Mesaieed Petrochemical Holding Company

Company:	**Mesaieed Petrochemical Holding Company (MPHC)**
Conference Title:	**MPHC Q1-20 Results Conference Call**
Speakers from IQCD:	**1. Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum** **2. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum**
Moderator:	**Shahan Keushgerian, QNB Financial Services**
Date:	**Monday, 4 May 2020**
Conference Time:	**13:30 Doha Time**

Shahan Keushgerian [QNBFS]:

Hello everyone. This is Shahan Keushgerian from QNB Financial Services. I'd like to welcome everyone to MPHC's First Quarter 2020 Financial Results Conference Call.

So on this call, we have with us, Sami , Assistant Manager of Financial Operations; and Riaz Khan, Head of IR and Communications. So as usual, we will conduct this conference with, first, management reviewing the company's results followed by Q&A session. I will turn the call over now to Riaz. Thank you.

Riaz Khan:

Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all staying safe.

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 representative should be participating in this call.

Moreover, please note that this call is subject to MPHC's disclaimer statement as detailed on slide no. 2 of the IR deck.

Moving on to the call,
on 27th April, MPHC released its results for Q1-20, 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.

Today on this call, along with me, I have:

1- Mr. Sami Mathlouthi, Asst. Manager, Financial Operations

We have structured our call as follows:

- At first, I will provide a quick insight on IQ's ownership structure, competitive advantages, overall governance & BOD structure by covering slides 5 till 8, and slides 36 & 37;
- Secondly, Mr. Sami will brief you on MPHC's key operational & financial performance matrix.
- Later, I will provide you with insights on the segmental performance and CAPEX updates.
- And finally, we will open the floor for the Q&A session.

To start with, as detailed on slide no. 6 of the IR deck, the ownership structure of MPHC comprises of Qatar Petroleum with 65.5% stake and the rest is in free float.

As detailed on slide no. 5, Qatar Petroleum, 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.

The BOD structure is detailed on slide no. 7 of the IR Presentation.

In terms of competitive advantages, as detailed on slide no. 8, all of the MPHC's group companies are strategically placed in terms of 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. Additionally, its partnership with Muntajat, a global leader in marketing and distribution of chemical products, acts as a catalyst for its access to global markets.

In terms of the Governance structure of MPHC, you may refer to slides 36 & 37 of the IR deck, which covers various aspects of MPHC's code of corporate governance in detail.

I will now hand over to Sami.

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

To start with, MPHC's business performance for Q1-2020 is a pure reflection of challenging macro-economic conditions, with an overall decline of 83% in terms of bottom line profitability in comparison to Q1-19, as reflected on slide no. 14. The financial performance was impacted by uncontrollable external factors continued from 2019 such as the slowdown in global economies, limited GDP growth, along with the unprecedented spread of COVID-19 pandemic and the ongoing volatilities in oil prices.

The challenging macro-economic conditions led to a decline of 36% in terms of revenue, compared to last year. This decline was mainly due to the lowered blended selling prices, with a decline of 18% recorded year-on-year basis, mainly due to volatile crude and petrochemical prices and weaker demand.
Impact of COVID-19 and the present oil price crisis has been partially felt in the prices until 31 March 2020.

Sales volumes declined by 22% in comparison to Q1-19, due to the drop in production volumes, which decline by 37% year-on-year basis, amid planned maintenance shutdowns. These maintenance shutdowns are primarily directed to ensure the health, safety and environmental standards, as well as, the plant life in terms of quality assurance and reliability, which would ultimately lead to improved operational efficiency on the long run.

When analyzing the decline in profitability in more detail, as reflected on slide 15, the main contributor towards a total variance in the bottom line profitability is mainly due to declining prices and volumes which in total contributed to a decrease of QR 286 million in the Company's earnings for Q1-20. Although, this was partially off-set by lowered feedstock unit cost and decline in feedstock volumes due to shutdowns, which added favorably towards the bottom line earnings by QR 87 million.

The bottom line was also negative impacted due to the negative inventory movements on account of large inventory drawdowns due to planned shutdowns and turnarounds.

As detailed on slides 33 & 34, in response to contain the spread of COVID-19, measures have been taken to monitor the fluctuating business conditions and threats posed by the spread of COVID-19, with a specific focus on protecting employees, assets and operations.

Production volumes were not affected by COVID-19, as there were no plant stoppages, nor, were there any changes to the planned maintenance timelines, and all the facilities successfully completed their respective planned turnarounds within the budgeted timelines. Also, in the current distressed situation, with the relentless efforts of our sales and marketing partner, the Group ensured that all the sales contracts are effectively and efficiently secured and minimized the disruptions to marketing, warehousing and logistics.

In general, the full effects of COVID-19 outbreak has not been fully realized until 31 March 2020, as the effects of pandemic began to reflect in commodity markets starting from February 2020. In addition, the product prices have not yet factored in fully, the prevailing depressed oil prices till 31 March 2020.

Before we go into the segmental updates, I would like to highlight some of the key initiatives, which the Group will take to ensure our resilience in these challenging macroeconomic situation. The Group is currently reviewing its OPEX and CAPEX plans, across all segments, to identify any expenses or expenditures which are not critical in the current circumstances, can be either avoided or delayed, in order to further optimize its cost of operations. Here, the key in doing such curtailments, would be to ensure the quality, safety, reliability and environmental aspects of the operations is not affected. These measures would provide the Group with a broader access to free cash flows, which could be diverted towards better investment avenues and can be utilized as a buffer for any unwarranted adversities.

On overall basis, our base case strategy will be to continue its focus on the strategic drivers of operational reliability in terms of continued improvement in efficiency, through cost optimization programs, which would enable the Group to contain costs while making strategic investments for unlocking further growth potential.

I will now hand over to Mr. Riaz Khan, to cover the segmental performance.

Riaz Khan: Thank you Sami.

Firstly, I would like to start by briefing you about two segments of the Group. As mentioned on slide no. 6, MPHC operates in Petrochemicals and Chlor-Alkali segments via various JVs. All of the JVs of the Group are with the international partners, having state of the art technical expertise in their respective fields of operations.

Now let's analyze segment wise performance.

Petrochemicals

Starting with Petrochemicals, as covered in slides 20 till 24, the overall profitability of this segment has remained under pressure with an overall decline in the bottom line earnings of 89% year-on-year basis. This was mainly due to the declining market prices and lowered sales volumes.

The blended product prices in the Petchem segment declined by 20% coupled with a decline in sales volumes of 23%, which has led to an overall decline in revenues by 38%, within the segment. The decline in sales volumes was due to the overall decline in production volumes primarily due to the planned periodic turnaround of Q-Chem II facilities implemented during the quarter. The production volumes declined by 35% compared to Q1-19.

In terms of segment revenue by geography, as detailed on slide 23, Asia remains a main market for the segment, whereas, Indian sub-continent and Europe remains other key markets the segment.

Chlor-Alkali

Moving on to the Chlor-Alkali segment, as detailed on slides 25 till 29. During the first quarter of 2020, segment revenue declined by 28%, compared to the same period of last year. The decline in revenue was mainly due to the decrease in sales volumes by 20% and selling prices by 10%.

The decline in sales volumes was attributed to the planned maintenance shutdowns within QVC facilities. The decline in selling prices was mainly due to the adverse macroeconomic sentiments, causing supply-demand imbalances leading to negative effects on the commodity prices.

During the period, the segment reported a net profit of QR 22 million, down by 71% from previous year, attributable to the overall drop in segment revenue.

In terms of segment revenue by geography, as detailed on slide 28, Indian sub-continent remains the main market for this segment.

Moving on to slide no. 31, as per 2020 approved budget and business plan, the total planned CAPEX of MPHC until 2024 would amount to QR 1.2 billion. A detailed break-down of CAPEX projects has been disclosed on the same slide. As mentioned by Sami, these CAPEX figures will be reviewed and updated based on the current market circumstances.

Now we will open the floor for the Q&A Session.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you were using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open. State your name before posing your question. Again, press star one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal for questions. We'll now take our first question. Please go ahead. Just a reminder, to take your phone off mute if this is the case.

Metehan Mete [Waha Capital]: Hi. This is Metehan Mete from Waha Capital. Sorry, my phone was muted earlier. I want to ask you, do you expect any shutdown schedule that you have in the first quarter into the second quarter? And what has the shutdown schedule for the rest of the year, if I may ask?

Another thing is that I see that your profit has been restated significantly higher year-on-year. If I'm not mistaken, it was around QAR240 million in the first quarter 2019. And in the current financial statements, you are showing it as QAR330 million. Can I get a clarification like what was the change in that – what was the reason for the change in the profit? What was the accounting restatement?

Sami Mathlouthi: Yeah. Well, for the shutdown, I think we had a big shutdown during the first quarter and those are all planned shutdowns, in Q-Chem and planned turnarounds in Q-Chem II. So QVC as well, we have planned shutdowns and we have six days of unplanned shutdowns. So basically we are not seeing any other planned shutdowns for the year 2020. And there is nothing planned for the year for both, Q-Chem I and Q-Chem II. And since – and we have planned shutdowns during the year 2021, yeah, but there is nothing planned for Q-Chem and Q-Chem II.

So regarding the restatement of Q1, so basically this is relating to the reversal of provisions that we have made and there is no reversal to be made during this year. This was relating to the tax effect in 2019 where Q-Chem and Q-Chem II has been exempt from tax. And then we had to restate our financial statement to take into consideration the comparative numbers between Q1 2020 and Q1 2019.

Operator: Once again, if you would like to ask a question, please press star one. It appears there are no further questions at this time. Apologies, one question has just come in. We will now take our next question. Please go ahead.

Vijay [CI Capital]: Hi. This is Vijay from CI Capital. I had a few questions actually. And the first one is, if you can talk a bit about your volume throughput. Are you still able to place whatever volumes you produce into the global markets? Or you think the competitive – or your exports are becoming less competitive? Is that a concern with the new cost structure?

The second question I have is, if you're looking at your inventory, have you taken the impairments already? I do see an inventory differential numbers there. But do you think you're going to impair the inventory higher cost inventory as we go along in the subsequent quarters or you've taken a markdown already?

And the third question is on account of dividends, do you think there'll be a possibility that you can probably take on debt to continue same levels of dividend as before considering the free cash flow maybe challenged this year? That's all. Thank you.

Sami Mathlouthi: Well, regarding the volume and so far we haven't seen any effect of sales at our levels, so basically our partner in terms of sales are doing very huge efforts to place all the quantity we are producing. So we don't see so far for Q2 any issues, but you will follow the market, you will see what will be the – if there is any obstacle that we will face. But so far we haven't seen any obstacles and we are able to place all the volumes we are producing. That's in terms in the first question.

So basically we don't see any concern. And we will continue as before and we will coordinate towards our partners in terms of selling our products. In terms of inventories, so basically due to the stoppage for the Q1, so basically we have consumed all the inventories and you will see that impacted in Q1 results. So basically we got the cost and for the cost of the inventory has been taken in Q1 2020. So there will be no impact of stock cost in Q2 for both companies QVC and Q-Chem and Q-Chem II.

In terms of dividend, I think we will study all the possibilities. So at the moment, we don't have any idea of what will be the strategy. But however we will still have time to explore all the opportunities in terms of payment of dividends and we will see what will be the impact in terms of operations. So we are still at Q1, so we still have another three quarters and we will follow the market, we will see what will be the condition in the markets and then basically by the third or fourth quarter we'll have a better idea to study the possibilities of payments of dividend.

Operator: It appears there are no further questions at this time.

Shahan Keushgerian [QNBFS]: Okay. If there no more further questions, we can wrap up this call. Thank you, gentlemen for the conference call.

Sami Mathlouthi: Thank you.

Shahan Keushgerian: And stay safe.

Riaz Khan: Thank you. Thank you all. In case in future if anyone has any questions, they can send it directly to us through our e-mail address and we'll be more than happy to entertain those questions. Thank you.

Operator: This concludes today's. Thank you for your participation. You may now disconnect.