

Exit Hunting: Target valuation is reached. Market now driven by geopolitics

Company:	Hunting (HTG LN)	Market Cap:	\$690mio
Industry:	Oil & gas extraction/completion	Net cash:	\$108mio (+\$266mio inventory)
Country:	US, worldwide	Revenue:	\$520mio
Date:	16 th March 2022	Net Income:	(\$45mio) (-9%)
Dividend:	1.92%	Free Cash Flow:	\$54mio (10%)
Entry:	\$435mio	Target market cap:	\$600mio to \$800mio

Sticking to my strategy

As noted in the last [video](#), I began selling Hunting shares, as my target valuation has been reached. While I believe the business has great medium term upside potential given the strong strategic actions management has taken over the last few months, the rapid valuation adjustment amidst the Russian invasion of Ukraine made the valuation more and more driven by geopolitics. I have to say, it was a very difficult choice, as it is a high quality business with a very good CEO, Jim Johnson. I have met Jim and admired him for his really good know-how and being straight to the point. I remember him saying on analyst calls “we invest in those businesses where we make the most money” or “this is the mandatory ESG slide” – he is perhaps one of the few remaining capitalists who truly understands the global demand picture of oil and gas and is undeterred by short-term trends in the society. Nonetheless, I need to feed a family and am not in the position yet to buy a business and hold it forever. “Love the business we invest in, but don’t fall in love with the business” remains the key to my outsized returns over the last 3-4 years and by sticking to numbers and my fair valuation thesis I can be detached from all emotions.

The valuation gap is closed

In addition, the valuation gap between Hunting and its competitors, DynaEnergetics (DMC Global), Core Laboratories and Oil States International has closed. Historically, there has also been a high correlation of Halliburton and Hunting as well as the price of oil and Hunting’s valuation. When oil dropped over \$30 a barrel, Hunting held on to gains, yet all competitors as well as Halliburton sold off.

Market cap of Hunting vs. competitors

Company	Market cap in mio \$ today	Market cap in mio \$ 6 months ago
Hunting	690	435
DMC Global	640	800
Core Laboratories	1,400	1,316
Oil States International	400	381

Source: Tradingview

Last 5 years positive correlations between Hunting (HTG), Halliburton (HAL) & WTI (USOIL)



Source: Tradingview

My strategy does not always work perfectly...

During the midst of the Covid crisis in 2020 I loaded up on shares of Reach plc at a price of 75 pence a share. The company experienced a rapid turnaround and clocked 165 pence a share only a few months later, reaching my fair valuation. Back then I sold the position and shares retreated to 145 pence a share. I thought I was a genius, yet the following trading update led to an adjustment of my fair valuation to 225 pence. The shares then rallied to reach over 400 pence a share over the course of 2021. I was bummed and thought I made a mistake. I was even considering to change my strategy and wait for the next trading update when I held a strong business before selling. This time around, I might be making the same mistake with Hunting and therefore will continue to monitor the sector and developments. However, today Reach's valuation is back at 180 pence a share. The market sometimes overreacts dramatically, but I rather stay out of this, as emotions could be involved more easily.



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