

TechnipFMC plc

Sustainable order strength to yield solid profitability and FCF growth

Reiterate Rating: BUY | PO: 24.00 USD | Price: 21.53 USD

3 years of \$10bn/yr subsea orders = growth beyond 2025

With increasing capital discipline and continued maturation/consolidation in US Land, and signs of plausibly peaking INTL growth around mid-decade, Offshore still stands as a key source of resilient & broad-based demand growth this decade. As noted in our [2024 OFS Outlook](#), Offshore market is benefiting from improved economic returns, strong pipeline of greenfield and brownfield projects, and its relatively low carbon-intensity. And like FTI noted on its 4Q call, Offshore offers broad operator access to deepwater resources, thus attracting a growing share of global upstream investment. Of note, FTI has played a key role in changing the commercial model, through integration i.e. iFEED & iEPCI approach, and the operating model, through Subsea 2.0 & Configure to Order, helping sustainably improve economics of Offshore/Deepwater projects. All of this reflected in FTI lifting its 2023A-25E Subsea order outlook by \$5bn to \$30bn i.e. visibility to +/- \$10bn/yr, which is a record high going back to Technip/FTI merger in 2017. Of note, improving Subsea S/D, technology moat & increasingly attractive market structure are allowing for higher margin in backlog, promising stronger Subsea revenue & margins through at least 2026.

FTI benefiting from integrated, customer-centric approach

FTI's integrated, customer-centric approach reflects in its iFEED and iEPCI commercial model for greenfield & tieback projects. However, this also helps in brownfield projects, including FTI's recent \$1bn+ Mero 3 HISEP contract from Petrobras, & Subsea Services. Of note, direct awards, iEPCI & Subsea Services together exceeded 70% of FTI's Subsea orders in 2023. Interestingly, FTI noted that just YTD 2024, it is seeing a record number of large greenfield projects already in the iFEED and/or commercial negotiation stage.

FCF & cash returns shining through, with more in 2025-26

We're tweaking our 2024E/25E Adj. EBITDA by +1%/+1% to \$1.25/\$1.63bn (+2%/+2% vs. Bloomberg consensus). We model 2024E/25E FCF of \$440/\$805mm (35%/49% Adj. EBITDA to FCF conversion), which includes \$170mm cash payments in 1Q-3Q24 for the previously announced PNF settlement. Note FTI has promised increasing cash returns to shareholders by ≥35% YoY in '24E, and to return ≥60% of its FCF to shareholders overall. This means FTI can return ≥10% of its current market-cap to shareholders in 2024-25E. We raise our DCF-based PO +\$1 to \$24 (8.7x/6.7x our 2024E/25E EBITDA); reit. Buy on strong earnings/FCF growth on robust/resilient Subsea outlook, and attractive valuation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.07	0.45	1.22	1.91	2.48
EPS Change (YoY)	NM	542.9%	171.1%	56.6%	29.8%
Consensus EPS (Bloomberg)			1.10	1.80	2.32
DPS	0	0.10	0.22	0.26	0.29
Valuation (Dec)					
P/E	307.6x	47.8x	17.6x	11.3x	8.7x
Dividend Yield	0%	0.5%	1.0%	1.2%	1.3%
EV / EBITDA*	14.2x	10.1x	7.6x	5.8x	5.0x
Free Cash Flow Yield*	2.1%	5.0%	4.7%	8.6%	10.1%

* For full definitions of *IQmethod*SM measures, see page 5.

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12663613

Timestamp: 26 February 2024 12:01AM EST

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	23.00	24.00

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Stock Data

Price	21.53 USD
Price Objective	24.00 USD
Date Established	25-Feb-2024
Investment Opinion	C-1-7
52-Week Range	12.04 USD - 22.78 USD
Mkt Val (mn) / Shares Out (mn)	9,375 USD / 435.5
Free Float	93.1%
Average Daily Value (mn)	99.20 USD
BofA Ticker / Exchange	FTI / NYS
Bloomberg / Reuters	FTI US / FTI.N
ROE (2024E)	16.6%
Net Dbt to Eqty (Dec-2023A)	3.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

US / INTL / S/D = United States / International / Supply / Demand

iEPCI / PNF = integrated Engineering, Procurement, Construction, & Installation / Parquet National Financier

HISEP = high-pressure separation

iFEED = integrated Front End Engineering and Design

FCF / DCF = Free Cash Flow / Discounted Cash Flow

Adj. / reit. = Adjusted / reiterate

iQprofileSM TechnipFMC plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.2%	4.5%	10.3%	14.6%	16.9%
Return on Equity	1.0%	6.4%	16.6%	22.9%	25.4%
Operating Margin	4.0%	5.6%	10.0%	12.9%	14.6%
Free Cash Flow	194	468	440	805	950

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	11.0x	3.4x	1.3x	1.4x	1.3x
Asset Replacement Ratio	0.4x	0.6x	0.7x	0.9x	0.9x
Tax Rate	61.3%	43.8%	35.4%	33.3%	32.0%
Net Debt-to-Equity Ratio	9.6%	3.7%	-5.0%	-13.0%	-19.8%
Interest Cover	2.2x	5.0x	11.9x	17.2x	20.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,700	7,824	8,675	9,765	10,380
% Change	4.6%	16.8%	10.9%	12.6%	6.3%
Gross Profit	1,291	1,743	2,270	2,684	2,963
% Change	-1.6%	35.0%	30.2%	18.3%	10.4%
EBITDA	670	939	1,245	1,632	1,895
% Change	18.9%	40.0%	32.7%	31.1%	16.1%
Net Interest & Other Income	(121)	(89)	(73)	(73)	(73)
Net Income (Adjusted)	32	203	541	814	1,005
% Change	NM	533.9%	166.7%	50.5%	23.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	32	203	541	814	1,005
Depreciation & Amortization	377	378	374	376	381
Change in Working Capital	(100)	302	(36)	(71)	(98)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	43	(190)	(164)	6	6
Capital Expenditure	(158)	(225)	(275)	(320)	(345)
Free Cash Flow	194	468	440	805	950
% Change	-62.9%	140.9%	-5.9%	83.0%	18.0%
Share / Issue Repurchase	(100)	(205)	(252)	(378)	(496)
Cost of Dividends Paid	0	(44)	(98)	(111)	(116)
Change in Debt	(607)	(372)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,057	952	1,237	1,553	1,890
Trade Receivables	967	1,138	1,183	1,339	1,421
Other Current Assets	2,965	3,106	3,314	3,700	3,751
Property, Plant & Equipment	2,355	2,271	2,172	2,116	2,080
Other Non-Current Assets	2,101	2,190	2,190	2,190	2,190
Total Assets	9,444	9,657	10,096	10,899	11,333
Short-Term Debt	367	154	154	154	154
Other Current Liabilities	3,807	4,315	4,532	5,004	5,039
Long-Term Debt	999	914	914	914	914
Other Non-Current Liabilities	1,031	1,138	1,113	1,087	1,062
Total Liabilities	6,204	6,520	6,712	7,159	7,168
Total Equity	3,240	3,137	3,384	3,740	4,165
Total Equity & Liabilities	9,444	9,657	10,096	10,899	11,333

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil Services

Company Description

TechnipFMC (FTI) is a leading technology provider to the energy industry delivering fully integrated projects, products, and services.

FTI is organized in two business segments - Subsea and Surface Technologies. It has pioneered integrated ecosystems, such as iEPCI, iFEED and iComplete, and is a technology leader and digital innovator in the energy industry. FTI has its registered office in UK and operational headquarters in Houston, TX. FTI has approximately 21,000 employees across the world.

Investment Rationale

FTI is well placed with a strong technology franchise, integrated business model, leverage to energy transition and an experienced management. Improving subsea demand fundamentals are now beginning to translate into better pricing, which coupled with operating leverage/CTO benefits should help lift subsea margins to 15% level sooner than 2025 (current target). We rate FTI Buy to reflect (1) improving subsea demand and pricing/margins, (2) stronger B/S and FCF, and (3) cheap valuation.

Stock Data

Average Daily Volume 4,607,635

Quarterly Earnings Estimates

	2023	2024
Q1	0A	0.18E
Q2	0.10A	0.33E
Q3	0.21A	0.39E
Q4	0.14A	0.32E



Price objective basis & risk

TechnipFMC plc (FTI)

Our PO of \$24.00 is derived from our discounted cash flow valuation, which we believe is a better method to value FTI than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth of -4.0% due to potential disruptions from the energy transition while using a 7.0% WACC.

Downside risks to our price objective are 1) global economic weakness, 2) slower-than-expected O&G demand growth, 3) reduced upstream capex & thus lower subsea awards for FTI, 4) slower than expected operating leverage from adoption of Subsea 2.0/CTO model, 5) IOCs/E&Ps continuing to restrict capex and diverting more of it to energy transition projects, 6) competition, 7) technology evolution, & 8) geopolitical disruptions.

Analyst Certification

I, Saurabh Pant, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

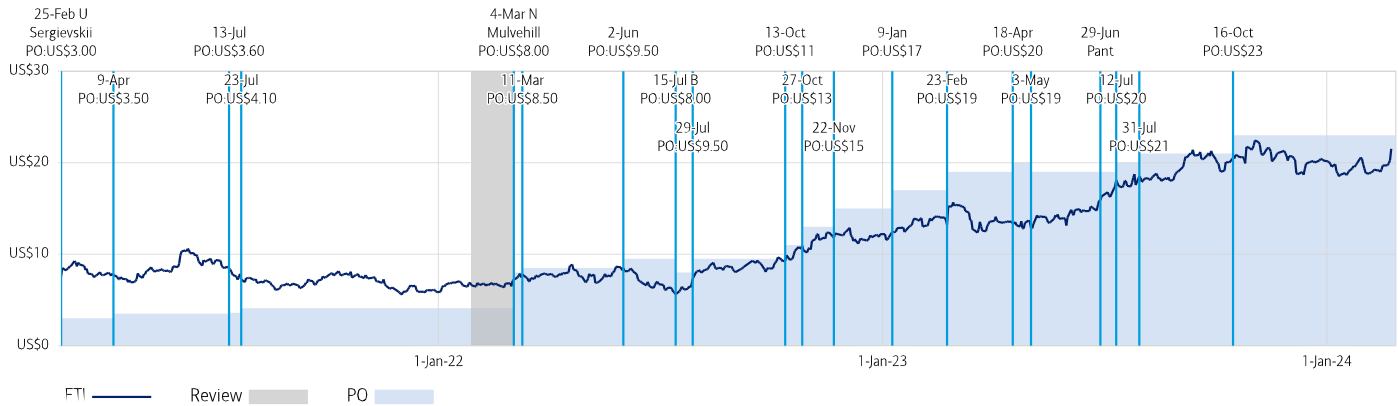
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TechnipFMC plc (FTI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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