

Exit Hunting: China lockdowns and Biden risks

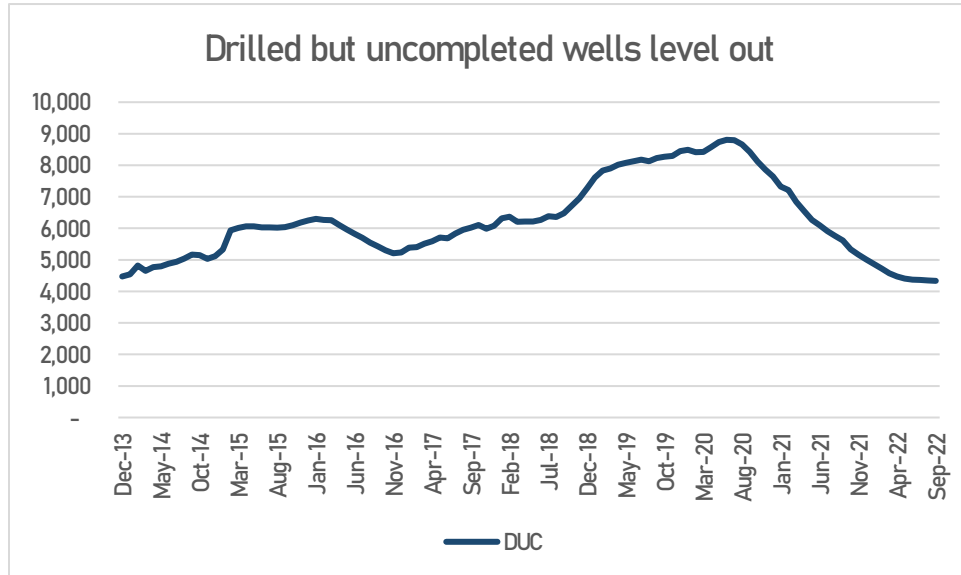
Company:	Hunting (HTG LN)	Market Cap:	\$545mio
Industry:	Oil & gas extraction/completion	Net cash:	\$86mio (+\$220mio inventory)
Country:	US, worldwide	Revenue:	\$650mio
Date:	9 th November 2022	Net Income:	\$20mio (3%)
Dividend:	3%	Free Cash Flow:	\$50mio (7.7%)
Entry:	\$430mio	Exit:	\$550mio

No more drilling for oil and gas in the US?

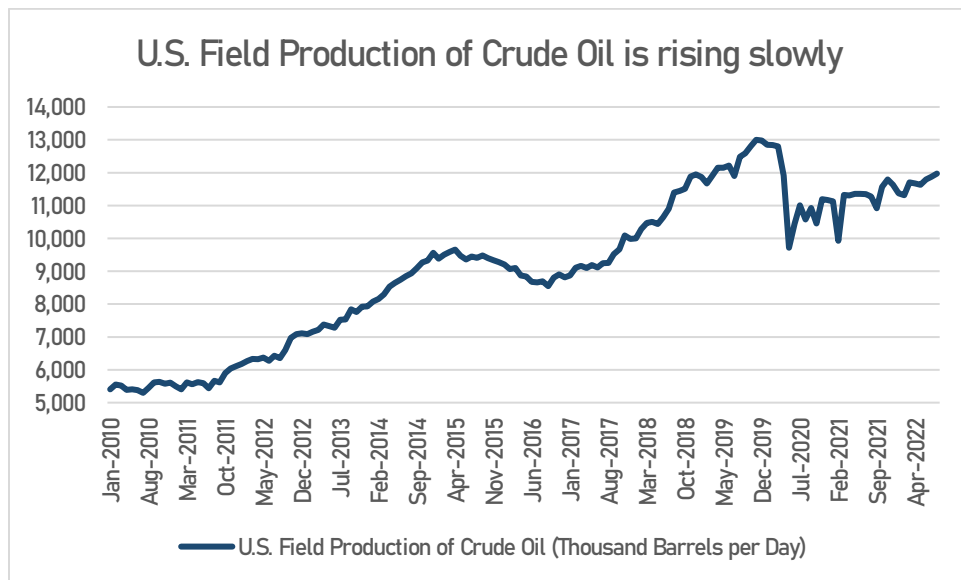
During a rally ahead of the US Midterm elections, Biden responded to a climate activist that there won't be any more drilling for oil and gas¹ - just months after asking producers to drill for more². While there is a good amount of politics in these statements, the Biden administration does appear to be working on limiting drilling for oil and gas (more than they already have by limiting drilling lease sales on federal lands). The US is Hunting's most important region to sell their equipment to the shale drillers with around 2/3 of their revenues coming from the US. As the first results of the US Midterm election trickled in, a red Republican wave looked far less certain making Biden's comments much more relevant. At the same time, China did not appear to let go of their zero Covid policy... This made me recalibrate the current upside of Hunting.

¹ <https://twitter.com/JavierBlas/status/1589572453969580032?s=20&t=zDo3-wtFbNBeW8pWL6n64w>

² <https://www.theguardian.com/us-news/2022/oct/19/biden-gas-prices-oil-production-midterms>



Source: EIA

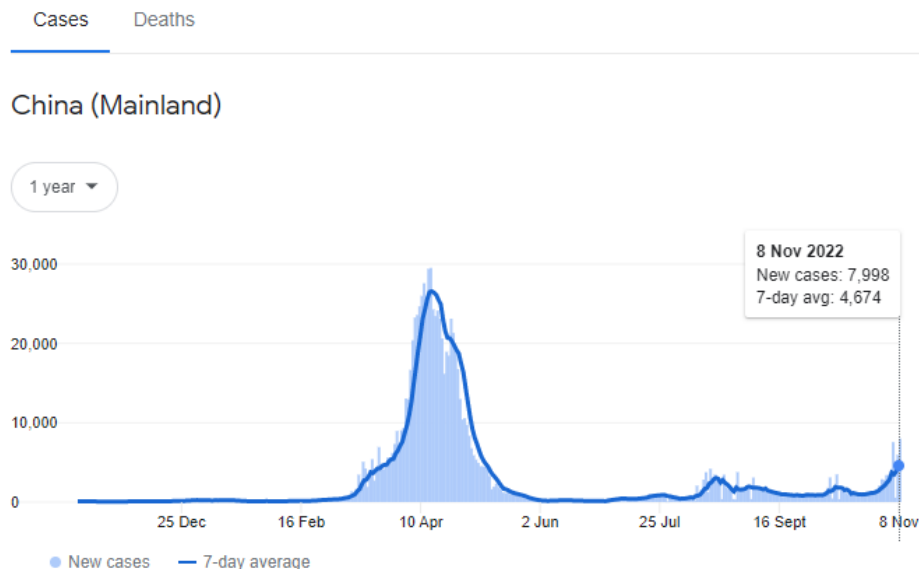


Source: EIA

Guangzhou lockdowns

Guangzhou is the manufacturing hub of the world and as districts began to lockdown due to a rise in Covid numbers, this caused multiple factory shutdowns, such as Apple's supplier Foxconn³. Renewed lockdowns in combination with political uncertainty in the US makes the outlook for the oil and gas sector decline. On top of that, earning calls with US shale oil producers revealed no plans to upsize capex or production for the next year. Drilled but uncompleted (DUCs) wells have all been used up over the last two years, and while this is supportive for oil prices, unless producers hike their capex figures, there could actually be a decline in US oil production growth. Hunting remains attractively valued, but in this current market environment I prefer to take the position off and revisit it at another point in time when valuation and more clarity enable new entry points. The short holding periods in recent months are reflective of the uncertainty and the general bear market we are in. It is important with a long only equity strategy to shorten the investment horizon and reduce valuation targets when the market is unstable – and this is why I can achieve outperformance in a bear market.

1/3 of China's current Covid cases are from Guangzhou



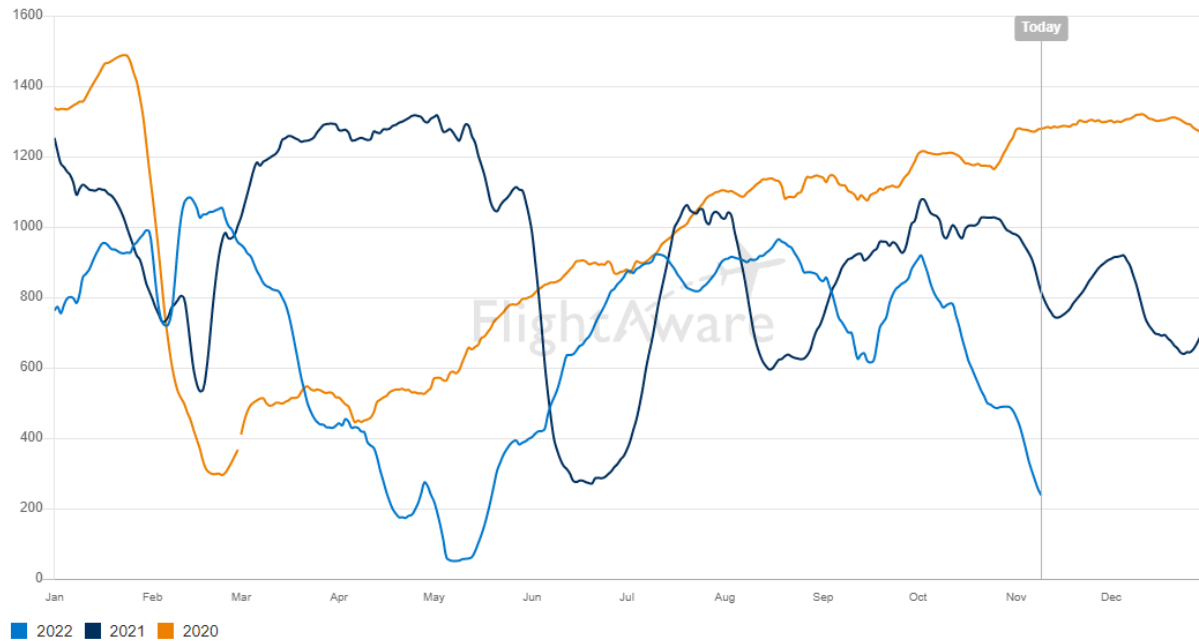
Source: Google

³ <https://www.bbc.co.uk/news/business-63538042>

Guangzhou's flights have slumped

ZGGG AIRPORT ARRIVALS AND DEPARTURES*

*daily values reflect a trailing 7-day average



Last updated at 19:00 EST

Source: Flightaware.com



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