

# **Gaztransport & Technigaz SA (GZPZF) Q1 2024 Earnings Call Transcript**

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**Body**

Gaztransport & Technigaz SA (GZPZF)

Q1 2024 Earnings Conference Call

April 19, 2024 12:15 PM ET

Company Participants

Jean-Baptiste Garnier - Investor Relations

Philippe Berterottiere - CEO

Thierry Hochoa - CFO

Conference Call Participants

Jean-Luc Romain - CIC Market Solutions

Richard Dawson - Berenberg

Kevin Roger - Kepler Cheuvreux

Daniel Thompson - BNP Paribas Exane

Guillaume Delaby - Bernstein

Jean-Francois Granjon - ODDO BHF

Presentation

Operator

Good evening. This is the conference operator. Welcome and thank you for joining the GTT First Quarter 2024 Activity Update Conference Call. As a reminder, all participants are in listen only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

At this time, I would like to turn the conference over to Mr. Philippe Berterottiere, CEO. Please go ahead, sir.

Philippe Berterottiere

Good evening, everybody. I'm very pleased to be with you tonight. I am with Thierry Hochoa, who is the CFO of GTT and also Jean-Baptiste Garnier with the Investor Relations.

So we are going to talk about the first quarter 2024 activity update. Some key highlights. First, in the core business during the first three months of the year, we received 29 new orders since we received an additional order for eight energy carriers. In the first quarter, our revenues have amounted to EUR144.8 million, which represents an increase of 81% compared to the first quarter of 2023.

Some other key elements, I would like to mention the corporate social responsibility roadmap that we published in February and which is really showing the very strong commitment we have on this matter which is at the basis of our vision and of our strategy.

If we look at the commercial momentum, we can see that it's continuing and abated. And we are reaching a record level with 310 LNG carriers in our order book, eight ethane carriers, which is really something that we've never approached. So it's something which is definitely very remarkable and which is giving a long-term visibility for the activities of GTT.

We look at the LNG demand growth. Of course, this demand for LNG carriers is sustained supported by long-term LNG demand, which is fairly positive. And we can see on the right hand side part of the side the expectations of what should be the demand by the end of the next decade. We consider that by that time, we should add 150 million to 250 million ton per annum in terms of LNG production, which is going to require significant investments and which is going to require many, many ships to build. So all that is supported by elements that we are talking regularly and mainly by the need to reduce the reliance of the world in terms of energy, the reliance on coal of the world.

Now, I will hand over the floor to Thierry Hochoa in order to present to you our consolidated revenues for the first quarter.

Thierry Hochoa

Thank you, Philippe. I suggest you look in more detail at the revenue of our main activities at the end of Q1 2024. Total revenue amounts to EUR145 million, up 81% compared to Q1 2023, driven by new builds and higher number of LNG carriers under constructions in Q1 2024 generating additional revenues, driven by revenues from LNG as fuel up 98% compared to Q1 2023. Thanks to 2021 and 2022 strong order flows driven by electrolyzers as well double Elogen's revenues to EUR3 million, compared to €1.5 million in Q1 2023. Driven by services as well, the revenue increased by 74%, thanks to pre-engineering studies, development of our digital activities and services to vessels in operations. This is where we are Philippe in terms of revenue details.

Philippe Berterottiere

Thank you very much Thierry. Now looking at our outlook for 2024, we'd like to say that we are confirming our consolidated review estimation in the range of EUR600 million to EUR640 million. For the EBITDA, we confirm that we should be in a range between EUR345 million and EUR385 million and we confirm that our payout should be at least 80% of our consolidated net income.

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Now, I would like to say that the Board of Directors, which has taken place today, has taken the decision to appoint Jean-Baptiste Choimet as Chief Executive Officer starting from the next AGM on 12 of June. Jean-Baptiste Choimet is currently the Managing Director of Elogen, the electrolyzer company of the GTT Group. He's working in the group since 2020. He's been appointed as the Head of Elogen in November 2020. And before he spent his career in LNG in various positions with EDF working on the LNG terminal of Dunkerque in Societe Generale at the LNG trading desk, in fact building this LNG trading desk and in Technigaz where he worked on large LNG projects and including larger FLNG projects.

So he has an extensive experience in the LNG industry. He has obviously very well Elogen. And he has convinced the Board of his skills and capabilities for ensuring this function on top of its very relevant experience for term.

So now I will answer to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Jean-Luc Romain with CIC Market Solutions.

Jean-Luc Romain

Congratulation for the turnover and to Jean- Baptiste Choimet. My question relates to LNG as a fuel. How do you see the adoption of LNG as a fuel going forward under the technology? Since there are quite a few providers of LNG -- types of LNG tanks for LNG as a fuel vessels. Do you see -- and you have a strong market share in container carriers. How do you see this market share going forward in other kinds of ocean going vessels?

Philippe Berterottiere

First of all, we think that LNG is currently the only solution available for reducing the CO2 emissions. All the other solutions are not available and/or not affordable. And we think that LNG is not only available, but also is very affordable as you can amortize the cost of LNG tank, LNG equipment in something like four to five years. And then you are more competitive than marine diesel oil fueled ships. So we think that this will prevail.

And in addition to that once the Bio-LNG will exist or the e-LNG will exist, it will be drop in fuels, which will not require any modifications on the ship. So, ordering LNG fueled ship, you're ready for the future and you can be carbon neutral whenever these new fuels Bio-LNG are e-LNG are going to exist. So there were some illusions about methanol or about ammonia but we think that they are less appropriate.

So we keep on promoting LNG. It's true as you said that we've encountered a larger success in containerships. For the time being this sector is not ordering ships. So we don't have any orders coming from this sector. We are keeping on promoting our solutions on other sectors from tankers, on bulkers, on cruise ships. We think that finally the advantages our arguments will prevail in this context for the promotion of energy as a solution.

Operator

The next question is from Richard Dawson with Berenberg.

Richard Dawson

I just wanted to take up just on the hydrogen electrolyzer subsidiary. The industry is starting to see larger megawatt sized awards coming to market. Is this something that's starting to see in Elogen? I know initially, we're sort of still at the pilot stage of some of those orders. And then, secondly, just following up on that question on LNG as a fuel vessel. Are you starting to see any improvement in that outlook? I know you talked about sort of focusing on different segments of the marine markets or cruise ships, for example. But are you starting to see ship owners sort of engage in discussions on ordering new vessels that are fueled by LNG?

Philippe Berterottiere

I have to say that on your question on the electrolyzers, I did not get it perfectly. Could you repeat it, please?

Richard Dawson

It's more a question about the market in Elogen and with electrolyzers, you're starting to see sort of larger megawatt scale projects coming to market, so beyond the single digit size. And is this something that Elogen are starting to have discussions with customers? Are you starting to see sort of bigger projects coming down the pipeline?

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Philippe Berterottiere

Yes, yes. Definitely, we are seeing that. We are addressing these double-digit megawatt projects. We are delivering stacks -- larger stacks and people can see what we are delivering, can see how it works. So we can address these 20 megawatts, 30 megawatts, 50 megawatts projects now. We have the industrial setup for that. And I can see in the discussions we are having with customers on these projects, we can see that they consider us as fully credible in this arena, pretty credible not only in terms of production of the stack of the electrolyzers, but also in the way we are performing the engineering, in the way we are studying the project, in the way we are dealing with the after sales services and in the way we are treating the customers.

You can see that Elogen is a serious company in that field. And it's exactly what we were aiming at. We were aiming not at looking at large contracts, if we were not able to work on them seriously to deliver them. We were really concentrating on getting ready before looking at these solutions so at this market. So it was a matter of gathering the right people of having the right processes, the right technical solutions before addressing that. And now we are in this arena.

On the energy as a fuel other segments, yes, we are promoting our solutions for tankers. Yes, we are promoting our solutions for cruise vessels. We built tanks on one cruise vessel now which is operating very well. They are very satisfied. We are working with others. We have solutions. We are keeping on trying to convince these players.

Operator

The next question is from Kevin Roger with Kepler Cheuvreux.

Kevin Roger

Congratulations Philippe Berterottiere for the nomination and congratulations to you for all the jobs you have done as CEO, even if you will remain around as Chairman, congrats for all that. Two questions on my side, please. The first one is related to the order intake on the LNGC, so the traditional business. I was wondering if you were able to comment a bit on the dynamic replacement market versus investment that are order for the new demand, because there are probably a number of units that are dedicated to the replacement market this quarter. So, is it possible to quantify the mix on the 20 plus unit that you have secured? How many are related to replacements and how many are related to demand for new supply? And as a kind of follow-up still on this LNGC thematic, the average price per unit has been very strong over the past quarter. Would you say that we are currently following the same dynamic?

Philippe Berterottiere

On the order intake, I would say that we are not so capable of distinguishing exactly what are the orders for replacement market. And in these circumstances, I have to say that I consider that this quarter there were no orders for replacement. As you may have seen there were orders for Qatar and they are not for replacement. And we are considering that all these new orders are for the projects, which have been launched and which have to secure their patronage and not for replacement. So it's still a market to come.

And as far as prices are concerned, prices for Qatar has been determined a while ago. And I would say that I don't see any changes in the prices. There are certain price in Korea which is let's say around EUR165 million and between EUR160 million to EUR270 million depending on the spec, depending on the customer. And you have orders in China which are between EUR235 million and EUR245 million and I don't see any changes in these price levels.

Kevin Roger

I was mentioning the average price per unit on your side. The price for the technology that when you were looking at the average price per unit was increasing over the past quarters and well above our anticipation basically. And just if I may also as a kind of follow-up, you just stated that even the very large order that you get the EUR270 million is not for the replacement that's related to the new demand?

Philippe Berterottiere

Yes. It's not for replacement. It's really for transporting the new capacity of LNG that has been decided. And it's really these programs, which is continuing. About prices for us, that we have a fixed price, which is determined in our contract. And this price is inflated according to the inflation in the French Engineering Industry. So, we do so. And in your, I would say that in your assessment on the turnover of the company, you can take into account the as a rule of thumb, the figure of EUR7.5 million per ship.

Operator

The next question is from Daniel Thompson with BNP Paribas Exane.

Daniel Thompson

I had two, please. The first is related to how the ramp up in shipyard capacity or how the ramp up in shipyard execution is going, as we take more vessels under construction? Have you seen any signs of strain so far? I mean, obviously Q1 suggests things are going quite well, but just if you could comment on any signs of strain you're seeing there. And then also in terms of shipyard capacity, have you had any sort of new conservation with existing or new shipyards around opening more slots for LNG carriers, perhaps any regions outside of South Korea and China?

And then the second question is related to Ascenz Marorka. I was wondering how commercial momentum has evolved in that business. And I know you've previously spoken about wanting to grow that business through potentially M&A. So have you come across any targets that you think could fit into the business over the next year or so?

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Philippe Berterottiere

Well, the shipyard capacity, we are discussing with other shipyards, which they are assessing the potential of the market with us. So, we are sharing our analysis of the market. We are sharing also what it means in terms of efforts, in terms of investments to enter into this activity. What it means in order to be credible in this arena. We are sharing also with them all the assistance we are going to provide if they decide to do so. All what we can do for them to accompany them in this process. But beyond those who signed with us, I cannot tell you who's going to join us in the construction of new LNG carriers.

So, I see that we had recently -- we signed recently with a shipyard where in China we are very interested also by energy carriers but also by other energy structures like FLNG and so on. So there is definitely an interest and we are working on the project with these shipyards. We are working on the difficulties and all what we can do for these shipyards to soften these difficulties.

On the Ascenz Marorka, while the commercial momentum is there, you can see Thierry has detailed the growth of services including digital services during the first quarter. So the growth definitely is there. We are growing there. Our condition and our solutions are convincing customers. You saw that we performed an acquisition in the third quarter. So it's not very long from but in a certain way, we keep all – with enabled our selecting targets, targets which have a very clear sense for us and that we can integrate easily and that's what we do with GPS that we bought something like one month and one month and a half ago. So it goes fairly easily. We know exactly what we buy. We know how we are going to integrate them. What are the synergies we are going to develop? So we may have other targets in mind. We are constantly reviewing possibilities. Sometimes we say no. Sometimes we propose a price, which is not corresponding to the expectations of the company.

So I cannot tell you that we are going to have other acquisitions soon. But just to make a long story short, keep in mind that our services have increased by 74% during the first quarter 2024 compared to the first quarter of 2023.

Operator

The next question is from Guillaume Delaby with Bernstein.

Guillaume Delaby

Congratulations to Jean-Baptiste. Congratulations for this process, which has been well prepared. My understanding is that probably Jean-Baptiste the best candidate. So congratulation again. My question is during this process, of course, Jean-Baptiste has probably come with some ideas, new ideas regarding strategy, regarding day-to-day implementation of what to do or what should be improved within the company. Could you maybe share one, two or three, I would say, new ideas in qualitative terms, of course, of what Jean-Baptiste would like to implement within GTT?

Philippe Berterottiere

Well, I would say that -- it has been a competitive process. So there were external candidates and internal candidates. And Jean-Baptiste came with a knowledge of the sector, a knowledge of the LNG sector, a knowledge of hydrogen and the knowledge of the company that nobody could match, obviously. And I would say that probably it was not that which was particularly distinctive as the Board knew that he was anyway the best in terms of knowledge of the company.

I would say that his vision of the sector -- the energy sector, the vision of the LNG sector, of the shipping of the hydrogen and of the new energies as particularly impressed the board. And that plus the achievements that he has demonstrated to the board in turning around it's not fully accomplished yet, but turning around a very small company into a company, which is now competing in an arena with the largest electrolyzer company of the world in a matter of three years. That has particularly impressed the company.

Now for adding specific ideas on what Jean-Baptiste has in mind, I suggest you wait a little bit and you will have the possibility to ask him directly. I cannot tell you more and I could betray what he has in mind. So yes, the best is to be a little bit patient.

Operator

The next question is from Jean-Francois Granjon with ODDO BHF.

Jean-Francois Granjon

Two questions, please. The first one concerns the percentage on the backlog for the replacement LNGCs. What is the proportion for the replacement market expected for the all of your food backlog currently?

And my second question concern the mix for the backlog. Could you give us some color about the evolution of the mix of the backlog between the short or long series and the impact for sure on the pricing on the margin?

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Philippe Berterottiere

Well on the replacement, I would say that most of the vessels in our backlog are for new projects. And I wasn't saying previously about the orders during the first quarter where for us they are for new projects. So the replacement market has not yet really materialized.

On the mix about short or long series, I would say that we answer to this question but something that you can do with the issue as the name of the ship owners, but we are not particularly or systematically allowed to disclose the name of the ship owner. But using the rule of thumb of EUR7.5 million, it's a good proxy for assessing whether we are talking of long or short tariff.

Jean-Baptiste Garnier

I think we have a couple of questions coming from the web as well. So the first question from [Chris Lazar]. So good evening, monsieur. Due to your excellent Q1 2024 results, why don't you revise annual sales upwards instead of confirming only your 2024 forecast?

Philippe Berterottiere

You know that we are very cautious regarding your approach of our forecast and the guidance, because you have a ramp up regarding the Chinese yards and we need to take into account the different elements regarding delays, regarding the production. So that's why today we cannot revise and just confirm just that because we need to be very cautious regarding this aspect of the production and the delivery of the yards today.

Jean-Baptiste Garnier

And we have a second question from the web from [Hundo Saleh]. What is the potential for ammonia and hydrogen membranes?

Philippe Berterottiere

We a lot of people are looking at ammonia and hydrogen and especially green ammonia and green hydrogen and to transport that. We are developing the solutions. We are expecting that it's going to represent significant volumes in the next decade. Probably for ammonia, we are going to we may have some business before the next decade.

The estimates on that it depends very much on the capability to produce green hydrogen in places where you have a lot of sand, a lot of wind and to transform that thanks to electrolyzers into green hydrogen than to liquefy it for hydrogen. So they are very significant investments. We -- but if you have really the pressure to reduce the CO2 emissions linked to green hydrogen. Today it represents green hydrogen represents 3% of the CO2 emissions of the planet, so it's absolutely huge. Then it may be something very successful.

Well, we are working on that. We are working on that with mutual partners Total and Sharon who are very interested by these solutions. We are benchmarking these solutions with other supply chains. We are also benchmarking hydrogen against ammonia. And we are on the two possibilities. We are exactly at the heart of the transition and of the technological solutions which have to be developed in order to allow this transition to happen. And there is something which is in a certain way may risk the world touching. Very large oil and gas companies looking at us and asking us what can you do in terms of technological development in order to make that possible at a minimum cost. And we are coming with solutions which are in our opinion affordable, which are possible affordable. And in doing so, we can help them to develop these green molecules and to transform them. But it's for the next decade.

Jean-Francois Granjon

We have no further questions. Please Mr. Berterottiere, the floor is over for conclusion.

Philippe Berterottiere

Well, I would like to thank you very much for your attendance. And I will be very pleased to meet with you in the next couple of months. And then I will dedicate my energy to work with GTT for writing some new and white pictures of the GTT book. Thank you very much. Good evening.

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Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones.

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