Company:	**Industries Qatar**
Conference Title:	**Industries Qatar (IQCD) Q4-19 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**
Date:	**Thursday, 13 February 2020**
Conference Time:	**13:30 Doha Time (UTC +03:00)**

Operator:	Good day and welcome to the Industries Qatar (IQCD) Q4 2019 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Bobby Sarkar. Please go ahead sir.
Bobby Sarkar (QNBFS):	Thank you operator. Hi. Hello everyone. This is Bobby Sarkar, a researcher at QNB Financial Services. I want to welcome everyone to Industries Qatar fiscal year 2019 results conference call. So, on this call from Industries Qatar privatized companies affairs group, we have Mohammed Al Sulaiti who is the manager of the privatized company's affairs group, Abdullah Al-Hay, who is assistant manager financial operations; and Riaz Khan, who is the head of investor relations and communications. So, as usual, we'll conduct the call with first management reviewing the company's results, followed by a brief 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 and no media representative should be participating in 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 February 10th, IQ released its results for the financial year 2019, and today in this call, we will go through these results and provide you an update on the key financial and operational highlights of IQ. Today on this call, along with me, I have: – Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QP; and

	– Mr. Abdulla Al-Hay, Asst. Manager, Financial Operations We have structured our call as follows: 1. At first, I will provide a quick insight on IQ's ownership structure, competitive advantages, overall governance & BOD structure by covering slides 4 till 7 and slides 35 and 36; 2. Secondly, Mr. Mohammed Al-Sulaiti will brief you on IQ's key operational & financial performance matrix. 3. Later, I will provide you with insights on the segmental performance and CAPEX updates. 4. 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 IQ comprises of Qatar Petroleum with 51% stake, and GRSIA being the second largest shareholder with 21% ownership. 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 the presence of most reputed JV partners. In terms of the Governance structure of IQ, you may refer to slides 35 & 36 of the IR deck, which covers various aspects of IQ's code of corporate governance in detail. I will now hand over to Mr. Mohammed Al-Sulaiti.
Mohammed Al-Sulaiti:	Thank you Riaz. Good afternoon and thank you all for joining us. To start with, IQ's business performance for 2019 is a pure reflection of challenging macro-economic conditions, with an overall decline of 49% in terms of bottom line profitability in comparison to last year, as reflected on slide no. 12. The financial performance was impacted by uncontrollable external factors such as the slowdown in global economies, volatility in commodity prices, excess capacities, sanctions on certain countries and the ongoing trade conflicts. These factors directly translated to 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 14% during the year, in comparison to 2018, and contributed to a QR 2 billion decrease in the Group's

	earnings in 2019, as you can see on slide 13. As detailed on slide 12, the sales volumes at the Group level declined by 2% compared to last year, and contributed a decrease of QR 641 million 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, amid maintenance shutdowns. The Group's production levels were marginally down on 2018, by 1%, 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 leads to improved operational efficiency in the long-term. Moving on to the quarterly performance, the total Group revenue declined by 2% to reach QR 3.5 billion compared to the third quarter of 2019, while net profit declined by 7% compared to the third quarter to reach QR 539 million, owing to the deteriorating macro-economic conditions, which led to a decline of 11% in Group's average selling prices. The decline in profitability was slightly offset by impairment reversals from an investment in an associated company. The sales volumes remained resilient in the fourth quarter as compared to the third quarter, with an increase of 10%. The production levels declined by 3%, due to maintenance shutdowns. Moving on to the balance sheet, it remained healthy with liquidity at the end of the December 2019 remaining robust with no debt on the Group's balance sheet, including QR 12.4 billion in cash and bank balances. The Group's total assets and total equity reached QR 35.9 billion and QR 34.2 billion, respectively, as at 31 December 2019. Before we go into the segmental updates, I would like highlight that this year, although challenged by the harsh macro-economic conditions, IQ businesses initiated a series of cost-optimization and efficiency programs that further maintained their operational readiness. Despite the macroeconomic headwinds, the business continued to deliver a sustained operational and resilient financial performance by relentlessly focusing on our core values: cost efficiency, operational excellence and an unwavering commitment to HSE. The base case strategy will continue to focus on market development focusing on capturing new markets, creating market arbitrages, 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 Mr. Riaz Khan, to cover the segmental performance.
Riaz Khan:	Thank you Mohammed. 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.

Petrochemicals
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 47% year-on-year basis. This was mainly due to the softening demand for petrochemical products in key markets, excess capacities, combined with trade conflicts which pressured the prices throughout the year.

The blended product prices in the Petchem segment declined by 15% coupled with a decline in sales volumes of 12%, on the back of weaker demand and rising capacity, which led to a decline in revenue by 25% within the segment to reach QR 4.4 billion for the financial year 2019.

Production volumes saw a drop of 10% compared to last year, due to 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 9% compared to the third quarter of 2019. This was mainly due to the declining selling prices.

In terms of segment revenue by geography, as detailed on slide 22, 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 the fertilizers segment, as discussed on slide 26, the bottom line profitability decline by 37% year-on-year basis on the back of overall decline in revenues.

The decline in revenue of 9% was mainly due to the overall decline in selling prices which declined by 9%, amid supply-demand imbalances. In contrast, the Group maintained sales volumes at 2018 levels, despite pressure from both the demand and supply sides. Production remained stable, with an increase of 2% in overall volumes compared to the last year, and a new production record was reached for ammonia and near-record production levels were achieved for urea.

Based on quarter on quarter analysis, the profitability increased by 66% compared to the 3rd quarter of 2019 due to decline in operating costs and increase in revenues.

In terms of segment revenue by geography, as detailed on slide 27, Asia remains

	a main market along with, Indian sub-continent and Americas. *Steel* Now, let's discuss the steel business and you may refer to slide no. 29 till 32. 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 limited 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 95% is noted when compared to the last year. The selling prices declined by 12% which was slightly offset by a marginal increase in sales volumes of 1% compared to 2018. The segment revenue was down by 9%, year on year basis. 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 year, increased by 2%, although affected by periodic planned maintenance and unplanned shutdowns. Based on quarter on quarter analysis, the selling prices remained low with a decline of 10% compared to the 3rd quarter of 2019, due to the same reasons as discussed earlier. The overall revenue was down by 2% on the back of declining prices. In terms of profitability, a decline was noted due to increased operating costs on account of reduced inventory. Moving on slide no. 33, as per 2020 approved budget and business plan, the total planned CAPEX of IQ until 2024 would amount to QR 4.6 billion. A detailed break-down of CAPEX projects has been disclosed on slide 33 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. Question & Answers Now we will open the floor for the Q&A Session.
Operator:	Thank you sir. Participants if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.
Bobby Sarkar (QNBFS):	Hi guys. This is Bobby. Can I just get started with a question of my own before we start taking questions from the, you know, from the queue? I just have a question about the steel segment. You know, we see the margins – the gross

	margins in the cash space is dipping into a negative for the first time, you know, as far as I can remember this quarter. And you know, given the overall challenged demand outlook, what do you foresee in terms of near to intermediate term? What do you think could benefit the segment? Thank you.
Operator:	Sorry, we got disconnected. So, let's open the floor for the Q&A session.
Riaz Khan:	Mr Bobby, can you please go ahead with the questions?
Bobby Sarkar (QNBFS):	Yes. Thanks Operator. Hi Riaz. I just had a quick question. I was asking question about the steel segment given the fact that I see the gross margins on a cash basis have declined. They've become negative actually in the first time that I can remember. And given the world challenge and subdued outlook, what do you foresee in terms of, you know, near to intermediate term, any fundamental drivers that could benefit this business? Thank you.
Mohammed Al Sulaiti:	Yeah, thank you. Yeah, you're correct. Like the steel business we look at the 2019, there were a few challenges I'd say on demand supply generally, globally. If we look at the domestic markets, which was our main focus, our main strength over the market for years, we used to have a good portion of our sales going domestically. So, at some points beyond or above 70% of our total supply was absorbed locally. If we take last year 2018, around anywhere between 50% and 55% was sold locally. This year, however, 2019 the year that we're talking about, we've seen around 25% of the total output being sold locally. So, the main pressure was from the output or the sales that were going outside of Qatar, ex Qatar. A big chunk of the production capacity was going to Asian markets, which did not necessarily give a good net back or a positive net back to Qatar steel and IQ. So, that then reviewed throughout the year, we've been looking into ways of enhancing our cost base. Of course, there are challenges around supply and other cheaper steel mills in the region, whether that's Turkish mills or Asian mills competing in major markets that we sold at internationally. So, we're currently reviewing several strategies for Qatar steel. So, how can we basically reduce our costs? One, increase our flexibility. Two, in terms of reducing capacities to focus domestically, regionally rather than internationally given that steel is a different ballgame when compared to the other sectors that IQ are involved in, and that's petrochemical and fertilizers, and especially given the competitive advantage that others have that we may not necessarily have which is mainly they're reliance on scrap versus iron ore and our product mix basically, or our raw material mix, which is slightly more expensive. So, I think there's much to be done domestically. We still maintain 90% of the local market share in terms of the rebars and billets being sold here locally to other steel mills. I think there's some good prospects in 2020, so we believe whatever we've sold locally in 2019, that's a 20% or 25% anywhere in that range, which is 21% to be exact. And 2019 could be enhanced slightly while the rest can be sold regionally in the regional markets where competition is less aggressive. Well, I hope that answers the question of – we are reviewing this – Qatar Steel performance 2019 was a concern for IQ and we continue to address this hopefully in the near future.

Bobby Sarkar (QNBFS):	Okay, great. Thank you, Mohammed.
Operator:	Thank you. We take the next question from Faisal Alazmeh, from Goldman Sachs.
Faisal Alazmeh (Goldman Sachs):	Yes, thanks for the opportunity to ask questions. The first question I have is on the raw material costs and how we think about it going forward. So, where are the different assets on the cost curve today particularly fertilizers and chemicals? I mean a while back, we did have some clarity on the formula – on the pricing formula for natural gas and ethane and butane in Qatar, but at the moment it's a bit unclear. So, maybe if you can just give us some sort of direction with relation to the net income bridge that you have this year reported on I think one of the slides on the presentation and how we think about raw material movements next year, whether there's any potential for raw material prices to move higher or lower, any clarity on how to think about that maybe as well in the long term would be quite helpful. The second question is really about that cash balance. I mean, the company is quite cash rich. How do we think about deployment of capital over the coming years? Is there room to raise the payout ratio above EPS, particularly as free cash regeneration is actually quite healthy? Thank you.
Mohammed Al-Sulaiti:	I'll start with the dividend answer, which is easier for me to answer. So, the dividend basically, I think the 94% payout this year was I'd say a generous payout given like genuinely when compared to the historical payout ratio, which is one of the highest if not the highest in IQ history. Yes, I understand the concern and that's a major question that we always get asked with regards to the cash balance and why do we retain so much cash amongst the group and at the head office level and what are our plans in terms of utilizing that cash and our basically strategies of investing. So, we have a slide on capex over the next five years, which basically highlights that all our major capex or approved capex currently are mainly focused on maintenance and the reliability of the plants. HSE projects mainly as well as some shutdowns. So, those are the main turnaround projects which is around 4.6 billion across the planning period. If we look at investments, we are reviewing several opportunities across the group. So, there are different levels of reviewing. Of course, some – one of the reasons why we would retain some cash for those projects that may provide future growth and our HSE realizations. Another reason why we keep cash is just to – well, for two main reasons. Well, one is basically the dividend policy, so we need to ensure that we always have sufficient cash to have a decent payout, a decent absolute dividend throughout the years to have a consistent dividend payout ratio to our shareholders. Another reason is to make sure that we have a good buffer to meet any requirements in our JV levels whether those are unplanned shutdowns, which we've seen and witnessed in 2019. So, some of our assets would require to have a good working capital or cash buffer at their level to

	meet any sort of unnecessary or unexpected shutdowns. So, whether we're going to pay a pay out that exceeds EPS, currently I don't think I can – it's too early to answer that question. I think its reviewed year on year based on what do we expect for the following years as well as the planning period. So, depending on how 2020 performance goes and how we see things evolve during the year based on the current challenges that we see in the market, and based on what projects mature and get basically the nod to proceed with, that would be very dependent on how do we manage our cash and whether we continue to keep the access cash at the head office level. In terms of raw materials, of course, each company or each asset has different feedstock arrangements. They're all long-term feedstock arrangements with Qatar petroleum whether that's butane or Ethan or even methane. No methane, sorry – there is ethane, methane or butane. So, they all have different arrangements depending on the JV life of the assets. Those formulas of course are not disclosed to the shareholders and the average, if you take us, we have it here on the slide, the average – what is the average? You can – yeah. So, the average for 2019 in terms of feedstock and raw material was $3.20 per mmbtu and that's across the board. However, unfortunately, we are unable to disclose asset by asset basis.
Faisal Alazmeh (Goldman Sachs):	And maybe without kind of – that kind of level of disclosure, when thinking about 2020, would that move higher or likely to be flat? Just in terms of when we think about that bridge into next year?
Mohammed Al-Sulaiti:	Well, some of those raw material arrangements or feed stock arrangements are linked to the final selling price. So, given our assumptions and where we see prices today, that could likely go down rather than go up, but it would be very dependent on how the prices and how the commodity prices react during the year.
Faisal Alazmeh (Goldman Sachs):	Perfect. Okay. Thank you. Thank you for that.
Operator:	Thank you. We take the next question from Sashank Lanka from Bank of America.
Sashank Lanka (Bank of America):	Thank you for having the call and opportunity to ask questions. My question is related to capex plant. I recollect on the 3Q earnings presentation, you spoke about almost a QAR 2.5 billion[?] related to the ammonia seven plant. You did give us a cash flow split as well. I don't see that in here. Are you still going ahead with that project because this presentation only has maintenance capex when it comes to Qafco?
Mohammed Al-Sulaiti:	Well, that's well spotted. So, yes, it was removed from the capex slides. The ammonia seven project is still ongoing, so the studies are still ongoing. There was a slight delay though in reaching FID. So, we still have a similar expectation in terms of the total capex required for ammonia seven, and we still do not have

	the final – I'd say financing structure whether – because in the past slides we had a 50-50 split, which is only a budgeted or expected financing structure which we should still require further analysis in order to know what the optimal structure would be. So, that said, I think it was still too early to have it on the slides. We're still however reviewing the ammonia seven, it's very close to FID and hopefully once that's finally approved, we know the exact structure of the debt versus equity. Only then would we be able to highlight the real numbers back on the business plan.
Sashank Lanka (Bank of America):	Okay. So, is it fair to assume that you might not have any capex related to the project this year?
Mohammed Al-Sulaiti:	Well, some of it was, as you correctly said, it was planned in 2020. Hence the delay and the delay that we see as assumed if any will be maybe towards the end of 2020, or maybe it may slip to 2021.
Sashank Lanka (Bank of America):	Okay. Thank you very much. This is clear.
Operator:	Thank you. We have next question is from Shabbir Kagalwala from Al Rayan Investments.
Shabbir Kagalwala (Al-Rayan Investment):	Thank you for hosting the call and including questions. I have two questions. One is on any potential plans to going abroad. I mean having an investment outside Qatar country borders. The other question is – we said outlook on the petchem, steel and fertilizer prices. Given that the last year was impacted by the trade wars, now the trade war has gone kind of settling down and we have coronavirus which is affecting the manufacturing hub of the world. So, how do you see and what are your expectations for petrochemical and fertilizer prices for 2020?
Mohammed Al-Sulaiti:	Well, thank you Shabbir. You like challenging me with your questions but I'll answer you. So, one about international, well, in the past we had a strategy to go internationally. We've also made an announcement maybe a year or a year or so ago that we do have an appetite or the appetite is there to invest internationally specifically in petrochemicals and fertilizers possibly. So, we've done several screening processes where we've looked internationally for potential investments or partnerships. However, we haven't seen anything that was attractive given the current valuations or the past valuations when we were looking at it. So, given that there are a lot of premiums associated with the valuations, we're not comfortable proceeding or pressing forward to those investments. And especially there are a lot of those companies that are well-capitalized with competitive price pricing in terms of debt and availability to debt, which does not make it lucrative for us to perhaps enter into those companies or make any sort of investment, especially when they do not need any capital increases. So, we're currently actually under – so IQ strategy is currently being relooked at to have a well-defined, well-developed strategy in terms of where we're going to

	play. So, we still continue to believe that playing domestically is where our strength is in terms of our global network, our marketing arm that markets the majority of – not majority, but all of what we produce efficiently as well as having the integrated operations here domestically. So, I think that's a major strength for IQ. Well, if we go beyond Qatar will have to have a similar structure to make sure that the operations remains resilient. Our investment will have the necessary or the expected ROI that our shareholders would want to have. So, once that strategy is developed, I think there's going to be more clarity on where do we play in the future? So, I hope that answers the steel part. The next question was on outlooks on pet cam and fertilizer. You're correct. Like in terms of the trade conflict, almost to an end or easing or getting – reaching a resolution. But again, you mentioned something that's factual in terms of the coronavirus early in this year, which again affected prices more negatively. Generally, if you look at where Brent is and where it trades today, it was unexpected when we were pricing our assumptions in terms of building our budgets and business plans. So, we see prices under pressure. January prices at least we hear we are under pressure for us. It doesn't seem like there's a lot of clarity on where this coronavirus is going or where it's going to be taking us. So, generally we didn't have a very positive outlook on both – well, less on fertilizer. Fertilizer, we are a bit stable, but we don't have a lot a very positive outlook on petrochemicals for 2020. And now it's a bit more negative at least in the beginning of the year. So, I'm not sure I can make a statement on where do I believe it's going to go, but I would require a bit more clarity and more stability before we can take an assumption on where prices are going to be for the rest of the year. Thank you.
Operator:	Well, the next question from Yousef Husseini from EFG Hermes.
Yousef Husseini (EFG):	Good afternoon. Thank you so much for hosting a conference call today. Just had a couple of quick questions. First one on the steel division. Was wondering, you guys noted on slide 31 that the reason for the sequential decline or the decline in the fourth quarter versus the third quarter of this year was due to increased operating costs on reduced inventory. I was just wondering if you could elaborate on that a little bit. And then I had another question on your methanol on MTB operation, Qafac I just noticed in the second half of this year, there's a big surge in revenues and earnings. So, [Inaudible]
Operator:	Yousef, if I'm going to interrupt you, sorry, but I can't hear you clearly. Maybe if you can repeat both the questions and if you can just try to higher your voice.
	Sorry. Yeah. My first question was regarding the steel division. You guys noted in the fourth quarter that a part of the reason for the decline versus the third quarter was increased operating costs on account of reduced inventory. So, I was just wondering if you could elaborate on that a little more. And then my second question is related to Qafac, the MTB methanol operation. I noticed in the segmentation in the financials that in the second half, there's a big increase in revenues and net profits. So, also if you could just give us some details on what were the main guiders of that. Thank you very much.

Mohammed Al-Sulaiti:	So, the easier question to answer is the methanol. The methanol was undergoing a plant shutdown. So, there was a plant shutdown in Qafac in the first half of the year which was finished actually before schedule. And once that was over, that's where the revenue started picking up given that we were running at full capacity there onwards. So, that's why you see a revenue increase and a net profit increase in the methanol business. As far for the steel, I'll pass around to one of my colleagues here who will be able to answer it maybe in more details and to give you more slides.
Saffan Mohammed (IQCD):	For the steel, on the fourth quarter, what happened before the expensive inventory – because remember the iron ore prices were shot up during the first half due to the Vale dam issue. I know prices which were passed on to our production during the second quarter, third quarter. Those expensive inventories were moved into our sales during the fourth quarter. So, as a result, what we sold in the fourth quarter were the inventories which were produced during quarter two, quarter three. As a result, we sold those inventories in the fourth quarter. So, the margins were lower which ended up in – you know, margins were lower than the previous quarter. Hope that answered your question.
Operator:	Thank you. We do not have any further questions at this time, sir.
Mohammed Al-Sulaiti:	All right then. Thank you. All right. Thank you again for participating in this call. You have the details of IQ. If you ever have any other questions or further questions, you can always feel free to shoot them to us and we'll make sure that we get back to you. Those who have our details and always feel free to get in touch whenever you want. And whenever you're in Doha, we'll be happy to host you here as well to have one on one meetings with you guys.
Riaz Khan:	Thank you everyone. Operator we can end the call now.
Operator:	Sure. Sir, thank you so much. This concludes today's conference call. Thank you for your participation. You may now disconnect your lines.