

# **Air Products and Chemicals, Inc. (APD) Q3 2024 Earnings Call Transcript**

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**Body**

Air Products and Chemicals, Inc. (APD)

Q3 2024 Earnings Conference Call

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Company Participants

Sidd Manjeshwar - Vice President, Investor Relations

Seifi Ghasemi - Chairman, President and Chief Executive Officer

Eric Guter - Investor Relations

Melissa Schaeffer - Chief Financial Officer

Conference Call Participants

John McNulty - BMO Capital Markets

Jeff Zekauskas - JPMorgan

Vincent Andrews - Morgan Stanley

David Begleiter - Deutsche Bank

Chris Parkinson - Wolfe Research

Duffy Fisher - Goldman Sachs

Salvator Tiano - Bank of America

Mike Leithead - Barclays

Mike Sison - Wells Fargo

John Roberts - Mizuho

Josh Spector - UBS

Patrick Cunningham - Citi

Dan Rizzo - Jefferies

Presentation

Operator

Good morning and welcome to Air Products Third 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.

Sidd Manjeshwar

Thank you, Samira. Good morning, everyone. Welcome to Air Products' third 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; Melissa Schaeffer, our Chief Financial Officer; Sean Major, our Executive Vice President, General Counsel and Secretary; and Eric Guter, our Incoming Head of Investor Relations.

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 busy schedules to join our call today. Before I discuss our results, I would like to introduce Eric Guter, who is with us today. Eric has been with the company for nearly 30-years, most recently serving as our Vice President of Hydrogen for Mobility. He will bring a wealth of knowledge and experience to Investor Relations. I'm happy that he has agreed to take on this new challenge.

Eric, would you like to say a few words?

Eric Guter

Thank you, Seifi. I appreciate your kind words, and I'm humbled and honored to be part of this tremendous team and to be taking on this new role within Air Products. Looking forward to meeting with our analysts and investors and continuing the great work, Sidd and the team have done as we continue to execute our growth strategy.

Seifi Ghasemi

Thank you, Eric. And as we have announced, Sidd will be leaving the company to pursue other career opportunities. Sidd has made great contribution to Air Products. I want to thank him for continuing to build strong relationship with investors and analysts and for his work over the past few years at the company. Sidd and Eric are already working closely together to ensure a smooth transition.

Now, please turn to slide number three. As always, I would like to begin with our record on safety, which is our top priority at Air Products. We have made significant progress on both our employee loss time, injury rate, and recordable injury rate since 2014. We are proud of this improvement and we are very proud to have the best safety record in the industry. But we always strive to achieve zero incidents and zero accidents. That is our ultimate goal.

Slide number four summarizes our management philosophy. We have shared this with you many times before. We are, as we have been for the past 10-years, committed to these principles and practice them every single day.

Now, please turn to slide number five. Our third quarter adjusted earnings per share of $3.20 per share exceeded the upper end of our prior guidance range of $3 per share to $3.05 per share, and improved 7% over last year. Our results reflect strong underlying performance in the Americas and Europe. Additionally, we saw improvements across our organization, driven by our price and pr0oductivity actions. We continue to execute our two-pillar growth strategy, which includes driving operational excellence and growth in our industrial gas business, while executing our energy transition projects focused on clean hydrogen.

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Now, please turn to slide number six. We are maintaining our full year adjusted earnings per share guidance of $12.20 per share to $12.50 per share. And we still 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 seven. During our fiscal third quarter, in addition to achieving 7% earnings per share growth, we have also reached overall significant milestones. In June, we announced a very large scale long-term green hydrogen supply agreement with TotalEnergies. Beginning in 2030, Air Products will supply TotalEnergies with 70,000 tons per year of green hydrogen for 15-years. This pioneering agreement, which has already generated significant interest from other customers validates our long-term strategy and demonstrates a strong demand for green hydrogen.

We are seeing the development of significant demand for green hydrogen in Europe. And as a result, we are even more excited and committed to our strategy to be a pioneer in the production of clean hydrogen. In July, we announced the planned sale of our LNG process technology and equipment business to Honeywell for an all-cash price of roughly $1.8 billion. The divestment of this business will allow us to focus on our core business, while bolstering our balance sheet and our liquidity position.

Also in July, we were pleased to announce our collaboration with Mercedes-Benz to help decarbonize the heavy transport sector. Air Products was among five other companies that took delivery of Mercedes-Benz's hydrogen fuel cell trucks. This is a significant milestone toward the eventual mass production of hydrogen fuel cell heavy-duty trucks. In a related development, we have also announced our plans to build a network of permanent commercial hydrogen fueling stations along the Trans-European Transport Network.

Now, please turn to slide number eight, which illustrates our greater than 10% average growth rate for our adjusted earnings per share in the past 10-years. Our goal is to extend this trend for another 10-years, while remaining the safest, most diverse and most profitable industrial gas company in the world. We have done this before, and I'm confident we will do it again.

Now, please turn to slide number nine. We take a balanced approach to determining our dividend. We are confident that our cash flows from operations and our ability to raise capital through financing and other strategic initiatives will allow us to continue rewarding our shareholders through increased dividend, while meeting the cash needs of our growth strategy.

Now, turning to slide number 10, which as I always say, is my favorite slide. It shows that our EBITDA margins have significantly grown and now, it stands at 42%, leading the industry by far and demonstrating our persistent focus on effectively running our base business. We are very much focused on profitability, and this slide is a living proof of that.

I want to thank all of our employees for delivering these outstanding results in very challenging economic conditions.

At this point, I would like to turn it over to Melissa Schaeffer, our Chief Financial Officer to provide a summary of the third quarter financial and business segment results. Melissa?

Melissa Schaeffer

Thank you, Seifi. Now, please turn to slide 11. Compared to last year, underlying sales, volume and price together were up 1% and positive across most reporting segments. The 2% reduction on the company's top line was primarily due to unfavorable currencies. On-site volume was again positive this quarter, driven by strong demand for hydrogen as well as contributions from new assets.

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However, overall volume was flat due to lower demand for merchant products. Overall price improved modestly at 1% with continued strong performance in the Americas, coupled with lower power costs, which improved contribution margin. Declining natural gas prices in Europe and North America resulted in 1% lower energy cost pass-through, which has no impact on profit. EBITDA of $1.3 billion increased 5%, primarily driven by positive contribution margin and favorable business mix.

Although cost was moderately unfavorable, this with heavy planned maintenance this quarter, we are starting to see positive momentum on our productivity actions across the organization. ROCE of 11% was down 70 basis points and relatively flat sequentially. Adjusted for cash, our ROCE is about 12%. Sequentially, volume improved across the reporting segments.

Now, please turn to slide 12 for a discussion of our earnings per share. Our third quarter adjusted earnings per share was $3.20, up $0.22 or 7% compared to last year, mainly due to better operating results. Overall, volume was up $0.05 on higher on-sites, including new assets, partially offset by lower merchant demand.

Price, net of variable costs, contributed $0.16 this quarter, driven by both pricing gains and lower power cost. Costs were $0.04 unfavorable as productivity actions offset much of the costs related to planned maintenance and inflation. Again, we are making good progress implementing the productivity actions and exercising significant cost control throughout the organization.

Currency was negative $0.04, mainly due to weaker currencies in Asia and South America. Additional debt contributed to higher interest expense of $0.03 and one-time items helped lower the effective tax rate this quarter. Our full year effective tax rate is expected to be about 18%.

Now, please turn to slide 13 for a discussion of our business segment results. Instead of viewing each business segment in detail, I would like to provide a focused discussion summarizing our segment results and highlighting key items for the quarter. You will find individual slides covering each of the business segments in the appendix.

Looking at each business segment, Americas underlying sales were positive, with price and volume together up 2%. Merchant pricing was 7% higher, which resulted in a 3% overall price gain for the region. Volume was relatively stable as weaker merchant demand was offset by strong demand for hydrogen. EBITDA increased 6% and EBITDA margin increased about 400 basis points, primarily driven by strong price, despite increased costs due to higher planned maintenance.

Looking at Asia results, the region's underlying sales were relatively stable. Volume was down 1%, as lower demand for merchant products and planned maintenance outages were offset by new assets. EBITDA and EBITDA margin were unfavorable, primarily driven by the planned maintenance outages.

Switching to our Europe segment, merchant pricing was held firm, and combined with our declining power costs in the region, drove improved contribution margin. Volume was up 1%, largely due to our new assets in Uzbekistan. EBITDA improved 12% and EBITDA margin increased nearly 500 basis points, mainly due to improved volume and contribution margin.

Moving to our Middle East and India segment, sales and operating income declined due to unfavorable merchant price and volume. Equity affiliates' income was 7% lower due to higher costs. For our corporate and other segment, sales and profit were up this quarter, primarily due to higher sale of equipment, including LNG. We're making good progress on our productivity actions across all segments of the company.

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Before I turn the call back to Seifi, let me take a moment to thank our teams around the world for delivering these outstanding results.

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

Seifi Ghasemi

Thank you, Melissa. Now, please turn to slide number 14. Our industrial gases business is a great business, and we are committed to invest and grow it. Our recent announcements to expand our membrane production facility in St. Louis and to build two new air separation units in Georgia and North Carolina are just the latest examples. We are also leading the way to deliver low-carbon hydrogen at scale to help decarbonize the industrial and heavy-duty transportation sectors of the economy.

Our two-pillar growth strategy drives our company towards these two goals in parallel. The outstanding results and the significant project milestones that we were able to achieve this quarter demonstrates that we have the right strategy, and as I always say, we have the commitment and motivation of our employees to make it happen.

Now, before I open it up for industrial -- for questions, I want to make some comments about our Management Board and succession planning. The formation of the Management Board was a strategic step to delegate more responsibility to our senior executives, who are close to the business. You have seen our public announcements and our 8-K filing on these organizational changes, and I don't really have any additional comments to make on them.

On a personal basis, you all know that I am firmly committed to our two-pillar growth strategy and I have -- as I have articulated that many times. I fully intend to continue leading Air Products ensuring that our growth strategy is fully implemented, our mega projects are built, and we are serving our customers with low-carbon and zero-carbon hydrogen.

However, with our continued commitment to good governance and succession planning, it is prudent and good practice to have a fully qualified individual who can be my successor if something unexpected were to happen to me. I currently serve in three roles at Air Products. Chairman of the Board, Chief Executive Officer, and President. With good governance in mind, I have decided to bring into the company a fully qualified potential successor as President and a Member of our Board of Directors. This person should be well-known to investors with a clear record of success, preferably a current or former CEO of a public company with significant international experience and relationships. I have started this process and we will take our time to find the right person for the job.

At this point, I will be delighted -- we all will be delighted to answer your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we'll take our first question from John McNulty with BMO Capital Markets. Please go ahead.

John McNulty

Yes. Good morning, Seifi, and thanks for all the color and on the -- and the commentary around the management committee. It's definitely helpful in terms of how to think about things going forward. So, I guess one of the things I wanted to dig into one of the newer, I guess, events that came up during the quarter was on the green hydrogen announcement with Total. It came -- admittedly, it came earlier than what we were thinking in terms of offtake arrangements. So, I guess, can you speak to, one, maybe what brought that forward or kind of brought the timing of it maybe a little bit earlier than expected?

And then two, you spoke to kind of how that's heightened incremental demand for green hydrogen. Can you speak to that and maybe the potential for further offtake arrangements as we look out over the next 12 months or so?

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Seifi Ghasemi

Yes. Good morning, John, and thanks for the very good question. John, we have been talking to potential customers for hydrogen since even before we announced our project in New York, so, for the past five years. And with these things, they have a life of their own. The customers need to decide when they want to make a public announcement about having made a commitment. It depends on their needs. It depends on the regulatory conditions. It depends on conditions of the industry and all of that.

And I'm very happy to see that a visionary leader like Mr. Patrick Pouyanne of Total decided to be the first mover and announced early that he is committed to green hydrogen and he is committed to convert at least his Northern refineries to hydrogen. Since we had been talking to him for a long time, it was not too difficult to kind of get our act together and put a contract together and make a commitment on both sides. We are obviously delighted. We could not have found a better customer or a better application for significant amount of hydrogen.

In terms of additional volumes for them, I want to leave it to TotalEnergies to make those statements. I do not want to preempt anything. But what has happened since we have made the announcement, it has proven that people go through an auction process and then they find out that the best possible alternative is Air Products. So, a lot of other customers are taking the cue from TotalEnergy.

Obviously, if they are going to convert their refinery to green, what are the other refineries going to do? They have to follow. So, we are being contacted by other refineries. We are being contacted by steel makers, who -- and now, it has become a little bit of a dynamic of, well, maybe we should get to Air Products before they run out of product, which obviously puts us in a very good position.

In terms of future contracts and so on, I have always been very -- acting very responsibly, not to lead anything or give a hint until we actually do something. And I'd like to keep it that way. We are obviously working with other people. It is -- our intention is obviously to sell everything that we make. But if anything comes up at the appropriate time, we will make an announcement. But there is no question that the agreement with Total is a significant new beginning for us.

John McNulty

Got it. Thanks. Thanks so much for the color. Maybe just as a follow-up, so can you give us an update on the progress that you're making with the Louisiana project? And I guess somewhat tied to the Total arrangement, it seems like if the market is opening up for green, I would imagine it's opening up even more quickly for what should be a more cost effective solution, which would be blue. So can you speak to maybe that dynamic as well?

Seifi Ghasemi

Sure. Again, another good question. Number one, our project in Louisiana, we call it the Dero project is moving very well. We feel very confident about the capital that we have announced. And I feel very good that we have done our homework, we have done the testing and all of that. And we filed last week our Class 6 permit to the State of Louisiana. That is a major -- minor -- milestone and the clock starts running in terms of getting approval for that, which is the most critical item for that project to be viable.

We feel very good about the floor space that we have. We have proven that we have the floor space, which I think is a challenge for a lot of other people. And we are very confident that we should be able to bring that plant on the stream sometime in 2028. In terms of the demand for the product, you are right, there is a lot of discussions about the demand. And we have had discussions.

The target for that product is two. Number one, the blue hydrogen, we are going to put it in our pipeline and serve our existing customers with blue hydrogen. And then a significant part of the hydrogen will be converted to ammonia for shipment to places like Japan and Korea to decarbonize their power plants. So, we feel very good about that. And if we have -- if we ever sign anything definitive, we will obviously be in a position to announce.

John McNulty

Great. Thanks very much for the color, Seifi.

Operator

And we'll take our next question from Jeff Zekauskas with JPMorgan. Please go ahead.

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Jeff Zekauskas

Thanks very much. Is the NEOM project still to come on stream at the end of calendar 2026? And what's the state of your hydrogen dissociation technology?

Seifi Ghasemi

Jeff, good morning. Number one, our plants in NEOM is on a schedule. We expect that plant to be mechanically complete and hopefully commissioned by, as you said, December of 2026, and we should have product for sale in early 2027. In terms of the cracking technology, which I think is what you're referring to with the ammonia dissociated, we have proven that technology and we obviously will deploy it like in Total and in other places.

Jeff Zekauskas

Okay, great. When you -- when I look at Air Products' results, which I think are not dissimilar from what's happening with Air Liquide or Linde, there's been a slowdown in volume over time and there's also been a slowdown in price change. Now, it's hard to know whether raw materials have moved down and so, probably on-site prices have moved down, which in the end doesn't really matter very much. But can you talk about the sequential change in merchant prices and the overall volume slowdown in the industrial gas industry?

Seifi Ghasemi

Jeff, I wouldn't say that we have an overall -- the reduction in industrial gases. Our merchant volumes in the U.S. is okay. And the place that when you look at overall at Air Products, where we are seeing a slowdown is obviously in China, and that affects our numbers.

In terms of pricing, I can only comment on the past. I will not comment on the future, but obviously, when you increase prices, there comes a time where year-to-year, you don't show a huge amount of improvement, because there is a limit to what you can increase the price to because the people find alternatives and that there is a certain price at which you start being demand destructive. So, I feel very good about what our people have done with pricing and our overall volumes in the U.S. is good.

In Europe, it's a steady, but it is weak in China. No question about that. We have talked about that. That was one of the principal reasons that we missed our estimate in the first quarter and -- but it has stabilized, but we are not seeing much growth in that part of the world.

Jeff Zekauskas

Great. Thank you so much.

Seifi Ghasemi

Thank you very much.

Operator

And our next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews

Thank you, and good morning, Seifi. Wondering if you can give us an update on the sustainable aviation fuel project out in Los Angeles, both in terms of how the relationship with World Energy is going and the JV itself as well as the permitting process and sort of what your expectations are, if there's any update in terms of timeline or customers or just anything we should know incrementally there?

Seifi Ghasemi

Good morning, Vincent. Yes, in terms of our relationship with TotalEnergies, we have a very good relationship with them. Obviously, we have been working with them for a few years. In terms of the status of the project, we have put that project on-hold until we get our permits. We always said that that would probably -- process will probably take a year and we still expect that.

In terms of the demand for the product and all of that, SAF seems to be very much in demand. And as you have seen, Vincent I mean you're very well-informed, and a lot of people are trying to make SAF all over the world. So we just got a contract to supply hydrogen to a unit in Europe. So we feel pretty good about that project, but it is on-hold until we get our permits. And considering that we are operating in the State of California, we just have to wait-and-see how that works out.

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Vincent Andrews

Okay. And as a follow-up, the tax-rate in the quarter came in a little bit lower than we had expected. Should we assume that same tax rate in the fourth quarter?

Seifi Ghasemi

Yes. I would like to turn that question to Melissa to give you a color on that.

Melissa Schaeffer

Thank you, Seifi. I appreciate that. So for -- as we mentioned in the comments, we did see a lower tax-rate this quarter, but for the full-year, we do expect it to be at 18%. We had a number of one-time items that occurred this quarter. For example, there was a significant stock option exercise and some foreign restructuring, which did support the lower tax-rate. But again, 18% is what you should forecast for the year.

Vincent Andrews

Thank you very much.

Seifi Ghasemi

Thank you.

Operator

And we'll take our next question from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter

Thank you. Good morning.

Seifi Ghasemi

Good morning, David.

David Begleiter

Good morning. Do you have an update on the Alberta project as to when it will start-up and will contribute to '25 earnings?

Seifi Ghasemi

Our Alberta project will come on-stream sometimes in '25 and whether it will contribute to our fiscal year results, we have to wait-and-see exactly when that project comes on the stream. We are building a plant in the middle of Alberta, you know what the winters are like. So it's anybody's guess how much construction and how fast construction we can do during this winter. So I don't want to commit to any specific date. We are going to give you -- when we issue our guidance for the year, we are going to be conservative and assume no contribution from that project in '25.

David Begleiter

Understood. And just on the Q4 guidance, it is a bit wide. Why is it so wide and is what would cause you to come in at the higher-end or lower-end of the guidance range? Thank you.

Seifi Ghasemi

David, you make a very good point. Number one, we didn't want to change the guidance for the year, quite honestly. So by default, you end up with the numbers that you have, because I thought if you start changing the guidance for the year, it might get misinterpreted. Because we either had to move the bottom-up or the top-down but there is good reason for the wide range, David.

And you see the news, the geopolitical situation in the world is very unstable. We are going through an election cycle and the Federal Reserve hasn't made up their mind about exactly what they want to do. There is a lot of unknowns and therefore to try to kind of thread the needle and come up with a $0.05 range and so on, we did that last quarter because it was -- I was not as worried about the overall geopolitical situation as I am now.

But overall, I think, you should focus, I would appreciate if you focus on the year guidance rather than just the quarter guidance. We are going to be somewhere between $12.20 per share and $12.50 per share, right.

David Begleiter

Understood. Thank you.

Seifi Ghasemi

Thank you.

Operator

And we'll take our next question from Chris Parkinson with Wolfe Research. Please go ahead.

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Chris Parkinson

Great. Seifi, you've put together a couple of decent quarters, I should say, good between the US and Europe. And yet the macro, I think across all geographies has been fairly choppy and you've been navigating a lot of -- a lot of difficulties across-the-board and yet you're kind of moving in the right direction now.

So can you just kind of give us a quick update on kind of some of the key things that you're seeing on a regional basis, specifically what's the latest in manufacturing and electronics, perhaps a little update on Helium in Asia. Putting everything together now that we are in a more favorable trajectory, I'd love to just hear your thoughts on entering 2025? Thank you so much.

Seifi Ghasemi

Thank you, Chris. That's an excellent question. Chris, on a macro basis, you know, I'm always an optimist and I'm generally optimistic. I think the U.S. economy has proven everybody wrong. It is moving stronger than quite honestly we expected. Our on-site volumes, especially hydrogen is very strong in the U.S. and the merchant business is doing fine.

So, for the U.S., I feel very comfortable going into 2025 unless something significantly unexpected happens with the interest rates. And with the election, we all know what to expect. It's either one or the other. So I don't think that will change things that much. Then with respect to Europe, Europe is holding up relatively well. We have been successful in holding on to the price increases that is making sure that we have a good margins there.

And then my only concern going into '25 is how would Asia develop? But considering where China is right now, I don't expect it to get any worse. Some people are predicting that the things will improve, especially in the electronics sector, as you mentioned but we will wait-and-see. So overall going into 2025, I'm very optimistic for sure about Air Products and in terms of our ability to deliver the growth that we in general want, which is 10% growth every year-on our EPS.

Chris Parkinson

Thank you for the color.

Seifi Ghasemi

Thank you.

Operator

And we'll take our next question from Duffy Fisher with Goldman Sachs. Please go ahead.

Duffy Fisher

Yes, good morning, guys.

Seifi Ghasemi

Good morning, Duffy, how are you?

Duffy Fisher

Good, thanks. If you could maybe talk us through what the economics look like for the two hydrogen stations that you called out, the one that you were going to do in Europe and then the one in California. Roughly how much capital is that? And then what's the business model there? Will you own the stations and then push your hydrogen through it or will other people own it and just source from you? I mean, just can you give us some rough scope of what that project looks like?

Seifi Ghasemi

Sure. Duffy, our intention is that we kind of go -- own the whole supply chain. We produce the green hydrogen, we move it, whether it's in form of liquid or in form of ammonia that we then crack. Then we build the station, we will own the station, we might own the station jointly with some other people, but we will have control over the station, and we will sell it to the end-customer to the truck company or the train company or anybody else.

So we want to own the whole supply chain. And that is why in terms of economics, obviously, it depends -- the capital deployed, it depends on the number of stations we are going to build. That will be a gradual development depending on how much product we have and all of that. I mean, right now, we fully intend to build these stations in Europe and in California. But in Europe, if we sell-out NEOM all for application of decarbonizing refineries, then obviously, we will build a NEOM 2 and therefore building the stations will be a little bit delayed. And same thing in California.

So it very much depends on how the market develops, but the idea is exactly what you said that we will either own their stations 100% or we share the ownership with Air Products in control, so that we make sure that our molecules are the molecules that are going through it. And if other people built stations, we might or might not sell them the molecules. It depends.

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Duffy Fisher

Okay, great. And then for the second one, if I could, when we look at the sequential walk from Q3 to Q4, at the midpoint of the guide, it's up $0.28, but Melissa just talked about having a tax headwind sequentially that might be a nickel or a dime. Can you bridge us to getting, let's say, that $0.30 better in EPS going from Q3 and Q4, what drives that?

Seifi Ghasemi

And what drives that is, Duffy, that's obviously a very good question. What drives that is that number-one is, look, when you look at our results in the last 10 years or 15 years or 20 years, the fourth quarter of our fiscal year is one of our strongest quarters. It is not only one of, it is our strongest quarter. So we expect that we would have better results than the $3.20 just because of the cyclicality.

The second reason is that we have taken serious productivity actions. You are seeing some of the results in this quarter, but you'll see a lot more of that in the next quarter. And then the third thing is that we do have some new smaller projects coming on-stream that will contribute. So we feel pretty confident that we should be able to, as you said, bridge that $0.30 and deliver the midpoint of what we have delivered $0.48 that we need to get to the midpoint of our guidance.

Duffy Fisher

Terrific. Thank you, guys.

Seifi Ghasemi

Thank you.

Operator

We'll take our next question from Steve Byrne with Bank of America. Please go ahead.

Salvator Tiano

Thank you very much. This Salvator Tiano filling in for Steve. So firstly, I want to go back a little bit to the Louisiana project where you mentioned you're still on track for a 2028 start-up. And you made the comment that blue ammonia would be sold to the export market for energy. However, it seems like companies such as some of the major Japanese utilities will probably not need that much ammonia, if any at all at that time, perhaps you have to wait two or three years. So is it safe to assume that you will not focus on ammonia till perhaps 2030 or are there any other outlets for that when you start-up?

Seifi Ghasemi

Thank you for your question. Obviously, we are hearing a different story from them. I don't know what they tell you, but they tell us there is a lot of demand. But there is also another sector that is developing pretty rapidly and that is ammonia for -- as a marine fuel for shipping. So we feel pretty confident that by 2028, we will be able to start loading that facility. We also have the capacity and capability of balancing between hydrogen and ammonia and we do have the pipeline and I think by 2028, a lot of our existing customers might want blue hydrogen instead of gray hydrogen.

Salvator Tiano

Perfect. And I wanted to go back a little bit to the World Energy Project. You mentioned that it's roughly a one year timeline to get the permits. I think the project itself was announced over two years ago. So is it safe to assume you didn't actually apply for permits till over a year-after that? And when is kind of the one year deadline that you kind of alluded to? And does this mean at that point, you're going to proceed with a final FID and we're going to -- we'll know if it's a go or no-go?

Seifi Ghasemi

Well, we hope that we get our permit and we hope to finish the plan. But we have to wait for the permits because we don't want to commit and then find out there is an issue with the permit or we have to wait some more. So I'm not sure if there is anything more for me to add, we are just waiting for the permit. And we don't want to hurry up like we did last-time and start getting ahead of ourselves and then finding that the permit gets challenged and all of that. We want to make sure that it is bullet proof before we have final FID decision.

Salvator Tiano

Thank you very much.

Seifi Ghasemi

Okay. Thank you.

Operator

And we'll take our next question from Mike Leithead with Barclays. Please go ahead.

Mike Leithead

Great. Thank you. Good morning, guys. Seifi, I wanted to ask on the Total green hydrogen agreement. I appreciate you likely won't talk about pricing. If you want to give us the agreed-upon price, I'd happily take it. But can you speak to the return hurdle of this agreement? You've obviously taken a lot of risk by being a first-mover. So in this validation, are you getting a return profile that is a materially above your traditional project hurdle?

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Seifi Ghasemi

Well, you know you're asking a very good question. Obviously, the answer to that is yes. But I hope you have some sympathy with me that we are negotiating with people to sell them something and you don't expect me to be sitting here on a public call saying, hey, we're going to make a lot of money, right? So we have to be cautious in terms of our comments. But you can be sure that as I have always said, we have taken the risk and therefore, the reward should be higher than what we do when we do things that are no-risk, not risky.

Mike Leithead

Makes a lot of sense. And then I think you've talked before about being excited about building, like you just said, NEOM 2 or other large clean-energy projects, but at the same time, you didn't want to commit to announcing much until you've signed tangible offtake agreements for what you already have out there. So now that we have the Total contract, it sounds like you're far along in some other negotiations. Should we expect further clean-energy project announcements in, say, the next 12 months or so?

Seifi Ghasemi

I did only commit to that if we have announced enough projects so that the investors see that we are sold-out. I don't want to say that, okay, we have sold 35% of NEOM, therefore, we should rush and go and build NEOM number two. I'd like to wait until we have sold 80% of NEOM and then commit to that. So we are going to be conservative and cautious and not to get ahead of ourselves.

But the fact that we have demonstrated that there is significant volume demand is a good sign because until a few months ago, you have seen the slides from some of our competitors where they put it in writing that there is no demand for green hydrogen. So I think -- and now it's obviously a little bit of a different story. There is demand for green hydrogen. But I would like to give some confidence to the investors that we are truly have signed enough things that it is sold-out before we commit to additional projects. Depending on how fast those things come, you're right, it might be that in a year we will announce a new NEOM project, but it will depend on how fast we progress with signing contracts for the current production.

Mike Leithead

Great. Thank you so much. Thank you.

Operator

We'll take our next question from Mike Sison with Wells Fargo. Please go ahead.

Mike Sison

Hey, good morning. Nice quarter and outlook. Seifi when you think about '25, and I know it's a little bit early to give any specific outlook. How much earnings growth do you think will be anchored by your projects next year? And maybe any sort of color you can have in terms of how much that could help or kind of sort of support some earnings growth -- support earnings growth next year. Thank you.

Seifi Ghasemi

Well, good morning and thanks for your comment. It would be very difficult right now to give you details. We are going to give you all those details when we announce our fourth quarter results. But in general, I would like to say that Air Products, 10-years ago, we committed to delivering an average of 10% growth in earnings. And today, we are committing that for the next 10-years, we will do the same.

So, our target, our goal, our challenge is to deliver at least a 10% growth for next quarter -- for next year. But we will -- obviously, we are going through the budgeting process. We have all of the details and then we'll give you a number when we announce our results in late October or early November.

Mike Sison

Great. Thank you.

Seifi Ghasemi

Thank you.

Operator

And we'll take our next question from John Roberts with Mizuho. Please go ahead.

John Roberts

Thank you. And best wishes, Sidd. Welcome, Eric and [Indiscernible] thanks for being the rock. Seifi, in your price discussions on clean hydrogen between Alberta, Louisiana, NEOM, I know you don't want to give any details, but is there a really wide range that you're seeing in terms of discussions with customers? And have they all been, I assume, above gray hydrogen plus the carbon credit?

Seifi Ghasemi

Good morning, John. The guidance that -- the overall guidance that we have been telling people is if the gray price is something, the blue prices at least twice that and the green price is twice that. So it's double for blue and then double for green. And that is the kind of overall guidance for pricing. So I think you all have a pretty good idea of the kind of pricing that we are looking for and we are getting that. And I think that the pricing change will improve as we go-forward when the demand exceeds the supply.

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John Roberts

And that's price at the customer receipt level and your netback pricing will be significantly different across the various customers because obviously some in Alberta are right next door and for NEOM, it's going to be pretty far away.

Seifi Ghasemi

Well, the thing is that there is some element of that, but we do take that into consideration when we give the pricing. I mean, if it's very difficult to serve a customer, then obviously the price will be significantly higher than , as you said, somebody is next door.

John Roberts

Okay. Thank you.

Seifi Ghasemi

Thank you.

Operator

We'll take our next question from Josh Spector with UBS. Please go ahead.

Josh Spector

Yes, hi, good morning. So I wanted to follow-up on the question earlier around your commitment to announce additional projects. I think during the quarter, you've been more explicit that you won't FID, I believe, any projects until you get more offtakes. And I wanted to see how precise we should be taking that language. So you talked about NEOM earlier, but as we think about Louisiana, should we think about both of those need to reach 80% offtakes before you announce anything else or is your expectation to be looser than that?

Seifi Ghasemi

I think you should expect that we would kind of see our way of loading those three facilities that you talked about. NEOM, Louisiana and Edmonton fully-loaded before we make an FID for another project. There is one other project that we are working on, which is the project that we did announce, a green hydrogen project in Northern Texas. But that project, we have not taken FID. We do not plan to take any FID until we have total clarity on what the IRA rules are for interpretation of what is green hydrogen.

So other than that, I don't expect us to make any announcements until we see our way very clearly. And this is quite frankly, a fundamental issue of being respectful to the investors. I think we announced many, many projects and the investors got very concerned and that is why, I mean, our stock should be $400 now and it is at, I don't know, $285 to $290, $300. But that the reason for that is that I think we got the investors a little bit concerned that we're getting ahead of ourselves.

We didn't think so, but certainly the impression was with the investors that we are building plants without having a clue about where to sell it. That was never the case, but that was the impression. So I don't want to get into that mood again. We want to fully demonstrate that there is demand before we make any FID -- announce any major projects.

Josh Spector

Thanks. I appreciate that. And just a quick follow-up then on Texas, I guess, specifically, do you consider that a new project? So if we get IR clarity, IRA clarity in the next, I don't know, six, nine months, but Japan takes longer to say what their credits are going to be for blue hydrogen into utility, coal, energy production, is that something you would FID, that Texas project without that Louisiana project sold out or is the Louisiana project or whatever project sold out the limiting factor, in your view?

Seifi Ghasemi

Yes, the project in Northern Texas, and we can demonstrate to you that it is fully sold out in a few years because that project is directed at making liquid green hydrogen, liquid green hydrogen. And that is targeted for the market in California. We can easily transport that without any significant cost to California. And when you look at the demand in California for green hydrogen and the number of stations and so on, you can easily come up with the demand to fill that project up.

The main reason that we're holding on that project is because we want to understand what is the definition of green and we know that we qualify to get $3. We want to see if other people qualify to get the $3 or not. But I am very confident about the very confident about the fact that we can sell that product for very good prices. Right now, we are selling green hydrogen into that market at close to $30 a kilogram, $30 a kilogram.

And if you do the math, that makes everything you know. So the project in Northern Texas is very much we are waiting for the definition of the IRA. And as you said, I don't think we will have clarity on that until probably beginning of next year. So we are not going to do anything until then. Okay?

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Josh Spector

Understood. Thank you. Yes, thanks, Seifi.

Seifi Ghasemi

Operator, do you have time for two other questions, please?

Operator

Thank you. The next question comes from Patrick Cunningham with Citi. Please go ahead.

Patrick Cunningham

Hi, good morning, everyone. Maybe just wanted to follow-up, you mentioned the election multiple times. I just want to understand your latest and greatest thoughts on what either outcome might mean for the two pillars of your business? And then maybe more specifically what you think each outcome might mean for the interpretation of the IRA rules?

Seifi Ghasemi

Yes. I'm not sure I would have understood. Can you just hold on? Let me -- Sidd, can you?

Sidd Manjeshwar

Yes, I think the question was related to the IRA guidance and with the incumbents or a new administration coming in, what does that mean?

Seifi Ghasemi

Well, the IRA is as the part that is related to us, it has two dimensions. One dimension is the so called 45Q, which is that you get $85 per ton of CO2 that you sequester. I think there is not much controversy around that rule. No matter which administration you have, I think that will get support and that is why we are building the project in Louisiana, we feel very confident about that.

The challenge is on the other part, which is called 45V, which is the $3 subsidy for green hydrogen. And the controversy is very simple. What is the definition of green hydrogen. Is it enough to say, oh, I connected to the grid, I'm getting electricity, I'm breaking down water and therefore, I'm making green hydrogen and therefore give me the $3 irrespective of the fact that I might be using the electricity that is made by burning coal. That is the controversy.

Obviously, Air Products' position has been crystal clear from day one that we believe that green hydrogen means that you are using green electricity. If you are not using green electricity, then it is not green hydrogen. And green electricity should also be available 24 hours a day. That means you need to prove that every hour you have green electricity. You can't make a lot of green electricity during the day that the sun shines and then say, okay, now in the night, I'm going to connect to the grid.

So we have been very clear with our three pillars and that is what we think is the definition of green. The administration, the current administration has agreed with us. That is the way they have issued the rules that are public right now. The issue is they have not finalized the rules. And from what I hear, they are saying they are not going to finalize the rules until after the election. So, the issue is, if they have a change of administration, would the new administration see those rules as good or bad or do they want to modify?

And we are not going to go and commit billions of dollars building a facility not knowing what the exact interpretation is. So we are going to wait until we have rules that have been approved, Press and the Treasury Department that we can certainly count on and then we will proceed.

Sorry for the long answer, but I just wanted to address the whole issue.

Patrick Cunningham

No, thank you so much, Seifi. I'll leave it there.

Seifi Ghasemi

Thank you. Okay, operator, last question please.

Operator

Thank you. We'll take the last question from Laurence Alexander with Jefferies. Please go ahead.

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Dan Rizzo

Hi, this is Dan Rizzo on for Lawrence. Thank you for fitting me in. And I'm sorry if I missed this, but, but have you provided an update on the status for the hydrogen project in upstate New York? I don't remember that being mentioned recently.

Seifi Ghasemi

Yes, we are building a green hydrogen project in upstate New York. We are using hydropower to -- hydropower is green power. And the capacity of that plant is not huge. It's a small plant, 35 ton a day. And the reason we have put it in that part of the world is because we obviously could get the power from Niagara Falls where it is coming from.

And we see significant demand for mobility. We are going to produce liquefied green hydrogen and we see significant demand for that in that part of the world because by being in Messino, we can serve all the way to Pennsylvania, New York and all of that. And therefore, we are very optimistic about that project. That project is moving forward and it is on-time.

Dan Rizzo

And I'm sorry, just remind me when coming online?

Seifi Ghasemi

In terms of the timing, I think we have said sometime in '27, or '28. '27.

Dan Rizzo

Thank you very much.

Seifi Ghasemi

Yes. Well, thank you very much, and thank you, operator. And we thank -- I'd like to thank everybody for joining our call. We do appreciate your interest in Air Product. And we do appreciate your very good and insightful questions. Please be safe, stay healthy, and we look forward to talking to you when we announce our fourth quarter results. Thanks again, everybody.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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