

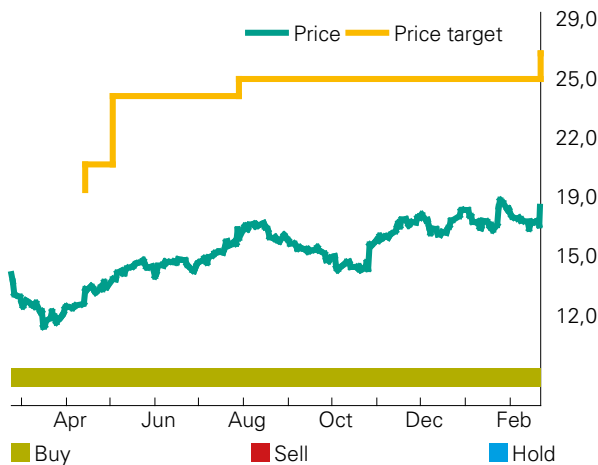
FUGRO

Publication date: 21 February 2024

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Key data	
Sector	Energy
Country	Netherlands
Ticker	FUR NA
ISIN	NL00150003E1
12 months high	18,18
12 months low	10,33
Beta (5-yr)	1,26
Market cap	1,89 bn
Currency	EUR

Price, Price target and rating (EUR)



Accumulated performance as of 21-02-2024

	1Y (%)	2Y (%)	3Y (%)	4Y (%)	5Y (%)
FUGRO	+22,41	+95,48	+91,16	+101,84	+124,41
AMSTERDAM...	+11,23	+13,88	+25,03	+36,35	+57,08

Performance per calendar year as of 21-02-2024

	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 YTD (%)
	+33.03	+2.43	-11.10	+61.38	+52.11	-5.68

Ratios

P/E LTM	16,02x
P/E NTM	10,44x
Price/book ratio current year	1,12x
Div Yield	0,00%
ROE	7,85%
1 YR EPS Growth	n.a.

Rating	Buy
Initially published	11 June 2021, 18:55 CEST
Price Target (21 February 2024, 11:31 CET)	26,50
Price (21 February 2024, 12:09 CET)	17,52
Prev. Rating	n.a.
Competitive Advantage	Not Rated
Uncertainty rating	Not Rated
ESG Indicator	ESG advanced / ESG+
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
31 August 2022, 11:30 CEST	18,50	12,71	EUR
13 April 2023, 11:31 CEST	20,00	12,70	EUR
02 May 2023, 11:20 CEST	24,00	13,29	EUR
28 July 2023, 11:31 CEST	25,00	15,69	EUR
21 February 2024, 11:31 CET	26,50		

ESG Risk Rating



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: 1. Capture growth in energy & infrastructure by pushing volumes higher through its market-leading platforms and making its pricing mechanism smarter while improving efficiency 2. Differentiate via integrated digital solutions to maintain its market leadership, but also to deliver on its efficiency improvement goals. 3. 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'. Following the presentation of Fugro's strategic plans at its CMD in November 2023, we hope investors will start to understand that the company is well on track to grow its revenues in the coming years by more than 50% to € 3.0-3.5bn by 2027, and to improve its EBIT margin over these years to c. 15%, up from the current c. 10%. With Fugro's balance sheet clearly stronger than targeted (just c. 0.5x EBITDA vs. < 1.5x EBITDA), ex-growth free cash flow back at € 250-300m per annum, the company now makes substantial investments in fleet decarbonisation upgrades & expansions (offshore wind now becoming a truly global industry), new modern headquarter, and selective M&A (such as purchase remaining 50% in Sea-Kit) but is also again capable of paying dividend (€ 0.40 per share = c. € 45m or 2.5%). Our target price is based on the assumption that Fugro in the coming 12 months will reach 15x 2024e PER and 12x 2025e PER and/or 10-11x 2024e EBIT and 8-9x 2025e EBIT.

Valuation, growth and profitability

21/2/24 FY23 to be published on 29 February Q4 consensus seems far too low

Fugro will publish its 23FY/H2 results on Thursday 29 February at 7.00h CET. An analyst meeting hosted by CEO Mark Heine and CFO Barbara Geelen will start in Amsterdam at 12.00h CET. Outlook 2023. "Fugro expects ongoing growth in the energy markets, in particular renewables, resulting in strong revenue growth for the full year." The EBIT margin and ROCE will be within the

mid-term target range of 8-12% and 10-15% respectively, and free cash flow is anticipated to be positive. In Q4 Fugro unwinded the sale-and-leaseback for the Fugro Scout and Voyager for \$ 39m net cash. Total capex for 2023 is estimated at around € 200m, excluding the reclassification of the Fugro Scout and Voyager from right-of-use assets to fixed assets. Medium-term outlook. At its CMD in November 2023, Fugro raised its medium-term ambitions. It aims to grow its revenues to € 3.0-3.5bn in 2027, up from € 2.1bn LTM, and aims to improve its EBIT margin to the higher end of a 11-15% guidance range (23H1 8.2%; previous medium term target 8-12%), aims for FCF as percentage of revenue of 6-9% (9M23 3-4.3%; previous target between 4-7%), and aims to bring its ROCE back to 15% (23H1 12.2%; previous 10-15%). Net debt end Q3 amounted to € 246m, on LTM EBITDA of € 340m implying a leverage of 0.7x, well below the target of 1.5x. Working capital end Q3 was € 324m, 15.6% of LTM revenues, and demonstrating Fugro's leverage primarily can be seen as working capital financing. Backlog end Q3 was up 10% y-o-y (comparable +14.5%) to € 1,477m (AAOB € 1,440m), with Marine up a comparable 18% to € 1,112m and Land up a comparable 4% to € 365m. Capex. Investing in offshore wind focused fleet expansions, decarbonisation of existing fleet, and further upgrading its operational land infrastructure (such as Remote Operating Centers, new modern HQ), Fugro has guided for a higher annual capex of c. € 250m in 2024/25, up from € 200m in 2023, of which € 100-125m to sustain the business (mainly maintenance). Our 23Q4 forecast well above consensus. Comparing Fugro's 9M23 performance with FY23 consensus forecasts, one can conclude that consensus expects Q4 revenues of just € 505.2m (€ 369.5m Marine + € 136.0m Land). This is odd when knowing that Fugro end 23Q3 already had € 546.8m orders (€ 422.7m Marine + € 124.1m Land) in its backlog to be executed in 23Q4. On EBITDA, consensus is expecting 23Q4 of € 59.0m (11.7% margin), up from € 49.4m in 22Q4 (10.9%), and on EBIT € 22.1m (4.4% margin), up from € 17.2m in 22Q4. Fugro 23H2e + 23FYe AAOB vs consensus

	23 AAOB	H2 23 Consensus	AAOB / cons	2023 AAOB	2023 Consensus	AAOB / cons	Revenues
1-2%	Adjusted	EBITDA	212.2194.89%	372.6355.25%	Marine	190.0166.114%	323.7299.88%
8-23%	Adjusted	EBIT	134.8119.513%	225.1209.87%	Marine	123.6102.421%	198.2177.012%
Land	11.217.1-34%	26.932.8-18%	Net result	cont	94.688.77%	160.4154.54%	EBITDA
margin	18.4%	17.5%	0.9%	17.2%	16.7%	0.5%	EBIT
margin	11.7%	10.7%	1.0%	10.4%	9.8%	0.5%	Sources

: ABN AMRO ODDO BHF, Fugro compiled consensus

21/12/23 "Sea Goldcrest" and "Sea Gull" to be operational in 2025

Fugro has reached an agreement to acquire two PSVs (platform supply vessels), the "Sea Goldcrest" (2019) and the "Sea Gull" (2020), which will be used as geotechnical assets. The addition of these vessels to its owned fleet will "further strengthen Fugro's ability to address the market demands and shortage in geotechnical capable vessels". With the purchase of these strategic assets Fugro will operate a "balanced fleet of owned and chartered vessels, maintaining flexibility towards the future". Upon delivery of Sea Goldcrest in the course of 2024, Fugro will start the conversion to a geotechnical vessel, which is expected to be operational early 2025. Sea Gull, which is already under charter with Fugro and fully operational, will be delivered late 2024 or early 2025./

Vessel order confirms strong offshore wind demand and pricing environment

Expecting strong further growth in the global offshore wind markets, Fugro clearly has decided to further grow its owned fleet. This transaction in our view again confirms two comforting market trends: (1) offshore wind demand continues to grow strongly; (2) charter prices still further on the rise, meaning that Fugro also can further up-price its own fleet and services. When Fugro talks about "balanced fleet" and "keeping flexibility" one needs to know that normal fleet balance is c. 2/3rd owned fleet and 1/3rd chartered fleet, meaning it via halting the charters can rapidly downscale in temporary down markets, and also will optimally benefit from up-markets thanks to its owned fleet. These PSVs were built by Fujian Mawei Shipbuilding in China, originally for Bumi Armada in an order of four (see picture), but later on taken over by Sea Tankers, a Fredriksen company. Where we assumed a purchase price including conversion (moonpool + drilling tower) of c. € 50m per vessel for the previous geotechnical vessel additions, it now seems logical to assume around € 60m per vessel including conversion, so € 120m capex combined.

Conclusion: to remain one of our top ideas, also for 2024

Again, we hope the financial market will finally understand that a valuation of just around 10x 2024e earnings is far too low for a high return geodata world market leader which aims to become 50% larger in the coming 4 years, and more than two times as profitable as today. As such we reiterate our Outperform recommendation and our TP of €

25.

15/11/23 Main takeaways CMD: aiming to reach full potential Fugro yesterday afternoon organised a CMD in Amsterdam, explaining its updated strategic plan and updated financial targets for the medium term (2027). Key presenters were CEO Mark Heine, CFO Barbara Geelen, Group Director Europe-Africa Eric-Jan Bijvank, Group Director Americas Céline Gerson, and Group Director Development and Digital Transformation Wim Herijgers. Below we aim to provide the key highlights, primarily explaining the building blocks for reaching the 2027 ambitions: Revenues up c. 50%. Fugro expects revenue growth to € 3.0-3.5bn in 2027, up from € 2.1bn today. The main drivers for the expected revenue growth are volume growth (c. 60%), price (c. 30%) and growth in recurring revenues (c. 10%). EBIT margin up by c. 300bp. Fugro aims to improve its EBIT margin to 11-15% by 2027 (23H1 8.2%; previous medium term target 8-12%), whereby the CEO commented he aims for the higher end of the range. /ROCE up to 15% = 17-20% The CFO also presented a slide showing the building blocks for the expected ROCE improvement from 15% LTM 23 to c. 17-20% by 2027 (official 15%). /Continued page 2

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 geotechnical
- 35% exposure to renewable markets
- The future is remote, unmanned, using robots, USVs, Asvs, etc. = cost savings
- Rising demand = better utilization & contract terms, to lift EBIT back to 11-15%
- Growth in number of remote operating centers
- ROCE upside towards 20%, up from 2022 8+% and ex goodwill 10+%

Cons

- Performance US has been lagging, but improving now

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- Vast majority of profitability in Marine operations North Sea
- Performance Middle East and Asia Pacific still not at target level
- Lacking an industrial or family based corner shareholder
- Unmanned fleet and robots are to replace manned fleet at much lower prices
- Competitors such as Boskalis, Acteon and Geoquip expand fleet and skills
- Focused survey newcomers with unmanned fleet: Ocean Infinity, Xoccean, etc.
- Still c. 20% exposure to oil market

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