صناعات قطر
Industries Qatar

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Speakers from IQCD:	1. Mohammed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs, QatarEnergy 2. Mohammed Saffan, Acting Assistant Manager Financial Operations 3. Rashid Al-Mohannadi, Sr. Financial Management Analyst 4. Riaz Khan, Investor Relations Officer
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
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Bobby Sarkar [QNB FS]:	Hi. Hello, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Industry Qatar's Second Quarter 2022 Results Conference Call. So, on this call from Qatar Energy's Privatized Companies Affairs Group, we have Mohammed Al-Sulaiti, who is Manager at Privatized Companies Affairs; Saffan Mohammed, who is Acting Assistant Manager in Financial Operations; Rashid Al-Mohannadi, who is the Senior Financial Management Analyst; and Riaz Khan, who is the Investor Relations Officer. So, we will conduct this conference with management. First briefly reviewing the Company's results followed by a Q&A session. I would like to now turn the call over to Riaz. Riaz, please go ahead.
Riaz Khan [IQ]:	Thank you Bobby. Good afternoon and thank you all for joining us. Hope you all are doing great. 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 7th of August, IQ published its results for the six-month period ended 30th of June 2022, and today in this call, we will go through these results and provide you an update on key financial and operational highlights. We have structured our call as follows: ▪ At first, I will provide you 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 QatarEnergy with 51% stake and the rest is in the free float held by various domestic and international corporates and individuals.

	IQ is credit rated by S&P's with A+ and Moody's with A1 credit rating, with a stable outlook. QatarEnergy, 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.
Mohammed Saffan [IQ]:	Thank you Riaz. Good afternoon and thank you all for joining us. Starting with macroeconomic environment which remained uneven during the first six months of 2022, where demand for most of the downstream products slightly inched downward mainly due to China's COVID linked lockdowns and cautious approach from buyers. On the other hand, supply side was affected by Russia-Ukraine conflict enforcing sharp rise in energy prices challenging plant economics specially for the European producers. On an overall basis, commodity prices were essentially balanced to bearish during the first quarter of 2022. Whereas, during the second quarter of 2022, despite uncertainties over recessionary fears, prices slightly improved on back of persistent higher energy prices and supply side constraints. Moving on to the financial performance for the first six-months of 2022, as detailed on slide no. 16 of the IR Deck, the Group reported a net profit of QR 5.4 billion as compared to a net profit QR 3.5 billion for the same period of last, with a growth of 57% on year-on-year basis. Group's improved financial performance on a year-on-year basis was largely attributable to the improved product prices, which on an average inclined by 51%, and translated into an increase of QR 5.0 billion in Group's bottom-line earnings, as you can see on slide 17. Sales volumes increased by 3% versus first half of 2021, primarily driven by higher plant operating rates leading to improved production volumes and contributed QR 209 million positively to the current period's bottom-line earnings versus the first half of 2021.

	The overall growth in selling prices and sales volumes led to an overall growth in revenues for the Group, which increased by 56% during the first half of 2022, to reach QR 14.3 billion. As detailed on slide 15, the Group's production levels were up on last year, by 5%. Restart of the previously mothballed DR-2 facility with a larger capacity, together with, higher plant operating days noted within the Fuel Additives segment contributed towards an overall increase in productions volumes during 1H-22. Moving on to quarter-on-quarter performance, compared to the first quarter of 2022, Group revenue and net profit remined flat, where growth in selling prices were offset by lowered sales volumes. Decline in sales volumes was mainly linked to lower fertilizer sales volumes during the second of 2022, as QAFCO's first quarter sales volumes were boosted by additional volumes on account of timing of shipments carried forward from the fourth quarter of 2021. Prices slightly improved on back of persistent higher energy prices and supply side constraints, despite recent demand related concerns. 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. Moreover, as detailed on slide 19, IQ's EBITDA margins continued to remain robust. Also, we continued to build our strong financial position with improved cash flow generation capabilities, and the Group generated QR 4.6 billion in terms of free cash flows during the current period, as detailed on slide 18. I will now hand over to Riaz, to cover the segmental performance.
Riaz Khan [IQ]:	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 million for the first six months of 2022, with an increase 1% versus the same period last year. Improvement in segmental revenue was mainly offset by higher OPEX. Segment's blended product prices rose by 17% on a year-on-year basis, while sales volumes increased by 6%. Segmental revenue for the period reached QR 3.86 billion, with an improvement of 24% versus the same period of last year. As detailed on slide 26, segment's EBITDA margins continued to remain strong. 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 3.3 billion for the current financial period, with an increase of 115% versus the first half

	of last year. This increase was mainly driven by growth in revenues which increased by 107%, to reach QR 7.95 billion. Selling prices improved by 100% versus same period last year, while, sales volumes increased by 4%. On the other hand, production volumes slightly declined versus 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. Steel segment reported a net profit of QR 621 million, up by 25% versus 1H-21. Improved segmental profits was mainly driven by higher revenues, which increased by 11% versus 1H-21. Additionally, segment's associate that produces iron oxide pellets, Foulath Holdings, reported commendable financial results against a backdrop of improved operations. Growth in revenue was mainly driven by higher selling prices which increased by 13% on a year-on-year basis, mainly driven by higher steel and iron ore prices prevailing internationally. Sales volumes remained relatively flat, against a backdrop of softening domestic demand. Moving onto slide 38, segment's EBITDA margins continued to remain robust following the mothballing decision. Now we will open the floor for the Q&A Session.
Bobby Sarkar [QNB FS]:	Hi, operator. Can we open up the call for Q&A please? Thank you.
Operator:	Certainly. 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. Once again, that is star one for your questions today. Our first question comes from Alex Comer of JP Morgan. Please go ahead.
Alex Comer [JP Morgan]:	Thanks, guys. Can you just talk me through what drove the cost savings in the steel business? And whether, that's sustainable going forward? That's my first question. And similarly, when we look at the fertilizer business, the cost in the second quarter, is that roughly what we should expect going forward? Thanks.

Mohammed Saffan [IQ]:	Hi Alex, to answer your question on the steel segment. Basically, what had happened on the steel segment, if you look at the sales volume in the second quarter were lower than the production, which means, we are holding some inventory. So, most of the part of your cost is sitting in the inventory. And, that is why you see there's an improved EBITDA margin as part of your cost did not move to cost of goods sold. Going forward, that will get normalized, once the sales get normalized, where a part of operating costs will actually move into the cost of goods sold in the coming quarters. So, in the second quarter because all the production cost has not moved into your cost of goods sold, and instead a part of fixed cost stayed within the inventory, you tend to see a hike in the segment's EBITDA margin, which will get normalized going forward. Coming onto the fertilizer segment, in the second quarter, we had unplanned shutdowns. So, when we have unplanned shutdowns, the costs associated with unplanned shutdowns are not capitalized, instead the same gets charged to income statement. So, therefore, obviously the Opex increases and the profitability margins generally squeezed compared to a normalized margin.
Alex Comer [JP Morgan]:	Thanks. Just on the unplanned shutdown, am I right in thinking that the actual production levels were up on the quarter, and sales were down a little bit? So, how much did you lose from a production perspective? And also, could you just talk us through how you expect fertilizer volumes to play out in the second half?
Mohammed Saffan [IQ]:	In the second quarter, we had a little bit of planned shutdown and higher no. days' unplanned shutdown. Although, the production was very marginally up around 3%. Now as per our expectations, we don't expect any larger scale shutdowns going forward, unless there is unplanned shutdowns. Hence, we don't materially expect any production losses or any production to be lost in the second half of the year, and expect operations to be pretty much normal.
Alex Comer [JP Morgan]:	Thanks very much.
Operator:	Thank you. We now move on to our next question from Sashank Lanka of Bank of America. Please go ahead.
Sashank Lanka [BofA]:	Yes. Thank you very much for the presentation and the opportunity to ask questions. I have three questions. The first one is on the fertilizer segment. We do see that your EBITDA margins fell from 50% to 46% in Q2. And you did highlight that this was due to the Opex increase due to the unplanned shutdown. I'm just wondering how the feedstock costs played out in Q2 because if I look at your presentation, prices for urea were up slightly quarter on quarter, the realized prices you had? So, is it fair to assume that most of the margin drop was mainly because of the Opex cost increase due to the shutdown and feedstock prices remained constant? That's the first question.
Mohammed Saffan [IQ]:	Hi Sashank, you are right. Basically, what happens usually with the feedstock supplier, generally you have a 'take or pay' clause. So, in case of planned shutdown, we don't pay for the gas whilst in case of unplanned shutdown we pay for the gas not consumed, plus in case of planned shutdowns salaries and other related OPEX are generally capitalized, whereas, in case of unplanned shutdowns, such opex tend to be expensed. Hence, most the incremental effect on OPEX for the second quarter of 2022 was due to higher number of unplanned shutdown days.
Sashank Lanka [BofA]:	So, Saffan, it's fair to assume that your feedstock prices for Urea were constant or stable Q-on-Q?
Mohammed Saffan [IQ]:	As long as, the prices remain stable, yes, it is.
Sashank Lanka [BofA]:	Okay, great. Thank you. My second question is just on this acquisition, the Melamine business, right where you acquired a 100%. Can you talk about what impact that will have on your profitability going forward? Thank you.

Mohammed Saffan [IQ]:	Technically there was no acquisition. The acquisition was concluded when we acquired QAFCO's 25% was done. This is only an operational integration. So, here this will bring some operational and administrative synergies. So, if you recall when we acquired 25% of QAFCO in 2020. Along with that, QAFCO at their level acquired the 40% of Qatar Energy's share in Qatar Melamine Company. So, at that time itself, the shareholding in QMC was a 100% owned by QAFCO. Now the operational integration is approved.
Sashank Lanka [BofA]:	Okay. Thank you. And the last question is, is there any guidance you can give us on shutdowns across all your segments for the second half of the year?
Mohammed Saffan [IQ]:	I have already answered for the Alex Comer's question. Basically, in the second half of the year, there won't be any major shutdowns as we know, unless otherwise we have any unplanned shutdown, which we cannot predict. The second half of the year is expected to be stable at this moment of the time as we know.
Sashank Lanka [BofA]:	Great. Thank you very much.
Operator:	Thank you. As a brief reminder, that is star one for your questions today. We now move on to Dalal Darwich of Goldman Sachs with our next question. Please go ahead.
Dalal Darwich [GS]:	Yes. Hi, everyone. Thank you for the presentation. This is Dalal from Goldman Sachs. I'll be asking the questions on behalf of Faisal Azmeh, because he unfortunately could not attend the call. So, just a couple of questions from our end. So, first on dividends, it is increasingly the case that most companies in the region are now -- or now have semi-annual dividend policies. The company has very strong cash position and limited Capex requirements. So, why not instate a semi-annual dividend policy in line with the peers in the region? That's the first one. And the second one is on growth. So, how should we think about the potential opportunity for Qatar expanding gas production? And how can this impact -- what are the likely areas of growth, where potentially you might see or you can see new allocations? Is it more on the fertilizer segment or on the steel segment? And with valuations in the sector now coming off the recent highs, are you thinking about M&A?
Mohammed Saffan [IQ]:	Yeah. We have a fairly large cash balance as you know. That's a fact. But the only thing is you need to realize that, we operate in a very cyclical business. Therefore, we need to make sure that we reserve cash for a period, where there are uncertainties involved. Hence, all the free cash that is generated cannot be paid in that year, in order to maintain cash for those years where cash flow generations are low. A good example would be the COVID year. So, what we do generally, we assess the year under consideration together with the next five years, which is our five-year business plan. And the Board takes into consideration when the dividend are to be paid. We also look Capex forecasts which is also a function of so many other variables, including product prices and the feedstock availability on which we will make decisions. I hope, I have answered.

Mohammed Al-Sulaiti [IQ]:	Just maybe to fill in and just to clarify some of the answers related to dividend. So, this is a subject that is discussed in pretty much every earnings call and every investor meeting. So, just to add on to what Saffan has mentioned around the cyclicality of the business. And depending on what we see in the foreseeable future at the time of the declaration of the dividend or I'd say that the two main drivers of what the absolute dividend distribution would be in any given year. Of course, add to that any Capex or exceptional Capex programs that the group may have. And that leads to maybe a few things that you've also asked about, one of which was would there be any investments, any projects, any M&A? There are few CAPEX projects that could potentially be reaching FID towards the end or the second part of this year. So, that of course if any projects are announced will also have an impact on the free cash flow to be distributed.
Dalal Darwich [GS]:	Got it. Thank you.
Operator:	Thank you. Once again, that is star one for your questions today. We now received a question from Prateek Bhatnagar of HSBC. Please go ahead.
Prateek Bhatnagar [HSBC]:	Yeah, hi. Good afternoon. I could only join the call now. So, I'm not sure if you've already covered this. But could you touch upon the progress on the QAFCO 7 project? How is it coming along? And is it tracking the Capex which you guided to? The second question is about the gas costs, right. We've seen gas costs globally increase. In UAE, they would increase by 2027. They were also reports that in Saudi, it might happen. So, are you having any discussions with Qatar Energy? Obviously, they don't disclose the gas costs. But is there a discussion going on that it might happen in future? Thanks. These are my two questions.
Mohammed Saffan [IQ]:	In terms of QAFCO 7, discussions are in progress. An announcement will come on QAFCO 7 once the Board decides on FID. And with respect to the gas pricing, as you know, the contracts are always long term. The supply is assured as we always say. In terms of pricing, if I want to put it into a broader perspective, there are three basic elements to pricing. So, you have a base price on all contracts pretty much. And also, we have an inflation element added to that. So, every contract has an inflation element which is based on base year plus every year you add on inflation, which is pretty much indexed to the US CPI. And the third element which we call an escalator, which is a function of the relevant end-product price. We cannot go beyond than this, but again if you look at the EBITDA margins and if you look at the end-product prices, you can work out some numbers.
Mohammed Al-Sulaiti [IQ]:	Again, just to clarify one point just to ensure there is no misinterpretations. What's apparent is that QAFCO 7 FID is expected in the second half of the year. So, an announcement of whether the project is to go ahead or otherwise, is expected to happen in the second half of this year.
Prateek Bhatnagar [HSBC]:	Thanks a lot. And moving apart from that, you will still be interested in buying the remaining stake in QAPCO and QAFCO when the opportunity opens up in 2024 and 2029, right?
Mohammed Saffan [IQ]:	So, the first right of refusal go to the founder. And at that point in time, we'll evaluate the opportunity. And obviously, if the opportunity is right for us, definitely, we'll consider that, like what we did for QAFCO's 25%, obviously, we look at the opportunity.
Speaker:	Okay. Thanks. Very helpful.
Operator:	Thank you. At the moment, we have no further questions.
Bobby Sarkar:	Yeah, hi. This is Bobby Sarkar again. So, if we have no further questions, we can end the call for today. I want to thank Mohammed, Saffan, Rashid, and Riaz for taking the time to answer our questions. And we will pick this up next quarter. Thank you very much.
Riaz Khan [IQ]:	Thank you. Thank you for joining, everyone. Thank you.