

Horizon Oil Ltd

(HZN \$0.30) Buy

Comments

Price Target: \$0.47/sh

HZN provides exposure to a low risk, achievable growth strategy to 10kbopd, funded by strong underlying cash flow from its Maari asset.

We have recently increased our valuation for HZN to \$0.47/sh, after updating our NPV for China.

We believe formal approvals for development at Beibu are imminent and a catalyst for a re-rating. We have removed our 50% risking accordingly and adjusted our tax, royalty and tariff assumptions as per latest industry understanding for China.

We remain comfortable that the development at Beibu is progressing in line with our forecast for first oil in 2H FY'12.

The Maari (HZN – 10%) asset continues to settle into production, averaging 20kbopd in the Mar Q. We expect operational performance to improve over the Jun Q.

The M2A zone is on production and work has commenced on tie-in of the Manaia Field.

We believe that revised recoverable reserve estimates in 2H this CY should show increase from 58mmbbls to around 90mmbbls.

Further near field appraisal and exploration will be further assessed by a new 3D survey, with drilling to follow in late 2011.

The Moki zone at Manaia and the Mangahewa zone at Maari offer low risk additions to field life.

The Pike prospect – of similar seismic signature to the oil bearing zones at Maari-Manaia – offers material (+25mmbbl recoverable) tie-back potential.

The large Matariki prospect is a key focus of the 3D survey. The prospect comprises stacked plays with an estimated 230mmbbls recoverable oil: enough to support a stand-alone development.

PNG continues to progress smoothly. Drilling of Stanley-2 in the Sep Q, should facilitate first oil at 4000bopd plateau during FY'12.

A similar development of the Elevala-Ketu-Tingu complex will follow 12mnts hence, adding a similar volume to group production.

With staged production from both the PNG and China assets, HZN can attain group production of 10kbopd by FY'13.

In addition, we see significant additional value can be crystallized via HZN's JV with Talisman through the commercialization of the substantial gas resources in PNG.

The PNG drilling programme is being finalized: Stanley-2 and Elevala-2 are firm as the first two wells in the programme. All necessary drill casing has been procured and is in-country.

HZN has cash of US\$26.0m.

Debt was been retired by a further US\$5.5m in the Q for US\$25.6m as at the balance date.

Investment Case

Over the next 4 years, HZN's growth is via development of proven, conventional oil and gas fields; the company does not need to seek to advance via the drill-bit. As such, the growth profile is substantially de-risked. Furthermore, the portfolio is favourably augmented by the blue-sky potential of HZN's sizeable PNG gas resources and substantial near field exploration and appraisal at NZ and China. We believe that these factors make HZN a stand-out for acquisition. We retain our Buy recommendation with a \$0.47/sh valuation and price target.

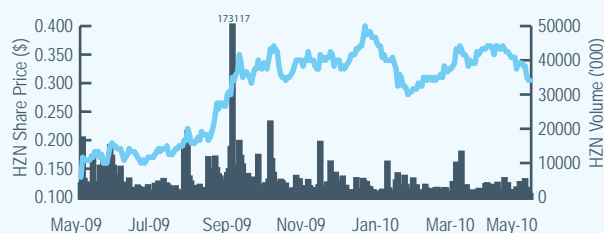
Top 20 Shareholders as at 10 May 2010

Shareholders	Shares (m)	(%)
1 J P Morgan Nominees Australia Limited	148.26	13.15
2 HSBC Custody Nominees (Aus) Ltd	137.32	12.18
3 Austral-Asia Energy Pty Ltd	129.79	11.52
4 National Nominees Limited	115.68	10.26
5 Citicorp Nominees Pty Limited	71.60	6.35
6 ANZ Nominees Limited	27.56	2.44
7 Cogent Nominees Pty Limited	14.66	1.30
8 Berne No 132 Nominees Pty Ltd	13.52	1.20
9 V L H Pty Ltd	12.30	1.09
10 Douglas T Nicholas & Graeme D Nicholas	10.09	0.89
11 Bond Street Custodians Limited	9.76	0.86
12 Douglas Financial Consultants Pty Ltd	8.00	0.71
13 Finot Pty Ltd	7.75	0.68
14 Grizzley Holdings Pty Limited	7.45	0.66
15 Mr John Scott Humphrey	5.11	0.45
16 Mr Geoffrey V Day & Mrs Anne M Day	5.00	0.44
17 Hawkins & Birthwright Limited	4.50	0.39
18 Angus Douglas & Susan Jane Douglas	4.30	0.38
19 Mr David Harvey Peek	4.06	0.36
20 Hydra Energy Services Pty Ltd	4.03	0.35
TOTAL	740.73	65.75

Market Statistics

Share Price	\$0.30 A\$/sh	Directors	
Issued Capital		F Ainsworth	Chair'n
FP Ord	1,126.6m	B Emmett	CEO
Total Dil. FPOrd	1,126.6m	J Humphrey	Non Exec Dir
Market Capitalisation	\$338m	R Laws	Non Exec Dir
Enterprise Value	\$338m	G de Nys	Non Exec Dir
Debt	\$(28)m	M Sheridan	CFO
Cash	\$29m	Shareholders	
		HSBC	16.8%
		Austral Asia Energy	14.8%

Share Price Performance



Horizon Oil Ltd

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EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

HORIZON OIL LTD (HZN)	YEAR END 30 JUNE				
ASSET VALUATION	A\$M	A\$/sh			
Maari	270	0.24			
Weir	132	0.12			
PNG - Stanley	98	0.09			
PNG - Elevala Ketu	22	0.02			
Corporate (incl tax credits)	(21)	(0.02)			
RSPT (risk adj)	0	0			
Other Assets (Beibu + NZ Exp)	30	0.03			
Unpaid Capital	-	-			
Hedging	-	-			
Debt	(28)	(0.03)			
Cash	29	0.03			
Total @ 10% nom	531	0.47			
<i>If RSPT adopted or abandoned, impact on valuation respectively:</i>					
<i>If RSPT unrisks</i>	531	0.47			
<i>If RSPT excluded</i>	531	0.47			
FORECAST PRODUCTION	2009a	2010f	2011f	2012f	2013f
Attrib. Prod'n (mmbobe)					
Maari	0.2	0.8	1.2	1.2	1.2
Weir	-	-	-	0.3	1.0
PNG - Stanley Condensate	-	-	-	0.3	0.9
Total Attrib (mmbobe)	0.2	0.8	1.2	1.8	3.1
Assumptions					
Avg Oil Price (US\$/bbl)	69.8	76.1	87.5	90.0	90.0
US\$:A\$	0.75	0.89	0.88	0.87	0.85
Cash Cost (US\$m)					
Maari	1.5	15.2	27.9	28.5	25.7
Weir	-	-	-	3.5	16.9
PNG - Stanley Condensate	-	-	-	2.2	2.9
Total Cash Cost (US\$m)	1.5	15.2	27.9	34.2	47.3
Ave Cash Cost (US\$/boe)	9.5	18.2	23.7	19.1	15.4
Ave Total Cost (US\$/boe)	18.3	29.3	32.3	27.4	24.2
RATIO ANALYSIS	2009a	2010f	2011f	2012f	2013f
CF (US\$m)	(23)	(5)	4	67	147
CF / Sh (Ac/sh)	(3)	(1)	0	7	15
CF Ratio (x)	(6)	(55)	71	4	2
Earnings (US\$m)	(14)	64	38	69	118
EPS (Ac/sh)	(2)	6	4	7	12
EPS Growth (%)	29%	-497%	-41%	86%	75%
Earnings Ratio (x)	(10.5)	4.7	7.9	4.3	2.4
E'prise Val. (A\$m)	116	287	299	241	91
EV : EBITDA (x)	41	3	4	2	0
EV : EBIT (x)	(7)	3	5	2	0
Net Debt / ND+Eq (%)	34%	2%	-3%	-34%	-118%
Interest Cover (x)	n/a	n/a	8	n/a	n/a
EBIT Margin (%)	-113%	71%	54%	63%	67%
ROE (%)	-20%	48%	20%	26%	31%
ROA (%)	-9%	47%	25%	34%	40%
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	246
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	1	1	1	1	5
Other Revenue	2	54	-	-	-
TOTAL REVENUE	11	111	101	155	251
Operating Costs	2	15	28	34	47
Dep/Amort	1	9	10	15	27
O/H + New Bus Dev	7	5	5	5	5
W/O & Provisions	13	3	3	3	3
EBITDA	2	90	67	115	194
EBIT	(12)	78	54	98	164
Interest Expense	4	3	1	1	0
NPBT	(15)	76	54	98	169
Tax	(1)	13	16	29	51
Minorities	-	-	-	-	-
NET PROFIT	(14)	64	38	69	118
Net Abnormal Gain/(Loss)	-	54	-	-	-
NET PROFIT After Abn'l	(14)	10	38	69	118
DIVISIONAL EBIT (US\$m)	2009a	2010f	2011f	2012f	2013f
Maari	5	38	62	67	71
Weir	-	-	-	16	58
PNG - Stanley	-	-	-	23	43
Total EBIT	(12)	78	54	98	164
CASH FLOW (US\$m)	2009a	2010f	2011f	2012f	2013f
Net Profit	(14)	10	38	69	118
+ Working Capital Adj.	3	2	-	-	-
+ Dep/Amort	1	9	10	15	27
+ Provisions	13	3	3	3	3
+ Tax Expense	(1)	13	16	29	51
- Tax Paid	(1)	9	11	19	45
Operating Cashflow	3	28	55	96	154
-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	(1)	56	134
Cash Balance	10	21	20	76	210
BALANCE SHEET (US\$m)	2009a	2010f	2011f	2012f	2013f
Assets					
Cash	10	21	20	76	210
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	115	146	191	211	196
Total Assets	126	168	212	288	407
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	132	187	269	388
OIL AND GAS RESERVES (2P)	Oil	LPG	Cond	Gas	Total
	mmbbls	ktonnes	mmbbls	PJ	mmbobe
Maari	5.6	-	-	-	5.6
China	5.2	-	-	-	5.2
PNG - Stanley Gas	-	-	-	-	-
PNG - Stanley Condensate	-	-	-	-	-
Total	10.8	-	-	-	10.8
EV / boe (A\$)					31.1

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