Cargotec Q1 2011 Interim Report
Thurs, 28th April 2011
07:30 Hrs UK time

Chaired by Paula Liimatta

Paula Liimatta

Good morning ladies and gentlemen and welcome Cargotec's January/March conference call. We have today a small live audience here in Helsinki and a little bit more people on the phone lines. As earlier, we will have a presentation by our President and CEO, Mikael Mäkinen and after that we will have time to take your questions. We will start with the presentation, so Mikael, please.

Mikael Mäkinen

Welcome everybody. I'll spend 15-20 minutes presentation and then after that we'll take some questions and answers. January/March was actually an excellent quarter. The market grew in all segments and all geographies. Order intake grew by 37%, the operating profit increased to 6.6%. Yes, 6.6 is not our target, no, we're aiming for the 10 as we said before, but it's a good development. Cash flow was also strong. Although the working capital increased as you will see later and that's because of the volume. Volumes are going up so it buys capital. We also closed the Navis acquisition, which is a very important part of the development of the new Cargotec.

Market environment: as I said, the market has picked up in all segments and all geographies. If you look at the load handling equipment, it developed positively in loader cranes, truck mounted forklifts and tail lifts. Are there any areas where we have not seen growth? Yes, there is one area, one segment and that's construction related equipment in Americas, which is not a surprise, but that's of course offset by a fast development I other markets, so very happy about that.

Containers are now based on the information that we have also from the beginning of the year; we know that the container volumes are now at a record high level and they seen to further grow as well, so good developments here, especially on the rubber-tyred gantry cranes, it was very strong. We see a lot of customers buying 4, 6, 8, 10, 12 of those equipments, adding capacity to their existing terminals. Of course at the same time we see the number, as I explained during last quarter, we see the number of big projects still being around 10-12 big projects worldwide. Difficult to say when they will materialise, but there's a lot of activity around that as well.

Marine, surprisingly strong, I would say. We saw slight slowing down in the bulk carriers, still good at the first quarter, but going down. On the other hand a lot of interesting container vessel projects and special vessels projects. Services continues to grow. It has been slow, as you will see later, but now we see a number of refurbishment and modernisation projects.

Looking at the figures, orders this year at 819 million. A very good figure for the first quarter. Sales 763. Also we managed to pick up the volumes fairly well at the beginning of the year giving an operating profit of 50.6 million, very good figure for the first quarter giving us an operating profit of 6.6 compared to 2.4 one year ago.

Cash flow, as I said, I'll come back to that a bit later. Interest bearing debt, 335, also a good figure, giving an earnings per share of 0.59 cents. Industrial and terminal, I said earlier, grew at 29% year-on-year, 16% quarter-on-quarter, still of course especially on the industrial side a very European or EMEA type of business, but on the other hand the strong growth is now in Asia and we are well equipped for answering to that growth. Marine order intake continued healthy. No surprise that 70% of the orders come from Asia. Bulk was strong at the beginning of the quarter. Now, as I said, it's more container vessels and that's where I see the growth for the coming…I see a fairly good order intake for the coming quarters as well in marine based on the fact that the new ship types, container vessels, are very much in demand at the moment. Same the development I can see in industrial and terminal, good development for the coming quarters.

Sales grew by 41% in industrial and terminal, 34% year-on-year in marine; good development here again, very happy with that. Operating margin industrial and terminal, 4.7%, good number for the first quarters. Sales was a bit lower than the previous quarter, still the EBIT went up a bit. I'll come back to that when we talk about the forecast for the full year.

Marine profitability remains strong. We have been guiding that it will be a double digit profitability for the foreseeable future. It was going down last year. We have been able to pick up a bit more, but the long term target is to be about somewhere between 10 and 12 as I've said before, but now we are actually enjoying a fairly good market and that means that we can keep the profitability on a good level. Gross profit, we get the question about the gross profit, gross profit going down. This of course is a question of mix, it's also a question of the fact that we see some component increases, we see some inflation creeping in. We have increased the prices. The price increases cannot yet be seen in quarter 1, so it should turn in the following quarters. Nothing to be worried about, but on the other hand as we will say in the outlook that one worry is inflation and component availability, component prices. Cash flow remains strong, networking capital increased, as I said earlier, and that's very natural due to the increased volumes. We time all capital, we have to take in more components, we have more goods in transit, we have more work in progress.

Service sales; service sales have not grown as fast as I had hoped it to grow. That's a fairly flat development. It increased, yes, but I would have liked it to increase faster, but I think that what has happened in the world is that in many industries people after the recession are more cautious. They used their equipment a bit longer between overhaul, they are more cautious when they change the spare parts and so on, so I think that we have seen…I think that easy service in our business is not as easy as before. Is it a big worry? No. As I've always said, profitability on equipment, profitability on products is as important as profitability on service. We will never allow profitability on our products to go down just by having the, in my opinion, wrong thought that we will then gain it back to service and spare parts. Now we will treat them separately and they have to be profitable both parts.

Earnings per share, as I said earlier, yes, 0.59 is a good figure for the first quarter. Geographical change, not very dramatic. We can see a slow movement from EMEA to Asia; that's an ongoing trend and that's part of our strategy also is to be less dependent on EMEA and move more of our sales force, focus more on the emerging markets, which is then EMEA, but these days also I must say Africa and South America.

Navis acquisition; we finalised the acquisition. We took in the first quarter a transaction cost of €1.8 million. Those are the costs related to acquiring Navis. In addition to that you have to remember that our preliminary purchase price allocation calculation show that we will have an annual depreciation costs of approximately €5 million for a multiple of years. Something that is new to us is of course the deferred revenue and acquisition. The deferred revenue adjustment is a typical phenomenon that you have in software companies and that will decrease our post acquisition sales for slightly over a year and it's estimated to be around €10 million. That means that the Navis will have a limited impact on our consolidated sales and profitability in 2011. This doesn't mean that Navis is not profitable; it's a very profitable company. As you saw when we announced the purchasing price of the company that IFRS rules, this will not have an impact on our…a very small impact on our consolidated sales and profitability in 2011. It will then kick in, in 2012 and after that there will only be the purchase price allocation to be calculated in, which I said was around €5 million per year.

Strategic focus area, this is the same picture as you have seen before. Are there any developments since we met last time? Yes, there are. Are there any big developments that could be announced today? No, there are still customer and customer segments. We are working on the segments, we are developing the segments. Navis was a typical acquisition where we strengthened our ports and terminal segment. Emerging market, I've said that we have to have a good position in the Chinese market within 2011; that's still valid. We are working on it. There is nothing new to announce today, but I'm definite that we will have things to announce on that side as well during the year. Development in other growth markets, as I said, Africa starts to be a very interesting market, India, Brazil, Russia, Indonesia, Turkey and so on. We're working on all those markets as well.

Services, as I've said, spare parts logistics, very important. It gives fruit towards the end of this year, next year that we have a very efficient way of distributing our spares. Internal clarity, our biggest project, our ERP project has started very well. The pilot is going well and now we are starting the rollout phase. This is a huge project, you have to remember that, a multi year project. A major part will be handled within three years, the full project maybe takes five, six years. We are talking about a big investment here, but we believe that's a must for a modern company to be able to reach high profitability figures.

Last but not least, of course the ERP project ties not only capital, but a number of people, so we are employing a number of people who are working on these three to five years assignment of rolling out the ERP project. Another thing that you have to remember when you look at the personnel figures and the increases is of course that in those figures that you see, end of quarter one, they are the figures for the Navis employees as well.

Key priorities, I think I went through them just on the previous page, but the growing demand requires a lot from especially our sourcing. We have quite a flexible system. We have very modern, good factories. They can produce or assemble our products, good, but are we able to get in all the components on time? We already today see that some of the components , the delivery times are getting longer. The rubber price is getting up very fast. That means that the tyres are getting more expensive. Hydraulic components, hydraulic pumps, hydraulic cylinders, delivery times are going up. In my opinion, that's the first step before the prices start to go up. That puts a huge pressure on our sourcing department. Look at the…right suppliers make long term agreements, safeguard that we get the components on time at the right price, also give the feedback to the sales people, hey, here we have to increase the prices, there's a huge pressure on costs here and so on. Service growth, I already said earlier. Customer segments, nothing new to announce. Chinese market, as I said, our position there and the ERP project.

Taking all this into consideration and looking at the healthy order intake in Q1, we have refined our guidance for 2011. We say that we estimate that we will grow approximately 20%, so we are more bullish than when we met last time. We see a recovery in all markets. We see very interesting growth areas and we have of course done the efficiency improvement and they start to kick in now. On the negative side there is a cost pressure on the market; inflation, components, how much can you pass on to the end customer.

Last but not least we have also refined our operating margin guidance to say that it's approximately 7%. That's the best we can give today or the clearest figure bearing in mind what I said here earlier. It takes us well on our way towards our long term target.

That's the last slide. Thank you very much. Now it's time for questions.

Moderator

If there are any questions in the live audience, we can start with them. No questions here. This time we can take the questions from the people on the phone lines. Operator, please.

Questions and Answers

Johan Eliason – Cheuvreux, Stockholm

Obviously a very good growth outlook you're giving now, expecting top line to grow 20%. The margin of 7% if absolutely for sure better than last year, but if I look at the drop-through rate, it implies that on the additional sales you're only expecting a drop-through rate of 15-20% or so and we have seen a number of companies reporting drop-through rates between 75 to more than 100% as the first growth comes through. Why is this different from you? I understand marine is impacting this for sure, but still it looks quite modest, especially considering the cost savings you have been taking in the industrial and terminal division.

Thank you very much for the question. Of course we would like the drop to be much higher, but as I said earlier, I think that there is a very big cost pressure right now. Maybe this is a bit cautious, but we wanted to give a guidance in any market condition we feel that we can fulfil. The second thing is of course that you have to remember, as you said, there's a marine part of it, there's also within industrial and terminal. Of course the drop-through the operational leverage is much higher than the industrial, but now starts to kick in also big port projects, which changes the picture again, so that's why it's a very complicated picture.

Just one question on the demand here; you talk in Americas that the construction related customer is still at a low level; how does it look in Europe on the construction side?

It looks good on the north and the further south you go, the worse it gets. If you look at South Europe, then it's at a low level.

Finally, can you say anything about the competitive picture out there? Has it changed since the last peak, so to say? Have the Chinese become more aggressive on the ship to shore, etcetera?

Yes and no. Of course the Chinese are…when you talk about simple, big cranes, when it's all a question of how long below cost can you weld and manufacture a huge crane, then of course the Chinese are very competitive and that hasn't changed. On the smaller equipment, let's say the mobile, mobile equipment imports, I would say that we see more new Chinese competitors coming in. Will it change the picture? I think it's too early to say, because we have also seen the Chinese way of working is that they develop a lot of new products, they test the product, they sell a few of them and then they disappear from the market, so it's difficult to say, but if you take a medium term, definitely there will be one or two Chinese players that will be one of the top players in the market.

Sebastian Ubert – UBS, Frankfurt

Just one quick question regarding your guidance, that 7% EBIT margin target; am I correct in saying that this does not include the PPA or is it including PPA so that it's post that 5 million charges?

Good morning Sebastian, this is Eeva Sipilä. The guidance includes everything. It does include also the PPA depreciation. It is the reported EBIT we are talking about to hopefully make your life and our life a bit more simple.

Then maybe one follow up question. Can you remind us on the PPA you still have () division?

We haven't reported PPAs in the two segments separately, but overall from the previous years we have roughly a couple of million Euros of PPA coming through still this year and on that then you should add what our President and CEO said on Navis, approximately 5 million.

Sasu Ristimaki – Carnegie, Helsinki

Could you please elaborate a little bit on the structure of the order intake in industrial and terminal in terms of what are you seeing in lift trucks, port equipment and then the truck mounted business?

Industrial and terminal order intake, are you talking about what we have seen or what we see going forward? I could not get that.

Both I suppose in terms of what has been driving the order number in the first quarter. You have a very big nice order figure there, but just to get an understanding of where the demand is coming from and then just in terms of outlook for the next, let's say, six months *or so, what do you think the incremental growth will come from which () accelerating, maybe decelerating and so on.*

If you look at the quarter one, it comes from both the industrial and terminal sides, so both of them have been growing and at almost the same pace. If you then go forward, of course we see a healthy order intake in the coming quarters and that will be then, as I said there's a number of big port projects, so when they start kicking in then it will move more towards the terminal side from the industrial side, the balance, that's how I see the coming six months.

Is there a big profitability difference between how those two sides are developing at the moment; are both markets pretty much equally attractive for you?

It's not only the market's profitability, it's also the products, so you have to look at it product by product, but of course industrial, as I said, has a higher operational leverage of bringing up the industrial part, has a quicker impact on the profitability, while on the terminal side it's really a question of what type of equipment you have. If you have a mix of very big cranes, they normally have a lower profitability than the smaller terminal equipment, so it's again a question of what type of equipment do you have within the terminal side.

Antti Suttelin – Danske Markets, Helsinki

Can you hear me?

Not very well.

Okay, I'll try to speak loud. I've just a question on the marine order intake. You report these strong orders again in the marine segment. I just wonder should we expect at some point the decline in ship orders, which we saw in 2009 should start to impact the order intake in marine.

Of course at some point lower order intake of ship will affect the marine, but for the coming quarters not. We see a big number of very interesting projects. As I have said earlier, it's also again a question of mixture type of ships. One offshore vessel, one row-row(?) vessel gives us five to seven more revenue than a normal cargo ship. You have to analyse it a bit more in detail – what are the ship types that are coming. As I said earlier – container vessels are now picking up, there are a number of very big containerships that have been ordered, they are extremely interesting for us from revenue points of view.

Should this mean that when we look into say 2012 and 2013 order intake, you would not expect a dramatic fall compared to the levels we have seen, now in the quarter or in 2010.

2012 and 2013 is quite far away, but you shouldn't expect a big drop 2011. Then those ships that are ordered now they can affect then 2012 yes, but then it is a question of what types of ships they are and so on. It is difficult to talk about 2012 and 2013. But in the foreseeable future the order intake will be good in marine.

Closing Comments

I think then I would like to thank all the participants and wish you a good day, thank you.