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Chart Industries Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of James West with Lehman Brothers.

James West - Lehman Brothers

Hey, good morning guys.

Sam Thomas

Good morning, James.

James West - Lehman Brothers

Sam, so it sounds like on the E&C segment that the decline in orders in the first quarter was more of a timing issue. It's a lumpy business. April has really picked up significantly. I wonder if you could characterize a little further which product lines, what areas that have already seen the most demand as you look out through the last month and the rest of the year?

Sam Thomas

Within E&C, we really see strong project activity, bid activity, and attempts to try and bring orders forward across all of our products within E&C. There are very late stage negotiations going on for natural gas processing plants, for both medium scale, well, small, medium, and large scale LNG liquefaction. Petrochemical projects continue to move forward, particularly in the Middle East and in Southeast Asia, and coal gasification projects, particularly in China with large air separation plants for them, continue to be a main feature.

Just to remind you, a single order on many of these projects would swing us from recording a decrease in orders to in fact reporting an increase in orders. So we're not overly concerned that we can't predict the quarterly order intake of E&C.

James West - Lehman Brothers

Okay. So if we assume that the orders start to ramp up here throughout the year, how do you feel about your capacity in the E&C side of the business to, let's say backlog does build significantly for rest of the year to deliver those products?

Sam Thomas

We believe we're really well positioned with the capacity additions we've made. We have really positioned the business to be able to handle higher output. We'll continue to look at additional incremental capacity adds, potentially in the late 2009, 2010 timeframe, and in fact, we're discussing with a number of customers their believed need for that additional capacity. But in terms of looking at 2008 and 2009, we feel we are very well prepared.

James West - Lehman Brothers

Okay. What impact will the recent moves in steel prices have on your business? Are you able to push through surcharges and higher pricing to offset those costs?

Sam Thomas

Yes, all of the material price increases, or the vast majority of them, we actually have surcharge mechanisms to put them through. There may, depending on product lines, be a one or two month lag, but generally, we're very well positioned to handle that, particularly in the stainless and nickel-based alloys market. The recent rapid run-up of carbon steel prices was significantly higher than expected, and so we got hit with some, we will see a late first quarter, early second quarter, some impact from that, but it's not significant.

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