

# **Technip Energies N.V. (THNPY) Q2 2024 Earnings Call Transcript**

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**Body**

Technip Energies N.V. (THNPY)

Q2 2024 Earnings Conference Call

August 2, 2024 7:00 AM ET

Company Participants

Phillip Lindsay – Vice President-Investor Relations

Arnaud Pieton – Chief Executive Officer

Bruno Vibert – Chief Financial Officer

Conference Call Participants

Kate O'Sullivan – Citi

Guilherme Levy – Morgan Stanley

Richard Dawson – Berenberg

Victoria McCulloch – RBC

Jean-Luc Romain – CIC

Bertrand Hodee – Kepler

Mick Pickup – Barclays

Daniel Thomson – BNP Paribas Exane

Presentation

Phillip Lindsay

Hello, and welcome to Technip Energies' Financial Results for the First Half of 2024. On the call today, our CEO, Arnaud Pieton, will provide an overview of our H1 performance and business highlights.

This will be followed by our CFO, Bruno Vibert, who will share more details on our financial results. Then Arnaud will come back to discuss the outlook before opening for questions. Before we start, I would encourage you to take note that 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 half of 2024, during which we have secured strategic objectives and leadership in a high demand market.

We've achieved a strong financial performance with double-digit revenue growth to €3.2 billion reflecting notably strong volumes in Project Delivery, with large projects ramping-up and with steady growth in TPS.

At the bottom-line, EPS grew by 50% year-over-year, benefiting from strength in margins and higher financial income, as well as the absence of material one-off factors that impacted H1 last year.

This puts us well on track to deliver full year guidance. Commercially, we secured two important awards for low carbon LNG plants in the Middle East, Ruwais in the UAE, and Marsa in Oman. And TPS achieved double-digit year-over-year growth in order intake. This momentum is reflected in a book-to-bill of 1.3 year-to-date and positions us for another successful year for new awards. And as a result, our backlog has improved by €1.3 billion since the beginning of the year to €17 billion, equivalent to nearly 3 times our 2023 revenues.

Moving to operational highlights, where we continue to execute well across our portfolio of projects and TPS assignments. In the second quarter, the Midor Refinery Expansion, a facility that will deliver cleaner fuels to Egypt, reached nameplate capacity with performance tests executed successfully.

In addition, we brought two ethylene furnaces into operation on Shell's skyline facility in the Netherlands. This brownfield project will replace 16 units by eight state-of-the-art modular furnaces using one our many proprietary technologies. The total capacity of the plant will be maintained, despite the lower number of furnaces, and the resulting improvements in energy efficiency will reduce the plant's annual CO2 emissions by approximately 10%. Overall, I am very pleased with our solid first half and I'm sincerely grateful to our teams for their continued dedication and professionalism.

Moving to commercial highlights, where we achieved significant success in Project Delivery and saw continued strength in TPS orders. In the second quarter, two major low carbon LNG developments reached final investment decision, the Ruwais project for ADNOC in the UAE, and Marsa LNG for Total Energies and OQ in Oman, T.EN secured both. These projects set a new standard for decarbonized LNG production as both will integrate electrified LNG trains powered by zero-carbon energy sources and will be amongst the lowest-carbon intensity LNG plants ever built.

Turning to TPS, building on the strong foundation set in the first quarter, we delivered 14% order intake growth, with first half awards exceeding €1 billion. In the second quarter, we were again successful in the carbon capture market through securing a second carbon capture services award for Exxon in Louisiana, U.S., adding to the award of LaBarge from 2022, as well as a FEED for Viridor's waste-to-energy facility in the UK.

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In addition, in India, we continue to benefit from our presence in IOCL's Paradip complex where we secured a proprietary technology and equipment award. Finally, we secured a five-year services field development agreement with KPO in Kazakhstan. In line with our conservative approach to backlog recognition for project management consultancy, or PMC and long-term services agreements, the KPO contract will be progressively recognized in backlog as and when work orders come into effect. In other words, the full value of such contracts is not reflected in backlog. In summary, an important quarter for awards that demonstrate our leadership in strategic markets.

Turning now to other strategic priorities around innovation, partnerships and investments. T.EN is dedicated to winning the affordability battle to deploy sustainable energy, reduce carbon emissions and accelerate circular solutions.

In Q2, we successfully launched two new products. First, Rely, the joint-venture we formed last year with John Cockerill, launched Clear100+, a pre-engineered and configurable productized plant for the green hydrogen market. Through Clear100+ and future iterations, Rely will disrupt this promising market and break down cost barriers. While the market has been slower-than-expected to materialize, we are convinced that Rely's strategy to drive affordability through greater integration is the right path to allow projects of industrial scale to reach investment decision.

Second, Loading Systems launched the eMAX series, a suite of electric and automated loading arms designed to reduce the OpEx of our clients. Also in the quarter, we acquired a purification technology from Shell to enable us to accelerate the commercialization of our Bio-2-Glycols reactor technology and create a bio-solution that uses glucose to produce mono-ethylene-glycol known as MEG, a product widely used across many industries. We will finalize a pilot for the combined technology later this year and expect to deliver an economic solution for green polyester to the market in 2025. Finally, with the closing of the EkWil a joint venture with SBM Offshore, we aim to accelerate deployment of industrial solutions for the nascent floating offshore wind market.

I will now pass the call over to Bruno.

Bruno Vibert

Thanks, Arnaud, and hello to everyone on the call. Let's first look at the highlights of our financial performance for the first half of the year on an adjusted basis. Revenues were 11% higher year-over-year at €3.2 billion benefiting from the ramp up of major projects as well as steady growth in TPS.

Recurring EBIT increased by 9% to €227 million. Margins were stable at 7.2% reflecting solid execution, and are consistent with full year guidance range. We recorded our highest ever first half net profit up 50% year-over-year to €188 million, benefiting from the operational performance, growth in net financial income and the absence of material one-off factors.

Turning to orders, where we booked €4 billion in the first half, owing to the previously mentioned LNG awards for Project Delivery and double-digit growth in TPS. Free cash flow, excluding working capital and provisions was solid at €241 million, and closing net cash was €2.6 billion. So in summary, we have delivered a strong first half performance across key metrics.

Turning to our segment reporting, starting with Project Delivery. Revenues are up a significant 16% year-over-year to €2.2 billion as activity ramps up on the major NFS project in Qatar. At the same time, onsite construction activity on NFE is reaching its plateau at peak levels. As evidenced by recurring EBIT margins at 7.3%, execution remains strong, and the 50 basis point differential versus the first half of last year reflects a re-balancing of the portfolio with growing volumes from early-phase projects. The resulting EBIT increased by a solid 8% year-over-year.

Finally, backlog has improved by 8% since the beginning of the year to €15 billion, equivalent to 3.7 times 2023 segment revenues, and providing excellent visibility. Book-to-bill on a trailing 12-month basis is impacted by the massive NFS award from Q2 last year falling out of the calculation.

Given the very long cycle nature of this business, internally we focus more on the two-year book-to-bill, which at 1.4 is more representative of our growth trajectory. Furthermore, our commercial outlook and pipeline of opportunities are strong and we are confident that we can enrich this backlog with high quality projects in support of our outlook.

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Turning to TPS, where business momentum remains strong. TPS delivered solid financials in the first half with revenues up 3% year-over-year resulting from ethylene equipment deliveries, as well as services work in sustainable fuels and plastics circularity, and continued momentum in study work across decarbonization markets.

Segment gross margin improved by more than 100 basis points, reflecting our strategic emphasis and performance of the business. At the same time, and as discussed last quarter, we are investing for the long-term growth of TPS through strategic development initiatives, increased R&D spend, and higher selling and tendering activity. As such, segment EBIT margin experienced a very slight decrease year-over-year, and recurring EBIT was stable.

Turning to awards, TPS achieved year-over-year growth of nearly 15% in segment orders to more than €1 billion. This order strength reflects high demand across the breadth of the TPS offering. TPS backlog closed at – to the period at €1.9 billion, up 6% year-to-date.

Turning to other key metrics, beginning with the income statement. Corporate costs of €22.4 million in H1 are trending below the run rate for 2023 that was somewhat impacted by strategic projects and pre-development initiatives. The net financial income line is very strong and more than €20 million higher year-over-year driven by higher global interest rates and growth in cash investments.

For the full-year, subject to stability in global rates, we could anticipate a contribution of north of €100 million. Lastly on the P&L, at 20.5% – 28.5% the effective tax rate is line with the 2024 guidance range.

Turning to balance sheet, where cash of €3.3 billion is significantly in excess of the net contract liability which, as a reminder, contains future project costs, future margins and contingencies. As stated in Q1, existing projects in backlog plus expected awards in the next 12 months to 18 months will continue to contribute to this differentiated capital structure. Finally, gross debt remains stable with over 80% long-term debt with maturity in 2028 a comfortable position.

Before passing back to Arnaud, let's conclude on cash flows. Free cash flow excluding working capital was €241 million and consistently strong, supported by cash conversion from EBIT above 100%. This showcases the strength of our operational execution, and the tailwind of the net financial income.

Capital expenditure at €29 million was higher year-over-year due to investment in the Reju demonstration plant, which Arnaud will come back to later. Working capital was an outflow in the first half of €335 million, largely impacted by timing and cut off items. There was limited impact on working capital inflow from Project Delivery awards in the second quarter with cash advances and milestone payment expected in subsequent quarters, while we made some specific supplier advances on more advanced projects in the portfolio. As such, we see the working capital trends somewhat reversing in the second half.

Lastly on shareholder returns, we paid €102 million in cash dividend to our shareholders in May, as well as €38 million related to the ongoing share buyback program. We end the period with €3.3 billion of cash and cash equivalents.

I'll now turn the call back to Arnaud for the outlook.

Arnaud Pieton

Thank you, Bruno. Let's talk about natural gas. Natural gas remains a critical source of energy in securing a low carbon future, and T.EN is committed to supporting its development while concretely addressing emissions abatement in LNG and the markets for blue molecules. In LNG, we have materially improved our market position over the past decade through innovative solutions, including megascale modularization, and excellence in execution.

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This is best evidenced by the 60 million tons per annum that we currently have under execution. And furthermore, our front-runner spirit sees T.EN at the forefront of the industry trend towards low-to-zero carbon LNG plants – both for greenfield projects, like Ruwais and Marsa that I discussed earlier, but also for brownfield decarbonization applications.

The demand side for LNG has been strengthening due to increased recognition of the role it will play in the transition, as well as power requirements for the rapid datacentre build-out in support of the AI boom. Underpinned by these solid fundamentals, the LNG outlook remains favourable for the foreseeable future and our €30 billion plus commercial pipeline consists of high-quality prospects, notably in East Africa, North America and the Middle East.

Turning to the decarbonized markets for blue molecules, which use natural gas as a feedstock for transformation into hydrogen, ammonia and methanol and combined with carbon capture. We are a natural player in these markets as we can leverage our collective knowledge and experience gained through technology provision and delivery of 275 hydrogen plants. We have continued to hone and scale our Blue H2 by T.EN offering to drive the levelized cost of hydrogen production near to that of grey.

The market is maturing, and we have observed a notable increase in front-end engagement and project opportunities with an aggregate commercial value of more than €15 billion out to 2026. These prospects are located in regions with the necessary in-situ condition, namely; availability of cheap gas; an existing pipeline infrastructure; and availability of CO2 sequestration capacity. This includes U.S., Europe and the Middle East, all markets where we have an established presence with final investment decisions likely from 2025.

Before closing, I want to discuss plastic circularity and provide an update on Reju, our brand to accelerate the transition to a circular polyester system. The world's plastic waste problem takes many forms, and one critical and often overlooked aspect is PET fibers, where less than 1% of PET textiles waste globally is recycled today.

Reju's mission is to create new solutions at scale for the vast amount of plastic fibers in textiles that go unrecycled and end up as waste. The market is rapidly evolving; industry pressures are growing to provide more recycled content, the regulatory environment is tightening, and the textile industry needs help to meet its circularity commitments. And Reju is well advanced in building its foundations.

Commissioning is ongoing for a state-of-the-art demonstration plant for textile-to-textile recycling in Germany and this has been achieved in record time, and our approach to the challenge is holistic going beyond the technology. Solid growth and solid progress is being made in creating the ecosystem, with strong engagement upstream and downstream with brands to enable security of feedstock and offtake, and we aim to set standards for quality in terms of product and the ability to demonstrate and certify circularity.

Many challenges remain, but we are convinced it is now time to tell the Reju story. We intend to provide a solution that makes recycling of textiles economic on an industrial scale. We will do it the T.EN way, with pragmatism, discipline and value creation; and we are progressing the work around future business models and will say more on this topic at our Capital Markets Day in November.

In closing, we secured a strong first half performance putting us well on track to deliver full year guidance. We are experiencing high demand, order momentum is strong and our commercial outlook underpins our growth trajectory. And our strategy around innovation and targeted investments is driving future market leadership for T.EN.

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

Question-and-Answer Session

Operator

Excuse me, this is the conference operator. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Kate O'Sullivan of Citi. Please go ahead.

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Kate O'Sullivan

Hello. Thank you for taking my questions. The first one is on TPS margin guidance. You have a medium-term framework, which is 10% plus, and again, the 2Q margin is tracking a bit below last year. Is it proving more difficult than anticipated to scale the TPS business whilst at the same time growing the underlying EBIT margin, not just the gross margin? You've highlighted the increased R&D and high tendering. Just wondering, to get to double digit, will that have to dial down?

And then secondly, just thinking about carbon capture opportunity, you were awarded a service contract for the Exxon Louisiana project, and you've been quite clear in the past about not wanting to take construction risk in the U.S. I'm just wondering, do you see that limiting the size of individual awards you can target in the U.S. versus other regions? And just a follow-up on the progress on LaBarge that you mentioned, awarded in 2022. Thank you.

Arnaud Pieton

Thank you, Kate. And Bruno will take TPS and I'll follow up with the carbon capture.

Bruno Vibert

Good afternoon, Kate. So, TPS from a revenue and margin perspective, we've seen material growth from 2021 to 2023, and then continued growth in 2024. As we pointed out, and as you also referred to in your question, we are investing. And while we've seen growth in the gross margin of the TPS contribution, at the same time, we're continuing to invest. And this means that while we are on the trajectory to 10%, this takes time as revenue grows and gross margin grows.

To put things in perspective, for instance, half year over half year, the incremental R&D investment is €12 million. So, we've moved from €23 million in H1 2023 to €35 million in H1 2024, and over the full basically P&L of the company. The impact of this incremental R&D spend would have meant that EBIT of 7.2% actually would have been EBIT of 7.6%.

So, you see the impact of these investments, yet at the same time, we are delivering in parallel. So, we are totally committed to continue to put TPS above €2 billion from services, from more techno content with associated product and equipment. And we're investing in all these things of R&D, which puts growth in TPS even beyond that for the future in growth themes like low carbon, LNG like biopolymers, and some of these aspects. So, we're on track, I think for us, we have the capacity to invest and that's what we're doing. But we will reach double-digit for TPS.

Arnaud Pieton

Thank you, Bruno. And Kate, our commitment was double digit EBIT margin for TPS 2025. And we are firmly determined and on track in terms of the trajectory to deliver to that commitment, despite the increased investment. And as a reminder, all the investments we are making are really about to create more differentiation for T.EN and, therefore, basically improving our pricing power going forward for TPS.

About carbon capture, which is a sizable opportunity or where we see sizable opportunities, I should say, in Europe and in the U.S. Well, we will continue to stay true to our principles when it comes to the geographies where taking lump sum construction risk isn't compatible with the risk profile that we want to give to the company. So, in the U.S., we will continue to work, as we have done in an EPS engineering, procurement, and fabrication. So, we are fabricating module outside of the country or EPsCm, where we do procurement services and construction management. But the construction risk goes to a local construction partner.

So, we will continue following this model. We continue to remain extremely disciplined. The key in being successful is to team up with high-quality partners who are capable to take the responsibilities that we are not ready to take ourselves in the U.S., because not having enough of a footprint and not being vertically integrated, so we don't own our – own construction resources. So, for as long as we continue to find the quality partners, we will not be limited in the amount of and the volume of business we can take in the U.S., in particular.

Interestingly, in carbon capture, we are differentiated through our solutions. So, there's actually no lack of partners wanting to team up with us, because we are the source of new business opportunities in what is a new domain, i.e. the carbon capture domain. So, there's a strong momentum. And I would say, for any construction company in the U.S., we are a good horse to ride, if I may say, towards future business and success, thanks to the way we are able to differentiate through technology around the capture.

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Kate O'Sullivan

Thanks very much. And just a follow-up on LaBarge progress awarded in 2022?

Arnaud Pieton

Exactly per our plan. So, we are exactly on track. And I think that's also the reason why Exxon decided to award us to give us further work.

Kate O'Sullivan

Great. Thank you.

Operator

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

Guilherme Levy

Hi. Hello everyone. Thank you for taking my questions. I have two, please. The first one, could you provide us an update in terms of pipeline for new LNG bit on the market? If you have a few words to say on Coral, that would be interesting?

And then my second question, when I take a look at the company's share buyback execution over the past few months, we can see that debt is progressing with regard of the share price and I understand that there is an independent adviser that makes those decisions on when to buy or not to buy. But I just wanted to understand if there is an opportunity for the company to be a little bit more tactical on share buybacks. And also, if there is an opportunity to accelerate share buybacks if the share price allows for that. Thank you.

Arnaud Pieton

Thank you for your two questions. I'll start with the one related to LNG. As indicated, the LNG opportunity set exceeds or is in the range of €30 billion by the end of 2026. So, it's a very healthy pipeline. I will point to the fact that we are having very good success this year in low carbon or electrified LNG. And, I would say, high volume of order intake in that space in spite of starting the year with the moratorium on LNG in the U.S.

So, basically carving out a very large geography for LNG. What is remarkable and credit to the teams at Technip Energies is to having been able to put Technip Energies in a position that, in spite of such moratorium, we are successful in all our geographies and securing high-quality prospects securing also, I don't think a lot of innovation towards decarbonizing LNG. So, from that standpoint, I think it's remarkable and it's important to not forget about the LNG moratorium, which has taken part of the market at least for new liquefaction trains away for some time.

Now, having said that, there are still opportunities in 2024, and you named Coral. So, the engagement with the client continues. As I like to say, we don't control the date of FID, so whether it's going to be on that side of the 31st of December or into 2025, we don't know for sure, but there is a high probability – still a possibility, sorry, not probability, a possibility for this award to take place or this FID to take place in 2024.

Beyond Coral, well, at some point, I think there will be – there could be a revision of the moratorium in the U.S. So, we continue our involvement with developers in the U.S., and we have many conversations and the conversation actually never stopped. So, we took advantage of the moratorium to progress some early engineering and the de-risking of potential future projects. We've also continued on the engagement in February 2024. Qatar announced that they were committing to an FW.

While there isn't much more to say on the matter, but we've continued our, I would say, engagement with Qatar Energy and preparing about the launch of such projects. So, that's into the future. There are more opportunities around floating LNG as well in South America and still in East Africa. You've read probably like I have about Rovuma, that is FID competition that is ongoing in Mozambique, and there are two contenders. We are one of the two.

So, it's actually very rich for us the – I mean, the LNG pipeline of opportunities I mean for the back end of 2024, but also in 2025 and 2026. And remember, we like to say that we are chasing quality over quantity. The good thing about our positioning in LNG and about the LNG market for Technip Energies is that, while we are focusing on quality, quality also comes with quantity because those awards and those projects are usually of a fairly large size and they are big contributors to our backlog.

So, in this case, we take, I would say, the two boxes, the quality and the quantity one. And if so, a really good future and a very qualitative and rich pipeline of opportunities for us for the back end of the year in 2025 and 2026. Now, on share buyback, I'll hand over to Bruno. But there's a lot of yes to we can be tactical. And, yes, we can accelerate, but Bruno will provide more color on that.

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Bruno Vibert

Sure. Thanks, Arnaud. Good afternoon. So, as you know, share buybacks are regulated operations. And we are, as you would expect, totally expecting and complying with those regulations. It's not really an adviser that we have. We've given a mandate to a broker to act on behalf to perform this buyback as per market regulations. We've made good progress in about one quarter. We've made about €40 million or about 40% of the total buyback program that was approved and that will continue.

The broader apps on behalf on the market depends on market volumes and is based on percentage, max percentage of market volumes on a daily basis and is doing this. So, we are not participating really because you would have a contract in terms of what we know and that market may not know. So, that's why it's quite important to remain that on flex to keep, let's say, to keep compliance with those market regulations.

So, we are fully committed to deliver that program to return shareholder value to our shareholders. We've paid €102 million dividend. We will pay and return about €100 million also through the share buyback program. At the same time, we're investing and considering the outlook that we have, the value creation that we think we can deliver in the future, whatever short-term tactics we could see, in any case, this value, we feel will be very low versus where we will be in the near future. So, that's why we rather spend our time as a management team on the investments on the strategic initiatives more than on playing a market where broker does that just as well as us.

Guilherme Levy

Thank you.

Operator

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

Richard Dawson

Hi. Good afternoon and thank you for taking my questions. Two, please. Firstly, another question on margins. Project Delivery delivered another quarter of sequentially lower EBIT margins. I appreciate this is driven by the portfolio mix shifting towards those newer projects, but is the Q2 margin of around 7.1% a more normal level to expect going forward, or could we see a decline again into H2?

And then secondly, on working capital, and I know it's pretty volatile as you get the advance payments coming through, but you commented in the presentation you're expecting to receive some contributions in the second half. Are these expected in Q3, and are they enough to reverse the working capital outflow that you had in the first half? And maybe just if you could, finalize the comments as well on where you've seen that cash and where you see net cash going by year-end? Thank you.

Bruno Vibert

Sure. So, Richard, I will start and Arnaud may compliment if and when required. On margins for Project Delivery, as you know we do not recognize margin on a linear basis and, early on, projects are dilutive because we are not recognizing the full extent of the margin that we would expect to deliver over the years. Plus, we're maintaining and keeping contingencies that we're able to deal with much later in the execution as we've been able to de-risk the project. So, as we had always highlighted putting Project Delivery for the medium-term framework from a 6.5% to 7.5% to say that also the growth in project would be coming from early stage projects, which are dilutive.

Today in our portfolio, NFS would be dilutive, NFE would be dilutive, and they will become neutral or accretive later as they are de-risked. So, this is the trend. So growth in revenue is coming from early stage projects, which are, by design, dilutive. So, in a way we are building up the backlog of gross margin and contingencies that can be released in the future, providing that we're able to execute as per plan.

And as we de-risk the projects, we were able to recognize more margin in future years. So overall, no reason to go out of this bandwidth. That's why we've been very happy to say we're well on track to deliver our guidance. You should not see massive increases or decreases in the Project Delivery because it's a long cycle business and the trajectory is such. We've come back from last year, which was exceptional in terms of contribution, because the revenues were at a trough level. So more really contribution from the tail-end projects and you have a bit less. So the portfolio change coming back more to something neutral. And this trend should be somewhat continuing in the near future.

Second part on working capital. Again, that will depend on milestones, projects, any trend very quickly. To be totally frank and transparent with you, it's something that really I don't care on a quarterly basis because it comes and goes. What happened this quarter? We were awarded some large projects that Arnaud mentioned. With new projects, we are early on building up a cash flow

working capital position. This hasn't started yet on those projects because of timing and cutoff items. So the working capital position of those projects will really start from H2 forward. Also, as I pointed out in my remarks, project working capital can be somewhat lumpy.

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Just to give you an example, over this quarter, we had an advance to some supplier. So, an advance to some suppliers can be €100 million plus, and it was €100 million plus in this case. So more than 75% of the working capital of this quarter is really associated to that. Is it a bad thing? Absolutely not, because we are securing mobilization, we are securing the project progress, but it does create some lumpiness and some cutoff issues.

So, where we stand today, this won't be repeated every quarter. We will have the contribution from the awards in Q2 that will start to populate. As always, projects in the tail-end will have somewhat of a negative, and it will be more of a balanced mix. Also, in H2 we will have future awards that will come and that will also contribute.

Now, as always in terms of making a provision of cash at year-end will always be impossible, because over a couple of days or weeks, you can have multi-hundred, €200 million to €300 million kind of variance. So that's why, for us, it's more trajectory. Working capital, the structure will remain the same. You will have some quarterly noise around it, but the trend should be, over time, over a cycle of a project, it's neutral. So, we will have more positives in future quarters, but you may always have a bit of volatility and lumpiness from one quarter to the next, one cutoff to the next.

Arnaud Pieton

So Richard, thank you, Bruno. This is obviously something we're tracking because it's of interest to everyone, but it's not an obsession on a quarterly basis for us, for Bruno and I and the rest of the team. What matters, nonetheless, and Bruno indicated very clearly, the down payments for Ruwais and Marsa are coming. They are not late, they are exactly on schedule per the timing of the KPIs. So, because of the cutoff, they are not reported into Q2. But you're not sensing any anxiety on our side here. What matters at the end of the day is to have been able to predictably give you a trajectory for margin growth in Project Delivery.

And last year, we said that we would be the trough, and that Project Delivery top line would grow into 2024 and likely even more so into 2025 and that it is happening. And the other important thing for us and for the health of the company and the health of our projects is that we have positive cash flow during the life cycle of the project. So, working capital is one thing, but in terms of running our operations, we are tracking more the fact that we have positive cash flow at the level of the projects, that is a more important, I would say, KPI that we're tracking, because it signals a lot more the health of the project and we're happy to report that we continue to be executing per our plan and per our principles on that.

Richard Dawson

Appreciate the color. Thank you very much.

Operator

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

Victoria McCulloch

Hi there. Thanks very much. Just one question remaining on my side. Could you give us a bit of color on the proportion of the LNG pipeline that is low carbon? And do these typically tend to be in specific geographies? Or are this split across the areas you mentioned in the presentation? Thanks very much.

Arnaud Pieton

Hi, Victoria. Thank you for the question. Yes, the proportion of the LNG pipeline that would be low carbon at the moment, it's about 30% of the pipeline in terms of number of projects. It's mostly the newest projects. Okay. So, those projects which have been in the pipeline for quite some time and for which the design has been frozen, and the permits have been given, they are not going through recycles. It's mostly, the electrified LNG and the low carbon plants are mostly for the latest addition to the list of prospects.

One counterexample to that, nonetheless, is a project like Rovuma which, because of its delayed FID, has been going through several recycling phases and Exxon was very adamant in the latest cycle to make it the lowest possible carbon, per design. So I would say, this is an exception because of the sheer nature of the project, its geography, et cetera.

And then, of course, in order to benefit from low carbon LNG plants, you need to benefit from a customer and an environment that allows for building the source of low carbon electricity. In Ruwais, we're benefiting from a low carbon electricity that comes from the nuclear plant that the UAE has commissioned a couple of years ago. On Marsa, Total Energy are building a solar plant in order to power the Marsa LNG infrastructure.

So you need a client that is committed and has the ambition to do so. The good news is that it's happening and there's potential for replication in the geographies where we are active. So, to answer your – short answer to your question is, it is not the majority of the prospects, it's still the minority, but it certainly is an attribute of the latest addition in the pipeline.

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Victoria McCulloch

Thanks very much.

Operator

The next question is from Jean-Luc Romain of CIC. Please go ahead.

Jean-Luc Romain

Good afternoon. Two questions, if possible. The first one relates to Rely on your joint venture or your agreement with Casale. When do you expect those new ventures to start generating business? Second question relates to decarbonization of brownfield LNG. I think the question there relates to how long your client would be ready to stop their LNG plant. What's the thinking around this currently?

Arnaud Pieton

Hi Jean-Luc, thank you. I will start with the LNG and brownfield. So there's a lot, I mean, significant number of studies that are ongoing. I will not disclose information related to how long clients are ready to shut down in order to allow for the modernization. You're asking the right question. Those are scenarios that we are working with them in order to minimize the impact of the upgrade of the modernization. We've done that similarly for Midor, not LNG related, but in Egypt, and successfully. It's exactly the purpose of the studies we are conducting as part of the FEED. It's part of the early work. I mean, you put your finger on the right topic in particular, which is minimizing the shutdown times. I won't say more because it's exactly the purpose of the studies that we are – part of the scope of the studies that we are conducting for the clients.

As for Rely, well, Rely was announced about a year ago. We reached the closing of Rely in Q4 last year. Rely, actually we had the inauguration of their offices in Brussels a few weeks ago. So, Rely is a company that is shaping up.

Very happy to have released the Clear100+ product, which is a plant for 100 megawatt of green H2. This is the first outcome of the joint work by the team within Rely. And it's the first iteration, so you should expect further iterations into 2025 with further improvement. But already, this Clear100+, which is a configurable plant for green H2 at 100 megawatt capacity, offers a design that requires 35% less equipment. You are maximizing standardization, so you can push for replicability, which is very important.

Accelerated time to market, so you can deploy that in 28 to 30 months. It's compact. The footprint is 40% lower than for the traditional green H2 plants at 100 megawatt to-date. So, a lot of optimization, and we've managed to levelized the cost of hydrogen by about €1 per kilo on the basis of cost of electricity at €80 per megawatt hour. So it's a first iteration. There's much more to come, I can tell you. There's more in the pipeline in terms of potential cost improvement to green H2. And Rely is one example of our commitment at Technip Energies to win the affordability battle for low carbon solutions. If we don't win the affordability battle, then those low carbon solutions never will be adopted at scale, and that's something that is animating us as a company.

And we expect, first, a response from clients that have been extremely good to the release of this first plant or this first design. We're also showing them what's coming with the next one, and we expect, I'm fairly confident, I mean, quite confident that we will sell the first Clear100+ plants in 2025 on the basis of FEED studies that we are secured – that we're securing and are being secured and will be executed for the rest of the year in 2024.

As for Casale, the opportunity will depend on our success on some of the blue hydrogen and ammonia businesses. So there again, a very rich FEED pipeline, a very, very rich project pipeline starting in 2025. So that is part of the future growth, and also this is what we populate our Project Delivery backlog going forward. So I don't expect the Casale alliance to yield any award this year, but it's yielding FEEDs, which will convert into projects hopefully next year.

Jean-Luc Romain

Thank you very much.

Operator

The next question is from Bertrand Hodee of Kepler. Please go ahead.

Bertrand Hodee

Yes. Hello, thanks for taking my questions. Two if I may. So first I would like to come back on the TPS EBIT margin that was slightly down year-on-year and still below 10%. I understand that you've been incredibly active in creating new partnerships, new technology, JVs, and new product offerings.

In your earlier remarks, also Bruno, you indicated higher R&D spend, and you gave the number to €12 million year-on-year, but I also noted €30 million increase in SG&A in H1 2024 compared to H1 2023. Is this increases in SG&A a temporary phenomenon or something that will be more structural? That is the first question.

And then coming back on the LNG opportunities, especially in brownfield, can you quantify the opportunity in terms of billions or millions or hundreds of millions, and do you believe this is a 2024-2025 story or more a 2026 story?

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Arnaud Pieton

Thank you, Bertrand. I'll start and then hand over to Bruno for some color on the TPS margin. On the LNG opportunities, brownfield, its – it is not the majority of the opportunities, okay? So it is part of the opportunity set, but it doesn't represent the majority. It's about, I would say, in value about 20% of the pipeline.

And we've given you the size of the pipeline. That's the size of the brownfield opportunities that we have. And there are certainly more 2025 and 2026 opportunities than there are 2024. In particular, the reason being, and it was part of the previous question and the previous answer, we need to solve for the shutdown, and minimizing the shutdown periods for the clients. So it requires some intense work end-to-end, I mean end-to-end with the client and because we cannot do that alone for scenario planning and the rest.

So it still the minority – it still represents the minority of the opportunity set. Nonetheless, we have line-of-sight of some interest by customers for adding opportunities in brownfield in Southeast Asia in particular. But definitely, this is more 2025 and 2026. In the meantime, it's dominated by greenfield.

On SG&A, and before turning to – handing over to Bruno, I just want to reassure everyone, Bruno and I are not flying in private jets. We haven't changed the way of being, all the restaurants where we go eat or anything like that, and we continue to be extremely disciplined as a company.

The growth in SG&A mainly reflects the amount of innovation that we are doing and investing into beyond R&D. We have companies that are being incubated, Rely, Reju, and we for some time felt that SG&A was the best place where to report on that innovation or incubation investment, but Bruno can provide more color.

Bruno Vibert

Sure. Thanks, Arnaud. Good afternoon, Bertrand. I mentioned the R&D, and you're correct. We've seen an increase in SG&A, fair to say, we're following and doing much more. We've broadened our markets on carbon capture, on green hydrogen, on blue hydrogen, on plastic circularity, and so on.

And these markets, selling effort, tendering is ongoing. Do we have the full contribution of those markets in our top line and gross margin? Not yet, because you always have a bit of a lag. So these are investments. You have investment in R&D, but you also have investment in nurturing those new markets and growing markets.

We will continue to do so because we think it is important to put Technip Energies on the growth trajectory by the end of the decade for the next decade. We will be glad I think to show more during the Capital Markets Day in December – in November, how we plan to see those markets evolving and how our early leadership position that we're getting those investments that will bear fruit.

Now, for us, it's maintaining the discipline, hence the remark of Arnaud. We are keeping a cost focus on the organization, making only those investments in R&D, selling and tendering, when we see market and growth opportunities, and this is what we continue to do. We are committed to the €2 billion plus double-digit EBIT margin for TPS, and we are on this trajectory despite those investments. And so we're keeping our eyes on the two goals to some extent, two screens, and it's important for us to be able to play around those two things.

Bertrand Hodee

Thank you.

Operator

The next question is from Mick Pickup of Barclays. Please go ahead.

Mick Pickup

Good afternoon, everyone. A couple of questions, if I may. If I'm correct, it looks like you've increased your headcount by about 1,000 people, and I know your peers have increased their headcount by similar sort of levels. Can you just talk about the market for engineers? Where are you finding them? Are they high-value grads or experienced hires?

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And second question, on the engineering services side, I think this quarter has been notable that some of your peers have also discovered what you're doing and are trying to boost their engineering services side. So have you noticed any change in the market, or is the volume of work with transition that big and niche that it's still just a seller's market into it?

Arnaud Pieton

Hi Mick. So yes, we have increased our headcount by 1,000 people, so from 15,000 to 16,000, and this is not the end, so we'll share more during our Capital Markets Day in November about our growth strategy. The market is tight in some geographies, but I think the we're on – I'm happy to say that we have – it's pretty – I mean, its pretty easy for us to attract people.

Yes, it's competitive, but Technip Energies is a company that's healthy, that is actually engaged into the right topics and topics young grads want to work on. And so yes, and we are in geographies, we are adding people, those people yes, in Europe, yes, in the U.S., and of course, significantly also in India, where we have been present for 50 years, so this is not new for us.

And just to put things into perspective, again, India, its 1.2 million graduate engineers per year, to be compared with 35,000 in France, for example, so you need to go look for the source, and we are adding everywhere, but for sure there's an acceleration in India, where we see high-quality education and highly motivated young individuals, so very, very positive about that.

And finally, engineering services, yes, there is growth in, I mean across the Middle East is booming including on infrastructure, so it's a market that continues to grow and we are playing our role and for what is P&C for example, not everyone is in our headcount. Because we benefit from a, I'd say a very large portfolio of CVs and people, it's thousands – tens of thousands of CVs that we've got in reference, and we go tap into the pool as required. So clearly, it's an area of growth for TEN and for probably our peers.

Mick Pickup

Thank you very much.

Operator

Next question is from Daniel Thomson of BNP Paribas Exane. Please go ahead.

Daniel Thomson

Hi, good afternoon. Just two questions to finish off. Yes. Just on the two Qatar projects, I was wondering if you could give us any sort of indication or number around how far you are through your scope on the North Field East and North Field South projects, respectively?

And then secondly, on the LNG FID outlook and if I look at most of the forecasts around suggest a relatively balanced market towards 2030 if we factor in projects under construction, we obviously ask your clients this as well, but just wondering what your view is on what the rationale is for approving a significant amount of capacity over the next year or so given the outlook market balances? I mean, is there some of that existing nameplate capacity that's maybe

expected to be running at lower utilization? Anything you get from your clients on that topic or your own thoughts would be very interesting. Thank you.

Arnaud Pieton

Hi Daniel, thanks. So interestingly for, I will start with your – answering your second question. What do we hear from our clients? First, our clients are not looking at the world in 2025, 2026, 2027, 2028. They are looking at the world 2040 and beyond and they are making their investment decision on the basis of their view of the world in 2040, 2045. That's the case I'm sure for Qatar LNG and many others.

So if indeed there was to be an oversupply, and I say if, there was to be an oversupply in 2028, 2029 on the back of new energy infrastructure coming on stream, there was another supply, probably prices could drop a bit, and therefore this could attract new customers as well. So this would almost course correct itself, if I may say. But they – really the final investment decisions are driven by a vision of the world that is really long-term, and they are not about 2028 or 2030, really. That's point number one.

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Point number two, and it's the case for Marsa, Marsa it's a bunkering facility, and therefore you have here LNG for something else than export. This is LNG as a shipping fuel. So obviously this is not the majority of the volume, but we are sensing, and we are seeing opportunities in that space as well.

So it's LNG for a different end user, if I may say, or well, in opposition to shipping the LNG to the end consumer, it's here, people will come and bunker and use the LNG directly as a shipping fuel. So its – that's what I'm seeing from our customers, its – but mostly it's dominated by the fact that they are looking at the world very long-term in opposition to short-term.

On NFE and NFS, it's not difficult to give you numbers, because I have them, but I'll – it's better if those numbers come from our clients than ourselves. I can simply say that the project is progressing – the two projects are progressing per plan, that we have now nearly 40,000 people on site in Qatar, which is therefore, I repeat, 40,000. So it's an indication of I would say the momentum that we're seeing into the project and the amount of progress you can get, that can be generated by 40,000 people. So project well underway, no change to plan, and I believe for more detail it's more appropriate if you go and speak to Qatar Energy than ourselves, but it's progressing well.

Daniel Thomson

All right. That's helpful color. Thanks, Arnaud.

Arnaud Pieton

Thank you.

Phillip Lindsay

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

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