

Company:	Mesaieed Petrochemical Holding Company (MPHC)
Conference Title:	MPHC Q4-20 Results Conference Call
Speakers from IQCD:	Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
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Operator:	Good day and welcome to the MPHC Q4 2020 Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Bobby Sarkar. Please go ahead, sir.
Bobby Sarkar:	Hi. Hello everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Mesaieed's Petrochemical Holding's (MPHC) Q4 and FY 2020 Results conference call. So on this call from QP's Privatized Companies Affairs Group, we have Sami Mathlouthy, who is Assistant Manager in Financial Operations, and also Riaz Khan, who's the Head of Investor Relations and Communications. So we will conduct this conference with first, management briefly reviewing the company's results, followed by a Q&A. I would like to turn the call over now to Riaz. Riaz, please go ahead.
Riaz Khan:	<p>Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all staying safe.</p> <p>Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of MPHC and no media representatives should be participating in this call.</p> <p>Moreover, please note that this call is subject to MPHC's disclaimer statements as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 4th March, MPHC released its results for the financial year ended 31 December 2020, and today in this call, we will go through these results and provide you an update on the key financial and operational highlights of MPHC.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Sami Mathlouthi, Asst. Manager, Financial Operations <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide you a quick insight on MPHC's ownership structure, competitive advantages, overall governance & BOD structure by covering slides 5 till 8, and slides 36 & 37;

	<ul style="list-style-type: none"> ▪ Secondly, Mr. Sami will brief you on MPHC’s key operational & financial performance matrix. ▪ Later, I will provide you with insights on the segmental performance and CAPEX updates. ▪ And finally, we will open the floor for the Q&A session. <p>To start with, as detailed on slide no. 6 of the IR deck, the ownership structure of MPHC comprises of Qatar Petroleum with approximately 65.4% stake and the rest is in the free float.</p> <p>As detailed on slide no. 5, Qatar Petroleum, being the main shareholder of MPHC provides most of the head office functions through a service-level agreement. The operations of MPHC’s joint ventures are independently managed by their respective Board of Directors, along with the senior management team.</p> <p>The BOD structure is detailed on slide no. 7 of the IR Presentation.</p> <p>In terms of competitive advantages, as detailed on slide no. 8, all of the MPHC’s group companies are strategically placed in terms of competitively priced and assured feedstock supply under long term arrangements, solid liquidity position, with a strong cash flow generation capability and presence of most reputed JV partners. Additionally, its partnership with Muntajat, a global leader in marketing and distribution of chemical products, acts as a catalyst for its access to global markets.</p> <p>In terms of the Governance structure of MPHC, you may refer to slides 36 & 37 of the IR deck, which covers various aspects of MPHC’s code of corporate governance in detail.</p> <p>I will now hand over to Sami.</p>
<p>Sami Mathlouthi:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>To start with, MPHC’s business performance for the financial year 2020 is a pure reflection of challenging macro-economic conditions, with an overall decline of 74% in terms of bottom line profitability in comparison to last year, as reflected on slide no. 14.</p> <p>The financial performance was impacted by uncontrollable external factors continued from 2019 such as the slowdown in global economies, limited GDP growth, along with the unprecedented spread of COVID-19 pandemic and the ongoing volatilities in oil prices.</p> <p>The challenging macro-economic conditions led to a decline of 17% in terms of revenue, compared to last year. This decline was mainly due to the lowered blended selling prices, which declined by 12% on a year-on-year basis.</p> <p>Sales volumes also declined by 5% in comparison to last year, due to the drop in production volumes and lower demand.</p>

The production volumes declined by 9% year-on-year basis, amid planned maintenance shutdowns, especially in Q1-20. However, production volumes improved significantly in the second half of 2020, compared to first half of 2020 with better operating rates.

When analyzing the decline in profitability in more detail, as reflected on slide 15, the main contributor towards a total variance in the bottom line profitability is mainly due to declining prices and volumes which in total contributed to a decrease of QR 496 million in the Company's earnings for 2020. Although, this was partially off-set by lowered feedstock unit cost and decline in feedstock volumes due to shutdowns, which added favorably towards the bottom line earnings by QR 123 million.

The bottom line was also negatively impacted due to the negative inventory movements amounting to QR 67 million, on account of large inventory drawdowns due to planned shutdowns and turnarounds.

The restatement of last year's net profit amounting to QR 885 million in relation to booking of the effects of tax exemptions within last year's profitability, also contributed negatively to the overall bottom line's growth for the current year.

While, current year profitability was also impacted by impairment provisions booked during the year amounting to QR 105 million in relation to certain tax refunds.

MPHC's financial performance improved in Q4-20. Revenue grew by 34% to reach QR 837 million, whilst the net profit increased by 3% versus Q3-20.

The growth was mainly driven by remarkable run in the commodity prices, driven by persistent rebound in crude prices, along with a surge in product demand following easing out of lockdown restrictions, stimulus announcements and vaccine optimism. MPHC's blended selling prices increased by 15%, quarter-on-quarter basis. Sales volumes also increased by 17% versus Q3-20, on account of recovery in macroeconomic sentiments leading to improved demand and better operating rates. The growth in revenues was offset by booking of one-off impairment provision booked during Q4-20 amounting to QR 105 million in relation to certain tax refunds.

Before we go into the segmental updates, I would like to highlight some of the key initiatives, as detailed on slide 34, which the Group companies had taken to ensure our resilience in this challenging macroeconomic situation.

These measures included optimizing human resource structures, reducing direct costs in relation to utilities and maintenance, reducing non-production related expenditures including sales, corporate and administrative related expenses. Similarly, the Group reviewed its CAPEX programs across all the segments and identified CAPEX items that can either be avoided or deferred, without affecting the overall quality, safety, environmental aspects and reliability of the operations.

	<p>On overall basis, our base case strategy will be to continue its focus on the strategic drivers of operational reliability in terms of continued improvement in efficiency, through cost optimization programs, which would enable the Group to contain costs while making strategic investments for unlocking further growth potential.</p> <p>I will now hand over to Mr. Riaz Khan, to cover the segmental performance.</p>
Riaz Khan:	<p>Thank you Sami.</p> <p>Petrochemicals Starting with Petrochemicals segment, as covered in slides 21 till 25, the overall profitability of this segment has remained under pressure with an overall decline in the bottom-line earnings of 48% year-on-year basis. This was mainly due to the declining selling prices and lowered sales volumes.</p> <p>The decline in the segment's blended product prices of 13%, coupled with a decline in sales volumes of 7%, led to an overall decline in revenues by 19%, within the segment.</p> <p>The decline in sales volumes was due to the overall decline in production volumes primarily due to the planned periodic turnaround of Q-Chem II facilities carried out during the first quarter of 2020. The production volumes declined by 11% compared to last year.</p> <p>In terms of segment revenue by geography, as detailed on slide 24, Asia remains a main market for the segment, where, Indian Sub-continent and Europe are the other key markets for the segment.</p> <p>Chlor-Alkali Moving on to Chlor-Alkali segment, as detailed on slides 26 till 30. During the year, segment revenue declined by 9%, compared to last year. The decline in revenue was mainly due to the decrease in sales volumes by 2% and selling prices by 8%.</p> <p>Sales volumes fell due to the planned maintenance shutdowns. The decline in selling prices was mainly due to adverse macroeconomic sentiments, causing supply-demand imbalances leading to negative effects on the commodity prices.</p> <p>During the year, the segment reported a net profit of QR 125 million, down by 54% from last year, mainly due to the overall drop in segment revenue. Production dropped by 6% due to the periodic planned turnarounds, which is necessary to maintain the plant life and ensure HSE standards.</p> <p>In terms of segment revenue by geography, as detailed on slide 29, Indian sub-continent remains the main market for this segment.</p> <p>Moving on slide no. 32, an important point to note that the CAPEX figures for the years 2021-25 are based on the 2021 approved budget and business plan which was based on the expectations of market conditions and commodity prices prevailing at the time of budgeting.</p>

	<p>With current market conditions and commodity price trends, the forecasts as detailed on this slide cannot be relied on with absolute certainty, where, the actual realization of these figures might significantly differ as compared to these projections.</p> <p>Now we will open the floor for the Q&A Session.</p>
Operator:	Thank you. And if you wish to ask a question, please signal by pressing star one on your telephone keypad. Again, that is star one to ask a question. We'll take our first question from Rene Sullivan of Jadwa Investments. Please go ahead.
Rene Sullivan:	Yes. Hello. Hi, thank you gentlemen, for the call. First of all, I'd like to ask about the Taxation, note 19 of the financials, if you can shed some light on that, please? And what to expect going forward in terms of refunds, if any? And also in terms of your shutdown schedule, I see that in your CAPEX forecast, plant turnaround is minimal in 2021 and then, it's significant in 2022. What does that relate to? And if you could just give us the schedule of shutdown for 2021 and 2022? Thank you.
Sami Mathlouthi:	<p>Hello. Hi. So I will start with the first question, which is relating to Taxation. So taxation has been a new topic, since the signature of the MOU between Qatar Petroleum, the GTA and the Ministry of Finance. So this gives the benefit for the list of companies and the companies included in the MOU, to collect its share of tax in its joint ventures, directly from the company. So basically, in the companies, in their balance sheets, so they have their, this liability relating to deferred tax. And since the company, the holding company is exempt from tax, then we assess together with our auditors and with our experts that those deferred tax liability, they should be reversed in our balance sheet. So this is what we will see in the statement that we have done in 2019, was around QAR 884 million, which mainly included QAR 870 million, relating to the deferred tax.</p> <p>In terms of the refunds, so far, so we have in our balance sheet, 2018 refunds, which are relating to our portion of tax, in the joint ventures. And we are normally collecting those amounts from the Ministry of Finance. So the latest update is, this amount is approved and payment will be done in the next few weeks. So in relation to your question number two, relating to the shutdown, so basically we will have a shutdown for the QVC in the last quarter of 2021 and a plant shutdown for the Q-Chem, which will be in 2022. And this would be for around 39 days. In 2021, we are not planning any shutdowns for Q-Chem, Q-Chem1 and Q-Chem2. And the only plant shut down would be for QVC.</p>
Rene Sullivan:	Okay. Thank you. And the QVC would be same amount of this pretty much one month?
Sami Mathlouthi:	No, it will be a longer shutdown, so it will be around 90 days.
Rene Sullivan:	Okay. Thank you. And just one last question. So going forward, the tax rate should be 35%, that's what we should assume?
Sami Mathlouthi:	Well, the tax rate is the same. So it's not changing. So, the companies, the joint venture, are taxable at 35% rate. Okay. MPHCH, the holding company is not taxable. And this is what we are taking the profits before any tax from the joint venture. But the operating companies, they are taxable as 35%.
Rene Sullivan:	Okay. Thanks.
Sami Mathlouthi:	Thank you.
Operator:	We'll take our next question from Bakshi of NBK Capital. Please go ahead.

Bakshi:	Good afternoon, gentlemen. Thank you so much for the call. Just continuing with the CapEx, please comment on how should we think about, Maintenance CapEx for some of your operating assets, over a medium term? I mean, what's the thumb rule in arriving at our maintenance CapEx for these companies? Also given that you have a CapEx plan, provided in one of your slides for the next five years, and hence we will probably get a feel of what would be the free cash flow generation at the operating asset level, how should we think about dividends at MPHIC level? Is there a stated policy? How does it work exactly? Thank you so much.
Sami Mathlouthi:	Well, in terms of Maintenance CapEx, so our objective is always to keep our plants in a good condition. So basically we will try our best to keep those plants in a good working condition. So there is no big change in terms of the Maintenance CapEx, in terms of the cost. So, we have plans that are agreed by our maintenance experts by the plant managers. And based on those plans, we try to follow those expenditures. So, we try to control our cost as well, but in terms of expenditure, in terms of maintenance, we will keep very good attention to those plants. In terms of your second question was relating to the dividend policy. The dividend policy is depending from the cash flow generated by the company. So, this year, if we look at 2020, so we are distributing 94% of dividend payout, 0.04. It's in line with what the company is generating. We'll try to keep some cash aside as well for any potential development. Part of we are doing, will slightly increase the capacity, especially the one relating to the sixth furnace. So this will have a positive impact on the free cash flow generated. And we will try to basically to distribute, in line of what we have done in the previous years.
Bakshi:	So just to understand the dividend policy a little bit more, so are you hinting at that you keep an eye on the payout ratio, which is the dividend paid over Net Profit? Is that the key metric you keep an eye on, for arriving at the dividend for any particular year?
Sami Mathlouthi:	Well, honestly, it's not a static policy. So we look at, what will be the next development plans, what will be the CapEx plan and based on that we decide the payout ratio. So we are not saying that we are distributing every year, 94% or 78% or 75%. If you look at the previous years, you will see its variable and it's based on the projected cash flows and it's based on the situation as well. So based on the price of our products and based on the macro environment.
Bakshi:	And thank you so much for that. And for the Maintenance CapEx, so I'm just trying to understand that how we arrive at a number for our internal forecast for some of the operating assets? So the numbers here, the forecast you have for 2023 to 2025, is that a fair estimate of what we should expect in terms of Maintenance CapEx, on an annual basis?
Sami Mathlouthi:	It's a fair estimate. It's all based on the business plans and especially based on the plant turnarounds that we are planning in 2025. So basically, what we are trying, we try to reserve part of the, we purchase some spare parts before actually the plant turnaround. And based on that, so we try to accumulate those expenses until the plant turnaround is taking place. So it's all based on the pre-approved business plans. And if there is any change, so it will be corrected in the next business plan.
Bakshi:	I'll just shoot in one last question. And if I have a follow-up, I'll probably join back in the queue. Any quick comment on what exactly you're seeing in the caustic soda market? Prices have still not recovered as much as some of the other products. What exactly are the developments and how do you see the product's prices, behaving in 2021?
Sami Mathlouthi:	Well, if you look at the presentation and the slides that we have submitted relating to prices, some of the prices that we have seen are increasing actually, so except for the

	caustic soda. So you are right. So the price is not doing very well. I guess this is mainly relating to the opening of some markets and this is relating to the citation. But from the signs that we have seen in the first few months of 2021, we haven't seen actually a good sales of those prices and we will follow up slightly. But we don't have any concrete estimation of how the prices will develop in the next few quarters.
Bakshi:	So, is it reasonable to assume that you still feel that this product could be a little more weaker than some of your other products within the portfolio for 2021?
Sami Mathlouthi:	Well, if I look at the other prices, yes. Because we are seeing in the beginning of this Q1, 2021, a better surges in the other product places, except the caustic soda. So we cannot assess, but based on Q1, 2021, yes. But maybe prices will get better in the next quarters, depending on the demand for this product.
Bakshi:	Thank you so much, gentlemen, for all your answers.
Sami Mathlouthi:	Thank you.
Operator:	We'll take our next question from Shabbir Kagalwala of Al Rayan Investment. Please go ahead.
Shabbir Kagalwala:	Thank you. Thank you, gentlemen for the presentation. Just on the last question that my colleague was asking, on the pricing front, you just probably touched upon caustic soda. Could you also give us some sense of how the prices of different products are doing in the first quarter? We've mostly been through the two months of this quarter. Could you give us an idea compared to the last quarter, how they are pairing right now? Thank you.
Sami Mathlouthi:	Yes, from what we have seen in the Q1, so basically the prices of especially the polyethylene, is getting much better compared to the last quarter of 2020. We are seeing around 10% to 15% increase, similar for other products, the exception is with caustic soda. We are following up the prices. Demand is much higher for the other prices. VCM is doing very well, Polyethylene is doing very well, 1-hexene is doing well as well. The Q1 is really promising for MPHHC for most of the price of the product. And if it continue like this, so we'll get the good indication for the Q1 of 2021.
Shabbir Kagalwala:	Okay. Alright. Sounds good, thank you.
Operator:	And as a reminder, if you wish to ask a question, please signal by pressing star one on your telephone keypad. There are no further questions at this time.
Bobby Sarkar:	Okay. Hi, this is Bobby Sarkar again. If we have no further questions, we can end the call. I want to thank Sami, I want to thank Riaz, for dialing in today and for all the information that they provided us. If you have any other questions, please do get in touch with us in QNBFS or with Riaz, for any additional information or questions. Thank you everyone. Thank you.
Sami Mathlouthi:	Thank you so much.
Riaz Khan:	Thank you all. Thank you.
Operator:	Thank you. That now completes the call. Thank you for your participation. You may now disconnect.