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| Company: | Mesaieed Petrochemical Holding Company (MPHC) |
| Conference Title: | MPHC Q4-19 Results Conference Call |
| Speakers from IQCD: | <ol style="list-style-type: none"> 1. Mr. Mohammed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs, Qatar Petroleum 2. Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum 3. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum |
| Moderator: | Mehmet Aksoy, QNB Financial Services |
| Date: | Thursday, 27 February 2020 |
| Conference Time: | 13:30 Doha Time |

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| Operator: | <p>Good day, and welcome to the Mesaieed Petrochemical Holding Company 4th Quarter 2019 Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mehmet Aksoy. Please go ahead.</p> |
| Mehmet Aksoy: | <p>Good afternoon, ladies and gentlemen. This is Mehmet Aksoy from QNB Financial Services. I would like to welcome everyone to Mesaieed Petrochemical Holding Company's 2019 Financial Results Conference Call. On this call from MPHC, we have Mr. Mohamed Jaber Al-Sulaiti who is the Manager of Privatized Companies Affairs; Mr. Abdulla Yaqoob Al-Hay, Assistant Manager of Financial Operations; Mr. Sami Mathlouthi who is the Assistant Manager of Financial Operations.</p> <p>And we have Mr. Riaz Khan who is the Head of IR and Communications. We will conduct a conference call with brief comments on the presentation followed by Q&A. I will now hand the call over to Mr. Riaz Khan to get us started. Mr. Khan, please go ahead.</p> |
| Riaz Khan: | <p>Thank you Bobby. Good afternoon and thank you all for joining us.</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 representative should be participating in this call.</p> <p>Moreover, please note that this call is subject to MPHC's disclaimer statement as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 20th February, MPHC released its results for the year 2019, and today in this call, we will go through these results and provide you with an update on the key financial and operational aspects of MPHC.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Mr. Abdulla Al-Hay, Asst. Manager, Financial Operations; and 2- Mr. Sami Mathlouthi, Asst. Manager, Financial Operations |

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| | <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide a quick insight on MPHC’s ownership structure, competitive advantages, overall governance & BOD structure by covering slides 4 till 7, and slides 32 & 33; ▪ Secondly, Mr. Sami Mathlouthi 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. 5 of the IR deck, the ownership structure of MPHC comprises of Qatar Petroleum with 65.5% stake and the rest is in free float.</p> <p>As detailed on slide no. 4, 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. 6 of the IR Presentation.</p> <p>In terms of competitive advantages, as detailed on slide no. 7, 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 32 & 33 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 in the year 2019 reflects challenging conditions in the region and wider international markets, with an overall decline of 15% in terms of bottom line profitability in comparison to the last year, as detailed on slide no. 12.</p> <p>The financial performance was mainly impacted by challenging macro-economic conditions and caused a decline of 19% in terms of revenue, compared to last year. This decline was due to the blended selling prices, as the same remained low with a decline of 15% year-on-year basis, due to volatile crude and petrochemical prices, and a 5% decline noted in the sales volumes on the back of reduced production levels by 3% compared to last year, due to unplanned shutdowns, which was primarily directed to ensure the health, safety and environmental standards, as well as, the plant life in terms of quality assurance and reliability, which would ultimately lead to improved operational efficiency on the long run.</p> <p>When analyzing the decline in profitability in more detail, as reflected on slide 13, 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 685 million in the</p> |

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| | <p>Company's earnings for the year 2019. Although, this was partially off-set by lower feedstock costs due to decline in ethylene unit price and feedstock costs in QChem/ QChem II which added favorably towards the bottom line earnings by QR 131 million.</p> <p>The bottom line was also positively impacted due to the impact of income tax exemption received effective from 01 January 2019.</p> <p>Here, I would like to emphasize a fact that the Group is continuing 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 expenses while making strategic investments for unlocking further growth potential.</p> <p>In line with the Groups' strategic intent, I would also like to update you on the expansion of Q-Chem's ethylene capacity project, where the shareholders of Q-Chem have given a nod for the expansion of its ethylene production facilities in Mesaieed. Further details about this project is covered on slide no. 28 of the IR Deck.</p> <p>Moving on to the balance sheet, the Group continued to strengthen its liquidity position which remained robust during the year. Cash held by MPHHC at the end of 2019 reached QR 1.8 billion. The total assets stood at QR 15.5 billion, compared to QR 15.3 billion as at the end of 2018.</p> <p>I will now hand over to Mr. Riaz Khan, to cover the segmental performance.</p> |
| <p>Riaz Khan:</p> | <p>Thank you Sami.</p> <p>Firstly, I would like to start by briefing you about two segments of the Group. As mentioned on slide no. 5, MPHHC operates in Petrochemicals and Chlor-Alkali segments via various JVs. All of the JVs of the Group are with the international partners, having state of the art technical expertise in their respective fields of operations.</p> <p>Now let's analyze segment wise performance.</p> <p>Petrochemicals Starting with Petrochemicals, as detailed on slide 21, the overall profitability of this segment has remained under pressure with an overall decline in the bottom line earnings of 16% year-on-year basis. This was mainly due to the declining market prices.</p> <p>The blended product prices in the Petchem segment declined by 16% coupled with a marginal decline in sales volumes of 2%, which has led to an overall decline in revenues by 18%, within the segment.</p> <p>Production volumes saw a minimal decline of 2% compared to last year, on the back of maintenance shutdowns.</p> <p>Chlor-Alkali</p> |

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| | <p>Moving on to the Chlor-Alkali segment, as discussed on slide 26, the bottom line profitability increased by 93% year-on-year basis. The increase was mainly due to the effect of booking income tax exemption, effective from 01 Jan 2019.</p> <p>The revenues declined by 21% mainly due to the declining trends in selling prices and volumes, amounting to 13% and 9%, respectively.</p> <p>This decline in selling prices was mainly driven by overall worsening macro-economic conditions, which affected the overall supply-demand curves and ultimately affected the product prices.</p> <p>The decline in sales volumes was mainly linked to the overall decline in production by 4% year-on-year basis, mainly due to maintenance shutdowns.</p> <p>Moving on to slide no. 28, as per 2020 approved budget and business plan, the total planned CAPEX of MPHHC until 2024 would amount to QR 1.2 billion. A detailed breakdown of CAPEX projects has been disclosed on the same slide. The CAPEX and related cash flows will be continuously reviewed and updated based on the BOD's view on the market expectations, appetite for risk and other relevant considerations.</p> <p>Now we will open the floor for the Q&A Session.</p> |
| Operator: | <p>Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please press star one on your telephone keypad. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. As a reminder, please press star one to ask a question. As there are no questions -- pardon, we have a question from [inaudible]. Please go ahead.</p> |
| Speaker: | <p>Thank you for hosting the call. And this is Saud, Zaheer's[?] colleague. I have two questions. The one is that I'm looking at the presentation. And here it's like the bridge which is showing the tax benefits of QAR 294 million, but the financial statements are showing the tax benefits are around QAR 202 million. So I am trying to understand which one is the right number to look at?</p> |
| Speaker: | <p>Okay, clear. What else, next question please?</p> |
| Speaker: | <p>Yeah, the next question is, basically, again, on the tax refund -- sorry.</p> |
| Riaz Khan: | <p>First of all the graph that you see here at slide number 13, this is the difference in tax between the previous year and this year. So this is not the tax amount. What you see in the income statement of the QAR 200 million, we put it under the other income which is the tax that's paid on behalf of the company. So --</p> |
| Speaker: | <p>All right, the other question is last year -- last year what we noted, I mean the last three years. If I look at the tax refund amount, it was like in 2016 it was QAR 90 million. Then it went to a QAR 100 million, then QAR 170 million and now QAR 202 million. And despite the volatility in the profitability, the tax keeps going up. What is the calculation of tax? I'm trying to understand that. Would it keep going up regardless of the volatility of the profitability? Generally, it is like a percentage of a certain figure, but here it is just keep going up.</p> |

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| Mohammed Jaber Al-Sulaiti: | <p>Okay, I do have an answer for you. First of all, maybe you don't have the history of that. During half year, we have impaired around QAR 169 million with regard to the tax refund because we have received a letter from the GTA that says that we are not exempt from the tax. So we worked on the matter. We finalized it with the GTA and Minister of Finance.</p> <p>The decision came that MPHC company is tax exempted. So this is what you see a difference of the QAR 294 million. And with regard to the tax amount since 2017 to this year, of course it's going to change from time to time. It is based on the profitability of the company.</p> |
| Speaker: | <p>Yeah, but what I'm saying is the profitability of the company has been volatile. It goes up and goes down, but the tax is going up only -- the tax refunds is going up. So is there any difference in tax treatment?</p> |
| Mohammed Jaber Al-Sulaiti: | <p>Yeah, just to answer your query. So until 2018 only the public share of tax was exempt. So we used to get refunds of public share of MPHC tax in the group companies. Currently, we're fully exempt. MPHC is fully exempt. So the tax income -- refund income is more higher.</p> |
| Speaker: | <p>Okay because I was trying to -- when I look at -- so when I was looking at the -- so for example when I am looking into the numbers, the tax refund amount divided by the JV share of JV profits, it was 10% for 2015, 2016 and 2017. That makes sense. But then in 2018, it becomes 14% and now it became 21%. So is this 21% is something which we'll see going forward?</p> |
| Mohammed Jaber Al-Sulaiti: | <p>Yeah, so as I said MPHC is fully exempt from tax, okay.</p> |
| Speaker: | <p>Effective from 1st January.</p> |
| Mohammed Jaber Al-Sulaiti: | <p>1st, January 2019, yeah. So until 2018, we used to get refund only the public share of tax of the group companies, yeah.</p> |
| Speaker: | <p>I understood. My question is that interestingly between 15-17 --</p> |
| Mohammed Jaber Al-Sulaiti: | <p>We will have the difference yes. Going forward we will have the difference.</p> |
| Speaker: | <p>Okay, 2021 is basically the share of JV profit and the tax amount should be around 21%.</p> <p>This is a new effective tax --</p> |
| Mohammed Jaber Al-Sulaiti: | <p>Yeah, we can't say 21%, but it will be fully exempt. Yeah, we can only say that it is fully exempt. MPHC is fully exempt. So we will actually take whatever tax is applicable to MPHC we will show it as income.</p> |
| Speaker: | <p>Okay. And the second question or you can say comment on page 28, you used to show us the cash flows. I don't see it this time. I mean we have seen in previous slides. Do you have intentionally removed it or you have planned to show it later?</p> |

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| <p>Mohammed Jaber Al-Sulaiti:</p> | <p>See, initially the slide which we were doing that was based on 2019 business plan. So the plan which I'm showing now here in this slide, it's 2020 business plan. So as per as 2020 business plan what we get the approvals from the board is based on the Capex numbers. The cash flows, we are not doing. I'm not so sure. We need to just check on this point about the cash flows.</p> <p>But as far as the cash flow generation capability is considered -- is concerned, you can see similar trends which historically was there. So, and I don't feel any reason of showing those cash flows there at the slide when actually this slide is for the Cap Ex.</p> |
| <p>Speaker:</p> | <p>Okay, thank you very much.</p> |
| <p>Operator:</p> | <p>Thank you. And as a reminder to ask a question, please press star one. We will pause for another moment to allow you an opportunity to signal. As there are currently no further questions in the queue, I would like to turn the call back to Mehmet Aksoy for any additional or closing remarks.</p> |
| <p>Mehmet Aksoy [QNBFS]:</p> | <p>Hi, this is Mehmet Aksoy. Again if there are no further questions, then we can wind up the call for today. I would like to thank everyone for participating in the call. And please do reach out to the team at QNBFS or MPHC if you have any further questions. Thank you.</p> |
| <p>Operator:</p> | <p>That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.</p> |