Company:	**Industries Qatar**
Conference Title:	**Industries Qatar (IQCD) Q3-19 Results Conference Call**
Speakers from IQCD:	**Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, Qatar Petroleum** **Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum** **Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum**
Moderator:	**Bobby Sarkar, Head of Research – QNB Financial Services**
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Operator: Good day and welcome to the industry's Qatar IQCD third quarter 2019 results conference call. Today's conference is being recorded. At this time, I would like to turn the call over to Mr Bobby Sarkar. Please go ahead sir. Please go ahead, sir.

Bobby Sarkar: Okay, thank you. Hi, hello everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to the Industries third quarter and nine-month 2019 results conference call. So, on this call from Qatar Petroleum's privatized company's affairs group, we have Mohamed Al-Sulaiti who is the manager, Abdulla Al-Hay, who is the assistant manager management reporting and Riaz Kham who is the Investor Relations Lead. So as usual, we will conduct this conference with first management briefly reviewing the company's results, followed by a Q&A. I will now turn the call over to Riaz. Riaz, please go ahead.

Riaz Khan: Thank you Bobby. Good afternoon and thank you all for joining us.

Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of IQ.

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 October 24th, IQ released its results for the 3rd quarter, and today in this call, we will go through these results and provide you an update on the key financial and operational aspects of IQ.

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 4 till 10;
- Secondly, Mr. Abdulla Al-Hay will brief you on IQ’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, which will be headed by Mr. Mohammed Al-Sulaiti.

To start with, as detailed on slide no. 5 of the IR deck, the ownership structure of IQ comprises of Qatar Petroleum with 51% stake, GRSIA with 21% stake and the rest is publicly listed on Qatar Exchange.

As detailed on slide no. 4, 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's subsidiary & joint ventures is independently managed by its respective Board of Directors, along with the senior management team.
The BOD structure is detailed on slide no. 6 of the IR Presentation.

In terms of competitive advantages, as detailed on slide no. 7, all of the IQ's group companies are strategically placed in terms of assured feedstock supply, solid liquidity position with a strong cash flow generation capability and presence of most reputed JV partners.

In terms of the Governance structure of IQ, you may refer to slides 9 & 10 of the IR deck, which covers various aspects of IQ's code of corporate governance in detail.

I will now hand over to Mr. Abdulla Al-Hay.

Abdulla Al-Hay: Thank you Riaz. Good afternoon and thank you all for joining us.

To start with, IQ's business performance in the nine months of 2019 is a pure reflection of challenging macro-economic conditions, with an overall decline of 47% in terms of bottom line profitability in comparison to the last year, as reflected on slide no. 15. The financial performance was impacted by uncontrollable external factors such as the slowdown in global economies, volatility in commodity prices and the ongoing trade conflicts.

These factors directly translated to an increased pressure on commodity prices and created an imbalance in the supply-demand dynamics for petrochemicals, fertilizers and steel products.

At the Group level, the blended selling prices declined by 11% during the first nine months of 2019, in comparison to same period of the last year, and contributed a decrease of QR 1.1 billion in the Group's earnings for the nine months period ended September 2019, as you can see on the following slide.

Being on slide no. 15, the sales volumes at the Group level declined by 6% compared to the last year, and contributed a decrease of QR 1.0 billion in the Group's earnings. The sales volumes were also affected by the overall macro-economic situation, causing an imbalance between supply & demand, coupled with an overall decline in production levels.

The Group's production levels were marginally down on 2018, by 3%, which was mainly attributed to the planned and unplanned shutdowns. Such shutdowns are in line with the Group's commitment in enhancing health and safety, plant life, quality assurance and reliability, which would ultimately lead to improved operational efficiency in the long-term.

Moving on to the quarterly performance,
the overall profitability has declined by 26% in comparison to the second quarter of 2019, mainly on the back of declining selling prices in Petrochemicals and steel segment and increased operating costs due to higher sales volumes.

Moving on to the balance sheet, it remained healthy with liquidity at the end of the third quarter remaining robust with almost no debt on the Group's balance sheet, including QR 9.0 billion in cash and bank balances, after accounting for a dividend payout of QR 3.6 billion for the financial year 2018. The Group's total assets and total equity reached QR 35.1 billion and QR 33.7 billion, respectively, as at 30 September 2019.

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

Riaz Khan: Thank you Abdulla.

Firstly, I would like to start by briefing you about various segments of the Group. As mentioned on slide no. 5, IQ operates in 3 business segment i.e. Petrochemicals, Fertilizers and Steel via various JVs and a subsidiary. All of the JVs of the Group are with the international partners, having state of the art technical expertise in their respective field of operations.

Now let's analyze segment wise performance.

Starting with Petrochemicals as detailed on slide 21, the overall profitability of this segment has remained under pressure with an overall decline in the bottom line earnings of 51% year-on-year basis. This was mainly due to the softening demand for petrochemical products in key markets, combined with declining market prices, which are closely linked to crude oil prices.

The blended product prices in the Petchem segment declined by 14% coupled with a decline in sales volumes of 14%, due to supply-demand imbalances. This has caused an overall decline in revenues by 26%, within the segment.

Production volumes saw a decline of 12% compared to last year's nine months, on the back of periodic planned & unplanned shutdowns, aimed at improving health, safety and environmental standards, whilst also focusing on enhancing the performance and efficiency of assets.

Coming on to the quarterly performance, the net profit seen a decline of 6% compared to the second quarter of 2019. This was mainly due to the declining margins and increasing operating costs.

Moving on to the fertilizers segment, as discussed on slide 23, the bottom line profitability decline by 32% year-on-year basis on the back of overall increase in the operating costs.

The selling prices and volumes remained stable with a minimal decline of 1% each, which attributed a total decline of 3% in revenues. The price stability of fertilizers was primarily driven by supply-demand dynamics in the global markets, where the stricter regulations imposed on large producing countries, together with stringent export restrictions, has negatively impacted the supply curve, whereas, on the other hand the demand side has remained soft due to its cyclical nature.

Based on quarter on quarter analysis, revenues remained flat in the 3rd quarter compared to the 2nd quarter of 2019, mainly due to offsetting of incremental effect in selling prices of 4%, against a decline in sales volumes by 4%.

On the other hand, the production increased in the 3rd quarter by 13% compared to the 2nd quarter of 2019, as there were minimal planned and unplanned shutdowns in the 3rd quarter as compared to the previous period.

Now, let's discuss the steel business and you may refer to slide no. 25.

During 2019, the overall performance of the steel segment was affected by softer domestic demand as majority of the large infrastructure projects are at near completion stage, however, the near to medium term prospects remain encouraging. Also, demand for steel in international markets has remained subdued due to the increased competition from relatively lower cost producers from emerging markets that compete on low-cost matrix compared to the high-quality and price matrix that the Group adopts. The aggressive competition on the international front, coupled with weaker local demand, has adversely affected the net profits and a decline of 76% is noted when compared to the last year.

The selling prices and sales volumes declined by 10% and 8%, respectively, which affected the overall revenues of the segment with a decline of 18%.

Although, the decline in profitability was partially off-set by a recovery in share of income from associates during the year.

The production levels for the nine month period, slightly declined by 2% against a back drop of planned and unplanned maintenance shutdowns.

Based on quarter on quarter analysis, the selling prices remained low with a decline of 6% compared to the 2nd quarter of 2019, due to the same reasons as discussed earlier. Although, the overall revenue was up by 34% on the back of higher sales volumes. In terms of profitability, a decline of 87% compared to the 2nd quarter of 2019 was noted, due to declining selling prices, increased operating costs on account of reduced inventory, and lowered share of profits from associates.

Moving on slide no. 26, as per 2019 approved budget and business plan, the total planned CAPEX of IQ until 2023 would amount to QR 7.4 billion. A detailed break-down of CAPEX projects has been disclosed on slide 26 of the IR Deck. The CAPEX & Cash flow figures will be continuously reviewed and updated based on the BOD's view on the market expectations, appetite for risk and other relevant considerations.
Now we will open the floor for the Q&A Session.

Operator: Thank you. Ladies and gentlemen, over the phone, if you wish to ask a question at this time, please press star one on your telephone keypad. Please ensure that your mute function is switched off to allow your signal to reach our equipment and has if you find that your question has already been answered, you may remove yourself from the queue by pressing star two. Once again, it's star one on your telephone keypad if you wish to ask a question. We'll pause for just a moment to allow everyone to signal.

Bobby Sarkar: Hi, guys, this is Bobby Sarkar again. As we are waiting for, you know, Q&A to start, maybe I can get things started with a question of my own. I have a couple of questions. In terms of the major expansion CapEx listed on slide 26, you talk about ammonia seven [?]. Can you please shed some light as to how this will impact your fertilizer volumes going forward? And then secondly, given the, you know, the nine-month performance so far, can you provide us with maybe a preliminary outlook as to how do you see dividends shaping up for this year? Thank you.

Mohammed Al-Sulaiti Thank you, Bobby. This is Muhammad speaking. Maybe I'll start with your first question with regards to the ammonia seven project, which is, as you rightly said, listed as part of the capital expenditure of the group, as part of the approved business plan. It's a total of 2.5 or 2.6 billion Qatari riyals of capital investments. Of course, this is a more efficient project. So, this is part of the efficiency strategy among the overall group assets and plant efficiency. It's planned to replace both ammonia one and two in terms of the more efficient use of gas and converting it to actual ammonia, which would then be translated to more production and [inaudible]. It's yet to be finally approved. So, while we approve the business plan as part of the overall context of ensuring that we have the necessary cash to meet such capital requirements, we're looking at different stages of how much would go in terms of debt versus equity in this project. We're also assessing different levels of size of the project in terms of how efficient use of gas it would be. So, in terms of the actual incremental volumes of ammonia, that would be - that this project would result into, I'm afraid I cannot really comment on that yet until the project reaches a final FID.So - and we'll keep you updated in the next quarters with regards to ammonia seven and as decisions materialize.

Now, with regards to dividends, maybe I'll take you a few steps back and talk about our historical payout ratios. So, looking at the past, I would say, three to four years, IQ has mainly been paying the majority of its dividends or of its earnings as dividends, looking at an average of 80 to 85% of payout ratio. I think that shows that the major capital commitments across the group have reached a mature - a very mature level and the company is creating a lot of free cash flow with minimal future capital investments that would require a huge retainment of cash. With that in mind, given where the company is performing year-to-date, I would assume that comparing it to 2018 would be – would be a year that was slightly more, I would say – what the right word to use would be more – I'd say higher and more generous in terms of an absolute earning-per-share or dividend-per-share as a payout. So, taking your estimates on Q4 and how Q4 is going to perform would mainly give you a figure – an estimated figure for the 2019 dividend.

However, our dividend policy would – if you look at the past years have been developed and revamped to pay the majority of the earnings out. We still retain a good amount of cash that we keep within the group, and that's for various reasons. One of them is just to ensure, as we've seen this year, there's a lot of unplanned shutdowns or there are a lot of old plants that we own. And we need to ensure that those plans continue to be healthy and safe and operating, as well as reliable and efficient. So, ensuring that we have the right level of cash in our group to attend to such unplanned shutdowns, to ensure that there are no disruptions in production and volumes is key to our competitiveness and our high level of production and efficiency.

And then if you look at our future capital projects, there is some environmental-related projects as well. There's some other projects like the ammonia seven, which is still in final stages of approval, which for now we're not very - we're not very, I would say, clear on what the approach on equity versus debt and funding those projects, especially the ammonia seven.

Bobby Sarkar: Ok, great, thank you. Thank you, Mohamed.

Operator: Thank you. We have a few questions queued up over the phone at this time. We will now take our first question from Sashank Lanka from Bank of America. Please go ahead. Your line is open.

Sashank Lanka - Bank of America: Yes. Thank you. Thank you for having the call and also the opportunity to ask questions. I have two questions both on the steel segment. My first question is, I just want to understand what drove the very high steel volumes in the third quarter? And is that a reason why your SG&A expenses were up so significantly quarter on quarter and year-on-year?

My second question is, what would you say are normalized EBITDA margins for the steel segment post the blockade that began in 2017? You've seen EBITDA margins pretty volatile since then and I think the third quarter EBITDA margins were probably the lowest the company saw in a while, so, I just want to understand the outlook going forward. Thank you.

Mohammed Al-Sulaiti Thank you. I'll answer the second question first with regards to EBITDA margins and effects of blockade. I wouldn't say that the blockades really affected the earnings and performance of the steel segment. While we still have a plant in Dubai that continues to perform and is utilized 100%, 15% of our total production is sold and operated through our Dubai plant. And there's no effect on that. And we still procure [inaudible] from Oman efficiently as if we would produce them here and sell them. And there is no effect on the cost of production in our Dubai mill, but rather an overall effect of demand. If you look at Dubai as a market, it's been a very competitive market in the past, I'd say, 12 months, due to various factors. One factor is Emirates Steel and other UAE-based mills aggressively competing with Omani mills and Turkish mills products that are sold within Dubai, and those have had their effects on margins and competitiveness.

And then if you look at the overall Qatar steel products that are - that used to be sold in blockading countries, a little incremental volumes used to come out of - or re-buys[?] used to come out of Qatar Steel, Qatar to UAE or Saudi, which today is not happening and rather going to other markets such as Oman, Kuwait if the demand is there or other Southeast Asian markets.

If you look at Saudi, assuming that the blockade does not exist, demand and supply dynamics in Saudi as it stands for steel is not very promising. So, there's major oversupply. Prices there are also very much affected. So, I wouldn't say the blockade has really affected the steel segment, but rather the overall macroeconomics of steel globally. And if you look at how we sell today and the prices that we're actually getting in Southeast Asian markets such as Singapore, Hong Kong and others that we're selling out, prices are really competitive there. We have the Chinese mills competing with us aggressively. You have Turkish products as well going all around the globe, which are from an input and total cost of production perspective, slightly more competitive from a cost curve standpoint.

The domestic market as well has been challenging, but rather - not rather on pricing, but on demand. So, we've seen year to date volumes sold in Qatar taking a slight haircut, mainly due to the point that Riaz has mentioned earlier in his note due to some of the major projects coming toward an end. There's still other projects that are undergone by the government or by the state overall private sector, Semi [?] government sector as well, which gives us good indications that volumes should remain stable or slightly on the higher side in the next, I'd say, quarters to come, which gives us a bit of comfort. However, the international part of where we sell steel is where the worrying aspect is, which is really what's affecting our EBITDA levels. So, if you look at Qatar standalone in terms of Qatari sales, they're pretty stable from an EBITDA perspective and from a margin perspective. But what's affecting us is our international sales.

With regards to the volumes of steel in the last quarter, as you rightly mentioned, Q3 has seen a slight spike in volumes of steel being sold, and it was due to a large order from one of the

Asian markets which have aided for that sale and that spike in volume.

Sashank Lanka Thank you very much. This is clear.

Operator: Thank you. We will now take our next question from Ankit Gupta from NCB Capital. Please go ahead.

Ankit Gupta -NCB Capital: Hello, gentlemen. Thanks for the presentation and taking our questions. I have two questions. One is related to your outlook on the products. On slide 26, you have given us your expectations and approved budget on the cash flows. So, just wondering what kind of expectations do you have on petrochemicals and fertilizers, specifically methanol and urea.

And my second question is related to your balance sheet. You mentioned that you want to maintain cash at a particular level, but when I look at your balance sheet at a group level, in particular, you have about 11 billion on a total asset base of 38 billion. And given that, you have very muted CapEx plan which according to your budget, can easily be furnished by your cash flows for that particular year, just wondering can we expect looking ahead, a material change in your balance sheet structure? Thank you.

Mohammed Al-Sulaiti: All right. Thank you for the questions. On the outlook, we're at the stage now of finalizing our budget for 2020 and our new outlook in terms of the business and as we stand, the prices that we received from our marketing agency, [inaudible], as well as our market intelligence is - well the assumption and the estimate is for the petrochemical sector to continue to be pressured in 2020. And that's due to several factors, one of which is first, its correlation to the prices of crude and the estimates and budgets that we're taking for crude is pretty conservative, given where it's at today and then where it's expected to go in some parts of 2020.

So that said, there's a lot of issues depending on how the trade wars conclude between the US and China. That would have, of course, a major impact on how petrochemical prices continue to perform, which for us is taken as an assumption on a very conservative level, assuming that it continues to be an issue in 2020. And our assumptions for now is taking the current prices of petrochemicals and on to 2020 with no positive outlook on price growth for our LLDPEs, LDPEs and other petrochemical sector. But if you look at urea, we have a more stable outlook in terms of the prices. Assuming that nothing changes, and nothing is majorly affected on prices of urea and fertilizers, it's a more stable outlook. And we actually believe that the prices in 2019 were very good and stable and we assume that they continue into 2020 as well.

With that answered, I'll move on to your second question with regards to the CapEx and cash. You rightly mentioned that our operating cash flows are healthy enough to aid and meet our capital expenditure for the next business period or business plan period. However, we also - our dividend policy takes one important fundamental strategy as well as to ensure a stable payout to our shareholders. And that's for two main reasons. One is to ensure that we do not cause a huge spike in market capitalization due to a large payout - a cash payout this year, which we cannot ensure and be sure at this stage that we could stabilize and consistently manage in the future years.

So, looking at that, I think we manage our cash to the benefit of our shareholders at ensuring that we've promised them a stable cash payout from an absolute number as well as an absolute percentage of the earnings and net profits of each year. And given that the markets and the future years are not very rosy for petrochemicals as well as steel, I think that's a major aspect that the board of directors takes into consideration when discussing dividend payouts and dividends to the shareholders.

Ankit Gupta: Thank you, that's helpful.

Operator: Thank you. Our next question comes from Shabbir Kagalwala from Al-Rayan Investment. Please go ahead.

Shabbir Kagalawala -Al-Rayan Investment: Thank you for hosting the call. Definitely a very difficult year for a petrochemical business. A question really, because we are already into the first quarter - first month of the fourth quarter. How you have seen so far, the pricing for the commodity pricing for this month compared to last quarter? Has there been any improvement or is it the same or it's going down?

Mohammed Al-Sulaiti: Thank you, Shabbir. I think you should ask me this question in 10 days when I get the actual - actual prices generated by our marketing agencies. So, we usually get the average product prices per product actually sold in terms of volumes as a total as well as the actual prices achieved per product geographically. So, I cannot really give you a solid answer today, unfortunately, because you'd quote me on that. But just roughly talking about our estimates for the Q4, I would assume that the petrochemical prices continued to remain where they are. So, the fertilizers in terms of urea. However, unfortunately I cannot really give you a very solid and clear answer on this.

Shabbir Kagalawa: Thank you.

Operator: Thank you. We will now take our next question. It comes from Hassan Abdi from Qatar National Bank. Please go ahead.

Hassan Abdi - Qatar National Bank: [Inaudible] dividend per share will be down on absolute term year-on-year. So, can we see for the pressure from the CapEx, because as we noticed on the slide 26, 2019 and 2020 will be the peak of the CapEx compared to the 7.4. So, can we see some more pressure from the CapEx on the dividend per share? Thank you.

Mohammed Al-Sulaiti: Thank you Hassan. It's a valid concern. Looking at the majority of our especially shutdown's, we're either in 2019 and 2020. If you look at our environmental-related projects, they're pretty small in size and not worrying. Our shutdowns, of course, remains to be a very important aspect that we take seriously, and it ensures that reliability of our plants. I don't assume, given how our operating cashflows are, that that would really affect our ability to pay out similar percentages of earnings to our shareholders, especially assuming or looking at our current cash levels and looking at the cash realization as well of the overall group of IQ. So just to answer your question straight and transparently, I do not see the 2019 and 2020 CapEx program is going to have any effect on our dividend scenarios as well as payout.

Hassan Abdi: Okay. Thanks a lot. Thank you.

Operator: Thank you. We have a follow-up question from Shabbir Kagalawala from Al-Rayan

Investment. Please go ahead.

Shabbir Kagalawala: Just to follow up. We'd like to know, are there any plans to shut down in 2020 in fertilizers and petrochemicals?

Mohamed Al-Sulaiti: Well, yes. Looking at page 26 our routine CapEx and PP additions, there are some shutdowns anticipated and expected in 2020. They're mainly in our petrochemical segment. Some as well in our fertilizer segment, but we have a major turnaround at [inaudible] which is our petrochemical - one of our main petrochemical joint ventures in 2020.

Shabbir Kagalawala: And roughly how many days or how many times in the year will this be?

Mohamed Al-Sulaiti: Well, it's one turn around. It's a major turnaround in [inaudible]. And there's some of our urea and ammonia plants as well are going to be undergoing planned shutdowns in terms of these. It's not going to be very - if you look at our operation and production levels this year, we still had similar shutdown, both planned and unplanned across the plants. And you see a 3% effect on our production levels. So, it's a similar assumption that I would take for 2020 in terms of the overall production capacity across the group.

Shabbir Kagalawala: Thank you.

Operator: Thank you. There are no further questions in the phone queue at this time. I would like to turn the call back over to the speakers for any additional or closing remarks.

Bobby Sarkar: Thank you. Thank you, guys. Thank you, Riaz. Thank you, Mohamed. Thank you, Abdullah, for, you know, hosting a very informative call. And I want to thank all the participants. If you have any further questions, please do get in touch with the team at QNB FS or Industries Qatar. Riaz, do you have any words? And we can end the call after that.

Riaz Kham: Okay. Thank you very much. Thank you all.

Operator: This will conclude today's conference. Thank you all for your participation; you may now disconnect.