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CORPORATE PARTICIPANTS

Davide Ivanoe Ruvolo *Saipem S.p.A. - Corporate Head of M&A, Strategy and IR*

Stefano Cao *Saipem S.p.A. - CEO & Director*

Stefano Cavacini *Saipem S.p.A. - CFO*

CONFERENCE CALL PARTICIPANTS

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

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

Henry Michael Tarr *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

James Matthew Evans *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

James Thompson *JP Morgan Chase & Co, Research Division - Analyst*

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

Michael J Alsford *Citigroup Inc, Research Division - Director*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Saipem Third Quarter 2019 Results Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday, 24th of October 2019.

I would now like to hand the conference over the first speaker today, Mr. Stefano Cao. Thank you. Please go ahead.

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Good morning, ladies and gentlemen. Welcome to our 9-Months 2019 Results Presentation.

Today I'm joined by Stefano Cavacini, our CFO; Davide Ruvolo, our Corporate Head of Strategy and M&A; our General Counsel, Mario Colombo; and our Head of Investor Relations, Max Cominelli.

Let me start -- let me take you through the highlights of today's presentation, starting with key developments during the third quarter in which we continued our positive momentum in terms of order intake. The most significant announcement were the award Arctic LNG 2 topsides in Russia, which for us represents over EUR 2 billion and the signing of a letter of intent with Nigeria LNG for the EPC of Train 7.

I will talk further about these awards, in particular, Arctic LNG 2 topsides commencing the most recent awards. On Nigeria Train 7, discussions are ongoing between the -- our JV and the client, waiting for the final investment decision. Based on the latest information, Nigerian LNG and its shareholders are fully committed to taking this as soon as certain approvals are confirmed. At the moment, pending award, the project is not included in our backlog.

We have indeed added to the backlog of the quarter, the sizable contract in Saudi Arabia in the Berri and Marjan fields worth over $3.5 billion. These along with other awards in E&C offshore and drilling resulted in a solid book-to-bill of around 2x in the first 9 months or 1.9x in Q3 stand-alone.

Backlog at the end of September was approximately EUR 24 billion, a level we haven't seen for over 5 years. In fact, last time, our backlog was around this level was in June 2014. The amount as of September includes approximately EUR 4 billion of nonconsolidated backlog which consisted of the 2 legs of the Arctic LNG 2, gravity-based structure and the most recent topside, along with a portion of the project with the Thai Oil for the expansion of the Sriracha refinery awarded last year.

This year, the significant E&C onshore awards in the LNG segment have increased our weighting on oil -- non-oil projects in the backlog and strengthened our leading position in the energy transition. As you know, our decision to focus more on gas and renewables was taken some time ago. The majority of our R&D spend is now focused on insurance. We have the capabilities to meet the needs of the energy transition. As you will see later, this is now significantly increasing our medium- to long-term visibility. The E&C Offshore acquisition in both Q3 -- Q2 and Q3 are lower, mainly as a result of postponed investment decisions, in particular, last subsea development.

In Mozambique though, the recent award of the Onshore Rovuma LNG terminal, pending final investment decision, consolidate our expectation for further positive steps. But we stand in the current market, our pipeline of potential projects in E&C Offshore is still healthy and should be diversified, with opportunities ranging from subsea developments to conventionals and renewables.

Turning to results. Thanks to a good operational performance, we closed the first 9 months of 2019 with revenues over EUR 6.7 billion, increasing by around 11% year-on-year and adjusted EBITDA IFRS 16 of EUR 785 million. E&C Offshore posted good operational performance, closing the first 9 months with an adjusted EBITDA margin close to 14%, underpinned by the good execution of ongoing projects. As expected, the mix of projects impacting the P&L is increasingly weighted towards conventional activities and renewables, pending the full recovery of the subsea sector, which is yet to materialize. Large SURF contracts are phasing out, large awards have been postponed. As often mentioned, we still see 2019 as a year of transition. Notwithstanding this, we confirm our book-to-bill target of around 1 for the E&C Offshore division full year.

E&C Onshore significantly improved its adjusted EBITDA margin, which proves that the turnaround in our business is ongoing. We confirm that we are on track to deliver our midterm margin target of mid-single-digit for this division. In drilling, our first half comment remains broadly unchanged. Volumes and revenues have increased, and margins are still healthy, notwithstanding the completion of some high carry contracts in the Offshore and the slowdown of activity due to country-specific situation in new Onshore.

Bottom line, we closed the first 9 months of 2019, with a reported net profit of EUR 44 million as opposed to a sizable loss in the same period of last year. Finally, and on the positive side as well, our net debt was further reduced at the end of Q3 to just above EUR 900 million, well on track with our full year guidance of below EUR 800 million. To wrap up, before handing over to Stefano to lead us through the financial performance more in detail, the first 9 months were positive and leave us on track for the full year guidance, while the impressive order intake is providing us a solid foundation for the upcoming years.

Stefano?

Stefano Cavacini - *Saipem S.p.A. - CFO*

Thank you very much, and good morning from me as well. I will start with group results for the first 9 months 2019. I will then move on to divisional results and value metrics, before handing back to our CEO for the business update, guidance and closing remarks. But now starting with our customary Slide 6, group performance in the first 9 months was good.

Revenues, as you can see, amounted to over EUR 6.7 billion, up by 11.4% year-on-year, reflecting growth in all divisions. In line with our previous quarter's disclosure, we are presenting our results, showing performances both before and after the application of the IFRS 16.

In the appendix of our presentation, we have included the usual reconciliation table. As a reminder, for both EBITDA and net result, what we label with adjusted excludes special items, which is in the first 9 months were substantially in line with the first half at EUR 47 million, meaning that those special items relating to Q3 were, I would say, immaterial. You can find further details on this in the appendix as well.

So adjusted EBITDA pre-IFRS 16 was EUR 785 million, increasing over 3% year-on-year, driven by, I would say a significant improvement in E&C Onshore. Adjusted EBITDA margin pre-IFRS 16 was 11.6%, where in continuity with the first half, the increase in the E&C Onshore margin was more than offset by the decrease of other divisions. But as expected, group margin has been slightly diluted compared to the first half. This is chiefly due to a gradual change in mix in the E&C Offshore division where certain large subsea contracts have reached or are reaching, I would say, their completion.

This trend is expected to continue this year and is factored into the full year EBITDA margin guidance of above 10%. Adjusted EBITDA post-IFRS 16 was around EUR 900 million, and adjusted net income pre-IFRS 16 of EUR 100 million, as you can see, is 6x higher than the first 9 months 2018. This growth basically has been driven by a good operating performance, lower losses from equity participations and finally, lower taxes year-on-year.

With regards to tax rate on adjusted profit before taxes, as observed in the first half, it significantly improved year-on-year to around 41% from 72% recorded in the same period of 2018. For the sake of clarity, this level of tax rate has been affected by the losses from equity participation recorded in both 2018 and 2019 to date. Indeed, the 9 months trend allows us to confirm our full year 2019 expectation of an adjusted rate in the region of 14%.

Now moving ahead, let's take a deeper look at the divisional performance, starting with engineering and construction that you can see on Slide #7. E&C Offshore 9 months revenues increased by 6% compared to last year, reflecting higher volumes in the Middle East, North Africa and Latin America year-to-date. However, in Q3 saw a slowdown, as planned and expected relating to the phasing out of certain sizable subsea projects. We closed the 9 months with an adjusted EBITDA pre-IFRS 16 of EUR 409 million and a margin close to 14%, broadly in line with the semester and slightly diluted year-on-year due basically to a shift in mix that we have already commented on in previous calls, but underpinned by good execution and continued cost discipline.

The division, in fact, continues to deliver well with increasing exposure to more conventional activities, which along with renewables and the slower-than-expected recovery in the subsea segment, at the end is triggering a change in the mix for the whole industry. Having said that, our CEO will comment on our visibility and opportunities in the Offshore, which by the way, is still good. Adjusted EBITDA post IFRS 16 was EUR 490 million. Now let's move onto E&C Onshore. Revenue growth in the 9 months, as you can see, was above 15% year-on-year. The key growth drivers were higher volumes in Middle East, Far East, Sub-Saharan being the early contribution from Mozambique and Caspian. Turnaround is ongoing, as reflected by a 4.5% adjusted EBITDA margin increase year-on-year.

Moreover, as you know, and according to international accounting standards, EBITDA margin doesn't reflect joint venture results booked in the equity participation line of the P&L, which is what we refer to as nonconsolidated projects. Finally, adjusted EBITDA post IFRS 16 was EUR 163 million.

Now let's move onto Slide #8 for an overview of drilling performance. And let's start by commenting on Offshore. Top line, as you can see, improved by around 12% year-on-year. And the drivers in 9 months, we can say that mirror the semester, which were the higher activity of Scarabeo 8 and Saipem 12000, both partly idle during the 9 months of 2018, in addition to the start of activities of the Pioneer jack-up this year, partly offset by the idle state of TAD and the lower activity of Scarabeo 9.

We expect the deceleration of Q3 revenue growth to be reversed in the next few months, as it benefits from the higher degree of engagement of our fleet. Adjustment EBIT -- sorry, adjusted EBITDA pre-IFRS 16, as expected, was slightly lower compared to the previous year at EUR 143 million, reflecting a still robust adjusted margin of around 38%. The margin dilution, as you know, since we commented it in previous result calls, is basically a function of the contract portfolio structure. New contracts are awarded at market rates which are lower than the ones attached to contract negotiated before the downturn, which are phasing out.

Drilling Onshore revenues also increased over 10%, driven by increased activity in Saudi Arabia and Latin America, more than offsetting lower activity in the Caspian area. Particularly, Latin America was a mixed bag, where I can say increased activity in countries such as Colombia and Bolivia was partly offset by the first signs of a slowdown in Argentina. Argentina's slowdown is expected for the time being to continue in Q4. On the positive note, we are working in order to secure more activity in Middle East by year-end.

Adjusted EBITDA margin pre-IFRS 16 at the end of the 9 months was 24%. And finally, adjusted EBITDA post IFRS 16, as you can see in the chart, was EUR 145 million for drilling offshore and EUR 101 million for drilling onshore.

Now we are reaching the end of my financial presentation. Let's move onto the final slide on the evolution of net debt. As usual on the right and the left hands of the chart, we reconcile the impacts deriving from the application of the IFRS 16 on our net debt, both at the end of 2018 and at the end of September 2019. The light blue shaded area shows the deleverage progress from year-end 2018 net debt pre-IFRS 16 of approximately EUR 1.2 billion, down to around EUR 930 million at the end of September. This new level is exactly on track for our full year guidance of below EUR 800 million on a pre-IFRS 16 basis. It also marks an improvement year-on-year of over EUR 300 million, as you can see. So cash flow positively contributed around EUR 460 million in the first 9 months, and this contribution from operations more than offset capital expenditures.

The second item reported in the slide, which is named Others including delta working capital, as you can see, was neutral in the period. On one hand, there is a positive effect of advanced payment from contracts awarded earlier this year, which are surely net of payments towards our supply chain and cash savings. On the other hand, these positive effects were offset by various items, including a slight increase in working capital related to the growth of our business, as you see in the big jump in the backlog, dividends paid to minorities and acquisition of stakes in strategic joint ventures for us.

Having said that, for the sake of clarity, I should remind you all that the positive working capital contribution from advanced payments related to projects might be partly reabsorbed when the construction phase will be reached. But now let me say a few words on capital expenditures.

In Q4, we expect higher capital expenditures than in Q3, since some assets still need to undergo maintenance and class requirements. Although we will book some EUR 50 million less capital expenditures than originally planned this year, resulting in a full year new capital expenditures guidance of around EUR 450 million. Nevertheless, we are leaving our net debt guidance unchanged. First of all, because the net debt guidance, as you know, is not a spot number, but a level below the threshold of EUR 800 million. Secondly, because as you know, in the last part of the year, there can be a combination of various effects, among which the natural working capital dynamic related to an increased volume of activity. In addition, some minor changes in other items and liabilities. And finally, the amount of CapEx we revised in the last 2 months of the year were already planned to have a natural cash outflow in 2020.

So for all these reasons, full year net debt guidance of below EUR 800 million, is unchanged. Finally, net debt post-IFRS 16 at the end of September was, as you can see, around EUR 1.4 billion, including around EUR 0.5 billion related to the new accounting standard.

But now I will hand over to our CEO for the business update.

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Thank you, Stefano. Let's now move to the main recent awards on Slide 11. Third quarter saw a good momentum in terms of commercial initiatives. Starting from the E&C Onshore, as you recall, immediately after the closing of the half year, we announced the award by Saudi Aramco of 2 major contracts worth an overall amount of circa USD 3.5 billion for the expansion of the Berri and Marjan fields. We are setting up the operation and it's all progressing on schedule. Berri and Marjan projects are indeed included in the consolidated backlog of Q3. I will comment on this in few minutes.

At the beginning of August, we announced the agreement to participate in the joint venture for the realization of the top side of the Arctic LNG 2 project. This project is worth EUR 2.2 billion for us and comprises activities ranging from the detailed design down to the commissioning and startup of 3 LNG trains, each with a capacity of approximately 6.6 million tons per year, which will be installed on concrete gravity-based structure. Let me remind you that we are currently designing and building the GBS, the framework of the contract already announced in December last year. The final investment decision was announced by the client at the beginning of September. Arctic LNG 2, along with Mozambique project with Anadarko reaffirms our strategic choice to consolidate our position across the entire natural gas value chain. The award of the top side of Arctic LNG 2, along with the previous one on the GBS is included in nonconsolidated backlog.

Before moving on to E&C Offshore, let me say a few words on the situation in Saudi Arabia. As you know, we have participated in some repair work on the Khurais field, which was damaged in the attack in September. Saipem has been present in Saudi Arabia for 4 decades, and Saudi Aramco is a key client. For this reason, we have supported the activities, which saw production [was clearly slow]. We will keep on supporting our client as much as is needed also in the future.

Moving on to E&C Offshore, Q3 similar to Q2. So fewer contracts award compared to the first quarter of this year. A few weeks ago, we disclosed the award of 3 new contracts by BP for the development Azeri-Chirag-Gunashli oil and gas field offshore Azerbaijan. Two of these contracts are for pipeline design, pipe lay and related activities, while the third is for T&I for [jackup in pods], subsea structure and spools.

We have been a key contractor in this area since 1990 and importantly, the award of this contract is the result of the front-end engineering phase, awarded by BP to our XSIGHT division in consortium with local partners Boshelf and STAR GULF, already engaged from an early stage. Our overall share of the contract is worth $145 million.

Moving onto drilling offshore. Our Slide 12 highlights the drilling fleet's contractual engagements. Let me comment on the main one, Saipem 12000. The unit has started the operation in Mozambique for Eni-Rovuma drilling campaign, following the upgrading works conducted in South Africa.

Scarabeo 9, the semi-sub is currently located in the Black Sea, where preparation works have just been completed, and we are ready to head towards well location offshore Romania.

Scarabeo 8, the rig has completed in September its engagement with Var Energi, former Eni Norge, and just recently finished a 1-well program with Repsol. The unit is now being prepared for next work for Wintershall. Our commercial strategy has allowed us to substantially utilize the vessel for the whole year.

Scarabeo 7, we are currently marketing the rig after the completion of the work in Indonesia.

Scarabeo 5, the rig arrived in Angola, where it will be used for production support activities for Eni. We are finalizing the contract with the client for 1-year firm and 2 1-year options. This opportunistic engagement of the vessel for production support only allows us to keep the vessel active pending recovery of the market.

Perro Negro 8, the jack-up is currently engaged with ADNOC drilling in the Emirates.

Perro Negro 7 is working under the long-term contract awarded by Saudi Aramco in Q1. As I mentioned last quarter, in the current market low rates, we are leasing asset to help modernize our fleet without taking on large-scale capital commitment. In terms of activity, these lease assets currently working.

The Pioneer is operating in the midterm project for Eni in Mexico.

Sea Lion 7 is about to start its operation in the last quarter of 2019 in Saudi Arabia.

Last but not least, earlier this year, as you might recall, we leased a new high spec jack-up. This unit has now been renamed into Perro Negro 9 and will take over the activities of Perro Negro 5 in Saudi Arabia next year.

Turning to Onshore drilling, there is no change to the utilization rate, which in the first 9 months averaged around 68%, in line with the first half. Latin America, Bolivia and Colombia had the best performance, in particular, Bolivia. We are operating with a new high-spec 3,000 horsepower rig, which position us well in the country.

In contrast, in Argentina, we have recently experienced a decrease of activities, and we expect this to continue through the remainder of the year. In the Middle East, which we confirm as a key area for Saipem, we have some extension during Q3. And we expect to further consolidate our presence by shortly extending other mandates with Saudi Aramco. Rest of the world is experiencing lower activity in the Caspian Sea.

Finally, on the fleet, during Q3, we scrapped 2 outdated and unused rigs in Ecuador, where we are building, as we speak, a new high spec rig in the U.S., which will be employed in Latin America under a 5-year contract already secured.

Slide 14 shows the progress of backlog. The good award momentum continued in Q3 with Berri and Marjan contract in Saudi Arabia and the Arctic LNG 2 top side in E&C Onshore. The Arctic LNG 2 is part of the nonconsolidated backlog. The E&C Offshore factor in Q3, the contract with BP, I have described earlier and multiple variation orders on existing contracts.

And drilling Offshore was the -- on the lead in terms of acquisition. All in all, acquisitions were over EUR 16 billion, including the nonconsolidated backlog. As a result, our consolidated backlog jumped to around EUR 20 billion and including the nonconsolidated of around EUR 4 billion, bring us close to EUR 24 billion overall.

Looking at the backlog by the year of expected execution from Slide 15, you can see that this year is covered. And most importantly, we have secured a very good entry into the new decade.

Slide 16 illustrates the portion of backlog that is not oil-related, which as a result of our leading role in supporting our clients in this phase of the energy transition, represents 70% of our backlog. We are continuing to devote our efforts into the technology needed to support our clients in this energy transition. This is at the heart of Saipem.

Slide 17. With this slide, we provide an update on the pipeline on near-term opportunities in E&C Offshore that underpin our target of delivering a yearly book-to-bill in E&C Offshore around 1x for full year 2019. As you can see, the total value opportunity, EUR 8 billion, which is spread across different geographies is in line with what we presented back in July with first half results. Among these opportunities, there are projects still awaiting final investment decision, such as the subsea development of Payara in Guyana, so-called Liza Phase III and Rovuma in Mozambique, along with Scarborough in Australia. Other opportunities include LTA in Saudi Arabia, offshore wind farms in Europe and integrated initiatives in Brazil.

With the industry still providing limited opportunities, E&C Offshore had a quiet Q2 and Q3. However, there are still initiatives that we have already mentioned back in July worth around EUR 1 billion that have already been awarded to us but are still pending final investment decision. We expect them to further progress in the near future.

And now let's move to guidance and closing remarks. Nine month result allows us to confirm our revenue guidance of approximately EUR 9 billion, with an adjusted EBITDA margin in excess of 10%. As Stefano mentioned, we are updating our guidance of capital expenditure to EUR 450 million, and we will have a concentration of class renewal in the last quarter of the year. Our progress in deleveraging leaves us expectation for a new debt pre-IFRS 16 below EUR 800 million unchanged.

Let's move to the final slide. So few closing remarks. Record order intake drove the backlog to around EUR 24 billion, a level unseen for 5 years and resulting in a book-to-bill ratio of 2x. We consider this a solid base to work on in the years to come. Results for the period were good, operationally and consistent with the full year targets, which are confirmed. Visibility is still good on selected near-term opportunity in E&C Offshore sector, including subsea. On profit and loss, the bottom line is back in black as opposed to a significant loss only 12 months ago. Finally, deleveraging with one of our key priorities is progressing well and supporting our full year guidance.

And with this, I will turn the call over to the operator to open the Q&A section. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alessandro Pozzi from Mediobanca.

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

Your order intake has been great. When I look at one of your slides on E&C Onshore, I think you still have about EUR 6 billion of potential opportunities in Africa. I was wondering if you can maybe give us a bit more color on that. Also I think one of your competitors is navigating through some financial difficulties. Just wondering whether that could be an opportunity to grab market share or maybe to have more rational pricing?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Okay. A bit about more color on the order intake. Let me start reminding, first of all, that the EUR 1 billion, which is not yet in our backlog, and this is made up of a large pipeline project in Australia and by 2 wind farms, 1 in Far East, Formosa in particular, and the other one offshore Scotland.

Then just to recap the situation, where we see the highest probability of becoming part of our backlog, I would certainly mention conventional projects in Middle East. So related to, in particular to Saudi Aramco. So LTAs plus some forthcoming project in Abu Dhabi.

Let me then refer to in terms of subsea, in Rovuma, as you heard from my presentation, Rovuma is indeed showing signal that the project is moving forward with the award of the onshore building of the LNG plant. Indeed, we have pretty much in target the offshore SURF project. Then Brazil is showing sign of a wake to new string of opportunities. And last but certainly not least, we are currently working, I would say, successfully working with -- for Exxon in Guyana, and we consider that Payara is definitely an opportunity which we are targeting with the utmost of our commitment.

In terms of competitor. It is obviously almost impossible for me to comment about competitor. Let me just say that sometimes we have competitors, sometimes we have partners. And in particularly, the competitor you are referring to for the Offshore is also our partner in the building of the LNG in Mozambique. So all in all, I guess the comment is that this is life, and we have to continue working and concentrating on our projects.

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

Just maybe a bit more color on Nigeria LNG Train 7, when do you expect that to be awarded? And in terms of size, can you say anything about the size of that contract?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

You know that the operator on behalf of the consortium, Shell, they've been very vocal in saying that they intend to confirm the commitment to us, but they have to undergo the standard procedure, which foresee the approval of the Board. And so -- and then the final investment decision. We do not have indication of the delaying of this process beyond the end of the year.

Operator

And your next question comes from the line of James Thompson from JPMorgan.

James Thompson - *JP Morgan Chase & Co, Research Division - Analyst*

Just a couple for me, please. First of all, it would be great to just get an update, please, on where the status of your discussions around the various drilling divisions has currently got to, obviously, not much of an update in results today.

Secondly, you mentioned there that, as you did last quarter, you got about EUR 1 billion in the Offshore that's been awarded to you, but not formally disclosed. Do you have any kind of indication on timing and whether that is something that we might see or at least partially see in the fourth quarter this year?

And the third one for me, Stefano, if it's all right. Just wanted to update in terms of the progress in terms of XSIGHT, I mean obviously, that's still being -- is still small and it's still obviously not being separately disclosed, but just an update on progress there, how successful it's been year-to-date. That would be great.

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Okay. Your question number one, update on the process that we have announced more than a year ago now for the best valuation of the 2 drilling Onshore and Offshore drilling business of ours. We are continuing. As you -- I'm sure you appreciate, at the moment, the sector is undergoing quite a major crisis. That has largely limited the number of options available.

However, I think I can say that we are moving forward, and I'm pretty confident that not in a -- not-too-distant future, we'll be in a position to provide an update to the market.

In terms of the EUR 1 billion awarded, but not yet in the backlog, these are largely made up of the 3 situation I already mention. One is the Scarborough, just to be more specific, in Australia. The other 2 are wind farms in Formosa, and the other one is offshore Scotland. So these are the -- this is the composition, broadly the composition of the EUR 1 billion I mentioned.

XSIGHT, as you may recall, XSIGHT was the result of the strategic thinking a couple of years ago, and that was, in a way, the -- based on the strategy to get closer to the client when they take the important decision in terms of how to develop their fields on one side. On the other side, going back 2 years, you remember that we are still in the deep of the crisis. And so we wanted to ensure that we were retaining the best resources in terms of engineering capabilities. The latter of the consideration has been definitely achieved now that we are picking up again with our engineering. We are particularly pleased that we have managed to retain those resources while, as you heard from my presentation today, I referred to a project where we did the front-end engineering design. And then we moved directly from front-end engineering design to a contract, to a construction contract. That is basically one of the important target for XSIGHT, and we are achieving it. Then the -- if there is, technically speaking, a loss for the division, we consider that as an important investment and still as part of the strategic process.

James Thompson - *JP Morgan Chase & Co, Research Division - Analyst*

Just one other item, if I may. You recently announced, obviously, with Equinor, an agreement to roll out the autonomous ROVs. I just wondered if there was any -- that's obviously clearly good progress on that R&D you've done there. Are there any other opportunities with IFCs globally in terms of deploying that technology, which looks to be pretty much sector-leading?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Equinor, yes, we are particularly proud of the agreement we made with Equinor. You know that we have been working, first as part of the R&D project; but secondly, then in the implementation of the technology for the development of the ROV basically being stationary on the seabed.

I think you are right, we did not mention, but the agreement with Equinor is a major step forward in the conversion of what was an R&D project to something much more operational. This -- as I mentioned a number of times in the past, this is a sort of foundation for the building up our capability on the seabed and the strategy is that of helping our clients to minimize the presence of floating expensive infrastructure and doing as much work as possible on the seabed. And indeed, this is a major step forward.

Equinor has been the first to utilize the technology. We look forward for other clients to follow path.

Operator

Your next question comes from the line of Michael Alsford from Citi.

Michael J Alsford - *Citigroup Inc, Research Division - Director*

I've got 2, please. Firstly for Stefano, I was really looking at your pipeline of Onshore E&C opportunities. I was surprised in the Middle East, it looks actually quite low. I was expecting maybe it to be bigger given, I guess you've got Qatar LNG potentially being awarded in the near term. So could you comment on that project? Are you bidding on that project? And if so, why have you not sort of got it in the near-term bidding opportunities?

And then just secondly on CapEx, the change on CapEx, is it phasing? Or is it actually sort of real cost saves, and we're not going to see that sort of rolling over into 2020?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Okay. Near-term opportunity in the Onshore, quite frankly, is part of the appendix of our presentation. We certainly show it. We did not think that was, at this stage so, how could I say, certainly is always important, but not so significant because at the moment, we have replenished our backlog with a number of projects that obviously requires that, in a way, we adjust our commercial strategy going forward.

As you said, we are bidding a number of other LNG projects around the world. Namely, we have been bidding the Mozambique, the Exxon, Eni LNG that has been awarded to us. There are other, indeed, very important projects which are soon becoming -- going to become projects. And certainly we follow all of them with -- certainly with the view that we wish to retain the workload of our engineering function, fully occupied, not only for next few years, but for a much longer future.

So basically, this is the reason -- this is the process we are following up. Having said that, I would say that indeed, we are not disregarding other more conventional project. We keep bidding project for Saudi Aramco. We keep bidding downstream projects. We still see that refinery is something which is going to provide good opportunities to us. And last but not least, also the building of floaters for supporting production Offshore.

In terms of CapEx, sorry, there was question. Maybe I'll -- CapEx, it is basically the shifting of some investment, which had the opportunity to highlight in our recent presentation. And they are associated with the replacement of a derrick lay barge, which was built in the '70s, Castoro 2. And in a type of ship which we still see we need in the -- going forward, in particular to support the conventional projects, in particular in the Middle East. We were thinking to start investing this year. Then we are refacing the building, which is bound to be a conversion to next year. As well as for lesser important part, the delay in the award of the wind farm is allowing us, again, to shift some of the investment needed in order to develop those projects.

Operator

Your next question comes from the line of James Evans from Exane BNP.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Two questions. The first one's is on Nigeria LNG. There have been some press reports that you were about 15% below the competitor consortium on that project. I'm sure you won't confirm that figure, but could you give us a bit more detail on why you think you were so cost competitive? And maybe can you reassure us about how you're not leaving money on the table here in what is a once-in-a-generation LNG market, certainly for EPC contractors.

Secondly, one for Mr. Porcari, please. You had about a EUR 44 million receivable write-off in the quarter, so I think underlying operational results looked even better than reported. Can you just give a bit more color on what that write-off was, particularly which division it hit and any more detail would be appreciated.

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Okay. Nigeria LNG, I really don't know what you're talking about. But we have done our assessment evaluation. Maybe something which may help is the fact that we have celebrated last year our 50th anniversary, our staying in Nigeria. Nigeria is a core country for -- has always been a core country for us. I think we know all the difficulties, but also all the opportunities. We have set up a very strong team with the best construction company, again, operating in Nigeria. So I don't have the slightest doubt or hint that it will be a good addition to our backlog.

The second question, Stefano?

Stefano Cavacini - *Saipem S.p.A. - CFO*

Yes, please. Can you repeat your second question because it was not so clear for us.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Yes, sorry. So in your P&L, I can see that there's an over EUR 40 million receivable write-off in your results. And I just kind of wondered what that related to, what it was -- particularly which division? Because it appears without that, the underlying operational results are probably even stronger than you reported.

Stefano Cavacini - *Saipem S.p.A. - CFO*

No, okay. That's clear. I get the picture. So you are referring to something that we have already commented on during the previous conference call in Q3, and the -- Q2, sorry. It was related to the write-down because we have decided to approve a new leasing investor, it is related to one of our vessels. So it's something happened in Q2, and it was related to the write-down of a receivable -- strictly related to the previous vessel that is going to be changed in the near future.

Operator

(Operator Instructions) Your next question comes from the line of Henry Tarr from Berenberg.

Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I just had a couple of questions. One was on the CapEx outlook for 2020 and beyond. You say that some of this CapEx for this year has slipped into next year. So do you know sort of roughly where CapEx might shake out for 2020?

And then secondly, I think you said you'd be in a position to update us on the progress for the drilling business sometime soon. Are you still there thinking along the same lines as previously communicated? So you're sort of looking potentially for a partner for the offshore drilling business?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Okay. Look, for the -- in terms of CapEx for 2020, we have just started the process for the preparation of the new 4-year plan, which we'll announce in February next year, I mean as we have always done for a number of years. So basically the CapEx indication for 2020 is not something which, we know it, we can't disclose at this stage.

Maybe I can give you some color and say that the amount of CapEx, which are shifting in 2020, they are, in a way, correlated with a slowdown in the awards of projects, which I mean is a phenomenon which we are seeing in the Offshore E&C. And in particular, it's related to the fact that we don't need to have the shallow water derrick barge available before the end of 2020, we rather prefer not to utilize the resources earlier than required. And we prefer to shift it along. So I would say this is a sort of decision, not really strategic, but a sort of opportunistic decision, which is very well in the frame of the -- first of all, of the visibility of the market. And second, also the strategic view which we are taking on the main business of ours.

Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Okay. And on the drilling business?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

On the drilling business, we are pretty much along the same lines. You -- I can confirm that. As far as we have totally discussed the possibility of pursuing a trade sale. But still, as of today, there will not be value. I mean there would be a lot of value wasted. So we are still pursuing the avenue of finding suitable partners. They may either be partners -- industrial partners already being in the same business or into the shape of willing investors into the business, including investor who share, indeed, the view that we are pretty much at the trough of the industry, that there is definitely an opportunity going forward for a recovery of the drilling industry, and they are willing to invest and participate to the upside.

While on our side, it is, as you probably remember, a strategic decision. We do not have sufficient resources to be spent on the, let me say, less core business, the drilling business. But we need to concentrate all our resources into the core business, which is offshore E&C. And this is also the result of the deconsolidation from Eni, the new shape and form of that Saipem as a company has taken.

Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Okay. That's great. And then if I might just have 1 more question. Could you give us an update on the sort of partnership with Aker Solutions and the progress you're making upon the integrated offering? Are you happy with where you are there sort of strategically?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Strategically, I think that -- I mean I said it very transparently and openly that at some stage, there is certainly a logic to create something which is more structured, sort of a dedicated JV. Still at this stage, I mean we enjoy a very good relationship with Aker. We are bidding a number of projects. We think that in the not-too-distant future, we will get one of these projects awarded. The issue remains something which is pretty much high on the agenda. But at this stage, let me say, we are happy the way we are.

Operator

Your next question comes from the line of David Farrell from Crédit Suisse.

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

One question for me. Just looking at the backlog for the Onshore drilling division, it seems to have taken about a EUR 100 million hit between what was booked as revenue and what converged in the order intake. Could you just kind of explain the movement in the backlog quarter-on-quarter, please?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

The movement on the backlog, you know that it's very difficult to provide a sort of forecast on the acquisition of our contracts. We have certainly a single bunch of contract extension, which we are negotiating with Saudi Aramco. Those are related to contracts already -- to contracts which needs to -- which are coming towards the expire, and which need to be renewed. That is an ongoing process. We don't expect to see things different from what we have seen recently. So those projects will be -- those rigs, they -- most likely they will be extended, and they will hit the backlog with certainly a substantial amount of additions. But I don't think we ought to look at the evolution of the backlog on a quarter-by-quarter basis.

Operator

And your last question comes from the line of Luigi De Bellis from Equita SIM.

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

Just 1 question for me on the Offshore E&C. The EBITDA margin 9 months in Q3 is still very, very sound. How do you expect divisional margins to evolve over the coming quarters in light of the change of mix and completion of some important contracts? How much of the change of the mix is already in Q3 EBITDA margin for the division? And what is the sustainable margin in the medium term for the Offshore?

Stefano Cao - *Saipem S.p.A. - CEO & Director*

Let me ask from the end of your question, sustainable margin. I think I have been saying all along for few quarters now that rather than looking at margin in percentage sale, we ought to look at the EBITDA for the division. The mix is definitely changing.

There will be less volumes coming to subsea, but more projects coming from conventional business and indeed from renewables. I think I've said a number of times that the risk profile of conventional and renewables is completely different from those of deep SURF project. So the volume are larger, but the margins project-by-project, they are lower.

So all in all, the -- we view a situation where the business is bound to continue growing. There will be more conventional and less subsea. We are positive, sure that there will be also some good addition related to some key projects. There is just, at this stage, we are just recording. But we were expecting a shifting of those projects in terms of award and in terms of final investment decision.

So I would say in a nutshell, Offshore E&C is a core business of ours. The business where we have the highest level of technology, where we are investing most of our resources, where we are bound to invest also in the future. Certainly, these Offshore E&C businesses will be shifting and changing in the forthcoming future. But all in all, is bound to remain, as I said, as the core business of ours.

Operator

There are no further question at this time. Please continue.

Davide Ivanoe Ruvolo - *Saipem S.p.A. - Corporate Head of M&A, Strategy and IR*

Okay. Okay, thank you very much for attending the -- our presentation, and we look forward to talk to you in the future. Thank you.

Operator

Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect.
