2013 full year results

Q: The results you're reporting today are in line with expectations, so what for you are the highlights?

A: For me, the highlight would be the EPS, first, is up 11%. The cashflow conversion is almost 100%, and we have a record order book at GBP4.1bn.

We must not forget all the improvements which we have made in a number of key safety measures, and we should be very proud that we are on the Dow Jones Sustainability Index now for the 10th year in a row. And we are really seeing a collaborative approach to winning new business and delivering work as a result of the organisation's change, which we did in 2012.

Q: But having said that, your reported revenues are down. Does that mean that growth has stalled?

A: The revenues are in line and as expected. In the year, we saw incremental procurement of GBP200m lower than in the year before. We have also seen that mining is down, we are coming off peaks on the Kearl project in the Canadian oil sands. But we saw a strong performance on the conventional oil and gas, especially in the UK North Sea and in the Middle East. The renewables are very strong in the US, and also we expect good underlying growth in 2014.

Q: While overall margins have grown by 40 basis points, performance does seem to have been mixed, so what were the key drivers behind that performance?

A: Well, of course, there was a mix in the 2013 results. We have gained from the lower procurement part; we saw cost efficiencies following the restructuring in 2012. We had favourable project closeouts in the Americas, and also we benefited from R&D subsidies in Canada and in the US.

That has partially been offset by lower contributions from Sellafield, by losses on the TGPP contract in the UK, which we spoke about it at the half year.

So bringing all that together, the like for like margins are stable this year and may go down in 2014, as we are looking forward, as an impact of that mix.

Q: And can you just give us an update on what's happened in the UK conventional power business?

A: In the European geography, our focus has been on the nuclear activities. It has been on the T&D business and also on renewable energy. So deliberately, we have been reducing our exposure to UK conventional power over a number of years, and now the contracts are complete and we're not generating anymore revenues.

Foster Wheeler acquisition

Q: Can you remind us why this deal makes sense for AMEC?

A: Let me start answering this question having the customer first, in the centre of this, because customers are interested to know, what is the role of AMEC in the oil and gas value chain? What we're doing here… this deal will add a mid and downstream business. It will get us an access to a multiple-time market [that's bigger] than what we have today. It's about the new customer relationships, increasing the possibility to sell to each other. Also, it will give us a possibility to give an improved geographic footprint. We have always said that AMEC is sub-scale in the Middle East, and this will double the revenues from the growth regions. It will increase AMEC's Latin American exposure, bringing scale benefits.

There's always discussions about how much cost synergies and tax synergies [are achievable], and we expect at least $75m out of the cost synergies and additional tax synergies.

But what excites me about this deal, actually, is there is a significant revenue synergy, whether it is cross-selling services to a combined customer base, whether it is expanding the brownfield and environmental services, offering on a global base into the mid and downstream markets. And it will give us access to a $300bn market.

When it comes to the business model, this will retain the AMEC low risk and cash-generative business model, so there's no change to what we have been doing up to now. Think about combining two highly skilled workforces with industry-leading engineering and project-management expertise, how much value it will bring to these customers. At the same time, it will add a robust and profitable power equipment business with a solid backlog of orders. So all in all, this is a great deal, and it actually ticks all the boxes in every dimension.

Q: Can you tell us a little bit about what the combined entity would look like in terms of its size and its market coverage?

A: Well, the combined group will have revenues of some GBP6.2bn. It will have an EBITDA of some GBP500m. But think about the combination of the two teams, which is making more than 40,000 employees around the globe. The beauty with this is that we'll be able to follow our customers, wherever they are, much better than we are doing today.

Q: And what does this deal mean for your employees?

A: Well, actually, whether it is for the employees of AMEC, or for the employees, for that case, of Foster Wheeler, what is good here, this is a transformational deal for both companies. It will add quite a good competence and skills to the ones which we have, so it's not been a competitive situation. We have been strong in the upstream, Foster Wheeler have been strong in the mid and downstream… and the addition will create actually more value to the customers of the combined group of AMEC and Foster Wheeler.

Q: And so what can we expect to see happening next?

A: Well, there is a time schedule which we need to follow. In this type of a deal, you have a number of regulations which you need to follow. You have a number of filings which you need to do. There is a lot of antitrust issues which need to be solved. So this will take some months, but, of course, we'll be keeping everybody informed of what we are up to, what's the latest development are and what will be the possible closing date.

Market and outlook

Q: And how do you see 2014 looking ahead? What's your outlook?

A: First, we expect the underlying growth, excluding procurement, to be good, especially in conventional oil and gas and clean energy. Now, maybe there are some risks to the margins because of the mix. We see strengthening of sterling relative to the North American currencies, which means the forward rates indicate an impact in excess of GBP10m. But let me add here to the Foster Wheeler acquisition; it is expected to create sustainable value for the long term. It's double-digit earnings enhancing in the first 12 months, and of course it's a matter of timing, so it won't be fully realized in 2014.

Q: And what do you see as the overall outlook for your markets in 2014?

A: In the current situation, we see a big advantage of a diversified approach, whether it is across markets, across geographies or across the asset life cycle. Don't forget, at AMEC, we work on lots and lots of projects each year. But let me go through the four markets which we are active in.

When it comes to the oil and gas, and here I'm thinking about first the conventional, whether it is the UK North Sea and the Middle East, we had a great success. On the Canadian oil sands and the unconventionals, we're working now on a number of projects, but Kearl is off its peak.

On the mining side, we do all know that the markets remain tough, but we have good penetration in Africa. We are working now in a couple of interesting projects in Australia, like the Roy Hill and the Hillside. We continue to develop position in the underground mining, and all that is actually consistent with our Vision 2015.

When it comes to clean energy, the highlight in the US has been the renewable. That's remained strong into the year. On the UK, a nuclear new build, is going to be a very interesting proposition here to follow. Of course, we depend on the progress with EU approvals. And the E&I services, that continues to be a differentiator in the market. So, overall, we expect a good growth going forward in 2014.