

Company:	Mesaieed Petrochemical Holding Company (MPHC)
Conference Title:	MPHC 9M-21 Results Conference Call
Speakers from MPHC:	1. Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum 2. Mr. Riaz Khan, Head of Investor Relations and Communications, Qatar Petroleum
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
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Operator:	Good day and welcome to the Mesaieed Petrochemical Holding Q3 2021 Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Bobby Sarkar. Please go ahead, sir.
Bobby Sarkar:	<p>Okay. Thank you, Diana. Hi, hello, everyone. This is Bobby Sarkar, head of research at QNB Financial Services. I wanted to welcome everyone to Mesaieed Petrochemical Holdings third quarter and nine months 2021 results conference call.</p> <p>On this call, from QP's Privatized Companies Affairs Group, we have Sami Mathlouthi who is the Assistant Manager, Financial Operations, and we have Riaz Khan who is the Head of Investor Relations And Communications. We will conduct this conference with management first briefly reviewing the company's results, followed by Q&A. I would like to turn the call over now to Riaz. Riaz, please go ahead.</p>
Riaz-ur-Rehman Khan:	<p>Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are doing great.</p> <p>Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of MPHC and no media representatives should be attending in this call.</p> <p>Moreover, please note that this call is subject to MPHC's disclaimer statements as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 27th of October, MPHC published its results for the nine-month period ended 30th of September 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 MPHC.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Mohamed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs; 2- Sami Mathlouthi, Asst. Manager, Financial Operations <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide you a quick insight on MPHC's ownership structure, its competitive strengths and overall governance structure by covering slides 5 till 10, and slides 40 & 41; ▪ Secondly, Sami will brief you on MPHC's key operational & financial performance matrix. ▪ Later, I will provide you with insights on the segmental performance. ▪ And finally, we will open the floor for the Q&A session. <p>To start with, as detailed on slide no. 5 of the IR deck, the ownership structure of MPHC comprises of QatarEnergy with approximately 65.4% stake and the rest is in the free float held by various domestic and international corporates and individuals.</p>

	<p>QatarEnergy being the main shareholder of MPHC provides most of the head office functions through a service-level agreement. The operations of MPHC's joint ventures are independently managed by their respective Board of Directors, along with the senior management team.</p> <p>In terms of competitive advantages, as detailed on slide no. 8, all of the MPHC's group companies are strategically placed in terms of:</p> <ul style="list-style-type: none"> - competitively priced and assured feedstock supply under long term arrangements; - solid liquidity position, with a strong cash flow generation capability; and - presence of most reputed JV partners. <p>Additionally, its partnership with Muntajat, acts as a catalyst for its access to global markets.</p> <p>As detailed on slide 10, from competitive positioning perspective, MPHC ranks among top tier companies in the regional chemical space, across most the matrices and specifically leads the charts in terms of profitability margins.</p> <p>In terms of the Governance structure of MPHC, you may refer to slides 40 & 41 of the IR deck, which covers various aspects of MPHC's code of corporate governance in detail.</p> <p>I will now hand over to Sami.</p>
Sami Mathlouthi:	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>To start with, as detailed on slide 12, in terms of macroeconomic dynamics, the momentum carried from the latter part of last year, on the back of satisfactory vaccination drive and easing out of geographical lockdowns in major markets, led to a sequential recovery in demand for petrochemicals and chlor-alkali products, and positively reflected on selling prices. Industry-wide supply constraints and global logistical bottlenecks also played a part in keeping the product prices favourable for the downstream producers.</p> <p>MPHC joint ventures benefitted from these strong economic sentiments which resulted in improved price levels and translated into an improved set of financial results as detailed on slide 14.</p> <p>For the nine-month period ended 30 September 2021, MPHC recorded a net profit of QR 1.4 billion as compared to QR 330 million for the same period last year, up by 335%, as detailed on slide no. 16.</p> <p>Group's improved financial performance for the first nine months of 2021 was largely attributable to improved product prices, which on an average increased by 56%, and translated into an increase of QR 1.1 billion in Group's net earnings, as you can see on slide 17.</p> <p>Sales volumes were also furthered by 20%, mainly on account of improved production volumes and contributed by QR 307 million positively to the current period's profitability versus same period last year.</p> <p>The positive trajectory in product prices and improved volumes were slightly offset by increase in variable costs, which contributed by QR 263 million negatively towards the current period earnings in comparison to the first nine months of 2020.</p> <p>Current period net earnings were positively impacted by favorable variance amounting to QR 33 million, in relation to inventory differentials, due to lesser drawdowns in comparison to the same period last year.</p>

	<p>MPHC's operations continue to remain robust and resilient with total production for the period reaching 891 thousand MTs, up by 22% versus last year, as detailed on slide 15. The overall increase in production volumes was mainly attributed to improved plant operating rates during the current year, as major planned turnarounds and preventive maintenance shutdowns were carried out in certain MPHC's joint venture facilities during nine months of last year.</p> <p>Moving on to quarter-on-quarter performance, MPHC revenue improved by 5% versus second quarter of 2021, while net profit remained flat compared to previous quarter.</p> <p>The key contributor towards a growth in revenue mainly as result of improved sales volumes which increased by 8%. However, selling prices declined by 3% during Q3-21 compared to Q2-21, mainly on account of supply side ease outs particularly for the petrochemical products.</p> <p>On overall basis, our base case strategy will be to continue our focus on the strategic drivers of operational reliability in terms of continued improvement in efficiency, and achieving cost optimization which would enable the Group to contain costs while making strategic investments for unlocking further growth potential.</p> <p>I will now hand over to Riaz, to cover the segmental performance.</p>
Riaz-ur-Rehman Khan:	<p>Thank you Sami.</p> <p>Petrochemicals Starting with petchem segment, as covered in slides 22 till 26, the performance of the segment bounced back with a net profit of QR 1.0 billion, with an increase of 327% compared to nine months of last year. This notable increase was primarily driven by improved products prices, which increased by 49%, on account of improved macroeconomic dynamics and supply constraints.</p> <p>Sales volumes also increased by 17%, compared to the same period last year, against a backdrop of higher operating days in the current period.</p> <p>The growth in product prices coupled with sales volumes led to an overall rise in revenue by 75% within the segment, to reach QR 2.1 billion for the current period.</p> <p>Production volumes increased by 21% versus same period of last year, as the segment had planned periodic turnaround of Q-Chem II facilities during Q1 2020, which affected the overall operating rates for last year.</p> <p>In terms of segment revenue by geography, as detailed on slide 25, Asia remains a main market for the segment, along with Indian Sub-continent and Europe.</p> <p>Chlor-Alkali Moving on to Chlor-Alkali segment, as detailed on slides 27 till 31, the segmental performance recorded a significant recovery with net profit of QR 418 million, compared to a net profit of QR 42 million reported for the first nine months of 2020.</p> <p>This notable growth was primarily driven by significant improvement in blended average selling prices, which increased by 85%, complemented by renewed product demand and supply side shortages.</p>

	<p>Sales volumes also increased by 11%, compared to the same period last year, against the backdrop of better utilization rates in the current period versus last year.</p> <p>Growth in product prices coupled with sales volumes led to an overall increase in revenue by 132% within the segment, to reach QR 874 million for the current period.</p> <p>Production volumes rose by 24% versus same period last year, as the segment had more planned periodic shutdowns during Q1-20.</p> <p>In terms of segment revenue by geography, as detailed on slide 30, Indian sub-continent remains the main market for this segment.</p> <p>Now we will open the floor for the Q&A Session.</p>
Operator:	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 a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. Once again, that is the star one if you wish to ask a question. It appears there are no questions for now. Once again, that is star one if you wish to ask a question. And we just got to one question in from Leszek Baranski with Millennium. Please go ahead. Your line is open.
Leszek Baranski:	Thank you very much for the conference call. Let me start maybe with the first question, I've got one or two additional questions as well. Yeah, if you look at all these news about logistical problems that even plastic producers potentially could have when delivering plastic to Asia or to Europe. Do you see any difficulties in this field or not much?
Sami Mathlouthi:	Well, so far based on the latest results that we have until Q3 2021, we are seeing those issues, but we haven't been affected, so we have good support from our sales partner Muntajat, who are dealing with the sales and delivery of our products.
Leszek Baranski:	Okay. The second question refers to the big discrepancy in prices between Europe and Asia. Basically, European markets, including even Turkey, they offer much higher prices, I guess. Are you able to use this opportunity and sell more into Turkey or Europe, or you keep selling to your standard client in Asia?
Sami Mathlouthi:	Well, I think we are always looking for the best netbacks. And with this strategy our marketing partner is dealing with those kind of sales opportunities, with an objective to look for the best net backs for MPHIC.
Leszek Baranski:	Okay, thank you very much. And another question referring to PVC and byproduct when you are producing PVC, so Mesaieed has got quite a visible exposure to this petrochemical chain. And my question is because this chain was quite profitable recently and probably still is, so do you see this to continue going forward?
Riaz-ur-Rehman Khan:	<p>Yeah, first thing to clarify in terms of the production chain which we are producing VCM, which is a precursor to – or acts like a feedstock – to PVC. In terms of the overall market dynamics, PVC for the next at least two quarters with the current constraints in the market, not only from China but also from the Europe, where energy price trajectories, as well as power rationing measures in China, will remain elevated.</p> <p>I cannot comment on exact pricing levels where it will reach, but from overall perspective what we see from the market consensus and from the experts we hear, this is what the price trajectories looks like. And sitting right now here and estimating about how the price trajectories will move in with a mid-term outlook, it will be very difficult to say, because there is a lot of variables in the market, a lot of demand and supply variables in the market, I would say. On a short-term basis, next two to five months down the line, it appears positive. We always caveat ourselves by referring what the market says, so this is what the market is saying, and this is what consensus looks towards a short-term outlook for the product.</p>
Speaker:	Understood, yeah. It's very clear. I was asking about sentiments, so you answered it very well. Another question is you've got sister company, Industries Qatar, and in case of Industries Qatar the company started already to buy minority shares from subsidiaries – in subsidiaries, not from.

	And basically, that's the way how to deploy cash. In case of Mesaieed, current macro environment is positive, dividends are not very substantial and there's cash by building on the company's balance sheet. What's the strategy for Mesaieed? Is it similar to Industries Qatar or it will be something different? For example, I know, much higher dividend.
Sami Mathlouthi:	<p>Yeah, well, different companies have different kind of strategies, and we are not following IQ, so these are two separate companies. And every company has its board, which is different and taking totally different strategic decisions.</p> <p>At the moment we don't have anything in the pipeline, in terms of acquisition of minority shares. We are working under joint ventures with our partners so far, and the working relationships with the JV partners is very good. We are in a win-win position which benefitted the shareholder of MPHIC in general.</p> <p>So far we have distributed around QR 6.8 billion in form of dividends, with a payout ratio ranging from 71% to 81%. Last year the dividend payout was around 94%, which was exceptional due to the lower net profits. The company will try to manage the cash in the benefits of the shareholders, so either through distribution of dividend or looking for opportunities, where the board believes that those opportunities will add value to the shareholders, without taking a huge risk.</p>
Leszek Baranski:	Okay, understood. And maybe the last question, most recently there were very big changes in feedstock prices globally. Most people believe it's very temporary because of sudden undersupply of gas here or there globally. Should we expect that your formulas in Qatar, they should stay stable as they used to be, because these formulas are for years or decades, not for months or quarters?
Sami Mathlouthi:	Looking back to our EBITDA margins, you will see that it's increasing trend starting from 29% in Q1-20 to 58% very recently. It's despite the increase that we have seen in the feedstock. Until Q3 2021 you will see in the bridge analysis that there is negative impact coming from feedstock which is in line with the increase in feedstock prices. We don't believe at the moment that the formulas will change, so those formulas are regulated by joint venture agreement between the shareholders and between Qatar Energy. And those formulas take into consideration any variable increase in the market, which is taken into consideration in those indications. And we believe that we are trying to keep everything clear, where we can control our EBITDA margins and make profits for our shareholders. Here we just need to mention that in case of QVC, part of the feedstock is bought from external parties, and this part is representing around 25% to 30% of the feedstock that is consumed at QVC level. And this feedback purely depends on market conditions.
Speaker:	Okay, thank you very much.
Sami Mathlouthi:	Thank you.
Operator:	And we will now take the next question from Shabbir Kagalwala with Al Rayan Investment. Please go ahead. Your line is open.
Shabbir Kagalwala:	Thank you, gentlemen. This is Shabbir from Al Rayan Investment. Do you have any planned outages for the remaining part of the year in 4Q?
Sami Mathlouthi:	Thank you, Shabbir, for the question. Yes, for Q4 2021 we have a big shutdown in QVC, that's around 90 days. The shutdown has already started. And this was a planned shutdown, it's communicated already to the market previously. Yeah, so that's 90 days for QVC. We don't expect any shutdown for QChem and QChem II. And if you look at the shutdowns until Q3 2021, you will see that the operating rates has increased a lot compared to last year.
Shabbir Kagalwala:	When is this shut down going to be completed?
Sami Mathlouthi:	It has already started, so beginning of October, and it should be completed by the end of this December.
Shabbir Kagalwala:	End of December, okay, the entire quarter. Do you think this period that there's a shutdown you will not be – do you have enough inventory level for sales? How will you manage?
Sami Mathlouthi:	Well, as you know that most of the production is sold. We don't have a huge inventory at QVC level, so there's not enough for the next three months' sales.
Shabbir Kagalwala:	Okay. Basically nothing will be sold in this quarter?

Sami Mathlouthi:	Yes. It's small quantities that is existing in the stock, but very minor.
Shabbir Kagalwala:	Okay. And my other question is –outlook for caustic soda. Caustic soda, the prices have jumped significantly. Could you give us some color on how do you see the pricing for this product going forward?
Riaz-ur-Rehman Khan:	<p>Yeah, thank you, Shabbir. Riaz here. Basically on the caustic soda, again, I'll caveat myself. This is a market consensus. It will be very difficult to comment anything from our side, which is not the policy or which has not been the policy historically even so.</p> <p>Caustic soda, again, the supply-demand dynamics has been very positive and it is supporting the prices. Supply remains very short. Demand is on a higher side. Caustic soda, as you are aware, almost at a very high level on a global scale, 30% to 40% of caustic soda is used in aluminum production, so the pricings are a bit closely linked to aluminum and then aluminum trajectories, and which is again very positive on the aluminum front. And then the next most used industry for caustic is paper industry, which is predominantly linked to the office usage, as well as, in schools and different areas. That is again has been very strong, with most of the economies are coming out of those lockdowns and have remained open unlike like last year. The price trajectories for the next two quarters is expected to be positive, with supply remained constrained. As far as exact numbers and exact percentiles and exact references from our pricing perspective is concerned, that is something which is not the policy, it is where we caveat ourselves. This is, again, a market consensus, and this is what market thinks.</p>
Shabbir Kagalwala:	Okay, thank you. What is the current price of caustic soda? Is it still 350?
Sami Mathlouthi:	We can comment until Q3 2021, so basically we have seen a huge increase between Q1 2021 and Q3 2021 from 196 to 350. I think the prices are stable now and comparable to the latest price that we have seen in end of Q3 2021. But we cannot comment on the future.
Shabbir Kagalwala:	Okay, thank you. My last question is, I know I've taken a long time, just the QVC that you said will be shut down, it basically produces VCM, EDC & caustic soda, right? The volumes for both of these products will be offline, right?
Sami Mathlouthi:	Yes.
Shabbir Kagalwala:	Okay. Sounds good. All right, thank you.
Sami Mathlouthi:	Thank you.
Operator:	It appears 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:	Thank you, Diana. This is Bobby again from QNB FS. If there are no further questions, we can end the call for today. I want to thank Sami, I want to thank Riaz for taking the time to answer investors' questions and we will pick it up next quarter. Thank you very much.
Sami Mathlouthi:	Thank you, everyone.
Riaz-ur-Rehman Khan:	Thank you all.
Operator:	Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.