Fugro Looking For The Bottom

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Disclosure: The author has no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Summary

- One year ago, Fugro announced a new strategic plan to increase earnings per share by 10%.
- Three months ago, Fugro came with a profit warning.
- Last week, a former commissioner questioned the integrity of the (now gone) CFO.

Fugro (OTCPK:FURGF), the Dutch oil and gas explorer, with a market capitalization of $2.5 billion, is hot news at the moment. The profit warning in July, followed by the appalling figures in August did no good to the stock price and although all the bad news should be reflected in the stock price already, Fugro is still tanking and lost already 50% of its share price since mid 2013.

Facts at a glance:

· investments in the oil industry are scaled back

· the price of oil is slowly deteriorating

· former CEO and commissioner Gert-jan Kramer keeps dumping shares

· Franklin Resources, a US investor, has already picked up 5.59% of the company

· former Commissioner Frans Cremers is throwing mud in the press

A year ago, in September 2013, the group announced a strategic plan called "Growth through Leadership": turnover was to rise from $2.5 billion to 4.5 billion and big plans were announced for further investments. Management projected an average growth of earnings per share of more than 10%. Less than one year later, management announced a profit warning, the new CFO, Paul Verhagen, set aside more than $400 million on writedowns and showed a shocking performance on credit management: the amount of outstanding invoices almost equalized a half year turnover. This means that customers pay no sooner than five to six months after invoicing.

The company expects margins to improve in the second half of the year. Based on the relatively strong order book, combined with cost savings and better credit management, management hopes to get things back on track.

Dutch investors could also witness the eruption of former Commissioner Cremers in a Dutch investing magazine. He claimed that control mechanisms within the company were not in place, and blamed the former CFO for the lousy performance.

Due to the rapid growth of the company management has insufficient insight into the cash inflows and outflows.

Overreaction

Still, I think the reaction of investors is rather exaggerated. The interview with the former commissioner Cremers, which led to another 10-15% decline in the share price showed little new facts. The CFO he's referring to, Andre Jonkman, is no longer in charge.

It seems logical that a new CFO is about to write down as much as possible when stepping in: the loss can then be referred to as a heritage of its predecessor.

Founder and commissioner Kramer is indeed selling a lot of shares, which is indeed not a very good sign. But Kramer has almost all of his wealth gathered in Fugro shares and from that point of view, I can understand he is selling part of his belongings (he still owns 3.5 million shares).

And of course the price of oil is slowly going down, but much of that depreciation has been set off by a stronger dollar. And last month Fugro all of a sudden announced that it had a 10% interest in a newly found oil field off the coast of Australia.

So there are some bright spots to be found. Fugro is strongly dependent on investments in the oil and gas sector and therefore could use a higher oil price.

Meanwhile, the new CFO, who already hired a specialized credit management firm, should be given the benefit of the doubt. Around $28-30, the company is getting really attractive in terms of book value.

Although investors should keep a strong eye on the cash flow.

Editor's Note: This article discusses one or more securities that do not trade on a major exchange. Please be aware of the risks associated with these stocks.