Seaway 7

Transcript: Seaway 7 Conference Call

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Stian Lysaker: [00:00:02] Welcome everyone. For the first part of this call, all participants will be in listen only mode. And afterwards there will be a Q&A session. With me on the call today are Stuart Fitzgerald, our CEO, and Mark Hodgkinson, our CFO. The results press release is available to download on our website, along with the presentation slides that we will be referring to during today's call. May I remind you that this call includes forward looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included in our press release. I'll now turn the call over to Stuart.

Stuart Fitzgerald: [00:00:49] Thank you, Stian, and welcome everyone, nice to be with you for our first quarterly call as Seaway 7. And my first call as the CEO of Seaway 7. You can see the agenda there. I won't go through it bit by bit, but I will first talk to and give an overview of Seaway 7 before Mark will move into the financials. I'll give an operational update and then we'll look at the market and summarize before taking questions.

Stuart Fitzgerald: [00:01:19] Much of this is familiar to many of you, but just to have a common basis for starting out here, a brief summary of the combination that has taken place to from Seaway 7. Seaway 7 was a combination of Subsea 7's Renewables business, offshore fixed wind together with OHT. The combined company was renamed Seaway 7. At the time of the combination, Subsea 7 own 72 percent of the shares in Seaway 7, and that was held as a consolidated holding at Subsea 7 level, the OHT's shareholders held 28 percent of the company. Completion of the transaction was progressed on plan and was completed on the 1st of October. And we've been operating on an independent basis since that time. Seaway 7 retains the OHT's listing on the Euronext Growth and, as stated at the time of the combination, has an intention towards a future listing on the Oslo Børs. And that intention is maintained and Mark will talk more to that.

Stuart Fitzgerald: [00:02:28] A little bit about the offering of Seaway 7, both to our shareholders and our clients. So we sit in the market as the largest pure-play listed wind services company. I think most of the people on this call are familiar with the market projections within offshore fixed wind, strong market fundamentals, and that's being reinforced as we speak to clients, as we have been doing over the last six weeks. Within Seaway 7, we have a market leading combination of assets, capabilities and track records. We believe we've got the right assets as we head into this market, the right capability mix and exposure to different segments. And we have a track record of more than a decade executing projects within offshore fixed wind. Our client and geographic footprint is unique. We have a long track record with both renewables clients and relationships with the IOC clients from oil and gas who are entering this market in a serious way now. Geographically, we're an international organization with execution centers in each of the key markets that we see throughout Europe, Asia and the U.S., and we believe that that footprint gives a scale to tackle a globalizing market. We've got a strong backlog position, 1.3 billion as of the 1st of October and our shareholders in Subsea 7 and the Blystad group have long experience with offshore energy service and services and value creation within that space. We believe this combination sets us in a position to be one of the market leaders in offshore wind.

Stuart Fitzgerald: [00:04:21] This graphic here on one page shows our asset base, as well as the segments in which we operate. At the bottom, you see the three vessels which are active within offshore cables, where we have a market leading position. On the left, the Phoenix, a conversion that we carried out earlier this year. In the middle, the Aimery, which is a custom designed state of the art, inner-array cable lay vessel and then the Moxie, which acts as a support for that vessel for efficient, industrialized installation of inner-array cables. Above the Aimery there on the right, you see the newbuild vessel, the Seaway Alfa Lift and on the left the Seaway Strashnov and the Seaway Udin. Those three vessels positioned us within the foundations market for both jackets and monopiles and also within the substations installation market as you see that operation being carried out by the Strashnov. We see that as a fleet with the range of capabilities and customized to have the right asset for each of the different projects that we see in this market going forward. On the left, the VIND1 vessel, newbuild also, with a core capability towards turbine installations, but also an ability where the project specs are appropriate to trade into the offshore foundations market. Between that fleet of four vessels, we see the ideal asset mix for the market coming forward within foundations and also then the emergence of a positioning towards the wind turbine market. At the top right there you see a heavy transportation vessel. There are five of those in the fleet, only one shown here. We see as this market globalizes and as the supply chains globalize, that heavy transport is becoming an increasing component of the large projects that are underway. We see multiple tenders at the moment where heavy transport is an element of those bids, and it's a clear value add to the capability and asset offering of Seaway 7.

Stuart Fitzgerald: [00:06:47] Those segment exposures and those assets can be brought together in different contract models, as different clients have different buying preferences. That's not only with different clients, but it can be for different projects and in different geographies as well. So we can sell those services either as segmented T&I services, or as EPCI's within array cable projects, or as integrated T&I's where we combine the different installation operations across the segment, remove interfaces for customers. Also in some cases as a full EPCI balance of plant project as we see on Seagreen project. We see increasing tendencies from our clients in the interactions that we have, and the tenders that we're working on, towards integrated packages as they move into new regions and as projects scale up in size. So we think that the capability that's been brought into play by the combination between Subsea 7's renewables business and OHT is coming to the market at the right time, with the right offering, well aligned with the market needs. I'll then hand over to Mark, who will run through the financial report.

Mark Hodgkinson: [00:08:14] Thank you, Stuart. And good afternoon, everyone. I'd like to turn to the reporting of the Q3 results. And before I talk about the individual numbers, I just like to outline the fact that the quarterly results, these condensed consolidated financial statements of Seaway 7 reflect only the contribution from the legacy OHT and do not include the results from the Legacy Seaway7 business that was owned by Subsea 7. Just to confirm the Q3 results are purely for the OHT business. What I would say is that looking forward, the Q4 results will be the first full quarter results, i.e. they will be the first results where we show the combined businesses of both the Subseay 7 and OHT. So that's the Q4 results will be combined, whereas the Q3 are simply the OHT results. The consolidated financial statements will account for the combination on a reverse takeover basis. So also as an indication, the full year 2021 results will include the legacy Seaway 7 results for the first three quarters and then the combined business results for the Q4. So we will give further guidance to the market on this particular accounting presentation as we approach the Q4 numbers. But I wanted to introduce the topic on this call so that it's not new when we get to it. So for now, we're looking at the Q3 numbers, which are the OHT numbers.

Mark Hodgkinson: [00:09:48] Turning to Slide 10. This shows our income statement for the third quarter. The third quarter revenues of 17.4 million were slightly down on the previous quarter of 17.8. And this is reflective of the utilization, which remains high at 96 percent and slightly better than the 93 percent achieved in the previous quarter. The adjusted EBITDA, which is labeled operating profit loss before depreciation and amortization expenses for the third quarter, was 1.7 million, which was down from the 3.9 million in Q2. Now this reduction is reflective of lower effective day rates achieved on the contracts within the quarter and certain one off voyage related costs in that quarter. Not expected to be repeated. It's important to note that the typical operational expenditure of the vessels remains below 10000 dollars per day, which is, I think, consistent in the previous quarters.

Mark Hodgkinson: [00:10:51] now turn to Slide 11, we show the balance sheet and cash flow for the quarter. The company's total assets totaled 315.3 million dollars, which is up from 300.1 Million dollars as at the end of Q2 2021, and the total book equity was 226.9 million. The cash flow summary shows an operating net outflow of 1.4 million dollars for the quarter and a net investment of 18.3 million dollars, which was mostly new build capital expenditure. The outflows were funded by increased borrowings under the revolving credit facility of $15 million and the reduction of the cash and cash equivalents of $4.9 million. As at 30th September 2021, the remaining undrawn amount under the revolving credit facility was $13 million.

Mark Hodgkinson: [00:11:49] We'll move now to Slide 12, which is a depiction of the backlog, as at the first of October 2021, that's 1.3 billion U.S. dollars. We estimate the backlog at 1.3 billion. However, this is an estimate we highlight that these are estimates and that the annual splits can change from time to time. We should also note that we have since the 1st of October announced two additional contract awards, one for Ørsted and one for SSE. These are not included in the numbers in the backlog, as shown in the pie chart.

Mark Hodgkinson: [00:12:31] Now, I know there's been a number of questions or requests from the market for information concerning the starting balance sheet of Seaway 7. As I indicated earlier, we are applying reverse acquisition accounting to the combination, and this exercise is currently work in progress. It will take quite some time in Q4 to complete that. So the information presented on this slide is therefore very preliminary in nature. It is not audited and may possibly change. But to provide some indication, we anticipate that the total non-current asset value of Seaway 7, as at the 1st of October, would be within the range of 800 million U.S. dollars to 1 billion U.S. dollars. And that we believe the majority of that value will be in the property plant and equipment. Now, we anticipate that the cash and cash equivalents balance will be approximately 15 million as at the 1st of October 2021, and that the external debt will be the 37 million shown on the balance sheet at the end of 30th September 2021.

Mark Hodgkinson: [00:13:35] If I look now towards the financing considerations, Stuart alluded to this earlier. So just to repeat, the indication at the announcement of the combination was that the intent is to move the listing from Euronext growth to the main Oslo Børs. In doing that, there were a number of financing considerations that we take into account and these are in discussions with the board. And the financing considerations, include things like the appropriate capital structure for a business such as Seaway 7. The efficient funding of the ongoing new build vessels that had been committed. So those are the committed expenditures highlighted in the note. The free float considerations of obtaining a listing on the Oslo Børs and the rules around that. We're also looking at the way of financing for future fleet growth should that occur. Should the investment opportunity be appropriate. And finally, we're also considering the timing in the market for any of the activities you might do around financing with a view that we move at the right time when the conditions are appropriate. So what we can say is that we believe there are attractive operations for debt financing. We have talked to the banking market and we indicate that there are a number of options that are available to us. What I will also say is that if we did approach the market for some debt financing, the borrowings will be in the name of Seaway 7. There is support from Subsea 7, if required, and if that support was to be supplied, it would be in the form of a guarantee of any debt financing. In the short term, there will be working capital support from Subsea 7, and we expect in the medium term that Seaway 7 will have its own working capital facility from the external debt market. So I believe with that, Stuart, I will pass it back to you for the operational update.

Stuart Fitzgerald: [00:15:37] So I will give a brief summary here of the new build projects and projects ongoing. The Alfa lift vessel build progress continues, with focus on commissioning start up of key systems. Good progress in those areas. The market has been made aware in our announcement some weeks ago, that we did have an incident on the 18th of October with the main crane A-frame. If you look at that photo on the top right, you will see a structure at the top of the crane there, which is an A-frame that is designed to fold down as the vessel passes under certain bridges and height constraints. On the 18th of October that folding down happened unplanned and in an uncontrolled way. No injuries to personnel and the impact of that unplanned event is still under assessment. But we're expecting the delivery of the ship to be in the second half of 2022. Given potential delay and delivery in the second half of 2022, we are working on contingencies and mitigations to ensure that we can meet our first project commitments. For VIND1, we see that as a high end asset with an attractive price and build schedule. Steel cutting for that vessel is planned for the end of November. Detailed design is well progressed and nears completion, and we have a project projected delivery of that ship mid-2023 as per the original plan.

Stuart Fitzgerald: [00:17:40] We then move to ongoing projects, and I'll come back in a subsequent slide to a bit more detail on Seagreen but high activity on Seagreen through Q3, and that has continued past the end of Q3. Hollandse Kust where we have been installing Monopile foundations. The picture in the middle, on the top and the bottom right is activities ongoing on Hollandse Kust with Monopile installation and then in the bottom mid-section there you see the Formosa 2 activities in Taiwan. Formosa 2 work recommenced in September after delays due to COVID in July and August, and the vessel completed a number of locations through September and the first half of October, before the vessel demobilized for planned maintenance and to make preparations for the restart of works next year. On Hollandse Kust, we've been working through the summer there and the vessel demobilized in the last week with good progress through the last couple of months.

Stuart Fitzgerald: [00:19:03] We then move on to the cable layer in Taiwan on Yunlin. The Seven Phoenix has been laying cables out there, with progress on export and inter-array cables on that project. And then on the right there, Hornsea with significant inter-array cable lay scope being carried out by the Aimery and the Moxie. Good progress and as of the last few days, we've completed the laying, with trenching operations still ongoing. Transport vessels. All five vessels are currently on journeys and have been well utilized through Q3.

Stuart Fitzgerald: [00:19:46] Heading on over to Seagreen. So this is really a great performance, I would say, to date from the project team. All credit to the project team and our suppliers and our partners. their current status as of now is 30 jackets have been delivered to the North Sea, 10 jackets have been installed, which was our key milestone for 2021. The installation of those jackets commenced 16 months after the contract awards and that is a remarkable feat. Fabrication continues to progress at two yards in China and one yard in the Middle East and is progressing well. Cable manufacture is largely complete, this is an EPCI cable job as well. The cable lay vessel is now on field and has commenced the cable lay operations related to the foundations that have been installed. So good progress. Challenging timeline. But the project so far has delivered very well and the customer is very satisfied with that status.

Stuart Fitzgerald: [00:21:03] For then move on to market outlook summary. So many of you have seen these curves before. This chart in particular excludes China and is basically the CAPEX per year in billions for the year of commissioning. So the full project value put into the year of commissioning and it's carved out to include only bottom fixed wind. As you can see from these curves, strong market growth as we head into 2025 and 2026, with new fields coming on stream and there will be some flow back into the previous years, as the previous years will generally include foundation and cable lay, while the last year in the cycle would tend to be the turbine and final commissioning operations. So heading into 2025 and 2026, strong growth, that growth is coming from the addition of new regions, as well as continued growth in Europe. America and Europe being the two strongest markets, but Asia Pacific also making an important contribution.

Stuart Fitzgerald: [00:22:21] A chart here on the way that we see foundations moving, so this is internal Seaway 7 analysis obviously benchmarked to external sources. We see the majority of projects driven by monopiles with about 20 to 25 percent being jackets. In terms of the contract mix, approximately 80 percent of the contracts being T&I or integrated. So 20-25 percent expected to come to the market as EPCI projects, Obviously, we have a differentiated position with our experience, and what we've been able to demonstrate through the Beatrice and the Seagreen projects, towards EPCI. We see that offering a being of strong interest to customers. Large volume of the work will still be in monopiles and T&I integrated and there we believe the asset mix that we have gives us a good scope to have efficient, effective operations.

Stuart Fitzgerald: [00:23:40] In terms of the landscape and the feedback that we see from the ongoing bids and the interactions that we that we have with our customers, we see increasing activity from the traditional oil and gas players. We see that as an advantage for Seaway 7. We have long strong relationships with these clients as they come from our Subsea 7 parent company. And we see as these companies enter the the offshore fixed wind space, then going there with trusted suppliers who have long experience in the segment can be a comfort to them. So we do believe that our relationships with the Shell, Total, BP and Equinor provides us a benefit and advantage. We see the projects continuing to become larger, a number of multi-year projects and multiphase projects out there and the amount of gigawatts being generated per contract lifting. We see a continued development towards need for industrializing the delivery, which is part of what we see with the larger projects. There is a need for effective and efficient solutions to continue to push the cost of developments in a downward direction. We also see and this is in the early stages here, and its an evolution that is happening, growing interest in integrated offerings, early engagement models and portfolio bundling. Many discussions that we have with customers these days in relation to how they manage larger portfolios and how they manage entrance into entry into new geographies. There's much more discussion about integration, early engagement and portfolio bundling. The mix of EPCI, as well as integrated and standalone T&I tenders, is healthy, and we see benefit to a balance in our portfolio between those three different project profiles. As I said earlier, transport and logistics becoming increasingly important. The volume and risk that sits within this segment is significant on the larger projects having the ability to control this in-house to a certain degree clearly a benefit as the as the markets go global and as the supply chains also go global. Feedback from discussions with customers is that this is another area where they see bottlenecks coming in the future years. Majority of our tender activity at the moment is Europe and the U.S. As everybody knows, there have been delays through 2021. Order intake in 2021 did not match expectations based on contracts not being awarded to the market. But we do see, as we head into 2022, UK and U.S. with multiple projects very likely to be awarded to the contractor environment here.

Stuart Fitzgerald: [00:27:03] I won't go through this prospect by prospect, the key thing here, is to reinforce that the USA and the UK are the key markets driving the current tender activity. And we see Poland as the emerging new region in Europe, with a number of projects soon to come under bid. Asia Pacific a little bit more patchy and we'll be selective going forward in terms of what tenders and prospects we engage in there.

Stuart Fitzgerald: [00:27:40] So finally, to summarize, returning to the first slide. Seaway 7, one of the market leaders within offshore wind, we see very strong market fundamentals for the activities in which we're engaged within Seaway 7. We think we've got a great mix of assets, capabilities and track record. We think that's unique and we also see that our client relationships, our geographic footprint and our scale will be differentiators for us. The backlog position is good, gives us good visibility. And as I said before, the shareholder base that we have provides a strong support and deep experience within offshore energy. So I think now I'll hand over to Simon, who will lead us through through the Q&A.

Operator: [00:28:38] Thank you. If you do wish to ask a question, please press zero one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero two to cancel. There will be a brief pause while questions are being registered.
Our first question comes from Eivind Garvik with Carnegie. Please go ahead.

Eivind Garvik, Carnegie: [00:29:09] Yes, thank you, and thanks for the presentation Mark and Stuart. I have a couple of questions. The first one relates to Subsea 7, the renewables unit, and what kind of EBIT margin you achieved in Q3. And the second one is when do you expect that the large volumes of offshore wind tenders will hit the market and especially talking a little bit more about your target project? Thank you.

Stuart Fitzgerald: [00:29:37] I'll take the second one first and then hand over to Mark for the first one. So I would say Eivind, and thanks for the question, we are in the middle of a significant engagement on some of these large projects, so I would say pursuit and tendering is live. Not necessarily going to materialize into awards this year. We would expect that those processes will take some time, but with potentially some preferred positioning through the next three months. But I think heading into Q1, Q2, Q3 next year is when the larger volume large sized projects will crystallize into contract awards. In terms of the jobs that we're targeting, I can't comment on that, but our key target markets, and where most of our focus is, is the US and Europe markets and we're more selective in terms of the Asia prospects at this stage

Mark Hodgkinson: [00:30:51] Eivind it's Mark here. Your first question, I think, was the question to Subsea 7, if I'm not wrong, which, you know, I think we do want to differentiate. I can speak on behalf of Seaway 7. And remember, the results we showed were the OHT results for Q3. So I believe Ricardo Rosa, the CFO for Subsea 7, has commented already on the Q3 margins seen in renewables in Subsea 7. I think that what your question is that correct?

Eivind Garvik, Carnegie: [00:31:19] Yeah, that was correct, I can just look into it myself, thank you.

Mark Hodgkinson: [00:31:24] So it's probably not appropriate for me to comment on behalf of the shareholders results yet.

Eivind Garvik, Carnegie: [00:31:28] Yeah, sure. Sure.

Operator: [00:31:35] Our next question comes from John Olaisen with ABG. Please go ahead.

John Olaisen, ABG: [00:31:41] Hey, good afternoon, gentlemen. I realize that big EPCI contracts are lumpy by nature. However, in order to get some better understanding of this part of the business, is it possible to tell us a little more about the dynamics of the foundations in the EPCI contracts like the lead time for contracts, the lumpiness of awards and what you expect of typical order size, for instance, and margins going forward from these kind of projects.

Stuart Fitzgerald: [00:32:12] So I can comment. I'll answer that, John, thanks. So in terms of the lead times, I think it depends a little bit on the process that we have with the client. So for Seagreen, which is the the large EPCI that is ongoing, essentially that was a process where, ahead of contract award, we were having extensive interactions with the customer developing the technical solution, engaging with the supply chain and developing an appropriate risk profile. So although the final contract was not signed until June last year and then we were offshore if you like sixteen months later, that was only because a great deal of work had been carried out together with the customer ahead of that contract award. So this is not a sixteen month cycle. Normal lead time, I would say, for a larger EPCI would be in the two year range. But obviously that can be cut down if we do have that interaction with the customer. So that's one point to make in terms of the in terms of the lead time. I think the second point to make is that a lot of the volume and value of those contracts happens through the life of the contract. For a T&I contract the main spend profile, is at the end during the offshore execution period. For an EPCI contract where there's significant fabrication and a much more of the value is in the procurement phase, you would see a more steady progression of revenue through the life of the project. Still, probably with the largest revenue towards the end, but a steadier progression through the life of the project. So I don't know if that answers the fairly broad question, John.

John Olaisen, ABG: [00:34:41] And then I wonder, what's your capacity, how many of these contracts would you be able to carry out to execute on simultaneously?

Stuart Fitzgerald: [00:35:00] I think we wouldn't like to be too committal, but don't think multiple simultaneous is the answer. Also, from a risk profile, I think we would feel comfortable with, you know, one, but with some overlap so that you may take one of those in either every second year or potentially a little bit more frequent than that, but you wouldn't want multiple running in parallel.

John Olaisen, ABG: [00:35:37] My final question, I wonder, is it possible to give some indication about how much of your 2022 vessel capacity is now booked on contract or will work?

Stuart Fitzgerald: [00:35:54] I would say that we expect to be reasonably utilized next year, John, I'm not going to be specific and guide that, but we have a pretty solid backlog next year and we expect the fleet to be well utilized.

John Olaisen, ABG: [00:36:12] All right, so the delays of awards that you seen during 2021 it's not expected to impact your business or your utilization in 2022?

Stuart Fitzgerald: [00:36:23] Less so in 22, correct.

John Olaisen, ABG: [00:36:26] Right. Is it likely to impact 2023?

Stuart Fitzgerald: [00:36:30] Potentially. So it depends on new order intake and the awards that come, but you know, lower awards through 2021 likely plays out more in beyond 2022.

John Olaisen, ABG: [00:36:50] I guess there are a lot of news given the market outlook there should be plenty of work to be done. Or are you worried about utilization for 2023, should we be worried?

Stuart Fitzgerald: [00:37:05] Too early to say. John, I'm not going to comment further, too early to say.

John Olaisen, ABG: [00:37:11] Okay, okay. Well, thanks. Thanks for taking my question. Have a nice day. Thank you.

Operator: [00:37:18] As a reminder, if you do wish to ask a question, please press zero one on the telephone keypad. As of right now, we don't have any further questions, I hand back the word to our speakers.

Stuart Fitzgerald: [00:37:40] Ok, thanks everybody for that. You know, just to summarize again, we think the market is strong, we think the offering is strong. There's no doubt in our mind that the combination has created a stronger company. As we speak to the customer base, The offering of the new company is of significant interest to them and we think we're well placed for this market that we see ahead of us. So thanks for your time
and we'll be seeing you over the next months. Bye now.