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Industries Qatar

Company:	**Industries Qatar**
Conference Title:	**Industries Qatar (IQCD) 1H-21 Results Conference Call**
Speakers from IQCD:	**Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, Qatar Petroleum** **Mr. Saffan Mohammed, Sr. Financial Management Analyst, Privatized Companies Affairs, Qatar Petroleum** **Mr. Riaz Khan, Head of Investor Relations and Communications, Qatar Petroleum**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
Date:	**Tuesday, 10 August 2021**
Conference Time:	**13:30 Doha Time**

Bobby Sarkar:	Hi. Hello, everyone. Thanks. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Industries Qatar's (IQCD) Q2 2021 Results Conference Call. So on this call from QP's Privatized Companies Affairs Group, we have Muhammad Al Sulaiti, who is the Manager in Privatized Companies Affairs. We have Saffan Muhammad, who is the Sr. Financial Management Analyst, and Riaz Khan, who is the Head of Investor Relations and Communications. So, we will conduct this conference with first, management briefly 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:	Thank you Bobby. Good afternoon and thank you all for joining us. Hope you all are staying safe. Before we go into the business and performance updates of IQ, I would like to mention that this call is purely for the investors of IQ and no media representatives should be attending this call. Moreover, please note that this call is subject to IQ's disclaimer statements as detailed on slide no. 2 of the IR deck. Moving on to the call, on 5th of August, IQ published its results for the six-month period ended 30th of June 2021, and today in this call, we will go through these results and provide you an update on key financial and operational highlights. Today on this call, along with me, I have: 1- Mohammed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs; and 2- Saffan Mohammed, Sr. Financial Management Analyst. We have structured our call as follows:

	▪ At first, I will provide you with a quick insight on IQ's ownership structure, competitive advantages and overall governance structure; ▪ Secondly, Saffan will brief you on IQ's key operational and financial performance matrix; ▪ Later, I will provide you with an update on the latest segmental performance; ▪ And finally, we will open the floor for Q&A session. To start with, as detailed on slide 5, the ownership structure of IQ comprises of Qatar Petroleum with 51% stake and the rest is in the free float held by various corporates and individuals. IQ is credit rated by S&P's with A+ and Moody's with A1 credit rating, with a stable outlook. Qatar Petroleum, being the main shareholder of IQ provides most of the head office functions through a service-level agreement. The operations of IQ group companies are independently managed by its respective Board of Directors, along with senior management team. In terms of competitive strengths, as detailed on slide 8, the Group is well positioned with several competitive advantages it possesses strategically, operationally, as well as, financially. These strengths include: - an efficient and well maintained asset base; - a qualified and highly trained workforce; - assured supply of feedstock and competitively priced energy contracts; - lower operating cost; - a dedicated marketing team in form of Muntajat, to market the Group's petrochemicals and fertilizer products; and - most importantly a well experienced senior management team. As detailed on slide 10, from competitive positioning perspective, IQ ranks among top tier companies within the regional downstream space, across most of the matrices. In terms of the Governance structure of IQ, you may refer to slides 48 and 49 of the IR deck, which covers various aspects of IQ's code of corporate governance in detail. I will now hand over to Saffan.
Saffan Mohammad:	Thank you Riaz. Good afternoon and thank you all for joining us. During first half of 2021, the Group benefitted from a strong economic recovery, coupled with supply constraints that resulted in improved price levels which translated into an improved set of financial results. For the six-month period ended 30 June 2021, the Group recorded a net profit of QR 3.5 billion as compared to QR 721 million for the same period last year, up by 391%, as detailed on slide no. 16. Group's improved financial performance for the six month period of 2021 versus last year was largely attributable to the improved product prices, which on an average inclined by

35%, and translated into an increase of QR 3.1 billion in Group's bottom line earnings, as you can see on slide 17.

Sales volumes also furthered by 40% versus last year, mainly driven by sales volumes relating to Qafco trains 1-4 which were reported as part of 2021 sales volumes, and was not the case in last year, where Qafco was operating under temporary gas processing arrangement. Nevertheless, the improvement in the sales volumes were offset to an extent by the reduction in volumes during the current period, due to the mothballing of certain steel facilities, commercial and unplanned shutdown in the fuel additives facilities and planned shutdown of certain fertilizer facilities. As shown on slide 17, the overall growth in sales volumes contributed QR 1.3 billion positively to the current period's bottom-line earnings versus last year.

The overall growth in selling prices and sales volumes led to the overall growth in revenues for the Group, which increased by 69% during first half of 2021 versus same period of last year, to reach QR 9.2 billion.

As detailed on slide 15, the Group's production levels were down on last year, by 6%. This decline was mainly attributed to mothballing of certain steel facilities which started since mid of 2020, periodic maintenance shutdowns at certain Qafco facilities specifically for Trains 1 till 4 and commercial and unplanned shutdown at MTBE facilities.

Moving on to quarter-on-quarter performance, compared to the first quarter of 2021, the Group revenue improved by 17%, while the net profits improved by 42%. The improved quarter-on-quarter results were primarily driven by continued cyclical macroeconomic tailwinds echoed from Q1-21. Sales volumes have improved marginally due to improved production.

Our robust business models 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 ensured our competitive edge and aided to generate one of the strongest quarterly performance since 2013.

Moreover, as detailed on slide 19, IQ's EBITDA margins continued remained robust. This is testament to Group's cost management and cash conservation capabilities, with an ability to maintain its cash flows despite volatile trends in commodity prices.

Also, we continued to build our strong financial position with improved cash flow generation capabilities, and the Group generated QR 1.8 billion in terms of free cash flows during first half of 2021, as detailed on slide 18.

On overall basis, our base case strategy will continue to focus on market development focusing on capturing new markets, creating market arbitrages, and bring logistical cost savings to the Group. We will also continue to focus on productivity and efficiency gains via the on-going cost optimization programs.

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

Riaz Khan:	Thank you Saffan. I will start with Petrochemicals segment. Petrochemicals As detailed on slide 25, performance of petchems segment improved with a net profit of QR 1.5 billion for the first half of 2021, with an increase 383% versus last year. This notable increase in profits was primarily driven by improved products prices, on the back of improved demand for petrochemical products due to better macroeconomic conditions, while supply remained constrained throughout the period. Segment's blended product prices rose by 69% versus same period last year, while sales volumes were up by 8%, compared to the same period last year. The growth in product prices coupled with sales volumes led to an overall rise in revenue by 83% within the segment, to reach QR 3.1 billion for the current period. Production volumes were up on last year, as the segment had higher operating days during the current six-month period compared to that of last year's. As detailed on slide 26, segment's EBITDA margins continued to remain on a positive trajectory. In terms of segment revenue by geography, as detailed on slide 27, Asia remains a main market for PE and MTBE, whereas, Indian sub-continent remains a key market for Methanol and PE. Fertilizers Moving on to fertilizers segment, as detailed on slide 31, the segment reported a net profit of QR 1.5 billion for the first six month 2021, with an increase of 314% versus last year. This increase was mainly driven by growth in revenues which increased by 99% during the current period versus last year, to reach QR 3.8 billion. Selling prices also improved by 55% versus same period last year, which reflected positively on the segmental performance. Sales volumes increased by 85% in comparison to first half of 2020. On the other hand, production volumes within the segment declined by 3% versus last year, as Qafco trains 1-4 underwent higher no. of days of maintenance shutdowns during the current period versus the same period last year. As detailed on slide 32, segment's EBITDA margins continued to remain robust. In terms of segment revenue by geography, as detailed on slide 33, North and South Americas remain main market for fertilizers, along with, Indian sub-continent and Asia. Steel Now, let's discuss steel segment and you may refer to slides 35 till 40. During the latest six month period, steel segment continued its profit-making trajectory after having a difficult first half of last year and following strategic restructuring initiatives implemented. Net profit for the current period amounted to QR 496 million versus a net loss of QR 1.4 billion during first six month of last year.

	On overall basis, segmental revenue was up by 23% mainly on the back of increasing selling prices which increased by 27% on a year-on-year basis. The growth in selling prices was offset by a decline in sales volumes to an extent and declined by 23%. Mothballing of certain steel facilities allowed the segment to primarily focus on profitable domestic market, which led to adjust its cost base. Moreover, due to the improvement in the international prices, the segment was also able to sell some of the quantities outside the domestic market. Also, by changing raw material mix, the segment reduced its production costs without affecting quality of the final product. All of this led to a strong sequential recovery in EBITDA margins, as detailed on slide 38. 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. Again, that's star one to ask a question. And we'll pause for a moment to allow everyone an opportunity to signal.
Bobby Sarkar:	Hi, operator. This is Bobby Sarkar. I just wanted to get started with a couple of questions of mine, while we are polling for questions from outside. If you could just, given the strong performance in H1, especially in the Q2, and what we're seeing in the pricing front in Petchems and some softening. And in light of, I believe there is a major maintenance shutdown or turnaround expected in QAPCO, in the Q3 or Q4. Do you still expect, generally speaking, a similar level of profitability in the H2, versus the H1? Thank you.
Mohammed Al-Sulaiti:	Hi, Bobby. So yes, correct. We've noticed that the end of the H1, a bit of softening in the Petrochemicals space with regards to prices. We still see positive momentum in Steel as well as Fertilizer, so we expect that to be fully offset. And as you rightly mentioned, we do have a major turnaround at QAPCO on plan and we expect it to be as well over as part of the schedule.
Bobby Sarkar:	Okay, great. Thank you, Mohammed. Operator, we can open up for questions.
Mohammed Al-Sulaiti:	But in general, our forecast for prices for the remainder of the year, we expect it to continue to remain solid and strong. So we expect H2 performance to be pretty much in the range of the H1.
Bobby Sarkar:	Okay, great. Thank you, Mohammed. Operator, we can open up for external questions, please. Thank you.
Operator:	Thank you. As a reminder, please press star one to ask a question. And we'll now take our first question. It comes from Abdulrahman from Jadwa Investment. Please go ahead.
Abdulrahman:	Good afternoon, gentlemen. First of all, thank you for the press conference. I have a few questions, if you don't mind. Firstly, what are the scheduled shutdowns, during the Q2 of 2021? And then what's the expected CapEx for the remainder of the year?
Mohammed Al-Sulaiti:	Saffan, you can take the question.

Saffan Muhammad:	Yes, the major shutdown as we speak, comes from QAPCO, which is primarily in Q4, relating to general shut down which is happening after a quite long period for the Qapco facility. This is the primarily the main shutdown, across the group. Other than that, the rest of the one, QAFCO, the fertilizer trains, shutdown was over in Q1 Q2. So, the primarily shutdown is in QAPCO, other than that, unless otherwise there are unplanned shutdown happening, we are not expecting any major shutdown. In terms of capital expenditure, there aren't any major capital expenditure other than the major capital expenditure associated with the QAPCO's turnaround, which is in the investor relations presentation. On slide number 42, we have given the breakdown of the shutdown expenditure, the capital expenditure, Abdulrahman.
Abdulrahman:	Okay, and just a few more questions if you don't mind. How are the operating rates for the MTBE plant and how's the pricing environment in terms of profitability?
Saffan Mohammad:	So, the MTBE plant as you know, had a commercial shutdown in Q1, primarily due to, the spread was not that great. So, we had a commercial shut down because the spread was negative or was almost not great. Now, the prices have recovered very well. So, the plant is operating and now the margins are quite improved and we are making good returns on them. So, that's why we have started operating the plant from Q2. Now, the margins are quite viable, and the MTBE prices are quite impressive and the oil have recovered and MTBE is the product that is very much correlated to oil, thus this is doing very well. So, plant is continued to be operated and it is operating almost at full capacity.
Abdulrahman:	Okay, understood. Thank you. And did the Q2, relative to the Q1, benefit from selling to regions with higher netbacks?
Saffan Mohammad:	There were no material shift in regions. We have not seen any major shift in terms of moving from region to region. So overall, the price movement were pretty much same in terms, it was a general shift across all regions. There were no major shift in terms of regions, but it was the blend like, the baskets of prices have gone up across everywhere. If you look at the speaker notes, where you have seen, from Riaz, we have seen the Fertilizer, the major sales were in US, and North America and South America, which is the general region where we sell. The PetChem, it is the far east and Asia, where we primarily sell. So there were no major shift in regions. Only one benefit we have seen, in the steel segment where we have sell something outside Qatar, correct Riaz?
Riaz Khan:	Yes.
Saffan Mohammad:	So, that benefit partially came from sales to outside Qatar.
Abdulrahman:	I see. And finally, what's your outlook on the Steel segment margins?

Saffan Mohammad:	Regardinng, steel segment margin, as you see, in the recent past, the iron ore prices have shot up significantly, and even reached $340 per metric ton recently. And also partly, in the H1 of the year, we've benefited because of the iron ore, we have been holding from the last year which were procured at lower average costs. So obviously, that benefit had been moved into your volumes sold and you've benefited from that as well. With the iron ore prices shooting up, obviously, you will have a bit of margin pressure coming in the H2 of the year, and definitely your margins are not going to be same as before.
Abdulrahman:	All right. Thank you so much.
Operator:	Once again, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will now take our next question, it comes from Meet Bhatt, of Axiom.
Meet Bhatt:	Hi, it is Meet. My question is regarding the prices outlook. So any color on where oil prices are headed say, over the next 12 to 18 months and how will the overall commodity price will pan out over the next 12 to 18 months? Thank you so much.
Saffan Mohammad:	So, in terms of commodity prices, especially Petchem price as I speak, the price or prices, in the H2, especially, there is some form of softening has started after prices have peaked in the H2-21. But t still we expect it will hold with the vaccination is at full swing, in the H2 of the year, we expect especially, Petchem prices to hold very well, together with fertilizers. But for very long term, say 18 months, it will be very, very difficult to make a prediction because, there are so many factors that will drive the prices. But, at least for the next six months, we expect the prices to remain, at a relatively stable range at the current level plus or minus.
Meet Bhatt:	Okay, thank you so much.
Operator:	It appears we have no further questions at this time.
Bobby Sarkar:	Hi, operator, this is Bobby Sarkar again. If we have no further questions, then we can end the call for today. I want to thank Mohammed, I want to thank Saffan, and I want to thank Riaz for taking the time for answering our questions. And we will pick this up next quarter. Thank you so much.
Riaz Khan:	Thank you all. Thank you for joining us. Thank you very much.
Operator:	This concludes today's call. Thank you for your participation. You may now disconnect.