



AUSTRALIA

HZN AU Outperform

Close Price* 2 Feb 12 A\$0.24

Volatility index High

12-month target A\$ 0.55

12-month TSR % +129.2

Valuation A\$ 0.73

- DCF (WACC 11.1%, beta 1.6, ERP 5.0%, RFR 6.1%)

GICS sector Energy

Market cap A\$m 271

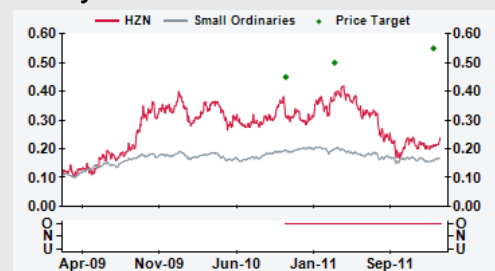
30-day avg turnover A\$m 0.7

Number shares on issue m 1,131

Investment fundamentals

Year end 30 Jun		2011A	2012E	2013E	2014E
Revenue	m	59.4	59.4	182.2	262.5
EBIT	m	32.6	31.1	81.4	136.4
Reported profit	m	34.9	17.7	49.7	90.1
Adjusted profit	m	16.3	17.7	49.7	90.1
Gross cashflow	m	27.2	29.1	94.3	131.8
CFPS	¢	2.4	2.6	8.3	11.7
CFPS growth	%	-15.4	6.9	224.6	39.7
PGCFPS	x	10.6	9.9	3.1	2.2
PGCFPS rel	x	1.07	1.23	0.46	0.35
EPS adj	¢	1.4	1.6	4.4	8.0
EPS adj growth	%	-17.6	8.8	180.1	81.4
PER adj	x	17.7	16.3	5.8	3.2
PER rel	x	1.03	1.26	0.61	0.36
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	14.0	10.2	23.0	31.3
ROE	%	12.2	11.0	25.5	34.0
EV/EBITDA	x	5.5	5.6	1.9	1.3
Net debt/equity	%	-33.4	2.4	-3.2	-42.2
P/BV	x	1.9	1.7	1.3	0.9

HZN AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2012
(all figures in USD unless noted)

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2 February 2012

Macquarie Securities (Australia) Limited

Horizon Oil

Maari production issues persist

Event

- HZN reported December quarter production and revenue results.

Impact

- Maari production issues persist:** Production at Maari of 12,750bopd continues to track well short of ~20,000bopd targeted, with 2 of the 7 producing wells offline during the quarter. Down pump failures due to scale build up continues to impact well productivity. OMV and Schlumberger are investigating more regular acid washing and better pump design to reduce downtime and maximum medium term production. Enhanced water flood of the Moki zone and additional well perforations is also likely to provide longer term production support. Despite higher than expected realisations, revenue of US\$13m was 15% below forecast due to the operational miss.
- Tangible progress at Beibu Gulf:** With facilities now 24% complete, over 60% of the US\$300m in capital costs now contracted on a fixed price basis and 10% of the capital budget spent during the quarter, the Beibu Gulf development appears on track for late 2012 start-up. However the State Oceanic Administration (SOA) is yet to grant EIA approvals for the offshore development following the ConocoPhillips-operated Penglai spill last June. We expect approvals early in 1H12. However given the progress made regarding facilities, further approval delays past 1H12 could push this onto the critical path.
- Elevela appraisal success:** During the quarter HZN sidetracked the Elevela-2 appraisal well after intersecting the targeted sandstones higher than expected. The sidetrack confirmed that hydrocarbon accumulation extended further North and established a gross gas column of over 50m. HZN now expects recoverable reserves will be towards the high end of pre-drill estimate (management expected mean recoverable contingent resources of 302bcf of gas and 19.3mmbbl of condensate). Preparations are underway to move the Parker 226 rig to the Ketu-2 appraisal well site, with spud date expected in early March.

Earnings and target price revision

- FY12 NPAT falls to US\$18m from US\$26m:** In light of the Maari production challenges we have incorporated a more conservative production forecast for CY12. NAV rises by 3% after rolling forward our model.

Price catalyst

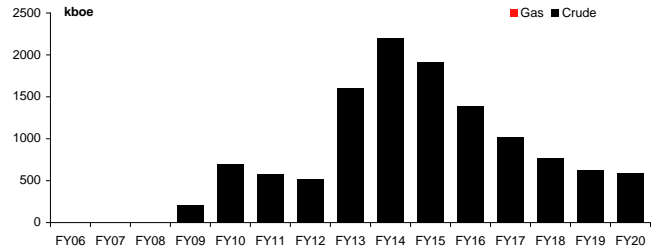
- 12-month price target: A\$0.55 based on a DCF methodology.
- Catalyst: HZN is expected to secure a reserves-based debt facility to fund the Stanley development during 1Q12.

Action and recommendation

- Maintain an Outperform rating and a A\$0.55/sh target:** While Maari continues to face operational challenges, it appears the JV is committed to finding a permanent solution. Separately, with the proposed US\$160m reserves-based debt facility (which will be used to fund the Stanley development) over subscribed and financial close expected in 1Q12, we expect concerns surrounding a dilutive equity raising will be short lived.

Fig 1 Horizon Oil financials

Horizon Oil (HZN-AU)							Share Price: A\$0.24								
Outperform							Shares: 1130.8m								
Profit & Loss							Price assumptions								
Sales revenue	US\$m	35	28	59	59	182	262	US\$/A\$	¢	1.05	1.00	1.02	0.97	0.93	0.96
add other income	US\$m	(1)	-	(1)	-	-	-	Oil - Brent	US\$/bbl	111.31	111.14	96.76	111.32	117.25	124.25
Total revenue	US\$m	33	28	59	59	182	262	Production							
less operating costs	US\$m	(8)	(8)	(15)	(17)	(56)	84	Natural gas	PJ	-	-	-	-	-	-
EBITDAX	US\$m	26	20	44	42	126	178	Crude & condensate	kbbls	272.9	245.2	576.2	513.2	1,601.3	2,197.2
less exploration expensed	US\$m	(0)	(0)	(0)	(3)	(13)	(2)	Total production	kboe	272.9	245.2	576.2	513.2	1,601.3	2,197.2
EBITDA	US\$m	25	20	43	40	113	176	Production rate	bopd	1,495	1,343	1,579	1,406	4,387	6,020
less dep. & amort.	US\$m	(5)	(4)	(11)	(9)	(32)	(40)								
less other non-cash costs	US\$m	(0)	-	(0)	-	-	-								
EBIT	US\$m	20	16	33	31	81	136								
less net interest	US\$m	(2)	(2)	(3)	(4)	(5)	(3)								
Pre-tax operating profit	US\$m	18	14	30	28	77	133								
less tax expense (incl APT)	US\$m	(8)	(5)	(14)	(10)	(27)	(43)								
Net operating profit	US\$m	11	9	16	18	50	90								
add non-recurring items	US\$m	26	-	19	-	-	-								
Reported profit	US\$m	37	9	35	18	50	90								
Adjusted profit	US\$m	11	9	16	18	50	90								
EPS (Adjusted)							Reserves								
EPS Growth	%	83%	(13%)	(18%)	9%	180%	81%	Natural gas	Tcf	-	-	-	-	-	-
DPS	USc	-	-	-	-	-	-	Crude & condensate	mmbbl	11.4	10.9	9.3	7.1	-	-
DPS	Ac	-	-	-	-	-	-	Total reserves	mboe	16.8	16.3	14.7	12.5	-	-
Franking	%	0%	0%	100%	100%	100%	100%	2P reserve life	years	32.7	10.2	6.7	6.5	-	-
EFPOWA shares on issue	m	1,131	1,131	1,130	1,131	1,131	1,131	Mkt cap / 2P reserves	US\$/boe	17.0	15.8	17.2	21.0	-	-
								EV / 2P reserves	US\$/boe	18.5	19.0	21.1	24.8	-	-
Cashflow Analysis							Per bbl statistics								
Cash receipts from operations	US\$m	35	28	59	59	182	262	Sales Revenue / boe	US\$/boe	126.7	114.3	103.0	115.8	113.8	119.5
less operating costs	US\$m	(5)	(8)	(11)	(17)	(56)	(84)	EBIT / boe	US\$/boe	73.3	64.4	56.6	60.7	50.9	62.1
less interest paid	US\$m	(1)	(2)	(2)	(4)	(5)	(3)	Profit / boe	US\$/boe	38.6	37.3	28.3	34.6	31.0	41.0
less tax paid	US\$m	(3)	(5)	(5)	(10)	(27)	(43)	Opex/boe	US\$/boe	15.2	20.2	13.9	20.7	13.9	11.6
Gross cashflow from operations	US\$m	26	13	42	29	94	132	DDA/boe	US\$/boe	19.2	17.3	18.4	17.1	19.8	18.0
less expl & devlp	US\$m	(67)	(30)	(77)	(84)	(83)	(8)								
less acq./inv.	US\$m	22	-	22	-	-	-								
less dividends	US\$m	-	-	-	-	-	-								
add debt movements	US\$m	60	(14)	50	5	25	-								
add equity/other	US\$m	0	-	1	-	-	-								
Net cashflow	US\$m	41	(30)	38	(50)	36	124								
+exchange rate adjustments	US\$m	0	-	0	-	-	-								
Increase in cash	US\$m	41	(30)	38	(50)	36	124								
Net debt (cash)	US\$m	29	46	(57)	4	(7)	(131)								
Balance sheet							NPV @ WACC of 11.0%								
Cash	US\$m	65	34	65	15	51	175	Developing assets			US\$m	A\$ps	%		
Other current Assets	US\$m	5	5	5	5	5	5	Maari		228	0.25				
Fixed Assets	US\$m	224	250	224	297	335	302	Static assets & exploration							
Total Assets	US\$m	293	289	293	317	391	481	Maari upside - M2A/Manaia	risked valuation @ 50%	38	0.04				
Current Liabilities	US\$m	33	27	33	27	27	27	Beibu Gulf	risked valuation @ 80%	141	0.15				
Total Liabilities	US\$m	141	127	141	146	171	171	Stanley liquids	risked valuation @ 75%	91	0.10				
Shareholder equity	US\$m	153	162	153	170	220	310	Elevala/Ketu Liquids	risked valuation @ 40%	100	0.11				
								Static & Exploration		158	0.17				
Ratio analysis							Financial assets								
ND/ND+E	%	16%	22%	-59%	2%	-3%	-73%	Corporate		(31)	(0.03)				
Interest cover	x	30.0 x	nmf	15.4 x	nmf	nmf	nmf	Cash & Investments		34	0.04				
Dividend payout ratio	%	0%	0%	0%	0%	0%	0%	Debt		(80)	(0.09)				
ROA	%	9%	5%	14%	10%	23%	31%	Group NPV							
ROE	%	8%	6%	12%	11%	25%	34%	Shareprice prem/(disc) to NPV		679	0.73				
ROIC	%	10%	9%	18%	12%	25%	51%	- core NPV per share (A\$)				0.31			
Effective tax rate	%	19%	30%	23%	30%	30%	30%	- risked NPV per share (A\$)				0.73			
EBITDA margin	%	77%	72%	74%	71%	69%	68%	- unrisks NPV per share (A\$)				2.91			
EBIT margin	%	60%	56%	56%	52%	45%	52%								
Free cash flow	US\$m	-12	-15	-5	-51	16	127								
Valuation															
EV/EBITDAX ratio	x	12.3 x	15.7 x	5.3 x	7.5 x	2.5 x	1.8 x								
P/E ratio	x	40.0 x	29.6 x	23.7 x	14.9 x	5.1 x	2.9 x								
P/CEPS ratio	x	26.3 x	20.2 x	14.1 x	9.1 x	2.7 x	2.0 x								
FCF yield	%	-2.9%	-5.5%	-1.4%	-19.5%	6.3%	48.8%								
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								
Sensitivities (Adjusted Earnings)															
Oil price (+US\$1/bbl)	US\$m	679.12	16	18	51	91									
	delta	0.01	-	0	1	1									
	%	0%	0%	1%	2%	1%									



Source: Company data, Macquarie Research, February 2012

Fig 2 Horizon Oil NAV breakdown

Production Assets	Interest	Unrisked mmboe	Unrisked USD (m)	Risk	Risky mmboe	Risky USD (m)	USD/boe	Aps risky	Aps unrisky	% NPV	Sensitivity			
											-\$10	Base	+\$10	
Maari	10.0%	5.0	228	100%	5.0	228	45.8	0.25	0.25	34%	0.22	0.25	0.27	
Sub Total		5.0	228		5.0	228		0.25	0.25	34%	0.22	0.25	0.27	
Developing Assets														
Maari upside - M2A/Manaia	10.0%	3.0	75	50%	1.5	38	24.8	0.04	0.08	6%	0.05	0.04	0.03	
Beibu Gulf	27.0%	6.3	177	80%	5.1	141	27.8	0.15	0.19	21%	0.14	0.15	0.17	
Stanley liquids	38.8%	4.1	121	75%	3.1	91	29.6	0.10	0.13	13%	0.08	0.10	0.10	
Elevala/Ketu Liquids	34.9%	8.3	251	40%	3.3	100	28.7	0.11	0.27	15%	0.09	0.11	0.11	
Sub Total		21.7	624		13.0	370		0.40	0.67	54%	0.35	0.40	0.41	
Static assets and exploration														
Beibu Gulf - Wei 12-8E upside	27.0%	4.8	90	40%	1.9	36	25.1	0.04	0.10	5%	0.03	0.04	0.04	
Stanley contracted gas	38.8%	23.9	143	25%	6.0	36	6.0	0.04	0.15	5%	0.04	0.04	0.04	
Stanley uncontracted gas	38.8%	3.7	11	20%	0.7	2	3.0	0.00	0.01	0%	0.00	0.00	0.00	
Ketu/Elevala uncontracted gas	34.9%	32.9	99	15%	4.9	15	3.0	0.02	0.11	2%	0.02	0.02	0.02	
Tingu - PRL 21	34.9%	15.1	326	5%	0.8	16	21.6	0.02	0.35	2%	0.01	0.02	0.02	
Pike	30.0%	3.0	36	3%	0.1	1	12.0	0.00	0.04	0%	0.00	0.00	0.00	
Matariki	30.0%	69.3	742	5%	3.5	37	12.0	0.04	0.80	5%	0.04	0.04	0.04	
Te Wahtu	30.0%	29.1	304	3%	0.9	9	12.0	0.01	0.33	1%	0.01	0.01	0.01	
Pukeko	30.0%	18.9	182	3%	0.6	5	12.0	0.01	0.20	1%	0.01	0.01	0.01	
Sub Total		201	1,933		19.3	158		0.17	2.08	13%	0.17	0.17	0.17	
Financial & Corporate														
Cash						34		0.04	0.04	5%	0.04	0.04	0.04	
Debt						(0)		(0.00)	(0.00)	0%	(0.00)	(0.00)	(0.00)	
Convertible Bond						(80)		(0.09)	(0.09)	-12%	(0.09)	(0.09)	(0.09)	
Corporate costs						(31)		(0.03)	(0.03)	-5%	(0.03)	(0.03)	(0.03)	
Sub Total						(77)		(0.08)	(0.08)	-11%	(0.08)	(0.08)	(0.08)	
Overall total		227	mmboe			679	USDm	0.73	2.91	89%	0.66	0.73	0.77	
- core NPV per share (A\$)		5						0.31			0.28	0.31	0.35	
- risky NPV per share (A\$)		37						0.73			0.66	0.73	0.77	
- unrisky NPV per share (A\$)		227						2.91			2.76	2.91	2.98	
Diluted shares outstanding (m)								1,133.5						
Ordinary Shares on Issue (m)								1,130.8						
New shares from options and convertible debt (m)								2.7						
Exchange Rate								0.82						
WACC (post tax)								11.0%						
Share Price								0.24						
Price premium to NPV								-67%						

Source: Macquarie Research, February 2012

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	56.59%	65.60%	54.55%	44.53%	75.28%	49.46%	(for US coverage by MCUSA, 10.53% of stocks covered are investment banking clients)
Neutral	33.45%	20.55%	38.96%	50.20%	22.47%	32.36%	(for US coverage by MCUSA, 10.96% of stocks covered are investment banking clients)
Underperform	9.96%	13.85%	6.49%	5.27%	2.25%	18.18%	(for US coverage by MCUSA, 0.44% of stocks covered are investment banking clients)

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