

HMS Group Reports 6m 2020 EBITDA of Rub 2.1 billion

Moscow, Russia – October 08, 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 six months ended June 30, 2020.

Financial highlights 6m 2020:

- Revenue: Rub 19.5 bn (-17% yoy)
- EBITDA¹: Rub 2.1 bn (+8% yoy), EBITDA margin at 10.8%
- Operating profit: Rub 524 mn (-13% yoy)
- Loss for the period: Rub 314 mn

- Total debt: Rub 22.8 bn (+14% yoy)
- Net debt: Rub 16.2 bn (+4% yoy)
- Net debt-to-EBITDA LTM ratio: 3.25x

Operational highlights 6m 2020:

- Backlog: Rub 55.0 bn (+27% yoy)
- Order intake: Rub 30.4 bn (+24% 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

6 MONTHS 2020 FINANCIAL RESULTS

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Orders	30,398	24,541	24%	7,256	23,142	-69%
Backlog	55,023	43,412	27%	55,023	58,720	-6%
Revenue	19,498	23,419	-17%	10,383	9,115	14%
EBITDA	2,107	1,953	8%	1,030	1,077	-4%
<i>EBITDA margin</i>	10.8%	8.3%		9.9%	11.8%	
Loss for the period	(314)	(178)	na	(161)	(153)	na
Free cash flow/(outflow)	(1,513)	(1,918)	-21%	(3,604)	2,091	-272%

Order intake grew to Rub 30.4 billion, by 24% yoy, compared with Rub 24.5 billion for 6 months 2019, due to a large Rub 11.2 billion compressor contract signed in the reporting period.

Backlog also grew to Rub 55.0 billion, by 27% yoy, compared with Rub 43.4 billion last year. All main business segments demonstrated growth, especially the compressors. In terms of contracts type, both the recurring business and large contracts grew, compared with 6m 2019.

Revenue declined to Rub 19.5 billion, by 17%, compared with Rub 23.4 billion for 6 months 2019, mainly due to a decrease of the compressors business segment.

EBITDA was up to Rub 2.1 billion, by 8% yoy, compared with Rub 2.0 billion due to the recovery of the oil & gas equipment and projects business segment.

Revenue from recurring business declined by 9% yoy, and revenue from large projects was down by 34% yoy. EBITDA from recurring business increased by 39% yoy, and from large projects was down by 18% yoy.

EBITDA margin was up to 10.8%, compared with 8.3% for 6 months 2019.

Loss for 6 months 2020 was Rub 314 million, compared with loss for the period at Rub 178 million for 6 months 2019.

Free cash outflow was Rub 1.5 billion, compared with Rub 1.9 billion outflow for 6 months 2019, despite lower revenue, compared with 6 months 2019, due to a cost-optimization program.

EXPENSES AND OPERATING PROFIT

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	Share of 6m 2020 revenue	Share of 6m 2019 revenue
Cost of sales	15,537	18,989	-18%	79.7%	81.1%
Materials and components	9,703	13,414	-28%	49.8%	57.3%
Labour costs incl Social taxes	3,524	3,592	-2%	18.1%	15.3%
Depreciation and amortization	1,048	946	11%	5.4%	4.0%
Construction and design ²	1,065	938	14%	5.5%	4.0%
Others	197	100	96%	1.0%	0.4%

Cost of sales was down to Rub 15.5 billion by 18% yoy, compared with Rub 19.0 billion for 6 months 2019, due to materials and components (-28% yoy), which decrease was correlated with lower revenue as well as with a less share of large contracts under execution in the reporting period.

Gross profit was down to Rub 4.0 billion, by 11% yoy, compared with Rub 4.4 billion for 6 months 2019.

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	Share of 6m 2020 revenue	Share of 6m 2019 revenue
Gross profit	3,961	4,429	-11%	20.3%	18.9%
Distribution and transportation	906	951	-5%	4.6%	4.1%
General and administrative	2,405	2,753	-13%	12.3%	11.8%
SG&A expenses	3,311	3,704	-11%	17.0%	15.8%
Other operating expenses	127	123	3%	0.6%	0.5%
<i>Operating expenses ex. Cost of sales</i>	<i>3,437</i>	<i>3,827</i>	<i>-10%</i>	<i>17.6%</i>	<i>16.3%</i>
Operating profit	524	602	-13%	2.7%	2.6%
Finance costs	941	838	12%	4.8%	3.6%

Distribution and transportation expenses was down by 5% yoy. As a share of revenue, distribution and transportation expenses was up to 4.6%, compared with 4.1% last year.

General and administrative expenses were down by 13% yoy to Rub 2.4 billion, compared with Rub 2.8 billion last year, mainly due to the decrease in labor costs and related social taxes (-16% yoy). As a share of revenue, general and administrative expenses were up to 12.3% from 11.8% for 6 months 2019.

SG&A expenses³ declined by 11% yoy, due to the implemented cost-optimization program. As a share of revenue they were up to 17.0%, compared with 15.8% for 6 months 2019.

Operating profit declined to Rub 524 million, compared with operating profit of Rub 602 million for 6 months 2019.

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>	6m 2020	6m 2019	Change yoy
Finance costs	941	838	12%
Interest expenses	933	827	13%
Interest rate, average	8.21%	8.78%	
Interest rate Rub, average	8.33%	8.93%	

Finance costs were up to Rub 941 million, compared with Rub 838 million for 6 months 2019, due to the increase of interest expenses (+13% yoy) because of a higher level of total debt (+14% yoy). Average rates decreased to 8.21% p.a., compared with 8.78% p.a. last year.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumpsⁱ

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Orders	8,015	10,572	-24%	3,499	4,515	-22%
Backlog	19,685	19,398	1%	19,685	20,961	-6%
Revenue	8,288	7,980	4%	4,594	3,693	24%
EBITDA	1,019	1,068	-5%	545	474	15%
EBITDA margin	12.3%	13.4%		11.9%	12.8%	

Order intake of industrial pumps declined by 24% yoy to Rub 8.0 billion, compared with Rub 10.6 billion for 6 months 2019. Less orders were signed in the reporting period due to the postponement of some tenders to the 2nd half of 2020 because of the COVID-19.

Backlog grew by a minor 1% yoy to Rub 19.7 billion, compared with Rub 19.4 billion for 6 months 2019, based on the recurring business.

Revenue was Rub 8.3 billion, up by 4% yoy, compared with Rub 8.0 billion for 6 months 2019. The growth was based on both recurring business and large contracts.

EBITDA declined to Rub 1.0 billion, by 5% yoy, compared with Rub 1.1 billion for 6 months 2019, due to a large share of recurring business in the reporting period, that has a lower profitability. Also, deliveries on a number of nuclear pump contracts were postponed to the 2nd half of 2020 and the 2021 year due to the COVID-19.

EBITDA margin was 12.3%, compared with 13.4% for 6 months 2019.

Oil and Gas equipment & projects (OGEP)ⁱⁱ

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Orders	6,723	6,686	1%	1,789	4,934	-64%
Backlog	8,282	7,550	10%	8,282	8,517	-3%
Revenue	5,154	5,934	-13%	2,078	3,076	-32%
EBITDA	243	-250	na	-111	354	na
EBITDA margin	4.7%	-4.2%		-5.3%	11.5%	

Order intake grew to Rub 6.7 billion, by 1% yoy.

Backlog was up by 10% yoy to Rub 8.3 billion, compared with Rub 7.6 billion for 6 months 2019, due to a large contract signed in 2Q 2020.

Revenue declined to Rub 5.2 billion, by 13% yoy, compared with Rub 5.9 billion for 6 months 2019. EBITDA was up to Rub 243 million, compared with Rub (250) million, and EBITDA margin was 4.7% vs. (4.2)% for 6 months 2019, fully thanks to the recovery of recurring business. Deliveries and execution on a number of large projects were postponed to the 2nd half of 2020 and the 2021 year because of a suspension of production at clients' and vendors' facilities due to the COVID-19.

Compressorsⁱⁱⁱ

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Orders	15,451	7,177	115%	1,961	13,490	-85%
Backlog	26,366	14,854	78%	26,366	28,409	-7%
Revenue	5,793	8,938	-35%	3,599	2,194	64%
EBITDA	653	835	-22%	432	221	96%
EBITDA margin	11.3%	9.3%		12.0%	10.1%	

Order intake was up 115% yoy to Rub 15.5 billion, compared with Rub 7.2 billion, because of a large Rub 10.2 billion compressor contract signed in 1Q 2020.

Backlog increased by 78% yoy to Rub 26.4 billion, compared with Rub 14.9 billion last year. The growth was based on both the recurring business and large contracts.

Revenue was down by 35% yoy to Rub 5.8 billion, compared with Rub 8.9 billion, and EBITDA declined by 22% yoy to Rub 653 million, compared with Rub 835 million, due to less revenue and EBITDA generated by large contracts.

EBITDA margin was up to 11.3%, compared with 9.3% for 6 months 2019.

Construction^{iv}

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Orders	210	105	99%	7	203	-97%
Backlog	690	1,610	-57%	690	834	-17%
Revenue	406	695	-42%	169	237	-29%
EBITDA	39	15	153%	17	23	-27%
EBITDA margin	9.6%	2.2%		9.8%	9.5%	

Order intake equaled Rub 210 million. Backlog was down to Rub 690 million.

Revenue was down to Rub 406 million, compared with Rub 695 million for 6 months 2019. EBITDA was Rub 39 million, compared with Rub 15 million last year.

WORKING CAPITAL AND CAPITAL EXPENDITURES

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Working capital	10,486	9,508	10%	10,486	7,019	49%
Working capital / Revenue LTM	22.1%	17.1%		22.1%	13.6%	
Capex	743	800	-7%	408	334	22%
Acquisition	0	670		-	-	

Working capital increased to Rub 10.5 billion, by 10% yoy, compared with Rub 9.5 billion for 6 months 2019, due to a quarterly volatility, related to execution of large contracts, compiled with payment terms pressure from clients. As a share of revenue, working capital was up to 22.1%, compared with 17.1% for 6 months 2019.

Capital expenditures decreased to Rub 743 million, by 7% yoy, compared with Rub 800 million last year.

DEBT POSITION

<i>in millions of Rub</i>	6m 2020	6m 2019	Change yoy	2Q 2020	1Q 2020	Change qoq
Total debt	22,752	19,988	14%	22,752	21,501	6%
Net debt	16,177	15,628	4%	16,177	12,228	32%
Net debt / EBITDA LTM	3.25	2.97		3.25	2.26	

Total debt increased to Rub 22.8 billion, by 14% yoy, compared with Rub 20.0 billion for 6 months 2019. Net debt grew to Rub 16.2 billion, by 4% yoy, compared with Rub 15.6 billion for 6 months 2019.

Net debt to EBITDA LTM ratio increased to 3.25x compared with 2.97x for 6 months 2019.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT

After the reporting date, in July 2020, HMS Group successfully placed Rub 3 billion 8.15 percent coupon exchange bonds issue of JSC “HYDROMASHSERVICE”, one of the company’s operational subsidiaries. On October 2, 2020, the Group placed one more Rub 3 billion exchange bonds issue of JSC “HYDROMASHSERVICE” with 7.95 percent coupon. Alongside with the bonds placements, the company prolonged Rub 2.1 billion attracted from Raiffeisenbank to the 2022 year.

As the result of these actions, HMS refinanced Rub 7.6 billion in total and shifted debt payments from 2021-2022 to 2022-2023.

<i>HMS' debt repayment schedule, Rub mn</i>	2020	2021	2022	2,023
Debt to be repaid	233	1,155	14,459	6,650

LARGE CONTRACTS

After the reporting date, HMS announced the signature of two contracts worth Rub 1 billion in total to deliver pumps – one contract was for petrochemicals, and the other – for marine application.

In August 2020, HMS signed a Rub 3.8 billion contract within a long-term framework agreement to manufacture mobile compressor units. The framework agreement was signed in 2019.

Also, in August 2020, the company announced the signature of a Rub 4.5 billion contract to engineer and manufacture gas compression units to be installed at a client's gas booster station in 2021.

In September 2020, HMS Group announced the signature of Rub 1.9 billion contract to engineer and manufacture gas transportation units to be delivered by the end of 2021.

CREDIT RATINGS

In July 2020, Fitch Ratings affirmed JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDR)s of "B+", the outlook "Stable". The rating reflects HMS' "forecast sustainable operating performance supported by the healthy order book, leading market position, strong customer base, comfortable liquidity and an expected gradual oil price recovery in the medium term."

DIVIDENDS

The final dividends in respect of FY2019 in the amount of Rub 3.41 per one ordinary share (i.e. Rub 17.05 per one depositary receipt) were paid on June 30, 2020, to shareholders on HMS' register at close of business (UK time) on June 19, 2020.

DUE TO THE SITUATION WITH THE COVID-19, HMS GROUP WILL NOT HOLD THE WEBCAST

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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.

Press Release Information Accuracy Disclaimer

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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.