

Good FY24 progress, despite variable end markets

14 January 2025

Hunting has reaffirmed that FY24 EBITDA will be in line with October's revised US\$123m-126m guidance, the midpoint of which represents c.22% y-o-y progress. As previously noted, the OCTG and Subsea product groups have delivered strong performances while Hunting Titan/Perforating Systems (PS) has had to contend with depressed North American onshore activity levels. Some restructuring actions are anticipated in FY25 – our estimates being unchanged and in line with guidance – but the company's stronger than expected net cash position provides good M&A optionality.

We expect that Hunting's OCTG and Subsea activities will show the largest absolute contributions to FY24 profitability and the most significant y-o-y uplifts, both being driven by elevated order intake. Advanced Manufacturing should also show good progress, albeit smaller in quantum. While PS especially and Other Manufacturing have had tougher years, we expect both to have contributed positively to profitability. Management has again raised year end net cash guidance (and for the third time during FY24) to US\$100m-105m driven by successful shipment delivery and cash collection schedules we believe. Together with US\$300m recently updated bank finance facilities, this places Hunting in a strong position to progress its 2030 strategy (launched Sept 2023).

Our existing FY25 EBITDA estimate for wholly owned businesses is at the top end of updated US\$135m-145m guidance (though including JVs we are c.US\$5m higher). We shall review the composition when detailed FY24 results are published, given a flagged restructuring in the EMEA region (which contributes to 3 of the 5 reported product groups) and PS progress at that time (under new management, with currently improving commodity prices) as well as broader group order book developments (from a US\$500m position at the end of FY24).

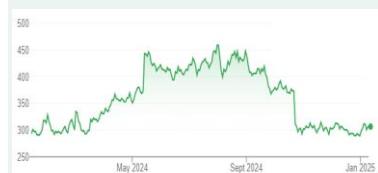
Valuation: value rating discounts profitability below current levels

Having sold-off following the October trading update, Hunting's share price ended 2024 marginally lower on the year but around one third down from highs at the beginning of Q3. We intend to revisit our DCF model with the publication of FY24 results in March, looking in particular at the long-term profit potential of PS. Compared to our last update, we note that the group net cash position and stronger US dollar (now £/US\$1.21 versus 1.31 previously) are both more favourable inputs. For now, we believe that Hunting's current share price is discounting levels of profitability significantly lower than the group is currently achieving. **We retain our fair value / share at 397p.**

Company Data

EPIC	HTG.L
Price (last close)	306.5p
52 weeks Hi/Lo	465p/278p
Market cap	£487m
ED Fair Value/share	397p
End FY24E net cash	c.US\$100m
Pre IFRS16, ex s/holder loan	
Avg. daily vol (3m)	438k
NB all at £/US\$ 1.21	

Share Price, p



Source: Google

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 25 production locations and 15 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.

Next event

FY24 results on 6 March 2025

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Summary financials

Yr to December (US\$m)	2022	2023	2024E	2025E	2026E
Revenue	725.8	929.1	1047.6	1173.8	1134.5
EBITDA*	52.0	103.0	124.0	145.0	140.1
EBITDA* (inc JV/Associates)	49.3	102.4	124.0	149.7	146.0
PBT	10.2	50.0	73.4	99.4	96.2
EPS (US c)	4.7	20.3	30.4	42.1	40.6
DPS (US c)	9.0	10.0	11.0	12.0	13.0
Net cash / (debt)**	20.6	(4.7)	54.9	134.3	199.1
P/E (x)	78.5	18.3	12.2	8.8	9.1
EV/EBITDA (x)	11.4	6.0	4.5	3.3	2.9
Dividend yield (%)	2.4%	2.7%	3.0%	3.2%	3.5%

Source: Company Annual Reports, Equity Development. * company basis £/US\$1.21 **inc shareholder loan

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	1,047.6	1,173.8	1,134.5
Gross Profit		275.1	266.4	124.8	100.6	171.4	227.7	272.4	293.4	283.6
EBITDA - HTG (100% owned)		142.3	139.7	26.1	3.1	52.0	103.0	124.0	145.0	140.1
EBITDA - HTG (inc JV/Associates)		142.3	139.7	26.1	(0.4)	49.3	102.4	124.0	149.7	146.0
EBIT (100% owned)		104.7	94.3	(16.4)	(35.1)	14.6	61.0	82.0	102.5	97.1
Associates/JVs		0.0	0.0	0.0	(3.5)	(2.7)	(0.6)	(0.0)	4.7	5.9
EBIT - HTG norm		104.7	94.3	(16.4)	(38.6)	11.9	60.4	82.0	107.2	103.0
Net Bank Interest		(1.0)	(0.9)	(1.1)	0.3	0.4	(5.0)	(5.8)	(5.0)	(4.0)
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)
Profit Before Tax - HTG norm		104.0	93.1	(19.4)	(40.6)	10.2	50.0	73.4	99.4	96.2
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	73.4	99.4	96.2
Tax		11.0	(4.2)	(15.2)	(4.2)	(1.3)	69.0	(19.8)	(25.6)	(24.4)
Other		3.6	(1.7)	3.5	3.9	(0.9)	(1.9)	(2.0)	(2.5)	(3.0)
Profit After Tax (reported)		89.3	39.7	(234.7)	(85.8)	(4.6)	117.1	51.6	71.3	68.8
EPS FD - HTG norm (US c)		49.6	43.9	(10.0)	(27.1)	4.7	20.3	30.4	42.1	40.6
EPS FD - reported (US c)		52.3	23.5	(143.1)	(53.2)	(2.8)	70.0	30.4	42.1	40.6
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	159.5	159.5	159.5
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	26.0	25.0	25.0
EBITDA - HTG (100% owned)		15.6	14.6	4.2	0.6	7.2	11.1	11.8	12.4	12.3
EBIT (100% owned)		11.5	9.8	(2.6)	(6.7)	2.0	6.6	7.8	8.7	8.6

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	IFRS16
EBITDA - HTG		142.3	139.7	26.1	3.1	52.0	103.0	124.0	145.0	140.1
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)	5.6	3.6	(3.4)
Other		(3.6)	(11.5)	(17.9)	(7.1)	(8.2)	(3.1)	(1.4)	0.0	0.0
Operating Cash Flow		55.3	144.9	56.0	28.0	(32.9)	58.4	141.6	162.1	150.1
Tax paid		(2.6)	(7.7)	(5.0)	0.6	(3.9)	(9.1)	(5.0)	(8.9)	(11.0)
Investing Activities		(6.7)	(46.6)	(46.6)	9.2	(11.7)	(33.1)	(29.8)	(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)	(25.0)	(35.0)	(35.0)
Tangible Fixed Assets disposed		12.5	0.9	2.0	2.2	6.6	1.9	0.2	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)	(46.5)	(35.7)	(36.4)
Net finance income (cost)		(2.0)	0.1	(0.3)	(0.4)	(2.9)	(7.3)	(6.1)	(5.0)	(4.0)
IFRS16 lease payments			(10.6)	(10.4)	(10.6)	(8.0)	(10.4)	(9.8)	(9.8)	(9.8)
Equity		(5.4)	(4.1)	(14.3)	(7.6)	(7.7)	(8.7)	(13.0)	0.0	0.0
Dividends paid		(6.6)	(16.6)	(8.2)	(12.8)	(13.6)	(15.0)	(16.7)	(19.0)	(20.6)
Other		0.0	0.0	0.0	0.0	2.2	0.0	(1.0)	(2.0)	(2.0)
Net Cash Flow		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	60.4	77.4	62.8
Opening net cash/(debt) - pre IFRS16*		30.4	61.3	123.1	97.8	103.5	20.6	(4.7)	54.9	134.3
Change in Net Cash		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	60.4	77.4	62.8
Other		(1.1)	2.4	3.5	(0.7)	(4.4)	(0.1)	(0.8)	2.0	2.0
Closing net cash/(debt) - pre IFRS16*		61.3	123.1	97.8	103.5	20.6	(4.7)	54.9	134.3	199.1
IFRS16 lease liabilities			(45.2)	(40.3)	(31.8)	(30.6)	(28.7)	(27.8)	(27.8)	(27.8)

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	587.1	596.1	605.8
Intangible Assets - Goodwill		229.9	230.2	164.2	164.1	155.5	154.4	154.3	154.3	154.3
Intangible Assets - Other		99.8	78.5	42.9	36.2	35.7	40.8	39.6	38.6	37.6
Tangible Assets - Owned		360.2	354.7	307.1	274.4	256.7	254.5	248.5	253.8	258.6
Tangible Assets - RoU		0.0	36.7	29.8	24.7	26.0	26.2	25.7	25.7	25.7
Other Fixed Assets		31.9	34.9	37.1	36.3	41.4	119.8	119.0	123.7	129.6
Current Assets		647.2	682.1	532.4	475.9	534.0	626.6	710.0	786.8	851.0
Inventory		348.2	350.8	288.4	204.4	272.1	328.4	323.0	315.8	316.2
Trade Receivables		201.7	176.1	119.9	137.2	190.2	221.2	204.4	211.1	212.0
Other Debtors		29.4	26.6	21.2	25.9	42.3	31.5	42.9	42.9	42.9
Cash		67.9	128.6	102.9	108.4	29.4	45.5	139.7	217.1	279.9
Current Liabilities		(159.5)	(145.3)	(84.7)	(99.0)	(163.8)	(225.8)	(259.0)	(275.4)	(286.6)
Trade Payables		(62.3)	(56.3)	(26.4)	(40.5)	(66.8)	(62.5)	(59.1)	(62.1)	(60.0)
Other Creditors		(94.5)	(77.6)	(46.9)	(48.6)	(83.0)	(109.0)	(112.1)	(125.5)	(138.8)
IFRS16 Lease Liabilities		0.0	(9.8)	(10.2)	(8.9)	(9.1)	(8.0)	(6.9)	(6.9)	(6.9)
Short-term Borrowings		(2.7)	(1.6)	(1.2)	(1.0)	(4.9)	(46.3)	(80.9)	(80.9)	(80.9)
Non-Current Liabilities		(18.4)	(48.0)	(52.2)	(41.3)	(39.3)	(39.4)	(49.0)	(63.6)	(75.0)
Long-term Borrowings*		(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)	(1.9)	0.1
IFRS16 Lease Liabilities		0.0	(35.4)	(30.1)	(22.9)	(21.5)	(20.7)	(20.5)	(20.5)	(20.5)
Other Long-term Liabilities		(14.5)	(8.7)	(18.2)	(14.5)	(13.9)	(14.8)	(24.6)	(41.2)	(54.6)
Net Assets		1,191.1	1,223.8	976.6	871.3	846.2	957.1	989.1	1,043.9	1,095.1

Source: Company, Equity Development.

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