Aker Solutions Reports Second-Quarter 2014 Earnings Ahead of Split

17.07.2014 | Globenewswire Europe

July 17, 2014 - Aker Solutions is on track with a plan to split into two companies at the end of September, including one that will keep the current name and be comprised of the Subsea, Umbilicals, Engineering, and Maintenance, Modifications and Operations (MMO) areas. Pro forma second-quarter revenue for the new Aker Solutions rose to NOK 8.1 billion from NOK 7.5 billion a year earlier, helped by a 13 percent increase in sales of subsea equipment and services. The new company's pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) increased to NOK 592 million in the quarter from NOK 481 million a year earlier.

Pro forma revenue for the other company, which will be called Akastor and include Drilling Technologies, Aker Oilfield Services, Process Systems, Surface Products and Business Solutions, climbed 25 percent in the second quarter to NOK 6 billion. The company had a pro forma EBITDA loss of NOK 129 million in the quarter versus a profit of NOK 303 million a year earlier. The earnings were impacted by one-off items totaling NOK 451 million, including a previously announced provision on the Aker Wayfarer, a vessel in the Aker Oilfield Services unit.

"We've taken huge strides since announcing the split in April - putting in place new management teams and structures for the two companies," said Øyvind Eriksen, Aker Solutions' chairman. "Today we are also announcing the first pro forma earnings figures for these companies."

New management structures were put in place this month as Luis Araujo, formerly regional president for Aker Solutions in Brazil, on July 1 became chief executive officer of the new Aker Solutions. Frank Ove Reite, formerly managing partner at Converto, became CEO of Akastor. Øyvind Eriksen has been nominated as chairman of the board of both the new Aker Solutions and Akastor.

Revenue at the current Aker Solutions rose 17 percent to NOK 13 billion in the second quarter from NOK 11 billion a year earlier. EBITDA fell to NOK 429 million, compared with NOK 786 million a year earlier. The EBITDA margin narrowed to 3.3 percent from 7.1 percent a year earlier. Earnings were impacted by impairments and a provision totaling NOK 1.6 billion on assets and goodwill of the Aker Oilfield Services business, which will be part of Akastor after the split. Excluding one-off items, the margin was 7.5 percent in the second quarter of 2014.

New Aker Solutions Margin
For the new Aker Solutions, excluding demerger costs and hedges not qualified for hedging accounting, the pro forma EBITDA margin widened to 8 percent in the quarter from 6.8 percent a year earlier, helped by improved operations at the umbilicals plant in Norway, higher capacity utilization for Engineering and good progress on key subsea and engineering projects, including the Johan Sverdrup development. This was somewhat offset by weaker performance for MMO, which had issues with some final project settlements and overcapacity caused by lower demand for maintenance and modifications services offshore Norway.

The new Aker Solutions' order intake in the quarter rose to NOK 21.4 billion from NOK 6.4 billion a year earlier, boosted by major subsea contract awards, including a NOK 14 billion order from Total to deliver the subsea production system for the Kaombo development offshore Angola. This brought the order backlog to NOK 54 billion at the end of the quarter compared with NOK 41 billion a year earlier.

"Subsea's order intake was at a record high in the quarter and our focus now is on delivering successfully on these projects," Eriksen said. "We also took steps in the quarter to adjust capacity in our Norwegian MMO business, which is being affected by lower demand as oil companies reduce spending plans."

Aker Solutions started transferring employees to a new subsea engineering hub in Stavanger and used the Aker Advantage recruitment agency to help more than 200 MMO employees find alternative work in the group or with other companies.

Akastor Margin
Akastor's EBITDA was impacted by one-off items totaling NOK 451 million, including demerger costs and a provision on future lease commitments of the Aker Wayfarer vessel. There were also gains on hedging, not-booked mobilization fees and a gain from the sale of shares in Expo Hotel Fornebu. Excluding these one-off items, Akastor had a pro forma EBITDA margin of 5.8 percent in the quarter versus 6.4 percent in the same period last year.

Earnings before interest and taxes (EBIT) were also impacted by NOK 996 million in writedowns of assets in Aker Oilfield Services. Akastor had a pro forma EBIT loss of NOK 1.4 billion in the quarter, compared with a loss of NOK 247 million a year earlier.

The company's order intake decreased to NOK 4.6 billion in the quarter from NOK 5 billion a year earlier as Drilling Technologies won fewer contracts amid an oversupply of drilling rigs that caused rig operators to put new projects on hold. The backlog amounted to NOK 13.9 billion at the end of the quarter, compared with NOK 15.8 billion a year earlier.

Outlook
"In the new Aker Solutions, the favorable trend continues for the subsea, umbilicals and engineering businesses, while the MMO business in Norway faces a continued challenging market over the next couple of years," Eriksen said.

"Capital discipline is currently the most important driver for exploration and production companies and is expected to remain tight over the next 1 to 2 years after which we anticipate the next wave of projects," Eriksen said. "Our job is to balance short term capacity adjustments with positioning ourselves for the next wave of field developments."

The new Aker Solutions is well-positioned in the fast-growing deepwater and subsea segments and sees opportunities for further growth in markets including Brazil, the North Sea, Atlantic Canada, Mexico, Angola and West Africa.

The new Aker Solutions' high order backlog gives confidence in a robust medium-term outlook. Key wins in Brazil, Angola and Norway, including the Kaombo and Johan Sverdrup contracts, also bolster the longer term outlook for the company.

Akastor's portfolio of businesses provides opportunities for growth in key markets across the world from West Africa to Saudi Arabia and to Southeast Asia. Drilling Technologies, the world's second-largest offshore drilling systems and life-cycle services company, is expected to benefit from growing demand for services on its installed base of equipment.

"Each Akastor business will be developed independently to unlock its full potential, be it through organic growth, strategic partnerships or M&A activity," Eriksen said. "An allocation strategy should be developed at an early stage to make sure the capital invested yields the best shareholder returns possible."

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2Q 2014 Presentation:
http://hugin.info/77/R/1828272/633800.pdf

2Q 2014 Report:
http://hugin.info/77/R/1828272/633801.pdf

Source: Aker Solutions ASA via GlobeNewswire
[HUG#1828272]