

# **HOCHTIEF Aktiengesellschaft (HOCFF) Q2 2024 Earnings Call Transcript**

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**Body**

HOCHTIEF Aktiengesellschaft (HOCFF)

Q2 2024 Earnings Conference Call

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Company Participants

Mike Pinkney - Head of Corporate Strategy

Juan Santamaria - Chief Executive Officer

Conference Call Participants

Graham Hunt - Jefferies LLC

Victor Acitores - Bernstein

Dario Maglione - BNP Paribas Exane

Marcin Wojtal - Bank of America Merrill Lynch

Marco Limite - Barclays

Augustin Cendre - Stifel

Luis Prieto - Kepler Cheuvreux

Nicolas Mora - Morgan Stanley

Presentation

Mike Pinkney

Good afternoon, everyone, and thank you for joining this HOCHTIEF First Half 2024 Results Call. I'm Mike Pinkney, Head of Corporate Strategy, and I'm here with our CEO, Juan Santamaria, our CFO, Peter Sassenfeld; and our Head of Capital Markets, Tobias Loskamp; and other colleagues from the senior management team here at HOCHTIEF.

We're looking forward to taking your questions, of course, but to kick off, our CEO is going to run us through the details of this strong set of numbers as well as the important strategic acquisition that we just announced, Juan, all yours.

Juan Santamaria

Thank you, Mike and team. Good afternoon to everyone and thanks for joining us. HOCHTIEF has delivered a solid performance during the first half of 2024, with higher sales and profits, supported by firm cash flow generation. This has been accompanied by a continued expansion of its order book driven by a further substantial rise in new orders. In addition, the Group has taken important steps forward in delivering on its strategic development with two significant acquisitions.

Today, we have announced the acquisition of a rapidly growing advanced-tech engineering company which will accelerate Turner's strategy of expanding its presence in Europe. I will elaborate on this further in a moment.

And as I previously announced, in April, HOCHTIEF increased its ownership of natural resources company Thiess. This investment strengthens the Group's business profile and underlines the strategic importance of the global energy transition for the Group.

So let's take a look at the key figures for January-June period. Group sales of €14.6 billion show a 7% increase year-on-year. HOCHTIEF's operational net profit rose by 11% to €301 million or 18% on a comparable basis adjusting for the global consolidation of Thiess for two months as well as the divestment of Ventia in 2023. The nominal net profit of €436 million includes a one-off non-cash gain at CIMIC of €146 million net of provisions. The cash flow performance for the period includes a characteristic seasonal movement seen during the first quarter of the year.

Looking at the last 12 months, operating cash flow stands at a strong level of €1.7 billion, reflecting a high level of cash conversion. HOCHTIEF ended the period with net debt of €1.1 billion, driven by seasonality as well as a strategic capital allocation decisions. Adjusting for these decisions, net cash would show a €736 million year-on-year increase.

As a consequence of the continued strong growth in the orders, the group's order backlog ended June 2024 at a record level of close to €66 billion, up 23% year-on-year or 14% on a comparable basis.

Looking at the cash flow performance in more detail, I would note that the last 12 months performance with operating cash flow of €1.69 billion implies an increase of over €400 million year-on-year, well over €300 million year-on-year, adjusted for the impact of factoring variation.

Net operating CapEx figure includes mainly job-costed tunneling and mining equipment purchased and deployed for major projects at CIMIC. Net operating cash flow for the period was €82 million in comparison with the €29 million cash outflow last year.

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On the next slide, we can look at the movement in cash. HOCHTIEF ended June with net debt of €1.1 billion driven by seasonality as well as the consequences of strategic capital allocation decisions taken during the last 12 months. Principally, the full consolidation of this following increase in our stake from 50% to 60%, the Abertis capital increase where HOCHTIEF described its 260 million share, series of bolt-on acquisitions, which I will describe in the course and HOCHTIEF dividend of over €300 million. Adjusting for these impacts, we have a year-on-year improvement in the net cash position of €736 million.

Moving on, I would note the strong growth trend in our new orders. The January to June period shows an increase of 18% year-on-year in the value of projects secured. These new orders include several important high-tech, energy transition and sustainable infrastructure projects, some of which I will highlight in a moment.

And as I said, the group's order backlog ended June 2024 at a record level of close to €66 billion, up 14% on a comparable basis. In terms of the performance of our segments, let me just mention some of the key highlights. On sales of over €8.6 billion, up 14%. Turner achieved an operational PBT of almost €247 million.

This level of profit represents a very impressive increase of almost 40% year-on-year or €69 million in absolute terms. The operational PBT margin expanded market from 2.3% a year-ago to 2.9% for the first half in 2024. And during the second quarter, Turner achieved a 3% margin.

Margin expansion is being driven by Turner's successful strategy and advanced technology project opportunities and SourceBlue supply chain service solutions. Outstanding cash flow generation has been a feature of our construction management business for many years. As you can see here, the first half of 2024, is no exception with cash flow metrics showing increases of around €100 million year-on-year.

Looking forward for 2024, we anticipate continued growth in operational PBT to €460 million to €510 million. At CIMIC, operational PBT of €193 million was up 6% on a comparable basis and consistent with 2024 full-year guidance.

Operational net profit increased by 13% to €126 million and nominal net profit reached €272 million and includes a one-off non-cash gain of €146 million, net of provisions. Net operating cash flow reflects Q1 seasonality and structural changes in the working capital profile and aligns with our lower risk, collaborative contracting model.

New orders of €6.1 billion were 4% higher year-on-year, with a robust order backlog of €24.6 billion, up 6%. Our 2024 guidance for CIMIC is for an operational PBT of between €420 million and €460 million.

In our Engineering & Construction segment, sales increased by 13% year-on-year to €1.8 billion. Operational PBT was stable at €39 million, with firm margins and the net cash position strongly increased by over €100 million year-on-year, driven by good cash flow generation last 12 months.

Net operating cash flow in the first half of 2024 is driven by seasonal working capital variations. The engineering and construction order backlog of €11.3 billion was up 10% year-on-year with new orders of €2.1 billion solid at over 1x worth debt.

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The first half 2023 figures contain two major project wins in Europe worth over €1 billion. Our segment guidance is for operational PBT of €80 million to €95 million. And Abertis average daily traffic was up by almost 1% in 2024, with operating revenues and EBITDA, up 60% year-on-year on a comparable basis.

Net profit pre-PPA amounts to €402 million, up 1% year-on-year. The Abertis profit contribution to HOCHTIEF after PPA amounts to €39 million. For 2024, we expect Abertis will make significant profit contribution to last year.

Let me update you on the significant progress we have made in delivering on our strategy, which, as I have highlighted on previous occasions in center on three key pillars. Firstly, reducing the group's risk profile which we are achieving by the greater use of collaborative style contracts, resulting in an order book where over 85% is comprised of lower-risk projects.

Secondly, expanding our already strong presence in the high growth areas would demand a more sophisticated value proposition and which are driving higher margins. In parallel, we continue to consolidate our core market position.

The third cornerstone of our strategy is centered on a very disciplined capital allocation approach, which will generate significant long-term value for HOCHTIEF. As part of our capital allocation focus, we have also been carefully starting to take many opportunities that could potentially further accelerate our growth ambitions and we have just announced a strategically significant acquisition in Europe.

Turner has today signed an agreement to acquire 100% of Dornan Engineering, a rapidly growing European advanced-tech engineering company for an enterprise value of approximately €400 million. Headquartered in Ireland, Dornan is a leading mechanical and electrical engineering company in Europe and works in the data center, biopharma, life science, industrial and other segments.

With a strong presence in the U.K., Ireland, Germany, Netherlands, Denmark, Switzerland, amongst others, the business is expected to achieve revenues of around €700 million in 2024 and EBITDA of around €55 million, implying an acquisition multiple approximately 7.2x. Revenue growth has averaged over 20% in recent years, backed by an expanding order book which currently stands at close to €1.1 billion. Dornan is a similar business model and risk approach to Turner and also shares many direct relationships with blue chips and hyperscalers.

This is what the acquisition of a company with over 1,000 employees will allow us to further leverage the strong engineering capabilities in the areas of design, engineering, project management, commissioning, procurement and modularization. The current shareholders are part of the key management team and will all stay in their current positions post transaction. The acquisition will be executed by Turner and will accelerate a company's strategy of expanding in the European market.

Another important step in our group strategy was taken at the end of April when CIMIC announced it has entered into an agreement with Elliott to acquire an additional 10% equity interest in Thiess. The acquisition for a purchase price of A$320 million increased the group's ownership of Thiess by 60%. As a consequence HOCHTIEF has fully consolidated Thiess for two months during the second quarter.

Following this transaction, they put option for the remaining 40% is exercisable between April 2025 and December 2026. An important allocation of capital occurred in early 2024 when the shareholders of Abertis contributed €1.3 billion in equity to support the financing of the transactions announced in 2023 and the company's growth strategy. HOCHTIEF subscribed its 20% share with a €260 million investment.

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Our capital allocation strategy is also focused on carrying out bolt-on acquisitions to enhance and expand our engineering, digital and logistics services know-how and client offering. Through the first half of 2024, CIMIC company Sedgman acquired Prudentia Engineering, expanding its presence in the growing chemical and energy industries, which support the energy transition globally. The acquisition enhances Sedgman's existing critical minerals and mineral processing expertise in copper, high-purity alumina, vanadium, lithium, cobalt, rare earths, uranium and nickel. Sedgman also announced the acquisition of MinSol Engineering, which has experience that has been integral to the development of the global lithium industry for more than 15 years.

Its expertise complements, Sedgman brine lithium processing capabilities acquired with Novopro in 2023 and will enable it to provide its clients with complete solutions in mineral processing for the global energy transition. These acquisitions complete Sedgman's strategy to become a full-service global provider in extraction and refining of minerals, essential to rapidly growing clean energy technologies.

Thiess has signed a share purchase agreement to acquire underground metals business, PYBAR, one of the largest underground hard rock mining contractors in Australia with a strong position in critical minerals and metals including copper, gold, zinc and iron ore. Thiess also acquired engineering firm, Mintrex which was founded in Western Australia in 1984 and has since built a strong reputation in engineering consulting, project management and asset management in the mining sector.

During the period, the group also advanced in its equity investment strategy in the areas of PPPs with €100 million of previously committed equity paid in the Pacific partnerships with existing assets, mainly for the Cross River Rail EV project. In the U.K., HOCHTIEF was awarded a multimillion Euro PPP contract to design, build, finance and operate a new student village for Staffordshire University in the U.K.

Regarding our sustainable edge data center developments in Germany, the first data center will be completed next year and traditional plots have already been secured. We have further three sites expected to be acquired by the end of the year and additional occasions are in the pipeline for 2025. In May 2024, we have signed an extension to our collaboration with Infrastructure fund, Palladio for five to 15 data centers.

As I mentioned earlier, HOCHTIEF achieved a strong increase in the orders during the first half of 2024, which were 10% higher year-on-year increase of projects secured in high growth areas in product. The group continues to perform well in the civil works and building markets where we have a strong presence, stretching back several decades.

Let me run through some of the key projects secured during the first half of 2024. The group has successfully positioned itself in a rapidly expanding global digital infrastructure market. Turner continues to grow its strong position in North American data center market with new orders of US$3.9 billion booked during the first six months of the year, which already substantially exceeds the total for 2023 of €2.6 billion. The period end backlog of €6.1 billion is up by over 70% since the beginning of the year. Work secured during the period includes a contract to build a data center for Meta in Indiana worth more than US$800 million.

Turner is in a very strong position to deliver on a very robust project pipeline from our existing hyperscale and key collocation clients. The recent market trend is the advent of massive mega data centers, 1 to 1.5 gigawatts to meet artificial intelligence and machine learning demand.

Turner is uniquely positioned to gain market share based on its supply chain expertise, financial strength and nationwide network of key trade partners in North America. Furthermore, Turner has identified a pipeline for advanced-tech projects worth around €20 billion. In Europe, it complements the acquisition of Dornan and lays the foundation for the company's expansion in the European market. In India, Leighton Asia has won a data center project for a multinational technology group and construction work has just started and will be completed at the end of 2024.

The joint venture follow several data centers. The company has completed originally across Asia Pacific region in Hong Kong, Malaysia, Indonesia, Macau and the Philippines. In Australia, UGL's rail and technology system's capability is supporting some of the country's biggest infrastructure projects, including Metro Melbourne's Northeast Link and Perth's METRONET rail service.

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In June, the company announced it had been awarded a three-year contract to deliver business fiber products for the national broadband network in the state of Queensland and Victoria. The group is also active in the digital infrastructure market in Germany, winning a contract for a semiconductor-related construction facility using clean room technology and is also involved in a project which is artificial intelligence to drive improved maintenance of local transport infrastructure.

Furthermore, we're also working in Malaysia via Turner providing construction management service for a large semiconductor project that at this stage is confidential. HOCHTIEF is supporting the build out the infrastructure for the global energy transition. In Australia, CIMIC UGL is playing a central role in delivery of the country's environmental ambitions through the construction and connection of renewable energy assets as well as by design, construction, construction and connection of a high-voltage electricity infrastructure to connect those renewable assets to the national.

In May, the company was awarded a contract by long-standing client, Neoen, to construct and install the 341 megawatts battery states between Western Australia. Project builds on a 219 megawatts stage 1 facility currently being installed by UGL which is on track to commence operations at the end of the year. Our company, Pacific has an acquired development rights for 700 megawatt rural solar farms and associated large scale battery energy through its system in New South Wales which will be one of the largest solar farms in Australia.

Actually we will develop, invest in, deliver and operate a solar farm and a battery energy storage system on a 3,000 hectare site with UGL carrying out the initial works, developing the project solution and providing operational maintenance services upon completion.

In Western Australia, Sedgman supported Rio Tinto to build a green-iron research and development facility to assess a new iron making process, which relies on base on biomass-based metal and have the potential to reduce CO2 emissions by up to 95% compared to traditional blast grenades are making.

The group has a strong presence also in the social infrastructure sector. In the first half of 2024, Turner began construction work for US$900 million hospital expansion in Pennsylvania, and was selected for behavioral health hospital in Massachusetts. Turner was again ranked as a number one U.S. construction management firm in the hospital facility sector for 2023.

In Australia, CIMIC group subsidiary secured a contract deliver a new Notre Dame College in Queensland on behalf of Brisbane Catholic Education, who will deliver five state-of-the-art buildings among them, an administration building, various learning spaces, sports courts, workshop and landscaping. And in defense, CPB was awarded €770 million Royal Australian Air Force base project in Queensland. Works will include the upgrade, rebuild of the infrastructure and facilities.

As noted earlier, in April, we increased our ownership in Thiess, a well-performing business underpinned by long-term low-risk contracts and stable customers. During the second quarter of 2024, Thiess was awarded a six-year contract extension worth A$1.9 billion with BHP for the Mt Arthur South operations New South Wales, Australia. Thiess will continue to provide mining services at the site, operating and maintaining mining equipment to support BHP's production requirement and working with the client and the local community towards the plant rehabilitation and mining process.

Last week, Thiess was awarded a C$205 million three-year full-service mining contract in Ontario. The site was last mined in 2017 and is ramping back up in response to the world's increasing demand for critical minerals needed to transition to emissions. The work with help Canada's nickel and copper industry to provide metals at our vital North America's transition to clean energy. And let me finish this section by referencing logistics and supply chain services, which is becoming even more critical for the markets in which we operate. Turner subsidiary source grew streamlines a construction supply chain that helps clients overcome supply chain challenges through strategic vendor relationships.

The company, which was established in 2001, has expanded its service offerings over time and is expected to provide clients with over US$1 billion materials and products in 2024. In April, the company announced its plans to expand its services offering globally and enabling a client with new markets, providing the highest level of service. ESG remains a priority for the group.

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In 2023, HOCHTIEF was again listed in Dow Jones Sustainability Index for the 18th year in a row. HOCHTIEF achieved some positions in the ranking compiled by S&P Global. HOCHTIEF also improved the rating regarding important environmental and social issues such as by diversity and water management as well as occupational safety and human rights.

Looking forward, HOCHTIEF's objectives are to continue generating sustainable cash back profit, achieve attractive shareholder remuneration and create value for all the stakeholders. The first half of 2024 showed exciting profit performance supported by a strong cash flow, further substantial new order growth leading to a record order book, and we have made great rights in delivering on a group strategy with the acquisition of Dornan, which is a key milestone for the group's development. Our unchanged guidance for 2024 is to achieve an operationalized profit of between €560 million to €610 million, which represents an increase of up to 10% comparable with last year.

Let me stop there and will welcome any questions you may have.

Question-and-Answer Session

Operator

And first question comes from Graham Hunt from Jefferies. Please go ahead.

Graham Hunt

Hi. Good afternoon, gentlemen. Thank you for taking my questions. I'll just ask two, both on guidance. First, you're tracking above the top end of your full-year guidance in the first half. Is there a specific headwind you're considering for a slowdown in the second? Or is it just a conservative approach you're taking?

Juan Santamaria

So regarding the guidance, Listen, I think we have a first half – a very good first half of the year. But at this stage, we prefer not to change the guidance. We prefer to wait for the second half and be cautious.

Graham Hunt

Maybe then can I ask specifically on Turner, did you consider updating the margin target for this year and then 2026, given the performance and also potential accretion, I suppose, from the consolidation of Dornan which should be a boost to that 3.5% by 2026?

Juan Santamaria

I mean, again, I mean, Turner certainly is improving. They have very first – I mean, very good first half of the year. And certainly, its continued expansion in advanced technology projects. In fact, I mean, you saw in my speech that they were able to secure a lot of first projects in the semiconductor space which adds to the fabs, to the recycling, to the biopharma, add to the data center strategy, which all of that is very positive. SourceBlue with margins continues to expand, which is very positive as well. The acquisition of Dornan is very good because Dornan EBITDA runs at 8% because it's mainly advanced technology, which margins, even the low risk margins are higher. So that will help. It is in their path to continue increasing the margins.

And in Europe, we have identified in just with the new pipeline identified under the new spot, there's €21 billion of projects that Dornan are going to pursue all of them advanced technology. So I mean, certainly, we are very optimistic about Turner, very optimistic. But at this stage, if we want to be cautious, we prefer not to change the guidance.

Graham Hunt

Thank you.

Operator

The next question comes from Victor Acitores from Bernstein. Please go ahead.

Victor Acitores

Hi. Good afternoon. Thank you for your time. Juan, I have several questions. The first one is that on the net profits and dividends. We have seen a one-off positive on net profits in my understanding. I tried to remember what happened in the one-off negative in Chile, two years ago, the dividend was impacted. Now that you have one-off positive in CIMIC, we can interpret that the 65% payout ratio is going to be applied again on the current net profit. This is the first question.

The second one, on Dornan. What is the net cash of that company have to analyzed on the [indiscernible]? And what are the expectations about the margins of Dornan once they integrate on the profile of Dornan. I tried to understand what you mentioned that you do know how about how to do things in Turner probably there's a chance in order to improve metric of Dornan only to analyze what could be the long-term perception of that one?

And I have also a third question regarding the put and call options on Thiess, on Elliott. You clearly mentioned that is between April 2025 to December 2026. But I think that probably, I don't know if it could be an open window, if you reach an agreement with Elliott, a chance to do transaction before that time. Is it something that is possible in an agreement or if not? Thank you so much, Juan

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Juan Santamaria

Thank you, Victor. So starting with the net dividend. We give – I mean, our payout ratio is over the underlying business, right? So in that sense, I mean it's true that we have recognized a gain, because for end market value of – I mean, of CIMIC's existing 50% stake as required. And obviously, this is a non-cash nature. So because it's non-cash nature, the net positive effect of the €146 million this year, it will not be taken into account for dividend payout in terms of the 65%. In terms of the net cash of Dornan, yes, it's positive net cash. I don't recall the number right now. But it's around the €80 million in net cash.

And then regarding Elliott, as I always say, we're open for that. We don't know at this stage the intentions of Elliott, if they will wait, if they will exercise before. But certainly, we would be more than open for accelerating that transaction. And Victor, I am not sure if there was any question that I have missed.

Victor Acitores

No, it's only one thing, Juan, is that regarding Dornan, that is probably one of the main elements of the results today. What is the outlook of Dornan because I think that you have a chance for Dornan in order to isolate to continue growing, but once we integrate to the Turner, its deals and know how probably you have the chance to boost the margins move further? And I don't know if it is one element that could be taken into account or is possible in some years? So what are your thoughts on Dornan, integration on your structure and the way of gains that you can obtain on that integration?

Juan Santamaria

So starting with Dornan in the past before the integration. Dornan revenues in 2021 – the margins have been very stable. But in 2021, the revenues were around €365 million and now in 2024, which is three years later, we're talking about €700 million. So that gives you a sense of how much it's growing. And at the same time, by having Dornan inside Turner, it's a win-win, right? And that's pretty much emphasizing what you're saying. We'll be able to generate a lot of growth synergies for Dornan and for Turner. So Turner one side is going to gain local design, engineering, very management expertise in Europe, a lot of existing client relationships in Europe.

A lot of these clients are well known because Turner works with them in the U.S. And as I said before, there's a project pipeline of opportunities in excess of €20 billion right which is quite significant. And all that pipeline has – is identified, is very specific projects that we are currently pursuing, and we have already started working with Dornan on a few of those.

On the other side, Dornan is also going to benefit from the, I mean, Turner's client relationships and experience working with them. It's going to get the benefit of SourceBlue in terms of all the procurement on the global network of supply chain of Turner, is going to get efficiency from the systems. It's going to get efficiency from a lot of the capability and volume for project announcement, which is going to allow Dornan to move from what is relatively medium and small projects into large and very large CapEx products, right.

So Dornan, yes, right now has a big part in data centers and has a lot of expertise in industrial assets, in biopharma, in mechanical, in general. So by having that expertise in the mechanic space and taking the power of Turner, yes, we believe that we can grow Dornan, that we can increase margins in the future, and that we can capture a lot of the opportunities that we are going to see Europe, and we are very happy with the transaction.

Victor Acitores

Thank you, Juan.

Operator

The next question comes from Dario Maglione from BNB Paribas Exane. Please go ahead.

Dario Maglione

Hi. Good afternoon. Just a couple of technical questions for me. How much did Thiess contribute to operating cash flow in Q2? And also, can you comment on factoring in H1 and what we should expect going forward? Thanks.

Juan Santamaria

Okay. So starting with the cash flow. I don't have that number in front of me because I don't think we're disclosing, but I'm looking in my papers. I don't have that detail. In the case of the factoring, I mean the factoring – I mean, we had an increase in the factoring volume of €205 million year-on-year. And this is basically due to the increase in volume of the North American business of revenues. And there has been also some volume up in CIMIC. There's a small contribution from Thiess, but basically some increase in CIMIC. So those are the two main drivers, but probably that will be unwound moving forward, right? It's seems more seasonality on some of the revenues that we're having. We will try to keep the factoring levels stable.

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Dario Maglione

Thank you, Juan.

Operator

The question comes from Marcin Wojtal from Bank of America. Please go ahead.

Marcin Wojtal

Yes. Good afternoon. Thank you for taking my question. I had a couple. Firstly, is on the balance sheet. How do you see the firepower of HOCHTIEF right now for further acquisitions, perhaps to further increase your stake in Thiess over time for further equity investments in new projects? And what sort of leverage metrics you are monitoring to determine the balance sheet for your power? If you could share a bit of color on that, that would be very helpful. And question number two, do you see more opportunities to do acquisitions similar to the one you have just announced. Is it just a unique transaction? Or it is like opening a new chapter with HOCHTIEF being more acquisitive going forward? Thank you.

Juan Santamaria

Okay. So in terms of firepower, I mean we are – it's true that Thiess transaction is adding €1.1 billion of net debt, but it's also adding on a full-year basis, almost the same amount in EBITDA. So in general, nothing has changed from where we were. It's as well that we have been the bolt-on acquisitions that I described, and we have also been contributing to Abertis and we have been also contributing to the PPPs that I did mention in the presentation and will continue.

So where we see – what we believe that we do have firepower, obviously, through additional debt, there's no doubt, and the rating agency right now has given us a very solid investment grade, which as everyone knows is our priority to keep and to manage all our capital allocation with the priority of keeping the investment grade and right now, it's very robust and solid. So we're looking at that.

So where is our firepower? First, the strong cash flow that we get every year. It's allowing – I mean, if you were to remove the Thiess transaction, look at all the bolt-on acquisitions and Abertis just through the cash flow, which are increasing the best, right? The cash flow would have increased €736 million. If it was not for all these acquisitions, right? So every year, we're going to have that capacity to increase and to invest in different projects and different transactions and different companies, right? So that's without even increasing the debt. So we have the two components, our cash flows and debt.

So where do we want to drive that investment? At this stage, we are not – I mean, we want to make sure that we continue investing in the right projects. We will invest in bolt-on acquisitions or companies if we see that there's an opportunity. But I mean, we're quite comfortable having Thiess now in Europe. I believe that right now, there's nothing there – I mean there's nothing that we cannot run in terms of infrastructure.

We do have the full metal – critical metals capability with all what I explained on Sedgman, full mining capabilities, underground, open through all the minerals through Thiess. We do have expertise from batteries, fabs – I mean semiconductors fabs recycling, data centers, sports facilities, biopharma, biotechnology through Turner.

We do have industrial and energy capability through UGL, Leighton Asia and HOCHTIEF. So we see – and we do have the nuclear engineering, which is one of the largest [indiscernible] plant engineering globally through HOCHTIEF nuclear engineering, right?

So we're very, very comfortable where we are in terms of our diverse, in terms of our ability to be all the global infrastructure and what's coming in the future. So that's number one. So where are we going to start investing? As the third pillar of our strategy, remember, the first one was making sure that we're reducing risk and we are cleaning balance sheet, and we were making sure that all our new jobs for collaborative BCMs for open book basis, alliances, et cetera, which we are achieving. The second part of our strategy was to make sure that we were building all our engineering capability and all the ability to work on all these new projects. First, in the global knowledge and also geographically, and we have achieved that.

Now we have ability in Americas and Europe and Asia Pacific, including Australia, through all the verticals that I mentioned. So that's done. So now we're going to start investing the equity in assets. So that ability that I explained before with our operational cash flow plus the debt, we are going to apply the starting projects. You saw the PEPs that we have invested so far, right? In last year, it was – we won the electric vehicle chargers. This year, we have won the social infrastructure. We continue developing all the renewables, battery storage facilities in Australia. We are in the data centers with 15-meter centers identified in Europe, and that's going to increase significantly in 2025. And we have identified opportunities in other energy areas.

So we are going to start growing in additional PEPs, energy PEPs and developing projects and all the new assets that are coming. And that's where we would like to focus if there's an opportunity by another corporation because there is an expertise that we believe we're missing and we will, certainly, because things evolve very, very fast. And we want to make sure that we are up to speed on all the technologies. But certainly, I mean, we are in a good position, and we want to start investing in assets. Of course, I mean continue to given the attractive shareholder remuneration.

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Marcin Wojtal

Thank you so much.

Operator

The next question comes from Marc Limite from Barclays. Please go ahead.

Marco Limite

Hi. Good afternoon. I've got just one question left. I think in the past, you have provided a soft guidance of free cash flow conversion ratio versus, let's say, the net income to normalize back to around 100% in 2024. Is there any reason why you are a bit more positive on the conversion ratio and you think you can exceed 100%? Thank you.

Juan Santamaria

So I mean we don't provide – I don't think we have never provided guidance from a legal perspective in the free cash flow. Our objective is always meeting the 100% on ratio, that's where we were, and a report of our derisking strategy of new projects coming in the future is to make sure that we are able to achieve that 100% without volatility because when you get into the old fashion constructions projects, there were two factors contributing to the cash flow volatility.

One was big advance payments at the beginning which you need to fill by the end and then the risk that sometimes overruns or we're pretty much driving overruns on the product. So that's why even our objective has always been the 100%, we haven't achieved and we're some years, very good, some years bad. Now we're trying to change that by having more stable cash flows. But we haven't and we try to give legal guidance in that sense.

Marco Limite

Thank you.

Operator

The next question comes from Augustin Cendre from Stifel. Please go ahead.

Augustin Cendre

Good afternoon, gentlemen. Thanks for taking my questions. I've got a couple of questions left on Dornan. Actually, my first one, apologies if it was already asked, when do you expect to close that deal and to consolidate it into your business? My second question is on the company growth, on the Dornan growth wondering whether this is surely organic that growth rate that we have seen over the last few years or whether there is any bolt-on in that business? And whether its business model relies on bolt-on acquisitions? And finally, still on Dornan, I would like to understand how the labor environment is for the company. Are you seeing in the business model, any constraints like we see for energy services businesses? Thank you.

Juan Santamaria

Okay. So the growth of Dornan has been organic over the years. So there has – it's not a combination of companies, has always been organic. In terms of the labor market, one of the strengths might be from Turner business, right? And – because Dornan has more than 1000 employees, but Turner is – it's one of the abilities of Turner is pretty much being able to capture – bring talent into the business keeping talent, retaining and then growing, especially because it has a very professional and a very good training program from its people.

We have a lot of workshops and it's one of the keys in the success of Turner. This year, we have brought more than 5,000 people – or new engineers into the company, which is a similar number that what we got last year, okay. So we are being able to consistently bring new people into the business. We do have one program. Now we're going to – that we have been already working on it for the last couple of years, but we are going to launch formally which is at HOCHTIEF University with different levels and essentially it has three levels.

One is undergraduates, the second one is post-graduation and third one is with our own people. And the idea to – so I'll give you an example. You see that Leighton Asia is building a lot of the – I mean we keep announcing data centers in India the latest. We have announced in Malaysia. We have announced in Hong Kong, Philippines, and we are going to Singapore. We continue growing the data center footprint in Asia Pacific.

A lot of the people that we're able to recruit and to bring into those data centers have all gone from our new University, which takes them in this case to the U.S., which we have special courses, special training. They go through all our data centers facilities in the U.S. and then we send to Asia Pacific. And we've already been doing for what's coming even with our Dornan for the price in Europe. And not just data centers, battery fabs, recycling fabs, hydrogen, semiconductors, et cetera. We are doing exactly same thing. We have already a lot of people being sent in to U.S. for those facilities.

In the case of energy, transmission lines for the [indiscernible], et cetera as well. In the case of minerals, Australia and Canada, right? In the case of steel, it's pretty much very local. So that's the most we are doing what we are being able to do because of this strategy. I mean these are the underlying – if you have to ask us what's the most important thing that we are doing right now? To implement and to deliver on our strategy is what I am explaining right now. That's the key to being successful.

And that's the key why a lot of the clients in a lot of these large projects, they are pretty much giving us the – I mean, the opportunity. So in the case of Dornan, I believe that they will start benefiting from this. I think that, that's one of the biggest values that Turner is going to give to Dornan, the ability to grow significantly and that's an opportunity that Turner is bringing to Dornan. And then what is going to happen in the coming months. There's obviously the European Union merger-controlled regulations and approval. So I mean, as soon as we get that, we will proceed with the closing, but I cannot anticipate a specific timing.

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Augustin Cendre

Thank you very much.

Operator

And the next question comes from Luis Prieto from Kepler Cheuvreux. Please go ahead.

Luis Prieto

Good afternoon. Juan, thanks a lot for taking questions. I have joined the call late, so I strongly apologize if any of my questions have been asked. If so, please ignore. I'll go to the next one. I have three quick questions. The first one is I am surprised by the margin difference between Dornan and Turner. If you could explain why that is, given that you say that you have the same risk profile and the same approach. So life in general, why are the margins higher?

The other one is in this context of higher margins and in the context also of the debate around how do we value these things the predominant voice has been that it should be double-digit EBITDA. So my question is if this is so similar to Turner, why is so cheap in terms of multiple? And finally, if you can shed any color on why the guidance hasn't been moved are you keeping some firepower towards the second half of the year? Or you really think that this is the range where you're going to be coming out at the end of 2024? Thanks.

Juan Santamaria

Okay. So a few things in that sense. First one, margin difference between Dornan and Turner. So well, Turner has advanced technology, general building, stadiums, hospitals, residential, commercial, everything that is advanced technology, margins are above the 8% gross margin, above double digits. So that's one of the reasons why we're so focused on acquiring all engineering system, people, digital to run into more with a same risk profile at higher margins, right?

In the case of Dornan, everything they do is advanced technology, it is a high specialized contract, okay? Turner, they do a lot of construction management. When you do construction management, not everything on the job has a same margin, right? Dornan goals is of a specialized contract, right? So in engineering.

So I think that combination is very powerful because we are going to be more complex projects. We will allow Dornan to grow. But at the same time, Turner will be able to increase its margins. So that's on them. How to value these things? Dornan is an opportunity because, I mean, it can grow significantly and can grow into a lot of projects and we are talking to them about, I said during the presentation and some of the good news that all the work we're doing now in the semiconductor fab space, which we are very proud of, and we are working now in Malaysia, and I believe that we're going to be continuing giving good news in that space.

And we have been focusing for two years to try to get to that level and is going to be able to provide that to Dornan. We're also working in a lot of the nuclear area through the combination of the HOCHTIEF engineering and Turner. We're also being able to work in a lot of mega battery fabs and mega projects including data centers, et cetera.

That type of big large EPCM construction, right? That level of Jacobs, of [indiscernible], of Turner – I mean those are the ones that typically are valued in those high digits. And why? Because it's not just a specialized contractor or doing a specialized job at one given time. You start from the very beginning, you do all the construction management and you stay there. You stay there for the asset management, for the CapEx because you have the supply chain.

SourceBlue, which is the Turner centralized supply chain area has gone from €100-plus million almost yesterday to more than €1 billion in 2024. All of that is the strategy of becoming a large EPCM contractor long-term asset management with all that supply chain of the equipment, not just in the construction period and to remain in the construction, right?

And that – it's a different type of company. Dornan is going to become by bringing that into Turner. And Turner is going to acquire that European expertise to be able to continue growing, right? So – but that's the difference between acquiring an engineering firm or a local between acquiring Bator or Jacobs, right? I mean, why can you buy engineering company – a small engineering company in [indiscernible] tomorrow, I will start the multiple but try to buy Jacobs and you need to pay 14x because it's a different thing, right? It's not just sites, is what brings the site due to all other projects, the clients, et cetera. So anyway, that's my view.

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Then in terms of the guideline. I said that before, we had a very good first half of the year, right? And we are very comfortable with how things are going. We see a lot of potential in certain areas of the business. I spoke a lot about Turner and all what Turner is doing and the 20-something billion of opportunities in Europe and the semiconductor stops and how Turner's evolving. We're very comfortable, but we're also very comfortable with Sedgman. I mean Sedgman with all the acquisitions that we've been doing with Sedgman, right now, we are a world leader in copper, in alumina, in vanadium, lithium, cobalt, rare earth, uranium, nickel.

And we are starting to compete with the large firms in many of the projects. I mean we won a first small space than hasn't been announced yet in Germany because we are waiting for financial close, but if financial close happens, we will get into probably one of the largest lithium projects in Germany. We won the lithium projects in Portugal. And we have one in Canada, I mentioned before, we have one in Australia.

But also – that's in lithium. But also the other critical metals, we do have a lot of potential in critical metals sector. Battery fabs, things have slowed down significantly in the battery space, but basically, it's on hold because of the demand of electric vehicles, but it's only the pause. We just where we see ourselves and the conversation with the client, that will be pretty much prompting up eventually something in 2025, right?

It just a pause, but the price haven't been canceled, just delayed trying to forecast the demand. So there's a lot of potential there. Having said that, one thing that we're comfortable and we are optimistic, different things is that we want to change the legal guidance. At least we prefer to keep what we have reported to the market.

Luis Prieto

Thanks.

Operator

[Operator Instructions] We have one more question coming from Nicolas Mora from Morgan Stanley. Please go ahead.

Nicolas Mora

Yes. Good afternoon, gentlemen. Just two quick ones. On Turner, the data center, how – looking at the run rate of all the wins year-to-date you seem very much on track to it. I think what the CEO of Turner said that you'll get to market and take another $5 billion run rate of revenues in data center. Can you – first can you confirm that for the year? And then second, you won a very large hospital project in Hong Kong in the second quarter. Does it mean you back in Hong Kong potentially winning more works at CIMIC and to turn around the cash generation and the margins there?

Juan Santamaria

Thank you, Nicolas. So starting with Turner, yes, I mean, certainly we are on track. In the backlog revenue in the first half of 2024 was in just data centers for Turner €6.1 billion. We had new orders in the first half for another €4 billion. That's an increase year-on-year of 344%. 344% just in data centers versus previous year. And we expect that the U.S. market is going to grow 56% from the current €82 billion market per year to approximately €128 billion by 2029 and that will be a consistent growth. That's just in the U.S.

We have identified in Europe just in data centers, $18 billion worth of projects that were personnel. And that's Turner, right? So yes, we're on track. And yes, we believe that this is a market that will continue growing, right? And similar to Turner we have Leighton Asia, which is one, as I said, the four projects in India, Hong Kong, in Philippines and Indonesia. I mean in Singapore, they keep doing data centers with a lot of the large hyperscalers with collocation, clients, et cetera, right?

So there's some market and we have already identified projects in Australia and in South America, that we are going to be pursuing. So the data center market, in particular, is a market that will continue growing, and we are also looking to the opportunity at Asia's and HOCHTIEF level in partnership potentially to invest in equity in all of these projects, and we're putting platforms together for this.

So we are very bullish on that. In Hong Kong, you saw the award of the hospital in Hong Kong. And that's a big milestone for us. Because in Hong Kong, we continue operating with private sector, but we were not forgiven or we were not welcomed by the government until now. And the hospital is a big milestone because now it seems that I mean it's a proof that the government has – I mean, it's allowing us to continue working in Hong Kong. And right now, we are able to continue tendering. We're able to continue – been working on many projects. So yes, I think Leighton Asia is – there's a breaking point right now for Leighton Asia.

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Nicolas Mora

And if I may, just on the – because I think now the opportunity in U.S. data center is a bit clear. All the contracts you've won so far, especially over the past six, nine months in Leighton Asia. How big does it add up to for now in terms of, I mean, dollar amount or so, just for us to get an idea of some most of the contracts are now, you don't provide any figures?

Juan Santamaria

I mean hospital is significant. The hospital, I think, we did announce. I don't have the front of me, but we did announce in the last – in the market, it was in excess of €2 billion or so, right, the hospitals €2 billion. And then in the case of the data centers in Asia, they are not that big so far. I mean, it's the same thing that happened in the U.S. at the beginning. We're doing about 40 megawatts, 50 megawatts, 20 megawatts and then if you look at what Turner is doing in the U.S., it's 700 megawatts, 800 megawatts. Asia Pacific is still in the first small projects. They haven't got yet into at least with us, right into that. But we're expecting to grow that over time.

Operator

So there are no further questions at this time, and I would like to turn the conference back over to Mike Pinkney for any closing remarks.

Mike Pinkney

Thanks very much, everyone. And yes, everyone has a great summer. Thanks for listening. And Juan, do you want to say anything?

Juan Santamaria

Yes. Thank you so much, everyone. I hope you all have a nice summer vacation, if you're going to take one. I look forward to seeing you very soon. And thank you so much for your time today.

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