AozoraStep

Reentry Hunting: A quality oil & gas equipment manufacturer

Company:	Hunting (HTG LN)	**Market Cap:**	£350mio
Industry:	Oil & gas services	**Net Debt:**	-
Country:	US, worldwide	**Revenue:**	$726mio
Date:	1st June 2023	**Net Income:**	($3.7mio) (16.6%)
Dividend:	$7.2mio (1.6%)	**2023 EBITDA estimate:**	$92-94mio
Entry:	£350mio	**Target:**	£600mio

Why Hunting?

- Valuation at the lowest point in over a year despite revised higher guidance (EV/EBITDA of 4.7)
- Inventories are being rebuilt and as of next year EBITDA = FCF with around $30mio capex leaving up to $60mio for acquisitions and/or shareholders
- Strong management team that keeps exceeding guidance and offer frequent 1-on-1 calls
- Strong IP in perforating systems, OCTG connections and titanium stress joints

What Hunting does

Hunting is an oil & gas equipment manufacturer focusing on upstream completion tools. The company is the leading manufacturer for perforating systems in North America with a ~25% market share and benefits from the US shale industry, which continuously needs to drill and complete new wells to keep oil and gas production stable. Perforating systems have profit margins of around 20-25% and Hunting's main competitors are DynaEnergetics (DMC Global), GeoDynamics (Oil States International), Core Laboratories and smaller machine manufacturing shops. Hunting's second largest division is Oil Country Tubular Goods (OCTG), where Hunting supplies tubes and connections to Asia (10-15% margins) and connections to North America (20-45% margins). Together these two divisions make up around 70% of Hunting's revenues. Many of the products are being sold via the large oil and gas service companies, especially via Halliburton in the US. The company also supplies titanium stress joints to subsea oil and gas extraction

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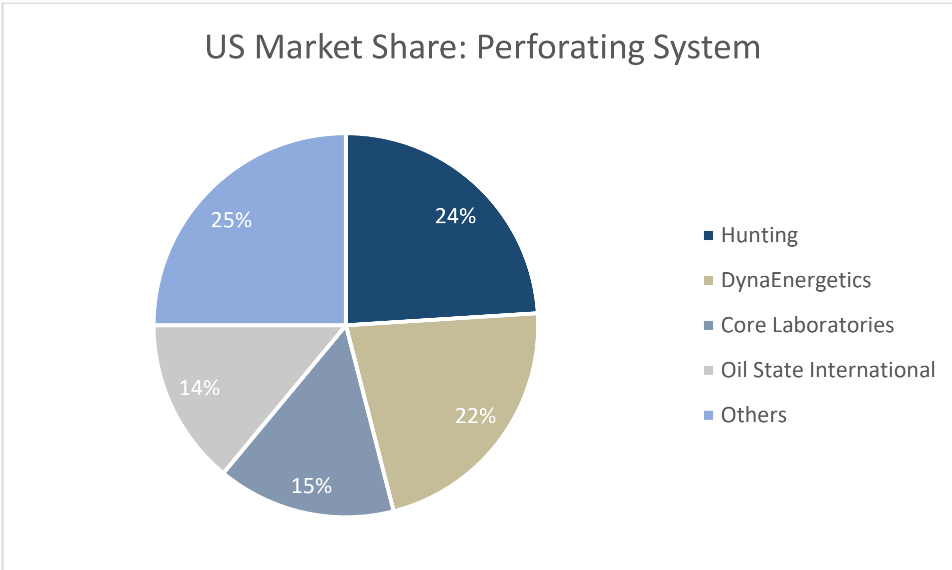
and 10% of their revenues are non-oil and gas related with customers from the defense, space and telecommunications sectors.



Source: Quarterly reports, Hunting, DynaEnergetics estimates

Recent large orders

In 2011, when the US shale oil and gas market really kicked off, Hunting bought Titan for US$775mio and this has since then been their most profitable division. Titan has been the leader in perforating gun systems and has achieved $100mio EBITDA on an annual basis over many years by itself. Over the last year, however, Hunting has expanded their global footprint and broken their largest single order for OCTG and premium connections twice with the latest order of $91mio to Cairn Oil and Gas. Despite lifting their guidance to $92-94mio EBITDA[1], the company remains attractively valued with a market capitalization of just $440mio. Further growth is to be expected when their joint venture with JSW Jindal begins with their factory reopening scheduled for September 2023 and estimated annual revenues of $100-200mio.

[1] https://otp.tools.investis.com/clients/uk/hunting-plc1/rns/regulatory-story.aspx?cid=501&newsid=1690906

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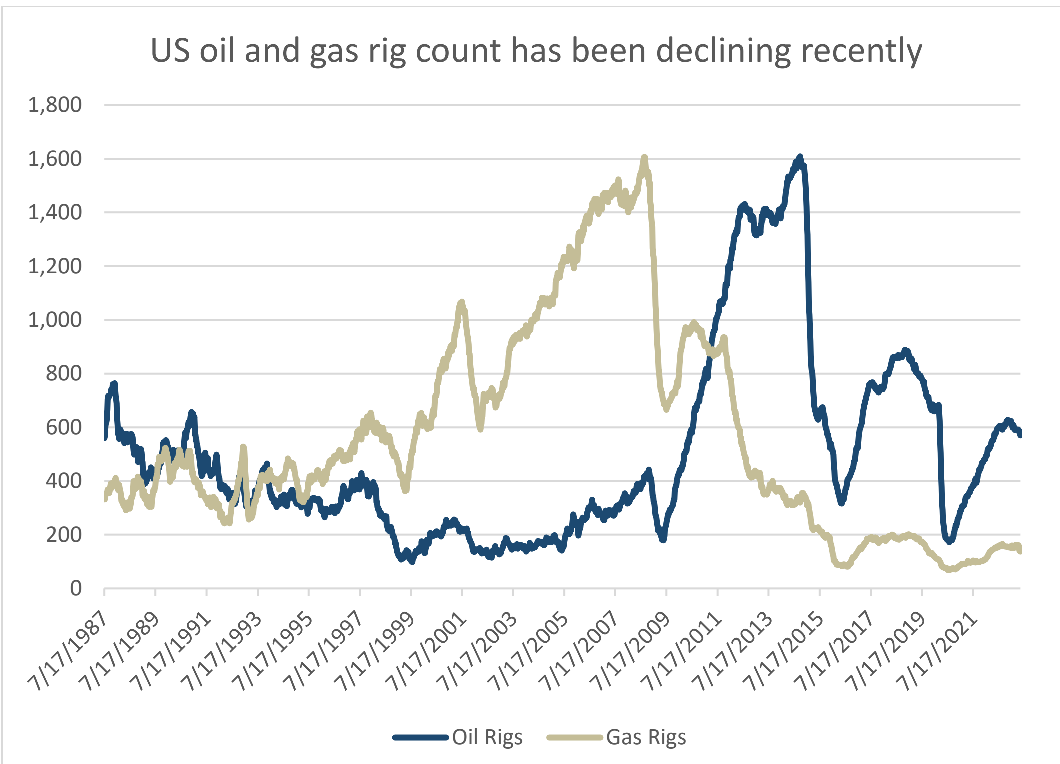
Share price underperformance

The reason for the share price underperformance is likely the decline in oil and gas prices and the reduction in the US rig count. Nonetheless, despite the rig count reduction, Hunting expects US onshore revenues to remain stable for the rest of the year and further growth internationally. The key takeaway remains, oil and gas services and capex remain in a multi-year upcycle, since we lost gas supply from Russia, have drawn down inventories heavily, and US oil and gas supplies are more important than ever before, especially with OPEC+ being laser focused on keeping prices elevated. I expect the recent US rig count decline to resemble that of prior mid-cycle decline, such as in 2012 and 2017.



Source: Baker Hughes

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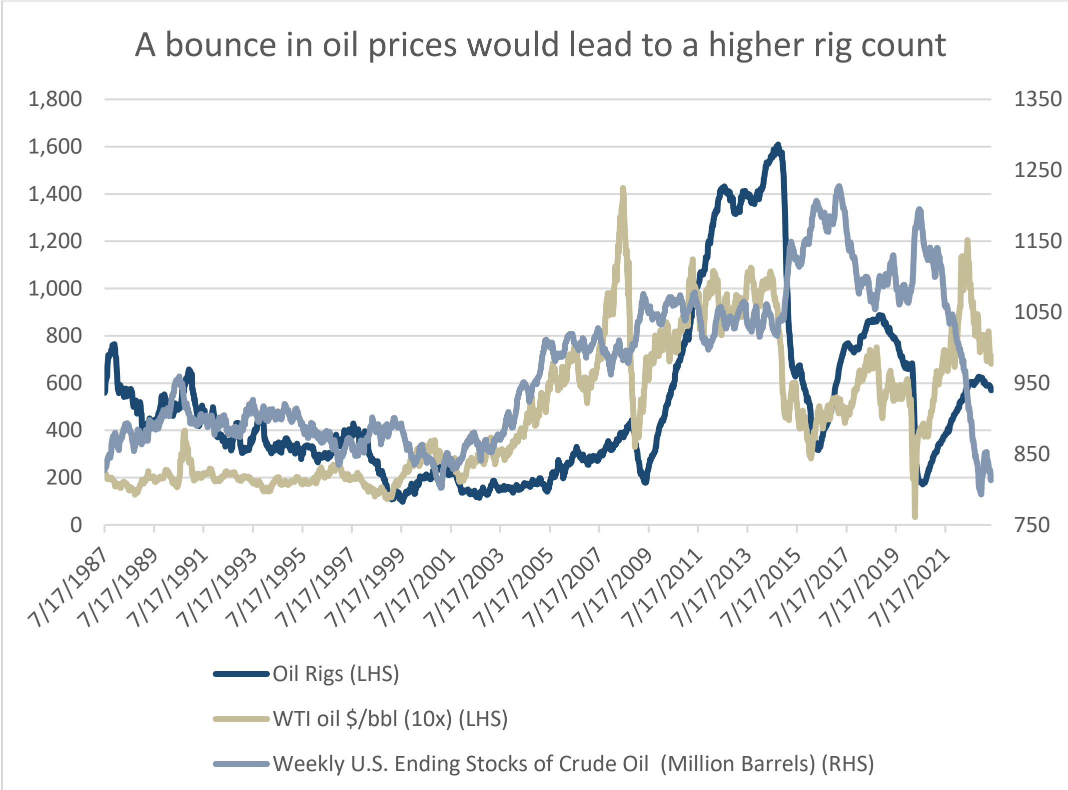

Source: Baker Hughes, EIA, FRED St. Louis

Strong relative value

Hunting's valuation has been in line with that of Halliburton and Oil States International for most of its history. Yet, despite the very strong orderbook and guidance, Hunting not only tracks below its competitors' valuations, but with an enterprise value of around $440mio, also tracks below the enterprise valuation of $535mio of Oil States International, which has slightly lower EBITDA, more exposure to oil and gas and annual interest expense of around $10mio. A merger of Hunting and Oil States International has been in the cards for years, however, due to Hunting's UK institutional shareholder base, a merger would cause too much selling of these shareholders, as they cannot hold shares in a combined US listed company.

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Hunting plc

GBX 214.43 ↓36.47% -123.07 1Y

Jun 1, 2:46:45 PM UTC+1 · GBX · LON · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

Hunting plc	GBX 214.50	-GBX 123.00	↓36.44%
Oil States Internati...	$6.36	-$1.81	↓22.15%
Halliburton Compa...	$28.77	-$12.63	↓30.51%

Source: Google Finance

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