

# **Technip Energies N.V. (THNPY) Q1 2024 Earnings Call Transcript**

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**Body**

Technip Energies N.V. (THNPY)

Q1 2024 Earnings Conference Call

May 02, 2024, 07:00 AM ET

Company Participants

Phillip Lindsay - Head of Investor Relations

Arnaud Pieton - Chief Executive Officer

Bruno Vibert - Chief Financial Officer

Conference Call Participants

Bertrand Hodee - Kepler Cheuvreux

Richard Dawson - Berenberg

Victoria McCulloch - RBC

Guillaume Delaby - Bernstein

Guilherme Levy - Morgan Stanley

Jean-Luc Romain - CIC Market Solutions

Kate O'Sullivan - Citi

Daniel Thomson - BNP Paribas Exane

Presentation

Operator

Good afternoon. This is the conference operator. Welcome and thank you for joining the Technip Energies First Quarter 2024 Results 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. Phillip Lindsay, Head of Investor Relations of Technip Energies. Please go ahead, sir.

Phillip Lindsay

Thank you, Judith. Hello and welcome to Technip Energies financial results for the first quarter of 2024. On the call today our CEO, Arnaud Pieton, will provide an overview of our Q1 performance and business highlights followed by Bruno, who will provide more details on our financial results. We'll then open the call for questions. Before we start, I would encourage you to take note of the forward-looking statements on Slide 2.

I will now pass the call over to Arnaud.

Arnaud Pieton

Thank you, Phil, and welcome everyone to our results presentation for the first quarter where I will begin with the highlights. Q1 represents a solid quarter for Technip Energies with continued focus on operational excellence, good commercial momentum and progress in delivering on our 2024 strategic objectives. We delivered a strong financial performance with adjusted revenue of €1.5 billion, up 5% year-on-year and adjusted recurring EBIT margin of 7.3%, which puts us on track to deliver full year guidance.

Commercially, our Technology, Products & Services segment, TPS, had a very successful quarter by posting a book-to-bill of 1.3 and demonstrating our ability to capture growing demand for our services and solution offerings. In Project Delivery, we have been selected on three major projects in the period. This includes Ruwais LNG in Abu Dhabi and the Net-Zero Teesside power generation and carbon capture project for BP in the U.K.

Both these projects are pending final investment decisions and will be incorporated in our backlog upon reaching this milestone. In addition, last week we announced the award of Marsa LNG in Oman, which will be included in our second quarter order intake. As a result of this positioning and our rich commercial pipeline, we expect improved orders in project delivery and sustained momentum in TPS to boost our backlog, which at period end stood at €15.3 billion, up 27% year-over-year.

Now moving to operational highlights where we are delivering on our portfolio of projects and TPS assignments. In the first quarter, we achieved commercial production at the Midor Refinery Expansion, a facility that will deliver cleaner fuels to Egypt. In addition, LanzaJet inaugurated its Freedom Pines plant utilizing our Hummingbird technology.

This is the world's first commercial scale facility producing sustainable aviation fuel from ethanol and therefore, demonstrating the alcohol to jet pathway for SAF. This is paving the runway for future SAF related opportunities. Overall, a very solid start to 2024 and I want to express my deep gratitude to our teams that continue to drive our leading performance all around the world.

Moving to commercial highlights where we strengthened our leadership in low carbon, electrified LNG and net-zero solutions. LNG remains a critical source of energy on the world's pathway to net-zero and T.EN is committed to supporting its development while concretely addressing emissions abatement. Here we were selected for two major low carbon LNG developments, the Ruwais project for ADNOC in the UAE and Marsa LNG for TotalEnergies and OQ in Oman. These projects reflect the future and set a new standard for decarbonized LGN production.

Both will generate electrified LNG trains -- sorry. Both will integrate electrified LNG trains powered by 0 carbon energy sources, nuclear for Ruwais and solar for Marsa, and these will be amongst the lowest carbon intensity LNG plants ever built. On Ruwais, we have commenced early EPC activities for what is a 2-train development with production capacity of 9.6 million tons per year.

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Marsa on the other hand is a bunkering project with a production capacity of 1 million tons per annum, which aims at reducing the shipping industry's carbon footprint by using LNG as a marine fuel. Marsa reached final investment decision in April and the award will be included in our second quarter backlog. For clarity again, the full award on Ruwais is pending the upcoming final investment decision and is not at this stage included in our backlog.

Turning to carbon capture where in March, we received a letter of intent confirming our selection for Net-Zero Teesside Power in the U.K. and demonstrating T.EN's growing leadership position as an integrated state-of-the-art CCUS solutions provider. This first of its kind gas-fired power station will fully integrate our Canopy by T.EN carbon capture solution aimed at capturing up to 2 million tons of CO2 per year. As a result, the project is expected to provide flexible, dispatchable low carbon power equivalent to the average electricity requirements of 1.3 million U.K. homes.

Net-Zero Teesside has been shortlisted for government funding support as part of U.K.'s net zero program and negotiations are ongoing with the customer ahead of an expected final investment decision later this year. In summary, these achievements demonstrate our leadership in strategic markets as well as our commitment to energy supply, net zero ambitions and geographic diversification.

Turning now to the very solid progress we are making on delivering our 2024 strategic objectives. First, our growing leadership in carbon capture is further evidenced by early engagement and commercial momentum. In addition to our first awards from T.EN's Canopy carbon capture solutions, we have been awarded multiple feeds for projects to decarbonize cement production, gas-fired power and energy from waste in various geographies. This success clearly demonstrates the confidence that customers have in our technical expertise and our ability to execute.

Second, we continue to innovate and drive decarbonization in our traditional markets. This includes petrochemicals. Although slower GDP growth is impacting near-term demand and spending, environmental and legislative pressures are driving the industry towards lower carbon intensity and greater circularity.

This clearly favors T.EN as we are focused on developing solutions to help customers decarbonize and future-proof their existing infrastructure. One such innovation for decarbonized ethylene was recently recognized by the U.S. Department of Energy with IRS funded investment of up to $200 million for a plant at commercial scale. This new technology being developed with our partner LanzaTech will produce sustainable ethylene from captured CO2 emissions.

Finally, with the announcement of EkWil, a joint venture with SBM Offshore, we aim to create competitive solutions for the nascent floating offshore wind sector. By bringing together our expertise, engineering and delivery capabilities; we will innovate to further develop and commercialize our respective leading floating solutions. Sustainability is embedded in our purpose and core values driving value across all of our activities.

So before passing on to Bruno, let me highlight some of the achievements in our sustainability report. We continue to make substantial progress on the impactful targets we have set and we are being intentional in our decisions. This is clearly evidenced by our industry-leading safety performance recorded over 250 million work hours as well as through increased diversity in the workforce, in our leadership teams and on our Board of Directors.

On climate, we have made solid progress towards our 2030 net zero target for Scope 1 and 2 emissions reducing by 28% compared to 2021. But emission reductions are only 1 aspect of the company's impact on the environment. To preserve the planet, we must also address biodiversity. One example of our effort is our formal commitment to not participate in any projects located in the most sensitive areas as deemed by the International Union for Conservation of Nature. This is included in our ESG scorecard and we remain resolutely focused on making further progress on our sustainability journey through 2024 and beyond.

I will now pass the call over to Bruno.

Bruno Vibert

Thanks, Arnaud, and good afternoon, everyone. I'll begin with the highlights of our financial performance for the first quarter. Adjusted recurring EBIT was €111 million, up 3% year-on-year. Margins at 7.3% are consistent with our full year guidance. Adjusted diluted EPS at €0.50 per share increased by 11% year-over-year benefiting from higher EBIT and a lower tax rate. Free cash conversion from EBIT excluding working capital was above 100% leading to free cash flow generation of €119 million.

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Turning to orders. Adjusted order intake was €850 million, higher year-over-year thanks to sustained momentum in TPS orders. And adjusted backlog ended the period at €15.3 billion equivalent to 2.5x 2023 revenues. Closing net cash was €2.7 billion. In summary, a solid first quarter that puts us on track to meet full year guidance.

Turning to our segment reporting and starting with Project Delivery. Revenues are up 9% year-over-year resulting from the continued ramp up towards peak activity on Qatar NFE and a growing contribution from Qatar NFS as well as good volumes in various downstream projects. Adjusted recurring EBIT margins are 60 basis points lower during the year at 7.5%.

As discussed during our full year call in February, Project Delivery margins will trend to a more normalized level reflecting a rebalancing of the portfolio with growing volume from early phase projects. The resulting EBIT increased by 2% year-over-year. Finally, backlog is up 35% year-over-year equivalent to 3.3x 2023 segment revenues and providing strong visibility. Given the strength of our commercial outlook and pipeline in 2024 and 2025, we are confident that we can further reinforce this backlog with high quality projects to support our medium-term performance.

Turning to Technology, Products & Services. TPS delivered solid financials that are consistent with the trajectory for our medium-term framework. Revenues were up 5% year-over-year resulting from higher proprietary equipment as well as renewable fuels activity and sustained momentum in study work across decarbonization markets.

Adjusted recurring EBIT slightly decreased year-over-year by 3%. Segment gross margin experienced a sound improvement year-over-year thanks to good execution and favorable mix. As we continue to invest in the future growth of TPS, this gross margin gain was offset in the quarter by strategic development initiatives, increased R&D spend and higher selling and tendering activity. Turning to orders. High demand continues in TPS with €620 million order intake in Q1 2024.

This is equivalent to a quarterly book-to-bill of 1.3 and reflects strong momentum across a broad range of decarbonization services, study and PMC colos [ph], also a notably pleasing outcome given the absence of larger product awards in the quarter. This leaves the period-end backlog for TPS at close to EUR 2 billion, consistent with shorter cycle activity.

Turning to other key performance items across our financials beginning with the income statement. Corporate cost of €12.3 million in Q1 are below the run rate for 2023 that was somewhat impacted by strategic projects and predevelopment initiatives. While some of these initiatives are ongoing, the financial impact has lessened. As global interest rates for now remain elevated, we continue to benefit from interest income, which at €20 million is consistent with quarterly trends during 2023.

Lastly, on the PL at 26.1%, the effective tax rate is consistent with the low end of the 2024 guidance range benefiting from a favorable mix of earnings. Moving to balance sheet where the picture remains solid. Gross cash of €3.5 billion is significantly in excess of the net contract liability which, as a reminder, contains future project cost, future margins and contingencies. Existing projects in backlog plus expected awards during 2024 and 2025 will continue to contribute to the differentiated capital structure. Finally, gross debt remained stable with over 80% long-term debt with maturity in 2028, a comfortable position.

Before passing back to Arnaud, let's look into cash flows, where many of the trends seen in 2023 have continued. Free cash flow on an underlying basis or excluding working capital was €119 million and consistently strong as we execute across our portfolio.

And conversion from EBIT remained above 100% in Q1 highlighting the strength of operational execution and the positive impact of interest income. Working capital was an outflow in the period reflecting both portfolio maturity and the absence of large awards in recent quarters. However, this really serves to highlight the lumpy nature of working capital and is not representative of how we see the trend evolving with positive contribution expected from upcoming awards. We end the period with €3.5 billion of cash and cash equivalent.

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I'll now turn the call back to Arnaud.

Arnaud Pieton

Thank you, Bruno. So to conclude, we delivered a solid first quarter performance and we are on track to meet our full year guidance. Important commercial successes in Project Delivery and a strong dynamic in TPS supports a positive award outlook and further improved long-term visibility. And we continue to innovate to reinforce our leadership positions in strategic markets and we are experiencing very high demand for our offerings.

Finally, we have set the date for our Capital Markets Day and we do look forward to welcoming many of you on November 21 in London. Additional details will be made available in due course.

With that, let's open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question is from Bertrand Hodee, Kepler Cheuvreux. Please go ahead.

Bertrand Hodee

Hello. Thank you for taking my question, two if I may. The first one is you've been selected for two major contracts as you mentioned in your introductory remarks, Ruwais LNG and Net-Zero Teesside. Can you share with us what is the expected size of those two contracts combined when the final investment decision will be done? That's my first question.

And then on the SAF opportunities and the LanzaJet milestone with the inauguration of the first methanol to SAF plant. Can you comment on the potential opportunities that gives a new way to produce sustainable aviation fuel is for you in the coming years?

Arnaud Pieton

Bertrand, so I'll take your questions in order. Regarding Ruwais and the Net-Zero Teesside and you'll find out more when a final investment decision is taken. But to help and provide a flavor for the size of those two what will be two major contracts. Ruwais would be north of €1.5 billion and when it comes to Net-Zero Teesside, it's a very sizable project so we will be well north of €1 billion for sure on this project as well. So there are more discussions ongoing with the client in particular with regard to Net-Zero Teesside and the contracting scheme and the blend of [indiscernible] versus reimbursable, et cetera. But I think I've provided the information that should guide on or give you what you need in terms of the relative size of the opportunity.

In terms of the SAF opportunity set for Technip Energies, just I will remind you that the total market for jet fuel is close to 300 billion liters per year, of which 600 million liters of SAF were produced in 2023. So that represents a bit less than 0.5% of the total aviation fuel needed per annum. So there is a lot of ground to be covered by SAF and it does represent a massive opportunity for Technip Energies for several reasons. Because of the regulations and the commitment from the airlines and IATA as well and also thanks to our positioning and beyond what we have been doing for Neste on the HEFA production. We have taken a few positions including the one that you've identified with LanzaJet.

So pending a successful performance of the plant Freedom Pines, which was inaugurated earlier this year, and we are very hopeful and very confident that the plant will be performing based on the ongoing commissioning activity. So then pending that, I think the opportunity set is quite large and we are already working on a certain number of feeds and I have in mind at least four or five of them where we are planning for the future and for which we are only waiting for the confirmation of the overall yield and performance of the plant in the U.S. before developers and LanzaJet and ourselves being able to go full steam ahead turning those feeds and studies into projects. So the pipeline is here. We're already working on four or five of them and we will change gear as the performance of the Freedom Pines plant is confirmed in the coming weeks.

Bertrand Hodee

Thank you.

Operator

The next question is from Richard Dawson, Berenberg. Please go ahead.

Richard Dawson

Hi good afternoon and thank you for taking my questions. I have two, please. My first question is on LNG. So we saw the Papua New Guinea LNG project with Total delayed this quarter due to cost increases. And as always on the one hand, you have customers who are under pressure to remain disciplined on cost; but on the other hand, the contractor is under pressure to remain disciplined on bidding. So, just interested to know whether you've seen any changes in this balance this quarter and just following your discussion with customers.

And then secondly as well, the question is on the $200 million of potential DOE funding in the U.S. for LanzaTech. Could you provide some color on how those award negotiations are going for the investment and what portion of that likely $200 million investment will cover the CapEx and also sort of when an FID could be taken on that project?

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Arnaud Pieton

So on PNG and whole world in general, it's always interesting to see that we are selected and we have been awarded now Marsa for this LNG bunkering facility in Oman and we have been selected for Ruwais, as you know, together with our partner. So this demonstrates that we are capable of bringing solutions and finding solutions to make projects fly and projects viable for our clients, which is part of our mandate as you very rightly pointed, okay? So we have absolutely a mandate to be profitable and to be making money and return to our shareholders as we should as a healthy business and at the same time, we need to do so while allowing the projects of our customers to exist and to be variable and we've demonstrated that we could actually do that. Ruwais and Marsa are 2 recent examples.

The relentless work that we are putting together in order to allow for the project to be variable was also put in motion on the PNG opportunity. The fact that the project is pushed to the right because not having the right price point, the environment is different and it's going to go to recycling, but I can reassure you that we as a company always keep in mind that we have two obligations. One is to satisfy our clients and allow for their projects to exist and two is to return to our shareholders. So there is no discrimination within Technip Energies between Marsa, Ruwais and PNG.

For now from PNG, this right price point we haven't been able to find and maybe will be found in the future, but the future will tell because it's going to recycle and assumptions are being verified. And so it's always another ways of work in progress and the challenge of ours to find this competitive price point for projects to fly. But we're able to find them as exemplified by Ruwais and Marsa. PNG hasn't been the case yet, let's see what the future holds there. In terms of the DOE funding for a plant together with LanzaTech that will turn captured CO2 into ethylene, very pleased that we have been selected for what is a very sizable funding potentially by the DOE for a reputable decarbonization commercial facility.

So let me maybe give you a little bit of a flavor for what this technology is capable of doing. It's basically about the conversion of CO2 captured on a traditional ethylene plant from flue gas and turning that CO2 into renewable ethylene when recombined with hydrogen, clean hydrogen in this case, and our Hummingbird technology, which allow us to convert ethanol to ethylene. So we were successful thanks to the technology. We were successful because together in our dossier, we were able to, that we were able to put forward, we had the necessary support from customers to provide sites as well to accommodate what would be this new infrastructure.

The grant is for up to $200 million. We are fine-tuning what would be the total investment cost, but it's very likely going to be north of 400 million, maybe up to 500 million, let's see. So there is still a gap to be filled. Nonetheless, there is quite a number of interest and we're speaking with a few financing houses interested into that investment. So yes, FID will come later and if everything goes well, I think it's something that we'll start seeing coming on stream 2026. So don't expect to see any revenue from that opportunity in 2024 or in the first part of 2025.

But I would say it's for the back end of 2025 and into 2026 giving us the time to fine-tune a few things and also complete the round of partnerships that's needed to reach final investment decision. But the fact that the technology was selected is super encouraging, we believe into it big time and the fact that as always those funds, they happen because they are support behind the technology. And big customers demonstrated interest and volunteered to dedicate some of their site in order to accommodate that investment.

So it would be a first and we are super encouraged and enthusiastic about this opportunity set. CCS and CCUS is a key theme for the future. Capturing CO2, we know how to do it; sequesterating, that's great. I think the world will be even more mature the day we start utilizing CO2 and turning it into something that can be commercial. I mean this opportunity is a chance to demonstrate that.

Richard Dawson

That's very helpful color, thank you.

Operator

The next question is from Victoria McCulloch from RBC. Please go ahead.

Victoria McCulloch

Good morning. Thanks very much for those interesting comments on CCS. Maybe following on from that, your CCS and decarbonization capabilities seem to differentiate you certainly with the recent LNG award and selections. How should we think about these from a margin perspective? Are these simply the opportunity to win more LNG projects and awards or is there a benefit to being able to add carbon capture on the margin side?

And secondly, there is a major strategic development cost within TPS and apologies if I missed your comment on this, but should we continue to see these weighing on the margin through the remainder of this year and could you maybe give us some color as to what these were?

Arnaud Pieton

Thank you, Victoria. I'll start on CCS and I'll hand over to Bruno on TPS and maybe hit on it. So CCS, we have several ways of differentiating. One is the technology and the suite of solution that we have introduced to the market so Canopy by T.EN carbon capture solutions that can go from very small size to very large size. And Net-Zero Teesside or Viridor, both in the UK would actually tap into the large-scale carbon capture because we are at 1 million ton per annum and above in both of those opportunities.

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So the technology is the differentiator and I will remind you that we continue to invest into the technology, the one we share with Shell, the CANSOLV technology, but also other technologies and carbon capture is one of the major three streams of investment and innovation within Technip Energies.

So as we grow our innovation spend and R&D spend, a large part of that is going into carbon capture, optimizing the amine-based technology CapEx and OpEx as well as investing into future technologies as we know that there is no one size fits all yet in the world of carbon capture. So we will continue to invest. It's clearly a differentiator technology, but also the ability to integrate. And as a technology integrator, what we are demonstrating through the successes we are having is that well, it looks like we are doing a good job in our ability to integrate technologies and put all that in motion at large scale. It's a trade of Technip Energy, something that we are demonstrating also in LNG for example.

And the world is realizing that this is needed in the low carbon solutions as well. So beyond a particular technology or there's also the need for integrating all that and for being able to take performance warranty wrap. So our customers are looking for people who can scale, deploy and also be there alongside with them to make sure that the plant will be performing per spec at or above nameplate.

And you need technology integrators, you need what we are offering at Technip Energies in order to differentiate there as well, okay? Because the project that we are discussing, Net-Zero Teesside for example, you're talking very big sized projects. Those are not small projects. And so what we contribute as well as nothing to do with technical capabilities here, but the strength of the company including the financial strength, but also the capability set, engineering wise, et cetera.

That's what's needed in order to integrate and allow for the plant to perform as expected. So the differentiation comes from multiple avenues, different angles and the strength of the company is what is allowing us to be successful as we are and to be credible as we are at the moment in the world of carbon capture and sequestration and tomorrow into utilization. But clearly the ability to put together and to put in motion carbon capture, electrification and to be able to demonstrate and be confident in our ability to provide performance wrap on the plant.

It's a differentiator and the successes of Ruwais and the success on the Net-Zero Teesside and the success on Marsa. We are super, super pleased to have been selected and to be building and deploying what will be the future of LNG combining carbon capture and electrification. Bruno, on TPS?

Bruno Vibert

So on the TPS margin in this quarter versus the last year. First, I would start at 9.4%. If you put back to the second half of TPS over the last kind of 9 months, it's actually not that far off. The comparison was more versus Q1 2023 and Q1 2023 was notably high slightly above 10%, which was not the run rate afterwards. Now having said that, as a starting point it's true that when we look at Q1, we've seen different kind of building blocks within the margin and the bottom line of TPS.

First, in terms of gross margin and with the revenues of €475 million. In terms of gross margin of each service or each sub-project, we saw an increase with about a 50 basis point upside in gross margin from last year to this year, so kind of this positive momentum. What I alluded to in my prepared remark is indeed we've continued to invest in R&D, in strategic initiatives and in more selling and tendering. R&D, you see that on a global scale, Arnaud has mentioned it.

When we are working on carbon capture, when we are working on ethylene decarbonization or electrification from CO2 to ethylene; this is captured in more R&D and we are hopeful that this will contribute to more techno, more product and services in the future and potentially also projects alongside just as we will grow Net-Zero on Teesside. Beyond that, it's strategic initiatives.

The work we do for building the demo plant, which is progressing quite well. The start of the integration team on really trying to develop a balance of plant view and trying to optimize the total and levelized cost of hydrogen, these initiatives, R&D or a bit more general than R&D, are incurred. They are really investments for the future and they're captured notably within TPS and indirect cost that we reported, final contributor really to this building block for the quarter, selling and tendering. Without major furnace equipment award in the quarter, we achieved close to €620 million of order intake in Q1 2024, 1.3 book-to-bill.

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This order intake requires selling, requires some tendering activity and you don't have yet, as you would expect, the contribution from revenues and gross margin from this project. So as you've had a bit of this continued strong momentum and very supportive activity. This has generated a bit more selling and tendering versus last year, so very consistent basically with the flow.

So overall what we would say is the momentum from TPS remains very strong, very diversified from sustainable chemistry, from decarbonization studies, from project management consultancy, from loading system or loading arms whether its LNG with a new electrified LNG loading system which was just released; all of that are strong tailwinds.

The gross margin is going in the right direction so this is the first major point of focus. And as we will have this streamlined, then we will have TPS overall on the trajectory of the medium-term framework, which is to reach double-digit EBIT when this scheme kind of reaches more a plateau phase.

Arnaud Pieton

Thank you, Bruno. And just clearly, Victoria, as expressed by Bruno; we are clearly together with the team putting Technip Energies on the trajectory 2024 to exit the year and be in 2025 at the point that we've communicated when we provided the medium-term framework so a double-digit EBIT margin for TPS in 2025.

Victoria McCulloch

Interesting color, thank you.

Operator

The next question is from Guillaume Delaby of Bernstein. Please go ahead.

Guillaume Delaby

Yes, good morning. So two questions, two and a half questions to be honest. Just Arnaud, can you confirm that Net-Zero Teesside, the €1 billion plus, it is the Technip Energies stake or the full contract for all the partners?

Arnaud Pieton

No, it's only Technip Energies share.

Guillaume Delaby

Okay. So if we add that plus Ruwais plus Marsa plus order intake in Q1 basically, it probably means that you should feel quite comfortable today in reaching not your guidance, but the implicit number which came out from the Q4 call back in March of €6.5 billion total order intake for 2024? So this is my first question logically.

Arnaud Pieton

So yes, as we stand today and even though it's still the end of Q1 here, but all the building blocks are in place to deliver a full year order intake 2024 that will exceed book-to-bill at one. So we should be above 1 for the book-to-bill with a Q1 that was, as expressed by Bruno, very much towards TPS showing us some tailwind and strong momentum. I mean the big Project Delivery orders will start making their way into our backlog in Q2 and then Q3 let's see and then Q4 probably should be quite strong as well when we look at the opportunity set. So all building blocks in place and quite confident to reach what would be a very positive order intake in 2024 at or well above 1 book-to-bill.

Guillaume Delaby

Okay. And a quick question for Bruno, if I may. Minority interest so they are now back to EUR 5 million per quarter. Should we assume that Q1 is a good proxy for the next quarter in terms of minority interest? And can you maybe remind us very quickly why it went so high last year and why it is declining now?

Bruno Vibert

Sure. So as I called in previous quarter's call, 2023 levels for minority interest was higher versus the expected run rate. One of the notable, let's say, more impactful contributor in 2023 was Arctic LNG 2, which is decreasing. So this year we will have that, we will have Ruwais contributing partly. But yes, to have a minority interest about those levels that you've seen in Q1 is something that you can use as a proxy if you want to model the full year.

Guillaume Delaby

Okay, very clear. Thank you. Good to see you two.

Bruno Vibert

Likewise, thank you. And congratulations on changing your name from Societe Generale to Bernstein, congratulations for that.

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Guillaume Delaby

Thank you, Bruno.

Operator

The next question is from Guilherme Levy with Morgan Stanley. Please go ahead.

Guilherme Levy

Hi, hello everyone. Thanks for taking my questions. I have two, please. The first one on working capital. You said that the recent trend shouldn't be reflective of the dynamics over the coming quarters. I was just wondering over the coming quarters in your expectations, how much of the normalization should come from new awards and how much of that should come from existing projects?

Just for us to have an idea of what the working capital dynamics could look like in case we have any sort of delays in terms of new awards that don't really depend on you. And then the second question, if you can say a few words on Coral FLNG 2. How is that project progressing with the client and how is the engagement currently?

Bruno Vibert

I'll take the first one and revert back to Arnaud for the second. So in terms of working capital and the dynamics, it is, as you know, very dynamic. Every week, every day, we can have invoices and 1 invoice can be depending on the project, a couple of hundred million. So with this in mind, day by day our working capital can have a couple of hundred million swing and if you have the cutoff on 1 day or the next, this can be quite impactful. This is why also quarter after quarter we are providing the visibility of cash flow from operations ex working capital because we think this is the better way to look at the trend, the cash flow generation and the fact that being asset light and being able to execute.

We have EBIT to free cash flow generation above 100% due to the tailwind currently of interest rate. Let's hope that it stays for as long as possible. Now in terms of dynamics and the, let's say, working capital trends. As I mentioned, over the last couple of quarters, we didn't have major new inbound. Hence, in those scenarios, you have a bit more impact from the later stage projects, which tend to be an unwind of working capital and on the contrary when you have new awards, they tend to over contribute or they tend to be accretive to our working capital position.

So as we look towards the remainder of the year, as the milestones of the early payments on the new work will come, they will replenish somewhat the working capital position. So there should be a plus with the tail-end projects keep having a bit of an unwind. So I think that would be sort of a kind of a major trend.

So the new awards will help to sustain this capital structure. From 1 day to the next, from one month to the next, 1 quarter to the next; you can have a bit of a swing on €100 million, €200 million, a couple of hundred million. It doesn't change anything really on how we would monitor our balance sheet and project that. Now that we know we've been selected for inbound, we know that this project are progressing towards FID and Marsa for instance being one of them where the FID was taken in April.

So this gives us comfort in our ability to replenish this working capital. So working capital in terms of overall structure should not see a negative evolution in the coming quarters or years. We see a sustainable basis to keep this structure. Yes, you can have some noise. Hence for us the focus on cash flow generation ex-working capital because overall, the cycle of project working capital should have a neutral impact. And with that, I'll transfer to Arnaud for...

Arnaud Pieton

Guilherme, thanks for your question on Coral Floating LNG. And so a little bit like I will continue from Guillaume's question and my response to that to Guillaume a bit earlier. We do benefit from a very rich and qualitative pipeline of opportunities for Technip Energies in 2024 and I would say 2025 as well. And all that is quite remarkable because it's also in the context of, I remind you, beginning of the year moratorium on LNG in the U.S. and therefore having to do without or with less opportunities in LNG in the U.S. Despite all that, Coral Floating LNG is part of the qualitative pipeline of opportunities and even though we are not guiding as such on order intake, we sit here today, we are talking to you guys and we do feel confident based on the building blocks that are here that we will have a very strong year in terms of order intake this year and probably 2025 as well.

So the Coral Floating LNG is part of this pipeline. It is part of the projects that are the right ones in terms of quality and being compatible with our selectivity principles. We continue to work. We have the teams engaged and we are doing early works on the project. The timing of the FID we don't control, but I can tell you that the team is mobilized and we are progressing the work under the leadership of Eni. So we're progressing along quite nicely preparing for what should be a project in the future. So no change, we continue to feel good about the project. The date of the FID is a question for Eni, but in terms of what we see and the dynamic of the team and the orders being placed for equipment and the rest and engineering progressing, everything is on track.

Guilherme Levy

Perfect, thanks so much.

Operator

The next question is from Jean-Luc Romain, CIC Market Solutions. Please go ahead.

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Jean-Luc Romain

Good afternoon. Two questions, if possible, one about LNG. If Qatar Energy were willing to refurbish its existing energy capacity to reduce the CO2 emissions, what could be the implication of Technip? First question.

And the second is about the recent EPA big news in U.S. I think last week they gave a figure about possibility or obligation for existing coal and gas electric plants have to put in place CCS maintenance in '32 or to close by the end of the next decade. How big an opportunity do you believe it could be for you?

Arnaud Pieton

So I'll take your questions in order. LNG in Qatar. At the moment, as you know on NSE and NFS, we are deploying carbon capture at large scale on both those two projects and Qatar Energy have elected to invest into capture and sequestration for CO2 precombustion. The turbines to compress the gas and liquefy the gas continue to be powered by gas so we'll continue to burn gas to liquefy the gas itself and that's the second source of emission that is not addressed fully. Let's see what will be the direction Qatar Energy will be taking in the future. I'm sure that if they were to contemplate some modernization of their existing infrastructure to go towards combining carbon capture everywhere with some electrification, why not.

We would be involved eventually naturally because we've been active in Qatar pretty much since day 1 on the development of the LNG infrastructure. So I think that would be a natural fit. This is not on the table for now. It is on the table in other countries in the Middle East and we have advanced conversations and feeds ongoing in order to achieve exactly what you're describing not currently in Qatar, but this doesn't mean that it will not happen in the future. For now the priority is on delivering NFE, NFS and I'm sure also on preparing NFW while absolutely being committed on those three projects to carbon capture at very large scale. As you remember, it's 25%, 30% emission reduction when compared to plants that don't carry the carbon capture that is deployed otherwise.

In terms of the latest announcements, well, that demonstrates for me the pertinence of our positioning at Technip Energies on carbon capture in particular. In terms of energy transition being a real thing, our commitment is to deliver and to find solutions for low carbon solutions for our clients. But we clearly see that there are two streams, SAF being one and carbon capture being another one, where clearly things are still challenged, but I would say less challenged than in other energy transition domains if I may say for industrialization and finding the right price point for the projects to fly. So our commitment to carbon capture has been since day one since the creation of the company, we are now clearly on the map.

And I view the EPA announcement as being of course a large opportunity set because carbon capture when applied to coal-fired plants or power generation from gas, you're talking about very large quantities of CO2 all the time and for which the solutions that we have through our Canopy offering is well suited. So clearly it's an opportunity, a very nice opportunity set for Technip Energies. I will tell you that we have already discussions ongoing with some power gen companies in the U.S. in order to decarbonize the gas to power plants.

I think I view the announcement has just one the confirmation of the decision that we have taken, the confirmation of the pertinence of our investment and a very good source of opportunity for the future and also it will be the source of a further geographical diversification and away from LNG as well. So it ticks a lot of good boxes for us.

Jean-Luc Romain

Thank you very much.

Operator

The next question is from Kate O'Sullivan with Citi. Please go ahead.

Kate O'Sullivan

Hi, thanks for taking my questions, just a couple left. Firstly, on alcohol to jet following the inauguration of the plant in the U.S., what sorts of demand are you seeing for your Hummingbird technology and are you seeing varying demand by region? I'm wondering do European restrictions preventing the use of crop-based ethanol and SAF limit the opportunity set here in favor of HEFA? And just a follow-up on TPS, strong TPS order intake this quarter partly led by PMC. Could you be any more specific on which projects the increase in PMC relates to?

Arnaud Pieton

Thank you, Kate. So the SAF pathways, there are multiple SAF pathways and as you know well, the one that has taken off first is the HEFA route, basically the Neste route with 1.5 billion liters under production in Singapore and another 1.5 billion liters to come in 2026 from the Rotterdam facility. But there will always be a limit to how far HEFA can go because we will be limited by the amount of feedstock that's available that can be dedicated to the production of sustainable aviation fuel. So another pathway is the alcohol to jet pathway.

We do see a need in U.S. that is very significant for this alcohol to jet pathway. We're talking what we have in mind as a minimum 3 billion gallons per year needed in the U.S. There are various regulation and mandates around SAF as you've identified very well. What is valid for the EU or the U.S. might not be valid on the other side of the Atlantic or less valid.

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So clearly, we see the alcohol to jet pathway has been very pertinent in the U.S. Also likely pertinent in the U.K. where we've seen a new U.K. mandate for sustainable aviation fuel with a request of 10% of all jet fuel in flights taking off from U.K. to come from sustainable sources by 2030. So it's a massive commitment. And we are seeing ATJ so alcohol to jet opportunities in the U.K. in the very near term.

So I would say the main two markets for alcohol to jet fuel are first U.S., two U.K. and I think under some conditions, EU and the Far East. But already if we were to deliver the projects or convert the opportunity set into projects for U.S. and U.K., a very large number of plants would be needed and it will be plenty to feed our commercial pipeline at Technip Energies. On TPS, I can see that Bruno is really wanting to answer that one.

Bruno Vibert

So on TPS and more specifically PMC, very happy and satisfied about some of the trends. In PMC, which was a point of focus of growth that we outlined in the Capital Market Day, our business which was a relatively new business within Technip Energies was really centered around a couple of very large PMC contracts kind of elephant, if we can say elephant, for PMC. What we've seen recently is diversification of much more projects, PMC contracts with a reasonably smaller size, average size; but let's say with much more voluminous versus the past and with the diversification in kind of industry and geography, where it used to be very Middle East focused or at some point with a Malaysia focus. Now we've seen an increase or continued momentum within Middle East, but also Central Asia, Asia and early signs of North America.

So you see a bit of a diversification from a geographical perspective. And in Middle East, almost all countries within the Middle East are benefiting from this. Now in terms of industry and space, also diversification what was to be very upstream or downstream. We also see a shift to new themes around energy transition, fuel decarbonization for early studies also.

And infrastructure, which is a totally new theme for Technip Energies, I think success by the team to really develop this practice within Technip Energies, it comes at the back of very synergetic wins in the Project Delivery business. When you can showcase your tools and system and how you can deliver multibillion dollar projects, you can assist clients to run and to do their projects, so very strong tailwind in PMC across industries now and across geographies, which is supportive of the growth for the future.

Kate O'Sullivan

Thank you both very much.

Operator

So the last question is from Daniel Thomson, BNP Paribas Exane. Please go ahead.

Daniel Thomson

Hi good afternoon. Thanks for squeezing these last questions in. Just quickly on the U.S. market, can you give us a sense of the proportion of low carbon opportunities in your bid pipeline, I think low carbon is around 40% of that bid pipeline, that lie in the U.S.? And do you see your clients waiting to get beyond the uncertainty of the U.S. election to proceed with investments or is it more dependent on IRA clarifications and getting that legislation into regulation as one of your prominent clients find the Baytown project noted on the call last week?

And then secondly, just on petchem margins and ethylene margins, a bit of a low point there. I was wondering if you had any sort of changes to your outlook for projects over the next year or so given where margins sit today and given it's pretty important for your ethylene furnaces and technology offering there.

Arnaud Pieton

So about the U.S. market and the situation there. So I would say yes, elections are coming, but they are as part of the IRA and the money has started to flow and there are things that I think will not be challenged regardless of the outcome of the elections in the U.S. For me, the three main areas where things will not be challenged when talking about low carbon solutions in the U.S. and low carbon projects in the U.S. Solar will continue to boom and you continue to see projects and investment into solar plants in the U.S. regardless, for me, of the outcome of the U.S. elections.

Blue hydrogen for example and ammonia in order to decarbonize industry and/or to export low carbon ammonia also for me, it isn't going to be challenged. And the third one that will continue to be there regardless of the results of the elections is for me CCS and CCUS. So those three streams are where we are positioned today and they will continue to exist in 2025 and beyond, so looking at the pipeline of opportunities for low carbon solutions for us.

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At the moment, it's heavily dominated by of course pipeline U.S., Europe and Middle East; and it's 1/3, 1/3, 1/3. I mean gas to power is wanting to decarbonize in the U.S. You are aware of the large projects around Baytown for blue hydrogen or low carbon hydrogen. We have already quite a significant number of carbon capture projects ongoing in the U.S. with Exxon and others so that's before tapping into the potential of power companies decarbonizing. So there's about 3/3 between U.S., Europe and the Middle East I would say.

As for the petchem margins, yes, there's a bit of slowing down in the demand at the moment. So a bit less new projects in the short term, that's why you've heard Bruno say that he was happy with the order intake Q1 for TPS and so am I because this is happening without large products being ordered such as furnaces. That's a sign that there is a bit of a slowdown in the FIDs for petchem. Now we have significant inquiries for 2025 and beyond. So there's a temporary slowdown because of less demand, et cetera.

But I think the long-term outlook for petchem overall is probably our customers are not looking at the world 2024, but certainly more 2040 and 2045. So in that context, the demand will continue to grow because the population will continue to grow. So yes, there is a temporary situation that needs to be traveled. We are traveling it really well because TPS continues to grow despite of not having large proprietary equipment orders. And like I said in my remarks, the fact that regulations and the rest are going more towards circularity and low carbon solution as exemplified by this project with LanzaTech for low carbon ethylene plays now in our favor.

There's need for decarbonizing the existing infrastructure. It's opening the door to brownfield projects for which we have solutions from electric furnace to the technology that we are sharing with, deploying with LanzaTech. So it's a temporary solution, but we are still feeling good about what our competencies and the products will yield in 2025 and beyond. We have very clear prospects, which should translate into orders in 2025.

Daniel Thomson

Okay. Thanks for the detail, Arnaud. And good to see the offsets coming through, as you mentioned in the quarter.

Arnaud Pieton

Phillip Lindsay

That concludes today's call. Please contact the IR team with any follow-up questions. Thank you and goodbye.

Operator

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

**Load-Date:** May 4, 2024

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