

Company: **Mesaieed Petrochemical Holding Company (MPHC)**

Conference Title: **MPHC Q3-19 Results Conference Call**

Speakers from MPHC: **1. Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum**
2. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum

Moderator: **Bobby Sarkar, Head of Research – QNB Financial Services**

Date: **Monday, 4 November 2019**

Conference Time: **13:30 Doha Time / 10:30 UK Time**

Operator:	<p>Good day and welcome to the Mesaieed Petrochemical Holding Company Q3 2019 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.</p>
Bobby Sarkar:	<p>Thank you. Hi, hello everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Mesaieed Petrochemical Holdings Third Quarter and Nine Months 2019 Results conference call.</p> <p>So on this call from Qatar Petroleum's Privatized Affairs Group, we have Abdulla Al-Hay who is the Assistant Manager Management reporting and Riaz Khan, who is the Investor Relations lead. So we will conduct this conference with first management reviewing the company's results, followed by a Q&A. I will now turn the call over to Riaz. 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.</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 October 28th, MPHC released its results for the 3rd quarter, and today in this call, we will go through these results and provide you an update on the key financial and operational aspects of MPHC.</p> <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 25 & 26; ▪ Secondly, Mr. Abdulla Al-Hay 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 publicly listed on the Qatar</p>

Exchange.

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.

The BOD structure is detailed on slide no. 6 of the IR Presentation.

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 a catalyst for the access to global markets.

In terms of the Governance structure of MPHC, you may refer to slides 25 & 26 of the IR deck, which covers various aspects of MPHC's code of corporate governance in detail.

I will now hand over to Mr. Abdulla Al-Hay.

**Abdulla
Al-Hay:**

Thank you Riaz. Good afternoon and thank you all for joining us.

To start with, MPHC's business performance in the first nine months of 2019 reflects challenging conditions in the region and wider international markets, with an overall decline of 52% in terms of bottom line profitability in comparison to the last year, as detailed on slide no. 12.

The financial performance was mainly impacted by challenging macro-economic conditions and caused a decline of 17% in terms of revenue, compared to the last year. This decline was due to the blended selling prices, as the same remained low with a decline of 12% year-on-year basis, due to volatile crude and petrochemical prices, and a 6% decline noted in the sales volumes on the back of reduced production levels by 5% compared to the 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.

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 of QR 535 million is mainly due to declining prices and volumes which in total contributed a decrease of QR 478 million in the Group's earnings for the nine months period ended September 2019. Although, this was partially off-set by lower feedstock costs due to decline in ethylene unit price which added favorably towards the bottom line earnings by QR 114 million.

The bottom line was further impacted by provision for impairment of tax receivables of QR 170 million during the period. Additionally, no tax refund has been booked during the period with an impact of QR98 million, which was partially offset by reduced taxes in the Group companies due to reduced profits.

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. 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, which is due to be completed in 2022. Further details about this project is covered on slide no. 21 of the IR Deck.

Moving on to the quarterly performance, the overall profitability before impact of tax refunds has declined by 17% in comparison to the second quarter of 2019, mainly on the back of declining blended selling prices by 10%, against a backdrop of challenging macro-economic conditions, which caused a decline in revenues by 5% compared to second quarter of 2019.

Moving on to the balance sheet, the Group continued to strengthen with liquidity position remaining robust during the year. Cash held by MHPC at the end of third quarter reached QR 1.6 billion, after accounting for dividend pay-outs for the financial year 2018. The total assets stood at QR 14.8 billion, compared to QR 15.3 billion in the same period last year.

I will now hand over to Mr. Riaz Khan, to cover the segmental performance.

Riaz Khan:

Thank you Abdulla.

Firstly, I would like to start by briefing you about two segments of the Group. As mentioned on slide no. 4, MPHC 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 field of operations.

Now let's analyze segment wise performance.

Starting with Petrochemicals, as detailed on slide 18, the overall profitability of this segment has remained under pressure with an overall decline in the bottom line earnings of 32% year-on-year basis. This was mainly due to the declining market prices, which are closely linked to crude oil prices.

The blended product prices in the Petchem segment declined by 15% coupled with a marginal decline in sales volumes of 1%, has lead to an overall decline in revenues by 15%, within the segment.

Production volumes saw a minimal decline of 4% compared to last year's nine months, on the back of maintenance shutdowns.

Coming on to the quarterly performance, the net profit seen a decline of 16% compared to the second quarter of 2019. This was primarily driven by declining revenues which was reduced by 7% on back of softening selling prices by 7%, although sales volumes remained unchanged.

Moving on to the Chlor-Alkali segment, as discussed on slide 20, the bottom line profitability decline by 16% year-on-year basis on the back of overall decline in revenue of 24%.

The decline in revenues was mainly attributable to the declining trends in selling prices and volumes, amounting to 12% and 14%, respectively.

This decline in selling prices was primarily driven by overall worsening macro-economic conditions, which affected the overall supply-demand curves and ultimately affected the

	<p>product prices.</p> <p>The decline in sales volumes was mainly linked to the overall decline in production by 8% year-on-year basis, mainly due to maintenance shutdowns.</p> <p>Based on quarter on quarter analysis, a decline of 29% was recorded in terms of bottom line profitability, in comparison to the 2nd quarter of 2019, mainly on the back of higher raw material costs. Although, the revenues increased by 4% against a back drop of increased volumes by 16%, due to better productions levels. This increase in sales volume was partially offset by the declining trends in selling prices which declined by 11% compared to the previous quarter.</p> <p>Moving on to slide no. 21, as per 2019 approved budget and business plan, the total planned CAPEX of MPHC until 2023 would amount to QR 1.5 billion. A detailed break-down of CAPEX projects has been disclosed on the same slide. The CAPEX & Cash flow figures 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>Before we go on to the Q&A session, and as mentioned by Abdulla and already covered in the 3rd quarter press release, I would like to provide some more insights on the Q-Chem's ethylene expansion program i.e. 6th Furnace Project, which will provide a sustained increase in ethylene production by approximately 7%, thereby providing increased utilization of Q-Chem's existing production capacity. With an estimated investment of USD 100 million, the 6th Furnace Project is predicated on positive capital returns and the increased operational flexibility.</p>
<p>Operator:</p>	<p>Thank you, sir. Ladies and gentlemen, if you wish to ask a question at this time, please press star one on your telephone keypads. If you wish to cancel your request, please press star two. Now, 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. And your first question comes from Metehan Mete of Waha Capital. Please go ahead. Your line is open.</p>
<p>Metehan Mete – Waha Capital:</p>	<p>Hi. Regarding the visibility on the tax gains that you support[?] prior to 2018. Do you expect any further gains in the future like the tax subsidies or do you think you are over with it because like you wrote off the entire tax receivables[?] during the year?</p>
<p>Abdulla Al-Hay:</p>	<p>Thank you for the question. With regard to the tax matter, actually, we have received a letter before we issue the half year financial statement just two days before we issued. So, we decided to book this transaction. And right now, we are in coordination with the GTA General Tax Authority, and we have sent them a letter to give us more clarity on the way forward.</p> <p>So there is no update right now either to book for it for 2018 and 2019 or to continue getting this tax refund. Still the picture is not clear for us. We have written a letter to the GCA, and we are still waiting for their reply.</p>
<p>Metehan Mete:</p>	<p>Sure, yeah thanks. And then another question I have is what percentage of the ethylene needs are in-sourced like through the downstream production, and what percentage is kind of like of outside purchase?</p>
<p>Abdulla Al-Hay:</p>	<p>What do you mean?</p>

Metehan Mete:	Like, do you produce the entire ethylene use[?] for your production of the ethylene?
Abdulla Al-Hay:	So, this numbers is not available with me right now, but if you [inaudible] I will share with you the contact information, and they can provide you with the right number. This is very like technical number. I don't have it.
Metehan Mete:	Yeah, my other question is regarding the dividends. I mean given that you already have close to QAR 1.5 billion in the holding levels and the underlying assets are sufficiently cash generative. Do you expect that the board will go for like a special dividend or like any recapitalization of the balance sheet so that the shareholder reimbursement would increase?
Abdulla Al-Hay:	As you are aware that the petrochemical prices globally is being low, and for that action from the board it seems unlikely to be happened to be honest.
Operator:	Thank you. We will now move to our next question from Al Jeraiwi of Jadwa Investment. Please go ahead.
Al Jeraiwi – Jadwa Investment:	Hello. First question, can you tell us about the next shutdown schedule for each company?
Abdulla Al-Hay:	Okay. In 2020, there will be a shutdown schedule in QChem II, which is planned for it from right now for the -- it is a regular plant shutdown.
Al Jeraiwi:	Okay what about the other company?
Abdulla Al-Hay:	There is no plant shutdown.
Al Jeraiwi:	QVC and QChem I?
Abdulla Al-Hay:	No, there is no plant shutdown for the next year.
Al Jeraiwi:	Okay, for the next year?
Abdulla Al-Hay:	Yes 2020 only. For the 5 years, we don't have it to be honest. I don't have this figure right now with me. But for the 2020, I know that the QChem II. We do have a plant shutdown.
Al Jeraiwi:	Okay, other question. Could you please tell us about the operating rate for each company?
Abdulla Al-Hay:	Operating what, sorry?
Al Jeraiwi:	Operating rate, the utilization rate for each company.
Abdulla Al-Hay:	The utilization rate. Our utilization rate is around, I do have with here with me just hold on.
Al Jeraiwi:	I need for each company, not for the all.
Abdulla Al-Hay:	For overall, it's 92%. And for the QChem is 104%, and for QVC is 77% utilization.

Al Jeraiwi:	Okay thanks. There is in the presentation 1.3 Capex planned for QChem during 2019 to 2023. Can you tell us about what's the project?
Abdulla Al-Hay:	We have explained to you that the new Furnace or the Sixth Furnace project, which will increase the capacity of QChem by 40,000 metric ton. The other projects is mainly health and safety and environment projects as you can see the near zero liquid discharge NAO tank upgrade. So, this is all related to safety and health and safety environment.
Al Jeraiwi:	Thank you. For the last question, can you update us about the prices for each product?
Abdulla Al-Hay:	I have blended averages prices. For each product, actually, our -- let me see if I have a number here. But I can give you an average right now. The average is around \$772[?] per metric ton.
Al Jeraiwi:	Can you give me average for each company?
Abdulla Al-Hay:	Okay, let me give you -- I do have some of the QChem. So for the HDPE, the average is \$987. For the [inaudible] is \$960. QChem II is for the HDPE is \$970. NAO is around \$1000. With regard to the QVC product, the caustic soda averaged around \$345. The EDC is \$335. The VCM is \$700. These are the average year --
Al Jeraiwi:	Can you repeat the EDC? What's the price for EDC?
Abdulla Al-Hay:	EDC is \$335. VCM is \$700.
Al Jeraiwi:	Yeah, thank you. And just one question please unplanned shutdowns in this year, which has been in the presentation for which company?
Abdulla Al-Hay:	For both companies.
Al Jeraiwi:	What's happening for which company? Both company QChem I and II?
Abdulla Al-Hay:	Both of them QChem I, QChem II and QVC.
Al Jeraiwi:	Yes, this is all unplanned shutdown. We have such a power failure happened to QChem. We have a corrective maintenance happened in the QChem II, you know some technical okay. Yeah, that's it.
Al Jeraiwi:	Okay, thank you so much.
Operator:	Thank you. And there are currently no further questions in the queue. I would like to turn the call back to our speakers for an additional – Pardon, we have a question from Shabbir Kagalwala of Al Rayan Investment. Please go ahead.
Shabbir Kagalwala – Al-Rayan Investment:	Yeah, thank you for hosting the call. Two questions. [inaudible] the payout has been around 75%. Would you like to maintain the payout or is there since whether like a new situation and there is chances that you will improve the payout this year.

Abdulla Al-Hay:	We are always trying to maintain the payout ratio and to -- this is also related to the board decision. So whenever it comes to the board they will make their own decision, but as you can see the history, the payout is around for the last year is around 75% to 80% to 70%, again back in 2018, this is the rate that I have seen since 2016 to 2018.
Shabbir Kagalwala:	Got it. And the other question, you showed in one of the slides that there was a gain in the feedstock pricing. Can you help us understand how the few different prices has gained? I mean is not the feedstock price fixed or its like a variable link to the price formula? What is the mechanism of feedstock pricing?
Abdulla Al-Hay:	There is a formula station with the final product price. So the final product price one down, the feedstock also is going down. There is a formula between us and the feedstock provider. So, as you can see here --
Shabbir Kagalwala:	If the pulp prices goes, up, you will lose from the feedstock prices?
Abdulla Al-Hay:	If the price is going up then the feedstock will also increase. The price of the feedstock is increasing.
Shabbir Kagalwala:	So right now what we have -- I mean I'm looking at slide number 13, where it shows the feedstock prices contributed positively of QAR 114 I mean in riyal for the nine months.
Abdulla Al-Hay:	Yeah.
Shabbir Kagalwala:	So had the price has gone up this number would have been negative?
Abdulla Al-Hay:	Yes.
Shabbir Kagalwala:	Okay, got it.
Abdulla Al-Hay:	The selling price of the final product is going up; this number will be negative definitely or we will [inaudible] compared to the last --
Shabbir Kagalwala:	Yeah, got it. And can you also have some additional light on the tax refunds? I mean you have been receiving the tax refund in all this. What is it for? I mean is it something which is your share of tax refund and the JV partner has -- will continue paying? What exactly of the shared[?] tax refund is?
Abdulla Al-Hay:	Okay, this is MPHHC here okay, and we have received it from the GCA like giving you the highlight of the 35% of the tax flow, the new tax flow on all petrochemical businesses. So we still have not finalized the [inaudible]. It's still under negotiation. When it comes to the finalize, we will update the market on the latest update. You can refer to our financial statements in the second quarter. There is a note where we talk about this tax issue.
Shabbir	Okay, and is this something which is only for one of the plant or is all across the different

Kagalwala:	plants?
Abdulla Al-Hay:	I think it is all across all the plants, petrochemical business [inaudible].
Shabbir Kagalwala:	This is also I think you will for other companies in the Qatar like there's companies with [inaudible]?
Abdulla Al-Hay:	Right now, we're talking about MPHC, so I prefer to stay with the MPHC
Shabbir Kagalwala:	Okay fine. But you asked[?] higher for the IQ[?] so I'm just trying to understand this is only for -- this can actually happen for MPHC or is there any implication for other companies as well?
Abdulla Al-Hay:	Yes, I don't want to repeat again. Right now, I'm talking only on behalf of MPHC.
Shabbir Kagalwala:	Okay, thank you.
Abdulla Al-Hay:	Thank you.
Operator:	Thank you. And we have another question from Rajat Bagchi of NBK Capital. Please go ahead. Your line is open. And it seems that Rajat has stepped away and there are no further questions at this time. I would like to turn the call back over to our speakers for any additional or closing remarks. Over to you?
Abdulla Al-Hay:	Thank you so much. Thank you.
Bobby Sarkar:	Thank you. Thanks. This is Bobby Sarkar again. Thank you everyone for dialing in, and please do get in touch with the team at QNBFS or Mesaieed Petrochemicals if you have any other questions or follow-ups. The replay details are also on the conference call invite. Thank you very much.
Operator:	Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.