

Company:	Mesaieed Petrochemical Holding Company (MPHC)
Conference Title:	MPHC Q1-22 Results Conference Call
Speakers from MPHC:	Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum Mr. Riaz Khan, Head of Investor Relations and Communications, Qatar Petroleum
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
Date:	Wednesday, 27th May 2022
Conference Time:	12:30 Doha Time

Operator:	Good day and welcome to the Mesaieed Petrochemical Holding CO. Q1 2022 results conference call. Today's conference is being recorded and at this time I'd like to turn the conference over to Mr. Roy Thomas. Please go ahead, sir.
Roy Thomas [QNBFS]:	Hello, everyone. This is Roy Thomas from QNB Financial Services. I want to welcome everyone to Mesaieed's Petrochemical Holding Company's first quarter 2022 financial results conference call. On this call from Mesaieed Petrochemical Holding Company, we have Sami Mathlouthi the assistant manager of financial operations, and Riaz-ur-Rehman Khan, the head of investor relations and communications. We will conduct this conference call with management first reviewing the company's results, followed by a Q&A. I will turn the call over to Riaz-ur-Rehman Khan. Go ahead, Riaz.
Riaz-ur-Rehman Khan [MPHC]:	<p>Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all doing great.</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 attending 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 26th of April i.e. yesterday, MPHC published its results for the three-month period ended 31st of March 2022, and today in this call, we will go through these results and provide you an update on key financial and operational highlights.</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, its competitive strengths and overall governance structure by covering slides 5 till 10, and slides 40 & 41; ▪ Secondly, Sami will brief you on MPHC's key operational & financial performance matrix. ▪ Later, I will provide you with insights on the segmental performance. ▪ 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 QatarEnergy with approximately 65.4% stake and the rest is in the free float held by various domestic and international corporates and individuals.</p>

	<p>QatarEnergy 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>In terms of competitive advantages, as detailed on slide no. 8, all of the MPHC's group companies are strategically placed in terms of:</p> <ul style="list-style-type: none"> - 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. <p>Additionally, its partnership with Muntajat, acts as a catalyst for its access to global markets.</p> <p>As detailed on slide 10, from competitive positioning perspective, MPHC ranks among top tier companies in the regional chemical space, across most the matrices and specifically leads the charts in terms of profitability margins.</p> <p>In terms of the Governance structure of MPHC, you may refer to slides 40 & 41 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>
Sami Mathlouthi [MPHC]:	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>Starting with macroeconomic environment, as detailed on slide 12, which remained uneven during the first three months of 2022, where demand for certain petrochemical products slightly inched downward, owing to seasonal effects and buyers' caution on prices after reaching peak during last year. On the other hand, specifically during latter part of 1Q-22, supply side was affected amid Russia-Ukraine conflict enforcing sharp rise in energy prices.</p> <p>For the three-month period ended 31st of March 2022, MPHC recorded a net profit of QR 443 million, up by 17% versus the same period of last year, as detailed on slide no. 16.</p> <p>Group's improved financial performance for the current period was largely attributable to improved product prices, which on an average increased by 26%, and translated into an increase of QR 209 million in Group's net earnings, as you can see on slide 17.</p> <p>On the contrary, sales volumes declined by 14%, versus same period last year, mainly driven by lowered plant operating rates, amid large scale turnaround carried at Q-Chem facilities during the current period. Decline in sales volumes translated into a decrease of QR 129 million in MPHC's net earnings.</p> <p>On the operational performance, MPHC's operations continue to remain robust and resilient with total production for the year reaching 245 thousand MTs. Current period's production volumes declined by 13% versus 1Q-21, mainly due to a largescale turnaround carried out at Q-Chem's facilities.</p> <p>Moving on to quarter-on-quarter performance, MPHC revenue inched higher by 3%, while net profit increased by 5%.</p> <p>Key contributor towards the improvement in revenue and net earnings was mainly linked to better sales volumes which increased by 3%, amid higher plant operating rates. However, selling prices remained flat during 1Q-22 compared to 4Q-21, as effects of higher energy prices were mainly offset by muted demand.</p>

	<p>On overall basis, our base case strategy will be to continue our focus on the strategic drivers of operational reliability in terms of continued improvement in efficiency, and achieving cost optimization 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 Riaz, to cover the segmental performance.</p>
Riaz-ur-Rehman Khan [MPHC]:	<p>Thank you Sami.</p> <p>Starting with petchem segment, as covered in slides 22 till 26.</p> <p>Petrochemicals segment reported a net profit of QR 247 million for 1Q-22, down by 1% versus 1Q-21. This marginal decline in profitability was primarily driven by lowered sales volumes which declined by -21%, as the segment carried out a largescale turnaround at Q-Chem facilities during 1Q-22, which affected the segment's production volumes to decline by 24%.</p> <p>On the contrary, product prices improved by 23% and offset most of the negative impacts relating to lowered volumes. Selling prices improved mainly on account of continued momentum from positive macro-drivers carried from latter part of last year. On overall basis, segmental revenue declined by 4% versus 1Q-21.</p> <p>In terms of segment revenue by geography, as detailed on slide 25, Asia remains a main market for the segment, along with Indian Sub-continent and Europe.</p> <p>Moving on to Chlor-Alkali segment, as detailed on slides 27 till 31.</p> <p>Chlor-alkali segment reported a net profit of QR 189 million for 1Q-22, increased significantly by 51% compared to the same period of last year. This notable growth was primarily driven by a significant improvement in blended average selling prices, which increased by 40% versus 1Q-21, complemented by strength from end-product industries (alumina/ aluminium, polymers, etc.). Sales volumes marginally declined by 3% compared to 1Q-21. On overall basis revenue grew by 36% within the segment. Production volumes marginally rose by 5% versus 1Q-21.</p> <p>In terms of segment revenue by geography, as detailed on slide 30, Indian sub-continent remains the main market for this segment.</p> <p>Now we will open the floor for the Q&A Session.</p>
Operator:	<p>Thank you. Ladies and gentlemen, if you would like to ask a question, you can do so now by pressing star one on your telephone. That's star one i you would like to ask a question; we will pause for a moment to allow people to queue. There are currently no questions in the queue at this time. Pardon the interruption. We do have a question. We will take our first question from Leszek Baranski from Millennium. Please go ahead.</p>
Leszek Baranski [Millennium]:	<p>Thank you very much for this conference call. I wanted to ask a question based on one of the slides I read on one of the slides that utility costs increased visibly. And if you can elaborate a little bit, what kind of utility costs, whether it's gas or electricity, and how is it priced and how much it increased and what's the impact? Thank you.</p>
Sami Mathlouthi [MPHC]:	<p>Well, utility cost it is based on the ethane price that we are having at QVC. So, this is linked relatively in terms of contractual agreement with the providers, which is linked tightly to the end products. And hence we have some bonus that we have to pay in case the final products reaches some ceilings. And that's the main reason for the additional utility costs.</p>

Leszek Baranski [Millennium]:	Okay. So, utility costs, they – they've got similar linkage to product prices at feedstock costs. Is that correct?
Sami Mathlouthi [MPHC]:	They use. This one is for the generation of the power plant that is used for the production of caustic soda and EDC products. And it's linked in terms of as feedstock. It's linked to the final product.
Leszek Baranski [Millennium]:	Okay. Thank you.
Sami Mathlouthi [MPHC]:	You're welcome.
Operator:	Thank you. We will now take our next question from Nitin Bhutani from CBFS. Please go ahead.
Nitin Bhutani:	Hi. Good afternoon, sir. Thanks for the presentation. Well, on one of your CapEx slides, you have mentioned a turnaround related CapEx to continuing in 2022 to the extent of 142 million. I just wanted to know, this is going to be again for both the segments, chlor-alkali and petrochem. And at the same time, what is the likely increase in volumes which one could expect in after all this turnaround?
Sami Mathlouthi [MPHC]:	Let's start first with the turnaround. So, we had one turnaround in Q-Chem, which is in Q1 2022. And this one is planned turnaround. This is one of the biggest turnarounds that we ever had in in Q-Chem. And the main reason for the turnaround is to make sure that the facilities are up to date, and it's not to increase basically the production of the facilities, but to make sure that they're aligned. And then there are no issues to the continuity of those plants. So, we had 39 days of shutdown during Q1 2022 for QVC for the total cost was around from 100 to 220 million USD, and that's only for Q-Chem one. So, we are not planning any turnaround for the other facility at the moment. So, the next turnaround will be for Q-Chem two, which is planned for 2026.
Nitin Bhutani:	Okay. Okay. Thank you.
Operator:	Thank you. We will now take our next question from Shabbir Kagalwala from Al Rayan Investment. Please go ahead.
Shabbir Kagalwala [Al Raya Investments]:	Gentlemen, thank you for the presentation. So just following up on your last – on the last comment which you made about turnarounds and shutdowns. So, what will be the other plant shutdowns coming in for this year? Is there anything in the chlor-alkali segment?
Sami Mathlouthi [MPHC]:	Okay. Thank you. Thank you. So, we have for QVC, we always we plan around 29 to 30 days per year for plant shutdowns. They are not turnarounds. This is mainly due to the aging of the facility. So out of those 30 days, we have used five days in Q1 2022 and the remaining 25 days will be spread over the next quarters. So, this is the plan. So, the plan is around 30 days in total and for the other plant of Q-Chem two so we don't have any plan of shutdowns.
Shabbir Kagalwala [Al Raya Investments]:	Okay. And you had – thank you for that. And you had recently announced a press release about putting up a new plant which will be using the VCM. I just wanted to know that will there be any more? It's to use 100% VCM or you will be needing more gas to produce the chemical to make PVC? And has the gas contract been secured?
Sami Mathlouthi [MPHC]:	Well, thank you for the question. So, the idea is basically to use 100% of the VCM that we produce. We have studied all the benefits that is relating to the PVC project. And one of the main benefits is to reduce the hassle relating to the transportation of VCM and all the logistics around the VCM production and transportation. So, 100% of the VCM will be used in the production of the PVC. And then if we need maybe to add more of this, this will be studied at a later stage. But the initial, so it's the 100% of this VCM will be used and we will secure the feedstock. So, post the expiry of the driving.
Riaz-ur-Rehman Khan [MPHC]:	And just to add, these plants are integrated. So VCM will directly move from the existing facilities towards the new PVC facilities where there is a proper integration among these facilities and they are just sitting next to each other. So, in terms of sourcing of the feedstock, as mentioned in the press release, the source of the feedstock for the PVC will be the existing VCM and the conversion ratio is almost 1 to 1.

Shabbir Kagalwala [AI Raya Investments]:	All right. And what sort of incremental margin you would be looking for with this integration?
Sami Mathlouthi [MPHC]:	Well, at the moment, look, it's all depending on the prices. But however, there will be always a spread between the VCM and the PVC that the wool will generate for the business. So, anything that is additional and any spare that is additional on top of the VCM will be an added value to the shareholder in QVC.
Riaz-ur-Rehman Khan [MPHC]:	And Shabbir, just to value add to add the point here, the spreads are easily identifiable from the markets in the Bloomberg also. So, this is something which is very, very a moving target always because these commodities where we operate, it's very volatile. So, on a certain day, the spreads could be doing very well as compared to the other days where we will be having a margin squeeze. But as far as the trends you will see, obviously will be following the market trends because the quantities which we are producing, we are price takers from the market. So it will always be ending up linking it to the macro-trends.
Shabbir Kagalwala [AI Raya Investments]:	Right. Right. And thank you for that. That's all from my side.
Riaz-ur-Rehman Khan [MPHC]:	Thank you.
Operator:	Thank you. There are no further questions in the queue at this time.
Roy Thomas [QNBFS]:	All right. If there are no further questions, we'd like to thank both Sami and Riaz for the results update and answering all the queries and look forward to speaking to you all for the next quarter results. Thank you.
Sami Mathlouthi [MPHC]:	Thank you so much. Thank you.
Riaz-ur-Rehman Khan [MPHC]:	Thank you all. In case anybody wants to have any further discussions about MPHC, please feel free to contact the QNB FS team or myself and I'll be very happy to host you all for a separate calls. Thank you very much.
Operator:	Ladies and gentlemen, that will conclude today's conference. You may now all disconnect.