SIEMENS ENERGY

Energy Transition / Europe

Another profit warning

August 2023

Siemens Energy has posted a higher-than-expected charge €2.1bn charge due to recently announced SGRE issues. Most of these costs occur onshore, but offshore also faces challenges. This came at a time when the Group's gas and power businesses continued to perform strongly. Order activity and revenue growth were strong in the quarter, but profitability was severely impacted. As a result, Siemens Energy has lowered its earnings guidance of the full year.

We remain cautious on the sector as ongoing inflation and lack of visibility regarding governments help do not support strong confidence.

Main Elements

- FCF of €-53m vs. €-114m in Q3 FY22
- Revenues of €6.5bn, up 3% yoy, 7.0% comparably
- Orders of €14bn, up 50% yoy, 54.1% comparably
- Profit before SI of €-2.2bn vs. €-200m in Q3 FY22
- Order backlog of €107.0bn, up 15% yoy

Revised FY23 outlook

- Profit margin before SI of -7% to 9% vs. (vs. low end of 1-2% previously
- Net loss of c. €4.3bn (vs. >FY22 level by low triple-digit millions previously)
- Comparable revenue growth of 8-10% (vs. 10-12% previously)
- FCF pre-tax of negative triple-digit millions (vs. positive low triple-digit millions previously)

Our view

SGRE's contribution of €2.1bn more than offsets the strong performance in other regions. Siemens Energy's third quarter figures related to the financial impact of ongoing issues with its wind turbine unit. The initial forecast was 1.2bn euros. And the price was more than double. Of this €2 billion expense, €1.4 billion was onshore and €500 million offshore. On land, wind turbine repairs make up the bulk of the cost, followed by maintenance and additional charges due to contractual obligations. The problem was related to a defective knife or main bearing. The group estimates that 3.5% of all installed fleets are affected by this issue. The current negative order backlog (€5.1 billion) exceeds €3 billion. The main part is scheduled to be booked in 2024 and 2025. However, outflows may occur after 2025 due to liabilities related to the services business. For offshore, charges relate to additional material costs. The cash impact of these costs will spread over the years, with outflows expected to be in the range of 2 million to 3 million this year.

Another good quarter came from Bar SGRE, the other three businesses that make up the former Gas & Power business. With a backlog of €108 billion, he has €52 billion ordered for new units and the rest for services. Similar sales growth for these companies was 9.8%, and profit margins remained strong. About 36% of revenue in the quarter came from services, with a similar growth rate of 7%. The G&P business had a profit before special items of just over €0.5 billion and SGRE had a loss of €2.6 billion. The Group's net debt amounted to EUR 915 million. At the end of the third quarter, he had cash and cash equivalents of €4.2 billion and total available liquidity of €9.3 billion.

- **Deeper view**

Gas Services (GS) – orders fell 15% year-on-year (15%) to €2.1 billion, reflecting lower volumes of new units for large gas turbines. The order backlog was €40 billion and the book ratio was 0.70. With strong growth in both new units and services, revenue increased 13% year-on-year (20% year-on-year) to €2.5 billion. 294 million euros before special items, up 90% year-on-year, supported by increased sales, operational improvements and a favorable business mix. Margin increased 450 basis points to 10%.

Transformation of Industry (TI) - Orders increased 6% year-on-year (13%) to €1.2 billion. The order backlog was €6.5 billion and the book ratio was 1.21. Revenues increased 6% year-on-year (+9% year-on-year) to €1.1 billion, with all four independently operated companies reporting growth. Earnings before special items improved significantly to €69 million. This is likely due to an increase in the proportion of services and an improved cost position through structural capacity adjustments. Margin increased by 488 basis points to 6.3%.

SGRE – Significant offshore orders valued at €2.2bn, driven by strong growth in services, despite lower onshore orders. The total backlog was €38.7 billion (€18.4 billion in services) and the book-to-invoice ratio was 3.58. Sales fell by 15% year-on-year (down 11% on a comparative basis) to €2.2 billion, due to declines in both equipment and services businesses. Before exceptional charges, -2.6 billion euros were impacted by charges of 2.1 billion euros and higher product costs.

The outlook for FY23 may cover all impacts, but medium-term cash flow generation may be delayed.

After withdrawing its earnings forecast, the group slightly revised its comparable sales forecast and sharply lowered its profit forecast. As a result, the net loss is expected to be much higher than expected and the FCF is expected to be negative. Management believes these charges may be the cause of the issues currently identified. However, due to limited operational field data, these estimates represent a best approximation based on probabilistic models. In addition, capital outflows over the next few years also need to be quantified. This also applies to the long-term impact on service businesses. At an analyst conference, management said details will be announced at CMD in November. However, with or without these insights, the medium-term cash flow prospects don't look so good.