

# HHR: Capitalizing on Certainty; Firm Funding Solution Secured to Progress Phase I Development

HHR.ASX | HARTSHEAD RESOURCES NL | ENERGY | OIL & GAS

PRICE  
A\$0.024/sh

TARGET PRICE  
A\$0.110/sh  
(FROM A\$0.150/sh)

RECOMMENDATION  
SPECULATIVE BUY  
(UNCHANGED)

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## Event

HHR has announced that a firm option for funding of the company's share of development costs has been secured with JV partner RockRose Energy. The option involves a further divestment of 20% interest (from 40% to 20%) for an "un-capped free carry" of the company's share of development capex.

We note this is only an option and HHR maintains, at its sole discretion, the ability to not proceed with the 'financing backstop' and to source alternative financing to maintain its current 40% interest. This election can be made once the existing carry commitment from RockRose Energy has been expensed completely, which the company estimates could be ~Q2 2025, providing up to more than 12 months to put in place project debt finance.

## Impact

This is a clear de-risking event for the company given it removes the need for debt (or equity funding) to proceed with project development. Although the option removes value upside given the decrease in equity interest (from 40% share of cashflows to 20%), it removes the outstanding funding risk, which the market appears to have been concerned about given the recent share price performance.

At 20% interest, we forecast net Phase I project EBITDA of >\$110 million (gross >\$550 million) in the first full year of production (FY2027) and value HHR's net share of the project (NPV10 through DCF) at \$260 million.

This compares to the current market capitalisation of the company of \$68 million and enterprise value of ~\$33 million.

Given that HHR has up until ~Q2 2025 to secure debt funding, we note that project execution would be significantly progressed towards first gas, thereby increasing the potential for HHR to secure debt at better terms than at present.

## Action

We maintain our Speculative Buy recommendation but decrease our Price Target to \$0.11/sh accounting for our updated base case sum-of-parts risked valuation that involves the further sell down of equity to 20% as announced through this 'financing backstop' option.

Since our last model update we also incorporate updated consensus gas price and Fx forecasts, increased project Capex and Opex, and a delay of first gas to early CY26.

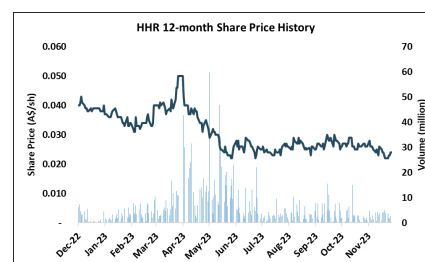
Given this is an option, we note a potential upside case where HHR is able to secure debt funding and thereby retain a 40% equity interest in the project, without significant impediment to project NPV (i.e. pre-payments that could result in lower realised gas prices). The sum-of-parts valuation for this upside case could be ~\$0.16/sh.

## Catalysts

- Phase I FID (~end CY2023/early Q1 CY2024)
- Finalisation of field development plan approval and tolling arrangements with Shell
- Potential debt funding secured on better terms than the financial backstop
- 33rd Licensing Round potential new acreage award (~Q1 CY2024)
- Strong UK gas pricing (i.e. >£1/therm)

Hartshead Resources		HHR		
<b>Market Statistics</b>				
Share Price	0.024	A\$/sh		
Price Target	0.11	A\$/sh		
Valuation	0.11	A\$/sh		
Shares on issue (dil)	2814	m		
Market Capitalisation	68	A\$m		
Enterprise Value	33	A\$m		
Debt	0.0	A\$m		
Cash (at end Sept')	35.0	A\$m		
<b>Prod Forecast (FY)</b>				
Phase I	2024F	2025F	2026F	
Phase II	0	0	0	0
<b>Assumptions</b>				
UK DomGas (GBP/wh)	2024F	2025F	2026F	
Cond (USD/boe)	1.17	1.08	1.04	
AUD/GBP (fx)	84	81	81	
GBP/USD (fx)	0.55	0.55	0.55	
Key Financials	2024F	2025F	2026F	
Revenue (A\$m)	0.0	36.5	139.1	
EBITDA (A\$m)	-5.2	22.5	107.9	
Reported NPAT (A\$m)	67.6	59.6	55.4	
Gross Cashflow (A\$m)	67.6	64.4	75.0	
Op. FCF (A\$m)	-5.2	13.6	55.6	
Net Cashflow (A\$m)	-5.2	13.6	55.6	
Cash(A\$m)	22.4	36.0	91.6	
P/CFPS	1.0	1.0	0.9	
EV/EBITDA	na	1.4	0.3	

## Performance



Source: IRESS

ASSET VALUATION			
	A\$m	A\$/sh	
(+) Phase I	260	0.09	
(+) Phase II	28	0.01	
(+) Phase III / Exploration	10	0.00	
(-) Corporate O/H	-30	-0.01	
(+) Cash	35	0.01	
(-) Debt	0	0.00	
<b>Total</b>	<b>303</b>	<b>0.11</b>	

PROFIT & LOSS				
Yr End 30 June (A\$m)	2024F	2025F	2026F	2027F
<b>Revenue</b>	0.0	0.0	36.5	139.1
(-) Operating Expenses	0.0	0.0	-8.8	-26.0
(-) Corporate O/H	-5.2	-5.2	-5.2	-5.2
<b>EBITDAX</b>	-5.2	-5.2	22.5	107.9
(-) Exploration	0.0	0.0	0.0	0.0
(-) Other	0.0	0.0	0.0	0.0
<b>EBITDA</b>	-5.2	-5.2	22.5	107.9
(-) D&A	0.0	0.0	-4.8	-19.6
(-) Impairment	0.0	0.0	0.0	0.0
<b>EBIT</b>	-5.2	-5.2	17.8	88.3
(-) Net Finance	0.0	0.0	0.0	0.0
(+/-) Other (inc. sell-down)	38.2	72.7	43.6	9.1
<b>EBT</b>	33.0	67.6	61.4	97.4
(-) Tax	0.0	0.0	-1.8	-41.9
<b>Reported NPAT</b>	33.0	67.6	59.6	55.4

PERFORMANCE RATIOS				
Growth & Margins	2024F	2025F	2026F	2027F
Revenue Growth	na	na	na	281%
EBITDAX Growth	6%	0%	-538%	378%
NPAT Growth	-2079%	105%	-12%	-7%
EBITDAX Margin	na	na	0.6	0.8
NPAT Margin	na	na	1.6	0.4
<b>Risk Measures</b>				
Net interest cover (x)	na	na	na	na
Net debt/equity (%)	na	na	na	na

SHARE DATA/VALUATION				
Share Data	2024F	2025F	2026F	2027F
Issued shares (m)	2,809	2,809	2,809	2,809
Performance Rights (m)	0	0	0	0
Fully diluted shares (m)	2,814	2,814	2,814	2,814
Basic EPS (A\$)	1.18	2.41	2.12	1.97
YoY change (%)	-2179%	205%	88%	93%
Fully diluted EPS (A\$)	1.17	2.40	2.12	1.97
YoY change (%)	-2179%	205%	88%	93%
Dividend/share (A\$)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%
Gross cashflow/share (A\$)	1	2	2	3
NBV/share (A\$)	2	5	7	9
NTA/Share (A\$)	2	5	7	9
<b>Valuation</b>				
PER (Basic) (x)	2.0	1.0	1.1	1.2
PER (Fully diluted) (x)	2.0	1.0	1.1	1.2
P/CFPS (x)	2.0	1.0	1.0	0.9
Price/NBV (x)	1.0	0.5	0.3	0.3
Price/NTA (x)	1.0	0.5	0.3	0.3
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDAX (x)	na	na	1.4	0.3
EV/EBIT (x)	na	na	1.8	0.4
EV/Revenue (x)	na	na	0.9	0.2
EV/2P (\$/boe)		3.11		
EV/2P+2C (\$/boe)		1.07		

FORECAST PRODUCTION			
Attrib. Prod'n (PJ)	2025F	2026F	2027F
Phase I	0.0	9.1	35.1
Phase II / Phase III	0.0	0.0	0.0
<b>Total Production</b>	<b>0.0</b>	<b>9.1</b>	<b>35.1</b>
<b>Assumptions</b>			
UK NBP Pricing (GBP/thm)	1.17	1.08	1.04
Condensate Pricing (USD/b...)	83.5	80.5	81.0
AUD/GBP (fx)	0.55	0.55	0.55
GBP/USD (fx)	1.27	1.30	1.32

CASHFLOW STATEMENT				
Yr End 30 June (A\$m)	2024F	2025F	2026F	2027F
<b>Reported NPAT</b>	33.0	67.6	59.6	55.4
(+) D&A	0.0	0.0	4.8	19.6
(+) Impairment	0.0	0.0	0.0	0.0
(+) Share based payments	0.0	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
<b>Gross Cashflow</b>	33.0	67.6	64.4	75.0
(-) Capital Expenditure	-38.2	-72.7	-43.6	-9.1
(-) Exploration	0.0	0.0	0.0	0.0
(+/-) Change in WC	-0.2	0.0	-7.2	-10.3
<b>Operating Free Cashflow</b>	-5.3	-5.2	13.6	55.6
(-) Acquisition	0.0	0.0	0.0	0.0
(+) Asset sale/farm-down	0.0	0.0	0.0	0.0
(+) Issue of equity	0.0	0.0	0.0	0.0
(-) Dividend	0.0	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
<b>Net Cashflow</b>	-5.3	-5.2	13.6	55.6
<b>BoP Net Cash</b>	32.9	27.6	22.4	36.0
(+/-) Net Cashflow	-5.3	-5.2	13.6	55.6
(+/-) AASB16 Adj.	0.0	0.0	0.0	0.0
<b>EoP Net Cash*</b>	27.6	22.4	36.0	91.6

BALANCE SHEET				
Yr End 30 June (A\$m)	2024F	2025F	2026F	2027F
<b>Cash</b>	27.6	22.4	36.0	91.6
Receivables	0.4	0.4	9.4	21.9
Other Assets	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	28.0	22.8	45.4	113.4
PP&E	0.1	0.1	0.1	0.1
Explor/Eval Assets	3.4	3.4	3.4	3.2
O&G Assets	38.2	110.9	149.8	139.5
Financial Assets at FVOCI	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0
Other Assets	0.0	0.0	0.0	0.0
<b>Total Non-Current Assets</b>	41.7	114.4	153.2	142.7
<b>Total Assets</b>	69.7	137.2	198.6	256.2
Payables	1.1	1.1	2.9	5.1
Other Liabilities	1.1	1.1	2.9	5.1
<b>Total Current Liabilities</b>	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0
Other Liabilities	0.0	0.0	0.0	0.0
<b>Total Non-Current Liabilities</b>	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	1.1	1.1	2.9	5.1
<b>Net Assets</b>	68.5	136.1	195.7	251.1
Issued Capital	42.3	42.3	42.3	42.3
Reserves	1.9	1.9	1.9	1.9
Retained Earnings	24.4	92.0	151.5	207.0
<b>Total Equity</b>	68.5	136.1	195.7	251.1

## Analysis

### Model Updates

We have incorporated the following updates to our model:

- Updated consensus numbers for gas pricing (see below) that has increased above our previous pricing assumptions.
- Increased Capex from £350 million to £450 million based on likely increase to costs of the platforms (steel and inflation) but also likely increase in drilling rig pricing (due to increased activity and competitiveness of contracts).
- Increased variable opex (tolling arrangement) to 17.5p/therm, an increase from our original bullish 12p/therm assumption. Fixed Opex remains at ~£7.6 million with uplift due to CPI inflation (assuming 3% p.a.).
- Delay to first gas from 1H CY2025 to early CY2026 (noting potential for minor production in back end of 2H CY2025, however we are taking a conservative view).

### Consensus Gas Pricing

We have updated our gas price forecasts to the latest consensus numbers. On our previous model the average gas price from 2025 to 2032 was £0.96/therm, compared to the current average price during that time period of £1.08/therm.

We have also sensitised our valuation using the UK NBP futures curve and note that our valuation would decrease ~10% if using that price forecast.

**Figure 1: Consensus Gas Pricing vs. UK NBP Futures**

UK NBP Gas Price (Nominal) (£/therm)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033+
Consensus	1.15	1.22	1.11	1.05	1.03	1.05	1.07	1.09	1.11	1.13	0.85 + 3% CPI p.a.)
UK NBP Futures	1.17	1.23	1.18	1.03	0.88	0.82	0.81				

Source: ERCE. Note data from end Sep'Q 2023 report.

### Financial Backstop Detail

On our numbers, a 20% stake in the Phase I project is \$125 million (NPV10), whereas due to the uncapped free-carry option, where HHR's Capex requirements are paid for by RockRose, a value of \$260 million (NPV10) is calculated for HHR's net share of the Phase I project.

The Phase I Capex carry is indicatively worth ~\$170 million (nominal) assuming £450 million (~\$850 million) gross project Capex. This compares to the \$136 million due in direct project carry and bonus payments that HHR was due to receive for the 60% project partial divestment agreed in April.

The valuation of the 20% stake compares to the value of the Phase I project if HHR retains its 40% interest (depending on specifics of the debt required) of \$382 million (NPV10). The company, however, would be required to fund \$340 million of the project Capex, assuming £450 million (~\$850 million) gross project Capex.

The terms of the farm-out agreement (FOA) to RockRose (through the original 60% partial divestment) would contribute ~\$150 million in project carry and converted cash bonus payments (as per the updated FOA), in addition to the \$35 million of cash-on-hand, meaning that debt funding of at least ~\$155 million (more likely ~\$165-190 million to preserve the cash-on-hand) would be required.

The beauty of the un-capped carry on the financial backstop/20% further sell down option is that HHR has the flexibility for funding if project Capex increases (i.e. higher than budgeted drilling program cost/delays) and does not burden itself with poor termed debt (such as prepayments that would likely result in lower realised gas prices, or excessive interest repayments on project cashflows).

## Valuation

Below we update our Sum-of-Parts valuation:

**Figure 2: HHR Sum-of-Parts Valuation (Base Case @ 20% interest)**

Asset Valuation	A\$m	A\$/sh
(+) Phase I (DCF- NPV10)	260	0.09
(+) Phase II (2C Contingent Resources @US\$3/boe or 5p/therm)	28	0.01
(+) Phase III / Exploration (Risky 2U of top 5 prospects @ US\$1/boe)	10	0.00
(-) Corporate O/H	-30	-0.01
(+) Cash	35	0.01
(-) Debt	0	0.00
<b>Total</b>	<b>303</b>	<b>0.11</b>

Source: Euroz Hartleys

A potential upside case is shown below if HHR is able to secure project debt funding and retain its 40% interest in the project.

**Figure 3: HHR Sum-of-Parts Valuation (Upside Case @ 40% interest)**

Asset Valuation	A\$m	A\$/sh
(+) Phase I (DCF- NPV10)	382	0.14
(+) Phase II (2C Contingent Resources @US\$3/boe or 5p/therm)	55	0.02
(+) Phase III / Exploration (Risky 2U of top 5 prospects @ US\$1/boe)	20	0.01
(-) Corporate O/H	-30	-0.01
(+) Cash	35	0.01
(-) Debt	0	0.00
<b>Total</b>	<b>461</b>	<b>0.16</b>

Source: Euroz Hartleys

## Sensitivity

Below we sensitise for our valuation based on a 20% interest, if the financial backstop is the final option, as well as a 40% interest, if debt funding (balancing value and risk) is achieved.

**Figure 4: HHR Sum-of-Parts Valuation (\$/sh) @ 20% Interest Sensitivity of Gas Price vs. Fx**

AUD/GBP	UK Domestic Gas Long Term Pricing (£/therm)							
	0.50	0.70	0.85	1.00	1.25	1.50	2.00	
0.45	0.11	0.11	0.12	0.12	0.13	0.13	0.14	
0.50	0.10	0.11	0.11	0.11	0.12	0.12	0.13	
0.525	0.10	0.11	0.11	0.11	0.11	0.12	0.13	
0.55	0.10	0.10	0.11	0.11	0.11	0.12	0.12	
0.60	0.10	0.10	0.10	0.10	0.11	0.11	0.12	
0.65	0.09	0.10	0.10	0.10	0.10	0.11	0.11	

Source: Euroz Hartleys. Note base case is \$0.11/sh.

**Figure 5: HHR Phase I Project Net @ 20% Interest Valuation (NPV10) Sensitivity of Gas Price vs. Fx**

AUD/GBP	UK Domestic Gas Long Term Pricing (£/therm)							
	0.50	0.70	0.85	1.00	1.25	1.50	2.00	
0.45	270	281	289	297	311	324	351	
0.50	252	262	269	277	289	301	325	
0.525	245	254	261	268	280	291	314	
0.55	239	248	254	261	272	283	305	
0.60	228	236	242	248	258	268	289	
0.65	220	227	233	238	248	257	275	

Source: Euroz Hartleys. Note base case is \$260 million.

**Figure 6: HHR Sum-of-Parts Valuation (\$/sh) @ 40% Interest Sensitivity of Gas Price vs. Fx**

		UK Domestic Gas Long Term Pricing (£/therm)						
		0.50	0.70	0.85	1.00	1.25	1.50	2.00
AUD/GBP	0.45	0.17	0.18	0.19	0.19	0.20	0.21	0.24
	0.50	0.16	0.17	0.17	0.18	0.19	0.20	0.21
	0.525	0.15	0.16	0.17	0.17	0.18	0.19	0.21
	0.55	0.15	0.15	0.16	0.16	0.17	0.18	0.20
	0.60	0.14	0.14	0.15	0.15	0.16	0.17	0.18
	0.65	0.13	0.14	0.14	0.14	0.15	0.16	0.17

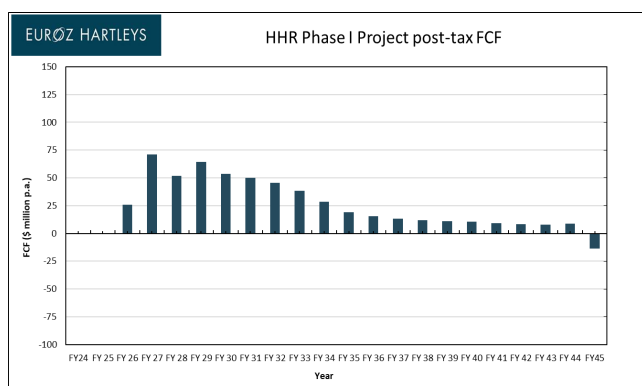
Source: Euroz Hartleys. Note upside case is \$0.16/sh.

**Figure 7: HHR Phase I Project Net @ 40% Interest Valuation (NPV10) Sensitivity of Gas Price vs. Fx**

		UK Domestic Gas Long Term Pricing (£/therm)						
		0.50	0.70	0.85	1.00	1.25	1.50	2.00
AUD/GBP	0.45	397	420	437	454	483	511	568
	0.50	362	383	398	413	439	464	515
	0.525	348	367	382	396	421	445	494
	0.55	335	354	368	382	405	428	474
	0.60	314	331	344	357	378	399	442
	0.65	298	313	325	337	357	376	416

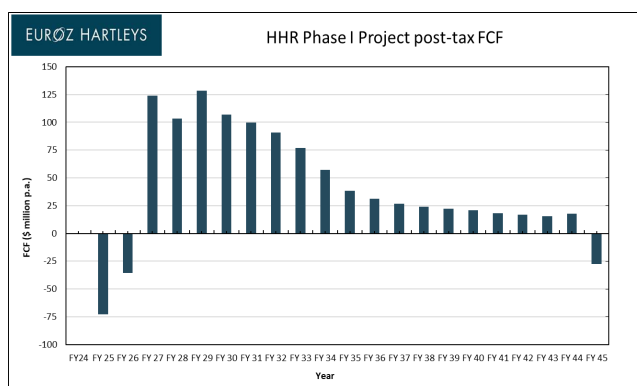
Source: Euroz Hartleys. Note upside case is \$382 million.

**Figure 8: HHR Phase I Project post-tax FCF @ 20% Interest Financial Backstop Option**



Source: Euroz Hartleys. Note change in FY2029 is due to proposed retirement of Energy Profits Levy.

**Figure 9: HHR Phase I Project post-tax FCF @ 40% Interest Debt Funded**



Source: Euroz Hartleys. Note change in FY2029 is due to proposed retirement of Energy Profits Levy.

### ASX Producer EV/EBITDA Multiples

As a simple sense check on what HHR could trade on into the future, we look to a peer set of ASX-listed O&G producers (albeit mostly larger in size) and the EV/EBITDA multiples they are trading on.

- WDS (\$59 billion market cap) and STO (\$22 billion market cap) trade on ~4x EV/EBITDA
- BPT (\$3.4 billion market cap) trades on ~3x EV/EBITDA
- KAR (was \$1.3 billion market cap) was trading on ~2x EV/EBITDA prior to the GoM asset acquisition
- HZN (\$259 million market cap) trades on ~1.1x EV/EBITDA
- OEL (\$77 million market cap) trades on ~1.1x EV/EBITDA
- CUE (\$47 million market cap) trades on ~0.9x EV/EBITDA

HHR is forecast to generate ~\$110 million of EBITDA in its first full year of production (FY2027) if it exercises the financial backstop for a 20% project interest, and has been trading at an enterprise value of ~\$33 million.

If HHR retains its 40% interest by securing debt instead, the company could generate ~\$220 million of EBITDA.

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## Company disclosures

The companies and securities mentioned in this report, include:

Hartshead Resources NL (HHR.ASX) | Price A\$0.024 | Target price A\$0.110 | Recommendation Speculative Buy;

*Price, target price and rating as at 03 December 2023 (\* not covered)*

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The analyst declares that they have a beneficial interest in: Hartshead Resources NL (HHR.ASX)

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