

4 December 2023

Corp

Ticker	HHR:ASX
Oil & Gas	
Shares in issue (m)	2,808.7
Next results	FY Jun
Price	A\$0.02
Target price	A\$0.12
Upside	500%
Market Cap	A\$67.4m
Net debt/(cash)	-A\$32.9m
Other EV adjustments	A\$0.0m
Enterprise value	A\$34.5m

What's changed?	From	To
Adjusted EPS	1.2	-0.2
Target price	0.12	0.12

Share price performance



%	1M	3M	12M
Actual	-7.7	-7.7	-29.4

Company description

Hartshead Resources explores and develops gas projects offshore the UK

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▶ HARTSHEAD RESOURCES*

Fully Funded Solution

Hartshead has secured a funding solution with partner Rockrose Energy to fund 100% of the Phase I development costs. Under the agreement, Hartshead has the option to exchange an additional 20% licence interest for an uncapped free carry, thereby covering the total cost of the Phase I development project (financing backstop). Importantly, Hartshead maintains at its election the option not to proceed with the RockRose financing solution, and introduce other financing solutions (eg project debt, prepayment, bonds), thereby retaining its current 40% interest. The election is to be made once the existing carry commitment from RockRose has been fully spent (anticipated by Q2/25), providing Hartshead with more than 12-months to put in place project debt finance. The agreement puts Hartshead in a unique position where its able to retain its 40% interest via sourcing debt but can progress towards a Final Investment Decision (FID) knowing that it has a fully funded equity share for its remaining project interest. We estimate that the 20% carry is worth c£85m (A\$163m) – c2.4x Hartshead's current market cap. Together with the initial cash payment and past costs, we estimate that the RockRose farm-out is worth A\$240m net to Hartshead, c3.6x Hartshead's market cap.

Securing Project Development Costs: Hartshead has entered into an agreement with RockRose Energy whereby Hartshead has the option to exchange an additional 20% licence interest in P2607 for an uncapped free carry covering the total costs of the Phase I development project. The financing backstop positions HHR with a fully funded equity share for its remaining project interest, materially de-risking the project financing and providing a clear pathway to development and cashflow. The partners can now progress towards FID (expected prior to year-end) and project development knowing that financing is secured.

- **Retaining Flexibility:** Crucially, Hartshead maintains the flexibility to retain its 40% interest and elect not to proceed with the financial backstop should it secure financing for its share of the Phase I development cost from others means (eg reserve based lending, corporate/Nordic bonds, prepayment/offtake facility).

- **Eliminating Partner Drag:** The financing backstop removes any potential "partner drag" whilst Hartshead continues to advance alternative project financing. The uncapped carry also means Hartshead can't be "spent off" the licence and insulates the Company from any cost overruns due to inflation, delays etc.

- **Substantially Reduced Risk:** The backstop eliminates the Phase I development financing risk (the biggest single risk to any pre-FID development) and provides increased certainty that the development will proceed. We decrease our risking of the Phase I project to 25% (from 48%) to account for the reduced financial risk involved in the project but maintain our target price of A\$0.12 per share, a c5.6x premium to the current share price.

- **Trading at a Significant Discount:** We estimate that a 20% carry alone is worth c£85m (A\$163m) – c2.4X Hartshead's current market cap. Together with the initial cash payment and past costs we estimate that the RockRose farm-out is worth A\$240m to Hartshead, c3.6x Hartshead's market cap. In aggregate, the total committed project funding has increased to over A\$800m.

- **A Substantial North Sea Development:** Hartshead has a material interest in five blocks in the Southern North Sea Gas Basin, covering four existing gas discoveries and 14 identified prospects. In aggregate, these five blocks contain 785Bcf (131mmboe) of gross 2P, 2C and 2U reserves and resources. All four existing gas discoveries have been materially derisked through existing penetrations, flow tests and in the case of the Anning and Somerville fields, a multi-year production history.

Key estimates		2021A	2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	A\$m	0.0	0.0	8.1	0.0	0.0
Adj EBITDA	A\$m	-1.9	-3.6	1.3	-6.8	-6.8
Adj EBIT	A\$m	-1.9	-3.6	1.3	-6.8	-6.8
Adj PBT	A\$m	-6.0	-3.7	1.5	-6.8	-6.8
Adj EPS	c	-0.3	-0.2	0.1	-0.2	-0.2
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics

EV/sales	x	n/m	n/m	4.2	n/m	n/m
EV/EBIT (adj)	x	-18.0	-9.5	26.9	-5.1	-5.1
P/E (adj)	x	-0.1	-0.1	0.3	-0.1	-0.1
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.1%	-6.5%	1.8%	-22.8%	-58.9%

Fully Funded Solution

Income statement		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Sales	A\$m	0.0	8.1	0.0	0.0
Gross profit	A\$m	0.0	8.1	0.0	0.0
EBITDA (adjusted)	A\$m	-3.6	1.3	-6.8	-6.8
EBIT (adjusted)	A\$m	-3.6	1.3	-6.8	-6.8
Associates/other	A\$m	-0.0	0.2	0.0	0.0
Net interest	A\$m	-0.0	-0.0	-0.0	-0.0
PBT (adjusted)	A\$m	-3.7	1.5	-6.8	-6.8
Total adjustments	A\$m	0.0	0.0	0.0	0.0
PBT (stated)	A\$m	-3.7	1.5	-6.8	-6.8
Tax charge	A\$m	0.0	0.0	0.0	0.0
Minorities/Disc ops	A\$m	0.0	0.0	0.0	0.0
Reported earnings	A\$m	-3.7	1.5	-6.8	-6.8
Adjusted earnings	A\$m	-3.8	2.1	-6.8	-6.8
Shares in issue (year end)	m				
EPS (stated)	c	-0.2	0.1	-0.3	-0.3
EPS (adjusted, fully diluted)	c	-0.2	0.1	-0.2	-0.2
DPS	c	0.0	0.0	0.0	0.0

Cash flow		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
EBITDA	A\$m	-3.6	1.3	-6.8	-6.8
Net change in working capital	A\$m	-0.3	0.9	0.0	0.0
Other operating items	A\$m	1.0	0.4	0.2	0.2
Cash flow from op. activities	A\$m	-3.0	-4.2	-6.7	-6.7
Cash interest	A\$m	0.0	0.0	0.0	0.0
Cash tax	A\$m	0.0	0.0	0.0	0.0
Capex	A\$m	-1.4	-7.7	-18.0	-33.0
Other items	A\$m	0.0	13.1	9.3	0.0
Free cash flow	A\$m	-4.4	1.2	-15.3	-39.7
Acquisitions / disposals	A\$m	0.0	0.0	0.0	0.0
Dividends	A\$m	0.0	0.0	0.0	0.0
Shares issued	A\$m	0.0	31.1	0.0	0.0
Other	A\$m	0.0	-1.9	0.0	50.0
Net change in cash flow	A\$m	-4.4	30.4	-15.3	10.3
Opening net cash (debt)	A\$m	6.9	2.5	32.9	17.5
Closing net cash (debt)	A\$m	2.5	32.9	17.5	-22.1

Balance sheet		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	A\$m	0.0	0.1	0.1	0.1
Goodwill & other intangibles	A\$m	1.9	3.4	12.1	45.1
Other non current assets	A\$m	0.2	0.0	0.0	0.0
Net working capital	A\$m	-0.7	-0.8	-0.8	-0.8
Other assets	A\$m	0.0	0.0	0.0	0.0
Other liabilities	A\$m	0.0	0.0	0.0	0.0
Gross cash & cash equivs	A\$m	2.5	32.9	17.5	27.9
Capital employed	A\$m	3.9	35.5	28.9	72.2
Gross debt	A\$m	0.0	0.0	0.0	50.0
Net pension liability	A\$m	0.0	0.0	0.0	0.0
Shareholders equity	A\$m	3.9	35.5	28.9	22.2
Minorities	A\$m	0.0	0.0	0.0	0.0
Capital employed	A\$m	3.9	35.5	28.9	72.2

Growth analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	n/m	n/m	n/m	n/m
EBITDA growth	%	-88.8%	135.9%	-625.6%	0.0%
EBIT growth	%	-88.9%	135.4%	-631.5%	0.0%
PBT growth	%	39.0%	141.3%	-551.3%	0.0%
EPS growth	%	35.9%	135.7%	-429.6%	0.0%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	n/m	100.0%	n/m	n/m
EBITDA margin	%	n/m	16.0%	n/m	n/m
EBIT margin	%	n/m	15.8%	n/m	n/m
PBT margin	%	n/m	18.6%	n/m	n/m
Net margin	%	n/m	25.5%	n/m	n/m

Valuation analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
EV/EBITDA	x	-9.5	26.6	-5.1	-5.1
EV/EBIT	x	-9.5	26.9	-5.1	-5.1
P/E	x	-0.1	0.3	-0.1	-0.1

Cash flow analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	n/m	n/m
Cash conv'n (FCF / EBITDA)	%	120.9%	93.8%	224.7%	581.0%
U/lying FCF (capex = depn)	A\$m	-3.0	8.9	2.7	-6.7
Cash quality (u/l FCF / adj earn)	%	77.7%	431.0%	-38.8%	97.3%
Investment rate (capex / depn)	x	148.8	538.8	n/m	n/m
Interest cash cover	x	n/a	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/m	n/a	n/a

Working capital analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	n/m	-10.3%	n/m	n/m
Net working capital / sales	days	n/m	-38	n/m	n/m
Inventory (days)	days	n/m	0	n/m	n/m
Receivables (days)	days	n/m	88	n/m	n/m
Payables (days)	days	n/m	126	n/m	n/m

Leverage analysis		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%	no debt	no debt	no debt	99.8%
Net debt / EBITDA	x	n/a	no debt	n/a	n/a
Liabilities / capital employed	%	0.0%	0.0%	0.0%	69.3%

Capital efficiency & intrinsic value		2022A	2023A	2024E	2025E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	-97.8%	5.8%	-23.7%	-30.8%
RoCE (EBIT basis, pre-tax)	%	-92.4%	3.6%	-23.7%	-9.5%
RoCE (u/lying FCF basis)	%	-76.0%	25.2%	9.2%	-9.2%
NAV per share	c				
NTA per share	c				

Fully Funded Solution

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Corp	142	91.0%	152	86.9%

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Recommendation history

Company	Disclosures	Date	Rec	Price	Target price
Hartshead Resources	2,8,9,10	2 October 23	Corp	A\$0.03	A\$0.12

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