

Company:	Mesaieed Petrochemical Holding Company (MPHC)
Conference Title:	MPHC Q2-20 Results Conference Call
Speakers from IQCD:	<ol style="list-style-type: none"> Mr. Sami Mathlouthi, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum
Moderator:	Mehmet Aksoy, QNB Financial Services
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Mehmet Aksoy [QNBFS]:	<p>Hi. Good afternoon, ladies and gentlemen, this is Mehmet Aksoy from QNB Financial Services. I would like to welcome everyone to Mesaieed Petrochemical Holding Company Second Quarter 2020 Financial Results Conference Call. On this call from QP Privatized Companies Affairs we have Mr Sami Mathlouthi, who is the Assistant Manager of Financial Operations and we have Mr Riaz Khan, who is the Head of IR and Communications. We will conduct this conference call first with brief comments on the presentation followed by Q&A. I would now hand the call over to Mr Riaz Khan to get us started.</p> <p>Riaz, please go ahead.</p>
Riaz Khan:	<p>Thank you Bobby. Good afternoon and thank you all for joining us. Hope you are all staying safe.</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 participating in this call.</p> <p>Moreover, please note that this call is subject to MPHC's disclaimer statement as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 13th August, MPHC released its results for the second quarter of 2020, 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- 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, competitive advantages, overall governance & BOD structure by covering slides 5 till 8, and slides 41 & 42; ▪ 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.

	<p>To start with, as detailed on slide no. 6 of the IR deck, the ownership structure of MPHC comprises of Qatar Petroleum with approximately 65.5% stake and the rest is in the free float.</p> <p>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.</p> <p>The BOD structure is detailed on slide no. 7 of the IR Presentation.</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 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.</p> <p>In terms of the Governance structure of MPHC, you may refer to slides 41 & 42 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>
<p>Sami Mathlouthi:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>To start with, MPHC's business performance for the first half of 2020 is a pure reflection of challenging macro-economic conditions, with an overall decline of 56% in terms of bottom line profitability in comparison to the first half of 2019, as reflected on slide no. 14.</p> <p>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.</p> <p>The challenging macro-economic conditions led to a decline of 37% in terms of revenue, compared to last year. This decline was mainly due to the lowered blended selling prices, with a decline of 24% recorded year-on-year basis.</p> <p>Sales volumes declined by 17% in comparison to the first half of 2019, due to the drop in production volumes and lower demand.</p> <p>The production volumes declined by 20% 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.</p> <p>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</p>

	<p>declining prices and volumes which in total contributed to a decrease of QR 574 million in the Company's earnings for the first half of 2020. 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 121 million.</p> <p>The bottom line was also negatively impacted due to the negative inventory movements on account of large inventory drawdowns due to planned shutdowns and turnarounds.</p> <p>As detailed on slides 36 till 39, 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.</p> <p>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.</p> <p>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.</p> <p>Before we go into the segmental updates, I would like to highlight some of the key initiatives, as detailed on slide 34, which the Group companies had taken to ensure our resilience in this challenging macroeconomic situation.</p> <p>These measures included optimizing human resource structures, reducing direct costs in relation to utilities and maintenance, reducing non-production related expenditures including sales, marketing, corporate and administrative expenses. Similarly, the Group reviewed its CAPEX programs across all the segments and identified CAPEX items that can either be avoided or deferred, without affecting the overall quality, safety, environmental aspects and reliability of the operations.</p> <p>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.</p> <p>I will now hand over to Mr. Riaz Khan, to cover the segmental performance.</p>
<p>Riaz Khan:</p>	<p>Thank you Sami.</p> <p>Petrochemicals</p> <p>Starting with Petrochemicals segment, as covered in slides 21 till 25, the overall profitability of this segment has remained under pressure with an overall decline in the bottom line earnings of 78% year-on-year basis. This was mainly due to the declining selling prices and lowered sales volumes.</p> <p>The decline in the segment's blended product prices of 23%, coupled with a decline in sales volumes of 19%, led to an overall decline in revenues by 38%, within the segment.</p>

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 first quarter of 2020. The production volumes declined by 22% compared to the first half of last year.

In terms of segment revenue by geography, as detailed on slide 24, Asia remains a main market for the segment, where, Indian sub-continent and Europe remains other key markets for the segment.

Chlor-Alkali

Moving on to Chlor-Alkali segment, as detailed on slides 26 till 30. During the first half of 2020, segment revenue declined by 34%, compared to the same period of last year. The decline in revenue was mainly due to the decrease in sales volumes by 13% and selling prices by 24%.

Sales volumes fell mainly due to 2 reasons: firstly, the planned shutdown of the QVC facilities in Q1-20; and secondly, non-availability of access to the core markets for Chlor-Alkali products in the first part of Q2-20, due to COVID-19 lockdowns. For such period, the segment continued with the production and built inventories by holding bulk liquids via floating storage.

The decline in selling prices was mainly due to 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 5 million, down by 93% from the previous year, mainly due to the overall drop in segment revenue. Production dropped by 16% due to the periodic planned turnarounds, which is necessary to maintain the plant life and ensure HSE standards.

In terms of segment revenue by geography, as detailed on slide 29, Indian sub-continent remains the main market for this segment.

Moving on slide no. 32, here, important point to note that the cash flow & CAPEX figures for the years 2020-24 are based on the 2020 approved budget and business plan, which was based on the expectations of the market conditions and commodity prices prevailing in the start of the year.

With current market conditions and commodity price trends, the forecasts as detailed on this slide cannot be relied on with absolute certainty, where, the actual realization of these figures might significantly differ as compared to these projections, subject to the macroeconomic conditions prevailing at that point of time.

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're 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. Please state your name before posing your question. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Again, press star one on your telephone keypad to ask a question. We'll take our first question. Please go ahead.
Speaker:	Hi, thanks for organizing the call. My question was going to be on Petrochemical segments. I mean, we have seen a decent drop in the polyethylene sales, HDPE sales like in terms of the volumes. I'm just wondering, like, what's your outlook for the third quarter and fourth quarter? Do you think we are going to go back to the 2019 level or are we going to stay near the radius first half 2020 volume during the second half as well?
Sami Mathlouthi:	Hello. Yeah, this is Sami. So basically I think we see that the third quarter, the – basically the sales volumes will be reflected as per the budget. So I think it will be close to the sales that we made in Q3 2019. The only difference compared to Q2 2020. So basically Q2 we had an issue which is related to the COVID-19, in addition to the impact of the turnaround and the shutdowns we had in Q1 2020. So we don't expect any drop in the sales volumes in Q3 2020. And we believe that I think we will maintain the same level of sales in Q3 2020 compared to Q3 2019.
Operator:	As a reminder to ask a question please signal by pressing star one on your telephone keypad. We will take our next question. Please go ahead.
Speaker:	Thank you for holding the call. I have two questions. One is on the Slide number 23 which is Petrochemical segment. There it's mentioned that one off income on excess tax payment. So I appreciate if you could highlight what is the amount on one off income. And the other question is on Slide 16. There is a detail of operating rates for different – I mean the two segments Petrochemical and Chlor-Alkali. I wanted to understand that why the Chlor-Alkali is operating at around 70-75% on average for the past five quarters, that's six quarters in this slide, and when does MPHHC aim to achieve like close to 100% which is a normal practice of the QP linked businesses. I mean, we have seen it in IQ companies and MPHHC like the Petrochemical segment closer to – full utilization, so these two questions please.
Sami Mathlouthi:	Okay. I think I would start by first question. So basically in the first question, the excess tax is equal to QAR37. This is relating to basically to the tax in 2019. And then the difference in payment compared to what has been accrued in 2019. So the difference is 37 million. In terms of Slide 16, the capacity of let's say for 77%, 75%, I think that is normal for QVC, and QVC is basically maintaining an average capacity of 80-82%. And I think we will maintain the same capacity over the next few quarters and there is no change. For your third question, at the moment we cannot comment on anything relating to IQ. So basically IQ financial has been discussed during IQ IR presentation.
Speaker:	So I think – I would wonder I had a question on basically Chlor-Alkali. So this – have you – are you facing any problem in selling the products or is like whatever is produces is sold and it just like temporary like 75% – 73-74% compared to 85% on last year?
Sami Mathlouthi:	Yeah, I think we had some problems during the Q2 2020, which is mainly relating to the close of the Indian market. This has created some problems for us to sell our product, but I think now things are getting much better. We are basically selling the production you are having. So – and we don't expect any issues for Q3 2020 unless basically countries will return back to closing their borders, and then we will take from that.
Speaker:	So I would assume that the current utilization in institution is better than the 73%?

Sami Mathlouthi:	Yes.
Speaker:	Okay, thank you.
Operator:	Please press star one on your telephone keypad to ask a question. We do not have any further question. At this time, I'd like to turn the conference back to you for any additional remarks or closing remarks.
Mehmet Aksoy:	I would like to thank everybody for attending this call. And in case in future if anyone is interested in contacting us, feel free to contact the IR team of MPHC and we will be happy to sort out any questions whichever you have or any meetings which you want to have for MPHC. Thank you very much.
Operator:	This concludes today's conference. Thank you for your participation. You may now disconnect.