

25 February 2010

- ▶ **Price Target:** \$0.44
- ▶ **Reason For Update:** Dec H'09 Profit Result
- ▶ **What we know:**

Headline NPAT of US\$56.6m benefitting from a one-off item: profit from the sale of PNG (PRL4) assets to Talisman.

Underlying EBITDAX from Maari operations of US\$22m was in-line with our estimates (US\$21.5m).

Maari production of 6.4mmbbls of oil to report date.

The M2A development well has been tied-in; the Manaia development will be tied-in during the Jun Q.

Pre-drill estimates indicate that the main reservoir at Manaia contains 50-60mmbbls of oil in place (OIP), whilst in-place volumes of 40mmbbls are estimated for the M2A zone.

Formal announcement by the operator, OMV, regarding revised recoverable reserves for Maari is expected mid CY'10.

HZN announced a farm-in for 30% interest in the contiguous PEP51313 exploration permit, SW of the Maari and Manaia permits.

A new 200sqkm 3D seismic survey will be shot later this H, with a view for a drilling campaign commencing late CY'11.

An appraisal/development drilling campaign for PNG is expected to commence at Stanley; currently estimated for spud in the Sep Q.

Completion of the ODP for China (Beibu Gulf) is expected shortly, with FID to follow shortly there-after.

We note ROC (operator) carry initial reserves of 5.2mmbbls for the development.

HZN has cash of US\$26.7m and debt of US\$31.1m as a Dec 31.

- ▶ **What we think:**

The headline NPAT is positive and eye-catching result, enhanced by the profit booked from the sale to Talisman.

To this end, management should be credited for creating significant value from an asset (in PNG) that has previously been ascribed little value by the market.

Production data from M2A, Manaia and the Moki zones over the Jun Q should allow for the operator (OMV) to provide revised recoverable reserve estimates around the middle of this CY.

We assess that the appraisal campaign has grown recoverable reserves from 58mmbbls to around 90mmbbls, supporting plateau production of 30-35kbbbls/day to at least 2013.

The new 3D survey will serve to mature high grade Pike, Matariki, Te Whatu and Pukeko prospects.

These will be tested as part of a drilling campaign including further appraisal drilling at Maari and Manaia.

A production well at Stanley spudding in the Sep Q, should enable a liquids stripping development to be completed by early FY'12 adding 2000bopd (net) to HZN's production profile.

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A similar development of the Elevala-Ketu-Tingu complex could be realized 12mths hence, adding a similar volume to group production.

In addition, we believe Talisman's recent activities are part of a broader gas aggregation play to strengthen the viability of an LNG development at Pandora or to participate in subsequent trains at PNG-LNG.

Announcements to this effect would crystallize significant additional value for HZN's material gas resources at Elevala-Ketu and Stanley: say at least US\$0.25/GJ in-ground value (~A\$110m to HZN or \$0.10/sh).

Finally, a further 2500bopd (HZN share) at China, will grow HZN to a 10kbopd producer from FY'12.

Noting ROC's recent reserve guidance, we have adjusted our recoverable reserve estimates for Beibu.

Our overall NPV and price target has reduced to \$0.40/sh and \$0.44/sh respectively.

▶ **Investment Case:**

HZN's Dec H was a solid result driven by the Talisman transaction and move towards steady state production at Maari. HZN remains the most compelling small oil exposure on the ASX, with a strong underlying cashflow to fund a clearly defined, achievable growth strategy to 10kbopd. Management continues to execute operationally and corporately to deliver value to shareholders, as evidence with the success at Maari and the PNG transaction. We retain our Buy recommendation with a \$0.44/sh price target.

HZN's Maari asset continues to build as a cornerstone asset that offers strong, stable, long-term cash flow to leverage growth potential of the remainder of its portfolio. In addition, we believe that the Maari development has the capacity to add further upside via extended plateau production rates. Additional catalysts and increases to valuation exist with impending FID at China and crystallization of value from HZN's material gas resources at PNG.

HORIZON OIL LTD (HZN)		YEAR END 30 JUNE				
MARKET STATISTICS						
Share Price	\$0.31 A\$/sh	Directors				
Issued Capital		F Ainsworth		Chair'n		
FP Ord	1,123.5m	B Emmett		CEO		
		P Nimmo		Dir		
Total Dil. FPOrd	1,123.5m	J Humphrey		Non Exec Dir		
		R Laws		Non Exec Dir		
Market Capitalisation	\$348m	G de Nys		Non Exec Dir		
Enterprise Value	\$353m	M Sheridan		CFO		
Debt	\$(36)m	Shareholders				
Cash	\$31m	HSBC		16.8%		
		Austral Asia Energy		14.8%		
ASSET VALUATION						
		A\$m		A\$/sh		
Maari		269		0.24		
Wei *discounted by 50% pre-FID		49		0.04		
PNG - Stanley		102		0.09		
PNG - Elevala Ketu		23		0.02		
Corporate (incl tax credits)		(21)		(0.02)		
Other Assets (Beibu + NZ Exp)		30		0.03		
Unpaid Capital		-		-		
Hedging		-		-		
Debt		(36)		(0.03)		
Cash		31		0.03		
Total @ 10% nom		446		0.40		
Total @ 0% nom		598		0.53		
Total @ 5% nom		499		0.44		
Total @ 15% nom		374		0.33		
F/CAST PRODUCTION (A\$m)						
	2009a	2010f	2011f	2012f	2013f	
Attrib. Prod'n (mmboe)						
Maari	0.2	0.8	1.2	1.2	1.2	
Wei	-	-	-	0.3	1.3	
PNG - Stanley Condensate	-	-	-	0.3	0.9	
Total Attrib (mmboe)	0.2	0.8	1.2	1.8	3.3	
Assumptions						
Avg Oil Price (US\$/bbl)	69.8	76.1	87.5	90.0	90.0	
US\$:A\$	0.75	0.89	0.90	0.87	0.85	
Cash Cost (US\$m)						
Maari	1.5	15.2	27.9	28.5	25.7	
Wei	-	-	1.0	10.4	30.6	
PNG - Stanley Condensate	-	-	-	2.2	2.9	
Total Cash Cost (US\$m)	1.5	15.2	28.9	41.1	61.0	
Ave Cash Cost (US\$/boe)	9.5	18.2	24.5	23.0	18.3	
Ave Total Cost (US\$/boe)	18.3	24.8	31.4	32.9	28.6	
RATIO ANALYSIS (A\$m)						
	2009a	2010f	2011f	2012f	2013f	
CF (US\$m)	(23)	(5)	2	61	156	
CF / Sh (Ac/sh)	(3)	(1)	0	6	16	
CF Ratio (x)	(6)	(57)	171	5	2	
Earnings (US\$m)	(14)	67	38	62	119	
EPS (Ac/sh)	(2)	7	4	6	12	
EPS Growth (%)	29%	-516%	-43%	66%	96%	
Earnings Ratio (x)	(10.5)	4.6	8.1	4.9	2.5	
E'prise Val. (A\$m)	116	298	313	261	100	
EV : EBITDA (x)	41	3	4	2	0	
EV : EBIT (x)	(7)	3	5	3	1	
Net Debt / ND+Eq (%)	34%	2%	-2%	-29%	-122%	
Interest Cover (x)	n/a	n/a	4	10,528	n/a	
EBIT Margin (%)	-113%	74%	55%	57%	62%	
ROE (%)	-20%	49%	20%	23%	31%	
ROA (%)	-9%	48%	26%	31%	41%	
Div. (Ac/sh)	-	-	-	-	-	
Div. payout ratio	-	-	-	-	-	
Div. Yield	-	-	-	-	-	
Div. Franking	-	-	-	-	-	

PROFIT AND LOSS (US\$m)	2009a	2010f	2011f	2012f	2013f
Oil Equivalent Sales	8	62	100	154	268
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	1	1	1	1	5
Other Revenue	2	54	-	-	-
TOTAL REVENUE	11	111	101	155	273
Operating Costs	2	15	29	41	61
Dep/Amort	1	6	8	18	34
O/H + New Bus Dev	7	5	5	5	5
W/O & Provisions	13	3	3	3	3
EBITDA	2	90	66	108	202
EBIT	(12)	82	55	88	165
Interest Expense	4	3	1	1	0
NPBT	(15)	80	55	88	170
Tax	(1)	13	16	26	51
Minorities	-	-	-	-	-
NET PROFIT	(14)	67	38	62	119
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(14)	13	38	62	119
DIVISIONAL EBIT (US\$m)					
	2009a	2010f	2011f	2012f	2013f
Maari	5	42	64	66	70
Wei	-	-	(1)	9	63
PNG - Stanley	-	-	-	21	39
Total EBIT	(12)	82	55	88	165
CASH FLOW (US\$m)					
	2009a	2010f	2011f	2012f	2013f
Net Profit	(14)	13	38	62	119
+ Working Capital Adj.	3	2	-	-	-
+ Dep/Amort	1	6	8	18	34
+ Provisions	13	3	3	3	3
+ Tax Expense	(1)	13	16	26	51
- Tax Paid	(1)	9	13	18	43
Operating Cashflow	3	28	53	91	164
-Capex + Development	26	33	51	30	8
-Exploration	16	7	5	5	5
-Assets Purchased	-	0	-	-	-
+Asset Sales	-	45	10	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(43)	5	(46)	(35)	(13)
+Equity Issues	25	0	-	-	-
+Loan D'down/Receivable	25	-	-	-	-
+Other	-	-	-	-	-
-Loan Repayment	19	22	10	6	8
-Dividends	-	-	-	-	-
Financing Cashflow	30	(22)	(10)	(6)	(8)
Period Sur (Def)	(9)	11	(3)	50	143
Cash Balance	10	21	18	68	211
BALANCE SHEET (US\$m)					
	2009a	2010f	2011f	2012f	2013f
Assets					
Cash	10	21	18	68	211
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	115	149	197	214	192
Total Assets	126	171	216	283	404
Liabilities					
Borrowings	46	24	14	8	(0)
Current Accounts Payable	12	12	12	12	12
Other Liabilities	0	0	0	0	0
Total Liabilities	58	36	26	20	20
Net Assets	69	136	191	263	385
OIL AND GAS RESERVES (50P)					
	Oil	LPG	Cond	Gas	Total
	mmbbls	ktonnes	mmbbls	PJ	mmboe
Maari	5.6	-	-	-	5.6
China	5.2	-	-	-	5.2
PNG - Stanley Gas	-	-	-	-	-
PNG - Stanley Condensate	-	-	-	-	-
Total	10.8	-	-	-	10.8
EV / boe (A\$)					32.6

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