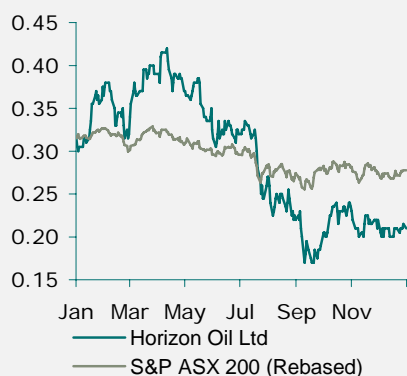


PNG coming to the fore

17.01.2012

HZN vs S&P ASX 200 (12m)



Share price and target

Price	AUD	0.21
Price target 12m	AUD	0.37
Prev. Recommendation		Buy

Key data per share

Book value	USD	0.13
P/Book	X	1.60
EPS gr11-14e	%cagr	27.5%
Sales gr11-14e	%cagr	67.3%
PE12e/EPS gr	X	1.1

Financial structure

Market cap.	AUDm	237.5
Market cap.	USDm	244.2
Net int. bear debt	USDm	112.7
Enterprise value	USDm	357.0
Shares outst.	Millions	1,131
Equity/tot assets	%	43.3

Share price performance

Abs. 1/3/12m		-2/10/-32
Rel. 1/3/12m		-6/11/-23
High/Low 12m	AUD	0/0
S&P ASX 200	index	4195.9
30days volatility	%	52

Company attributes

Reuters ticker	HZN.AX
Energy	
Oil	
Australia	

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Please see the next to last two pages for important information.

Horizon Oil is due to release its quarterly activities report and H1 2011/12 report at the end of January and late February 2012, respectively. For H1, we expect revenues of USD30m, EBITDA of USD20m and net profit of USD4m, below consensus of USD35m, USD26m and USD9m, respectively. For Q4 CY2011, we expect a ~4% quarterly increase in the daily net production rate from Horizon's Maari field in New Zealand, to 1,475 boepd. Our production expectation for 2011/12 is 530,705 boe (net), driven solely by this field. We believe that our deviation from consensus for 2011/12 is due largely to our lower production forecasts. Nonetheless, common stock remains attractively priced, with the market, in our view, attributing little-to-no value to its PNG assets. We reiterate our BUY recommendation and AUD0.37 target price.

Year end Jun		2009	2010	2011	2012e	2013e	2014e
EPS	USD	0.00	0.05	0.03	0.01	0.02	0.06
EPS adj	USD	0.00	0.05	0.03	0.01	0.02	0.06
Dividend ps	USD	0.00	0.00	0.00	0.00	0.00	0.00
P/E	X	nm	5.5	11.6	30.6	10.0	3.4
P/E adj	X	nm	5.5	11.6	30.6	10.0	3.4
Dividend yield	%	0.0	0.0	0.0	0.0	0.0	0.0
P/Book	X	2.70	2.54	2.66	1.52	1.32	0.95
EV/EBITDA adj	X	nm	7.7	9.6	6.9	3.7	1.4
EV/EBIT adj	X	nm	5.1	7.5	8.9	4.8	2.0
Revenue	USDm	8	48	59	61	129	278
EBITDA	USDm	3	40	43	40	90	194
EBIT	USDm	0	27	32	31	68	136
Revenue growth	%	nm	489.3	23.7	3.4	110.7	114.8
EBITDA growth	%	nm	1384.0	8.3	-6.7	124.5	116.5
EPS growth	%	nm	nm	-33.5	-77.2	206.0	196.8
EBITDA margin	%	32.7	82.3	72.1	65.1	69.3	69.9
ROCE adj	%	nm	38.6	24.5	10.0	18.8	31.3
ROE	%	nm	59.8	26.2	5.1	14.1	32.8

- Success at Elevala-2 in PRL 21.** The Elevala-2 appraisal well intersected 18m of gas/condensate interval in the primary Elevala sandstone target with no water indication; thicker and better developed than that in the Elevala-1 discovery. The well tested reasonably strong gas flow rates of 11.9 mmscf/day and 634 boepd (54 deg API) of condensate. This roughly equates to 2,617 boepd on a gross basis. At ~53 barrels of condensates for every million cubic feet of gas, this arguably makes PRL 21 one of the more attractive wet gas permits in PNG's Western Province.
- Drilling side-track to determine northern extent of hydrocarbon accumulation.** With Elevala-2, the original intent was to test the northern extent of the hydrocarbon accumulation, ~60m down-dip of Elevala-1. The gas zone was encountered higher than expected, approximately 20m down-dip with no water leg, indicating that the field extends farther north than originally anticipated. This prompted the drilling of a side-track to map the northern extent.
- Stanley condensates stripping plant to take FID soon.** We believe that Horizon and partners could take an FID on the condensate stripping plant (PRL 4) in the coming quarter. In its company presentation, Talisman focused on liquid-rich projects in 2012, and we therefore believe it would support an FID.
- Valuation and recommendation.** We reiterate our BUY recommendation and AUD0.37 target price. Common stock remains attractively priced with the market attributing little-to-no value to its PNG assets.

H1 2011/12 results preview

Horizon Oil is due to release its quarterly activities report and H1 2011/12 report at the end of January 2012 and late February 2012, respectively. For H1, we expect revenue of USD30m, EBITDA of USD20m and net profit of USD4m, below consensus of USD35m, USD26m and USD9m, respectively. For Q4 CY2011, we expect production from its Maari field in New Zealand to have seen a ~4% quarterly increase in the daily net production rate to 1,475 boepd. Our production expectation for FY 2011/12 is 530,705 boe (net), driven solely by this field. We believe that our deviation from consensus for FY 2011/12 is due largely to our lower production forecasts.

Figure 1: H1 2011/12 results preview

USDm	H1/11 Reported	H1/12E DNM	H1/12E Cons. *	DNB vs Cons	DNB estimates			Consensus estimates			DNB vs consensus		
					2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Revenue	25	30	35	-14%	61	129	278	70	127	238	-12%	2%	17%
EBITDA	14	20	26	-23%	40	90	194	51	87	172	-22%	3%	13%
EBITDA margin	56%	66%	73%	-7%	65%	69%	70%	73%	69%	72%	-8%	1%	-3%
EBIT	5	15	19	-18%	31	68	137	37	65	128	-18%	5%	7%
EBIT margin	19%	50%	53%	-3%	50%	53%	49%	53%	51%	54%	-3%	2%	-5%
EBT	4	11	17	-33%	23	49	115	33	56	120	-32%	-13%	-4%
Taxes & minorities	-6	-7	-7	-1%	-15	-25	-43	-15	-41	-44	1%	-39%	-3%
EAT	-2	4	9	-57%	8	24	72	19	16	76	-57%	56%	-5%
Net margin	-6%	13%	27%	-13%	20%	27%	37%	37%	18%	44%	-17%	9%	-7%
EPS reported	-0.001	0.004	0.008	-57%	0.007	0.022	0.064	0.017	0.014	0.067	-57%	56%	-5%
BVPS	0.101	0.138	0.147	-6%	0.142	0.164	0.228	0.151	0.180	0.250	-6%	-9%	-9%
Production, boepd	1,616	1,442	n.a.	n.a.	1,498	3,111	7,826	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Realised oil price (USD)	82	114	n.a.	39%	112	113	110	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* Consensus mean from Bloomberg

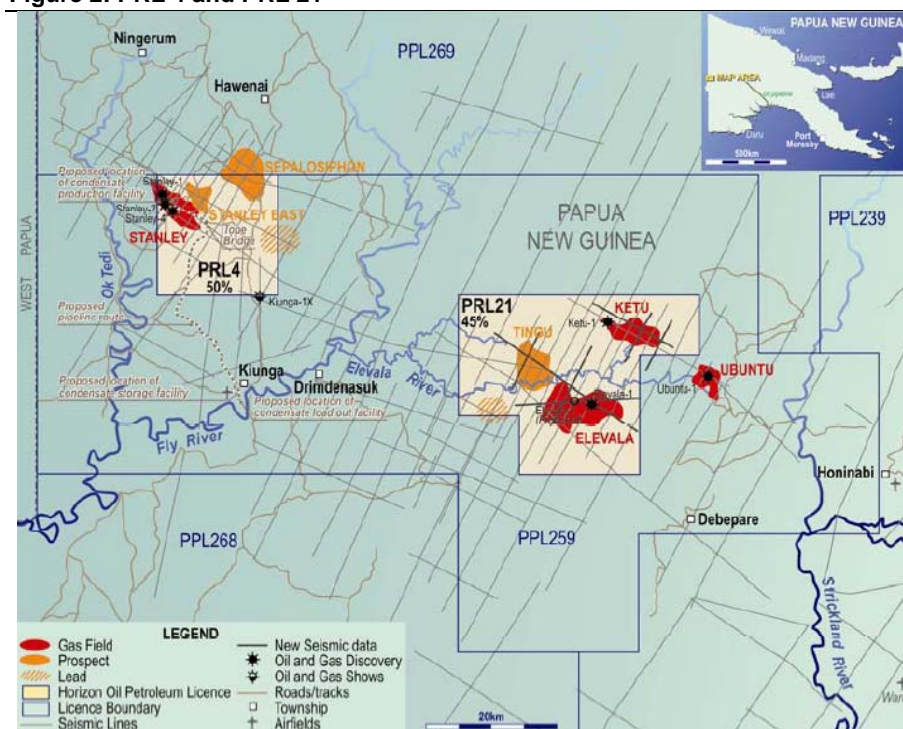
Source: DNB Markets estimates, Company, Bloomberg

Drilling updates

Elevala-2 appraisal well – hitting pay dirt within primary objective

In late December 2011, Horizon confirmed a gas/condensate zone in the primary Elevala sandstone target. The gas/condensate interval of 18m in Elevala sandstone with no water indication was both thicker and better developed than that in the Elevala-1 discovery. The secondary Toro sandstone objective turned out to be dry, which is not unexpected.

Figure 2: PRL 4 and PRL 21



Source: Company

The well tested reasonably strong gas flow rates of 11.9 mmscf/day and 634 boepd (54 deg API) of condensate. This roughly equates to 2,617 boepd on a gross basis. At ~53 barrels of condensates for every million cubic feet of gas, this arguably makes PRL 21 one of the more attractive wet gas prospects within PNG's Western Province.

At a location 2.1km west of Elevala-1, the original intent was to test the northern extent of the hydrocarbon accumulation, ~60m down dip of Elevala-1. The fact that gas zone was encountered higher than expected, approximately 20m down-dip with no water leg, indicates that the field extends farther north than originally anticipated. This prompted the drilling of a side-track targeting Elevala sandstone 600m north-east of the current bottom hole. We view the side-track as a positive indication that the gas reservoir is likely to be wider than expected, with the potential for resource upgrade.

Ketu-2 appraisal/development well next

Once the side-track at Elevala-2 is completed, we expect the Ketu-2 appraisal/development well to be spudded next. This could take place as soon as end-January, with preliminary drill results expected in mid/late February.

IMPORTANT INFORMATION

Company: Horizon Oil Ltd
 Coverage by Analyst: Lucas Huang
 Date: 1/16/2012

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- Buy - indicates an expected return greater than 10% within 12 months
- Hold - indicates an expected return between 0 and 10% within 12 months
- Sell - indicates an expected negative return within 12 months

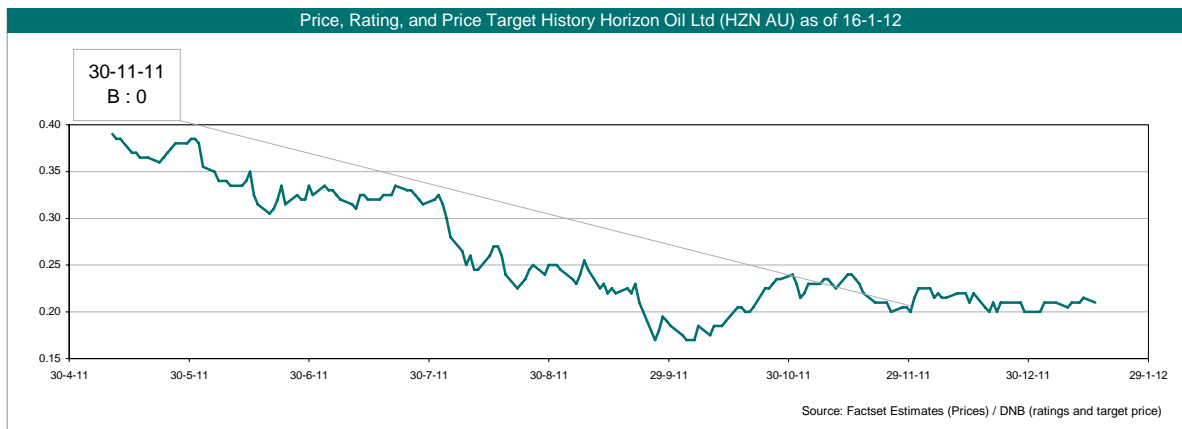
The return-requirement bands above may be applied with some degree of flexibility depending on the liquidity and volatility characteristics of the individual share.

- High risk - Volatility over 40 percent.
- Medium risk - Volatility from 25 percent to 40 percent.
- Low risk - Volatility under 25 percent.

Current 6 months volatility rates this security as HIGH risk.

Investing in any security is subject to substantial risk. Return on investment may vary greatly.

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Number of shares	0	0	0	1/5/2012

*Share positions does not include administration and section FX/Treasury.**Share positions as part of DNB Group. Holdings as part of DNB Markets investment services activity are not included.

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	Buy	Hold	Sell	No rec	Total
Number	119	41	14	3	177
% of total	67%	23%	8%	2%	
DNB Markets client	17%	2%	1%	2%	37

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Reporting

H1 2012 24.02.2012

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CFO Michael Sheridan

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Tel +61 2 93 32 50 00

Share structure Shr(m)

Voting shares 1131 100%
Non-voting shares 0.0 0%

Tot. outstand. shares 1131 100%

Share change Shares USD

Ownership 15/10/11

IMC Singapore	130	11%
Commonwealth Bank	70.3	6%
Ward Ferry Management	55.9	5%
Acorn Capital	17.5	2%
Microcap Investment	17.4	2%
Unisuper	15.8	1%
Brent Emmett	14.8	1%
Officium Capital	9.9	1%
Other	799	71%
Total	1,131	100%
Est. free float	1,001	89%

VALUATION		2009	2010	2011	2012e	2013e	2014e
EPS	USD	0.00	0.05	0.03	0.01	0.02	0.06
EPS adj	USD	0.00	0.05	0.03	0.01	0.02	0.06
Dividend ps	USD	0.00	0.00	0.00	0.00	0.00	0.00
Book per share	USD	0.05	0.10	0.13	0.14	0.16	0.23
Year end shares	Millions	1,126	1,127	1,131	1,131	1,131	1,131
Price	AUD	0.14	0.25	0.35	0.21	0.21	0.21
P/E	X	nm	5.5	11.6	30.6	10.0	3.4
P/E adj	X	nm	5.5	11.6	30.6	10.0	3.4
Dividend yield	%	0.0	0.0	0.0	0.0	0.0	0.0
P/Book	X	2.7	2.5	2.7	1.5	1.3	0.9
EV/DACF	X	41.4	8.4	9.4	26.3	5.5	2.2
EV/EBITDA adj	X	nm	7.7	9.6	6.9	3.7	1.4
EV/EBIT adj	X	nm	5.1	7.5	8.9	4.8	2.0
EV/Cap employed	X	1.7	2.0	1.8	0.9	0.9	0.6

MARGINS, GROWTH & GEARING

EBIT margin	%	nm	56.9	54.2	49.8	52.8	49.1
Pre-tax margin	%	nm	118.1	81.7	36.8	37.9	41.5
Revenue growth	%	nm	489.3	23.7	3.4	110.7	114.8
EBIT growth	%	nm	nm	17.8	-5.0	123.5	99.6
EPS growth	%	nm	nm	-33.5	-77.2	206.0	196.8
ROE	%	nm	59.8	26.2	5.1	14.1	32.8
ROCE adj	%	nm	38.6	24.5	10.0	18.8	31.3
Equity/total assets	%	43.2	66.6	52.0	43.3	40.6	45.5
Net debt/equity	%	97.4	12.2	3.7	70.2	90.6	45.0

PROFIT & LOSS	USDm	2009	2010	2011	2012e	2013e	2014e
Revenues		8	48	59	61	129	278
Other income/gain on sales		0	0	0	0	0	0
Operating costs		5	6	7	10	19	38
EBITDA		3	40	43	40	90	194
EBIT		0	27	32	31	68	136
Net interest		-3	-3	-6	-8	-20	-22
Pre-tax profit		-3	57	48	23	49	115
Tax		1	-4	-14	-15	-25	-43
Net profit		-2	52	35	8	24	72

CASH FLOW	USDm	2009	2010	2011	2012e	2013e	2014e
Cash earnings		3	33	42	43	93	197
Working capital		0	0	0	-38	-38	-55
Investments		-42	11	-55	-111	-124	-97
Debt		6	-29	50	79	45	6
Equity/dividends		0	1	0	0	0	0
Change in cash & liquids		-10	17	38	-27	-25	52

BALANCE SHEET	USDm	2009	2010	2011	2012e	2013e	2014e
Operating assets		129	138	224	324	424	460
Other current assets		1	7	5	10	19	41
Cash & cash equivalents		10	27	65	37	13	64
Total assets		140	172	293	371	456	566
Equity & minority interest		61	114	153	161	185	257
Interest bearing debt		69	40	70	150	180	180
Non interest bearing debt		11	17	71	60	91	128
Total liabilities & equity		140	172	293	371	456	566
Net interest bearing debt		59	14	6	113	168	116