

# **Air Products and Chemicals, Inc. (APD) Q2 2024 Earnings Call Transcript**

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**Body**

Air Products and Chemicals, Inc. (APD)

Q2 2024 Earnings Conference Call

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Company Participants

Sidd Manjeshwar - Vice President of Investor Relations

Seifi Ghasemi - Chairman, President & Chief Executive Officer

Melissa Schaeffer - Chief Financial Officer

Samir Serhan - Chief Operating Officer

Conference Call Participants

John McNulty - BMO Capital Markets

Jeff Zekauskas - JPMorgan

Steve Byrne - Bank of America

David Begleiter - Deutsche Bank

Duffy Fischer - Goldman Sachs

Michael Leithead - Barclays

Marc Bianchi - TD Cowen

Vincent Andrews - Morgan Stanley

Kevin McCarthy - Vertical Research Partners

Patrick Cunningham - Citi

Chris Parkinson - Wolfe Research

Josh Spector - UBS

Laurence Alexander - Jefferies

Mike Sison - Wells Fargo

John Roberts - Mizuho

Presentation

Operator

Good morning and welcome to Air Products' Second 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 copyright by Air Products and all rights are reserved.

Beginning today's call is Mr. Sidd Manjeshwar, please go ahead.

Sidd Manjeshwar

Thank you, Katie. Good morning, everyone. Welcome to Air Products' second quarter 2024 earnings results teleconference. This is Sidd Manjeshwar, Vice President of Investor Relations. I am 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 2. 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 busy schedule to be on our call today. As you know, I always start with safety which is our top priority at Air Products. Slide number 3 includes our employee lost time injury rate and recordable injury rates in the first half of fiscal year 2024. Both of these rates were at their lowest levels since 2014 and the best in the industry. This is great progress but our ultimate goal will always be zero accidents and zero incidents.

Slide number 4 outlines our management philosophy. We believe strongly in these principles and they will continue to guide us as we move Air Products forward like we have done in the past 10 years.

Now please turn to Slide number 5. Our second quarter adjusted earnings per share of $2.85 exceeded the upper end of our previous guidance range and improved 4% compared to last year on strong results in Americas and Europe. We continue to effectively manage our current business while simultaneously executing our growth projects. We are focused on reducing costs and improving pricing in this inflationary environment. Our industrial gases business and broad scale low-carbon hydrogen projects are driving sustainability, enabling customers to decarbonize and generating a cleaner future for our world.

Now please turn to Slide number 6 for a review of our third quarter and full year guidance. For the third quarter of fiscal year 2024, our adjusted earnings per share guidance is $3 to $3.05. Our earnings are generally higher in the second half of our fiscal year. We are maintaining our full year guidance of $12.20 to $12.50 per share as we continue to monitor economic uncertainties, including China's economy and activities in the electronic industry throughout Asia. We continue to expect our CapEx to be in the range of $5 billion to $5.5 billion in fiscal year 2024.

Now please turn to Slide number 7. Our adjusted earnings per share has improved an average of more than 10% annually since 2014, a trend we are committed to continue.

Now please turn to Slide number 8. We take a balanced approach to determine our dividend, considering various factors including yield, payout and peer benchmarks while investing for growth and maintaining our A/A2 credit rating. In January, we again increased our 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 through dividends in 2024.

Slide number 9 shows our EBITDA margin trend, always my favorite slide. Our margins have again climbed above 40%, leading the industry and reflecting our commitment to creating shareholder value. At this point, I would like to remind our shareholders that almost 10 years ago, on my first call as Chairman and CEO of Air Products, I promised you that we would make Air Products the safest and most profitable industrial gas company in the world and we have delivered on that. On the same call 10 years ago, I also promised we would increase our earnings per share on the average by 10% every year. And as you see on Slide 7, we have delivered on that too for the last 10 years.

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So today, I want to set the goal for the next 10 years. Air Products will continue to be the safest, most diverse and most profitable industrial gas company in the world and, as we have done before, deliver earnings per share growth of at least 10% per year on the average for the next 10 years. We have done it before and we will do it again. I have total confidence and I want to stress this, I have total confidence in the ability of the talented, dedicated, motivated and committed people of Air Products to execute our bold and forward-looking strategy and deliver significant value to our shareholders. I want to thank every one of them for their hard work, commitment and dedication. I'm very proud to be part of this team.

Now I would like to turn the call over to Melissa, our Chief Financial Officer, to make remarks about the second quarter. Melissa?

Melissa Schaeffer

Thank you, Seifi. Now, please turn to Slide 10 for a review of our second quarter results. Compared to last year, on-site activities were robust driven by higher demand for hydrogen and contributions from new assets. The volume was down 2% primarily due to lower demand for merchant products. Price contributed 1%. The combined impact of pricing and lower power costs across most regions resulted in strong contribution margins. The declining natural gas prices in Europe and North America resulted in lower energy cost pass-through which has no impact on profit but contributed to higher margins.

EBITDA improved 4% as higher contribution margin and lower costs more than offset lower affiliate income. EBITDA margin exceeded 40%, with lower energy cost pass-through contributing about half of the nearly 500 basis point improvement. ROCE of 11% was relatively flat. Adjusted for cash, our ROCE would have been about 13%. Sequentially, results improved driven primarily by favorable pricing and lower costs despite the seasonal slowdown due to the Lunar New Year in Asia and planned maintenance outages.

Now please turn to Slide 11 for a discussion of our earnings per share. Our second quarter GAAP earnings per share was $2.57 which included a $0.20 charge for productivity actions. Our adjusted earnings per share was $2.85, up $0.11 or 4% compared to last year, primarily due to favorable pricing and costs, partially offset by unfavorable volume and equity affiliate income.

Overall, volume was down $0.07 on lower merchant demand and planned maintenance outages. Price, net of variable cost contributed $0.16 this quarter driven by both pricing actions and lower power costs. Other costs were $0.12 favorable, demonstrating the team's commitment to managing costs, while we continue to support our growth strategy. Currency impact was negative $0.03, mainly due to a weaker Chinese RMB. Equity affiliate income was $0.08 unfavorable, driven by lower contributions from affiliates in Europe and the Middle East, partially offset by higher income in America.

We successfully issued $2.5 billion of green bonds in February to help fund our growth projects. This additional debt contributed to higher interest expense of $0.07. The remaining items, including favorable noncontrolling interests, the tax rate and nonoperating expense together had a positive $0.08 impact.

To echo Seifi's statement, I would like to express my appreciation to the entire Air Products team for their commitment to our company. Now to begin the review of 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, underlying sales were positive with price and volume together up 4%. Merchant pricing was 6% higher which corresponded to a 3% overall price improvement for the region. Volumes grew 1% as a strong demand for hydrogen more than offset weaker merchant volume. EBITDA was up 15% driven by higher price, volume and equity affiliates' income. Of the 1,000 basis point improvement to the EBITDA margin, roughly half was attributable to lower energy cost pass-through. Sequentially, EBITDA was 5% higher, mainly due to higher price and equity affiliate income.

Now please turn to Slide 13 for a review of our Asia segment results. Compared to last year, volumes were roughly flat as higher on-site volumes, including new assets were offset by lower demand for merchant products while price remained stable. As Seifi mentioned, we continue to see challenging economic conditions in China. However, we are beginning to see some potential improvement in the electronics market. Currencies were up -- were 4% unfavorable, primarily attributable to the weaker Chinese RMB. EBITDA and EBITDA margin were unfavorable, primarily driven by business mix. Sequentially, volume was 2% lower due to the Lunar New Year slowdown. However, EBITDA was flat as a result of lower cost and higher equity affiliate income.

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Please turn to Slide 14 for a review of our Europe segment results. Sales declined 11% compared to last year with lower energy cost pass-through and volume shortfall each contributing about half of the total. Weaker merchant demand and planned maintenance outage drove lower volume, partially offset by contribution from our Uzbekistan project. Merchant pricing was stable and combined with declining power cost, it drove improved contribution margin. EBITDA was up 5% as the improved contribution margin and lower cost more than compensated for lower equity affiliate income. EBITDA margin improved over 600 basis points. Approximately half of this was due to the impact of lower energy cost pass-through. Sequentially, results were stable as favorable contribution margin and cost offset the planned maintenance volume impacts and lower equity affiliate income.

Now please turn to Slide 15 for a review of our Middle East and India segment results. Despite lower sales volume, operating income improved compared to last year due to lower costs. Equity affiliate income from the Jazan joint venture was lower due to higher interest and other operating costs.

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. Sales were down primarily due to lower non-LNG sale of equipment activities. However, lower cost and contribution from LNG resulted in a stable EBITDA. Our activities related to the LNG equipment and technology business are robust and we expect our LNG-related projects to improve the results of this segment moving forward.

Before I turn the call back to Seifi, I also would like to say thanks to our teams around the world. We're continuing to improve our results. 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 Slide number 17, Air Products has a great business model and continues to operate from a position of financial strength. While we execute our bold growth strategy in this challenging and continuously changing macroeconomic and geopolitical environment, our organization must remain flexible and agile. On a daily basis, our employees are committed to taking action that improves our safety performance, simplifies work and reduces costs so that together we can deliver productivity to the bottom line and continue to earn the right to grow as we pursue our strategy.

We appreciate the dedicated service of all the people who are contributing to Air Products' success and the people in our leadership who continue motivating and developing our people. As I always say, our real competitive advantage is the degree of motivation and commitment of the people in the company. I am honored every day to be working alongside this team as we focus on delivering near-term results while executing our long-term growth strategy.

At this point, we obviously will be delighted to answer your questions. Operator, we are ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to John McNulty with BMO Capital Markets.

John McNulty

So I think the first one is just on how you're thinking about the cadence of the earnings as it progresses through the year. Obviously, 2Q came in pretty solidly, 3Q, maybe a little bit below what we and the Street were looking for which kind of makes for a really steep ramp in the fourth quarter. I guess, can you help us to think about what drives that ramp, whether it's some of the projects or the Corporate line coming off, I guess, can you help us to think about the cadence for the year?

Seifi Ghasemi

John, excellent question. I would like to answer it in the following way. First of all, there is a question about the -- our guidance for the quarter. The guidance for the quarter is a little bit lower than what people expect. And that is because we have some major turnarounds that we have to do on our plants in Europe and in the United States that is driving our maintenance costs for the quarter and that is why we have given a lower guidance than what we would have liked to do. So that is the -- for the third quarter. As far as -- we are committed to the year, because in the fourth quarter, although it looks like -- hardly a stake [ph], we expect to bring significant number of smaller plants onstream. We've brought in about 20 of them in the last -- in the first half and we expect to have a number of clients coming onstream that will contribute.

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Secondly, we have taken significantly productivity actions that should result in better numbers for the fourth quarter. In addition, as you know, our business is seasonal and the fourth quarter is just about every year our strongest quarter. And the fourth thing is that we are seeing a very strong performance by our LNG business and a lot of that will ramp up in the fourth quarter. So those are the fundamental reasons, John, I hope that answers your question.

John McNulty

Yes. No, that's hugely helpful. Yes, it definitely helps to bridge in a reasonable amount. And I guess, maybe to that, as the follow-up or my second question, you had alluded to in some of the prepared remarks cost reduction actions and things that were starting to help on the margin side. And then -- and actually just in your last answer, you gave maybe -- you intimated that there's there is some help there. I guess can you help us to think about some of the actions that you're taking and if it's any specific division or how we should be thinking about that.

Seifi Ghasemi

We look at the company across the board. And by productivity we mean that we try to do things in a more efficient and more simplified way which means that we don't have as many costs. That is the action that is normal for productivity. It just means that you are trying to do more with less -- with the same number of people you have or with less people. So those are the specific actions we have taken.

Operator

We'll go next to Jeff Zekauskas with JPMorgan.

Jeff Zekauskas

In the Louisiana project, you'll bring on 3.5 million tons of ammonia. Some consultants think that the Japanese market is only 3 million tons of ammonia by 2030. Your competitors have begun to have memorandum of understanding and procuring volume. When your plant comes on in 2027, is there 3.5 million tons of demand for blue ammonia? And where might it come from?

Seifi Ghasemi

Jeff, very good question as usual. Jeff, first of all, the number that you're saying, 3.5 million tons of ammonia, that assumes that we will take all of the hydrogen that we produce at that plant, all of the deep blue hydrogen that we produce will be turned into ammonia. That is not necessarily the case. As you know, we have a huge pipeline that goes all the way across the Gulf Coast of the United States. There is significant demand for blue hydrogen, for real blue hydrogen, not fake blue hydrogen. And therefore, we expect that a significant amount of the hydrogen we produce will be used as hydrogen through our pipeline to serve the customers that we have because they would be in need of that. So the breakdown of the ammonia and hydrogen is not finalized yet. We are installing 2.8 million tons of capacity to make ammonia. So that is the maximum amount of ammonia that we will be making. But we might make less than that depending on what we do with the hydrogen.

So then the question that you have is, okay, even at 2.8 million, whatever you make, where is it going to be used? I understand that people are making -- announcing letters of intent and all of that. But that is people who don't have a product, selling it to people who don't have a use for it. There is -- we are making real blue ammonia, real blue ammonia, 95% of the CO2 taken. We have a place to sequester that. Therefore, our project is real. We are not having an imaginary or a fake project here. And therefore, we believe strongly that there will be demand for the product.

Where it is going to go, we have always said that it is going to go mainly for decarbonization of the power plants in Japan and in Korea. But another significant demand that is being developed and I think there are significant signs that, that is real, is ammonia as a fuel for ships. I'm sure you're familiar that starting January of 2025, in 6 months, every ship that goes to Europe, no matter where it starts from, if it gets to a port in Europe, they have to pay a tax on this carbon emissions that they released since they left their port of origin. We believe this will generate significant amounts of interest in ammonia as a direct fuel for ships. And you can check that people have already ordered ships that will use ammonia as a fuel and some of them will actually be on the water in 2026.

And the other thing that I'd like to just stress, we have not said that our Louisiana plant in terms of timing is going to be fully commissioned and onstream in 2028.

Okay, Jeff?

Jeff Zekauskas

Okay. And then for my follow-up, the -- in the quarter, what seems surprising was the weakness in equity affiliates' income in Europe and in the Mid-East. And in the script, there was some talk of higher interest costs in the Mid-East. And it's difficult to know if that's a onetime event or if that's a sustainable event. Could you comment on that? And I think European volume was down 6% in the quarter and maybe in the previous quarter, it was up 9%. And maybe if you can touch on what caused that change.

Seifi Ghasemi

Okay. I will try to have Melissa answer the -- I got excited, I lost my voice, Jeff. But I'd like Melissa to answer the first question and Dr. Serhan to answer the second question. Melissa?

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Melissa Schaeffer

Yes. Thank you, Seifi. So Jeff, what you're seeing in equity affiliate income is a little bit of timing but we did see a bit of a decline in our Jazan joint venture. This is really a onetime item from the previous year and some higher interest expense for this quarter. So again, it's primarily timing, not an underlying business issue and a prior year onetime issue.

Samir Serhan

And just following up on Jazan, I mean, again, Jazan is delivering $1.35 for earnings per share and we expect really the project to continue to deliver this amount on an annual basis. I mean, there will be some seasonality depending on operating cost, maintenance. When it comes to the volume in Europe, the volume is lower because of the planned maintenance outage we had in the second quarter and a significant outage for our air separation units and SMR in the Rotterdam area. So that really drove the volume down and also what we highlighted before, the weaker merchant volumes in general, especially the liquids. The Uzbekistan project continue to ramp up and that definitely helped in this area.

Operator

We'll go next to Vincent Andrews with Morgan Stanley. I'm sorry. We'll go next to Steve Byrne with Bank of America.

Steve Byrne

Just curious about the business mix that was unfavorable in Asia. Was that primarily helium? And can you provide an update on how that business is going in Asia? Are you adjusting to the Russian source product coming in, in your outlook in the next couple of quarters?

Seifi Ghasemi

Thank you for the question. We are adjusting -- I think that's a very good word. We are adjusting to the helium condition -- business conditions in China. And that situation has stabilized and we expect a stable situation on that for the balance of the year.

Steve Byrne

And a question about the Alberta project. Are you still expecting that blue hydrogen project up there to start up sometime in late 2025? And just curious, how much of the volume of that plant would you say has now been committed? Can you provide any update on that?

Seifi Ghasemi

The answer to your -- first part of your question is yes. And the second part is that I would like to say, that's just about all of it.

Steve Byrne

And you have contracts on that, Seifi?

Seifi Ghasemi

We believe that we'll be all sold up [ph]. We do have it, okay? Thank you.

Operator

We'll go next to David Begleiter with Deutsche Bank.

David Begleiter

Seifi, on NEOM, have you signed any offtake agreements for any portion of the production from that project?

Seifi Ghasemi

David, no, we have not signed any contracts that we are in a position to announce for that project yet.

David Begleiter

Understood. And the same question for Louisiana. Has any portion of that contract been contracted for?

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Seifi Ghasemi

Not yet. And we have been very specific about this thing. That is not by accident. That is by design. We are not going to sign any contract for either 1 of these 2 projects until we get to the stage that we can get the price that we expect. We have taken the risk of being the first mover in this area of green and blue and therefore, we deserve returns which are more than a plain vanilla, going and building an air separation unit. So we are going to wait until we can extract the right price.

Operator

We'll go next to Duffy Fischer with Goldman Sachs.

Duffy Fischer

First question, just on Europe. Could you take out the Uzbek impact and just let us know what volumes did in Europe excluding that? And then what was the split of that number between your turnarounds and the weak merchant business?

Seifi Ghasemi

All right. Duffy, you know that that's a very detailed question and very sensitive competitively. But I'll turn it over to Dr. Serhan to see what he wants to disclose.

Samir Serhan

Yes. I would emphasize what you mentioned, Seifi. We would really not like to get into those details. I mean...

Seifi Ghasemi

Thank you. That's the right answer. Absolutely. Sorry, Duffy. Another question...

Samir Serhan

But we've highlighted before that the Uzbekistan project is expected to really produce around $0.35 per year of earnings.

Duffy Fischer

Okay. And then the difference between GAAP and non-GAAP, there's $0.20 of charges that are called out as business and asset actions. Can you detail what exactly those are and call out a few of the bigger items to that number?

Seifi Ghasemi

Melissa, do you want to answer that?

Melissa Schaeffer

Sure, Seifi, sure will. So thanks for the question. So as we mentioned, we continue to focus on our cost productivity and have taken discrete actions that are reflected in that business and asset action line item. For the vast majority of these, that is severance costs that we're recognizing in that $0.20. And just for your awareness, the full year run rate of that savings is about $75 million.

Operator

We'll go next to Michael Leithead with Barclays.

Michael Leithead

Great. First question for Seifi. I think this morning, the European Commission announced the first winning bids for their green hydrogen subsidy auction. I think most of the winning bids were under $0.50 per kilo of hydrogen. I guess, does that outcome surprise you at all? Would you have expected higher subsidy bids? Or just -- is that roughly consistent with the bidding activity you would have expected?

Seifi Ghasemi

I have no idea what you're talking about in terms of $0.50. It is impossible to have $0.50 hydrogen. To make hydrogen, you make -- you must have the unit -- to make hydrogen, you need about at least 50 to 60-kilowatt hours of power and even the cost of power at $0.05, that's $3 a kilogram for hydrogen, excluding your capital costs and excluding your running costs. So I'm not familiar with that number. I don't know what you are referring to.

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Michael Leithead

Apologies. I was referring to the European Union's European Hydrogen Bank auction results this morning, referring to kind of the bid prices that were awarded to 7 different projects under $0.50 per kilogram of what they were awarded in terms of subsidy. But again...

Seifi Ghasemi

I'm sorry, I'm sorry. Now I understood your question. Yes. They are -- those are not that they are buying hydrogen at that price, sorry, about that. They are giving subsidies for people to use hydrogen. Some countries are giving $0.50 a kilogram. Some countries are giving as high as $8 a kilogram. It depends on the country and it depends on which tranche and all of that. But whatever subsidies they give, it's welcomed because that encourages use. My apologies at the beginning, I thought that they were buying hydrogen at $0.50. No, no, those are subsidies in terms of -- yes.

Michael Leithead

No worries. Then again, it came out this morning. So I know it's a quick...

Seifi Ghasemi

Yes.

Michael Leithead

And then second question related to Jazan, maybe for Melissa. Can you just remind us, again, you've talked about the EPS impact. But can you just remind us on the cash portion, are you receiving cash commensurate with your earnings per share? Or how should we think about the cash from the joint venture relative to the EPS impact?

Seifi Ghasemi

Melissa, you want to go ahead and answer that?

Melissa Schaeffer

Yes, I sure will, Seifi. So yes, we do get regular dividends from the joint venture in commensurate with the earnings. Sometimes in our cash flow statements, you will see a little bit of timing of when those distributions do occur. But yes, absolutely, we are getting the dividends as expected.

Operator

We'll go next to Marc Bianchi with TD Cowen.

Marc Bianchi

On the earlier discussion around Louisiana, Seifi, you mentioned that there'll be a market for your blue hydrogen into the pipeline network. Investors have asked if that could cannibalize some of your existing gray hydrogen volumes. Can you talk about how we should think about that dynamic?

Seifi Ghasemi

Well, it will eventually cannibalize that because I think, eventually, everybody will be using blue hydrogen. I mean, 10 years from now, I don't think anybody will be using gray hydrogen. So -- but the thing is that we expect volumes to grow. The volumes, as you saw even this quarter on our pipeline system is, we are totally sold out. And if we had any more hydrogen today, we could sell it. So we expect that there will be significant growth in addition to what is in the pipeline. And in the long term, we are going to make only blue hydrogen. I mean, 15 years from now, we will not have any SMRs running.

Marc Bianchi

Okay. And Dr. Serhan made a comment in your prepared remarks about the electronics market outlook. It sounded like maybe looking a little bit better. I was hoping you could expand on that and maybe help us understand how much your earnings are being held back by that. So once the electronics market recovers what sort of uplift in EPS should we expect?

Seifi Ghasemi

Dr. Serhan, you want to comment on that?

Samir Serhan

Yes. We do see signs of the electronic businesses picking up but really, we're not counting on any of that upside in our outlook for the second half of the year. So we're being conservative in this regard. But we do -- especially in Asia, I mean, with our major customers, their volumes are picking up across nitrogen, argon, helium, especially helium.

Operator

We'll go next to Vincent Andrews with Morgan Stanley.

Vincent Andrews

And I apologize. I fell off the call before. So if this has been asked, please move on. Seifi, I wanted to ask you, you did better in the second quarter. You were above the high end of your guidance. It seems to me that maybe that was a function of costs coming in on the power and maybe nat gas side, a little bit lower than maybe what you thought 3 months ago. So one, is that the case? And then two, just given those costs have indeed come down, whether it was more than you expected or not. But how are you thinking about that on a go-forward basis? Just because we've seen price be nicely sticky despite the deflationary environment. And obviously, many things can happen that could cause those costs to go back up. So if they do go back up, do you think you'll be able to reprice for it? Or should we just assume that there could be a little bit of a give back over the next, let's say, 12 months if we do see some reflation.

Seifi Ghasemi

Vincent, the thing is that your comment about our second quarter coming out better than we expected is because obviously we have taken -- we are seeing better volumes in U.S. and Europe. U.S. and Europe were very strong for us in the quarter which was not what we expected. So that was the good news. The addition is that we are taking cost actions. In terms of pricing, I think that right now, with the inflation the way it is, I'm sure everybody is paying attention that consumer price index is up 30% in the last 4 years. So we are having serious inflation and that is giving us the ability to go to the customers and ask for higher prices. And as you saw in the U.S., our merchant pricing was up 6% in the quarter versus quarter of last year. So we -- as I've said in my prepared remarks, our focus is on two things: cost, pricing. Those are the things that affects our short-term results and obviously executing our projects.

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But we have always -- in the last 10 years, Vincent, you know us very well, we have always reacted to the environment. As I said in my prepared remarks, these are the times when the organization needs to be very agile. And that's what Air Products is about. We can adapt. We are not very big but we can adapt. I mean, as they say, the dinosaurs died. They were very big but they were not agile and they are extinct. So hopefully, we are the agile ones who are going to survive for the long term, no matter what.

Operator

We'll go next to Kevin McCarthy with Vertical Research Partners.

Kevin McCarthy

Seifi, congratulations for the results that you outlined over the last decade and it's nice to see the 10% earnings growth goal moving forward. Unfortunately, one thing that has changed over the last 15 months or so is Air Products' trading multiple of EBITDA. And so I'm wondering, to the extent that the company's hydrogen projects and investor anxiety around that issue may be weighing on the multiple, might Air Products be interested in establishing a market value for its hydrogen business through an IPO and/or a spin-off, for example? Is that something you would consider, if not today, then perhaps in 2025 or '26 when we move closer to sustaining cash flows from the various project startups?

Seifi Ghasemi

Kevin, Air Products is right now involved in not only trying to deliver short-term results that meet the expectations of our investors and our own goal of 10% per year increase and, at the same time, executing $20 billion of projects. I don't think this is the time to try to do any kind of a financial engineering and all that because that would be significantly distracting to the management and to our people. We should continue doing what we are doing. And when the investor anxiety has disappeared once we have signed 20-year, 30-year contracts for the 2 big projects that we have underway. And once our hydrogen business, blue and green hydrogen business becomes reality and produces EBITDA and producers returns and all of that, that is at the time that one can talk about those kind of things. This is not the time.

So right now, trying to put any value on the hydrogen business, it all depends on what is the assumption on the price of blue hydrogen and price of green hydrogen. And you talk to people. Some people say green hydrogen is worth $5, some people say it's $10, blue hydrogen the same thing. And obviously, we have other people, our competitors running around and saying, "Well, there is no demand for these things anyway." So how would you value a business like that? I would be very concerned about any effort in that direction because of the distraction that it will cause with especially the management and the team.

So as they say, there is a time for everything. This is not the time for doing that kind of financial engineering on Air Products. And by the way I did obviously read your thoughtful memo on this. Appreciate that.

Kevin McCarthy

And I appreciate the feedback regarding timing, hence my reference to future years. But perhaps to follow-up on the logic, if I may. It sounds as though the game plan is to enter into multi-decade long-term contracts and with greater clarity on counterparties and terms, perhaps the pressure on the multiple will be alleviated, as I understand what you're saying. And so I guess a follow-up would be, what is the timeline that you have in your mind to lift the veil and put forth these sort of agreements to the Street? Is it 6 months or 24 months or some other period of time? How would you think about starting that disclosure process?

Seifi Ghasemi

Well, Kevin, this is a very fluid situation. It can be any time. It depends on -- as I said, our criteria is not to run and announce something so that the stock would go up $50. Our criteria is how do we extract the real value that we deserve for these projects for the next 30 years? That is our criteria.

And now if somebody steps forward and say, "Gee, I'm going to start paying taxes tomorrow in 2027, in 2028 because of the regulation. And I desperately need this stuff and I want to secure it before somebody else does it and I want to sign a contract 3 months from now." We'll do that. If it is 20 months from now, then we'll do it 20 months from now. These clients are not coming onstream until 2027, 2028. The part that I can confidently tell the investors, believe me, there is demand. Do not buy into this business that there is no demand. There is demand.

The issue is at what point in -- and not only there is demand but Air Products is the only company who is going to have real products being made. We have a real green hydrogen project in Saudi Arabia being built. I can show you the picture of the wind turbines installed. Nobody else has that. Therefore, 3 years from now when people need this product, where are they going to get it? Therefore, we having taken the risk and losing a lot of the, as you said, our market value because we have taken the risk, we deserve a better return on these projects than running around and trying to panic about the fact that our multiple is, instead of being a 30x EPS, it is 20x EPS. But the value of the company hasn't changed.

Our base business is the most profitable with the highest margin business than anybody else. So if anybody's business is trading at 30x, ours should be trading at that, too. And now people are worried about these big projects. There is demand. Please take a look at the regulations in Europe, regulations at California, take a -- regulations that are coming in Japan, Korea. There is demand.

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So it is obviously a great deal of pressure but I am absolutely willing to stick my neck out and take the heat because I think my job is to create long-term value for shareholders, not try to panic on a short-term basis. Sorry for the long answer to your question.

Operator

We'll go next to Patrick Cunningham with Citi.

Patrick Cunningham

You cited major turnarounds in Europe and Americas potentially dragging on 3Q. Can you give us a sense of the volume and margin impact and what are those turnarounds there?

Seifi Ghasemi

Dr. Serhan, you want to take that?

Samir Serhan

Can you please repeat the question again, if you don't mind...

Patrick Cunningham

Yes, on the major turnarounds in Americas and Europe.

Samir Serhan

You're talking about the third quarter? Yes. I mean, we have 3 major turnarounds basically in the Americas in the third quarter. And that's why really our maintenance expense for the quarter is pretty significant. And they're also finishing a major turnaround in Europe, that's also going to contribute to basically significant increase in our maintenance costs for the third quarter. And these are mainly for like hydrogen plants...

Patrick Cunningham

Got it. And then do you have an update on permitting and preliminary engineering for the North Texas project? And when do you anticipate FID there?

Seifi Ghasemi

I'd like to take that. We have done a significant amount of engineering on the North Texas project. But we are not going to make a commitment on FID on that project until the rules for the implementation of IRA are finalized. There is a significant impact. And as you know, there is significant amount of controversy about how those rules should be interpreted. Currently, the way the rules have been stated, they are fine with us. And if that was final thing, we would commit to FID. But they are not finalized yet and we expect those to be finalized by June, July. But we will wait. We are not going to make FID on that project until those rules of what is the definition of green hydrogen is final on the books and on which basis one can count on the tax credit.

Operator

We'll go next to Chris Parkinson with Wolfe Research.

Chris Parkinson

Great. Can you just quickly take us for a trip around the world in terms of the merchant operating rates and what you're seeing? I think those on the Street are hearing a few varying kind of takes on what's happening with the global economy. So we'd love to hear yours.

Seifi Ghasemi

Thank you very much, Chris. If I may just -- in general terms, China has been weak for us in the first half. Right now, there is stock. We haven't seen any evidence yet. But there is stock and some actions taken that might indicate that China's economy will improve in the second half. We are waiting to see that and we have not included any improvement on that in our forecast.

When it gets to Europe, Europe is no change in the -- as compared to the last few quarters. Actually, European economy is growing a little bit better than we expected, as I said before. And the U.S. economy is doing better than we expected. And then Latin America is not material to our business. I hope that covers what you were looking for, Chris.

Chris Parkinson

Sure. And just a quick follow-up, just given all the puts and takes, I'm sure you've seen but in various public appearances, a lot of your competitors and peers, whether it's been Exxon or Shell or Aramco or Total, they've had, let's just characterize it as a very mixed commentary on a lot of the initiatives that you've been saying -- in terms of your potential offtakers over the next 3, 4, 5 years, do you think their comments during present day affects your positioning in terms of being a potential partner of choice on many of these projects? Or how should we interpret that industry rhetoric versus your own?

Seifi Ghasemi

Chris, the products that we are going to make, the potential users for green hydrogen are steelmaking, refineries, shipping, using green ammonia as fuel for ships to meet the very stringent requirements in Europe and hydrogen for mobility. Those are the 4 areas that will eventually -- the offtakers for the product. And we are obviously talking to people in all of those 4 sectors. We don't have anything to announce. And if we are talking to anybody, we are under NDA, therefore, we cannot announce anything or give any details. But those are the sectors that we will be using green hydrogen.

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On the blue hydrogen side, the developments, the way I see, it is still using blue hydrogen as a fuel to -- using blue hydrogen as a replacement of coal to decarbonize power plants. Blue hydrogen can also be used -- as I mentioned before, I think a significant use will be as fuel for ships. And blue hydrogen will be used in our pipeline for decarbonizing refineries and chemical operations along the Gulf Coast. Those are the sectors that we are talking to.

Operator

We'll go next to Josh Spector with UBS.

Josh Spector

Just a couple of quick follow-ups. Just to follow up on the turnaround and maintenance side of it, are you able to size the EPS impact that you think -- in 3Q since you called that out as a bridging item for second half? And would you characterize this year as a heavier maintenance year versus normal? I mean, obviously, there's turnarounds going on all the time but we're maybe not talking about them typically as much as we are today.

Seifi Ghasemi

Serhan, do you want to take that?

Samir Serhan

Yes. Sure, Seifi. I mean, definitely, our hydrogen -- our portfolio of hydrogen plant is really getting more and more which basically again, you need to maintain these units like every for 4 years -- around 4 years, you have to do a major turnaround. This year, without really mentioning a specific number, it is at a record high especially in the U.S. with our U.S. Gulf Coast, our assets in California, our assets in Canada. Basically, we have a significant amount of expense when it comes to maintaining our facilities. So -- and also coincided this year, we also -- we have our 4-year turnaround for our major facilities in Rotterdam in Europe. So...

Josh Spector

Okay. All right. And if I could just ask then on Asia with helium specifically, you commented earlier that it stabilized. But I think from the last call you were talking about lowering pricing and regaining margins -- or regaining volume, sorry. Has that played out? Has it stabilized lower? Or have you regained any volumes? Where is that?

Seifi Ghasemi

We have lowered prices in order to stabilize the situation.

Operator

We'll go next to Laurence Alexander with Jefferies.

Laurence Alexander

Just two very quick ones. Just on the pricing -- merchant pricing in North America, is there any quirkiness in the end market mix where you're seeing pricing? Or is this 6% across the board? And then secondly, how much capital do you have invested in gray hydrogen currently?

Seifi Ghasemi

I would like to have Dr. Serhan answer the first question. And the second question, I'm not sure we want to disclose that in detail.

Samir Serhan

I mean, when it comes to the merchant, it's really across the board. It's -- I mean, it's nitrogen, oxygen, argon, helium. It's really across the board that we really have pricing discipline there in this inflationary environment. So -- and I just also want to highlight in the Americas, I mean, we've mentioned it before in the prepared comments that again on-site -- hydrogen on-site has been really doing very well. I mean -- and that's helping the volume for the year. And we continue to see this going for some extended amount of time because of the refining activities.

Operator

We'll go next to Mike Sison with Wells Fargo.

Mike Sison

Nice quarter. In terms of the fourth quarter, what volume growth do you need to hit the range that you have? I know you gave us a lot of -- 3 or 4 different reasons why it's going to be a lot stronger than the prior quarters. But any thoughts on what type of volume growth you need?

Seifi Ghasemi

We have really not -- volume growth, not on the base business. But we will have volume growth based on new plants coming onstream. But most of it -- yes, sir.

Mike Sison

Got it. And then just a -- yes, sorry. But yes, just a quick follow-up on your NEOM and Louisiana. I know you can't really or want to tell us what price but what is the return premium that you're looking for to sign the offtake? Is there a certain way for us to look at it at -- from that standpoint?

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Seifi Ghasemi

As high as we can get. Because if we have a product that nobody else has, then why should we be satisfied with a specific return? And I, obviously, do not want to disclose that but -- any kind of a return. We are -- we have a product that is going to come onstream that people are going to need. Nobody makes that product today. So what is the price for that? The price for that is not calculated on the basis that this is my capital, this is the return and therefore, we do that. When you have somebody that people need, you extract the maximum price.

We all go to the gas station and pay what we are paying for the gas station. The cost of taking oil out of the ground in the Middle East is $5 a barrel. If you sit down and calculate it based on the return, we should be paying $0.25 a gallon for gas. But people are sitting there saying, "I have it. You need it. It's $80 today. It might be $200 another day or it might be another price another day." So we are not basing the pricing from our products based on return. We are basing it on what we can get out of the market because there is significant value that we bring to the market for the investor.

Right now, if you have deep blue hydrogen that you can give to somebody where they can make renewable diesel to sell it in California, there is a significant premium for that. So that's how we look at it.

Samir Serhan

And if you allow me, Seifi, I just wanted to highlight, today, we already have 3 major on-site blue hydrogen contracts for 15-plus years with a premium for the blue product.

Seifi Ghasemi

Right. Obviously, we haven't disclosed some of that yet. But we know what is going on in the marketplace and our goal is to get the maximum return for our investors, not to sit down. And if it was just a matter of saying, "This is my investment and this is a 10% return and this is the price [ph]." Then you don't need to pay somebody $15 million to be CEO of Air Products. Then anybody can do that.

Operator

We'll go next to John Roberts with Mizuho.

John Roberts

Seifi, did you say 15 years from now, Air Products will not have any SMRs running? Did you mean not running without carbon capture? Or -- can you talk about the average useful life left on the SMRs?

Seifi Ghasemi

Yes. I very much appreciate you bringing up the point. I should have mentioned that we will not have any SMRs running without carbon capture. That is correct. I'm glad you clarified that.

John Roberts

On the lower natural gas feedstock cost for hydrogen, besides the pass-through impact on margin, I think you also get to key the benefit of efficiency improvements. And those efficiency improvements, I guess, are worth a lot less when gas is low. Is that a meaningful headwind? Or is that immaterial right now?

Seifi Ghasemi

Well, I wouldn't want to say it's meaningful but it is a hit and I really appreciate you picking up on that. That is exactly right. When natural gas price is at $12 a 1,000 cubic feet, those bonuses are significant. Now the natural gas is $3, $2.5, the bonus has become a lot smaller.

Operator

At this time, there are no additional questions in queue. I'd like to turn the call back over to our speakers for any additional or closing remarks.

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Seifi Ghasemi

Well, thank you very much. I would like to again thank everyone for joining our call today. We appreciate your interest in Air Products and we look forward to discussing our results with you again next quarter. Please stay safe and healthy and all the best. And thank you for your very good questions today, everybody. We really appreciate that.

Operator

Thank you. That will conclude today's call. We appreciate your participation.

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