

Company:	Qatar Aluminium Manufacturing Company (QAMCO)
Conference Title:	QAMCO 9M-21 Results Conference Call
Speakers from QAMCO:	1. Mr. Abdulla Yaqoob Al-Hay, Assistant Manager Financial Operations, Privatized Companies Affairs 2. Mr. Riaz Khan, Head of Investor Relations and Communications
Moderator:	Thomas Roy, Sr. Research Analyst – QNB Financial Services
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Conference Time:	13:30 Doha Time

Operator:	Good day and welcome to the Qatar Aluminum Manufacturing Company Q3 2021 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Roy Thomas. Please go ahead, sir.
Roy Thomas:	<p>Hello, everyone. This is Roy Thomas from QNB Financial Services. I want to welcome everyone to Qatar Aluminum Manufacturing Company's Third Quarter 2021 Financial Results Conference Call.</p> <p>On this call from QAMCO, we have Abdulla Yaqoob Al-Hay, Assistant Manager for Financial Operations, and Riaz Khan, Head of Investor Relations and Communications. We will conduct this conference call with management, first reviewing Company's results, followed by a Q&A session. I will now turn the call over to Riaz. Please go ahead, Riaz.</p>
Riaz-ur-Rehman Khan:	<p>Thank you Roy. Good afternoon and thank you all for joining us. Hope you're all staying safe.</p> <p>Before we go into QAMCO's business and performance updates, I would like to mention that this call is purely for the investors of QAMCO and no media representatives should be attending this call.</p> <p>Moreover, please note that this call is subject to QAMCO's disclaimer statements as detailed on slide no. 2 of the IR deck.</p> <p>Moving on to the call, on 24th of October, QAMCO released 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 the key financial and operational highlights of the Company.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Abdulla Al-Hay, Assistant Manager, Financial Operations <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide you with quick insights into QAMCO's ownership structure, its competitive strengths and overall governance structure by covering slides 5 till 14 and slides 33 and 34 of the IR deck. ▪ Secondly, Abdulla will brief you on QAMCO's key operational and financial performance matrix; ▪ Later, I will provide you with more details on JV operations and CAPEX updates; and ▪ Finally, we will open the floor for the Q&A session. <p>To start with, as detailed on slide no. 5 of the IR deck, the ownership structure of QAMCO comprises of QatarEnergy with 51% stake and the rest is in the free float held by various domestic and international corporates and individuals.</p>

	<p>QatarEnergy, being the founding shareholder and Parent Company of QAMCO, provides all the head office functions through a service-level agreement, while, the operations of JV is independently managed by its own Board of Directors, along with a senior management team.</p> <p>QAMCO holds 50% share in Qatar Aluminium Limited (Qatalum), which produces high-quality aluminium of about 650,000 tons per year for customers in Asia, Europe and North America. The facilities include a carbon plant, port and storage facilities, as well as, a gas-fired power plant.</p> <p>In terms of competitive strengths, as detailed on slide 12, QAMCO's joint venture is considered to be one of the world's lowest-cost aluminium smelters, with a state-of-the-art production facilities; assured feedstock supply via long term agreements; with an intense focus on HSE which makes the JV a leader among its peers.</p> <p>As detailed on slide 14, from competitive positioning perspective, QAMCO ranks among top tier companies within the industry at a global scale, across most of the profitability matrices. This is a testament to JV's leaner cost base and continued optimization drive, which keeps QAMCO's JV on the lower side of the cost curve among global peers resulting in a strong margin evolution.</p> <p>Moreover, the JV's global marketing partnership with the other JV partner, provides an access to strategically important markets, which makes the Company more competitive in comparison to its peers.</p> <p>In addition, the JV is capable of quickly shifting the product mix i.e. from value added products to standard ingot and vice versa, which provides an additional layer of flexibility to the JV in terms of production processes, as well as, supply chain management, while ensuring optimum production and sales volumes in line with the evolving market dynamics.</p> <p>I will cover further details of the JV and its operational activities and sales & marketing arrangements later in this call.</p> <p>In terms of the Governance structure of QAMCO, you may refer to slides 33 and 34 of the IR deck, which covers various aspects of QAMCO's code of corporate governance in detail.</p> <p>I will now hand over to Abdulla.</p>
<p>Abdulla Yaqoob Al-Hay:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>Starting with macroeconomic updates, as detailed on slide 16, prices of aluminium, continue to climb on the back of renewed global demand, whereby sectors such as construction and automotive industries witnessed growth, as the global economies started to show signs of recovery since later part of 2020.</p> <p>Furthermore, global climate initiatives to reduce carbon footprints is also providing a structural support to aluminum markets and playing a key part in creating supply deficits. All of these factors translated into a sequential growth in prices of primary aluminium along with improved margins.</p> <p>As detailed on slide 19, at QAMCO's JV level, the average realized selling prices inclined by 37% versus first nine months of 2020 and contributed QR 597 million positively to the current period's net earnings, compared to the same period last year.</p> <p>On the other hand, sales volumes slightly declined by 3% and contributed QR 77 million negatively to net profits for the nine months period ended 30th September 2021 versus the same period last year. Although sales volumes were marginally lower than last year, but QAMCO's JV was successful in selling 100% of value-added products (VAP) with no sales of standard ingots during the current period. This shift in sales of standard ingots to VAP supported the overall evolution of EBIDTA margins.</p>



	<p>In terms of bottom-line profitability, for the nine-month period ended 30th of September 2021, QAMCO recorded a net profit of QR 521 million as compared to a net profit of QR 12 million for the same period of last year, driven by growth in global aluminium prices on the back of improved macroeconomic dynamics.</p> <p>As detailed on slide 21, JV's cost of goods sold for the nine months of 2021 was higher compared to the same period last year, mainly on account higher raw material costs, which was partially offset by favorable inventory movements and cost optimization initiatives. On overall basis, increase in cost of goods sold contributed QR 29 million negatively to QAMCO's net profits for the current nine-months' period versus last year.</p> <p>Remaining on same slide 21, due to an overall decline in interest rates and absence of one-off unamortized portion of financing cost being written-off last year, JV's finance costs for the first nine months of 2021 declined by 38% versus same period of last year and contributed QR 32 million positively to QAMCO's net earnings.</p> <p>Coming onto JV's operational performance as detailed on slide 19, production volumes slightly improved by 1% on a year-on-year basis, and remained in line with the management's efforts to keep up the production levels to ensure optimum utilization.</p> <p>Moving on to the balance sheet, in terms of JV's debt position, QAMCO's share of debt stood at QR 2.3 billion, slightly up by 3% compared to December 2020 on account of an additional loan facility.</p> <p>QAMCO's financial position continued to remain robust with the liquidity position at the end of 30th September 2021 reaching QR 1.1 billion in form of cash and bank balances. This also includes proportionate share of cash and bank balances at the JV level.</p> <p>During the current nine months period, QAMCO's JV generated positive share of operating cash flows of QR 740 million, with a share of free cash flows of QR 576 million.</p> <p>As detailed on slide 22, the average LME prices improved by 32% on year-on-year basis, due to persistent macro strength. LME premiums also improved during 2021 mainly due to better product mix, as QAMCO's JV was successful in selling 100% of value-added products (VAP) with no sales of standard ingots during the period.</p> <p>As detailed on slide 23, QAMCO's JV EBITDA margins continue to remain robust & resilient.</p> <p>I will now hand over to Riaz, to cover rest of the IR presentation.</p>
<p>Riaz-ur-Rehman Khan:</p>	<p>Thank you Abdulla.</p> <p>Moving on to the remaining slides, 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 outside Qatar. This provides the JV an access to important and strategic markets, while competing with international players. Where, as detailed on slide 24, Asia remained the largest market for QAMCO's JV, while its presence North America and Europe continued to be substantial.</p> <p>As detailed slide 25, in terms of product mix, extrusion ingots along with foundry alloys remain key products for QAMCO's JV.</p>



	<p>In terms of JV facilities, as detailed on slide 9, it is 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.</p> <p>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.</p> <p>Lastly, as detailed on slide 29, the approved CAPEX plan for 2021 till 2025 mainly relates to routine operations, such as pot relining and other maintenance activities pertaining to power plant and anode facilities.</p> <p>Here important point to note that the cash flow forecasts for 2021-25 as disclosed in this slide cannot be relied on with absolute certainty, where, the actual realization of these cash flows might significantly differ, as compared to these projections, subject to evolving macroeconomic dynamics.</p> <p>Now we will open the floor for the Q&A Session.</p>
Operator:	<p>Thank you. Ladies and gentlemen, 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 other equipment. Again, press star one to ask a question. And we will take our first question from Nour Sherif with Arqaam Capital. Please go ahead. Your line is open.</p>
Nour Sherif:	<p>Hello, everyone, and thanks for the call and congrats for the strong earnings. A couple of questions for me, if you can take it one by one. We've seen lately some increase in the aluminum prices globally. So can you guide us on the impact on cash costs of QAMCO?</p>
Abdulla Yaqoob Al-Hay:	<p>We have seen an increase in alumina prices, which is a main raw material for us. However, we also see an increase in the final product prices, which is completely offsetting the impact of higher raw material prices.</p> <p>So as you are aware, the aluminum market right now are under exceptional status with prices are really booming. I'm not sure if the increase in aluminum prices will continue, as we have seen a growth of almost 34% in the final product prices during this year. But from margins perspective, we are still doing good.</p>
Nour Sherif:	<p>Yes, clear. Okay. So we should expect in Q4 that higher aluminum prices should absorb the increases in alumina prices, right?</p>
Abdulla Yaqoob Al-Hay:	<p>We don't know. Let's hope for a better market situation. However right now, this week and last week, we have seen the LME price at the level of \$2,800. So we hope the same level will continue during Q4 and could support our margins.</p>
Nour Sherif:	<p>Okay. And we see globally that there is a shortage in magnesium. My question is, is it minimal to QAMCO? I understand that it's used in the production of the aluminum alloys, but can you give us a sense about the exposure to magnesium for QAMCO?</p>
Abdulla Yaqoob Al-Hay:	<p>Magnesium is not our main raw material. We use some magnesium for certain value-added products, but it's not a major raw material and it's not going to impact our cost.</p>
Nour Sherif:	<p>Yes, clear. Okay. And what are you seeing in terms of premium to the global aluminum prices? Are you still seeing that demand is still as resilient as it was and premiums are picking up in line with Q3?</p>
Abdulla Yaqoob Al-Hay:	<p>I believe the premiums have remained very healthy during the year. How do I see the market, going forward? As I just explained, I hope it will remain at the same level. This year was an exceptional year. And as you can see, this has been reflected in our financials where our even net profit improved from QR 12 million to QR 520 million.</p>
Nour Sherif:	<p>Yes. And one last question for me. We've seen that sale to production ratio dropped to 91% or sales dropped by 4% Q-on-Q. Can you give us reason behind it? And should we expect this to be any higher in Q4?</p>

Abdulla Yaqoob Al-Hay:	The 4% drop in sales volumes on a quarter on quarter basis was basically due to Incoterms and the arrangement of shipments. So its just a delay in revenue recognition for a shipment going to one of our customers. However, it will be reflected as part of Q4-21 results.
Nour Sherif:	Yes, clear. Thank you very much.
Abdulla Yaqoob Al-Hay:	You're welcome.
Operator:	It appears there are no further questions at this time. Just once again, as a reminder to ask a question, press star one. And we do have another question from Nikhil Arora with Franklin Templeton. Please go ahead. Your line is open.
Nikhil Arora:	Yes, hi. Thank you, gentlemen. This is Nikhil from Franklin. I have a couple of questions, if you don't mind again taking one by one. The first one is, if I understand correctly, the gas price for QAMCO is basically variable. And I think it changes at some Aluminum price. So can you please give guidance whether that has happened over the course of this year yet or not?
Abdulla Yaqoob Al-Hay:	The gas price has a formula and there is a base price and the gas price is also impacted by the final product price.
Nikhil Arora:	Right. Okay. The second question I have is on the debt. And if I remember correctly, you mentioned previously something about renegotiating your debt contract and probably with the possibility of paying down some accelerated this year. So can you remind us if that exercise has been completed?
Abdulla Yaqoob Al-Hay:	No, still, nothing happened to the debt, we still have the same arrangement of keeping the same debt level while paying interest. Definitely, we were going to come back to you if there is any update in this regard. However, as of now there is no update so far.
Nikhil Arora:	Okay. Thank you. And the last question I have is on the working capital of the Qatalum. So if I look at, let's say, the operating cash flow numbers in 3Q and compare that to the 3Q numbers there is really a big jump, especially when compared to the jump in the EBTIDA levels. So is it probably safe to assume that Q2 saw some working capital pressure, which was probably not the case in 3Q?
Riaz Khan:	Normally the difference between the net cash generated from operating activities versus your EBIDTA is predominantly working capital changes, which gets derived from the movements on your balance sheet items within current assets and liabilities. So indeed, the conversion has been bit faster again, which is linked to the receivables, inventories and payable movements.
Nikhil Arora:	Okay. Thank you, Riaz. Thank you, gentlemen.
Riaz Khan:	Thank you.
Operator:	And again, as a reminder press star one to ask a question. And it appears we have no further questions for today's call, so I would like to turn the conference back to our host for any additional or closing remarks.
Roy Thomas:	All right. If there are no further questions, we would like to thank QAMCO for the results update and look forward to speaking to you all for the final quarter results. Thank you.
Abdulla Yaqoob Al-Hay:	Thank you all for joining us. And in case if you have any further questions, please feel free to write back to us. Thank you very much. Thank you all.
Operator:	Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.