

FUGRO

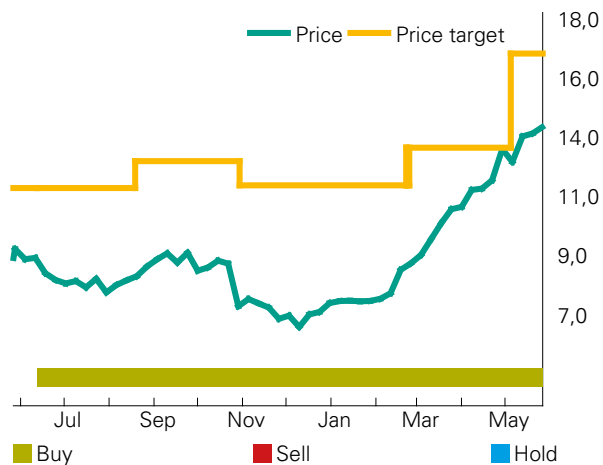
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Key data

Sector	Energy
Country	Netherlands
Ticker	FUGR NA
ISIN	NL00150003E1
12 months high	13,75
12 months low	6,29
Beta (5-yr)	1,43
Market cap	1,38 bn

Price, Price target and rating (EUR)



Accumulated performance as of 26-05-2022

	1Y (%)	2Y (%)	3Y (%)	4Y (%)	5Y (%)
FUGRO	+52,71	+435,70	+138,53	+36,95	+36,95
AMSTERDAM...	-3,95	+28,39	+25,02	+21,56	+29,70

Performance per calendar year as of 26-05-2022

2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 YTD (%)
-10.40	-42.64	+33.03	+2.43	-11.10	+94.96

Ratios

P/E LTM	19,83x
P/E NTM	15,58x
Price/book ratio current year	1,48x
Div Yield	0,00%
ROE	7,84%
1 YR EPS Growth	-123,93%

Rating (11 June 2021, 18:55 CEST)	Buy
Price Target (04 May 2022, 11:30 CEST)	16,50
Price (26 May 2022, 10:54 CEST)	13,76
Currency	EUR
Prev. Rating	n.a.
Competitive Advantage	Not Rated
Uncertainty rating	Not Rated
Sustainability indicator	Moderate
ODDO Analyst	Thijs Berkelder
Title	Equity Analyst
Contact ABN AMRO	Jan Wirken
Email	jan.wirken@nl.abnamro.com

Rating history

Date, time	Rating	Price	Currency
11 June 2021, 18:55 CEST	Buy	8,92	EUR

Fair value / Price target history

Date, time	FV/PT	Price	Currency
26 May 2021, 11:15 CEST	11,50	8,90	EUR
11 June 2021, 18:55 CEST	11,50	8,92	EUR
18 August 2021, 11:31 CEST	12,50	8,07	EUR
29 October 2021, 11:30 CEST	11,60	7,33	EUR
21 February 2022, 11:51 CET	11,60	8,75	EUR
23 February 2022, 10:26 CET	13,00	8,46	EUR
04 May 2022, 11:30 CEST	16,50	12,95	EUR

Company description

Fugro N.V. collects, processes, and interprets geological data. The Company collects data at sea, on land, and from the air of land areas and the sea bed. The data is used in building offshore oil platforms, tunnels, roads, pipelines, factories, and communications cables, and to explore for oil, gas, and minerals. Geological engineering company Fugro helps the oil and gas, mining, and construction industries stay in touch with what lies beneath through three operating divisions. Its Survey unit offers geophysical surveys, inspection services, oceanographic mapping, aerial photography, and global positioning services. Fugro's Geotechnical division provides design and construction services, including pavement engineering, pipeline engineering, drilling, materials testing, structural monitoring, and foundation analysis and modelling, and primarily serves the oil and gas industry. Its Geosciences operations provide seismic and gravity surveys, reservoir services, and airborne mineral and petroleum exploration. The Company operates worldwide.

Investment case

In November 2018, Fugro launched its 'Path to Profitable Growth' strategy, with the plan to become the world's leading geodata specialist. It defined three objectives: Capture growth in energy & infrastructure by pushing volumes higher through its market-leading platforms and making its pricing mechanism smarter while improving efficiency; Differentiate via integrated digital solutions to maintain its market leadership, but also to deliver on its efficiency improvement goals; Leverage core expertise in new growth markets, understanding that its dependence on oil & gas has been too high in the recent past.

Fugro is expanding in markets such as 'water supply', 'ocean mapping', 'flood protection' and 'secure positioning'. Four key factors led us to become more positive: Refinancing. In December 2020, Fugro successfully refinanced its balance sheet and it now is free to invest and grow again; Oil price. The recovery in the oil price (Brent back above USD 100/bbl) is stronger than expected and should help Fugro to partially recover its lost oil & gas revenues (-40% in 2020e, now 57% of Fugro's Marine revenues); Increasingly less dependent on oil & gas (from 74% in 2015 to 39% in 2021) and more dependent on infra, nautical and renewables. New US administration. The election of Joe Biden has resulted in the US re-joining the Paris climate agreement, supporting strong expected growth in offshore wind (+35% in 2021, now c.30% of Fugro's Marine revenues).

In our view, Fugro is thus at the starting point of multi-year growth. On the basis that it is again able to optimise its fleet utilisation, we expect Fugro to step-by-step return to at least the low end of its medium-term targeted EBIT margin range (8-12%) and soon be able to refinance its debt at much more attractive terms. The latter issue, in our view, will probably be the key catalyst for a further re-rating in the share price.

Valuation, growth and profitability

In our 2022-2024e recovery scenario, we now assume that Fugro by 2023 will have returned its EBIT margin to 8% (Fugro's mid-term target at 8-12%) and its EBITDA margin to around 14%. In our view, Fugro is at the starting point of multi-year growth. Assuming that Fugro in 12 months will again trade at 6x EBITDA (more or less in line with offshore peer group), but then based on 2023e, we today arrive at our target price of € 16.5. Realize that this target price from an EV/EBIT (10.5x 2023e) and PER (12.3x) perspective still implies a clear discount compared to peers.

Pros

World market leader in geo-data for site characterisation and asset integrity#1 in Marine hydrography, geophysical survey, geotechnical investigation, metocean#2 in Marine positioning, #3 ROV operator, #1 in nearshore geotechnical2 5-30% exposure to renewable marketsThe future is remote, unmanned, using robots, USVs, Asvs, etc. = cost savingsStep-up in demand is step-up in utilization, to bring EBIT margins back to 8-12%Growth in number of remote operating centersROCE should be 10+%, has been low single digit since 2014, but in 2021 back to 8+%.

Cons

With leverage back to 1.7x, refinancing of expensive term loan is in sightVast majority of profitability in Marine operations North SeaPerformance Middle East and Asia Pacific for now laggingROV fleet old & still limited expansion in unmanned fleetUnmanned fleet and robots are to replace manned fleet at much lower pricesCompetitors such as Boskalis, Acteon and Geoquip expand fleet and skillsFocused survey newcomers with unmanned fleet: Ocean Infinity, Xocean, etc.Still c. 20% exposure to oil market

Weaknesses & Risks

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