

HARTSHEAD RESOURCES NL (ASX: HHR)

August 25, 2022

Share price: A\$0.033

Target: A\$0.200

Engineering study with Shell and A\$11 mm equity raise are major steps in the development of Hartshead's ~300 bcf 2P reserves

- An agreement has been reached with Shell to conduct an engineering study for the preferred offtake route and agreed tie-in option for Hartshead's Phase I field development (Anning/Somerville). The offtake route is via a tie-in to Shell's Southern North Sea infrastructure (Corvette and Leman A platforms) for transportation to Bacton for onshore processing and delivery to the UK Gas National Transmission System.
- The study will provide the basis for design and cost estimates for the preferred gas offtake route and the required brownfield tie-in facility modifications.
- Hartshead is also raising A\$11 mm of new equity priced at A\$0.0275 per share. The proceeds of the placement will be applied to the engineering study, geotechnical survey and to fast track the FEED stage of the Phase I field development of the Anning and Somerville gas fields.
- We view these announcement as very important steps in the progress of the project to prepare the FDP to be submitted to the UK government. Securing a third party offtake route is one of the main areas of risk of the project. The stature of the counterparty (Shell) is also testimony to the quality and materiality 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 for Phase I from 75% to 85%. This offsets the impact of the dilution associated with the new equity issue.

Details of the study

The scope of the study includes the offshore construction support for the subsea pipeline tie-in activities on the Corvette to Leman Alpha export pipeline and the pipework for successive stage-wise production flow routing. It is expected to cost ~£0.5 mm and take three months to complete. FID continues to be expected to be taken in 2Q23 with first gas for the Phase I development estimated in late 2024.

Valuation

A key next step continues to be the securing of an industry partner for the development phase. Firming-up a tie-in to Shell's infrastructure should give more comfort to a potential farm-in partner and enhance access to offtake prepayment and debt financing facilities. The read through valuation of the transaction between IOG and CalEnergy in 2019 suggests that the industry could pay A\$0.20-0.30/sh for Hartshead's assets. Since this transaction was signed the UK NBP has multiplied by ~20x. Our Core NAV for Hartshead assuming a US\$100 mm farm-out and 85% chance of development stands at A\$0.14/sh. Adding phase II leads to a ReNAV of A\$0.20/sh.

Rating & target	Old	New	
Target	n.a.	A\$ 0.200	
Yield		0%	
Implied total return		n.a.	
Share data	2020/ 2021	2021/ 2022e	2022/ 2023e
Shares dil., mm	1,985	1,985	2,385
Mkt cap, US\$m	\$48	\$47	\$57
EV, US\$m	\$43	\$46	\$59
Financial Data	2020/ 2021	2021/ 2022e	2022/ 2023e
Gas, mmcfd	0.0	0.0	0.0
Liquids, bbl/d	0	0	0
Total boe/d (6:1)	0	0	0
CFO, US\$m	(\$1)	(\$3)	(\$7)
Net capex, US\$m	(\$0)	\$1	\$5
Net debt, US\$m	(\$5)	(\$2)	\$2
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\$ 0.033	A\$ 0.033	A\$ 0.033
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\$ 0.137
RENAV, A\$/shr			A\$ 0.186
Unrisked NAV, A\$/shr			A\$ 0.254
P/CNAV			0.2x
P/RENAV			0.2x
P/ENAV			0.1x

All figures in US\$ unless otherwise noted

A\$/US\$: 0.74

Contact details

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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
Commodity Prices							
Brent	US\$/bbl	\$53.55	\$89.63	\$100.00	\$98.75	\$82.50	\$70.00
NBP	US\$/mcf	\$3.28	\$20.72	\$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
Production							
Oil and Liquids	bbl/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%
Netbacks							
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%
Financials							
Cash Flow (CFO)	US\$m	(\$1)	(\$3)	(\$7)	(\$14)	\$19	\$149
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.01	\$0.07
EBITDAX	US\$m	(\$4)	(\$2)	(\$3)	(\$4)	\$28	\$166
E&D Capex	US\$m	\$0	\$1	\$5	\$4	\$80	\$53
A&D Capex, Net	US\$m	(\$0)	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	(\$0)	\$1	\$5	\$4	\$80	\$53
Total Net Capex/CFO	x	0.4x	-0.2x	-0.8x	-0.3x	4.3x	0.4x
Leverage							
Net Debt	US\$m	(\$5)	(\$2)	\$2	\$20	\$81	(\$15)
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.	-0.2x	1.1x	0.5x
Capital Structure							
Basic Shares o/s @ YE	mm	1855	1855	2255	2255	2255	2255
Diluted Shares o/s @ YE	mm	1985	1985	2385	2385	2385	2385
Market Capitalization	US\$m	\$48	\$47	\$57	\$57	\$57	\$57
Enterprise Value	US\$m	\$43	\$46	\$59	\$76	\$138	\$41
Dividends & Sustainability							
Dividends	US\$m	\$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\$m	(\$1)	(\$4)	(\$12)	(\$18)	(\$62)	\$97
Cash Use/CFO	%	41%	-22%	-77%	-28%	430%	35%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	n.a.	39%	-17%	0%	n.a.	298%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	44%	-22%	-25%	n.a.	485%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	702%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	1080%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	A\$/shr	A\$ 0.137					
RENAV (Atax) - diluted	A\$/shr	A\$ 0.186					
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.254					
P/CNAV	x	0.2x					
P/RENAV	x	0.2x					
P/Unrisked NAV	x	0.1x					
Valuation		2020/2021a	2021/2022e	2022/2023e	2023/2024e	2024/2025e	2025/2026e
Share Price, YE/Current	A\$/shr	A\$ 0.033	A\$ 0.033	A\$ 0.033	A\$ 0.033	A\$ 0.033	A\$ 0.033
P/CF	x	n.a.	n.a.	n.a.	n.a.	2.0x	0.4x
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	3.5x	0.2x
Target EV/DACF	x	n.a.	n.a.	n.a.	n.a.	10.9x	1.5x
EV per boe/d	US\$/boe/d	n.a.	n.a.	n.a.	n.a.	\$65,666	\$4,951
EV per 2P boe	US\$/boe	n.a.	\$0.91	\$1.17	\$1.52	\$2.74	\$0.82
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 25-Aug-22

Figure 2. NAV Table

	WI Reserves / Resources (mmbobe)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE22)		5	0.003		5	0.003	2%
G&A		-21	-0.012		-21	-0.012	-7%
UK							
Phase I	50	296	0.172	85%	251	0.146	79%
Total Core NAV		279	0.163		235	0.137	74%
UK							
Phase II	23	169	0.098	50%	84	0.049	26%
Phase III	0	0	0.000	0%	0	0.000	0%
Total Risked Appraisal & Exploration		169	0.098		84	0.049	26%
Total NAV		448.41	0.261		320	0.186	100%
Unrisked NAV						0.254	
P/Core NAV							24.1%
P/NAV							17.7%
P/Unrisked NAV							13.0%

Source: Auctus, Company Disclosures

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