

Company:	<b>Qatar Aluminium Manufacturing Company (QAMCO)</b>
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Speakers from QAMCO:	<b>Mr. Rashid Al-Mohannadi, Acting Assistant Manager Financial Operations, Privatized Companies Affairs, QatarEnergy</b> <b>Mr. Riaz Khan, Investor Relations Officer, QatarEnergy</b>
Moderator:	<b>Roy Thomas, Sr. Research Analyst – QNB Financial Services</b>
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Roy Thomas [QNB FS]:	<p>Hello, everyone. This is Roy Thomas from QNB Financial Services. I want to welcome everyone to Qatar Aluminium Manufacturing Company's Second Quarter 2022 Financial Results Conference call. On this call from QAMCO, we have Rashid Ahmed Al-Mohannadi who is Acting Assistant Manager for Financial Operations, and Riaz Khan who is Investor Relations Officer. We will conduct this conference call with management first reviewing the Company's results, followed by a Q&amp;A. I will turn the call over to Riaz Khan. Go ahead, Riaz.</p>
Riaz Khan [QAMCO]:	<p>Thank you Roy. Good afternoon and thank you all for joining us.</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 7<sup>th</sup> of August, that was yesterday, QAMCO published its results for the six-month period ended 30<sup>th</sup> 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.</p> <p>We have structured our call as follows:</p> <ul style="list-style-type: none"> <li>▪ At first, I will provide you with a quick insight into QAMCO's ownership structure, its competitive strengths and overall governance structure by covering slides 5 till 14 and slides 34 and 35 of the IR deck.</li> <li>▪ Secondly, Rashid will brief you on QAMCO's key operational and financial performance matrix;</li> <li>▪ Later, I will provide you with more details on JV operations and CAPEX updates; and</li> <li>▪ Finally, we will open the floor for the Q&amp;A session.</li> </ul> <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 among low-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 &amp; marketing arrangements later in this call.</p> <p>In terms of the Governance structure of QAMCO, you may refer to slides 34 and 35 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 Rashid.</p>
<p>Rashid Al-Mohannadi [QAMCO]:</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, during the first half of 2022, demand for primary aluminium continue to remain firm across key aluminium intensive sectors like automobiles (especially electric vehicles), construction, renewable energy and packaging. However, China's recent COVID-linked lockdowns has impacted demand for aluminium in the short-term.</p> <p>On the other hand, supply remained in deficit, given higher energy prices which challenged smelting capacities and led to widening of inventory deficits.</p> <p>Trade disengagement from Russia amid geo-political tensions, also created uncertainty in the commodity markets.</p> <p>On an overall basis, aluminium prices demonstrated essentially bullish trends during the first quarter of 2022, amid persistent constructive demand and supply shortages. However, during the second quarter of 2022, LME prices softened on account of uncertainties over recessionary fears and limited demand.</p> <p>In terms of bottom-line profitability, for the six-month period ended 30<sup>th</sup> of June 2022, QAMCO recorded a net profit of QR 611 million as compared to a net profit of QR 288 million for the first half of 2021, driven by growth in global aluminium prices on the back of improved macroeconomic dynamics.</p>

	<p>As detailed on slide 19, at QAMCO's JV level, the average realized selling prices inclined by 54% versus the first half of last year, and positively contributed QR 738 million to the current period's net earnings, compared to the first half of last year.</p> <p>Sales volumes also marginally increased by 1% and contributed QR 15 million positively to net profits for the current period in comparison to the first half of last year.</p> <p>As detailed on slide 21, JV's cost of goods sold for the current period were higher compared last year, mainly on account higher raw material costs. On overall basis, increase in cost of goods sold contributed QR 379 million negatively to QAMCO's net earnings for the current period versus the same period of last year.</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.</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, and slightly declined on account of net movement relating to AGP loan facility.</p> <p>QAMCO's financial position continued to remain robust with the liquidity position at the end of 30<sup>st</sup> June 2022 reaching QR 1.3 billion in form of cash and bank balances, which includes proportionate share of cash and bank balances at the JV level.</p> <p>During the current period, QAMCO's share in JV's operating cash flows amounted to QR 451 million, with a share of free cash flows of QR 307 million.</p> <p>As detailed on slide 23, the average realized LME prices improved by 47% on a year-on-year basis, due to persistent macro strength. LME premiums also improved during 2022 mainly due to favorable product mix and better global demand for value-added products.</p> <p>As detailed on slide 24, QAMCO's JV EBITDA margins continue to remain robust and resilient.</p> <p>I will now hand over to Riaz, to cover rest of the IR presentation.</p>
Riaz Khan:	<p>Thank you Rashid.</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 &amp; 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 25, Asia remained the largest market for QAMCO's JV, while its presence Europe and North America continued to be substantial.</p> <p>As detailed slide 26, 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 30, the approved CAPEX plan for 2022 till 2026 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 2022-26 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&amp;A Session.</p>
Operator:	<p>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. Again, press star one to ask a question. We'll pause for a moment to allow everyone to signal. We will now take our first question from Jag Pasunoori from NBK Capital. Please go ahead. Your line is open.</p>
Jag Pasunoori [NBK Capital]:	<p>Hey, this is Jag here. Congratulations on good set of numbers. Can I ask this question on this page 30? You are assuming operating cash flow of like 1.27 billion QAR. What are the prices assumptions of aluminium here and also for the next few years as well? What are you assuming your aluminium prices to be? Can you hear me?</p>
Rashid Al-Mohannadi [QAMCO]:	<p>Yes, this was basically designed or extrapolated from the budget, which we prepared towards November every year. I remember the prices for 2022 was \$2800, somewhere in that range. But I don't recall the exact number, but it was basically based on Bloomberg forecast at the time.</p>
Jag Pasunoori [NBK Capital]:	<p>Okay. Great. Thank you.</p>
Operator:	<p>Thank you. We will take our next question from Rahul Soni from Avalon Global Research. Please go ahead. Your line is open.</p>
Rahul Soni [Avalon Global Research]:	<p>Yeah. Hello. Thanks for taking my question and congratulations for a good set of numbers. So my first question is, I want to understand like, do you have long-term agreements with your clients? And what is the lag between the market aluminium prices which are prevailing currently in the market and what is your average selling price? How much time it'll take to transfer to your pricing?</p>
Riaz Khan [QAMCO]:	<p>Yes. Thank you, Rahul. Basically, I'll break it into two questions. The first one is on the selling activities. Basically, for selling activities we have a long-term agreement with Hydro who is responsible for marketing our products. So whatever we produce that goes outside of Qatar, Hydro team is responsible for marketing and selling the product. In terms of geographical allocation, it's predominantly Asia, followed by Europe and North America, and it's predominantly based on whatever the best netbacks are available in the market.</p> <p>Second question, in terms of the time lag which you asked for, we have discussed this point in almost all of our investor calls. The time lag is almost two months lag, so whatever the LME prices which you see on the screens, there is basically a lag to our realized prices. So we always go with a two month lag in comparison to the market LME prices. I hope I answered your questions.</p>

Rahul Soni [Avalon Global Research]:	Okay. In one of the slides, you have given these aluminium prices and alumina prices. And if I look at the two charts of these aluminium and alumina prices, so I can see that aluminium price movement of in the aluminium prices is with a lag with a movement in alumina spot prices. What's your comment on this?
Riaz Khan [QAMCO]:	<p>Rahul, first of all the graphs on slide 16 which you're referring have been extracted from Bloomberg. And these graphs are presented here to provide an update macro-trends, whereas, the actual realized prices are different.</p> <p>So, there is a two months' time lag compared to the market prices as noted on the graph within slide 16 compared to our realized prices. Whereas on the other side, alumina prices are predominantly the market driven prices because we have to record the alumina in our inventories as and when it gets out from the door of the supplier. So those are basically predominantly market based prices, whereas the aluminium prices, as you know there is a lag of two months, as we have to deliver the product on the gate of the buyer which on average takes two months to transit.</p>
Rahul Soni [Avalon Global Research]:	Okay. Thank you.
Operator:	Thank you. We'll take our next question from Abdulla Hakimi from Hassana. Please go ahead. Your line is open.
Abdullah Hakimi [Hassana]:	Great. First of all, thank you very much for the call and congratulations on the good set of results. I just have a question in your cost structure. Now, we've noted the raw material and energy consumption cost has gone up despite a drop in alumina prices. I'm just wondering what is driving that spike in cost? Is it gas? And if I recall correctly, gas prices are linked to CPU. So it's gas prices high, how sticky that is going forward? So that's my first question. The second question is regarding demand. Are you seeing a recovery in demand from China or demand in that side of the world's remains weak?
Rashid Al- Mohannadi [QAMCO]:	Thank you, Abdulla, this is Rashid here. I'll take your first question and I'll hand over the second question to Riaz to answer. Basically, if you look at that graph, the cost of goods went up predominantly due to the increase in three key raw materials. One is, is alumina. We are facing the price of alumina to be higher in this half compared to last year, second factor alloy. I'm sure a lot of you are aware that alloys such as magnesium, silicon are of high demand and they're fetching two, three times the prices as we speak today. So we are incurring higher alloy costs. Also, we are incurring a higher coke cost. So these three key raw materials, in which we are facing some increase. Also, we are facing an increase on the energy side of things and the gas. But cost of raw materials is driven basically predominantly by the three key raw material I mentioned earlier.
Riaz Khan [QAMCO]:	<p>Thanks Rashid. Abdullah, on the second question on the macro-trends on aluminium demand, if you see the second quarter, the prices have contracted to an extent comparative to the first quarter or the fourth quarter of last year. That is predominantly linked to COVID related lockdowns in China, which affected the demand holistically, given China is the largest consumer for aluminium, and almost 50% of the overall demand comes from China.</p> <p>So going forward, if the situation persists, I think the demand will get affected. But what we are hearing from the market and what most of the analysts have the consensus on that situation in Q3 could be a drag, while, in Q4 once China opens up fully, we will start to see better trends on the demand front. So hopefully we answered both of your questions.</p>

Abdullah Hakimi [Hassana]:	Yeah. Very clear. If you allow me just one last question on the outlook, we started the year with a bullish view on aluminum over the mid-term three to five years. I'm just wondering if your view on that mid-term outlook has changed.
Riaz Khan [QAMCO]:	<p>See, if you talk about the mid to the long term, there is a different dynamics, but by the way, these comments which we give is just what we see from the market. So this is not the company's position officially because we don't have the specific policy to give out outlooks given the commodities where we are in. Things can change upside down on a given instant or a given situation.</p> <p>So long term to medium term to long term outlooks are still bullish from what the market sees. Still, they are very much expecting demand from the demand perspective you have two or three key themes already available. First is the EVs, the second is the wind turbines, third is basically the solar panels where there is a lot of consumption of fresh aluminium is expected going forward. That's what the market expects.</p> <p>When we talk about supply side, there has been a lot of drive on the green aluminium front, especially from Europe, as well as there is a decarbonization drive which China was following-up very aggressively. So those two regions with the decarbonization drive or greener aluminium, let's say; we think that the supply side could remain under pressure. And then with the current situation or current inventory levels where we are sitting, the markets could remain in the deficit.</p>
Abdullah Hakimi [Hassana]:	Great. Thank you very much. And again, congratulations on the good set of results.
Riaz Khan [QAMCO]:	Thank you.
Operator:	Thank you. We will now take our next question from Sujit Prakash. Please go ahead. Your line is open.
Sujit Prakash:	Hi. Good afternoon. Thanks for taking my call. And again, congrats on the good set of results. My question is primarily very much similar to what the previous person also had related to the demand. So in terms of the results and the revenue has been, even though the revenue has been quite good, it has been largely driven by the increase in selling price and not so much from the selling volume perspective. The volumes have increased by 1%. I just wanted to know because the demand, the aluminium prices are also critical. I just wanted to understand your views on how do you expect the aluminum prices to go going forward? Also, are there any plans on increasing the volumes in terms of new contracts or anything like that?
Riaz Khan [QAMCO]:	Thank you, Sujit. So in terms of the selling prices we already discussed in detailed, Q3 things could be a drag and that's what the market view is. Q4 could be positive with renewed demand from China. Talking about the volumes, we have a nameplate capacity of 575,000 metric tons of liquid metal. Currently we are producing more than 650,000 metric tons of liquid metal. Thanks to the technology advancements which we are implementing on day-to-day basis in collaboration with our JV partner and with these technology and advancements, we are already well above our nameplate capacity. Going forward, as of now we stand, there is no such greenfield or brownfield projects in the pipeline, which would affect the quantities very much upside down or significantly. Hence, the volumes you should consider in your model should remain intact in a range of 650,000 tons per annum of the liquid metal.
Rashid Al-Mohannadi [QAMCO]:	So to answer the question, we sell wherever we produce. So the production is almost going at a limit, as well as the sales volumes, because whatever we produce, Hydro has the offtake agreement and they have a mandate to sell our products internationally. In terms of inventory sitting on the ground, it remains minimal.
Sujit Prakash:	Clear. Thanks a lot.

Operator:	Thank you. As a reminder, if you would like to ask a question, press star one on your telephone keypad. We'll take a follow up question from Rahul Soni from Avalon Global Research. Please go ahead. Your line is open.
Rahul Soni [Avalon Global Research]:	Yeah. Hello? Since you are producing 650,000 tons per annum and your capacity is 575,000. Is it right to assume that you are operating over 100% and if you don't have any CapEx plan for next four or five years, from where we can assume any means, there is a lack of any long term growth revenue driver for the Company.
Rashid Al-Mohannadi [QAMCO]:	<p>Basically, the first question on the utilization front, yes, obviously, because the nameplate is 575,000 we are producing 650,000 tons. We are well ahead of our 100% capacity levels. As far as the CapEx plan is concerned, this is what the board has approved in the start of this year or let's say the last year-end, and as of now, there is no specific expansion plans entailed here.</p> <p>Going forward with no specific CapEx plans linked to expanding the capacities, predominantly the profitability of the company remains a function of two things. One is the market price dynamics, which is basically the LMEs prices and how the LMEs moves. And then your cost optimization programs, where we are successfully implementing our programs on annual basis.</p>
Rahul Soni [Avalon Global Research]:	Do you think there is a scope to improve your gross margin further from here?
Rashid Al-Mohannadi [QAMCO]:	<p>This is again, market forces determines a major chunk based on the LME movements. On the cost side, we are diligently implementing optimization programs, where the idea is to ensure that JV's operations remained lean.</p> <p>And I think if we talk about our margin's, still now we are at almost 45%-46% margins and compared to our peers, which are somewhere in 35%-40% range, still we are we are doing well compared to our peers.</p>
Rahul Soni [Avalon Global Research]:	Okay. Thank you.
Operator:	Thank you. We will take our next question from Nour [inaudible] from Arqaam Capital. Please go ahead. Your line is open.
Nour [Arqaam Capital]:	Hello. Yes. This is Nour from Arqaam. Thanks for the call and congrats to the strong set of results. Just a couple of questions from me, if I may. My first question on the cash flow. Can you give us some sense about how much of working capital outflows have you witnessed in the first half and how much of Capex has been spent?
Riaz Khan [QAMCO]:	<p>See, in terms of the Capex program, the total Capex, which we disclosed for 2022 is almost 237 million. I think it's progressing well, which we mentioned in our press release, also, whatever the Capex was under the plan, it's going on very well.</p> <p>In terms of cash flow generation, it's almost 450 million of the operating cash flows which we generated in the first six months. And that is also pretty much remaining a function of the realized LME prices.</p>
Nour [Arqaam Capital]:	Right. If we can reconcile it, when you look at the EBITDA, it's close to 880 million QAR for the first half of 2022, while operating cash flow as you said was 450. So can you explain the difference? Is it mainly working capital outflows? Is it something that we're missing here?
Riaz Khan [QAMCO]:	Yes. Predominantly it is the working capital movements, which affects the gap between the EBIDTA and the operating cash flows.

Nour [Arqaam Capital]:	Yes. clear. In terms of magnesium and other raw materials that you guys procure, have you seen any downtrend other than alumina?
Rashid Al-Mohannadi [QAMCO]:	Magnesium prices have also stabilized to an extent. If you see the CFR price of magnesium in China, I think they have stabilized also to an extent.
Nour [Arqaam Capital]:	Yeah. Thank you.
Roy Thomas [QNB FS]:	All right. If there are no further questions, I'd like to thank both Rashid and Riaz on behalf of QAMC for results update and answering all the queries and look forward to speaking to you all for the third quarter results.
Riaz Khan [QAMCO]:	Thank you all. Thank you for joining us, and see you in the third quarter.
Operator:	Thank you. That will conclude today's conference call. Thank you for your participation; you may now disconnect.