

# **Técnicas Reunidas, S.A. (TNISF) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 10, 2024 Friday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 3689 words

**Byline:** SA Transcripts

**Body**

Técnicas Reunidas, S.A. (TNISF)

Q1 2024 Earnings Conference Call

May 10, 2024 5:00 AM ET

Company Participants

Juan Lladó – Chairman

Eduardo San Miguel – Chief Executive Officer

Conference Call Participants

Francisco Ruiz – BNP Paribas

Mick Pickup – Barclays

Álvaro Lenze – Alantra

Presentation

Operator

Good afternoon everyone and welcome to TR's Q1 Results Presentation. We apologize for the slight delay in our schedule. We've had certain communication issues. The presentation will be conducted by our Chairman, Juan Lladó; and our CEO, Eduardo San Miguel. It's going to last approximately 15 minutes, and you will be able to post your questions after the final remarks.

I now leave the floor to our Chairman, Mr. Juan Lladó.

Juan Lladó

Hello, everyone. Let me start by reminding you that in two weeks we'll be hosting our Capital Markets Day. This is going to be Abu Dhabi, as you know. And obviously, in this event, we'll be able to devote enough time with you to share TR's very motivating and promising growth strategy. So, therefore, today's presentation will have to be shorter than usual. I would start then with a short update on our commercial pipeline, and then I'll follow with some minutes devoted to track in our transition energy business as you celebrated its first anniversary. Trucks division has celebrated its first anniversary. Then Eduardo would follow with financial review for this quarter. And then, as always, I will conclude with our guidance for 2024.

So let me start with a quick glance of our commercial pipeline. When you look at this slide, an important number is that we have strong €72 billion pipeline for the next two years. But let me work now with you with a different breakdown of this €72 billion, which I think will allow all of us to understand how TR by engaging early with our customers, by engaging in early contracts is today for a better position for future and healthier awards. First, we have the first tranche, €61 billion of our traditional EPCs, EPs and EPCms, I mean our service business, which are pipeline that we're already bidding. We are prequalified, and we're going to be bidding obviously in competition with other engineering firms within the next 24 months. This is a traditional pipeline, and this figure already shows that investment cycle remains very solid.

The second tranche you see there are only €1.4 billion, which represent several contracts that TR has already secured, negotiated and agreed. Those are contracts that where we already working with our customers on a service basis and eventually will be converted in EPCs when the final investment decision takes place, which we expect will be within the next 18 months. And finally, you see the last tranche of the commercial pipeline.

We're bidding, or we're getting ready to bid about €10 billion, which represent or corresponds three pieces, where we have already been engaged with our customers by executing dual or competitive FEEDs, which means we'll have to compete with one, or there are traditional FEEDs where customers will give us the opportunity sometimes to continue and sometimes to compete. But obviously, it's a different story where you bid in for a bidder you have design and obviously many prefix that we are engaging with the customers. So those are €10 billion that we bid in. That obviously not only increases the likelihood of getting awards, but also the health of both of those awards. So, we think that this breakdown shows, well, how the market dynamics have changed over the last two years.

So, having gone through the pipeline, which I thought was important, let's continue, as I've said with an update of truck, which is our energy transition business unit. Just a few weeks ago, we were here celebrating TR synergy business unit truck, we were celebrating its first anniversary of the public presentation. About a year ago, we made a big presentation here with our government included, of our truck division. And we're still [indiscernible]. And all of us, we were extremely satisfied. And that's why we want to present to you today, what has been accomplished over the last year and how optimistic we are for the future outlook of the business.

As you know, the purpose of creating truck was to generate more opportunities in decarbonization and focus on projects offering additionals to our customers and differentiated value. To achieve these goals, we have put together different service proposals within truck, and obviously attracting and moving into combining new business lines, combining our traditional business lines, our traditional customers, with new business lines, which is basically cement and steel.

So what has happened? Let's look into the left hand side of this slide. And we see that in first quarter 2021, when all of us were learning and doing feasibility studies about this market, TR has accumulated more than €300 million in awards of engineering services fully devoted to low carbon projects. And we tell you, €300 million in services is a lot, especially in this business, as you know very well, it's a very slow growing business or developing business.

What that means in terms of resources? What that means in terms of where are we? If we look into the right hand side, we see we have been very successful in developing these three lines of low carbon business that we're very good at. We're very good at green hydrogen and we have been successful; we are very good at biofuels, and we have been successful; and we're very good and we need it for the low carbon capture business, and we have been successful.

And I think that what that mean into resources, I mean, why are we successful and why are we needed? We are needed because engineered resources are needed to really tackle this business. That means that we have deployed 1.8 million engineered man hours, which are fully focused in this fast growing market, which, if you translate that into people, into engineers, into chemical and process engineers, that means that about 1000 engineers are focused in this business.

Subscribe to Seeking Alpha for more content like this

So this is only where we are. And then let's just put just one quick slide to tell you where are we going. So now let's just look into the next pie on the right hand side as well, to see where we're going.

A couple of minutes ago, I told you, and I showed to you, that we have a pipeline for the next 24 months of €72 million. Well, we've seen this year €12 billion actually corresponds to projects already focused in low carbon technologies. Let me tell you that two years ago would have been very difficult for me and for my whole team to have that figure in front of all of you.

Also, it's important to highlight that we greatly widen in our client base with today, we have customers that we didn't have before. That is very important. And a big portion of these investments will be undertaking, as I've said before, with companies outside our traditional oil and gas base, allowing us many cases to work and develop those EPCs hand-to-hand co-developing with our investors, which was, as I said before, differentiating strategy.

So I think this is my whole presentation. Strong pipeline, good breakdown, and extremely well positioned in the growing low carbon business. And with this message, let me now pass the floor, or the macro, in this case, to Eduardo.

Eduardo San Miguel

Okay, thank you, Juan. Good morning, everyone. Let's move now to the financial results. Well, the slide summarizes the main financial figures for the first quarter. In terms of sales, TR surpassed the €1 billion of threshold with a 13% growth from our previous quarter.

As you are aware, that quarter was quite extraordinary a small quarter in terms of sales. Due to a bigger than usual volume of projects in the engineering stage. The EBIT reached €40 million with a 4% margin of our sales, in line with our guidance for the year. And the net cash position stood at a healthy€333 million level at the end of the quarter.

Focusing now on margins, as you can see in the slide that in the last two years, we have consistently grown our operating margins up to the 4% level reported in the quarter. There are several reasons behind this positive recovery that were elaborated in previous results presentation. But however, I think it is important to highlight them again because they will also be supporting the future margin evolution.

First, we are more selective when choosing which projects we want to bid for. Second, we have implemented a proactive risk mitigation strategy. And third, the cost efficiency mindset has landed solidly throughout the company.

We're moving to the cash net evolution. As you can see in the slide, the net cash position stands at €333 million. You know, one of the positive drivers that the actual investment cycle is bringing is the improvement of the cash cycle linkage to new awards. And this is not only related to their revival of initial down payments, but in general to a more positively balanced milestone scale for payments.

And in that sense, to give you some additional color, while the 2023 full year figure included down payment of the MERAM project, the first quarter figure does not include the down payment of Riyas – of the Riyas project in Saudi Arabia. Cash inflow we expect to occur in the second quarter of 2024. The purpose of TR is not to maximize our cash [ph] in bank, but to consume wisely these cash inflows in accelerating the project's execution.

Subscribe to Seeking Alpha for more content like this

It has been a short presentation, but now I give the floor to Juan to conclude with the guidance for 2024.

Juan Lladó

Thanks, Eduardo. As always, as usual, let me conclude today's presentation with our guidance. Our guidance for 2024 contemplates a level of €4.5 billion on sales and a solid 4% EBITDA margin. But this is not just a number. I think the message we were to throw with this guidance is that it shows that in the last two years, we have strengthened our capacity in all fronts, and let me underline that capacity in all fronts.

And today, we already have been stronger as we are to capture that we see an extremely exciting and promising market. So I do understand that it's a solid and the good guidance. And having said that, let me finalize again the reminding you that we'll be hosting the couple of markets day from the 23rd to the 24 May in Abu Dhabi. You know that the United Arab States in Emirates is place where we're currently executing one of the most important projects in our backlog.

We have there one of our most important customers and customers, different divisions for customers and will be definitely key for our long-term growth. We enjoy and we want to be in Abu Dhabi. Eduardo, myself and other members of TR's management team, we'll be devoting time, all the time required to explain TR's strategy and the growth path of the company in the coming years. We're very sure it's going to happen.

And now I just finished. And with this reminder, we're more than happy to answer any questions that you may want to address. Thank you very much.

Question-and-Answer Session

Operator

Thank you, ladies and gentlemen, we will now conduct the question-and answer session. [Operator Instructions] Your first question comes from the line of Francisco Ruiz from BNP Paribas. Your line is now open.

Francisco Ruiz

Hello. Good morning. I have three questions, if I may. The first one is on the €12 million pipeline that you highlighted on track. Could you allocate this in the three blocks, in terms of your commercial pipeline? I mean, how much is in the first one, how much in the second one, and in the third. The second one, and my second question is on the book to bill that you expect for this year. If you think that – for sure, there should be an acceleration, but to be able to be at levels of one time your sales. And my last question is, if you could provide. What's the level of low risk contracts that you used to provide in previous presentation as a percentage of total pipeline? Thank you. Hello?

Eduardo San Miguel

I will start with the third question, this is the only one I think we are clear. There is no significant modification of the existing backlog compared to the backlog we had three months ago, because there are no relevant additions. But the one in Saudi Arabia, that we have one, if I'm not wrong, at that time we were saying we were around 75% of the backlog had any kind of risk mitigation measures implemented. So, it should remain similar. It should be around this 75% at first. Regarding the first question, I think you are asking for when we are going to deliver this pipeline and what is going to be converted into EPCs. There were probably…

Francisco Ruiz

No, Eduardo, what I am talking about is taking into account that the classification you made on your pipeline between traditional awarded and not in backlog and potential. If you could split the €12 million, €2 billion of the track pipeline into these three tranches. Thank you.

Eduardo San Miguel

Thank you. Thank you for clarification. It's €12 million, €4 million out of this €12 million are part of the €10 billion that are already on an ongoing service contract. I mean, this is the third class. And the other €8 million are in the first class, traditional EPCs – EPCMs, we are bidding for or we are planning to bid in the future.

Subscribe to Seeking Alpha for more content like this

Francisco Ruiz

Okay. Very clear. And the last question was on the book to bill. I mean, what's your order intake estimate for the year. If you could give us some color on this.

Juan Lladó

Now, let me answer that question to you. We do believe it's not a real challenge. But there is always a challenge in this business to be able to replace sales. I mean, this is – I mean, last year we wanted to replace sales and we did better. This year we want to replace sales and hopefully we may end up doing better. But it shouldn't be a challenge.

Francisco Ruiz

Okay, thank you very much, Juan.

Juan Lladó

We're not very explicit. I think in the Capital Markets Day will be more explicit. I think we'll get more into detail. So where we go and what we expect, customers, markets and type of business services, EP, EPCms

Operator

Your next question comes from the line of Mick Pickup from Barclays. Your line is now open.

Mick Pickup

Good morning, everybody. Can I just ask about on that chart you gave on your commercial pipeline, €1.4 billion of awards awarded but not in backlog. You say an FID [ph] 18 months seems a long time for stuff that's been awarded and not in backlog. So what is it that needs to happen to get those over the line?

Juan Lladó

Okay. As I said before, market dynamics have changed. We have a – they're not in the back – I mean, they're not in the backlog. And that's why it's in the pipeline. Contracts have been secure. We're working on those contracts doing early works and prefix, I mean, getting ready and waiting for the customers. And let me tell you, customers is a blue-chip customer. For customers, they're not creative investment schemes, they're blue-chips. And the customers have decided that while they put together, they put together the final investment decision on the different contracts that they want to start with us with early works with the contract sign fully indexated to market changes, obviously, because it's not the same, the market might change within next.

Some of them may convert into EPC in 12 months and some others in 18 months, or some other one in nine. It may depends. But the good message is either real, their contracts is a blue-chip, they're blue-chips, industrial customers, not investment schemes. They're just spending some money to see whether they put together a finance. It really has to do with putting together a complex finance; it has to do for the customers to make the final investment decision, which I cannot get into more details. I can tell you is Europe. That's it. But I cannot get into more details because I'm not allowed to be honest with you.

Mick Pickup

Okay. And then just looking at that, obviously that slide says contract awarded, not in backlog. And then the next one is potential conversion of into EPC of ongoing service contracts. Is that word conversion is getting more and more common, early engagement. Are we heading towards an open book market?

Juan Lladó

Yes. I mean, many years ago open books with the market and in 2007, 2008, 2009, 2010, it was sort of trendy. Then oil crisis came, everybody forgot about it and now is back in the market and do all fits. I mean, having customers that said, well, bid for us, you do a fit, somebody else is going to do it with you at the same time. And if the competition, sometimes in price, sometimes in service, and very often in technology. At the end of the day, the customer has to decide after 12 months or eight months with whom to follow.

So it's for us to do well and it's for us to work with the customer and it's for him to decide whether he wants to follow with us and our technology partners or with our competitors. In some other cases it's just an open book. And we have used open books that we cannot do because they're putting together the finance while we're doing the front end design.

Subscribe to Seeking Alpha for more content like this

At the same time, the cost estimate for the EPC we cannot be, as they having got financed, secure. We cannot book it as in a backlog. Sometimes it's fully secure and this case we cannot. And once they put together this whole thing, we are have to negotiate with the customer, the EPC, which is similar. And in some others it's just a rollover. They tell us you start with a prefit, continue with a fit and we're happy with you.

You continue either on the EPC, EPCM or EPC construction management only. And that's more North America, which they like the rollovers and continue with the customers they have been working with and with the customer where they have deployed their team here in Madrid to work on the jobs. So while is for us to do well. And sometimes what we say among ourselves is for us to lose and we don't want to lose.

Mick Pickup

Okay. And then if I may, a last one just for Eduardo. You're saying on the cash side, you haven't got the prepayment in yet for [indiscernible], assuming working capital is stable in Q2, your net cash is going to grow even higher and then your EV is going to only be a couple of $100 [ph] million. You're heading well below 2 times EV to EBITDA on your guidance. What's the market not getting?

Juan Lladó

Please don't ask me that question. It's a tough for me to give you an answer. But regarding the cache, let me go back to the fundamentals of the analysis. What for me was important and that's what I tried to say in my presentation. Please do not expect a very significant growth of cash throughout the year, because the idea is the money we receive from the clients we want give [ph] to the suppliers. It's the only way to accelerate the project.

And that's the purpose, the regional purpose of the down payments to accelerate and to do things smoother. So we will see probably an improvement to be in terms of cash. But please don't be too aggressive in your estimation because our plan is to consume as much cash as we can. Obviously, we have certain compromises with banks, with SEPI and we cannot go to a very low figures of cash. We are not planning to do that, but be conservative, please, when doing your numbers.

Mick Pickup

Okay. Thank you. See you in Abu Dhabi.

Juan Lladó

Okay, thank you.

Operator

Your next question comes from the line of Álvaro Lenze from Alantra. Your line is now open.

Álvaro Lenze

Hi. Thanks for taking my questions.

Just a follow up on the cash flow, if I am not mistaken in the Q4 conference call, you mentioned that you received a significant down payment late in December that you expected to spend that to accelerate project execution. So I was expecting maybe higher cash consumption? And since, as you mentioned, the real down payment is not there, that seems not to have been the case. So working capital or cash is roughly stable. Did you not distribute the original down payments to providers? Or is it that you generated cash despite doing so, so just to understand the evolution of cash flow in Q1 in particular? Thank you.

Juan Lladó

Hi, [indiscernible] It's not only – there's no only one project in the backlog. It's not only backlog. So, the trainees, we are starting to consume the down payment from a log in Abu Dhabi. That's a fact. But also, we are generating cash from other projects around the world. So the mix, in the end, has been to be very close to the figure we had three months ago. But I don't want to say just a coincidence. I think it's good for all of us to have an acceptable level of stability in terms of cash, to provide you comfort, and to provide comfort to anyone around me.

But to be honest, you cannot tell me what has happened with the down payment you receive, because you still have the same figure. But there are 20 projects in the backlog, and all of them are in very different stages. But in fact, we have already started with the very first purchases of the of MERAM project, and we are currently anticipating cash to main suppliers.

So it's happening. But it's not still very material, but it's a project that were four months ago, so it's not that far. It makes sense. We start with engineering, and then we started the procurement phase. So in four months time, there's no time enough to consume a full down payment. That's a fact. But also, we are generating new cash from other existing projects in the backlog.

Subscribe to Seeking Alpha for more content like this

Álvaro Lenze

Okay. Thank you very much.

Operator

There are no further questions at this time. Please continue.

Eduardo San Miguel

Well, we're all done. Thank you very much for staying with us and also for waiting 15 minutes, as we had some problems with, with a link and, which is, thanks for being with us. And a quick reminder again of our Abu Dhabi Capital Markets Day. Hope to see you there. We're definitely going to be there, so please come. Bye-bye. Thank you.

**Load-Date:** May 10, 2024

**End of Document**