

HMS Group Reports 9m 2020 EBITDA of Rub 3.4 billion

Moscow, Russia – December 11, 2020 – HMS Group Plc (the “Group”) (LSE: HMSG), the leading pump, oil & gas equipment and compressor manufacturer and provider of flow control solutions and related services in Russia and the CIS, today announces its financial results for the nine months ended September 30, 2020.

Financial highlights 9m 2020:

- Revenue: Rub 31.5 bn (-14% yoy)
- EBITDA¹: Rub 3.4 bn (-1% yoy), EBITDA margin at 10.7%
- Operating profit: Rub 1.2 bn (-23% yoy)
- Loss for the period: Rub 224 mn

- Total debt: Rub 22.8 bn (+8% yoy)
- Net debt: Rub 13.9 bn (-18% yoy)
- Net debt-to-EBITDA LTM ratio: 2.89x

Operational highlights 9m 2020:

- Backlog: Rub 68.2 bn (+65% yoy)
- Order intake: Rub 49.8 bn (+37% yoy)

FY 2020 Guidance:

- Revenue: Rub 50-55 bn
- EBITDA: Rub 4.7-5 bn
- Current operating results don't imply net income for FY2020
- It's unlikely that HMS will pay dividends for FY2020, taking into account expected annual results and aggregate macroeconomic risks

¹ EBITDA is defined as operating profit/(loss) adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, ECL allowance and provision for impairment of trade and other receivables and other financial assets, unused vacation allowance, warranty provision, provision for legal claims, tax provision and other provisions). This measurement basis, therefore, excludes the effects of a number of non-recurring income and expenses on the results of the operating segments.

GROUP PERFORMANCE

9 MONTHS 2020 FINANCIAL RESULTS

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Orders	49,758	36,227	37%	19,359	7,256	167%
Backlog	68,175	41,395	65%	68,175	55,023	24%
Revenue	31,477	36,681	-14%	11,978	10,383	15%
EBITDA	3,371	3,392	-1%	1,264	1,030	23%
<i>EBITDA margin</i>	10.7%	9.2%		10.6%	9.9%	
(Loss)/Profit for the period	(224)	191	na	90	(161)	na
Free cash flow/(outflow)	884	(2,623)	na	2,397	(3,604)	na

HMS' orders portfolios demonstrate signs of recovery after a downswing in 2Q 2020, caused by the COVID-19.

Order intake grew to Rub 49.8 billion, by 37% yoy, compared with Rub 36.2 billion for 9 months 2019. Compressor and oil & gas equipment large contracts contributed almost Rub 23 billion to the order intake portfolio, compared with Rub 8.2 billion for 9 months 2019.

Backlog extended its record high and reached Rub 68.2 billion, up by 65% yoy, compared with Rub 41.4 billion last year. The compressors business segment was the main giver to this growth. In terms of contracts type, both recurring business and large contracts grew, compared with 9 months 2019.

Revenue declined to Rub 31.5 billion, by 14% yoy, compared with Rub 36.7 billion for 9 months 2019, mainly due to a 34 percent decrease of the compressors business segment.

EBITDA was down to Rub 3.4 billion, by a minor 1% yoy, also mainly due to the compressors. EBITDA margin increased to 10.7%, compared with 9.2% for 9 months 2019.

Revenue from recurring business declined by 7% yoy, and revenue from large projects was down by 30% yoy. EBITDA from recurring business increased by 15% yoy, and, in contrast, EBITDA from large contracts declined by 16% yoy.

Loss for 9 months 2020 was Rub 224 million, compared with profit for the period at Rub 191 million for 9 months 2019. In comparison with 6 months 2020, loss for 9 months got smaller, down from Rub 314 million loss.

Free cash inflow was Rub 884 million, compared with Rub 2.6 billion outflow for 9 months 2019, despite lower revenue, compared with 9 months 2019, due to a cost-optimization program.

EXPENSES AND OPERATING PROFIT

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	Share of 9m 2020 revenue	Share of 9m 2019 revenue
Cost of sales	25,166	29,626	-15%	80.0%	80.8%
Materials and components	16,940	20,582	-18%	53.8%	56.1%
Labour costs incl Social taxes	5,094	5,238	-3%	16.2%	14.3%
Depreciation and amortization	1,586	1,444	10%	5.0%	3.9%
Construction and design ²	1,378	1,561	-12%	4.4%	4.3%
Others	168	803	-79%	0.5%	2.2%

Cost of sales was down to Rub 25.2 billion by 15% yoy, compared with Rub 29.6 billion for 9 months 2019, due to materials and components (-18% yoy) and change in work in progress and finished goods. Materials and components declined because of both lower HMS' revenue and lower share of large contracts under execution in the reporting period.

Gross profit was down to Rub 4.3 billion, by 11% yoy, compared with Rub 7.1 billion for 9 months 2019.

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	Share of 9m 2020 revenue	Share of 9m 2019 revenue
Gross profit	6,311	7,055	-11%	20.0%	19.2%
Distribution and transportation	1,344	1,402	-4%	4.3%	3.8%
General and administrative	3,597	3,981	-10%	11.4%	10.9%
<i>SG&A expenses</i>	<i>4,941</i>	<i>5,382</i>	<i>-8%</i>	<i>15.7%</i>	<i>14.7%</i>
Other operating expenses	154	90	72%	0.5%	0.2%
<i>Operating expenses ex. Cost of sales</i>	<i>5,095</i>	<i>5,472</i>	<i>-7%</i>	<i>16.2%</i>	<i>14.9%</i>
Operating profit	1,215	1,583	-23%	3.9%	4.3%
Finance costs	1,438	1,292	11%	4.6%	3.5%

Distribution and transportation expenses were down by 4% yoy, mainly due to reduced marketing expenses. As a share of revenue, distribution and transportation expenses was up to 4.3%, compared with 3.8% last year.

General and administrative expenses were down by 10% yoy to Rub 3.6 billion, compared with Rub 4.0 billion last year, mainly due to a 10 percent decrease in labor costs and related social taxes. As a share of revenue, general and administrative expenses were up to 11.4% from 10.9% for 9 months 2019.

As a result, SG&A expenses³ declined by 8% yoy, but as a share of revenue they were up to 15.7%, compared with 14.7% for 9 months 2019.

Operating profit was Rub 1.2 billion, compared with Rub 1.6 billion for 9 months 2019, down by 23%.

² Construction and design and engineering services of subcontractors

³ SG&A expenses - Selling, General and Administrative Expenses, compiled of distribution & transportation expenses plus general & administrative ones

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy
Finance costs	1,438	1,292	11%
Interest expenses	1,398	1,279	9%
Interest rate, average	8.13%	8.72%	
Interest rate Rub, average	8.26%	8.89%	

Finance costs increased to Rub 1.4 billion, compared with Rub 1.3 billion for 9 months 2019. The reason was a 9 percent increase in interest expenses due to a higher level of total debt (+8% yoy).

Average interest rates decreased to 8.13% p.a., compared with 8.72% p.a. last year.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumpsⁱ

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Orders	13,343	16,423	-19%	5,329	3,499	52%
Backlog	19,749	18,834	5%	19,749	19,685	0%
Revenue	13,945	13,904	0%	5,657	4,594	23%
EBITDA	1,816	1,871	-3%	797	545	46%
EBITDA margin	13.0%	13.5%		14.1%	11.9%	

Industrial pumps' order intake declined by 19% yoy to Rub 13.3 billion, compared with Rub 16.4 billion for 9 months 2019. The main reason was that there wasn't any large contract signed in the reporting period. Nine months' order intake was fully made of the regular business.

Backlog grew by 5% yoy to Rub 19.8 billion, compared with Rub 18.8 billion for 9 months 2019.

Revenue stood almost unchanged at Rub 13.9 billion, based on the recurring business. EBITDA declined to Rub 1.8 billion, by 3% yoy, compared with Rub 1.9 billion for 9 months 2019, due to a larger share of the recurring business in the reporting period that has a lower profitability. EBITDA margin was 13.0%, compared with 13.5% for 9 months 2019.

3Q 2020 financial results demonstrated signs of recovery. Revenue grew by 23% qoq and EBITDA was up 46% qoq that resulted in EBITDA margin of 14.1%, compared with 11.9% in 2Q 2020.

Oil and Gas equipment & projects (OGEP)ⁱⁱ

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Orders	10,237	11,096	-8%	3,514	1,789	96%
Backlog	9,916	9,374	6%	9,916	8,282	20%
Revenue	8,394	8,599	-2%	3,241	2,078	56%
EBITDA	290	(171)	na	47	(111)	na
EBITDA margin	3.5%	-2.0%		1.4%	-5.3%	

Order intake declined to Rub 10.2 billion, by 8% yoy, compared with Rub 11.1 billion for 9 months 2019, due to substantially less contracts signed in 2Q 2020. In 3Q 2020, order intake grew almost twofold, compared with 2Q 2020, based on the grown recurring orders portfolio and a large contract signed.

Backlog was up by 6% yoy to Rub 9.9 billion, compared with Rub 9.4 billion for 9 months 2019.

Revenue declined to Rub 8.4 billion, by 2% yoy, compared with Rub 8.6 billion for 9 months 2019. EBITDA was up to Rub 290 million, compared with Rub (171) million, and EBITDA margin was 3.5% vs. (2.0)% for 9 months 2019, thanks to the recovery of recurring business after the deterioration in 2Q 2020.

Compressorsⁱⁱⁱ

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Orders	25,963	8,578	203%	10,512	1,961	436%
Backlog	36,859	11,931	209%	36,859	26,366	40%
Revenue	8,868	13,326	-33%	3,075	3,599	-15%
EBITDA	1,142	1,266	-10%	489	432	13%
EBITDA margin	12.9%	9.5%		15.9%	12.0%	

Order intake grew threefold to Rub 26.0 billion, compared with Rub 8.6 billion. Backlog increased also threefold to Rub 36.9 billion, compared with Rub 11.9 billion last year. The growth of orders portfolios was based on both the recurring business and large contracts.

Revenue was down by 33% yoy to Rub 8.9 billion, compared with Rub 13.3 billion. EBITDA declined by 10% yoy to Rub 1.1 billion, compared with Rub 1.3 billion for 9 months 2019. EBITDA margin was up to 12.9%, compared with 9.5% for 9 months 2019.

In the first three quarters of 2019 there was a drop in order intake that led to lower financial results for 9 months 2020. The situation has recovered, based on the current order portfolio.

Construction^{iv}

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Orders	215	129	66%	5	7	-26%
Backlog	1,652	1,256	32%	1,652	690	139%
Revenue	580	1,098	-47%	174	169	3%
EBITDA	(20)	49	na	(59)	17	na
EBITDA margin	-3.4%	4.5%		-34.0%	9.8%	

Order intake equaled Rub 215 million. Backlog was up to Rub 1.7 billion.

Revenue was down to Rub 580 million, compared with Rub 1.1 billion for 9 months 2019. EBITDA was Rub (20) million, compared with Rub 49 million last year.

WORKING CAPITAL AND CAPITAL EXPENDITURES

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Working capital	8,715	11,522	-24%	8,715	10,486	-17%
Working capital / Revenue LTM	18.9%	20.1%		18.9%	22.1%	
Capex	1,141	1,203	-5%	399	408	-2%
Acquisition	0	670		-	-	

Working capital declined to Rub 8.7 billion, by 24% yoy, compared with Rub 11.5 billion for 9 months 2019, due to a quarterly volatility, related to execution of large contracts. As a share of revenue, working capital was down to 18.9%, compared with 20.1% for 9 months 2019.

HMS continued reducing its maintenance capital expenditures. They were decreased to Rub 1.1 billion, by 5% yoy, compared with Rub 1.2 billion last year.

DEBT POSITION

<i>in millions of Rub</i>	9m 2020	9m 2019	Change yoy	3Q 2020	2Q 2020	Change qoq
Total debt	22,832	21,115	8%	22,832	22,752	0%
Net debt	13,897	16,960	-18%	13,897	16,177	-14%
Net debt / EBITDA LTM	2.89	2.98		2.89	3.25	

Total debt increased to Rub 22.8 billion, by 8% yoy, compared with Rub 21.1 billion for 9 months 2019. Net debt, in contrast, was down to Rub 13.9 billion, by 18% yoy, compared with Rub 17.0 billion for 9 months 2019.

Net debt to EBITDA LTM ratio decreased to 2.89x compared with 2.98x for 9 months 2019.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT

After the reporting date, HMS Group shifted a number of debt repayments from 2022 to 2023.

<i>HMS' debt repayment schedule, Rub mn</i>	2020	2021	2022	2,023
Debt to be repaid	167	1,229	13,187	7,233

LARGE CONTRACTS

After the reporting date, in November 2020, HMS announced the signature of a compressor contract worth Rub 3.2 billion to manufacture gas transportation units to be installed at a client's oil & gas condensate field.

Also, in December 2020, the company announced the signature of a Rub 1.3 billion contract to engineer and manufacture pumping stations to be installed at a client's gas condensate field.

HMS GROUP WILL NOT HOLD THE WEBCAST DUE TO THE COVID-2019 SITUATION AND WORKING IN THE REMOTE MODE.

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HMS Group is the leading pump and compressor manufacturer, as well as provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utilities sectors in Russia and the CIS. HMS Group's products are mission-critical elements of projects across a diverse range of industries. It has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations on recent trunk pipelines projects linking Russia's core oil producing areas to export ports on the Pacific Ocean and Baltic Sea. HMS Group's global depository receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

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ⁱ The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solutions as well as pumps built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.

ⁱⁱ The oil and gas equipment and projects business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

ⁱⁱⁱ The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.

^{iv} The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.