

# HARTSHEAD RESOURCES NL (ASX: HHR)

June 23, 2022

Share price: A\$0.025  
Target: A\$0.200

## Converting ~300 bcf of contingent resources into 2P reserves

- ERCE have completed a Technical and Commercial Audit of Harthead's Phase I development of the Anning and Somerville gas fields.
- ERCE have estimated that Hartshead hold 180 bcf of 1P reserves, 302 bcf of 2P reserves and ~458 of 3P reserves in the Anning and Somerville gas fields located in the UK Southern Gas Basin
- This represents a conversion of almost all the technically recoverable 324 bcf 2C into economically recoverable 2P reserves. It also represents a significant increase in the 380 bcf of 3C contingent resources into 3P reserves. A very large proportion of the 255 bcf 1C contingent resources was also converted into 1P reserves.
- Hartshead is in active discussions with several infrastructure owners with regards to gas transportation and export routes.
- We view this announcement as a very positive and important step in the progress of the project. The certification as reserves of such a high proportion of 2C resources showcases the quality of the project.
- Hartshead continues to be a high value gas development story. We reiterate our target price of A\$0.20 per share. We have increased our chance of development from 70% to 75% but have also assumed higher tariffs and some initial costs to compensate for third party gas backout.

## Timing and sales

FID is expected to be taken in 2Q23 with first gas for the Phase I development estimated in late 2024. The gas production forecasts have been adjusted for the backout of third party gas volumes and shrinkage with peak sales gas of 140 mmcf/d. A Gas Sales Agreement will be entered into at the point of FID with well established offtakers of natural gas in the UK market, such as BP, Shell and Engie.

## Valuation

A key next step is the securing of an industry partner for the development phase of the Anning and Somerville gas fields. The booking of ~300 bcf of 2P reserves should facilitate this process. It will also likely enhance access to offtake prepayment and debt financing facilities. The read through valuation of the farm-out transaction between IOG and CalEnergy in 2019 suggests that the industry could pay A\$0.20-0.30/sh for Hartshead assets. Our Core NAV for Hartshead assuming a US\$100 mm farm-out and 75% chance of development now stands at A\$0.14/sh. Adding phase II leads to a ReNAV of A\$0.20/sh. Phase III would add further value.

Rating & target		Old	New	
Target		n.a.	A\$ 0.200	
Yield			0%	
Implied total return			700%	
Share data		2020/2021	2021/2022e	2022/2023e
Shares dil., mm		1,985	1,985	1,985
Mkt cap, US\$mm		\$24	\$36	\$36
EV, US\$mm		\$18	\$34	\$40
Financial Data		2020/2021	2021/2022e	2022/2023e
Gas, mmcf/d		0.0	0.0	0.0
Liquids, bbl/d		0	0	0
Total boe/d (6:1)		0	0	0
CFO, US\$mm		(\$1)	(\$2)	(\$7)
Net capex, US\$mm		(\$0)	\$1	\$0
Net debt, US\$mm		(\$5)	(\$2)	\$4
CFPS dil., US\$/shr		(\$0.00)	(\$0.00)	(\$0.00)
EPS dil., US\$/shr		(\$0.00)	(\$0.00)	(\$0.00)
Valuation		2020/2021	2021/2022e	2022/2023e
Share price, A\$/shr		A\$ 0.016	A\$ 0.025	A\$ 0.025
EV/DACF		n.a.	n.a.	n.a.
EV per boe/d (US\$)		n.a.	n.a.	n.a.
Net asset value				
CNAV, A\$/shr				A\$ 0.140
RENAV, A\$/shr				A\$ 0.199
Unrisked NAV, A\$/shr				A\$ 0.330
P/CNAV				0.2x
P/RENAV				0.1x
P/ENAV				0.1x

All figures in US\$ unless otherwise noted  
A\$/US\$: 0.74

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## Figure 1. Financial & operating information

Hartshead Resources NL (HHR AU)

Financial & Operating Information		2020/2021a	2021/2022e	2022/2023e	2023/2024e	2024/2025e	2025/2026e
<b>Commodity Prices</b>							
Brent	US\$/bbl	\$53.55	\$89.63	\$100.00	\$98.75	\$82.50	\$70.00
NBP	US\$/mcf	\$7.80	\$25.05	\$26.25	\$15.00	\$12.00	\$12.00
USD/CAD	US\$/C\$	\$1.35	\$1.32	\$1.29	\$1.36	\$1.40	\$1.40
A\$/US\$	A\$/US\$	\$0.74	\$0.73	\$0.72	\$0.72	\$0.72	\$0.72
<b>Production</b>							
Oil and Liquids	bb/d	0	0	0	0	0	0
Natural Gas	mmcf/d	0.0	0.0	0.0	0.0	12.6	50.1
Total (6 mcf = 1 boe)	boe/d	0	0	0	0	2,100	8,354
% Oil and Liquids	%	1%	1%	1%	1%	0%	0%
<b>Netbacks</b>							
Realized Price	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$72.00	\$72.00
Royalties	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$0.00	\$0.00
Production & Transport Costs	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$41.45	\$22.51
Operating Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$30.55	\$49.49
Taxes	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$0.00	\$2.30
Cash Flow Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$36.52	\$52.07
Government Take	%	n.a.	n.a.	n.a.	n.a.	0%	3%
<b>Financials</b>							
Cash Flow (CFO)	US\$mm	(\$1)	(\$2)	(\$7)	(\$14)	\$19	\$149
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.01	\$0.08
EBITDAX	US\$mm	(\$4)	(\$2)	(\$3)	(\$4)	\$28	\$166
E&D Capex	US\$mm	\$0	\$1	\$0	\$4	\$80	\$53
A&D Capex, Net	US\$mm	(\$0)	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	(\$0)	\$1	\$0	\$4	\$80	\$53
Total Net Capex/CFO	x	0.4x	-0.4x	0.0x	-0.3x	4.3x	0.4x
<b>Leverage</b>							
Net Debt	US\$mm	(\$5)	(\$2)	\$4	\$22	\$83	(\$13)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	-0.3x	1.2x	0.6x
<b>Capital Structure</b>							
Basic Shares o/s @ YE	mm	1855	1855	1855	1855	1855	1855
Diluted Shares o/s @ YE	mm	1985	1985	1985	1985	1985	1985
Market Capitalization	US\$mm	\$24	\$36	\$36	\$36	\$36	\$36
Enterprise Value	US\$mm	\$18	\$34	\$40	\$58	\$119	\$23
<b>Dividends &amp; Sustainability</b>							
Dividends	US\$mm	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Free Cash Flow	US\$mm	(\$1)	(\$3)	(\$7)	(\$18)	(\$62)	\$97
Cash Use/CFO	%	41%	-35%	0%	-28%	430%	35%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	n.a.	n.a.	n.a.	n.a.	298%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	467%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Net Asset Value</b>							
CNAV (Atax) - diluted	A\$/shr	A\$ 0.140					
RENAV (Atax) - diluted	A\$/shr	A\$ 0.199					
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.330					
P/CNAV	x	0.2x					
P/RENAV	x	0.1x					
P/Unrisked NAV	x	0.1x					
<b>Valuation</b>		2020/2021a	2021/2022e	2022/2023e	2023/2024e	2024/2025e	2025/2026e
Share Price, YE/Current	A\$/shr	A\$ 0.025	A\$ 0.025	A\$ 0.025	A\$ 0.025	A\$ 0.025	A\$ 0.025
P/CF	x	n.a.	n.a.	n.a.	n.a.	1.8x	0.3x
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	3.1x	0.1x
Target EV/DACF	x	n.a.	n.a.	n.a.	n.a.	9.5x	1.2x
EV per boe/d	US\$/boe/d	n.a.	n.a.	n.a.	n.a.	\$56,708	\$2,699
EV per 2P boe	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

\*\*Futures strip as of 23-Jun-22

**Figure 2. NAV Table**

	WI Reserves / Resources (mmbae)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE22)		1	0.001		1	0.001	0%
G&A		-21	-0.015		-21	-0.015	-7%
<b>UK</b>							
Phase I	50	295	0.205	75%	222	0.154	77%
<b>Total Core NAV</b>		<b>275</b>	<b>0.191</b>		<b>202</b>	<b>0.140</b>	<b>70%</b>
<b>UK</b>							
Phase II	23	169	0.117	50%	84	0.059	30%
Phase III	0	0	0.000	0%	0	0.000	0%
<b>Total Risked Appraisal &amp; Exploration</b>		<b>169</b>	<b>0.117</b>		<b>84</b>	<b>0.059</b>	<b>30%</b>
<b>Total NAV</b>		<b>444.39</b>	<b>0.309</b>		<b>286</b>	<b>0.199</b>	<b>100%</b>
<b>Unrisked NAV</b>						<b>0.330</b>	
<b>P/Core NAV</b>					<b>17.8%</b>		
<b>P/NAV</b>					<b>12.6%</b>		
<b>P/Unrisked NAV</b>					<b>7.6%</b>		

Source: Auctus, Company Disclosures

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