

Qurain Petrochemical Industries Company (QPIC)

Full yearend earnings Conference call - edited script - FY2018-19

Thursday, 2 May 2019 – 2:00 PM (Kuwait Time)

Participants from QPIC:

- **Sadoun A. Ali**, Vice-Chairman & CEO
- **Tanweer Khalfay**, Chief Financial Officer (CFO)
- **Mickey Zacharia**, Chief Investment Officer (CIO)
- **Abdul-Hameed Malhas**, Investment & Communication Manager

Chairperson

- **Yousef Hussein**, EFG Hermes

Operator: Good day, and Welcome to Qurain Petrochemical Industries Company (QPIC) Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Yousef Hussein of EFG Hermes. Please go-ahead sir.

Yousef Hussein: Thank you. Good afternoon, ladies and gentlemen. This is Yousef Hussein from EFG Hermes Research. Thank you for joining us today on Qurain Petrochemical's full-year 2018-2019 results conference call. We have with us on the call today CEO, Sadoun Ali; CFO Tanweer Khalfay; CIO, Mickey Zacharia; and Abdul-Hameed Malhas from the Investor Relations team. I'd like to now hand the call over to Abdul-Hameed to get us started. So please go-ahead Abdul-Hameed.

Abdul-Hameed Malhas:

Thank you, Yousef. Good afternoon everyone, and thank you for joining us on our first investors call further to Qurain Petrochemical Industries Company (QPIC) market upgrade to the Premier Market at Boursa Kuwait earlier this year. We will start the call today with a presentation made by the CEO, Mr Sadoun Ali, covering the key business and financial highlights of QPIC for the financial year ended 31st March, 2019, and the performance of our core investments. My colleagues, the CFO, Mr Tanweer Khalfay and the CIO, Mr Mickey Zacharia, will be available along with us for the Q&A session upon concluding this presentation.

But before proceeding with the presentation, I would like to refer you to the disclaimer on **page #2** of the shared presentation. This call and presentation by no mean an invite or an offer to subscriber or conduct any transaction on a given security. Any given forward-looking statements that may arise during this call are made to the best extent of our knowledge and assumptions as of date. Various factors could always cause future results, performance or events to differ from those described in these statements. **I will now hand over the call to Mr Sadoun to begin the presentation.**

Sadoun Ali: Good evening everybody. My name is Sadoun Ali. I'm the CEO of QPIC. I'm delighted to present before you the financial results of Qurain Petrochemical Industrial Company, for the year-ended 31st March, 2019. I'm also pleased to inform you that all of the company's major core investments achieved solid result during this financial year, which is reflected on your company's performance.

Highlights of the year are shown on **page #3** and further details are displayed over the charts on **page #4**. However, to summarize, QPIC earned a net income of KD 45.3 million, which is 29% higher than the net income of the previous year, which was KD 35.2 million and the highest in its 14 years history of the company. Earnings per share has similarly increased by 29% to reach 43.64 fils. Total assets have grown by 9% to reach KD 731 million versus the KD 672 million in the previous year.

Sadoun Ali:

Book value per share has also increased to 420 fils, which is a 10% higher than last year. Our core investments such as EQUATE, KARO and NAPESCO have recorded the highest net income ever.

On page 5, the EQUATE Group achieved a net income of US\$ 1.56 billion during 2018, 38% higher than last year, which was USD 1.12 billion. KARO has reported a net income of USD 265 million, 84% higher than the previous year. On the other hand, NAPESCO recorded a net income of KD 11.8 million, 21% higher than the previous year, which was KD10 million.

Now going to **page #6**. SADAFCO reported a net income SAR 218 million, which was expected and it was lower than the previous year. This is despite of the Saudi consumer market facing that is challenges due to market shrinkage on account of expats leaving the country and other factors. As a result of this very profitable year, the company Board of Directors are proposing dividends of 16 fils per share versus 14 fils last year. This is subject to the approval of the General Assembly.

You will be happy to know that QPIC has already distributed dividends of more than KD 90 million since inception. Finally, your company has been steady growing over the years and has been seeking additional investment opportunities in line with the company long-term strategy and the best interest of our valuable shareholders. Thank you.

Abdul-Hameed Malhas:

Thank you Mr. Sadoun. Operator, we're ready for questions right now.

Q&A

Our first question comes from Yousef Hussein, EFG Hermes.

Yousef Hussein: One of the things we've noticed in the performance in 2018/2019 was a strong contribution from the petrochemical investments. Obviously, petrochemical prices have come down quite a bit, sort of, in the last six to nine months. Just wondering how is the performance year-to-date and what's the outlook on that division. How much of a contraction can we expect versus earnings last year? Thank you.

Mickey Zacharia: Okay, thank you. I'll take that question. Basically, you're quite right that the petrochemical prices have declined over the last six months, and this is true for all the commodities within our petrochemical portfolio. The most important of that is ethylene glycol (EG) where we've seen a decline of almost 40% starting from September last year all the way up to February.

Mickey Zacharia: We have seen a small recovery of 1.5% or so in the month of March and we expect that to continue into the future. Now it's very difficult to say how it is going to pan out for the rest of the year. The only two data points we can share with you which are based on facts available with us today is that the EG coastal inventory in China is at a ten-year high. It's in excess of 1.3 million tonnes as of the end of March, early April.

The other fact is that in terms of supply and demand, there's about 1.9 million tonnes of new capacity coming on line, particularly in Q2 and Q3 and the demand increase, which is happening mainly from China, as well as Middle East and Pakistan, is about 1.3 million tonnes. So, when we look at the year it appears that the supply-demand equation is skewed towards the supply side, hence possibly what will happen is that the recovery that we've started seeing in March is going to be more on the slower and the gradual side rather than a very quick and sharp one. But beyond that, it's very difficult to say how it's going to pan out and we have to wait and see.

Yousef Hussein: **Perfect. Thank you so much. And if you don't mind just a quick follow-up question on SADFACO. Obviously, Petrochemicals have been weakening but I think you look at SADFACO's numbers from their most recent quarter, I think there's a bit of recovery there. And do you think the market there has bottomed and what is your outlook for the year ahead?**

Mickey Zacharia: Okay, I think the question was related to the market and the size – I mean, the market progression in Saudi Arabia; am I right?

Yousef Hussein: Absolutely.

Mickey Zacharia: Okay. Basically, if you look at SADFACO, what has happened in the year 2017-18 every quarter-on-quarter there was a revenue decline of 3% in Q2 of 2017-18 and then 3% in Q3 and then 11% in the last quarter of 2017/18. So, that was actually the worst quarter for them. Now, the last year when 2018/19 started it began to improve. There was a growth of about 8% in Q1 of 2018/19 and then 4% in Q2 and thereafter it's kind of stabilised. So, we think that the worst is over and the unreasonable discounting which was taking place in the marketplace because of excess milk supply due regional challenges and the Saudi market being unable to absorb the entire fresh milk output has been addressed to a certain extent and we believe that things are beginning to improve going forward. Of course, in the financial statements of SADFACO, which was declared a few days ago, there is a 7% increase year-on-year in overall revenues in the year 2018-19 and that's because of the consolidation of Mlekoma. But as the Saudi market by itself stands, we believe that the worst is over and things should improve from now on.

Yousef Hussein: Perfect. Thank you so much.

Operator: The following question comes from Rajat Bagchi of NBK Capital.

Rajat Bagchi: Thank you so much for the call. Had a few questions. Wanted to understand your strategy on NAPESCO. We're hearing that there could be a bit of sort of weakness in pricing and hence margins could be a bit weaker going forward given the competition is quite steep. NAPESCO has been contributing quite well over the years. I just wanted to get a bit of update on the outlook on NAPESCO. Do you have any plans to increase your stake in NAPESCO going forward? That's the first question. In terms of investments going forward, any sectors you are looking at which could be interesting in terms of deal-making, I just wanted to understand the rationale behind that. Also wanted to understand how much would be the expenses, the general and administrative expenses at the holding company level? Just to run QPIC as a holding company.

Mickey Zacharia: I'll answer the first one. As far as NAPESCO's performance is concerned, we do not have any concerns and we believe that the company will continue to deliver outstanding results like it has done last year. I understand that their Board is meeting this afternoon and I presume that they will soon be declaring the first quarter results on Boursa Kuwait and I'm sure you will get to see that. In respect to the – what was the second part of your question?

Sadoun Ali: I believe its about our intention going forward for growing and where to invest? That's what you're saying, right?

Rajat Bagchi: Yes. And any specific sector you're looking at. For that matter, do you plan to increase stakes in any of these companies which you already have as part of your portfolio?

Sadoun Ali: Regarding NAPESCO, I think we are in the state whereby we, together with the management, are taking the company where we believe it should go. When it comes to increasing our stake, as you know, NAPESCO is listed, And as you may know, the holding structure of NAPESCO is that not much of shares are floated in the market today. So, unless one of the minorities or other shareholders which are considered to be long-term investors in the company, I don't think there is anybody who is willing to give up some of his shares right now. So, the answer is yes, but there's no one willing to sell.

Regarding where we need to increase our stakes and where we need to go in terms of opportunities and investments, our strategy and the way we think in any sectors we look at is through evaluating the integrations among our current investments; meaning, if it's petrochemical, then we need to go to that line and to see what is the relation between the investments, opportunity and that line. If it's oil services or any other sector, we also do the same. So, in a way, our expanding is either complementary to what we have or, will offer an added value and growth to our portfolio. And this is our going forward vision.

Rajat Bagchi: As a follow-up question, so how much of debt you currently have as the parent company, what's the interest expense that the parent company and how much is the holding expense – holding company expense, like to run QPIC, how much do you sort of incur as expenses annually?

Tanweer Khalfay: As far as the debt goes, our debt is limited to KD 67 million roughly. It's a three-year rolling debt going forward. The finance cost for that is about KD 2.4 million. The G&A cost for the head office is roughly KD 2.7 million, staff and office expenses.

Rajat Bagchi: Okay. Thank you so much gentlemen.

Operator: Thank you. As we have no further questions. That will conclude today's conference call
Thank you.