

PROJECT UPDATE | PUBLISHED ON 21 JUNE 2023

HHR: Executing on Timeline, FDP Submitted. Improved Gas Pricing Sentiment

HHR.ASX | HARTSHEAD RESOURCES NL | ENERGY

PRICE

A\$0.027/sh

TARGET PRICE

A\$0.150/sh

(FROM A\$0.150/sh)

RECOMMENDATION

SPECULATIVE BUY

(FROM SPECULATIVE BUY)

ANALYST

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Event

Hartshead announced that the company has submitted the Field Development Plan to the UK regulator (NSTA), signifying the completion of a major milestone on their timeline to FID next quarter and eventual first gas targeted for 1HCY2025.

HHR also announced that discussions with parties for outstanding debt funding (to be fully funded for Phase I) are well advanced, and should be concluded alongside FID in Q3 CY2023.

Impact

It is very positive to see the company tracking to the communicated project timeline, and the achievement of the outstanding major milestones next quarter represent material catalysts on the advancement of the project towards first gas (on a relatively short timeframe).

It is also pleasing to see UK gas prices rebound, with pricing almost doubling in the past 2 weeks (from 52p/therm to 103p/therm) and gas futures pricing looking strong for when first gas is targetted in 1H CY2025 at >110p/therm.

One of the options for debt funding is pre-payments and we expect this strong futures pricing to indicate potentially attractive pricing terms for securing that debt if it is the pathway for the source of debt that the company takes for their outstanding share of capex funding requirements.

Importantly, 10-year average UK domestic gas pricing is at 76.6p/therm and the 5-year average is 106.5p/therm. This pricing is conducive to high economic returns with our unrisksed valuation for HHR's net share of the Phase I project at \$0.13/sh and \$0.16/sh, respectively.

Action

We believe HHR is undervalued, particularly as the stock is trading at close to half its share price that it was trading at just prior to the significant project de-risking event of the partial divestment (providing crucial equity funding for their capex requirements). We see significant runway as the project continues to meet project milestones and ramp up towards execution and eventually first gas and cashflows.

We have a Speculative Buy recommendation and a Price Target of \$0.15/sh based on our sum-of-parts valuation which includes a risked valuation for Phase I (20% risked, 80% valued).

Catalysts

- Finalisation of debt financing (Q3 CY23)
- Target FID (Q3 CY23)
- Continued strong UK domestic gas pricing

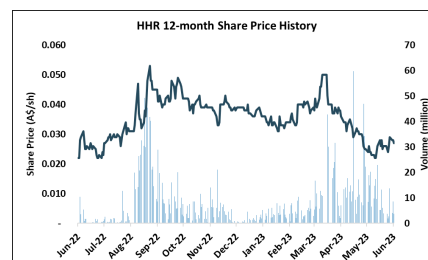
Hartshead Resources	HHR	
Market Statistics		
Share Price	0.027	A\$/sh
Price Target	0.15	A\$/sh
Valuation (risked)	0.15	A\$/sh
Shares on issue (dil)	2923	m
Market Capitalisation	79	A\$m
Enterprise Value	44	A\$m
Debt	0.0	A\$m
Cash	35.0	A\$m

Production Forecast (FY)	2023F	2024F	2025F
Phase I	0	0	9.1
Phase II	0	0	0

Assumptions	2023F	2024F	2025F
UK DomGas (GBP/th)	1.1	1.3	1.2
Condensate (USD/boe)	80	80	82
AUD/GBP (fx)	0.55	0.55	0.55
GBP/USD (fx)	1.20	1.20	1.20

Key Financials	2023F	2024F	2025F
Revenue (A\$m)	0	0	83.9
EBITDA (A\$m)	-5.6	-4	68.9
Reported NPAT (A\$m)	6.6	112.4	115.6
Gross Cashflow(A\$m)	6.8	112.4	121
Operating FCF (A\$m)	5.5	-4	1.2
Net Cashflow(A\$m)	34.7	-4	1.2
Cash(A\$m)	37.3	83.3	79
P/CFPS	na	na	0.8
EV/EBITDA	na	na	1.0

Performance



Source: IRESS, Euroz Hartleys

ASSET VALUATION			
	A\$m	A\$/sh	
(+) Phase I (Risky @ 20%)	335	0.12	
(+) Phase II	55	0.02	
(+) Phase III / Exploration	20	0.01	
(-) Corporate O/H	-25	-0.01	
(+) Cash	35	0.01	
(-) Debt	0	0.00	
Total	421	0.15	

PROFIT & LOSS				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
Revenue	0.0	0.0	83.9	286.2
(-) Operating Expenses	0.0	0.0	-11.1	-37.6
(-) Corporate O/H	-5.2	-4.0	-4.0	-4.0
EBITDAX	-5.2	-4.0	68.9	244.6
(-) Exploration	-0.5	0.0	0.0	0.0
(-) Other	0.0	0.0	0.0	0.0
EBITDA	-5.6	-4.0	68.9	244.6
(-) D&A	0.0	0.0	-5.4	-25.1
(-) Impairment	0.0	0.0	0.0	0.0
EBIT	-5.6	-4.0	63.5	219.5
(-) Net Finance	0.0	0.0	0.0	0.0
(+/-) Other (inc. sell-down cont..)	12.2	116.4	65.0	0.0
EBT	6.6	112.4	128.5	219.5
(-) Tax	0.0	0.0	-12.9	-137.0
Reported NPAT	6.6	112.4	115.6	82.5

PERFORMANCE RATIOS				
Growth & Margins	2023F	2024F	2025F	2026F
Revenue Growth	na	na	na	241%
EBITDAX Growth	-79%	22%	1821%	255%
NPAT Growth	279%	-1613%	3%	-29%
EBITDAX Margin	na	na	0.8	0.9
NPAT Margin	na	na	1.4	0.3
Risk Measures				
Net interest cover (x)	na	na	na	na
Net debt/equity (%)	na	na	na	na

SHARE DATA/VALUATION				
Share Data	2023F	2024F	2025F	2026F
Issued shares (m)	2,842	2,842	2,842	2,842
Performance Rights (m)	75	75	75	75
Fully diluted shares (m)	2,923	2,923	2,923	2,923
Basic EPS (A\$)	0.23	3.95	4.07	2.90
YoY change (%)	-117%	-1713%	103%	71%
Fully diluted EPS (A\$)	0.22	3.84	3.95	2.82
YoY change (%)	-121%	-1713%	103%	71%
Dividend/share (A\$)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%
Gross cashflow/share (A\$)	0	4	4	4
NBV/share (A\$)	1	5	9	12
NTA/Share (A\$)	1	5	9	12
Valuation				
PER (Basic) (x)	11.7	0.7	0.7	0.9
PER (Fully diluted) (x)	12.0	0.7	0.7	1.0
P/CFPS (x)	11.7	0.7	0.7	0.7
Price/NBV (x)	1.8	0.5	0.3	0.2
Price/NTA (x)	1.8	0.5	0.3	0.2
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDAX (x)	na	na	0.6	0.2
EV/EBIT (x)	na	na	0.7	0.2
EV/Revenue (x)	na	na	0.5	0.2
EV/2P (\$/boe)		2.10		
EV/2P+2C (\$/boe)		1.44		

FORECAST PRODUCTION			
Attrib. Prod'n (PJ)	2024F	2025F	2026F
Phase I	0.0	9.1	35.1
Phase II / Phase III	0.0	0.0	0.0
Total Production	0.0	9.1	35.1
Assumptions			
UK NBP Dom Gas Pricing (GBP...)	1.3	1.2	1.1
Condensate Pricing (USD/boe)	80.0	82.0	84.1
AUD/GBP (fx)	0.55	0.55	0.55
GBP/USD (fx)	1.20	1.20	1.20

CASHFLOW STATEMENT				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
Reported NPAT	6.6	112.4	115.6	82.5
(+) D&A	0.0	0.0	5.4	25.1
(+) Impairment	0.0	0.0	0.0	0.0
(+) Share based payments	0.2	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
Gross Cashflow	6.8	112.4	121.0	107.6
(-) Capital Expenditure	0.0	-116.4	-101.8	-36.4
(-) Exploration	-1.2	0.0	0.0	0.0
(+/-) Change in WC	0.0	0.0	-18.0	-20.8
Operating Free Cashflow	5.5	-4.0	1.2	50.5
(-) Acquisition	0.0	0.0	0.0	0.0
(+) Asset sale/farm-down	0.0	0.0	0.0	0.0
(+) Issue of equity	29.9	0.0	0.0	0.0
(-) Dividend	0.0	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
Net Cashflow	35.4	-4.0	1.2	50.5
BoP Net Cash	2.5	38.1	34.1	35.2
(+/-) Net Cashflow	35.6	-4.0	1.2	50.5
(+/-) AASB16 Adj.	0.0	0.0	0.0	0.0
EoP Net Cash*	38.1	34.1	35.2	85.7

BALANCE SHEET				
Yr End 30 June (A\$m)	2023F	2024F	2025F	2026F
Cash	38.1	84.1	85.2	135.7
Receivables	0.4	0.4	21.1	44.8
Other Assets	0.0	0.0	0.0	0.0
Total Current Assets	38.5	84.5	106.4	180.6
PP&E	0.0	116.4	212.8	224.1
Explor/Eval Assets	3.1	3.1	3.1	3.1
Financial Assets at FVOCI	0.2	0.2	0.2	0.2
Intangibles	0.0	0.0	0.0	0.0
Other Assets	0.0	0.0	0.0	0.0
Total Non-Current Assets	3.4	119.7	216.2	227.4
Total Assets	41.9	204.2	322.6	408.0
Payables	1.1	1.1	3.9	6.8
Other Liabilities	1.1	1.1	3.9	6.8
Total Current Liabilities	0.0	0.0	0.0	0.0
Borrowings	0.0	50.0	50.0	50.0
Other Liabilities	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	0.0	50.0	50.0	50.0
Total Liabilities	1.1	51.1	53.9	56.8
Net Assets	40.8	153.1	268.7	351.2
Issued Capital	43.0	43.0	43.0	43.0
Reserves	1.3	1.3	1.3	1.3
Retained Earnings	-3.6	108.8	224.4	306.9
Total Equity	40.8	153.1	268.7	351.2

Figure 1: HHR Sum-of-Parts Valuation

Asset Valuation	Unrisked A\$m	Unrisked A\$/sh	Risking	Risked A\$m	Risked A\$/sh.
(+) Phase I DCF (NPV10)	419	0.15	20%	335	0.12
(+) Phase II	55	0.02		55	0.02
(+) Phase III / Exploration	20	0.01		20	0.01
(-) Corporate O/H	-25	-0.01		-25	-0.01
(+) Cash (not inc. farm down payment)	35	0.01		35	0.01
(-) Debt	0	0.00		0	0.00
Total	505	0.18		421	0.15

Source: Euroz Hartleys

Figure 2: HHR Sum-of-Parts Risked Valuation Sensitivity of Long-term Gas Pricing vs. Fx

AUD/GBP	UK Domestic Gas Long Term Pricing (£/therm)							
	0.50	0.70	0.85	1.00	1.50	2.00	2.50	
0.45	0.12	0.14	0.16	0.17	0.22	0.27	0.32	
0.50	0.11	0.13	0.14	0.16	0.20	0.25	0.29	
0.525	0.11	0.13	0.14	0.15	0.19	0.24	0.28	
0.55	0.11	0.12	0.13	0.15	0.19	0.23	0.27	
0.60	0.10	0.11	0.13	0.14	0.17	0.21	0.25	
0.65	0.09	0.11	0.12	0.13	0.16	0.20	0.23	

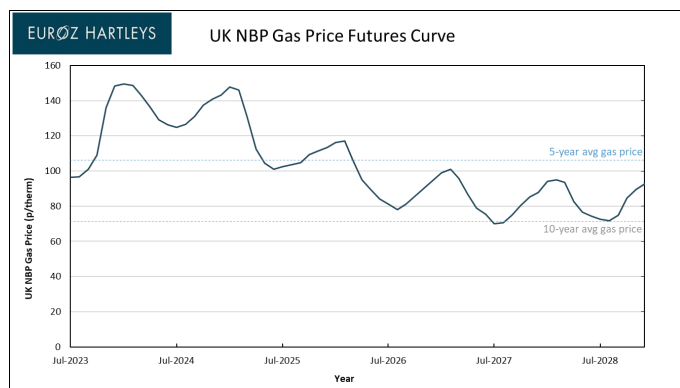
Source: Euroz Hartleys

Figure 3: HHR Sum-of-Parts Un-risked Valuation Sensitivity of Long-term Gas Pricing vs. Fx

AUD/GBP	UK Domestic Gas Long Term Pricing (£/therm)							
	0.50	0.70	0.85	1.00	1.50	2.00	2.50	
0.45	0.14	0.17	0.19	0.21	0.27	0.33	0.40	
0.50	0.13	0.16	0.17	0.19	0.25	0.30	0.36	
0.525	0.13	0.15	0.17	0.18	0.24	0.29	0.34	
0.55	0.12	0.14	0.16	0.18	0.23	0.28	0.33	
0.60	0.12	0.14	0.15	0.16	0.21	0.26	0.30	
0.65	0.11	0.13	0.14	0.15	0.20	0.24	0.28	

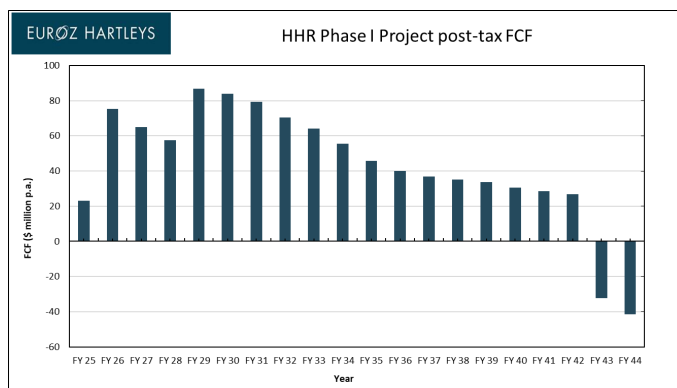
Source: Euroz Hartleys

Figure 4: UK Domestic Gas Futures Curve



Source: CME Group, Euroz Hartleys

Figure 5: HHR Phase I Project post-tax FCF



Source: Euroz Hartleys. Note, step-change from FY2029 is a result of the windfall tax retiring. Phase II is enabled by Phase I infrastructure so may backfill the FCF and prolongs abandonment costs.

Figure 6: Phase I Reserves (Gross, HHR 40% interest)

Phase I Field	HC Phase	Reserves		
		1P	2P	3P
Somerville	Sales Gas (Bcf)	107	156.5	213
	Condensate (MMbbl)	0.119	0.208	0.325
Anning	Sales Gas (Bcf)	73	145	245
	Condensate (MMbbl)	0.081	0.192	0.375
Total (MMboe)		31.2	52.4	79.7

Source: Company Report

Figure 7: Phase II Resources (Gross, HHR 40% interest)

Phase II Prospect	Recoverable Volume (Bcf)		
	1C	2C	3C
Hodgkin	14	39	79
Lovelace	35	100	387
Total	49	139	466

Source: Company Report

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Hartshead Resources NL (HHR.ASX) | Price A\$0.027 | Target price A\$0.150 | Recommendation Speculative Buy;

Price, target price and rating as at 21 June 2023 (not covered)*

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