Middle East Paper Company

CONFERENCE CALL DEDICATED TO MEPCO Q3 RESULTS

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Participants:

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

Nour Eldin Sherif Good morning and good afternoon, ladies, and gentlemen, and thank you for joining us today. This is Nour Eldin Sherif. And on behalf of Arqaam Capital, I'm delighted to welcome you to MEPCO's Q4 results conference call. I have with me here today, Mr Sami Al Safran, Group President, Mr Abdullah Al Yabis, Group CFO, Mr Ahmed Fazary, Group CCO, Mr Johan van Vuuren, Group CTO, and Miss Sarah Moussa, IR Manager. With no further delay, I will turn over the call to Miss Sarah. Please, the floor is yours.

Sarah Moussa Thank you, Nour. Good day, ladies, and gentlemen. Good afternoon. I'm happy here to actually take you through the financial results and all the highlights that have occurred in 2022. But let us first start with a disclaimer. This presentation is prepared by MEPCO and contains basic information about the company's activity as of the latest published results. The information is presented in summary, rather than detailed form. This information, including any forward-looking statements, should not be taken as a basis for investment recommendation, or solicitation for any of the company's tradeable securities.

While management has made every effort to present a fair view of MEPCO's operational and financial performance in this presentation, it is important to note that expectations about the future results that come in, and prevailing operational financial and marketing conditions may change in the future. Management does not recommend using such forward-looking statements in financial modelling or investment decision-making. It thus takes no liability to explain differences between future actual results and what was stated in the course of this presentation. Now, as Nour has mentioned before me, we are here joined by the executive team and our group president, Engineer Sami, Mr Abdullah Al Yabis, the Group Chief Financial Officer, Mr Johan van Vuuren, Group Chief Transformational Officer, and Mr Ahmed Fazary, the Group Chief Commercial Officer.

So, starting off with what are the key performance indicators in 2022 and what has happened this year that has enabled us to reach a record sales revenue of SAR1.18 billion. This actually is the second year we are achieving record sales, overpassing SAR1 billion. And there is an increase of around 12% year-on-year. For the gross profit, we have achieved SAR 500 million, with an increase of 27.6% year-on-year. The EBITDA we have achieved SAR 400 million, with an increase of 18.5% year-on-year. The net income was SAR 270 million, with an increase of 22%. Now, going to the macroeconomic dynamics and what are the indicators that happened, helping us in our strategy for 2022. As you know, it is not a hidden fact that currently the global parameters there is a recession.

Major economies in the world have been having a slowdown in the growth of the GDP, but in Saudi, we are witnessing actually growth in GDP even in non-oil activities. On a quarterly basis, we have been sustaining growth, starting from the first quarter of 2022. The increase in the non-oil activities in the GPD, starting from 3.7% and ending in the fourth quarter of 2022 to 6.20%. Keeping in mind that Brent crude oil was averaging USD100 per barrel in 22 and the PMI for Saudi was actually one of the highest PMIs in G20, reaching 59.8. All of this lays the ground for MEPCO leveraging as well the better regulations in waste management and the winning of the anti-dumping cases. We were able to increase our local sales, coming from a year-end 2021 we were 60%. We increased the local sales to 64% as we were seeing a better market demand and further room to grow in Saudi.

And we also maintained our average export sales within the range of 40 % in 2021 and in 2022 just decreased by 40. By 4%, I apologise, reaching 36%. Now, taking you to the financial indicators. As we all know, in the year 2022, we witnessed, starting from the third quarter, some downward pressure on international selling prices. But despite that, we were still able to achieve record sales of SAR1 billion. And we witnessed as well in the fourth quarter some impact due to rainfall that Jeddah has never witnessed before. But this rainfall didn’t impact the total production volume. It only impacted it by a decrease of 2%. And yet, we were able to achieve higher sales revenue in the fourth quarter of 2022, which reached SAR232 million. And our end-year gross profit margin ended with 42%, an increase coming from 37% to 42%. We also maintained good cost management in regard to cost of sales, having only an increase of 3% year-on-year to the cost of sales, which actually enabled us to maintain our top line and our gross profit.

Now, going to the EBITDA, as we mentioned, we had an increase year-to-year of around 18.5% of the EBITDA. Having this and also achieving a net income of SAR270 million, we have already announced on Tadawul, that we witnessed around SAR22.7 million, an increase in the SG&A. Despite this increase, we were still able to achieve a net profit margin around 23%. But this increase was due to the following reasons. First, we had a little bit of a spike in transportation and shipping costs for export sales. We had a little bit of payroll cost increase in order to support business growth, additional provision for debts, an increase in finance costs as a result of SIBOR rates increase and an increase in the zakat charges.

That brings us to the working capital. Working capital has been successfully managed this year. We have increased year-on-year by 34%. This is coming from SAR396 million to SAR 529 million, but this increase was due to the decrease in our short-term borrowing by 66%. The current liabilities decreased by 30% and the other current liabilities decreased by 58%, which, as a result, gave us a doubling in our working capital ratio, coming from 1.97 to 2.87. This also has reflected in our cash flow from operation, we still maintained a very strong cash flow. MEPCO increased around 14%, coming from 2021 from SAR251 million to SAR286 million.

So, going to the debt. Since Q1 in 2022, MEPCO’s management has been successful in restructuring the loans and this has enabled us actually decreasing the net debt to equity, coming from 40% to 34%. And this decrease actually gave us huge room for financing the PM5. And we also witnessed a decrease in net debt to EBITDA by around 41%, from 77% to 36%. Now, with all of this good financial metrics for the fiscal year 2022 versus the fiscal year 2021, we know that all people here will be asking about what is happening in the international prices currently at the moment. So, as you guys know, and as we have always communicated with you that currently there is downward pressure on the international prices for the containerboards and the global demand for containerboards is taking a flat direction.

But while this is happening, there has been an announcement internationally from paper mills actually increasing their capacity in expectation for an increase in demand and looking forward to having an end of the downward cycle that is being actually experienced right now. Now, for the outlook for JUTHOR. We are so happy to actually announce to you guys that JUTHOR will be soon commissioned at the beginning of April, and in which we will be producing the kitchen towels and the facial tissues, the pocket tissues, napkins, and the C-Fold. And this project we've been so anticipating for and we've communicated to you about it, in which this is the new diversification in the paper industry that MEPCO has always been aiming to actually expand in.

Now, let me not prolong any further for you guys to actually start asking all the questions for the group president and the executive management team. Thank you so much.

Nour Eldin Sherif So, if you have a question, please raise your hand, or submit the question in the Q&A box. Let's give it a couple of minutes, and then we can start with the first question.

Sayed Good after noon ladies and gentlemen. Can you hear me?

Nour Eldin Sherif Yes, good afternoon. We can hear you.

Sayed Engineer Sami, a couple of questions. One was with regard to the containerboard prices. I mean, so far what I see from the chart that you've posted in the presentation continues to decline through Q4. Can you give us an update as to how Q1 is going with regard to prices and what is the environment? And my second question was with regards to the anti-dumping measure that was supposed to be taken up by the government, so I wanted to get an update as to what is the outcome of that?

Sami Al Safran Okay, I will answer the second part relative to anti-dumping. I will leave my colleague, Ahmed, to speak about the market in general, supply and demand, and the impact of the prices. Regarding the anti-dumping cases, by November there was a final investigation result. And then, earlier this month, the final recommendation came from the technical attaché for the GCC, recommending applying anti-dumping duties in the three countries that we have raised the case on. Specifically, Germany, France, and India which constitute 60% of the export to our GCC market. Classically, we are anticipating another two months to be approved by the collective ministers. I would assume that the resolution will come into full force by May or June.

This is my assumption, based on previous experience, but we need to see further details about it. But the earlier of the month resolution which is announced in the public domain about the recommendations of the duty exemptions and the value of that is a great message to us that we are winning our case in the right manner and getting the required measures for proper business management. I will leave the market to Ahmed.

Ahmed Fazary Hello everyone, this is Ahmed Fazary, the chief commercial officer. Let me give you a quick overview about what has been happening in the market in terms of demand and supply. The market has started facing some headwinds, starting from the beginning of Q2, 2022. This did not have a major impact on our total financial record for the year because we started off the year very strongly and we were able to extend our deals until Q4. In Q4, we started, of course, facing more difficulties with the reduction in order volumes. By nature, Q4 usually is not a very strong quarter of the year. Along with the slowdown in the economic indicators, we see all the indicators in the industry, or we see lower operating rates, and we see higher inventory levels. This is everywhere. We see it in the US. We see it in Europe. We see it in China. It's a global event that we are all witnessing. What's happening here in MEPCO, of course, we have to be in line with what's happening everywhere in the industry. But unlike most other regions in the world, we try very strongly to keep high operating rates and we materialise on economies of scale and definitely cost efficiencies. So, initially, of course, we cannot give figures for Q1. But initially, I can tell you that our Q1 for 2023 in terms of volumes is significantly higher than the previous Q1s of the past couple of years. So, we are working on increasing the volumes. We are reducing our stock levels and definitely working on cost efficiencies. I'd be happy to elaborate more, but I just wanted to share a quick overview of what's happening in the market and what's going on right now.

Sayed And just a follow-up.

Sami Al Safran What Ahmed is saying is that while there is a price deterioration pressurised by the demand, we have faced great pressure on the demand in the fourth quarter. Accordingly, we have noticed that with this quarter the situation is reversing. The demand is improving in a good way, which, technically, such a move will be followed by an improvement in the prices.

Sayed Just a question in terms of demand. When you talk about an operating rate, what sort of operating rate? What was your exit rate during Q4? Because you generally operate at above industry operating rates. And how can you increase your operating rate?

Sami Al Safran I think we missed the point. Sayed, can you repeat it because I think we missed that?

Sayed Can you hear me clearly?

Sami Al Safran Yes.

Ahmed Fazary Now we can hear.

Sayed Okay, my question was if demand is increasing, operating rates for yourselves are typically above industry average, what was the operating rate through Q4? And when you say we're going to deliver higher volumes, does that mean you will increase the operating rate from whatever it is that you were reporting in Q4? I just wanted to get a Q4 number. And moving forward, what can we expect?

Sami Al Safran Look, it's a good question, Sayed. To elaborate more, look, MEPCO's strategy since the beginning is that we maintain our operating rate for the machine to the maximum. And this is why we are selling inside Saudi Arabia and the export because we know that the commodity of containerboard is subject to seasonality. For example, when it comes to the summer the demand in Saudi Arabia goes high. When it comes to the winter, the demand goes lower due to the drop in the consumption of food and beverages. Sorry, beverages and hygiene. The situation is reversing in Egypt, where in the winter it goes the citrus season, so the demand is going higher. So, strategically, for MEPCO, we do keep our export, local and international. One of the objectives is to maintain the maximum operating rate.

However, what is happening is that when we face the headwind, usually that is reflected in our inventory level that goes higher. So, if you check our financials, you would find we started the year with a high level of inventories of our finished goods. When we started this quarter, I think we have cleaned out 10% of that inventory. Hopefully, by the end of the year, we will go back to our normal level.

Sayed And your operating rate was above 96% or 92%, for [overtalking].

Sami Al Safran 92%. We have not taken any scheduled shutdown or extended shutdown unnecessarily. Until now, we balance ourselves between the local and international to maintain the demand.

Sayed Thank you.

Johan van Vuuren Go into the chat box.

Nour Eldin Sherif Please raise your hands or submit in the Q&A box.

Johan van Vuuren Scrolling. So, I'll just scroll up, there was a question about the flood before.

Abdullah Al Yabis [Unclear].

Sayed Okay, so until we get a question, can I just jump in with a quick one on what's the expected impact of the new anti-dumping duties on the local market in terms of prices and if we should expect market share gains for MEPCO?

Sami Al Safran We'll answer that one. Our guys are working with the chat box to prepare the reply for that, to get the questions and answers correct. Look, the anti-dumping cases that's been replaced is to create actually stabilised market operations at the GCC. If you read the international reports, most of the time GCC markets was the target market due to the growth of the demand, and the economic benefits of the location. And that's why what we are noticing is that every time there is a soft offer demand globally, people are moving volumes to the region and selling it at a very low price. If anyone had the chance to go through the anti-dumping case, which will be in the final report when it has been released, you will find at certain areas there is almost dumping to the level of 75%.

And that really creates a big pressure on us in terms of stabilising the performance, in terms of growing the plan, and in terms of creating a competitive edge to the market here. So, we believe by implementing the safeguard measures of the anti-dumping cases, we'll be noticing more healthy performance for the business that will allow us actually to maintain and grow our business with lesser disturbance. Now, I will probably move to the first question in the chat box. Sarah, if you could read it.

Sayed Just to confirm the impact of the Jeddah floods was approximately SAR18 million for the fourth quarter. So, the remainder of the decline would solely be price effect. Is this true or not?

Abdullah Al Yabis So, the impact of the rain is SAR18 million. Yes, we confirm that this is the loss from our production for the factory. And there is a claim for other damages, but it is minor things that we are claiming for now that did not affect the revenue itself.

Sami Al Safran What Mr Abdullah is confirming is that, yes, statistical numbers are correct, the 18 million. It's been impacting us by operational disturbances. Some of it went to the fixed expenses cost, which definitely contributed part of the deterioration of the profitability quarter to quarter. However, yes, the main driver behind deterioration was the selling prices of the finished goods.

Sayed Okay, the second question. What was the reason for the increase in the G&A in the first quarter? Can you give us an update on the gas allocation for PM5?

Sami Al Safran I will answer the second part and probably my colleague Mr Abdullah will answer the first one. Regarding PM5, like what we have announced, we are actually in, let's say, the very final stage of the feasibility study. We have even tendered some of our main packages. We have got initial approval for the financial support from the local institutes and we have received the initial approval regarding the gas allocations. Now, I think, let's hope within one or two months we will be able to nail down everything and define the zero date that we will be announcing it. We are happy really to tell you that we have received support from all government entities about this magnitude of the project because it will add great value to the local economy, and to the international economy.

Especially MEPCO being an export champion in packaging. We contribute until now 25% of the total packaging export of Saudi Arabia. I will leave the first part to my colleague, Abdullah, to answer it.

Abdullah Al Yabis Yes, the increase in G&A in the fourth quarter is merely attributed to a provision for to our management equity share. And we have other costs such as an increase in the cost of employees. We have IT. We just limited this [unclear] and we increased the IT costs also. Other depreciation and consultancy fees. So, we have consultancy fees for a one million increase, and we have depreciation for the whole year, sorry, and we have IT for a two million increase.

Nour Eldin Sherif I think we can get to the live questions here. So, we have a question from Abdullah. Please, your mic is off.

Abdullah Bajamal Salaam alaykum. This is Abdullah Bajamal. Thank you for taking the time to walk us through your financial results. I had a quick question regarding your net margins. So, basically, the question is, what drives your margins to be significantly higher than local and international peers?

Sami Al Safran That's a good question, Abdullah. I wish I could share with you really the report that was addressed by an international firm about it. The main driver behind it is that the cost of manufacturing inside Saudi Arabia is more competitive, logistic advantage of our place, in addition to the international prices. To elaborate more about it, as you know, the commodity of the containerboard, like all other commodities went high during last year. However, due to the logistic disturbance, we have captured the benefits inside Saudi Arabia. The majority of our sales would be inland transportation, including even some of the goods to Egypt. So, we managed really to minimise the impact of the logistics and shipping and sea freight to a major extent, especially in our sales.

You could see that we have increased our local sales up to 65%, which is the highest in the company's history, trying to capitalise on the benefit of the logistic disturbance and fulfil, of course, the local market. And finally, the cost of manufacturing in Saudi Arabia, not only from the energy side, but you might be aware that the national waste centre started to regulate the export of waste paper, which puts the raw material prices in control and helped us really to improve the margin benefit of our business. So, those multiple items created significant revenue.

Abdullah Bajamal All right, a follow-up question on that. Does your involvement in WASCO and Estidama have also an impact on your cost of goods?

Sami Al Safran Look, absolutely. Whether WASCO or Estidama, they are actually the bulk of the integrated business for us. It adds a lot of value to control the raw material prices. But today, WASCO is controlling 50% of the wastepaper market in Saudi Arabia. It gives us the upper hand definitely to have more competitive access to the materials at a lower price and a more competitive cost.

Abdullah Bajamal And sorry, the final one. Could I get a sense of basically from your raw material, what portion of it is imported and what portion is supplied domestically through either WASCO, Estidama or any other domestic source?

Sami El Safran Look, I have a rough figure that is 15% being imported. For the main reason that our sales department has diversified our sales to almost 12 different grades. Some of them are requiring a special type of fibre that we have to import from abroad. Between the white top, which is used actually for the water boxes. Or, for example, gypsum laminated boards are some of the items that we have to import from abroad. Plus, also the Formica fillers are actually being produced by us and it requires a special type of fibre. So, I would say 15% of our fibre demand is being imported and 80 to 85% is being sourced locally. The majority of it is from WASCO. 25% of it is from Estidama.

Abdullah Bajamal Thank you a lot, Engineer Sami. And just a final question. And apologies for the many questions so far. In regard to JUTHOR, the tissue factory, masha' Allah, you guys have announced that, in sha' Allah, in April you will start operations. Have you secured offtake for the production or not yet?

Sami El Safran Look, Abdullah, generally, the paper industry, probably my colleague can elaborate more, is not a contracted supply. Usually, it's a purchase order supply. We discuss quarter to quarter. Now, just for the sake of testing our capabilities, one month ago our colleague was in UAE participating in exhibitions and we collected an order for the first 15 days of the business. This we have done based on MEPCO's reputation, although we did not have physical samples from the machine, alhamdulillah, we are preceded by a great reputation that we were able to fill it. Can we have more? The answer is yes. Because the market is a heavily net importing market. Saudi Arabia is importing 60% of their tissue needs from abroad.

And the market is desperately waiting to be covered from the local supplies, due to the major turbulence in the supply and the logistic situations and the scarcity of the fibre. Plus, as you are aware, the majority of the market was being supplied from UAE, where now there is actually a duty known to everyone on UAE import, so that's why local supply has a better benefit to grow.

Ahmed Fazary Let me add to Mr Sami's comments. Abdullah, we went, and we met with the major customers. I cannot tell you that we met with all the customers because there's over 220 customers in Saudi Arabia, integrated to independent. We met with the major ones all over Saudi, from north, south, east, central Saudi, west Saudi. And as Mr Sami mentioned, there is a big gap between demand and supply. Let me throw some numbers so that it could give you a feel of how the market has widened in terms of dynamics of demand and supply. The supply in the local market's existing capacity is around 120,000 tons, while the market in our original study was indicating around 250,000 tons.

While realistically, after we went to the market and we evaluated the information, it seems to us that we are possibly 300, 000 plus of market demand. So, this demand, there's an excitement in the market with our entrance, provided MEPCO's reputation in the market in terms of product and service and the quality that MEPCO provides to its customers. As well as also the industry is growing and there's many expertise in Juthor that are ex-tissue experienced, that are well-respected and recognised in the market. So, the market is very confident with our evidence. So, we're quite confident that it should be a smooth start.

Let me shed some light also on the prices. Maybe you didn't ask this question but let me also highlight this part. Of course, it is following what's happening elsewhere. There is a drop in prices, but it is definitely less steep because the main raw material for tissue is basically pulp, and pulp has not been subject to major drops in prices as containerboards and recycled containerboard in specific. So, it seems to us to be in a much healthier position and we're quite positive that it should positively contribute to our financials in 2023.

Abdullah Bajamal In sha' Allah. Thank you both for the exhaustive answer.

Sami Al Safran My pleasure. Thank you.

Nour Eldin Sherif The mic is open.

Questioner I would like to thank you all for the insightful presentation. However, I have a question regarding the OCC prices. I saw in the presentation the international benchmark for OCC prices, and it has been going down with the end-product prices. Can you give us an insight about OCC prices locally and why the drop in gross profit margin in Q4? Was it just because the end-product prices or the OCC prices didn't drop as much also?

Sami Al Safran Well, let me give you probably the technical answer. I will leave probably the financial numbers to my colleague here. Regarding the OCC market, yes, the local prices have dropped to match the international market, mainly because even the relations between MEPCO and its subsidiary WASCO it's an uplift basis. Which means if WASCO did not sell to me at lower prices I have to go and buy it from somewhere else. And that's what we have done in MEPCO. When there was resistance from the local market we went and imported from abroad. Because, at the end of the day, we are here to make the best exchange of our business and the other way around is happening. So, generally, the Saudi market has responded to the deterioration of the prices from the international market and dropped it locally.

And of course, there is some carrying over from the inventory, which is classically we keep an average of two-to-three-month inventory, which really is impacting us, so while the price is going down, the raw material is going down, but not with that level until you come to the level that you balance, or you flush your warehouse. The detail of the deterioration of revenue probably Mr Abdullah will elaborate more about it.

Abdullah Al Yabis The major decrease was related to sales price. Sales price was much less than the Q3. The cost of raw materials did drop but it was not at the same rate as the sales. So, yes, the raw material dropped, sales rate dropped, but the major thing was the reduced sales price.

Ahmed Fazary And I believe there has been some drop also in sales volume that is currently recovering. And as I mentioned, in Q1 our volume should be significantly higher than the previous quarter.

Questioner Okay, thank you. I have one follow-up question regarding the local-to-export ratio. Is it going to revert back to the 40/60 export-to-local ratio or is it going to be sustained at the new level of 64 and 36?

Ahmed Fazary Honestly, it's a moving target. We take those decisions based on what's the best benefit for our company, so I cannot honestly give you a straightforward answer that it is 60 or 65. It is better for us to reduce it to 60/40 or even 55/45. We would do that. Yet, it is most of the time logically increasing our domestic sales. Most of the time it's proven to be better in terms of logistics cost. So, we are always pursuing to find the right balance and we will try always to maintain higher sales in the local market as long as it makes sense in terms of return to us and in terms of cash flow and many factors that we take into consideration.

Questioner Okay, thank you. That's it from me.

Nour Eldin Sherif Thank you. An inbox. A follow-up question from Sayed. His question is on Q on Q in the containerboard prices, should we expect an improvement in Q1, or will they materially improve by Q2, or should it remain flat compared to Q4?

Sami Al Safran Look, it's very difficult really to speak about the prices in elaboration, gentlemen, because ultimately, I mean, there is an international index that's very clear and there is our internal activity that we are doing inside MEPCO. We can speak generally about the market, market trend prices, but it's really very difficult to get on specific figures because very simple. If I am selling one product which is the white top, I sell it at, for example, $1,000. If I sell my test liner it's at $500. So, although the price is down, if I sell more white top then the total figure will look higher. But the reality is the whole market is down. But we can generally speak to you about the market, market trend prices, which I think we have expressed very clearly in this call.

And also, we mentioned earlier because we always like to give a headlight about our analysis, what is potentially going to happen, how we anticipate things and what we are going to do to mitigate any impacts of increase or decrease.

Nour Eldin Sherif When do you expect the JUTHOR factory to break even?

Sami Al Safran Look, I would assume JUTHOR would require four months for the breaking even target in terms of financial performance. Tissue industry is very healthy. It's a less cyclical industry. Until now, the price drop in the tissue, for example, is not as steep as the containerboard and the same for the raw material. So, this is why we are really putting all our efforts to put the operation of JUTHOR would require four months for the breaking even target in terms of financial performance. An earlier question there is, what is the expected revenue? We anticipate almost 250 million in revenue coming from JUTHOR would require four months for the breaking even target in terms of financial performance. That almost represents 25% of MEPCO sales as a status quo. And by the way, a very important thing when we are talking here, guys, probably we have overlooked the waste management sector, which is really a very promising sector inside Saudi Arabia.

Especially what has been announced by the government, the lawmakers. There is a SAR200 billion investment opportunity that is appearing by 2035. And now, WASCO has a two-decade legacy in that business, and they are working very aggressively now, establishing different agreements with governments like what we have done with Jeddah Municipality, and we established Estidama. Now, we are doing the same thing with other municipalities because we believe that three years from now, a significant part of this stream will be related to the waste management sector.

Nour Eldin Sherif Khaled about the performance of Estidama in Q4. There has been some SAR1 million loss for Estidama.

Sami Al Safran Look, keep in mind, gentlemen, Estidama, technically, this is the first financial year since we started and interestingly, for all quarters, Estidama was recording a positive figure. I believe the last quarter went for a very clear reason, which is the demolition activities which have happened inside Jeddah. Most of the wastepaper collection activities were being done in the south of Jeddah, where it went through a demolition for development purposes. It's worth to mention almost I think 80,000 real estates have been removed. And now, we are in the process of repositioning. So, this is what we have done, at least in Estidama, we have closed some branches. We opened other branches, so we're supposed to recover ourselves immediately within this year.

Nour Eldin Sherif A question from Abdulaziz. We know that Estidama is different from WASCO in terms of functions.

Sami Al Safran Can you repeat it again?

Nour Eldin Sherif The difference between Estidama and WASCO in terms of functions.

Sami Al Safran In terms of functions, both of them are the same. The only difference is that Estidama is distributed across the whole kingdom. WASCO, sorry, is distributed across the whole kingdom and focuses on recyclable trading, with some little investment in a material recovery facility. Estidama is a bit different. It's a partnership with the owner of the waste, which is Jeddah Municipality, and started with regulating the process of the waste collections and the recyclables to go in favour of Estidama. And cost to develop the activity of Estidama to landfill operation, material recovery facility, waste to energy, a lot of things are queueing for the investment of waste management in Estidama. I'm very excited for Estidama because the beauty behind it is that you are really building a business model, and partnering with the waste owner. That gives you better leverage to execute your ambition in a very short period of time.

Sarah Moussa Okay, Nour, we have a question in the chat coming from Abdullah. What is the biggest export market for MEPCO? That means from the 40% share of revenues, which countries represent the biggest share of this?

Ahmed Fazary The biggest export country last year was Algeria. North Africa, in general. What's the follow-up question?

Sarah Moussa Which countries represent the biggest share? It's Algeria and north Africa.

Ahmed Fazary Yes, and maybe the middle east. Yes, the whole middle east represents about somewhere from 85% to 90% of our sales, including Saudi, of course.

Sarah Moussa Okay, Nour, the floor is yours.

Nour Eldin Sherif Yes, so it seems there are no further questions on the floor. So, if you have any final concluding remarks, that would be great. Thank you.

Johan van Vuuren There was one question. I received a message offline from Sean Ungerer. Sean Ungerer, I think, has technical difficulties. He's unable to raise his hand. But if you just unmute him, I think then we can address his question.

Sean Ungerer Good afternoon. Can you guys hear me?

Sami Al Safran Good afternoon. Yes.

Sean Ungerer Excellent. Thanks for the time. Sorry, there doesn't seem to be a hand for me to raise. Firstly, congratulations on a good set of results in 2022. But I think it's quite important looking forward, it's quite encouraging to hear that there's been a bit of development in terms of the PM5 expansion in terms of securing the gas supplies. Just in terms of understanding the funding mechanisms or [unclear] between debt and equity, as well as the location. I'm assuming that's going to be in the next couple of months as you alluded to earlier. And then, just a last question linked to that, does the timeline initially provided still hold true in terms of when the project would come on live? I think it's midway through 2025. Thanks.

Johan van Vuuren Okay, so the first question first, yes, indeed, as Sami mentioned earlier that within the next few months, we will announce the location. We are in final negotiations with two remaining industrial cities. The obvious one being where our current tissue facility is, King Abdullah Economic City. The equipment supplies as Sami mentioned. We haven't only tendered the main equipment packages. We've already shortlisted them, done the reference visits, and we are busy negotiating commercial terms for those. With regard to the funding mechanism, the initial communication we had still holds true. Our first course of action will still be the likes of SIDF and other sovereign development funds.

We've received a solid commitment from SIDF to this effect already, but we want to make sure that we collectively finance the project in the most feasible manner, which will include project finance, both from developed finance institutions as well as ECAs for the equipment. And then, obviously, supplemented that by commercial banks and internally generated cash. Then, Sean, I think, sorry, you had a second question.

Sean Ungerer Just around the timeline for the projected ramp-up of PM5.

Johan van Vuuren When we had the investor Q&A call following our announcement of PM5 in October last year, we mentioned 33 months from day zero. So, as Sami mentioned, day zero for us starts the moment that we contract the equipment. Now, that day, the estimated completion, or commissioning date for PM5 still remains toward the back end of 2025, rather than the middle of 2025. Our own internal target date is still to switch on the facility before the start of 2026.

Sean Ungere r Excellent. That's very useful. And then, a further question around the tissue PM5. I'm not sure if I missed it earlier. I understood there were a couple of questions about how easy it will be absorbed into the domestic market, and it seems like that's not going to be a concern. Maybe you can shed any light on the projected ramp-up that we can pencil in for this year.

Johan van Vuuren Sorry, Sean, I'm just looking at your question as far as how I understood it. The projected ramp-up for 2023 from switching, all the way towards the end of the year [unclear].

Sami Al Safran You have a question about the containerboard.

Ahmed Al Fazary No, no, the tissue production volumes.

Sami Al Safran Look, sir, I had the figures. I should really share it with you. But basically, when we budgeted ourselves for the tissue machine in the first commercial year as a brand new one, we tend to look between 65 to 70% from the total capacity to be produced and sold in the first 12 months.

Johan van Vuuren But Sean, bearing in mind, obviously, the first year is a pro-rata year of only eight months.

Sean Ungerer Correct. Okay, excellent. Thanks, Sami. And then, just there was a comment earlier, or there were a lot of questions relating to effective utilisation in Q4 and I think you were quite clear that that excluded any planned maintenance. As you look into 2023, what does the profile look like, and which quarter should we expect that to take place?

Sami Al Safran The question, Sean, in terms of capacity.

Sean Ungerer In terms of planned maintenance. Because I think the comments or questions were around how good the utilisation was in Q4 and that obviously you had no planned maintenance.

Sami Al Safran Look, Sean, in the paper industry, you have two methodologies to run the business with. One of them is that you run the machine for quite a number of years, and you take an extended shutdown, you revamp everything, and you keep running again. And usually, you end the life of the machine after 25 to 30 years. Then the methodology which we are following up is that we keep investing in the machine up to 5% of our assets every year and we keep the health of the machine. And this is why you see most of our paper machines, whether they are 20 years old or they are ten years old, we always keep up the efficiency at the maximum because we keep investing an average of 5% every year as assets to replace existing operating assets that we have.

However, for 23, usually, do we have a shutdown? Yes, we do have a shutdown. Maximum it ranges between two to three days as a scheduled shutdown for the business in general. But that's something we will not do now. We will do it probably by the end of the quarter, potentially. That's the plan.

Sean Ungerer Excellent. Thank you very much for your time. That's all from my end.

Sami Al Safran Sean, you might ask earlier about the market size for the sales plan for the tissue.

Sean Ungerer No. I guess inadvertently, yes, it was just more along the ramp-up, which I think you answered around targeting 65 to 70% in year one, obviously, excluding the first quarter of the year.

Sami Al Safran True. More than above, by the way, that's what I mentioned to you. Saudi Arabia is a net importing region. Saudis are consuming an average of 270,000 tons of tissue. We only produce locally here, 100 or 120 with the new expansions. Still, there is a big gap being imported from abroad. So, really market entries are not a challenging factor for this business. Rather, really preparing the machine, having the right quality, a quick ramp-up is really what we are worried about in the coming few weeks, in sha' Allah.

Sean Ungerer Excellent. Thank you very much.

Nour Eldin Sherif Again to management for any final conclusion.

Sami Al Safran Number one, thank you very much, guys, for this extensive number of attendees and your interest in the business. We have been blessed by a great year in 2022. And it is not really a coincidence. It was actually an effort being done in the last four years. We were preparing the company for COVID-19, we improved our efficiencies, and we managed our costs. And I think that’s what’s happening when the opportunity comes, and you are well prepared for it. There is a headwind nowadays definitely about the market of the commodities and the pressure we are facing, but that does not change our plans for MEPCO to grow and expand our business. We have announced certain projects like the tissue project JUTHOR. We announced the containerboard, which is doubling the operation of MEPCO in terms of containerboards from 400,000 to 800,000 tons.

We have other activities hopefully to be announced within this year also. I think in the last two decades of MEPCO we built a great effort to make this company distinguished and position it well. And I think now the ecosystem in Saudi Arabia is very much appealing to grow and expand the business and position ourselves in a further leading step. I would like to thank you very much for joining us. I hope we are actually enjoying the journey of MEPCO and capitalising on the efforts that have been done over the two decades to reward our shareholders with it. Thank you very much.

Nour Eldin Sherif This now concludes our call. Thank you for attending.

Sami Al Safran Thank you very much.

Sarah Moussa Thank you.