REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SPMI.MI - Q3 2020 Saipem SpA Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2020 / 8:00AM GMT

CORPORATE PARTICIPANTS

Stefano Cao *Saipem SpA - CEO & Director*

Stefano Cavacini *Saipem SpA - CFO*

CONFERENCE CALL PARTICIPANTS

Alessandro Pozzi *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Amy Wong *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

David Richard Edward Farrell *Crédit Suisse AG, Research Division - Research Analyst*

Guillaume Delaby *Societe Generale Cross Asset Research - Equity Analyst*

Luigi De Bellis *Equita SIM S.p.A., Research Division - Co-Head of Research*

Nikolaos Konstantakis *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Vladimir Maximovich Sergievskii *BofA Merrill Lynch, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Saipem 9 months 2020 results. (Operator Instructions) For your information, this conference is being recorded.

Now I would like to hand the conference over to your speaker today, Mr. Stefano Cao, CEO. Please go ahead, sir.

Stefano Cao - *Saipem SpA - CEO & Director*

Good morning, and welcome to Saipem's 9 months 2020 results. I'm joined today by Stefano Cavacini, our CFO; and Max Cominelli, our Head of Investor Relations.

The spread of the coronavirus has continued since July at different speeds across different geographies since July. In parallel, volatility in the wider economy and the oil sector, in particular, has continued, although the oil price has ended the quarter at a similar level to where it began. Through discontinued uncertainty, Saipem has focused on navigating safely through the crisis with the health of our people as our top priority. Q3 saw fewer commercial awards than Q1 and Q2. But over the first 9 months, we have won projects worth EUR 5.3 billion. Most of these are nonoil-related projects, which includes renewables, infrastructure and gas. This equates to a book-to-bill ratio of around 1x for the period.

Backlog at the end of September stood at EUR 24 billion, provided -- providing good visibility beyond 2020. E&C Onshore represents a substantial portion concentrated in a handful of major projects. In recent months, our dialogue with clients has been fruitful, and we have managed to substantially derisk the bulk of the E&C Onshore backlog.

Having guaranteed project execution in extremely difficult times, we have now agreed to revise schedule. And we are ramping up activity with some clients pushing for us to accelerate further. 9-month revenues were EUR 5.4 billion and adjusted EBITDA was EUR 491 million, with a margin just above 9%. Third quarter stand-alone posted the revenue and the margin growth versus Q2. While it was not an easy quarter, we had some positive developments. In fact, E&C Onshore margin recovered in the third quarter versus Q2. In E&C Offshore, while we experienced some lower phasing, we now see signs of recovery from Q4.

Drilling Offshore is on trend with the first half by the showing signs of intensification in future engagements, including deepwater. Drilling Onshore posted the resilient margins, up year-on-year in the 9 months and sequentially in the quarter, supported by efficiency despite on lower volumes.

A new EUR 500 million bond issued in July ensures a well-balanced financial structure with ample liquidity and no significant maturities until at least 2022. Stefano will elaborate on this, and he will also comment on our financial covenants. Finally, efficiency actions and CapEx rephasing to below EUR 400 million for 2020 are confirmed.

Let me now hand you over to Stefano to take you through the numbers. Stefano?

Stefano Cavacini - *Saipem SpA - CFO*

Thank you, Stefano, and good morning, everyone. Let's start with the performance in the first 9 months in Chart #7. After a Q1 relatively normal and the Q2 that was fully affected by the pandemic, Q3 was characterized by some lower activity levels, hence, the first 9 months revenue decreased by 20% year-on-year. However, the third quarter did show revenue growth versus Q2. And adjusted EBITDA was EUR 491 million, decreasing year-on-year by approximately 45%.

As a result, the adjusted EBITDA margin in the 9 months was 9.1%, but I would say, with Q3 improving quarter-on-quarter by 30 basis points. In Q3, we had a sequential margin improvement by E&C and Drilling Onshore, offset by a decrease in E&C and Drilling Offshore.

According to current visibility, we expect revenue and adjusted EBITDA recover in Q4 versus Q3 for both the E&C divisions, which should lead to an improvement for the whole group in the last quarter of the year. Finally, adjusted net result, as you can see, was negative at EUR 210 million, primarily due to the decrease in adjusted EBITDA, which was partly offset by some positive dynamics below the line, in particular, I'm referring to income from investments, lower financial charges and minorities.

A few words about taxes. Taxes in the first 9 months were in line with the same period last year at EUR 106 million. Similar to the first half, our results before tax is, obviously, was red. In Q3, we had a tax decrease versus Q2 due to the fact that most entities that reported profit subject to corporate income tax had available either unrecognized tax assets or enjoy the lower tax rate in this quarter.

Finally, it's worth mentioning that in the first 9 months, around 1/3 of our taxes were represented by withholding taxes.

Now Chart #8, divisional performance. E&C Offshore revenues in 9 months 2020 decreased by over 28% year-on-year, reflecting the continued impact of COVID-19, which in Q3 caused a shift forward of activity and new target awards. Our revenue decrease was triggered by reduced activity in North Africa, Middle East, and Sub-Saharan Africa, partially compensated by higher volumes in the Caspian area, Italy and North Sea. And as I commented on in the previous conference call, results of recent quarters have been severely impacted by the pandemic. However, we are beginning to see a pickup in activity, which we expect to continue during Q4. The backlog was unaffected, I would say, by cancellations.

Outside the period at the beginning of Q4, ExxonMobil took FID on the Guyana development. Where, as you know, we are involved in the SURF scope of work. Also, we recently had positive development in the Middle East area in Qatar with an award for Qatar Petroleum.

Adjusted EBITDA, as you can see, ended the first 9 months at EUR 226 million, with a margin in the region of 10.6%. The year-on-year decrease was due to lower revenues and the debt different segment mix due to, I would say, the phasing out of major high-margin EPCI projects in Africa, which were still flowing through the P&L in 2019. It's also worth noting that we experienced a delay in the delivery of materials from the supply chain with some impact on fabrication at our yards.

In Q4, as a result of a partial recovery in activity and supported by the efficiency measures put in place, we expect revenue increase versus Q3, with margins up to what we posted in the first 9 months.

Now let's move to E&C Onshore. Revenue decreased in the first 9 months by approximately 10% year-on-year, obviously, after a Q2 decrease of over 30% year-on-year. Q3 progress on ongoing projects saw an improvement in revenues versus the previous quarter. And as expected, in the first 9 months, most of the project rephasing occurred in the Middle East.

Adjusted EBITDA margin was back to mid-single-digit in the 9 months. In particular, Q3 stand-alone posted 6% margin, a significant increase quarter-on-quarter. The main driver of margin step-up was revenue increasing and an outcome of certain positive negotiations with clients.

Africa and parts of the Middle East, I can say that were the most resilient in terms of margin. In Q4, we expect further recovery in volumes versus Q3, mainly driven by Sub-Saharan Africa. And this volume acceleration is expected to turn in adjusted EBITDA margin better than Q3. As you know, in E&C Onshore, our target is still to reach a mid-single-digit margin.

Turning to our drilling performance, Slide #9. In offshore, our top line decreased by 38%, mainly driven by deepwater drillships, Saipem 10000, along with Scarabeo 7, 8 and 9, partially offset by Scarabeo 5 and jack-up Sea Lion 7, which were not generating revenues in the same period of last year. As commented in the previous calls, activity shifting, blended and extended for the 2 flagship deepwater vessels is being remunerated by standby rates. Still on the positive side, as you will see later on, Saipem 12000 will restart drilling activity without interruption from the beginning of 2021, and the Pioneer-leased vessel will start work in Q4 2020, 4 months earlier than expected.

A few words about the adjusted EBITDA. Adjusted EBITDA was lower compared to the previous year at EUR 61 million with a margin of 26%, mainly due to fleet idleness increasing, but partially offset by higher cost efficiencies. Despite the sequential decrease in Q3, we expect a small volume improvement in the fourth quarter versus Q3.

In Drilling Onshore, revenues decreased by 18% year-on-year. Key drivers were lower activity in LatAm, in the Middle East, basically due to effects of temporary suspensions of rigs as communicated in the previous quarters.

EBITDA fell by 15%, mainly due to the reduction of volumes in LatAm, partly offset by some European activity. The Middle East was, I would say, overall stable. Adjusted EBITDA margin improved by 80 basis points year-on-year, up to 25.5% and grew sequentially by 2 percentage points due to, I can say, the resilient performance, cost efficiencies and the contribution of European operations. Still on a positive side, our LatAm operations are gradually restarting. Some activity suspension and rate review experienced during the first 9 months is expected to reflect on Q4 revenue and EBITDA.

Now Slide #10, reconciliation adjusted versus reported. In this slide, we show the usual bridge from adjusted to reported net result for the first 9 months of this year. Our adjusted net result was negative by EUR 210 million. As you might recall, since Q2, we have identified special items, the cost incurred to preserve the health and safety of our people around the world and operations during the COVID-19 pandemic. The amount in the first 9 months was EUR 99 million, with the Q3 slightly higher than the first half due to higher incidence of coronavirus in specific geographies in which we operate. This amount includes costs directly attributable to COVID-19, including individual protection devices and equipment, costs of quarantine protocols, charter flights, massive purchase of IT equipment and so on. Q3 posted an amount of these costs slightly above Q2, and honestly, above our previous forecast. These cost items are somehow unpredictable in their dynamics and really depend on development of the pandemic. So under this assumption and according to current visibility, at this point in time, for the fourth quarter, we expect another impact, but lower from what we recorded in Q3.

The remaining elements in the chart, our noncash impairment we made in the first half of the year related to a review of the assumption regarding the Drilling Offshore business that we disclosed largely during the first conference call. Finally, you can see in the chart, approximately EUR 120 million that we already presented in the first half, which include write-downs associated with the efficiency plan and other items. After these special items, we closed the 9 months with a reported net loss of around EUR 1 billion.

Slide #11, net debt quarterly evolution. Here, as you can see, there is a focus on Q3 net debt evolution. In appendix, you can find the usual slide with the first 9-month trend. So let's comment on this slide.

On the right and the left of the chart, we reconcile the impact of IFRS 16 on net debt, both the end of June and end of September 2020. The light blue shaded area shows the variation from the end of June 2020 net debt, pre-IFRS 16, of around EUR 900 million. We closed the third quarter with net debt, pre-IFRS 16, of EUR 973 million, up EUR 72 million versus June.

So the key drivers could be summarized as follows: first, cash flow, which was positive in Q3 by around EUR 70 million. Secondly, we posted around EUR 50 million of capital expenditures, which is in line with our target of below EUR 400 million for the full year. Others, including delta working capital, as you can see, increased in Q3 by EUR 100 million, but in which working capital was kept, well, I would say, under control and was substantially flat. In fact, it's worth nothing that EUR 100 million also includes, just to give you an example, EUR 55 million of COVID-19 costs.

In Q4, we foresee a net debt increase versus Q3, in line with our comment of the second half net debt higher than the first half. The key driver of this increase will be the temporary and natural working capital absorption coming from the acceleration of projects progress in our E&C in the fourth quarter. In addition to this, working capital could, I say, could, also be impacted by some client payment delay. And finally, we'll be recording the cash out for determination of the lease of a vessel in E&C Offshore of around EUR 40 million, which we expect to pay in Q4. At this point in time, so we expect full year net debt higher than Q3. In any case, I would say, not lower, but not far from the current average market expectation. These estimates are not factoring, obviously, material disruptions and deviation from unpredictable development of the pandemic. That today, it's really impossible to make. Under the same assumptions, beyond 2020, we expect this temporary effect from working capital to be absorbed.

So the final slide of my financial presentation, Slide #12, the title is solid balance sheet and liquidity, as you can read. End of September, we have a healthy liquidity position of around EUR 2.1 billion. This liquidity has improved as a net effect from the bond issue and the repayment of some debt maturing in 2020. On top of this, the group had about EUR 900 million of restricted cash, mostly held in JV accounts to support our operations. Our liquidity position has allowed Saipem to comfortably meet all its financial needs.

The chart at the bottom of the slide shows the debt structure with maturity and composition of our gross debt, which, as you can see, amounted to approximately EUR 3 billion at the end of Q3. The structure is, I would say, well balanced with no significant maturities till 2022, average tenor above 3 years. And an average cash cost of debt, which remains substantially stable at around 3%.

Finally, at the end of September, we have proactively engaged with banks and successfully updated our financial covenants. This covenant update provides us further flexibility, and we can thus confirm that Saipem has a solid financial footing and can comfortably withstand a prolonged period of uncertainty. Finally, back in July, I mentioned financial flexibility is a priority for the rest of the year. This priority hasn't changed and beyond this year, deleveraging and gross debt reduction will be, again, our primary objective and we are running our business plan exercise, and we expect to update the market with 2021 targets in line with our tradition with full year results.

Now I reached the end, and I will hand back to Stefano for the next session.

Stefano Cao - *Saipem SpA - CEO & Director*

Thank you. Now let me go through some business update. Starting with the Offshore E&C. In this business, we have seen that while many projects were delayed, slowed down as a consequence of coronavirus, at this stage, I'm pleased to say that we are seeing evidence of increased activities in Q4 2020.

Some projects with slow progress in the third quarter, for example, in Africa, are expected to recover in Q4. We expect also to see some of our assets in E&C Offshore, such as Castoro Sei 20000 there to restart operations in the quarter. Also, we foresee increased operation -- operational execution and some change orders in Asia Pacific, Caspian and Middle East. Finally, yard fabrication activities picking up versus Q3.

Of course, things could change again if the coronavirus shows new major outbreak. But our clients are moving ahead again at pace with projects and, this is flowing back into higher activity levels in Q4. This will, I expect, provide good momentum going into 2021 as the global economy continues its recovery.

Turning now to E&C Onshore key activities. The -- I can see this slide particularly interesting. As far as projects listed in this slide are the top 10, and they represent around 75% of the onshore backlog. These have been directly and directly impacted by the pandemic, but dialogue with our clients has allowed us a substantial derisking of this project.

Starting with Mozambique, Area 1 LNG, the project is now on schedule. There have been no major disruption during lockdown. Activities related to engineering and procurement, we're effectively and efficiently handle working remotely. This is a major project, to which the client is committed. We have now been asked to accelerate, increasing the number of people on site.

In Saudi Arabia, on Berri and Marjan, which have made headlines for a while, we have set new extended schedule upon client request and are discussing a compensation mechanism to safeguard cash flow according to the new timetable. The impact at Berri has been negligible as the activities are still at an early stage.

In the same country, Jizan and Khurais, our large projects, will advance to completion. The Haradh pipeline, however, is at an intermediate stage. Here, we agreed with our clients a new schedule, a new technical solution to share cost savings. Furthermore, the restoration works on Khurais is entrusted to site and after the tax impacts of September 2019 are on a reimbursable basis.

Back to NLNG, the Nigerian train segment project was awarded in Q2. For the initial 12 months, the activities and schedule are regulated by an agreed risk-sharing scheme with the client. These initial 12 months are being used to fine-tune the execution strategy and derisk the project supply chain.

On Arctic LNG in Russia, where we work on both GBS and top sites, construction sites have never been demand. Even at the height of the pandemic, our 3 protocols allowed the work to proceed. Furthermore, a large proportion of these contracts is on a reimbursable basis.

Lastly, the Tangguh LNG expansion project in a remote area of Indonesia is in terms of reaction to the pandemic pilot. We successfully managed the logistics for all personal at all sites, including client sites, quickly demanding and bringing the number of people down to a level compatible with social distancing.

In a nutshell, our major projects are progressing well in full alignment with our clients' priorities and in a collaborative fashion. Some projects are recovering faster than expected with clients asking us to do more. This we consider reassuring. Rainbow's ability, where applicable, reduces risk and that, on average, risen compared to the pandemic.

In conclusion, the world is not out of the woods of the virus. But if progress on operations does not dramatically deteriorate, we do not foresee further significant risk of delay. For all these reasons, our current backlog provides good visibility for the near and medium term.

Before moving to the commercial developments of the first 9 months, I would like to describe the steps we have taken to address the energy transition. We have chosen only the most significant achievement to showcase here. In January this year, we acquired a proprietary technology for CO2 capture. This is enabler of CO2 sequestration and utilization, allowing the industry to derive new products from these emissions. In the second quarter, we signed a Memorandum of Understanding with Cassa Depositi e Prestiti, the Italian government, for investment fund and our shareholders to jointly evaluate innovative and sustainable project aimed at promoting the energy transition in Italy and abroad. The project focus on infrastructure to produce energy from renewable sources, the circular economy and LNG use.

In the third quarter, we signed a Memorandum of Understanding with Snam to collaborate on transition technologies from green hydrogen to capturing reuse in CO2 to development and launch of the hydrogen market. We have already started working together on water electrolysis for the production of green hydrogen. These are only the most notable examples. Let me mention a couple more from 2020.

A Memorandum of Understanding with Fincantieri for the development of deep-seabed mining, the sustainable exploitation of deep sea flows below 3,000 meters of water. And also a cooperation agreement with Equinor to develop a floating solar park for near coastal waters.

Order intake in the third quarter was light, but we still announced installation of a group of offshore wind farms by Saipem 7000 across 3 sites. Although not big value, it will ensure utilization of the vessel. Let me simply remind you that the projects awarded in the first half are well diversified in terms of geography and business segments from renewables infrastructure from SURF to midstream.

The 9-month book-to-bill ratio was solid at around 1x. Furthermore, we recently notified the final investment decision for the Payara developer offshore Guyana, which we had won and already included in our 2019 Q4 backlog.

Not visible here, we had positive development in Q4 in Qatar, a territory we strategically follow closely, and which may bring interesting near-term evolution. We were awarded by Qatar Petroleum a contract of around $140 million for the expansion of the offshore field. The scope being an EPCI for top size, pipelines, umbilicals and brownfield modification. As you will see, the old Middle East is still rich with opportunities.

I mentioned diversification a few times, and this brings me to highlight what Saipem has become and what Saipem will be doing more and more in the forecoming future. We are an integrated company in the E&C space. We operate and provide highly technological solution to clients across a range of segments, energy, infrastructure, onshore and offshore. We have people, assets and technology to operate in many diversified segments, whether it's a matter of large infrastructure or installing a wind farm. And of course, targeting scope of work in the development of the largest energy project worldwide, both conventional upstream, downstream and renewables.

Let's now move to backlog. Group backlog, including nonconsolidated projects stands above EUR 24 billion. Despite a very challenging year, we have not experienced cancellation in E&C backlog. The only one for EUR 70 million in Drilling Offshore was already accounted in the first half. Over 70% of the E&C backlog is nonoil-related, a result of our diversification strategy. The majority of 60% is gas, the transitional energy source.

Renewables and green technology currently represent 4% of the E&C backlog and is almost entirely made of wind farm. Whilst infrastructure and other nonoil are 9%. Finally, 6% is related to downstream oil, a sector typically inversely correlated to the oil price.

Coming now to the backlog distribution by year. The chart is based on the current visibility in a changing and unstable environment. You will notice a shift in not only the current year, but also in 2021 with a transfer of activities to 2022 and beyond. This reflects our derisking measure in the E&C Onshore project, which has adopted new schedules. For E&C Offshore, the key factor is a shift of some conversion activity in the Middle East. The split by year, the nonconsolidated portion of backlog is also shown on the bottom part of the slide. In conclusion, as you can see, 2021 still remains very well covered.

Let's look now at the commercial opportunities for the E&C divisions. We see a pipeline of circa EUR 27 billion project, higher than in the first half. But we expect that certain awards will spread over a longer time span than before. In Africa, visibility has improved, in particularly, offshore. We see a good number of upcoming offshore wind projects in Europe. Middle East is the most promising area for major awards with giant developers expected in Qatar. We are interested in several large packages there. Finally, there are exciting opportunities in Italy, which are not reflected in the bidding pipeline here. In particular, I refer to the potential developments, which fall within the strategic framework of the European Green deal. At Saipem, we not only design and build infrastructure. We also master technology in decarbonization and hydrogen. For this reason, we aim to contribute our expertise to developments in our home country in fields, which are presently still a very small proportion of our activity.

Turning to Drilling Offshore. We show our usual charge of the contractual commitment. You will see some positive developments highlighted in blue. Saipem 12000 is expected to restart operation in early 2021 after a period of remunerated standby, and will be working up to Q3. While previously, we had expected a significant standby during Q2 and Q3. For the remainder of 2021, the ship has contractual options. Saipem 10000 and 12000 is in remunerated standby. She is expected to come back to work in mid-2021 to benefit from contract extension till August 2023. Scarabeo 9 after the completion of the demand from Black Sea has been put in stocking mode, is currently being marketed. Scarabeo 8 has been idle since May 2020, following the decision by the client. The rig is now preparing to resume drilling with the same client. We agreed to resume operation in December, preserving a competitive edge in the North Sea. For Scarabeo 5, the client has exercised the first 4 months contractual option, keeping the vessel to support production in Angola till the end of February 2021.

Going forward, we have agreed optional periods, and we are positive on potential outcome. Perro Negro 8 will complete current operation at year-end 2020, following the decision of ADNOC to terminate early. The rig will then undergo its 5-year class maintenance in early 2021, a precondition to be marketed to clients from next year. Perro Negro 7 is on remunerated standby and will resume activities at start of 2021. Sea Lion 7 is continuing its activities in Saudi Arabia. Perro Negro 9 replaced Perro Negro 5 early this month in the contract for Saudi Aramco. COVID-19 impacts in the area have been successfully managed. Pioneer will go back to drilling activity in November 2020. The original standby was supposed to be 9 months, now 2024. Finally, Perro Negro 4 is in operation with a contract extension until November 2021.

Let's now turn to Drilling Onshore. So looking at the onshore fleet utilization, as shown in the slide, the total number of rigs in the fleet remains unchanged at 83 at the end of September. The average fleet utilization rate in the 9 months was 47%, which compares with 59% for the 9 months in 2019. For the last quarter of this year, we expect a further reduction in utilization rates in the Middle East as the suspension of rigs will be affected for the whole fourth quarter. On a marginally positive note, our LatAm operations are gradually restarting.

Okay. Let's now conclude the presentation with the business outlook and a few closing comments. Okay. We have introduced the business outlook with the first half result after having withdrawn the formal full year guidance back in April. With more visibility compared to July, we're now closer to year-end, we expect the second half volumes and adjusted EBITDA broadly in line with the first half. And finally, CapEx yearly target is confirmed at below EUR 400 million. For the sake of clarity, this outlook does not factor further possible further material business deterioration from COVID-19.

As I said, let me conclude with a few remarks. After a very challenging period, the picture starts getting brighter. In E&C Onshore, we are seeing margin recovery, and we have de-risked key projects, which is encouraging for the near term. In E&C Offshore, recovery is now commencing. As you would expect, we have successfully implemented an OpEx efficiency plan, and we are achieving our CapEx reduction target.

From Stefano's remarks earlier on, you have gathered that our balance sheet and covenant arrangements are sound, while liquidity has improved. And looking at our book of businesses, the condition of our firm, our backlog is resilient and diverse, while our bidding pipeline offers growth opportunity. It's been demanding, but we are navigating 2020 safely and have encouraging visibility going into 2021.

With that, thank you for listening, and I look forward to answering your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We're now taking our first question from the line of Nick Konstantakis from Exane.

Nikolaos Konstantakis - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

I'm afraid I'm going to start with a bad one on the covenants. It's obviously good that you highlight the increased flexibility that the renegotiation gives you. Could you just give us a bit more color about what is this new covenants now, your -- previously at 3x net debt to EBITDA, it was pre-IFRS reported. So can you just give us a bit more color? And then secondly, thank you for the increased visibility on the backlog. We can now see your 4% on green and renewables work. Obviously, you've been pushing a lot of different investments, JVs, a lot of activity there. In the medium term, Stefano, when you're thinking about what proportion of the backlog the green could represent, do you have a certain number in mind, kind of an ambition, if you want?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Stefano for the covenant, which is, by the way, it's not a bad question.

Stefano Cavacini - *Saipem SpA - CFO*

It's a very good question. Thank you very much for your questions. So I can clarify and give to the audience more color about the update of our covenants. So we have been proactively addressing the matter with our financing parties in order to avoid any possible and potential risk, even in a case of unexpected events. The new covenants, as you were mentioning, is different from the old one because in the previous -- the covenant was based on pre-IFRS 16 numbers. Today, the new covenant negotiated is based on post-IFRS 16 numbers. And for the benefit of the all audience for 2020, we negotiated a ratio of 4x the EBITDA. And for the following years, 3.5x. So we feel comfortable with this level of covenant even if something wrong could happen in the near future.

Finally, just to conclude about the old picture, I can say the revolving credit facility for EUR 1 billion that I recall you is totally undrawn. The covenant has been already negotiated with the banks. We have another approximately EUR 800 million of facility with this covenant. Today, more than 50% have been renegotiated. For the remaining EUR 300 million, EUR 400 million, we are finalizing in the coming days/weeks. So no worries at all about the covenant.

Nikolaos Konstantakis - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

And sorry, just to clarify, is it still reported EBITDA? Or is it adjusted?

Stefano Cavacini - *Saipem SpA - CFO*

It's the reported EBITDA.

Operator

We are now taking our next question from the line of Alessandro Pozzi from Mediobanca.

Stefano Cao - *Saipem SpA - CEO & Director*

Sorry, there was the second question from Exane.

It was related to the target backlog on diversified business. Sorry, I wish to answer. I don't intend to be shy or in a way, diverting the question. But I think it is worthwhile reminding that we are a company doing projects. We do projects which is strongly supported by the capability of our people, the quality of our technologies and the capacity to innovate, obviously, utilizing all the most advanced tools available in the industry. So as far as setting target, it would be probably something which is diminishing our expectation. Going forward, we want to build a backlog of sound project, whatever field they are. If there is a rebound of conventional, let me say, oil-related business, fine, that will certainly help. And we'll certainly improve the quality of backlog and of our project. But otherwise, we have very much extended the range of target, which we said.

I think just to set an example, one of the things I've been recently talking about is the solution, which we are presenting for the crossing of the Messina Strait. A solution, which I don't know whether it will be implemented or not, whether it will become a project. But in a way, it's a sort of summary of all the subsea technologies in deep water. Obviously, in the more traditional fields, which we now master and which allow us now to consider application in totally different fields. Now this -- then there was -- the subsequent question was Mediobanca.

Alessandro Pozzi - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Yes. I'm here. In Q3, we definitely seen a recovery in revenues and EBITDA. But I guess, to hit the full year guidance of a flat EBITDA in the second half versus the first half, there's still a bit more work to do. My understanding is that the recovery that we're going to see into year-end is going to be driven by Offshore E&C. And you mentioned there are some -- a number of projects that are moving ahead. And I was wondering whether you could maybe give us a bit more color on those projects moving ahead in the Offshore E&C in a -- during the quarter? Whether you've already seen a restart of those projects? And also, I was wondering, Offshore Drilling has been quite weak this quarter. Do you expect any recovery, again, in Offshore Drilling into year-end?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. So maybe starting with the offshore project. Certainly, we see some projects contributing to the recovery in the last quarter, and these are projects being executed by our vessel, Castoro, the 3000 and the -- as I was mentioning. We are also, at this stage and, again, as I mentioned, we are negotiating a number of variation orders in Asia Pacific, in Caspian and Middle East, including variation orders on ongoing projects such as Barzan as well as, for instance, a project which have been awarded to us and are awaiting final investment decisions, such as Carrboro, which is generating additional work waiting for the final investment decision agreed with the client.

And other than offshore, construction operation would also add that the level of fabrication is picking up in the last quarter, in particular, in Karimun. And that is to fabricate the structure for the NLNG project in Scotland. So this is pretty much the -- where we expect the picking up of activities. Then what was the -- okay.

Alessandro Pozzi - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Yes. On the offshore drilling?

Stefano Cao - *Saipem SpA - CEO & Director*

Offshore Drilling, weak. Weak. It is a matter of fact because the immediate reaction of our clients, but this is something which we have highlighted already with the half year results. Have decided to suspend the drilling operation postponed. So while on one side, there is a minimum impact on the backlog. On the other side, there has been a substantial impact on the timing of the operation. I think as I've been highlighted, we see now a sort of signs of our willingness of our clients to accelerate the commitment of some sub date, which were original agreed to be later in 2021 are now being brought forward.

In terms of contribution to the results, I think it is worth highlighting the major effort, which has been made by the division in terms of efficiency and cost-cutting exercises.

Alessandro Pozzi - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Okay. Just a final one. You mentioned -- well, you put out your press release with an MoU with Snam on hydrogen. You mentioned that in the opening remarks as well. I mean, what role do you think Saipem is going to have in developing the hydrogen infrastructure? I mean, is that likely to be a meaningful revenue stream? And how do you position yourself? Are you planning to be a technology innovator or more of a system integrator, like project management? How do you see the hydrogen coming into the equation for Saipem?

Stefano Cao - *Saipem SpA - CEO & Director*

Yes. I think you have made -- you have asked the question, but you've given also the bulk of the reply. We are a construction company. So we developed engineering. We consolidate technologies offered by other parties. At the end of the day, we are the doer in the process. So we are very much compatible. Not only compatible, but we are probably the best possible support for the clients because in this respect, Saipem -- Snam would remain -- would be the operator of the hydrogen production and distribution. So our role and task is the one of identifying technologies, developing technologies, doing engineering, providing the proper project management capability in order to support and assist the client in the development of their infrastructure.

Hydrogen is something which still, in my view, require a lot of work, a lot of technological development, in particularly to reduce the production costs and to improve the management of the hydrogen. I think even in that respect, we see ourselves as the sort of solution provider, again, in the form also of integrator of different contribution coming from the industry.

Operator

We are now taking our next question from the line of Kevin Roger from Kepler Cheuvreux.

Stefano Cao - *Saipem SpA - CEO & Director*

I think if we can move to next question, then maybe Kepler Cheuvreux will join us again.

Operator

We are now taking our next question from the line of Amy Wong from UBS.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

A couple of questions from me, please. For the first one, I just want to refer back to in your prepared comments, you talked about there are client payment delays that we could expect them into the fourth quarter. Could you shed some more color on some of the main reasons why you could be seeing client payment delays?

Stefano Cao - *Saipem SpA - CEO & Director*

No, probably -- I mean, all our comments, they were mostly related to the messages which we were delivering with the half year results. And I have to admit that in those days, Amy, such a question was, I don't know, I mean, it wasn't that -- I couldn't say difficult, but it was certainly difficult to address and providing color and having a good support. What has happened in these 3 months is that there has been quite a substantial evolution, a evolution which is strongly related with the business relationship with our clients. I think we have to recognize that there has been a recognition that in such terrible circumstances, either we work together or there is no future for any of us. So I think that is, in a way, drastically improved the relationship. It's not head-to-head client-to-contractor relationship. We have been sitting with all the major clients as we were explaining with the example I was providing with the slide -- with the Slide 15 on the evolution of relationship. I think that is the situation only 3 months later. In particular, and this is something which is worth addressing, one of the questions, which I was not unable but I had difficulties in addressing what -- how to treat the COVID-related cost.

Well, I can say that this is a matter which is openly discussed with clients. In some instance, we have fully agreed how to treat them, so the concept of derisking. In other cases, where, in particular, we have agreed a new schedule. The new schedule goes with how you treat the standby. Obviously, if you postpone activities then you have to recognize that you have to mobilize people and equipment, and you need to find a way to reimburse at least the cost. So the message, which we were trying to convey with this slide is the fact that we are very much advanced. We are probably more advanced that we were expecting only a few months ago. And this is what is reassuring to us. This is what we consider is converting the -- some of the question marks related to the quality of backlog, in particular, in the onshore to opportunities not only to recover cost, but as I said, more than anything else to change the relationship with our clients.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

Got it. Just a point of clarification. That's very helpful to point out the Slide 15 and kind of understanding some of the big moving parts. But I just wanted to get a bit of clarification, whether you could see some delays in payments or conversion from -- to receivables due to variation orders or things that are in dispute with clients? Is there anything about what we should get worried about?

Stefano Cao - *Saipem SpA - CEO & Director*

I think in our business, in the present circumstance, you need always to be worried because that gives you the level of attention to anything. At this stage, yes, there is a -- they're a big -- they are experienced in payment delays. The point is that they are mostly in a sort of negotiated basis. So we accept that there is a postponement in some of the payments coming from the major clients. In particular, I would refer to Middle East as just to give you a reference. But these are in a sort of preagreed scheme and mechanisms. So at least we know where we are ready. Then if there is something abruptly and unexpected, of course, we don't know. But at this stage, we think that we have a good visibility also in terms of who was going to pay and what is going to pay.

Operator

We're now taking our next question from the line of Luigi De Bellis from Equita SIM.

Luigi De Bellis - *Equita SIM S.p.A., Research Division - Co-Head of Research*

I have 3 questions. The first one is on the customer markets. What is the feeling do you have from your customers on the activity level expected for 2021, generally speaking? So we have to expect activity level in line with 2020 level, slightly better or not? The second question on the competition. Are you seeing higher competitive pressure than in the last quarter in the bidding pipeline? Or higher pressure from your clients? And the last question on the order intake pipeline, how do you see the bidding pipeline for the remaining part of 2020 and early 2021 for Offshore and Onshore E&C?

Stefano Cao - *Saipem SpA - CEO & Director*

I think the first question was relative to the relationship with the clients. I think I touched upon, but I'd like to undertake the question because I think it's extremely important. The immediate reaction initially was very defensive. That is something which I have to admit. And there were indications of resorting to force majeure as a sort of defensive mechanism from both sides. So at this stage, again, with the visibility we have now, we believe that such a confrontational approach has been largely put aside. And I'd like to insist on the fact that in certain major costs like how to treat the COVID cost as well as how to deal with project delays. This is something which sees a lot of negotiating payable open and which gives us the confidence that the present level of visibility for the backlog is quite good. In some instances, and I mentioned that, we have even been asked to accelerate project.

And in one case, because that was a statement made by Total a couple of days ago, 2, 3 days ago, and Total said that they will deliver the first LNG in time according to what was their original schedule. So that says a lot. This is a strong commitment. We are working together. We have been asked to increase the power force at site. It is not an easy site. Everybody knows that. And Mozambique, is, certainly not a country used to the project of this size and complexity, but we are certainly working in -- I mean, very effectively with them.

In terms of the -- I'll review the pipeline of opportunities. First of all, you have seen that this opportunity pipeline is growing. Then obviously, it's fair to say that it is growing also because no decisions are being taken. So the award has been delayed, which is fair enough. It's a good statement. But we also see that the level of attention on the project is increasing by the bulk of our potential clients.

In terms of quality, level of competitiveness of the bids, okay, that's -- I have to say, is part of the game. It's always been like this for us. We have set certain specific rules. We'll certainly compete as much as we can if somebody is willing to do a much lower price, which we don't consider, accept, we will let them go. But the volume is bigger. So that gives us a good level of confidence.

Operator

We're taking our next question from the line of Vladimir Sergievskii from Bank of America.

Vladimir Maximovich Sergievskii - *BofA Merrill Lynch, Research Division - Research Analyst*

Two questions. First one on COVID-related costs. Those costs went up a little bit in third quarter than in the second quarter, despite lookdown easing, activity restarting, et cetera, et cetera. So what was the reason for this increase sequentially? And any directional idea of what you expect to happen to this COVID cost in Q4? So that's the first question. And the second one is very straightforward on net debt. You mentioned net debt at year-end broadly in line with consensus. Would you be able to provide this reference point where you think this consensus is at the moment?

Stefano Cavacini - *Saipem SpA - CFO*

Okay. So I'll start answering your first question about COVID costs, yes, you're right. They increased. But as you know, the pandemic -- the impact of pandemic in different countries and regions around the world has been completely different. We had different waves in Europe, in Middle East, in Asia. So reality is that Q3, we have put in place higher actions to protect our people and to put all our employees on the safe side. This is really simple as explanation, I apologize, but this is.

For the coming quarter, we are expecting, based of the information that we have in our hands today, we are expecting a lower impact than Q3. But as I told you during my speech, this typological costs are completely unpredictable and it depends on the evolution of pandemic. About net debt, I think that I already answered during my speech. Today, we are saying that we are expecting an amount not far from the average market expectations that in other terms, means, for example, the Bloomberg numbers that you could see yesterday on the screen. So today, these are our best estimates for the year-end. Obviously, sorry for the disclaimer, based on the information that today we have in our hands.

Vladimir Maximovich Sergievskii - *BofA Merrill Lynch, Research Division - Research Analyst*

Just to clarify on net debt. The Bloomberg number we are seeing on the screen, I think could be a blend of net debt, including and excluding IFRS 16. Would you resort to this Bloomberg number as net debt before IFRS 16 or after IFRS 16?

Stefano Cavacini - *Saipem SpA - CFO*

No. No, I'm referring -- sorry if I interrupted. No, I'm referring to the post-IFRS 16 because we understood that probably from today on, we have to speak more about post-IFRS 16 because all you analysts are more interested in post-IFRS 16. So we got the point, and we are trying to follow you in order to support and to help your analysis. Also, as I mentioned before, referring to covenants, we have decided to review the key performance indicator at the base of the covenant. And in order to give you a more transparent and way to immediately calculate the threshold and the covenant.

Operator

We are now taking our next question from the line of Guillaume Delaby from Societe Generale.

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

I would like to come back to your outlook. So I understood that new EUR 27 billion outlook also integrate delayed projects. But basically, you are sending a somewhat bullish message versus Q2. So -- and it is somewhat competitive. So my question is what has changed in your clients' mind over the last 2 or 3 months?

Stefano Cao - *Saipem SpA - CEO & Director*

Guillaume, I think, as I very transparently said, the growth is also related to the fact that they have not been awarding. We have a major wave of contract awards in the first 6 months, then obviously, that was the result of previous negotiation, so I mean the growth or the opportunity is also related.

Having said that, no, I think I will repeat what I said that we see certain projects. I think the good proxy is Middle East. We see a number of important projects which, according to the statement, official statement made by the operators are going to see an award by the end of the year, if not early next year. And in terms of a country, I referred to Qatar. I think I mentioned it a number of times, I referred to Abu Dhabi. And I'd also refer to a number of long-term LTA in Saudi Aramco.

Having said that, there is also a number of -- there are also a number of wind projects, offshore wind projects, which have been -- which are the subject of negotiation, EDF, Engie, Scottish Power, so these are certainly opportunity of interest. But I would only wish to stress a topology of project, which, again, we consider very important going forward in terms of -- for the Onshore E&C business, which are projects totally unrelated to the oil, in particular, to the oil price. And we have a pipeline where we see a railway in Egypt for the transport of phosphate. We see in South America, an expansion in fertilizer, profertil, which, again, historically was a business of ours, but recently, we haven't seen a lot of opportunities. We see another fertilizer in Australia, which we are actively pursuing. We see a acknowledging complex in Poland. We see additional packages for the Moscow refinery. This is downstream in any case. And again, on top of the opportunities, which I mentioned, related both to onshore and offshore in the Middle East.

Operator

We are now taking our next question from the line of David Farrell from Crédit Suisse.

David Richard Edward Farrell - *Crédit Suisse AG, Research Division - Research Analyst*

Two questions, please. Firstly, just to go back to the covenant. Can I confirm that in line with the previous covenants that these are being done on an annual year-end basis for the calculation? And then I just wanted to also question around the kind of CapEx. Obviously, you're trending well below the guidance for the full year. So would we expect to pick up in the fourth quarter? Or are we seeing some deferment of CapEx pushed out into 2021? With that in mind, would you kind of give us some guidance in terms of where you see sustaining CapEx levels?

Stefano Cao - *Saipem SpA - CEO & Director*

Covenant.

Stefano Cavacini - *Saipem SpA - CFO*

So I take the first question about covenant. Yes, you're right. The covenant will be tested end of December 2020.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. In terms of CapEx, I think your observation is quite right. We have obviously a value of CapEx for the 9 months, which is well below the -- what we have declared as target below EUR 400 million. We have -- on one side, we have a number of class works related to renewable class or some of our vessels, which will be run in the final quarter. But all in all, I believe that it's fair to say that I would expect that below to be -- I mean not really substantial, but a significant amount below the EUR 400 million threshold.

David Richard Edward Farrell - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And just kind of as we think into 2021, is it likely that there's a kind of catch-up amount of CapEx that needs to be undertaken, and therefore, it's going to be up year-on-year?

Stefano Cao - *Saipem SpA - CEO & Director*

I mean it's not a disclaimer, but we know that we provide an indication for the year in February of the year. So that is the time when we'll give you an indication. We are right now in the process of developing our new 4-year plan, which obviously is very well different from what was the previous one. Of course, the previous one was not even thinking for a minute of a situation like the one we are living now. The present level is -- I agree, is a sort of defensive level. So we'll tell you the number, but I would expect that it basically is higher than the EUR 400 million.

Operator

There are no other questions on the line. Please continue.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Thank you very much, and look forward to talk to you together with Stefano and next opportunities. Thank you. Have a good day.

Stefano Cavacini - *Saipem SpA - CFO*

Thank you very much.

Operator

That concludes the conference for today. Thank you for participating. You may all disconnect.
