Hunting PLC

H1 ahead and OCTG orders underpin more progress

10 July 2024

International and Subsea markets continue to drive Hunting forward. A pre-close update indicated H124 EBITDA of c.US$60m (up US$10m+ year-on-year) plus a c.$700m period end group order book (up c.US$135m since December). There have been headwinds in certain other markets, but overall group momentum has again led to slightly firmer guidance for the current year together with an expectation of good progress to follow in FY25. The company was modestly geared at the period end.

A c.200bp increase in EBITDA margin and group revenue c.3% higher y-oy in resulted in a strong overall increase in H124 profitability. Subsea had a notably stronger H1 trading period supported by shipments of titanium stress joints for offshore Guyana projects; OCTG continued to trade well and it secured significant new orders in the first half. Weaker onshore North American drilling activity did impact Perforating Systems' performance and three site consolidation actions are being taken. Hunting ended H1 in a modest net debt position of c.US$10m (company basis) and has now guided to a more significant expected net cash balance between US$30m-40m by the year end.

At the end of H1, the group order book position increased to c.US$700m, boosted by significant new OCTG work. This has settled back slightly from an early June peak following the second OCTG announcement but still represented a marked uplift compared to the beginning of the year. The H124 performance together with forward visibility in several areas into H125, has informed firmer guidance for current year EBITDA (to a mid-point of US$136m, up US$4m) and an expected outcome range for FY25 (mid-point c US$167m). This causes us to nudge up our FY24 estimate again by c.US$3m (being the net product of a higher Subsea contribution and lower Perforating Systems one) while leaving existing FY25 and FY26 revenue and profit expectations unchanged.

Valuation: group making strategic progress, seeking more

Hunting's share price has generally trended upwards YTD (now +c.40%) and order book gains have been well received. Nevertheless, on conventional metrics the company is effectively **trading on value (rather than growth)-level multiples** in FY25 and FY26. Our updated DCF and company fair value is unchanged and modestly above the current share price. Hunting has previously set out its 2030 strategic targets - c.US$2bn revenue, c.US$300m EBITDA (c.15% margin) including some M&A contribution – and is moving in the right direction in its first full year of execution. Further momentum through follow on orders, confirmation of profit recovery at Perforating Systems and further traction in non-oil and gas markets would all lend weight to a sustainable increase in medium term profitability beyond the c.US$180m EBITDA that we have consistently used in our DCF approach to date.

Summary financials

Yr to December (US$m)	2022	2023	2024E	2025E	2026E
Revenue	725.8	929.1	1069.5	1193.8	1156.0
EBITDA*	52.0	103.0	134.0	166.5	160.1
PTP	10.2	50.0	88.1	121.9	116.7
EPS (US c)	4.7	20.3	36.3	50.9	48.6
DPS (US c)	9.0	10.0	11.0	12.0	13.0
Net cash / (debt)	20.6	(4.7)	31.2	93.3	163.8
P/E (x)	*112.3*	*26.1*	*14.6*	*10.4*	*10.9*
EV/EBITDA (x)	*16.4*	*8.5*	*6.3*	*4.7*	*4.4*
Dividend yield (%)	*1.7%*	*1.9%*	*2.1%*	*2.3%*	*2.5%*

*Source: Company Annual Reports, Equity Development. * Company basis £/US$1.28*

Company Data

EPIC	HTG.L
Price (last close)	414.5p
52 weeks Hi/Lo	461p/227p
Market cap	£684m
ED Fair Value / share	436p
FY23 Net cash (debt)	(US$1m)
Pre IFRS16, ex s/holder loan	
Avg. daily volume	496k
NB all at £/US$ 1.28	

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 28 production locations and 12 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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Orders driving profit ahead and increasing visibility

Hunting's pre-close update indicated **EBITDA in the US$59m-61m expected range in H124** (versus US$49m in FY23). At the headline level, this increase in profitability year-on-year was driven by a significant uplift in Subsea product group activity and by a stronger Asia-Pacific contribution, partly offset by softer trading in Hunting Titan/Perforating Systems.

Shipments of previously announced significant OCTG orders are due to commence in H2 and continue into FY25. They clearly support an **expectation of further EBITDA progress** and company guidance is now as follows:

- **FY24E**: US$134m-138m (previously US$125m-135m)
- **FY25E**: US$160m-175m (new)

For FY24, we have re-balanced our expectations to be consistent with H1 divisional trends, with a small net increase overall in our EBITDA estimate to US$134m (previously US$131m), with subsequent years unchanged.

We now highlight three important Product Group trading performances in H1:

Subsea: converting orders to higher profitability

At the end of FY23, the Subsea order book at $152.2m was 50% higher year-on-year and three and a half times larger on a two-year view. Hydraulic valves and couplings have historically been the biggest Subsea product sub-segment and continued to see strong demand in H124. We believe that larger discrete orders for titanium stress joints (used in connecting riser pipelines to FPSO vessels) have boosted product segment order book progression. Shipments to projects in offshore Guyana commenced in H223 and continued in H124 and are likely to be the primary driver behind a skew of profitability towards the first half of the current financial year. The smaller Flow Access Module sub-segment has also grown sales and orders with opportunities to further diversify regional exposure.

We note that Subsea generated an EBITDA margin of c.22% in H124 on a higher revenue base which should drive a year-on-year EBITDA increase in excess of US$10m from this Product Group in H124.

OCTG: significant order wins a clear success story in FY24 to date

This Product Group was the largest contributor to Group revenue and profitability in FY23 with broadly-based progress in the year. Trading appears to have been solid overall with further profit progress in H124 despite some mixed local market conditions. During H1, Hunting announced two significant orders with the Kuwait Oil Company (KOC)[1] totalling US$231m.

The following graphic illustrates the nature of the products concerned in the KOC orders being specialist alloy tubular casings with proprietary machined threading and connection technology. The tubular products are to be sourced from approved suppliers in the Asia-Pacific regions and the value-added manufacturing is to be undertaken at and shipped from Hunting's Asia-Pacific operations. Deliveries are scheduled to commence in H224 – ie there was no contribution to H124 results – and no material additional capex is understood to be required. While there was scope for the absorption of significant funds into working capital in the initial, ramp-up phase, the latest group cash flow guidance (for end FY24 net cash in the US$30m-40m range) suggests that this will not be a material drag on group cash generation at the balance sheet date.

[1] **15 May: US$145m** for a large quantity of premium OCTG casing (the outer tubes of a wellbore), threaded with Hunting's proprietary premium SEAL-LOCK connection technology, and **3 June: US$86m** follow-on order of casing and connections, which we understand were smaller in diameter than the first order.

Hunting: OCTG SEAL-LOCK premium connection

www.huntingplc.com

HUNTING
'Excellence in Energy Services for over 100 years'

SEAL-LOCK® HT (SLHT)
Connection Technology | Threaded and Coupled

Features

- Available in sizes from 2-1/16 in. to 7 in.
- Thread and pin-to-pin contact provide enhanced compressive and torsional resistance
- Rugged negative load flank threadform and advanced connection geometry
- Couplings are machined from standard API coupling stock
- Available timed (SEAL-LOCK HT-S Timed)

Benefits

- High performance, cost effective
- Thread design allows deep stab and quick make up (4 to 5 turns), reduced risk of cross thread
- Extensive worldwide support through Hunting mill relationships and threading locations
- Lab proven design structural integrity

The SLHT is a threaded and coupled connection especially suited for deviated and multilateral programs, slotted liners, sand screen applications, directional tools requiring high torque and high tensile loads.

The connection utilizes a patented hooked thread design for improved tensile performance, and a unique pin-to-pin torque shoulder to provide enhanced torsional and bending capabilities.

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connection.technology@hunting-intl.com

Source: Hunting plc

Within the H124 pre-close OCTG commentary, we also noted reference to multiple contracts to supply products into geothermal projects in three regions (ie the US, Europe and Southeast Asia). Hunting has a stated aspiration to grow **Energy Transition** revenues to c.US$250m by 2030 and this progress is a tangible example of winning work in this area.

The new **Jindal Hunting Energy Services Indian JV** facility was commissioned in September 2023 and secured API operating licence during H124 and is understood to have shipped initial OCTG product into the local market in the period.

Having started FY24 with an order book of US$222m, after allowing for H1 revenue of c.US$200m and the referenced KOC orders, we would expect to see an OCTG order book position at or in excess of US$250m (c.36% of group) at end H124. This is a precursor to a marked expected revenue uplift in H224, continuing into FY25.

Perforating Systems: actions acknowledge subdued North American market

Hunting Titan represents the majority of this Product Group and is based in North America with c 20% of sales exported. In the largest sales territory then, onshore rig activity is the key driver of demand for perforation and well completion products. In published rig count data[2] Q1 appeared to be broadly stable at end 2023 levels before tailing down monthly in the USA during Q2. Hunting Titan saw H1 revenue decline by c.9% and, with a more stable international sales performance, this suggests that North American revenue was down by a low double-digit percentage.

In this context, Hunting has initiated the closure of its Wichita Falls, TX site, moving select-fire switch manufacturing to the larger Pampa, TX facility some 200 miles to the northwest, leaving three operational Product Group factory sites. In addition, two North American distribution centres are to close in H2, leaving twelve to service their adjacent markets. Essentially a make for/service from inventory business; while lower volumes would have impacted manufacturing efficiencies, inventory reduction may also have had a positive cash impact. We do not believe that these actions have reduced overall manufacturing capacity nor service capability, albeit with a longer reach required in some areas.

Note that unspecified costs associated with these actions have been taken above the line and c.US$3m of benefits are expected to come through in H2. Even at current activity levels this suggests a markedly better profit contribution in H2 versus H1. Management remains optimistic that natural gas pricing will support an uplift in onshore rig activity as the year progresses.

Other: variable performances with pockets of strength

- **Advanced Manufacturing** has seen broadly-based progress across its product portfolio and into both energy and non-energy markets with a robust order book position on hand at the end of H1.
- **Other Manufacturing:** will have been affected by both well completion trends in North America noted above and by subdued North Sea activity, though progress in the Middle East and with Organic Oil Recovery is likely to have mitigated the headline impact overall.

In regional terms:

- **North American** performance (with flat revenues year-on year and a slightly lower EBITDA margin at c.15%) will reflect lower well completion/intervention activity though OCTG and Advanced manufacturing sales were slightly firmer.
- **Asia-Pacific** is stated to have improved EBITDA margins to c.16% (versus c.5% in H123) despite an 8% year-on-year revenue decline. This suggests to us that greater OCTG work selectivity in the period took place and this may or may not have been to position local operations for the very significant workload increase associated with the KOC orders starting in H2.
- **EMEA** saw revenues slightly ahead y-o-y but EBITDA was marginally negative in H1. The process of expanding capability in Dubai, partly to accommodate well testing assembly activity (being relocated following the consolidation of two sites in the Netherlands) is expected to complete in H2.

[2] Baker Hughes, North America Rig Count

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**	**1,069.6**	**1,193.8**	**1,156.0**
Gross Profit		275.1	266.4	124.8	100.6	171.4	227.7	274.3	310.4	294.1
EBITDA - HTG*		142.3	139.7	26.1	3.1	52.0	103.0	134.0	166.5	160.1
EBIT - HTG norm		**104.7**	**94.3**	**(16.4)**	**(35.1)**	**14.6**	**61.0**	**92.0**	**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**	**88.1**	**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	88.1	121.9	116.7
Tax		11.0	(4.2)	(15.2)	(4.2)	(1.3)	69.0	(22.9)	(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**	**60.7**	**85.2**	**81.2**
EPS FD - HTG norm (US c)		**49.6**	**43.9**	**(10.0)**	**(27.1)**	**4.7**	**20.3**	**36.3**	**50.9**	**48.6**
EPS FD - reported (US c)		**52.3**	**23.5**	**(143.1)**	**(53.2)**	**(2.8)**	**70.0**	**36.3**	**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***	***25.6***	***26.0***	***25.4***
EBITDA - HTG		*15.6*	*14.6*	*4.2*	*0.6*	*7.2*	*11.1*	*12.5*	*13.9*	*13.8*
EBIT HTG norm		***11.5***	***9.8***	***(2.6)***	***(6.7)***	***2.0***	***6.6***	***8.6***	***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)	(9.0)	(19.2)	(4.6)
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**	**138.4**	**160.8**	**168.9**
Tax paid		**(2.6)**	**(7.7)**	**(5.0)**	**0.6**	**(3.9)**	**(9.1)**	**(18.3)**	**(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)**	**(44.2)**	**(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)	(12.0)	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)**	**35.9**	**62.1**	**70.5**
Opening net cash/(debt) - pre IFRS16*		**30.4**	**61.3**	**123.1**	**97.8**	**103.5**	**20.6**	**(4.7)**	**31.2**	**93.3**
Change in Net Cash		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	35.9	62.1	70.5
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)**	**31.2**	**93.3**	**163.8**
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**	**679.9**	**769.1**	**842.3**
Inventory		348.2	350.8	288.4	204.4	272.1	328.4	337.4	345.7	348.3
Trade Receivables		201.7	176.1	119.9	137.2	190.2	221.2	229.7	248.3	248.5
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	81.4	143.5	214.0
Current Liabilities		**(159.5)**	**(145.3)**	**(84.7)**	**(99.0)**	**(163.8)**	**(225.8)**	**(246.9)**	**(267.4)**	**(278.2)**
Trade Payables		(62.3)	(56.3)	(26.4)	(40.5)	(66.8)	(62.5)	(70.9)	(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)**	**(44.0)**	**(50.3)**	**(56.3)**
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)	(19.4)	(25.7)	(31.7)
Net Assets		**1,191.1**	**1,223.8**	**976.6**	**871.3**	**846.2**	**957.1**	**993.0**	**1,064.3**	**1,130.4**

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

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