



Friday Morning Coffee

Nr. 160 — From seabed to surface

Subsea7 for 15 years is a global leader in seabed to surface engineering, construction and service contractor serving the offshore energy globally. Following the initial construction and installation, for decades, the company has installed and maintained oil rigs which inherently rewarded Subsea7 with revenues and earnings. However, as you may know, there is also an end to an oil rig's life. Actually, the company is also generating revenues from responsibly decommissioning them when they become dull and lifeless. On top of that, Subsea7's competences are increasingly being brought into use in the field of renewable energy as the company builds windfarms as you can see on the photo here under.

We have followed the company for more than 15 years, and as investors we are quite pleased with Subsea7's solid execution, in what at times is a challenging environment, particularly during the pandemic. The company issued a first half year report with a result that disappointed the market more than could be expected. It mainly came down to extraordinary costs taken to cover the negative outcome of a government enforced lock-down in Taiwan, preventing Subsea7 to finalize the job on time as workers were not allowed to go to work. The fact that it can hardly cause a firm's value to drop by 12% is showing that the market at times reacts quite temperamentally.



Nevertheless, the company is dealing with the situation and informed the stock market that they currently experience an improving market environment with both higher volume and indeed prices.

Add to this that the stock now trades significantly below fair valuation levels and earns investors a free cash flow yield as high as 10% (again, ask yourself if your account manager at the bank can match that). Furthermore, order intake and profitability on new business is picking up which bodes well for the quarters ahead.

All in all, we confidently look ahead as the business model is further developed into building even more windfarms helping take us to a less carbon impacted world as indeed, the company takes UN's 17 Sustainable Development Goals (SDGs) quite seriously. Subsea7 thus mapped its six Sustainable Priorities against the SDG's, eight of which are relevant to the Subsea 7's stated ambitions, e.g. Climate action and Life below water.

I wish you a nice and pleasant weekend,

Karsten Løngaard,
Portfolio Manager
July 30th, 2021