

# **Air Products and Chemicals, Inc. (APD) Barclays 41st Annual Industrial Select Conference 2024 (Transcript)**

Seeking Alpha - Earnings Call Transcripts

February 21, 2024 Wednesday

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**Length:** 3981 words

**Byline:** SA Transcripts

**Body**

Air Products and Chemicals, Inc. (APD)

Barclays 41st Annual Industrial Select Conference 2024

February 21, 2024 11:30 AM ET

Company Participants

Seifi Ghasemi - Chairman, President and Chief Executive Officer

Sidd Manjeshwar - Vice President, Investor Relations Corporate Treasurer

Conference Call Participants

Mike Leithead - Barclays

Presentation

Mike Leithead

Yes. All right. Well, look, I appreciate everybody who's joining us today. Again, my name is Mike Leithead, head of Chemicals and Packaging efforts here at Barclays. Really happy to have the Air Products team here with us today. Seifi Ghasemi, Chairman, President and CEO of Air Products; as well as Sidd who heads up the IR efforts here as well has been with Air Products for a number of years and a few other roles before that.

So, before we get started, I wanted to run through some of the audience response questions. So, if we can kick those off.

Do you currently own the stock? Yes, overweight? Yes, market weight? yes, Underweight? No.

All right. There's a lot of opportunity for new investors, I think, there with 60% as nos right now. Next question.

What is your general bias towards the stock right now? Positive, negative, neutral? Okay. I think it was brief, but I think it was a mix there.

Next question. In your opinion, through cycle EPS growth for Air Products should be above peers, in line with peers, below peers? I'm sure we'll get into some of this in some of the questions.

Do we have a countdown here? I don't think that works right? Can we just go to the next question?

It's not right. Yes. In your opinion, what should Air Products do with their cash? Bolt-on M&A, large M&A, repurchases, divis, debt pay down or internal investment? Seifi, you don't get a choice here. So, I know your thoughts very well.

Seifi Ghasemi

It would be interesting to see what the answer is.

Mike Leithead

All right. It's a mix between share repurchases and internal investment. Next question?

In your opinion, on what multiple of '24 earnings should Air Products trade at? And we have a range from less than 10 times to higher than 21 times.

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Seifi Ghasemi

55 times.

Mike Leithead

Unfortunately, we don't have the 55 times option. I guess, unfortunately, you don't have a clicker up here?

Seifi Ghasemi

[indiscernible].

Mike Leithead

Okay. So, it's a mixed range, but it seems like most people are between 16 times and higher than 21 times. Last question before we dig into Q&A. What do you see as the most significant share price headwind facing Air Products? Is it core growth? Is it margin? Is it capital deployment or is it a strategy?

After this, we can dig into the Q&A. Okay. It seems like it's between capital deployment and some of the strategies.

So, with that, again, appreciate you guys here. As always, it's fantastic to have you.

Question-and-Answer Session

Q - Mike Leithead

Maybe let's just start off, Seifi, A lot of questions from investors the past few weeks. You just recently released 1Q results, updated your full year guidance, shares perhaps reacted unfavorably to that and maybe more so than the actual earnings revision. So why do you think that is? And maybe just kind of level set kind of where our product is today?

Seifi Ghasemi

Sure. First of all, it's great to be here. It's good to see the investors. I also just like to mention that besides Sidd and I, we have Dr. Serhan, our Chief Operating Officer, here too. In terms of the reaction, the stock price, obviously, to say you're surprised is an understatement. But I think people did a very 22nd math per se, they had an estimate guidance of midpoint $12.97, let's say, $13. They delivered $282 in the first quarter. The second quarter, they gave us an estimate. I add those things up, it becomes 5.6 I multiply it by two, that becomes about 11%. So, 11% to 13% is $2, down 20 times put this out drops 40 bucks.

Without paying attention, I mean that's a very quick way of doing things. But fundamentally, the guidance that we gave, even the revised guidance is in line with what other people have given guidance. So, we are guiding that we will grow between 6% to 9%, considering what is going on in the world that's pretty good. Even the first quarter, the number that we delivered, which is below our guidance was still 7% ahead of last year. So, there is an overreaction.

Why is there an overreaction? I have my own theory and I don't mind saying it publicly. I think we have some people with a lot of money who are convinced Air Products is a great company and are convinced that when we announced a customer for green or blue hydrogen, the stock will go like this. They want to buy the shares but they want to buy it at the lowest possible price. Therefore, they are shorting the hell out of the order stock so that they drive it down to $210, $215, which is what they have done and pick up the stocks. So, I wouldn't be surprised to see a lot of when the next cycle comes out in terms of who bought our shares. Don't be surprised that a lot of -- you'll see some strange names buying our shares, that's my theory.

Fundamentally, Air Products shares right now, take the lowest point of our guidance, $12.20. We should be trading at around $28 like to other people because our base industrial gas business, no matter what we do with the hydrogen, they still have our base industrial gas business. That is worth 28 times, 29 times, 27 times. So, our shares should be at around $349.

Now people want to put zero value for the green and blue, fine. In the $12.20 that we have, there is no green or blue hydrogen sales. And then if people want to punish us for what we are doing by saying, well, they have to write off some of these stocks, this project or they never work, which is not true. But even if you do that, the stock should be about $300, which is what it was. So, the strange behavior is obviously driven by an external force which has nothing to do with logic [indiscernible].

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Mike Leithead

Okay. And if we maybe just unpack some of the update there in the first quarter and maybe I think where people are focused on. You called out China or slower Asia, you called out some helium as well as some of the sale of equipment type stuff. Maybe if we can just dig into the first two a little bit outside of helium and I'll come back to that in a second. Just Asia and China specifically, what are you seeing there? What's sort of your lay of the land, if you will, right now?

Seifi Ghasemi

On that I'll have to put it in context, that -- as I said, our results are 7% better than last year. The comment about China is that our expectation was that China coming out of COVID will grow the same way that the U.S. is growing because the consumers have a lot of money. That didn't materialize because the consumers in the U.S. are spending money because they are not worried about war, but the consumers in China have the money, the consumers in China have more than $1 trillion of savings in excess of their normal savings. But they're not spending it because they think there is going to be war, just putting it under the mattress. So, my comment about China is that China's growth was less than our expectation, but still there was growth in China, but it's not as robust as we thought it would.

Mike Leithead

That makes a lot of sense. And then if we move over to helium, obviously, a bit more challenged backdrop than you would have thought. And when we look at your other two competitors, they have now announced results. It seems like helium, maybe it's a smaller percentage of their business, but it doesn't seem like they've highlighted as much. Can you maybe just talk a little bit more about how investors should interpret that?

Seifi Ghasemi

No. We obviously -- helium is a bigger percentage of our business than it is there, fine. That's a good thing. The helium market -- helium is not a product that you can make. It only appears as a mixture with natural gas in certain places in the world, and it has to be of high enough concentration that you can extract. So, as it -- because of that, the market goes short, long and all, the market has been short in the past two years, three years.

We obviously -- if the market is short, they should increase prices, and we have been doing that. And we have been increasing prices and even losing any market share. In the last quarter, it seemed that some helium has come from Russia despite the sanctions. And as a result, the market became long, we lost some volume. I mean, we don't have anything to add. We lost -- why? Because we stuck to our pricing. Now if that trend continues, I'm not sure it will continue. But if that trend continues, then we will react accordingly like we have done in the past and maintain and defend our market position.

Mike Leithead

Makes a lot of sense. And I wanted to come back to -- you made a very good comment around there's a lot of investors that want you to sign a contract? Or maybe, again, they see the press release announcement that you signed a big green or blue offtake agreement. And like you said, the stock in your view goes up. How do you think about when you're willing or how you think about those negotiations in the past around, again, you have projects coming on 2026, 2027? When should you sign a contract or just how you think about that in the scope of things?

Seifi Ghasemi

Look, what they think about that is that there is a balance in terms of fundamentally, we believe, and I'll be more than happy to go through that, that if the world is going to decarbonize, there is no other alternative but using either blue or green hydrogen. There is no other alternative. So, if you believe that, you know that the demand is there.

So, if the demand is there, then you want -- if you have taken the risk as Air Products has taken the risk of building an $8.5 billion project in the middle of the desert or a $7 billion project in Louisiana, and we are getting all the grief we are getting by being the first mover. If we have done that, therefore, we deserve the highest possible return that we can extract from the market.

And since we believe we are the only viable producer who is going to have product when people need it then the more we make until the date they need it, the higher price we're going to get. And that's obviously the game that we are playing. We are trying to get to this stage where we think that we are at the very maximum point of extracting value. And we are not going to get rattled by the stock going up and down.

We are not going to change our strategy. We think these projects that we are doing deserve a much higher return than 10%. We are not acting like some other people to say, look, I'm getting the IRA and I'm doing this, I give the IRA benefit away because I'm happy we did 9 % project because that is the traditional industrial gas model. We are doing unique things. We need a higher return. And we are trying to extract that out of the market. It's a little bit of a game of chicken, but we are willing to pay that -- play that game.

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Mike Leithead

Yes, makes a lot of sense. If we switch back to the base business for a second, obviously, pricing and margins have been very good for the past number of years. How do you think about the sustainability or the ability for the base industrial gas business to continue to hold or grow margin and volume as we sit here today?

Seifi Ghasemi

Our base industrial gas business is as good, if not better than anybody else's business. We have the highest margin. We are geographically balanced. We have, in the last six years or seven years -- in our base business, we have borne more projects than anybody else.

And if anybody disagrees, I have the statistics to show that we have taken better than our fair market share of our base business. All of this is stuff that people say, Air Products is doing hydrogen project, they are distracted. Nonsense, we are not distracted, we are as focused as anybody else on that business.

So, we have demonstrated that in the last 10 years, we have given people about 11% earnings per share growth on the average. And that's the record of our business, and we will do that, barring any significant unforeseen upheaval in the world economy.

Mike Leithead

And then on the backlog, I think it currently stands at, Sidd correct me if I'm wrong, almost nearly $20 billion of projects in progress. $15 billion if so are hydrogen energy transition projects. What's sort of the next one or two that investors should be focused on or starting up in the next year or so that really investors should anticipate coming on stream?

Seifi Ghasemi

Well, in terms of, first of all, I'd like to put in context the $15 billion, $20 billion. That is the value of the total project. That is not Air Products equity because we have financed these projects. So, Air Product equity is more like $7 billion or $8 billion. The second thing is that in terms of when would these projects produce revenue, it will be in '25, '26, '27, '28 gradually. But our two very big projects, NEOM is in '27 and Darin is in '28.

Sidd Manjeshwar

And I guess Edmonton comes on in '25.

Seifi Ghasemi

Edmonton is on '25, that's $2 billion.

Mike Leithead

And then relatedly, in the past year or so, there's been a few, for the larger projects, a few CapEx updates, not just inflation, but scope, as you mentioned, some of the financing. I appreciate you're no longer giving and I argue you probably should have quarterly updates around some of these projects two years, three years, four years out. But are most of the project CapEx estimates more or less rebased at this point and where they should be? Or is there still some potential inflation risk as you think going in the next few years?

Seifi Ghasemi

No, I think we are in a good place and we have a habit -- we don't hide anything from the investors if our significant capital increase for some reason or another, we will disclose that. We're not going to hide that, as we have done in the past. There were very good reasons for the increases. The increase is really on NEOM and on Darin [ph], and we have explained that I'll be happy to explain that again. But -- we don't have any big surprises that suddenly we come and say that the new project is going to cost more than 8.5 years, unless we decide to expand the capacity and then we will explain.

Mike Leithead

And maybe all this discussion is also a good time to talk about Air Products is really focused on owning the entire value chain in blue and green some of your industrial gas competitors are more focused just on the ASU or the ATR processes. Can you maybe just talk a little bit about why Air Products feels like there's such great value throughout the chain and why that's the competitive advantage for you over time?

Seifi Ghasemi

Well, the thing is that people give the impression that in the supply chain, you have to make the hydrogen, you have to convert the hydrogen to ammonia so that they can transport it and then you have to see costs of the CO2. They are giving the impression that if they just stick with the upper part, they are reducing the risk for the rest of it. the rest of the risk is there.

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I mean if you are making hydrogen and you're selling it to somebody who's making ammonia and that person who is selling ammonia has problems because there is no demand for blue hydrogen, you'll end up having the problem because they don't have the money to pay. And then if you say the sequestration has risks you don't do that, then you give the margin and the risk to somebody else.

So, we are going to look at every project on a project-by-project basis. We don't have a cookie-cutter model. But we think that we would want to maximize our profit. Therefore, if you take the hydrogen and convert it to ammonia and sell the ammonia, we will make more of a margin. But -- so we are trying to keep as much of the margin. But there is no free lunch. If somebody else is willing to sequester the CO2 for you, they are not going to do it at a lower cost than we do and take more risk.

If they do, they charge you. So that is not. I mean, you can make hydrogen and say, "I'm paying somebody to sequest it. " But if that person who is sequestering it for you, is charging you, and arm and a leg, then you're better off doing it yourself. But we are going -- I don't want to give the impression that we'll never do that, but that is -- we'll take that into consideration.

Mike Leithead

And then last question before I turn it open to Q&A. Again, I can ask safety questions forever, but I will like turn open to the audience. On the IRA, First, the government gave I think some people believe fairly strict green hydrogen tax guidelines. And I know you believe very strongly in that and why it's good for Air Products. So, can you maybe talk about that a little bit?

And then second, there's been some concerns around the election. Could there be a potential for a rollback of IRA? Do you worry about that or know or how you think about that?

Seifi Ghasemi

Before I answer this question, can I just go back to the previous question I just want to make very clear, Air Products is not in the ammonia business. We are in the hydrogen business. The only reason that we convert the hydrogen to ammonia is so that we can transport it. We want to deliver hydrogen to Korea, to Japan or to Europe and the only way to deliver the hydrogen is to convert it to ammonia. We are not in the ammonia business. We are not competing with OCI or CF Industries or Europe. I just want to make that clear. Hydrogen is just like putting -- I mean, blue ammonia for us is like taking the hydrogen putting it in a container and selling the hydrogen. So, it's a means of transport.

Getting back to the question that you said, we believe very strongly in the rules that was put in there because -- not because it's just good for Air Products, that's beside the point because it's the right thing to do. Why? Because IRA was designed to help the environment, not to make one company or two company rich. You can only help the environment and reduce CO2 emissions. If you have additionality, hourly matching and on the same good grid.

Otherwise, you are making the environment worse. So, we believe very strongly that it would be foolish to take taxpayer money, pay $3 for somebody to make green ammonia where by doing green hydrogen. And by doing that, they are connecting to the grid and making the environment worse. So that is why we believe very strong it's the right thing to do.

Then in terms of the repeal of the IRA, IRA is not a presidential decree it is an act of the Congress of the United States, both houses have voted for it. If that has to be repealed, it has to go to Congress to be the repealed. IRA is same as ObamaCare. People have been after trying to reverse that and you see what the outcome. So, I think the chances of that is remote.

But in addition to that, if it is removed, we announced most of our projects before IRA. Why? Because IRA is just a means of making the cost of our product lower so that we can offer it at a lower cost to the consumers so that they can convert. If IRA is not there, then the cost of what we are making is higher than blue ammonia and blue and green hydrogen in the United States is more expensive. It doesn't stop our projects.

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Mike Leithead

Fair enough. Any questions in the audience? Again, I can ask safety questions for hours, but if there's any questions out there. All right. I'll go back to asking questions then.

One concern I hear sometimes around blue and green hydrogen and whatnot is usually as the deadlines approach. Sometimes the regulators -- I don't want to say the word get chickened or get scared. But I mean you look at what happened in the U.K. around EVs, the potential in the U.S. to roll back some of the EV mandates. Do you worry you guys are doing a great job of progressing this? But if the industry doesn't take off or there isn't enough out there that perhaps we get to 2030 or whatever, and some of these governments say, "You know what, this should be 2040 or so. How do you guys think about that? Or are you concerned about that?

Seifi Ghasemi

That's a very interesting question. But look at what we are doing. If you read the law, which is RF MBO in Europe, Red one, Red two, Red three and all or the mandates in California or the mandates in Japan and all of that. If you interpret them and put a time line against them, then for green hydrogen by 2030, the board will need something like 50 new projects. I'm only building go one. So, if the governments have slowed down, you see the amount of demand that we need to load the projects that we are doing is so incrementally small compared to what people say they want to do.

And I think we get our one plant loaded. The issue is the trajectory for growth and also the pricing. Because right now, Europe, and I very much encourage people to read the rules. Just one aspect of the rule is that by 2030 in Europe, they are saying that 1% of all the fuel sold in the European Union has got to be made with hydrogen, green hydrogen green. And if you do that, the math, you come up with, as I said, 20 mills. So, the aspirations of the governments is so far ahead of the reality that, that is why we are waiting because we think we can get a higher price. But this will all become more and more evident in the next two years or three years.

Yes, I was in Europe in the past few days, the German government announced very publicly that they are going to spend $3.5 billion building a total hydrogen pipeline system like natural gas system in Germany. If they build that hydrogen pipeline system, then that means everybody can get access to hydrogen. And then the people who have the molecules will be in a great shape because then you don't have to build their infrastructure, they're building them. So, there is a lot going on in this space that gives us a lot of enthusiasm and a lot of clarity.

Mike Leithead

Maybe last, last question, I'll sneak in here. Obviously, industrial gas, you have a very good concurrent indicator of what's going on in the world. You've seen and been involved in a lot of different business cycles over the year. What's sort of your read on where the industrial economy sits right now? And how do you feel about things here today?

Seifi Ghasemi

Well, I obviously like to see what is going to happen in China because in the U.S., in 2008, in 2020, when we had significant headwinds, the government was willing to basically print money and solve the problem, and we are seeing the results of that. Now what it means longer term is another thing, but at least they solved the problem in the short term.

China is in a stage like the 2008 or 2020 in the sense that they need to do something significant to help their economy. I had expected that they would have already done that. They have talked about it, but they haven't actually done that. If they don't do that, then I think that economy will have some challenges.

Then you when get to Europe, Europe is actually holding up a lot better than we thought. The energy prices in Europe have come down significantly. So, I think Europe will be moving along, okay? And then the U.S. is anybody's guess. I mean, certainly, all of the economists and everything, everybody was wrong in their forecast of what's going to happen in 2023. We did very well, and I hope it will continue. But in general, I'm the glass-half-full guy, I'm very optimistic.

Mike Leithead

There we go. Well, look, I appreciate it, as always. I appreciate everybody joining us. Seifi, Sidd. Thank you again for their time.

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Seifi Ghasemi

Thanks for everybody.

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