

Company:	Qatar Aluminium Manufacturing Company (QAMCO)
Conference Title:	QAMCO 3Q-22 Results Conference Call
Speakers from QAMCO:	Mr. Abdulla Yaqoob Al-Hay, Acting Manager, Privatized Companies Affairs, QatarEnergy Mr. Saffan Mohammed, Sr. Financial Management Analyst Mr. Rashid Al-Mohannadi, Head, Investor Relations & Communications Mr. Riaz Khan, Investor Relations Officer
Moderator:	Bobby Sarkar, Head of Research – QNB Financial Services
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Operator:	<p>Good afternoon. My name is Abby and I will be your conference operator today. At this time, I would like to welcome everyone to the Qamco conference call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. If you would like to ask a question during the time, simply press star (*) followed by the number one (1) on your telephone keypad. If you would like to withdraw your question again, press the star (*) followed by the number one (1) on your telephone keypad. Thank you.</p> <p>Mr. Bobby Sarkar at QNB Financial Services, you may begin your conference.</p>
Bobby Sarkar:	<p>Okay, thank you Abby. Hi. Hello, everyone. This is Bobby Sarkar Head of Research at QNB Financial Services. I wanted to welcome everyone to Qatar Aluminum Manufacturing Company or Qamco's Third Quarter 2022 Results Conference Call. So, in this call from Qatar Energy's privatized companies' affairs group, we have Abdullah Al Haj who's the acting manager; we have Rashid al Mohannadi, who's the Head of Investor Relations and Communications; we have Stefan Mohammed who is the Senior Financial Management Analyst; and Riaz Khan, who's Investor Relations Officer. So, we will conduct this conference with management first reviewing the company's results, followed by a Q&A, I would like to now turn the call to Rashid. Rashid, please go ahead.</p>
Rashid Al Mohannadi:	<p>Thank you Bobby. 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 24th of October, that was last week, QAMCO published its results for the nine-month period ended 30th of September 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"> ▪ 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.



	<ul style="list-style-type: none"> ▪ Secondly, Saffan 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 against a name plate capacity of 575,000 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 facility; 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 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 Saffan.</p>
<p>Saffan Mohammed:</p>	<p>Thank you, Rashid. Good afternoon and thank you all for joining us.</p> <p>Starting with macroeconomic updates, as detailed on slide 16, the macroeconomic environment for the aluminium markets remained volatile throughout this year.</p> <p>Several factors impacted the commodity markets at the macro level, which cascaded down to the supply-demand dynamics of aluminium and led to volatilities in prices, and supplies.</p>

- In the start of the year, demand for primary aluminium demonstrated strength across key aluminium intensive sectors, like automobiles (especially electric vehicles), construction, renewable energy, and packaging.
- However, recently demand for aluminium was impacted by China's strict COVID related lockdowns, coupled with slowdown in the Chinese construction sector.
- In parallel, higher-than-expected inflation led to monetary tightening by most of the Central Banks, impacting industrial demand for most of the commodities.
- On the other hand, exorbitant energy prices in Europe has put most of the European smelters in a challenging situation to maintain capacity.
- Also, as annual contracts are rolled for Western consumers of metal, trade disengagements from Russia, amid geo-political tensions, creating uncertainty in the commodity markets, with a growing risk of inventory builds.

On an overall basis, aluminium prices demonstrated essentially bullish trends during early parts of 2022, amid constructive demand and supply shortages. However, since the mid-year LME prices softened on account of uncertainties over recessionary fears and limited demand.

In terms of bottom-line profitability, for the nine-month period ended 30th of September 2022, QAMCO recorded a net profit of QR 803 million as compared to a net profit of QR 521 million for the first nine-months of 2021, driven by growth in global aluminium prices, and supply shortages as discussed earlier.

As detailed on slide 19, at QAMCO's JV level, the average realized selling prices inclined by 41% versus the first nine-months of last year, and positively contributed QR 887 million to the current period's net earnings, compared to last year.

Sales volumes remained flattish and contributed only QR 6 million positively to net profits for the current period in comparison to the first nine-months of last year.

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 543 million negatively to QAMCO's net earnings for the current period versus the same period of last year.

Coming onto JV's operational performance as detailed on slide 19, production volumes slightly improved by 1% on a year-on-year basis.

Moving on to the balance sheet, in terms of JV's debt position, QAMCO's share of debt stood at QR 2.3 billion, which remained unchanged compared to last year.

QAMCO's financial position continued to remain robust with the liquidity position at the end of 30th of September 2022 reaching QR 1.8 billion in form of cash and bank balances, which includes proportionate share of cash and bank balances at the JV level.

During the current period, QAMCO's share in JV's operating cash flows amounted to QR 959 million, with a share of free cash flows of QR 779 million.

As detailed on slide 23, the average realized LME prices improved by 34% on a year-on-year basis, due to persistent macro strength despite volatility noted. LME premiums also improved during 2022 in comparison to last year mainly due to favorable product mix and better global demand for value-added products.

	<p>However, on a quarter-on-quarter basis, LME prices, as well as premiums declined mainly on account of global volatilities amid geopolitical tensions, significantly higher energy prices, hawkish interest rates and depressed outlook for major economies leading to recessionary fears, negatively affecting global aluminium markets.</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 Rashid, to cover rest of the IR presentation.</p>
<p>Rashid Al Mohannadi:</p>	<p>Thank you Saffan.</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 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&A Session.</p>
<p>Operator:</p>	<p>At this time, I would like to remind everyone in order to ask a question, press star (*) and the number one (1) on your telephone keypad. We'll pause for just a moment to compile the question-and-answer roster.</p> <p>And your first question comes from the line of Nour Eldin Sherif from Arqaam Capital, your line is open.</p>
<p>Nour Eldin Sherif:</p>	<p>Hello and thank you for the call. Just one question from me, so we've seen that the cash cost per ton has been flat q-on-q (quarter-on-quarter = QOQ) despite of 22% lower alumina prices. So, we were expecting some normalizing cash cost per ton. So, can you explain why it came in flat and what should we expect for Q4? Thank you.</p>
<p>Rashid Al Mohannadi:</p>	<p>Hi. Basically, the decrease in alumina price quarter over quarter (Q/Q) wasn't significant if you look at Q3 versus Q2. And you can find this information also from other sources such as Bloomberg, etc. Also, the impact here is basically due to the favorable better movement. We</p>

	are having less favorable movement in this quarter versus the previous quarter. That's why we are maintaining similar cash costs q-on-q.
Nour Eldin Sherif:	Yeah, and on the energy cost of the equation, is it because as I recall, it was to some extent is linked to the selling prices. So, it should come down. Should we expect this in Q4?
Rashid Al Mohannadi:	Unfortunately, we cannot comment on the energy prices given the sensitivity around the agreement and the confidentiality, etc. But it's not a contributor when you compare quarter over quarter (Q/Q) is more or less within the same captive consumption.
Nour Eldin Sherif:	Okay. And regarding the rest of the cash cost, should we expect some normalization in Q4?
Rashid Al Mohannadi:	Depends on how the evolving material for raw material prices will turn out in the Quarter 4, how the alumina price will move, whether it will reduce further, whether there will be shortage in the market, and it will go up. But we are expecting the cost for alumina to be basically following the market trends steadily growing or decreasing depending on the LME.
Nour Eldin Sherif:	Okay, thanks.
Operator:	Your next question comes from the line of Nikhil Phutane from CBFS. Your line is open.
Nikhil Phutane:	Hi, thank you for giving the presentation. I just got a couple of questions. One question is, only your capacity utilization in the third quarter, it has come down. I just wanted to hear an idea on this. Secondly, in terms of aluminium per se, I mean, you did mention about you know, China's zero-COVID policy and other things which has affected going forward. Just wanted to get an idea assuming that a lot of companies or user-based industries aluminium are seeing increased tendency of finished goods going up quite considerably which means that, you know, demand is not there. Do you see the possibility that aluminum prices, and maybe other factors are going to be slowing down in fourth quarter? And lastly of course, you're mentioning in the investment activity on the near 2023, just noted down that the newsletter has been that it's probably been increasing to them in '23. Just wanted to have a view on that, what is the reason? Thank you.
Saffan Mohammed	The answer to your question, the utilization in Q3 did not come down but the production remained pretty much same. If you look at slide number 4. Yes, so here's one here has gone down that is because of your Incoterms. Sometimes when you ship to Asian markets, sometimes that is because of the Incoterms, the sales is recognized when it is received by the by the customer depending on your sales terms. So, there is timing of shipment, it is a function of that. So, you know, second quarter sales, sometimes it's fine for me, sometimes it's from CIF depending on the recognition of your volumes. But if you look at production, you know, last quarter 167 versus 168, we produce as per the capacity. So, there is no slowdown in production.
Nikhil Phutane:	You do see, again, the revision back to normal in fourth quarter that's what you're seeing?
Saffan Mohammed	You know, the production after the after the capacity? So, the demand as a function of, as we mentioned in the press release, also there is there are potential demand destruction you know. Energy prices have increased, a lot of industries are facing because of the higher energy prices, and there are slowdowns. So, you know, you can adjust your products between value added products to standard ingots. So, from standard ingots to value added products depending on where the demand is coming from. But you will continue to produce and what will get adjusted is your premium, depending on what you sell. But you will produce a capacity and you will adjust your product mix to suit what is demanded in the market.
Nikhil Phutane:	Okay. So, I mean, again, repeating on the first question in terms of sales volumes, so again, you could be reverting back in the fourth quarter and increase in sales volumes?
Saffan Mohammed	The timing of shipment, what is being lost in the third quarter part of that will be recovered in the fourth quarter. How much, still we don't know. So, we try to sell but it's been missed in the third quarter.
Rashid Al Mohannadi:	And also, we witnessed a softening demand as well effect as you are aware. The buyers across the globe, they're cautious in their buying habits among the oldest uncertainty in the

	<p>market. We've seen that to be because of the sanctions on Russia and pause the effects of that sanction, or how it will be implemented will affect how their prices will evolve in the future.</p> <p>So, some of the buyers during this time is a bit cautious on their buying habits. And we witnessed that and like Stefan mentioned, the Incoterm effect also, the reduction in sales volume is elements of both basically the softening of demand and the Incoterm which will recover in Q4. So, we cannot comment on how it will look like in the future in terms of the how the demand will evolve. However, we can give you the confidence that our facility has the flexibility to switch from value added product to standard ingot. And we've done that during that COVID time, and we were able to achieve productions and sales volume at full capacity and we've achieved that in 2020 and we can assure you that, you know, similar arrangement can be done if demands soften in the future.</p>
Saffan Mohammed	<p>So, probably we are aware that you know, in the Europe, smelters have been shut down because of high energy costs. So, when that happens, demand goes down. So, that's an obvious fact. So, you know, when some smelters use value added products, obviously will move into standard ingots. So, you have a flexible manufacturing system. You will adjust your production accordingly.</p>
Nikhil Phutane:	<p>Okay, fine. So indirectly you're referring to the premium to certain extent could be maintained, I mean on the LME prices, that's what you're referring to?</p>
Saffan Mohammed	<p>Depends on what is demanded you know. You cannot say like to sell that, better premiums will be maintained if you sell standard ingots, premium will be reduced. So, there will be premiums maintained but all depends on what you sell.</p>
Rashid Al Mohannadi:	<p>And where do you sell it exactly. It's part of the premium as well.</p>
Nikhil Phutane:	<p>Okay, I mean, again, just to add to the further question, which I mentioned on the CapEx and cash flows, which you have projected into the '23, we are seeing an interesting cash flow of around QAR 300 billion. So, can we know what is that, I mean, is it a routine?</p>
Saffan Mohammed	<p>We have made a very clear caveat when we've been trusted presented these cash flows of '23 to '27. We have a bit of a salt because you know these cash flows have been, will be constantly revised based on how we let the prices, how the cost will be evolved over a period of time. We are preparing the next set of business plan is just coming up in the next month. So, this will be revised based on how your prices and costs will be evolving over the next five years.</p> <p>And also, as we said, these are mostly related to your previous HSE and preventive maintenance. It has nothing to do with the capacity because the capacity is fixed at QAR 575 and we are operating buildable the capacity we are producing almost QAR 650. So, these are you know these are pretty much related to HSE you know. And pretty much you know, safety and those kinds of capital expenditure.</p> <p>But those numbers is a function of your premium, your alumina cost etc. depending on your free cash flow. And there are three things you know this company has. It has a QAR 2.3 billion loan, right? Yes, 2.3 billion debt. It has a dividend to shareholders and their routine CapEx. The routine CapEx is a function of the LME premium and the alumina cost. Expressively, clearly mentioned when we read the note, we have to read that the capital expenditure with a clear mindset that it's a function of your free cash flow availability.</p>
Nikhil Phutane:	<p>Okay. Okay, one last question and maybe it will be a little bit much earlier but just wanted to get an idea in terms of your dividend payout. Do you likely to see that 2022 also you could be maintaining the same dividend payout increases around 55%?</p>



<p>Abdullah Al Hay:</p>	<p>It's very difficult to say as of now when we talk. And firstly, this is basically the board's does this, this something which is the board's mandate. And what we do is like from our side, we provide the insights about how the markets will look like what will be the exact outlook for the aluminium markets going forward. As well as we get the inputs from our marketing team on how the prices of the aluminum and alumina will look like going forward and plus how much the cash flow generation will be linked towards. So as Stefan mentioned that the CapEx will be presumably will be quite routine in nature, as we don't have any specific capacities pension plans, then when we talk about the market dynamics is bit volatile, that's true.</p> <p>Then in terms of the cash flow generation this year has been indeed quite robust, cash flow generation, but the exact payout gets divided at the very, very senior level that is at the board. So, I think this question, as you already mentioned, it's too early to say right now. So, let's wait and let's catch up again at the Q4 time and there we will be having a much more clearer picture on this front.</p>
<p>Nikhil Phutane:</p>	<p>Thank you. Thank you all, Abdullah, Rashid, Stefan, thanks a lot. Really appreciate. Thank you.</p>
<p>Operator:</p>	<p>Again, if you would like to ask a question, press star (*) then the number one (1) on your telephone keypad.</p>
	<p>There are no further questions at this time. Mr. Bobby Sarkar at QNB Financial Services, I turn the call back over to you.</p>
<p>Bobby Sarkar:</p>	<p>Thank you, Abby.</p>
	<p>If there are no further questions, we can end the call today. For today, I want to thank Rashid, Stefan, and Riaz for taking the time to answer our questions. And we will pick this up next quarter. Thank you everyone.</p>
<p>Operator:</p>	<p>This concludes today's conference call. You may now disconnect.</p>