

Company:	Qatar Aluminium Manufacturing Company (QAMCO)
Conference Title:	QAMCO Q4-19 Results Conference Call
Speakers from IQCD:	<ol style="list-style-type: none"> 1. Mr. Mohammed Jaber Al-Sulaiti, Manager, Privatized Companies Affairs, Qatar Petroleum 2. Mr. Abdulla Yaqoob Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum 3. Mr. Riaz Khan, Investor Relations and Communications Lead, Qatar Petroleum
Moderator:	Mehmet Aksoy , QNB Financial Services
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Conference Time:	1:30 pm Doha Time

Operator:	<p>Good day and welcome to the Qatar Aluminum Manufacturing Company Q4 2019 Results Conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mehmet Aksoy. Please go ahead, sir.</p>
Mehmet Aksoy [QNBFS]:	<p>Good afternoon ladies and gentlemen. This is Mehmet Aksoy from QNB Financial Services. I would like to welcome everyone to Qatar Aluminum Manufacturing Company's 2019 financial results conference call.</p> <p>On this call from QAMCO, we have Mohammed Jaber Al-Sulaiti who is a Manager of Privatized Companies Affairs. We have Abdulla Yaqoob Al-Hay, Assistant Manager of Financial Operations. And we have Mr Riaz Khan, who the head of IR and Communications. We will conduct this conference call first with comments on the presentation followed by Q&A.</p> <p>I will now hand the call over to Mr Riaz Khan to get us started. Mr Khan, please go ahead.</p>
Riaz Khan:	<p>Ladies and gentlemen, Good afternoon and thank you all for joining us.</p> <p>Before we go into the business and performance updates, I would like to mention that this call is purely for the investors of QAMCO and no media representative 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 February 12th, QAMCO released its results for the for financial period 2019, 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.</p> <p>Today on this call, along with me, I have:</p> <ol style="list-style-type: none"> 1- Mr. Mohammed Al-Sulaiti, Manager, Privatized Companies Affairs, QP; and 2- Mr. Abdulla Al-Hay, Asst. Manager, Financial Operations

	<p>We have structured our call as follows:</p> <ul style="list-style-type: none"> ▪ At first, I will provide insights on QAMCO’s ownership structure, its competitive advantages and the overall governance & BOD structure by covering slides 3 till 6 and slides 18 till 20 of the IR deck. ▪ Secondly, Mr. Abdulla Al-Hay will brief you on the key operational & financial performance matrix; ▪ 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, which will be led by Mr. Mohammed Al-Sulaiti. <p>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, and GRSIA being the second largest shareholder with 5% ownership.</p> <p>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.</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. 5 of the IR Presentation.</p> <p>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, along with assured feedstock supply, and 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.</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 19 & 20 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 Mr. Abdulla Al-Hay.</p>
<p>Abdulla Al-Hay:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>In terms of operational and financial results as detailed on slide 8, the production and sales volumes remained stable as compared to last 13 month pro-forma period, which was in line with the management’s effort to keep up the production levels to ensure optimum utilization.</p> <p>The selling prices has shown a decline of 12% for the 13-month period ended December 2019, compared to the previous pro-forma 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 with an increased uncertainty</p>

in 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 11%.

In terms of net profits, amounting to QR 80 million, there is a decline of 77% compared to the previous 13-month period. This decline in profitability was due to a combination of factors including lowered revenues, on account of sharp decline in selling prices, higher energy consumption costs due to overhauls, one-off impairment losses and increased financing costs on account of interest cost recognized in leases capitalised under IFRS 16, which were partially offset by one-off sale of alumina and insurance claims..

In terms of our funding position, QAMCO's share of net debt stood at QR 1.9 billion, after considering share of cash and bank balances in JV amounting to QR 497 million as at 31 December 2019, down by 17% compared with the previous year end. This decrease was due to repayments of debt during the period.

Now, I will cover the detailed breakdown of QAMCO's earnings which is shown on slide 9 of the IR presentation.

On overall basis, the total decline in earnings of QR 272 million, compared to the previous 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 365 million. As mentioned earlier, this decline in price is mainly linked the cyclical nature of the aluminium industry causing a supply-demand imbalance. Here, important point to note that, as detailed on slide 10, the decline in average selling prices was mainly due to the decline in LME aluminium prices which declined by 13% as compared to the last year, although, premiums remained stable.

The decline profitability due to selling prices was partially offset by favorable variances noted in sales volumes which had a positive impact on profitability of QR 45 million.

Cost of goods sold also had a positive impact of QR 62 million, where the declining alumina prices increased cost efficiencies attributed to this positive variance. Though, the operating costs still remained comparatively high because of higher energy consumption due to overhaul of steam turbines and higher technical service cost.

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.

Results were partially improved by one off insurance claims received during the period.

As mentioned on slide 10, alumina prices declined at a slower rate than aluminium prices, which depressed the industry margins. At the same time, QAMCO's JV leveraged its contracts for alumina supplies to outperform the market, which led to supply chain optimization.

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

<p>Riaz Khan:</p>	<p>Thank you Abdulla.</p> <p>Moving on to slides 15 & 16, 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.</p> <p>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.</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 17, the 2020 approved budget and business plan, mainly relates to routine operations. Also, the Company is projecting an impressive cash flow generation, provided the sales prices are realized in line with the business plan.</p> <p>Now we will open the floor for the Q&A Session.</p>
<p>Operator:</p>	<p>Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypads. If you are using a speaker phone please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.</p>
<p>Mehmet Aksoy [QNBFS]:</p>	<p>Hi, this is Mehmet from QNB Financial Service again. And while we are calling for questions, if I can start off a question of my own. Can you please give us some color about possible capacity expansion intensions at Qatalum, if there are any for the time being? Thank you.</p>
<p>Abdulla Al-Hay:</p>	<p>Actually, right now, as of now, there is no expansion in the pipeline. However, we are working on the efficiencies to increase our production.</p>
<p>Mehmet Aksoy [QNBFS]:</p>	<p>Thank you very much.</p>
<p>Operator:</p>	<p>We will now take our first question from Anastasios Dalgiannakis from from Al-Faisal Investments. Please go ahead.</p>
<p>Anastasios Dalgiannakis [Al-Faisal Investments]:</p>	<p>Yes. And thank you for taking my question. I have a question, as you mentioned on Page 10 of the presentation that the aluminum price dropped more than alumina that's compressing the margin for the industry. Now we hear from the [inaudible] conference call in mid Jan that pre-coronavirus that the outlook for aluminum and supply is for surplus driven by China oversupply. And for alumina is for balance market driven by China, alumina deficit. So, what I would like to ask if possible is your own view since we have a lot going on at the moment, if you could update your own view in terms of the outlook for supply demand for aluminum for 2020. Thank you.</p>

Abdulla Al-Hay:	Okay. The provided number here at our presentation reflecting 2019 number, the coronavirus right now we have not seen the impact of it. During the Q1, definitely we're going to have a different outlook of the numbers, where we might have a different assumption, or we might have a different number because of the coronavirus. But as of now we have not seen the effects so far on our level.
Anastasios Dalgiannakis [Al-Faisal Investments]:	Thank you.
Abdulla Al-Hay:	Welcome.
Operator:	And as a reminder to ask a telephone question, it is star one. We will now take our next question from Fawad Rizvi from Al Rayan Investments, please go ahead. Fawad Rizvi, your line is open. Please go ahead.
Fawad Rizvi [Al Rayan Investments]:	Thank you, good afternoon. I'm sorry I was on mute. So, good afternoon and thank you for hosting the call. I am looking at the slide number 17, and my question is on net operating cash flow. You are projecting a decline, it's like material could be 25-30% decline in net operating cash flow in 2020. Can you share us your assumption for 2020 price of Alumina or basically the profitability, because what I understand is large part of the net operating cash flow is driven from the – your pricing assumption on Alumina and the profitability. So, can you give us an idea on what is your outlook for 2020?
Mohammed Al-Sulaiti:	So, profitability is not disclosed here for the year 2020. So, the basic which main slides considered for the year 2020 is in line with 2019 trends and that is the prima facie reason where you have seen the decline in the operating cash flow.
Fawad Rizvi [Al Rayan Investments]:	So, you are saying this aluminum – I mean, this quarter is like a good pick up for the next full year? Q4, I mean?
Mohammed Al-Sulaiti:	No, it is expected to decline further. That was the business plan assumption.
Fawad Rizvi [Al Rayan Investments]:	Okay. And what is the decline you are expecting for projecting for 2020 in terms of pricing for alumina?
Riaz Khan:	It was budgeted at 5% downwards.
Fawad Rizvi [Al Rayan Investments]:	Good. Thank you. And one more question. I was – okay. And one more question. I'm looking at your annual report you published. In the page number 19, where there is like investment in JV and statement of income for JV. So, I'm looking at that page which basically is summary for the growth of the QAMCO, so the QAMCO is 50% of the growth. So, and I looked at the nine months' number, so when I take the number, there is a material difference in depreciation on quarter-on-quarter, generally depreciation expense are stable if we look at it. But there is a material difference in quarterly depreciation numbers. I want to understand is there anything which is like extension, which is hitting, and that's causing the jump in the depreciation numbers?

Mohammed Al-Sulaiti:	No, there is no – the Qatalum’s, our joint venture partner, Qatalum’s depreciation policy is due for annual review, right? And in line with their accounting policy, they have reviewed their estimated useful life and the residual value for the closing of 31 st December. So, that could be the only reason you are seeing the depreciation amount different than then quarter three closing.
Fawad Rizvi [Al Rayan Investments]:	Okay.
Mohammed Al-Sulaiti:	So, it is part of their annual review.
Fawad Rizvi:	All right. Thank you.
Operator:	And again, that is star one to ask a telephone question. As there are currently no further telephone questions, I’d like to hand the call back to Mr Aksoy for any additional or closing remarks.
Mehmet Aksoy [QNBFS]:	Hi, this is Mehmet Aksoy again. If there are no further questions, we can wind up the call for today. I would like to thank everyone for participating in the call. Please do reach out the team at QNB Financial Services or QAMCO if you have any further questions. Thank you.
Riaz Khan:	Thank you, thank you for attending this call.
Operator:	Ladies and gentleman, this concludes today’s call. Thank you for your participation. You may now disconnect.