

Company:	Qatar Aluminium Manufacturing Company (QAMCO)
Conference Title:	QAMCO Q1-20 Results Conference Call
Speakers from IQCD:	<ol style="list-style-type: none"> Mr. Abdulla Yaqoob Al-Hay, Assistant Manager, Privatized Companies Affairs, Qatar Petroleum 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 QAMCO's Quarter One 2020 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mehmet. Please go ahead, sir.</p>
Mehmet Aksoy [QNBFS]:	<p>Hi. 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 first quarter 2020 financial results conference call.</p> <p>On this call from QAMCO, we have 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 the conference call first with brief 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>Thank you Mehmet. Good afternoon and thank you all for joining us. Hope you are all staying safe.</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 28th April, QAMCO released its results for Q1-20, 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"> 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 you with the insights on QAMCO's ownership structure, its competitive advantages and the overall governance & BOD structure by covering slides 5 till 8 and slides 24 and 25 of the IR deck.

	<ul style="list-style-type: none"> ▪ Secondly, Mr. Abdulla will brief you on the key operational & financial performance matrix of QAMCO; ▪ 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. <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 5% ownership.</p> <p>As detailed on slide 5, 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. 7 of the IR Presentation.</p> <p>Moving on to slide no. 8, 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 strategic 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 24 & 25 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 Yaqoob Al-Hay:</p>	<p>Thank you Riaz. Good afternoon and thank you all for joining us.</p> <p>In terms of operational results as detailed on slide 10, the production and sales volumes remained stable as compared to Q1-19 and Q4-19, which was in line with the management's effort to keep up the production levels to ensure optimum utilization.</p> <p>Production volumes were not affected by COVID-19, as there were no plant stoppages, nor, were there any changes to the planned maintenance timelines due to COVID-19. Also, in the current distressed situation, with the relentless efforts of QAMCO's JV's sales and marketing partner, the JV ensured that all the sales contracts are effectively and efficiently secured and minimized the disruptions to marketing, warehousing and logistics.</p> <p>The selling prices has shown a decline of 14% compared to Q1-19. This decline is mainly attributed to the continued challenging macro-economic conditions since 2019, as the broader environment remained volatile, where a declining trajectory of global aluminum prices is noted during the period, which was underpinned by the worsening macro-economic sentiments with an increased uncertainty in overall GDP causing demand-supply</p>

	<p>imbalances in the aluminium market. The decline in selling prices has caused the overall decline in revenues by 14%.</p> <p>In terms of net profits, amounting to QR 11 million, there is a decline of 63% compared to Q1-19. This decline in profitability was due to lowered revenues, on account of sharp decline in LME prices, lowered realized premiums and higher finance cost on account of write-off pertaining to unamortized portion of financing cost relating to the old loan.</p> <p>In terms of our funding position, QAMCO's share of debt stood at QR 2.2 billion, down by 7% compared to December 2019. This decrease was due to repayment of principal amounting to QR 222 million during the period.</p> <p>Now, I will cover the detailed breakdown of QAMCO's earnings which is shown on slide 12 of the IR presentation.</p> <p>On overall basis, the total decline in earnings of QR 18 million, compared Q1-19, was mainly due to the decline in selling prices of 14%, as mentioned before. The overall decline in selling prices has affected the Company's profitability by QR 88 million.</p> <p>The decline in profitability due to selling prices was offset by favorable variances noted in terms of cost of goods sold, where the Company's JV was able to successfully contain direct costs, comprising of lowered cost of raw materials and energy consumption, which led to a positive impact on profitability of QR 93 million.</p> <p>Also, the higher financing costs on account of write-off pertaining to unamortized portion of financing cost relating to the old loan, has contributed negatively amounting to QR 12 million towards to the overall profitability.</p> <p>As mentioned on slide 13, the average LME prices declined due to persistent challenging macroeconomic conditions pressuring the aluminium market globally. LME Premiums declined mainly due to the unprecedented shift in product mix from value added products towards standard ingots during the current period, amid declining global demand for aluminium products. Here, important point to note that, the decline in average selling prices has not affected the overall EBITDA margins, and the margins remained resilient in the current turbulent market conditions and stood at 29.4%, as compared to 28.2% of Q1-2019.</p> <p>In general, the full effects of COVID-19 outbreak has not been fully realized until 31 March 2020, as the effects began to realize in commodity markets from February 2020, as the pandemic started to widespread. In addition, the product prices have not yet factored in fully the prevailing depressed conditions, including shutdown of several automobile and airline manufacturers, delays or slowdowns in construction projects and others, until 31 March 2020. Going forward, QAMCO's JV will continuously monitor the developments over COVID-19 situation and expect to provide further impact details, if any, during Q2-2020.</p> <p>I will now hand over to Mr. Riaz Khan, to cover rest of the IR presentation.</p>
<p>Riaz Khan:</p>	<p>Thank you Abdulla.</p> <p>Moving on to slides 18 & 19, 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. Where, Asia remained the largest market, while its presence US and Europe continued to be substantial, as detailed on slide 14.</p>

	<p>In terms of JV facilities, as detailed on slide 18, 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 20, the 2020 approved CAPEX plan mainly relates to routine operations. Also, the Company is projecting a sustained 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>
Operator:	<p>Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open. Please state your name before posing your question. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.</p>
Mehmet Aksoy [QNBFS]:	<p>Hi. This is Mehmet Aksoy again from QNB Financial Services. And while we are calling for questions, if I can start off with a question of my own. Can you please share your expectations regarding alumina and aluminum price trends for the coming periods? Thank you.</p>
Abdulla Yaqoob Al-Hay:	<p>Yes, Mehmet. Thank you so much. As you are aware, as we have discussed, the Q1 price is about 1,920. This is an average of the Q1. We believe the upcoming period, the price will be under pressure as well. Today, I have received the average realized price for April, that's around 1,800 or 1,750 and till date the number is not finalized.</p> <p>If you check the spot price of LME as of today market, maybe it's around 1,500. So we believe the price will be under pressure. We don't know how it's going to look like. However, I am talking about like today price of 1,500 of LME. As you are aware also, QAMCO will not have the effect of the price until two months earlier since our pricing considering the average – the weighted average with the volume of the last two months. So maybe we will see the effect of the lower price at the end of Q2. I hope I answer your question.</p>
Mehmet Aksoy [QNBFS]:	<p>Thank you very much.</p>
Operator:	<p>Once again, if you would like to ask a question, please press star one. We will now take our first question. Please go ahead.</p>
Speaker:	<p>Hi. Thank you, gentlemen for the call. My first question is on the consumption. Can you please guide us on what is the reason for the reduction in energy consumption because I can see production levels are almost the same versus last y-o-y?</p>
Abdulla Yaqoob Al-Hay:	<p>Okay. Is there any other questions?</p>
Speaker:	<p>Yes. And my second question is on the cash flow projection that you have done. Can you also guide us, are you seeking sizes at the current levels for the next one or two years, or is it – like is it more depressed or do you see a small recovery?</p>
Abdulla Yaqoob Al-Hay:	<p>Clear. All right. Thank you. Is there any other questions?</p>

Speaker:	No. That's it.
Abdulla Yaqoob Al-Hay:	<p>All right. I will start with the energy consumptions. Maybe if you are following us, last year during the first quarter, we were having an issue with our power generation. And also there is two factors which is making the differences in the net income. The first thing is the power generation during Q1 of 2019. There is an stoppage in that facility. So we imported the electricity from Kahramaa by a grid that we are sharing with them. This is why there is an additional cost of the power consumption.</p> <p>There is another reason also. During Q1, there was a refund of the – some of the insurance claims related to previous year, so this is what make the big difference in the net income. These two reasons.</p> <p>With regards to the cash flow projection, yes, it is based on the current situation of the refinancing and everything. However, we – this cash flow might be changing during the half year since as you can see, the market is very volatile and dynamic, which might change a lot of other aspects.</p>
Speaker:	Okay. Understood. Thank you. Just one follow-up question on the energy consumption. Do you have any reduction in your agreements with Kahramaa or with QP in terms of like a reduction in cost?
Abdulla Yaqoob Al-Hay:	I think the rate – no, it is the same cost. The rate as far as has been fixed and it is contracted with Kahramaa. There is no increase or decrease in the rate. The rate – as the contracts, I don't have the exact number for the rates. However, there is no increase or decrease in that contract.
Speaker:	Perfect. Thank you.
Operator:	It appears there are no further questions at this time. I'd like to turn the conference back to the – apologies, a question has just come in. We will now take our next question. Please go ahead.
Speaker [AI Faisal Investments]:	Yes. Good afternoon. Thank you very much for the call and for taking my question. I am here from AI Faisal. Could you just provide us a little bit more color on demand outlook in your key markets in Asia? Because clearly we finished first quarter '20 with record high inventory aluminum stock in China and build up outside of China even. So where do you see exactly the demand and in fact demand progression for the rest of the year? Thank you.
Abdulla Yaqoob Al-Hay:	Sure. As you are aware, our marketing agent is Hydro. We are working very hard to make sure all our production has been sold. Also they have communicated with us and gave us the comfort that the production will be sold during the year with no issues. We know that there is a lot of supply in the market. However, we are not only targeting the Asian markets. We are targeting the European market and we are target also North American and South American markets. The demand is there. And there is also a supply, which taken the pricing is challenging and putting the price under the pressure. However, our marketing agents are giving us the comfort that they're going to sell all of our products.
Speaker:	Thank you.
Operator:	It appears there are no further questions at this time.
Riaz Khan:	Okay. I think we should close out this call then. Thank you all for joining for this call. And in case in future, if you have any further questions, please feel free to send it to us via e-mail or maybe a call. And we'll be more than happy to respond to you back as soon as possible.
Abdulla Yaqoob Al-Hay:	Thank you. Thank you all.
Operator:	This concludes today's call. Thank you for your participation. You may now disconnect.