Transcription

Subsea 7 Fourth Quarter and Full Year 2019 results

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26 February 2020

PRESENTATION

Operator

Hello, and welcome to the Subsea 7 Fourth Quarter and Full Year 2019 results. Throughout the call, all participants will be in a listen-only mode, and, afterwards, there will be a question and answer session. Just to remind you the conference call is being recorded.

Today, I'm pleased to present John Evans, COO; Ricardo Rosa, CFO; and Katherine Tonks, Investor Relations Director. Please go ahead with your meeting.

Katherine Tonks

Thank you, and welcome everybody. With me on the call today are John Evans, our Chief Executive Officer, and Ricardo Rosa, our Chief Financial Officer. The results press release is available to download on our website along with the presentation slides that we'll be referring to on today's call. Turning to slide two, may I remind you that this call includes forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording can also be found in our press release. And now I'll turn over to John.

John Evans

Thank you, Katherine. Good afternoon, everyone, and welcome to our 2019 results conference call. I will cover highlights of our performance before handing over to Ricardo, who will cover our financial results in more detail. I'll conclude with an introduction to our two main strategic focus areas and the market outlook. At the end of the call, we'll take your questions.

But first I want to say a few words on the changes we've made this year to our leadership team. As you know, the retirement of Jean Cahuzac and CEO succession has been planned for some time, and as of January, I've taken over leadership of Subsea 7. We've also strengthened our executive management team, adding three new members, and I would like to take this opportunity to welcome Olivier Blaringhem, Phil Simons and Steph McNeill to their new positions. Olivier is heading up our SURF and Conventional business with all the regions reporting to him, and Steph oversees our Renewables business unit. Phil is in charge of Projects and Operations and is responsible for all our operational, fleet, digital and IT functions that provide services to all business units. Together, they have nearly 90 years of experience in this industry, and I'm very pleased to welcome them to the Executive Management Team. Our Subsea Integration Alliance and strategy activities continue to be overseen by Stuart Fitzgerald.

Now, turning to slide four, I'd like to talk to you about our highlights for the year. In 2019, we reported $3.7 billion of revenue, 10% lower than the previous year, mainly due to a lower contribution from the Renewables and Heavy Lifting business unit after the completion of Beatrice, as well as the timing of some awards on the SURF and Conventional side. Fourth quarter revenue was $889 million, with 85% generated from our SURF and Conventional business unit.

Adjusted EBITDA for the full year was $631 million with a margin of 17%, while margin in the fourth quarter was 19%. This was driven by good operational performance as well as some commercial settlements on some projects. Total vessel utilisation was 66% in the quarter, reflecting the impact of seasonality in the North Sea, as well as a low level of activity in the renewable segment. In 2019, we took the opportunity to adjust our balance sheet, and we returned $304 million in surplus cash to shareholders, whilst retaining a strong liquidity position of over $1 billion in cash and undrawn revolving credit facilities.

While we are confident of the improving conditions in our markets, in view of the current global economic uncertainty and market volatility, combined with a change in law impacting the continued validity of our advanced tax agreement with the Luxembourg authorities, which we are still evaluating, the board of directors does not recommend the payment of a special dividend to the shareholders at the AGM on the 7th of April 2020. Rather, the group will manage its returns to shareholders through the current US$200 million share repurchase programme.

On slide five, our order backlog at the year-end was $5.2 billion with new order intake of $3.9 billion, meeting our expectation of a book-to-bill ratio of above 1, despite some big orders slipping into 2020. The solid inflow of orders, comprising 18 announced new awards during the year, covered all business units and demonstrates our ability to deliver cost-effective solutions in a macro environment that remains challenging. We have $3.3 billion worth of work for execution in 2020. This represents 79% of consensus revenue for this year; a healthy level of visibility that is more or less the same as this time last year.

Turning to slide six, we see some of our recent operational highlights. Our offshore execution remains strong in the quarter with an emphasis on safe and reliable execution worldwide. In the US Gulf of Mexico, the Seven Borealis performed the first pipelay campaign on the Vito project. The Burullus 9B Project completed its 2019 campaign with the Simar Esperança installing jumpers offshore Egypt, and the engineering work for our 2020 campaign is well underway.

The Zinia project has continued with engineering work for the 2020 offshore campaign and started fabrication phase in the Sonamet yard in Angola. The PRP 6 project, offshore Brunei, has reached a significant milestone with the completion of topside work, and all flexible flowlines were installed by the Seven Eagle. Meanwhile, in the Middle East, we made good progress on the Berri-Zuluf project in Saudi Arabia. Lastly, fabrication of the Arran Project, offshore UK progressed well in the quarter at our spool base in Scotland.

In Renewables, we continue to fabricate the array cables for the Yunlin project, which will be installed offshore Taiwan later this year. Life of Field continued to deliver good uptime on the long term contracts with BP in the UK, Shell in the Gulf of Mexico, and Equinor in Norway. In Brazil, our four PLSVs remained highly utilised in the quarter with no significant downtime. Three of the vessels are on firm contracts to 2021, and one firm until 2022.

Turning to slide seven, in 2019, we added Sustainability to our existing five values and set up a new team to manage our ESG reporting. We are proud to be publishing our first sustainability report to coincide with the publication of our annual report. Inside the report, you will find details of our strategy, KPIs and targets, and I'd encourage everyone to read it when it's released in March.
I will now hand over to Ricardo to present our financial results in more detail.

Ricardo Rosa

Thank you, John, and good afternoon, everyone.

Slide eight shows the highlights from our income statement. Fourth quarter revenue was $889 million, taking the full year 2019 to $3.7 billion, down 13% and 10% compared with the respective prior year periods. Full year activity in the SURF and Conventional and Life of Field business units was in line with 2018, but declined significantly in Renewables and Heavy Lifting.

In 2019, we generated adjusted EBITDA of $631 million, down 6% year on year, but in the fourth quarter, adjusted EBITDA was $168 million dollars, an increase of 3% from the fourth quarter last year.

The percentage margin for adjusted EBITDA was 17% for the full year and 19% for the quarter, both benefiting from solid execution as well as certain favourable commercial settlements partly offset by greater seasonality, mainly affecting activity in the North Sea compared with the prior year. In the fourth quarter, we recorded a $100 million goodwill impairment charge relating to the Renewables and Heavy Lifting business, driven by lower utilisation of the heavy lifting vessels and the highly competitive wind turbine foundations market. We also recorded a $70 million asset impairment charge, mainly relating to two older vessels previously active in SURF and Conventional that are candidates for disposal. Our net loss for the quarter was $129 million. Adjusting for the goodwill impairment charge, we incurred a net loss of $29 million in the quarter, and generated net income of $18 million for the full year 2019. Adjusted diluted loss per share was $0.12 for the quarter, reducing the equivalent earnings per share to five cents for the full year.

Slide nine provides more detail behind the income statement. A few points are worth mentioning here.

Administrative expenses improved by $6 million in the quarter and $18 million for the full year, compared to the prior year periods. This was mostly due to tight control of costs throughout the group, combined with our successful efforts in the year to resize the organisation of the renewables and heavy lifting business. Depreciation and amortisation increased by $14 million in the quarter, and $54 million in the full year, mainly reflecting the implementation of IFRS 16 on leases in 2019, partly offset by lower charges in respect of property, plant and equipment and Intangibles. Other gains and losses reflected a $22 million adverse swing from 2018 to 2019, mainly related to foreign exchange movements. The $2 million dollar tax credit in the fourth quarter and the $30 million tax charge for the full year were not impacted by the goodwill and asset impairment charges, which had limited beneficial tax effect.

Moving to slide 10, to look at our performance in more detail, starting with our performance in the fourth quarter. Our SURF and Conventional business unit generated 85% of the group's revenue in the quarter with notable contributions from the Vito and Katmai projects in the US Gulf of Mexico, as well as good progress on the Berri-Zuluf project in Saudi Arabia, and solid utilisation from the PLSVs on long-term contracts. However, in absolute terms, revenues fell year on year, mainly due to the inclusion of work on the West Nile Delta project earlier in the year. Renewables and Heavy Lifting’s revenue at $59 million was $23 million lower in the fourth quarter compared to the prior year period, following the completion of the Beatrice project in the first quarter of 2019, while revenue in Life of Field showed a marginal $3 million improvement.

SURF and Conventional’s net operating income of $33 million was impacted by vessel impairment charges and lower vessel utilisation, mainly in the North Sea, but benefited from commercial settlements on certain completed contracts. Renewables and Heavy Lifting reported $129 million net operating loss in the quarter, or $29 million after excluding the goodwill impairment charge. The deterioration from the prior year period was due to lower vessel utilisation and the competitive price environment. Life of Field incurred a net operating loss of $3 million, an improvement of $14 million on the prior year. For the full year, the group's net operating loss was $23 million, equating to net operating income of $77 million, after excluding the goodwill impairment charge.

On slide 11, we've summarised our 2019 expenses, divided into four main categories. Last year, we highlighted the tight rein we had kept on costs as the offshore recovery got underway, and this cost discipline has been maintained.

Vessel and other costs, which included impairment charges, are unchanged at approximately half a billion dollars. We ended the year with 35 vessels in our fleet, two more than 2018, with the acquisition of the diving vessel Seven Pegasus and the chartering of an additional Life of Field vessel. Our continuing strategy is to own the high-end or specialist vessels, so that we have full control of their availability for our projects, and supplement this with chartered vessels to provide additional capacity when needed. We continually look for ways to be more efficient with our fleet, saving costs as well as reducing greenhouse gas emissions. Seven Viking successfully completed its first full year of operations since it was converted to hybrid power, with a reduction in CO_2 emissions of 19%, in line with our expectations.

Our personnel costs remained flat at approximately $1 billion in 2019, despite the integration of acquired businesses, reflecting our constant focus on optimising resources. Direct project costs are a function of the volume, mix and phasing of our activities and the pricing environment for procurement. In 2019, we saw a $400 million increase in our procurement costs, driven by the mix and phasing of our portfolio of projects. In 2019, we saw no significant supply chain price inflation, but this risk will become more prominent as the industry-wide recovery in offshore oil and gas projects continues.

Slide 12 shows our cash flow waterfall for 2019. Our 2019 operating cash generation was robust at $357 million and included an improvement in working capital of $23 million in the fourth quarter, driven by an improving receivables profile. Our investment in working capital, nevertheless, remains relatively high and is a target for improvement in 2020. We ended the year with $398 million in cash and cash equivalents, and a net debt position of $181 million when IFRS 16 lease liabilities are included. A $367 million dollar reduction in cash compared to the prior year reflected $26 million invested in acquisitions, $258 million of capital expenditure, and $304 million in cash return to shareholders.

And turning to slide 13. 2019 was a year of disciplined capital allocation. We continued to invest in the business, both organically with the ongoing construction of our new reel-lay vessel, Seven Vega, and through acquisition, extending our capabilities and early engagement and digitalisation with the addition of Xodus and 4Subsea. At the same time, we signalled our commitment to capital discipline with the return of excess cash to shareholders while maintaining an investment grade profile. We have a mandate granted in July 2019 for a further $200 million in share repurchases, and expect to utilise it with appropriate regard to our three priorities for capital allocation.

Finally, turning to the outlook for 2020. Our guidance for revenue and adjusted EBITDA in 2020 is unchanged since the third quarter, with both expected to be higher in absolute terms year on year. Our administrative expenses are expected to range between $260 million and $280 million, in line with last year, as we maintain cost discipline despite the increase in tendering activity. Our net finance cost is expected to be between $10 million and $15 million. Depreciation and amortisation expense is expected to fall between $500 million and $520 million. Our effective tax rate is anticipated to range between 30% and 32%, reflecting the anticipated geographic mix of activity in the year. Capital expenditure is expected to be between $270 million and $290 million, marginally higher than the $250 million spent on assets and intangibles in 2019, but well below forecast depreciation for the year. This range includes approximately $70 million for the new rigid reel-lay vessel, which is under construction for delivery in 2020. I will now pass you back to John.

John Evans

Thank you, Ricardo. Turning to slide 15. I'd like to talk to you about our two strategic focus areas: the Subsea Field of the Future and energy transition. These focus areas will provide direction and clarity on the strategic, organisational and operational bases that will guide us for the foreseeable future, and you'll see us discuss the company in the context of these themes regularly throughout the coming years. Many of the initiatives are already relatively mature within our organisation, and the intention is to further develop them to enhance our capabilities and to position Subsea7 to create differentiation and seize opportunities in our evolving energy sector.

The Subsea Field of the Future is about systems (what we're offering to our clients) and delivery (how we're delivering those systems to our clients) and is based on four pillars: early engagement, system innovation and enabling products, integration, and digitalisation. As you've heard us say before, early engagement has been a structural change to the Subsea market and has gained significant momentum over the last 24 months. We've embraced this change and are well-positioned through our Field Development Group, the acquisition of Xodus, and the launch and growth of the Subsea Integration Alliance. Innovation is key to the Subsea Field of the Future. We discussed some of our new technologies at our Investor Day last year, and we will share other ways we are creating value for our clients in the coming quarters.

The integration piece you are very familiar with by now. We've embraced the integration of SPS and SURF solutions with some notable successes recently. Our efforts with OneSubsea have firmly positioned us as a market-leading, integrated supplier worldwide. Finally, our digitalisation agenda covers both project execution as well as seeking future digital revenue streams, as we have started with 4Subsea.

On the right-hand side, we have the big topic that the whole hydrocarbon industry is grappling with: the energy transition. Our energy transition strategy covers investment in Subsea technologies to support low carbon, gas and L&G developments, and of course, renewables, where we target the offshore wind market.

Turning to slide 17, we're proud of the recent achievements of the Subsea Integration Alliance: our partnership with OneSubsea. Both partners have put a lot of time and effort into making this alliance a success, and this has been borne out by recent contract awards. In 2019, we won 56% of the market share that was bid competitively, with notable awards on large projects in Australia, Senegal and, most recently, in Brazil. The market remains competitive, but awards to date clearly demonstrate that we offer an attractive proposition to clients. Integrated solutions create opportunities for differentiation and optimised solutions for our clients, particularly on greenfield projects.

Slide 18 illustrates some of our larger awards and show our worldwide reach from the Americas to Africa and Asia Pacific. These projects also demonstrate our success in early engagement, which is particularly effective in an integrated context. Bacalhau is a recent FEED award that is expected to convert the full EPCI towards the end of this year. And Scarborough is the final part of our trio of projects with Woodside, alongside Julimar and Sangomar, which should convert to EPCI this year.

Now, changing tack to the other focus area: energy transition, shown on slide 20. The global demand for renewable energy continues to grow, supported by increasing pressure to limit greenhouse gas emissions. Our expertise in wind turbine foundations and in array cables, as well as project management, procurement, engineering and installation have already helped to lower the cost of wind farm developments. We've installed more than 500 monopile foundations, over 100 jacket foundations, and more than 1,500 kilometres of inner-array cables. Although we have a wide range of clients, our competitive advantage lies with two main groups: those with an international reach, and those that adopt an EPCI contracting model. We can leverage our existing global organisation to support clients in expanding their developments outside Northern Europe. And we're obviously ready to support our oil and gas clients with their energy transition journey as they invest more in renewables.

Finally, today, we turn to slide 21, and present our outlook for future awards. Tendering activities have increased over the last year, and we estimate we are working on SURF and Conventional bids worth around US$11 billion, up from US$9 billion this time last year. This increase comes despite continuous oil price volatility, and demonstrates the industry success in reducing the economic break-even of projects. While contract pricing is only gradually improving, we do see vessel availability tightening for certain SURF projects in 2022 and 2023. Renewables remains a challenging market for now, but we are confident that the growth in demand will absorb the current oversupply on the supply side, and this will be a profitable growth market for Subsea7. We see on the horizon a mix of stand-alone and integrated SURF and conventional work along with several renewables projects. We’re expecting 2020 to be a solid year for order intake. On the slide, you can see some of the projects in our bidding pipeline.

To summarise, we position ourselves well to deliver value to all our stakeholders as the offshore market continues to recover and as the energy transition market grows. We are focused on continuing our strong track record of successful execution in 2020, delivering quality services to our clients and on capturing new profitable opportunities to grow our business over the coming years. With that, we’ll wrap up our prepared commentary and turn to Q&A.

Q&A

Operator
Ladies and gentlemen, if you do wish to ask a question, please press 01 on the telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered.

The first question received is from Fredrik Lunde from Carnegie. Your line is now open, so please go ahead.

Frederik Lunde
Hi. Good afternoon. How do you see margin progression through 2020, and, also, activity, if you please? Should we expect normal seasonality, or will activity be more smooth now through the quarters this year?

John Evans
Thank you, Frederik. I think in terms of margin progression, as we said, we have seen a gradual recovery and a slow improvement in our pricing. We do see 2020 as being a reasonably positive year in terms of order intake, with some very large projects that we are already the preferred bidder on, moving from FEED to final investment decision. So, we do expect to see some progression on margins throughout the year. In terms of activity, we still see some seasonality. We saw it already in quarter four with quite a quiet renewable sector activity, and the North Sea was quite quiet for us as well. So, I'd expect to see reasonably strong performance in Q2 and Q3, with probably some subdued activity going into quarter four.

Frederik Lunde
That's great. Can you give us a flavour on your capex ambitions going forward. Obviously, I'm more certain, in the medium term, on oil and gas, while renewables is a bit challenging near term, but same potential for long-term growth. In that context, should we expect it to continue harvesting on your existing assets for the foreseeable future, or do you see any medium-term plans or requirements for new vessels or technology that will change your $200 million dollar capex number?

John Evans
I'll give a general overview to that question, and, then Ricardo can give a bit of detail on the capex figure we put in the presentation here. I think for us, at the moment, Frederik, we're pretty comfortable with the fleet that we've got. Our fleet covers our near-term needs in terms of what we're looking for. We are also focusing in on continuing our technology development activity, which will allow us to position ourselves where we want to be for the Subsea Field of the Future. I think for us, as well, there may be some niche acquisitions on the engineering front, as well, as we did last year. Certain types of capability we will acquire. We purchased a very small engineering environmental company based in Perth in Australia last year called Green Light Environmental. That provides us with a competency in a skill that we did not have in the group previously, but generally, there will be no major fleet acquisitions in our plan for this year, but I'll let Ricardo talk about how the capex works for this year.

Ricardo Rosa

Thanks, John, and good afternoon, Fredrik. I think John has summed it up very well. I think we are in a phase now when, after a very intense capital expenditure programme in the previous period of 2014-17, we are now more in a harvesting mode and we are rebalancing our capital expenditures toward technology, and I think, as a result, you will see growth, perhaps, in intangibles as opposed to physical assets. Having said that we are very conscious of the need for capital discipline given the uncertain environment that we are working in at the moment with the focus on energy transition. And it's important that we remain mindful of the need to achieve an improved return on investment. So, I think, overall, we will not exclude the possibility of acquiring new assets, such as vessels. But we will look at them very, very carefully and be very sparing in our expenditures. Our focus will remain on, I think, innovation and technology as differentiators.

Frederik Lunde

That's great. And, on that note, just on your buyback programme or mandate: is there any trigger point for utilising that, or is that just a nice-to-have feature for now?

Ricardo Rosa

I think, Fredrik, you know our position well on that. We have a good track record of returning cash to shareholders, particularly through previous share repurchase programmes. And we only suspended cash returns in total in 2015 and '16 in the depths of the downturn affecting our sector. We will continue to make our decisions regarding share buybacks and other forms of cash return by reference to the three priorities that we've been consistently setting out: reinvesting in the business, investment grade profile, and returning surplus cash to shareholders. And we want to do that in an efficient manner.

Frederik Lunde

OK. Thank you.

Operator

The next question received is from Mick Pickup from Barclays. Your line is now open. Please, go ahead.

Mick Pickup

Good afternoon, everyone. A question, if I may, on the integrated model for the Subsea fields. Obviously, 57% of Greenfield awards went that way last year. If I look at your bidding pipeline, it seems to be much higher than that going forward. So, can you just talk about adoption, where we are, and how far you think it's going to go?

John Evans

Thanks, Mick. It's an area that we've been very pleased in the last year with our performance, and we feel very comfortable in terms of where we're at in the market. The adoptions, we showed in our slides. We see the first big integrated project, with Bacalhau coming in with Equinor in Brazil. We're also using that model at the moment. We're currently bidding Bay du Nord in Canada, also for Equinor, on an integrated basis. We're seeing a lot of the very large projects at the moment, either have that as a base case or have it as an option in there. So, I think we've got through that phase of understanding the merits, as clients have looked at it, a couple of years ago as to whether there was traction in it. So, for us, it's mainstream. As I mentioned at the very introduction here, Stuart Fitzgerald is integral in the leadership of the Subsea Integration Alliance, an ExCom member of Subsea7 is fully embedded in that organisation, along with a similar senior member of OneSubsea, and we have a lot of good traction there. So, a lot of good visibility and a lot of good traction there at the moment.

What's been very key for us is winning the big greenfield projects. We see that as the path to the future is getting ourselves incumbent on the very large greenfields, and as we showed in the diagram there - Mad Dog 2, Scarborough, Bacalhau, all these key projects that will be very large developments in the future - we believe SIA have got themselves well positioned, so that's our focus area.

Mick Pickup

And when you look at your market share in those big greenfields - 50% is, obviously, a very high number - what is it you are offering, or is that we've got a small subset at the moment?

John Evans

The feedback I've had from senior members of the oil companies is they've been very pleased with the way the Subsea Integration Alliance has put different ideas on the table, looked at different ways to lay out their fields, been quite innovative with different ideas, worked in a very collaborative manner, as well as, then an exceptionally strong execution machine that both OneSubsea and Subsea7 have in the market. And last but not least, as always, a sound commercial model. So, I think we've been able to demonstrate to our clients that that investment that we've made in the 400-odd people now working with us in the early engagement side of our business, between Xodus on one side and the Field Development Group inside Subsea7, has really been able to put some good ideas on the table, and I think that's been a key part of our success to date.

Operator

The next question received is from James Evans from Exane BNP Paribas. Your line is now open, sir. Please, go ahead.

James Evans

Good afternoon, and thank you for taking my questions. Firstly, I wanted to ask about Renewables. What do you need to see to get back to break-even profits in there? Is it simply absorption and awards, or do you actually need to see some of these EPCI contracts come through as well, given where pricing is? And I guess, just relating to this, I don't know if you can share this, Ricardo -- what is the carrying value of your renewables business now, post the write-downs?

And then, secondly, one for John, really, around consolidation. Obviously, we've had some reports towards the back end of last year. We've got others in financial distress. You are obviously reluctant to take additional vessels onto the balance sheet. Certainly at the wrong price. So, I wondered if you have any comments on how the organisation sees the merits and likelihood of consolidation in the industry this year? Thank you.

John Evans

Thanks, James. I guess with the renewables. The message we've tried to give for the last two to three quarters is that there's a current oversupply of contractors, and assets are piling into that market at the moment. And, actually, for me it's about risk, is the key thing. We are, I guess, quite highly attuned to managing risk because our business is arbitraging risk for our clients in our industry, and, therefore, then, two things need to come into play. The supply and demand needs to get a balanced position, which, then, the opportunities out there should allow that to take place. The second one, then, is finding the right risk balance. At the moment, we're seeing a number of contractors prepared to take some risk positions that we're not prepared to take. But we are seeing, though, the coming together of certain key clients and the certain international expansion of key clients who want to take solid and reputable contractors with them. So, we're working, for example, with Orsted. We'll be working within the US this year on their key demonstrator project in the US. We're also working with them on their Hornsea project. RWE Renewables, which will become the second largest, is the owner of Innogy, and we are currently working with them on Triton Knoll, and we're bidding some future work with them at the moment.

So, for us, it's around getting the right profile, and, also then, some of the key projects that we have in our list should come into play this year, James. I'll let Ricardo talk about the carry value, and then I'll take the consolidation question.

Ricardo Rosa

James, I hate to disappoint you on that point, but I don't have the figure to hand, and in any event, I don't believe we disclose it. However, we will be publishing very soon our annual report which gives a pretty detailed note regarding our ten cash-generating units and the allocation of goodwill between them. So, I hope that you'll bear with me and perhaps we can have a discussion once the report has been issued.

John Evans

And on consolidation, I guess, in terms of vessels, I think your questions indicated there was a lot of vessels and assets around. I think I come back to my response earlier. I think we are reasonably comfortable with our fleet at the moment. We have the right fleet. We have the right asset base. We were quite ruthless in terms of sizing and structuring that, and we continue to focus on trying to get the right fleet for our business. In terms of renewables, we know which sectors we want to be in, which is the foundations and the inner-array cables. So, again, at the moment, we don't see anything in particular that would move us to do something in terms of consolidation because there is some asset availability.

For ourselves, you've seen our pattern in the past. We have consolidated business, such as EMAS. We've consolidated business such as Xodus, when they've become available. The focus here that I'm interested in at the moment is what does that Field of the Future in Subsea look like - and we need engineering capability, early engagement capability there - and what exactly that energy transition position looks like. We have a strong foundation already in renewables and where that will take us to in the next few years. We are very open-minded and will look at opportunities that will come that way.

James Evans

Thank you.

Operator

And the next question is from Amy Wong from UBS. Your line is now open. Please, go ahead.

Amy Wong

Hi. Good afternoon. A couple of questions from me, please. The first one, is in your prepared remarks, you called out that to watch out for some inflation in the supply chain. So, I was hoping you could help us understand the magnitude of the inflation you're talking about, be a bit more specific of, maybe, segments that you're seeing inflation creeping in. And, thirdly, are you able to pass on some of this inflation into your bids that you are currently tendering on? That's my first question.

John Evans

Thanks Amy. I think what we're seeing at the moment is certain segments, there are certain sub suppliers in those segments where, if a number of these projects, particularly the big greenfield ones, come together at the same time, there is a risk here of capacity constraints. So, at the moment, we are certainly making sure that we have a very transparent mechanism as we go from FEED into FID with our clients, where, if there's any inflationary elements in there, for example, things like stainless steel tubes for umbilicals. It's actually not any of the key umbilical suppliers that provide you the tubes. There is a supply chain underneath that which we’re seeing some tension in at the moment - pricing of steel and stainless steel products in particular. We do quite a bit of work to make sure that we're quite transparent with our clients, so we have a mechanism that allows them to understand the changes that are going on there, both up and down, by the way, to allow that to take place.

So, it's not a general concern across the board, it's certain specific elements. And we believe it's always best that we highlight those in our discussions with our clients because some of these FEED elements, from the selection on Bacalhau, which is at the start of this year, to the FID on Bacalhau will probably be at the end of this year, we need to have mechanisms that allow those elements to go through. We also flag to our clients certain materials or pre-orders for materials that we may need to do to keep their schedules on track, and, again, we work constructively with our clients on that.

Amy Wong

All right. OK. Sounds like you are working with clients to be able to pass that through. OK. I guess my second question is unrelated. But it relates to your number. Thanks for giving a tenders number of about 11 billion dollars. Now given you guys have always said it’s not very transparent to the market the volume of that work. So perhaps a way to ask the question is if we were to think about that 11 billion dollars and compare that to say, four or five years ago, what's the volume comparison to whether you want to quote that in the days of pipe-laying work you need to do or the amount of equipment that you need. Just help us understand the kind of change in dynamics between the bid volume and the dollar value.

John Evans

Well, I think it's quite an interesting question and it's not a straightforward one to give you an answer on, I guess. The bid volume is what we think we will have ahead of us in terms of workload ahead of us. I think the key message here is if we compare to where we were five years ago, we were up at 44 vessels. We sent a lot of vessels back to charterers that we owned. We scrapped quite a bit of tonnage, so really it for us, it's around, focusing for work to bring into our key enabling assets, the big steel rigid pipe layers and such like to make sure then that those are fully utilised or as well utilised as we can to then allow us to work from there, so I can't easily give you a read across from one number to the other because it isn't that easy to go from where we were five years ago to where we are now but the aim is to see, as I mentioned in the prepared remarks we can see that in ‘22 and ‘23 there is a reasonable volume of workload for the large rigid pipe layers, which again, at the moment for all those projects fitted into place would mean that we would need to manage the schedules of those assets quite tightly for those periods.

Ricardo Rosa

If I could just add to what John has said, Amy, I think you've got to bear in mind too that the market of today is very different to what it was, say five years ago in terms of the resources that are applied, the ways of working, the cost structures, the fact that we are much more involved in the early engineering phase of the project. So I think you are going to be trying to compare apples with pears, to be frank. I think it's important to look at the cycle and the progression of the current cycle rather than look back to history.

Amy Wong
Alright, OK. Thank you very much for that. I'll turn it over.

Operator
And the next question received is from Haakon Amundsen from ABG. Your line is now open. Please go ahead.

Haakon Amundsen
Yes, hello guys, just wanted to follow up on the margins question as we go into 2020. Your EBITDA and revenue guidance is quite clear. I just wanted to understand should we expect your 2020 EBITDA margin to be flat or up compared to '19 as I think the '19 margins ended up a little bit higher than some of us expected.

John Evans
I think we have given our guidance to try to help you all work your way through this. For us it's about our revenue was up, our absolute EBITDA is up. Margin we will see as the year progresses. It depends on how some of these very large projects kick in or don't kick in during the year. Once those large projects come in as you know, we have a period where we don't recognise profit of the start of big projects. We also have a large period of work associated with procurement. So for us I think our guidance is clear and we'll stay as we are on that.

Haakon Amundsen
Alright. Thank you and then just for Ricardo. Maybe if could you give some colour on initiatives on the working capital and the potential scope for improving that position? Is it possible to give an indication of what we should expect for the year?

Ricardo Rosa
Good afternoon, Haakon. I'm not going to start giving you precise figures. But I can talk to you about the drivers and what we're focused on. I think as far as '19 is concerned, we'd mentioned that we had some challenges with regard to the investment in working capital that we had in the Middle East. It was relatively high. I'm pleased to say that things have improved quite significantly in the course of the year there and we're in much better shape as we enter 2020. However, we do still have some challenges in one or two other regions of the world and we are expecting to resolve them in the course of 2020. So our expectation is that we will improve our working capital position. I think as well that we are discussing working capital in our negotiations and discussions with clients at the tender stage and we are highlighting to them the importance from our perspective of a neutral to positive cash flow throughout the life of a particular project and I think we're beginning to see some initial positive reaction from their side. So we hope that this will translate into improvement on that front.

Haakon Amunden
Alright. Thank you, guys. That's it for me.

Operator
And the next question is from David Farrell from Credit Suisse. Your line is now open, please go ahead.

David Farrell

Thank you. One question for me. Just going back to the renewables business. Could you help us understand, as that industry kind of shifts into deeper water and we move towards kind of heavier turbines, does that mean we're going to see more jackets, rather than monopiles and if that's the case does that play into the assets that you have in terms of executing projects?

John Evans

Thank you, David. Yeah, it's very interesting to see at the moment that the industry historically has either used jackets or monopiles and there's been a lot of good engineering work done on effectively maximising monopiles. We're putting in monopiles just under 2000 tonnes, which are huge, at the moment, so I think the engineering and the technology that's been developed in the industry is reaching the point where monopiles reached their sort of natural limit, which then means you then head towards jackets and then beyond jackets you then go into a floating environment. So again we're seeing a number of clients use jackets and some clients use monopiles. So if you look at the UK, which is probably the largest market for that, it's a mixture of both. Some clients go for jackets at around 65 metres of water. Some other clients then around 50 metres of water will try to keep pushing very, very large monopiles in there. So yes, larger jackets help towards the size of the asset base that we've got. But also some of these monopiles are getting to the point where they're getting towards the limit of what our assets and other people's assets can do as well, so the two of those things are moving in parallel I think.

David Farrell

OK and then just to follow up. You've been preferred bidder on the HKZ renewable projects for some time now. Have you got any update as to when that might move ahead? I think one of the other contractors on it has been a bit more positive in terms of moving that project into order book.

John Evans

Yeah, HKZ was a project, which comes in four phases. If you might recall, we won the first two phases and then our client Vattenfall then bid for the opportunity to have the concessions for phase three and phase four. They were successful on that, so at the moment we are in the process of just tidying up our agreements with them and we expect hopefully in the next quarter we can announce finally what that looks like. But the conversations are ongoing with them. So it's around putting together all four phases of that into a contractual structure.

David Farrell

Lovely. Thanks very much.

Operator

And the next question is from Lillian Sterk from Morgan Stanley. Your line is now open. Please go ahead, Madame.

Lillian Sterk

Hi. Good afternoon, I just had two questions. The first one is, when you talk about vessels tightening in 2022 or 2023 could you provide a bit more detail and whether that's across 12 vessels in your fleet or whether you're seeing specific tightness in certain types of vessels just given the mix of projects.

And then the second question I had was just on when you look at the margin in an integrated contract, is there a significant difference to the ones that you're obtaining on a standalone basis on SURF?

John Evans

Thank you Lillian. Taking the first, I guess, on what we discussed on' 22 and '23, which I think answered a previous question - it's to do with rigid steel pipelay vessels that we're seeing quite a bit of bidding activity and a number of projects that are all looking at around the same time, that '22 to '23 period. That's the area at the moment that we're seeing a high level of interest. That hasn't turned into contracts for the industry as yet but the market is bidding that as part of our 11 billion dollar pipeline that we discussed.

I think in terms of margins, I don't intend to go into a margin discussion because each project is bid on a case by case basis. It depends on where we are. It depends on where our partner One Subsea in terms of position in that country, position in that field and suchlike, so it varies. I think it's a fair answer to say there, where we see some advantages are on some of the large compression and pumping projects as we announced in the run-up to Christmas. We did the Saint Malo project there for Chevron, was announced before Christmas which was a pumping project with a Framo technology from One Subsea. So it varies. We have different strengths and different weaknesses on different projects.

Lillian Sterk

OK, perfect. Thank you very much.

Operator

And the next question received is from Michael Alsford from Citi. Your line is now open, sir, please go ahead.

Michael Alsford

Thanks for taking the questions. I've just got a couple left. Firstly just in the Middle East. I was wondering if you could talk more specifically about the competitive landscape there. What you're seeing in terms of pricing and I guess the outlook from an awards perspective and then the secondly on Brazil. The PLSVs that are obviously due for renewal. I just wondered if you can give any clarity on the timing of the renewal process, when we should expect that. Maybe an outlook on what you see as the demand outlook for PLSVs into 2021, 2022. Thanks.

John Evans

Thank you, Michael. I guess the main message on the Middle East is there still remains a reasonably consistent amount of bidding under the LTA agreement. As you know, we bid in consortium with Larsen & Toubro there. They do all our fabrication for that side of the project and we do all the installation and engineering of the pipelines and the umbilicals and suchlike. We are continuing to bid under the LTA framework. The size of the project varies in size and scale. I mentioned in my prepared remarks we're working at Berri-Zuluf at the moment. We also have Marjan 2 underway at the moment inside our portfolio. So there is a reasonable group of projects coming. The main one that the industry is interested in is Zuluf field. There is a further redevelopment of Zuluf coming out, which will be done similarly to the Marjan field. The last year is all about Marjan. This year it's all about Zuluf for coming up so we'd expect some bidding activity in that later this year.

Moving to the PLSVs I think we gave an update on the PLSVs the last quarter. The messaging we're getting from Petrobras is that we expect with the next bidding round for PLSVs to be in the second half of this year and at that stage it'll become clear what they are, and what their needs are and where that takes us too. So no fundamental change there our PLSVs as I mentioned in my prepared remarks are doing a lot of pipe laying at the moment for them, as a number of the big FPSOs arrive there in Brazil. So no change from what we mention in Q3.

Michael Osford

Okay, thanks and one more if you don't mind. I was just wondering, you touched on earlier round floating wind and I just wondered if you could talk a little bit about what you see there in terms of your capabilities and whether there's anything on the horizon that might work or is it still very much early days in terms of conceptual design and studies? Thanks.

John Evans

I think it's fair to say there are many, many different concepts in many different designs in the market, which is always a good sign that you've got a lot of technology and a lot of ideas. We own a small minority share in a small floating wind company based in France, which has a floating technology capability in its portfolio. So for us it's more about, effectively, a technology watch and watching how that develops. As you know, we also picked up the Tampen work with Equinor so we're doing all the inner-array cables for the Tampen field activity, which is a floater. We also did the cables for the initial Equinor floater, the Hywind project off Scotland, so again I think it's a smallish market at the moment but it's a market that we're keeping our eye on. Inevitably it will move into floating in terms of the depth of the water in due course. But at the moment the very, very large majority of our work (in the high 90%) is all fixed wind at the moment.

Michael Osford

Okay thanks a lot, I'll hand it back.

Operator

And the next one is from James Thompson from JP Morgan. Your line is now open, sir, please go ahead.

James Thompson

Hey, good morning, thanks for taking my questions. Just a couple for me, please. Firstly, what is the right sort of win rate for Subsea 7, do you think? Obviously, 2019 from a greenfield perspective was very good, I mean, is that a level where you sort of think maybe a bit too aggressive on pricing? Or is it sort of 50% win rate that you're pretty comfortable for when you look at your projects outlook?

John Evans

James, I think we always answer the question the same way. We always expect to get our share of the market. You know, there's two sides on integrated projects: incumbency and non-incumbency. When you are doing a step-out, the small step-out in the field. If that field does not have OneSubsea trees on it, it's very difficult for us to offer our client a competitive advantage because mainly the control system and everything there is designed around an existing tree manufacturer. So for ourselves it's also, so it's around where we position ourselves. So for us, who talk there about 56%, just remember that's only the greenfield projects. It's really around the fact it's a mixture of greenfield and brownfield in that space.

I guess the other one then just depends on vessel availability where we're at, and where our assets are based at the time, but we've always been reasonably clear we expect our fair share of the market and I'm not too concerned at the moment that we won't get our fair share of the market.

Michael Alsford

Okay, that's pretty clear. We talked about a few of the geographies. It was nice to see Sangomar come to FID at the start of this year. It was good for West Africa, which is being pretty quiet otherwise.

Could you maybe just give us an update about West Africa in general and whether you see any signs of progress and some of these projects that have been on the cards for some time?

John Evans

Yeah, I think West Africa has some level of traction, which is good and I think the main message about West Africa: it's not just a two-country story anymore. Historically it has been a Nigeria and Angola discussion. We're working in Sangomar. We are currently supporting Aker Energy on their Pecan opportunity in Ghana and again there may be an opportunity there, that that turns into an FID later this year. We're currently bidding PAJ which is the BP opportunity in Angola and, as you know, we are working on Rovuma and a bid there for Rovuma some of the early work there on Rovuma in consortium with Saipem in Mozambique.

So we're seeing a good spread of activity compared to where we've been and we continued to bid some of the larger deep water projects such as Bonga. Where we have seen a bit of slowdown, which I think was mentioned in Ricardo's messages, was that the conventional work in Nigeria, where we did get some work last year as have slowed down a bit as we see for 2020. But we are seeing some movement, and as you said there I think the key on all these, James, is actually getting to them to final FID on each of these projects. Each one is a story unto themselves. Each one is not just a question of reserves and economics of the field, but also the politics of each country that we're working in, but we're comfortable there. And as we speak at the moment, the Borealis is working for Tullow on Jubilee in Ghana, so again we have assets working in Africa as we speak.

Michael Alsford

OK great. Thanks very much, John.

Operator

And the next question is from Vlad Sergievskii from Bank of America. Your line is now open, sir, please go ahead.

Vlad Sergievskii

Yes, hello, everyone and thanks for taking my two questions, quick ones actually. First you mentioned in your prepared remarks that there are certain changes to the tax law in Luxembourg, I think and you are already evaluating potential impacts. Would you be able to give us a bit more colour on what this change is related to and what the array of outcomes could be from this?

And another quick one to follow up on would be on your operating lease repayment expectations for 2020. You disclose that you repaid about I think 105 million of operating leases in 2019 and then just wondering if it's a good proxy for 2020 as well. Thank you very much.

John Evans

Thank you, Vlad. I'll ask Ricardo to answer both of those.

Ricardo Rosa

Hello Vlad. I think in terms of more colour regarding the question of tax law changes in Luxembourg. I think what we can say is that in December ‘19, Luxembourg issued Budget Law 2020, which invalidated all advanced tax agreements signed before 2015. Our particular agreement had given us clarity regarding the applicability of withholding tax on distributions, and we are in the process of evaluating the implications of the new law to the specific circumstances of the group. Our view is at the moment that we are confident that we will find a position that is defendable and that works for our shareholders. But all of this requires additional analysis.

With regard to your second question on operating leases for 2020. You're right, you picked up from our cash flow our cash waterfall that we paid about 105 million dollars in 2019. I think that is a reasonable place marker to use going forward. As you probably realised, most of our leases are related either to vessels and the chartered vessels, set out in our fleet summary, and to certain properties around the world, so it's currently a relatively stable figure.

John Evans

And I think we'll take our last question next then please.

Operator

And the last question received is from Mark Wilson from Jefferies. Your line is now open. Please go ahead.

Mark Wilson

Alright. Thank you. It's actually related to Vlad's last question regarding Luxembourg tax. Ricardo, last few years, it seems like cash tax been slightly higher than the tax through the P&L. Would you expect that to be a way to look at taxes for 2020 and beyond versus the effective tax rate? That's my first question and second one is to John. It may have been said, apologies if it has, but that 2019 greenfield market share, could you just tell us how many projects in total that is, and it sounds like you would expect more than that to come in 2020 overall to the market if things go as planned. Thanks.

Ricardo Rosa

OK, Mark I'll take the question on tax and then hand over to John. Just to be absolutely clear, within the tax figure there is no withholding tax relating to any distributions that we've done in the past from Luxembourg and we've always distributed without any withholding tax. As far as the cash taxes are concerned I think what you have to bear in mind is that the cash tax of the current year relates to the liability of the previous year in a number of jurisdictions, so to the extent that there has been, if you like, a decline in profitability in certain jurisdictions, you'll end up with a tax charge that is lower than we paid in the previous year and I think that's the way to look at it. On a steady state basis assuming no major shift in the geographies of our activities, you should not expect to see a very significant differential between the tax charge and the cash taxes.

John Evans

And just taking your other point - I don't have the figures to hand but I think the key message here is the greenfield ones are the brand new fields where there's no incumbency, effectively, so if you just take the list of all the awards on an integrated basis in the industry. We took 56% of the greenfield ones so effectively ones where we're not bolting on a step out to an existing infrastructure there. And the main reason we're interested in greenfields is two elements. Greenfields are generally very large developments for ourselves. You can see on the graph that we got two projects there: Bacalhau and Sangomar, they're over three quarters of a billion dollars each of work for us. There's a lot of infrastructure to put in initially with a large number of trees and secondly that creates the incumbency position for the future, which again we're interested in as a company. So unfortunately I don't have the figures to hand, but that's how we completed the numbers.

And with that, I'd like to thank everybody for your time today. We look forward to catching up with you when we give you the update on Q1. Thanks a lot.

Operator

This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.