

Middle East Paper Company

CONFERENCE CALL DEDICATED TO MEPCO FINANCIAL RESULTS Q1 2022

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Participants:

- Sami Al Safran, Chief Executive Officer
 - Abdullah Al Yabis, Chief Financial Officer
 - Johan van Vuuren, Chief Transformation Officer
 - Sarah Moussa, Investor Relations Manager
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Ahmed:

Hello, everyone. I will start in five minutes just to give a chance for people to dial in.

So, good morning and good afternoon, everyone. This is Ahmed Mahmoud from CI capital. We are very glad to be hosting Middle East Paper Company's second quarter, 2022 Results Call. From MEPCO Management we are joined with the group president, Mr. Sami Al Safran and the new group CFO, Mr. Abdullah Al Yabis and Mr. Johan van Vuuren, the CTO, and as well as the new IR, Ms. Sarah Moussa. I hope I pronounced that correctly. I think we have most people connected now so I will hand over the call to Ms. Sarah and the management. They will provide us with an update over the company's second quarter, second Q performance. And then we will open the floor for Q and A. So Sarah, please go ahead.

Sarah:

Hi, ladies and gentlemen, I'm Sarah Moussa. It is my pleasure to join MEPCO as the Investor Relation Manager, following the steps of my previous colleague who has added so much value in the Investor Relation department in MEPCO. Thank you for joining us today. We will begin to forward looking disclaimer. Although our management has made every effort to present a fair value of MEPCO's operational and financial performance, it is important to acknowledge the expectations about future results. The common line of prevailing operational, financial and market conditions may change in the future. Management does not give forward looking statements for financial investment decision purposes, does not take responsibility to explain differences between the future and actual results stated in the course of this presentation. We are joyous to share with you one of the milestones MEPCO has achieved this quarter. Achieving high profitability margins, which are backed up with strong financial positions, marketing and operational excellence.

MEPCO continues its success in sustaining higher top line as revenues increased by around 45% year on year. MEPCO successfully mitigated risk of some of the logistic challenges, gaining a higher

market share locally and satisfying local demand while maintaining exports to our entire international customers and achieving a stronger financial position. The total debt decreased 10.5% year on year while the EBITDA increased 114% year on year. We are on schedule with our expansion plan for the tissue factory, which is estimated to satisfy around 25% of the local demand. Around 55% of the total construction phase is finished and we are currently installing equipment and assessing the recruitment for the tissue factory. We have issued cash dividend of one side [inaudible 00:08:10] share as final dividend for the year ending December 2021. And we continue to build our providing higher shareholder value as MEPCO has announced yesterday, printed out, the board of director's recommendation to increase capital by granting bonus shares, which will raise the capital by 33%.

I am happy to announce the joining of the new management member, Mr. Abdullah Al Yabis. He has taken over the CFO role as Mr. Johan van Vuuren has taken the role of Chief Transformation Officer. Mr. Abdullah has more than 24 years of experience. He has held various positions, 14 years of which he has spent in the oil and gas sector, the majority as Chief Financial Officer. Mr. Abdullah brings a wealth of experience and will be focusing on furthering, transferring our financial platform in support of our growth and continued focusing on continuous optimization across the organization. Mr. Johan will focus on execution of our strategy and lead our organic and inorganic growth initiatives to cement our position as a regional industrial champion and fully integrated paper and packaging producer. We wish both of them all the best. So, I don't want to take much of your time as we are eager to receive all your questions and let's begin. Thank you.

Ahmed Ci Capital:

So please, if the management would provide us... Thank you, Sarah, for your introduction and your insights on the queues. Can you please tell us more about the industry trends and regarding the container board and the OCC before we move on to the Q and A?

Sami Al Safran:

Good afternoon, gentlemen. Internationally container board industries is one of the healthy industries, which is a growing globally in the pace of 3% annually across the whole globe. It's been seeded up by the eCommerce, which went aggressive during the pandemic season. And nowadays we've seen the economic pickup is really increasing the demand. We do not have the statistics of course for 2022, but probably very soon we'll be having this one, which we anticipate that it is beyond this one, due to the fact that 2022 years was, or is, a very healthy year. It started with the higher demand in addition to the geopolitical situations that created a challenge in term of a supply chain and availability for material.

Like what we mentioned earlier, we anticipated, we have seen a kind a stabilization in the prices, the demand is starting to be more mature, but it's really very early to define whether it is really a downward trend or not. Probably within another two months, we will have a better look, whether it'll continue in that base or might be changing. From the raw material side, definitely with the increase of a demand of a container board, we have noticed an extensive demand in the raw material OCC. The prices went to reporting a very high level.

However, in the case of MEPCO, we haven't seen this one, due to the fact that waste paper had been regulated from the national waste center, MWAN. And for the first time we have seen that the indices or the local prices inside Saudi Arabia is in par with the European and the American market. that's in quick, how it is happening and definitely we are open for further questions.

Ahmed Ci Capital:

Okay. Thank you so much, Mr. Sami, So now we move on to the Q and A. You can type in your question in the Q and A section, or you can raise your hand and the line will be open for you to ask your question. So, we have our first question. Can you please comment on the cost drivers for the second Q and what explains the Q and Q drop in margin?

Sami Al Safran:

Well, like what we mentioned earlier, the key driver for Q2 had been driven by many resources. Definitely one of them is the increase of the finished product prices. But also, we have mentioned that, during this time, we have managed to also increase our production. Sorry, increase our sales by almost 4%. In addition to, as MEPCO is an agile model, we managed to maintain the cost increase of the import materials as much as we can, and that actually created the favorable financial result as we can see.

Ahmed Ci Capital:

Okay, sure. Faisal, you can unmute yourself and ask question.

Faisal:

Yes. Hello, gents, can you hear me well?

Ahmed:

Yes, we can.

Faisal Khasawneh:

Hi, gents, thank you for the call. My question is really about line four. So, it's been announced, since 2015, I believe, and nothing get happened on that. It was put on hold and still is. Wondering whether the company will go ahead with it or whether it was put on hold for reasons around maybe insufficient demand or insufficient raw materials? Thank you.

Sami Al Safran:

Thank you, Faisal, for the question. It's a very vital one. Yes, actually, since we announced the expansion and we run the feasibility at that time, there was some changes has happened in the market. One of them was actually the continuous escalation of the raw material. The regular dumping activities was happening in the market. In the last five years, we did not sit ideal actually. We did two things.

Number one is that we are creating now more organized market through multiple anti-dumping cases. One of them have been raised early 2017. If I remember things well, the addition came to our favor against Spain and Poland. Now there is another active anti-dumping cases under investigation against India, Germany and France. The initial report came from that. SAPPI confirming the dumping activities. The investigation is going on. Within the maximum six month, we should hear a final resolution for them.

Finally, MWAN, which is the national waste center have taken a lead to regulate the waste labor activities inside Saudi Arabia, by controlling the export, by making sure that demand is available in the local market. Definitely that is creating a favorable environment to re assist the expansion on that field. But at the same time, like what we have announced earlier, rather than we said, ideal we have already announced two major milestones. I think one of them is our entries in the tissue industry where we have announced a 60,000-pound machine that should cover 25% of the market demand. Also, we have

announced our joint establishment of Estidama, which is a company focusing in the waste management collaboration between WASCO and the general municipality, and Estidama is coming in line completely with the Saudi vision about waste management for the complete diversion of recyclables by 2035 from the landfills to create value in that industry.

Faisal:

Thank you very much. That's very clear. Maybe if I can ask another question if that's okay?

Sami Al Safran:

Please.

Ahmed Ci Capital

Sure. Go ahead.

Faisal:

Yeah. So on the tissue expansion, the potential is there, but it seems too big to come all at once, 25% of the local demand. So I'm wondering whether there any maybe initiatives by the government to localize this or to achieve import substitution, something that is communicated to you for your supply to have demand, basically?

Sami Al Safran:

True. To give you some statistics, Faisal, Saudi Arabia is importing almost 60% of our need from abroad. That with Saudi Arabia is one of the top 10 countries in the world in importing their needs for the tissue. So, the objective for this expansion project is really to close the gap between the supply and the demand and to localize the industry. At the same time, the Saudi government have announced their duty implementation on their imported tissue. It reaches at a certain grade up to the level of 18%, if I remember things well. So definitely, yeah, that is creating for us and this is why, when we build our growth strategy in the tissue industries for the new project, we focus that majority of the product will be sold in the local market. And probably partially only less than 10% will be exported for the regular strategy of MEPCO. That when we build labor industries, we do not focus only in local need rather than we have our international presence. And this is what we are doing in MEPCO.

Currently, we are exporting an average of 40% of our product outside the country for sustainability, for the growth feeding and for the resilience purposes. And this is the same thing we are trying to do in the tissue. We are targeting to create a strategic player of the tissue industry. Our objective is to localize the industry.

Faisal:

Oh, okay. Thank you very much. That's very clear.

Ahmed Ci Capital:

Okay. Yusuf?

Johan Van Vuuren:

So sorry, Yusuf, before we move on, just one short note in addition to Sammy's response to Faisal's question. Obviously for us, it's a sustainable and responsible, cautious way to enter the tissue industry.

You will recall from previous communications that Sami and I made to the market with regards to the land in which we're building the facility, we are only utilizing one third of the land, which we purchased sometime back. So we are currently evaluating what is the best and most profitable way to utilize the remainder of the land. Whether that is further container board or tissue production will be communicated once the feasibility of the most feasible way to utilize the land is known to us as a management team.

Ahmed Ci Capital: Thank you. Yusuf, the line is open for you. Please. Go ahead.

Yusuf:

Okay. Hi. I'd like to congratulate you on the set of results. My first few questions are about current OCC prices and container board prices. I understand they're steady for now, but can you give us an average of where they're at, at the moment and your outlook for the rest of the year?

Sami Al Safran:

Thank you for the question. The OCC prices, probably I can speak about the indices here. When we here, it was on an average of a \$200 internationally. What we have seen here now in the last one month, the OCC prices have dropped almost by an average of 25%, but this is not the case with the pulp. The pulp remains tight and solid. It is in an average of \$1,000 and has not responded to the downer trend yet. Of course, with minor deals at probably 1,100 to 1,200, which actually create more, we call it uncertainty, whether this is a downward trend or not. Regarding the container board prices, we have seen stability in this quarter. It is very early to judge whether this is a startup of a downward or not like what I mentioned in my discussion.

We should be looking up to the month of September to see, because reality, while there is actually an increase of inflation mitigated by the interest rates, we have seen that some of the factors that created this escalation has not been vanished yet. Supply or logistic challenges remains there. Countries under geopolitical aggression are not able to export their raw materials of pulp. At the same time, the demand remains there. We have seen a slight economic improvement in China, which, if they come to the market, they will create a big stress into the supply and demand and maintain it. And from the other factor, like what I've seen... I've seen the increase of interest rate that trying to mitigate the inflation. So, between those two positive and negative uncertainties, it's really difficult to anticipate how things will be going forward.

Yussuf:

Thank you, Mr. Abdullah. That's very understandable, but I have follow up question on virgin pulp now. I understand that OCC is around 80% of manufacturing costs and it's sourced... Mostly it's sourced locally and with the new waste management laws and all of that, I think prices should be, and could be, stable for the rest of the year. But in terms of virgin pulp, I think you export or import most of it. So, it's affected by the current supply chain disruptions. Do you have any idea on how long these supply chain disruptions should continue and what are the main reasons behind them?

Sami Al Safran:

You are correct. It is perfectly true regarding our demand in term of local OCC. However, just to tap up that even the local market is responding upward and downward based on the international prices. So once there is a downward trend internationally, we do see it in Saudi Arabia. But to give you an example, like before regulating the market, the local OCC prices in Saudi Arabia was double than our

peers in Europe and United States. Today our local OCC markets is in line with the European and the American OCC. Now this means that if the international trend is going downward, theoretically, the local market should go also downward.

Regarding the pulp... Yes, I agree with you. I mean, there is no uncertainty now regarding how it'll be ending. Honestly speaking, I do not have an answer behind it because our actual responsibility is to mitigate those impacts. And you could see that, when we release our information about the market situation, we have mentioned that we have increased our local sales demand by 10% due to the geopolitical disturbance, focusing in the local market, which definitely also financially it is more advantageous. At the same time, we keep our presence in the international market, being our always cautioned market to maintain our operational efficiency at the maximum. We are doing our best to control all different type of costs because we believe this is the winning game in the container board industry. It's a thin margin industry, and you have always to be a cost leader in everywhere. And thankfully we are monitoring our cost domain through official statistics stand. We always see ourselves are in the lower range.

Yussuf:

Thank you, Abdullah, but can you please comment on where the supply chain disruptions are coming from? Like, what is the main reason behind it?

Sami:

You said this. Sorry, can you repeat your question, please? And my name is Sami by the way.

Yussuf:

Oh, sorry, Mr. Sami. Sorry. I'm very sorry, Mr. Sami. I'm asking, can you please comment on where the supply chain disruptions are coming from? Like, what is the main reason behind the supply chain disruptions for MEPCO?

Sami Al Safran:

Yeah, for the case at MEPCO, the supply chain challenges happened positively from one side, the negative from the other. It happens positively from the finished product sales. Due to this obstacle, we have seen it that the dumping activities, although there is no resolution, but it went in control. At the same time, it gives us actually a favorable situation on the sales inside Saudi Arabia, and then nearby countries, because one of our most active export markets, the majority of them are covered by inland transportation, which means the impact of the logistic high cost has not yet impacted as heavily in the majority of our sales, whereas remote markets like North Africa... Sorry, Northwest Africa, Europe or America or Asia is costing us higher.

So that's one of the ways that we have mitigated the cost from one side, but we captured the benefit from enhancing our sales inside Saudi Arabia and nearby market, which are reached by trucks.

Regarding the supply side, we have seen some challenges in term of instability of supply for the input materials. Thankfully, we have actually a great risk department that is actually monitoring what is happening and building a recovery plan to avoid any disturbance. We maintained our high operating rates in the mill. We did not have a stop due to a lack of any supply of materials. However, again, there is a marginal impact in term of the import of chemicals of fiber in term of the cost of the shipping or the direct material costs.

Yussuf:

Thank you very much, Mr. Sami That's very clear. I'll leave the line for anyone who wants to ask a question.

Ahmed Ci Capital:

Okay, Sayed, your line is open. Please, go ahead and ask your question.

Sayed:

Hello. Thank you, gentlemen for the call... I just wanted to understand, just to reiterate this understanding. The quarter or the... For the second quarter, the prices, average selling price, actually increased in by 46%. That is what you've actually indicated in your press release. And as compared to that, how is utilization looked through the second quarter? Are we still looking at 95% and above?

Sami Al Safran:

It's a 92% and above a fully utilization. Like what we mentioned a year to year, we increase our sales by four percent in term of volume. We have increased our local market share.

Sahid:

Okay. And essentially the average prices that you realize were more 46% ahead, 45% ahead, year over year through second quarter?

Sami Al Safran:

Look, it's difficult for me to answer this question, but I think probably... I'm sure you mean probably in term of sales value, not an average price?

Sayed:

What I need to understand is that the OCC, as you said, average around \$200 per ton through second quarter. Roughly, you said. And they've recently defined by 25% quarter of a quarter. Just wanted to get a sense of how much of this has moved from the first quarter onwards. Because again, I'm trying to put together the pieces. The same quantity is sold, hasn't moved quite a bit. Obviously, your average selling price has continued to move higher quarter over quarter, which is why you... Which is therefore the results that we've seen. So, I'm just trying to put the pieces together in terms of... Because what we understood from the international markets was that second quarter was largely flattish. Well, from what you are reading is, and from what the results say, you've experienced an increase in the average selling price to the second quarter. Am I correct in understanding that?

Sami Al Safran:

Look, I'm not an expert definitely. I mean, somebody is more expert than me, but what we have seen in term of the selling prices has been flattened only in the Q3. Q2 was actually still ahead of previous quarter. Now there is bits and pieces due to the geopolitical disturbance. You might see some areas internationally, prices get flattened, but this is not what's happening with the rest of the world. Finally, keep in mind saying that when we operate in MEPCO, as we are a 24/7, operating the company, we always keep orders on hand, on an average of two to three months and the same thing we keep for the raw material. So usually, any impact you don't see it immediately. You see it after a period of time.

Sayed:

Right. Yeah, I think that's pretty much what my question was, is with regards to this time lag is... Are the results probably lagging the international market movements primarily because you're enjoying the good times? Is this, sort of, how we should read the situation because there's maybe a one-to-two-month lag in terms of the arrangements that you have, the contracts that you have in place and the pricing that you've received? However, the revenue that is recognized is in the second quarter, let's say, but on first quarter average prices. Is that a fair assessment of how things are operationally?

Sami Al Safran:

Yeah. This assessment applies toward Q3.

Sayed:

Okay. All right. Perfect. Perfect. Thank you. That's clear. Thank you. Appreciate it.

Johan Van Vuuren:

Sayed, Johan here. So just one further comment. If you are comparing total Q1, 2022 versus Q2, 2022, the main reason behind the increase in revenue amount is driven by volume more than price. And you will recall, when we had the Q1 announcement and the investor call, we mentioned that we've faced supply chain challenges in finding ports, from which to export our product related to quarter one volumes. We've actually caught that up during quarter two. So, the volume increase quarter to quarter was roughly 12-13%, in line with what you are mentioning. With regards to stabilizing prices of our container board prices, there has been very low single digit increases this quarter.

Sami Al Safran:

Now, Sayed, while my colleague is commenting and referring back again, look, the 44% is the sales value, which is comparing H1 with H1 last year. Quarter to quarter is only 13%.

Sayed:

Yeah, perfect. That's clear. I think the way I understand this, and I think this is clear for a lot of exporting companies, is essentially, there was a lot of hiccups in the first quarter, which a lot of that was not recognized or some of that was not recognized. And now it has been recognized in the second quarter. So, you see that bump quarter to quarter, both in terms of sales quantity, in terms of overall sales and sales quantity, and maybe that bump is not sustainable as a utilization level. That's what I was trying to connect with because a lot of this that came in the second quarter was really supposed to come in the first quarter, but because the supply challenges has been recognized in the second quarter, if I understand this correctly.

Sami Al Safran:

I think you're doing good homework, Sayed. But I think since the early of last year, we have clearly mentioned that we are actually facing a favorable situation in terms of a demand and prices. And it's been regularly reported. If you compare always like Q4, Q1 and Q2, they are actually, to that high level mode, which is average of a 90 million per performance. And we maintained on that 90 million performance with a slight increase like this Q2 was 99 driven mainly from and partially by the increase of volume. The other part is continuing the increase of the, you called it, main conventional grade of materials. And that really impacted the profitability. Probably like an average price with an average price

between Q1 and Q2, they are almost the same, maybe some minor differences, but almost the same. But looking to the non-conventional grades that we are selling, we increased it by 5%. Volume had been increased by 4% and that created the Delta of the eight million performances.

Sayed:

Yeah. Perfect. Thanks. And just one last question regarding Estidama. How much of that is starting to factor into margins or will be into the future? I just wanted to get an understanding of the size and scale that we're looking at with the Estidama and the timeline.

Sami Al Safran:

Thank you, Sayed for asking the questions. Look, Estidama started targeting to represent about 25% of the size of Wasco. Thankfully, although this is the first establishment here for the company, but we managed to maintain the numbers in a positive mode. I know it's a single digit, but for us, this is considered to be a very promising future for very simple reason, that Estidama is the first company which works completely in line with the Saudi vision for regulating the market regarding the control of recyclables and investing into the waste management. So, I think for the first commercial year for Estidma, I'm very delightful to see this result. And it is a very promising result to me.

Sayed: Thanks

Ahmed Ci Caital:

I want to remind you that you can type in your questions if you have any in the Q and A section, or you can raise your hand and the line will be open for you to ask your questions. Faisal, go ahead. The line is open for you.

Faisal:

Yes. Hi, again. I have two questions. One, maybe you talked about that and I missed it, but maybe on the sustainable level of gross margin over the next three, five years, especially with the tissue expansion, that's number one. Two, in terms of competition in the recycling side of the business, we've heard after getting into it and maybe others. I'm not sure, but do you see competition impacting the market? Thank you.

Sami Al Safran:

Faisal, I heard the first question, but the second... Sorry, the second question. The first question, the voice I missed it.

Faisal:

Sorry. On margins, I was asking about the sustainable level of gross margin over the next three, five years. Meaning, with the normalization and prices one and inclusion of the tissue business, where would gross margins be on a sustainable level of society?

Sami Al Safran:

Look, it's... This is actually one of the things that we and MEPCO are paying a great attention to. It is really not to achieve a single time winning and then lose it being a market taker. And this is what I think I referred in the first question, which has been raised earlier about being informed for and the reason of

preparing because the Saudi market at that time was suffering from a lot of things. Number one, severe dumping activities. Number two, a lack of control and raw materials. The specifications were not active. Three years ago, the ministry of industry recognized our container board as one of the heavily damaged industries and they recommended to take different measures to enhance and support the industries. One of them is that, for the first time in the last 25 years, SASO has launched the technical specifications of the paper.

And now SASO is... Or the ZATCA is monitoring the market to make sure the local available materials are in line with the specification, which we believe that will help a lot to remove part of the low-quality conviction in the market. The second thing is the anti-dumping cases that we have raised it, which we believe we are actually welcoming the conviction. We believe it really addresses our capabilities, as you can see, we are present in different countries in the world.

That means we have a competitive product in terms of quality and costs. But the severe dumping activities was of a headache for us. Now I could see, thankfully, that those cases are going smoothly. One of them is decided, and the other one to be finalized within the coming six months, which creates actually stability in the market. And finally, is the raw material, which was actually heavily exported before the regulation of the MWAN.

The Saudi Arabia was exporting an average of 250,000 tons of waste paper. At the same time, we, as a paper mill, we used to import an average of 150,000 tons to cover up our demand. Now, with this regulation that came in a force, we have seen a drop in terms of exports, a satisfaction from the local market, and most important is controlling the prices of the raw material to be similar to the rest of the world. All those three main measures actually are beefing the stability of performance, the business, which actually gives us the room to assist our expansions in a comfortable way and hopefully we might hopefully to hear some good news in the coming near future. Now, the tissue industry is another angle of a divergent of the business. MEPCO is strong in terms of paper production. Most of our management team are actually carrying the background of tissue industries.

And now, when you enter in the tissue, you are entering in a segment that is different than the container board. And usually, we do not see that the tissue is moving in line with the container board's prices, because it's not depending on the recycle, it's mainly a version pulp, and it's usually it's scattered from the local market margin. And finally, the waste management question.

Look, Faisal, we know that the new ambition of Saudi Arabia about waste management, that opened a potential floor of an investment and average 120 billion Saudi Riyal in the coming 15 years. Now the great news that WASCO, in a well position in the last two decades, we are controlling 50% of the recyclables market in term of plastic endeavor in the Saudi market. And this is why we have been chosen as strategic partner with Jeddah municipality to establish the company. WASCO is the most suitable company to capture the new regulations and to adjust with, and thus have been proven so during the past five years, we have actually got all our license from the MWAN center. We have actually converted more than 95% to be in line with the regulations of Saudi Arabia. Thankfully, we are practicing a business that is as needed here, and that definitely will open the floor for WASCO to grow further in that.

Faisal:

Thank you very much.

Ahmed Ci Capital:

Thank you, Mr. Sami. So now we have questions from Abdel Rahman. He's asking about the decrease in total debt year over year, and what is the target that debt to equity ratio for the company. And he's also asking about the geographical revenue mix for this quarter.

Abdallah Al Yabis:

So, for the totality, it was reduced by 35% from the same period last year to reach 0.46. Our target is to maintain it at assembly, like 0.5 more or less.

Ahmed Ci Capital:

Okay. And regarding the geographical revenue mix for this quarter?

Sami Al Safran:

Like what I mentioned typically we are on average of 60%, this last quarter was an average of 63%, which I believe we will maintain this revenue from the local market, Saudi Arabia. For the remaining 40% to export markets, almost 50% of it are inland transportation sales for the countries nearby like GCC, Jordan, Yemen and very few to Syria. Then the other nearby markets, which is not inland transportation, is Egypt. And the remaining 50% are in north Africa, which represent another 25% of that remaining. The remaining, let's say 10% of the 40%, goes to the favor of Europe and the North America.

Ahmed Ci Capital:

Okay. Thank you, Mr. Sami. So, we have another question regarding the tissue plant. When should we expect the tissue plant to go into operation? And could you quantify the impact on operating expenses, if any?

Johan Van Vuuren:

Firstly, with regards to the commissioning date of the plant - That remains in line with what we've always communicated being the end of quarter one next year, 2023. And then with regards to the operating expenses, please bear in mind that this is a new and [more] automated facility. We are building the facility on the land that I've referred to earlier. So, with the exception of tapping into centralized know-how and experience across the group, the business will truly operate as an independent business unit. The operating margins you can expect and plan for, in line with, or slightly higher, than the operating profit margins that we've seen in MEPCO currently arranging between 30-34%. And as I said, we expect the tissue to be more or less in line or slightly higher or better than that.

Also, please bear in mind that the fixed cost to operate the facility will be dramatically lower. This is a brand-new machine it's far more automated than our current facilities in the south of Jeddah. So, we do expect that the operating cost, or fixed operating cost at least with regards to manpower requirements, will be significantly lower than that across the group.

Ahmed Ci Capital:

Okay, thank you, Johan. So, I have another question regarding the transportation cost in the production process. So, can you share with us the cost of fuel or diesel that you pay for transportation? How much is it?

Sami Al Safran:

Regarding to MEPCO business, usually the transportation is through an outside source. We pay for the shipment cost. As most of us are aware that the local market in Saudi Arabia has not changed much due to the fact that no major changes has happened, including the fuel cost of transportation. So, I mean, we shouldn't anticipate any surprises. The only cost implications happened in the remote targeted countries like Algeria, China or south of Europe. For example, China, our cost has increased from an average of \$20 close to almost \$30. But from the other side, when it comes to Algeria, the cost has almost increased more than three times from an \$80 almost to \$200. So those are changing and we have seen it in the financial results the S.G & A went higher and how we work to mitigate that one by focusing mainly in the local market. In general, all in all, the other cost impact is from WACO side. But usually, the fuel cost for transportation is very minimal in terms of our cost of operation.

Ahmed Ci Capital :

Okay. That's very clear. So, we have another question from Abdel Rahman. He's asking about the version pulp for the tissue plant. Will it be procured locally or internationally, and are there any local content requirements that could affect MEPCO?

Sami Al Safran:

Well, when answering the first part, more than 80% of the tissue mills globally are importing their needs. It's not uncommon to see the pulp producers are converting to tissue, except for example, in the case of APP Indonesia and yet Indonesians APP are not exporting tissue. They are exporting mainly pulp due to the fact that when you ship tissue roles, it's a light weight. So, the cost of shipping contributes very high on the business. So, this is why most of the mills, they build the tissue mills in the nearby consuming area and they convert it for themselves. And this is why you could see that in the tissue industry, there are no international names are distributing across the globe. Usually, you find them more of the locals, other than few names, like for example, Kimberly Clark groups or others, but the rest are localized by local industries.

So, this is what we are doing here in the tissue industry. We are trying to localize it. The second part regarding the local content and MEPCO, the local content represents more than 80% of the cost of our production and in terms of the tissue, we anticipate to go lower, but still we will be in the higher level as majority of the cost input will be coming from the local market between fuel supplies, materials, manpower, other consumables. So other than the pulp, the majority will be consumed from the local market. At a consolidated level we would be more than 60% as a local level.

Ahmed Ci Capital:

Okay. Thank you, Mr. Sami. Yusuf, your line is open. You may ask your questions.

Yusuf:

I have two questions, please. My first question is regarding updates on the current ongoing anti-dumping cases. And my second question is in regards to the announcement of the capital increase that was announced yesterday. Can you just give us a conclusion on where this money is going to be allocated?

Sami Al Safran:

I will answer you the first part and my colleague will answer the second part. Regarding the anti-dumping... MEPCO have raised an anti-dumping case in 2017 or 2018 against Spain and Poland and the resolution in 2019 came to our favor, confirming the dumping and applying duties on an average of 24 % to 30% on the dumping countries, which really, thankfully, we have seen that countries like Spain are no longer competing in our region. Now, last year, the GCC mill have filed an anti-dumping case against India, Germany and France. And we supported the case due to the fact that yes, there's dumping practices happening in the region. Early of the year, the initial investigation report came to the favor of us confirming there is dumping activities at a certain range. And usually the technical, attach of the GCC will continue for another maximum one year for further detail investigation before they come with the final resolution.

Six months have passed and the remaining is another six months. Hopefully to hear a final resolution against that one. Honestly, all indications are to our favor, but we cannot really indicate any directions until the final decision. Regarding the second part about the capital increase. I will leave it to Mr. Abdullah to answer it. Or sorry, Mr. Johan to answer it.

Johan Van Vuuren:

Let me, maybe, just give a bit of background to this. The audience will recall that over the last 18 months, Sami and I frequently communicated our desire to return money to our shareholders on a more frequent basis through dividend distributions. Now; our updated dividend policy includes both cash and non-cash dividends. The stock dividend that was announced yesterday, being a prime example of the latter. So, in terms of the cash retained through this process, all of it, or most of it, will be attributed to growth.

We have an aggressive growth profile, although not much has been communicated yet to the market with regards to that only because of the maturity of those. But other than the tissue project, obviously, which is well on the way, there's quite a few other organic and inorganic (i.e. M&A) opportunities being evaluated, as well as feasibility studies being conducted on organic growth opportunities. Once we feel that it's the right time to communicate those opportunities and that we've taken final investment decision on those, we will communicate that. But in terms of the cash usage, we can confirm that most, if not all of it, will be used for growth.

Yusuf:

Thank you. Thank you very much.

Ahmed Ci Capital :

Thank you. Saleh, here. your line is open. You may ask your questions.

Saleh:

Can you hear me?

Ahmed Ci Capital:

Yes, we can.

Saleh:

Mr. Sami, I just want to ask, you mentioned the transportation cost. You said that it's \$20 per shipment for China.

Sami Al Safran:

No, it's \$20 per ton.

Saleh:

Yeah. That's ton. What about the transportation locally?

Sami Al Safran:

Local transportation, of course, it's varying. Let's say if we talk about the far east, the demand usually it's costing us an average of \$20. If it's within the city of Jeddah, it goes as low as \$4.

Saleh:

Okay. Thank you so much.

Ahmed:

Okay. Thank you all. It seems like we have no further questions. I will leave the line open for the management for ending remarks.

Johan Van Vuuren:

One comment to the audience. Thank you once again, for a very fruitful participation. That's always very comforting for us as a management team, that the people that do attend these calls have a deep interest in the sector and a deep interest in MEPCO as the regional champion for the sector. So that's very much appreciated by all.

Ahmed Ci Capital:

Thank you all. Thank you, Mr. Johan, Mr. Abdullah and Mr. Sammy, and Miss Sarah. Thank you all for attending and hopefully we meet in the next quarter. Thank you.

Sarah Moussa:

Thank you, Ahmed.

Ahmed Ci Capital:

Thank you. Bye.