Hunting PLC

Onwards and upwards

16 September 2024

One year on from Hunting's 2030 Strategy launch some good progress has been made towards these long-term targets in mixed market conditions. H124 EBITDA came in at U$60.3m (+c.23% y-o-y), in line with pre-close commentary. Successful order execution in International and Subsea markets more than offset largely weaker North American oil and gas demand. An elevated order book position, re-affirmed EBITDA and year-end net cash guidance (both raised at the end of H1), together with a 10% interim DPS uplift, all project a confident outlook.

Strong H124 EBITDA increases from Subsea, OCTG and Advanced Manufacturing operations were partly offset by a lower Perforating Systems' contribution, but good y-o-y and sequential progress was achieved by the Group overall, sustaining recent trends. The blended margin from wholly owned operations rose by 210bp y-o-y to 12.3% in the period. End H124 net borrowings rose to reflect working capital investment ahead of significant new OCTG shipments (related to large KOC orders flagged previously) but remained at modest levels at c. U$10m (company basis).

Hunting's c. U$700m order book position at the end of June supports our unchanged core profit estimates, albeit on slightly lower FY24 revenues factoring in current Perforating Systems' run rates. We now include JV/Associates in EBITDA, consistent with the revised company presentation, and have trimmed the current year contribution here largely to reflect the India JV start-up position. Together with raised interest expectations in all three years, the combined effect is to slightly lower our FY24 group PBT expectation by U$3m (3.4%) with more marginal revisions in the two subsequent years. Our EBITDA and end FY24 net cash estimates remain in-line with company guidance. Beyond this, our cash inflow expectations have improved further, notwithstanding a new import tax provision.

Valuation: building momentum for the medium/long term

Hunting's c.40% YTD share price uplift was effectively attained in May - including a boost from OCTG orders at that time – and has largely traded in the 400p-460p range subsequently. Having significantly outperformed its peer group, valuation metrics are now more aligned with these peers on an FY25 P/E basis but remain on a c.20% EV/EBITDA discount.

Successful delivery of the KOC OCTG orders over the next nine months is an important near-term focus and a stepping stone towards the company's bigger picture 2030 aspirations. Ongoing material order success and improving visibility at higher levels of profitability in the medium term and beyond will be the key drivers of future share price performance and we leave our existing fair value of 436p / share unchanged for now.

Summary financials

Yr to December (US$m)	2022	2023	2024E	2025E	2026E
Revenue	725.8	929.1	1052.6	1193.8	1156.0
EBITDA*	52.0	103.0	134.0	166.5	160.1
EBITDA* (inc JV/Associates)	49.3	102.4	134.0	171.2	166.0
PTP	10.2	50.0	83.4	120.9	116.2
EPS (US c)	4.7	20.3	33.3	49.9	47.7
DPS (US c)	9.0	10.0	11.0	12.0	13.0
Net cash / (borrowings)	20.6	(4.7)	30.6	122.5	203.5
P/E (x)	*115.1*	*26.8*	*16.3*	*10.9*	*11.4*
EV/EBITDA (x)	*16.9*	*8.8*	*6.5*	*4.7*	*4.3*
Dividend yield (%)	*1.7%*	*1.8%*	*2.0%*	*2.2%*	*2.4%*

*Source: Company Annual Reports, Equity Development. * Company basis £/US$ 1.31*

Company Data

EPIC	HTG.L
Price (last close)	414.5p
52 weeks Hi/Lo	465p/247p
Market cap	£684m
ED Fair Value / share	436p
H124 Net cash (borrowing) Pre IFRS16, ex s/holder loan	(US$10m)
Avg. daily volume	359k

NB all at £/US$ 1.31

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 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.

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Hunting Plc: Product Group and Divisional splits H124

Product Group:

Year end: Dec US$m	H123	H223	2023	H124	% chg yoy H124
Group Revenue	477.8	451.3	929.1	493.8	3%
Perforating Systems	126.8	117.0	243.8	119.4	-6%
OCTG	213.4	182.4	395.8	188.6	-12%
Advanced Manufacturing	53.1	59.0	112.1	61.7	16%
Subsea	42.5	56.1	98.6	78.7	85%
Other Manufacturing	42.0	36.8	78.8	45.4	8%
Group EBITDA	49.1	53.3	102.4	60.3	23%
Perforating Systems	13.7	11.4	25.1	3.2	-77%
OCTG	24.1	22.4	46.5	32.5	35%
Wholly owned	24.1	22.6	46.7	32.1	33%
JV	0.0	-0.2	-0.2	0.4	n/m
Advanced Manufacturing	4.5	6.2	10.7	5.5	22%
Subsea	3.2	10.5	13.7	17.8	456%
Other Manufacturing	3.6	2.8	6.4	1.3	-64%
Wholly owned	3.2	3.6	6.8	1.9	-41%
JV	0.4	-0.8	-0.4	-0.6	n/m

					chg bp
EBITDA Margins (Wholly owned) %	10.2%	12.0%	11.1%	12.3%	+210
Perforating Systems	10.8%	9.7%	10.3%	2.7%	-810
OCTG (100% owned)	11.3%	12.4%	11.8%	17.0%	+570
Advanced Manufacturing	8.5%	10.5%	9.5%	8.9%	+40
Subsea	7.5%	18.7%	13.9%	22.6%	+1510
Other Manufacturing (100% owned)	7.6%	9.8%	8.6%	4.2%	-340

Divisional:

Year end: Dec US$m	H123	H223	2023	H124	% chg yoy H124
Group Revenue	477.8	451.3	929.1	493.8	3%
Hunting Titan	134.5	124.7	259.2	122.9	-9%
North America	191.3	183.4	374.7	192.7	1%
Subsea Technologies	42.5	56.1	98.6	78.7	85%
EMEA	46.5	41.7	88.2	46.7	0%
Asia Pacific	86.9	70.7	157.6	79.6	-8%
Inter company	-23.9	-25.3	-49.2	-26.8	
Group EBIT	26.6	33.8	60.4	40.1	51%
Hunting Titan	7.5	5.2	12.7	-2.6	-135%
North America	18.3	15.4	33.7	19.9	8.7%
Wholly owned	17.9	16.2	34.1	20.5	14.5%
JV	0.4	-0.8	-0.4	-0.6	n/m
Subsea Technologies	-0.4	8.4	8.0	15.5	n/m
EMEA	-1.1	-1.2	-2.3	-3.4	n/m
Asia Pacific	2.3	6.0	8.3	10.7	365.2%
Wholly owned	2.3	6.2	8.5	10.3	347.8%
JV	0.0	-0.2	-0.2	0.4	n/m

					chg bp
EBIT margins (Wholly owned) %	5.5%	7.7%	6.6%	8.2%	+270
Hunting Titan	5.6%	4.1%	4.9%	-2.1%	-770
North America (100% owned)	9.4%	8.8%	9.1%	10.6%	+120
Subsea Technologies	-0.9%	15.0%	8.1%	19.7%	+2060
EMEA	-2.4%	-2.9%	-2.6%	-7.3%	-490
Asia Pacific (100% owned)	2.6%	8.8%	5.4%	12.9%	+1030

Source: Company, Equity Development.

Hunting Plc: Product Group and Divisional matrix analysis H124 performance

U$m	Hunting Titan	North America	Subsea Tech	EMEA	APAC	Revenue	EBITDA	*EBITDA margin %*	Margin chg bps
Perforating Systems	111.9			7.5		**119.4**	3.2	*2.7%*	-810
OCTG	1.2	98.5		14.3	74.6	**188.6**	32.1	*17.0%*	+570
Advanced Manufacturing	3.3	58.4				**61.7**	5.5	*8.9%*	+40
Subsea			78.7			**78.7**	17.8	*22.6%*	+1510
Other Manufacturing		18.8		24.1	2.5	45.4	1.9	*4.2%*	-340

Group:	Hunting Titan	North America	Subsea Tech	EMEA	APAC	Total
Revenue (net)	**116.4**	**175.7**	**78.7**	**45.9**	**77.1**	**493.8**
EBITDA	**2.0**	**29.6**	**17.8**	**-1.1**	**12.2**	**60.5**
EBIT	**-2.6**	**20.5**	**15.5**	**-3.4**	**10.3**	**40.3**
EBITDA margin %	***1.7%***	***16.8%***	***22.6%***	***-2.4%***	***15.8%***	***12.3%***
Change - basis points	-760	+20	+1510	-410	+1130	+210
EBIT margin %	***-2.2%***	***11.7%***	***19.7%***	***-7.4%***	***13.4%***	***8.2%***
Change - basis points	-800	+130	+2060	-500	+1070	+270

Percentage change key:

	Increase	Decrease
0-10%		
11-20%		
21-50%		
>50%		

Percentage change and margin analysis is based on net revenue so differs slightly from earlier Divisional analysis (which uses gross revenues, as shown).

All Divisions apart from Subsea Tech have some inter-company revenue; this was less than 9% in all cases and c.5% overall.

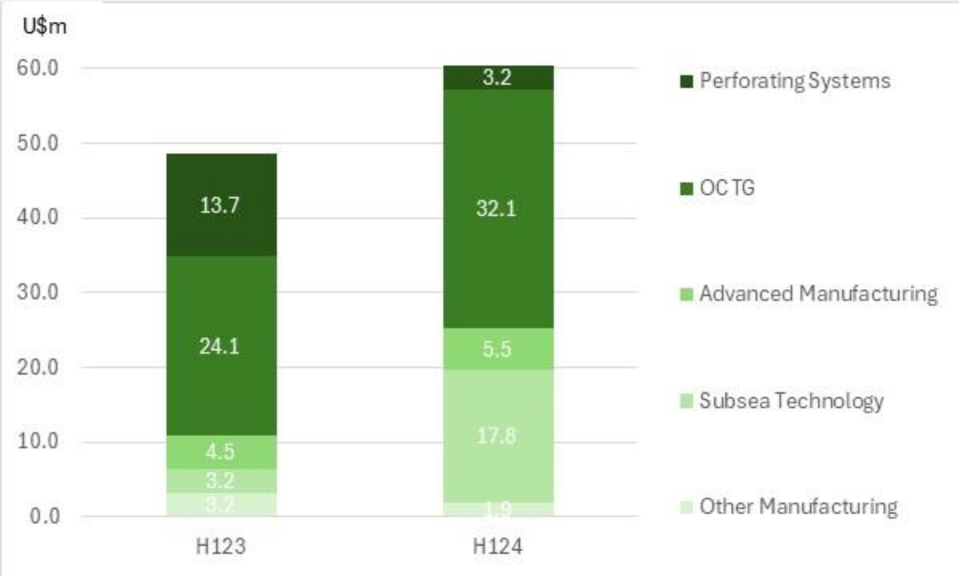
Note: EBITDA, EBIT and the associated margins are all derived from wholly-owned operations (and exclude JV/associate contributions)

Source: Company, Equity Development.

Subsea and OCTG driving profitability ahead in H124

Hunting reported H124 EBITDA of U$60.3m (including U$0.2m share of JV/Associate losses), which was slightly above the mid-point of the pre-close guidance range of U$59m-61m expected range in H124. This represented a 23% y-o-y uplift on revenues c.3% ahead. As anticipated, this profit increase was primarily driven by a significant uplift in contributions from the Subsea and OCTG Product groups, both of which were slightly ahead of our expectations. In this section, we comment on the H124 performance of all five Product groups and summarise the profit progression in the chart below.

Hunting: Half-year EBITDA splits



Source: Company

Subsea: Spring boosts H1 performance

Order book development for this Product group last year - progressing from just over U$100m at beginning and at the interim stage to U$152m by the end of 2023 – was a precursor to a strong H124 performance. The delivery of titanium stress joint (TSJ) orders for offshore Guyana projects from Hunting's Spring TX facility commenced in Q423 and created a bulge in H124 revenue (+c.85% yoy to U$78.7m). This drove a fifteen percentage point EBITDA margin uplift (to 22.6%) and EBITDA of U$17.8m for the half-year.

In context, in FY21 and FY22 (the first years in which numbers were separated from North America), this grouping of three businesses chipped in cU$3-5m EBITDA per annum, before accelerating with new business wins last year.

Hence, the profile of this product group has changed materially in a relatively short time for the oil and gas industry. The elevated Spring contribution above was complemented by a strong performance from the Stafford, TX facility (hydraulic valves and couplings). In addition, Enpro (Aberdeen-based supplier of Flow Access Module technologies) is also gathering momentum, ending H1 with an increased U$17.5m of orders on hand, some of which was apparently won in conjunction with sister operations. This business was relocated at the beginning of this year and its evolving business model is starting to pay off.

The combined consideration for these three businesses is c. U$100m (the first acquired in 2009, the latest in 2020) and the decision to split them from North America as a separate operating segment at the beginning of 2023 has been a strategically successful one to date. While the overall order book has naturally declined from end FY23 levels to U$116m at the end of H124, this was still c.10% up y-o-y. Pending additional new business wins, we expect the H2 performance to moderate from H1, although it will probably be similar to H223 which was itself strong in a historic context.

OCTG: progress with orders, JV development and profitability

H124 was a period of intense activity for the OCTG Product group, trading in mixed market conditions but successfully securing a record order position.

The U$231m combined **Kuwait Oil Company (KOC) orders** announced in two tranches in Q2 and believed to be for new offshore gas field deployment took OCTG's end H124 order book position to U$411m (59% of the group position). Management points out that this was the result of a six-year trials, approval and accreditation process for the entire supply chain. As previously mentioned, this resides in the Asia-Pacific region; Hunting has two primary tubular threading and accessory machining facilities in the region (Wuxi City on China's Eastern Seaboard and Batam Island, Indonesia). We understand that only one additional machining line is required to accommodate the anticipated shipment schedule. In broad terms, expectations have been set for one third of the total order value to be shipped in the current financial year and the remainder in H125. Shipments are expected to commence at the end of Q3, and we would expect a further update from the company towards the year-end regarding progress with this order.

Separately, **Jindal Hunting Energy Services (a new JV in Nashik** – c.110 miles northeast of Mumbai - with local Indian partner Jindal SAW[1]) began shipping commercially in Q2 having secured API licence approval in the period. The local market is understood to be valued at c. U$$300m-400m per annum (c.20% of which relates to premium connections); this JV is understood to be the only in-country premium connections and accessories producer. From a standing start, orders on hand were c.U$13m at the end of H1 which provides visibility into H125.

Last, but by no means least, we note that the **financial performance of the OCTG Product group** in the first six months of the year was not impacted by the discrete events above. While revenues were c.12% lower y-o-y, this was largely due to the substantial completion of specific project shipments in both Asia-Pacific (for CNOOC) and EMEA (Tubacex), while North American activity was relatively robust despite a challenging local oil and gas market. We understand that share gains in certain regions contributed to the latter outcome.

Despite softer revenues overall, EBITDA rose by a third in H124 with a 570bp y-o-y margin uplift to 17.0%. Interestingly, comparing H124 with H223 also shows that while revenues were only slightly higher, there was also a strong sequential margin uplift between these two periods (up 460bp). This suggests to us that either larger contracts were taken at a lower margin and/or there was an element of back-end loading to profit recognition on those contracts. Either way, it suggests that the product group business unit is in good shape overall and well-placed to execute the above KOC orders going into H224.

Looking ahead, shipments to fulfil the KOC orders will have the most significant impact on financial performance over the next twelve months. That said, we expect North American OCTG revenues to be of a similar order to those in Asia-Pacific in 2024 and 2025, so the strong relative performance here noted above (including exports) remains important. It remains to be seen where additional large contracts can be secured (eg KOC follow-on) to further extend forward visibility.

Given the gestation periods involved, we would expect Hunting to have a clearer view on tendering timescales here than is currently being communicated externally. Lastly, subject to a successful ramp up of production activity in the Indian JV, we would not be surprised if further expansion plans were announced here.

[1] Jindal SAW Ltd

Perforating Systems: some resilience in tougher North American markets

Hunting Titan and other companies serving the North American oil and gas tubular products markets have experienced the effects of reduced volumes, increased import penetration and pricing pressures.

Average crude oil and natural gas prices[2] were up 5.3% and down 12.6% respectively against H123 and both were lower than the H223 equivalent, which had seen sequential improvement. As we noted at the pre-close stage, the North American onshore rig count[3] tapered down in Q2, ending H124 down 4.7% compared to the beginning of the year; with Canada flat, the US decline was down 5.6% over the six-month period.

North American domestic revenue was 8.1% lower which was relatively resilient compared to sharper falls from tubular suppliers (eg Tenaris -34%, Vallourec -37%).

Titan has not stood still in the face of these conditions, with ongoing new product launches to stimulate demand and gain share as well as the closure of three locations (one factory in Wichita Falls consolidated onto another site and two distribution depots) to lower annualised costs by c.U$6-7m as previously announced.

In contrast, in generally firmer markets, international sales rose by 5% (to 19% of the total). EMEA revenue more than doubled (to one third of export sales) with Argentina also noted to be strong.

Nevertheless, Perforating Systems' EBITDA margins contracted sharply by 810bp y-o-y to 2.7% (and were also 700bp lower than H223 despite revenue being modestly higher). Operating inefficiencies, some above the line closure costs and new product activity along with lower volumes are all likely to have contributed to this outturn.

This Product group has the shortest natural order book. At U$15.3m this was ahead of end FY23 levels though still down almost 30% y-o-y. North American market conditions are likely to remain subdued in H224. Management's view is for a recovery in natural gas prices towards the year end and into FY25 which may result in an increase in onshore rig activity towards the year end.

The medium to longer term picture – with increasing investment in US LNG export infrastructure – is more positive. Faster export growth compared to domestic demand supports an expectation of rising production over time, particularly in the Gulf Coast region. In the near term, an absence of reorganisation costs and expectation of related benefits starting to accrue suggests that profitability should improve in H224 even at current activity levels. Moreover, c. U$35m planned inventory reductions will benefit the year end group balance sheet.

Advanced Manufacturing: ongoing sequential progress

This Product group is largely a North American business. Around two thirds of sales go to oil and gas customers. This is the dominant sector exposure for Electronics while Dearborn (machining) operations are much more heavily weighted towards non-oil and gas sectors.

Revenues continued to follow the rising order book trend seen to the end of FY23, achieving a 16% y-o-y uplift in H124, further extending half-year the sequential growth pattern from 2021. Energy-related sales were stated to be higher for machining and steady for electronics. This suggests that higher growth rates were achieved in the named non-Energy subsectors of aviation, commercial space, medical and power generation.

In context, H124 revenue on its own exceeded that delivered in FY21 as a whole (being U$61.7m and U$59.6m respectively). For the same comparative periods, Advanced Manufacturing's EBITDA margin was

[2] WTI and Henry Hub metrics respectively
[3] Baker Hughes data

780bp higher than FY21 levels in H124 at 8.9%. This was also 40bp above H123 but below the level seen in H223 (10.5%).

The combined Advanced Manufacturing order book at the end of H124 of U$146m was in line with the position a year earlier, though lower than the U$162m on hand at the start of FY24. This Product group appears to be on track to achieve a second consecutive annual record profit level. Management has stated that there is more margin improvement to come, without specifically commenting on timing and quantum.

Over time, we would expect faster growth in non-oil and gas sector to be margin accretive given the high-specification and, typically bespoke/programme specific nature of the components and assemblies supplied. This does, of course, depend on overall factory utilisation levels and investment has been made in both electronics and machining capability over the last eighteen months.

Other Manufacturing: EMEA momentum improving, North America soft

Total revenue rose by c.8% with some mixed constituent performances; North America unsurprisingly softer but more than compensated for by an increase in EMEA to just over half of sales in the period.

North America has historically been the largest regional contributor to the Other Manufacturing Product group but saw a c.20% y-o-y revenue contraction in H124. This was despite sustained demand for trenchless drilling equipment from the telecoms industry for the roll out of the 5G network. The inference then is that the traditional well intervention and pressure control equipment revenues were lower in the period. This mirrors comments elsewhere regarding lower drilling activity in North America though the impact appears to be greater here than in other Hunting operations. Exited E&P assets in the prior year would have contributed to the y-o-y revenue performance also.

The decline in North American revenue was more than offset by strong progress in the EMEA region driven primarily, we believe, by commercial success with the developing Organic Oil Recovery (OOR)[4] business stream. Hunting has flagged c. U$60m of new orders over a five-year period for clients operating in the North Sea which represents a significant scale up of this activity. Well testing activity in the Middle East is also said to have been positive and this bodes well for when the expanded Dubai facility comes on stream in the coming months.

While revenues grew overall in H124, underlying profitability declined with the EBITDA margin reducing by 340bp a year earlier to 4.2% in the latest period. Hence, regional mix appears to have been the primary driver here. In addition, the inclusion of Hunting's share of JV/Associate post tax profit (in this case a 23% share in Rival Downhole Tools) contributed a U$0.6m loss to headline EBITDA versus a U$0.4m profit in H123.

[4] Organic Oil Recovery is a chemical technology-based technique for enhanced oil reserve recovery in mature wells, by injecting a bespoke microbial formulation to stimulate flow. Hunting has an exclusive licence agreement outside North America (in place since 2017) to develop markets for OOR and is actively engaged with a number of customers in a number of geographies.

FY24 net cash guidance maintained after small H124 outflow

Following a net cash outflow of U$8.1m and a small adverse FX movement, **H124 ended with a c. U$10m net bank borrowing position**[5]. Cash on hand rose to c.$71m with short-term debt increasing by c. U$35m to c. U$81m. Hence, Hunting has retained a significant liquidity position while funding increased, but transitory, working capital requirements (see below) with bank borrowing. For the record, Hunting also had c. U$28m IFRS16 leases on the balance sheet, modestly lower than the start-year position.

Adjusted EBITDA of U$67.5m[6] was almost U$11m above H123 levels. The actual and expected increase in activity levels in certain Product groups drove a **c. U$40m working capital investment** in the period. The inventory component of this was relatively modest with announced location closures in Hunting Titan and completion of large Subsea orders having a dampening effect on the net movement following some build in Electronics stock. There were more substantial outflows in receivables (U$13m) and payables (U$23m) reflecting increased Subsea sales and OCTG advances respectively we believe. Faster revenue growth and significant Subsea order intake meant that H123's working capital outflow was larger at U$86m and with more material inventory purchases. (Note that H223 saw a U$31m working capital inflow.)

Cash interest and tax payments were just over U$4m, down from c. U$7m in the prior year with a different mix; the primary difference being lower tax given some historic US loss utilisation, while finance costs nudged up. There was no minority dividend receipt (nor any further investment) in this period.

Net capex of U$14.5m compared to almost U$18m in H123. Spend on tangible assets was broadly similar at c. U$12m - spread across all five reporting divisions - and was broadly in line with owned asset depreciation. Spend on intangibles was c. U$4m lower y-o-y at U$2.4m following higher spend on software and global data centres in the prior period. **IFRS16 lease payments (principal plus interest) of U$4.6m** were also U$1m lower y-o-y, absent a lease exit payment in H123.

After the above movements, **Hunting generated free cash flow of U$3m in H124**. Dividend payments (FY23 final U$8m) and net treasury share purchases (U$2.9m) round off the overall net cash movement described earlier.

Cash flow outlook

At the pre-close stage, management helpfully pointed to an increased **expected end FY24 net cash balance in the U$30m-40m range by the end of FY24.** This guidance is unchanged, and our estimates are currently set at the lower end of this range.

The material KOC order delivery period straddles the year end and, hence, related working capital movements will be influenced by the timing of shipments. Hunting has taken steps to shorten the cash cycle through bank acceptance bonds (to part fund tubular inventory) and letters of credit (to accelerate receivables) to avoid tying up working capital investment for an extended period and provided the foundation for confidence in the targeted year end range. We expect increased profitability versus H1 and inventory inflows from Hunting Titan and Electronics to have a favourable cash flow impact in H2.

We should also flag a provision of U$9.5m taken in H124 as a prior period adjustment, regarding taxation on imported intermediate goods in the EMEA region. This related to a specific completed contract – so is self-contained – and would not previously have arisen prior to the UK's exit from the EU we understand. There may be mitigating circumstances but as the provision is classified as a Current Liability, any payment may fall before the end of H125. We have not factored this into our current cash flow estimates for FY25 but, in the context of our current c. U$122m end FY25 net cash projection the prospective impact is manageable.

[5] Pre-IFRS16 and excluding a long-term shareholder loan (U$3.9m)
[6] Underlying EBIT plus depreciation on owned (U$12.7m) and RoU (U$3.7m) assets and intangible amortisation (U$3.7m), U$7m non-cash share buyback charge and U$0.2m JV/associate loss added back.

Guidance and order book position point to progress

Hunting's outlook comments included unchanged guidance for further anticipated increases in EBITDA:

- **FY24E**: U$134m-138m
- **FY25E**: U$160m-175m

We have made modest changes to our ongoing estimates for FY24, primarily at the revenue level with our OCTG revenue projection trimmed by less than 5% based following the H124 report. Our underlying EBITDA expectation for wholly owned businesses is unchanged overall with better Subsea and OCTG contributions compensating for softer Perforating Systems and Other Manufacturing in the mix.

The inclusion of JVs/Associates in the EBITDA definition going forward causes us to flag changes in this metric. This follows downward revisions to our share of PAT estimates for Rival Downhole Tools (to a US$1m loss, tracking H124) and Jindal Hunting Energy Services (to a U$1m profit, reflecting start up status). Consequently, JVs/Associates now have a neutral overall impact on our FY24 group EBITDA estimate.

Below this, we now model a higher carried gross debt expectation in the light of the higher cash/higher gross debt position at the interim stage. We assume that this continues, resulting in higher interest costs across all three years, partly softened by lower expected working capital and tax payment outflows in FY25 and FY26, leaving higher net cash projected positions for those year-ends.

As a result, our revised EBITDA estimate for FY24 sits at the lower end of the guided range while our unchanged FY25 equivalent is above the mid-point of its range. We have summarised headline changes in the following table.

Hunting: Estimate changes

Year to December (US$m)	FY24E	FY24E		FY25E	FY25E		FY26E	FY26E	
	Was	New	Change	Was	New	Change	Was	New	Change
Revenue	1069.6	1052.6	-2%	1193.8	1193.8	0%	1156.0	1156.0	0%
EBITDA*	137.4	134.0	-3%	171.2	171.2	0%	166.0	166.0	0%
Pre-Tax Profit - company norm	88.1	83.4	-5%	121.9	120.9	-1%	116.7	116.2	0%
EPS FD - company norm (US c)	36.3	33.3	-8%	50.9	49.9	-2%	48.6	47.7	-2%
DPS (US c)	11.0	11.0	0%	12.0	12.0	0%	13.0	13.0	0%
Net cash / (debt) pre-IFRS16 basis	31.2	30.6	-2%	93.3	122.5	31%	163.8	203.5	24%

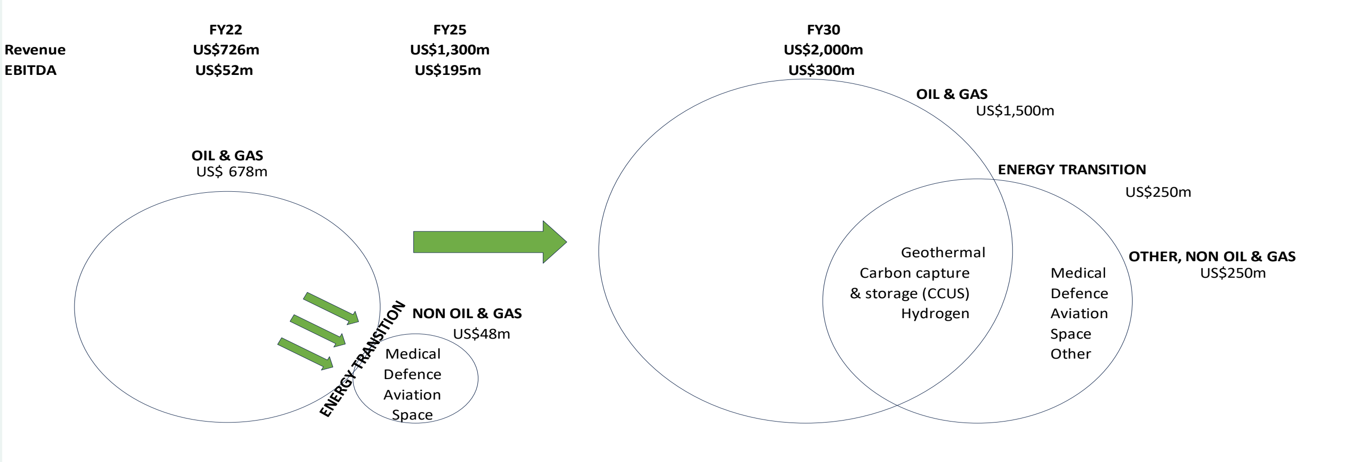
*Source: Equity Development *now includes JV/Associate share of PAT (previous estimates adjusted)*

Hunting has obviously entered H224 with a position of order book strength which provides good visibility for some operations into FY25 also. With a maintained group pipeline of c.U$1bn of potential new business, we suggest that the prospect of further significant OCTG and Subsea orders offers further possible upside across our estimate horizon, though the success and timing of tender activity in these areas is difficult to call. A recovery in Perforating Systems' demand is factored into our model, starting with some post-restructuring benefits in H2 and a return to growth in FY25.

2030 Strategy: a yardstick for progress

Hunting's Capital Markets Day on 13 September 2023, launched an ambitious expansion strategy with targeted increases in EBITDA margin and non-oil and gas revenues particularly striking P&L components. This section provides a brief perspective on financial progress to date and includes our summary graphic from previous notes here.

Hunting: 2023-2030 strategic growth targets



Source: Company, Equity Development. NB Chart illustrative, not to scale; segment revenue (Oil & gas, Energy Transition, Other non-oil & gas) shown in chart

FY23 (revenue U$929m, EBITDA U$102m, c.11% margin) showed strong progress versus FY22 and was **a good initial step in the right direction**. Noting that FY24 guidance has been steadily increased over the last year (from U$125m-135m to U$134m-138m currently), **further sequential progress expected in each of our three estimate years** and in line with guidance provided, as noted earlier.

At face value, the **FY25 EBITDA guidance range (U$160m-175m)** has changed as it diverges from the CMD illustration (c. U$195m, derived from revenue of U$1.3bn and a 15% EBITDA margin). While Perforating Systems' markets have been weaker than expected around the CMD, this has effectively been compensated for by strength elsewhere. The difference then is understood to be explained by an absence of M&A to date. (As a reminder c. U$300m of revenue and U$45m of EBITDA of the targeted c.£1.3bn and c. U$250m respective uplifts by 2030 was meant to flow from acquisition activity.) We assume that potential targets are under active review, but the timing and quantum of deals is obviously difficult to assess externally. We do not factor in any such contributions unless and until announcements are made and each deal will be judged on its merit at that time.

Since initiating coverage last year, our FY24 and FY25 estimates have risen: our revenue forecasts are now 2% and 7% higher respectively, with corresponding EBITDA expectations up 10% and 14% on a comparable basis. **For the FY22-FY26E period, our revenue CAGR is just above 12%, while our FY26E EBITDA margin currently sits at 13.8% underlying** (or 14.4% including JV/Associates).

We note that the **revenue CAGR run rate for this period is slightly above that implied for organic growth** out to 2030, while our **margin expectation is still conservative** versus the company's 15% target. Some Product groups are clearly on track with their growth trajectories and others have more to contribute. At this stage, most of the growth is coming from oil and gas sector exposure (see below) which indicates that non-oil and gas business streams have some way to go to reach U$500m revenue by 2030.

Regarding stated EBITDA margin targets of 15% or above, we should note that Hunting now includes JV/associate contributions (ie the company's share of profit after tax) within its revised EBITDA definition. This is not currently a material adjustment.

Now that Jindal Hunting Energy Services is operational, this Indian JV is likely to become the most material contributor to EBITDA based on the current group investments. (For the record, we currently factor in c. U$5m from this entity in our FY26E EBITDA estimate).

Our model does not explicitly incorporate revenue growth projections by sector. However, we make a few observations here based on reported financial performance to date.

- **The oil and gas sector accounted for 93% of H124 group revenue**, so no major change from FY23. Within this, the split between onshore and offshore revenues has largely been c.60:40 in the last three years. Interestingly, in H124, the composition shifted to 44:56 as Subsea executed its strong order book while Perforating Systems experienced softer North American market conditions. Good EBITDA growth was delivered in the period on a relatively modest overall group revenue uplift which demonstrates that equating company prospects simply with North American onshore rig counts is overly simplistic. Hunting has an increasingly diverse Product group offering and can participate in faster growing and more attractive sub-segments as they develop.
- **Non-oil and gas** revenue was flat in the period against H123 with no material headline progress seen towards the targeted 25% by 2030 (split broadly equally between Energy Transition and other non-oil and gas sectors). Pockets of progress were flagged with H124 results with Advanced Manufacturing revenues ahead y-o-y and references made to multiple OCTG geothermal project wins. We assume that the latter were largely included in orders at the interim stage and, therefore, we might expect to see more visible non-oil and gas sector progress from H224 onwards. Newer Energy Transition projects will have long gestation periods, and in our view scale progress is more likely to be back-end loaded in the 2030 strategy delivery and/or be an area in which M&A could contribute to growth.

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**	**1,052.6**	**1,193.8**	**1,156.0**
Gross Profit		275.1	266.4	124.8	100.6	171.4	227.7	278.9	316.4	300.6
EBITDA - HTG (100% owned)		142.3	139.7	26.1	3.1	52.0	103.0	134.0	166.5	160.1
EBITDA - HTG (inc JV/Associates)		142.3	139.7	26.1	(0.4)	49.3	102.4	134.0	171.2	166.0
EBIT (100% owned)		**104.7**	**94.3**	**(16.4)**	**(35.1)**	**14.6**	**61.0**	**92.0**	**124.0**	**117.1**
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	92.0	128.7	123.0
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**	**83.4**	**120.9**	**116.2**
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	83.4	120.9	116.2
Tax		11.0	(4.2)	(15.2)	(4.2)	(1.3)	69.0	(22.5)	(31.4)	(29.8)
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**	**56.4**	**84.5**	**80.9**
EPS FD - HTG norm (US c)		**49.6**	**43.9**	**(10.0)**	**(27.1)**	**4.7**	**20.3**	**33.3**	**49.9**	**47.7**
EPS FD - reported (US c)		**52.3**	**23.5**	**(143.1)**	**(53.2)**	**(2.8)**	**70.0**	**33.3**	**49.9**	**47.7**
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***	***26.5***	***26.5***	***26.0***
EBITDA - HTG (100% owned)		*15.6*	*14.6*	*4.2*	*0.6*	*7.2*	*11.1*	*12.7*	*13.9*	*13.8*
EBIT (100% owned)		***11.5***	***9.8***	***(2.6)***	***(6.7)***	***2.0***	***6.6***	***8.7***	***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	134.0	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)	(29.0)	(3.4)	(4.7)
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**	**117.0**	**176.6**	**168.8**
Tax paid		**(2.6)**	**(7.7)**	**(5.0)**	**0.6**	**(3.9)**	**(9.1)**	**(5.6)**	**(11.0)**	**(13.4)**
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)**	**(45.5)**	**(33.7)**	**(34.4)**
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	0.0	0.0	0.0
Net Cash Flow		**32.0**	**59.4**	**(28.8)**	**6.4**	**(78.5)**	**(25.2)**	**36.1**	**91.9**	**81.0**
Opening net cash/(debt) - pre IFRS16*		**30.4**	**61.3**	**123.1**	**97.8**	**103.5**	**20.6**	**(4.7)**	**30.6**	**122.5**
Change in Net Cash		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	36.1	91.9	81.0
Other		(1.1)	2.4	3.5	(0.7)	(4.4)	(0.1)	(0.8)	0.0	0.0
Closing net cash/(debt) - pre IFRS16*		**61.3**	**123.1**	**97.8**	**103.5**	**20.6**	**(4.7)**	**30.6**	**122.5**	**203.5**
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**	**720.2**	**818.4**	**902.6**
Inventory		348.2	350.8	288.4	204.4	272.1	328.4	336.2	330.3	333.1
Trade Receivables		201.7	176.1	119.9	137.2	190.2	221.2	225.6	237.9	238.4
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	115.4	207.3	288.3
Current Liabilities		**(159.5)**	**(145.3)**	**(84.7)**	**(99.0)**	**(163.8)**	**(225.8)**	**(262.1)**	**(278.3)**	**(290.1)**
Trade Payables		(62.3)	(56.3)	(26.4)	(40.5)	(66.8)	(62.5)	(58.9)	(61.8)	(60.3)
Other Creditors		(94.5)	(77.6)	(46.9)	(48.6)	(83.0)	(109.0)	(115.4)	(128.7)	(142.1)
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)**	**(69.4)**	**(85.8)**
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)	(20.5)	(20.5)	(20.5)
Other Long-term Liabilities		(14.5)	(8.7)	(18.2)	(14.5)	(13.9)	(14.8)	(24.6)	(45.0)	(61.4)
Net Assets		**1,191.1**	**1,223.8**	**976.6**	**871.3**	**846.2**	**957.1**	**996.2**	**1,066.7**	**1,132.5**

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

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