

# **Bilfinger SE (BFLBF) Q1 2024 Earnings Call Transcript**

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**Body**

Bilfinger SE (BFLBF)

Q1 2024 Results Conference Call

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Company Participants

Bettina Schneider - IR

Thomas Schulz - CEO

Matti Jakel - CFO

Conference Call Participants

Gregor Kuglitsch - UBS

Craig Abbott - Kepler Cheuvreux

Presentation

Bettina Schneider

Good morning, ladies and gentlemen, and welcome to Bilfinger's First Quarter 2024 Webcast. My name is Bettina Schneider, and I'm here together with Thomas Schulz, our Group CEO; and Matti Jakel, our Group CFO. Thank you for joining us so early today, so we can inform you on our Q1 numbers before we start our Annual General Meeting at 10 a.m. We start now with the presentations. Afterwards, you will have the opportunity to ask your questions via phone or via chat in the webcast.

I'd like to inform you that all participants are in a listen-only mode and that the conference call is being recorded. With this, I hand over to Thomas.

Thomas Schulz

Good morning, everybody. Let us start directly with our highlights for the quarter 1, 2024 for our Bilfinger Group. We had an orders received with EUR 1.144 million and a book-to-bill of 1.05. So, the quarter regarding the order intake was as we expected and normalized because last year, we had a book-to-bill of 1.3, an extraordinary high growth in the quarter 1, 2023. Our revenue was up organically 3% and the real highlight, we more or less doubled the margin to 4% on the EBITA. Our cash flow, another very positive news was positive and actually made a swing close to EUR 60 million from minus EUR 26 million to plus EUR 24 million.

We keep, of course, our outlook with EUR 4.5 billion to EUR 4.8 billion on revenue and 4.9% to 5.2% on EBITA. We see the market situation stable to positive across all regions and all sectors. Our earnings per share went up to EUR 0.66 from EUR 0.18 and we have a Capital Market Day on the 12th of June during the Achema to give more information, especially about the acquisition stock, the progress on our strategy and cash flow. If we then go to a very important issue and parameter for us as Bilfinger, it's part of the ESG range. It's about safety. And you see on the right side on the top, the TRIF and as lower the figure is as better it is.

And you can see that our organization actually improved from last year to this year down to 0.76. More significant improvement, we have actually on the LTIF, Lost Time Injury Frequency rate. And that is down to a fantastic 0.06. Of course, our target is to have both figures, both KPIs on 0, but it shows we as Bilfinger at wherever we are to our partners a very safe environment. Out of that into the market. I said at the highlights, it's a stable to positive market.

We are acting mainly in 4 main industry groups; energy, chemical and petrochem, pharma, biopharma, oil and gas. All over positive. Let us start with the energy. There are big investments going on. We see, especially in North America and in the Middle East for the future, huge growth rates and a very stable and ongoing good investment level, not in the same high percentage figures in Europe. If we then go to the chemical and the petrochem industry, which makes roughly 30% of our top line, the chemical industry globally actually grows more than the whole global industry on earth, but we have, of course, regional differences.

Europe is on a fairly low level when we see U.S. market growing roughly twice and the Middle East up to 5x faster than we have in Europe. That puts our customers, especially in the chemical industry, very much under pressure here in Europe, which opens for us a lot of additional work. Then we come to a growth sector. It's pharma, biopharma, roughly 10% of our top line. There you see that we have 8% growth for the next few years in that market.

It's very profitable. It's a high-tech area. It's an area where we as Bilfinger have very strong customer relations, good business to be in. Last but not least, oil and gas. Oil and gas for several years now has a revival same as nuclear as an energy.

And in oil and gas, the spend on exploration, which actually is important to see how the growth in that area will go on for the next 5 to 10 years is around 5%, and that is very positive. We have a lot of positive figures in that area, too. So overall, in the markets where we are acting, stable to positive and in the way how customers order to industrial service providers like us, Bilfinger, it looks quite good. Out of that, we would like to talk about our order intake and the level of demand. Because of the fact that we are acting across a lot of industries and 80% of our business is more or less the same no matter which industry we are in, we implemented a few quarters ago the so-called opportunity pipeline. It is indexed to the first or to the January 2022.

And it shows the level, monetary level, what we can bid on, what is available in the market. When you look on the right side, you see the 3 blue sticks and it shows an increasing trend throughout the first quarter on a significant higher level than we had in quarter 1 last year or at the beginning of that opportunity pipeline KPI. Below, you have the orders received. It looks, of course, with minus 17%, not that positive. But last year, with close to EUR 1.4 billion with a book-to-bill over 1.3% was an extraordinary quarter, which actually is not good in the way as we do our business because it's about providing people to the sites. And if we have too much orders at the same time, we have to talk with a lot of customers to even that out over a longer period of time.

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This quarter is EUR 1.144 billion. It is a book-to-bill of 1.05. This is what we call a normalized positive quarter. The other highlight in it is that we actually reduced the percentage of projects within the order intake, which is in line with our derisking and our standardization efforts out of the strategy. Our order backlog is more or less the same as we had it in quarter 1, 2023.Out of the demand into selected orders to explain what we are really doing in the different areas and regions and industries.

First example is with Gasunie in the Netherlands. It's about a 10 years engineering frame agreement, what we got as Bilfinger, especially regarding the energy transition with hydrogen transport as well as CO2 carbon capture and storage and transport. The second one shows our strong position within the Middle East. It's about Saudi Electricity Company in Saudi Arabia, of course. It is about another side where we do the comprehensive maintenance services on steam turbine generators and critical boilers.

This is out of a very long-term partnership where we support Saudi Electricity Company to provide all over in that strong growth country energy. The last example is out of adjacent industries. It's about the semiconductor manufacturers. This time here in Germany. It's about that we deliver design, fabrication and installation for ultrapure water and wastewater treatment.

This is, of course, important for the semiconductor manufacturer and it's important that it's not only efficient, it has to follow a high-tech request regarding ultrapure water content. Out of that, I would like to go to innovation. Innovation for industrial service provider, especially in the field of digitalization and more and more artificial intelligence is utmost important for us to show our customers that we are leading efficiency improvement in all areas. This time, it's about the so-called product carbon footprint calculation. It offers significant savings for the client on an existing plant or new-to-build plants where we are able to calculate more or less unlimited scenarios with different components to give to the client the scenario with the lowest CO2 footprint in the material, what is built in on a site or will be built in on a site. That, of course, gives the client the possibility to optimize the CO2 footprint to optimize the material that they use and having a good step ahead in their target for a lot of customers, 2030 to be carbon neutral with [Scope 3] issues, too. Out of that, I would like to go to Matti, our CFO.

Matti Jakel

Thanks, Thomas. Good morning, everyone. Thanks for joining us this early. Revenue grew by 3% to EUR 1.09 billion. The planned reduction of our U.S. revenues equates to about 2%. Hence, the overall business grew by 5% in total, which is in line with our overall guidance. EBITA margin almost doubled from 2.1% in quarter 1, 2023 to 4%, which is a very good start and quite supportive of our 2024 guidance. The largest improvement we see in E&M International, where the margin improved by 540 basis points. Gross profit for the group, gross profit margin improved from 9.5% to 10.3% or 80 basis points. SG&A costs reduced by EUR 5 million, a consequence of our efficiency program and the SG&A ratio consequently improved from 7.4% to 6.7%, again, an improvement of 70 basis points.

In total, we are seeing savings of around EUR 11 million from the efficiency program, both in SG&A expenses, but also some of, in the cost of sales. The EBITA margin improvement translates into an earnings per share of EUR 0.66 for the first quarter compared to EUR 0.18 in quarter 1, 2023, that is more than tripling in absolute terms. The financial result remained stable while lower tax rate helped the improvement. On another note, as you know, we have the Annual General Meeting today, and we are proposing a dividend for the financial year of 2023 of EUR 1.80 per share, which is a payout ratio of 58%, close to the upper range border of our financial policy and the dividend yield on the year-end share price equates to 5.2%. Another positive news on the first quarter is our free cash flow. Year-over-year, the free cash flow improved by EUR 50 million from minus EUR 26 million to plus EUR 24 million, largely a consequence of the increased earnings.

The special items shown here at the bottom right corner of minus EUR 8 million is mainly due to the payouts from the efficiency programs as we have announced it early on. The net trade assets to revenue ratio went up a notch to 11%. That's a key indicator that we are monitoring very closely.Net liquidity. Since January 1, net liquidity decreased by EUR 26 million from EUR 120 million to EUR 94 million. Two sort of major events happened in the first quarter.

One is the stock acquisition where we paid the purchase price in March of EUR 29 million and we also repaid the bond in March, EUR 250 million, which was offset by the corresponding reduction in securities and other investments. As part of our financial policy, we are aiming to receive investment-grade rating. Quite a long time ago, Bilfinger set its financing target to -- for FFO to net debt to larger than 30% and the net debt-to-EBITDA ratio to 2.5% -- 2.5, sorry. In the first quarter, we took a look at these ratios. We reviewed and revised these ratios to 50% and 2.0, thus moderating our risk profile.

This change still leaves ample headroom for organic and inorganic growth as well as distributions to shareholders. And in combination with our solid performance, Standard & Poor's just issued a research report and they provided Bilfinger with a positive outlook, indicating that there is -- we're getting a lot closer to receiving investment grade. Let's take a quick look into the operations into the segments. E&M Europe, the order intake has normalized after the exceptional quarter 1, 2023. With a book-to-bill of 1.10, we are well underway to continue our profitable growth path. Revenue grew organically at 4% across all the regions and the revenue split remains largely the same by contracts and by industries.

EBITA margin went up by 120 basis points from 3.3% to 4.5%, with effects from derisking and efficiency program driving this improvement. The largest improvement in the profitability is what we have seen in E&M International. But let's take a look at the order intake in the first place. Again, order intake went down from EUR 241 million to EUR 156 million by design. It's much lower due to the successful repositioning in part of our U.S.

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business, where we're exiting the installation business and we're focusing on maintenance activities. The revenue decline was much smaller at minus 4%, indicating a reduced revenue volatility, which again helps the de-risking. EBITA went up from minus EUR 6 million to plus EUR 3 million, now marking the third profitable quarter in a row. And lastly, Segment Technologies. Order intake went down from EUR 182 million to EUR 160 million. You may remember that we had a large portion of orders received on the Hinkley Point nuclear power plant project in the first quarter 2023, which just didn't repeat this year, not unexpectedly.

Revenue grew slightly by 1% from EUR 167 million to EUR 170 million, so very steady as planned. And the EBITA margin at 4.2% remained almost unchanged compared to the prior quarter or prior year quarter. That's it for a quick rundown of the numbers. Back to Thomas.

Thomas Schulz

Thanks a lot, Matti. So let's look into the outlook for 2024. Of course, we don't change that. But you see here, revenue, EBITA, free cash flow and on the first left column, how we finalized the year 2023, and that was close to EUR 4.5 billion on the revenue. Our guidance for this year is EUR 4.5 billion to EUR 4.8 billion.

Our EBITA margin last year was 4.3%. Our guidance for this year is 4.9% to 5.2%, and cash flow guidance is on the EUR 100 million to EUR 140 million, coming from EUR 122 million in the year before. So, when we compare now year-to-date and of course, for quarter 1, that's the quarter 1 figure, these are the quarter 1 figures. You see that we have an improvement in the revenue to EUR 1.088 billion. We have more or less a doubling of the EBITA margin from 2.1% to 4.0%, and we have quite a good development, very positive development in the free cash flow generation. In these figures is, of course, the acquisition of Stork, what we closed on the 1st of April, that means at the beginning of the second quarter, not included.

So we give here a short glimpse on that, what we acquired, but you will get significant more information on the Capital Market Day on the 12th of June in Frankfurt during the Achema exhibition. The facts are we actually acquired with that M&A 2,700 highly qualified professionals. And I can tell you, with all the meetings what we had after the closing, very positive mood of our new colleagues, and we are very happy to have them onboard. The annual revenue, what we expect is around EUR 530 million and it's mainly the Netherlands, Belgium and partly, Germany. The service portfolio, what we take over is in the middle part, in the middle box, and you see it's actually quite complementary. And it helps us to set up, especially Belgium and the Netherlands in a similar way as we are already positioned in Germany.

The additional services, what we get in Germany actually is quite a nice complement to that what we actually offer to our clients already. So, it's complementary. It is an additional growth of knowledge, expertise and good behaving, compliant and motivated workforce in the time of shortage of labor of competent labor, and it gives us a definite increased opportunity to be the solution partner of choice in the industry. Out of that, the highlights. And before I go on that, a big thank you to all our colleagues around the world, making that good quarter possible. We had an orders received over EUR 1.1 billion with a book-to-bill of 1.05.

We had a revenue close to EUR 1.1 billion with an organic growth of 3%. We had more or less a doubling of EBITA margin to 4%. Our free cash flow actually came in quite a positive territory with plus EUR 24 million. Outlook is confirmed, market situation is stable to positive. Earnings per share, quite significant, up to EUR 0.66 and Capital Market Day, where you are all invited to and hopefully, participating on the 12th of June. Thanks a lot.

Back to Bettina.

Question-and-Answer Session

A - Bettina Schneider

Ladies and gentlemen, you can now ask your questions via chat in the webcast or alternatively via phone by pressing star and 1 on your keypad. If you would like to withdraw your question, please press star and 2 on your phone. Once again, star and 1 on your keypad to register your question. The first question comes from Gregor Kuglitsch, UBS.

Gregor Kuglitsch

So, I guess I really have a couple of questions. So firstly, on your margin performance, I mean, obviously very strong in quarter 1, 200 basis points up. Usually, obviously, was a little bit of, I guess, how let's say, aggressive you want to be in booking margins early in the year to suggest to me things are going quite well. So I want to understand, I guess, what happens. So, what sort of explains this big jump?

And I guess I don't want to push you, but obviously, why you not sort of tempted to up the guidance a bit given that you're kind of trending up 200 basis points there in the first quarter? Secondly, regarding Stork, you gave us a little bit of a glimpse that things are looking good and I appreciate we'll get more in June. But can you give us a sense sort of your first impressions having owned the business now for 6 weeks or so, what you think the potential is on that EUR 500 million of revenues? Where was the profit in the end last year? And kind of what do you think is the potential perhaps we'll get more of that in June. But if you could just give us a bit of a preview.

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Matti Jakel

Thanks, Gregor. This is Matti. I'll start with the margin performance and Thomas will respond to the Stork questions. I can tell you that we have not been aggressive at all in realizing margins in the first quarter. This is what the business generated as a normal course of business.

I think it's more to look into last year, the first quarter where we had a number of write-downs on what we call bad project or bad contracts, which didn't happen this year, which is a testament of the derisking that we have implemented last year and it's continuing. So, it's a margin that we would expect for the future going forward. Plus also, we're seeing really the improvements from the efficiency program, as I said, both in the SG&A but also part of the contribution margin in the operations. I think your second question in relation to this is why not taking the guidance up on the positive first quarter. I just believe it's way too early to do this in the first place. Second, we have the Stork acquisition that we need to look into.

And once we have a full view of the Stork acquisition plus the second quarter, then it's really time to take a look into the guidance, but not before. So we're quite happy with the first quarter, I have to say, really happy with the first quarter. I have colleagues here who have worked in Bilfinger for more than 2 decades. And one of them said, well, this is the best first quarter here as seen in 20 years. I did not go to the extreme to really review all the numbers of the last 20 first quarters, but it really shows that this is a successful first quarter.

Thomas Schulz

And it's definitely in the right way to achieve 6% to 7%. And when we have that, then we really celebrate. Gregor, the question regarding Stork. We have it from a little bit more than a month. Of course, we turn each stone.

It was a main competitor what we take over -- took over. So information were detailed, but of course, in some other areas than limited. We didn't see any real negative surprise. The profitability is as we see in line with that. As we communicated before, around 2.3% to 2.5% and the mood of the people when from day 1 on was unbelievable positive.

And of course, expectation that they have a strategy that they have a normal way to go on and not in and out and having all the negative news around them for years in the media that all comes with it and we will deliver that. They are part of our strategy. The integration will be latest done after 12 months. The colleagues, receiving the new colleagues in the new structure and the functional organization are very happy too. We actually created with that M&A not only a good business outlook for us and growth potential and more than 2,500 new good colleagues. It's actually quite a positive movement into the Bilfinger Group too because it's one of the largest acquisitions, if not the largest, for the last few years, and that is in itself positive.

Bettina Schneider

Thank you, Gregor. To remind you, please press star and 1 on your keypad to register question. You're also invited to write your question into the webcast and I would read it out loud. Last chance. I know it's early and a lot of you have parallel meetings.

So, now still time to register. Yes, there is another question from Gregor. The line is open, Gregor.

Gregor Kuglitsch

Well, it looks like I'm only person asking a question. So, I'll ask on the U.S. business. So, you kind of flagged it's doing a lot better. Can you give us a bit of a sense where we are in the turnaround or the sort of repositioning of that business kind of potential for that organization?

I don't really know how to size it, if I'm honest. Could you just remind us how big that business is? What you're doing with it? What do you think you can go to?

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Thomas Schulz

Gregor, we will give, of course, on the Capital Markets Day, significant more detailed information. And we have quite a lot of few hours together. And then it is easier to explain the whole size and the potential there. Fact is, as you saw it yesterday with Mr. Biden undersigning, actually, the import duties raise 4x higher, not only for Chinese importers, actually for global importers.

At the same -- with that, he actually protects his investment. So, the North American market is in our industry, in the processing industry, a hell of a good growth area. It's a compliant market. It's one currency, one legal setup and a motivational political environment, what we have. No matter if you look to the Democrats or to the Republicans where we all have opinions about. Then when we look into our business, we, Matti and myself and the whole management team decided to make the brutal turnaround case, what we started in September 2022 for the U.S. business and we took roughly half of the business out in that what we call our core business and cutting off the critical project business there. That is all done. We are through with more or less all the activities there in that direction. From now on its organic growth and M&A growth. And that is what we started already last year and the result is that we are on a lower level of revenue already provided a significant better EBITA.

So, from a potential point of view, we don't see any other profitability level than you have in regular segment and regions within the Bilfinger Group in the future. That's our expectation. If it comes to growth, it has, of course, to grow more than the whole group because we have a long way to go to be big in that country and M&A is quite high on the list for North America. So, I hope that explains a little. Thank you.

Bettina Schneider

Next question comes from Craig Abbott, Kepler Cheuvreux.

Craig Abbott

I have one question on E&M Europe and one on technology space. On E&M Europe, I mean, you made clear that, look, I mean, overall, the spending environment on the side of your customers is generally quite positive and supportive. You showed us some charts also with the prospective pipeline. And I just wanted to maybe get a little more granularity there. On E&M Europe, you also mentioned in your earlier comments in general, we all know your greenfield spend is not being -- or investment is not being made in Europe, but rather in North America and the Middle East and other areas. But you said, of course, that your -- for instance, your chemical customers are having to, of course, invest to increase productivity and so forth.

So, I just wondered if you could give us a little bit more color on the current spending environment by your customers in E&M Europe. And how that maybe compares to, say, as you're heading into the year? And then I'll ask my question on technologies.

Thomas Schulz

Yes. If you look into -- at first, quite a good question. The -- when you look into our main work is actually on existing assets of clients. That's our main work. And our main work is what a lot of media and politicians would call old technology.

But there, we see together with our clients by far the highest potential for improvement in efficiency and with that and sustainability. So if you take -- let's take the industry in Europe, which is the most under pressure versus our business, it's the chemical industry in Germany. There is a lot of activity and investments to outsource more of the noncore business, what they have in their portfolio. They focus on producing their products, everything around maintenance, service, education of people more and more they try to outsource. So, despite the fact that the industry actually has a significant lower production level from 84 down to 77, we have quite a good environment to go. And we have a lot of discussions with customers what to do more.

They are very open for innovation, very open for new ways of doing service together with them out of the fact that they are all under pressure. So from that point of view, we see Europe as a significant good engine and base business for us. Greenfield spend in Europe is, of course, lower than in North America, and North America is significantly lower than the Middle East. But you have to look to the installed base, what you have. And we clearly see the installed base in the Middle East is fairly small.

They have a long way to go to get close to U.S. and at all to Europe, but growth for especially new build greenfield is quite good there. But in U.S., too, because when they invest in sustainability, they do it big. They don't do like in Europe based on bureaucracy, 20 different small pilots because they are not getting the allowance to build a bigger one. In U.S., they immediately build a bigger one. In U.S., they actually reactivate nuclear power plants, what we have in our home country here, what politicians say it's not possible, of course, it's possible.

So you ask, when they do something, they go big and we want to participate in that. And that's predominantly then in the greenfield area. Regarding sustainability and going into aging assets in North America in the process industry, where we, as building up from Europe have a very, very good name because -- and then I'm done here. Sustainability, technical sustainability improvement is a big seller out of Europe worldwide. Thank you.

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Craig Abbott

Yes, on technology side, just hear as well, I just wondered if you could maybe provide a little bit more color on how your project pipeline is developing there for the coming quarters?

Thomas Schulz

Actually, it looks good, but it looks more even out over the whole year and you will see more and more that the amount of what we called or what we had before as projects with quite a lot of unique elements in the contracts. We standardize more actually together with clients to have more kind of a product sale in that segment too. As an example, when we produce [SCITs] for the any processing industry, it doesn't matter which one. And we produce 15 or 20 of them. Then, of course, the 15th, the 16th, the 17th are exactly the same, exact the same.

Commercial conditions, risk conditions, financing conditions, the same people, and that kind of standardization is in technology, very much demanded from our clients and very much pushed from us too because it makes it faster, less risky for the clients and of course, with that more cost efficient. So, out of that pipeline looks good for technology. We are in quite positive mood regarding all the investments, what we see in the SMR, smaller nuclear power plants like in Romania or in Poland. We are quite positive in the bigger nuclear power plants like in France and other areas in Europe and North America and Middle East. We are positive in the big investments regarding life science because there's huge growth still in. You saw the figure plus 8% for the next few years, what we see as growth, and we are a big part of that, too.

So, technology is a good business to be in.

Bettina Schneider

Thank you, Craig. Okay. So, there are no further questions. So, we conclude this question-and-answer session. Thank you very much for participating and hope to see you all on our Capital Markets Day in June in Frankfurt.

We will send or resend the invite tomorrow, so you still have the opportunity to register if you not have already. Thank you very much and have a good day.

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