

FY 2019 Conference Call Transcript

March 24, 2020 @ 1600 KSA

Michael Chojnacki:

Ladies and gentlemen, thank you for standing by. I would like to welcome you to MEPCO Full Year 2019 results call. At this time, all participant lines are on listen-only mode. The format of the call will be a presentation by the MEPCO team and IR team followed by a question and answer session. You will find the link to the online presentation in your email invitation.

Michael Chojnacki:

Presentation flow is managed in realtime by the MEPCO team and will be reflected on your screen automatically. After the call, you will have the opportunity to ask questions. So without further ado, I would like to pass the line to MEPCO. Bassem, the floor is yours.

Bassem:

Hello. Good afternoon everyone. Thank you for joining us today in these difficult circumstances. As is customary, we will start the call with the forward-looking disclaimer.

Bassem:

Today's presentation will include forward-thinking statements that might not be matched exactly with the performance of the company. The management takes no responsibility to explain these differences, so these recommendations or insights might not be used as investment recommendations in any way or form. So in light of this I will hand over the call to Sami Al Safran to give a business overview. Thank you.

Sami Al Safran:

Good morning. Good afternoon, ladies and gentlemen. Thank you for joining us to discuss MEPCO results for the financial year of 2019, and give you an update about the current situation facing COVID-19 outbreak and future outlook.

Sami Al Safran:

Since it's the current subject now, COVID-19, we'd like to share with you a couple of updates. Since the raising of the subject we have established a crisis management team early March, and they're predicting what's going to be the future and the development situation. Accordingly, we have taken measures in both of our companies, whether MEPCO as a production facilities or WASCO as a raw material supplies facilities. Keeping in mind that both facilities are important and part of the national supply chain, we have discussed early of last week with the Ministry of Industry to pinpoint specifically about the importance of our industries, and how to keep the operations smooth during the crisis time, which has mentioned.

Sami Al Safran:

Thankfully there is a resolution for the Ministry of Industry clearly stating that waste management and paper manufacturing, including packaging, are excluded from any restrictions of operation and movement. We have completely aligned ourselves with the safety regulations whether addressed by the government or by our normal procedures. We have limited the number of personnel in our facilities. We took the maximum sanitization measures to ensure no contamination whatsoever have been approached to our facilities. We closed the gathering area, including prayer rooms, dining, and finally meeting.

Sami Al Safran:

We have distributed our leading team between partially to be at the office and operation, and part of them to be at home. Last but not least, we have taken mandatory checkup of temperature measures from the individuals when they attend in the morning. Even in the last developments of the curfew measures, we have already planned for that one earlier. We divided our operation to be on a 12 hour duty. So during the curfew timing, we will not be in a need to mobilize our team, and in case of emergency there are other measures that have been taken.

Sami Al Safran:

I believe that those kinds of situation tell how much we have prepared ourselves to meet on those challenging situations. So if there is any further development, I think we should be ready for that one.

Sami Al Safran:

Talking in brief about the performance of 2019, it is known that it's one of the years that started with a softness in demand. Accordingly, the prices of the finished goods from the end of 2018 and it continued through the whole year of 2019.

Sami Al Safran:

We have noticed a major drop, which is, I don't call it unusual to our industries, but usually we do not find such kind of a drop except in an average of two or two and a half years. This time, collectively, it went in one year to that level of almost 30% drop in the finished good prices. It's been stimulated by the Brexit situation, the economical uncertainty and the trade war, which was happening at that time.

Sami Al Safran:

The positive side is that by the early of 2020 we have noticed that inventories came to the normal level. Accordingly, there is a price improvement and as a result, maybe a month ago, some of you have noticed that MEPCO has officially announced a \$50 price increase to our finished goods. The positive side of the situation is that the company has achieved record sales in term of volume offsetting part of the price drop. We have also managed to drop our raw material supplies at 15% in term of direct cost of the facilities. Beginning of 2020, beginning of the year, we have seen a strong demand like what I mentioned earlier, supported by the inventory level, supported by the balance of the situation.

Sami Al Safran:

However, the development of COVID-19 have created a major uncertainty to the business practices that we are doing. However, from the positive side, we are still noticing that a balance in a supply, especially from the local market, such kind of a critical situation usually customers are relying more to the local supply. As a result, we at MEPCO are diverting most of our focus nowadays to cater and supply to the local markets.

Sami Al Safran:

From the other side of WASCO businesses, we have talked earlier about the national waste strategy of Saudi Arabia and the ambition that has been mentioned regarding recycling 80% of the generated waste, 20% to be converted to facilities. We believe that will greatly help WASCO in term of supply and raw material prices. We have seen some symptoms earlier of the year that SIRC, which is the national company for waste management, have announced establishing signing the contracts for building EMAAR facilities at Riyadh City. We have noticed that they are already in construction and demolition waste. So I would see with the early 2021 we're going to see more regularized measures regarding the waste supply, which should be realized as a benefit for the business performance.

Sami Al Safran:

Through that time, it's important to highlight how we are positioning our MEPCO. We remain the largest paper maker in the MENA region with the maturity of the 20 years experience building a global food competition in terms of supplying an average of 40% of our sales to almost 50 countries in different world. We enjoy a privilege of 80% local content, which really makes us one of the preferred companies in term of enhancing local content in our manufacturing facilities. We aggressively nationalized our local labor industry through establishing HIPIT which is the institute in collaboration.

Sami Al Safran:

We have managed to raise our Saudization rate more than 40% in addition to subsidizing other industries for the localization process. We have devoted a significant effort in term of the awareness programs about the importance of recycling. We have launched different programs with King Abdulaziz universities, the foundation part. We have launched the campaign of Do Not Litter and Do It. And that lead to enhance the university students and other community to think of recycling. We have actually hosted the Environmental Leadership Certification program, which is done by the university to enhance the awareness of the environmental concern in Saudi Arabia and different activities into hosting the youth to visit our facilities and to understand more of this one.

Sami Al Safran:

Ladies and gentlemen, I'm inviting you to adopt the holistic approach about the MEPCO that is not simply a paper mill but rather a substational operation that is driven by sustainability. A business that contributes positively to its shareholder by a lot more than maximizing their financial values. MEPCO grows by improving the environment around us and is determined to carry on its mission. We are proud of being Saudi company that dominated regional paper industry in two decades and we promise you that the future holds more growth than what we could achieve so far. I will now hand over to Doctor Darweesh for the financial review.

Mohamed Darweesh:

Good Morning and Good Afternoon everyone. Regarding the 2019 performance, MEPCO measured out of the severe price drop in 2019 [inaudible 00:09:32] and there are important achievements on the cost side. The most important [inaudible 00:09:40] is that of the significant difference between the local and the international raw material prices. While the international raw material prices dropped to virtually zero, ours dropped by only 15% causing a serious challenge on our profitability. And then that of the sharper drop of the prices [inaudible 00:09:48] down our net income of income statement. We took our own measures to control [inaudible 00:09:48] and maintain the same quality and yet increases quantity reviews and so. [inaudible 00:10:17]. And so we imported from the international market about 25,000 pounds to [inaudible 00:10:26] the price down, increased use of land [inaudible 00:09:48] to [inaudible 00:10:31]. Changes [inaudible 00:09:48] by using [inaudible 00:09:48] dropped about 15% compared to the last year. [inaudible 00:10:42] just dropped by about 15% by eliminating use of equipment. Decreasing the value or finance cost by about 5% through negotiation with the bank and settling the extraneous debts. [inaudible 00:11:08] changing the class for business travel [inaudible 00:11:11] adjusting the medical insurance level which resulted in a reduction of 1 million Saudi riyal. The administrative service dropped by about 5 million by reducing the number of [inaudible 00:11:24] and high cost employees [inaudible 00:11:28]. The cash cycle front [inaudible 00:11:31] the operating cash flow by about 135 million Saudi riyal. Our debt level increased only by about 39 million. While finance costs decreased by about 1.2 million due to success communication with the banks. Further more, we achieved 160% of the budget target [inaudible 00:11:56] prediction did so [inaudible 00:11:57] an issue is [inaudible 00:11:58] in industry. Finally, I would like to assure everyone that our operation are continuing normally to

support the local supply chain. Stay safe everyone. We are available to address any questions. I will now hand over to start the question and answer session.

Michael Chojnacki:

Thank you very much. If there are any questions, please press star two on your keypad. Star two for questions. If you have dialed in online, you may ask a question with the online question button. So, star two for questions on the line and the question chat button on the web app.

Michael Chojnacki:

So once again, star two for any questions on the line. So the first question is from Al Anoud Al Rasheed from Jadwa Investments. Please go ahead, Al Anoud.

Al Anoud Al Rasheed:

Hello. As-salamu alaykum.

Bassem:

Wa alaykumu s-salam

Al Anoud Al Rasheed:

I'm sorry my call connection is not that good, so I missed some numbers. I just have a couple of questions on pricing. So you mentioned that prices improved in the in early 2020 however, the COVID-19 caused some uncertainty. How do you see basically 2020 panning out especially because we see online packaging going up. How do you see that in demand for your finished product?

Bassem:

Okay, thank you Al Anoud. Ahmed El Fazary will answer your question.

Ahmed El Fazary:

Hello, Al Anoud, hello everyone. This is Ahmed El Fazary, the Chief Commercial Officer. To answer your question, the first part I'll just emphasize a little bit on the first part, which is the reasons why we show prices improving globally in general in the container board and packaging market. This has been basically driven by an improved demand in our region and in Southeast Asia, which helped reduce the global inventory levels and increase the backlog orders at paper mills. Which helped improve the prices and boost a little bit the prices. How do we see the COVID affecting this going forward? At the moment, of course, we see a spike in demand because of course there's a huge increase in demand in grocery shopping and online shopping. Going forward, it's extremely difficult to anticipate what's going to happen, but we're quite confident that things are quite comfortable at the moment. But, going forward it's still too early to anticipate.

Al Anoud Al Rasheed:

Do you expect your exports to be impacted? Because, as you mentioned, you're moving some of your production to local consumption.

Ahmed El Fazary:

We're still definitely maintaining a sufficient market share in our regular export market. But we have been traditionally and we remain very dynamic in our sale strategy. So definitely our local market now requires more supplies from the local mills and this is part of our... I personally see it as a social responsibility and definitely it's to fulfill the demand that cannot be fulfilled through neighbors.

Al Anoud Al Rasheed:

Okay. Thank you very much.

Bassem:
Thank you.

Michael Chojnacki:
Thank you. We'll give maybe one more round for any additional questions. Star two for questions or if you have dialed in with a web app, please ask your question there.

Michael Chojnacki:
Okay, given we have no further questions, I'll pass the call back to the MEPCO team to conclude the call today. Thank you.

Michael Chojnacki:
Mr. Sami, the floor is yours. I will pass over to you to conclude the call.

Bassem:
Okay. Thank you Mike. If we have no further questions, I would like to thank everyone for participating today. Please reach out for us if you have questions, we're available to answer your questions. Thank you very much.

Michael Chojnacki:
Thank you.

Bassem:
Okay, Mike,

Michael Chojnacki:
Thank you very much. We're closing the line.

Bassem:
Thank you, Mike. Thank you all.