

Record order boosts momentum and firms guidance

15 May 2024

Hunting has received a record US\$145m OCTG order with shipments to the Kuwait Oil Company expected to start toward the end of 2024. As a result, following an [in-line Q1 update](#), EBITDA guidance has now firmed towards the upper end of the company's existing US\$125m-135m range. We have raised our current year EBITDA estimate to US\$131m (+c.7%) and by c.14% for FY25 due to this new business win.

New record OCTG order. This business win follows significant OCTG orders in H222 (US\$80m+ offshore China for CNOOC) and H223 (US\$91m Rajasthan for Cairn Oil & Gas, Vedanta Ltd), and underscores Hunting's strong position and momentum in international markets. In context, FY23 OCTG revenue was US\$396m with a US\$222m order position at the year-end, while the Asia-Pacific region (predominantly OCTG product sales) reported revenues of US\$154m with US\$143m orders on hand at the year-end. Asia-Pacific operations will source casing products and thread Hunting's proprietary SEAL-LOCK premium connection before shipping to the customer. This clearly represents a material business win and sustains OCTG activity at elevated levels. We understand that no material capex is required to execute this order over and above existing guidance. The group order book is lifted to US\$665m (versus US\$575m at the end of FY23) including this order.

Estimates increased for FY24 and FY25. We assume that Kuwait order shipments split roughly one third/two third between this year and next with a 20% EBIT margin contribution. Noting an expected Q4 shipment start, delivery and acceptance timescales could vary but this would be a timing issue only as the overall order is contractually firm. We will be in a better position to assess the impact on profitability around the end of FY24 once shipments are expected to be underway. We have made allowance for larger working capital absorption during the duration of the contract with an improved net cash position visible compared to our previous FY26 estimate.

Valuation: momentum to potentially drive fair value higher

Following our upgrades, Hunting is currently trading on discounts of c.22% and c.35% on conventional P/E and EV/EBITDA metrics versus its peer group over our estimate horizon. Applying the peer group average P/E to our unchanged FY26 earnings generates a share price in line with our DCF-derived valuation (slightly higher at 434p, using US\$180m as a long-term sustainable EBITDA level) leaving our existing **436p per share fair value unchanged** at this stage. On our updated estimates, we note that FY25 estimates are currently higher than the (unchanged) following year; if momentum carries over into FY26 it would not only raise the earnings base for peer group multiple comparison, then it would also cause us to revisit achievable long term sustainable EBITDA inputs in our DCF modelling.

Company Data

EPIC	HTG.L
Price (last close)	371.5p
52 weeks Hi/Lo	379.5p/190p
Market cap	£613m
ED Fair Value / share	436p
FY23 Net cash (debt)	(US\$1m)
Pre IFRS16, ex s/holder loan	
Avg. daily volume	674k
NB all at £/US\$ 1.25	

Share Price, p



Source: ADVFN

Description

Hunting is a global engineering group that provides precision-manufactured equipment and premium services with a diverse product portfolio. The company has a global footprint from operations in 11 countries including 27 production locations and 16 distribution centres.

The energy industry accounted for c.92% of FY23 revenue while also serving non-oil & gas customers in the medical, aerospace, defence and space sectors. Hunting is seeking to grow rapidly in adjacent Energy Transition product sub-sectors as well as deepening its presence in other non-oil & gas ones.

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Summary financials

Yr to December (US\$m)	2022	2023	2024E	2025E	2026E
Revenue	725.8	929.1	1074.6	1193.7	1155.9
EBITDA*	52.0	103.0	131.0	166.5	160.1
PTP	10.2	50.0	85.2	121.9	116.7
EPS (US c)	4.7	20.3	35.0	50.9	48.6
DPS (US c)	9.0	10.0	11.0	12.0	13.0
Net cash / (debt)	20.6	(4.7)	14.7	77.9	151.1
P/E (x)	98.3	22.9	13.3	9.1	9.6
EV/EBITDA (x)	14.3	7.5	5.7	4.1	3.8
Dividend yield (%)	1.9%	2.2%	2.4%	2.6%	2.8%

Source: Company Annual Reports, Equity Development. * company basis £/US\$1.25

Financial Summary

INCOME STATEMENT										
Year End: December	US\$m	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
			IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Revenue		911.4	960.0	626.0	521.6	725.8	929.1	1,074.6	1,193.7	1,155.9
Gross Profit		275.1	266.4	124.8	100.6	171.4	227.7	271.3	310.4	294.1
EBITDA - HTG*		142.3	139.7	26.1	3.1	52.0	103.0	131.0	166.5	160.1
EBIT - HTG norm		104.7	94.3	(16.4)	(35.1)	14.6	61.0	89.0	124.0	117.1
Net Bank Interest		(1.0)	(0.9)	(1.1)	0.3	0.4	(5.0)	(4.5)	(4.0)	(3.5)
IFRS16 Interest			(2.2)	(1.9)	(1.5)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)
Other financial		0.3	1.9	0.0	(0.8)	(0.9)	(4.1)	(1.5)	(1.5)	(1.5)
Associates/JVs		0.0	0.0	0.0	(3.5)	(2.7)	(0.6)	3.5	4.7	5.9
Profit Before Tax (HTG norm)		104.0	93.1	(19.4)	(40.6)	10.2	50.0	85.2	121.9	116.7
Intangible Amortisation		(29.3)	(28.5)	(17.3)	(7.0)	0.0	0.0	0.0	0.0	0.0
Other Non-Underlying Items		0.0	(19.0)	(186.3)	(37.9)	(12.6)	0.0	0.0	0.0	0.0
Profit Before Tax (reported)		74.7	45.6	(223.0)	(85.5)	(2.4)	50.0	85.2	121.9	116.7
Tax		11.0	(4.2)	(15.2)	(4.2)	(1.3)	69.0	(22.1)	(31.6)	(29.9)
Other		3.6	(1.7)	3.5	3.9	(0.9)	(1.9)	(4.5)	(5.0)	(5.5)
Profit After Tax (reported)		89.3	39.7	(234.7)	(85.8)	(4.6)	117.1	58.6	85.2	81.2
EPS FD - HTG norm (US c)		49.6	43.9	(10.0)	(27.1)	4.7	20.3	35.0	50.9	48.6
EPS FD - reported (US c)		52.3	23.5	(143.1)	(53.2)	(2.8)	70.0	35.0	50.9	48.6
Dividend per share (US c)		9.0	5.0	9.0	8.0	9.0	10.0	11.0	12.0	13.0
Shares - Basic Weighted Avge (m)		164.1	165.2	163.9	161.2	160.3	158.6	158.6	158.6	158.6
Shares - Period End (m)		165.1	166.9	164.9	164.9	164.9	164.9	164.9	164.9	164.9
Margins (%)										
Gross Profit		30.2	27.8	19.9	19.3	23.6	24.5	25.3	26.0	25.4
EBITDA - HTG		15.6	14.6	4.2	0.6	7.2	11.1	12.2	13.9	13.8
EBIT HTG norm		11.5	9.8	(2.6)	(6.7)	2.0	6.6	8.3	10.4	10.1

Source: Company, Equity Development

CASH FLOW STATEMENT										
Year End: December	US\$m	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
			IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
EBITDA – HTG		142.3	139.7	26.1	3.1	52.0	103.0	131.0	166.5	160.1
SBP		13.2	9.1	9.0	9.2	9.9	13.5	13.5	13.5	13.5
Change in working capital		(96.6)	7.6	38.8	22.8	(86.6)	(55.0)	(33.2)	(17.6)	(4.0)
Other		9.6	(2.4)	(8.9)	2.1	1.7	10.4	13.5	13.5	13.5
Operating Cash Flow		55.3	144.9	56.0	28.0	(32.9)	58.4	111.3	162.4	169.6
Tax paid		(2.6)	(7.7)	(5.0)	0.6	(3.9)	(9.1)	(17.6)	(25.3)	(23.9)
Investing Activities		(6.7)	(46.6)	(46.6)	9.2	(11.7)	(33.1)	(40.0)	(40.0)	(40.0)
Associates & JV income		0.0	0.0	(0.9)	0.0	0.0	0.6	0.0	0.0	0.0
Tangible Fixed Assets purchased		(24.3)	(30.4)	(11.7)	(5.7)	(15.9)	(23.1)	(35.0)	(35.0)	(35.0)
Tangible Fixed Assets disposed		12.5	0.9	2.0	2.2	6.6	1.9	0.0	0.0	0.0
Intangibles		(6.6)	(10.2)	(4.3)	(2.7)	(5.6)	(10.9)	(5.0)	(5.0)	(5.0)
Acquisition consideration		0.0	(12.5)	(32.8)	0.0	0.0	0.0	0.0	0.0	0.0
Disposal proceeds		0.0	3.0	0.6	31.5	0.0	0.0	0.0	0.0	0.0
Other business investments		11.7	2.6	0.5	(16.1)	3.2	(1.6)	0.0	0.0	0.0
Financing Activities		(14.0)	(31.2)	(33.2)	(31.4)	(30.0)	(41.4)	(32.2)	(33.4)	(34.5)
Net finance income (cost)		(2.0)	0.1	(0.3)	(0.4)	(2.9)	(7.3)	(4.5)	(4.0)	(3.5)
IFRS16 lease payments			(10.6)	(10.4)	(10.6)	(8.0)	(10.4)	(10.4)	(10.4)	(10.4)
Equity		(5.4)	(4.1)	(14.3)	(7.6)	(7.7)	(8.7)	0.0	0.0	0.0
Dividends paid		(6.6)	(16.6)	(8.2)	(12.8)	(13.6)	(15.0)	(17.3)	(19.0)	(20.6)
Other		0.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0
Net Cash Flow		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	21.4	63.7	71.1
Opening net cash/(debt) - pre IFRS16*		30.4	61.3	123.1	97.8	103.5	20.6	(4.7)	16.7	80.4
Change in Net Cash		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	21.4	63.7	71.1
Other		(1.1)	2.4	3.5	(0.7)	(4.4)	(0.1)	0.0	0.0	0.0
Closing net cash/(debt) - pre IFRS16*		61.3	123.1	97.8	103.5	20.6	(4.7)	16.7	80.4	151.5
IFRS16 lease liabilities			(45.2)	(40.3)	(31.8)	(30.6)	(28.7)	(28.7)	(28.7)	(28.7)

Source: Company, Equity Development. *NB includes £3.9m shareholder loan, company definition excludes this

BALANCE SHEET										
Year End: December	US\$m	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
			IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Non-Current Assets		721.8	735.0	581.1	535.7	515.3	595.7	604.0	612.9	622.6
Intangible Assets – Goodwill		229.9	230.2	164.2	164.1	155.5	154.4	154.4	154.4	154.4
Intangible Assets – Other		99.8	78.5	42.9	36.2	35.7	40.8	39.8	38.8	37.8
Tangible Assets – Owned		360.2	354.7	307.1	274.4	256.7	254.5	260.3	265.6	270.4
Tangible Assets – RoU		0.0	36.7	29.8	24.7	26.0	26.2	26.2	26.2	26.2
Other Fixed Assets		31.9	34.9	37.1	36.3	41.4	119.8	123.3	127.9	133.8
Current Assets		647.2	682.1	532.4	475.9	534.0	626.6	690.3	778.8	852.0
Inventory		348.2	350.8	288.4	204.4	272.1	328.4	351.1	357.1	359.4
Trade Receivables		201.7	176.1	119.9	137.2	190.2	221.2	240.9	259.6	259.3
Other Debtors		29.4	26.6	21.2	25.9	42.3	31.5	31.5	31.5	31.5
Cash		67.9	128.6	102.9	108.4	29.4	45.5	66.9	130.6	201.7
Current Liabilities		(159.5)	(145.3)	(84.7)	(99.0)	(163.8)	(225.8)	(247.6)	(267.4)	(278.2)
Trade Payables		(62.3)	(56.3)	(26.4)	(40.5)	(66.8)	(62.5)	(71.6)	(78.7)	(76.8)
Other Creditors		(94.5)	(77.6)	(46.9)	(48.6)	(83.0)	(109.0)	(121.7)	(134.4)	(147.1)
IFRS16 Lease Liabilities		0.0	(9.8)	(10.2)	(8.9)	(9.1)	(8.0)	(8.0)	(8.0)	(8.0)
Short-term Borrowings		(2.7)	(1.6)	(1.2)	(1.0)	(4.9)	(46.3)	(46.3)	(46.3)	(46.3)
Non-Current Liabilities		(18.4)	(48.0)	(52.2)	(41.3)	(39.3)	(39.4)	(43.8)	(50.1)	(56.1)
Long-term Borrowings*		(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)
IFRS16 Lease Liabilities		0.0	(35.4)	(30.1)	(22.9)	(21.5)	(20.7)	(20.7)	(20.7)	(20.7)
Other Long-term Liabilities		(14.5)	(8.7)	(18.2)	(14.5)	(13.9)	(14.8)	(19.2)	(25.5)	(31.5)
Net Assets		1,191.1	1,223.8	976.6	871.3	846.2	957.1	1,002.9	1,074.1	1,140.3

Source: Company, Equity Development. *NB this is a shareholder loan



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