

On track to deliver further progress in FY24

17 April 2024

Commentary and financial metrics in Hunting's AGM/Q1 update confirm that the company has progressed in line with its FY24 targets thus far in year-to-date trading. Q124 EBITDA was well ahead year-on-year. This represents a good step towards the flagged US\$125m-135m range for the year, with ongoing momentum in the strongest market segments. Guidance and our own expectations are unchanged, but our fair value adjusts up to 436p per share (from 407p).

Group revenue has continued to grow well, being up c.16% year-on-year in Q1 and c.7% ahead compared to Q423, a strong quarterly close to FY23. Shipments against previously disclosed large contracts in the OCTG and Subsea product groups and broad business development in Advanced Manufacturing have been the primary drivers in generally firm underlying markets. Perforating Systems has been the exception to this, with still lacklustre North American onshore drilling activity, though expectations remain for LNG-driven improvement here as the year progresses. While the group order book has nudged c. US\$21m lower than the year end position as larger orders are worked through, US\$544m on hand at the end of March still represents a strong position in a historic context.

The indicated first quarter group EBITDA of c.US\$28.9m (versus c.US\$22.4m in Q123) represents c.22% of FY24 guidance, taken at the US\$130m mid-point. The inferred 11.8% Q1 EBITDA margin is 120bp higher than Q123. Given management's expectation of a full year outturn in the 12-13% range, further progress is anticipated as the year progresses (repeating a pattern also seen in FY23). Supporting group progress, working capital absorption in Q1 has driven a period end net debt position of c.US\$34m (pre IFRS16, company basis) from a modestly geared position at the start of the year. Inventory build, to meet the aforementioned large contract shipments, is likely to have been a significant contributor to this outflow. Absent similar sized contract wins for mobilisation in H2/Q4, we are aligned with management expectations for inventory positions unwinding over the remainder of the year.

Valuation: shares are rising, but still on a discount to fair value

Some profit-taking was seen post the FY23 results (on 29 February) but Hunting's share price has resumed its upward trend in the last month and now stands close to its recent 12 month high.

In our DCF modelling, the current share price is generated from long term EBITDA approaching our FY25E EBITDA; as [previously noted](#), management targets are materially higher than this. Updating our P/E and DCF methodology for market movements (including £/US\$1.25) now yields a **blended fair value for Hunting of 436p per share (c.22% above the current share price)**.

Summary financials					
Yr to December (US\$m)	2022	2023	2024E	2025E	2026E
Revenue	725.8	929.1	1029.6	1093.8	1155.9
EBITDA*	52.0	103.0	122.0	146.5	160.1
PTP	10.2	50.0	76.2	101.9	116.7
EPS (US c)	4.7	20.3	31.1	42.2	48.6
DPS (US c)	9.0	10.0	11.0	12.0	13.0
Net cash / (debt) pre IFRS16	20.6	(4.7)	21.1	74.7	137.2
P/E (x)	94.1	21.9	14.3	10.5	9.2
EV/EBITDA (x)	13.7	7.2	5.8	4.5	3.7
Dividend yield	2.0%	2.3%	2.5%	2.7%	2.9%

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

Company Data

EPIC	HTG.L
Price (last close)	358p
52 weeks Hi/Lo	370p/190p
Market cap	£589m
ED Fair Value / share	436p
FY23 Net cash (debt)	(US\$1m)
Pre IFRS16, ex s/holder loan	
Avg. daily volume	616k
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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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	1,029.6	1,093.8	1,155.9
Gross Profit		275.1	266.4	124.8	100.6	171.4	227.7	254.8	278.3	294.1
EBITDA – HTG		142.3	139.7	26.1	3.1	52.0	103.0	122.0	146.5	160.1
EBIT - HTG norm		104.7	94.3	(16.4)	(35.1)	14.6	61.0	80.0	104.0	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	76.2	101.9	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	76.2	101.9	116.7
Tax		11.0	(4.2)	(15.2)	(4.2)	(1.3)	69.0	(19.6)	(26.2)	(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	52.0	70.6	81.2
EPS FD - HTG norm (US c)		49.6	43.9	(10.0)	(27.1)	4.7	20.3	31.1	42.2	48.6
EPS FD - reported (US c)		52.3	23.5	(143.1)	(53.2)	(2.8)	70.0	31.1	42.2	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	24.8	25.4	25.4
EBITDA - HTG		15.6	14.6	4.2	0.6	7.2	11.1	11.8	13.4	13.8
EBIT HTG norm		11.5	9.8	(2.6)	(6.7)	2.0	6.6	7.8	9.5	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	122.0	146.5	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)	(21.7)	(12.1)	(12.6)
Other		(3.6)	(11.5)	(17.9)	(7.1)	(8.2)	(3.1)	0.0	0.0	0.0
Operating Cash Flow		55.3	144.9	56.0	28.0	(32.9)	58.4	113.8	147.9	161.0
Tax paid		(2.6)	(7.7)	(5.0)	0.6	(3.9)	(9.1)	(15.7)	(21.0)	(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)	25.8	53.6	62.5
Opening net cash/(debt) - pre IFRS16*		30.4	61.3	123.1	97.8	103.5	20.6	(4.7)	21.1	74.7
Change in Net Cash		32.0	59.4	(28.8)	6.4	(78.5)	(25.2)	25.8	53.6	62.5
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)	21.1	74.7	137.2
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	680.7	750.0	829.2
Inventory		348.2	350.8	288.4	204.4	272.1	328.4	342.7	341.8	342.2
Trade Receivables		201.7	176.1	119.9	137.2	190.2	221.2	235.2	251.9	268.2
Other Debtors		29.4	26.6	21.2	25.9	42.3	31.5	31.4	31.4	31.4
Cash		67.9	128.6	102.9	108.4	29.4	45.5	71.3	124.9	187.4
Current Liabilities		(159.5)	(145.3)	(84.7)	(99.0)	(163.8)	(225.8)	(245.0)	(261.4)	(278.2)
Trade Payables		(62.3)	(56.3)	(26.4)	(40.5)	(66.8)	(62.5)	(69.0)	(72.7)	(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)	(43.3)	(48.6)	(54.6)
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)	(18.7)	(24.0)	(30.0)
Net Assets		1,191.1	1,223.8	976.6	871.3	846.2	957.1	996.3	1,053.0	1,119.1

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

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