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Metso Oyj (METSO.FI)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

Okay, good afternoon and good morning, everyone. This is Juha Rouhiainen from Metso's Investor Relations. And I want to warmly welcome you all to our first quarter 2019 conference call where we discuss the results that came out earlier this morning.

With us, we'll be presented by our President and CEO, Pekka Vauramo; and CFO, Eeva Sipilä. And after the presentation, as always, we have time for Q&A.

Please note that we have reserved one hour for this call. And in the second page of the result presentation, we are having the forward-looking statements and disclaimer related to those.

With these words, we are ready to begin, and I'll be handing over to Pekka. Please go ahead.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

Okay, thank you. Thank you, Juha, and welcome to this call. As you have seen already in the numbers, I guess you can read through then that the market activity has been a very, very strong and solid during the first quarter. Our order sales and profitability all improved and that we see improvement in all areas of business, a very strong growth in our equipment lines and also a steady growth in our services. And some of our service numbers, we do have a very high comparison quarter in the last year in impact and I've seen some of the early commentary already that services in Minerals side were below, but we are comparing really against somewhat high quarter one in last year.

Our strategy implementation as I said continues. So we divested the grinding media business beginning of the year. The annual volume of that business was about €60 million. And that's being now divested. We've announced one acquisition, HighService Service in Chile. That has not closed yet but we will hear the closing of the acquisition in a few weeks' time. From now on, we are really in final phases with that.

Then our investments are proceeding. We are still investing on our capacity in some important areas. Those projects are ongoing. Investments are primarily in China and in India, and minor investments elsewhere. And the second area where we are currently investing is our R&D. And if you remember, we started from 1% level in 2017, 1.2% last year, and now during the first quarter our investments on R&D were on the level of 1.5% of our sales. So – and of course as a result, we have introduced new products like for example in Bauma just recently several new crusher models and crushing plants altogether.

The numbers, financials, orders up by 18%, sales up by 17% just about the same growth percentages as we had for the whole of last year, and orders during the quarter exceeded €1 billion. EBITDA €104 million, which gives a margin of 12.4% and there is an improvement from €85 million, so almost €20 million improvement and margin improved from 11.9% to 12.4%. And consequentially operating profit improved as well. EPS, earnings per share, €0.43 now versus €0.33 a year ago and free cash flow of €38 million versus €2 million in last year. So that's for the whole group.

Then when we look at the Minerals, in particular, strong drive from the equipment side on orders 20% growth. Altogether, the Minerals' order intake €823 million, which is €140 million more than year before. We are seeing project activity both greenfields and brownfields happening there, may be on stream more greenfields than before at this moment. And clearly, the project activity in mining side has increased over the past couple of months.

Aggregates also growing. As you see especially the Nordics and West Europe have been active, somewhat slow, as always due to the first quarter Southern Hemisphere because of the summer breaks there. And then in Asia because of the Chinese New Year and similar – and things like that during the first months of the year, but they are normal things that to happen and are not sign of any weakness or market or anything like that.

The sales went up in Minerals by 17%. And we're €681 million and also driven by equipment business. Share of services, decline to 63%, which of course, is sort of pushing our margins down even though we were able to improve the margins. So, it's – finally, we are seeing somewhat better drop through than we saw earlier on.

In the Flow side, and now you have to remember that Flow doesn't include the pumps. Pumps are on Minerals side now. And the orders went up in Flow by 12% to €191 million and comparable figure last year was – first quarter last year was €171 million. So, clearly, a faster growth than what the market is. It's growing. And there's growth both in projects and in services, but the faster stage was in services.

Oil and gas is, of course, active there helped a little bit by the oil price – higher oil price right now. But then there are factors like IMO 2020 that is driving the investment activity and conversion activity in refineries. Sales went up by 19%. Very strong growth there. Once again the projects are driving that one and the share of services in the Flow 22%. EBITA margin 15.2% and there's an improvement on comparable basis of 0.6%.

And at this moment, I would like to hand it over to Eeva to go through the numbers, and then I'll finish off with the strategy and outlook at the end before questions.

Eeva Sipilä

Deputy Chief Executive Officer and Chief Financial Officer, Metso Oyj

Thanks, Pekka, and good afternoon to all on my behalf as well. Pekka already commented on the operational lines of our income statement. So, I will just add a few points on this slide.

Net financial items are flat year-on-year while taxes are up in absolute terms year-over-year due to the improved pre-tax result. However, you can note the tax rate is lower and is running at 28.5%, which [ph] would head back to be a rather (00:08:12) good proxy for the full-year as well and then really earnings per share 30% up from a year ago.

On the following slide, we give the details for the impact of M&A and exchange rates on our orders and sales. And as you can see from both graphs, almost all of the gross impact is from our very strong organic growth. By looking closely, you can see a slightly positive impact from the small acquisitions made last year and an even smaller impact from currencies.

So, clearly, the currencies, important to us, have been surprisingly stable, which of course makes a comparison of the year-over-year performance very straightforward from your point of view. The structural changes element is a net number, so the acquisitions made last year contributed actually in reality a bit more. But as we then also divested the grinding media business at the beginning of this year, which as Pekka mentioned had sales last year – for the full of last year of around €60 million then this [ph] result that (00:09:18) we had a negative impact on the comparison from that. Hence the net number ended up being really this small, as illustrated in the graph.

Moving forward to our balance sheet, I would remind everyone of the obvious the implementation of the IFRS 16 leasing standard which, in our case, brought an increase of €120 million to our tangible assets row. And as you can see from the change in total assets, that explains pretty much the increase of our balance sheet total although we continue to see some further increase in inventories and as well as in liquid funds.

So let's look more closely on these items on slide 12. The graph on the left illustrates the balance sheet elements from a capital employed total point of view. You see the same €120 million increase in tangible assets. The increase in liquid funds, thanks to cash flow generated and then the total net working capital was up some €30 million from the beginning of the year to the end of March.

Net working capital breaks down on the right-hand side graph to the different elements of working capital. In a quarter with very high sales growth, you can see progress in our actions to slow down the growth of our net working capital whereas trade receivables and the payables are flat basically despite the growth. We continue to target some improvements later this year also in our inventory levels.

Moving on to cash flow on slide 13, so the net cash flow from operating activities was €45 million for the quarter supported by the improved profitability, yet again, there was a negative impact from working capital in cash flow terms minus €55 million. Our CapEx for the quarter was €19 million and then sort of an end-result from a free cash flow point of view for the quarter was €38 million.

So to conclude, Metso's financial position remains solid. Our annualized return on capital employed calculated pre-tax rose to 18.9%. So we have seen a very significant improvement in the past couple of years. Net gearing remains very low at 15% and net debt-to-EBITDA at 0.5 times while interest coverage continues at around 13 times.

[indiscernible] (00:11:58) highlights on the financial, so back to you Pekka.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

Thank you. And few words about where we are currently with our strategy, execution, and some of you must have heard that we are, of course, currently going to a strategy review. We are still in the middle of the process and don't have anything to announce off that one. But we are investing, as I said earlier, in aggregates equipment and foundry capacity and valves production capacity. And these investments are taking place in India and in China.

The new valve plant in Jiaxing in China. There was a ground-breaking a few months ago and it's in its early phases. But it's well on-time [indiscernible] (00:12:52) at this moment. And the new foundry capacity will open later in this year in India and that will both reduce the cost of our consumables and increase the capacity what we have to cater the markets and serve the markets. We see that the foundry capacity, certain part of our foundry capacity needs to be in own hands because at times the foundry capacity is absolutely non-available if we just relied on outsourced resource in that area.

Altogether, our CapEx during the quarter was €19 million and that is €6 million more than a year before. R&D ramp up which we have spoken quite a bit at 1.5% of sales during the first quarter €12 million. This is now excluding our digitalization and [ph] which is an (00:13:51) additional on top of that one. That is roughly on the same level the digitalization expenditure as last year this time.

We've launched several new products in BAUMA and maybe the atmosphere in BAUMA, many of you also participated and noticed that lot of people were there and it was probably the biggest ever BAUMA and probably one of the biggest shows of this type globally so far. So it tells something about the state of the industry [ph] as such (00:14:28) where we are.

Our market outlook, we slightly changed the wording in there. We say that market activity in both of our segments, Minerals and Flow Control is expected to remain at current high level and this includes both equipment and services these businesses. When we look at the market outlook in general, there are many positive things under the macro picture happening in mining side. There's similar things happening in aggregate side. But then, of course, when we look at the macro, there's a few clouds up there in the sky. Not that they are affecting currently the business, but it's very difficult to draw the conclusion at which way the markets are in fact going. But all the underlying trends are positive for our business maybe a bit more so positive on mining side but positive also for everything else. But overall, we concluded that the market outlook remains on a same high level. I think it's important also to read the word high there in the outlook.

And basically with these words, I think we are ready with the slides and we can open the Q&A part.

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

Thank you, Eeva.

Operator: Thank you.

Juha Rouhiainen
Vice President-Investor Relations, Metso Oyj

And operator, we can now take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Max Yates from Credit Suisse. Please go ahead. Your line is now open.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Thank you. Just my first question was on the EBIT – EBITA margin in Minerals, 12.4%. I just, firstly, wanted to understand a little bit around the relative strength across the businesses. So whether the step-up was disproportionately within aggregates, minerals of mining OE or after market. And then maybe the second thing was obviously you're taking a lot of equipment orders right now, how we should think about that margin evolving through the year given mix from here probably becomes more of a headwind rather than last. So with the volume – will the volume growth effectively offset the fact that there will be increasingly negative mix and is this level sustainable? Thank you.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah, okay, thank you. Thank you for the question. I would say that the margin improvement, I mean, the mix impact potentially was negative on the margin and definitely it is negative. But after all we were able to improve the margin and that is, of course, thanks – with these circumstances, thanks to improvement in equipment side. We had healthy margins on our – healthier margins on the equipment what we had before. There's no particular equipment line that I would be able to hear. [ph] Here disclose (00:17:49) we saw improvement across the board over there.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

And maybe just to understand the improvement in the equipment. Is that just purely a function of volumes or is there anything internally around trying to monitor pricing more carefully, any sort of productivity – early productivity measures that have been taken, or is it just a function of a sort of more upbeat markets and volumes picking up?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

I think one factor clearly that I can highlight here is that if you recall what issues we had early in last year, we had lots of expediting with ramping up and we took extreme measures to produce more. And we also already communicated during the last year that we are through most of those activities right now, and of course, that kind of activities always tend to have additional cost, which we suffered from last year. [ph] It is less (00:18:49) on that one right now happening. And of course, I mean, markets have been active here and of course many of these equipments have been sold most. In fact, in last year or so, the margin conditions and that kind of conditions are reflecting more end of last year or mid last year, pricing [indiscernible] (00:19:12) than current one.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

And I presume that's true of sort of what's in the order booking further to come through the rest of this year as well?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

No. We don't have anything further to comment on that one, other than that, no change. [ph] That's one concern (00:19:30).

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. And just my sort of second question, I mean, I think last year the highest mining OE order quarter that you had was about €160 million, I presume within minerals we've probably done a little bit better than that this quarter. So, firstly, could you just sort of help us understand what the absolute level of mining OE is in the quarter and then maybe within that, just how large the order for the lithium project was and to get a context of maybe what the underlying run rate is that we should consider going forward?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah. We are roughly on a same level with the mining this first quarter as we were last year.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. Mining OE is a similar level to where you were last year?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yes.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. And just on the lithium order, what sort of magnitude was that within?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

We've agreed not to disclose that number but of course, it is double-digit number.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. So I presume that means then aggregates took a very significant step up year-over-year?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Aggregates, yes, of course I mean it is business that is growing and then you have to remember that we also acquired the Jonsson och Söner business in Sweden in last year which has developed very favorably in fact since the acquisition. So good volume growth in the aggregate side. But aggregates during the first quarter was kind of two-fold. India is important for us and because of the upcoming elections or ongoing elections, I don't know what the right word it would be, I don't know on that one. But there's been a bit of a slowdown in aggregates market in India, in particular. And then the southern hemisphere summer season really affected and Chinese New Year affected the aggregates business but very strong month of March, again, on aggregates. So it was somewhat confusing on aggregates to start with, maybe a bit slower than we expected, but in March the business came back very nicely.

Max Yates
Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. That's great. Thank you very much.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Thank you.

Operator: Thank you. Our next question comes from the line of Andrew Wilson from JPMorgan. Please go ahead. Your line is now open.

Andrew Wilson
Analyst, JPMorgan Securities Plc

Q

Hi. Good morning. Good afternoon, everyone. Quick – so, three questions from me if I can. The Q1 orders obviously have come through very strongly, I just wanted to kind of understand [ph] if there was (00:22:18), I guess, how seasonality plays into that and you talked about demand remaining on the current high level. I mean, do we need to consider any seasonality in that or kind of a new higher run rate which we can assume as we go through the year?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah. We have some seasonality but after all, it's not really great. I would say that really major projects would have caused lot more volatility than seasonality [indiscernible] (00:22:50). Mining doesn't really have seasonality at all. I mean, it all depends on timing [ph] on our (00:22:56) projects. In the aggregates side, we have – if you look at that in the aggregates, the most important markets Western Europe, North America, India, China they all kind of a northern hemisphere fair markets and especially Western Europe, Northern Europe, and America.

There is a clear seasonality because the winter conditions are not that favorable and everyone wants to have the new gear, new equipment ready to go when the summer season really starts. So, there we see some seasonality. But that season already for us especially with regards to deliveries to North America starts already, I would say, end of the year December easily and we had a very strong month in aggregates in December [ph] possibly (00:23:48) because of that one we had a slow month, so also then in December maybe, February as well but business is back there. So seasonality plays only a role in, I would say, aggregates but maybe to some extent in the flow as well. As well there are summer shutdowns in the northern hemisphere very often that our customers have on some service business there.

Andrew Wilson
Analyst, JPMorgan Securities Plc

Q

Okay. So it didn't sound like it's a big consideration and which I guess makes it easier. And second question was just actually to follow-up on something that Max kind of touched on in his previous question. I think you kind of done a good job of communicating the Q1 and Q2 cost perhaps were higher last year as you tried to ramp with the volumes, which is the first quarter way you sort of feel it's a like-for-like where we haven't got higher costs in the base? Just trying to understand a little bit of the kind of year-on-year development as we get into perhaps the Q3 and the Q4?

Eeva Sipilä

Deputy Chief Executive Officer and Chief Financial Officer, Metso Oyj

A

Well, it's maybe – since I was here and Pekka [ph] wasn't certainly (00:24:49) take that question. I mean, if you remember the discussions we had a year back, obviously the growth last year was so strong that we spent most of last year ramping up our activities and really getting the deliveries out. So, and of course if you look at our growth rates, it's still a walk in the park. We're sort of working on a daily basis to keep our delivery promises to our customers. The supply chain is busy and everybody is busy in this industry. So I would say if there's any given quarter when there was suddenly that sort of a relief, but obviously if you remember last year after the fourth quarter 2017 that maybe the first quarter was the toughest of the quarters.

Andrew Wilson

Analyst, JPMorgan Securities Plc

Q

Okay. I think that's helpful. So, I mean, what you're really saying is that there's still, I guess, is additional cost in the base just maybe eases a little bit to the kind of Q3 and Q4. Is that a fair comment?

Eeva Sipilä

Deputy Chief Executive Officer and Chief Financial Officer, Metso Oyj

A

Well, it's all part of our productivity, internal efficiency improvements. Part of the sort of strategy plan we've been discussing with you for some time now. So, obviously, we sort of want to continuously improve on that. And sometimes, we make more progress, sometimes it's more difficult, but it's really sort of – this is the marathon. We've been discussing that [indiscernible] (00:26:19) so there's no sort of quick fix as the low hanging fruits are obviously taken last year. So, now this is really more steady work.

Andrew Wilson

Analyst, JPMorgan Securities Plc

Q

Perfect. And final question, it's a broader one. I think it was touched on in the opening comments in terms of Minerals business. Kind of regardless of the year-on-year development in mining services, I guess, I'm looking for kind of a bit more detail around what you're seeing on the [ph] ground (00:26:48). It sounded from the comments that you hadn't really seen any change in terms of customer, I guess, customer activity levels or customer plans on the mining service side. And just I guess I was looking for a bit more detail in terms of if there was any trends to think about [ph] which are not (00:27:04) obvious in the numbers?

Pekka Juhani Vauramo

President and Chief Executive Officer, Metso Oyj

A

I don't think we can say that there is new trend or anything like that existing in the marketplace. Of course, the atmosphere in the industry changes that sort of a cycle evolves onward, at one point of a cycle [indiscernible] (00:27:28) everything and at one point of the cycle, there's oversupply of everything and there is some cyclicality in service as well, but we see still a steady demand of, I would say, all alliance in our business [ph] step ups (00:27:47), are doing fine, our lifecycle services is doing fine. Our consumables has done well during the quarter.

So there's many good positive things that we see. But of course, I mean, sales are more steady than in the equipment side and orders as well, I mean, more steady than in the equipment side.

And we never see similar growth percentages in service side. Unless we acquire something big nature in the service side, that's the way to grow faster there, in that area. But our penetration [ph] in service (00:28:25) so altogether it's been a fairly good one. And we don't see any sort of rapid opportunities like that at this moment.

Andrew Wilson
Analyst, JPMorgan Securities Plc
Q

That's very helpful. Thank you.

Operator: Thank you. Our next question comes from the line of Robert Davies from Morgan Stanley. Please go ahead. Your line is now open.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc
Q

Yes. Thanks everyone for taking my questions. My first question is just really on your current activity within your mining business. Whether you could give us some color on how much of that business is really coming from upgrades versus capacity expansion? And then, maybe if you could expand on some of your kind of opening comments around the improved activity on greenfield and some pickup across the board there. Could you just give us some color on the sort of commodities or regions, in particular, [ph] why (00:29:11) you're seeing that improved activity? Thank you.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj
A

Yeah. Clearly, on commodity which truly doesn't matter so much for us, because our strength is really in sort of crossing and grinding and basically everything that is might need to be crossed and we need to be [ph] an yield, I mean (00:29:26) so, but we see activity of course in copper and we do see activity in battery metals. Those are, I would say, project businesses and major projects and greenfields that we do see.

Then we see expansions primarily in copper as well there's some activity in the iron ore side of it – side of the business. But I would say that it's a bit a healthy balance between a few bigger projects and then upgrades or [indiscernible] (00:30:08) almost like it's on per say a day-to-day business, but product orders in the mining side.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc
Q

That's great. Thank you. And then just maybe one follow-up just on the Flow Control side. Could you give us a color in terms – obviously, the oil price had been extremely volatile over the fourth quarter of 2018 and early 2019. How does that really sort of impact the day-to-day base business and service and maintenance activity to some of your customers? Do they just ignore that or does it sort of swing back and forth if the oil price goes up or down? And if you could just give us some color on the service activity within Flow, that would be helpful. Thanks.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj
A

Yeah, we are in Flow, of course, much more in the downstream side, in refining side of the oil business. And, of course, that is also affected by the oil price. But I think, in fact, it's much more the refining margin that is impacting that side of the oil business. They cannot ignore it because if there are sudden changes in the oil price, then at one point the refining margin will become squeezed or also – but I'm sure that we do see the activity of IMO 2020 in our business at this moment and that is speaking for modification. Sometimes they are projects and sometimes they are sort of a service upgrades. Sometimes they shut down services that we end up doing. So the impact of that one goes all over our Flow business, but it's sort of positive impact that we see.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc

Q

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Tanuj Agrawal from Barclays. Please go ahead, your line is now open.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Hi, good morning there. My first question on the demand outlook per say. When you say it's – so you've changed the wording of it saying that the demand outlook is now stable at the current level or remain at the current level. So it has changed from the earlier when you said that it is expected to continue to grow. So I mean are this more as a flat demand outlook rather than a growth, I mean what prompted you to change that?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah. I tried to explain it that we see so many contradicting or opposite trends in the marketplace. I mean whatever you read on macro it's all negative, but then when you look into inside the industries there's many positive trends that are happening here. And I think it's kind of difficulty to see that which one will be the stronger one whether it's the macro or whether it's the various industry trends that we see. And that's why we concluded that activity remains on high level. We have not seen slowdown of any activity at this moment. And we see still very, very strong demand in mining side going forward as well. But we came to conclusion that let's highlight the word high in our outlook. It is flat, but we want to highlight that we continue to operate on high level.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay, but it is flat. So maybe we can expect orders to kind of moderate more and then moving on to the next 12 – next 6 months.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

We'll see that one during the coming quarters.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay. Another one is on the pump business moving. So I thought – should we see this move as more of a renewed effort to push pumps to customers at the time of cycle? Wherein pushing the pumps is more easy than it was a couple of years when we are coming off a super cycle?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah. Our pumps are – I mean, when I looked at the pumps business how that is handled inside the company, it has so many connections with our Minerals side of the business that much more sort of a natural home of pumps business was within Minerals. Yes, we do have intention to push more pumps out and we are doing that all the time and we are very focused with our pumps organization to do that. We are developing new pumps. There was even – being a pump on Bauma, a huge big pump on display in Bauma as recently and we have lots of activity going there. But it's more naturally, it is part of our Minerals business than Flow business and that's why we moved.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay. And just following that, is it that moving pumps out of Flow mix, Flow – pure valve business as of now. And so does this give you an opportunity to go after speciality valve players, which are more focusing on F&B and pharma?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

I wouldn't speculate with that one. But of course, it is – our valves business is very focused on oil and gas and pulp and paper, maybe a couple of other niches in the process industries. Valve business just completes a very, very solid [indiscernible] (00:35:53) business. I think we are amongst the top tier of valve companies when you look at the margins. We are not the biggest, but we can say that we are probably one of the most beautiful ones in that respect in all valve business.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay. And just the last one, a follow up on again the Minerals margin. Maybe I did not completely understand when you said about how we should think of the margins going ahead as in terms of – as your sales catch up, as your invoice more going ahead in H2 and 2020, and you see further cost absorption with lower mix. How should we think about the margins?

Eeva Sipilä
Deputy Chief Executive Officer and Chief Financial Officer, Metso Oyj

A

Well, I think it is a combination of the negative impact from the fact that we have more equipment versus services as you can see from the orders coming in. At the same time, obviously, volume brings operational leverage and then we're working on the productivity. And those are basically items you will need to consider in Europe in your estimates.

Tanuj Agrawal
Analyst, Barclays Capital Securities Ltd.

Q

Okay. Thanks. That's all. Thank you so much.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Markus Almerud from Kepler Cheuvreux. Please go ahead, your line is now open.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Hi. Good afternoon. Markus Almerud from Kepler Cheuvreux. Want to follow up a little bit on Robert's questions on the greenfields. It's one of the first times in a long time that someone has been talking about greenfields taking part of the equation. And then you mentioned copper and lithium and other battery metals in the mix. Can I just ask how – is it mainly the battery metals or is it lot of copper as well?

And then linked to that, I know that before people – in the last upturns then people have been telling me that the plant equipment was always among the first one ordered because the lead times were longer. Would that be the case this time as well? And hence, would you see yourself as a leading indicator of the projects coming?

And then finally, wood markets is expecting larger projects to come in 2020 and 2021. And when would you expect orders for those projects to be signed if that would actually be the case? Thank you.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

What was the – what orders you said? I didn't get that one.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

The greenfield orders.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Greenfield orders.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

So, starting with the greenfield orders. So, just – you were talking about battery metals and copper. So, just to follow up on that, is it more battery metals and copper right now or is it the family?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

I think, copper, of course, the volumes are so much bigger in the copper side. And, of course, the big picture is that according to forecast, the copper consumption will double during the next 10 years, 15 years. Yes, and at the same time the copper grades will be lower in the new deposits and the copper will have to be mined from deeper and rock seems to be harder as well as the mines go deeper. So, there is much more to be crossed and to be milled in that regard.

Yes, the battery metals, they are interesting projects, and lots of battery factories are being built according to forecast. I mean, it's a huge number, in fact. And the metal consumption is there. But currently, the investment activity, there is mining investment, and it's important for us. But by far, the traditional coppers and iron ores and the like are – mean much more for us than battery metals.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And would you say that your discussions regarding new project has intensified in the recent past?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

I would say so.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

That's interesting. And then finally then, if – so [indiscernible] (00:40:26) expectations of expansionary CapEx for 2020 and 2021 especially in copper is for the larger projects that come in 2020 and 2021. If that would be the case, when do the customers place the orders with you? At what time in the process, so to speak?

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

A

Yeah. It's always difficult to say when there's large projects are coming into stream in 2020 or 2021. Is it the announcement – what phase of announcement it is -it's very difficult to comment on that one. But obviously, when it's a clear go ahead for a project, when all the approvals are in place, when all the engineering has been done, typically the long lead items are the first ones that will be ordered.

Very often, following the announcement, there needs to be access prepared to decide and that is the first activity that takes place with some of our longest lead time items, let's say that with heaviest equipment that we offer, it's almost impossible to get anything shorter than six months delivery time, and sometimes it takes closer to a year or even than a year to deliver some pieces of the equipment. And then of course comes the installation time on top of that one before startup.

So, it's really difficult to say a general rule. It depends on so many things. But of course, fixed installations tend to be longer lead items than mobile equipment in general, and that's why we see a lot of volatility in this type of business where we are.

Markus Almerud
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Perfect. Thank you very much.

Operator: Thank you. And as there are no further questions, I will hand the word back to the speakers for any closing comments.

Pekka Juhani Vauramo
President and Chief Executive Officer, Metso Oyj

All right. Thank you, everybody. This concludes our first quarter 2019 conference call. Thanks for joining us. We will be leaving shortly for our annual general meeting of shareholders, and we'll be back talking about our second quarter results on July 25.

So, in the meantime, we say thanks for this and enjoy the spring. Bye, bye.

Juha Rouhiainen

Vice President-Investor Relations, Metso Oyj

Thank you.

Eeva Sipilä

Deputy Chief Executive Officer and Chief Financial Officer, Metso Oyj

Thank you.