

## Titan tempers upward momentum

22 October 2024

Hunting's Q3 update highlights positive developments with OCTG shipments and cash flow/funding but Hunting Titan/Perforating Systems (PS) has not seen a trading improvement in H2 to date. Consequently, we have reduced estimates to reflect this, although we continue to expect the company to report good EBITDA progress this year and next. Our revised 397p per share fair value primarily reflects estimate changes and near-term peer group multiples.

**H1 trading patterns continue into Q3.** The first OCTG shipments to KOC have completed successfully. Allowing for this, the group order book is holding up well (at U\$652m versus c. U\$700m in H124) with other Product Groups – PS excepted – substantially on track with expectations. H1 PS cost reduction actions have not been sufficient to offset ongoing North American onshore market weakness thus far in H2 and we have lowered estimates in all three forecast years rebasing our PS recovery profile. Further unspecified actions under a new management team have been flagged with more details likely to come around the year end.

**Our Group EBITDA estimates** are now c.7% lower for FY24 and c.12% down in the following two years. FY24 EBITDA progression thus far has been Q1 U\$28.9m, Q2 U\$31.5m and Q3 c. U\$27m (totalling c. U\$87m). Revised FY24 guidance to U\$123m-126m (from U\$134m-138m) infers a strong Q4E supported by KOC shipments. Post revisions, our expectations are for EBITDA to increase by c.21% yoy this year and next, currently followed by a flat FY26, pending further order wins.

**Strong funding position.** The trading shortfall against prior guidance has not been at the expense of cash flow generation. Hunting ended Q3 with c. U\$5m net cash (inferring c. U\$15m net inflow in the quarter). Moreover, revised guidance is for an expected U\$60m-70m year end net cash position. This is c. U\$30m better than previously which we think reflects greater clarity on the payment profile for OCTG shipments. Additionally, Hunting has replaced its Asset Based Lending capacity (U\$150m) with a U\$200m RCF (initially to 2028) and a U\$100m term loan (to 2027). We see the scale and term profile of these new facilities providing clear headroom under Hunting's 2030 strategy horizon.

## Valuation: Balancing near and longer term horizons

Hunting's share price has drifted lower since the H124 results but is still up c.26% YTD, performing well in the context of our peer group. The 2030 strategy is unchanged, albeit with Perforating Systems having to reassert its potential over this time horizon. We are happy to retain our US\$180m long term EBITDA as a DCF input. Hunting is trading in line with its peer group on current year earnings but at a discount to our DCF modelling. Averaging these approaches generates **397p per share fair value**.

### Company Data

EPIC	HTG.L
Price (last close)	373p
52 weeks Hi/Lo	461p/247p
Market cap	£615m
ED Fair Value/share	397p
Q324 Net cash	US\$5m
Pre IFRS16, ex s/holder loan	
Avg. daily volume	392k
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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### 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
PTP	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)	103.4	24.1	16.0	11.6	12.0
EV/EBITDA (x)	15.1	7.9	6.1	4.6	4.3
Dividend yield (%)	1.8%	2.0%	2.3%	2.5%	2.7%

Source: Company Annual Reports, Equity Development. \* company basis £/US\$1.31 \*\* incl. 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
<b>Revenue</b>		<b>911.4</b>	<b>960.0</b>	<b>626.0</b>	<b>521.6</b>	<b>725.8</b>	<b>929.1</b>	<b>1,047.6</b>	<b>1,173.8</b>	<b>1,134.5</b>
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
<b>EBIT (100% owned)</b>		<b>104.7</b>	<b>94.3</b>	<b>(16.4)</b>	<b>(35.1)</b>	<b>14.6</b>	<b>61.0</b>	<b>82.0</b>	<b>102.5</b>	<b>97.1</b>
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)
<b>Profit Before Tax - HTG norm</b>		<b>104.0</b>	<b>93.1</b>	<b>(19.4)</b>	<b>(40.6)</b>	<b>10.2</b>	<b>50.0</b>	<b>73.4</b>	<b>99.4</b>	<b>96.2</b>
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)
<b>Profit After Tax (reported)</b>		<b>89.3</b>	<b>39.7</b>	<b>(234.7)</b>	<b>(85.8)</b>	<b>(4.6)</b>	<b>117.1</b>	<b>51.6</b>	<b>71.3</b>	<b>68.8</b>
<b>EPS FD - HTG norm (US c)</b>		<b>49.6</b>	<b>43.9</b>	<b>(10.0)</b>	<b>(27.1)</b>	<b>4.7</b>	<b>20.3</b>	<b>30.4</b>	<b>42.1</b>	<b>40.6</b>
<b>EPS FD - reported (US c)</b>		<b>52.3</b>	<b>23.5</b>	<b>(143.1)</b>	<b>(53.2)</b>	<b>(2.8)</b>	<b>70.0</b>	<b>30.4</b>	<b>42.1</b>	<b>40.6</b>
<b>Dividend per share (US c)</b>		<b>9.0</b>	<b>5.0</b>	<b>9.0</b>	<b>8.0</b>	<b>9.0</b>	<b>10.0</b>	<b>11.0</b>	<b>12.0</b>	<b>13.0</b>
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
<b>Margins (%)</b>										
<b>Gross Profit</b>		<b>30.2</b>	<b>27.8</b>	<b>19.9</b>	<b>19.3</b>	<b>23.6</b>	<b>24.5</b>	<b>26.0</b>	<b>25.0</b>	<b>25.0</b>
<b>EBITDA - HTG (100% owned)</b>		<b>15.6</b>	<b>14.6</b>	<b>4.2</b>	<b>0.6</b>	<b>7.2</b>	<b>11.1</b>	<b>11.8</b>	<b>12.4</b>	<b>12.3</b>
<b>EBIT (100% owned)</b>		<b>11.5</b>	<b>9.8</b>	<b>(2.6)</b>	<b>(6.7)</b>	<b>2.0</b>	<b>6.6</b>	<b>7.8</b>	<b>8.7</b>	<b>8.6</b>

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	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
<b>Operating Cash Flow</b>		<b>55.3</b>	<b>144.9</b>	<b>56.0</b>	<b>28.0</b>	<b>(32.9)</b>	<b>58.4</b>	<b>141.6</b>	<b>162.1</b>	<b>150.1</b>
<b>Tax paid</b>		<b>(2.6)</b>	<b>(7.7)</b>	<b>(5.0)</b>	<b>0.6</b>	<b>(3.9)</b>	<b>(9.1)</b>	<b>(5.0)</b>	<b>(8.9)</b>	<b>(11.0)</b>
<b>Investing Activities</b>		<b>(6.7)</b>	<b>(46.6)</b>	<b>(46.6)</b>	<b>9.2</b>	<b>(11.7)</b>	<b>(33.1)</b>	<b>(29.8)</b>	<b>(40.0)</b>	<b>(40.0)</b>
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
<b>Financing Activities</b>		<b>(14.0)</b>	<b>(31.2)</b>	<b>(33.2)</b>	<b>(31.4)</b>	<b>(30.0)</b>	<b>(41.4)</b>	<b>(46.5)</b>	<b>(35.7)</b>	<b>(36.4)</b>
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)
<b>Net Cash Flow</b>		<b>32.0</b>	<b>59.4</b>	<b>(28.8)</b>	<b>6.4</b>	<b>(78.5)</b>	<b>(25.2)</b>	<b>60.4</b>	<b>77.4</b>	<b>62.8</b>
<b>Opening net cash/(debt) - pre IFRS16*</b>		<b>30.4</b>	<b>61.3</b>	<b>123.1</b>	<b>97.8</b>	<b>103.5</b>	<b>20.6</b>	<b>(4.7)</b>	<b>54.9</b>	<b>134.3</b>
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
<b>Closing net cash/(debt) - pre IFRS16*</b>		<b>61.3</b>	<b>123.1</b>	<b>97.8</b>	<b>103.5</b>	<b>20.6</b>	<b>(4.7)</b>	<b>54.9</b>	<b>134.3</b>	<b>199.1</b>
<b>IFRS16 lease liabilities</b>			<b>(45.2)</b>	<b>(40.3)</b>	<b>(31.8)</b>	<b>(30.6)</b>	<b>(28.7)</b>	<b>(27.8)</b>	<b>(27.8)</b>	<b>(27.8)</b>

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
<b>Non-Current Assets</b>		<b>721.8</b>	<b>735.0</b>	<b>581.1</b>	<b>535.7</b>	<b>515.3</b>	<b>595.7</b>	<b>587.1</b>	<b>596.1</b>	<b>605.8</b>
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
<b>Current Assets</b>		<b>647.2</b>	<b>682.1</b>	<b>532.4</b>	<b>475.9</b>	<b>534.0</b>	<b>626.6</b>	<b>710.0</b>	<b>786.8</b>	<b>851.0</b>
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
<b>Current Liabilities</b>		<b>(159.5)</b>	<b>(145.3)</b>	<b>(84.7)</b>	<b>(99.0)</b>	<b>(163.8)</b>	<b>(225.8)</b>	<b>(259.0)</b>	<b>(275.4)</b>	<b>(286.6)</b>
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)
<b>Non-Current Liabilities</b>		<b>(18.4)</b>	<b>(48.0)</b>	<b>(52.2)</b>	<b>(41.3)</b>	<b>(39.3)</b>	<b>(39.4)</b>	<b>(49.0)</b>	<b>(63.6)</b>	<b>(75.0)</b>
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)
<b>Net Assets</b>		<b>1,191.1</b>	<b>1,223.8</b>	<b>976.6</b>	<b>871.3</b>	<b>846.2</b>	<b>957.1</b>	<b>989.1</b>	<b>1,043.9</b>	<b>1,095.1</b>

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



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