

# **thyssenkrupp AG (TYEKF) Q3 2024 Earnings Call Transcript**

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**Body**

thyssenkrupp AG (TYEKF)

Q3 2024 Earnings Conference Call

August 14, 2024 05:00 ET

Company Participants

Andreas Trösch - Investor Relations

Miguel Lopez - Chief Executive Officer

Jens Schulte - Chief Financial Officer

Conference Call Participants

Jason Fairclough - Bank of America

Alain Gabriel - Morgan Stanley

Bastian Synagowitz - Deutsche Bank

Christian Obst - Baader Bank

Ephrem Ravi - Citigroup

Presentation

Operator

Good day, ladies and gentlemen and welcome to the Q3 Conference Call of thyssenkrupp. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Andreas, Head of Investor Relations. Please go ahead, sir.

Andreas Trösch

Thank you very much, operator. Hello, everyone. This is Andreas Trösch from Investor Relations. Also, on behalf of my entire team, I wish you a very warm welcome to our conference call on the Q3 results. With me in the room are our CEO, Miguel Lopez and for the first time, our new CFO, Jens Schulte and also my colleagues from the IR team.

Before I hand over to the CEO and CFO for their presentations, I have some housekeeping. All the documents, as usual, for this call are available in the IR section on the website. The call will be recorded and the replay will be available shortly after the call. After the presentations, as already heard, there will be the usual Q&A session.

And with that I would like to hand over to our CEO, Miguel Lopez.

Miguel Lopez

Thank you, Andreas, and also a warm welcome from my side to our audience, to our Q3 conference call. Today, I will present our latest achievements and financials together with our new CFO, Dr. Jens Schulte, who I would like to officially welcome at thyssenkrupp. Jens, I'm very happy that you have joined the team.

Before I will show you our well-known management summary, let me start with something new. Let me give you a status update on our management priorities and the related topics that keep us busy at the moment. Of course, you know all these issues; however, as they are key to thyssenkrupp's success going forward, they are worth a recap.

Let me begin with our scope of duties that can be aggregated under our management priority portfolio. As you already know, we have established our new segment, Decarbon Technologies and are preparing it for future growth opportunities. We adjust the business models to the current market demand by concentrating more and more on the E and the EP part, that is the engineering and the procurement, while simultaneously capturing a higher share of service business.

Also, we have a new management in place. During this process, we uncovered some issues regarding all the projects that we are currently addressing and strictly solving. At the same time, we are continuously working on the standalone solution for Steel Europe and Marine Systems. I will give you an update in a minute. Additionally, we are streamlining our portfolio at Automotive Technology during its transition towards a high-end supplier for auto components.

If we now look at the second management priority performance, you will remember these topics. Our performance program, APEX which has been and still is implemented across the businesses and going forward, will be adapted to market needs. Performance should be in our DNA and the partially pretty new management teams are permanently intensifying the efforts in achieving improvements.

As you know, Steel Europe currently is updating, evaluating and finalizing the new business plan and restructuring is ongoing everywhere in the company where necessary. For instance, at Materials Services, we currently restructure German operations at tk Schulte, while at the same time, expand our business in the profitable and growing North American market. But also, for the other businesses, we are persistently monitoring the needs for further restructuring.

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And last but not least, we pursue the green transformation with our first DRI plant at Steel Europe or within Decarbon Technologies where we enable our customers with our leading technologies to reduce a large part of today's CO2 emissions. After this really short overview about what's going on at tk right now, let me go into details with some of these hot topics for the recent quarter.

Again, let's start with portfolio and the 2 segments where we pursue stand-alone solutions. At Steel Europe, the planned 50-50 joint venture with EPCG is well on track as the first significant and historic milestone we signed and meanwhile, already closed the contract for the 20% sale of Steel Europe. Right now, we are negotiating the remaining 30%.

Also at Marine Systems, we are well on track with regard to the stand-alone solution and our dual-track approach. The due diligence phase for KfW as a precondition is progressing. This is also true for the due diligence phase of Carlyle, our potential private equity partner. And at the same time, the spin-off is being prepared as an alternative. We will keep you, of course, informed as soon as there are relevant updates.

Now, let's focus on our second priority performance. Our third quarter showed the solid performance in light of the current difficult markets, apart from negative onetime effects at Decarbon Technologies related to aperiodic higher costs at some individual projects at our cement business Polysius as well as some cash flow payment shifts between the quarters. To reflect this continued challenging framework, we had to adjust our full year guidance on July 25. Jens will touch on this later on. This is why it is even more important for us to continue with our APEX program, where we pick additional speed and see incremental improvements across all businesses.

Now let's conclude with our third item, green transformation, including the latest developments, for example, in our order funnel and technology spectrum. First, it is worth mentioning that Steel Europe's climate target for 2045 have been validated by the science-based targets initiative which underlines our efforts to actively participate in the green transformation.

At Decarbon Technologies, we could announce that thyssenkrupp nucera will provide a basic engineering design package for a 300-megawatt electrolyzer featuring Alkaline Water Electrolysis Technology to be integrated into Cepsa's green hydrogen project in Southern Spain. And meanwhile, we were able to sign a reservation agreement.

This project is one of the largest of its kind in Europe and will use 15 of thyssenkrupp nucera's standardized scalum electrolyzer units with a capacity of 20 megawatts each. In addition, Uhde is enabling its long-standing customer group of Fertiberia to decarbonize its existing ammonia plant which will lead to a CO2 emission reduction of up to 40%. Uhde supports Fertiberia to reach its net zero strategy by providing expertise to continuously reduce the fossil feedstock and partially convert production from gray to green ammonia by injecting green hydrogen.

With having that said, I would like to hand over today for the first time to Jens for the financial part of today's presentation.

Jens Schulte

Miguel, thank you very much and good morning, everyone, also from my side. Now this is week number 11 for me as the CFO of thyssenkrupp and it has been quite an exciting time already to work with Miguel and the whole team on transforming the company. Some of you guys I've already met through the introductory calls with Andreas and some today for the first time. So I'm thrilled to be here with you this morning.

Before I start with the numbers of Q3, allow me to share a few general observations about our situation from the point of view of a CFO getting into the company from the outside. First point is first observation, I truly believe that business substance of the company overall is very solid still, both on strategy, on technology, we have strong market positions. We are a highly diversified group. We have good products, strong blue chip customer base, strong brand, loyal employee base. So I think the asset base is very, very strong.

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Second, financially, I think we need to clearly distinguish, from my point of view, between short-term contingency management, on the one hand and midterm structural profitability on the other hand. On the short-term side, contingency, I think contingency management in the company is not bad. Our reaction to difficult markets has been solid, as I will argue on Q3 numbers and FX has been a big help here as well, as Miguel already mentioned. Structural profitability, of course and as a consequence, cash flow generation is too low. There is still some way to go on this front. And to address that, we will develop FX further in the coming weeks and share with you updates through the coming calls and other communication.

Third observation is, at the moment, public coverage of the steel situation is, of course, very comprehensive and basically overshadowing many of the other good things we're doing in the company. So I would say that that's clearly not a representation of what's going on in our businesses and how we -- what we are achieving, including steel itself, by the way. So one task for us will be, of course, through performance, to reduce the noise again and focus on data effects and progress in what we do.

So now coming to the numbers, building on what I just said, overall, I believe we had a solid Q3 in the challenging markets. On top line, we had ongoing headwinds with mute demand across several industries, like in previous quarters, mainly driven by the materials businesses. And Q3 has been 6% below prior year. Year-to-date, we've been 9% below prior year. So that market situation has, of course, impacted us.

On the EBIT side, €149 million adjusted EBIT. This includes significant negative onetime effects, Miguel already mentioned that, of approximately €80 million at Decarbon technologies, more specifically at the Polysius business which is our cement plant engineering business, as you know.

And so what has happened here is, we are currently cleaning up the project portfolio and Miguel and Carolyn [ph] are driving this forward very consistently and consequently. And so as part of that exercise and projects of Polysius, we have discovered incorrect cost accounting which, as Miguel said, primarily relates to prior periods and we've now corrected that accounting in Q3. That's basically the hit that you see here. So it's a nonrecurring event.

On the free cash flow side, minus €256 million in Q3, and minus €983 million [ph] year-to-date. On the first take, this might look worse than it actually is. It's influenced inter alia by payment shifts in some of our businesses and by €170 million of government funding for the DRI plant that was coming in literally 24 hours after Q3 closing. So these things sometimes happen but the money is in. And so including that, we would have been significantly better in the quarter. We are below prior year, though, because of top line, of course, driving lower profits and because of inventories, particularly within the Steel business.

Now outlook; as you will see later, it's not unusual for us to build negative free cash flows cumulative through Q1 to Q3 and then reverse in Q4 to land within the guidance provided and I will recap on that at the end of my presentation.

Now, coming from P&L to balance sheet. Our balance sheet is still solid from a financial point of view and thus gives us the freedom to pursue our transformational journey. Net cash is down year-to-date by minus €1 billion but that's largely the normal pattern of intra-year development of free cash flows. If you make a seasonal comparison of a net cash position with Q3 of '23, we had exactly the same net cash at that time of €3.2 billion. So on a quarter prior year comparison, we have no change in the net cash position.

Pensions, slight movements driven by slight interest rate changes, nothing particular to report on that front, and equity ratio still continuing to be stable at a comfortable 39%. So overall, I would say, balance sheet is good for us to continue.

Few further remarks on quarterly overall performance. Sales downwards from the prior year, as I said, prior year Q3 of minus 6% and plus/minus stable over the quarter. As mentioned, we faced muted market dynamics and demand across several industries, particularly from automotive, construction and machinery. So if you look into that by business, you will see that the material side is impacted most, whereas AT and MX have a little bit of an impact and DT is growing in pretty much all businesses except Rothe Erde where our slewing bearings business where we face muted demand in the Chinese wind energy market at the moment. Otherwise we are growing well in that business.

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EBIT adjusted is below prior year Q3 and prior quarter. However, as mentioned, includes a onetime negative effect of €80 million, attributable to project cost bookings in DT. And so that actually also looks good. And FX is progressing and has supported performance on that front.

And on a free cash flow basis, we are below prior year quarter 3, particularly because of, as I mentioned, net working capital development on the inventory side, where in the prior quarter, we had a stronger reduction and now we also have a reduction but it's less than in the prior quarter. And then in Q3, we had more capital expenditure than the year before. However, that's just a quarterly effect. On the full year accounts, you will see that we will reduce CapEx versus the prior year. So that's on the free cash flow side.

Now let's quickly go through the segments, starting with AT. On the AT side, top line is under pressure, as described before, we are 6% versus prior year -- down versus prior year and also slightly below prior quarter. That's true for most businesses of AT with only a few exceptions. And the key drivers, as I said, weakening markets. And I think that's what you note also when you look into other automotive OEM companies and how they perform at the moment.

In that context, bottom line development is actually fairly stable in automotive to slightly positive. And the same holds true for cash flow performance within AT, where we are actually operating around target cash conversion level. So that business is also making some progress on that front.

Overall, we are well underway with business development. These things sometimes, as I said, are overclouded by our general public coverage. But one good example here is and you may have seen that, that we entered into a very interesting brake-by-wire cooperation with BWI Group of China. And we announced that in April and it's positioning us jointly as a Tier 1 supplier for future architectures, including autonomous driving. So that's actually, I think, a good thing to report here.

On Performance management, we had a broad range of FX measures that I also did a deep dive with all of the segments, also including the one-off automotive. And we had things like negotiation of price conditions, managing claims for a call-off shortage, material cost savings and so on and so forth.

Next, our new growth segment, Decarbon Technologies. Order book is good and leading to higher sales. Order intake is down versus a very strong prior year on a quarterly and year-to-date basis driven by most businesses, except nucera, that's by and large from prior year level. Top line is up 10% on a quarterly basis and 8% year-to-date, driven by most businesses, as I said.

And as mentioned, EBIT adjusted is affected negatively by this onetime effect at Polysius which is attributable to prior periods at some individual projects. With respect to FX, broad range of measures, again, efficiency improvements and procurement optimization are some of the points that we're mentioning here. And maybe last but not least on DT, it's also very important, we are also basically completing our management teams everywhere and segment management team here is complete since April 1. As you know and further personnel changes have been affected since, including our new externally hired CEO of Uhde, Nadja Hakansson, as of May 1; so we are also bringing in additional people from the outside.

Next, coming to the material side with MX. As I said initially, top line is subdued, particularly in the Materials businesses at MX shipments and sales are affected by ongoing low demand, especially in Europe and lower price levels in addition. Nevertheless, EBIT adjusted is above prior year for the quarter and on prior year year-to-date with positive earnings contribution in all business units, especially international supply chain business which is good, of course, because that represents one of our targeted growth areas within MX. And we are slightly below the capital market target range of 2% to 3% at the moment but we're confident to return when markets stabilize.

APEX examples in this area are positive effects from last year's renegotiated contracts with major customers and the supply chain business, so many things happening here as well.

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And now to SE which is dominating public coverage. As discussed initially, sales as with MX, shipments and sales are down, impacted by low demand and lower spot market price levels across all customer groups. As a result of that, EBIT adjusted is also down versus the prior year quarter by €90 million and year-to-date by €28 million. Cost improvements have been affected, including raw materials, productivity and further -- few further other things but cannot fully compensate for the topline shortage.

On the positive side, I have to say, though, that the fact that we are operating structurally below our current capacity point by, as was reported publicly, a magnitude of 2 million tonnes since some time and still produce positive results within SE, not cash flows yet but results, I think, is testament to ongoing contingency measures in this area, including FX, where we had many different measures, including production, productivity, energy, procurement, logistics and so forth.

So the plan in this area, as Miguel outlined, is now to bring about significant structural improvements along two dimensions, performance transformation and green transformation and we are additionally putting together additional steps to put tkSE on a more stand-alone basis with the entry of EPCG. And as Miguel said, 2 members on our Supervisory Board of tkSE, Daniel and Jerry [ph], who immediately start to make a positive contribution, I would say. So it's good that the guys are onboard now and bring in external investor perspective.

And then last but not least, MX return to our Marine Systems business. Overall, we are well on track here, topline and we've had several new service orders that supported order intake and order backlog of €11.8 billion, still on a very high level. Sales, as you know, in this business on a quarterly basis is always depending on order execution and might fluctuate. So it's down quarter-on-quarter and plus/minus on prior year level but that's more statement on the development of this business, it's still on a growth path. So there is no change to that.

We've had a very satisfying EBIT adjusted development with better project margins, reduced cost base and the same is true year-to-date, where we are up significantly. And also, to mention here in terms of making progress in Q3, the business actually did achieve its capital market target range on ROAs for the first time, hitting 6.9% ROAs. Now this will not carry through to the rest of the year but I think it shows that we are well on track here and progressing.

Business development is progressing, as you can follow on our media channels, i.e., last week, for example, Oliver was in Brazil and during a naming ceremony with President Lula da Silva for a top modern frigate called Tamandare. And on the cost side, FX had to bring about efficiency improvements in the areas of material, personnel and administration; so much for the segment view. If we now add all the numbers up, the finest people like to do and look at how this translates into free cash flows. We are at the number indicated, i.e., minus €256 for the quarter.

Positive drivers on the segment level have been AT and MX, while negative impacts have come primarily from SE. As you can see, where, as already mentioned, €170 million are not included and came in one day too late and respective payment was received and is booked in already. Otherwise, as you would have been also close to business cash flow breakeven.

And on a more general guideline, I think key to sustainably bringing in free cash flow for us is, of course, to lift our profitability to our target range. And this will actually be the differentiator at current profitability. Moving free cash flows towards breakeven and we indicated minus -- around minus €100 million for the year requires very strict capital budgeting measures which we are not taking at the moment with respect to CapEx but also net working capital. So that's the situation on free cash flows.

Closing on the outlook for the fiscal year. Miguel already mentioned it, on July 25; we adjusted our full year outlook. The main reason for this is the continued challenging market environment which is leading to a significant decline in sales in the current financial year. And as described before, we have to assume diligently that the markets will not stabilize in the short term. So we continue to contain cost base and capital expenditures for the time being.

FX is successfully mitigating the negative developments that cannot fully compensate for these effects yet. And so we adjusted the outlook as follows. And this is no change to July '25, exactly identical. Sales are to decline by between 6% and 8% compared to the previous year. For adjusted EBIT, we now expect a figure of more than €500 million. And on free cash flow before M&A, we expect value to be in the range of minus €100 million.

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Wrapping all of this up with a person interpretation CFO coming from the outside, I think if we achieve these targets in that environment and with that level of challenges and transformations that we are pushing forward at the moment, I personally would consider this to be a solid year for the company and a step towards a sustainable future that we are all pursuing.

So, thank you very much for listening and now we are open for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Jason Fairclough from Bank of America.

Jason Fairclough

Look, the question, I guess, for me is the big one which is on the structural changes to the business. And, I guess, for a change, this seems to be taking longer, right? And I guess the concern from investors is that as things take longer, the half-life of value in thyssen is quite short. And so as things take longer, more and more value just disappears from the business. When we looked at Steel, I think KfW have been instructed to take a stake before the summer break. And here we're getting through August. So it doesn't look like that's going to happen. So what can you say to us to give us more confidence about the timing of these structural changes?

Miguel Lopez

I think in terms of Marine Systems and that was what you were referring to around the comment that the German Development Bank, KfW is right now in the process. So we are very, very confident that this process will continue in the next months to a successful end. So I can only transmit here. We will see there, I believe, a positive outcome. That's what we have been always saying and I don't think that now the summer work is a reason for changing the overall mood in this. I think this will happen and we will see a positive outcome in the next months.

Jens Schulte

Yes. On the steel side, Jason, I think we need to differentiate two situations here, right? One is our partnership with EPCG and bringing them from 20% to 50% and the other is the business plan situation and the discussion that is covered publicly. On the EPCG side, that is something that is running totally according to plan, right? I mean we signed a few months ago; we just closed according to our schedule. Now we are in 50-50 negotiations and that is something that can be somewhat disconnected from the other things. That is time-wise under our control. And I don't want to say the specific date on when we are planning to finish here but we are working full steam ahead. And I think the cooperation with Daniel and Jerry is very productive and should advance quickly.

The other thing that we are currently working on, on the steel side is the business planning exercise. And that is something where we have already made great progress -- progress in the sense that the original business plans of the steel management has been upgraded since. So it's not the original plan that is currently under discussion. And now we have defined a process to bring into further conclusions and yearly and then we are also bringing in their edition imports here. But I think these two things can -- while the business plan side takes some time. I fully agree to you, it's a highly complex situation, the EPCG side and bringing them into the company is by and large under our own control. And so this should advance according to our plans as it has so far.

Jason Fairclough

Just a follow-up, if I could. Do you mind updating us with your thoughts on appropriate capital structures for the spin vehicles for Steel and for Marine? How should these things be capitalized? What should the balance sheet look like?

Miguel Lopez

Well, on the Steel side, I think conceptually, I'm not -- I will not issue any new numbers here because there is, of course, a discussion going on and any number has quite a complex background. So I think it's of no use to give numbers. But conceptually, it's actually fairly straightforward. So we're anticipating for the Steel business is a combination of equity from us, from the investors being brought into the company than shareholder loan and then some external financing probably on an asset basis. So that is, by and large, the plan that we have. And we've also structured and sized that and pre-assumed that with our advisers. And that's how we are pursuing it at the moment; but the specific number, I would not mention.

And on the Marine side, I think this is highly subject to how finally the transaction structure will look like. As you know, we are working with private equity and the state, private equity likely in the majority stake and the state and the minority stake and to us as well. And so there, we should see a business that should be, by and large, self-funded, so to speak. I mean they are generating positive free cash flows and that should be working.

Operator

Our next question comes from the line of Alain Gabriel from Morgan Stanley.

Alain Gabriel

I have two of them. The first one is on Steel Europe, I guess, following on, on Jason's question. There were some headlines over the weekend of your discussions with the Steel Europe Supervisory Board. Do you mind giving us some color on what are the key friction points milestone threshold that we need to look to progress the discussions. So where do you stand and what does the Supervisory Board stand for Steel Europe? That is my first question. And the second one is on HKM. Will it be included in the JV with Mr. Kretinsky. And what are your future plans for the business? Again, there is a lot of headlines. What is your latest thinking? What are you leaning most towards?

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Miguel Lopez

Thank you very much. Starting with HKM, you know that we have been communicating that the first priority is to sell the business. I think there was enough media coverage around it. And there are -- there's a party interested and that's something that we are pursuing. At the same time, it's also so clear if this option will not work, then we are we are looking into the closure. This is not our responsibility as a TKAG Managing Board. That's the responsibility, of course, of the Steel Managing Board because HKM, as you know, is a joint venture, 50% owned by the Steel business, 30% by Salzgitter and 20% by Vallourec. So this is where the decision needs to be taken but that's what has been presented by the Steel Managing Board to us in the Supervisory Board. Related to the discussions going on around the business plan, I think Jens already did some comments. So we are working on it.

Operator

Our next question comes from the line of Bastian Synagowitz from Deutsche Bank.

Bastian Synagowitz

I do have a couple of questions, if I may. And I'll start off on the Steel business as well and the going content audit you're currently working on. Can you give us a bit more context on what the implications of this audit actually are? Because if the audit comes to the conclusion that there is a material concern with regards to the going concern, investments basically don't have a robust likelihood to yield the positive return, would that not mean that you as an owner from thyssenkrupp group perspective, can't really justify allocating further capital to the business.

And then, also maybe in terms of the time frame here, I would have thought that this is more like a due diligence type of process or a matter of a few months rather than weeks. Maybe you can also give us a bit of color here and how far the outcome of this opinion is required to finalize the business plan. I'll stop here.

Miguel Lopez

Jens?

Jens Schulte

No, no. Happy to do so. So as you know, it's an IDW S6, I mean, typical German abbreviation type of study. And what that actually does is we will feed in the current Steel business plan. And then it will be analyzed and the conclusion will be whether it's a sustainable basis or not, if you wish. So it is -- so we basically put that in. The duration of that is around 3 months, we would say, sometimes, it's also taking a little bit longer. That depends on the process. It's a highly individual process, right? So there is no standard template to that. It's highly individual process. It's not a due diligence type of exercise. So we will provide all of the required data very early to the party to the consultant auditor and then we will see. I think one thing is very important, though, this is not a binding result by whatever measure yes. So what we get is an opinion and it's an independent opinion and it's good that we get that; so we were in favor of that.

And we actually -- we are actually ordering this exercise together with the steel guys. It's one important impact factor but it's not the only one and it's by no way binding for us. So whatever the result is we will take that into consideration in developing the steel business further but we don't -- we are not bound by that. And it's not something that is legally binding in any case, yes.

Bastian Synagowitz

And just in terms of how this actually works, maybe you can help us there because, I mean, there's a whole lot of assumptions which have to be taken in that, I guess, in that analysis, the decarbonization you're spending €2.5 billion, obviously, on the first phase of decarbonization with funding support. There is no funding support at this point for the second phase, yes, there is a need for decarbonization. We don't know the CO2 price. It's a lot of moving parts, right? So this could be skewed in any direction. But I mean, how does this work is going to be like probability weighted or how are we -- how is your partner there looking at the situation?

Miguel Lopez

Now first of all, we are just in the process of selecting the partner but the way that this works is they take a business plan, a full business plan as a basis. That is the current business plan of steel, including all of the assumptions, including assumptions on green transformation on any price tickets on CO2 emission certificates, all these kinds of things. So it's a full set of assumptions. And then what they do is that they don't develop alternative business plans but they do sensitivity analogies basically. So they take one factor, say, CO2 price and say that goes up or down by 10% or 20%. That changes the picture as such. If we adjust for SG&A restructuring and go up by 100 headcounts or down by 100 headcount, what would this mean and so forth.

And very practically speaking, it's a highly collaborative and interactive process here. So it's not something where we see something in and then the guys are coming back after 3 months or whatever it takes. But it's an ongoing process with steering board type of meetings where they sit down with us. So with me, with my finance team and with the finance team of Steel and we jointly decide what other parameters we want to vary. But the basis is one complete business plan has currently developed.

Bastian Synagowitz

And just to be 100% precise, the business plan which is being said is the one which has been suggested to this by the Steel board just a week ago or so? Or is it the previous one?

Miguel Lopez

No, no, it's the latest -- the one that has just been present.

Bastian Synagowitz

Okay. Then moving over to HKM, could you please confirm whether the book value of HKM is still around the €600 million level which you reported end of last year? And then secondly, also, what is the balance sheet on an HKM level looking like at the moment? And would you have to inject cash just in case of any wind-down scenario or is that pretty much ring-fenced on an entity level?

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Jens Schulte

So I mean, as I said -- as Miguel said, HKM is a subsidiary of Steel, right? And on this level, as you know, we are not disclosing. We're not officially to my understanding, disclosing figures. So I would not confirm or comment on any of the numbers there. Of course, I mean, as was reported publicly, when we sell it, the likelihood that the sales price is not positive is, of course, very high. So in other words, we will need to give money with it. I mean that's no question. But the amount and all of these kinds of things are under discussion.

Bastian Synagowitz

Then just moving on to your target. So I guess with the lower guidance now the gap to achieve next year's midterm targets has probably become even larger. I saw the 2025 timeframe has been removed from the slides and I guess the stock shows that the market probably has very little faith that was realistic in any case. But have you officially pulled the time line? And are you planning to come back with review targets and the new time line by maybe the end of this year. Maybe you can share some color on that and what you're planning for and maybe also how that process looks like at your end?

Miguel Lopez

I can indeed give a process update. So the process is, quite frankly, as every year, currently, we're going through our internal planning process. We will close the year and the books will review the year and then we will make up our mind as to the planning for the next years and then we will update markets on that. Yes. And currently, there is nothing to report on that front. But the process is really is every year, planning, closing update guidance. That's basically how we do it.

Bastian Synagowitz

But has the 2025 target or time frame be officially pulled now?

Miguel Lopez

I want to repeat what I just -- so we have a process and there is actually nothing to further comment on that for the time being.

Operator

[Operator Instructions] Our next question comes from the line of Christian Obst from Baader Bank.

Christian Obst

I have a question concerning the €900 million free cash flow that you have to achieve in the fourth quarter. So how much of any kind of possible restructuring charges are included.

Miguel Lopez

So in terms of -- I mean, first of all, we are not disclosing individual numbers here yet. So we are, first of all, basically completing the year and then adding up all of the different numbers. But in terms of restructuring cash out, the €900 million free cash flows do not include a significant amount, I would say. So compared to that amount, is that probably is negligible.

Christian Obst

So where do you think the main data should come from just some stop paying something or acquiring less of raw material or whatsoever. And then we have the swing in the first quarter like we have several years before, swing of €1 billion, again is the negative side in the first quarter of the next year or will you smoothen that a little bit because €1 million -- €1 billion delta in fourth quarter is quite a lot.

Miguel Lopez

So there are several components to this. The first one, as I said -- or as we said earlier is of those €900 million, €170 million is already in, right, because that is the payment that we've received the day late. Then second, what you should not forget is that we have very large advanced payment swings in our construction and also in our shipbuilding businesses. And so a number of payments which would have been expected in Q3 are not due to follow in Q4. So that also makes up a significant component of that.

And as you know, that can basically impact our cash flow significantly in the one or the other direction. Apart from that, what we do every year, of course, is optimizing net working capital and we're also going to do this year to some degree, very far away from the decrease that we've done in the past. But of course, at the end of the fiscal year, so we are -- we make sure that we can collect all of our receivables, as always. And we look at bringing stock down to the extent that is possible.

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Now, what do I expect with respect to Q1? That's something that we're going to guide you on basically once the fiscal year is closed. But I think the important part of this is €900 million is not out of question. It's strongly influenced by the public funding and by movements in our advanced payments, among other things.

Christian Obst

Then I have a question concerning how much of the cash is -- it's related to the prepayments you achieved for resistance. So how much of this cash currently on the balance sheet will go out when you separate Marine Systems?

Jens Schulte

When we separate Marine Systems, that's something -- I mean, as Miguel said, the process is still ongoing. So for the time being, we don't disclose any individual figures. I mean it's also still in negotiations, right? So there is nothing to say here.

Christian Obst

But in the end, you can directly say what are the prepayments directly related to Marine Systems or not?

Jens Schulte

So I have to admit that I'm not fully understanding the question. So sorry, can you repeat your question, please?

Christian Obst

So normally, for the big orders, you have some -- you get some prepayments for big orders for submarines or frigates or something like that. And this is, of course, included in your balance sheet and your cash position. And I just asked how much is linked to the Marine Systems area.

Jens Schulte

Yes, got it. I understood the question but we are not disclosing these figures, at least not intra-year. So please bear with us until the year has closed.

Operator

Our next question comes from the line of from Ephrem Ravi from Citigroup.

Ephrem Ravi

Two non-steel questions and one steel question. So firstly, on the Decarb Technologies which are supposed to be your growth engine, your order intake sales has been less than one for the last 2 quarters. Is this because of the end market weakness or is it that you're prioritizing a higher mix of higher-value projects in this business? That's the first question. Secondly, can you give us a bit more detail on the $8 million one-off due to incorrect cost accounting at policies? Was this related to something like warranties that had not been accounted for something or higher cost and construction. The reason I'm asking is 80 million, you could build 0.5 million to 1 million tonnes of steel -- cement capacity. So it seems like a big number. So are you also comfortable that there's nothing similar across the group going forward?

And finally, on the Steel, I mean, of the €5.4 billion pension liabilities you had indicated earlier that like Steel Europe is about €3.4 billion or €3 billion. Is that number still correct given the decline in pension liabilities by about €400 million since the beginning of the year? And finally, the HKM transaction, is that precedent or pre-conditional on the 30% sale of the rest of the Steel Europe business.

Miguel Lopez

Good. So I'll start on the Polysius, so I take the second and the third question. On the Polysius €80 million. So what has happened here is -- and I think I tried to allude to that, is that we are cleaning up the project portfolios and our plant engineering businesses. So we go projects through project to project and just make sure that everything is transparent accounted properly and so forth. And in a few but specifically one project, we have discovered incorrect cost accounting. So very practically, costs have not been booked in the past properly. And so that is what we have basically corrected that doesn't have anything specifically to do with guarantees. So anything, it's not liability. It's just incorrect cost accounting very, very straightforward.

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And so of course, we have taken many measures on that front to say that. We have exchange management. We have put in order. We have strengthened our internal control systems, everything that you typically do. But that is just the outflow of cleaning up the project portfolio. I think you also had a sub-question on do we expect something somewhere else across the group. This is something that is particularly relevant for plant engineering project businesses. And that's basically Polysius and Uhde where, as I said, we are going through these projects. On the steel side, I think the first part of your question was related to pensions. I think the assumptions you can take for modeling is 50% of group pensions is steel plus/minus. That's not exactly right but it's coming close enough to that.

And then, you had a second question related to the sale of a further 30% which went a bit down here in noise. Can you repeat that part, please?

Ephrem Ravi

The HKM transaction that you're considering, is that dependent or precedent to the other 30% that is sales. So does Kretinsky want a conclusion on HKM before he kind of does the deal on the remaining 30%?

Miguel Lopez

Yes. No, these things are independent. So we are pushing forward on HKM sales, while at the same time, negotiating with Daniel, the additional 30% entry. So these things are time-wise disconnected.

Ephrem Ravi

And on the Decarb?

Miguel Lopez

Yes, around -- yes, around DT, I would reemphasize here that we have a solid pipeline of projects to come. However, the related decisions on the customer end are being postponed, as we have seen in the last quarters. So the best thing that we should do in this business is to look at the continuous development of the sales because of the volatility of the order intake because of this kind of factor. So if you look consistently quarter by quarter to the sales development, I think that's the more proper view on the real growth momentum of the business.

Operator

Thank you. There seems to be no further questions at this time. I'd now like to turn the call back over to Andreas for any final closing comments.

Andreas Trösch

Well, thank you very much for -- to everyone for participating, and for your questions. Have a wonderful day today. Thank you and speak to you soon.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines. Have a lovely day.

**Load-Date:** August 14, 2024

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