Seeking Alpha

Transcripts | **Basic Materials**

Air Products and Chemicals, Inc. (APD) CEO Seifi Ghasemi on Q4 2019 Results - Earnings Call Transcript

Nov. 7, 2019 7:38 PM ET
by: SA Transcripts

FQ4: 11-07-19 Earnings Summary

Press Release SEC *10-K* *Slides*

EPS of $2.27 misses by $-0.02 | Revenue of $2.28B (-0.68% Y/Y) misses by $-86.04M

Earning Call Audio

Subscribers Only

0:00:00 -1:15:14

Air Products and Chemicals, Inc. (NYSE:APD) Q4 2019 Results Earnings Conference Call November 7, 2019 11:00 AM ET

Company Participants

Simon Moore - Vice President of Investor Relations

Seifi Ghasemi - Chairman, President, Chief Executive Officer

Scott Crocco - Executive Vice President, Chief Financial Officer

Sean Major - Executive Vice President, General Counsel and Secretary

Conference Call Participants

Jeff Zekauskas - JPMorgan

Christopher Parkinson - Credit Suisse

P.J. Juvekar - Citigroup

David Begleiter - Deutsche Bank

John McNulty - BMO Capital Markets

Vincent Andrews - Morgan Stanley

Stephen Byrne - Bank of America

Don Carson - Susquehanna

Kevin McCarthy - Vertical Research Partners

Jim Sheehan - SunTrust

John Roberts - UBS

Jonas Oxgaard - Bernstein

Mike Harrison - Seaport Global Securities

Laurence Alexander - Jefferies

Mike Leithead - Barclays

Operator

Good morning, and welcome to the Air Products and Chemicals Fourth Quarter Earnings Release Conference Call. Today's call is being recorded at the request of Air Products. Please note that this presentation and the comments made on behalf of Air Products are subject to copyright by Air Products, and all rights are reserved.

Beginning today's call is Mr. Simon Moore, Vice President of Investor Relations.

Simon Moore

Thank you, Leanne [ph], and good morning, everyone. Welcome to Air Products fourth quarter 2019 earnings results teleconference. This is Simon Moore, Vice President of Investor Relations. I am pleased to be joined today by Seifi Ghasemi, our Chairman, President and CEO; Scott Crocco, our Executive Vice President and Chief Financial Officer; and Sean Major, our Executive Vice President, General Counsel and Secretary. After our comments, we will be pleased to take your questions.

Our earnings release and the slides for this call are available on our website at airproducts.com. This discussion contains forward-looking statements. Please refer to the forward looking statement disclosure that can be found in our earnings release and on slide number two. In addition, throughout today's discussion, we will refer to various financial measures. Unless, we specifically state otherwise, we are referring to adjusted non-GAAP measures, including adjusted earnings per share, adjusted EBITDA and adjusted EBITDA margin on both the company-wide and segment basis, and ROCE. Reconciliations can be found on our website in the relevant earnings release section. Now, I am pleased to turn the call over to Seifi.

Seifi Ghasemi

Thank you, Simon, and good morning, everyone. Thank you for taking time from your busy schedule to be on our call today. We are very pleased that our record fiscal year earnings per share of $8.21 represents our fifth consecutive year of double-digit earnings growth, and our earnings per share of $2.27 for the quarter also represents and another record, up 14% over the last year's strong results, and is the 22^{nd}, and I'd like to stress 22^{nd} consecutive quarter of year-over-year earnings growth. Scott will comment on our financial results in more details. So I'm going to focus my comments on safety, our higher purpose as a company, the very large acquisition in Saudi Arabia that they announced last week, and the press release we issued yesterday.

Now please turn to Slide #3. Safety without question is job number one for all of us at Air Products. And our goal has always been zero accidents and zero incidents. Although you can see our good progress versus 2014, our safety performance in 2019 was not acceptable as we did not show improvement versus 2018. Our people are certainly redoubling their efforts in this area, so that we can move toward our ultimate goal of an accident-free work environment.

Now, please send to Slide #6, our Five-Point Plan. I want to comment on point number five on the right hand side, which describes our higher purpose. We believe that in addition to creating value for our shareholders, through strong financial results, we do have a responsibility as a public company to define the higher purpose in what we view. Our higher purpose at Air Products is to create a diverse company that people from all around the world and from all sections of the society feel they belong and are treated as an equal part of the team, a company that people's contributions are recognized and appropriately rewarded, a company that people want to work for where they are proud to be part of the innovative process to solve the world's energy and environmental challenges, a company that is absolutely committed to sustainability and to the environments, and a company that is supportive of the local communities where we live and work. That is our higher purpose and we are committed to it.

Now, please go to Slide #9 please to discuss our very large $11.5 billion acquisition in Saudi Arabia. You have seen this picture before, but it has been updated to reflect the latest information. Saudi Aramco is close to completing the construction of a 400,000 barrel per day refinery in Jazan, Saudi Arabia. The highest sulfur vacuum resid from this refinery can no longer be used to few ships due to the new IMO 2020 regulation. Therefore, this liquid resid will be mixed with oxygen and gasified to produce synthetic gas. This same gas is almost equivalent to natural gas and it will be used to drive turbines to produce 3,900 megawatt of power. The joint venture is acquiring all of the assets, including air separation units, the gasifiers, power generation and the related utilities for almost $11.5 billion. The joint venture will own an operative facility and deliver power and hydrogen to Saudi Aramco for a monthly fee. This, of course, is the same business model as our traditional onsite business.

Now please go to Slide #10. This very large acquisition will be owned by new joint venture company called The Jazan Integrated Gasification Company. The joint venture will be owned 20% by Saudi Aramco, 25% by Aqua Power, the largest independent power producer in the Middle East, 46% directly by Air Products, and 9% by products Air Products Qudra, which we call APQ, which is a joint venture of Air Products and Qudra Energy, there Air Products owns 51%, so Air Products’ total ownership will be just over 50%.

Now please turn to Slide #11. The acquisition will be funded by 40% equity from the shareholders and 60% debt. In terms of timing, we had expected the transaction to be closed by the end of calendar 2019. But recently we have been informed that due to the extensive documentation required to launch the financing, the closing here now expected to be in the first quarter of calendar year 2020.

In terms of accounting, at this point, we are not expecting to consolidate the full financial results of this entity in Air Products, so that results will be reflected in equity affiliated income. Based on the ownership percentage and the debt to equity split, Air Products' cash contribution to this project will be $2.3 billion.

We do not – and I'd like to stress, we do not plan to disclose the details of this project in terms of profitability. But I do want to confirm for you that the return on this investment will be better than the general guidance for investment that we have given to our investors in the past. As for the press release we issued last night, that is related to our plan to build an industrial gas pipeline system in Jubail, Saudi Arabia, which could be similar to our hydrogen, oxygen and nitrogen pipeline system in the U.S. Golf Coast to sell all of the refineries and chemical plants in that part of the world. The press release confirms that The Royal Commission has given us permission to proceed with the project, and we will update you about this project every quarter in terms of what we are doing. This is a major step forward for us in Saudi Arabia in addition to the acquisition.

Now, please turn to my favorite Slide #13. You can see our record EBITDA margin of almost 42%, which is up almost 1,700 basis points from early 2014.

Now, I would like to turn the call over to Mr. Scott Crocco, our Executive Vice President and Chief Financial Officer, to give you the details of our financial performance. Scott?

Scott Crocco

Thank you very much Seifi. Now please turn to Slide 14 for our full year results. We delivered another strong year of underlying sales growth and very strong profit growth despite modest economic activity around the world. Sales of almost $9 billion were flat versus last year, as 2% volume growth and 3% price were offset by non operational factors. Specifically, weaker foreign currencies, primarily the Chinese RMB, euro and

British pound lowered sales by 3%, and the India contract modification, which had no profit impact, reduced sales by another 2% compared to prior year. The volume growth was primarily driven by new plants, particularly, Lu'An, and supported by positive base volume.

Sales from the very successful Jazan sales equipment project were lower as the project nears completion. This negatively impacted volumes by 2%. We saw price improvement in all three regions and across major product lines. Strong price and volume led to another year of double-digit profit growth despite currency headwinds. EBITDA improved 11% to nearly $3.5 billion. EBITDA margin of 38.9% was up 400 basis points, primarily due to the better price and volume. The India contract modification contributed 80 basis points. Record earnings per share of $8.21, was up 10% versus prior year. Our FY '19 CapEx of $2.1 billion was lower than we had forecasted on project and M&A timing, and ROCE improved 70 basis points to 13.1%.

Now please turn to Slide 15. Our full year EPS from continuing operations of $8.21 increased by $0.76 per share, driven by our strong operating performance. Price, volume and costs combined contributed over $1 per share, and excluding the impact of negative currency, EPS in total was up nearly $1 or 13% compared to prior year, a slightly higher tax rate of 19.4% reduced EPS by $0.09, and other items together added $0.01. This includes higher non-controlling interest, primarily due to the Lu'An project. We expect an effective tax rate of 20% to 21% in fiscal year 2020

Now please turn to Slide 16. We continue to generate strong cash flow. For the full fiscal year 2019, we generated almost $2.7 billion or over $12 per share of distributable cash flow. This is an increase of almost 20% or close to $2 per share from 2018. From this distributable cash flow, we paid almost 40% or $1 billion as dividends to our shareholders and still have nearly $1.7 billion available for high-return industrial gas investments. This strong cash flow enables us to continue to create shareholder value through increasing dividends and capital deployment.

Slide #17 provides an update on our capital deployment progress. As you can see, we now show almost $18 billion of investment capacity available over the five-year period from FY 2018 through FY 2022. As expected, our total capacity continues to grow as we increased EBITDA. The almost $18 billion includes about $9.5 billion of additional debt capacity available today, $5 billion of investable cash flow between now and the end of FY '22, and over $3 billion already spent. We will continue to focus on managing our debt balance to maintain our current targeted AA2 rating. Today we have a total of about $7.6 billion of project and M&A commitments with about $6.6 billion remaining to spend on them. So you can see we've already spent 18% and already committed well over half of our total available capacity.

Now please turn to Slide 18 for a few comments on our fourth quarter results. Sales of $2.3 billion were roughly flat as 8% volume and price growth was offset by lower energy pass-through, the India contract modification and negative currency impact. Volume added 5% due to new plants, base growth, acquisitions and a short-term contract in Asia. Lower Jazan sales equipment activity reduced sales by 2%. Price was up 3% with strong performance in all three regions, continuing the positive trend from prior quarters. Although unfavorable currency persisted, EBITDA of almost $1 billion improved 16%, and EPS of $2.27, was up 14%. EBITDA margin of almost 42% is up over 600 basis points, primarily driven by a higher price and the strong volumes. Lower energy pass-through and the India contract modification contributed about 200 basis points. Sequentially, EBITDA increased 7%, as all segments improved, particularly Asia, driven by strong volume performance.

Please turn to Slide 19. Our fourth quarter EPS of $2.27 was up 14%, or $0.27 per share. Volume, price and costs together contributed almost $0.40, extending the strong operating performance from prior quarters. Currency and foreign exchange was $0.03 unfavorable, primarily due to the Chinese RMB, the euro and the British Pound. Our effective tax rate of 20.2% was 260 basis points higher than last year's lower than typical rate, which reduced EPS by $0.08. Non-controlling interest, primarily due to Lu'An, reduced EPS by $0.04.

Now, to begin the review of our business segment results, I'll turn the call back over to Seifi.

Seifi Ghasemi

Thank you, Scott. Before I get into the segment results for this quarter, please turn to Slide #20, there you can see the regional EBITDA margins for the year. Our teams have worked very hard to make significant improvements, especially with modest economic growth globally.

Now please turn to Slide #21, there you can see the impressive results generated by our business in Asia. This strong performance reinforces that our business has not been materially affected by trade tensions. Furthermore, our customers and Chinese Government continue to be excited about how Air Products is helping China may meet its goals. They are very supportive. We are successfully executing projects and remain very optimistic about our long term prospect in this region of the ward.

For the quarter, sales increased 16% from last year with volume and price together up nearly 20% Volumes increased 16%, driven by new projects, a short-term supply contract and based business growth. As a reminder, Lu'An came fully on its stream during the fourth quarter last year. So the year-on-year benefit was more modest this quarter. Merchant volume was impacted by China's moderating economic growth and some industrial production curtailments in preparation for the country's 70th anniversary celebrations. Overall, pricing for the region increased 3%, the 10th consecutive quarter of year-on-year price improvement. Price was positive in all key countries.

Profit and margins were highest, driven by the strong volume, price and productivity that more than offset negative currency. EBITDA increased 31% and EBITDA margin expanded 550 basis points to over 48%, sequentially, profit growth lack volume growth as we saw higher costs, including plant maintenance and annual value of composition.

In terms of projects, we are continuing our discussions with the YK Group for the very large coal to syngas project, and are being told that the project is still expected to proceed, but we do not expect on a stream before 2023.

Now I would like to turn the call back to Scott to discuss our Americas results. Scott?

Scott Crocco

Thank you, Seifi. Please turn to Slide 22 for a review of our Americas results. Americas strong pricing trend continued, up 3%. This is the fifth consecutive quarter of year-on-year improvement. Price was better across all major product lines and in all sub-regions. Overall, sales were down 5%, as higher price was more than offset by 2% lower volume, 5% lower energy pass-through, and 1% weaker currency. Volume was weaker this quarter due to planned Gulf Coast customer outages and continued difficult economic conditions in South America. EBITDA of $412 million increased 3% as strong price overcame the negative impact of lower volume and higher maintenance costs. EBITDA margin of 44% was up 350 basis points. Energy pass-through contributed about 180 basis points.

Now I would like to turn the call back over to Simon to discuss our other segments. Simon?

Simon Moore

Thank you, Scott. Please turn to Slide 23 for a review of our EMEA results. Our EMEA business overcame the challenging economic conditions in the region and continued to deliver strong results. Price increased 4% with improvement across all major products and sub-regions. This is the seventh consecutive quarter of year-on-year price improvement. Volume was up 5%, primarily driven by increased demand for hydrogen in our Rotterdam Pipeline System, and our previously announced CO2 business acquisition, while base merchant business volume remained stable.

Sales were negatively impacted by 5% lower energy pass-through, 4% unfavorable currency, and 12% from the India contract change. EBITDA of $193 million was up 11%, and was up 16% on a constant currency basis, supported by the strong volume and pricing. EBITDA margin reached almost 40%, an improvement of over 800 basis points. The India contract change and lower energy pass-through contributed about 600 basis points.

Now please turn to Slide 24, Global Gases, which includes our air separation unit, sale of equipment business as well as central industrial gas business costs. Our results declined due to lower project activity as we approach the successful conclusion of our Jazan ASU sale of equipment project.

Please turn to Slide 25, Corporate segment, which includes LNG and other businesses as well as our corporate costs. Sales and profits were higher this quarter supported by contributions from the Golden Pass LNG project and lower corporate costs. Although the profit shown in this quarter is still modest, we expect the performance of this segment to improve. We remained optimistic about additional LNG orders since our technology has been selected for several major projects around the world that are awaiting final investment decisions or final agreements with our customers.

Now I'm pleased turn the call back over to Seifi for a discussion of our outlook.

Seifi Ghasemi

Thank you, Simon. Please turn to Slide #26. As you all know, we continue to live in an uncertain world that we at Air Products cannot control. But we do have control over the actions Air Products can take to succeed in dynamic and changing world. We have a strong, capable and flexible organization that remains focused on productivity and creating our own growth opportunities, which will allow us to continue to deliver on our promises to our investors. Consistent with our goal to achieve an average annual growth rate of at least 10%, we are extremely pleased to provide EPS guidance for fiscal year 2020 of $9.35 to $9.60, up 14% or 17% over our strong fiscal year 2019 performance. This includes our expected contribution from the Jazan project. We expect our fiscal year 2020 capital expenditure to be in the range of $4 billion to $4.5 billion, which includes the expected spending for the Jazan project. For quarter one of fiscal year 2020, our earnings per share guidance is $2.05 to $2.10, up 10% to 15% over last year.

Now please turn to Slide #27. At midpoint, our fiscal year 2020 guidance represents six consecutive years of double digit earnings growth and 14% average cumulative earnings growth per share over this six years timeframe. Thanks to the great team of Air Products, we continue to deliver on our commitments to our shareholders 5.5 years ago that we would grow Air Products EPS at least 10% a year. Our team in underworld continues to be very optimistic about the future of Air Products. Our five-point strategic plan will differentiate us and drive our success going forward. Our safety, productivity and operating performance provide the foundation for our continued growth. We have the financial capacity, the technical position, and knowhow and the challenge and people to take full advantage of the very exciting opportunities ahead of us.

And finally, please turn to Slide #28. As always our real competitive advantage is the commitment and motivation of the great team we have at Air Products. This is what allows us to continue to generate our strong performance. I want to thank all our 16,000 people around the world for their commitment and hard work and for embracing the opportunities in front of us with energy and a spirit of working together. I am certainly proud to be part of this winning team.

Now, we are delighted to answer your questions.

Question-and-Answer Session

Operator

Thank you. [Operator instructions] And we will take our first question from Jeff Zekauskas with JPMorgan.

Jeff Zekauskas

Thanks very much. Your sequential prices in China were flat. Is there a flattening out of price in that market or is it some kind of pause? What are the price dynamics in China?

Seifi Ghasemi

Good morning, Jeff.

Jeff Zekauskas

Good morning.

Seifi Ghasemi

I would not characterize that as a slowing down of the price increases. In the fourth quarter, in China, there was a very interesting dynamic because a lot of the industries around Beijing, they're ordered to be shutdown so that there will be clean air for their celebrations on October 1st. Obviously, if that happens, demand goes down and the leverage on pricing goes down. I think that once we get back to normal, which is where we are, that trend will continue.

Jeff Zekauskas

And could you also comment on price trends in Europe and in the United States for 2020 for the industry generally, and there has, obviously, been an industrial slowdown. Is that something that you think would put pressure on industry prices or do you think that -- there is -- or do you think that bonus is not significant enough to deter the underlying trend?

Seifi Ghasemi

Well, Jeff, that's a very interesting question, because it, obviously, everything depends on the level of activity and then the economic activity, supply demand and all of that. What I can tell you is that in the guidance that we have given you.

Jeff Zekauskas

Yes.

Seifi Ghasemi

We have assumed modest price increases, not significant price increases. So we have been conservative on pricing.

Jeff Zekauskas

Okay. Thank you.

Seifi Ghasemi

Now the situation turns to be better then we will do better.

Operator

And we will take our next question from Christopher Parkinson with Credit Suisse.

Christopher Parkinson

Thank you. Can you talk a little more color on the MOUs that both you and the Saudi announced last week and some additional color last night? There is still seemed to be a few constructive moving parts. So just sitting on some of the potentially at least the timing regarding Jazan understanding you can't exclusively quantify as well as the opportunities love to come just, anything you'd like share and that would be a appreciated. Thank you.

Seifi Ghasemi

Thank you, Chris. First of all, can I just comment on Jazan. We are trying to raise more than $7 billion of debt. The banks and our advisors have told us that, look, this cannot done overnight Seifi. It's too optimistic. It's going to take time not only to raise the money at fixed interest rate, but then all of the documentation that is required to actually get to an absolute closing. So we are in the estimate that we have given you we have assumed that this thing will close in the first quarter of calendar 2020, and we have included an appropriate amount of profit in our guidance. Then with respect to the announcement that we made last night, that is pretty significant because that allows us -- that the Royal Commission has approved that Air Products can build facilities and then connect them by a pipeline to serve and optimize all of the requirements of hydrogen, oxygen and nitrogen in the Jubail area, which I'm sure you're very familiar, is there most of the refineries and chemical plants are. The -- nobody can go and lay a pipeline without the permission of The Royal Commission. So this is going to give us the capability to build a steam methane reformer, new coal gasification in that part of the world, and convey the hydrogen, and then optimize the hydrogen consumption in that part of the world. It can create significant opportunities for investment, but the key, and that is why we’ve made the announcement. The key was having the permission from The Royal Commission to lay the pipeline. We are going to move on this thing very quickly. We have identified a significant number of projects that can be done. The customers in that part of the world are very excited, because, if we do this and build this hydrogen pipeline, the same day that the other hydrogen pipelines in the U.S. Gulf Coast, it gives you the ability to connect these different plants and it significantly increases the reliability of the operation, because you have several production facilities connecting to a pipeline, if one production facility goes down people don't suffer. So this is a very, very positive development for us, and it gives us an ability to actually go and do a lot of these projects. Because if we had built a steam methane reformer or if we had built a gasification unit to gasify petcoke, and all of that, but if we couldn't connect them, it wouldn't have been as interesting. So this is pretty significant, and we are very proud of it and we are very thankful to the Saudi Government to allow us to do this, which is a totally separate project from Jazan. Okay, Chris?

Christopher Parkinson

Yes, that's very helpful. Also in your press release you explicitly called carbon capture, and there's also recently in front of one of the few highlights within your sustainability report, I think it’s like 55 million tons in ‘18 or so. You also hit on a lot of 2020 goals regarding energy, water conservation, et cetera, et cetera. Can you just hit on the opportunity longer term understandably for Air Products on the carbon capture front, again, some of the rhetoric in the U.S, California, Europe, and just how some of these sustainability factors should ultimately help profitability? Just anything to help us conceptualize the longer-term financial opportunity on some of these GST factors would be appreciated? Thank you.

Seifi Ghasemi

Chris, thanks for the question. We have always said at Air Products we are focused on energy, which is gasification, huge amount of opportunity there and it is gasification of coal, petcoke, vacuum resid and all of that and you see examples of that. But when you are doing gasification, the CO2 is captured ready. So there is significant opportunity to capture that CO2, and try to really get to a totally clean coal gasification, where you gasify the stuff, you capture the CO2, and therefore, you don't put anything into the atmosphere that. We have the technologies to capture this and use it for and enhance old recovery. We are already doing this in Texas at Port Arthur. We do have technologies to capture this and do sequestration that means injected into the ground, and we have developed technologies and we are enhancing on that and we have done a lot of good work on trying to capture the CO2, and do what is called dry reforming, which means recycle it back and break it back into CO and hydrogen. So these are the projects that we have. Some of these projects are longer-term projects, Chris. They are not going make us an EPS in 2020 or 2021, but definitely they are the future. I believe very strongly that the future is about carbon capture and hydrogen for mobility and gasification. The amount of opportunities that we see, it's significant, it's even more than what I talked last quarter or even the quarter before. The whole world is focused on this. We, by buying the Shell and GE technology, are in a totally unique position to provide the gasification technology. We already do have their hydrogen for mobility, and we are the world leader on that as we are developing their carbon capture. So all these put together is going to transform Air Products into a company that is the solving environmental, the urgent environmental issues of the world, and we will be properly rewarded for that. And I think people will be excited about it when we get to '23, '24, '25, when we will be doing a lot of these projects. But we need to start and we are starting right now. And as I said, I can't point to the fact that we are doing this project and it's going to give you this much EPS in 2021, but believe me, these things will catch up in time. But the same day that we have started the gasification, five years ago, and now after five years, I have a Jazan project to present you. We are starting on these things, and in time, we will be able to present very exciting projects for our investors.

Operator

And we will take our next question P.J. Juvekar with Citigroup.

P.J. Juvekar

So, clinically, given the industrial slowdown, I was trying to figure out what are your volume same-store sales, if you exclude the start – volume from the new project start-ups? Can you talk about your organic volume growth in three regions?

Seifi Ghasemi

Our organic volume growth is nothing to rise home about because the economies in the world are not performing, P.J. I mean we had in the United States of America, everybody is excited and looks at the stock market, and, yeah, it looks pretty good, but the real economy is going nowhere. Industrial production is down. That is what drives our business, same thing in Europe. And then in China, year-over-year -- they are growing at 6.5%, but year-over-year they are not growing. So if you look at our base business, there is no growth. That is why we have tried to transform the company into generating our own growth. If we hadn't done that, we would not be in a position today to sit down and give you a forecast for next year of 17% EPS growth. We would have been swapped and our costs would have gone out and probably would have been negative. That is the issue that most people have. The fact -- so our underlying volumes definitely reflect the state of the economy, which means, relatively it's going nowhere, no growth in the U.S., no growth in Europe, and China is flat although that is 6.5% growth, but it is flat. So you're absolutely right, our base business is not going anywhere. And if you get dependent on that, we would be in a sad shape right now.

P.J. Juvekar

Thank you for that explanation. And then on the Jazan JV, you decided to buy the assets, which makes it capital intensive, but maybe that's how what was needed to make the deal happen. Should we think about this as the model for future projects in China?

Seifi Ghasemi

P.J., by buying air separation unit as part of the whole thing, it will significantly enhance our return, because the return on the air separation unit by itself was less than including it as part of the new acquisition. So we actually did something to enhance our returns on that. In terms of the model, yes, we definitely wherever we are supplying oxygen to a gasifier, we are interested in buying the gasifiers. That is our business model and there are plenty of opportunities for doing that and in time we will appropriately announce projects in that regard.

P.J. Juvekar

I'm sorry, I know about gasifier, I'm just was talking about the power plant and the other ancillary units? Thank you.

Seifi Ghasemi

P.J., the power plant is something unique in Jazan. They usually wouldn't want to be buying power plants. But in Jazan, the only day that Saudi Aramco would agree to part with their assets was that if they had one person to go to, in case they struggle, they didn't want to separate it that we would buy the gasifiers and somebody else would buy them. So that is why the combined forces and we bought the whole thing, but that is not a business model that we want to do around the word. They definitely want to stay with the gasifiers. But there might be unique situations where they have to do that, but we do what is best for in terms of return, and what's best for the shareholders.

Operator

And we'll take our next question from David Begleiter with Deutsche Bank.

David Begleiter

So if we are just looking at 2020, how much will new projects contribute to EPS growth next year versus this year?

Seifi Ghasemi

Well, we obviously don't give that detail because then people figure out productivity of all of our projects. But considering what I was saying with respect to P.J's question that the world is not going anywhere in terms of economic growth, then you can almost think that any kind of a growth that we get next year is related to pricing and new projects, because a very basic business, and then we have to work hard in productivity to pay for the cost increases.

David Begleiter

Very helpful. And can you just go through merchant pricing by region in the quarter, how much was up?

Seifi Ghasemi

Yeah, merchant pricing was up in the Americas by approximately 8%, in Europe by about 7%, and in Asia by about 7%, for a total of about 7%.

Operator

And our next question will come from John McNulty with BMO Capital Markets.

John McNulty

With regard to the $6 billion to $7 billion that you still have to spend in terms of capital deployment, I guess, how should we be thinking about how that's allocated towards some of the new Saudi opportunities with the MOU that you're talking about for some of the other opportunities around coal gasification? And I guess, maybe an update us to how the coal gasification project pipeline is looking at this point giving kind of the time -- since we heard last on that?

Seifi Ghasemi

Coal gasification project pipeline is actually looking scarily. There are more opportunities that we can quote honestly, possibly keep up with it. But in terms of giving you a breakdown of the $6 billion or $7 billion or $8 billion or $10 billion that we still have to spend, John, it will be difficult because it depends on which projects come first on all of that. But I definitely can see us significant additional investments in Saudi. I hope significant investments in U.S. because we really do want to invest in the U.S. and we are pursuing some opportunities there. And obviously, opportunities in China, opportunities in Indonesia, and probably significant opportunities in India, because India has finally broken up to the fact that, hey, we should do what the Chinese are doing. Use the coal to gasify and then get ourselves independent of own. So there is going to be – it's difficult for me to give you an exact breakdown, but it is going to be in areas like Saudi Arabia, India, Indonesia, China, and hopefully the U.S.

John McNulty

Got it. Thanks for the color. And then just maybe a little bit of housekeeping. On the Americas business, how much of that of the volume weakness was tied to kind of the one-offs around outages versus just general macro weakness?

Seifi Ghasemi

Not a lot of it. But it's the general macro business, and obviously, Latin America.

Operator

And our next question comes from Vincent Andrews from Morgan Stanley.

Vincent Andrews

If I can just follow up on the – and, well thank you. On the South American volume issue you've referenced in the press release. Was that actually worse than you anticipated, and with some of it due to -- some of the civil unrest that's taking place in certain regions down there?

Seifi Ghasemi

Well, the civilian unrest has started after we closed the fiscal year, so that has had, unfortunately, that will have a negative effect in the first quarter, but it's just a general slowdown, Vincent. Things are not that exciting in that part of the world.

Vincent Andrews

Okay. And then if I could, yeah, now I understand. And then just on depreciation and amortization for next year given obviously big step up in CapEx, what's around number we should be using for that?

Seifi Ghasemi

I mean, we don't disclose that, but it will be …

Scott Crocco

I would say, Vincent, just in general, that's going to continue to go up as we deploy the capital, recognizing and it's also going to move around for things like currency as we translated back in the U.S. dollars. We don't give the guidance, but generally speaking as we deploy more capital, we would expect G&A to go up.

Operator

And we'll take our next question from Stephen Byrne with Bank of America.

Stephen Byrne

Another one of the Saudi projects that you listed in your press -- in your slide deck is the hydrogen fuel cell vehicle program in Saudi. And just wanted to ask you what you see is really limiting the development of such a program there. You mentioned this pipeline that you're starting to work on is having a hydrogen pipeline and enabling infrastructure for such a development and also just want to ask whether you had any IP associated with such a program.

Seifi Ghasemi

Well, we do have the IP, and I think that that opportunity is going to be significant because that is one of the reasons that we want to build the pipeline in such a way that you can do a lot of gases -- equivalent of gases stations and connect them to the pipeline, and basically create a hydrogen corridor in that sort of the world and get people excited about driving hydrogen cars. The Saudi Government is very supportive of this. They want to see this happen. And you're right, there are going to be a lot of opportunities. I don't want to get ahead of ourselves in terms of numbers and so on, but is – we certainly are in the right path in developing this opportunity in that part of the world, and quite honestly, in other parts of the world.

Stephen Byrne

And Seifi, you mentioned the challenges of raising the $7 billion of debt associated with Jazan, I just wondered if any of that is a fallout of the Saudi Aramco attacks from a couple of months ago. Is that raising any additional hurdles for you?

Seifi Ghasemi

I'd just like to make sure that I explained. We don't see any issues with raising the debt. I said it's an issue of how much time it's going to take. It is one thing you go to the market and you raise the debt, and you get the commitment of the banks. But then after that, you have to come up with a significant amount of documentation in order to get to a closing, and that is going to take time, and obviously you're not going to get any fees until after they have actually legally closed. That's what I was mentioned. But in terms of actually raising the money, I think that the demand is there and the banks are very optimistic that we will get very attractive interest rates.

Operator

And will take our next question from Duffy Fischer with Barclays.

Mike Leithead

This is actually Mike Leithead on for Duffy this morning. I guess first, Seifi, if I look at Slide 13 on margin improvement, there was a big jump up the first two years when you got Air Products and things leveled off for two years or so, and now it seems that taken another material leg up in the past year on margin. So I was hoping you can maybe lay out some of the drivers of this recent move up whether it's cost reduction or the benefits from energy pass-through, and just a 40% plus margin is the new normal fair products going forward.

Seifi Ghasemi

The first jump that you saw was obviously all of the productivity and the $400 million, $500 million of costs that we took out of the system, so that happened. And then, obviously, it was constant because these are working on the growth projects. And now, what is happening is that all of these things we were talking about are actually coming to fruition, we had Lu'An running, we're going to have Jazan running, we have a lot of other projects running and those projects that we have now signed up are actually pretty profitable projects. And that is now reflecting on the results. So we jumped because we had the productivity, we were focused on that, then it took us upon to get the growth opportunities lined up, and now we are seeing the benefit of that. Now whether our EBITDA margins for the long-term are at around 38% or 39% or 40% or 41%, depends on the projects, but I think, I feel pretty good that they will stay in the high 30s, and rather than being 32% or 33%, they will be 38%, 39%, 40%.

Mike Leithead

Got it. That's really helpful. And then following up on the Jazan project, I appreciate that you not going to provide detailed financial details. But when you look at the earnings contribution internally that you would expect today versus maybe when you announced the project back in last August, are the project economics, or is the IRR, better today than they originally looked when you announced the JV or roughly the same?

Seifi Ghasemi

They're better. And I mean, I say I'm not going to give any detailed numbers, because obviously our customers don't want us to do that. But, at the same time, we are giving you the guidance that, look, we have always told you that for every dollars of cash, we get you that we put out to get some percent operating profit. So it's not too difficult to activity figure out, and we're saying this is better than that. So you can get to a pretty good estimate about what this thing will do for us.

Operator

And we will take our next question from Don Carson with Susquehanna.

Don Carson

Want to talk – I know you talked about creating your own growth because obviously this is not much going on in the industrial economy these days. So, last year, I think onsite in pipeline was 52% of sales, where did you come out in '19? And by the time you make all these additional capital commitments in new projects by '23, where do you see the mix of onsite business going versus where is now?

Seifi Ghasemi

Well, my goal is in time for that to get to 70%, 75% of our sales. But right now, obviously, once Jazan comes on the stream, it will be better than where we are, and all of these other projects. So our goal is to significantly increase our onsite business because that brings a lot more stability in terms of our earnings.

Scott Crocco

Yeah, Don, if I could -- I think absolutely, over the long run, as Seifi said and in reality, we are increasing our onsite business. Just remember one new launch for '19 will be because we change the India contract that will reduce that revenue, but that doesn't really change the fundamental concept of our onsite business is increasing.

Don Carson

And just as a follow-up on gasification. Obviously, Jazan has driven by IMO, and they need to do something else with the backend residuals. What's the pipeline for other similar opportunities in the refining sector?

Seifi Ghasemi

Significant. We have always said that this and it goes -- everything refinery in the world has to face this situation because there is – what do the refineries do. If there is a new refinery, they obviously have to figure out what did they do for their bottom of the barrel. We eager not to gasify and then some people said that it is [indiscernible] most of the refineries have a [indiscernible]. But the [indiscernible] produces 6.5% sulfur coke, which right now is being banned in India. China is turning the ships away because they say this is not the product, this is the waste. So every single refinery in the world in time has to figure out what the hell they're going to do with their 6.5% petcoke. And the only viable solution for that is to gasify. That is why we were so excited about making sure we buy the GE technology because that is very much about that. I don't think that five years from any refinery will be able to sell their petcoke. They just won't be able to do that, and therefore, they have to gasify. So I think the opportunity is significant. And we are quite honestly seeing that.

Operator

And we will take our next question from Kevin McCarthy with Vertical Research Partners.

Kevin McCarthy

On Slide 32, you’re essentially doubling your capital expenditure budget for 2020. And so I was wondering if you could disaggregate some of the major buckets in terms of Jazan? How much have you earmarked for that in the year relative to other growth projects and maintenance that you anticipate?

Seifi Ghasemi

Well, the thing is that our maintenance CapEx, as Scott already disclosed that, it's about $400 million. And then with the Jazan, I don't want to disclose the details of what we expect, but the total cash outlay is $2.5 billion, and probably a significant part of it will happen in 2020 depending on when we actually close the transaction. And then the rest of it is our growth CapEx, which is pretty robust. Our fundamental -- if you exclude Jazan, our expenditure on other projects, is actually pretty good and we are very optimistic about that. It's around more than – yeah, it's around $2.5 billion. Yeah.

Kevin McCarthy

And sticking with the subject of capital deployment, Seifi, I think you've indicated that the project pipeline looks quite robust. What are you seeing these days in the M&A pipeline? Is there anything of interest that could be brewing on that front?

Seifi Ghasemi

Well, M&A pipeline in terms of us actually buying another industrial gas company around the world, I don't see a lot of debt. But Jazan $12 billion is really an M&A. I mean we are buying these existing assets, so it depends how you want to categorize that. But in terms of buying other industrial gas companies, I don't see much of an opportunity, mainly because of anti-trusting.

Operator

And our next question will be from Jim Sheehan with SunTrust.

Jim Sheehan

What's the rationale for the Qudra JV? Why not just own this business outright?

Seifi Ghasemi

It's because that – okay, we plan to do a lot more with ACWA Qudra, so called what we call APQ. Then just the Jazan project. Qudra Energy is part of Aqua Power and people who own that. We have had a very successful joint venture with them. The people are very competent. And we plan to do a lot -- the reason that we have formed that entity is to do a lot more than just Jazan. They are going to be involved before I've talked about the Jazan, the hydrogen pipeline that we're going to build, and other projects in Saudi Arabia, and quite honestly other projects in the Middle East. So the rationale for that is a lot bigger than just for Jazan. Therefore, since we have that kind of a relationship with them, we wanted them to be a little bit part of Jazan project to get things started.

Jim Sheehan

Thank you. And regarding your comments on carbon capture, you demonstrated the ability to capture CO2 in your steam methane reformers, in Texas, several years ago. It was a $400 million pilot project, and I think a majority of the project cost recovered by the Department of Energy grant. Are you expecting the federal government to give you more grant money or you're planning to find it yourself? And also if you could discuss, how much are refinery customers willing to pay for your ability to capture CO2?

Seifi Ghasemi

On that front, these things are happening the way they are happening is, obviously, as you know there is a federal program that for every ton of CO2 that you capture, you can get up to $45 -- $45 or something like that. But then, take a look at what California is doing which I think is going to be the trend worldwide. And that is that, right now, in California, if you capture a ton of CO2, and you can see sequestrate and demonstrate that it wouldn't leach for 100 years; you get $200 a ton bonus. So we think that the trend will be that difference states will do the same thing, and we are seeing that the same kind of thing is happening in terms of incentives by other governments. We are right now involved in a project for sequestrating CO2 in Europe, actually in the port rather than building your pipeline in order to put the CO2 there and sequestrate. So all of these things are going to be driven, we think, by a pretty substantially incentives from the different governments in order to encourage carbon capture, which is obviously a big issue global.

Operator

And we will take our next question from John Roberts with UBS.

John Roberts

Thanks. Congrats on a nice quarter and good outlook guys.

Seifi Ghasemi

Thank you, John. I appreciate that.

John Roberts

Seifi, you mentioned India waking up to their coal opportunity. How far away are we from something parallel to your China projects? Is it two or three or five years away for having something big in India?

Seifi Ghasemi

I think that India -- with these projects when the government decides, okay, we're going to do this thing, obviously, you have to identify opportunities, put the project together, do feasibility study and so on. So I think it's -- from today it's a five or six years process before you get to equivalent of land or equivalent of Jazan and so on. So that's kind of the timeframe that I see. But quite honestly, same thing we have started something five years ago, we see the benefit of it, if you have started now we see the benefit of it in time, but it will be about, I think, a five year process before you actually have gasification units operating in India. The same thing that happened John within China. China decided to go with gasification in around 2005, 2006, and the units didn't start coming on the scene until about 2011, 2012. Okay?

Operator

And will take our next question from Bob Koort with Goldman Sachs.

Unidentified Analyst

Good morning. This is Don [indiscernible] on Bob. I'd say I had to jump on in that with I'll just start. You owned that GE and Shell technology. Is there an opportunity to get -- to go into, I guess, dozens of operating gasifiers within China, so using that technology and trying to be gasify those assets?

Seifi Ghasemi

That's exactly what we are trying to do. That is an opportunity. I don't know in how many of them will be succeed, but that is exactly what you're trying to do.

Unidentified Analyst

Got it. And then, I guess, sense maybe the technology has evolved, and we're seeing opportunities, I guess, operate those more efficiently?

Seifi Ghasemi

Yes.

Operator

And we will take our next question from Jonas Oxgaard with Bernstein.

Jonas Oxgaard

Looking at the hydrogen, you talked a little bit about outages of your customers. I was wondering if you could give us a range for how much that depressed yourselves. And then on the flip side, as far as you can tell every refiner we've heard has said that they are prepping for IMO, and so there's going to be no outages next year. Is that a material uplift for your volumes next year?

Seifi Ghasemi

Well, if that materializes, obviously, it will be, but these refineries are on a cycle that they have to do their shutdown, and some of them will take a shutdown before years and all of that. This is something which is very difficult to predict in terms of how it works out. Obviously, in our plan, we have allowed for some shutdowns, if they don't happen that will be an upside. But I fully expect them to happen and the shutdowns are pretty big deals and the refineries have to do that, otherwise, they take a risk in operation, which they would – that would have unplanned shutdown, which is not good for anybody.

Jonas Oxgaard

Okay. And it looks -- it looks like you pushed the [indiscernible] project out about a year, is that right? And if so why?

Seifi Ghasemi

It is the same thing that we have said before. There are a lot of issues about the so called coal allocation in terms of allocating coal to this project, which we would like to see it done. And as a result, we want to be up upfront the investors about the fact that we announced the memorandum of understanding about something that we thought was going to happen because it was signed with a lot of fanfare and in front of two Presidents and all of that. But there is internal struggle about getting coal allocated to this project. So we pushed it a year, but we are going to give you an update every quarter about this thing, but obviously we are not too excited about the development, as I'm sure, you're not.

Jonas Oxgaard

Maybe just – want Scott just to make it clumsy.

Scott Crocco

Yeah, and, obviously, Seifi's comments are really referring to the overall project that [indiscernible] is doing. This isn't an issue where the customers proceeding and we have some problem in our project, that's not the situation.

Operator

And we will take our next question from Mike Harrison with Seaport Global Securities.

Mike Harrison

Hi, good morning. Thanks for squeezing me in here. I wanted to ask about the global gases and the corporate segments. Curious what drove the results there to be so much better in Q4 than they were in the other quarters of fiscal '19? And could you possibly give us some guidance for what we should expect in fiscal '20 versus fiscal '19?

Seifi Ghasemi

Well, on that front, the main drivers, I think, Simon is the expert on the corporate sector, but, yes, I think is sure of these things. Simon why don't you comment?

Simon Moore

Sure. It's a great question Mike. Thanks. I mean, obviously, as we said for few quarters now, we are excited about the LNG business, and we've announced one order and we believe there we're in good position for others. So that's been a key factor. But I'd also say that, certainly, the corporate sector there were a couple of kind of one-time items. So that's a profit recognition on a sale of equipment is lumpy. So there might be a little bit lumpy going forward, but certainly over the next couple of years, we expect nice improvements in the LNG business.

Mike Harrison

All right. And then other question I had was on the acquisition -- the CO2 acquisition in Europe in the Jinmei asset buyback. Can you breakout what the contribution to revenue was either on a full company basis or in the Europe gases and Asia gases region?

Seifi Ghasemi

Well, it’s just small, because they have just started. So we don't give that kind of detail, but it was not significant. It will be better next year, but it was not significant for the quarter.

Operator

And we will take our next question from Laurence Alexander with Jefferies.

Laurence Alexander

I just have two very quick ones. First on the Q-45, is your impression that is the IRS does make a clear ruling on implementation we should expect their products to be able to do flurry of announcements in the near-term or will there be a multiyear lag for projects to be developed? And secondly, given the way you're describing the long-term opportunity set, so the eyeball related opportunity there gasification, the coal gasification and a carbon sequestration, if negative rates continue, how long or is there a point at which merchant ask becomes non-core sale products?

Seifi Ghasemi

Let me answer the second question. Merchant gas will never become non-core. That is an integral part of our business. And no matter how many opportunities there are, we are still focused on that, and that business is growing in China and all of that. So the merchant business locks in all I mean, helium, liquid hydrogen, they are all -- that would always be a core part of our products. But on your first part of the question, I'd like to turn it over to Scott to answer.

Scott Crocco

How but just want to clearly, Laurence, with your question regarding CO2, and the tax situation on it.

Laurence Alexander

Correct. So the IRS ruling on Q-45 that's been delayed, the question is if they do clarify, what the rule is, should we expect what sort of announcement near-term or is it going to take several years to line up agreements?

Scott Crocco

Well, I guess, maybe I think – Laurence, I think, one thing that Seifi talked about was he talked about a number of local state or provincial programs in various places around the world that also are very supportive of CO2 capture projects. So I think the reality is there's a lot of different situations that we'll have to see play out, but as Seifi said, we're very excited about this.

Seifi Ghasemi

It's very difficult to predict what will happen without the legislations and so on. But there are a lot of programs, which are in place, and I think that will continue to be the case as we move forward.

Okay. I think that was the last question. And with that, I would like to thank everyone for being on our call. Thanks for taking time from your busy schedule to listen to our presentation. We obviously appreciate your interest in Air Products, and we look forward to discussing our results with you again next quarter. Have a very nice day, and Happy Thanksgiving and Merry Christmas. And let's all see you in January, and some of you maybe even sooner. All the best. Thank you.

Operator

And that does conclude today's conference. Thank you for your participation. You may now disconnect.