Transcription

Subsea 7 First Quarter 2020 results

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30 April 2020

PRESENTATION

Operator

Hello and welcome to the Subsea 7 First Quarter 2020 results. Throughout the call, all participants will be in listen only mode and afterwards there will be a question and answer session. Just to remind you, this conference is being recorded. Today, I'm pleased to present John Evans, CEO, Ricardo Rosa, CFO and Katherine Tonks for Investor Relations. Please begin your meeting.

Katherine Tonks

Welcome everyone. With me on the call today are John Evans, our CEO, and Ricardo Rosa, our CFO. The Q1 press release is available to download on our website along with the presentation that we'll be referring to on today's call. Turning to slide two, as a reminder, this call includes forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included in our press release. I will now turn the call over to John.

John Evans

Thank you and good afternoon everyone. I'd like to start by reflecting on how the first quarter has unfolded and how dramatically our industry has changed over the last eight weeks. Subsea 7 had a strong start to the year with a solid backlog of over 5 billion dollars and some important awards early in the first quarter that gave us confidence in the outlook for the year ahead.

We were optimistic that margins were gradually improving, and that vessel availability was beginning to show signs of tightening. In the space of a few short weeks, the outlook has changed radically. In February we began dealing with limited impact of potential supply chain disruption in China and Italy. In March, as COVID-19 spread across the globe, we introduced measures to protect the workforce, which presented some logistical challenges, but we continued to deliver our clients' projects.

It has been the unprecedented impact of the virus on oil demand that has a more profound change to our outlook. I'll start by talking about each of these dual shocks in turn before discussing the measures we are taking to prepare the business for what lies ahead. Turning to slide four.

COVID-19 has presented a range of challenges that have affected our 12,000 employees in 27 countries. Our project teams have been quick to adapt practices to protect the health of our workforce with new measures, including quarantines and extended rotations for vessel crews, redesigning onshore worksites to allow social distancing and remote working for office staff.

While for the most part we've been successful in keeping the virus at bay during the first quarter, these measures came at a financial cost estimated to be in the range of 15 to 20 million dollars. Since the quarter end, we've had to temporarily suspend activity at our Wick bundle site in Scotland due to the availability of labour. It reopened with a limited workforce on Tuesday this week. We've also seen one of our PLSVs in Brazil suspend activity due to a number of cases of COVID-19 on board. Turning the page to slide five.

Whilst the health and wellbeing of our workforce is our immediate priority, our longer-term challenge is posed by the sudden and severe drop in the price of oil. This has already had a significant impact on the capex budgets of our clients and has implications for new contract awards this year and our activity levels in the coming few years.

We ended the first quarter with a healthy backlog of 5.6 billion dollars and our experience with prior cycles suggest that the risk to this backlog is relatively low. The majority of contracts are well underway, and generally speaking it makes little economic sense for operators to suspend or cancel work. Recent awards carry a little more risk. With lower levels of sunk capex, there is a greater flexibility for clients to defer activities and a number of our 2020 awards are being reviewed by our clients with a view to re-phasing of near-term expenditure.

From the backlog, we moved to what we call pre-backlog: contracts where we have been awarded FEED studies and Subsea 7 will be awarded the EPCI award subject to FID, and also contracts where we are known to be the preferred bidder. These new awards are likely to suffer more significant delays depending on the long-term oil price environment. However, we are the favourite contractor on a number of key future projects such as Rovuma, Scarborough and Pecan and we remain confident that these will eventually reach sanction.

Finally, beyond that we have our tendering pipeline where visibility on the timing rewards is low. Historically, each quarter we have presented a world map highlighting the projects on our radar and we will reintroduce this when we can say with greater certainty which projects we expect progress to award in the subsequent 12 months.

On a positive note, we have been successful recently in the renewables sector with awards of Kaskasi for energy in Germany and Hollandse Kust Zuid of Vattenfall in the Netherlands. Both are examples of integrated projects bringing together the core capabilities of Seaway 7 in the foundations and cable installation sectors of the renewable space. Turning to slide six.

We have limited visibility on several factors influencing our business but what we can control is our cost base. As in previous cycles, we will take swift and decisive action to reshape the company. With the prospect of a lower level of activity for the next few years, our focus is on cash preservation and the protection of our strong balance sheet whilst safeguarding our competitive position ahead of the recovery in oil and gas sector whilst continuing to grow our renewables business.

We are now in the final stages of completing our review of operating costs and capital investment plans, or we intend to roll this out later in Q2. We envisage that we would make a reduction in our global workforce, the majority of which would be non-permanent employees, although permanent employees would also be affected. We anticipate that our active fleet would be reduced by releasing a number of chartered vessels and stacking some of our own vessels.

These actions would be implemented over the coming 12 months, corresponding to our workload. Through the combination of reduction in our workforce and fleet, we’re targeting annualised cash cost savings of 400 million dollars by Q2 2021. Our executive management team has agreed to a voluntary 15% salary cut from April this year to the end of 2020.

We've also rationalised our capex budgets, which is reduced to 230 to 250 million dollars in 2020. We operate a modern fleet of vessels and this will allow us to reduce capex in 2021 and 2022 to minimal levels. A restructuring charge associated with these measures is expected to be recognised in 2020. Turning to slide seven.

In combination with reducing our cash outflows, we've also diversified our access to liquidity. Our balance sheet is already strong with a net cash position of 112 million dollars excluding lease liabilities. We have cash and cash equivalents of 340 million dollars, our 656 million dollar RCF remains undrawn and we have established a new euro commercial paper programme for the equivalent of 740 million dollars, therefore diversifying our sources of liability. We have no near-term debt maturities. Turning to slide eight.

All these measures are designed to protect the financial health of the business through the downturn, enabling us to maintain a competitive position for the recovery. Underpinning this plan is our strategy, which remains unchanged. These themes we've discussed in the past. Firstly, the Subsea field of the future will be key to bringing together early engagement technology, and integrated SURF and SPS and unlocking values for our clients.

The second part of our strategy, energy transition, is also unchanged with a strong focus on offshore wind. Our renewables clients are much less exposed to the price of oil and have not made cuts to the investment plans. We continue to make progress delivering existing projects and we have recently announced a couple of new awards. And now I'll pass you over to Ricardo to run through the first quarter results.

Ricardo Rosa

Thank you, John. I would now like to talk about our highlights for the quarter on slide nine.

Group revenue in the first quarter was 751 million dollars, down 13% compared to the prior year period, mainly due to reduced conventional activity in Nigeria and Middle East. Adjusted EBITDA of 68 million dollars was down 39% year on year, with a margin of 9%, down from 13% in the first quarter of 2019.

Impacts included low conventional activity as well as reduced diving work in the North Sea and high vessel transit time as certain global enablers were redeployed for new projects. We estimate that the operational and logistical challenges presented by COVID-19 adversely affected the quarter by between 15 million dollars and 20 million dollars. These factors are reflected in the utilisation of our 32 active vessels of 63% in the first quarter, down from 72% in the prior year period.

Turning to slide ten. During the first quarter, we booked new orders totalling 1.5 billion dollars, implying a strong book to bill ratio of two. New awards included the Sangomar project, offshore Senegal, the Barossa project, offshore Australia, and the King’s Quay project in the US Gulf of Mexico. Our backlog at quarter end was 5.6 billion dollars.

We have 2.7 billion dollars of work for expected execution over the remainder of 2020, providing some visibility on revenue for the coming three quarters. The backlog for execution in 2021 increased to 2 billion dollars from 1.4 billion dollars at the end of 2019. We had four notable oil and gas awards in the first quarter, the SURF and Conventional business unit represented 82% of our backlog, with orders totalling 1 billion dollars awarded to Renewables and Life of Field.

On slide 11 we summarise additional details on the performance of the business units. The first in conventional business unit generated 625 million dollars of revenue in the first quarter, representing 83% of the group's total revenue. Work progressed significantly on Berri Zuluf projects in the Middle East, Manuel and Mad Dog 2, the two integrated solution projects in the US Gulf of Mexico, and the PRP6 projects in Brunei.

High utilisation was achieved by the PLSVs operating in Brazil. Revenue from life of field with 63 million dollars, a 3 million dollar or 5% improvement compared to last year, driven by improved inspection and maintenance activity in Azerbaijan, while renewables and heavy lifting reported 62 million dollars of revenue, a 17% increase year on year, reflecting high levels of activity on the Triton Knoll wind farm offshore Germany.

The group reported their net operating loss in the quarter of 49 million dollars compared to a loss of 10 million dollars in the prior year period. SURF and Conventional incurred a net operating loss of 27 million dollars down from a profit of 4 million dollars in the first quarter last year. The deterioration from the prior year period was attributable to the factors I have already highlighted.

The Life of Field business unit reported a net operating loss in the quarter of 1 million dollars, an improvement of 2 million dollars in the prior year, whereas renewables reported a net operating loss of 12 million dollars, a 3 million dollars adverse movement compared to this time last year, primarily due to the Seaway Yudin being idle.

Slide 12 shows our cash flow waterfall chart. In the first quarter of 2020, cash generated from operating activities with 82 million dollars, including an improvement in networking capital of 19 million dollars, driven by a larger increase in operating liabilities than assets. We monitor receivables profile closely, have not experienced any significant delinquencies to date and continue to target a reduction in networking capital over the course of the year.

We ended the quarter with 340 million dollars in cash and cash equivalents, and a net cash position of 112 million dollars. Adjusting for 367 million dollars of lease liabilities, we had a net debt position of 255 million dollars. The 58 million dollars reduction in cash compared to year end 2019 was mainly driven by capital expenditures totalling 93 million dollars of which approximately 60 million dollars related to the construction of the new pipelay vessel, Seven Vega.

Expenditures on the Seven Vega are largely behind us, with all pipelay equipment installed and the vessel is now being commissioned prior to sea trials. These are the final stages of construction before it is operational, we expect, in the third quarter. John has highlighted that in the quarter we put in place a euro commercial paper programme equivalent to 740 million dollars as useful diversification of our sources of liquidity.

We continue to look at ways of further enhancing our liquidity and this together with tight control of working capital and our intended actions to lower our cash cost base reflects our focus on preserving cash and maintaining an investment-grade profile in these challenging times.

Finally, turning to slide 13, I would like to discuss our guidance. As you know, on the 1st of April we withdrew our guidance for 2020 in light of heightened uncertainty due to the direct impact of COVID-19 on our operations as well as its impact on demand for oil and consequently the oil price. At this stage we have low visibility on the main factors that influence the financial outcome for the year.

These include the financial cost of the operational impact of COVID-19 as well as its effect on the oil market and our customers budgets and therefore the timing of their expenditures. The last factor gives rise to greater uncertainty on the timing of new contract awards, the conversion of FEED studies to full EPCI projects, as well as the phasing of projects currently being executed. This may include the deferral of some recently-awarded higher-margin work from 2020 to 2021.

As a consequence of all these factors, we do not believe we can give, at this juncture, revenue and EBITDA guidance for 2020. We have, however, provided guidance concerning those elements under our control. This includes a target to reduce cash costs by approximately 400 million dollars on an annualised basis by the second quarter of 2021.

Capital investment in 2020 will be reduced to between 230 million and 250 million dollars from our prior guidance of 270 million to 290 million dollars, and we will target a further reduction to minimal levels in 2021 and 2022. We can do this as we have a modern fleet which in the near term does not require significant refurbishment to remain in class and operate reliably for our clients.

We will remain focused on preserving cash, maintaining balance sheet strength, and diversifying sources of liquidity. We are confident that the decisive and timely actions we are taking to right size our business will improve our resilience to the downturn while protecting our competitive position.

I will now pass you back to John.

John Evans

Thank you, Ricardo. To summarise, we'll turn to slide 14. Subsea 7 is an experienced partner to our clients as we navigate difficult times together. Some of the challenges we face today are familiar and we are drawing on our experiences and proven track record of managing the business through downturns.

The challenges relating to COVID-19 are new and often complex, but through it all we're continuing to deliver projects to our clients whilst protecting the wellbeing for our workforce. We have a very solid financial position with strong access to liquidity and we will take swift action to address our cost base to safeguard the financial health of the company whilst protecting the competitive position.

The foundations of our long-term success remains our strategy, which is unchanged. In oil and gas, the concept of subsea field of the future embeds our value optimization approach to field development, which is even more important in today's low oil price environment. Meanwhile, our renewables business continues to chalk up successes and make progress towards generating long-term sustainable growth.

And now we're happy to take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad now to join the queue. If you wish to withdraw your question, you can do so by dialling 02. So once again, that's 01 to ask a question, or 02 if you need to cancel.

Our first question comes from the line of Erwan Kerouredan of RBC. Please go ahead. Your line is open.

Erwan Kerouredan

Hello everyone and thanks for taking my question. Two if I may. And I hope everyone is keeping safe and well in these very difficult times by the way. So two questions if I may. You mentioned pausing tendering activity for SURF and Conventional, can you just clarify and be slightly more specific on timing and on the scope? Is there a defined scope within the division?

And the second's kind of related. So there's obviously a stronger outlook for Renewables. The question I have in mind, are there any synergies with other businesses which you can take advantage of, whether it be in terms of staff rotation or anything else? That will be my first two questions, thank you.

John Evans

Thanks, Erwan. So on tendering, what we're seeing is that the timing at which the large projects are being tendered and will come out to market. This time we saw our clients move quite decisively to either not issue tenders or to stop tendering processes that are part way through on some of the bigger projects. Equally, we're not seeing much spot work being tendered at the moment.

So really what we are working through with our clients is what are their plans. If you recall last time in the downturn we went through a phase where certain projects were repeatedly recycled, probably three or four times. I think this time clients have made more, faster decisions in terms of saying, OK, they're going to hold back on their capex in the near term and hence therefore then hold back on the tendering.

In Renewables, there is a very clear read across to capability and skills in the oil and gas industry. The EPCI model, which is one that we like to bring into the oil and gas space, allows us to take people who have engineering and project management skills in the oil and gas space and put them to work in Renewables. So there is the ability to switch people backwards and forwards, and that's one of the ways we've developed our Renewables business is not to have very large teams of EPCI people waiting on the bench. We draw them from our main oil and gas business as some of the larger projects come in in the renewables.

Erwan Kerouredan

Thank you. Thank you, that's very clear.

John Evans

Hello, operator? Sorry, could we have the next question please?

Operator

Thank you, the next question comes from the line of James Evans at Exane BNP Paribas. Please go ahead. Your line is open.

James Evans

Good afternoon. Hi, Ricardo and John. Hope you're both well and staying sane. A couple of questions from me please. Firstly, just getting into the performance in the quarter a little bit. Even beyond the 15 to 20 million impact of COVID-19, it did seem maybe a little bit weak versus previous performance expectations relative to peers. I think you talked about some of the factors but look, was there anything in terms of underlying performance pre any of the COVID-19 impacts that represented a material deviation versus what you would have expected for the full year? That would be helpful.

And my second question. I think on the PLSVs, we've had some press reports that Petrobras is pushing on the contracts with respect to force majeure asking for discounts or deferrals or pauses. I just wondered if you could share with us anymore detail on the state of the conversations and of course your contractual protections in the instance that they want to take any action. Thank you.

John Evans

Thanks James. Yeah, Ricardo and I are fit and healthy thank you, and we appreciate your continued support. Q1 – just to sort of set the context here, we have always as a company told everybody to think about us in an annual basis. Quarters don't work very well for us because of just the timing and the way the different projects fit together. We called out two or three of the different elements that made an impact to Q1.

This time last year we were busy offshore in Saudi doing conventional work. We don't expect to be offshore in Saudi till late Q3/Q4. So the timing of which the first batch of Saudi projects finished at the back end of last year and the new ones physically start offshore. So we have a gap there. Similarly in Nigeria, this time last year we started a campaign that continued right the way through to September/October time last year of jack-up work and pipelay work in Nigeria, revamping some of the shallow water work.

We had expected that work to continue into this year. It hasn't and our assets are not working in Nigeria at the moment, so neither [Seven] Antares or [Seven] Inaga worked this quarter. And lastly, as we mentioned, we have seen the North Sea continue to have its seasonality. It's a factor that we've been very familiar with, but the UK sector was particularly quiet in Q1 for our diving ships, and as you've seen, things like the Forties pipeline shut down, which was meant to be in June this year. It has now moved to 2021, so we expect to see it to be relatively quiet on the diving front in the UK.

Last but not least, but it happens every now and again, we move our big assets around, so [Seven] Borealis, [Seven] Oceans and Normand Oceanic; each of those three vessels spent a considerable amount of time in Q1 moving around the world from different locations, and therefore then weren't fee-earning for us on our big projects. So, yes, there were some moving parts there that made a difference to Q1, and then you add the COVID which we've tried call out as a figure. So, for us it's – and our portfolio projects, they go up and they go down inevitably, but for us, that's how quarter one played itself out.

On the second question on PSLVs, you're correct in saying that there is a lot of information in the press. Petrobras have gone out to all their contractors to seek a set of meetings where they'd like to talk about what their future plans are. We, like all contractors, have gone into those meetings with an open mind and we're in close discussions with Petrobras at the moment.

We are under firm contracts with them at the moment and so our position, there is no discussion about force majeure or anything occurring at this stage in those discussions. So, I think like every other client we have, we go into an open-minded discussion around what they're trying to achieve and how we may be able to help.

James Evans

All right, thank you very much. I'm going to squeeze in just an extra one, maybe for Ricardo, very simple, on capex beyond this year. Is there any reason that you're going to be unable to go as low as the 120/130 million type maintenance level that you had in the depths of the last downturn?

Ricardo Rosa

James it's a simple answer. There is no reason why we can't achieve that.

James Evans

Thank you.

Operator

Thank you. Our next question comes from the line of Vlad Sergievskii of Bank of America. Please go ahead. Your line is open.

Vlad Sergievksii

Yes, good afternoon gentlemen and thanks for taking my questions. I appreciate there is uncertainty in terms of providing any quantitative guidance for profitability. I'm wondering if you could talk qualitatively of headwinds and tailwinds to profitability you see in Q2, or perhaps later in the year compared to Q1? So that's the first question and second question, you obviously made an effort to boost liquidity compared to already a very solid level you had. Is it a sign or reflection of risk you see over potential cash burn in the coming quarters? These are the questions. Thank you very much.

John Evans

Well, I'll let Ricardo take the liquidity question. I'll just talk to you generally about the question of guidance. As we've tried to give you in our prepared remarks and also in the presentation, the main challenge we have today is really just making sure that we manage through COVID and that we manage our day to day operations safely and we continue to work for our clients.

As you know, our chosen profession primarily involves EPIC contracts, which is a very tight set of gears that interlock to get a set of materials delivered through a set of suppliers in time for a set of engineering to be complete. So, allow vessels to be crewed offshore to go offshore to get projects to work. So, for us at the moment, there are too many variables which are outside our control, Vlad, for us to be able to give clarity on what that really means for us.

But we are certainly controlling what we can control, and we are very good at managing things that get thrown at us and curveballs that come at us. So for us it's around being unable to really give clarity as to how long this will continue and what it really means. The second part, as we've discussed, is the lower oil price. So, the sanctioning in timing of projects that we had indicated to the market would be of a better quality backlog in terms of EBITDA and job level income will be probably shifted in terms of time scale and when we cut into those.

And lastly, as I touched in my response to James's questions, spot work in the North Sea, we do expect that to be quite quiet this year and hence the reason we're putting into place a cost reduction plan to allow us then to take out tonnage and some of the workforce that we may or may not need towards the back end of this year. I'll pass you over to Ricardo to talk about the liquidity position.

Ricardo Rosa

Thank you, John. Good afternoon, Vlad. I think in times of great uncertainty such as these, it pays to move quickly and proactively to ensure that the company and its balance sheet is as resilient as we possibly could make it to face these unpredictable times, and in that context we work pretty hard on performing various scenarios of liquidity and in the light of this, we've taken the steps here to diversify our sources of liquidity, but I wanted to assure you that our primary focus is on cash preservation.

And as John has pointed out, we’re acting decisively to lower our cash cost base. We’re scaling back significantly on capital expenditures over the coming years and at the same time we’re wanting to make sure that we have both cash on the balance sheet, a strong balance sheet, and ready access to the capital markets and sources of liquidity in a flexible and simple-to-access manner.

That's the basis of our strategy. I don’t think you should read anything untoward into this diversification.

Vlad Sergievksii

That's great, and if I can squeeze the last quick question. Your 2.7 billion backlog for execution in 2020, does it include assumptions on activity within your frame agreement? And if yes, have you adjusted those assumptions already or not yet?

Johns Evans

So, Vlad, on our framework agreements, we generally only book them to backlog when the work order or call-off has been made. So at the moment our backlog is backlog that we have on the books today.

Vlad Sergievksii

Perfect. Thank you very much.

Operator

Thank you. Our next question comes from the line of John Unwin at Bernstein. Please go ahead. Your line is open.

John Unwin

Hi. Just on the backlog quickly. On the phasing that you give for the backlog and slide ten, do these backlog numbers take into account your assumptions around project delays or is this how it would have looked should there have been no global virus pandemic?

John Evans

I think, John, to answer your question, where we know there's a change, we've shifted it and that clear change has been communicated by our client. We are sitting here today saying will there or won't there be an impact on our work and does it shift? We haven't changed it and that’s the way we've tried to approach this. What we can quantify and what we can put our arms around, we've adjusted accordingly. What is supposition or may or may not occur, we haven't adjusted.

John Unwin

Perfect. That's all from me. Thank you very much.

Operator

Thank you. Our next question comes from the line of Kevin Roger at Kepler Cheurvreux. Please go ahead. Your line is open.

Kevin Roger

Yes, good afternoon. Thanks for taking the question. Just from my side please the first one, the 15 to 20 million of cost that you mentioned in Q1, I was just wondering the reason, that in the near term you would be able to recover it with some variation order, things like that, where you consider that it would be impossible to just continue with the client. And the second question is regarding M&A. You did not mention any strategy regarding future M&A operations. So, I was just wondering what will be your position on that side, if there is any sub segments where you think you could reinforce yourself in this current environment, please?

John Evans

Thank you, Kevin. I'll try to answer both questions for you. So, on recovery we're in a dialogue with the vast bulk of our clients regarding the fact that we believe there are some merits in the fact that the changes that have occurred are due to government imposed changes in working practices and such like and hence a potential change in law. So, we are in dialogue with some clients on that. It's too early to call it but I think there is a possibility we may recover some of it as the months progress. Not all clients are seeing it the same way, but equally, we're in a constructive and positive dialogue with most clients on it.

In terms of M&A, as I think I answered the question in the first call we did this year, for ourselves at the moment the areas that we are interested in is quite specialised engineering, early engagement engineering capabilities because our subsea field of the future strategy involves bringing those themes together of early engagements, our technology programmes, as well as the integrated offering we can offer with Schlumberger. So, for ourselves, it will be certain areas like that that if during this downturn, some opportunities may come, we would be looking at some of those areas in the near term.

Kevin Roger

Okay, thanks for that.

Operator

Thank you and our next question comes from the line of Haakon Amundsen of ABG. Please go ahead. Your line is open.

Haakon Amundesen

Yes, hello guys. Two questions from me please. First of all, just a follow up on the backlog scheduling question. I just wondered if you could give some colour on how much of the 2.7 billion for '20 execution which is basically under discussion just to get the feeling for how much can actually slip to '21. And the second question, very impressive cost cutting plan that you're launching. Just wondered if you could put some colour on the charters you have and when they expire just to get a feel for how many can actually be released within the next one or two years. Thanks.

John Evans

Thank you, Haakon. I can't answer your question on the backlog scheduling in any more precision than I answered the question for the previous caller from Bernstein. So, I will leave it at that one for the time being. As the quarters develop, we will get better at being able to move all this around. I guess the key question really is for us is we can see it having a direct impact on Q2 as the world continues to have a challenge with COVID entering into Q3 and the timing of our clients' projects is really around us having surety of where they're at in their decision making and we should get better at that as the quarters develop.

In terms of the cost cutting, we have not rolled out the detail of the plan as yet to our own employees, but if you look at two prime areas for us at the moment, our Life of Field business has a number of chartered vessels which we tend to take on a yearly type approach. So, a number of those we can make a decision if we choose to at the end of this year to decide whether we continue to take those or not.

And the other area in terms of our heavy construction asset base vessels, we have some break abilities in those as well in the next 12 months that we may or may not be able to do some breaking in those at our core. It comes possibly at a cost, but equally it allows us then to release the tonnage into future years as well.

Haakon Amundsen

All right, that's very clear, thanks.

Operator

Thank you. The next question comes from the line of Amy Wong at UBS. Please go ahead. Your line is open.

Amy Wong

Hi. Good afternoon. I have a couple of questions please. The first one is, you talk about that there is a restructuring plan ongoing and you'll communicate it more in the second quarter, but could you just talk about qualitatively, if there are elements that you're analysing? Are they permanent and what would cause you to kind of change your view on a certain end market that would trigger this kind of a thorough restructuring? So just some colour on how you're thinking about this cycle and how it plays out.

And then my second question is just a quick one which is on your COVID-19 costs of 15 to 20 million hit in the first quarter, can you talk about, now that we have another month under underneath us, if those charges, are they increasing as we are moving along, or they kind of happening at the same pace? So, that's my second question, thanks.

John Evans

I guess if I take the COVID one first. As I mentioned to one of the other questions that was raised, we are managing it day by day, week by week, so since the quarter ended, we have an issue on one of our PLSVs in Brazil which we've raised here, but we've actually managed to get Wick back into a lower workforce workload. So I think it's very difficult to be able to give very clear numbers as to what it means but we gave you numbers there to show to you what a month did look like for us, and I suspect it will go up and it will go down as the months go by depending on how things settle out there.

We've also, I think as an industry, we've got better and what we saw in that first period of time was countries would put blanket bans: nobody is allowed into Norway, nobody is allowed into United Arab Emirates, nobody is allowed into Saudi. And then as time moves on Norway softened that and allowed you to bring people in, allowed you to put them into quarantine.

So maybe the shock of the first month might change, so at least we are clearer now that generally the bulk of the world is in some form of constraint to do with COVID, and that most countries are now giving better clarity. The one area we've struggled with is the UK, where the Scottish government and UK government give conflicting information and that causes quite a bit of problem for us. So I think to answer your question, we gave you an indication of what one month was and we'll just see how the next few months develop.

In terms of the restructuring plan, we've tried to give you the three main moving parts of the plan, which is a capex reduction, an opex reduction in headcount and an opex reduction that we also have in terms of the fleet. It's primarily focused on our oil and gas business, and in fact, as I answered to one of the previous questions, we will be looking to move some oil and gas personnel into the renewable sector to support hopefully the growth in that sector that will continue.

So, for us at the moment it's around us looking at the business that we're in and trying to cut our cloth accordingly to what we can see coming. We will be looking at some structural elements of the business as well as to how we work that and how we bring that together and that will become clearer to us over the next few months.

Amy Wong

Just a quick follow up on the 400 million. Could you give a split of approximately how much of it is fixed versus variable costs?

Ricardo Rosa

Amy, this is Ricardo. At this stage I think would it be premature to comment in any more detail, but what I can say is that we're looking at all the cost elements within the 400 million that we've estimated. So, you can assume that we will be addressing structural therefore fixed costs as well as the more variable elements that we can address.

Amy Wong

Thank you very much.

Operator

Thank you. Our next question comes from the line of James Thompson at JP Morgan. Please go ahead. Your line is open.

James Thompson

Great, thank you and thank you John and Ricardo for taking the questions. Just a couple from me. First one may get a similar answer to one from Amy there, but I'm just wondering you mentioned about shrinking the fleet over the coming year as part of the plan. I just wondered what that might mean in terms of the lease effect in the way you are reporting? What sort of magnitude of those benefiting EBITDA and lease liabilities could disappear? It's my first question.

The second one is really thinking kind of longer term, and obviously as we hopefully emerge from COVID restrictions in relatively good time. I'm just wondering what you think you can do to help oil companies get these projects back on the table. It looks like the curve is obviously roundabout 40 dollars or below for the next couple of years. It doesn't feel to me like there's much more to be done on price. They're already pretty lean when it comes to emerging from the last downturn, so just interested to understand your views on how that might emerge over the next few quarters. Thanks.

John Evans

Thanks, James. I'll ask Ricardo to talk about the EBITDA lease effect first and then I will give you the longer term view.

Ricardo Rosa

Yeah, James, I think you were referring specifically to essentially the vessels that we charter and the treatment that we have both in our net income statement and balance sheet. You're right that the reduction of or the termination or non-renewal of lease charters will be beneficial both to our depreciation line but also to the right of use assets and the liabilities on our balance sheet. Then obviously the lease liabilities is deemed to be a form of debt, so to the extent that we do terminate or not renew leases, you will see an improvement in our debt profile as well as a reduction in our depreciation. And obviously the benefit will be flowing through in terms of cash preservation.

James Thompson

In terms of the lease liability, what sort of fraction of it is the vessels?

Ricardo Rosa

I think you can assume that the bulk of our lease liabilities are linked to vessels as opposed to onshore assets.

James Thompson

Thank you.

Ricardo Rosa

A significant bulk.

John Evans

James, to take your question about a longer-term view. We strongly believed that the way we have been working with our clients is the way of the future. The positive I've seen out of this downturn is I've been talking to all our key clients along with other senior managers, and this downturn is a real clear wish to continue the way we are working, to continue the way to optimise fields, to continue the way we work together.

So, I think that directionally we're definitely moving in the right way. The collaborative method of being involved with your main end contractor very early in your field concept is very, very much appreciated these days and the dialogues are about we want more of this. As you might recall, we introduced the tool called Subsea Planner about 18 months ago, which is a modelling tool that allows our clients to do their FEED studies much faster to allow them to work through many, many different scenarios very, very quickly.

It's something that Schlumberger and ourselves put together and that tool is really the key to unlocking decision-making for our clients. So again, with a number of our projects at the moment we are back working with our clients with revised reservoir views, with revised ways of looking at how to deplete the field and such like, and that I think is very healthy for our industry. So directionally, we're heading the right way. We haven't seen anybody change horses and go down the, let's change the model completely approach.

So for ourselves I think we're in the right place to have those discussions. The world will continue to need oil and gas as much as we continue to grow our renewables business and that energy transition discussion, which all our clients are into, still has a healthy part of gas and healthy part of oil in it. So, I think we have the right tools. We have the right partners inside Subsea 7 and we're very relevant to our clients and the conversations have all been very healthy and very pragmatic about what we can do to help them. So, longer term, I remain optimistic that directionally we're in the right place.

James Thompson

OK, thank you very much.

Operator

Thank you. Our next question comes from the line of Mark Wilson at Jefferies. Please go ahead. Your line is open.

Mark Wilson

Good morning gentleman. In the past you've given very clear charts on operating costs in the past few years. The 400 million cash savings you target, I just wondered what proportion of previous years' operating costs were cash. Do we just take out the depreciation and consider the rest of it to be cash costs? Thank you.

Ricardo Rosa

I think you're referring to the stacked histograms where we show our internal cost base, I believe, and also our direct project costs there, Mark, I think.

Mark Wilson

That's exactly right, yes.

Ricardo Rosa

And when we refer to cash costs we're referring to those costs that are clearly not depreciation. So if that's the thrust of your question then I confirm that your thinking is correct. And the three main elements of our cash costs are people, they are the costs of operating our vessels and our onshore facilities, and associated structured costs such as offices, et cetera, and those are the costs that we've been focusing on and are finalising our plans to reduce.

Mark Wilson

OK, very clear. Thank you very much. Then a more broader question. I appreciate John's comments just before on how the integrated agreement and cooperation tools are working, but do you think this move in the oil price will force closer consolidation among alliance partners on the integrated EPC basis? Thank you.

John Evans

There's a loaded question for today. I think the answer is ourselves and Schlumberger have gone right the way back to 2015. We had a model that we put together in '15 to a market that didn't exist at the time and we're very pleased and we continue to work very, very well with each other. The model works fine the way we have it structured today. We bring the best SPS contractor and the best SURF contractor to our clients, put them together and give him a very, very good model.

We don't try to blend it into one thing that is neither one thing or another. And so for us at the moment we are very comfortable with our partnership and a very healthy discussion that's continued. And yes, together, you know we go through the ups and we go through the downs. Again, what's was very interesting, what I've seen, is the teams working very, very hard here. We've got equipment that's in OneSubsea's facilities in Italy, we've got some equipment in China, and how the teams pull together to make sure that these attract and bring together. So we've got a very strong, very healthy relationship that continues to work as we've done it, and our two teams are two very proud companies and work very well with each other.

Mark Wilson

OK, thank you. Appreciate the answer, thank you.

Operator

Thank you. Our next question comes from the line of Mick Pickup at Barclays. Please go ahead. Your line is open.

Mick Pickup

Good afternoon everyone. Quick question if I may on the renewables side. Can you just talk about the conversations you're having now those projects are still moving? And I think you mentioned moving more people from the oil and gas site into renewables. Is that a sign that you think this crisis accelerates renewables or is it just you saving on having to hire people for workload you expected in the future?

John Evans

Yeah, thanks, Mick. I'll take your second question first. Yes, we were looking to hire both in oil and gas and in renewables this year. It was part of our plan. Now we will be redeploying oil and gas experienced EPCI people into our renewables business; supply chain guys, engineering guys, offshore guys that can assist. So that's how we'll handle that. I think the conversations I've had with our renewables clients are they're pretty much carrying on.

They already had a way of making their business work independent of price of oil and gas. And so the momentum that we see in renewables that effectively started in Europe and then spread to Taiwan and the States keeps moving, and we're also seeing the very, very big players; your Vattenfalls, your Orsteds, and your innogys really, really pushing ahead with their investment campaigns. Where it fits into the energy space in the future is not clear because of what's happened to the price of oil and gas, but I see no sign of it slowing down, Mick, in terms of there was a momentum already there, and that momentum keeps moving and that's why we've already said, yes, renewables is going through a period of a lot of competition and a lot of pushing and moving backwards and forwards and new entrants trying to push into that space, but long term we believe that it's working.

The piece I'm very pleased about as well Mick is we now have a solid backlog of work with Orsted, a solid backlog will work with Vattenfall, and a solid backlog of work with Innogy, the three very biggest players in the renewable space. So again, the question of where does the oil and gas oil service contractors fit in renewables? As you know, we've been at it for 10 years, but we are sitting at the top table with these guys. The one caution I would still say though, we remain cautious towards some of the risk profiles on some of these contracts, so you will see some gaps like we've seen this quarter with the Yudin being idle. We prefer to idle the assets than to put them on some of the high-risk projects which can be picked up in renewables at the moment.

Mark Pickup

Okay, as a follow-up, if I recall during the quarter on some of your social media channels you announced you started doing installation in dynamic positioning mode in renewables. What type of benefit does that bring?

John Evans

Well, the challenge for renewables is generally this work is done in relatively shallow water and so you have the anchor in relatively shallow water and so anchoring is a challenge. So, for us it's the removal of the anchoring. You setup on DP, no anchoring, you're probably on a monopile which we would do in a day, day and a half, you could probably save six to eight hours, something like that, on DP. So, it's material. When you do 100 monopiles it's very, very material that you go on to DP. So, we did the trial and we will be deploying that on Hollandse Kust Zuid as the modus operandi on the vast bulk of that work.

So there are certain spots on our project where the water depth is even too shallow to work on DP, but that project will be done in DP.

Mark Pickup

Magic. Thank you and good luck.

Operator

Thank you. And our final question comes from the line of Michael Alsford at Citi. Please go ahead. Your line is open.

Michael Alsford

Hi there, good afternoon. Thanks for taking my question. I've actually got one left and it was really building on the last comments on renewables. The last couple of contracts and awards that you won were more integrated, it seemed, in nature and I just wondered whether that was just the way it was in those two contracts, or actually you were seeing a slightly different contracting strategy from customers to probably lump together more broader scopes for these for these projects? That was my question, thanks.

John Evans

Hi, Michael. Both of those were originally standalone packages where we had bid the cables and the foundations separately, but we also made an alternative offer to our clients to bring the two pieces together and for ourselves the ability to control the cable laying and the foundations work in one package is also useful for us because in a big field, if it is for any reason an operational challenge or logistical problem in moving jackets around or piles around, if you're in control completely of which segments of the field you can work in, you can move the cable lay around and for us it allows us to have a larger package of work to be working with our clients. So those clients want the work to be awarded on merit in each piece, and then we try to put a package over the top to say let's bring it together.

Michael Alsford

OK, very interesting, thank you.

Operator

Thank you. And as there are no further questions, I’ll hand back to our speakers for the closing comments.

John Evans

So thank you very much everybody for your questions and your support over the last quarter. It's been a very interesting time. We continue to try to give you an outlook, which is what we see ahead of us and how we try to react as a company. You know that we tend to move quite quickly when markets change both positively and negatively. We will be sharing more about our restructuring plan in the second quarter once we've shared it within our workforce inside the organisation. So, with that, we look forward to your questions and interactions in the next quarter, and we'll meet you again at our July call. Thank you very much.