

# HARTSHEAD RESOURCES NL (ASX: HHR)

January 31, 2023

Share price: A\$0.036  
Target: A\$0.180

## Expecting an industry farm-in partner

- The Phase I Field Development Plan is expected to be submitted to the NSTA during 1Q23.
- Hartshead has received interest from a number of potential industry partners, a sub-set of which has entered the next stage of the farm-out process involving further due diligence and negotiations. The company hopes to successfully conclude the process at the end of March.
- Securing a partner would be a major rerating event as it would provide clarity on the funding of the project as well as an external industry valuation for the assets.
- FID for the Phase I field development could be taken by mid 2023.
- Hartshead has also submitted bids in the UK 33<sup>rd</sup> Offshore Licensing Round. Awards are expected around mid 2023.
- Hartshead held ~A\$9 mm in cash at YE22. Thus is much higher than we anticipated and, while the company has hired new staff and made progress with FEED, costs remain under control.
- We re-iterate our target price of A\$0.18 per share, representing ~5x the current share price.

## Reflections of UK gas prices

Gas prices in the UK have dropped to ~£1.45 per therm on warm weather in Europe. While this is significantly below the levels achieved during 2022, this represents >US\$17/mcf (>US\$100/boe). Our forecasts assume only £1.00/th (US\$12/mcf).

## 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\$ 0.180	n.c.
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	\$48	\$47	\$51
EV, US\$mm	\$43	\$46	\$50

  

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	\$1
Net debt, US\$mm	(\$5)	(\$2)	(\$1)
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\$ 0.033	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\$ 0.126
RENAV, A\$/shr	A\$ 0.181
Unrisked NAV, A\$/shr	A\$ 0.226
P/CNAV	0.3x
P/RENAV	0.2x
P/ENAV	0.1x

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

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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
<b>Commodity Prices</b>							
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
<b>Production</b>							
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%
<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	\$1.99
Cash Flow Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$36.52	\$52.38
Government Take	%	n.a.	n.a.	n.a.	n.a.	0%	3%
<b>Financials</b>							
Cash Flow (CFO)	US\$mm	(\$1)	(\$3)	(\$6)	(\$14)	\$19	\$150
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.01	\$0.07
EBITDAX <sup>a</sup>	US\$mm	(\$4)	(\$2)	(\$4)	(\$5)	\$27	\$165
E&D Capex	US\$mm	\$0	\$1	\$1	\$0	\$74	\$53
A&D Capex, Net	US\$mm	(\$0)	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	(\$0)	\$1	\$1	\$0	\$74	\$53
Total Net Capex/CFO	x	0.4x	-0.3x	-0.1x	0.0x	3.9x	0.4x
<b>Leverage</b>							
Net Debt	US\$mm	(\$5)	(\$2)	(\$1)	\$12	\$67	(\$30)
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.	n.a.	0.7x	0.4x
<b>Capital Structure</b>							
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	\$48	\$47	\$51	\$56	\$57	\$57
Enterprise Value	US\$mm	\$43	\$46	\$50	\$69	\$124	\$27
<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)	(\$4)	(\$7)	(\$14)	(\$55)	\$98
Cash Use/CFO	%	41%	-34%	-15%	0%	395%	35%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	39%	-17%	0%	n.a.	298%
PPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	42%	-15%	-27%	n.a.	510%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	707%
CFPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	n.a.	n.a.	n.a.	n.a.	1138%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Net Asset Value</b>							
CNAV (Atax) - diluted	A\$/shr	A\$ 0.126					
RENAV (Atax) - diluted	A\$/shr	A\$ 0.181					
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.226					
P/CNAV	x	0.3x					
P/RENAV	x	0.2x					
P/Unrisked NAV	x	0.1x					
<b>Valuation</b>		<b>2020/2021a</b>	<b>2021/2022a</b>	<b>2022/2023e</b>	<b>2023/2024e</b>	<b>2024/2025e</b>	<b>2025/2026e</b>
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.	3.2x	0.1x
Target EV/DACF	x	n.a.	n.a.	n.a.	n.a.	10.6x	1.4x
EV per boe/d	US\$/boe/d	n.a.	n.a.	n.a.	n.a.	\$59,081	\$3,182
EV per 2P boe	US\$/boe	n.a.	\$0.91	\$0.99	\$1.37	\$2.47	\$0.53
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; <sup>b</sup>) 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 30-Jan-23

**Figure 2. NAV Table**

	WI Reserves / Resources (mmbob)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE22)		9	0.006		9	0.006	3%
G&A		-20	-0.013		-20	-0.013	-7%
<b>UK</b>							
Phase I	50	241	0.156	85%	204	0.133	74%
<b>Total Core NAV</b>		<b>229</b>	<b>0.149</b>		<b>193</b>	<b>0.126</b>	<b>70%</b>
<b>UK</b>							
Phase II	23	169	0.110	50%	84	0.055	30%
Phase III	57	0	0.000	0%	0	0.000	0%
<b>Total Risked Appraisal &amp; Exploration</b>		<b>169</b>	<b>0.110</b>		<b>84</b>	<b>0.055</b>	<b>30%</b>
<b>Total NAV</b>		<b>398.35</b>	<b>0.259</b>		<b>278</b>	<b>0.181</b>	<b>100%</b>
<b>Unrisked NAV</b>						<b>0.226</b>	
<b>P/Core NAV</b>					<b>26.3%</b>		
<b>P/NAV</b>					<b>18.3%</b>		
<b>P/Unrisked NAV</b>					<b>14.6%</b>		

Source: Auctus, Company Disclosures

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