

Company:	Qatar Aluminium Manufacturing Company (QAMCO)
Conference Title:	QAMCO Q1-21 Results Conference Call
Speakers from IQCD:	Mr. Abdulla Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum
Moderator:	Mehmet Aksoy, Sr. Research Analyst – QNB Financial Services
Date:	Wednesday, 5 May 2021
Conference Time:	13:30 Doha Time

Operator:	Good day and welcome to the Qamco Q1 2021 results conference call. Today's conference is being recorded. And at this time, I'd like to turn the conference over to Mehmet Aksoy. Please go ahead, sir.
Mehmet Aksoy:	Hi. Good afternoon ladies and gentlemen. This is Mehmet Aksoy from QNB Financial Services. I would like to welcome everyone to Qatar Aluminium manufacturing companies first quarter 2021 financial results conference call. On this call from QP Privatized Companies Affairs team, we have Mr Mohammed Jaber Al-Sulaiti who is the Privatized Companies Affairs manage; Mr Abdulla Yaqoob Al-Hay, Assistant Manager of Financial Operations. And we have Mr Riaz Khan, who is the head of IR and Communications. We will conduct this conference call first with brief comments on the presentation followed by the Q&A. I will now hand the call over to Mr Riaz Khan to get us started. Riaz, please go ahead.
Riaz Khan:	<p>Thank you Mehmet. Good afternoon and thank you all for joining us. Hope you're all staying safe.</p> <p>DISCLAIMER: 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 participating in 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 28th of April, QAMCO released its results for the three-month period ended 31st of March 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> <p>1- Abdulla Al-Hay, Asst. Manager, Financial Operations</p> <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide you with a quick insights into QAMCO's ownership structure, its competitive advantages and the overall governance and BOD structure by covering slides 5 till 8 and slides 26 and 27 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



	<ul style="list-style-type: none"> ▪ Finally, we will open the floor for the Q&A session. <p>To start with, as detailed on slide no. 6 of the IR deck, the ownership structure of QAMCO comprises of Qatar Petroleum with 51% stake and GRSIA being the second largest shareholder with more than 5.5% ownership.</p> <p>As detailed on slide 5, Qatar Petroleum, being the founding shareholder of the Company 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>The Board structure is detailed on slide no. 7 of the IR Presentation.</p> <p>Moving on to slide 8, the competitive advantages, 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; with an intense focus on HSE which makes the JV a leader among its regional peers.</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 demand.</p> <p>I will cover 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 26 and 27 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>In terms of operational performance as detailed on slide 10, the production remained unchanged compared with Q1-20, and in line with the management's efforts to keep up the production levels to ensure optimum utilization.</p> <p>As the global markets started to show signs of recovery since later part of 2020, aluminium industry also picked up its pace, whereby, sectors such as construction and automotive witnessed growth, and a renewed global demand for primary aluminium was noted, while supply side remained muted. These factors translated into a sequential growth in primary aluminium prices and improved margins.</p>

	<p>At QAMCO's JV level, the average realized selling prices inclined by 15% versus Q1-20 and contributed QR 83 million positively to the net profits for three-month period ended 31 March 2020, as compared to the same period last year.</p> <p>On the other hand, sales volumes slightly declined by 1% and contributed QR 9 million negatively to net profits for Q1-21 versus Q1-20. 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 period. The shift from sales of standard ingots to VAP supported the overall evolution of EBIDTA margins.</p> <p>In terms of bottom-line profitability, for the three-month period ended 31 March 2021, QAMCO recorded a net profit of QR 124 million as compared to QR 11 million for Q1-20, being the best quarterly profit since its incorporation, driven by growth in global aluminium prices on the back of improved macroeconomic dynamics.</p> <p>As detailed on slide 11, a decline of 10% was noted in cash costs, mainly due to the overall decline in raw materials and manpower costs, and savings on account of lowered finance cost and other realized savings, amid operating cost optimization initiatives.</p> <p>On overall basis, the decline in cost of goods sold contributed QR 20 million positively to the net profits for Q1-21 versus Q1-20, as mentioned on slide 12.</p> <p>Moreover, due to an overall decline in interest rates, JV's finance costs for Q1-21 also declined by 57% versus Q1-20, and contributed QR 24 million positively to QAMCO's net earnings for Q1-21 in comparison to Q1-20.</p> <p>In terms of our funding position, QAMCO's share of debt stood at QR 2.2 billion, slightly up by 1% compared to December 2020.</p> <p>QAMCO's financial position continued to remain robust with the liquidity position at the end of 31 March 2021 reaching QR 669 million in form of cash and bank balances. During Q1-21, QAMCO's JV generated positive share of operating cash flows of QR 180 million, with a share of free cash flows of QR 133 million.</p> <p>As detailed on slide 13, the average LME prices improved by 12% due to persistent strength from macroeconomic conditions, along with renewed demand. LME premiums also improved versus Q1-20 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 14, QAMCO's JV EBITDA margins continue to remain robust & resilient, despite volatile primary aluminium prices since 2019.</p> <p>I will now hand over to Riaz, to cover rest of the IR presentation.</p>
Riaz Khan:	<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 15, Asia remained the largest market for QAMCO's JV, while its presence US and Europe continued to be substantial.</p>

	<p>As detailed slide 16, 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 20, 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 22, the 2021 till 2025 approved CAPEX plan 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:	Thank you. Ladies and gentlemen, if you'd like to ask a question, please do so now by pressing the star one on your telephones. That's Star one if you'd like to ask a question. We will now take our first question from Noureldin Sherif from Arqaam Capital. Please go ahead. Your line is open.
Noureldin Sherif:	Hello, everyone, and thanks for the call. First of all, congrats on the strong earnings in Q1. A couple of questions for me, if I may. Just thinking of the strong cash flows for the companies in the first half of 2021, would you think of the interim dividends? Is this might be the case for the first time in 2021? And can you shed some light on the sources of cost savings and the cost saving initiatives that you just mentioned and how much should we expect in 2021?
Abdulla Yaqoob Al-Hay:	<p>Ok, I agree with you, this year we have an excellent cash flow during the period. However, in term of interim dividends, I don't believe this is the case. The dividend will be decided at the year end of the board meeting and they will evaluate the macroeconomic situation. And they will evaluate the ability of the company of paying the dividend taking into consideration the loans that they have right now where definitely a plan for repayment of that loan will be placed. So this interim dividend is something that we are not expecting to see. In terms of the cost saving, as you can see, we are on a programme for cost optimisation for the last around seven, eight or nine years. So we are and continue looking for the opportunity, whenever it comes to reduce our cost and to be a lean smelter producing aluminium.</p> <p>In terms of the expectation of how much of additional costs will be there, most of the initiatives been taken during 2020. If you can see right now, we are stood at very excellent EBITDA margin, stood at 39% for Q1. If you compare our performance and our EBITDA margin with the other smelters, you will recognise how good we are doing in cost saving.</p>
Speaker:	Thank you. And one follow-up question on the spot premiums. What spot premium are you seeing now at aluminium prices of \$2400? Should we expect 10% premium or should we expect less?
Speaker:	Should we expect 10% premium to be maintained?
Abdulla Yaqoob Al-Hay:	On the product price?
Speaker:	Yes, premium to the international prices.
Abdulla Yaqoob Al-Hay:	Okay, you know, the premium depends on the product, there is a value-add product. And in terms of percentage, what is our expectation? To be honest, it depends on the market situation

	right now. However, we are expecting the same margin will continue at least for the next quarter.
Speaker:	Yes, clear. And do you see any spikes in costs, maybe in trade costs or any other costs in Q2 or should we expect the same versus Q1?
Abdulla Yaqoob Al-Hay:	You know, I believe we have conducted some of the activity during the first quarter. Some of them will happening also in the next quarter, which is the routine maintenance activity. So we are not expecting any type of increase of the course during the full year, you know, normal operations unless something is happening that's outside our control. However, as of now, we are, you know, in a good position and we are expecting the same kind of performance for the next two or three quarters. And it's depend on the – at the end, it depend on the final product price.
Speaker:	Yes, clear. Just one final follow-up regarding the production in Q2. Should we expect the same or should we expect slightly higher versus Q1?
Abdulla Yaqoob Al-Hay:	As you can see, the trend of our production. We usually reported a continuous production level. We maintain the same level for the historical report and we are expecting the same to be continued for the full year.
Speaker:	Very clear. Thank you very much.
Operator:	As a reminder, if you would like to ask a question, please do so now by pressing star one on your telephone. We will now take our next question from Bijo Joy from QIC. Please go ahead. Your line is open.
Bijo Joy:	Hello, gentlemen. Thank you for the call. I have two questions. My first question is on the raw materials side. So what is your sense like, how do you see the pricing for the raw material changing in the next few quarters, and how will it subsequently impact the margins?
Abdulla Yaqoob Al-Hay:	Okay, usually we see that there is a relationship between the raw material and the final product price. However, this time there is a bridge between the raw material and final product price where the final product price remain – it's, you know, going to the positive trajectory where the raw material prices stood at the same level. We are not expecting to see a major change in the raw material price. We are expecting to see the same level at least for the next quarter with the raw materials where the raw material stood at the same level. I have saw an article saying that the raw material price may be in the next two quarters will even go further down compared to the final product price where we will see a positive movement. However, this at the end will be linked to the macroeconomic situation and it will be linked to the final product price. In terms of our expectation, we see that the raw material will stay at the same level.
Bijo Joy:	Understood. And my second question is on the finance cost. Can you give us some idea as to what is the current debt in Qatalum, and how it has moved from probably last year? And how much of this decrease in finance cost is driven by lower rate?
Abdulla Yaqoob Al-Hay:	Okay. You know, during the last two years, we went to restructuring our loan, and this restructuring was allowed us to keep the principal, however, to pay the loan at risk for the next five years, until we had a big balloon payment to – or to structure the cost and – to restructure the loan in 2025. This arrangement was the main factors of improving our cash flow. So we are expecting to see the loan at the same level for the next year. We are right now also working on a proposal of a loan repayment or working on maybe a dividend policy that will be in place to just give us a clarity on how we are going to settle this loan. Our share of this loan stood at 2.2 billion, has an increase of one percent, and this one percent was mainly to the facility arrangement for a very short period. However, the mini loan, there was no change at that level.
Bijo Joy:	So, 2.2 billion is your share or the whole from –
Abdulla Yaqoob Al-Hay:	Our share. Full is around 4.4.
Bijo Joy:	And how it has changed versus last year?
Bijo Joy:	How – it has come down versus last year?
Abdulla Yaqoob Al-Hay:	Yes, from last year, it went down. That was – we have to make a payment of up to 400 million last year. So our estimate was around 230 I believe, 230 if I recall it. But for the year of 2021, it will remain at the same level. Will not change.



Bijo Joy:	Okay.
Abdulla Yaqaob Al-Hay:	This is for the current arrangement. And even for the next four years, it's going to stay at the same level until 2021. However, as I told you, we are right now working on proposal. That proposal will allow us to give us a clarity on how we can make the repayments of this loan.
Bijo Joy:	Understood. And so if rates go up, maybe towards the end of this year, so there would be some impact on the on the finance cost, right? But for now, is it fair to assume this finance cost should remain the current level? So the current quarter is how it should be in the –
Abdulla Yaqaob Al-Hay:	You know, when we took the decision to restructure this loan last year, it was due to the market situation with aluminium price falls under pressure. So we took that position. So right now, we are enjoying this margin where the loan will stay at the same rate. We are not expecting to see any increment. You know, we started to have even better cash flow coming to the company just because of this arrangement. And definitely with the proposal that we're going to work on, all the shareholders will be, you know, satisfied on the decisions that, you know, we're going to just to make sure that we are able and capable to make an arrangement of the repayment of that loan.
Bijo Joy:	Understood. Thank you so much. That was very helpful.
Abdulla Yaqaob Al-Hay:	Welcome.
Operator:	As a final reminder, if you'd like to ask a question, please, press star one on your telephone now. There are currently no questions in the queue. I will turn the call back to your host.
Mehmet Aksoy:	Hi, this is Mehmet again. If there are no further questions, then we can wind up the call for today. I would like to thank everyone for participating in the call. Please do reach out to team at QNB FS or Qamco if you have any further questions. Thank you.
Operator:	Ladies and gentlemen, that will conclude today's call and you may now all disconnect.