صنـاعــات قـطـر
Industries Qatar

Company:	**Industries Qatar**
Conference Title:	**Industries Qatar (IQCD) Q1-21 Results Conference Call**
Speakers from IQCD:	**Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum** **Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
Date:	**Monday, 3 May 2021**
Conference Time:	**13:00 Doha Time**

Operator:	Good day and welcome to the Industries Qatar Q1 2021 results conference call. Today's conference is being recorded. I would like to turn the call over to Bobby Sarkar. Please go ahead, sir.
Bobby Sarkar:	Thanks, Diane. Hi. Hello, everyone. This is Bobby Sarkar, head of research at QNB Financial Services. I wanted to welcome everyone to Industries Qatar's first quarter 2021 results conference call. So on this call from Qatar Petroleum's Privatised Companies Affairs Group, we have Abdulah Al-Hay, who is the Assistant Manager for Financial Operations, and Riaz Khan, who is the Head of Investor Relations and Communications. So, as usual, we will conduct this conference with first management reviewing the company's results, followed by a brief Q&A. I would like to turn the call over to Riaz. Riaz, please go ahead.
Riaz Khan:	Thank you Bobby. Good afternoon and thank you all for joining us. Hope you all are staying safe. DISCLAMER: Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of IQ and no media representatives should be participating in this call. Moreover, please note that this call is subject to IQ's disclaimer statements as detailed on slide no. 2 of the IR deck. Moving on to the call, on 26th of April, IQ released its results for the three-month period ended 31st March 2021, and today in this call, we will go through these results and provide you an update on the key financial and operational highlights of IQ. Today on this call, along with me, I have: 1- Abdulla Al-Hay, Asst. Manager, Financial Operations. We have structured our call as follows: ▪ At first, I will provide you with a quick insight on IQ's ownership structure, competitive advantages, overall governance & BOD structure;

- Secondly, Abdulla will brief you on IQ's key operational and financial performance matrix;
- Later, I will provide you with updates on segmental performance;
- And finally, we will open the floor for Q&A session.

To start with, as detailed on slide no. 5 of the IR deck, the ownership structure of IQ comprises of Qatar Petroleum with 51% stake and GRSIA being the second largest shareholder with more than 21% ownership.

As detailed on slide no. 4, IQ is credit rated by S&P's with A+ and Moody's with A1 credit rating, with a stable outlook. Qatar Petroleum, being the main shareholder of IQ provides most of the head office functions through a service-level agreement. The operations of IQ group companies are independently managed by its respective Board of Directors, along with senior management team.

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

In terms of competitive advantages, as detailed on slide no. 7, the Group is well positioned with several competitive advantages it possesses strategically, operationally, as well as, financially. These competitive advantages includes:

- an efficient and well maintained asset base;
- a qualified and highly trained workforce;
- assured supply of feedstock and competitively priced energy contracts;
- lower operating costs;
- a dedicated marketing team in form of Muntajat, to market the Group's petrochemicals and fertilizer products; and
- most importantly a well experienced senior management team.

In terms of the Governance structure of IQ, you may refer to slides 43 and 44 of the IR deck, which covers various aspects of IQ's code of corporate governance in detail.

I will now hand over to Abdulla.

Abdulah Al-Hay:

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

During the first quarter of 2021, the Group benefitted from a strong economic recovery, coupled with supply constraints resulted in improved price levels which translated into an improved set of financial results.

For the three-month period ended 31 March 2021, the Group recorded a net profit of QR 1.5 billion as compared to QR 0.3 billion for Q1-20, up by 478%, as detailed on slide no. 13.

Group's improved financial performance for Q1-21 versus Q1-20 was largely attributable to the improved product prices, which on an average inclined by 21% compared to Q1-

20, and translated into an increase of QR 1.0 billion in Group's bottom line earnings, as you can see on slide 14.

Sales volumes were also furthered by 16% versus Q1-20, mainly driven sales volumes relating to Qafco trains 1-4 were reported as part of Q1-21 volumes, which was not the case in Q1-20, as Qafco was operating under temporary gas processing arrangement and did not recognize sales volumes in relation to Qafco trains 1-4 for the first seven months of the financial year 2020. Nevertheless, the improvement in the sales volumes were offset to an extent by the reduction in volumes during Q1-21, due to the mothballing of steel facilities, commercial shutdown in the fuel additives facilities and planned shutdown of certain fertilizer facilities. As shown on slide 14, the overall growth in sales volumes contributed QR 200 million positively to the current period's bottom-line earnings versus Q1-20.

The overall growth in selling prices and sales volumes led to the overall growth in revenues for the Group, which increased by 28% in Q1-21 versus Q1-20, to reach QR 4.2 billion.

As detailed on slide 12, the Group's production levels were down on Q1-20, by 20%. This decline was mainly attributed to mothballing of certain steel facilities which started since mid of 2020, periodic maintenance shutdowns at certain Qafco facilities (Trains1-4) and commercial shutdown at MTBE facilities.

Moving on to quarter-on-quarter performance,
compared to the fourth quarter of 2020, the Group revenue improved by 27%, while the net profits improved by 43%. The key contributor towards the growth was the overall increase in average selling prices, which continued its positive trajectory on the back of improved macroeconomic sentiments and supply challenges. Selling prices increased by 27% in Q1-21 versus Q4-20. Sales volumes on the other hand remained flat versus last quarter.

Our robust business models and the strength of our global supply chain continued to leverage our resilience and provided flexibility to our operations, whereas, our continued positioning of being a low cost operator ensured our competitive edge and aided to generate one of the strongest quarterly performance over the last five years.

Moreover, as detailed on slide 16, IQ's EBITDA margins continued remained robust. This is testament to Group's cost management and cash conservation capabilities, with an ability to maintain its cash flows despite volatile trends in commodity prices.

Also we continued to build our strong financial position with improved cash flow generation capabilities, and the Group generated QR 1.8 billion in terms of free cash flows for Q1-21, as detailed on slide 15 of the IR deck.

On overall basis, our base case strategy will continue to focus on market development focusing on capturing new markets, creating market arbitrages, and bring logistical cost savings to the Group. We will also continue to focus on productivity and efficiency gains via the on-going cost optimization programs.

	I will now hand over to Riaz, to cover the segmental performance.
Riaz Khan:	Thank you Abdulla. I will start with Petrochemicals segment. Petrochemicals As detailed on slide 24, performance of petchems segment improved with a net profit of QR 608 million for Q1-21, with an increase of almost 400% versus Q1-20. This notable increase in profits was primarily driven by improved products prices, on the back of improved demand for petrochemical products due to better macroeconomic conditions, while supply remained constrained throughout the period. Segment's blended product prices rose by 41% versus Q1-20, while sales volumes were marginally up by 2%, compared to the same period last year. The growth in product prices coupled with sales volumes led to an overall rise in revenue by 45% within the segment, to reach QR 1.4 billion for the current period. Production volumes were up on Q1-20, as the segment had higher operating days during the current quarter compared to that of last year's. As detailed on slide 25, segment's EBITDA margins continued to remain on a positive trajectory. In terms of segment revenue by geography, as detailed on slide 25, Asia remains a main market for PE and MTBE, whereas, Indian sub-continent remains a key market for Methanol and PE. Fertilizers Moving on to the fertilizers segment, as detailed on slide 30, the segment reported a net profit of QR 595 million for Q1-21, with a more than 200% increase versus last year. This increase was mainly driven by growth in revenues which increased by 55% in the current quarter versus Q1-20, to reach QR 1.6 billion. Selling prices also improved by 39% versus Q1-20, which reflected positively on the segmental performance. Sales volumes increased by 55% in comparison to Q1-20. On the other hand, production volumes within the segment were down by 10% versus Q1-20, as Qafco trains 1-4 underwent higher no. of days of maintenance shutdowns during the period as compared to the same period last year. As detailed on slide 31, segment's EBITDA margins continued to remain robust. In terms of segment revenue by geography, as detailed on slide 32, North and South Americas remain main market for the fertilizer segment, along with, Indian sub-continent and Asia. Steel Now, let's discuss steel segment and you may refer to slides 34 till 39. During the quarter, the steel segment continued its profit-making trajectory after having a difficult first half of 2020 and following the strategic restructuring initiatives implemented. The net profit for the current period amounted to QR 259 million versus a net loss of QR 88 in Q1-20.

	On overall basis, segmental revenue was moderately down by 6% mainly on the back of decline in sales volumes which declined by 23% due to management's decision to mothball certain steel facilities. On the hand, selling prices improved by 20% during the current period versus Q1-20, due to increase in demand, along with higher raw material costs internationally. Mothballing of certain steel facilities allowed the segment to primarily focus on profitable domestic market, which led to adjust its cost base. Moreover, due to the improvement in the international prices, the segment was also able to sell some of the quantities outside the domestic market. Furthermore, by changing the raw material mix, the segment reduced it costs without affecting quality of the final product. All of this led to a strong sequential recovery in EBITDA margins, as detailed on slide 37. Now we will open the floor for the Q&A Session.
Operator:	Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using the speakerphone, please make sure your mute function is turned off to reach our equipment. Once again, press star one to ask a question. And we will take our first question from Mr. Bilal with Jadwa Investments. Please go ahead. Your line is open.
Bilal:	Yes, hi, thank you for the call and for the feedback and congratulations on a strong set of results. I was wondering if you can give us a bit more clarity on the steel segment. Was there steel being sold to international markets? And what's the current – the difference between international prices versus local and the current environment making you consider recommissioning the mothballed plant?
Bilal:	One more question, please, if you can give some feedback on the specific shutdowns that happened during the quarter, specifically in which segments or trains did it happen and any updates on the shutdown plans for the remainder of the year? Thanks.
Abdulah Al-Hay:	Regarding the steel segment. As you are aware, we have taken the decision last year to mothball our facility and to focus on only local sales. To be honest, this decision was a really excellent decision where we have shifted our units from making losses to a unit that generates profits. Selling on local price right now, this is what we are looking for. However, during the last two months of the Q1, we have seen also an improvement of the steel price in the GCC countries. We have sold some of our products in Kuwait and Oman where the pricing was attractive. However, our main focus and local prices, our local prices was much more better than the international prices. However, right now, with the improvement and the growth and the macroeconomic, we started to have very competitive ties with the international prices, which is also, you know, improved by 20% as we have shown in our presentation where also the prices in the GCC countries improved as well. So we have sold some of our steel products to Kuwait and Oman. I hope I have answered your question regarding steel. You have a different – you have the second part, if you are going to go back to full capacity, maybe. Right now at this time and at this stage, we are not looking for – to go for a full capacity until we have a clarity on the macroeconomic situation. Still, you know, there is uncertainty with what's going on in regards to the COVID situation. However, we see there is growth. We see there is, you know, some of the potential projects happening in Saudi Arabia, we are willing to cater their need as well. So if we see, there is an opportunity to go back to a full capacity. We are not going to stop. We're going to go. However, we need to make sure our decision is based on a basis. You know, we don't want to hurry right now to take the position, something is happening which lead to change the macro economy. Right now, we are satisfied with the result that came from the steel segment. We reported an excellent positive number and we are catering all the local sales. Okay?
Bilal:	No, thank you. We can move to the maintenance shutdowns.

Abdulah Al-Hay:	This time we have a plan shut down in fertilizer payment due to the normal routine maintenance activity and the train one support only. This is a planned one. So we are building a planned shutdown on a regular basis, and if you want, I have some of the information related to the even future quarters. We can continue having a shutdown during Q2 and Q3 and Q4. However, major of the shutdown going to be happening during Q1 and Q4. Q4 going to be exactly the same level of Q1 shutdown. It's only 38 days ammonia facility and 34 days at urea facility. Total planned shutdown for both facility around two hundred and ten days, which is not much to go on. If you look at Qapco, for example, the fuel additives, we are conducting a shutdown down on MTBE facility due to the commercial requirements where we don't see that the MTBE prices are very low. And we took the decision to stop producing the MTBE just to avoid any losses in Qapco. And if you compare Qapco, the fuel additive performance compared to last quarter.
Bilal:	Thank you. So no shutdown plans for the petchem segment?
Abdulah Al-Hay:	There is a planned shutdown in petchem. Very minimal during Q1. We have also shutdown the next four quarter, all planned shutdown related to maintenance, again, mainly to the routine maintenance. However, during Q1, we have only about 27 days of planned shutdown, with zero and planned shutdown.
Bilal:	Sorry, could you repeat that? So how many days were in Q1 and how much was the total for the year?
Abdulah Al-Hay:	Total for the year around 300 days. Q1 right now we have about 200 – Q1 we have about 27 days of 28 days. But number of days, based on facilities; like each facility, as you know, where each petrochemical, they have many trains. Each train we calculate their shutdown on that basis.
Bilal:	Perfect. Thank you so much.
Abdulah Al-Hay:	Okay.
Operator:	And we will now take the next question from [Inaudible]. Please go ahead. Your line is open.
Speaker:	Hi, thank you for the opportunity. I have three questions. The first is with regards to the gas price structure. So as per the new agreement, what are the terms of the gas prices which IQ will receive and what could be the expected impact on the margins? My other question with regards to the – is there any update on the 20% stake buy out of Qapco, any colour on that? And my last question is with regards to the future outlook in terms of product demand. So right now, India and the subcontinent is facing COVID issues. So do you foresee any slowdown in the demand, at least in the near-term?

Abdulah Al-Hay:	Okay, thank you. Regarding the gas prices structure, I believe that each and every earning call we have the same question. Our gas price structure is the same. We have a fixed number and we have, you know, a formula that link to the final product price. So, fixed plus the variable which is linked to the final product price as the price is going up it will go up as the prices come down it will go down, there is a cap and up and down terms. What is the expected improvement or impact or based on the new gas treatment, as you can see, we have an excellent arrangement right now when we have done the – when we have renewed gas agreement regarding to fertilizer. Our margins improved. So basically, we have an excellent rate right now. Regarding the 20% of Qapco, to be honest, as we have highlighted before, we have the appetite to look at the investment. However, nothing happens. Still we have the Total as a shareholder. We don't have any information of Total is going to continue after the ending of the JVA, which is happening as 20224, or maybe Qatar portfolio may take this stake or – we don't know again the offers for sale. However, if this 20% going to be offer for sale, we will be interested to that. Future outlook on demand. I can see that there is a demand. We know the impact of corona it is there. However, the real impact already happened in 2020. So right now, all the business units, all the government, they started to know how to deal with this pandemic. So I believe there is a demand which will not stop our operation. This will not stop the demand. I believe there is a strong demand as well in all of our segments.
Speaker:	Okay. That's it from my side.
Operator:	And again, as a reminder to ask a question, press star one. We will now take our next question from Faisal Azmeh with Goldman Sachs. Please go ahead. Your line is open.
Faisal Azmeh:	Yes, hi, good afternoon to everyone on the call. Ramadan Kareem to everyone and congratulations on the numbers. Just two questions on my end. The first relates to the pay-out structure. When looking at the pay-out structure from last year and the year before, it's been quite high. Should we expect that trend to continue this year, given where earnings are? You've had quite a leap in Q1 numbers, and so far, indications are that net income will be substantially higher than last year. Should we think about that high pay-out ratio as something that can be expected this year? My second question relates to capex. We're looking at Q1 capex. It's – if you analyse the numbers, it's well below the budgeted capex for the year. Does that mean that you're kind of achieving lower than expected capex or should we expect more of that later on in the year? Thank you.
Abdulah Al-Hay:	Okay. Thank you, Faisal. First question regarding the pay-out ratios. You know, it's all depend on the performance. We are still in the first quarter. We see a good result. Also we see that there is an improvement in the price. I understand 2020 IQ was very generous. Just we pay 100% of our earning. This was for the first time for IQ to pay 100% of their earnings. To be honest, the decision came on the time of the – when the board is meeting. They will make the decision based on the market, based on the macroeconomic as well. So I cannot comment on any percentage in this regard. However, what can I comment on that IQ always looking to increase the value for the shareholder? IQ always looking to take the best decisions for their shareholders. Regarding to Q1 capex, the way we have presented here, when we budget for all our capex requirements, we just take the cost capex and we just, you know, divided based on, you know, 12 months. So maybe there is capital expenditures that may happen in the Q3 or Q4. However, their course is then allocated during the full year just for reporting purposes.
Faisal Azmeh:	Thank you.

Operator:	And there are no further questions at this time. So I would like to turn the conference back to our speakers for any additional or closing remarks.
Bobby Sarkar:	Hi, guys, this is Bobby again. If there are no further questions, I just want to jump in with one question of my own, if I may. Can you just go over – or in the steel segment, I see a significant uptick in volume on a quarter over quarter basis. What was the reason behind the significant 70-80% increase in sales volume from 4Q to 1Q? And then the margins are extremely strong. Do you kind of expect a similar trend in EBITDA margins for the rest of the year or is this is this a sustainable EBITDA margin is what I'm about to ask for the steel segment. Thank you.
Abdulah Al-Hay:	Okay. Steel sales segment quarter to quarter. If we look at it, from where you get this information – from – okay.
Riaz Khan:	It's 76% from Q4 20. Yes, so yeah, so one of the chunk which I can just add and Abdulah will also confirm this point, that when we were talking about there is some international sales have been made, so that for some portions which was there in the inventories which we sold, then that was not only on the on the rebar side, which is our main product, it was in addition to rebars, we sold some DRIs and some billets also. So that also got added from the math's perspective to your sales volumes. So all in all, that's why you see a significant increase in the sales volume number.
Bobby Sarkar:	Ok, great. And just to follow up. The EBITDA margin, 24% for the quarter, is this something you think it's sustainable, you know, considering the level of prices and iron ore prices? Is this something that we can consider as a base or something to work off? Thank you.
Abdulah Al-Hay:	It all depends on the final product prices. As you are aware, our production are very lean. We are optimising all our costs so we'll be maintaining the same level of EBITDA or more. However, we see that the prices we'll maintain at the same level for the next quarter.
Bobby Sarkar:	Ok, great. Thank you, Diane. Are there any further questions?
Operator:	No, there are no further questions over the phone.
Abdulah Al-Hay:	Thank you.
Riaz Khan:	Thank you all. Thank you for joining us.
Operator:	And this concludes today's call. Thank you for your participation. You may now disconnect.