

# **Air Products and Chemicals, Inc. (APD) Q1 2024 Earnings Call Transcript**

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**Body**

Air Products and Chemicals, Inc. (APD)

Q1 2024 Earnings Conference Call

February 5, 2024 8:30 AM ET

Company Participants

Sidd Manjeshwar - Vice President, Investor Relations Corporate Treasurer

Seifi Ghasemi - Chairman, President and Chief Executive Officer

Melissa Schaeffer - Chief Financial Officer

Samir Serhan - Chief Operating Officer

Conference Call Participants

Jeff Zekauskas - JPMorgan

Mike Harrison - Seaport Research Partners

John Roberts - Mizuho

Steve Byrne - Bank of America

John McNulty - BMO Capital Markets

Vincent Andrews - Morgan Stanley

David Begleiter - Deutsche Bank

Josh Spector - UBS

Marc Bianchi - TD Cowen

Mike Leithead - Barclays

Duffy Fischer - Goldman Sachs

Kevin McCarthy - Vertical Research Partners

Patrick Cunningham - Citi

Mike Sison - Wells Fargo

Dan Rizzo - Jefferies

Laurent Favre - BNP Paribas

Sebastian Bray - Berenberg

Presentation

Operator

Good morning, and welcome to the Air Products' First Quarter Earnings Release Conference Call. Today's call is being recorded at the request of Air Products. Please note that this presentation and the comments made on behalf of Air Products are subject to

Beginning today's call is Mr. Sidd Manjeshwar. Please go ahead sir.

Sidd Manjeshwar

Hi, thank you, Jenifer. Good morning, everyone. Welcome to Air Products' first quarter 2024 earnings results teleconference. This is Sidd Manjeshwar, Vice President of Investor Relations and Corporate Treasurer. I'm pleased to be joined today by Seifi Ghasemi, our Chairman, President and CEO; Dr. Samir Serhan, our Chief Operating Officer; Melissa Schaeffer, our Chief Financial Officer; and Sean Major, our Executive Vice President, General Counsel and Secretary.

After our comments, we will be pleased to take your questions. Our earnings release and the slides for this call are available on our website at airproducts.com.

Today's discussion contains forward-looking statements, including those about earnings and capital expenditure guidance, business outlook and investment opportunities. Please refer to the cautionary note regarding forward-looking statements that is provided in our earnings release and on slide number two.

Additionally, throughout today's discussion, we will refer to various financial measures including earnings per share, operating income, operating margin, EBITDA, EBITDA margin, the effective tax rate and ROCE both on a total company and segment basis. Unless we specifically state otherwise, statements regarding these measures are referring to our adjusted non-GAAP financial measures. Reconciliations of these measures to our most directly comparable GAAP financial measures can be found on our website in the relevant earnings release section.

Now with that, I'm pleased to turn the call over to Seifi.

Seifi Ghasemi

Thank you, Sidd, and good day to everyone. Thank you for taking time from your very busy schedule to be on our call today. As always, I would like to begin with the slide number three, our safety performance, which is our number one priority at Air Products. I'm very pleased to share that our employee recordable injury rate in first quarter was 78% than in 2014, and our employee lost time injury rate was at a record row, the best in the industry. Our ultimate goal will always be zero accidents and zero incidents.

Now, please turn to slide number four, which summarizes our management philosophy. These principles remain fundamental to how we manage and grow our company.

Now please turn to slide number five. I would like to take a few minutes to discuss the results for this quarter. Our first quarter adjusted earnings per share of $2.82 was 7% higher than last year. Our business performed well and we are moving forward. There were several positive contributions to this result that included strong conversion margins, robust on-site activities in Americas and Europe, and higher quality affiliate income globally.

Despite the year-to-year improvement that I just mentioned, our results diverged from the guidance range that we have given you due to several items that they're not factored in our first quarter 2024 outlook. We have given you a forecast and we are delivering less than the forecast, but again I'd like to express that we are 7% higher than last year.

These factors that affected our guidance are: number one, larger than anticipated volume headwinds from weak economic growth in China. We were too optimistic about performance in China. Second one is lower helium demand in electronics especially across the world. But I would like to mention that our pricing in helium is very stable and very robust, but we have the volume was lower than we expected. There is a high -- we had experience higher cost for a sale of equipment project and the impact of Argentinian currency devaluation.

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With this, let me talk about our revised full-year guidance range. Please turn to slide number six. We now expect full-year adjusted earnings per share to be in the range of $12.20 to $12.50, which reflects the first quarter events I just discussed. It also reflects evolving geopolitical developments and uncertainties and continued weakness in Asia and Helium volumes. This new range is supported by expected positive volume contributions from several new onsite plans and improvement in our LNG sale of equipment business, as well as continuing cost productivity that we always pursue.

For the second quarter of fiscal year 2024 our adjusted earnings per share guidance is $2.60 and $2.75. We continue to expect our CapEx to be between $5 billion and $5.5 billion in fiscal year 2024.

Now please turn to slide number seven. We are proud of our adjusted earnings per share improvement since 2014 and we have delivered on a consecutive basis for the last 10-years more than 10% annual growth in our earnings. I would like to take the time to thank each and every one of our employees around the world for their hard work and dedication and commitment, which has made it possible for us to deliver these excellent results.

Now please turn to slide number eight. In addition to investing in high return projects, we believe creating shareholder value includes returning cash to our investors by paying a healthy dividend directly to them. In January, we again raised our quarterly dividend to $1.77 per share per quarter, extending our record of 42 consecutive years of dividend increase. We expect to return approximately $1.6 billion to our shareholders in 2024, while continuing to execute hard return industrial gas and clean hydrogen projects that support our customers in their sustainability journey, and drive the energy transition. This balanced approach to capital allocation, which allows us to meet our capital needs, while maintaining our A2 credit rating.

Now please turn to slide number nine, which shows our EBITDA margin trends since 2014. Our margins have returned to roughly 40% since the second-half of fiscal year 2023, going to 1,500 basis point improvement versus 2014. And our margins are leading industry margins and they reflect the continued strength of our business model.

Now, it's my pleasure to turn the call over to Melissa Schaeffer our Chief Financial Officer to give you a summary of our first quarter 2024 results. Melissa?

Melissa Schaeffer

Thank you, Seifi. Now please turn to slide 10 for a review of our first quarter results. As Seifi stated, our business fundamentals are strong. In comparison to last year, we continue to show underlying sales growth with both positive volume and price. Overall, price for the quarter was up despite lower energy costs across most regions. Volume improved 3% driven by strong on-site volume, including higher demand for hydrogen and contributions from new assets, but partially offset by weaker demand for helium, particularly in Asia.

Declining natural gas prices in Europe and North America resulted in 11% lower energy cost pass-through for the company overall. This had no impact on profit, but contributed to higher margins. EBITDA improved 8% as favorable volume, price net of power cost, and equity affiliate income, more than offset higher costs driven by higher plan maintenance, activities and inflation.

EBITDA margin of 39.2% jumps more than 500 basis points with lower energy cost pass-through contributing to about three-fourths of this improvement. ROCE remains steady at about 12%. Adjusting for cash, our ROCE would have been about 13%. Sequentially, results were unfavorable primarily due to seasonality in the Americas and sale of equipment headwinds in our corporate segments.

Now please turn to slide 11 for a discussion of our earnings per share. Our first quarter adjusted earnings was $2.82 per share up $0.18 or 7%, compared to last year due to favorable volume, pricing, and higher equity affiliate income partially offset by unfavorable costs. Volume was $0.11 due to improvements in America and Europe, which more than offset shortfalls in Asia and the corporate segment. Price, net of variable costs, contributed $0.15 this quarter, driven by both pricing actions and lower power costs.

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Costs had an unfavorable impact of $0.21, driven by higher planned and maintenance costs, inflation, and our efforts support our growth strategy. Equity affiliate income was $0.18 higher due to the contribution of the second phase of the Jazan project and positive results from our unconsolidated joint ventures across most regions. The remaining items including lower tax rates, higher interest expense and other non-operating expense together had a modest negative $0.05 impact.

Before I turn the call to Dr. Serhan, I would also like to thank the people of Air Products for their commitment to the company. I am proud to be working alongside them as we continue to execute our strategy.

Now to begin to review our business segment results, I'll turn the call to Dr. Serhan.

Samir Serhan

Thank you, Melissa. Please turn to slide 12 for a review of our Americas segment results. Compared to last year price and volume together were up 5%. Hardware, merchants and price increase of 6%. This represents a 2% price improvement for the region overall. This shows contribution margin improvement.

Volume grew 3% due to strong demand for hydrogen. EBITDA was up 9% driven by strong price as well as favorable volume and equity affiliate income, while partially offset by higher planned and maintenance costs. EBITDA margin was up by almost 800 basis points driven mostly by lower energy cost pass-through. Eventually, EBITDA decreased 7% mainly due to seasonality as demand moderated and maintenance activities picked up during the winter.

Now please turn to slide 13 for a review of our Asia segment results. The challenging economic conditions in China and the weak electronics market continued to put pressure on the region. Prior to last year, our volumes were flat for the region as higher on-site activity offset lower helium demand. Price jumped 1% as we continued to focus on price over volume. EBITDA and EBITDA margin were down primarily due to the unfavorable helium volumes and higher costs. Sequentially, results improved relative to the unfavorable business mix in the previous quarter.

Please turn to slide 14 for a review of our Europe segment results. Volumes were up 9% benefitting from better on-site activities including the new project in Uzbekistan. Compared to last year merchant pricing remained stable relative to the decline in energy costs, contributing to margin improvement. EBITDA was up 28%, driven by favorable volume, lower power costs and stronger currencies against the US dollar, which more than compensated for increased cost due to inflation and planned, maintenance activities. EBITDA margin was over 1,000 basis points higher about half of which was due to the impact of lower energy cost pass-through. Sequentially results improved driven by favorable price, volume and costs.

Now, please turn to slide 15 for a review of our Middle East and India segment results, compared to last year sales decreased due to lower volume, EBITDA improved due to the completion of the second phase of the Jazan project in mid-January of last year.

Please now turn to slide 16 for our corporate and other segment results. This segment includes our sale of equipment businesses, as well as our centrally managed functions and corporate costs. Despite higher sales from LNG activity, EBITDA declined due to higher costs in our non-LNG sale of equipment business as Seifi mentioned before. Our activities related to the LNG equipment and technology business are robust. We continue to have constructive conversations with customers, who are interested in our offerings. And we expect our LNG related projects to improve the corporate segment moving forward.

At this moment, I also would like to thank our teams around the world for their effort and demonstrating their determination to overcome the challenges we are facing.

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Now I would like to turn the call back to Seifi to provide his closing remarks. Seifi?

Seifi Ghasemi

Thank you, Dr. Serhan. Now please turn to a slide number 17. As I always say a real competitive advantage is the commitment, dedication, and motivation of our people. I am proud to see that commitment and motivation in action every day in our company, and I'm very proud of our people.

The fundamentals of our existing business are strong and we are moving forward. The short-term issues we have discussed do not change the compelling long-term prospects of Air Products. Air Products is pursuing a first mover growth strategy with our core industrial gases business as the first pillar and our blue and green hydrogen projects as the second pillar. Executing our strategy in these two pillars with sustainability underpinning, both of them, enables us to fulfill our higher purpose as a company, which is to help solve significant energy and environmental challenges in our world, that is our highest purpose.

First, our industrial gases business and technology solutions help customers across dozens of industries improve yield, increase production, reduce energy consumption, and lower emissions. In other words, to make more with less, while reducing the impact on the environment.

Second, the world needs more energy and wants that energy delivered with a lower carbon footprint. At Air Products, we are demonstrating our leadership position, leveraging our decade-long experience, core competencies, core technologies, and our ability to execute world-scale hydrogen projects. By producing and delivering low and zero carbon hydrogen at the scale for heavy duty transportation and industry, we can meaningfully contribute to the goal of decarbonizing the world. We believe that the first mover advantage will be substantial and deliver enduring long-term shareholder value, both in terms of return to Air Products and in generating a cleaner future for everybody.

With that, we are now more than happy to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we'll go first to Jeff Zekauskas from JPMorgan.

Jeff Zekauskas

Thanks very much. When did the Gulf Coast ammonia project come on and is that a meaningful income stream for you?

Seifi Ghasemi

Gulf Coast ammonia is consists of two different parts. One if the hydrogen plant and other one is the actual ammonia plant. I can comment on the hydrogen plant, because we own that and that is a sale of gas. That is on the stream and it's producing revenue. And on the other part, I don't want to comment, because we don't own that facility and I like the owners to make a statement on that if it's necessary.

Jeff Zekauskas

In the quarter there was -- yes thank you for that. In the quarter the expense was materially higher year-over-year that your expectations for 2024, you have a large cost-cutting program. Heavy losses on sale of equipment would be smaller. There was significant room for improvement, particular line. Is that the case or things changed?

Seifi Ghasemi

Jeff, you are absolutely right that is the case. In the first quarter, our costs were higher, because of the sale of equipment issue that you mentioned. And we expect that in the -- as we go forward, that would not be repeated and therefore our year-to-year costs will be lower as I had mentioned to you before.

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Jeff Zekauskas

Thank you so much.

Seifi Ghasemi

Thank you, sir.

Operator

Thank you. We'll go next to Mike Harrison from Seaport Research Partners.

Mike Harrison

Hi, good morning.

Samir Serhan

Good morning.

Mike Harrison

I was hoping that you could give a little bit more detail on what is going on within the helium business? Is that a situation where demand is lower or a situation where you guys are struggling to get the volumes of helium that you need? And also, which regions have the biggest exposure to helium? It seems like this is mostly an Asia issue at least in the first quarter?

Seifi Ghasemi

Thank you for the question and that's an excellent question. Number one, we do not have any issues with having helium molecules for sale. We are actually the best -- we have always been the supplier that has delivered helium to people when they need it, we have pattern, we have significant production facilities around the world, so we are a very reliable supplier and we have always been. The issue with helium is that number one demand is lower especially in electronics across the board and particularly in China and in Asia.

And the other thing is that as I said we operate on the basis that we want value for the product that we are selling. So we have held on the pricing and whether we might have lost some market share, that is possible. But we have no issues delivering the product, but we definitely see, as I said, a weakness in demand across the world. And in terms of Air Products, in terms of helium volumes, obviously Asia is a significant part of that. It's not the other regions use a lot of helium too, but Asia is the biggest.

Mike Harrison

All right that's very helpful and then my second question is related to your guidance. It looks like the implied guidance for the first-half of the year is around $5.50 in EPS and you're expecting maybe something closer to $7 in the second-half? Can you talk about the visibility that you have that gives you confidence on a much better second-half and maybe help us bridge the improvement that you're expecting in the second-half versus the first-half that, that $50 or so.

Seifi Ghasemi

That's an excellent question. Obviously the guidance is what is our best estimate at this point, right? We can foresee the world events. But fundamentally, when you look Air Products during the years, we consistently deliver about 46%, 47% percent of the year results in the first-half, and we deliver around 53%, 54% in the second-half, so the second-half is usually our strongest quarter because of seasonality. So you should take that into account and then the other thing that we are right now by giving you the guidance is that we are expecting that in the second-half of the year some of the onsite projects that we have will be running very strong and therefore we will have a higher income from those. That is our estimate as of today. But how the world will turn, we'll see. But that is how we bridge the gap of why we will be able to deliver the $7 versus the $5.50 in the first-half.

Mike Harrison

Thank you very much.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to John Roberts from Mizuho.

John Roberts

Thank you. Seifi, is the weakness in China also related to on-site operations? And maybe you could separate the gasifier business from other on-site?

Seifi Ghasemi

John, first of all, thank you for your question and I hope all is well with you. There is no weakness in on-site in China. You know, our on-site business is take or pay across the world, therefore we don't see any issues there. The fundamental issue is on the merchant side and helium, and that is related to the economic activity. I just like to caution everybody on the call that the economic situation in China is not as robust as people might think. We, as you know, we make products that are used instantaneously. We are a great leading indicator. And things are not really that exciting, that part of the world.

John Roberts

Thank you.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to Steve Byrne from Bank of America.

Steve Byrne

Yes, thank you. I was just looking at the location of Jazan and it seems to be within 100 miles of quite a few of these recent strikes in Yemen and just wanted to ask, is everything there okay at the plant or do you see any access to labor or risks of this issue going on right now?

Seifi Ghasemi

Well first of all, up to now we have not seen any incidents none of these missiles and so on have been directed at the facility. So I mean, I can't predict the future, but up to now there has not been any issues. The refinery is running fully our business -- our investment I mean our performance there is great I'm very proud of our people. We are operating 16 gasifiers, which are the largest in the world for gas declined the bottom of the refinery and despite predictions for the worst those things are actually working and they are producing syngas, they are supplying hydrogen to the refinery and we are making close to 4,000 megawatts of power that is delivered to the Saudi grid. So up to now everything is fine. Thank you.

Steve Byrne

Very good. Thank you. And can you provide any more detail on the CapEx target for the year, the $5 billion to $5.5 billion. Can you just highlight what are the largest project within that list. I was just curious whether you are moving forward with the project in North Texas this year?

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Seifi Ghasemi

Right now in that $5 billion and $5.5 billion that is not a significant amount of money for the project on Texas, because we are in the process of getting the permit and doing the preliminary engineering. But we did spend a few $100 million, but it is not significant part of that $5.5 billion. The $5 billion to $5.5 billion is mainly going to be spent on our continuing operations in NEOM in Saudi Arabia for our green hydrogen facility, a substantial amount of it will go to our blue hydrogen facility and other substantial amounts will be our blue hydrogen facility in Canada and then obviously our expenditure on the sustainable airline fuel facility in Los Angeles.

And then obviously we have our maintenance CapEx and about $1 billion a year that we spend on our day-to-day investments like any other industrial gas business that they don't usually talk about it and we don't put out press releases about how many small projects won, because we do win small projects like everybody else, but that is about $1 billion too and our maintenance CapEx is around 500, 600 and so $1.5 billion is those and then the rest of it is for the big project.

Steve Byrne

Thank you.

Seifi Ghasemi

Thank you.

Operator

Thank you, we'll go next to John McNulty from BMO Capital Markets.

John McNulty

Yes. Good morning. Thanks for taking my questions, [Indiscernible]. So we had a question on the dividend hike that you guys announced earlier. It strikes us as kind of smaller than I guess what we've seen in the past from Air Products. And I guess the question is, why is that? And is there any concern from, say, the rating agencies around the comfort with your capital spending or is there some change why that hike would be as kind of modest as it's been? I guess how should we think about that?

Seifi Ghasemi

Well for the past six or seven years I have always been telling people that I personally believe that dividend should be a percentage of the stock price and we had given people a guidance that we target that we pay about 2.5% of our stock price as dividends and we were doing that. But now with the stock price where it is, and you are talking about now more than $7. It is significantly higher than that. So I don't see why we should significantly increase the dividend than the stock prices where it is, because the shareholders are getting more than 2.5% from the stock and then 10% growth and it becomes at least almost again 12.5% return if they buy the stock. If there is no issue with respect to our cash or our cash flow and so on, but we also have investors who believe we shouldn't pay any dividend, but obviously that will never happen and they are never going to reduce the dividend. But the rate of increase is very directly related to the stock price, my friend.

John McNulty

Got it. Okay. So it's more about the yield, not necessarily the earnings growth or anything like that?

Seifi Ghasemi

Thank you.

John McNulty

Okay, and then just as a follow-up question, it would just be on the, I know you mentioned earlier in kind of first-half versus second-half, there's a bunch of projects that should be running a little harder, running up more or coming on. I guess can you remind us what projects, you know, aren't necessarily fully running in your first-half of the year, but will be in the second-half of the year just so we can kind of model that out or map that out a little bit better?

Seifi Ghasemi

Well that's one then I'm going to get into disclosing the operational details of our customers and I'm not -- I don't have the privilege of doing that because of the confidentiality agreements we have. So if you give me a break, I cannot answer that question in detail. Sorry about that.

John McNulty

No, no problem. No problem at all. We'll definitely give you a break on that. Thanks for the time.

Seifi Ghasemi

Thank you. Appreciate that.

Operator

Thank you. We'll go next to Vincent Andrews from Morgan Stanley.

Vincent Andrews

Thank you and good morning, everyone. If I could just ask on the helium, what was sort of the surprise in the quarter on the electronic side of the equation, like so what's really changing with those customers? Is it something in particular, or is it just the economy there is decelerating? And are we at the point with it in the electronics piece that you're comfortable that, you know, that aspect has flattened out at a level that you're comfortable with. Maybe we could start there.

Seifi Ghasemi

First of all, good morning, Vincent. Thanks for the good question. You know, usually what happens with the electronic industry and you know this better than I do, is that they run very strongly during the third quarter of the calendar year to make all of the chips and so on which are used for all the toys and everything that people are going to buy for Christmas. And then when that period is over, usually the fourth quarter of the year for the chipmakers is slower. That is the general thing.

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And then in addition to that, you do have economic conditions and all of that. I am not an expert in terms of the dynamics of the electronic industry, but I would like to tell you that, that is what we are seeing, that a lot of these people are slowing down. And then the other thing that might be in play is that the helium price is being high, it significantly affects the operational people at the chip manufacturing facilities to try to conserve as much helium as they can or other users. So there might be a little bit of a demand destruction too.

Vincent Andrews

Okay. And then as a follow-up, in the fiscal second quarter, you know, we obviously just had another winter storm or winter freeze in the Gulf Coast area. Are you anticipating that, you know, you're going to have some downtime associated with that or customers are going to have downtime from some plants being turned off in preparation for that weather event?

Seifi Ghasemi

That's a very difficult question to answer, to be honest. That might be the case, but I don't want to predict that, Vincent. I don't know.

Vincent Andrews

I just meant what had already happened, the storm that happened in January. Is that already baked in?

Seifi Ghasemi

Yes. Dr. Serhan, do you have anything to add to that?

Samir Serhan

Minor issues really that happened. We still see very strong hydrogen demand even during that phase.

Vincent Andrews

Okay. Thank you very much.

Seifi Ghasemi

Okay, Vincent. Thank you.

Vincent Andrews

Yes, thank you very much.

Seifi Ghasemi

Excellent.

Operator

Thank you. We'll go next to David Begleiter from Deutsche Bank.

David Begleiter

Thank you. Good morning.

Seifi Ghasemi

Hey, David.

David Begleiter

Good morning. Just staying on helium, can you quantify the impact of the year-over-year helium profit decline in Q1? And your expectations for the full-year in terms of helium profit decline?

Seifi Ghasemi

David, you are asking a question that we have never answered, that is we have never really disclosed the details of the performance of our helium business for competitive reasons. And I'm sure you understand that. So I do not want to quantify that exactly. But if you look at the, you know, when you compare to last year -- when we compare to last year, we are still ahead. But we are trying to explain is the difference between what we delivered versus guidance versus last year we are still ahead. But we expected, we did not expect the weakness in helium the way it has materialized. Would it continue in the second quarter and the third quarter -- I mean in the second, third and fourth quarter of our fiscal year remains to be seen and that is one of the reasons we lowered our guidance, because we are allowing for the fact that it might continue. But we don't know for sure.

David Begleiter

Understood. Thank you. And just on the Alberta project, now that we're within 12 months, hopefully a startup, do you have timing of that project ramping up earlier next year? And how should we think about the earnings contribution throughout the calendar year '25 for Alberta?

Seifi Ghasemi

David, you broke up, I didn't understand which project you were referring to?

David Begleiter

The Alberta project. When will it come on stream and how are you thinking about the earnings cadence post its start-up early next year?

Seifi Ghasemi

Excellent. I'll have Dr. Serhan answer that. Samir?

Samir Serhan

Thank you for the question. We remain incredibly excited about our first blue net zero hydrogen project that's in the construction phase right now. We look to bring it on stream in fiscal year '25 in line with our customer plans. There are no updates in regard to the deployed capital and also the government incentive we provided that already. So again, we're really fully committed to this asset and things are going well, and we're aligned with our customer IOL.

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David Begleiter

We'll be online in the first-half of this fiscal year? Sorry.

Samir Serhan

It's in fiscal year '25, I mean, in the second-half.

David Begleiter

Second-half, Thank you.

Samir Serhan

This is really an alignment with the plan, the renewable refinery.

David Begleiter

Thank you.

Seifi Ghasemi

So basically everything is going well for that up to now.

David Begleiter

Thank you very much.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to Josh Spector from UBS.

Josh Spector

Hi, good morning. So I wanted to follow-up just on the guidance and maybe ask specifically, you know, when you talk about the challenges and uncertainty, China and helium demand, et cetera. I guess to hit your second-half, do markets need to improve or are you assuming any improvement there? Or is status quo plus what you see coming online enough to get to what your expectations are today for the second-half?

Seifi Ghasemi

No, we don't expect any improvement. We expect things to be the way they are. I just hope that things don't get worse because of the geopolitical developments. But we are not factoring in any significant improvement in the world economy. No, that's correct.

Josh Spector

Okay, thanks. That's helpful. And just on the sale of equipment, so when you talk about the increase in cost there, is that cost to execute? Is that material issue a specific contract? Just thinking about how unique or one off that is. And when you talk about your LNG wins and you've been talking about more projects coming online or sales in the next couple of years, is that a risk we need to think about with some of those contracts underwater or some other cost issue?

Seifi Ghasemi

If I may answer the second part, the LNG thing we expect the projects that you're talking about are the projects which are already under execution and we have won. So the risk on that is low. With respect to the sale of equipment thing, what we are talking about is inflation and delays in execution and all of that that is costing us money. Okay?

Josh Spector

Okay, yes. Thank you.

Seifi Ghasemi

Thank you very much.

Operator

Thank you. We'll go to Marc Bianchi from TD Cowen.

Marc Bianchi

Hi, thank you. The question was asked earlier about the large components of CapEx and you mentioned NEOM, the two blue hydrogen projects and SAF. You provided an update on Alberta just now. I'm curious if you could update us on the status of the other three?

Seifi Ghasemi

Well, on the other three, we don't have anything substantial to report other than what we have told you before. So, things are going okay with them as of right now. So we do not have anything material that has happened to report to you.

Marc Bianchi

Okay. Thank you, Seifi. Could you just remind us the start-up expectation for NEOM Louisiana and SAF?

Seifi Ghasemi

NEOM, we are expecting December 31, 2026. With Louisiana, what we have said up to now has been fiscal year 2028 and with SAF it is somewhere around fiscal year 2027, depending on us getting all of the permits that we need. So, I'm sorry, with [Indiscernible], I'd like to correct that to 2027, I think I said '28, but in 2027. That's approximately the timeline for those projects.

Marc Bianchi

Okay, thank you for that. The other question I had was there have been some reports in news stories lately about natural hydrogen, so naturally occurring hydrogen deposits that could be quite meaningful. I'm curious what your view of that is and if you have any involvement?

Seifi Ghasemi

We do not have any involvement in that and I don't want to give you a scientific answer, but that's a little bit of a pie in the sky that there's hydrogen sitting there that you need to do to reveal and it will come out at zero cost. But we are not involved in any projects like that. And we are not going to get involved in that because we just do not think that that is reality.

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Marc Bianchi

Thank you very much.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to Mike Leithead from Barclays.

Mike Leithead

Great. Thank you.

Seifi Ghasemi

Good morning.

Mike Leithead

Good morning. Could you maybe update us on the state of your ongoing discussions for green and blue ammonia potential off-take? Should we expect some off-take announcements later this year? Or do you still believe it's better to wait until closer to project start-up to formalize some of those?

Seifi Ghasemi

Well, on that one, you are raising an excellent point. We have basically told people that do not expect any announcement about any off-take until about a year or year and a half before the plans come on stream. And the main reason for that is that we believe that as we get closer to the deadlines that companies have to comply with the new environmental rules. They would certainly realize that there are not that many real commercial facilities coming on the stream that has the product. Therefore the value of our product will be higher than what people think it is today. So we are not in a hurry to sign any agreements. We think the demand is there. So we are going to take our time.

But in the meantime, if somebody wants to act sooner and gives us a contract, a long-term contract, at the prices that we expect, we might announce that sooner. But I wouldn't want the investors to expect any announcements soon.

Mike Leithead

That makes sense. That's Great. That makes sense. And then maybe on a similar note, I believe that the Treasury Department recently came out with guidance around the green hydrogen tax credit. I think most people viewed it as fairly strict although I also believe Air Products' plans are pretty well aligned with this guidance. Bigger picture, do you have any concerns about the strict interpretation limiting the U.S. industry's ability to take off or do you actually see it as advantageous for Air Products?

Seifi Ghasemi

No, we absolutely disagree with that point of view that this is limiting. I mean, how is it limiting? We are complying with every single part of what the Treasury Department has put out, the three pillars, and we are committing billions of dollars to build these facilities. Other people can do the same thing. Some people are trying to get money from the government by continuing to pollute the atmosphere. And we don't believe that. We believe very strongly in the three pillars. That means that any electricity used for production of green hydrogen needs to be additional. Otherwise, you're just going to use coal to replace that power that you use. So it has to be additional.

The second thing, it has to be hourly. Because otherwise in the middle of the night when there is no sun, if somebody makes green hydrogen, then you're drawing power from the grid and that has to be replaced again from coal-fired plants and all of that. And so additionality, hourly and then the other thing is that it has to be on the same network. We are fully supportive of what the Treasury department has put out, I'd like to applaud them for sticking to their principles that the IRA was designed not to make companies rich, but IRA was designed to save the environment. And this should not allow people to get some subsidies if they are not doing something to reduce their pollution into the atmosphere.

The IRA is not a handout. The IRA is designed, that is why Congress approved it, to improve the environment, And we should all abide by that. Therefore, we are fully in line with the those rules that Treasury put out, and I really hope that they keep their nerve and execute those principles because those are the right principles, And we are fully supportive of that. And again, I'd like to stress that we are spending billions of dollars. We are -- and executing projects right now even before those rules come out, complying with those rules because we think they are the right rules, okay?

Mike Leithead

Great. Thank you so much.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to Duffy Fischer from Goldman Sachs.

Duffy Fischer

Yes, good morning, guys.

Seifi Ghasemi

Good morning, Duffy. How are you?

Duffy Fischer

Good. Thank you. Question on cash flow, if I could. At least in the first quarter, cash flow was down or operating cash flow was down double digits even though earnings was up. Will that invert throughout the year? Would you expect operating cash flow to grow roughly at the same level of EPS this year?

Seifi Ghasemi

Duffy, I'm glad you asked this question, but I'll have Melissa go through the details. But my friend, our EBITDA is going up. If our EBITDA is going up, the cash coming to the company is going up. What we are reporting is accounting and it's the timing of the cash. We report the number because we book it, but when we get the actual cash it's different because of our equity affiliates. But I think the best person to qualify to answer this, because I don't want to get into accounting details, Melissa, would you please explain that?

Melissa Schaeffer

Yes, absolutely. Thank you, Seifi. And hi, Duffy, how are you? So first of all, Duffy, so our EBITDA cash eversion is stable and our distributable and investment cash flow are both positive. So that's in line with our year-over-year EBITDA improvement. Additionally, we have industry-leading DSO, so all very strong. We did see an incremental reduction in our operating cash flow to EBITDA this quarter. There are a few items that attribute to this, namely it's really timing component related to our distributions of earnings for our large equity affiliate.

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Again, not an issue with profit, just timing. And the second one is we do manage and look to derisk our helium supply chain and then so we are building some of our helium inventory, which obviously has an offset to operating cash, but obviously, we'll attribute to process moving forward.

Seifi Ghasemi

Okay, Duffy?

Duffy Fischer

Thank you. You bet. Thank you on that one. And then just on the announcement that the EPA was given to the state of Louisiana the authority to deal with the CO2 sequestration there. Roughly, can you kind of explain how your relationship is with the state and how quickly you think that will speed up the process there and when we might get permits for Louisiana?

Seifi Ghasemi

Duffy, I'm glad you asked that question. We are very excited about that. I think it was the right decision and that will cut about -- we think about a year on the time line of us getting the permit for the Class 6 well. And we do have an excellent relationship with the State of Louisiana, but it's not the relationship. We are going to do the right thing by having the State Louisiana review that. We gain time because the State of Louisiana will have less Class 6 wells to deal with than EPA.

So it's just a matter of the workload and they did the right thing by distributing the workload. Therefore, now the State of Louisiana will have fewer applications, and therefore, they can approve our project by about a year faster than the federal government would have done that. So that is why it is very helpful and very impactful and gives us a lot more confidence in terms of our ability to get the Class 6 permit if we need it.

Duffy Fischer

Great. Thank you.

Seifi Ghasemi

Thank you very much.

Operator

Thank you. We'll go to Kevin McCarthy from Vertical Research Partners.

Kevin McCarthy

Yes. Thank you and good morning. Seifi, I wanted to come back to the helium market dynamics. I heard your comments on the demand side. My question is, have you witnessed any material changes on the supply side of the global market such as the operating status of Gazprom's Amur project in Russia? Or is it strictly a function of demand in terms of the volume shortfall that you cited in the quarter?

Seifi Ghasemi

Well, that is a very good question. Theoretically, whatever Amur produces in Russia, theoretically there is global sanctions on that. That, that is not supposed to be getting into the market. Is it getting into the market illegally and therefore increasing the supply of helium, and therefore that is why people are buying from other people? It could be the case. I am not sure. But the detailed dynamics on that are. And I don't want to be interpreting sanctions laws and all of that. But what you are suggesting is a possibility. We are looking into that. We haven't seen any significant factor from that yet, and at least we don't see it yet, but it might be the case.

Kevin McCarthy

Okay. That's helpful. And then secondly, I had a few sort of housekeeping questions possibly for Melissa. I think you mentioned devaluation of the Argentine peso and we talked about the cost overrun from the sale of equipment project. Can you quantify the impact of some of those issues in the quarter?

Seifi Ghasemi

I don't think we want to quantify the details of every one of them, but the Argentine currency is easy. I'll answer that, make it a lot easy for Melissa, is that effect was about $10 million on our bottom line, for the Argentine currency about $0.03.

Kevin McCarthy

Okay. And the SOE, no comment on that one?

Seifi Ghasemi

No, the rest of it, we don't want to break down how much was helium, how much was the sale of equipment and how much was the slowdown in China because then we will be giving you very too much competitive information, if you don't mind.

Kevin McCarthy

I see, okay. Thank you very much.

Seifi Ghasemi

Thank you.

Operator

Thank you. We'll go next to Patrick Cunningham from Citi.

Patrick Cunningham

Hi, good morning. Could you maybe comment on the direction of price in Europe, how sustainable these margins are going forward?

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Seifi Ghasemi

Well, quite frankly, we did -- that is one of the areas where we did better than we expected. Our results in Europe are excellent, the margins are up 1,000 basis points, and that is because people have done a good job hanging on to the price while energy prices are going down. How this will develop in the future obviously depends on what happens to energy prices and so on. But I'm very proud of our people in terms of their performance and in terms of making sure that they maintain the pricing and we have been successful. And as Dr. Serhan was saying, our European business did very well during the quarter.

Patrick Cunningham

Great. And then maybe just a related follow-up on the Uzbekistan project. How much volume was up on Uzbekistan? And what sort of contribution should we have throughout the year? I know previously you talked about $0.35 per share. How is Uzbekistan performing relative to your expectations?

Seifi Ghasemi

Dr. Serhan, would you like to answer that?

Samir Serhan

Yes. I just want to start by saying this project really has been a great fit for both Air Products and Uzbekistan. It leverages our core competencies and address the country's desire for energy independence and socioeconomic development. This project includes the world's largest ATRs, auto thermal reformer. And just to remind everybody, to produce blue hydrogen, you need to use auto-thermal reformers and those are the largest in the world, or you need to use box units, which are the partial oxidation, which is the technology we bought from GE gasification. We are excited about the operational and technological synergies by operating these large ATRs. The asset was brought onstream in October '23. We expect that to contribute around $0.35 for the full-year.

Seifi Ghasemi

Okay.

Patrick Cunningham

Great. Thank you.

Seifi Ghasemi

Thank you. Operator this would be the last question, okay.

Operator

Thank you. Okay, we'll go to Mike Sison from Wells Fargo.

Seifi Ghasemi

Sorry. I made a mistake about the timing, we can answer some more questions, if necessary. If people have questions, go ahead.

Mike Sison

Hey, good morning, everybody. I guess my first question on fiscal '24 EPS growth, the projects that's recently come onstream before that you've noted in the slide, Are those contributing what you thought they would contribute in 2024? And I guess sort of the follow-up is that the delta between the 13% growth to the 6% to 9% growth now has nothing to do with the projects, more of the other stuff that you talked about in terms of headwinds?

Seifi Ghasemi

Well, the thing is that -- I don't like to give you a general answer in the sense that if you're up year-on-year and in the meantime China is going down, helium volumes are lower and we have had these headwinds, then the only reason that it's going up is because some of the other projects are contributing, of course. So that's the way I would like to leave it with you, okay? Negative is still going up. Therefore, the other products are contributing, yes.

Mike Sison

Yes, that's great. And then beyond 2024, when you think about '25, '26, '27, more of a longer-term sort of view, how do you think the growth algorithm changes or maybe doesn't change as we look out of those years in terms of EPS growth?

Seifi Ghasemi

I think Air Products will deliver on the average an EPS growth of the 10% that we have delivered before. That's our goal. And one year, we might be 9%, one year we're going to be 11%. But overall, we are going to continue on that trend. And we promised that 10-years ago, we have delivered, and I fully expect that we will continue to deliver that.

Mike Sison

Right. Thank you.

Seifi Ghasemi

Thank you, sir.

Operator

Thank you. We'll go to Laurence Alexander from Jefferies.

Dan Rizzo

Hi, this is Dan Rizzo on for Laurence. Thank you for getting me in. I just want to make sure that of the projects under execution that's listed on page 19, the next one that's going to come online is the one in Alberta, Canada, correct?

Seifi Ghasemi

Yes. Alberta, Canada is the next one, which is going to come onstream. And as Dr. Serhan said, we expect that to be in fiscal year 2025.

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Dan Rizzo

Are there, and this will be my second question, should the other projects come on right behind that? Or will there be, I don't know, year like delays? Or I'm just trying to think of the cadence as these are coming online.

Seifi Ghasemi

Well, after that, we will have in '26 -- by the end of fiscal year '26, we will have -- by the end of calendar '26, we will have our green hydrogen project in Saudi Arabia, The year after that, we will have our blue hydrogen project in Louisiana. And the year after that, we will have hopefully other projects that we will announce.

Dan Rizzo

Okay, thank you very much.

Seifi Ghasemi

Thank you.

Operator

We'll go next to Laurent Favre from BNP.

Laurent Favre

Yes, good morning and thanks for squeezing me in. I'd like to go back to the SAF project, actually. I think you just mentioned that the start-up would be in 2027. In May last year, you had in, I guess, for startup in '25. And in August, it was still part of the group of projects that should be up and running by 2026. So I was wondering if you could talk about, I guess, what are the specific reasons for this more than one year delay. Is it the customer side? Or is it execution on your side? Thank you.

Seifi Ghasemi

Well, it is related to the fact that we are building this plant in California. And you know in California, it usually takes a long time to get permits. So it is dependent on the timing of the permits for construction for that facility. Once we have a final, final ruling on the permit, then we will be able to give you a definite date about when that plant is going to come onstream.

Laurent Favre

And could you size for us the potential cost of a run on top of the $2.5 billion that was initially slated? Are we talking about a material difference?

Seifi Ghasemi

I'm not sure I understood the question.

Sidd Manjeshwar

No. I think Laurence, on that one, the capital, we earn the return on the capital of the project. We won't anticipate any capital update there.

Seifi Ghasemi

The return on the project is fixed. We are going to get a return on the capital that we spent, no matter what the capital is. Okay?

Laurent Favre

Okay, thank you.

Seifi Ghasemi

Thank you, sir.

Laurent Favre

Thank you.

Operator

And we'll take our last question from Sebastian Bray from Berenberg.

Sebastian Bray

Hello, good morning, everybody and thank you for taking my questions. My first one is on merchant pricing as it stands today. Is this stable in Europe or the U.S.? Has it started to decline? Or has it started to go up? So it seems to be stable, but I wanted to double check?

My second one is on guidance. Are we just assuming when setting the EPS growth rate guided for '24 the dollar rates as they stand today hold for the rest of the year?

My third one is a more philosophical question on pricing. Is the desire to wait longer for the clean ammonia and clean hydrogen project offtake agreements a reaction to try and hedge out for risk that IRA subsidies maybe changed from '25, i.e., if that industry shakes out and it turns out the projects need clean -- higher clean hydrogen pricing to be economic with fewer subsidies available? Is the APD approach to say, well, we'll wait for the industry to shake out and see what comes? Thank you.

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Seifi Ghasemi

Well, you're asking a very, very good question and I would like to tell you that we are the first mover in these projects. We are investing significant amount of money being the first mover. We -- obviously, my job is try to maximize return for the investors. And if we were the first mover and we took the risk, as they say, building these facilities before we had contracts, we should get rewarded by that and not just have projects which have the standard returns but be rewarded with a higher return. That's one thing.

And then the second thing is that we genuinely believe that where we are in these projects, we will have a product which will be in significant demand as we get closer to people trying to comply with the rules that are already in place, in Europe especially. By 2028, a lot of the industries have to use the products that we make, and we don't see that many people making the product. So in that case, we are not in a hurry to give it away. Obviously, our job is to maximize profit for the company, get the best that we can, and that is the philosophy that we are following.

It is not because of concerns about the other things that you mentioned, no. I think that the subsidies and so on are going to get enacted. Every day that goes by you see the governments taking action. Recently it was Japan, before it has been Europe, it's well established, U.S. with the IRA. So events as you go forward every day points in the direction that hopefully our strategy is the right strategy, and we want to take maximum advantage of that.

Samir Serhan

Actually Seifi, there has been a report from the International Energy Agency that indicated that out of all of the projects announced for green hydrogen by 2030 to come onstream, only 7% will eventually come onstream by 2030.

Seifi Ghasemi

Okay. Sorry, we gave you a long answer, but I hope we addressed your issue.

Sebastian Bray

No, it's appreciated, Seifi. Thank you. And the merchant pricing and the question on FX assumption for the rest of the year on a more tactical or short-term basis.

Seifi Ghasemi

Yes. Well, that's again a very good question. We make our estimate -- Melissa, why don't you answer that?

Melissa Schaeffer

Yes. So let me give you an answer the merchant. So merchant-on-merchant pricing was up slightly. So we had stronger merchant-merchant pricing in the Americas and Asia, which was partially offset by some small decrease in Europe. However, I do want to mention that in Europe, our conversion margin stayed strong because the power cost decreased at a faster rate than our -- so the conversion margin maintain strong in all three regions.

Seifi Ghasemi

And with respect to FX, when we give you an estimate, we give you an estimate based on the exchange rates as of today. So that is -- we are not assuming any significant change in the exchange rate.

Sebastian Bray

That's very helpful. Thank you, Seifi all the best for the time and questions.

Seifi Ghasemi

Okay. Thank you very much. I really appreciate that. Operator, since there are no other questions, I would like to thank everybody for joining our call today. We again appreciate your interest in Air Products, and we look forward to discussing our results with you in 3 months. All the very best, and thank you for listening.

Operator

That does conclude today's conference. Thank you for your participation. You may now disconnect.

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