Mesaieed Petrochemical Holding Company

Company:	**Mesaieed Petrochemical Holding Company (MPHC)**
Conference Title:	**MPHC 2Q-22 Results Conference Call**
Speakers from MPHC:	**Mr. Sami Mathlouthi, Assistant Manager Financial Operations, Privatized Companies Affairs, QatarEnergy** **Mr. Rashid Al-Mohannadi, Sr. Financial Management Analyst, QatarEnergy** **Mr. Riaz Khan, Investor Relations Officer, QatarEnergy**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
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Operator:	Good day, and welcome to the Mesaieed Petrochemical Holding Company Second Quarter 2022 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 [QNB FS]:	Okay. Thank you, Sergei. Hi. Hello, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Mesaieed Petrochemical Holdings Second Quarter Fiscal 2022 Results Conference Call. So, on this call from Qatar Energy's Privatized Companies Affairs Group, we have Sami Mathlouthi, who is Assistant Manager in Financial Operations, Rashid Al-Mohannadi, who is the Senior Financial Management Analyst, and Riaz Khan, who is the Investor Relations Officer. So, we will conduct this conference with management first reviewing the company's results followed by a Q&A. I would like to turn the call over now to Riaz. Riaz, please go ahead.
Riaz Khan [MPHC]:	Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all doing great. 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. Moreover, please note that this call is subject to MPHC's disclaimer statements as detailed on slide no. 2 of the IR deck. Moving on to the call, on 10th of August, MPHC published its results for the six-month period ended 30th of June 2022, and today in this call, we will go through these results and provide you an update on key financial and operational highlights. We have structured our call as follows: ▪ 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. 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.

	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. 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, acts as a catalyst for its access to global markets. 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. 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. I will now hand over to Sami.
Sami Mathlouthi [MPHC]:	Thank you Riaz. Good afternoon and thank you all for joining us. Starting with macroeconomic environment, as detailed on slide 12, remained uneven during the first half of 2022, where demand for certain downstream products slightly inched downward mainly due to China's COVID linked lockdowns and cautious approach from buyers. On the other hand, supply side was affected by Russia-Ukraine conflict enforcing sharp rise in energy prices challenging plant economics specially for the European producers. On an overall basis, commodity prices were essentially balanced during 1Q-22, except for NAOs and caustic soda, where strength was noted on the back of elevated end-product prices. During Q2-22, despite uncertainties over recessionary fears, prices slightly improved on back of persistent higher energy prices and supply side constraints. Price trajectories on a year-on-year basis, remained elevated underpinned by better economic activity, resilient consumer spending, higher industrial output, robust GDP growth and limited supply. For the six-month period ended 30th of June 2022, MPHC recorded a net profit of QR 1.0 billion, up by 14% versus the same period of last year, as detailed on slide no. 16. Group's improved financial performance for the current period was largely attributable to improved product prices, which on an average increased by 18%, and translated into an increase of QR 324 million in Group's net earnings, as you can see on slide 17. On the contrary, sales volumes declined by 7%, versus same period last year, mainly driven by lowered plant operating rates, amid large scale turnaround carried at Q-Chem facilities during the current period. Decline in sales volumes translated into a decrease of QR 134 million in MPHC's net earnings. On the operational performance, MPHC's operations continue to remain robust and resilient with total production for the year reaching 548 thousand MTs. Current period's production volumes declined by 7% versus 1H-21, mainly due to a largescale turnaround carried out at Q-Chem's facilities.

	Moving on to quarter-on-quarter performance, MPHC revenue inched higher by 17%, while net profit increased by 34%. Key contributor towards this improvement in revenue and net earnings was mainly linked to better sales volumes which increased by 13%, amid higher plant operating rates. Selling prices also increased during the second of 2022 with a growth of 4% noted compared to the first quarter, on back of persistently higher energy prices and supply side constraints, despite recent demand related concerns. 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. I will now hand over to Riaz, to cover the segmental performance.
Riaz Khan [MPHC]:	Thank you Sami. Starting with petchem segment, as covered in slides 22 till 26. Petrochemicals segment reported a net profit of QR 665 million for 1H-22, up by 2% versus 1H-21. This marginal increase in profitability was primarily driven by marginal growth in segmental revenue which increased by 1%, as higher selling prices were offset by lowered sales volumes. Segmental sales volumes declined by 12% on a year-on-year basis, as the segment carried out a large-scale turnaround at Q-Chem facilities during 1Q-22, and also affected segment's production volumes which declined by 13%. On the contrary, product prices improved by 14% and offset the negative impacts relating to lowered sales volumes to an extent. Selling prices improved mainly on account of continued momentum from positive macro-drivers carried from latter part of last year. 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. Moving on to Chlor-Alkali segment, as detailed on slides 27 till 31. Chlor-alkali segment reported a net profit of QR 356 million for 1H-22, increased significantly by 41% compared to the same period of last year. This notable growth was primarily driven by a significant improvement in blended average selling prices, which increased by 32% versus 1H-21, complemented by strength from end-product industries (alumina/ aluminium, PVC, etc). Sales volumes remained flat compared to 1H-21. On overall basis revenue grew by 32% within the segment. Production volumes marginally rose by 2% versus 1H-21. In terms of segment revenue by geography, as detailed on slide 30, Indian sub-continent remains the main market for this segment. Now we will open the floor for the Q&A Session.

Operator:	Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. Our first question comes from Nikhil Phutane from CBFS. Please go ahead.
Nikhil Phutane [CBFS]:	Hi. Good afternoon, sir. Very good set of results for the second quarter. Okay, my question follows on caustic soda price trend actually. We have seen of all your price trends which you have shown in the graph, caustic soda has shown resilience in terms of falling other product prices. So, do you see this trend continuing as compared to first half 2022 much better in third and fourth quarter? If yes, why? Also, any idea in terms of any plant shutdowns during the second half of 2022 for all your products? And the third question has got to do with your overall utilization rates for your HDPE plant. It looks like, yes, you have come back in terms of after a turnaround. But still in terms of capacity utilization, it has fallen short of what I believe was there during 2021 in terms of utilization, which was around 115% to 120%. So, do you see again going back to that particular levels in the third and the fourth quarter? Thank you.
Riaz Khan [MPHC]:	Thank you. So, in terms of overall commodity product line which we have. I think going forward, there are some positives, and there are some negatives which we always have to take care. There is Chinese market, which is again the biggest buyer of the commodities is now coming back online slowly. So, presumably, they'll be fully online in September or October. So, there could be upside from demand perspective. In terms of higher interest rates and recessionary fears, this trend is also affecting the markets. And that is something which we have to take care. And especially with these recessionary fears and hawkish interest rates, the US dollar is becoming stronger, which is affecting the developing economies, predominantly the South Asia & South America. Given a very strong dollar rate is affecting their buying power, and affecting the demand for commodities. Then on the geopolitics side, we have continued pressures on the markets from the Russian and the Ukraine war. That is again, once needs to take when assessing the future outlook, in terms of how this issue would resolve, and how the markets will get the benefit from that. But as of now, we stand with this Russia-Ukraine War, EU region is getting affected significantly with very high energy prices. And given the very high energy price trends, Middle Eastern buyers on the other side are getting better off while sitting on the lower side of the cost curve. So, these are the key themes, which one needs to take care when assessing how the price trends will work. As of now, we stand maybe almost 45 days since like 30th of June our last cut-off date, the trend specifically on the caustic soda has remained balanced to bearish, I would say as per the markets. While, going forward in the rest of the year, we need to wait and see how these key themes, which I just mentioned would evolve and how the key outcomes will look like. In terms of the rest of the two questions, I will hand over to Sami to brief you about those.

Sami Mathlouthi [MPHC]:	I will start with the first part of the question, which is the plant shutdown. As you know during the first quarter, Q-Chem had the largest turnaround in its history, which entails around 39 days of turnaround. This has affected the production levels and utilization during the first half of 2022. We didn't have any issue with the turnaround. Everything went as planned, in terms of budgets or in terms of manpower. Going forward , we are not expecting any plant turnarounds for the second half year for the petrochemicals and the Chlor-alkali. For the Chlor-alkali, we have normal plant shutdowns which is on the average of one day and half per month. So, in total, it's around 27 days per year. And these days are spread monthly. Planned turnarounds will not affect the normal running of business. The next big turnaround that we are planning will be during the year 2026 relating to Q-Chem II, which had its turnaround in 2020. So, that's the first part of the question. In terms of utilization in the petrochemical facilities, I think you can refer to slide 18. You can see that utilization has increased in Q2 2022 to 109% compared to 80% in Q1 2022. So, it's around 37% increase in terms of production. Yes. So, in some quarters, we reached the 116% levels. But we believe 109%, is still high compared to the normal utilization rates. We will do our best during the second half year to reach the highest levels, but we believe that 109% to 110% are good utilization rates for the petrochemical facilities.
Nikhil Phutane [CBFS]:	Yeah, wonderful. Thank you. Thank you for your detailed answer, sir. Thank you.
Operator:	Our next question comes from Jag Pasunoori from NBK Capital. Please.
Jag Pasunoori [NBK Capital]:	Hey. Thanks a lot for taking my call. And congratulations on a good set of numbers. Can you please remind me the demand drivers for Chlor-alkali products such as the caustic soda, VCM and EDC? What do they drive for the product price going up or down? Any specific industries, products, end products, if you can remind me, that would be great?
Riaz Khan [MPHC]:	Yeah. So, caustic soda is basically if you see, it's predominantly in alumina production when you convert the bauxite into alumina. So, that's where the caustic soda gets used. Over and above, it's one of the key ingredients as part of the detergent producing process. So, the key drivers when you go and assess the markets, you have to look into the end product prices because these are the end users or they act like a precursor to these products. Then when we talk about the EDCs and the VCMs, they are predominantly precursor to the PVC. PVC is a big industry. So, demand for EDC & VCM is basically linked to wherever the PVC gets consumed, predominantly in the construction sectors. Hope I answered your question.
Jag Pasunoori [NBK Capital]:	Okay, great. Thank you.
Operator:	And as a reminder to ask a question, please signal by pressing star one. Our next question comes from Hisham Kabbani from ADIA. Please go ahead.
Hisham Kabbani [ADIA]:	Hello, hi. Just a quick one on the Chlor-alkali division. I remember, there was a project for PVC. Just wondering, what's the latest on there? How much of Capex do you expect to spend on that and would that be funded by the subsidiary or will it entail like a capital injection at Mesaieed, from the Mesaieed level? Just some color on that. Thank you.

Sami Mathlouthi:	Thank you for the question. The PVC project have been announced and disclosed to the market during the second quarter of 2022. This will be under QVC. The project cost would be around $239 million. Completion is expected by mid-2025. You can also refer to MPHC financial statements for half year 2022, MPHC have already contributed by around $11.5 million. And this has been registered as advance to the PVC Project. We will continue to contribute by our portions which is 55.2% from the $239 million. And this will be registered as advance in the beginning. As you know, we are using the equity method of accounting. And at this stage, we cannot use this as part of our investment in joint venture. So, this will be done lately. The capacity of the PVC facility will be around 350,000 metric tons. The PVC facility will be linked to our VCM production. And it will have a great benefit to QVC and its main shareholders including MPHC . The transportation of VCM is very risky and we can avoid such risk by integrating the PVC production to the VCM facility. Also PVC is in increased demand locally and in the region .
Hisham Kabbani [MPHC]:	Thank you. So, basically you're not expected to fund that through that just by capital injections? Or does QVC have the cash to take it on?
Sami Mathlouthi [MPHC]:	No, no. It will be through MPHC. As I said in the beginning, MPHC will fund that project based on its percentage of ownership, which is 55.2%.
Hisham Kabbani [MPHC]:	Okay. Thank you.
Operator:	Thank you. As there are no further questions in the queue, I'd like to hand the call back over to our speakers for any additional or closing remarks.
Bobby Sarkar [QNBFS]:	Hi. This is Bobby Sarkar again. So, if there are no further questions, we can end the call for today. I want to thank Sami and Riaz for taking the time to answer investors' questions. And we will pick this up again next quarter. Thank you so much.
Sami Mathlouthi [MPHC]:	Thank you so much. Thank you, everyone.
Operator:	This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.