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Industries Qatar

Company:	**Industries Qatar**
Conference Title:	**Industries Qatar (IQCD) 9M-21 Results Conference Call**
Speakers from IQCD:	1. Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QatarEnergy 2. Mr. Abdulla Yaqoob Al-Hay, Assistant Manager Financial Operations, Privatized Companies Affairs, Qatar Petroleum 3. Mr. Riaz Khan, Head of Investor Relations and Communications, Qatar Petroleum
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
Date:	**Monday, 1 November 2021**
Conference Time:	**13:30 Doha Time**

Operator:	Good day and welcome to Industries Qatar quarter three 2021 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Bobby Sarkar. Please go ahead, sir.
Bobby Sarkar:	Thank you, Keane. Hello, everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Industries Qatar's third quarter and nine months 2021 results conference call. On this call, from QatarEnergy's Privatized Companies Affairs team, we have Mohammed Al-Sulaiti who is Manager in Privatized Companies Affairs. We have Abdulla Al-Hay who is Assistant Manager Financial Operations, and we have Riaz Khan who is Head of Investor Relations and Communications. We will conduct this conference with first management reviewing the company's results, followed by a Q&A. I would like to 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. 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 25th of October, IQ published its results for the nine-month period ended 30th of September 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- Abdulla Al-Hay, Assistant Manager, Financial Operations.

	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, Abdulla 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 Abdulla.
Abdulla Yaqoob Al-Hay:	Thank you Riaz. Good afternoon and thank you all for joining us. During first nine months of 2021, the Group benefitted from a strong economic recovery, coupled with supply constraints resulted in improved price levels which translated into an improved set of financial results. For the nine-month period ended 30 September 2021, the Group recorded a net profit of QR 5.6 billion as compared to QR 1.2 billion for the same period last year, up by 360%, as detailed on slide no. 16. Group's improved financial performance for the nine month period of 2021 versus last year was largely attributable to the improved product prices, which on an average inclined by 43%,

	and translated into an increase of QR 5.3 billion in Group's bottom line earnings, as you can see on slide 17. Sales volumes furthered by 34% versus last year, mainly driven by sales volumes relating to Qafco trains 1-4 which were fully reported as part of 2021 volumes, and was not the case in last year, where Qafco was operating under temporary gas processing arrangement for the first seven months of 2020. 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 steel facilities, commercial shutdown in the fuel additives facilities and planned and unplanned shutdowns at certain fertilizer facilities. As shown on slide 17, the overall growth in sales volumes contributed QR 1.7 billion positively to the current period's bottom-line earnings versus last year. The overall growth in selling prices and sales volumes led to an overall growth in revenues for the Group, which increased by 76% during first nine of 2021 versus same period of last year, to reach QR 14.1 billion. As detailed on slide 15, the Group's production levels were down on last year, by 3%. This decline was mainly attributed to mothballing of certain steel facilities which started since mid of 2020, periodic planned and unplanned maintenance shutdowns at certain Qafco facilities and commercial shutdown at MTBE facilities. Moving on to quarter-on-quarter performance, compared to the second quarter of 2021, Group revenue and net profit remained relatively flat during Q3-21. The benefits captured from improved selling prices (+8%) were almost offset by reduced sales volumes, amid lower plant operating rates especially within fertilizer segment and lesser steel demand domestically due to seasonal effects. 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 Q2 of 2012. Moreover, as detailed on slide 19, IQ's EBITDA margins continued remained robust. This is a 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 5.6 billion in terms of free cash flows during first nine months of 2021, as detailed on slide 18. I will now hand over to Riaz, to cover the segmental performance.
Riaz Khan:	Thank you Abdulla. I will start with Petrochemicals segment. Petrochemicals As detailed on slide 25, performance of petchems segment improved with a net profit of QR 2.2 billion for the first nine months of 2021, with an increase 248% 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.

Segment's blended product prices rose by 62% on a year-on-year basis, while sales volumes were up by 6%, compared to the same period of last year. The growth in product prices coupled with sales volumes led to an overall rise in revenue by 72% within the segment, to reach QR 4.7 billion for the current period.

Production volumes were up on last year by 6%, as the segment had higher operating days during the current nine-month period compared to that of last year's.

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 2.8 billion for the first nine months of 2021, with an increase of 436% versus last year. This increase was mainly driven by growth in revenues which increased by 119% during the current period versus last year, to reach QR 6.5 billion.

Selling prices improved by 69% versus same period last year, while, sales volumes increased by 68%. On the other hand, production volumes within the segment remained unchanged 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.

During the latest nine 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 629 million versus a net loss of QR 1.4 billion during first nine months of last year.

On overall basis, segmental revenue was up by 25% mainly on the back of increasing selling prices which increased by 31% 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 6%.

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 on a year-on-year basis, as detailed on slide 38.

Question & Answers

Now we will open the floor for the Q&A Session.

Operator:	If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, press the star followed by the one to ask a question. We'll now pause for a moment to allow everyone an opportunity to signal for questions.
Bobby Sarkar:	Hi Keane, this is Bobby again. While we are waiting for questions, let me just get started with a couple of my own, if I could. I think you've discussed maintenance in petrochemicals segment for a couple of months in the fourth quarter and a couple of trains also in the fertilizer segment being offline for 30 days for maintenance, planned maintenance. Could you please talk a little about bit about how that would affect your outlook for sales volumes in the fourth quarter, if you could? Thank you so much.
Abdulla Yaqoob Al-Hay:	Yes. Hi Bobby. Yes. As we have highlighted that during Q4 we will have a shutdown activity, at QAPCO which is a planned one. The impact we're going to see during the result of Q4, and the production volumes will go down by 130,000 metric tons, related to LDPE production.
Bobby Sarkar:	Okay, great, thank you. We can open up for other questions.
Operator:	We can now take the next question from Faisal Al-Azmeh from Goldman Sachs.
Faisal Al-Azmeh:	Hi, and thanks for the opportunity to ask questions. Just a few on my end, maybe starting off with the steel business, just trying to understand the volume trajectory there and why effectively have sales come down in Q3 versus what we saw in the first half of the year? And then my second question really relates to the pet-chem margins. If you look at the margin forecast, or, sorry, the realized margins that you have in the slide deck, despite higher prices achieved in Q3 versus the first quarter of this year, and not the second quarter, your margins are lower than what you've realized in the first quarter. I'm just trying to get a sense of your cost structure and whether you've had any inflationary pressure from what's happening globally on the feedstock side? And does it impact you in any way? And then the third question just relates to the utilization rates chart that you have in the slide deck, and so slide 20. Just looking at QAFCO's levels, so you operated at 95.8%, so that assumed some somewhat of a 6% decline in volumes. When taking into consideration the shutdown in Q4, does that keep you flat on a utilization rate basis versus Q3, given that you've had also a shutdown in Q3? Or should we assume somewhat of a decline versus what you've achieved in Q3? Thanks.
Abdulla Yaqoob Al-Hay:	Yes. We'll start with the steel sales volume, actually the sales volume impacted due to the construction activity happening locally, where it's basically impacted by the seasonal activities that is what we have also highlighted in our report.
Faisal Al-Azmeh:	Should we assume somewhat same volumes in Q4 to be close to what they were in the first half on average? Or do you think it takes time for our volumes to recover? Just trying to get a sense of how –
Abdulla Yaqoob Al-Hay:	I think for Q4 it's going to be remaining as Q3. However, based on the business picking up and based on the market situation, hopefully it's going to be normalized back as Q1 of 2022.
Mohammed Jaber Al-Sulaiti:	Maybe just to add on to that based on the seasonality of Q3 which is mainly due to summer months of the year. The only impact that we may see in Q4 maybe are related to the Arab Cup. We expect that during the 30 days of the Arab Cup being in Qatar, the construction could be on a slowdown. That's one month out of the three months of the quarter which we expect to be slightly slower locally in Qatar. However, apart from that, we expect it to be as compared to Q1 and Q2 of this year.
Faisal Al-Azmeh:	Got it.

Riaz Khan:	In terms of petchems EBITDA margins, normally we have been in a range of more than 50% mark. The end product prices at times play their part and affects feedstock costing. That's why you see a slight squeeze in terms of the EBITDA margins. But on overall basis, still we believe these EBITDA margins are strong and competitive.
Faisal Al-Azmeh:	Yeah.
Abdulla Yaqoob Al-Hay:	Okay. Related to the utilization of QAFCO plant, we're probably going to see a further slight reduction in that utilization level, which is basically due to the plant shut down activity in one of the trains.
Faisal Al-Azmeh:	Thank you very much. Thank you.
Operator:	We can now take the next question from Alex Comer from J.P. Morgan.
Alex Comer:	Yeah. First of all, I didn't quite follow on from Bobby's question in terms of, I think you said that the sales volumes would not be down much in the petrochemical division, but then I think you said production was going to be down 130,000 tons. Could you just confirm that what expectations for sales in terms of tons in the petrochemical business in Q4? Also, if you could, update volumes to be affected at the fertilizer business? That's my first question. Secondly, you obviously had a very good year, so congratulations. If we look at particular urea prices are, it's going to be very strong. Any guidance you can give us on the dividend and how you'll be thinking about that going forward, particularly payout ratio, etc.? That's my second question. And I'll let other people ask some and then I may come back with a couple more later. Okay, thanks.
Abdulla Yaqoob Al-Hay:	All right. Maybe I will take the first part and the second part can be taken care by Mohammed. For the sales of the petrochemical and the fertilizer, it will be a reflection of the production. Just to confirm again, 130,000 metric ton of the LDPE volumes would be impacted during Q4. For fertilizers, there will be a slight impact as one of the train will be under planned shutdown as well. And that's definitely going to reflect on the sales volume. However, all these maintenance are planned maintenance and as per our schedule. Related to the dividends, maybe Mohammed can answer the question.
Mohammed Jaber Al-Sulaiti:	Yeah. On the dividends, I think you've mentioned great results this year. You were also mentioning strong prices and good prices in Q4, so there's no doubt that it's an exceptional year in 2021 in terms of prices and in terms of financial results. Very difficult for me to be able to comment on what a dividend payout would be, that would be really dependent on how the next two months prevail and what our expectations for prices are in 2022 and the future years, which we're currently in the process of finalizing. We're in the process of looking at or preparing our budget and business plan. It would be dependent on what kind of assumptions we have for future years, what kind of maintenance schedules we have for the future years as well that would drive the discussion at the board level and the dividend discussion as well. I would refrain from making any statement on the dividends at this point of time. But as I said, it's an exceptional year, it's difficult for me to make a statement that I can stick to.
Alex Comer:	Thank you. Maybe I could just ask one more quick question. There's a lot of interest in blue and green ammonia, and you guys are obviously very well placed given your position on the cost curve and also access to gas and fields, and also very low solar costs. Any plans at the minute to look at this and develop this for IQ going forward?
Mohammed Jaber Al-Sulaiti:	That's being looked at by various stakeholders, I'd say, relevant or related departments within QatarEnergy, so it's part of the pipeline for market development or product development teams. Again, it's at different phases of reviews and discussions, and it's in the pipeline and in the plans, but nothing to be announced or shared with the shareholders as of yet.
Alex:	Okay. Thank you.
Operator:	Once again, if you would like to ask a question, please press star one now. We can now take the next question from [inaudible] from Commercial Bank of Qatar.

Speaker:	Yeah. Hi, sir. Thanks for the excellent results that you have got. I just want one question on your mothballed steel facilities which you did in 2020. Given better prices that you are realizing and given the product mix is now shifting out of Qatar, and overall we could be seeing prices still prevailing given the last few weeks. Do you see that you could increase your capacity in your steel segment in the coming year, 2022? Thanks.
Mohammed Jaber Al-Sulaiti:	It's on a continuous review. While we mothball a good part of the steel facilities, the intention is, of course, at the time was to stop the bleeding and make sure that steel contributes positively to the Group without having a negative net back from international sales. The domestic and regional sales, I think, with current capacity is reasonable. We are continuously monitoring the demand. We expect that there will be demand coming in some parts of the regional markets. However, any decision would require to be supported by a mid-term view, with a strong mid-term steel demand. The sales so far year to date, we have not only done in the region, instead we've sold a good portion in some parts of Asia. I would not get carried away by the quantities that are sold, for the time being.
Speaker:	Okay. Just a follow up question on your CAPEX. Just wanted to know, given the fact that 2022 also you're not going to be seeing an increase in CAPEX going forward. Just coming back to the point on dividends, do you see that dividend payout rate will be seeing an increase given the excellent result likely to be seeing in 2021?
Mohammed Jaber Al-Sulaiti:	Again, I'd go back and say it's difficult for me to make a statement on dividends. It would really depend on what we see in terms of capital expenditure over the years, and would be reliant as well on the price assumptions that we have for our basket of products in 2022 and beyond. As you'd appreciate, we always want to have a consistent dividends to be paid to our shareholders, while we make sure that we keep a good buffer for any potential CAPEX, whether that's maintenance related or anything that we may see in the pipeline in terms of investments. The board is in a better position to make that decision. That decision would be made early next year once our results have been finalized for this year, and while we have an outlook for the future, or an updated refreshed outlook for the future.
Speaker:	Thank you, sir. Thanks. I appreciate the feedback.
Operator:	One final reminder, that is star one to ask a question. It appears there are no further questions at this time. I'd like to now turn the call back to your host for any additional or closing remarks.
Bobby Sarkar:	Hi, this is Bobby Sarkar again from QNB FS. If we have no further questions on the line, we can end the call for today. I wanted to thank Mohamed, Abdulla, Riaz for taking the time and answering our questions. And we will pick this up next quarter. Thank you very much.
Riaz-ur-Rehman Khan:	Thank you all for joining us.
Abdulla Yaqoob Al-Hay:	Thank you all. Thanks a lot.
Operator:	This concludes today's call. Thank you for your participation. You may now disconnect.