



Company: **Qatar Aluminium Manufacturing Company (QAMCO)**

Conference Title: **QAMCO Q3-19 Results Conference Call**

Speakers from QAMCO: **1. Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum**
2. 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 ladies and gentlemen, and welcome to the Qatar Aluminium Manufacturing Company QAMCO Q3 2019 Results conference call. At this time, I would like to turn the conference over to Mr Bobby Sarkar. Please go ahead, sir.

Bobby Sarkar: Hi, hello everyone, this is Bobby Sarkar, Head of Research at QNB Financial Services. I wanted to welcome everyone to Qatar Aluminium Manufacturing Company or QAMCO's third quarter and nine-month 2019 results conference call. So, on this call, from Qatar Petroleum's Privatised Companies Affairs Group, we have Abdulla Al-Hay, who is Assistant Manager, Management Reporting; and Riaz Khan, who's Investor Relations Lead. So, as usual, we'll conduct this conference with first management revealing the Company's results, followed by a Q&A.

I will now turn the call over to Riaz. Please go ahead.

Riaz Khan: Ladies and gentlemen,
Good afternoon and thank you for joining us for the 3rd Quarter earnings call of Qatar Aluminium Manufacturing Company (QAMCO).

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

Moreover, please note that this call is subject to QAMCO's disclaimer statements as detailed on slide no. 2 of the IR deck.

Moving on to the call, on October 23rd, QAMCO released 3rd quarter results, and today in this call, we will go through these results and provide you an update on the key financial and operational aspects of the Company.

We have structured our call as follows:

- At first, I will provide insights into QAMCO's ownership structure, its competitive advantages and the overall governance & BOD structure by covering slides 3 till 9 of the IR deck.
- Secondly, Mr. Abdulla Al-Hay will brief you on the key operational & financial performance matrix and key variances affecting the overall profitability of QAMCO;
- Later, I will provide you with more details on the JV operations and CAPEX updates; and
- Finally, we will open the floor for the Q&A session.

To start with, as detailed on slide no. 4 of the IR deck, the ownership structure of QAMCO comprises of Qatar Petroleum with 51% stake, GRSIA with 5% stake and the rest is publicly listed on Qatar Exchange.

Qatar Petroleum, being the main shareholder of the Company provides all the head office functions through a service-level agreement. Although, the operations of the JV is independently managed by its respective Board of Directors, along with the senior management team.

QAMCO holds 50% share in Qatar Aluminium Limited (Qatalum), which produces high-quality aluminium of about 645,000 tons per year for customers in Asia, Europe and the United States. The facilities include a carbon plant, port and storage facilities, as well as, a gas-fired power plant.

The Board structure is detailed on slide no. 5 of the IR Presentation.

Moving on slide no. 6, the competitive advantages, QAMCO's JV is considered to be the one of the world's lowest cost aluminium smelters, with a state of the art production facilities, alongwith assured feedstock supply, with a greater focus on Health, Safety and Environment. Moreover, the JV's global marketing partnership provides an access to strategically important markets, while competing with international players.

I will cover details of the JV and its operational activities and sales & marketing arrangements later in this call.

In terms of the Governance structure of QAMCO, you may refer to slides 8 & 9 of the IR deck, which covers various aspects of QAMCO'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.

In terms of operational and financial results as detailed on slide 11, the production and sales volumes remained stable, which was in line with the management's effort to keep up the production levels to ensure optimum utilization.

The selling prices has shown a decline of 12% for the ten-month period ended September 2019, compared to the previous period. This decline is mainly attributable to the overall macro-economic conditions, as the broader environment remained volatile, where a declining trajectory of global aluminum prices is noted during the year, which was underpinned by the worsening macro-economic sentiments in EU, continued declining trends in US, increasing uncertainty on overall GDP due to trade conflicts & demand-supply imbalances in the aluminium market. The decline in selling prices has caused the overall decline in revenues by 12%.

In terms of net profits, amounting to QR 61 million, there is a decline of 83% compared to the previous ten month period, which was due to combination of factors; including lower revenues, one-off impairment losses and increased financing costs.

QAMCO's share of net debt stood at QR 2.1 billion, with a decline of 8%, as compared the last year-end, which was due to the repayments of debt during the period and dividend distributions amounting to QR 111.6 million made during 2019.

Based on quarter on quarter analysis, the selling prices declined by 3% in comparison to the 2nd quarter of 2019. In terms of revenues, there has been a recovery noted, with an overall increase of 11% in 3rd quarter versus Q2-19, mainly due to the increase in sales volumes by 14%.

Now, I will cover the detailed breakdown of QAMCO's earnings which is shown on slide 12 of the IR presentation.

On overall basis, the total decline in earnings of QR 292 million, compared to the previous ten month period, was mainly due to the decline in selling prices of 12%, as mentioned before. The overall decline in selling prices has affected the Company's profitability by QR 276 million. As mentioned earlier, this decline in price is mainly linked the cyclical nature of the aluminium industry causing a supply-demand imbalance.

On the other hand, adverse inventory movements and high priced energy consumption, due to import of electricity while overhauling the steam turbine, has kept the operating costs high, which also eroded the effects of declining alumina prices, hence, kept the overall cost of sales unchanged.

Also, the higher financing costs due to capitalization of leases as per IFRS 16, has contributed negatively towards to the overall profitability.

Moreover, due to the overhauling exercise, a one-off loss on account impairment was booked during this period, due to the write-off of steam turbines and conveyor belt.

I will now hand over to Mr. Riaz Khan, to cover rest of the IR presentation.

Riaz Khan: Thank you Abdulla.

Moving on to slides 17 & 18, as mentioned earlier, QAMCO has 50% stake in Qatalum. The other partner of the JV is Hydro, which also acts a main supplier of the Alumina to the JV. Moreover, under Marketing & Offtake agreement, Hydro acts as a JV's representative for marketing aluminium products. This provides the JV an access to important and strategic markets, while competing with international players.

JV facilities are located in Mesaieed, Qatar, with a design nameplate capacity of 575,000 tonnes per annum, but now the JV produces more than 650,000 tonnes per annum of high-quality primary aluminium products.

Moreover, Qatalum has a captive Power Plant with a capacity of approximately 1,350 megawatts. This benefits the JV from the perspective of access to one of the most competitively priced sources of energy, which allows it to maintain industry's one of the highest profit margins, along with strong cash flow generation ability.

Lastly, as detailed on slide 19, as per 2019 approved budget and business plan, the total CAPEX's share of QAMCO until 2023 would amount to QR 1.2 billion, which would mainly relate to pot relining and capital spares.

Also, the Company is projecting an impressive cash flow generation, provided the sales prices are realized in line with the business plan. Also, no new draw-downs are planned during the period from 2019 till 2023.

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

Operator: Ladies and gentlemen, if you'd 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, you may press star one to ask a question.

Once again, dear participants, if you'd like to ask a question, you may press star one on your telephone keypad. Sir, it appears there are no questions at this point of time.

Bobby Sarkar: Hi operator, this is Bobby Sarkar. While we wait for some questions, let me just get started with a question of mine. Guys, do you – did you observe or see any supply disruptions in your alumina procurement in the third quarter?

And could you just give us a sense of how you see the market developing maybe next year? Thank you.

Abdulla Al-Hay: Yeah, with regards to the supply during the third quarter, we have not noticed any issues; everything went through well for the supplier.

And with regards to the future, you know, the entire business is – depends on the final projected commodity price. And the final projected price at the [inaudible 00.11.39] will improve our numbers. But we just know where the market is going on.

Bobby Sarkar: Okay, great, thank you.

Operator: So, we have one question now. So, we will now take a question from Muneera AlMarzouq from NBK Capital.

Muneera Al-Marzouq – NBK capital: Hi, this is Rudyard Bachim, Muneera's colleague from NBK Capital, Kuwait. Thank you so much for the call. I have a couple of questions. I wanted to understand the current feedstock procurement agreement with the – with the government. So, what is the pricing? How does the contract get renewed? For how many years the current contract is in place?

And coming to the business strategic plan on slide 19, yeah, I'm seeing sort of a gradual decline in the operating cash flow. Any particular reason for that? I mean, do you expect prices to be softening over a period of time? Thank you so much.

Abdulla Al-Hay: Okay. With regards to your first question of the feedstock, we have, to be honest, a very low-cost agreement with the supplier. I don't have the rate right now, but it is very low compared to other peers in the region.

With your second question with the cash flow, you see a reduction in the cash flow?

Rudyard Bachim – NBK Capital: In the operating cash flow, any particular reason for that going forward? I am now talking about the forecast period.

Riaz Khan: Hi. In terms of the cash flows, we haven't disclosed there the realization ratios but in reality, if you see the realization ratio, it has been always more than 100%. And that is why the target,

which the Company has, to make sure in terms of any sorts of cash flow developments for any future projects, it should be more than 100%. So, we are quite comfortable in terms of our cash flow generation ability.

Rudyard Bachim: Okay, thank you so much.

Operator: Thank you. Ladies and gentlemen, once again if you'd like to ask a question, you may press star one your telephone keypad. We will now take our next question from Shabbir Kagalwala from Al Rayan Investment.

Shabbir Kagalwala – Al Rayan Investment: Yeah, thank you for the – co-hosting the call. I have a question regarding the sale with captive power plant. You – what is the source of – I mean the electricity addition, is it gas? Fine. And how long is the term of the contract for this gas supply, because recently what we have noted like two years ago, the gas or the electricity tariffs for the – for the industry producers has gone up. Well, can you please share how – what is it, the length of the contract for the – in this division?

Abdulla Al-Hay: Okay, the source of the power is gas. We have the energy facility in that tenth of the factory, so we are using gas, yes. This is the answer for your first question.

Second question is the – their term and contract with the supplier. It is – it has the same period of the joint venture terms, and it gets renewed whenever it expires.

Shabbir Kagalwala: And when is the expiry date? I mean when does it possibly need to be –

Abdulla Al-Hay: It is renewed, and we do have a couple – we do have a couple of agreements, some of them – I don't recall the date right now. But, you know, it will get renewed until the term of the joint venture.

Shabbir Kagalwala: And how does it do electricity emissions compared to the electricity available in the country? How much different in the prices because the –

Abdulla Al-Hay: No, it is very low because of – the cost is very low because of the low feedstock supply.

Shabbir Kagalwala: Okay, thank you.

Operator: Thank you. Ladies and gentlemen, once again if you'd like to ask a question, you may press star one on your telephone keypad. I repeat once again, ladies and gentlemen, if you'd like to ask a question, you may press star one on your telephone keypad.

It's obvious there are no further questions at this time. Sir, I would like to turn the conference back to you.

Bobby Sarkar: Okay, this is Bobby again. Great, thank you everyone. I want to thank all participants in the call, and also Abdulla and Riaz from QAMCO for taking the time to discuss the results and answer questions. Please do get in touch with the team at QNBFS or QAMCO if you have any follow-up questions. Operator, we can all disconnect now. Thank you.



Riaz Khan: Thank you.

Abdulla Al-Hay: Thank you all, thanks a lot.

Operator: Thank you. Ladies and gentlemen, this concludes this conference call. Thank you for your participation. You may now disconnect.