

## Re-entry Hunting: Significant growth in oil & gas services

<b>Company:</b>	Hunting (HTG LN)	<b>Market Cap:</b>	\$545mio
<b>Industry:</b>	Oil & gas extraction/completion	<b>Net cash:</b>	\$86mio (+\$220mio inventory)
<b>Country:</b>	US, worldwide	<b>Revenue:</b>	\$650mio
<b>Date:</b>	4 <sup>th</sup> November 2022	<b>Net Income:</b>	\$20mio (3%)
<b>Dividend:</b>	3%	<b>Free Cash Flow:</b>	\$50mio (7.7%)
<b>Entry:</b>	\$430mio	<b>Target market cap:</b>	\$600mio to \$800mio

### Relative value

In previous reports ([1](#), [2](#), [3](#)) I have already introduced the businesses of Hunting and therefore won't go into any details on their operations in this note. Hunting is often not well understood by investors, as all their competitors are listed either in the US or in Europe – none in the UK. This opens up to some good relative value opportunities, especially when compared by enterprise value. Below table indicates that at current prices, Hunting is undervalued vs. their competitors in perforating systems and other completion tools despite posting the strongest year-to-date profitability against all their rivals. Competitors in the OCTG space, such as Tenaris and Vallourec, have meanwhile traded roughly in line with Hunting's valuation changes over the last year. The key is that this market segment is quite niche, hence not well understood by everyone, and therefore can open up to very good opportunities and can protect from potential downside when comparing on a relative value basis. Hunting, for example, was very much overvalued in June, but also in September compared to Oil States International. Although this valuation gap has now closed, there is further upside for the industry.

### Hunting's valuation vs. competitors

Company	Market cap in \$mio today	EV in \$mio today	Market cap in \$mio 25th Oct	Market cap in \$mio March 2022	Market cap in \$mio September 2021
Hunting	530	500	440	690	435
DMC Global	422	562	400	640	800
Core Laboratories	900	1,080	925	1,400	1,316
Oil States International	425	575	350	400	381



Source: Interim reports, Google finance

## Management actions

My interactions with Hunting's management have started on a rocky note, as their IR team would not reply to my questions. This happens sometimes as I don't approach companies via a broker and usually just bug them for so long until they give in and arrange a call with management. I first spoke to their CFO, Bruce, who then helped me finding out about Hunting's direct competitors. This then led me to hear that DMC Global (Dynaenergetics) is suing their competitors for IP infringement on their perforating systems. When I learnt that they are suing Hunting Titan, I called up Hunting Titan asking about the lawsuit. To my surprise, they have then directed my call to CEO Jim Johnson<sup>1</sup>. This is how I got to know Jim, who would then meet me in London shortly after (he knew my position was not small, but also not large in an institutional sense). In our meeting I raised a few questions, which to this date have all been answered and worked on, perhaps naturally, perhaps by coincidence. Amongst these were:

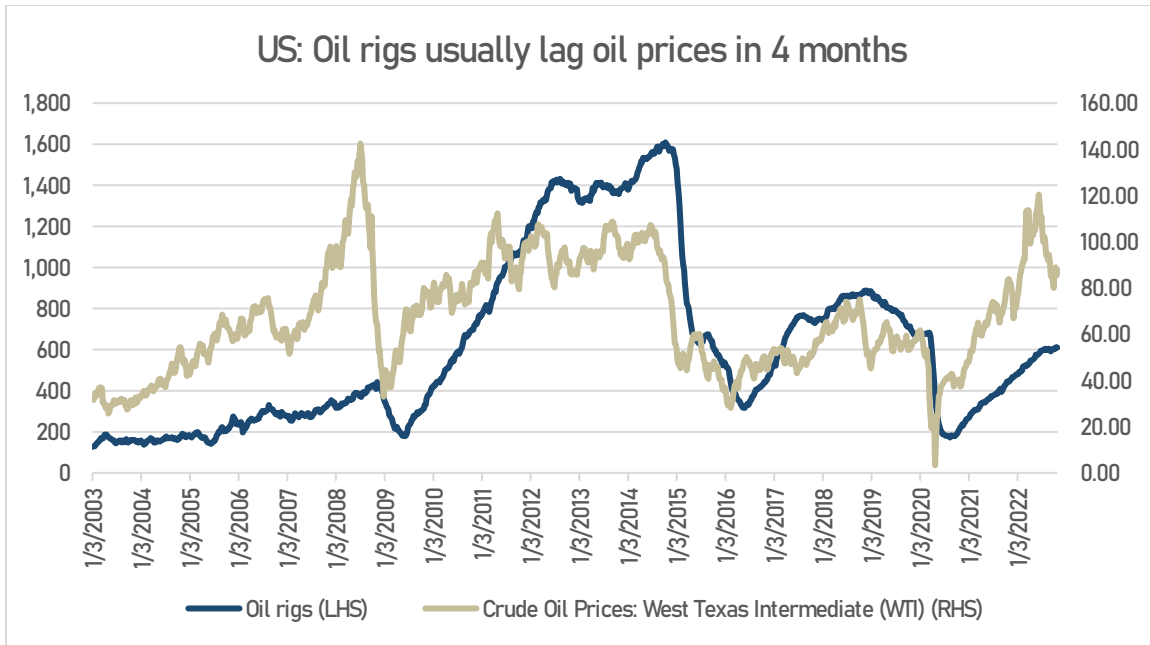
<sup>1</sup> if you invest in this sector, I highly recommend calling some of the operators and manufacturers. The field is fiercely competitive and at the same time it is a very closed community. Some might help you, others not. I even spoke to a random wiring operator that I got to know on Twitter and who was happy to jump on a call with me discussing the best products and explaining why

1. I checked whether there are any more cost savings possible in the European division. 6 months later, they have restructured their European OCTG division, buying the 40% stake from Marubeni-Itochu Steel against their inventories
2. I asked about opportunities in China, as they discovered a huge shale basin back then. 1 year later, they secured their largest OCTG order from a single customer ever, China
3. I asked whether it does not make sense to create a subsea division that incorporates Enpro and RTI into one business. Last month, a new Subsea division that does exactly that was formed

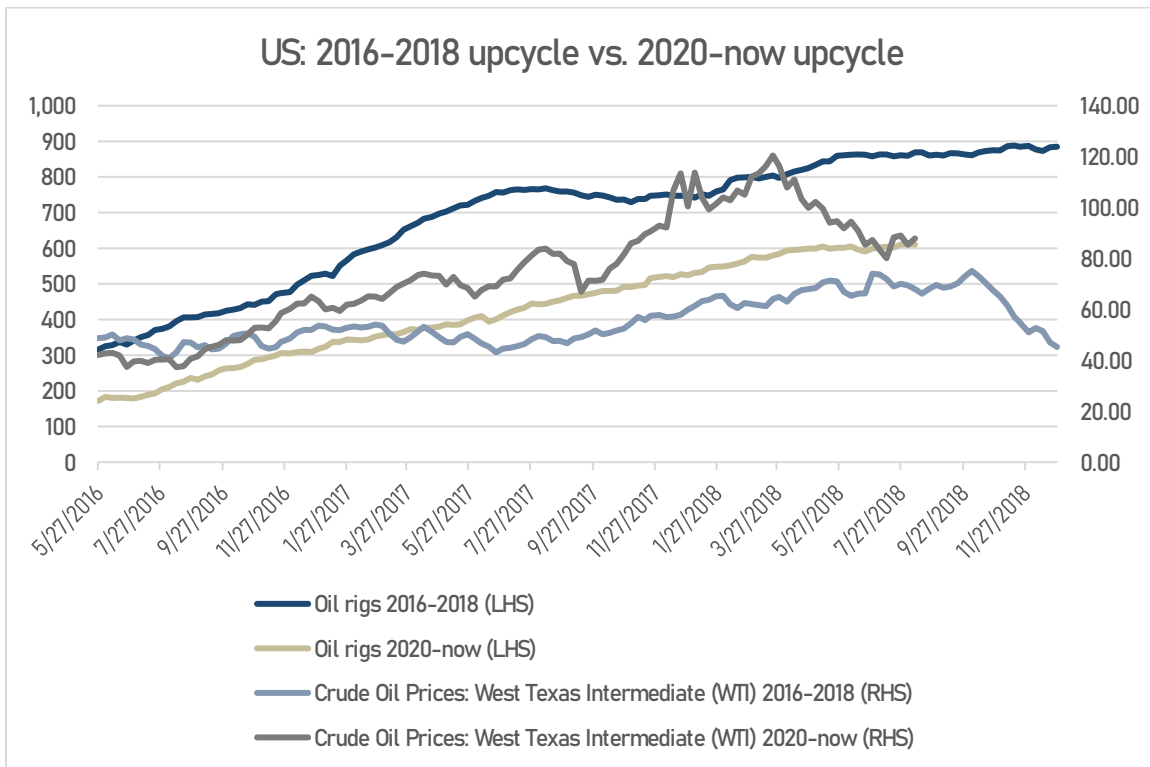
The key is that with Jim, Hunting has a CEO who is carefully listening to shareholders and engaging at all fronts, even if it may be unconventional. This is reflected in profitability with Hunting having outperformed all its competitors in this current upcycle.

### The upcycle

Although the number of oil rigs in the US have been stale over the last two months, the OPEC+ output cuts, the oil price caps and insurance ban on Russian oil, China slowly opening up again and strong forward airplane bookings in Europe and North America show that even despite an economic slowdown as contractions of recent PMI data indicate, oil prices have stabilized recently and now have a room to the upside. When comparing the current upcycle with the past, this looks most similar to the upcycle that began in 2016-2018, with the current pause in oil rig count rise being similar to the one experienced in 2017. If history repeats itself, and given the above mentioned factors, it might, then we should expect higher oil prices and higher oil rig counts, i.e. more capital expenditures. In a recent earnings call from BP, CFO Murray Auchincloss said that they would increase their capital expenditures further, if it were not for the supply chains that cause a shortage in frac sands, chips and electronic wiring etc. Earnings calls from DMC Global and others all point towards an easing of these supply chain constraints.



Source: Baker Hughes



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