Horizon Oil Ltd
(HZN $0.28) Buy

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

5 February 2010

- **Price Target:** $0.49
- **Reason For Update:** Dec Q'ly
- **What we know:**

Maari production of 5.8mmbbls of oil to Dec 31 after a further 1.8mmbbls of oil was produced during the Q.

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.

HZN ha cash of US$26.7m and debt of US$31.1m as at Dec 31.

- **What we think:**

Maari has proven to be a quality asset: We assess that the appraisal campaign has grown recoverable reserves from 58mmbbls to around 90mmbbls.

We expect flow-test results from M2A in the next couple of weeks which could ultimately indicate a better recoverability factor than currently assumed.

These additional volumes realised, in conjunction with the horizontal development used, support plateau production of 35kbbls/day to at least 2013.

Previous penetrations of the Moki Sands (main Maari reservoir) at the Manaia structure and Mangahewa Formation (main Manaia reservoir) at the Maari structure, offer potential for significant additional recoverable volumes at the Maari development.

These will likely be tested as part of a drilling campaign designed to test (c2011) the newly acquired exploration acreage on-trend to the SW.

The new 3D survey will serve to mature high grade targets from the currently identified Pike, Matariki, Te Whatu and Pukeko prospects. These prospects are interpreted to lie up-dip and on the oil migration pathway that has filled-to-spill the Maari and Manaia structures.

Growth in group production should be realized with production well drilling at Stanley commencing in the new FY.

We expect a liquids stripping development at Stanley could be completed by early FY'12 adding 2000bopd (net to HZN) to HZN's production profile.

Contact Details
Analyst
Jon Bishop

Telephone:	+61 8 9488 1481
Facsimile:	+61 8 9488 1479
Email:	jbishop@euroz.com.au

International Toll Free
(If calling to Euroz from the following countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

A similar development of the Elevala-Ketu-Tingu complex could be realized 12mnths 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.

- **Investment Case:**

HZN remains the most compelling small oil exposure on the ASX, with a strong underlying cashflow to fund an 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 $0.49/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.

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HORIZON OIL LTD (HZN)		YEAR END 30 JUNE	
MARKET STATISTICS			
Share Price	**$0.28 A$/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	$315 m	G de Nys	Non Exec Dir
Enterprise Value	$320 m	M Sheridan	CFO
Debt	$(36)m		
Cash	$31m	**Shareholders**	
		HSBC	16.8%
		Austral Asia Energy	14.8%

ASSET VALUATION	**A$m**	**A$/sh**
Maari	285	0.25
Wei **discounted by 50% pre-FID*	78	0.07
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	**491**	**0.44**
Total @ 0% nom	669	0.60
Total @ 5% nom	555	0.49
Total @ 15% nom	411	0.37

F/CAST PRODUCTION (A$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
Attrib. Prod'n (mmboe)					
Maari	0.2	1.0	1.2	1.2	1.2
Wei		-	-	0.3	1.3
PNG - Stanley Condensate		-	-	0.3	0.9
Total Attrib (mmboe)	**0.2**	**1.0**	**1.2**	**1.8**	**3.3**
Assumptions					
Avg Oil Price (US$/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$m)					
Maari	1.5	19.9	28.7	29.2	25.7
Wei	-	-	1.0	10.4	30.6
PNG - Stanley Condensate	-	-	-	2.2	2.9
Total Cash Cost (US$m)	1.5	19.9	29.7	41.9	61.0
Ave Cash Cost (US$/boe)	**9.5**	**19.8**	**25.1**	**23.4**	**18.3**
Ave Total Cost (US$/boe)	**18.3**	**28.1**	**31.8**	**32.8**	**27.2**

RATIO ANALYSIS (A$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
CF (US$m)	(23)	14	1	63	151
CF / Sh (Ac/sh)	(3)	1	0	7	16
CF Ratio (x)	(6)	20	205	4	2
Earnings (US$m)	(14)	28	41	65	123
EPS (Ac/sh)	(2)	3	4	7	13
EPS Growth (%)	29%	-274%	44%	64%	93%
Earnings Ratio (x)	(10.5)	10.0	6.9	4.2	2.2
E'prise Val. (A$m)	116	213	229	172	21
EV : EBITDA (x)	41	4	3	1	0
EV : EBIT (x)	(7)	5	4	2	0
Net Debt / ND+Eq (%)	34%	-14%	-14%	-41%	-416%
Interest Cover (x)	n/a	7	n/a	n/a	n/a
EBIT Margin (%)	-113%	54%	56%	58%	63%
ROE (%)	-20%	18%	20%	23%	43%
ROA (%)	-9%	21%	24%	29%	39%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	-	-	-	-	-
Div. Yield	-	-	-	-	-
Div. Franking	-	-	-	-	-

PROFIT AND LOSS (US$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
Oil Equivalent Sales	8	77	103	158	268
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	1	1	2	2	6
Other Revenue	2	-	-	-	-
TOTAL REVENUE	**11**	**79**	**106**	**160**	**274**
Operating Costs	2	20	30	42	61
Dep/Amort	1	8	8	17	30
O/H + New Bus Dev	7	5	5	5	5
W/O & Provisions	13	3	3	3	3
EBITDA	2	53	69	111	202
EBIT	(12)	42	58	92	170
Interest Expense	4	3	2	2	1
NPBT	(15)	40	58	92	175
Tax	(1)	12	18	28	53
Minorities	-	-	-	-	-
NET PROFIT	**(14)**	**28**	**41**	**65**	**123**
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	**(14)**	**28**	**41**	**65**	**123**

DIVISIONAL EBIT (US$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
Maari	5	49	67	69	70
Wei	-	(1)	10	68	
PNG - Stanley		-	-	21	39
Total EBIT	**(12)**	**42**	**58**	**92**	**170**

CASH FLOW (US$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
Net Profit	(14)	28	41	65	123
+ Working Capital Adj.	3	-	-	-	-
+ Dep/Amort	1	8	8	17	30
+ Provisions	13	3	3	3	3
+ Tax Expense	(1)	12	18	28	53
- Tax Paid	(1)	3	16	19	44
Operating Cashflow	**3**	**48**	**52**	**93**	**163**
-Capex + Development	26	34	51	30	12
-Exploration	16	5	5	5	5
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	45	10	-	-
+ Other	-	-	-	-	-
Investing Cashflow	**(43)**	**6**	**(46)**	**(35)**	**(17)**
+Equity Issues	25	-	-	-	-
+Loan D'down/Receivable	25	-	-	-	-
+Other	-	-	-	-	-
-Loan Repayment	19	10	10	6	10
-Dividends	-	-	-	-	-
Financing Cashflow	**30**	**(10)**	**(10)**	**(6)**	**(10)**
Period Sur (Def)	**(9)**	**44**	**(4)**	**52**	**136**
Cash Balance	**10**	**54**	**51**	**103**	**239**

BALANCE SHEET (US$m)	**2009a**	**2010f**	**2011f**	**2012f**	**2013f**
Assets					
Cash	10	54	51	103	239
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	115	146	194	212	199
Total Assets	**126**	**201**	**246**	**316**	**439**
Liabilities					
Borrowings	46	36	26	20	10
Current Accounts Payable	12	12	12	12	12
Other Liabilities	0	0	0	0	0
Total Liabilities	**58**	**48**	**38**	**32**	**32**
Net Assets	**69**	**154**	**208**	**284**	**284**

OIL AND GAS RESERVES (P50)	**Oil mmbbls**	**LPG ktonnes**	**Cond mmbbls**	**Gas PJ**	**Total mmboe**
Maari	5.6				5.6
China	8.2				8.2
PNG - Stanley Gas					
PNG - Stanley Condensate					
Total	**13.8**	**-**	**-**	**-**	**13.8**
EV / boe (A$)					**23.1**

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Contact Details

Advisors

Tim Bennett	+61 8 9488 1432
Rob Black - Institutional	+61 8 9488 1423
Richard Caldow	+61 8 9488 1403
Tim Chapman	+61 8 9488 1470
Phillip Cosh - Institutional	+61 8 9488 1442
Ross Cotton	+61 8 9488 1474
Peter Diamond - Institutional	+61 8 9488 1405
Nicholas Gorton	+61 8 9488 1473
Stephen Grove	+61 8 9488 1410
Mark Hepburn - Institutional	+61 8 9488 1408
Jay Hughes - Institutional	+61 8 9488 1406
Russell Kane - Institutional	+61 8 9488 1426
Ben Laird - Institutional	+61 8 9488 1429
Jamie Mackie	+61 8 9488 1416
Chris Mason	+61 8 9488 1465
Giles McCaw	+61 8 9488 1462
Andrew McKenzie - Institutional	+61 8 9488 1407
Cameron Murray	+61 8 9488 1440
Lucas Robinson	+61 8 9488 1424
Peter Schwarzbach - Institutional	+61 8 9488 1492
Brett Stapleton	+61 8 9488 1435
Ben Statham	+61 8 9488 1417
Ryan Stewart	+61 8 9488 1441
Matt Swinney	+61 8 9488 1445
Leigh Travers	+61 8 9488 1482
Jonathan van Hazel - Institutional	+61 8 9488 1443
Matt Williamson	+61 8 9488 1466
Peter Woods - Insto Assistant	+61 8 9488 1461
Simon Yeo	+61 8 9488 1404
Christian Zerovich	+61 8 9488 1436

Research Analysts

Jon Bishop - Resources	+61 8 9488 1481
Greg Chessell - Resources	+61 8 9488 1409
Andrew Clayton - Resources	+61 8 9488 1427
Oliver Foster - Resources	+61 8 9488 1431
Gavin Allen - Industrials	+61 8 9488 1413
Richard Hamersley - Industrials	+61 8 9488 1414
Kristan Harvey - Assoc. Analyst	+61 8 9488 1463

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