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| Company: | **Industries Qatar** |
| Conference Title: | **Industries Qatar (IQCD) 4Q-22 Results Conference Call** |
| Speakers from IQCD: | 1. Abdulla Yaqoob Al-Hay, Acting Manager, Privatized Companies Affairs, QatarEnergy<br>2. Mohammed Saffan, Sr. Financial Management Analyst<br>3. Rashid Al-Mohannadi, Head Investor Relations<br>4. Riaz Khan, Investor Relations Officer |
| Moderator: | Bobby Sarkar, Head of Research – QNB Financial Services |
| Date: | **Thursday, 16-Feb-23** |
| Conference Time: | **13:30 Doha Time** |

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| **Operator:** | Hello, and welcome to the Industries Qatar Conference Call. I would like to advise all participants that this call is being recorded. Thank you. I'd now like to welcome Bobby Sarkar from QNBFS to begin the conference. Bobby, over to you. |
| **Bobby Sarkar [QNB FS]:** | Okay. Thank you, Pauly. Hi. This is Bobby Sarkar, head of research at QNB Financial Services. I want to welcome everyone to Industries Qatar's Fourth Quarter and Fiscal Year-End 2022 Results Conference Call. So, on this call from QatarEnergy's Privatized Affairs Group, we have Abdulla Al-Hay, who's acting manager; Rashid Al-Mohannadi, who is the head of IR; and Saffan Mohammed, who's the senior financial management analyst; and Riaz Khan, who is the IR officer. So, we will conduct this conference with first management reviewing the company's results followed by Q&A.<br><br>I would now like to turn the call over to Rashid. Rashid, please go ahead. |
| **Rashid Al-Mohannadi [IQ]:** | Thank you, Bobby. Good afternoon and thank you all for joining us. Hope you are doing great. Before we go into the IQ business and performance updates, I would like to mention that this call is purely for IQ investors, and no media representatives should be attending this call. Moreover, please note that this call is subject to the disclaimer statements as detailed on slide two of the Investor Relations presentation.<br><br>Now we can move on to the call. On Thursday, the 9th of February, IQ published its financial results for the year that ended on the 31st of December 2022. And today, in this call, we will go through these results and provide you with an update on key financial and operational highlights.<br><br>Today in this call, along with me, I have Abdulla Al-Hay, acting manager for Privatized Company Affairs; Saffan Mohammed, senior financial management analyst; Riaz Khan, Investor Relations officer. We have structured our call as follows: first, I will provide you with a quick insight on IQ ownership structure, competitive advantages, and overall governance structure. Secondly, Saffan will brief you on IQ's key operational and financial performance matrices. Later Riaz will provide you with an update on the latest segmental performance. And finally, we'll open the floor for the Q&A. |

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| | To start with, as detailed on slide number five, IQ ownership structure compromises of QatarEnergy with a 51% stake and the rest is in the free float held by various domestic and international corporate individuals. IQ is a credit-rated entity by S&P with an A+ and Moody with an A1 credit rating, both with a stable outlook. QatarEnergy being the main shareholder of IQ provides most of the head office functions through our service level agreement.<br><br>IQ Group companies' operations are indemnity managed by its respective Board of Directors, along with the senior management team. In terms of their competitive advantages, as detailed on slide eight, the group is well positioned with several competitive advantages within its domain strategically, operationally as well as financially. These strengths include:<br>• an efficient and well-maintained asset base;<br>• a qualified and highly trained workforce;<br>• an assured supply of feedstock and competitively priced energy sources;<br>• lower operating costs;<br>• a dedicated marketing team in the form of Muntajat to market the group's petrochemical and fertilizer products;<br>• well-known JV partners; and most important<br>• our experienced senior management team<br><br>As detailed on slide 10, from a competitive positioning perspective, IQ ranks among the top-tier companies with the regional downstream space across most of the matrices. In terms of the IQ governance structure, you may refer to slides 51 and 52 of the IR deck, which covers various aspects of the IQ code of corporate governance in further detail.<br><br>I will now hand over to Saffan to cover IQ operational and financial performance matrices. |
| **Mohammed Saffan [IQ]:** | Thank you, Rashid. Good afternoon and thank you all for joining the call. Starting with the macroeconomic environment, as detailed on slide number 12, the macroeconomic environment remains volatile mostly throughout the year. As a result of geopolitical uncertainty, along with recessionary fears on account of inflationary pressures and hawkish stance on interest rates by most of the central banks.<br><br>Also, exceptionally high energy prices in Europe are persistently weighing on most European producers. Additionally, China's zero COVID policy and related lockdowns, coupled with a slowdown in the Chinese construction sector remained a key catalyst for the volatile global economic context during 2022.<br><br>On the domestic steel market front, recently contoured activities related to FIFA 2022 World Cup waited on the domestic steel demand amid muted construction activity that led to lower price trajectories. On an overall basis, product prices across the group basket of products softened during the fourth quarter of 2022 versus the third quarter due to cautious consumer demand on account of macro headwinds coupled with comparatively lower crude prices. |

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|  | However, on a year-on-year basis, product price trends remained positive on account of both pandemic recovery phases despite macroeconomic fundamentals remained, mostly unstable, throughout the year.<br><br>Moving on to financial performance for the year 2022, as detailed on slide number 16 of the IR presentation, the group reported a net profit of QA 8.8 billion as compared to a net profit of<br><br>QAR 8.1 billion for the last year with a growth of 9% on a year-on-year basis. This record financial performance versus last year was largely attributable to the improved product prices, which on average inclined by 18% and translated into an increase of QAR 3.7 billion in the group's bottom line earnings.<br><br>As you can see on slide number 17, sales volume increased by 8% versus last year, primarily driven by higher plant operating rates leading to improved operating rates, leading to improved production volumes, along with restarting of certain production facilities. The growth in sales volume contributed QAR 2.1 billion positively to the current year's bottom line earnings versus last year.<br><br>The overall growth in selling prices and sales volumes led to an overall growth in revenues for the group, which increased by 28% during the financial year 2022 to reach 2Q up QAR 25.8 billion.<br><br>As detailed on slide 15, the group production level was up last year by 9%. Restarting a previously mothballed DR-1 facility, having a larger capacity together with higher plant operating days noted with the petrochemical segment, which mainly contributed positively towards an overall increase in production volumes during the current period.<br><br>Moving on to quarter-on-quarter performance. As detailed on slide 16, the group revenue marginally declined due to slightly lower sales volume, while the average selling prices remained relatively flat despite the global economic context remained under stress due to recessionary fears and continuing geopolitical tension. This kept most of the macroeconomic indicators volatile during the latter part of 2022.<br><br>On the other hand, net profit improved by 10% due to lower operating costs, partially offset by lower sales volumes. Our robust business model 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 ensures our competitive advantage.<br><br>Moreover, as detailed on slide 19, IQ's EBITDA margin continued to remain robust. Also, we continue to build our strong financial position with improved cash flow generation capabilities and the group generated QAR 8.8 billion, in terms of free cash flows during the financial period, as detailed on slide 18.<br><br>I'll now hand it over to Riaz to cover the segmental performance. |

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| **Riaz Khan [IQ]:** | Thank you, Saffan. I will start with the petrochemical segment. As detailed on slide 25, the petrochemicals segment reported a net profit of QAR 2.5 billion for the year ended 31st of December 2022, marginally down by 1% versus last year. This marginal decrease was mainly due to a slight decline in gross margins as growth in segmental revenue being almost offset against higher operating costs.<br><br>Blended product prices for the segment improved by 2% versus last year as a result of the recovery of demand following post-pandemic recovery. Higher energy prices, coupled with supply bottlenecks. Sales volumes also improved by 14% compared to the last year, in line with the growth in production volumes against the backdrop of higher facility availability.<br><br>Growth in selling prices, combined with higher sales volumes led to the overall growth in the segmental revenue and reached QAR 7.0 billion for the current year with an improvement of 17% versus last year. On a year-on-year basis, production volumes increased by 15% as the segment's polyethylene segment was on a periodic large-scale maintenance shutdown during the fourth quarter of 2021 while the segment's fuel additive operations were on a commercial shutdown during the early parts of last year, which affected the last year's production volumes on an overall basis.<br><br>As detailed on slide 26, the segment's EBITDA margins continue to remain strong. In terms of segment revenue by geography, as detailed on slide 27, Asia remains the main market for PE and MTBE products, whereas the Indian subcontinent remains a key market for methanol and polyethylene.<br><br>Moving on to the fertilizer segment. As detailed on slide 31, the segment reported a net profit of QAR 5.3 billion for the year ended 31st of December 2022 with an increase of 5% versus 2021. This increase was primarily driven by growth in segmental revenue where segmental revenue grew by 41% for the year 2022 versus the last year. This was primarily due to higher selling prices. Again, restricted supply from key exporting regions together with inflationary pressures, due to higher core prices, along with higher energy prices and geopolitical conflicts remained the key factors for elevated year-on-year price trajectories for nitrogen-based fertilizers.<br><br>Sales volumes also increased during the year, mainly due to the timing of shipments and marginally improved production levels. Production within the segment improved marginally as segment strains were available for higher operating days due to lower maintenance during the current year.<br><br>As detailed on slide number 32, the segment's EBITDA margins continue to remain robust. In terms of segmental revenue by geography, as detailed on slide number 33, Asia remains the main market for fertilizers during the year 2022 along with the Indian subcontinent and North America and South America.<br><br>Now let's discuss the steel segment, and you may refer to slides 35 until 41. The steel segment reported a net profit of QAR 888 million, up by 24% versus last year. Improved segmental earnings were mainly driven by higher revenues, which increased by 10% versus 2021. Additionally, segments, one of the associates that |

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| | primarily produces and sells iron oxide pellets for at holdings reported commendable financial results against a backdrop of improved financial operations.<br><br>Qatar Steel's share of net earnings in fallout increased by threefold versus last year and reached almost QAR 0.5 billion for the year ended 31st of December 2022. Growth in revenue was primarily driven by improved sales volumes, which increased by 14% and were mainly linked to higher production volumes. The production also ramped up during this year as the segment restarted the DR-2 facility, a relatively larger facility that was previously mothballed and has been decided to shift the production from the DR-1 facility. Restarting the DR-2 allowed the segment to have greater operational flexibility and improved output optimization.<br><br>Selling prices, on average, marginally decreased by 4%, mainly due to softening demand coupled with the slowdown in international steel prices.<br><br>Moving on to slide 38. Segment's EBITDA margins continue to remain robust following the mothballing decision back in 2020.<br><br>I will now hand it over to Rashid. |
| **Rashid Hamad Al-Mohannadi [IQ]:** | Thank you, team, for comparatively covering the financial operational segment update. I think we can now open the floor for the Q&A. |
| **Operator:** | Thank you. I would like to now invite any participants that would like to ask a question, press star one on your telephone keypad. Again, to ask a question please press star one on your telephone keypad. And your first question comes from the line of Anoop Fernandes from SICO. Your line is open |
| **Anoop Fernandes [SICO]:** | Yes. Hi, good afternoon, gentlemen, and congrats on a great year. My question is on the gas price. Is there any change in the gas price formula this year that you're expecting? And if there isn't any change, do you expect the gas pricing in the fertilizer business to be substantially lower Y-o-Y in the first quarter given that urea prices have corrected so deeply? |
| **Abdulla Al-Hay [IQ]:** | Thank you for asking. I believe this year, a special year, we achieved a great net income of QAR 8.8 billion. We also proposed a great dividend proposal of QR 1.1. So, thank you for congratulating us on such great results. Going into the gas prices, there are no changes that took place this year related to the gas prices. That is exactly similar to the previous years. And we are not anticipating any changes in the future. |
| **Anoop Fernandes [SICO]:** | Yes. Just to clarify, I mean, based on the…what you've guided in the past, can we expect the gas prices to be substantially lower in the first quarter given that the indexation component would be a lot lower because urea prices have fallen so much? |
| **Abdulla Al-Hay [IQ]:** | As you are aware, the gas price is linked to our formula, which is our market link as well. So, it has the flexibility of the rate to be changed, while the end product prices |

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| | are changing. And we have explained this mechanism earlier, and I believe you are aware of such mechanics. |
| **Anoop Fernandes [SICO]:** | Okay. So just to clarify, I mean the formula gets reset at the start of the year, right? |
| **Abdulla Al-Hay [IQ]:** | Yes. |
| **Anoop Fernandes [SICO]:** | So, from the 1st of January 2023, we again go back to the base price plus whatever the indexation is it starts of fresh? |
| **Abdulla Al-Hay [IQ]:** | Exactly, and it is an accumulative formula. |
| **Anoop Fernandes [SICO]:** | Yes, I understood. Thank you. Just to confirm. Thanks a lot. |
| **Operator:** | Before proceeding to the next question, I would like to remind everyone to press star one if you would like to ask a question. And your next question comes from the line of Sashank Lanka from Bank of America. Your line is open. |
| **Sashank Lanka [Bank of America]:** | Thank you for the presentation and the opportunity to ask questions. Again, congratulations on a strong set of results again, in 2022. I have two questions on my side. The first one is on the blue ammonia project that was announced last year. We understand the startup is Q1 2026. The CapEx for the project is around $1 billion, which seems quite low when you look at other similar projects globally. So, just wanted to understand the backdrop for this. And what is the agreement with QVRS, which I understand will be supplying the renewable energy for this project? So, any details there will be highly appreciated it. That's the first question.<br><br>And the second question is just on your dividend. If I look at dividend payments year-on-year, I think it was kind of flat. Your net cash position is at QAR 19 billion, which is, I think, at record-high levels. If you look at some of your peers, they did increase dividends and also paid special dividends in the region. So, just wondering if there's more headroom for you to pay higher dividends given the substantial amount of cash you have on your balance sheet. |
| **Abdulla Al-Hay [IQ]:** | Thank you for asking us these questions. Going to the blue ammonia project, we need to make…to separate, there are two projects there. There is the blue ammonia train, which cost around $1 billion. And there is the carbon capture facility, which is a QatarEnergy project. This is why you are seeing that such a project is, I would say, a lower project than the other.<br><br>So, the carbon capture facility is the facility provided by QatarEnergy. And as we have announced and disclosed earlier, there will be fees…minimal fees for the carbon capture storage at the facility. So, I hope this is clear to you right now. |
| **Riaz Khan [IQ]:** | Sashank, so the CCS facility will be built and operated by QatarEnergy Renewable Solutions, for which, the fee will be charged to QAFCO. |

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| **Sashank Lanka [Bank of America]:** | Okay. And I mean, just in terms of…I know this is probably a question that's maybe premature, but just in terms of pricing, how this would work for blue ammonia versus traditional ammonia? Is that already stated in the contract? |
| **Abdulla Al-Hay [IQ]:** | It's too early because still there is no established market for blue ammonia, even other operators like whoever… a couple of test shipments have been done. So, no one has clear visibility of blue ammonia as a product. Most people are using it for energy, right? It's sort of carrying hydrogen, they carry ammonia as energy, right? So still a lot of test marketing has been done. So we can see when everybody comes into real operations, any other name, and not fully…whoever still no real sales taking place. So once that is done only, we can see how much premium the customers are willing to pay. A lot of hype there, but no real premiums have been seen. Discussions people are saying it can be 200, 150, 250, but nothing is seen. |
| **Sashank Lanka [Bank of America]:** | Okay. And just in terms of the fees, how is this going to be based on that you will be paying QatarEnergy? Is it based on your volumes? Or is it a cost-plus basis? How does that work? |
| **Abdulla Al-Hay [IQ]:** | Still under discussion. Nothing has agreed upon and everything is under discussion. |
| **Sashank Lanka [Bank of America]:** | Okay. |
| **Abdulla Al-Hay [IQ]:** | So, moving to your next question related to the cash position that we have. I agree with you, we have a strong cash position of QAR 19.2 billion. IQ is generous as usual, every year, in paying the dividend. This year, the dividend yield, if you take it, it's more than 7.7%. So, it even gives you more than what the bank gives you for the fixed deposit, I would say.<br><br>I'm not expecting for a different proposal that will come more than QAR 1.1. That is the highest in history. Previously, IQ paid the same amount. And right now, due to the strong financial, we paid the same. Also, we need to consider that the blue ammonia project is a self-financed project, we need to build the reserve for it. Also, we need to consider PVC projects that also IQ projects self-funded.<br><br>Also, we announced in the previous year that in case of any foreign shareholders and our group are willing to have their share for sale, we are willing to enter into a negotiation. So, we reserve that cash for future strategy and future requirements. |
| **Saffan Mohammed [IQ]:** | One more point, the industry in which we are operating is very cyclical. Urea was $700 last year in January. Now this year, it is below $400. So, the majority of the cash flows are very cyclical. So, we need to keep some buffer as well. |
| **Sashank Lanka [Bank of America]:** | Okay. I appreciate the color. |

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| **Operator:** | The next question comes from the line of Seki Mutukwa from Ashmore Investments. |
| **Seki Mutukwa [Ashmore Investments]:** | Hi. Thank you for the call. Two questions, please. The first one just goes back to the dividend. Could I take the two consecutive years of a sort of similar payout ratio as the start of a formal policy on that dividend? And then the second question was just to try and understand the economics of the blue ammonia project as opposed to conventional. I understand the sort of greener credentials in that. But just in however you can describe it where one would see a sort of benefit from this that isn't necessarily related to obviously, environmental impacts or…so just to get a picture. Thank you. |
| **Abdulla Al-Hay [IQ]:** | Okay. Regarding the dividend and is it like a policy that we are following? I will answer that question to… it's not a policy. Every year, the Board of Industries Qatar are meeting and discusses the dividend proposal, depending on the current performance and the future requirement of the group companies.<br><br>Luckily, for the last two years, Industries Qatar are performing very well. Last year, the net profit is QAR 8.1 billion almost. This year, our net profit is QAR 8.8 billion or QAR 8.9 billion, amazing result. I believe, the Board also takes into consideration the improvement in the net profit. This is why last year, the dividend was at exactly QAR 1.0, and this year of QAR 1.1. So, I hope this is very clear to you. What was the second question? |
| **Riaz Khan [IQ]:** | Blue ammonia…like more kind of economics... |
| **Abdulla Al-Hay [IQ]:** | Economics. Definitely. We believe that the blue ammonia will bring additional value…we are seeing the blue ammonia as a value-added product. And it will also improve the sustainability position of the fertilizer segment. So, it's not only about being a value-added product, but also it will be adding value for the group moving toward more sustainable and environmentally friendly. |
| **Seki Mutukwa [Ashmore Investments]:** | Thank you. Can I just throw in one quick follow up relating to the blue ammonia? Was…when you…did you consider the carbon capture yourselves at some point and then opted for this sort of agreement as it stands? And just trying to understand why you didn't go and do the whole thing yourselves if you had the choice. |
| **Abdulla Al-Hay [IQ]:** | No, no. I believe QatarEnergy, the asset owner, they are the one also taking the lead on such projects related to the environment. And this purely came from QatarEnergy in line with our project of blue ammonia. So, we have, I would say, both of the group companies like the fertilizer segment and QatarEnergy. They talk to each other, then they come to that proposal for QAFCO to build the train for the blue ammonia and QatarEnergy to have the carbon capture storage facility as well. |
| **Seki Mutukwa [Ashmore Investments]:** | Thank you. |
| **Operator:** | Your next question comes from the line of Jagdish Thanvi from Avalon Global Research. Your line is open. |

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| **Jagdish Thanvi [Avalon Global Research]:** | Good afternoon. Congratulations on a great set of numbers. I just want to ask you two questions. One is as I see your income statement, I see an income from investment of QAR 476,000…so QAR 476 million. So, I just want to know what exactly it is. Secondly, yes, I see a strong increase in the general admin and selling expenses. Can you just help…give me like what exactly is the thing which gets the higher expense? |
| **Rashid Hamad Al-Mohannadi[IQ]:** | Can you give us a second while we open the financial? I think, for the first part, on your question about the 400-odd number income, this basically comes from our associate fallout. As we mentioned at the beginning of the call that we…our fallout associate made a commendable performance, and this is where the QAR 400 million outcomes. For the G&A question, just give us a…I think Saffan can take it over. |
| **Mohammed Saffan [IQ]:** | G&A has declined for your information from QAR 712 million to QAR 679 million, but if you combine selling and distribution, it remained pretty much flat. But still, declined. Your answer to share of results has increased because of our associated investment in [indiscernible]. Income from investment, obviously, has increased for a couple of reasons. Number one, our bank deposits have increased in terms of absolute number and the rate of return, fixed deposit rates have substantially increased compared to 2021. So, that had brought a fairly large absolute return. I hope I answered your question. |
| **Jagdish Thanvi [Avalon Global Research]:** | Can I have one more follow up question? The steel prices…hello? |
| **Abdulla Al-Hay [IQ]:** | Go ahead, please. |
| **Jagdish Thanvi [Avalon Global Research]:** | On the steel segment, if you look at the fourth quarter numbers, the price has declined across all key products. So, can we expect some revival in the prices in the first quarter or maybe in the second quarter? If you can give us some guidance on the same? |
| **Rashid Hamad Al-Mohannadi [IQ]:** | Basically, during the fourth quarter or the second half of 2022, they have a slowdown due to FIFA activities. So once FIFA was ended, we are expecting a recovery. So, definitely, the prices will recover, but it will be recovering at a slower pace. So Q1, Q2, we expect a recovery in the domestic market. There are new projects coming up. So that will help the market to recover on the domestic front. |
| **Riaz Khan [IQ]:** | On the international front, if you look into the steel dynamics…there are some discussions going on with the recent earthquake in Turkey in the Southern region where most of the steel facilities are located. It is yet to be determined how the overall supply will get impacted with that. So that is also one point because, ultimately, what happens is in the international steel markets gets cascaded to an extent to the local markets. |
| **Riaz Khan [IQ]:** | I hope we answered your question. |
| **Jagdish Thanvi [Avalon Global Research]:** | Thanks a lot. Thank you very much. |
| **Operator:** | Your next question comes from the line of Rene Selouan from Jadwa Investment. Your line is open. |

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| **Rene Selouan [Jadwa Investment]:** | Yes. Hi. Thank you for the call. My question is in regard to the fourth quarter urea price. It came in higher than the third quarter. That's number one. And number two, given that the price was higher in the fourth quarter, one would have assumed that maybe margins should have been quite similar to the third quarter, given that gas price is linked to the urea price. So, if you could explain the higher price quarter-on-quarter and the much higher margin quarter-on-quarter, EBITDA margin? |
| **Riaz Khan [IQ]:** | Yes. So firstly, basically, I'll take it in the reverse order, your question. In terms of the EBITDA margin, that's true. We got an uplift in terms of EBITDA margins. One reason for that is basically the year-to-date pricing formula because we consider the year-to-date prices. Until the third quarter, the year-to-date price was higher and the Q4 price was on the lower side.<br><br>So, on the top line, that is the revenue you were making less revenue versus the cost side where you were charging, or you were ending up paying a higher price for the gas because the urea price…year-to-date urea price was higher. Now reaching the year-end, the prices were like basically in the latter part of the year, the prices for urea were on a downward trajectory compared to the first half of the year. So, when we reach the year-end, the prices…the year-to-date prices, mathematically slightly declined, and that really helped the cause in increasing your basically overall margins. This is the first point.<br><br>And obviously, the overall prices which we achieved in Q4 versus Q3 also helped the cause. And that is predominantly, basically, the Muntajat mandate where they tend to ensure the best netbacks available in the markets based on their relationships and their presence in multiple geographies at the same time. And that is like a credit to them, basically, that we achieved better prices even despite depressed markets.<br><br>And like overall, mathematically, your year-to-date pricings were on the downward side. And that's why your cost is also reduced comparatively. So hopefully, I answered both of your questions. |
| **Rene Selouan [Jadwa Investment]:** | Okay. Thanks. |
| **Operator:** | There are no further questions at this time. I would like to turn the call back over to Bobby for closing remarks. |
| **Bobby Sarkar [QNB FS]:** | Thank you, Pauly. So, if there are no further questions, we can end the call today. I wanted to thank QatarEnergy management for taking the time to answer our questions, and we will pick this up again next quarter. Thank you so much, guys. |
| **Abdulla Al-Hay [IQ]:** | Thank you, Bobby. Thanks, everybody, for being with us on this call. |
| **Operator:** | This concludes today's conference call. You may now disconnect. |