	16.7

Source: Company data, CBA Equities

Executive summary

We initiate coverage of Horizon Oil (HZN) with a Buy recommendation and price target of AUD0.50ps. We believe Horizon remains undervalued despite recently regaining control of the Elevala and Ketu gas-condensate fields in PNG. Horizon is focused on commercialisation of its development portfolio, with cash flows from operations to largely be reinvested in existing developments, rather than high-risk exploration and acquisitions.

Table 1: HZN – DCF net asset valuation

HZN Valuation	AUDm	AUDps	Risk	Production mmboe	USD/boe
Maari	258	0.23	100%	7	31.6
Beibu Gulf	54	0.05	100%	4	12.0
Stanley Liquids	70	0.06	100%	3	15.8
Elevala/Ketu Liquids	118	0.10	100%	7	13.2
Total Operations	**500**	**0.44**		21	19.6
Other Assets	130	0.12			
Net Debt	-14	-0.01			
Corporate	-50	-0.04			
Total Valuation	**566**	**0.50**			
Price Target - ps		**0.50**			

Source: Company data, CBA

Australasian focused portfolio: New Zealand, China and PNG

Horizon is focused on the commercialisation of its development portfolio. We prefer stocks focused on resource commercialisation, such as Horizon, where a high proportion of cash flows from operations are reinvested in existing developments, rather than high-risk exploration and acquisitions.

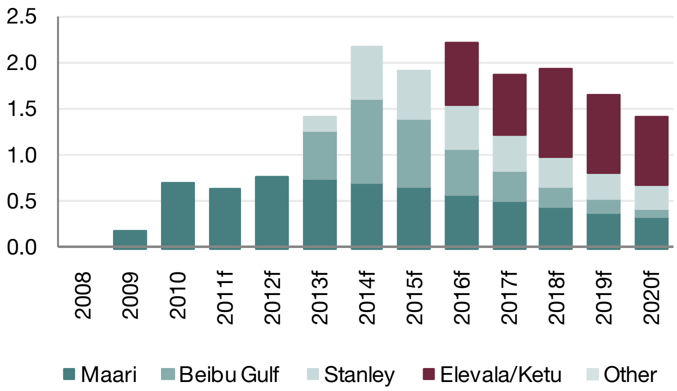
- *Maari oil provides base for growth.* Horizon's interest in the Maari oil field provides a base for growth, with the field forecast to generate operating cashflows of AUD40-50m over the FY10-16f period. Development and potential reserves growth at the Manaia and M2A sands, plus near-field Greater Maari Area exploration offers near-term upside potential.

- *Beibu Gulf oil development the next leg.* Early development activities are underway for the USD300m Beibu Gulf oil development. The development is targeting first production in 2H12 and will have access to 20kbopd oil processing capacity. Incremental development of WZ 12-8E and exploration offers further upside; four wells are testing 20-40mmbbl gross oil potential from late-2011.

- *PNG liquids-stripping initial commercialisation route for gas fields.* Initial plans to commercialise Horizon's PNG gas-condensate field portfolio are focused on gas-recycling/liquids-stripping at the Stanley field. FID is targeted mid-2011 and we assume first production early 2013. Horizon's PNG liquids resources (10.6mmb) have the potential to almost double the company's 2P reserves base.

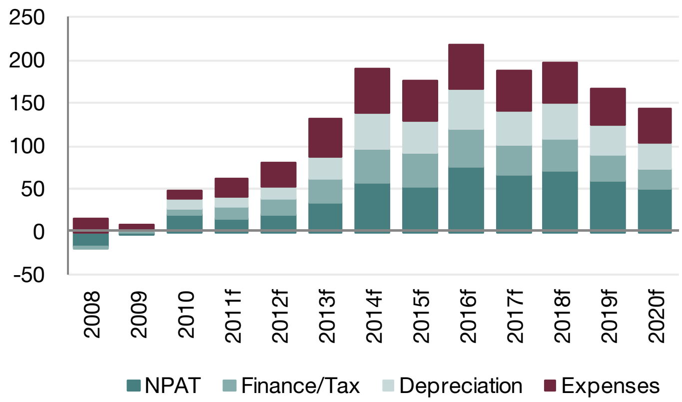
- *PNG gas commercialisation options offer further upside.* Preliminary negotiations are underway to supply gas from Horizon's PNG portfolio (221bcf net resources) to regional customers. Talisman Energy, Horizon's JV partner, is also looking to aggregate 2-4Tcf of gas for export which offers long-term valuation upside.

Figure 2: HZN – Production (mmboe)



Source: Company data, CBA

Figure 3: HZN – EBIT Breakdown (USDm)



Source: Company data, CBA

Catalysts

Key catalysts include:

- *Maari production optimisation.* Resolution of production issues should ultimately lead to greater production reliability. Sustained production above 20kbopd offers material upside in the current strong oil price environment.
- *Stanley project sanction targeted mid-2011.* FEED studies and export shipping routes are now largely complete. Evaluation of reservoir characteristics following drilling of Stanley-2 and Stanley-4 will assist in moving towards project sanction around mid-2011. The Stanley-2 well has been completed as the first of two production wells and the Stanley-4 well recently reached target depth and will be completed as the second production well required for the development.
- *PNG drilling over next six months.* Post Stanley-4 the rig is likely to move to the Sepalosiphon-1 exploration prospect in the permit adjacent to PRL 4. Horizon assume the prospect crosses the boundary into PRL 4. Elevala-2 and Ketu-2 (HZN 35%) appraisal wells will then further define the PRL 21 gas-condensate fields.
- *Greater Maari Area exploration late-CY11.* Horizon also holds a 30% interest in the PEP 51313 exploration permit adjacent to the Maari development. Interpretation of seismic undertaken to the south of the Maari field over the Matariki trend is ongoing, with drilling targeted for late-2011/early-2012.
- *Beibu Gulf exploration over 2011-12.* Four exploration wells are proposed to be drilled as part of the development program for the Beibu Gulf project over 2011-12. These four wells will test 20-40mmbbl gross oil potential. Block 22/12 holds eight undrilled prospects which are estimated by JV partners to hold 100mmbbl gross oil potential.
- *Manaia and Maari-M2A sands development.* The Maari-M2A sands and the Manaia field add an additional 26mmbbl oil resource to the Maari development. These zones offer further production and reserves growth potential.
- *Beibu Gulf WZ 12-8E integrated development.* The WZ 12-8 East field is also located within the Beibu Gulf development area. Feasibility studies undertaken by CNOOC are nearing completion for the development of this field as a secondary phase to the integrated development. Horizon have booked WZ 12-8E 2P oil reserves of 2.6mmbbl (18mmbbl gross).
- *Refocus on Elevala/Ketu developments (PRL 21).* Settlement of legal action in March 2011 has resulted in Horizon regaining a 35% interest in PRL 21 and the potential Elevala/Ketu gas-condensate fields.
- *PNG gas commercialisation - domestic.* Preliminary negotiations are ongoing for the supply of gas production to regional customers. The results from Stanley-2 and Stanley-4 will assist in enhancing reserves certainty which is likely required for gas sales agreements.

- *PNG gas commercialisation - aggregation for export.* Talisman has a significant acreage position in the PNG western forelands and offshore PNG in the Coral Sea. The company initially aims to prove up and aggregate a total of 2.0-4.0tcf of gas for export and are in discussions with various parties regarding development of liquefaction capacity.

Table 2: HZN – key upcoming drilling program

Prospect	Location	Permit	HZN interest	Resource est.	2011				2012	
					1Q	2Q	3Q	4Q	1H	2H
Stanley-4	PNG	PRL 4	50%	9mmb/284bcf		now				
Sepalosiphon-1	PNG	PPL 269 (borders PRL 4)	0%	10mmb/300bcf						
Elevala-2	PNG	PRL 21	35%	19.4mmb/303bcf						
Ketu-2	PNG	PRL 21	35%	6.9mmb/106bcf						
Beibu Gulf x 4	China	Block 22/12	14.7%	20-40mmb					over 2011-12	
Matariki trend	New Zealand	PEP 51313	30%	20-50mmb					late-11, early-12	

Source: Company data, CBA

Risks

Key risks include:

- *Ongoing issues at Maari.* There are a number of issues which are having implications on the reliability of production from the development. These include: (1) subsea pump failures which require replacement; (2) workover activity required to improve water injection capacity; and (3) a reduction in well-bore permeability.
- *Stanley development risk.* The Stanley development is not a complex development however there are a number of development risks. This will be Horizon's first operated development – Talisman's participation in the process will reduce the risk and longer-term we would assume that operatorship will transfer to Talisman upon development of the gas resource. Potential risks to the development also include: development costs, gas production rates, liquids content of the gas, export routes and government participation.
- *Funding risk.* We see Horizon as requiring additional funding to meet capital expenditure requirements for its existing development portfolio. Horizon anticipate that funding will largely be financed through a combination of operational cashflow and debt facilities. The company is currently looking into replacing the existing Maari project financing facility to a larger reserves-base facility which would also encompass the PNG assets. We see the potential for this to be supplemented with an equity raising.
- *Exploration risk.* A conservative approach needs to be maintained with exploration spend.
- *Acquisition risk.* We consider limited quality opportunities exist in small to mid-cap E&P M&A space; conservative value-add approach needs to be maintained, with a focus on existing areas of expertise.
- *Commodity risk.* The company is highly leveraged to international oil prices.
- *Development and capital expenditure risk.* Horizon is exposed to development and capital expenditure risk at the Maari, Beibu Gulf and PNG liquids stripping and potential gas developments.

Core projects and exploration

Horizon has a portfolio of assets which include producing, development and appraisal opportunities. The Maari oil field in New Zealand is currently the company's only producing asset, with the Beibu Gulf oil and PNG gas-condensate development portfolio offering near-term growth. Exploration is also material near-term, with drilling likely to confirm additional near-field resources for development.

Table 3: HZN – key project assumptions

Project	Interest	RFSU	Est capex (gross)	Remaining resource (gross)	Prod rates (gross)
Maari	10.0%	Feb-09	USD573m	Maari (Moki) 49mmb Maari (M2A) 10mmb Manaia 16mmb	15-20kbopd (35kbopd capacity)
Beibu Gulf	14.7%	2H12	USD300m	24mmb oil	20kbopd
Stanley Liquids	38.8%	1H13	USD200m	9mmb cond	4.1kbcpd
Elevala Liquids	27.1%	2H15	USD350m	19.4mmb cond	6.8kbcpd
Ketu Liquids	27.1%	2H17	USD150m	6.9mmb cond	3.4kbcpd

Source: Company data, CBA

New Zealand – Maari oil field

Location

- The Maari oil field development is located in PMP 38160 which is 80km offshore the South Taranaki coast in New Zealand waters of around 100m depth (see Figure 4).

Development

- *Working interests.* Horizon has a 10% interest in the development; OMV is the operator and has a 69% interest, with other joint-venture partners including Todd Energy 16% and Cue Energy 5%.

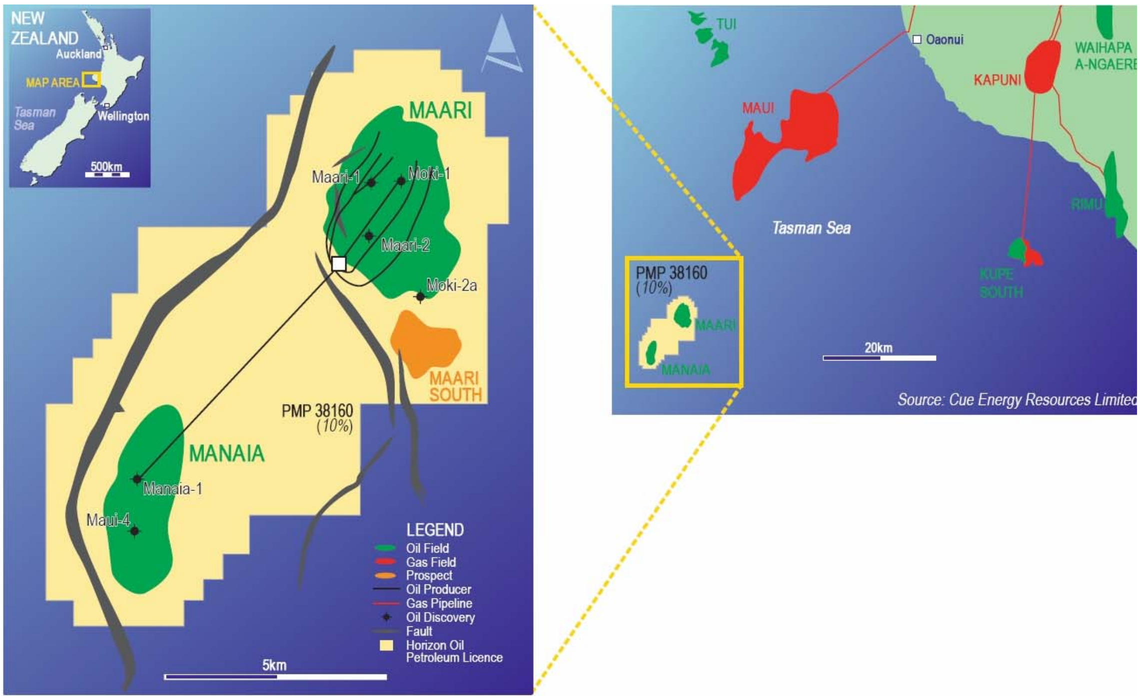
- *Development concept.* The development involves an unmanned wellhead platform, five production and three water injector wells on the Maari-Moki field, linked by subsea umbilical flowlines to the FPSO Raroa. The production system has been designed for maximum production capacity of 40kbopd and the FPSO has 600kbbl storage capacity.

- *Project sanction.* In November 2005 the JV announced FID on the development which was followed in December by the issuing of the Petroleum Mining Permit by the New Zealand government for a period of 22 years (expiring 2027). The development was originally approved on the basis of development costs of USD360m, first oil March/April 2008, plateau production of 35kbopd and reserves of 50mmbbl.

- *Field development.* Development of the Maari and Manaia fields comprised of a 10 well development and appraisal program. The fields consist of multiple oil zones, as highlighted in Figure 5, with the main structure currently in the Maari-Moki zone. The remaining oil resource in this zone is estimated at 49mmbbl. The Maari-M2A sands and the Manaia field (located 9km southwest of Maari) were also completed for production during the development program (not online) and add an additional 26mmbbl oil resource to the development.

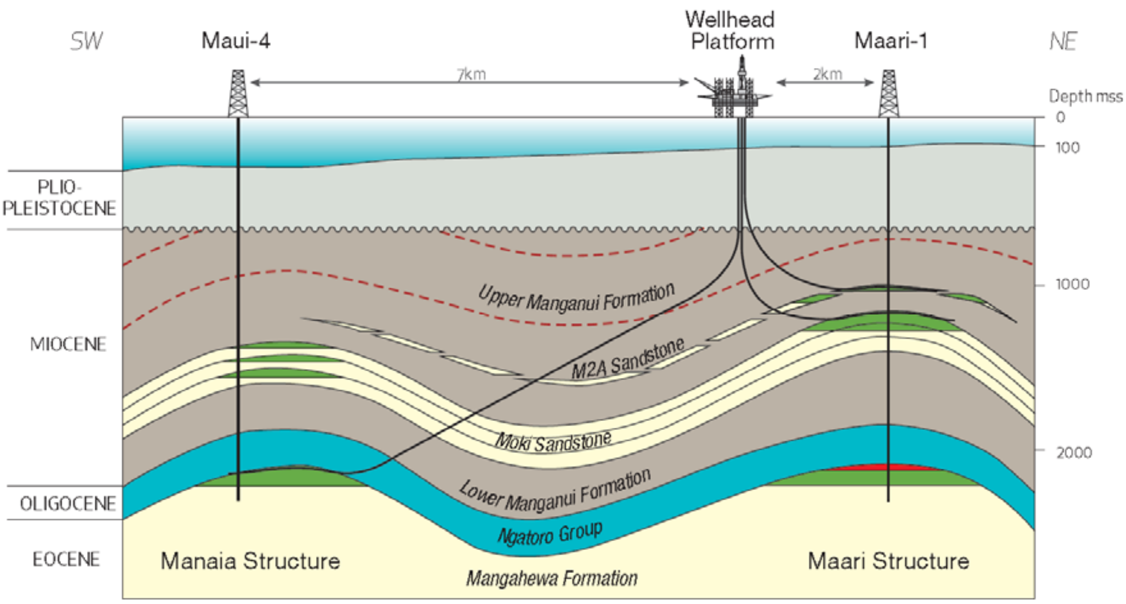
- *Development issues.* A number of construction and weather related issues resulted in development costs increasing to USD573m and first oil production in February 2009 (with first sales in April 2009). Despite this, the development remains highly commercial and generates material returns given the improvements to economics due to reserves growth and oil price improvements since FID in 2005.

Figure 4: Maari – Development



Source: Company data

Figure 5: Maari/Manaia schematic cross section



Source: Company data

History

- *Discovery in 1983 deemed uncommercial* – The Moki-1 exploration well encountered oil; Moki-2A was subsequently dry and the accumulation was deemed uncommercial.
- *Maari-1 discovery in 1998* – The field was discovered in October 1998 by a JV including Cultus (taken over by OMV), Shell and Todd.
- *OMV acquire interests over 1999 to 2002* – OMV initially acquired a 20% interest in the development through the takeover of Cultus in October 1999. Subsequently OMV acquired Shell's 49% stake in the development in September 2002.

- *Horizon acquired 10% interest in 2003* – In January 2003 Horizon acquired a 10% interest in the development from OMV for NZD3.2m (USD1.5m).
- *Cue Energy acquired 5% in 2005* – In March 2005 Cue Energy acquired a 5% interest in the development from Delta Oilfields Developments for NZD6.2m (USD4.1m).
- *Project sanction in 2005* – In November 2005 the JV announced FID on the development which was followed in December by the issuing of the Petroleum Mining Permit by the New Zealand government for a period of 22 years (expiring 2027).

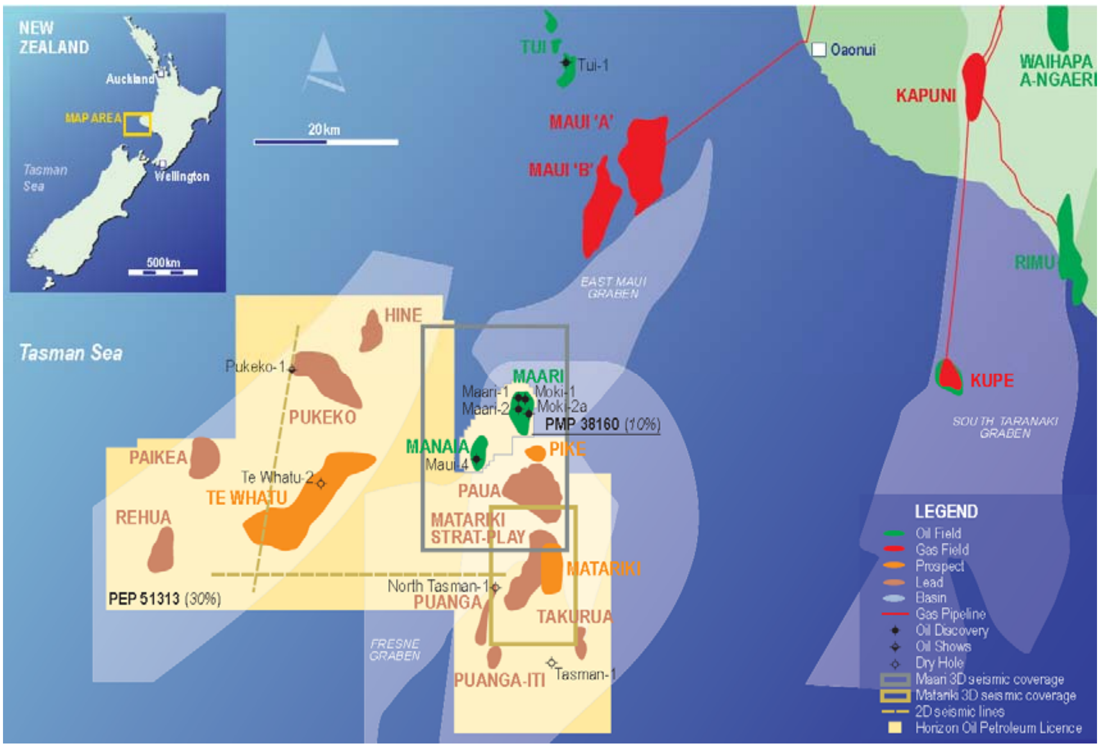
Issues

- *Production issues - subsea pumps, water injection and well-bore permeability.* There are a number of issues which are having implications on reliability of production from the development. These include: (1) subsea pump failures which require replacement; (2) workover activity required to improve water injection capacity; and (3) a reduction in well-bore permeability.

Upside

- *Optimisation of production.* Resolution of production issues outlined above should ultimately lead to greater production reliability. Sustained production above 20kbopd offers material upside in the current oil price environment.
- *Manaia and Maari-M2A sands.* The Maari-M2A sands and the Manaia field add an additional 26mmbbl oil resource to the development. These zones offer production and reserves growth potential.
- *Greater Maari Area exploration.* Horizon also holds a 30% interest in the PEP 51313 exploration permit adjacent to the Maari development (see Figure 6). Interpretation of seismic undertaken to the south of the Maari field over the Matariki trend is ongoing with drilling targeted for late-2011, early-2012.

Figure 6: Greater Maari Area (GMA)



Source: Company data

Modelling

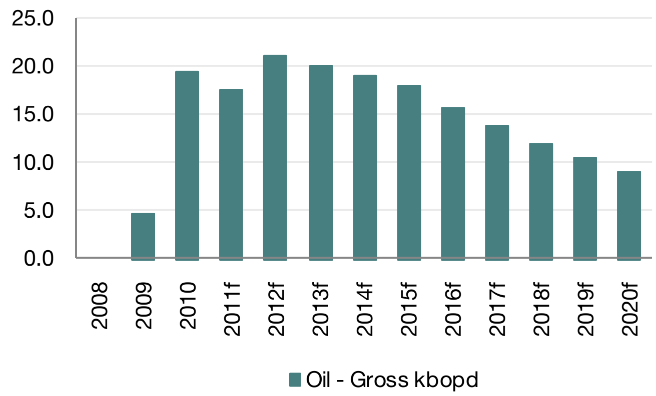
- Table 4 outlines our modelling assumptions for the Maari oil field development. Figure 7 and Figure 8 outline our production and cashflow forecasts.
- *Oil price.* Horizon entered marketing arrangements with OMV for the sale of its share of the crude oil. The crude is high quality and receives a premium to the Brent oil price.
- *FPSO purchase.* The FPSO is currently under a lease agreement. We understand Horizon has various options to purchase the vessel at certain dates – we assume Horizon exercises the April 2013 option at a net cost of less than USD5m.

Table 4: Maari – Modelling assumptions

Remaining oil resource - Maari-Moki	**49mmb**
- Maari-M2A	**10mmb**
- Manaia	**16mmb**
HZN working interest	10.0%
Development cost (USDm)	573
Development cost (USD/boe)	6.7
First oil production	Feb-09
Production rates (kbopd)	15-20
Production capacity (kbopd)	35
Production costs (USD/bbl, 2010 real)	20.1

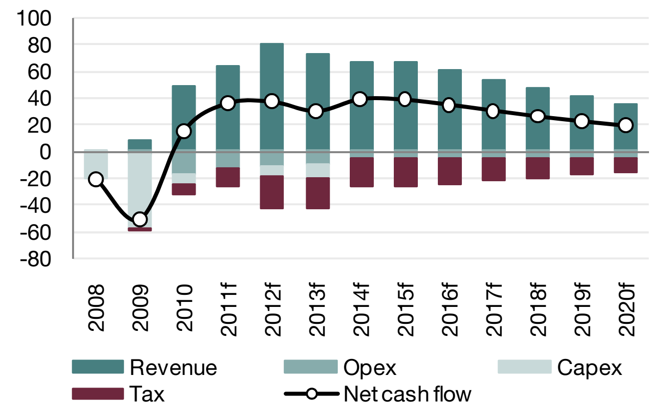
Source: Company data, CBA

Figure 7: Maari – production (gross - kbopd)



Source: Company data, CBA

Figure 8: Maari – net cash flow (USDm)



Source: Company data, CBA

China – Beibu Gulf

Location

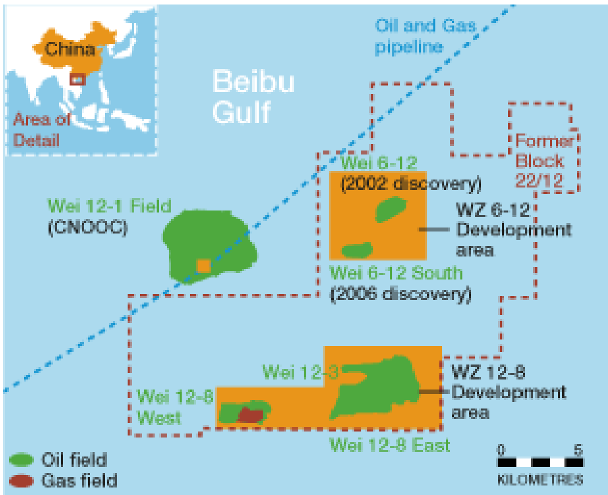
- The Beibu Gulf development is located offshore southern China and encompasses three oil fields including WZ 6-12, WZ 6-12 South and WZ 12-8 West (see Figure 9).

Development

- *Working interests.* Horizon has a 14.7% interest in the development; CNOOC is operator with 51.0% interest, other participants include Roc Oil 19.6%, Petsec Energy 12.25% and Majuka Corp 2.45%.
- *Development concept.* The development proposes to use existing CNOOC operated facilities, including water disposal wells, oil and gas export facilities, and the Weizhou Island oil terminal. Two unmanned platforms at WZ 6-12 and WZ 12-8 West will be connected via pipeline to a new integrated processing platform adjacent to the existing CNOOC operated WZ 12-1A processing platform (see Figure 10).

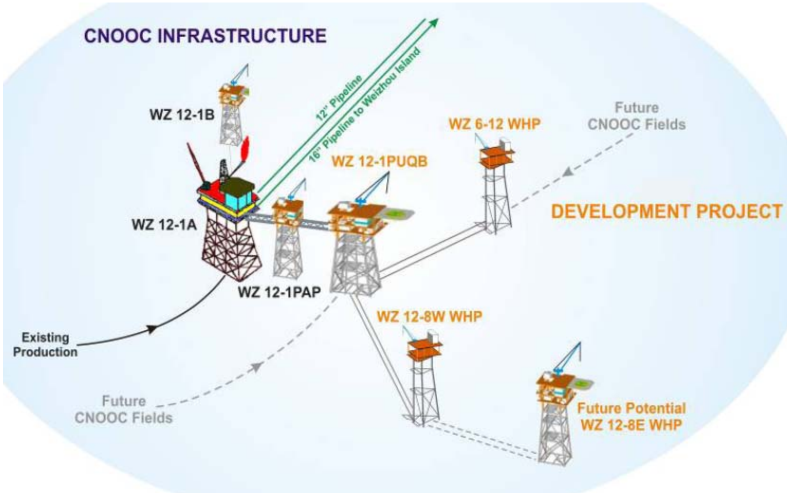
- *Project sanction.* In February 2011 the JV announced FID on the development. This followed the Project Investment and Overall Development Plan (ODP) being approved by CNOOC (the delegated authority) and submitted to the Chinese Government for formal approval.
- *Development underway.* Early development activities are underway. The development will have access to 20kbopd oil processing capacity, with development capital expenditure estimated at roughly USD300m. It is proposed that 11 development wells will be drilled over 2012-13 with first oil production scheduled for late 2012.
- *Development synergies.* The cooperative arrangements for the fields to be developed through existing infrastructure and processing facilities significantly reduces capital and operating expenditure requirements.

Figure 9: Beibu Gulf – Location



Source: Roc Oil

Figure 10: Beibu Gulf – Development plan



Source: Roc Oil

History

- *Block awarded in 2001.* The initial Block 22/12 was awarded to Horizon in 2001 for a period of four years.
- *Roc Oil farm-in 2002.* Roc Oil farmed into Block 22/12 in 2002, originally taking a 25% interest in the block which it later increased to 40% and acquired operatorship through another farm-in.
- *Discoveries in 2002 and 2006.* The joint-venture had oil discoveries at Wei 12-8-1 in 2002 and Wei 6-12S-1 in 2006.

Upside

- *WZ 12-8E development.* The WZ 12-8 East field is also located within the development area. Feasibility studies undertaken by CNOOC are nearing completion for the development of this field as a secondary phase to the integrated development. Horizon has booked WZ 12-8E 2P oil reserves of 2.6mmbbl (18mmbbl gross).
- *Near-field exploration.* Four exploration wells are proposed to be drilled as part of the development program for the Beibu Gulf project. These four wells will test 20-40mmbbl gross oil potential. Block 22/12 holds eight undrilled prospects which are estimated by JV partners to hold 100mmbbl gross oil potential.

Modelling:

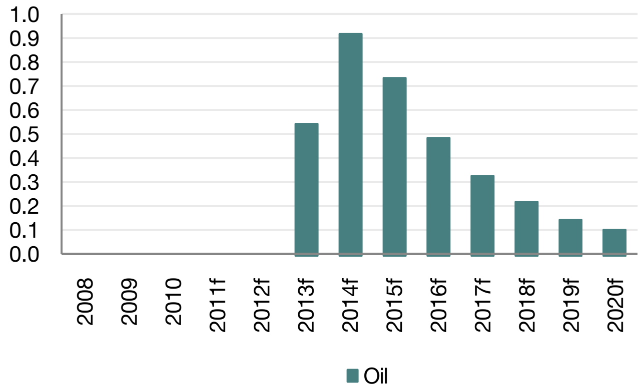
- Table 5 outlines our modelling assumptions. Figure 11 and Figure 12 outline our production and cashflow forecasts.

Table 5: Beibu Gulf – Modelling assumptions

Recoverable oil reserves	24mmb
HZN working interest	14.7%
Development cost (USDm)	300
Development cost (USD/bbl)	12.5
First oil production	Late-12
Production rates (kbopd, peak)	20.0
Production costs (USD/bbl, 2013 real excluding special windfall levy)	13.6

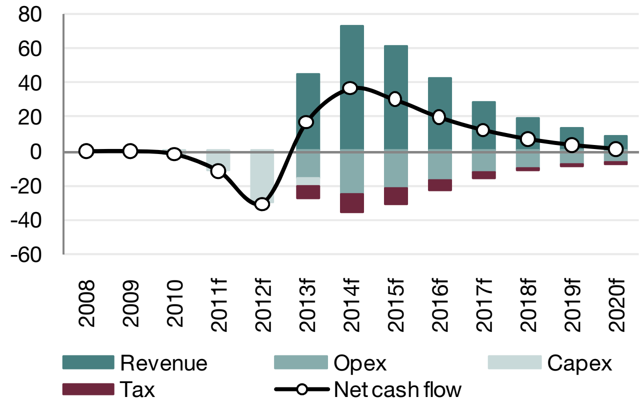
Source: Company data, CBA

Figure 11: Beibu Gulf – production (mmboe)



Source: Company data, CBA

Figure 12: Beibu Gulf – net cash flow (USDm)

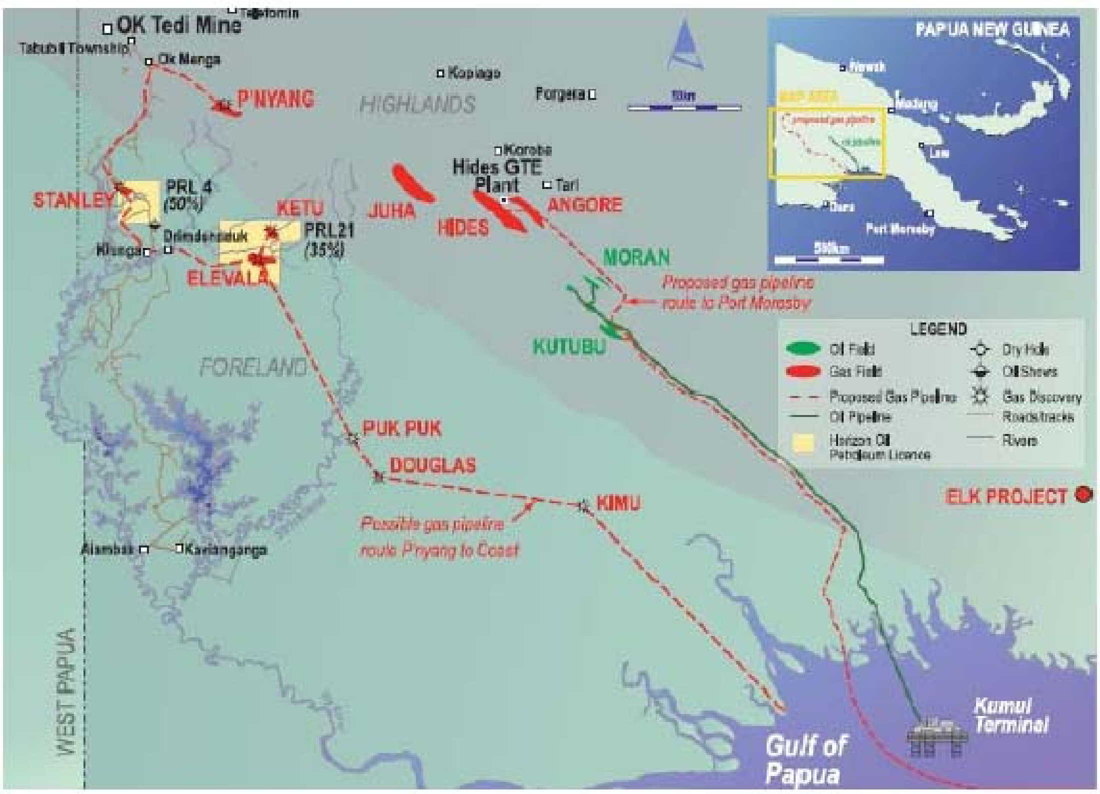


Source: Company data, CBA

PNG operations

- The PRL 4 (HZN 50%) and PRL 21 (HZN 35%) exploration permits are located in the western forelands of Papua New Guinea (see Figure 13). The Stanley gas-condensate field is located in PRL 4 and the Elevala and Ketu gas-condensate fields are located in PRL 21.
- Initial development concepts for the liquids rich gas fields are for gas recycling schemes in order to produce the high value and marketable condensate volumes. Domestic gas and export gas options offer further long-term upside for the material gas resource potential.

Figure 13: PNG – development locations



Source: Company data

PNG – Stanley gas-condensate field

Location

- The Stanley gas and condensate field is located in PRL 4 in the western forelands of Papua New Guinea (see Figure 13).

Development

- *Working interests.* Horizon has a 50% interest in the development and is the operator; Talisman holds the remaining 50% interest.
- *Liquids stripping development.* Independent experts have undertaken basis of design work for the development of a gas recycling/liquids stripping scheme over the Stanley gas field. The proposed development involves gas production (and reinjection) of 140mmscfd via two production wells. On the basis of 30 bbls/mmscf, peak production would initially be around 4kbbl/d of condensate and potentially 40tpd LPG. Gas reinjection will continue until the JV can realise potential domestic or export gas market options.
- *Project sanction targeted mid-2011.* FEED studies and export shipping routes are now largely complete. Evaluation of reservoir characteristics following drilling of Stanley-2 and Stanley-4 will assist in moving towards project sanction around mid-2011. The Stanley-2 well has been

completed as the first of two production wells and the Stanley-4 well recently reached target depth and will be completed as the second production well required for the development.

- *Field development plan lodged.* Horizon is progressing regulatory issues for the Stanley development with the Field development Plan recently being lodged with the Department of Petroleum and Energy (DPE). All documentation has been lodged with government departments for the Stanley Production Development License (PDL) required for the development.

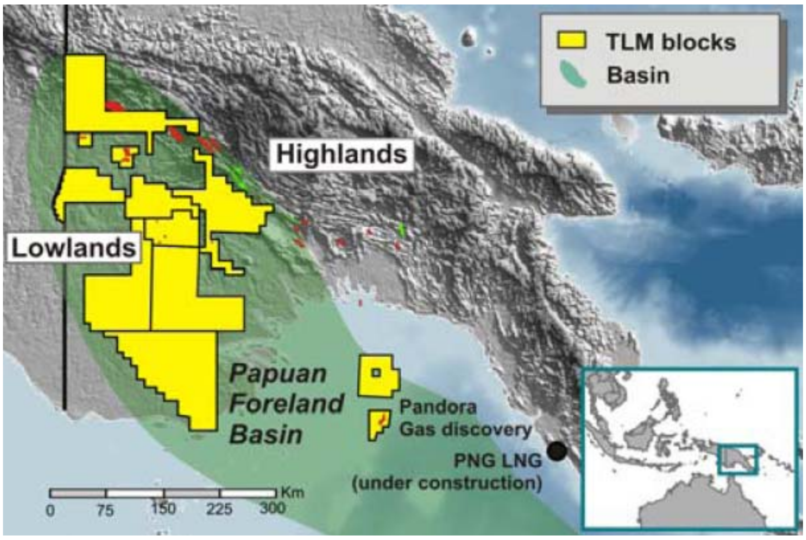
History

- *Discovery in 1999.* The Stanley field was discovered early 1999 by a JV led by Santos (and including Horizon).
- *Consolidation of JV by Horizon over 2006-2008.* In May 2006, Santos, AWE and Carnarvon Petroleum withdrew from PRL 4. During 2008, Horizon acquired Austral Pacific's and Interoil's remaining interests in PRL 4 and PRL 5 for USD10m.
- *Stanley-1 successful workover in 2008.* Stanley workover was successfully flowed at rates up to 30mmscfd with associated condensate production of 24 bbls/mmscf. The well was suspended as a gas reinjection well.
- *P3 Global Energy acquisition of half Horizon's PNG interests falls over.* In May 2009 Horizon announced the sale of half its PNG interests in PRL 4 and PRL 5 (now PRL 21) to P3 Global Energy for USD55m. In September 2009, the deal fell over due to P3 Global Energy not making required payments.
- *Talisman acquires 50% of PRL 4 and PRL 5 for USD60m.* In September 2009, following Horizon exercising it pre-emptive rights over Santos' 50% in PRL 5, Horizon sold 50% interest in PRL 4 for a total consideration of USD60m. The deal comprised: USD30m upfront, USD8m to be drawn down for capital expenditure, and USD22m deferred for expenditure requirements post PNG ministerial approval (of which USD11m has recently been received).

Upside

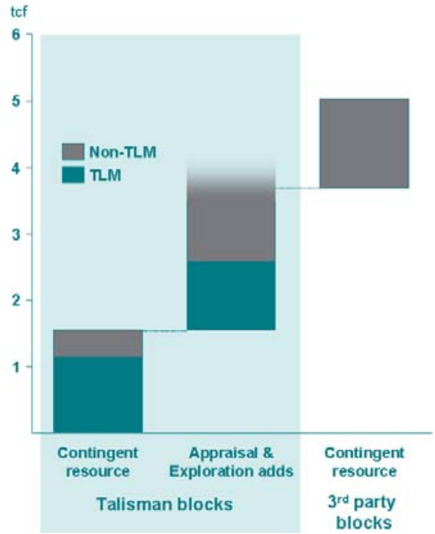
- *Gas commercialisation - domestic.* Preliminary negotiations are ongoing for the supply of gas production to regional customers. The results from Stanley-2 and Stanley-4 will assist in enhancing reserves certainty which is likely required for gas sales agreements.
- *Gas commercialisation – export via Talisman gas aggregation.* Talisman has a significant acreage position in the PNG western forelands and offshore PNG in the Coral Sea (see Figure 14). They estimate total contingent resource of 1.6tcf in its permit areas (1.0tcf at Pandora) and are looking to prove up an additional 2.0tcf (see Figure 15). The company initially aims to prove up and aggregate a total of 2.0-4.0tcf of gas for export and are in discussions with various parties regarding development of liquefaction capacity.

Figure 14: Talisman PNG Blocks – forelands and offshore



Source: Talisman

Figure 15: Talisman PNG resource potential



Source: Talisman

Risks

- *Development risk.* The Stanley development is not a complex development however there are a number of development risks. This will be Horizon's first operated development – Talisman's participation in the process will reduce the risk and longer-term we would assume that operatorship will transfer to Talisman upon development of the gas resource. Potential risks to the development also include: development costs, gas production rates, liquids content of the gas, export routes and government participation.

Modelling

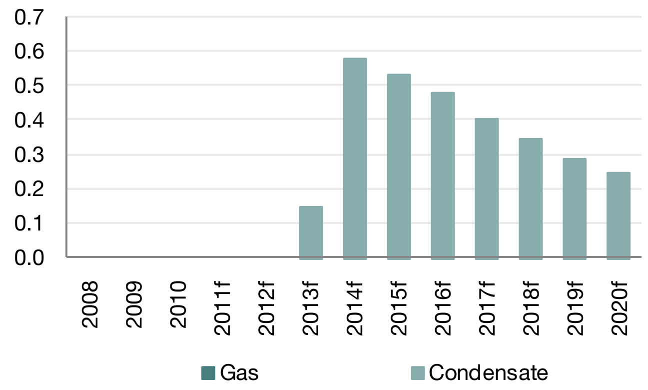
- Table 6 outlines our modelling assumptions. Figure 16 and Figure 17 outline our production and cashflow forecasts.

Table 6: Stanley – Modelling assumptions

Condensate resource	**9.0mmb**
Gas resource	**284bcf**
HZN working interest	38.8%
Development cost - gas recycling (USDm)	200
Development cost - gas recycling (USD/boe)	22.2
First production	1H13
Gas recycle rate (mmscf/d)	140.0
Peak liquids production (bbl/mmscf)	30.0
Peak liquids production (kbcpd)	4.1
Production costs (USD/bbl, 2013 real)	6.0

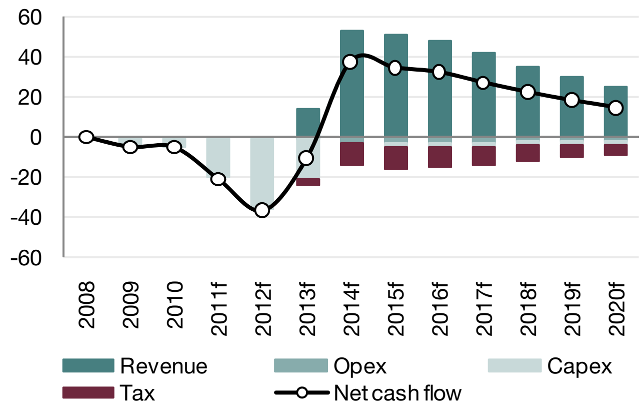
Source: Company data, CBA

Figure 16: Stanley – production (mmboe)



Source: Company data, CBA

Figure 17: Stanley – net cash flow (USDm)



Source: Company data, CBA

PNG – Elevala and Ketu gas-condensate fields

Location

- The Elevala and Ketu gas and condensate fields are located in PRL 21 around 65km from PRL 4 in the western forelands of Papua New Guinea (see Figure 13).

Development

- *Working interests.* Horizon has a 35% interest in the development and is the operator; other joint-venture partners include Talisman 35%, Dabajodi 20% and Elevala Energy 10%.
- *Liquids stripping development.* We have assumed that the Elevala and Ketu gas-condensate fields are also initially developed via liquids stripping/gas recycling scheme ahead of development of domestic or export gas routes. Initial resource estimates from the company suggest that the gas is of a significantly higher liquids content that the Stanley gas field. Current resource assumptions suggest 64 bbls/mmscf at Elevala/Ketu compared to around 32 bbls/mmscf from Stanley.

History

- *Resolution of ownership in March-2011.* The Santos-led PRL 5 was refused an application for extension to the original retention licence (now PRL 21) in November 2010. Horizon settled legal action in March 2011 which has resulted in Horizon regaining a 70% interest in the petroleum retention licence. In line with arrangements with Talisman, Horizon has transferred a 35% interest in PRL 21 to Talisman, subject to ministerial consent. Horizon has subsequently received USD11m of the outstanding USD22m payments from Talisman, with the final payment reliant on additional PNG Government approvals.

Modelling

- Table 7 and Table 8 outline our modelling assumptions for the Elevala and Ketu developments. Figure 18 and Figure 19 outline our production and cashflow forecasts for the two developments.
- Ahead of field appraisal and confirmation of the field development plan, we are relatively conservative regarding our development assumptions on the timing of first production, liquids content of the gas and development costs.
- We assume the development of Elevala initially at gas recycling rates of 140mmscfd at rates of up to 50 bbls/mmscf – this represents peak liquids production of 6.8kbcpd. We assume Ketu is developed two years later at gas recycling rates of 70mmscfd – adding an additional 3.4kbcpd peak liquids production capacity.

Table 7: Elevala – Modelling assumptions

Condensate resource	**19.4mmb**
Gas resource	**302bcf**
HZN working interest	27.1%
Development cost - gas recycling (USDm)	350
Development cost - gas recycling (USD/boe)	18.0
First production	2H15
Gas recycle rate (mmscf/d)	140.0
Peak liquids production (bbl/mmscf)	50.0
Peak liquids production (kbcpd)	6.8
Production costs (USD/bbl, 2015 real)	8.1

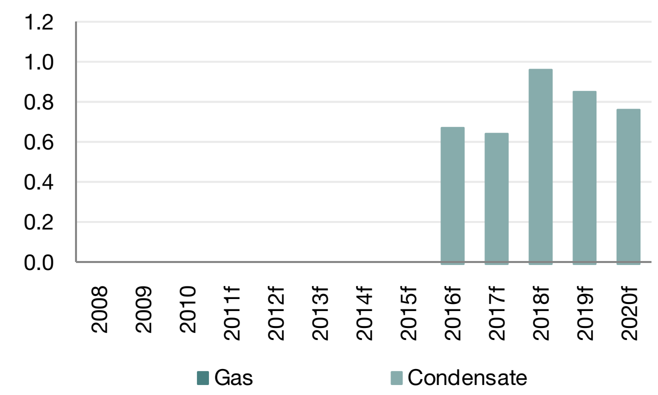
Source: Company data, CBA

Table 8: Ketu – Modelling assumptions

Condensate resource	**6.4mmb**
Gas resource	**106bcf**
HZN working interest	27.1%
Development cost - gas recycling (USDm)	150
Development cost - gas recycling (USD/boe)	23.4
First production	2H17
Gas recycle rate (mmscf/d)	70.0
Peak liquids production (bbl/mmscf)	50.0
Peak liquids production (kbcpd)	3.4
Production costs (USD/bbl, 2015 real)	8.1

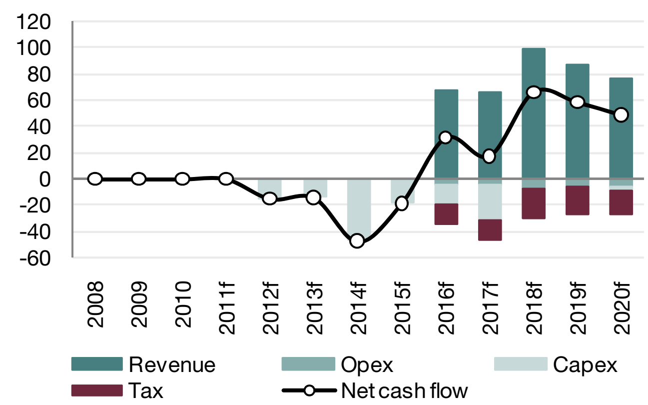
Source: Company data, CBA

Figure 18: Elevala/Ketu – production (mmboe)



Source: Company data, CBA

Figure 19: Elevala/Ketu – net cash flow (USDm)



Source: Company data, CBA

Exploration

Horizon's drilling program is quite material in the near-term, with drilling likely to confirm additional near-field resources for development. Key exploration and appraisal prospects are outlined below:

- Stanley-4 (HZN 50%) will serve as an appraisal and second of two production wells and recently reach target depth.
- Sepalosiphon-1 (HZN 0%). Post Stanley-4 the rig is likely to move to the Sepalosiphon-1 exploration prospect in the permit adjacent to PRL 4. Horizon estimate half the prospect crosses the boundary into PRL 4.
- Elevala-2 and Ketu-2 (HZN 35%) appraisal wells to further define the PRL 21 gas-condensate fields.
- Beibu Gulf (HZN 14.7%). Four exploration wells are proposed to be drilled as part of the development program for the Beibu Gulf project over 2011-2012. These four wells will test 20-40mmbbl gross oil potential. Block 22/12 holds eight undrilled prospects which are estimated by JV partners to hold 100mmbbl gross oil potential.
- Matariki trend (HZN 30%). Horizon also holds a 30% interest in the PEP 51313 exploration permit adjacent to the Maari development (see Figure 6). Interpretation of seismic undertaken to the south of the Maari field over the Matariki trend is ongoing with drilling targeted for late-2011/early-2012.

Table 9: HZN – key upcoming drilling program

Prospect	Location	Permit	HZN	Resource		2011			2012	
			interest	est.	1Q	2Q	3Q	4Q	1H	2H
Stanley-4	PNG	PRL 4	50%	9mmb/284bcf		now				
Sepalosiphon-1	PNG	PPL 269 (borders PRL 4)	0%	10mmb/300bcf						
Elevala-2	PNG	PRL 21	35%	19.4mmb/303bcf						
Ketu-2	PNG	PRL 21	35%	6.9mmb/106bcf						
Beibu Gulf x 4	China	Block 22/12	14.7%	20-40mmb					over 2011-12	
Matariki trend	New Zealand	PEP 51313	30%	20-50mmb					late-11, early-12	

Source: Company data, CBA

Financials and valuation

Horizon's interest in the Maari oil field development currently represents the largest component of our earnings forecasts and valuation for the company. Beibu Gulf oil and PNG condensate developments offer near-term growth – with the PNG fields offering significant long-term upside potential through commercialisation of gas resources. We see Horizon as requiring additional funding to meet capital expenditure requirements for its development portfolio.

Production and reserves

Production

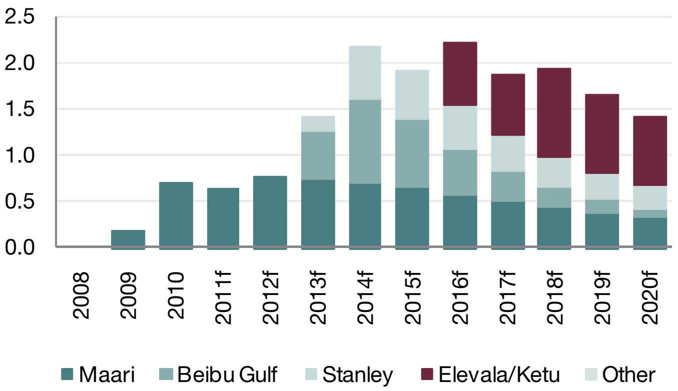
We forecast Horizon's total liquids related production to average approximately 1.0-2.0mmboe over the 2013-2020f period (see Table 10). Near-term the Beibu Gulf oil and Stanley liquids stripping developments are core to the growth outlook. Over the medium term the newly recovered Elevala and Ketu gas-condensate fields offer material contribution initially through the commercialisation of the liquids resource base. Longer-term the PNG gas portfolio offers material production growth potential through both domestic and gas aggregation export options [not included in our forecasts ahead of gas sales agreements]. Further potential upside exists from Maari and Beibu Gulf from near-field exploration and appraisal additions.

Table 10: HZN - production forecast and breakdown

Production forecast	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f	2020f
Gas (bcf)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LPG (kt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil (mmbbl)	0.0	0.2	0.7	0.6	0.8	1.3	1.6	1.4	1.1	0.8	0.6	0.5	0.4
Condensate (mmbbl)	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.5	1.1	1.0	1.3	1.1	1.0
Total (mmboe)	**0.0**	**0.2**	**0.7**	**0.6**	**0.8**	**1.4**	**2.2**	**1.9**	**2.2**	**1.9**	**1.9**	**1.6**	**1.4**
Forecasts by Field													
Maari													
Oil (mmbbl)	0.0	0.2	0.7	0.6	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.3
Total (mmboe)	0.0	0.2	0.7	0.6	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.3
Beibu Gulf													
Oil (mmbbl)	0.0	0.0	0.0	0.0	0.0	0.5	0.9	0.7	0.5	0.3	0.2	0.1	0.1
Total (mmboe)	0.0	0.0	0.0	0.0	0.0	0.5	0.9	0.7	0.5	0.3	0.2	0.1	0.1
Stanley													
Gas (bcf)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Condensate (mmbbl)	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.5	0.5	0.4	0.3	0.3	0.2
Total (mmboe)	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.5	0.5	0.4	0.3	0.3	0.2
Elevala/Ketu													
Gas (bcf)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Condensate (mmbbl)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.6	1.0	0.8	0.8
Total (mmboe)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.6	1.0	0.8	0.8

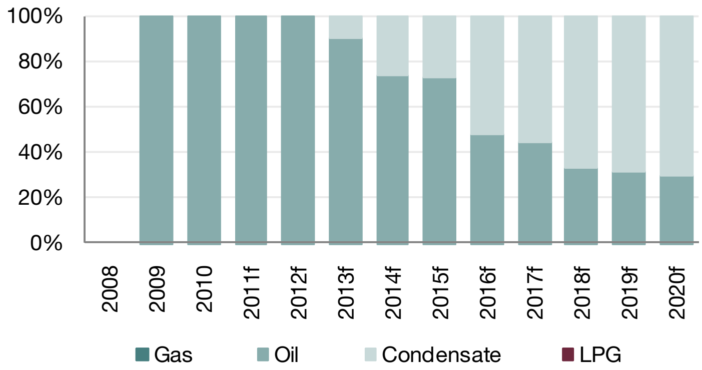
Source: Company data, CBA

Figure 20: HZN – production outlook (mmboe)



Source: Company data, CBA

Figure 21: HZN – production mix



Source: Company data, CBA

Reserves

Horizon's proved and probable (2P) reserves position is 12.2mmboe with the Maari and Beibu Gulf oil developments each roughly representing around half the company's reserve base (see Table 11). Horizon's current reserves position is entirely composed of high value oil assets. Horizon's contingent resource base of 49.2mmboe (reflects adjustment for potential PNG state back-in for PRL 4 and PRL 21) is primarily composed of their PNG gas-condensate fields (see Figure 22). As highlighted earlier, initial commercialisation of these assets will focus on liquids stripping; commercialisation of the material gas resource base, through domestic or export markets, offers material long-term reserves growth potential.

Horizon is trading on an enterprise value to proved and probable (2P) reserves ratio of USD34.0/boe. We do recognise however, that there are issues with the use of this ratio to identify under/overvalued stocks given that it ignores the quality and value of reserves. The key parameters overlooked (or simplified) are the product mix and mix of developed and undeveloped reserves. By including development costs in the enterprise value we feel we largely remove the issue of developed versus undeveloped reserves, however, the product mix seriously undermines the use of this metric given the various hydrocarbon products have significantly different values. We estimate this metric reduces to USD11.3/boe when including contingent resources and estimated development costs for the resources in PNG and New Zealand (see Figure 23).

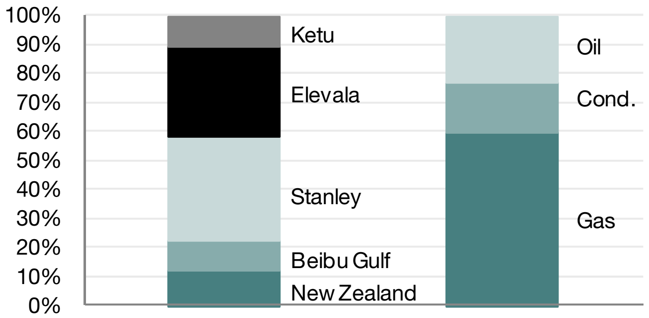
Table 11: HZN – reserves summary, as at 30 June 2010 (HZN share)*

Area	Oil (mmbbl)	Condensate (mmbbl)	Sales Gas (PJ)	LPG (kt)	Total (mmboe)
Proved and probable (2P)					
Maari (Moki)	5.1				5.1
Maari (M2A)	0.3				0.3
Manaia (Mangahewa)	0.5				0.5
Beibu (WZ 6-12 & 12-8W)	3.7				3.7
Beibu (WZ 12-8E)	2.6				2.6
Total proved and probable	**12.2**	**0.0**	**0**	**0**	**12.2**
Additional resources (est)					
Maari (M2A)	0.7				0.7
Manaia (Mangahewa)	1.1				1.1
Stanley		3.5	110		21.8
Elevala		5.3	82		19.0
Ketu		1.9	29		6.6
Total estimated resources	**1.8**	**10.6**	**221**	**0**	**49.2**

Source: Company data, CBA

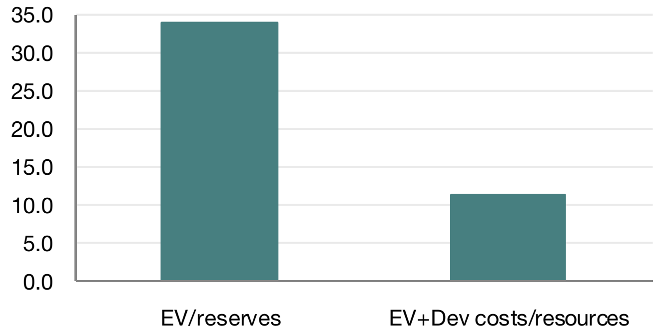
*Note: * Adjusted for assumed 22.5% reduction in equity at PRL 4 and PRL 21 for PNG state nominee*

Figure 22: HZN – reserves breakdown (3P)



Source: Company data, CBA

Figure 23: HZN – EV/Reserves and resources



Source: Company data, CBA
*Note: *As at 4 April 2011*

Earnings and returns

Earnings outlook

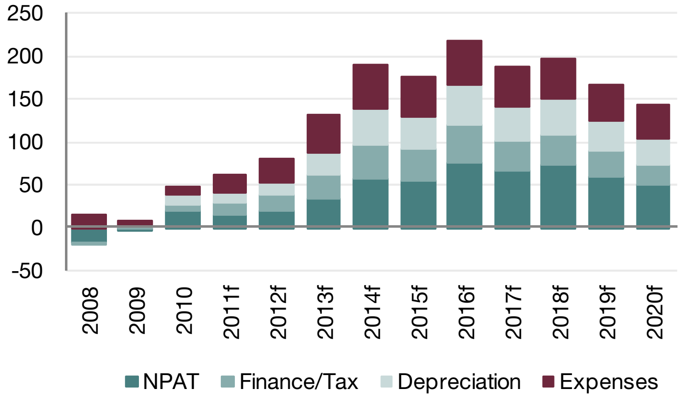
We forecast Horizon to report largely flat underlying NPAT over the FY10-12 forecast period of between USD17-20m (see Table 12). Maari is the sole source of income over the FY11-12f period with the Beibu Gulf oil and Stanley liquids developments set to contribute materially to earnings growth from 2013. Liquids stripping at Elevala and Ketu, and ultimately gas production from the company's PNG asset portfolio, offers long-term growth potential.

Table 12: HZN – earnings forecast and breakdown

Profit & Loss (USDm)	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f	2020f
WTI oil price (USD/bbl)	96.8	70.0	75.0	88.8	102.5	97.7	93.4	97.9	102.9	104.6	104.8	104.6	104.3
Profit & loss (USDm)													
Gas Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
LPG Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Oil Sales	0	8	48	63	81	118	139	127	103	82	66	53	43
Condensate Sales	0	0	0	0	0	14	52	51	115	106	132	116	101
Total Sales Revenue	**0**	**8**	**48**	**63**	**81**	**131**	**191**	**178**	**218**	**188**	**198**	**168**	**144**
Operating Expenses	0	-1	-3	-13	-12	-28	-37	-34	-36	-31	-32	-28	-26
Exploration Expenses	-13	-1	0	-4	-8	-8	-8	-8	-8	-8	-8	-8	-8
Impairment Losses	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Net Expenses	-3	2	-38	-29	-6	-6	-6	-6	-6	-6	-6	-6	-6
EBITDA	**-17**	**-4**	**72**	**63**	**55**	**89**	**140**	**130**	**168**	**143**	**152**	**126**	**105**
Depn & Amortisation	0	-3	-12	-11	-15	-26	-42	-38	-46	-40	-42	-36	-31
EBIT	**-17**	**-7**	**60**	**52**	**40**	**63**	**98**	**92**	**122**	**103**	**110**	**90**	**74**
Net Interest	1	-3	-3	-2	-1	-5	-6	-5	-5	0	1	2	3
Profit before tax	**-16**	**-9**	**57**	**49**	**39**	**58**	**92**	**87**	**117**	**104**	**111**	**92**	**77**
Tax expense	0	1	-4	-10	-19	-24	-34	-33	-41	-36	-38	-32	-26
NPAT	**-16**	**-8**	**52**	**39**	**20**	**34**	**58**	**54**	**76**	**67**	**73**	**61**	**50**
Exceptional Items	0	-6	33	22	0	0	0	0	0	0	0	0	0
NPAT Underlying	**-16**	**-2**	**20**	**17**	**20**	**34**	**58**	**54**	**76**	**67**	**73**	**61**	**50**
Divisional EBIT													
Maari	0	2	19	39	54	49	47	47	43	38	33	28	23
Beibu Gulf	0	0	0	0	0	21	35	29	19	12	6	3	0
Stanley	0	0	0	0	0	9	32	32	31	26	22	18	15
Elevala/Ketu	0	0	0	0	0	0	0	0	47	46	68	60	53
Other	-17	-3	9	-10	-14	-14	-16	-16	-19	-18	-19	-19	-18
Total EBIT	**-17**	**0**	**27**	**30**	**40**	**63**	**98**	**92**	**122**	**103**	**110**	**90**	**74**

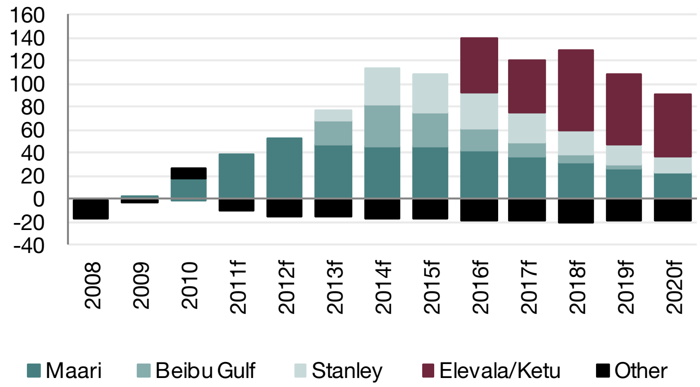
Source: Company data, CBA

Figure 24: HZN – NPAT breakdown (USDm)



Source: Company data, CBA

Figure 25: HZN – EBIT breakdown (USDm)



Source: Company data, CBA

Returns and other metrics

As also highlighted in the previous table, we forecast significant earnings growth over the medium-term FY11-FY14 forecast period – averaging >50% pa (see Table 13). ROE over the next decade is also set to average above mid teens. The longer-term outlook may benefit further from the outcomes regarding PNG gas commercialisation.

Table 13: HZN – Performance metrics*

Performance Metrics	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f	2020f
Production (mmboe)	0.0	0.2	0.7	0.6	0.8	1.4	2.2	1.9	2.2	1.9	1.9	1.6	1.4
Normalised profit (USDm)	-16.0	-2.0	19.7	16.8	19.7	33.9	57.8	54.0	75.7	67.2	73.2	60.7	50.4
Normalised EPS (USc)	-2.1	-0.2	1.7	1.5	1.7	3.0	5.1	4.8	6.7	5.9	6.5	5.4	4.4
EPS growth (%)	0%	-89%	n/a	-15%	17%	72%	71%	-7%	40%	-11%	9%	-17%	-17%
CFPS (USc)	-0.4	0.4	2.9	3.1	2.2	5.5	8.7	8.9	10.7	10.5	10.7	9.7	8.2
FCFPS (USc)	-3.1	-2.7	2.2	0.2	-5.7	1.1	4.5	7.1	9.3	8.0	10.5	9.5	7.8
DPS (USc)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/E (x)	-18.0	-58.1	14.7	25.4	19.2	10.8	6.3	6.8	4.8	5.4	4.8	5.7	6.7
P/CF (x)	-105.8	37.0	8.7	12.3	15.1	5.8	3.7	3.6	3.0	3.0	2.9	3.2	3.6
P/FCF (x)	-12.2	-5.0	11.6	225.2	-5.9	28.8	7.2	4.5	3.5	4.0	3.0	3.2	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EV/EBITDA (x)	-18.7	-59.2	4.2	6.9	8.3	5.0	2.9	2.6	1.5	1.2	0.4	-0.3	-1.2
ROE (%)	-37%	-4%	23%	13%	12%	18%	24%	19%	21%	16%	15%	11%	8%

Source: Company data, CBA

*Note: *As at 4 April 2011*

Balance sheet and cash flow

Based on our modelling we see Horizon as requiring additional funding to meet capital expenditure requirements for its existing portfolio of development opportunities (see Table 14).

Horizon anticipate that funding will largely be financed through a combination of operational cashflow and debt facilities. The company is currently looking into replacing the existing Maari project financing facility to a larger reserves-base facility which would also encompass the PNG assets. We see the potential for this to be supplemented with an equity raising.

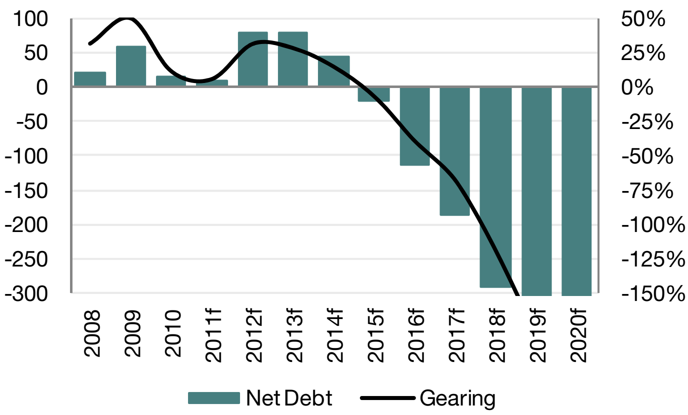
Table 14: HZN – Balance sheet and cash flow

Balance Sheet (USDm)	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f	2020f
Cash & deposits	20	10	27	2	9	16	52	118	123	199	303	395	469
Debt	39	69	40	11	86	96	96	96	11	11	11	11	11
Shareholders' equity	43	61	114	154	173	207	265	319	395	462	535	596	646
Total assets	95	140	172	178	272	323	384	437	429	494	567	627	676
Net debt / (Net debt + equity)	31%	49%	11%	5%	31%	28%	14%	-7%	-40%	-69%	nm	nm	nm
EBITDA / gross interest (x)	-484	-1.5	24.6	25.7	86.3	17.4	24.4	22.7	29.3	226.2	240.8	200.0	165.9

Cashflow (USDm)	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f	2020f
Profit after taxation	-16	-8	52	39	20	34	58	54	76	67	73	61	50
D & A, Impairments	0	3	12	11	15	26	42	38	46	40	42	36	31
Exploration Expense	13	1	0	4	8	8	8	8	8	8	8	8	8
Working Capital Movements	9	-3	-4	-8	-6	-4	-10	2	-8	5	-2	5	4
Other	-8	11	-27	-11	-11	0	0	0	0	0	0	0	0
Cash from operating activities	-3	3	33	35	25	63	98	101	122	119	121	109	93
Development capex	-21	-26	-8	-33	-90	-50	-47	-20	-16	-28	-2	-2	-5
Exploration capex	-23	-16	-11	-8	-15	-15	-15	-15	-15	-15	-15	-15	-15
Acquisitions/other	0	0	30	11	11	0	0	0	0	0	0	0	0
Net investing cash flows	-44	-42	11	-30	-94	-65	-62	-35	-31	-43	-17	-17	-20
Net financing cash flows	46	30	-29	-29	75	10	0	0	-85	0	0	0	0
Net change in cash	**0**	**-9**	**16**	**-25**	**7**	**8**	**36**	**66**	**5**	**75**	**104**	**92**	**74**

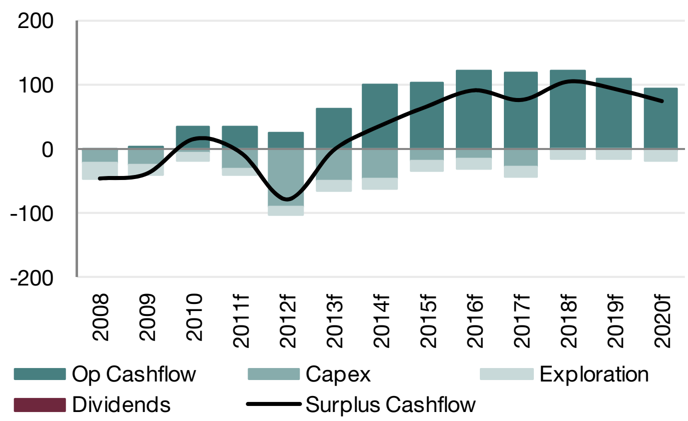
Source: Company data, CBA

Figure 26: HZN – Net debt to equity (%) and Net debt (USDm)



Source: Company data, CBA

Figure 27: HZN – Cash flow (USDm)



Source: Company data, CBA

Valuation

DCF valuation breakdown

In terms of valuation breakdown, the Maari oil field is the single largest asset in our valuation contributing 43% to our valuation. The PNG gas-condensate assets also make a significant contribution to our valuation with the liquids-stripping developments at Stanley, Elevala and Ketu making up around a third of our valuation. Ahead of gas sales agreements, we currently value the PNG gas resource at AUD0.50/mscf, which is included in our valuation of other assets.

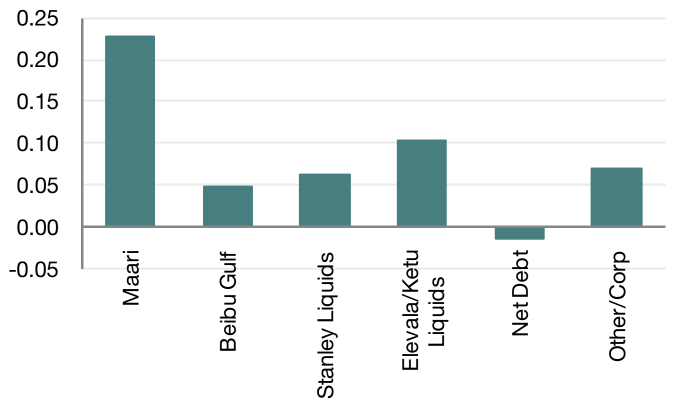
Our DCF valuation is based on the following assumptions: WACC 10.4%, risk-free rate 5.5%, equity risk premium 6.0% and beta 1.3.

Table 15: HZN – DCF net asset valuation

HZN Valuation	AUDm	AUDps	Risk	Production mmboe	USD/boe
Maari	258	0.23	100%	7	31.6
Beibu Gulf	54	0.05	100%	4	12.0
Stanley Liquids	70	0.06	100%	3	15.8
Elevala/Ketu Liquids	118	0.10	100%	7	13.2
Total Operations	**500**	**0.44**		21	19.6
Other Assets	130	0.12			
Net Cash/(Debt)	-14	-0.01			
Corporate	-50	-0.04			
Total Valuation	**566**	**0.50**			

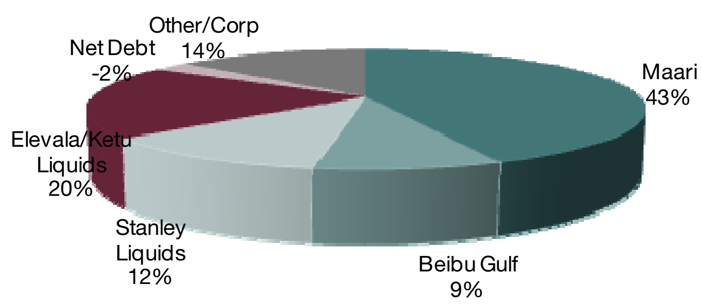
Source: Company data, CBA

Figure 28: HZN – DCF valuation breakdown (AUDps)



Source: Company data, CBA

Figure 29: HZN – DCF valuation breakdown (ex net debt and other/corporate) (%)



Source: Company data, CBA

Valuation sensitivities

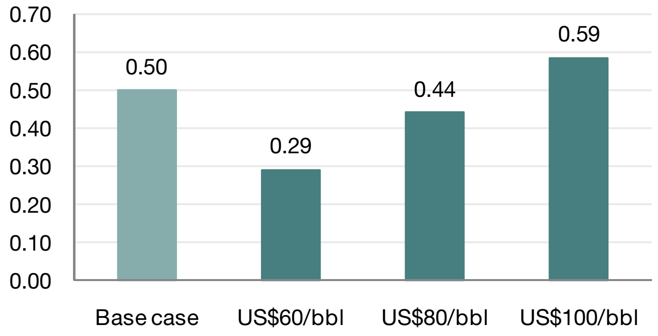
We project our DCF-based valuation for Horizon on a range of oil price assumptions. Given Horizon's portfolio is largely focussed on oil developments the company is highly leveraged to movements in forecast oil prices (see below).

Table 16: HZN – DCF net asset valuation sensitivities (AUDps)

Total DCF net asset value	**0.50**
WTI oil price sensitivity (2011 real)	
US$60/bbl	0.29
US$80/bbl	0.44
US$100/bbl	0.59
Discount rate sensitivity	
8%	0.58
10%	0.51
12%	0.45

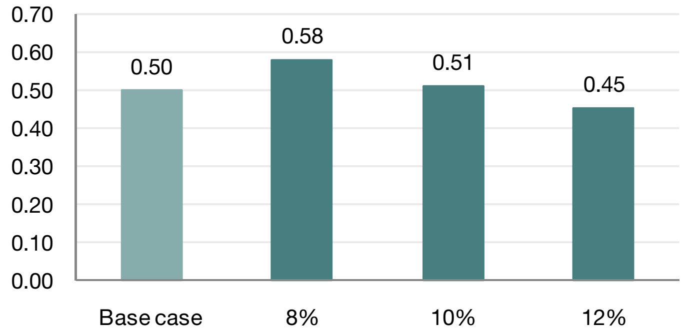
Source: Company data, CBA

Figure 30: HZN – valuation WTI oil price sensitivities (AUDps)



Source: Company data, CBA

Figure 31: HZN – valuation WACC sensitivities (AUDps)



Source: Company data, CBA

Current recommendation definitions

CBA Institutional Equities Investment recommendations are determined by the covering analyst and reflect the analyst's assessment of a stock's expected total shareholder return (TSR). TSR is calculated as the difference between the analyst's 12-month price target and the current share price plus the forecast dividend yield.

Buy: Stocks with a Buy recommendation represent the most attractive stocks under the analyst's coverage. They are forecast to generate significantly positive expected total shareholder returns.

Hold: Stocks with a Hold recommendation are less attractive than stocks with a Buy recommendation. They are forecast to generate flat to slightly positive expected total shareholder returns.

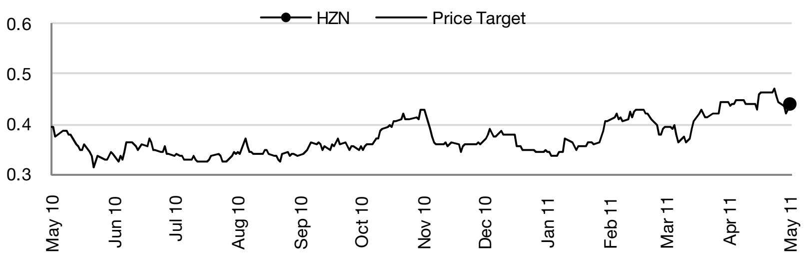
Sell: Stocks with a Sell recommendation are the least attractive stocks. They are forecast to generate flat or negative expected total shareholder returns.

Note: CBA's previous recommendations prior to 25 January 2010 were:

Short term (over 6 months): Buy – appreciate by >10%, Accumulate – increase between 2% and 10%, Reduce – increase by less than 2% or fall by up to 5%,Sell – fall by >5%.

Long term (24 months) Outperform (O / P) – exceed market return by >5%, Market Perform (M / P) – be in line with market return, +/-5%, Under Perform (U / P) – be less than market return by >5%.

One year history of price target and recommendation changes



Date	Price Target ($)	Recommendation
5/05/2011	0.50	BUY

Source: CBA Equities, IRESS

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