Svitzer Q3 2024 Trading Statement

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Business Performance

Kasper Friis Nilaus

CEO, Svitzer

Welcome

Welcome to our Q3 call. Thanks for dialing on, everyone. I am Kasper Nilaus. I am the CEO of Svitzer. I am joined by Knud Winkler, the CFO. We will take you through the presentation and then happy to take any questions you may have in the end.

Agenda

Good. So if we start on the agenda, I will take you through the business performance, then Knud will go into detail on the financials. And then as mentioned, we will have a Q&A session in the end. So let us jump into it.

Key Highlights Q3 2024

The highlights of the quarterly results. So we had a revenue growth of a little more than 9% in constant exchange rates when compared to Q3 2023. The EBITDA increased by more than 14% in constant exchange rate, which also led to an increase in the EBITDA margin.

So we are on track to deliver the financial outlook for 2024 after so far solid performance in 2024. So overall, we are very happy with the result of quarter three. It is a solid performance.

Then we took delivery of our first TRAnsverse tug. We have been talking a little bit about the TRAnsverse tug in previous calls, in communication. It is a new design that we have done in Svitzer. We took delivery of the first one. We are currently doing jobs with it in Amsterdam and collecting all the data. But so far, it is proving to be as good as we hoped.

We also placed an order for another TRAnsverse tug. We will go a little bit more into it on next slides, running on battery with a methanol backup engine. And then we actually also ordered four more TRAnsverse tug. So we have quite a few in the order book.

On the commercial side, we have so far extended all the contracts that were expiring this year. So all our terminal towage contracts expiring have been extended. And we started a new operation on a five-year contract for a tug in Brazil. So that is good also on the commercial front.

TRANsverse tug to pioneer towage operations

If we dive a little bit more into our TRAnsverse tug design, then we took delivery, as I mentioned, of the first 26-metre long TRAnsverse tug. We have put it into Amsterdam, where there are a lot of tug jobs. So we can get a lot of experience with it quickly.

The hypothesis was, which was, of course, backed up by tank testing and modeling and so on that it will be more efficient. So less fuel consumption and also able to do jobs yet faster than traditional top designs. And so far, our results confirm it. It seems to be a nice fuel saving on double digits, at least on the fuel consumption. And it is as maneuverable and as safe as we hoped to be.

When we have enough data to fully document the performance, then, of course, we will be explaining that to a larger audience.

Ordered the world's first battery-methanol tug

So as I said, we ordered in the quarter one new tug running on batteries. I think that is the next slide. So six-megawatt battery package on this tug. It has a backup engine that can run on methanol and also another backup engine that can run smaller engines on diesel or biofuel. We will deploy into Gothenburg when it is delivered in 2026. We expect that it can do 90% of its operations on the batteries, so green shore power. And then it will have backup power from two engines.

So what this signifies, of course, for us, a significant milestone also the industry-first battery methanol tug. And then, we have also focused our efforts on decarbonisation agenda on the electrification of tugboats. So expect to see more in the future on this front.

Regional highlights Q3 2024

If we dive down to the regional highlights. Australia, we have seen progress across all regions. Australia, which is our largest region, it is more than a third of our revenue and earnings. We had a good revenue pickup, also a significant EBITDA increase, led by the contract been talking about a few times. New contracts have started up, including the Woodside contract started up fall last year. So full effect in quarter three this year.

Also the contract with BHP, the mining company, what we now have four tugs deployed, still waiting for the fifth one, has fully impacted quarter three. So big impact from the Terminal Towage segment, also from the Harbour Towage segment by tariff increases. And then we had a few special jobs that we also did.

The volumes were a little bit lower than in Q3 2023 in Harbour Towage but more than made up for by the tariff increase. So also a good margin increase.

If we look at Europe, Europe is the other big region, a little bit smaller from a contribution size than Australia. Then we also here saw significant revenue increase and a big EBITDA uplift. Again, we had impact from tariff increases. We had the terminal towage contract in Greece that are fully baked in quarter three and was not in quarter three 2023. And there was also a special operation job in Northern Denmark. And the activity also improved in Harbour Towage. So good progress also in Europe.

Regional Highlights Q3 2024

Americas. Americas, we have traditionally seen over the last few years seen significant growth. We have a mix of Harbour Towage and Terminal Towage, primarily Harbour Towage. So we also saw revenue increase and EBITDA increase, not to the same extent as we have seen in some of the other regions, primarily due to also Q3 last year in Americas has been quite strong with a special operation job in Q3 last year.

So still strong performance from Americas, still good volumes. And also here, we have also had a special job during the quarter. Then we started up, as I mentioned, initially, this new contract for a tug for five years in Brazil.

If we look at Asia, Middle East, Africa, it is a region primarily almost exclusively made up of Terminal Towage. However, we do have one operation in Morocco, that is Harbour Towage. We saw also revenue increase primarily from the Harbour Towage operations, of course, also from the installations we have in the Terminal Towage contracts.

Then a flat EBITDA, we also saw cost increases in the Harbour Towage operation in Morocco due to the higher volumes. We extended our Terminal Towage contract in Liberia for a five-year term during quarter three.

I will hand it over to Knud.

Financial Review

Knud Winkler

CFO, Svitzer

Introduction

Thank you, Kasper, and welcome from me as well to this webcast. You have all read the trading statement. So we are not going to repeat exactly what is in there in terms of the numbers. I will try to give you a little bit more nuance to the numbers presented.

Revenue increased mainly due to tariff increases in Harbour Towage and growth projects in Terminal Towage

So as Kasper mentioned, during the quarter, we have seen a 9% growth in revenue compared to last year. The drivers behind that growth, Kasper mentioned, the volume in Harbour Towage to is not growing, it is actually going a little bit backwards. So there is no revenue increase coming from that front.

The revenue increase is coming from two other factors. One is the escalations in Terminal Towage, but even more so the price increases that we are driving through in Harbour Towage. As we have mentioned a couple of times, we are trying to be a little bit ahead of the curve in terms of adjusting for the inflationary pressure on our cost side, and we have seen that effect also in the third quarter of this year.

The other factor driving the growth is the new contracts in Terminal Towage that have come onstream since Q3 last year. Now we basically have all of our growth projects live for this year.

And the growth projects that have come on are the ones in Australia and in Greece.

Adjusting EBITDA increased driven by higher revenue offsetting inflationary cost increases

If we look at the EBITDA development, then again we see an overall growth of roughly 13% compared to last year. The volume impact has had a limited negative impact, so DKK4 million backwards. The price increases, as I mentioned, we are pushing forward on that topping up on CPI. So that gives us an uplift on the EBITDA.

We do also see, as Kasper mentioned, improvements on the profitability in Europe. We have talked about the UK a couple of times and the challenges that we have there. We are moving forward on the profitability in UK. So part of the EBITDA increase from Harbour Towage is also an improvement in the underlying performance in the UK.

The other big block here is the EBITDA impact from our new Terminal Towage contracts, the DKK33 million that we have seen in the quarter since last year.

We have not included the separation and listing cost in this overview. We have realised a total cost of DKK22 million in the quarter related to separation and listing. We are continuing to complete the separation and taking over the activities that were previously performed by A.P. Møller-Mærsk and the cost that we incurred related to that is primarily related to establishing systems that were previously running in A.P. Møller-Mærsk.

Lower CAPEX level due to fewer growth investments and decrease in dry-dockings

If we go to the CAPEX side, we see a slowdown on our investments in growth. You will recall that we have, over the last couple of years, invested significant amounts in growth projects, which has also materialised on the revenue line. We have not won significant projects this year to be invested in, and therefore, we do see the growth CAPEX is coming down to a lower level than what we've seen in the past.

Also, we are seeing the maintenance CAPEX is coming down, the dry-dockings. This is much more a reflection of the number of dockings than it is the cost of the dockings. We actually do see an increased cost pressure on the dockings, and this is, in essence, two factors. One is the OEMs are pushing the prices up on the main equipment. And the other factor is the shortage of availability of yards in certain geographies that allow them to increase the prices more than inflation.

So we do see some pressure on that one. So only for this quarter, we have seen less dockings than what we did last year.

Yes. Then there is a small amount on fleet renewal. We have basically only taken delivery of one vessel this quarter, which is the TRAnsverse tug that is now operating in Amsterdam. And there are no further deliveries planned for the rest of the year from the new building pipeline. We have 14 vessels in the order book pipeline to be delivered during 2025 and 2026. I think the last one is planned to be delivered in the fourth quarter of 2026.

Half of those vessels are dedicated to our growth pipeline. The other half is for now dedicated to fleet renewal. The four TRAnsverse tugs that Kasper mentioned previously, they are labeled for fleet renewal, but we have some flexibility to reallocate them to growth projects, should such projects materialise between now and delivery.

Financial outlook for 2024

Reflecting improved financial performance in 2024

Then moving on to our financial outlook for the year. We are maintaining the guidance as we have showed previously. We are expecting a growth in revenue of 6-7.5% that we've previously said. We will end up in the upper range of this and we will reiterate. It will be top end of the range that we see materialising as we see it now.

When we look at the EBITDA, we have given a range of DKK1,775 million to DKK1,875 million. And as previously said, upper end of the range and reconfirming now it will be top end of the range for that one as well.

We need to remind ourselves that the fourth quarter last year was a very strong quarter. I think Kasper mentioned also there were growth projects coming in, in the fourth quarter last year. And also we had a few of these rather lucrative special operation jobs that bumped up the numbers in Q4 last year. So it is a very tough comparison that we see in Q4.

So the revenue growth will be flattish in Q4 compared to last year.

And then against the separation and listing costs, we have upped that a little bit to now DKK130 million in the P&L. We have capitalised DKK31 million related to the new debt that we have taken on, and that will, of course, be amortised over the period of the term loans.

Finally, our gross CAPEX. We maintained the guidance of DKK900 million to DKK1.1 billion. You can argue so close to the year-end, we'll not be able to narrow it down a bit. And in principle, yes, but there's always a bit of uncertainty as to the installments on some of the newbuilds, whether they will fall before or after the new year, depending on the achievement of milestones on the yard.

So if the yards are super-efficient and according to plan, we will see the CAPEX probably in the middle or slightly above the middle of the range. If we delay those installments to just after New Year, we may end up in the lower half of the range. But again, it is a relatively short timing difference between those payments and they are committed already.

Key Highlights Q3 2024

Just reiterating what Kasper said from the beginning. It is another quarter with strong financial performance, 9% growth compared to last year on the revenue, an increased EBITDA margin by 0.9 percentage points. And we are on track to deliver on the full year, as I just said on the previous page.

We are moving forward with our innovation and putting that into operation with the TRAnsverse tug and also further pursuing our green ambitions by ordering a methanol battery tug that will be built and delivered in 2026.

Finally, I think it is worth repeating that all of the Terminal Towage contracts that have expired this year have been renewed. You will remember from our Capital Markets Day presentation, we had a 94% renewal rate over the past three years and we've continued to renew those contracts as we see them expire. So I think all in all, it is a strong testament to how we perform the services to our customers.

With that, we would open for Q&A.

Q&A

Deepak Maurya (HSBC): This is Deepak here from HSBC. I had a couple of questions. Firstly, you mentioned that all the contracts which were probably due for renewal have been conducted positively. Is that what you mentioned?

Kasper Friis Nilaus: Yes. That's correct.

Deepak Maurya: Okay. Just a clarification on that. How has been the pricing on these contract renewals? Have they been as per your expectations in terms of passing on the inflation and your expectations of higher charges?

Kasper Friis Nilaus: Yes. I think just to make clear, the contract renewals are only the contract where it runs out. So in that case, we had, for example, 20-year contract [inaudible]. It is closing in and running out. And then, of course, there is a negotiation.

We have 20-year-old tugs, do we extend those or do they go for tender or do we bring in new terms. And for those, we have extended all of them. Some of them, we have given a smaller rebate and and one of them was extended for a few years.

We have, you can say, frozen the escalation. But that is only a small part of the contract. In the rest of the contract portfolio that every year, most of these contracts if we escalate with cost increases. So just to make clear that there is that difference.

And actually, some of the contracts also, when they expire and we renew them, some of them actually come with an increase in rates because the market has changed. So it is just important to distinguish between the ones that actually run out. We have a commercial negotiation. And then the vast majority of our portfolio that we have this mechanical escalation every year.

Deepak Maurya: Okay. That's clear. The other question, which I had was we have just had a new president that has been elected in the US and then there is a lot of chatter about the escalation in trade tensions and potential unwinding of any geopolitical tensions, which are happening. We have two contracts, one in the Middle East and one in the Eastern Europe region. Is there any colour you could provide in terms of how it might impact your portfolio of business? I know you do not operate in the US or in China. However, in the regions where you operate, is there any positive or negative fallout from these events and potential escalations and trade tensions?

Kasper Friis Nilaus: Yes. Thanks. Good question. Yes, you are right, we do not operate in the US. We have very, very low exposure to China. Those two countries cannot be expected.

We operate Europe, but we are operating in 37 countries around the world. It is very difficult to predict how this will fall out. It is very difficult to predict trade patterns. What we, for example, saw during corona once for a period of time, you saw trade coming down in Europe. But then trade went up in Brazil and Australia. It is very difficult to have a view on how it will affect us.

Overall, a slowdown in global trade is, of course, not great because we live out of global trade. I would also say, as we have demonstrated time and time again with the portfolio of operations we have, 140 ports, 40 terminals in 37 countries, different parts of the world, we are very resilient to, you can say, global trade ships because they tend to go elsewhere and we have that big exposure.

Deepak Maurya: I mean I do understand the advantage of the great diversification, which you have. Maybe just for our understanding because the business is new to us and at the same time we do not know much about the history. Maybe if you could illustrate with what happened during Trump 1.0 when the tariffs were imposed? Did you see any meaningful impact in any part of your portfolio?

Kasper Friis Nilaus: No, I do not think so. No, not to our regulation.

Anders Preetzmann (Danske Bank): I also have a few. Maybe just going back to the performance on the different geographies. If we could start with Australia and maybe you have given some flavour on this, but it comes in at quite an impressive EBITDA margin, I think. Are you able to elaborate a bit on this? Maybe give some nuance to why that is the case?

Knud Winkler: Yes. There is an element of the new contracts coming in, the contract with BHP in Port Hedland comes with a rather high EBITDA margin, that is mostly a variable charter with some ship management to it. We do not have the same amount of costs related to that contract. But it is just an overall good performance in Australia. It is very much an effect of the price increases that we pushed through. We see the volume coming back a little bit compared to what it was last year. It is very much around the price increases and a few cost saving initiatives that we run through down there.

Anders Preetzmann: Okay. And maybe also then the same question to Europe, and you have also answered this with you guys moving forward on the underlying performance in the UK. But are there any other things in Europe that might have surprised you? I recall that you were a bit conservative, maybe, a bit bearish on the European market when we last spoke?

Knud Winkler: I think our expectations to the volume development in Europe has probably been exceeded by a small market, right? So a little bit more activity in the Harbour Towage than what we had expected. But it is very much related to the fact that we are getting our arms more and more around the problems in the UK. They were not completely solved during Q3. There are still a few internal handles that we need to pull that can further improve the performance a little bit in the UK.

But the big ticket item in terms of the overall market adjustment of capacity to demand, that still needs to take place. So we are obviously working on our side, matching demand and the capacity in the ports where we are in. But there's still some, you can say, structural alignment in the market that needs to take place before we can get the right utilisation and the right pricing in UK to be at the level we want to be.

For the rest of Europe, Scandinavia and Continental Europe, things are moving forward quite satisfactory.

Anders Preetzmann: Then in the report, you also mentioned the volume decline of 2% overall. Can you maybe give us some nuance on what you expect for Q4? What are you looking into there?

Knud Winkler: For Q4, yes, we see a rather flat development on the volume side. There is this impact in Australia. There is a couple of things that come into play in Australia. Now there was a question a minute ago around the geopolitical situation. And just to give a slight peek into the uncertainties of what that means, the Red Sea crisis obviously led to less activity in the Red Sea and in the Suez Canal. We are on time charter there. So that is not a big issue for us as such.

However, it has come with a significant uplift in the activities in our port in Morocco because basically all of the volume going into Northern Europe and into the Mediterranean, they will come through either Morocco or Algeciras. So there has been an uplift in the activity there.

What we also see is that the East-West trades then absorb capacity, for example, on containers. And that capacity, at least based on the feedback we get from our customers is that, that has been taken out of the Australia trade. So there is less vessels calling Australia than what we have seen in the past. Clearly, a significant part of the decline in the volume that comes from container trade in Australia.

The other thing that comes into play in Australia is the grain harvest, which was a record year in 2023, and we do not see that coming again this year. The grain harvest seems to be much more of a normal level this year. So there is a bit of a negative impact from that in a few of the southern ports in Australia.

It is a mix of a couple of different things. As I said, the geopolitical part is quite unpredictable. Whatever Mr Trump is going to do, I think that can have derived impacts in a few different levels. And of course, not in the fourth quarter, but going into 2025. But fourth quarter, it is primarily the Australia thing, container and the grain.

Anders Preetzmann: That was very helpful. And then maybe my final question then and just going back to the guidance for 2024. I mean, you reiterated the guidance, but yet you state that you expect to end up at the top end of the range. I mean, why not just adjust it upwards on the bottom end? Is there any factor that could determine that you would end up in the lower end of the range? I mean, it seems very conservative.

Knud Winkler: No, I think you can basically choose between narrowing the range or just stating that it will be top end of the range. I do not think that it should not be taken as there is a risk that we will end up in the lower end of the range. That we simply do not see. We are quite confident it will be top end of the range.

Ulrik Bak (SEB): My first one is also on the guidance because you delivered quite a strong Q3 report, and again, you keep your guidance unchanged. And you already covered the revenue growth deceleration and the drivers for that. But the implied adjusted EBITDA for Q4 also seems quite conservative in my view as it implies the top end of your guidance range implies that it will be flat quarter-over-quarter.

I have previously understood that Q4 should be a seasonally stronger quarter than Q3. So please add some flavour on why it should be flattish quarter-over-quarter on EBITDA as well.

Knud Winkler: Yes. I will just repeat my statement from a couple of minutes ago that Q4 in 2023 was a very strong quarter, both in terms of the revenue, but also in terms of the profitability. Compared to that, we do believe it is going to be a flat development year-on-year.

Ulrik Bak: Yes. However, my question was really on sequential basis because you previously stated that Q3 is a seasonal low, whereas Q4 is more seasonal high. So why should not you earn more on EBITDA in Q4 versus Q3?

Kasper Friis Nilaus: It is a very good question. I think what we have seen in Q3 this year is stronger performance than we initially expected of Q3 this year. We had a few special operations job in Q3, both in Brazil and Australia, and still there is impact.

Yes, I hear what you are saying, but some of the effects we normally see in Q4, we are already seen some of that in Q3.

Ulrik Bak: Okay. That is clear. Then a question on this dynamic between the tariff increases that you imposed and then the timing of the OPEX increases. Because it seems you also noted that you are trying to increase or stay ahead of the curve in terms of cost inflation. But revenue per tug job went up 10% year-over-year in Q3. We do not have the OPEX for the tug job for Q3. But for the first half of the year, it increased 6%. Is there an element that there will be a catch-up effect from this OPEX per tug job growth over the coming quarters, so it will catch up with the revenue per tug job increase? Or would you then also over the coming quarters, increase this revenue per tug even further, so you will keep being ahead of the curve, so to say, or is there a risk that you will essentially dilute your margins as we walk along?

Knud Winkler: I think we will continue to be ahead of the curve, as you say, a 10% increase on the revenue per tug job, 6% on OPEX. It is not unlikely that there will be some catch-up on the OPEX, but not up to the 10%, right? So we do believe for the full year, we will see a better development on the tug job revenue than on the OPEX. So margin expansion, basically, right?

Ulrik Bak: That is clear. Just to get a feeling of these price escalations that you are currently adding to your contracts. We have seen inflation rates decline over the past several quarters. But on the other hand, you mentioned bunker prices have increased. So on balance, what kind of increases are you adding to your current contracts?

Kasper Friis Nilaus: If you look at the tariff increase in Harbour Towage in Europe, that is primarily 1st January, we implement those. In Australia, it is primarily 1st April we implemented tariff increases. The new tariff increases. When we do that in Harbour Towage, we take a broad view of the world around us, how has inflation developed the last 12 months, how do we expect it continues to develop, what are the agreements we are having with our crews for salary increases, and what do we see in our own experience, for example, something like spare parts that don't always correlate with normal inflationary indices.

So we are working on the tariff increase in Europe that takes place 1st January. And although inflation has come down, of course, we will not continue increasing rate per tug job of 10%, but we do expect that we will see tariff increases. Also, hopefully, a little bit above at least the headline inflation.

Ulrik Bak: Okay. That is very clear. Then just a bookkeeping question on the demerger costs. You mentioned that there are some costs related to system implementation for these services previously covered by Maersk. What is the status of this project? Will there be more costs related to this over the coming quarters and perhaps into 2025?

Knud Winkler: There is a smaller amount that will materialise in Q4, but we are not planning to see any separation costs beyond 31st December. Yes, the adjustment for separation and listing costs, we will see that in 2024. Only there will be nothing in 2025.

Ulrik Bak: That is very clear. Then this demerger cost that of DKK31 million will be recognised on your balance sheet. Are these costs related to the system implementation, which you mentioned, or also how will these expenses flow through your financial accounts?

Knud Winkler: Yes. This is the bank fees that we realised in connection with establishing the new loans, replacing the funding from A.P. Møller-Mærsk. It is simple accounting, you have to capitalise those fees and amortise them over the period of the loan term. The DKK31 million that we capitalised will be amortised over the five years the term of the loan fine. And it will come costs in financial items.

Kasper Friis Nilaus: Thank you very much. Thanks a lot for listening. Thanks for the good questions. As I mentioned, we are very satisfied with our quarter three results. We have a solid financial performance. I think we are in a good shape. We have extended the contracts that were expiring, investing in growth trends, but also [inaudible] and also moving ahead on this TRAnsverse concept that we believe will be a benefit to us in the future. Overall, good progress, and looking forward to closing the year also well.

Thanks a lot.

[END OF TRANSCRIPT]