

HMS Group announces management statement and financial highlights for 9 months 2018

HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the “HMS Group”, “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 nine months ended September 30, 2018.

Financial highlights 9 months 2018:

- Revenue: Rub 31.9 bn (+1% yoy)
- EBITDA¹: Rub 4.3 bn (-13% yoy), EBITDA margin 13.6%
- Operating profit: Rub 2.7 bn (-21% yoy), operating margin down to 8.5%
- Profit for the period: Rub 1.2 bn (-29% yoy), net income margin down to 3.7%

- Total debt: Rub 19.2 bn (+16% yoy)
- Net debt: Rub 14.8 bn (+16% yoy)
- Net debt-to-EBITDA LTM ratio: 2.40x

Operational highlights 9 months 2018:

- Backlog: Rub 37.9 bn (-9% yoy)
- Order intake: Rub 30.7 bn (-32% yoy)

¹ EBITDA is defined as operating profit/loss from continuing operations 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 the acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, provision for impairment of accounts receivable, 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.

OPERATING REVIEW

BACKLOG

Backlog² decreased by 9 percent to Rub 37.9 billion due to underperformance of the oil & gas equipment and projects and construction business segments. The main reason was fewer large oil & gas equipment contracts signed in the reporting period. The other two business segments increased based both on the growth of large integrated contracts and recurring business.

Backlog, Rub mn	2018 9m	2017 9m	Change yoy
Industrial pumps	17,450	10,519	66%
Oil & Gas equipment and projects	7,631	22,337	-66%
Compressors	10,146	4,407	130%
Construction	2,677	4,505	-41%
Total	37,904	41,767	-9%

ORDER INTAKE

Order intake³ decreased to Rub 30.7 billion (-32% yoy). Two of HMS' business segments declined.

The pumps segment increased to Rub 13.4 billion purely based on the recurring business.

The oil and gas equipment and projects segment was down to Rub 8.8 billion because of absence of large contracts signed in the reporting period.

The compressors increased to Rub 8.1 billion mainly because the company signed more large contracts.

In terms of contracts' mix, the drop was only attributable to fewer large contracts signed in the reporting period.

Order intake, Rub mn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Industrial pumps	13,432	12,221	10%	4,988	4,214	18%
Oil & gas equipment	8,820	23,383	-62%	3,304	2,079	59%
Compressors	8,072	5,934	36%	3,406	1,672	104%
Construction	391	3,624	-89%	617	27	2188%
Total	30,715	45,163	-32%	12,315	7,992	54%

² According to management accounts

³ According to management accounts

GROUP PERFORMANCE

Revenue was almost stable, up by a minor 1 percent yoy to Rub 31.9 billion.

EBITDA was down by 13 percent yoy to Rub 4.3 billion. The industrial pumps and compressors were the main factors that affected the company's EBITDA.

Rub bn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Revenue	31,862	31,411	1%	11,519	11,618	-1%
EBITDA	4,319	4,987	-13%	999	2,240	-55%
EBITDA margin	13.6%	15.9%		8.7%	19.3%	

In terms of contracts' type, revenue from the recurring business declined by 11 percent yoy. Large contracts advanced 38 percent yoy. EBITDA from the recurring business decreased by 50 percent yoy. In contrast, EBITDA generated by large contracts grew by 26 percent yoy, but didn't manage to compensate for that decline in the recurring business.

EBITDA margin was down to 13.6% from 15.9% in the comparative period.

Cost of sales, Rub mn	2018 9m	2017 9m	Change yoy	Share of 2018 9m revenue	Share of 2017 9m revenue
Cost of sales	23,790	22,931	4%	74.7%	73.0%
Materials and components	15,278	15,928	-4%	47.9%	50.7%
Labour costs	4,239	3,724	14%	13.3%	11.9%
Construction and design and engineering services of subcontractors	1,197	811	48%	3.8%	2.6%
Social taxes	1,156	1,044	11%	3.6%	3.3%
Others	1,921	1,423	35%	6.0%	4.5%

Cost of sales grew by 4 percent yoy to Rub 23.8 billion because of increased labor costs and social taxes (+13% yoy if to sum them up). As a percentage of revenue, the cost of sales also was up to 75% from 73%.

As a result, **gross profit** was down to Rub 8.1 billion (-5% yoy) and gross margin declined to 25.3% vs. 27.0% for 9 months 2017.

Rub mn	2018 9m	2017 9m	Change yoy	Share of 2018 9m revenue	Share of 2017 9m revenue
Distribution and transportation	1,378	1,299	6%	4.3%	4.1%
General and administrative	3,876	3,444	13%	12.2%	11.0%
SG&A expenses	5,253	4,742	11%	16.5%	15.1%
Other operating expenses	117	330	-65%	0.4%	1.0%
Operating expenses ex. Cost of sales	5,370	5,072	6%	16.9%	16.1%
Finance costs	1,186	1,340	-12%	3.7%	4.3%

SG&A expenses⁴ increased by 11 percent yoy, and as a share of revenue grew to 16.5% from 15.1%.

Operating expenses excl. cost of sales grew by 6 percent yoy with a share of revenue of 16.9% due to growth of labor costs.

Distribution and transportation expenses grew by 6 percent yoy to Rub 1.4 billion, mainly due to growth of labour costs and social taxes. As a share of revenue, distribution and transportation expenses demonstrated minor change, to 4.3% from 4.1%.

General and administrative expenses grew by 13 percent yoy to Rub 3.9 billion due to the combined growth of labour costs and social taxes. This growth was mainly attributable to the long-term incentive program and increased salaries. As a share of revenue, general and administrative expenses grew to 12.2% due to quarterly volatility of revenue.

Operating profit declined by 21 percent yoy to Rub 2.7 billion from Rub 3.4 billion, and operating margin was down to 8.5%.

Finance costs, Rub mn	2018 9m	2017 9m	Change yoy
Finance costs	1,186	1,340	-12%
<i>Interest expenses</i>	<i>1,180</i>	<i>1,338</i>	<i>-12%</i>
<i>Fees for early repayment of loans</i>	<i>5</i>	<i>0</i>	<i>na</i>
<i>Foreign exchange (gain)/loss, net</i>	<i>(1)</i>	<i>0</i>	<i>na</i>
<i>Finance lease expenses</i>	<i>2</i>	<i>2</i>	<i>12%</i>
Interest rate, average	8.8%	10.2%	
Interest rate Rub, average	8.9%	10.4%	

Finance costs decreased by 12 percent yoy, fully due to a decrease in interest expenses (-12% yoy) because of lower interest rates as a result of debt portfolio refinancing. Average rates decreased from 10.2% p.a. to 8.8% p.a.

Profit for the period was down 29 percent yoy to Rub 1.2 billion and its margin for the period declined to 3.7% vs. 5.3% for the comparative period.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumpsⁱ

The industrial pumps business segment's revenue decreased by 9 percent yoy to Rub 11.2 billion from Rub 12.3 billion. EBITDA was down by 43 percent yoy to Rub 1.2 billion. EBITDA margin declined to 10.7%.

Less profitable contracts, executed in the reporting period, and some forced increase in wages were the main factors which influenced the segment's underperformance, among others.

⁴SG&A expenses = Selling, General and Administrative Expenses = Distribution and transportation + General and administrative

Industrial pumps, Rub mn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Revenue	11,198	12,346	-9%	3,864	4,337	-11%
EBITDA	1,198	2,114	-43%	322	523	-38%
EBITDA margin	10.7%	17.1%		8.3%	12.1%	

Oil & Gas equipment and projects (OGEP)ⁱⁱ

The OGEP business segment's revenue grew 10 percent yoy to Rub 16.5 billion, and EBITDA hiked 86 percent yoy to Rub 2.7 billion due to the low base effect. EBITDA margin increased to 16.5% from 9.7% in the comparative period.

The recovered performance of Giprotymenneftegas (GTNG) combined with a beneficial mix of contracts generated higher than average profitability of the business segment.

OGEP, Rub mn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Revenue	16,512	15,037	10%	5,327	6,074	-12%
EBITDA	2,716	1,460	86%	632	1,257	-50%
EBITDA margin	16.5%	9.7%		11.9%	20.7%	

Compressorsⁱⁱⁱ

Revenue declined by 20 percent yoy to Rub 5.3 billion. EBITDA was also down to Rub 438 million. EBITDA margin decreased to 8.3% that is much less than 16.5% in the comparative period.

The decline in the segment's profitability was due to the high-base effect last year (execution of a number of high-margin large contracts and one-off economies emerged during their execution) combined with an unsteady recognition of large contracts' revenue this year.

Compressors, Rub mn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Revenue	5,306	6,650	-20%	1,903	1,523	25%
EBITDA	438	1,096	-60%	102	237	-57%
EBITDA margin	8.3%	16.5%		5.3%	15.6%	

Construction^{iv}

Construction increased its revenue to Rub 1.3 billion (+181% yoy). But it generated negative EBITDA.

Construction, Rub mn	2018 9m	2017 9m	Change yoy	2018 3Q	2018 2Q	Change qoq
Revenue	1,258	447	181%	453	423	7%
EBITDA	(160)	(120)	na	1	(40)	na
EBITDA margin	-12.7%	-26.7%		0.3%	-9.4%	

FINANCIAL REVIEW

CASH FLOW PERFORMANCE

Working capital increased by 16 percent yoy to Rub 11.3 billion, but kept its share of revenue in the normal range of 22-25%.

Its growth was fully based on inflows and outflows related to large contracts.

Working capital & Capex, Rub mn	2018 9m	2017 9m	Change yoy
Working capital	11,340	9,775	16%
Working capital / Revenue LTM	25%	23%	
Capital expenditures	1,441	1,404	3%

Capital expenditures increased by 3 percent yoy to Rub 1.4 billion.

HMS Group generated a **negative operating cash flow** of Rub 620 million compared to a positive cash flow of Rub 3.1 billion last year, due to the growth of working capital for 9 months 2018. The operating outflow led to a **negative free cash flow**⁵ of Rub 2.0 billion.

Cash flow performance, Rub mn	2018 9m	2017 9m	Change yoy
Net cash (used in)/from operating activities	(620)	3,074	-120%
Net cash used in investing activities	(1,374)	(1,365)	1%
Free cash flow (FCF)	(1,993)	1,709	-217%
Net cash from/(used in) financing activities	1,678	(973)	272%
Cash & cash equivalents, at the end of the period	4,349	3,727	17%

DEBT POSITION

Total debt increased by 16 percent yoy to Rub 19.2 billion from Rub 16.5 billion.

Net debt also grew at the same pace to Rub 14.8 billion. As a result, the **Net debt-to-EBITDA LTM ratio** was up to 2.40x due to higher net debt and lower EBITDA LTM.

Level of net debt and its dynamics are correlated to working capital and its dynamics.

⁵ Free cash flow (FCF) = Net cash from operating activities (operating cash flow) + Net cash used in investing activities (investing cash flow), represents the cash that a company is able to generate after laying out the money required to maintain or expand its assets base.

Leverage, Rub mn	2018 9m	2017 9m	Change yoy
Total debt	19,177	16,469	16%
<i>Long-term debt</i>	<i>18,191</i>	<i>12,939</i>	<i>41%</i>
<i>Short-term debt</i>	<i>986</i>	<i>3,529</i>	<i>-72%</i>
Net debt	14,828	12,742	16%
Net debt / EBITDA LTM	2.40x	1.91x	

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT

As of December 1, 2018, average interest rate decreased to 8.7% compared to 9.8% at the beginning of 2018.

DIVIDENDS AND HMS GDRS

During the period from October 1, 2018 to and including December 10, 2018, HMS Group has purchased 66,100 of its global depository receipts ("GDRs"). As of today, 1,142,987 GDRs (4.88 percent of its issued share capital) were bought under the Buy-back program.

On December 6, 2018, the Board of Directors approved payment of interim dividends in respect of 9 months 2018 in the amount of 3.84 rubles per ordinary share, i.e. 19.20 rubles per one GDR. Dividends will be paid on January 25, 2019, with record day on January 11, 2019. Ex-dividend date will start from January 10, 2019.

2018 GUIDANCE

Revenue and EBITDA:

HMS Group expects **2018FY revenue Rub 50-53 billion** and **EBITDA in the range of Rub 6.2-6.4 billion**.

Finance costs:

The company doesn't expect a further decrease in interest expenses due to the fact that the process of interest rates' decrease has stopped in Russia.

WEBCAST TO DISCUSS 9 MONTHS 2018 IFRS FINANCIAL RESULTS

Date: Tuesday, December 11, 2018

Time: 5.00 PM (MOSCOW) / 3.00 PM (London) / 10.00 AM (NY)

Speaker:

Inna Kelekhsaeva – Deputy Head of Capital markets

Q&A session:

Kirill Molchanov – First Deputy General Director and Co-Founder

Alexander Rybin – Head of Capital markets

To participate in the conference call, please dial in:

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Conference ID: 7885750

Title: HMS Group 9 months 2018 IFRS results

Webcast meeting:

To access the live event, click on the link:

<https://webcasts.eqs.com/hmsgroup20181211>

Please, dial in 5-10 minutes prior to the scheduled start time. Pre-registration is available.

We will share materials on [HMS' investor website](#) ahead of the webcast.

Contacts:

Investor Relations, ir@hms.ru

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 depositary receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

Press Release Information Accuracy Disclaimer

Information published in press releases was accurate at the time of publication but may be superseded by subsequent releases or other information.

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.