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Yamal LNG Builder Technip Cuts Margin Goals Over Sanctions

By The Moscow Times

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PARIS — French oil services firm Technip on Thursday cut its operating margin target for its onshore/offshore unit for this year and next, citing the possible impact of sanctions on Russia on the Yamal LNG project in Siberia.

At its onshore/offshore unit — which builds oil rigs, refineries and liquefied natural gas (LNG) plants — Technip said it saw an operating margin of about 5-6 percent in the next two years, down from a target of 6-7 percent.

CEO Thierry Pilenko cited the impact of tighter spending by its oil major clients and risks of business interruptions caused by politics, including sanctions against Russia, for the lower margin target.

"If our assumptions on these issues were to prove insufficiently cautious, we estimate our margin to be about a percentage point less this year," he said in a statement.

Last May, Technip was awarded a contract for engineering, procurement and construction for Yamal LNG, a giant liquefied natural gas export project in Siberia owned by Russia's Novatek, French oil company Total and China's CNPC.

The deal boosted the group's order backlog to 19.9 billion euros ($26.8 billion) at end-June, from 14.9 billion ($20.1 billion) a year earlier.

"Yamal LNG may be affected by the geopolitical crisis," said Natixis analyst Alain Parent, who has a "neutral" recommendation on the stock. "The cannibalistic Yamal project is monopolizing engineering resources that are no longer available for other contracts."

The European Commission said on Wednesday that the European Union should not give Russia technical help to develop Arctic oil and gas fields if Moscow fails to help defuse the Ukraine crisis.

EU foreign ministers asked officials to present proposals on Thursday for restricting Russia's access to sensitive technologies, including in the energy sector.

Asked in a conference call how the sanctions could impact Technip, Pilenko said: "Let's not speculate on the nature of sanctions. At this stage, we continue to go forward with the Yamal LNG project."

Oil Major Pressure

The Paris-based company said it expected revenue of 5.55-5.8 billion euros ($7.5-$7.8 billion) at the onshore/offshore unit this year, up from 5.4-5.7 billion ($7.3-$7.7 billion) previously, and about 6 billion euros ($8 billion) next year.

At its subsea division, which provides pipelines, umbilicals and riser systems for the offshore industry, the group stuck to its operating margin target of at least 12 percent for this year and 15-17 percent for 2015.

Technip also raised its subsea full-year sales goal to 4.6-4.9 billion euros ($6.2-$6.6 billion) from 4.35-4.75 billion ($5.9-$6.4 billion), and still expects revenue "well above" 5 billion euros ($6.7 billion) in subsea for 2015.

In the second quarter, the group's net profit fell 2.9 percent to 157.7 million euros ($212.5 million) on revenue of 2.615 billion euros ($3.52 billion), up 9 percent.

Analysts expected on average a net profit of 155.7 million euros ($209.8 million) and revenue of 2.57 billion ($3.5 billion), according to Thomson Reuters I/B/E/S.

Its operating margin was 15.3 percent in subsea and 5.3 percent in the onshore/offshore division.

Shares in Technip are up 11.3 percent this year, after falling 19.5 percent in 2013.

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