

# **Wärtsilä Oyj Abp (WRTBF) Q2 2024 Earnings Call Transcript**

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**Body**

Wärtsilä Oyj Abp (WRTBF)

Q2 2024 Earnings Conference Call

July 19, 2024 3:00 AM ET

Company Participants

Hanna Heikkinen - VP, IR

Hakan Agnevall - President & CEO

Arjen Berends - CFO

Conference Call Participants

Vivek Midha - Citi

John Kim - Deutsche Bank

Daniela Costa - GS

Max Yates - Morgan Stanley

Akash Gupta - JP Morgan

Panu Laitinmäki - Danske Bank

Sven Weier - UBS

Sean McLoughlin - HSBC Bank plc

Mikael Doepel - Nordea

Anders Rosland - Pareto Securities

Presentation

Hanna Heikkinen

Good morning, and welcome to this news session for Wärtsilä Half Year Results Presentation. My name is Hanna-Maria Heikkinen, and I'm in charge of Investor Relations. Today, our CEO, Hakan Agnevall will start with the group highlights, business performance and after that our CFO, Arjen Berends will continue with the key finances. After the presentation, there is a possibility to ask questions. Let's first take one question per analyst and then follow up with the follow-up questions. Hakan, please.

Hakan Agnevall

Thank you, Hanna-Maria and welcome everybody to the summary of a strong second quarter. I think solid quarter, order intake, profitability, cash flow, all improved. Net sales increased by 7%, order intake increasing by 10% and we are yet to end in a quarter with an all-time high order backlog at about EUR 7.6 billion. Comparable operating results increased by 63% and we are a double digit comparable operating margin. The good progress in service continues, service order intake increased by 8%, service net sales increased by 3% and strong cash flow, it continues. We are in a very good streak there, EUR 216 million for Q2.

If we quickly look at the overview of the numbers, as we said, ordering take growing from EUR 1.7 billion to EUR 1.8 billion, 10% up, and we see that both services and equipment is growing, 8% respectively, 13%, so bigger growth in equipment. Order book up to EUR 7.6 billion, net sales growing both in services and equipment overall 7% from EUR 1.4 billion to EUR 1.5 billion and then 3% in services, 12% growth in equipment, so also continued faster growth in equipment and in services. Book-to-bill now 13th consecutive quarter with a book-to-bill bigger than 1, 1.19 and the operating results are following, up 156% from EUR 66 million to EUR 168 million basically 10.8% and then on the comparable operating income up 63% and reaching 11.3% so a solid quarter overall.

If we look at the marine and the market sentiment it's positive for us in for virtually in our key segments and we see a continued good appetite for new ships in the second quarter. The number of vessels ordered in the first half year was increased to 1,069 up from 773. Investments in new ships were higher than in the first half of 2023 driven by increasing demand for ship capacity, solid average earnings across cargo segments, low order book mainly in bulk carrier and tanker segments and continued fleet renewal. If we look at the alternative fuels, the uptake remains on healthy levels with 242 orders reported during the first half of 2024 accounting for 23% of all contracted vessel or 39% of capacity. A new bill ship prices continues to increase and this is despite we see a growth in shipyard capacity especially in China and South Korea, so for us this indicates that there is still an ongoing shortage of yard capacity.

If we do a similar outlook on energy, the solid -- we see solid mid to long-term market opportunities. There is continued uncertainty in the market environment in the second quarter. The macroeconomic development in Q2 was influenced by protectionist policies with trade risks elevated by development of the recently imported tariffs by US and EU. The market for Indian power plant was stable with good activities, especially in the US. The natural gas prices rose in Q2, commodity pricing overall was stable, despite elevated uncertainty on the geopolitical side.

The energy transition continues to advance, and if we look at the latest Bloomberg numbers, Bloomberg expects wind and solar to continue to grow, wind with 6% and solar with 32% in 2024. In AI, there is a lot of talks these days about AI and its impact on the global electricity demand for data centers. Today, data centers account for about 1%-2% of global electricity demand, but we see this increasing and potentially doubling its share until 2026.

Looking at the numbers again, organic order intake increased by 12%, so order intake increased by 10%, equipment order intake increased by 13%, service order intake was up with 8%. We have a record high order book, and book-to-bill continues above one. Order book delivery schedule in marine is slightly longer due to constraints in the shipyard capacity. This is something we already saw in Q1, we see it in Q2 as well. You can also see that we are building up a healthy order backlog, not only for this year but also for next year. Organic net sales increased by 9%. So, net sales increased by 7%, equipment net sales were up with 12% and service net sales was up with 3%. Profitability continues to improve step by step, so net sales of course helped with increased net sales of 7%, comparable operating results increased by 63%. Now Technology and Partnerships, as we all know, is about innovation in service and technology, focusing on enabling the decarbonization of marine and energy.

And I think we have two great examples here during the second quarter. First, we launched the world's first large-scale 100% hydrogen-ready engine power plant concept. So this is a 100% hydrogen-ready engine power plant concept based on our 31 engines, and it has now been certified by TUV SUD. And TUV SUD, they have a certification process that consists of three stages, and we have now achieved the first stage of certification, which is about the conceptual design of the engine power plant for 100% hydrogen. And we expect to open up for orders in 2025 and also having the capability to deliver in 2026. Now, another very interesting example is also from energy and related to data centers. We have recently signed an agreement, a cooperation agreement, with AVK to deliver on-site power generation for data centers.

So basically, it's us and the energy solution business AVK-SEG. We have signed a cooperation agreement aimed at meeting data center's unique power requirements. And data centers, as we know, are essentially ensuring that businesses and organizations can store, process and manage their data and operations securely and efficiently. We will provide our engine equipment and maintenance support, and AVK does the integration. And at Wärtsilä and AVK, we actually already have two energy projects running in execution for data centers on Ireland. And the cooperation agreement was signed in May.

Now, looking at our businesses, and we start with Marine, the good performance continued. Order intake, net sales, and comparable operating results increased. Order intake was up with 17%. Net sales were up with 8%. And if we look how the comparable operating result is evolving, we could see positive drivers in higher service volumes and also recovery of new build margins. Then, dragging a bit, is the increased R&D cost that we talked about before. We invest overall in that 3% to 4% of our net sales into R&D, focusing on decarbonization. If we look at Marine's service business that continues to be good development, Marine's net sales to agreement installations are increasing. You see the curve here. It's going in the right way. It's a positive underlying trend. We also have our retrofit business, so we are bringing a great example from a recent retrofit win. It's basically, we're going to work together with Scandilines to convert two of their ferries to plug-in hybrid operations.

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So we will provide the electrical systems needed to convert these two ferries to plug-in hybrid solutions. And the project involves replacing one out of the several engines on these two ferries with a new short-charged electrical system, including a large energy storage system. And the conversion is a key element in Scandilines target to achieve emission-free operation on the route by 2030. On hybrids, virtually we continue to be the market leader, and we see hybridization as one major retrofit opportunity overall on the marine side. And this particular Scandilines order was booked in Q2.

If we go over to Energy, the comparable operating results increased, equipment order intake decreased, driven by lower order in our energy storage and operations, while orders in EPP actually increased. So you can see order intake is down 6%. Net sales are down 2%, and if you look at the waterfall on the EBIT side, the positive drivers were around about recovered profitability in new equipment and also positive service revenue mix. We were affected a little bit by lower service volumes; however, this is mostly related to high levels comparable levels same quarter previous years, the underlying trend in services is positive.

If we look at Energy Storage and Optimization, the comparable operating result margin, we look at this on a 12-month rolling continued to improve and we do see the business developing in a positive way. Order intake this is a lumpy business so there are some periodization effects also of course material prices have come down, so if you look in megawatts, we are continued to grow but the order intake is down a little bit in this quarter, however, the underlying trend is only positive.

Energy service agreement coverage continues to improve also on the energy side and here we have one of the examples that forms the basis of this continued growth. So this is example from Nigeria related to our customer cement plant so we basically signed a 10-year operation and maintenance agreements for a captive power plant producing the energy for Nigerian cement plant and the plant is owned by Mangal Industries and is located in the Kogi State in Nigeria. The O&M agreement is designed to ensure reliability of the power and energy production to support the production of the cement factory producing 3 million tons of concrete a year. Uptime reliability is key and this order was booked also in Q2. If we take the full bridge Q1, Q2 last year to Q2 this year, we see the step up in profit margin from 7.4% to 11.3%. We see improvements in all businesses and in our portfolio business and Marine going from 11.5% to 13.5%, Energy from 7.1 to 10.5% and then you see Portfolio Business going from a negative 15% to positive 4.6%. But then you should remember in portfolio businesses in the second quarter of last year, we took some significant provisions in the gas solutions business. So that makes this big jump in portfolio business.

Comparable operating result increased by 63% and also a very important comment is that the comparable operating margin percentage typically reaches its high in Q4. However, in 2024, we do not expect to see that given the mixed impact from the increasing equipment deliveries during the second half of 2024. So both new bill and services are growing but during the second half of the year, new bill will grow faster and therefore this effect.

Other key financials, Arjen, please.

Arjen Berends

Thank you very much, Hakan. Looking at other key financials, basically all the parameters improved compared to the comparison period last year, whether you look at it from a quarter perspective or from a year-to-date perspective. Actually, they also improved compared to Q1, except for one, which is the cash flow from operating activities, which ended about EUR 40 million lower than in Q1. Having said that, let's say we are, of course, very happy with our cash flow in Q2. It's a strong cash flow after a very strong cash flow in Q1, but also after a very record high cash flow, actually, in 2023 overall. Good cash flow, of course, contributes also to, let's say, net debt ratio as well as gearing ratio improving further. Earnings per share also clearly up from comparison periods, also up compared to Q1. Good profitability also supported that our solvency ratio could go up from 34.8% in Q1 to 35.3% now in Q2. Very good statistics overall.

If you look at this slide, let's say, left side cash flow generation, we generated actually over a billion, almost EUR 1.1 billion of operating cash over the last 12 months, which is of course very encouraging and we are very happy with that. Contribution came both from, let's say, improved operating results, but also clearly, let's say, from the working capital. And as you can see on the right side graph, working capital continued to develop, let's say, more negative, which is of course good for cash flow. Very strongly driven in the working capital is of course the good order intake, let's say the milestone payments that we get from customers also during execution of the contract, clearly supporting the negative working capital.

Having said that, we still believe that this is a bit of an extraordinary, as I said, it links very much to payment and execution milestones in your order book, basically. So it's an extraordinary number still, I believe, this negative one. With these words, I give it back to you, Hakan, on the prospects.

Hakan Agnevall

Thank you, Arjen. So if we look at our prospects, both for Marine and for Energy, we expect the demand environment for the next 12 months to be better than of the comparison period. So we continue to see positive market sentiments overall. All right, that was the quick summary. Let's go over to the Q&A.

Hanna Heikkinen

Thank you, Hakan, thank you, Arjen. So let's move to the Q &A session and as a gentle reminder, let's take one question per analyst first and then continue with the follow-up round. Thank you, so handing over to the operator, please.

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Question-and-Answer Session

Operator

[Operator Instructions]

The next question comes from Vivek Medha from Citi.

Vivek Midha

Thanks very much everyone and good morning. My question is on your commentary around the Q4 margin. Should we expect the margin in the second half to be below that of the first half? Is there any more color you can give us on what we should expect as we go towards the end of the year? Thank you.

Arjen Berends

I would say relative, yes, that's the answer. And in the consequence of, let's say, the faster growth of equipment business, which is typically, let's say, lower margin versus the growth of the service business, which both are still growing, but let's say one is going faster than the other.

Hakan Agnevall

And just to underline, because I think we have also got some questions, we are talking about margin percentage. We are not talking about absolute margin.

Operator

The next question comes from John Kim from Deutsche Bank.

John Kim

Hi. Good morning. I was wondering if we could spend a little bit of time on service. If we look at the net sales growth in the quarter 3%, can we unpack that a little bit to understand whether that's a time and place effect? Can you give us some sense of what the underlying growth is on transactional or the activity levels that underpin the service? And do you see the Q2 growth rate being or the Q2 delivery being impeded at all by the yard capacities or component availability? Thanks.

Hakan Agnevall

So, I mean, on the marine side, I think we continue to grow also in this quarter in a very good way. On the energy side, this quarter it's a little bit slower but as I said before it's related to what we did same quarter last year where we had certain service projects coming in. So also on the services side and we talked about that before there are service projects retrofits upgrades et cetera, so that if you compare Q-on-Q it looks like the growth is slowing down but as I said overall the underlying growth is certainly there also to say. I don't know, if you want to compliment.

Arjen Berends

Exactly today you talked about the comparison period but actually service projects activities today are let's say quite in an uptick actually both on energy and marine so meaning retrofits overalls et cetera that's really active today.

Hakan Agnevall

And our energy service order backlog is currently at all-time high, so we are on the right path. But I said, this quarter, it looks a little bit slower on energy.

Operator

The next question comes from Daniela from GS.

Daniela Costa

Hey, good morning. Thank you for taking my question. I'll stick to one as well. Can you talk about the working capital profile and after the various changes you have done with the business, what should we think about as the normalized working capital profile given your comment on the negative not be repeatable and being more one-off? What would you recommend? Thank you.

Arjen Berends

We are doing very well in working capital, as you have seen from the graphs. We also do see, if you look longer-term perspective, basically, let's say, if you take the five year average line that we had in Q1 in the same graph that I was just showing, I think it was 4.7% on the ratio to sales. Now it's 3.6%. If you go even longer back, let's say we have, for as long as I can remember, had positive working capital. Now we are running a negative working capital. In that sense, I would say it's an extraordinary level. I think we can still maintain this negative level for some time, but at some point of time, I don't think it will be as low as it is today. I think it will go up again. Will it then turn to positive, okay, and how quick? Let's see. That depends very much to the order profiles and the business profiles, which businesses are very active in the order book basically. As an example, let's say we book orders now even for delivery, let's say, three, four years out. And if you get a nice down payment of some millions, the cash out is way later. So order intake is very connected to working capital development, as we see it today.

Operator

The next question comes from Max Yates from Morgan Stanley.

Max Yates

Thank you. Look, this isn't my question, but I just really want to kind of clarify exactly what you said on EBIT margins, because it wasn't entirely clear to me. Could you just confirm, I think what you said is that you expect the second half EBIT margins to be below the first half. Could you just confirm that's what you mean by that comment?

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Arjen Berends

Percentage -wise, yes.

Max Yates

Yes. Okay. Understood. And look, I guess my question is just around the marine margin. You've obviously talked about kind of ship pricing going up and shortage of shipyard capacity. I guess I just wanted to understand, when you look at the sort of, I guess the last 10 years and you think about the sort of competitive landscape in this business, so supply demand of a lot of the products that you sell. Do you see a much better, or do you see anything that's structurally changed in the environment to make you think that margins kind of in marine can be structurally higher than where they've been historically for your business, whether it's mixed competitive landscape or anything else? Thank you.

Hakan Agnevall

So if I may start, and please note that I just had a comment on the EBIT margin. This is consistent with what we have said, that the second half of the year, we will have a higher mix of equipment deliveries, so to say, especially in energy. So that's not a new message there, it's consistent. Then, coming back to marine, and if we start with the shipyards, and then we can talk that, so I think, I mean, when you look at the numbers, I think shipyard capacity has been slowly growing up since 2020. Of course, in a much slower rate than it used to do way back in the boom days. In our view that it will probably continue to increase, but in a steadily rate, so to say. We do see, if you look at different segments, relatively high activity level on new build. I think with the decarbonization transformation and the need to upgrade, that would probably also drive demand for shipyard capacity.

So currently there is a shortage of capacity. It will grow, but in our view, it will not be the best that we saw many years ago. It will be more staged growth. If we look at advanced land and our journey in the decarbonization transformation of the marine industry. I mean we are positioning ourselves as a technology leader and, of course, that should give us opportunities for price realization. Also, as we talked about when we went through the waterfall, we are recovering from auto backlog that was heavily impacted by this significant inflation that took place or accelerated in the beginning of 2022. That has affected the marine side and has also affected the energy side, so we are coming out of that.

Operator

The next question comes from Akash Gupta from JP Morgan.

Akash Gupta

Yes, hi, good morning. And thanks for your time. My question is on your outlook statement, and I just wanted to clarify that this demand outlook in marine and energy, does it take into account potential US elections later in the year? And I think if you look at the current situation, then there are rising order of Republican victory, and I think the market is worried about potential tariffs. So I just wanted to know, have you already incorporated that in your demand outlook, or that is additional risk to your demand commentary? Thank you.

Hakan Agnevall

No, I think we have accounted for all the geopolitical items, so to say, including US elections, et cetera. So that has been factored in. I mean, one tidbit of information, if we are talking about US tariffs on batteries, that has been implemented on an immediate basis for electrical vehicles, but it will be implemented in 2026 for batteries, for energy storage. But we have considered, with the best knowledge we have and capabilities we have, all the different factors.

Akash Gupta

Maybe just a clarification, I mean, last time when we had similar situation, was there any impact on marine demand, so to speak, or there was no impact on marine orders?

Hakan Agnevall

Sorry, can you clarify your question? I didn't get it.

Akash Gupta

Yes, I mean, I meant last time around in 2017 -18 when we had Trump tariffs, was there any impact on the marine demand? Sorry, I was not covering the stock back then, but just to check whether there was any impact or there was no impact on marine demand at such, from the tariffs.

Arjen Berends

I need to really dig in my memory. This is a long time ago, but at least I don't recall, let's say, any serious impact at that point of time. But it's a bit too long ago to really exactly remember, but we can of course check that.

Hakan Agnevall

I was not serving with the company in those days. That's why I asked Arjen to reflect upon this.

Akash Gupta

No worries, thank you.

Arjen Berends

This one I don't remember, but I don't, let's say, remember any significant negative out of that time. So yes, probably not that much. Let's say typically ship sale, no matter what happens politically, as long as there is a need for transport and then ships run, and let's say our service business correlates with running hours of ships and running hours of power plants. And so I don't think there was a big impact.

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Operator

The next question comes from Panu Laitinmäki from Danske Bank.

Panu Laitinmäki

Yes, thank you. I wanted to ask about data center cooperation. Can you talk a bit about the potential that you see there? I understand its early stages, but any idea of like how big would the potential projects be for you, matching profile or anything at this stage that you could share with us?

Hakan Agnevall

So I think we are still at an early stage in this. I think what we see now is that with AI, I mean, if we take a general logic, with AI, the need for storage is increasing and the storage centers will get bigger and therefore the power needs will also grow. Now, traditionally, power has been taken from the grid and there has been a kind of stand back, standby facilities with high-speed engines. Now, as power demand is going up, then the situation becomes different. I mean, now we are talking about 10, 30, 50, 60, 100 megawatts, and then the data center, it's not only about data, it's also about energy, and that it could give us further potential growth going forward. I think this collaboration is a vital part for that, but I think it's a little bit too early to really go specific on the numbers. It looks promising, and we will get back on this further down the line.

Operator

The next question comes from Sven Weier from UBS.

Sven Weier

Good morning. My question was also on data centers, and I was just wondering, now that you addressed the European market, how you intend to address, obviously, the much bigger U.S. market opportunity. Thank you.

Hakan Agnevall

It's a very relevant question. I mean, my sales meeting with utility customers in the U.S., they confirm also that there is a lot of interest from different parties that want to build data centers. There's a lot of interest for energy and feeding energy, so utilities in the U.S., they are certainly, and not only the utilities, the whole spectrum of power providers in the U.S., they are looking into this now. So there should definitely be opportunities, but as I said before, it's a little bit too early for us to get back on hard-nosed numbers and potentials. We are working on this, and we will get back, but at a later stage.

Operator

The next question comes from John Kim from Deutsche Bank.

John Kim

Hi. Just to follow up on storage, please, it appears when I kind of back out the Q2 profit and margins for storage, it looks quite good sequentially. Is this, might ask, may I ask this might as well, do you feel these margins are sustainable given the dynamics in the industry, i.e. deflationary pricing on battery packs, your focus on certain markets and certain customers?

Hakan Agnevall

So in short, I think they are not only sustainable, I expect us to step by step on a continuous basis improve the margins. So that's one thing. Now to your question about decreasing lithium prices or battery prices, that is a pass through to the customers, it doesn't affect our margins. Now of course you're right in the sense that it's a very competitive space, so there is certainly competition and I would say that the competitive forces are growing, but I think what our storage team has done is really to step by step improving their operational execution capability in terms of risk reward, in terms of realizing, delivering on time, on budget with the right quality and therefore also to be able to realize profit so to say. So I think what is driving the profitability improvement is the underlying operational performance.

Operator

The next question comes from Sean McLaughlin from Analyst.

Sean McLoughlin

Good morning, can you hear me? A broader question about your long-term EBIT margin target, if I think back to the three pillars that you outlined in order to get to this, it feels like those three pillars really are all there, particularly now that we look at the storage profitability piece. How should we think about 12%? It feels from the first half like you're nearly there. Clearly, you're guiding down in the second half, but is that now looking in your view a now conservative target?

Hakan Agnevall

Well, I would say that we are on a solid path to reach our financial targets. I think we have been consisting and communicating that, and we do feel comfortable about reaching the targets. I think it's pretty much all to have this discussion about revising the financial targets. I think let's first make the EBIT target, and then let's see how we think about that going forward, so to say. But as I said, we continue to be confident in our path, a solid path, to reaching our financial targets.

Operator

The next question comes from Mikael Doepel from Nordea.

Mikael Doepel

Yes, thank you. And good morning, everybody. Just a very quick question on the energy storage business. You talked about the profitability improvement there already. I guess it's a lot of questions about the revenues as well coming up from last quarter. But could you talk a bit about the market environment overall? I mean, how do you see demand going forward? Do you continue to see ample opportunities there and also related to this business, is there anything you can say about your timeline in regards to the strategic review of the assets? Thank you.

Hakan Agnevall

So if I start with the strategic review, it's still ongoing and the narrative is still the same. We still see ample growth opportunities. We want to find out the best way to grow this business, to support our customers, to create shareholder value. Within the frame of the strategic review, we will look at different ownership alternatives. And we are looking at the full spectrum, everything from continuing like we do today, owning the whole business ourselves, to divesting the business partially or fully, so to say. So it's still the same narrative. We didn't set ourselves a specific timeframe. Of course, we are working on it. And we are not setting a timeframe right now. Of course, time runs. We are working on it. And once we have solid information, solid decisions, of course, we will communicate this. But we are not there yet. So strategic review is still ongoing. If we look at the overall market, I still think it's growing and it has ample growth opportunities going forward from a global perspective. We keep on, you could say, our geographical focus areas, focusing on US, Australia, UK, a couple of other countries. We maintain, I think, it's working out well for us. So, we do see a good future for the business, so to say. Yes, I mean, there is increased competition overall. I would say there is a spillover from the EV side. But that is also an opportunity for us to work and leverage our cost structure, so to say.

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Operator

The next question comes from Daniela from GS.

Daniela Costa

Hi, thank you for taking my follow-up again. I wanted to follow up on the tariffs point in the US and just to understand a bit better sort of on your operating system now. I thought you made most of your engines out of Europe. So, how does that work? Do you mean you won't, I guess you implied you don't expect much of an impact. Is that because you will just price up to cover up for it? Can you elaborate basically why no impact or every competitor is making it outside of the US? How will it work? Because I think the 10% tariffs impact everything made outside of the US.

Hakan Agnevall

So, first of all, we need to split between engines and batteries. And batteries and the whole EV, there are certain tariffs being put in place. And those were the tariffs that I was commenting on. I was not commenting on tariffs on the engine side. There is nobody manufacturing engines in this type of size and segment in the US.

Daniela Costa

Got it. Okay, so you will just put prices up basically?

Hakan Agnevall

Well, if there are tariff increases in these segments, I think we will be forced to do so, yes.

Arjen Berends

Absorbing.

Operator

The next question comes from Akash Gupta from J.P. Morgan.

Akash Gupta

Yes, hi. Thanks for the follow-up. I wanted to dig a bit more into the second quarter margins. So when I look at your Q2 margins versus Q1 margins, I mean, you had a service share of revenues that went down sequentially, but despite that, we had 130 basis points margin improvement. Can you provide a bit more granularity or maybe a high level bridge between Q1 and Q2 on what is driving that because it seems like your profitability in some new equipment may be quite high and if that is the case then why a second half margin should be lower than the first half? Thank you.

Arjen Berends

Of course it's all related to mix and then I think if you look at the service mix in Q1 versus let's say Q2 and you would exclude storage for example, I think the share of the service is about 66% in Q1 and 62% I think in Q2 so that difference is not that big. Of course, if you include let's say the storage volumes which are very low in Q1 and very or much higher I would say in Q2 then it's of course totally different percentages and you might get let's say distracted by that. But I think the main thing is that the difference in mix or let's say in margin realization between let's say new equipment sales and service sales is still quite significant even though the new built margin has recovered from let's say one year ago given what Hakan earlier said. Let's say then in those times last year we were still quite much hit by actually the cost inflation that came from 2022. So it's really the mix that is driving this in particular.

Operator

The next question comes from Max Yates from Morgan Stanley.

Max Yates

Thank you. Could I just ask a quick question around capital allocation? You're obviously now kind of net cash and I appreciate kind of the comments suggesting that sort of working capital levels may not be sustainable and you may see some outflows going forward. But I guess I just wanted to understand if we do see kind of net cash flow, all the business remaining in a net cash position. Is this sort of a level you are supportive of, happy of, or is that the kind of level where you would look to be kind of more proactive on either shareholder returns or M&A? Just how you're thinking about that would be helpful. Thank you.

Arjen Berends

I would say it's a bit too early to make any comments on this. Let's say this negative working capital, as you could see from the graph, is not something of, let's say, sustainably, let's say, there for a long time. Let's say we have been going negative, I would say, since the past three, four quarters. Let's see what the future brings. Like I said, I don't believe that this level is sustainable long term. Yes, I think we can hold to a negative working capital for quite some time still. But let's say looking out, let's say, one, two, three years out, it might be different. It depends very much on our execution of our order book. Let's say, how are the new orders coming in? What kind of payment arrangements can we agree with those customers? Is it big down payments, small down payments? That again depends on the market. So I think it's too early to make any comments on this. But of course, long term sustainable, we need to look at it. That's clear.

Max Yates

Could I ask a really quick follow-up, Hakan? I think one of the things that kind of has been a lot better since you've been in Wärtsilä has been the execution. I guess we've tried to move away from, or you've tried to move away from some of the, I guess, the riskier businesses, some of the businesses where you've taken charges in gas carriers. I guess when I hear you talk about that kind of Nigerian cement plant contract, and you talk about ensuring reliable production targets, et cetera, I guess I just wanted to understand in some of these service contracts, what are you actually guaranteeing for the customer? And how are the contracts structured and how much risk are you taking in relation to that cement facility trying to generate 3 million metric tons of cement per year? I'd love to understand that. Thank you.

Hakan Agnevall

So basically, I mean, first of all, we always talk about the power generation. We never go into whatever the power is used for, if it's producing cement or hoisting material from a mine, et cetera, so we're always talking energy. Then to the core of your question, there is not one answer. We have a whole portfolio of different service agreements, and the risk we take on varies depending on which tool in that service portfolio, tool books you take on. There is everything from very limited risks all the way up to the performance-based contracts where we really make commitments on reducing fuel or energy consumptions or emissions and providing uptime and reliability on a bonus-malus kind of basis, so to say. So you have a whole spectrum. Therefore, there is not one single answer to your question. It depends what the customer is looking for, it depends on our technical capabilities to monitor the plant in real time. It depends on quite a few different factors I would say.

Operator

The next question comes from Anders Rosland from Pareto Securities.

Anders Rosland

Yes. Good morning. I just had a question about the second half margin again. Given that marine is, I assume, growing faster than energy, shouldn't there be a positive mix from higher marine margins coming through? And I normally always have the stronger ending of the year in the marine segment. What's different this time?

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Arjen Berends

We are not, let's say, splitting, let's say, our guidance in what is bigger and smaller. Let's say we are guiding, let's say, both marine and energy for better. And I think that time will tell, let's say, how much that delta is.

Anders Rosland

But the ending for marine deliveries used to be also higher margins at the fourth quarter. It's not that going to be the case anymore.

Arjen Berends

I will not comment on delivered margins on any of the products, nor marine or energy.

Hakan Agnevall

So the observation we are doing that this normal seasonality effect in Q4 on the operating margin of the whole business, we don't see it repeating this year. And the underlying sentiment, you could say, is positive because new bill is growing faster than so both are growing but new bill is growing fast.

Arjen Berends

Okay.

Hakan Agnevall

And positive thing with that is of course if we grow new bill now that generates services in a couple of years.

Arjen Berends

But we are not commenting on the margins of individual projects or businesses.

Operator

The next question comes from Sven Weier from UBS.

Sven Weier

Yes, thank you. The follow-up is on storage and two questions there basically. First of all, when we look at it all the intake megawatt hours you grew 26% in Q2 against 12% in Q1, a bit of an acceleration, I mean is that already a consequence of lower battery prices stimulating demand or is that just a coincidence? And the other question I had you obviously talked again about your cost flexibility on storage that this is a pass-through item on variable cost of course but I mean of course there will be a negative impact in terms of the euro volume sales and how do you cover the fixed costs, right. I mean does that anyhow disturb what you have in mind as a margin for storage going forward? Thank you.

Hakan Agnevall

Yes, so basically the business continues to grow so the underlying growth is certainly there. Then I will caution everybody to do this sequential Q-on-Q comparison because this is a project business is lumpy to its nature so that could be swings but I can clearly confirm that the growth is there. And we foresee it also continuing going forward so to say, so that's one thing. Then then on profitability, as I said, of course, I understand your logic about the scale effect, but I think a much more important driver for our continued profitability improvement is this, I would say, improvements in execution. Because to realize with good execution some of the risk reserves that we have, like you always have in project business, so that is a much bigger lever for our continued increase of profitability.

Operator

The next question comes from Panu Laitinmäki from Danske Bank.

Panu Laitinmäki

Thank you. I just wanted to ask about the marine equipment orders. Can you talk about how many like larger cruise ship orders you had in Q2 and what is the outlook for the rest of the year?

Hakan Agnevall

So we don't -- we cannot talk about orders that have not been publicly announced, our customers will not be happy with us then, we have confidentiality, so therefore I cannot go into the details. But I would say that the underlying sentiment is positive. I mean, we know that the big cruise operators, Carnival, Royal, Norwegian, et cetera, Disney, et cetera., they are placing orders for new vessels and it's coming, so to say. And of course, considering that we have a strong presence in this segment, it should benefit us at a certain stage, but we cannot be more specific than that.

Panu Laitinmäki

Okay, thanks. But basically the question was that, did you already in Q2 benefit from this cohesive investment kind of recovery or is it yet still to come?

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Hakan Agnevall

I think we're seeing some of it, but I would say that we will, because there is always a time lag, I think we will see more of it in the future.

Hanna Heikkinen

There are no questions on the queue anymore, but we have still a couple of minutes left, so in the case somebody has a question now, it's a good time to raise it. Thank you.

Operator

The next question comes from Akash Gupta from JP Morgan.

Akash Gupta

Yes, hi. Thanks for the follow-up. A question on portfolio business. So if I look at your performance in second quarter, your orders are rebounded, revenues rebounded, and also, we have seen big jump in profitability. I wanted to ask, like, are you 100% sure you want to, or, I mean, is there a scenario where you think that some of these businesses could be part of what's still like, especially if the outlook of the business is more sustainable loan on improvement and potentially margin coming in line with other segments, or you are still on track to divest entire businesses in portfolio segment? Thank you.

Hakan Agnevall

I think the short answer is that we are still on the track to divesting. I mean, we clearly acknowledge that the financial performance of many of the portfolio companies are improving. That was actually part of our game plan. You might remember that we said that when we put companies in portfolio, it's a clear signal they're going to be divested. But we have also said for some of this, it will take some time because we want to turn the businesses around. Some of them have been lost making. We want to stabilize them before we actually divest them. So I think some of the positive development is actually the result of the turnaround that is ongoing, but they will still be divested. And then also just to highlight, when you do the Q-on-Q comparison, please remember that in Q2 last year, we took some significant provisions in gas solutions. But I would say even having said that, there is an underlying improvement in performance with a good turnaround work.

Operator

The next question comes from Sven Weier from UBS.

Sven Weier

Yes, thank you. Sorry to bother you again one more time on margins. I mean, I fully understand what you said on the second half point. I think that's pretty logical. But I mean, obviously, you've been also talking about the kind of improvement mix within the mix, or let's say the backlog, quality, improvement, inflation, things like that. Did I understand correctly that this journey keeps going on, or would you say this is now completed?

Hakan Agnevall

Yes, if I start, the continuous improvement journey continues. Then we have mixed effects that I clearly understand sometimes blur the picture, but I mean the underlying positive trend is still there, clearly.

Arjen Berends

The H2 comment is purely service against equipment, but has nothing to do with the mix within the mix kind of situation. No.

Operator

The next question comes from Vivek Midha from Citi.

Vivek Midha

Thanks very much for taking my follow-up. My question is on data centers. We've spoken in the past about the relative merits of engines and turbines and different applications. As we look at the data center business, where do you see engines stacking up compared to turbines for those kinds of customers? Thank you.

Hakan Agnevall

So basically, the general shift to larger power needs, that's one driver, so larger, above 10 megawatts, if I would say something. Then also, as I said, when at least for some customers, when they have a big data center requires a lot of power, so the grid is not sufficient, they start to think about how should they provide the power. Normally, they want to go green as well, so they also think about solar or wind. These data centers require very reliable power, so you need balancing power. You see the narrative? Balancing power, us compensating wind and solar. We see a little bit of that, and then you also know, if you've been following us, we are stronger on balancing power than some of our gas turbine colleagues by the technology we provide. And I think this is what we see, not for all applications, but we do see this for applications coming.

And as I said, this cooperation with AVK is a concrete proof point of that, and then how this could evolve, let's come back to that. When we are better formulated, I would say not only about Europe, but the rest of the world, and certainly about the US.

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Hanna Heikkinen

Thank you very much. Thank you for the very active dialogue. Now we are running out of time, but I would like to remind you that we are hosting a service-based theme event on September 16, so I'm looking forward to meet all of you there. And before that, I hope that you can enjoy the summer a little bit. Thank you.

Hakan Agnevall

Thank you. Have a nice summer.

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