

HARTSHEAD RESOURCES NL (ASX: HHR)

November 22, 2022

Share price: A\$0.038

Target: A\$0.180

Changes to UK windfall tax on oil and gas has limited impact

- The UK government has announced that from 1 January 2023 the Energy Profits Levy (EPL) on oil and gas companies will increase from 25% to 35%, with the levy remaining in place until the end of March 2028. This represents an extension of two years.
- The extra investment deduction (“allowance”) from taxable profit for EPL purposes has been reduced from 80% to 29%. Overall the cash tax relief for investment in the UK remains at about 90 p in the £.
- Based on the Phase I development of the Anning and Somerville gas fields only and under our gas price scenario (US\$12 per mcf/~100 p per therm from 2024), we do not anticipate that Hartshead would start paying tax in the UK before 3Q26.
- Between that date and 1Q28 (sunset of the EPL), we estimate that Hartshead would pay an additional US\$115 mm in tax (compared to our previous forecast) based on phase I. This assumes first gas for Phase I in 1Q25. A one year delay to the start of production would reduce this extra tax liability by ~US\$70 mm to ~US\$45 mm. At 65 p per therm for UK gas prices, the changes in the EPL have no material impact on the overall tax liability.
- Given the capex allowance, any increase in capex would also have a material impact on the amount of extra tax to be paid. We are for instance assuming ~US\$95 mm net capex in 2026-2027 to first gas for Phase II. The 29% extra investment deduction for EPL purposes on this capex would reduce taxable income (for EPL) by ~US\$30 mm (29%xUS\$95 mm). This offsets ~US\$10 mm of EPL due on phase I (35%xUS\$30 mm).
- Hartshead continues to be a high value gas development story. The changes in the EPL continue to make the company’s project attractive to a UK tax paying producer. We have reduced our target price to A\$0.18 per share as the negative impact of the EPL on Phase I is partially offset by lower US\$/A\$ exchange rate assumptions. Until Phase II is better defined, we have not included the EPL deduction associated with Phase II.

Next steps

A key next step continues to be the securing of an industry partner for the development phase. FID continues to be expected to be taken in 2Q23 with first gas for the Phase I development estimated in late 2024.

Valuation

Our Core NAV for Hartshead assuming a US\$100 mm farm-out and 85% chance of development stands at ~A\$0.12/sh. Adding phase II leads to a ReNAV of ~A\$0.18/sh.

Rating & target		Old	New	
Target		A\$ 0.200	A\$ 0.180	
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\$mm		\$56	\$55	\$58
EV, US\$mm		\$51	\$53	\$61
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)	(\$3)	(\$6)
Net capex, US\$mm		(\$0)	\$1	\$5
Net debt, US\$mm		(\$5)	(\$2)	\$2
CFPS dil., US\$/shr		(\$0.00)	(\$0.00)	(\$0.00)
EPS dil., US\$/shr		(\$0.00)	(\$0.00)	(\$0.01)
Valuation		2020/2021	2021/2022e	2022/2023e
Share price, A\$/shr		A\$ 0.038	A\$ 0.038	A\$ 0.038
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\$ 0.123
RENAV, A\$/shr				A\$ 0.178
Unrisked NAV, A\$/shr				A\$ 0.223
P/CNAV				0.3x
P/RENAV				0.2x
P/ENAV				0.2x

All figures in US\$ unless otherwise noted
A\$/US\$: 0.65

Contact details

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Figure 1. Financial & operating information

Hartshead Resources NL (HHR AU)

Financial & Operating Information		2020/2021a	2021/2022a	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	\$0.65	\$0.72	\$0.72	\$0.72
Production							
Oil and Liquids	bbbl/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	\$1.60
Cash Flow Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$36.52	\$52.77
Government Take	%	n.a.	n.a.	n.a.	n.a.	0%	2%
Financials							
Cash Flow (CFO)	US\$mm	(\$1)	(\$3)	(\$6)	(\$14)	\$19	\$152
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.01	\$0.07
EBITDAX	US\$mm	(\$4)	(\$2)	(\$4)	(\$5)	\$27	\$165
E&D Capex	US\$mm	\$0	\$1	\$5	\$0	\$74	\$53
A&D Capex, Net	US\$mm	(\$0)	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	(\$0)	\$1	\$5	\$0	\$74	\$53
Total Net Capex/CFO	x	0.4x	-0.3x	-0.8x	0.0x	3.9x	0.3x
Leverage							
Net Debt	US\$mm	(\$5)	(\$2)	\$2	\$16	\$71	(\$27)
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	0.9x	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\$mm	\$56	\$55	\$58	\$65	\$65	\$65
Enterprise Value	US\$mm	\$51	\$53	\$61	\$81	\$137	\$38
Dividends & Sustainability							
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)	(\$4)	(\$10)	(\$14)	(\$55)	\$99
Cash Use/CFO	%	41%	-34%	-81%	0%	395%	35%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	39%	-17%	0%	n.a.	298%
PPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	42%	-19%	-25%	n.a.	485%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	713%
CFPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	n.a.	n.a.	n.a.	n.a.	1096%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	A\$/shr	A\$ 0.123					
RENAV (Atax) - diluted	A\$/shr	A\$ 0.178					
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.223					
P/CNAV	x	0.3x					
P/RENAV	x	0.2x					
P/Unrisked NAV	x	0.2x					
Valuation		2020/2021a	2021/2022a	2022/2023e	2023/2024e	2024/2025e	2025/2026e
Share Price, YE/Current	A\$/shr	A\$ 0.038	A\$ 0.038	A\$ 0.038	A\$ 0.038	A\$ 0.038	A\$ 0.038
P/CF	x	n.a.	n.a.	n.a.	n.a.	2.3x	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.	10.7x	1.4x
EV per boe/d	US\$/boe/d	n.a.	n.a.	n.a.	n.a.	\$65,044	\$4,540
EV per 2P boe	US\$/boe	n.a.	\$1.05	\$1.21	\$1.61	\$2.72	\$0.75
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 22-Nov-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)		3	0.002		3	0.002	1%
G&A		-18	-0.012		-18	-0.012	-7%
UK							
Phase I	50	240	0.156	85%	204	0.133	75%
Total Core NAV		226	0.147		189	0.123	69%
UK							
Phase II	23	169	0.110	50%	84	0.055	31%
Phase III	0	0	0.000	0%	0	0.000	0%
Total Risked Appraisal & Exploration		169	0.110		84	0.055	31%
Total NAV		394.45	0.256		274	0.178	100%
Unrisked NAV						0.223	
P/Core NAV					33.3%		
P/NAV					23.0%		
P/Unrisked NAV					18.3%		

Source: Auctus, Company Disclosures

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