

### \*\*\*GTT Long Pitch – Summary – Kevin Romanteau

Deep dive analyse ~50-pages available upon request

#### \*\*Company

- Gaztransport et Technigaz (GTT) is GTT is a French engineering company specialized in containment systems for the transport and storage of LNG
  - o w/ revenue: LNG transportation & storage 89%, Services 8%, LNG as fuel 2% hydrogen 2%,
  - o w/ mkt cap of €3,490m and EV aof €3,437m, ADV trailing 3mth 69,673

#### \*\*Industry

- LNG carrier is a niche market that has a favourable demand mid- to long-term trends
- '17-'20 coal-to-natural gas switch created an unprecedented performance for GTT
- '20-'22 pipe-to-LNG switch led to historical record order book driven by invasion of Ukraine
- '23+ LNG vessel delivery growth is inevitable and GTT plays a key role in shipbuilding
  - o w/ demand driven by US LNG project w/110 Mtpa meaning ~230 vessels '24-'29
  - o w/ new regulation boosting LNG as fuel and buoyant hydrogen market

#### \*\*Company Fundamentals

- Dominant position w/ high barrier to entry - GTT #1 leader w/ 90%+ market share of LNG carriers
- Twin strategy of royalties and services to clients w/ 478 patents of key proprietary technology
- '17-'20 phenomenal track record: +18.2% order book CAGR, 17.7% EBITDA CAGR, +19.2% EPS CAGR
  - o European temporarily changed the supply/demand dynamic, faced a peak of new orders
- '20-'22 historical record order book but fundamental weakness driven: 1) Slowing in delivery units impacted top line mainly due to yard constraints, 2) Fundamental shift in EBITDA margin from 61% to 52% following. Acquisition small hydrogen player reduced the capital structure advantage, 3) Completed several acquisitions followed by disappointing performance - ROIC went down from 52% to 27%
- Concerns: 1) Engie divestment stake from ~40% to <10% between '20 and '22, which raised a lot of questions among investors, 2) Paris roadshow, shares down 6% w/ investors disappointment toward hydrogen segment and margin contraction impacting ROIC

#### \*\*Thesis Point:

- **#1. Delivery:** Backlog at full capacity for the N3Y. Acceleration in delivery in Q3/Q4 '23+, GTT forecasted delivery units ~110+ units (vs. 60-70 backward) which is depending on yard capacity. Assumes +40-45% additional capacity in our base case due to Chinese capacity set to rise to 30 vessels p.a.
- **#2. Margin:** Dissipation temporary headwinds on delivery constraints from COVID, lead to acceleration in newbuilding, operating leverage advantage, normalization in EBITDA margin growing to mid-fifties
- **#3. New regulation:** Acceleration of the maritime industry's decarbonisation creating TAM 3,50 units, GTT is well-positioned to deliver 40-60 units p.a. until '26 maintaining book order at full capacity

#### \*\*Risk Point

- **#1. Shipyard capacity constraints:** Delivery lag from Chinese yard could impact the top line, nevertheless new investment initiative from Government and anchor shipbuilder to bridge the gap
- **#2. KFTC legal case:** Separation of technology licence and technical assistance. KFTC accelerated the investigation and legal action in Q1 '23 – no financial impact at this stage

#### \*\*Valuation

- Current valuation at mid NTM P/E 22.6x and at average L5Y EV/EBITDA 15.3x
- P/E was 38.0x Q3 '22 before TTF Gas price decreased by 92% back to normal conditions
- Strong valuation metrics stretched –3.3% dividend yield (95% payout), 3.4% FCF yield

#### \*\*Estimates vs. Street

- The company has a history of conservative guidance and often reaches or beats EBITDA guidance
- Consensus assumes '23 EBITDA margin at 50%, which seems very cautious considering LNG carrier newbuilds coming in Q3/Q4 '23 w/ higher margin. My base case is above '23-'24 consensus due to:
  - o More normalization in EBITDA margin, w/ core business delivery feeds into margin expansion
  - o Assumes a shipyard capacity back-to-normal level due to Chinese entering into the market

#### \*\*Upside, Downside, Risk/Reward

- Price €95.6 (as of 10 July), w/ 3-Y TP €173.2
- 3-Y reward case is +81% and risk -17% for a nearly 4.7x R/R

	3 Year Return Scenarios			
	2026 EPS	P/E	12m TP	% Return
Bull	€9.87	22.0x	€217.14	127.1%
Base	€7.93	20.0x	€158.60	65.9%
Bear	€4.95	16.0x	€79.20	(17.2%)
Reward (25% bull, 75% base)			€173.24	81.2%
Risk			€79.20	(17.2%)
R/R				4.7x