

HARTSHEAD RESOURCES NL (ASX: HHR)

April 05, 2023

Share price: A\$0.043

Target: A\$0.170

Delivering a re-rating farm-in transaction

- Hartshead is farming out 60% WI of its UK assets to RockRose Energy for a combination of cash (US\$34.4 mm/A\$52.9 mm) and net free carry (US\$61.8 mm/A\$95 mm) for Phase I. A further US\$5.9 mm cash payment is contingent on the NSTA approval of the FDP for the Phase II Lovelace or Hodgkin. RockRose currently produces ~27 mboe/d in the UK North Sea.
- The fact that a proportion of the proceeds is in cash (US\$34.4 mm/A\$52.9 mm) allows Hartshead to directly fund a larger share of capex and capture the generous tax benefits on UK capex. ~90% of UK capex can be deducted from payable taxes. If this amount had been provided as net carry, RockRose would have kept the associated tax benefit (~US\$31 mm/A\$48 mm).
- Hartshead is also raising A\$20 mm of new equity priced at A\$0.04 per share to boost the balance sheet.
- The total cash and net carry that Hartshead is receiving amounts to ~US\$96 mm/A\$148 mm or A\$0.053/sh. This is well above the price of the equity raise. Adding the tax benefits would lead to overall net proceeds for the Phase I farm-out of ~US\$128 mm/A\$196 mm of A\$0.07/sh.
- The read through value of the retained 40% in Hartshead's UK assets is US\$64 mm/A\$99 mm (A\$0.035-0.047/sh).
- Overall, this transaction provides an industry valuation on Hartshead's equity of A\$0.088-0.117/sh, which is well above the current share price. It also provides Hartshead with enough funding to reach first gas.
- As we incorporate the impact of the farm out and the equity issued in the placing, we have changed our target price to A\$0.17 per share.

Cash flow waterfall and capex programme

Hartshead will receive US\$7.9 mm/A\$12.2 mm on completion of the farm-out. From FID, expected in 3Q23, RockRose will carry Hartshead's net development cost for up to US\$61.8 mm/A\$95 mm. At FID, RockRose will also pay Hartshead A\$9.8 mm with a further cash payment of A\$31.7 mm on FDP approval later in 2023. Gross capex to first gas is ~£200 mm/US\$250 mm (£80 mm/US\$100 mm) net to Hartshead which can be funded by the proceeds from the divestment and the equity raise. A further £150 mm/US\$185 mm (£60 mm/US\$75 mm net to Hartshead) is required post first gas to fully develop the field. This will be funded by a combination of debt and cashflow.

Valuation

The NPV of the farm-out is very close to what we were assuming. As we now increase the chance of Phase I development to 100% but incorporate the impact of the equity raise, our new Core NAV is A\$0.13/sh with a ReNAV including Phase II of A\$0.17 per share.

Rating & target		Old	New	
Target		A\$ 0.180	A\$ 0.170	
Yield			0%	
Implied total return			n.a.	
Share data		2020/2021	2021/2022e	2022/2023e
Shares dil., mm		1,985	1,985	2,922
Mkt cap, US\$mm		\$63	\$62	\$81
EV, US\$mm		\$58	\$60	\$63
Financial Data		2020/2021	2021/2022e	2022/2023e
Gas, mmmcf/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)	(\$3)
Net capex, US\$mm		(\$0)	\$1	(\$2)
Net debt, US\$mm		(\$5)	(\$2)	(\$19)
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\$ 0.043	A\$ 0.043	A\$ 0.043
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\$ 0.130
RENAV, A\$/shr				A\$ 0.168
Unrisked NAV, A\$/shr				A\$ 0.183
P/CNAV				0.3x
P/RENAV				0.3x
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	\$91.25	\$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	\$0.70	\$0.70	\$0.70
Production							
Oil and Liquids	bbbl/d	0	0	0	0	0	0
Natural Gas	mmcf/d	0.0	0.0	0.0	0.0	10.1	40.1
Total (6 mcf = 1 boe)	boe/d	0	0	0	0	1,680	6,683
% 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.	\$42.64	\$23.16
Operating Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$29.36	\$48.84
Taxes	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$0.00	\$0.00
Cash Flow Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	\$35.30	\$54.07
Government Take	%	n.a.	n.a.	n.a.	n.a.	0%	0%
Financials							
Cash Flow (CFO)	US\$mm	(\$1)	(\$3)	(\$3)	(\$9)	\$16	\$126
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.01	\$0.05
EBITDAX ^a	US\$mm	(\$4)	(\$2)	(\$3)	(\$5)	\$21	\$131
E&D Capex	US\$mm	\$0	\$1	\$6	\$0	\$75	\$47
A&D Capex, Net	US\$mm	(\$0)	\$0	(\$8)	(\$29)	\$0	\$0
Total Net Capex	US\$mm	(\$0)	\$1	(\$2)	(\$29)	\$75	\$47
Total Net Capex/CFO	x	0.4x	-0.3x	0.5x	3.1x	4.7x	0.4x
Leverage							
Net Debt	US\$mm	(\$5)	(\$2)	(\$19)	(\$40)	\$19	(\$61)
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.	n.a.	0.1x
Capital Structure							
Basic Shares o/s @ YE	mm	1855	1855	2793	2793	2793	2793
Diluted Shares o/s @ YE	mm	1985	1985	2922	2922	2922	2922
Market Capitalization	US\$mm	\$56	\$55	\$72	\$78	\$78	\$78
Enterprise Value	US\$mm	\$51	\$53	\$53	\$38	\$97	\$17
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)	(\$9)	(\$9)	(\$59)	\$80
Cash Use/CFO	%	41%	-34%	50%	313%	465%	37%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	39%	-20%	-15%	n.a.	298%
PPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	42%	11%	160%	n.a.	526%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	687%
CFPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	n.a.	n.a.	n.a.	n.a.	1139%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	A\$/shr	A\$ 0.130					
RENAV (Atax) - diluted	A\$/shr	A\$ 0.168					
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.183					
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.	3.6x	0.6x
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.	13.8x	1.8x
EV per boe/d	US\$/boe/d	n.a.	n.a.	n.a.	n.a.	\$57,507	\$2,522
EV per 2P boe	US\$/boe	n.a.	\$2.63	\$2.64	\$1.89	\$4.81	\$0.84
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 4-Apr-23

Figure 2. NAV Table

	WI Reserves / Resources (mmboe)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE23)		64	0.031		64	0.031	19%
G&A		-23	-0.011		-23	-0.011	-7%
UK							
Phase I	20	226	0.110	100%	226	0.110	66%
Total Core NAV		266	0.130		266	0.130	77%
UK							
Phase II	9	130	0.063	60%	78	0.038	23%
Phase III	23	0	0.000	0%	0	0.000	0%
Total Risked Appraisal & Exploration		130	0.063		78	0.038	23%
Total NAV		396.01	0.194		344	0.168	100%
Unrisked NAV						0.183	
P/Core NAV					29.2%		
P/NAV					22.6%		
P/Unrisked NAV					20.8%		

Source: Auctus, Company Disclosures

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