

Update for the September Quarter

Investment Highlights

- Production at Maari still down on expectations.** Production was steady at a gross field rate of 14kbpod due to ongoing issues with unreliable down-hole pump performance and scale build up in some wells. The operator is continuing work with the supplier to improve performance and an acid treatment procedure has been initiated to minimise scale build-up. We have downgraded our production forecasts for FY2012. HZN booked net sales of 127kbbbls at an average realised oil price of US\$117/bbls which generated net revenue of US\$15m. It finished with cash of US\$51m.
- NZ exploration and appraisal program scheduled late 2012/2013.** Exploration drilling in PEP 51313 will be delayed until the summer window 2012/2013 with the Pike prospect the most likely prospect to be drilled. This will be tied-in with appraisal drilling at Maari, with wells planned at Maari South and at Manaia.
- Good progress at Beibu Gulf project.** Engineering and procurement is progressing well with half of the US\$300m capex reportedly locked-in with fixed price contracts. 3 x infield exploration wells are planned for the June Q 2012 testing ~10mmbbl of upside. We anticipate first oil in early 2013.
- PNG provides key short-term news flow.** With FEED now completed for the Stanley development, the release of independent reserves certification will provide a key catalyst for HZN, followed by a targeted FID at year end. Drilling at Elevala-2 is expected to commence in mid-November and will be followed by Ketu-2. These wells will be important in testing the substantial 26mmbbls of condensate estimated across the Elevala/Ketu fields.
- We maintain our BUY recommendation with a price target of \$0.45/sh.** Reserves certification at Stanley and appraisal of Elevala/Ketu will present key drivers for 2012. Other activity includes exploration drilling in China (June Q 2012) and in NZ (Dec Q 2012). We forecast a funding shortfall of ~US\$80m to bring Stanley and Beibu Gulf into production over the coming 24 months, which HZN intends to meet with project debt.

1 November 2011

12mth Rating		BUY
Price	A\$	0.23
Target Price	A\$	0.45
12m Total Return	%	95.2

RIC: HZN.AX		BBG: HZN AU
Shares o/s	m	1130.3
Free Float	%	100.0
Market Cap.	A\$m	260.0
Net Debt (Cash)	A\$m	68.7
Net Debt/Equity	%	167.3
3m Av. D. T'over	A\$m	0.69
52wk High/Low	A\$	0.42/0.17
2yr adj. beta		1.20

Valuation:

Methodology		DCF
Value per share	A\$	0.45

Analyst:

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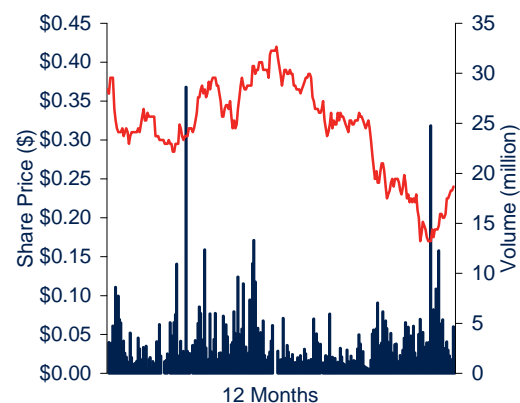
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Year End June 30	2010A	2011A	2012F	2013F	2014F
A\$					
Reported NPAT (\$m)	58.6	35.4	18.6	27.5	75.3
Recurrent NPAT (\$m)	22.1	35.4	18.6	27.5	75.3
Recurrent EPS (cents)	1.9	3.1	1.6	2.4	6.7
EPS Growth (%)	na	78.7	(45.6)	45.0	166.6
PER (x)	11.9	7.3	14.0	9.4	3.5
EBITDA (\$m)					
EBITDA (\$m)	44.1	62.4	50.2	90.8	230.0
EV/EBITDA (x)	7.0	5.3	7.7	4.7	1.9
Capex (\$m)	8.7	42.0	102.0	52.8	0.3
Free Cashflow	20.0	(12.4)	(114.0)	(10.2)	132.7
FCFPS (cents)	1.8	(1.1)	(10.1)	(0.9)	11.7
PFCF (x)	13.1	(20.9)	(2.3)	(25.6)	2.0
DPS (cents)					
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)					
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)					
Franking (%)	0.0	0.0	0.0	0.0	0.0

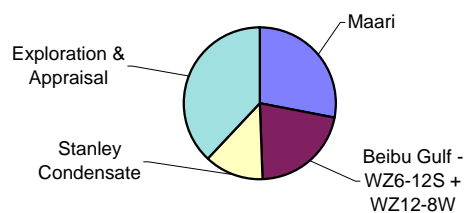
12 Month Share Price Performance



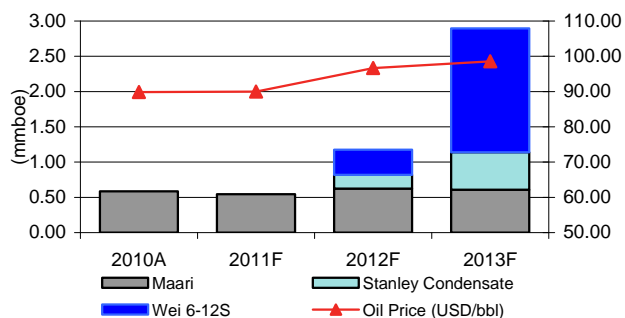
Performance %	1mth	3mth	12mth
Absolute	-29.2	-47.7	-44.3
Rel. S&P/ASX 300	-28.7	-39.1	-33.2

Horizon Oil Ltd	\$0.23		
Valuation	A\$m	A\$/sh	
Maari	168	0.15	
Beibu Gulf - WZ6-12S + WZ12-8W	128	0.11	
Stanley Condensate	76	0.07	
Exploration & Appraisal	228	0.20	
Corporate	(25)	(0.02)	
Cash	51	0.04	
Debt as at y/e plus additional \$40m	(119)	(0.11)	
Total @ 10% Discount Rate	507	0.45	
Price Target		0.45	
Valuation Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A\$/sh)	0.41	0.45	0.49
Exchange Rate Sensitivity (A\$/sh)	0.45	0.45	0.45

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Net Reserves - June 2011	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
2P Reserves			
Maari	6	0	6
Block 22/12 Wei 6-12+12-8W	6	0	6
Block 22/12 Wei 12-8E	5	0	5
Total Group	17	0	17

Directors

Name	Position
Fraser Ainsworth	Chariman
Brent Emmett	Managing Director & CEO
Michael Sheridan	Company Secretary & CFO
John Humphrey	Non-Executive Director
Robert Laws	Non-Executive Director
Gerrit J de Nys	Non-Executive Director

Substantial Shareholders

	Shares (m)	%
Acorn Capital Ltd	96.0	8.5
CBA	65.4	5.8%

Commodity Assumptions	2011A	2012F	2013F	2014F
Gold	0.99	1.02	1.00	0.98
Crude Oil - WTI (USD/bbl)	89.86	90.00	96.66	98.60

Production Summary

	2011A	2012F	2013F	2014F
Maari				
Oil/Condensate (mmbbl)	0.6	0.5	0.6	0.6
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmbbl)	0.6	0.5	0.6	0.6
Wei 6-12S				
Oil/Condensate (mmbbl)	0.0	0.0	0.4	1.8
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmbbl)	0.0	0.0	0.4	1.8
Stanley Condensate				
Oil/Condensate (mmbbl)	0.0	0.0	0.2	0.5
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmbbl)	0.0	0.0	0.2	0.5
Total (mmbbl)	0.6	0.5	1.2	2.9
Total (mboepd)	1.60	1.49	3.22	7.94

Profit & Loss (US\$m)

	2011A	2012F	2013F	2014F
Sales Revenue	59.4	59.5	111.0	259.5
Other Income	22.5	2.1	0.0	4.1
Operating Costs	8.0	4.6	12.5	24.9
Royalties	0.1	0.0	1.9	8.6
Exploration Exp.	0.3	0.0	0.0	0.0
Corporate/Admin	11.8	5.7	5.8	5.9
EBITDA	61.6	51.3	90.8	224.2
Depn & Amort	10.3	11.7	26.4	56.3
EBIT	51.3	39.7	64.5	167.9
Financing Cost	2.8	5.4	9.9	10.3
Operating Profit	48.5	34.2	54.6	157.7
Abnormals - Pre Tax	0.0	0.0	0.0	0.0
Tax expense	13.5	15.2	27.1	84.3
Minorities	0.0	0.0	0.0	0.0
Abnormals - Post Tax	0.0	1.0	1.0	1.0
NPAT	34.9	20.0	28.5	74.4
Normalised NPAT	16.3	19.0	27.5	73.4

Unit Revenue / Costs

	2011A	2012F	2013F	2014F
Sales Revenue / boe (\$/boe)	101.5	109.2	94.4	89.6
Cash OPEX / boe (\$/boe)	26.2	21.8	16.8	8.6
Non-cash OPEX / boe (\$/boe)	26.0	18.5	22.8	24.4
EBIT / boe (\$/boe)	87.7	72.7	54.8	58.0
NPAT / boe (\$/boe)	27.9	34.8	23.4	25.3

Cash Flow (US\$m)

	2011A	2012F	2013F	2014F
Adjusted Net Profit	16.3	19.0	27.5	73.4
+ Interest/Tax/Expl Exp	16.6	20.7	36.9	94.5
- Interest/Tax/Expl Inc	41.3	48.9	40.9	94.5
+ Depn/Amort	10.3	11.7	26.4	56.3
+/- Other	27.2	(14.8)	(7.3)	0.0
Operating Cashflow	29.2	(12.3)	42.6	129.7
- Capex (+asset sales)	41.4	104.3	52.8	0.3
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	(12.2)	(116.6)	(10.2)	129.4
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.6	0.0	0.0	0.0
+ Debt drawdown (repaid)	50.3	50.0	38.1	0.0
+ Other	(0.7)	0.0	0.0	0.0
Net Change in Cash	38.0	(66.6)	27.9	129.4
Cash at End Period	64.6	(2.0)	25.9	155.3
Net Cash/(Debt)	(15.4)	(132.0)	(142.2)	(12.8)

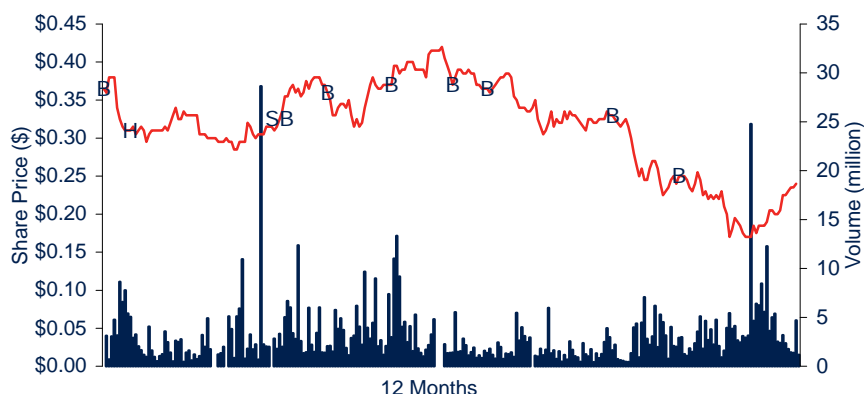
Balance Sheet (US\$m)

	2011A	2012F	2013F	2014F
Cash	64.6	-2.0	25.9	155.3
Total Assets	293.5	357.6	420.9	494.3
Total Debt	70.2	130.0	168.1	168.1
Total Liabilities	140.9	186.1	221.8	221.8
Shareholders Funds	152.6	171.5	199.1	272.5

Ratios

	2011A	2012F	2013F	2014F
Net Debt/Equity (%)	10.1	76.9	71.4	4.7
Interest Cover (x)	18.2	7.3	6.5	16.3
Return on Equity (%)	22.9	11.7	14.3	27.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
01 Nov 10	Research Note	0.73	0.36	B	
15 Nov 10	Oil and Gas Review	0.32	0.32	H	-11.1%
01 Feb 11	Research Note	0.39	0.33	SB	
25 Feb 11	Research Note	0.44	0.36	B	9.1%
31 Mar 11	Event Impact Email	Under Review	0.38	B	5.6%
31 Mar 11	Research Note	0.46	0.37	B	-2.6%
03 May 11	Research Note	0.45	0.38	B	2.7%
20 May 11	Oil & Gas Review	0.49	0.37	B	-2.6%
26 Jul 11	Research Note	0.47	0.33	B	-10.8%
30 Aug 11	Research Note	0.47	0.25	B	-24.2%
	Current Share Price		0.24		-4.0%

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