

TechnipFMC PLC

Arun Jayaram^{AC}

(1-212) 622-8541

J.P.Morgan

Equity Research

J.P. Morgan Securities LLC

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Recommendation	Price Target	PT End Date	Price	Upside/Downside to PT
Overweight	\$14.00	31-Dec-23	\$12.44	12.54%

TechnipFMC plc provides oilfield services. The Company offers subsea, surface, onshore, and offshore solutions for oil and gas projects. TechnipFMC serves customers worldwide.



Note: All analysts forecasts are as of last note published on 05-Jan-2023

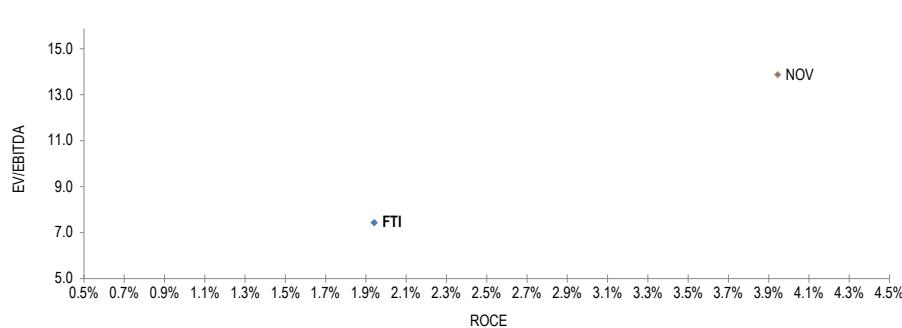
The Upside/Downside to PT is calculated based on the previous day's closing price which is quoted above.

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Key Financials (\$Mn, year end Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	13,051	6,404	6,621	7,385	7,940
EBITDAX	1,092	486	672	825	982
EBITDA	1,083	580	672	825	982
EBIT	645	195	293	438	579
Net Profit	89	(121)	30	254	348
Cash & Cash Equivalents	4,808	1,327	1,016	1,184	1,541
Total Assets	19,648	10,020	9,004	9,245	9,543
Total Shareholder's equity	4,258	3,418	3,200	3,442	3,778
Net debt / (cash)	(1,490)	400	18	(249)	(706)
Capex	(292)	(192)	(174)	(277)	(298)
Cashflow from Operating Activities	657	715	253	557	768
Free Cash Flow (to firm)	365	523	79	280	470
EPS(\$)	0.20	(0.27)	0.07	0.58	0.80
DPS	n/a	n/a	n/a	n/a	n/a
Key Ratios	FY20	FY21	FY22E	FY23E	FY24E
EBITDAX Margins	8.4%	7.6%	10.2%	11.2%	12.4%
EBITDA Margin	8.3%	9.1%	10.1%	11.2%	12.4%
EBIT Margins	4.9%	3.0%	4.4%	5.9%	7.3%
Effective Tax Rate	60.6%	(1096.5%)	69.0%	35.0%	35.0%
Net Profit Margins	0.7%	(1.9%)	0.5%	3.4%	4.4%
Payout ratio	n/a	n/a	n/a	n/a	n/a
Reserve/Production (Years)	n/a	n/a	n/a	n/a	n/a
ROA	0.4%	(0.8%)	0.3%	2.8%	3.7%
ROCE	2.6%	36.7%	1.9%	6.6%	8.4%
ROE	1.5%	NM	0.9%	7.7%	9.7%
EV/EBITDAX	3.3x	11.1x	7.4x	5.7x	4.3x
EV/Debt Adjusted Cash Flow	n/a	n/a	n/a	n/a	n/a
P/BV	1.3x	1.6x	1.8x	1.6x	1.4x
P/E	62.3x	NM	186.3x	21.6x	15.6x

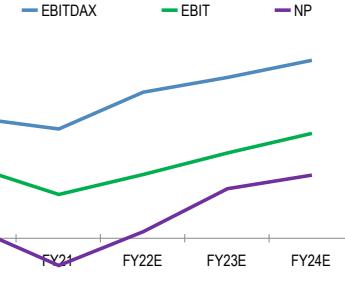
Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Peer Valuation Chart FY22E



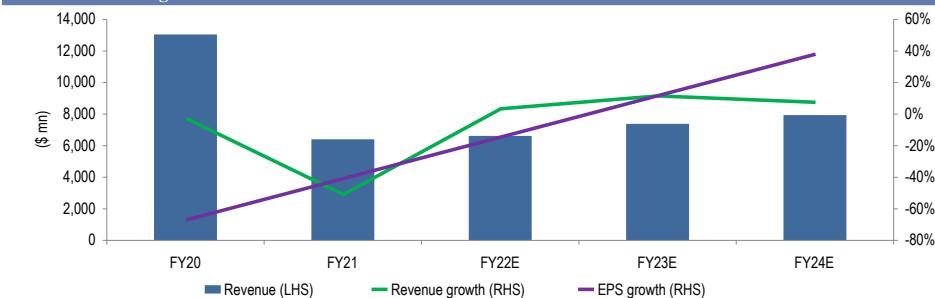
Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Margin Analysis (FTI)



Source: Company data, J.P. Morgan estimates.

Revenue and EPS growth



Source: Company data, J.P. Morgan estimates.

Company Data

Market Cap (USDmn)	5,449
Shares O/S (mn)	438
Float	93.7%
Dividend Yield	n/a
EPS (\$)	0.07
3M - Avg daily volume (mn)	7.54
52 wk High/Low (\$)	13.08-5.48

JPM EPS Estimate		BBG EPS Estimate	
FY22E	FY23E	FY22E	FY23E
0.07	0.58	0.07	0.51

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Peer Valuation Analysis	Ticker	Fiscal Year End	Last Note Published	Rating	Price Target	Mkt Cap (\$Mn)	EV/EBITDAX		EV/DACF		P/E		ROE	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Local peers														
NOV Inc	NOV	2021/12	31-Oct-22	N	\$20.00	8,972	13.9x	8.8x	n/a	n/a	36.0x	21.2x	4.9%	8.2%
Global peers														
TechnipFMC PLC	FTI	2021/12	05-Jan-23	OW	\$14.00	5,449	7.4x	5.7x	n/a	n/a	186.3x	21.6x	0.9%	7.7%
Median							10.7x	7.2x	n/a	n/a	111.1x	21.4x	2.9%	7.9%
Mean							10.7x	7.2x	n/a	n/a	111.1x	21.4x	2.9%	7.9%
High							13.9x	8.8x	0.0x	0.0x	186.3x	21.6x	4.9%	8.2%
Low							13.9x	8.8x	0.0x	0.0x	36.0x	21.2x	4.9%	8.2%

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

Investment Thesis

We maintain our Overweight rating on the shares of TechnipFMC with a Dec-2023 price target of \$14. The industry has endured a near decade-long secular deflationary cycle, a challenging environment for the supply chain. However, we think the best-performing stocks will be those that are enablers of that deflation with the moat to capture some of the value created. With FTI's iEPCI and "Subsea 2.0" offerings commercializing more in 2021 (and 3.0 and even 4.0 offerings rolling out), we think FTI will prove to be one of those enablers. The industry's cultural shift toward greater vendor-based integration and early engagement (read: standardization) is becoming more and more predominant, and we are encouraged by the steadily growing uptake of Subsea 2.0 product offerings as a signal that the adoption cycle could accelerate even in a moderated FID environment. The case for FTI rests on three pillars: 1) de-levering of the balance sheet, from $>3x$ ND/EBITDA to $<1x$ through the monetization of its TE stake, 2) positive earnings revisions toward a much higher "normalized" level than expected in 2021-22, and 3) an eventual re-rating of the multiple as the implied discount to the peer group melts and the rebuilding of backlog in 2022 draws investors back to the company we view as the clear leader in subsea. It is rare in OFS investing to find high-quality companies with relatively cheap valuations, and we see potential for a re-rating on the sum of FTI's disparate (but market-leading) parts.

Valuation

Our Dec 2023 price target of \$14 is based on a SOTP blended ~5.9x "normalized" EBITDA for TechnipFMC, anchored to a mid-single-digit FCF/EV yield. We also assume the stake in Technip Energies will be monetized in the next ~18 months, allowing TechnipFMC to de-lever and presumably helping the equity valuation within the EV.

Risks to Rating and Price Target

Levered to commodity prices, upstream capital spending

The OFS sector is dependent on the capital spending of upstream oil and gas operators. That spending is directly tied to E&P cash flows, which have a strong correlation to oil and natural gas prices. A more prolonged downturn for global oil prices would likely keep orders for subsea equipment depressed for a longer period, negatively impacting FTI's backlog and ultimately earnings potential. The company also has a sizable onshore business with exposure to North American pressure pumping, a volatile equipment market.

Subsea orders driven by large projects, international markets

Given the nature of large-scale deepwater projects, orders for subsea trees have been lumpy historically, leading to risk in both directions from our forecasts. Several international markets are characterized by elevated geopolitical and economic risks, including civil unrest, acts of terrorism, currency fluctuations, or government actions. The opportunity set in key deepwater markets (e.g., Brazil, Mexico, West Africa) will likely be dictated by the pace/extent of local government regulatory initiatives to promote greater FDI and could be subject to local content cost inflation and/or capacity bottlenecks that could adversely impact FTI's earnings potential relative to our estimates.

Subsea has relatively high execution risk

Large, complicated projects with demanding local content terms and generally low margins with fixed terms lead to risk for cost overruns and potential for losses. FTI has exhibited stronger execution compared with the prior cycles, thanks to considerable management efforts and a more experienced bench of engineers, but the company has not been immune and these issues could resurface given the challenging nature of the work.

De-leveraging plan relies on market sales of TE stock

FTI retained 49.9% of Technip Energies' equity post-spin and plans to divest over the next ~18 months. With a levered balance sheet post-spin, a successful monetization is critical in our view to regaining investment-grade ratings and achieving our price target. Many factors can influence both TE's share price as well as the market's willingness to take on this additional supply of stock.

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TechnipFMC PLC (FTI, FTI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 25, 2004. All share prices are as of market close on the previous business day.

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