Valmet Oyj
Q1 2021 Earnings Call Transcript

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+++ presentation

Pekka Rouhiainen^ All right, ladies and gentlemen, welcome to Valmet's Q1 2021 Results Publication Webcast. My name is Pekka Rouhiainen and I'm the Head of Investor Relations here at Valmet. And with me today are Pasi Laine, President and CEO; as well as Kari Saarinen, CFO. (Operator Instructions) But without further ado, Pasi, please go ahead.

Pasi Kalevi Laine^ Thank you, Pekka, all right as well. So welcome to the quarterly call. So my headline is -- or our headline is, orders received increased to EUR 1.3 billion and comparable EBITA to EUR 80 million in the first quarter. So I will have the traditional agenda, or we will have first, quarter 1 in brief, then development of business lines. Then some words about Valmet's climate program. Kari will go through the financial development, and I'll come back to the guidance and short-term market outlook.

So first, quarter 1 in brief. Orders received remained at previous year's level in our stable business, and they were EUR 508 million. Orders received increased in capital business to EUR 825 million. Net sales remained at the previous year's level, and they were at EUR 858 million. Order backlog amounted to EUR 3.7 billion and comparable EBITA increased to EUR 80 million, and margin was 9.4%. Gearing in the end of the period was 3%.

So the main numbers here and some graphs. So orders received totally was EUR 1.3 billion, so good order intake in 1 quarter. Net sales at EUR 858 million, that was also good for first quarter. Comparable EBITA, EUR 80 million, and comparable EBITA margin, 9.4%. Our backlog in the end of the quarter was EUR 3.709 billion, and we employed about 14,000 people.

Then if we look the pie chart by business line. So this time, services and automation were clearly below traditional 50%, even if they had good order intake. So Paper had a good order intake and Pulp and Energy as well. And Pulp and Energy was 35% of the order intake and Paper was 28%.

Geographically, China continued to be strong. So 24% of the orders came from China. Europe, thanks to one big order, was 53%. And because these 2 other areas were big then, of course, the relative portion of the rest of the areas were small.

Orders received increased, like I said, to EUR 1.3 billion. And here, you see the graph from starting of Valmet and this was the record order intake quarter. So highest ever.

It was active -- orders received were at last year's level in stable business, in capital business, it increased clearly to EUR 825 million. Then our stable business has started to recover. Like you see here, stable business orders received totaled to EUR 1.765 billion during the last four quarters and last quarter was EUR 508 million, a year ago, it was a little bit higher -- sorry, EUR 508 million, and last year, it was a little bit higher, EUR 514 million.

But here, you see also in the graph that now since the worst point at the third quarter, our orders received has been steadily going up, and it was almost at the level where it was on the record level -- record quarter a year ago. So good recovery also in stable business.

Backlog ended up at EUR 3.7 billion, and it was EUR 450 million higher than in the end of the year. We are saying that about 65% of the backlog is expected to be realized as net sales during '21, and last year, the same percentage was 60%. About 30% of the backlog relates to stable business. So we have good backlog to continue to develop Valmet further.

Then some words about the business lines. So first, Services. So orders received remained at the previous year's level and were EUR 385 million. Last year, order intake was a little bit higher, but not that much. So I would almost say that the recovery has been quicker than I was anticipating in end of last year. We have seen a good order intake in the Rolls business, then in Performance Parts, Board, Paper and Tissue Solutions orders have been at last year's level, and then Pulp and Energy Solutions and Fabrics were declining compared to last year. But good recovery already in first quarter.

We, of course, are still having COVID-19 impacts. So we still have restrictions to access customer site. And then, of course, the order intake is also impacted by the low utilization of graphical papers mills. But still in under these circumstances, our order intake was close to the last year's record level.

Then, Automation, received increased to EUR 123 million. Last year, it was EUR 116 million. So good development in Automation. And here, I would also say that the recovery came quicker than I was maybe -- or we were anticipating in the end of last year or beginning of this year.

COVID has still some impacts to our Automation business as well as for Services business. In net sales -- our net sale was lower than a year ago. COVID has an impact to that. And of course, last year first quarter, we didn't have any COVID restrictions. And then a small portion of that lower net sales is coming from the fact that we rolled out our new ERP system in Automation business in Finland and sometimes when you roll out new system, then it takes a little while before the organization learns to utilize the system. So nothing operational actually in -- no operational challenges in Automation.

In Pulp and Energy, orders received increased to EUR 461 million. Of course, Kemi project, which we got from Metsa Fibre is a big impact on that order intake. And we are very happy with that development, and we are very happy with the order we got from Kemi. But market has been active also other parts, not only in Europe. Market has been active also in North America and China. South America last year was very high. Asia Pacific, the same. And then market activity has decreased on those areas compared to last year.

In Pulp and Energy business line, the organization has managed COVID very well. So we can't see any material impact in our business because of the COVID restrictions.

In Paper, orders received were again at a high level, EUR 363 million. So the order intake trend continues to be about EUR 1 billion level if you look the 12 months' cumulative curve in the chart. Net sales has been developing nicely in Paper business line as well. So good growth in net sales as well, compared to last year.

Market has been active in all areas, but of course, China has been the strongest market for us in Paper business. The same as in Pulp and Energy business line, so Paper organization has managed all the COVID challenges very well. Of course, we have challenges, but the organization has been managing them pretty well.

Then some words about the climate program, which we launched in Capital Markets Day and you are all, I assume, aware of it, but it's an important topic, and that's why we wanted to take it up once again. So we launched the program, and we want to see that we make many different kind of actions to help in climate change battle. The program is called Forward to a carbon neutral future.

First, we have -- if I start from own operations, of course, we have to start from our own operation and focus on those ones as well. There we set the target to reduce the CO_2 emission by 80%. It means that we have to find more fossil-free energy sources in all parts of our production. And then of course, we have to be careful also with traveling, when traveling is again available or possible after all of us have got the vaccination. So there will be a good focus on our own operation.

But then when we analyze the full impact of our operation, then of course, supply chain and use phase have a lot of bigger impact to climate change. And we have set the target to reduce our CO_2 emission in supply chain by 20%. There we have to look for more suppliers who have less CO_2 emission. And then, of course, develop our products so that CO_2 emission reduction is possible.

We have set also the target for use phase, and minus 20% is the target to reduce the energy use of Valmet's current technologies. And the current technologies are the best available. So it's a tough challenge to continue to reduce the energy utilization on these technologies further.

And then as a separate target, we would like to -- we will create technologies where our board, paper, pulp, tissue, customers can produce the products with the selected technologies, 100% carbon neutral. And the timeline for these targets is 2030. So we have to now make actions to reach this one. I like that the time schedule is tough enough and targets are concrete enough. We have got very good feedback from our customers to the set targets and very good feedback also from own organization, that they feel that it's Valmet's responsibility to work towards these targets.

So before I let Kari to go with the financial development, I want to thank our organization for exceptionally good work during whole COVID-19 pandemic. I think it's excellent results that we can now bring in financial figures. So you all have been doing very good work during last one year. So I would like to thank you for that. And now I'll let Kari to come to talk about financial development.

Kari Juhani Saarinen^ All right. Thanks, Pasi, and also good afternoon on my behalf as well, and Pasi also lightened up a bit, and I have to say that we also got the guidance from our Board to smile this time once we make the quarterly announcement. So strong guidance for that.

Okay. So orders received EUR 1.3 billion, so 11% increase there. And this is the highest for Valmet. And 3 business lines, meaning Pulp and Energy; Paper business line; as well as Automation business line increased their orders during the quarter, and the Services business line was at the same level as last year. Automation business line had the highest orders ever, the Automation total.

And then Services business line actually had a slow start for the year. But I think that the development in February and specifically now in March has been actually very encouraging. And it was a good achievement for Services business line to reach the record high levels of last year's quarter 1, calculated at -- at comparable currency.

EMEA orders were strong, exceeding last year by 77%. Also, our North America and China increased. Order backlog, EUR 3.7 billion, the highest quarter end, ever. And we estimate that we recognize 65% of the backlog as revenue during the year. Our net sales exceeded last year's quarter 1 by 5%. Paper business line increased; Services, and Pulp and Energy were flat; and Automation reduced partially due to the -- like the new ERP rollout.

China increased sales by over 100%, driven by the strong orders last year. Comparable EBITA, that increased to 9.4%. This is great as typically quarter 1 is the weakest by profitability. Comparable EBITA does not include Valmet's share of Neles' profits.

So in managing business, comparable EBITA is the most important profitability KPI for us. And once we talk about EBITA or profitability, we typically talk about comparable EBITA. EBITA was EUR 89 million or 10.3%. And this includes Valmet's share of Neles' quarter 4 profits around EUR 4 million. And the rest, EUR 5 million is coming from -- is item affecting comparability related to sale of one property in North America. Cash flow was EUR 148 million, a bit less than quarter 1 last year, and gearing was 3%.

Gross profit and SG&A development. Gross profit percent was the same as last year, quarter’s sales mix was favorable to capital. It was 60% capital and stable was 40%. Last year, we were at 56% Capital and 44% stable. Good execution with the projects continued, and we are quite happy with the order backlog quality as well. The SG&As,

they reduced 5% from last year. We had some increase due to the acquired PMP Group, but travel costs were lower. And we also had some impact of our headcount reductions that were done last year.

During the pandemic, we have learned new ways to work remotely but there will be some cost increases as the activity levels goes back to normal and improves. But we continue with the Valmet level projects such as ERP and Industrial Internet, so at the moment, more costs, and in the future, they will bring us some efficiencies.

Our rolling 12 months EBITA is now at 10.4%. So that's first time ever over 10% and within our target range of 10% to 12%. So we are, of course, very proud of this achievement. And we have come a long way from the levels of year 2014 to - -- now to this 10% level. Also it's worth to notice that the 10% level now comes with the sales mix that is typically not good for us. Capitalvs. stable split was -- rolling 12 months, 57%/ 47%. So that is typically 50-50. So work continues to even further improve the profitability.

Cash flow continued strong. It was EUR 148 million. We have now had 7 good quarters in a row with cash flow. CapEx is a bit higher than normal for the quarter. Net working capital, EUR -662 million. So on a very good level. This will normalize at some point of time. Our normal good level is around -12% of rolling orders. And that means that the net working capital then would go to around EUR -450 million.

Net debt, it was EUR 30 million or 3%. Last year, net debt increased as we purchased Neles' shares, worth of EUR 450 million and also acquired PMP Group with around EUR 65 million. Equity-to-asset ratio, 37%, slight reduction as the AGM made the decision during quarter 4 in March, for a EUR 435 million dividend payment.

And then capital employed, and also then comparable return of capital employed. So our return on capital employed percent increased to 25%, driven by the increased profitability. This is within our target range and is in a very good level. The strong profitability development, coupled with the strong balance sheet shows here, even though some loans were raised last year in order to finance the Neles' share acquisitions. So back to you, Pasi. Thanks.

Pasi Kalevi Laine^ So my turn to tell the guidance and short-term market outlook. So first, guidance which was changed on April 16. So now our guidance is that Valmet estimates that net sales in 2021 will increase in comparison with 2020. And comparable EBITA in 2021 will increase in comparison with 2020, so increase-increase. Then short-term market outlook. So we increased our outlook to service -- for services from satisfactory / weak to satisfactory.

Market has improved considerably in North America. It's active in -- has been active in China, it's reasonably good in Asia Pacific, South America, not yet developing, like you know, COVID is there quite active. And in Europe, we still have challenges because of the COVID restriction. But clearly, like Kari said, the market has been improving. But we still kept the outlook as satisfactory.

In Automation, like you saw, order intake has been good. And that's why we continue to keep the outlook as good, because outlook is good and also workload is good. Pulp, good order intake and there are still prospects to be decided, so all the reasons to keep the outlook at good.

Energy, boiler market has been a little bit more active than a year ago, but we still keep the outlook as weak. Board and Paper order intake has been good, workload is good and there is still a long list of prospects, so all the reasons to keep the outlook as good. Paper, order -- sorry, Tissue order intake has been good, workload is good, and we still have good list of prospects. So all the reasons to keep the outlook as good in Tissue as well.

So this was the guidance and short-term market outlook, so.

Pekka Rouhiainen^ Thank you, Pasi and Kari, and we will now move on to the questions and answer session. So operator, I hand over to you now.

+++ q-and-a

Operator^ (Operator Instructions) Our first question comes from Antti Kansanen from SEB.

Antti Kansanen^ It's Antti from SEB. I hope you're hearing me good.

Pasi Kalevi Laine^ We do. We do well.

Antti Kansanen^ Okay. Just a question on the services recovery. Pasi mentioned that it's coming faster, than earlier expected. So what do you think, is there more pent-up demand after a quiet 2020? Or is it just a return to normal levels, as you have mentioned before, but with a bit of a quicker time schedule.

Pasi Kalevi Laine^ I would say that it's more -- more that it's getting more back to the normal situation. Societies and markets have been opening, like we all know that -- China GDP has grown very fast. And then now we all know that North American markets, all in all, have been recovering quick. So that's why we see also better order intake in our services.

Operator^ Okay. That's very clear. And was this, kind of the sales impact and the gross margin impact that you get from services, the only or the primary reason behind the guidance upgrade? Or is there something positive happening on the capital side as well?

Pasi Kalevi Laine^ We upgraded the guidance because of order intake and backlog. So like you have seen that our backlog is now at a record level and at the same -- so EUR 3.7 billion. And at the same time, we are saying that bigger percentage of the big backlog is being recognized as revenue this year. So those were the 2 factors influencing our decision to change our guidance.

Antti Kansanen^ Okay. And then maybe lastly from my side regarding the backlog margins and, let's say, your gross margin profile for '21 and '22. Obviously, the service recovery is an important factor here. But is it any way to quantify on the capital side, how much better margins do you have in the backlog right now compared to kind of historical levels, taking few years back?

Kari Juhani Saarinen^ Well, Antti, so a couple of points here. So of course, one thing is that typically bigger projects have a bit lower margin than smaller projects. And We have been quite a long time now already quite happy with the quality of the order backlog. And that means like for the margin point of view, And then also as well as then for the like risk point of view and the latest development, what we have had is -- a big piece of that is coming from the organizations good ability now to deliver the projects at the margin at which we have sold the projects.

Antti Kansanen^ Okay. Maybe I'll squeeze one more, just a detailed question in. When you signed the Klabin agreement, was a few years back, there was a letter of intent for a second one, scheduled to commence in May '21. Is the time schedule on that one still intact? Or any comments on that one?

Pasi Kalevi Laine^ No comments. So it's up to Klabin to decide what kind of projects they will have and when, and I'm sure that they will then inform. So no comments on that. But maybe I can say that Klabin first project is going very well. And at least to my understanding customer is very happy with our performance.

Operator^ Our next question comes from Tomas Skogman from Carnegie.

Tomas Skogman^ This is Tom from Carnegie. Congratulations on very good numbers again. I wonder about your ambitions within recycled and pulp-based textiles. I mean that could be a quite promising market, but you have not really opened up what you're thinking about that market.

Pasi Kalevi Laine^ So we opened a little bit on, I think, in our Capital Markets Day, or was it -- no, okay. But we have been developing that activity for a while, and we have good technology for the recycling of natural textiles. So currently, we have announced one project. And then, of course, in this kind of technology development, one has to first deliver the first project and then get the reference, and thereafter, one can continue to expand that technology. But basically, we have very good technologies based on our pulp and paper stock equipment to recycle textiles. And we haven't set the ambition yet, but we see it as a very promising future growth avenue for Valmet in coming several years.

We should not expect too much to happen in 1 to 2 years' time. But then let's say that in 5 years, I have big expectations that it starts to be a business for us.

Tomas Skogman^ So what is your plan then? Because this -- was it with Renewcell, I think it was not your own technology, but do you have plans for own technology development or just to be kind of a partner and supply components?

Pasi Kalevi Laine^ No, no, actually. Now I have to be careful because I'm not sure that everything is public, but one part of the Renewcell is -- delivered by Renewcell. And then the rest is developed -- delivered by us. And everything what we deliver is totally our own technology and our IPR.

So basically, it's pretty similar to recycled paper production line. You have floatation where you separate natural fibers from the fossil fibers. Then you have different kind of refining stations, then you have also bleaching. So same kind of unit processes, what we actually do for recycled fiber and pulp together.

Tomas Skogman^ So our thinking here should be that you will focus on selling components where you have your own IP basically. And then there might be different companies developing this?

Pasi Kalevi Laine^ No, a little bit more than components. So part of the processes.

Tomas Skogman^ Okay. And then the service strength. I don't know if you mentioned what is relating to mill improvement and spare part demand coming back.

Pasi Kalevi Laine^ So the spare parts was at last year's level, and then we have now reorganized Mill Improvement end ENE. So we were talking earlier about Mill Improvement and ENE. And now we have PES, so Pulp and Energy Solutions and then Board, Paper and Tissue Solutions. So we have now grouped that in customer segments to better serve our customers.

In this PTS, our order intake was at last year's level, and then PES was lower than last year level. But the comparison time included quite big ENE projects. So I think both were developing reasonably well in first quarter.

Tomas Skogman^ And then finally, on the tax rate, it was a bit higher this quarter than what we have seen in the last years. Is that a sign that the full year tax rate will be 27%, 28% and not 24% that you had last year?

Kari Juhani Saarinen^ Well, Tom, that's something that we shouldn't look at only 1 quarter's tax. So that's the tax what we now booked. And sometimes, it also depends on which legal entity those go and also if we have some taxes that come to Finland from other countries, that there is some double taxation as well. So we shouldn't look at 1 quarter at all. And I don't think that there's any major difference with our effective tax rate between this year and next year as a percent.

Operator^ Our next question comes from Manu Rimpelä from Nordea.

Manu M. Rimpelä^ My first question would be on the EBITA bridge for the first quarter. So could you just help us to better understand the development in the margin from the first quarter last year to this quarter. Where did the improvement come from?

Kari Juhani Saarinen^ Well, a big piece of that comes from the increased sales and then also -- another portion also then comes from the lower SG&As. So these are the 2 biggest points here.

Manu M. Rimpelä^ Okay. Great. And if you look forward now based on the backlog for deliveries you have, which is clearly up for this year and also the probably quite a favorable outlook for service orders, which will be delivered during this year. So we are probably looking at the pretty sizable increase in your sales. So how should we think about the EBITA bridge for the full year given that what we've already seen is an exceptionally strong start to the year. So is there anything specific we should consider when thinking about the remainder of the year? Or is it a similar type of margin improvement pace if your sales continue to increase like this?

Kari Juhani Saarinen^ Well, of course, one thing, Manu, is such that if we now go for the second quarter, and then further on second half of the year, so activity level surely increases. And even though our organization has learned new ways of working, and we've done a lot like -- we have a lot of like digitalized ways to cooperate internally and also with the customers, so some travel costs. So most likely there's some increase on those. So that actually then means that the profit improvement comes from like top line development. And there, we guided now that our net sales increases and so that's the biggest source. Also, then if we look at the -- like the sales mix, so I don't expect any major impact coming from the sales mix because the capital business has been so strong. It's just -- this now comes from higher, higher volumes and also good execution.

Manu M. Rimpelä^ Okay. Great. And then finally, in terms of the Services business. So I think you mentioned that you didn't see any significant pent-up demand during the first quarter, but it was more return or normalization of demand. But considering the very good prices that the -- your customers, both pulp, board and tissue producers are enjoying at the moment, and also demand seems to be at a pretty good level, and we haven't been able to access the sites for most of last year. How do you think about the pent-up demand? Do you see that there is a lot of potential for field services and other kind of services to kind of meaningfully increase if the world -- or when the world opens up.

Pasi Kalevi Laine^ I would say the same that I have been saying earlier that my theory is that when the so-called pent-up demand comes, then we will come back to the levels where we were earlier in mill type of business, but it will not overshoot because customers have also limited resources to plan and execute shutdowns and smaller projects and the same with us and with our competitor. So it will go to a certain level, but we don't -- we will not see overshooting of those activities suddenly, and I still keep that theory.

Manu M. Rimpelä^ Okay. If I may follow up on that. So could you help us to understand how much we are below the pre-COVID levels in that part of the business to understand the [position]...

Pasi Kalevi Laine^ No, we were saying that order intake was at par with this new PTS and below last year in PES.

Manu M. Rimpelä^ Any percentage? How much we are below the or...

Pasi Kalevi Laine^ No, no.

Operator^ (Operator Instructions) There appears to be no further questions registered, So I'll now hand over back to the speakers.

Pekka Rouhiainen^ Okay. Thank you, everybody, for the questions and active participation, and thank you for the presenters, and it's now time to conclude this event. Q2 results will be published on July 22nd. And if somebody has some more questions popping into mind, so please just be in contact, and we will then solve those. But thank you, everybody, for now, and have a nice rest of the day.