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**Conference Title:** Middle East Paper Company – 9M 2018 Conference Call with Investors

**Moderator:** David Djandjgava

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Operator: Ladies and gentlemen, welcome to the MEPCO Nine Month 2018 Results Conference Call.

Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions.

Speaker: Good day ladies and gentlemen, this is Bassem ElShawy. On behalf of MEPCO, I would like welcome you to our conference call to discuss the nine month results. Together with me in this room, I have Sami Al Safran, CEO; Mr Ahmed El Fazary, the Chief Commercial Officer, and we have Mr George Milton, Financial Controller; Mr Kuldeep Gupta, the Group Treasury Manager, he is replacing Dr Mohamed Darweesh, who is currently in a business trip. I will start this call by making the disclaimer for the forward-looking projections. Certain information set forth in this presentation contains forward-looking statements. These statements do not guarantee the future performance and undue reliance should not be set of them. Such forward-looking statements necessarily involve known and unknown risks, uncertainties which may cause actual performance and financial results in the future periods to differ materially from those statements.

We start our call with performance overview presented by the CEO, please go ahead, sir.

Sami Al Safran: Good afternoon gentlemen, this is Sami Safran. We would like to welcome you for the second conference call in this year, reviewing the performance of Q3 2018 result. By God's grace, I think we have seen we delivered high performance of the quarter, through the announced results. What we have set out as a plan, in terms of sales appointed to the business performance and optimisations are indicating as a result of our performance. We maintained our operation as expected. Majority of the quantities produced through the operation have been sold to the market.

We maintained our export market, in addition to the local market. We maintained and increase our shares marginally for the local market. Product diversification, as stated earlier, was in a continuous growth comparing between 2018 and 2017. It gives us unique advantage in terms of regional distribution, sales advantage in term of the value and return. Our maintenance plan was maintained as it is, which actually deliver the expected numbers in term of tonnages from distribution. We continued a lot of development and optimisation in all the areas. We continued mitigating our risk projected in the business. Since the beginning of the year until now, thankfully we have maintained a good safety record, with the low level incidents. We maintained our relations with the environment from different aspects. And we hope that we could continue our performance as such, up to the end of the year. Thank you very much.

Bassem ElShawy:      Operator?

Operator:      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 switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to ask a question. Again, it is star one to ask a question. Our first question comes from Anoop Fernandes from SICO. Please go ahead.

Anoop Fernandes:      Yeah, hi gentlemen, and thanks for the opportunity. My first question is related to your product and raw material prices. What has been the trend so far? Maybe in the past three months, both in your finished product and OCC prices? And going into 2019, do you see any major changes there? My second question is related to your costs. There has been a substantial increase in your operating costs, from maybe about SAR155-160 million per quarter levels to about SAR185-190 million. What is driving this increase? Thank you.

Ahmed El Fazary: Good afternoon everyone. This is Ahmed El Fazary, the Chief Commercial Officer. I'll answer you regarding your question about an update on the OCC for the wastepaper latest status for the past three months. OCC have been quite volatile lately. There have been a lot of changes, as everyone knows, with the regulations, with a tariff being imposed. This has driven the wastepaper prices down, the first half of the year. And lately, we've seen prices going up of wastepaper, because it's driven by the Chinese opening a lot of licenses for paper mills in China to import. So this has put some pressure on raw material prices, and we see this going on until the end of year. Going forward, we still can't comment on this, but we're keeping a close eye on it. We will feed you back on a later call. Second question.

Anoop Fernandes: Okay, and what about [inaudible]?

Ahmed El Fazary: Sorry, go ahead.

Anoop Fernandes: Hello?

Ahmed El Fazary: Yeah, please go ahead[?].

Anoop Fernandes: Yeah, just some sense on – yeah, just some clarity on where floating baseline of prices are currently, compared to where they were between three to six months ago, and considering that there is some risk of supply coming in in Europe. But do you see any risk to prices – substantial risk to prices going into 2019?

Ahmed El Fazary: Look, answering your question – I can answer your question for the current status. Going on 2019, it would be a little bit of a speculation. The current status of the end product, the container [inaudible] product, at the moment prices are still quite stable. We're seeing some slight price drops, because – usually end of the year, there's – customers are making inventory stock

adjustments, and seasonal updates. So we're seeing a slight drop in prices, but we can't confirm that this will continue for 2019. We have to evaluate this on a later stage.

Anoop Fernandes: Okay, and then the question on costs, please?

Bassem ElShawy: Yes, Anoop, are you referring to quarter on quarter or year on year?

Anoop Fernandes: No, I'm looking at the – one is 2017 trend, versus the – nine months 2017 versus nine months of 2018. I'm assuming that your volumes wouldn't have changed much. They would have been flattish to maybe slightly higher, and your volumes in WASCO must have fallen. So my question is, what is actually driving this increase in operating cost from one – by about 10%, 15%, 20% compared to the trend last year.

Bassem ElShawy: Officially[?] increase in production is volume. So when you increase the production, you definitely have more cost [inaudible]. So this is quite natural. But actually we're not in a position to give our cost of sales figures, because this is very sensitive for us. But looking at the numbers, the actual increase, year on year, is not really that substantial. Even if you're talking about the cost of sales in terms of sales in reality[?], yes, it is a significant increase, but is a 100% associated with an increase in production, and in sales, of course.

Anoop Fernandes: Okay. Just one – a thing on export volumes, your press release highlights a substantial YoY growth, at least in terms of the proportion. Which are the countries that are driving this volume growth, on a YoY basis?

Bassem ElShawy: It's – as we've mentioned in several discussions before, and conferences, we have regular markets that we supply to, which are basically neighbouring countries, Middle East. Then we have – and we include in that as well Europe. Then we have other stock markets where we sell

when there's an attractive opportunity over there. Just for your reference, this year so far, the nine months, we have sold to exactly 40 countries so far, compared to 30-something countries last year.

Anoop Fernandes: Okay. Just a last question on your CAPEX, there has been some jump YoY from the about SAR23 million to about SAR47 million for the nine month period. Additionally, in your notes there is some – there is a mention of CAPEX that has been contracted, but not incurred, which is about SAR38 million. So is it fair to assume that the full year CAPEX will be somewhere around– close to SAR80 million?

Kuldeep Gupta: This is Kuldeep here, Group Treasury Manager. Particularly, this CAPEX is the sum of the LCs which we showed for the upcoming[?] project and all. So this is not going to be incurring this year. This is some outstanding contract which will continue in 2019 as well.

Anoop Fernandes: Okay, so this SAR38 million will seep into 2019 as well, right?

Kuldeep Gupta: Yes, correct.

Anoop Fernandes: Okay. So for modelling purpose, we can assume your CAPEX to be at 5% of sales?

Kuldeep Gupta: Yeah, just to 5% of sales [inaudible].

Anoop Fernandes: Okay, thank you. Thank you very much.

Kuldeep Gupta: Thank you.

Operator: We will now take our next question from Ashar Saleem from Saudi Legal Finance. Please go ahead, your line is open.

Ashar Saleem: Yeah, hello everyone. Yeah, first of all, I think Anoop has asked the most important questions, but I would like to ask about one of the things, regarding the anti-dumping case. First of all, I mean, what is the status of the case? And secondly, how material is that case right now? Considering at the time the case was basically made, the Europe economy was facing a lot of trouble, and there was weak demand. But now as we see demand picking up there, has the dumping already reduced without the case coming out or not?

Secondly, regarding the expansion of capacity, is there some material development or something decided or still not to be done? I mean, as of now, is there something on the cards for expansion? The last question is, your major competitors being some Turkish companies, how has the recent devaluation impacted your sales locally, or imports coming in from Turkey? Thank you so much.

Ahmed Fazary: Okay, I'll answer your question regarding the anti-dumping, and your question regarding Turkey. I'll start with the anti-dumping's status update. The case is due to have a final decision officially by first of January. This is due to the legal allowed extension. So we're expecting to get some results, any time starting from now, maximum by January.

As we mentioned before, the Freeman report was positive, was the \$14[?] case. And we highly believe that it should be – remain positive, because it's a very general case. How material it is for us, considering the fact that you mentioned that the economy has changed and now it's favourable, when you raise an anti-dumping case, it's – you're not raising it to solve an instant case, it's a long-term solution. And we're raising the matter, and any anti-dumping case is applicable for four years. So it's protection for the company, for the next four years, until the decision – the final decision is made. And it's not just the anti-dumping, it's basically the message you send to the rest of the world, that your market is not a market space where you don't [inaudible]. So that's answering your question regarding the anti-dumping, and please feel free if you want to ask any further questions.

Answering your question about the devaluation of the Turkish Lira and its impact on the – on our company's performance, Turkey is not a significant export market for Saudi Arabia, for MEPCO. So this has had almost zero effect on us, and we haven't seen the Turkish mills supplying neither the Saudi market, nor to our main market, so we haven't really seen that kind of impact. Because – okay, let me also give you little bit more detail on that so that it would give you more insight on the situation.

When the currency devaluates, it also – it represents a constraint on box makers to import the paper they were importing. And Turkey is still a country with big imports of paper. So – and accordingly, they shift from importing, to consuming more from the local mill. So the effect was negligible until this [inaudible].

Ashar Saleem: Yeah, hello. The last question regarding the expansion of the production lines?

Bassem ElShawy: You mean an update? Yes, okay. Hello?

Ashar Saleem: Yeah.

Bassem ElShawy: Yeah, okay. The situation is still as the last communications that we made. We are still making progress in terms of the final stages of the [inaudible] study, and whatever is associated with that. And whenever this is done, we're going to be coming out with an announcement in due course. But as of this moment, we don't have any further update.

Ashar Saleem: Hello? Yeah –

Speaker: Hello.

Ashar Saleem: – just a small thing. Since the local – the oil supply is going to be an issue, the allocation of the oil, can we expect an acquisition or something of that sort – or that's off the cards? I mean, how does the firm feel about acquisitions compared to in-house expansion?

Bassem ElShawy: This is a long term strategic plan, and it's – I don't think it's really something to discuss over the call today. But it is something that is – can exist in any company, in any environment, but nothing that we can discuss at the moment.

Ashar Saleem: Okay, thank you so much.

Bassem ElShawy: Thank you.

Operator: As a reminder to ask a question, please press star one. Our next question comes from Asim Bukhtiar from Saudi Capital. Please go ahead. Your line is open.

Asim Bukhtiar: Good afternoon. Most of my questions have been answered. Just – can you talk a little bit about capacity utilisation during the quarter? How much volume sold? I know you mentioned in the commentary, there is a new component of non-conventional grade. Maybe talk a little bit about what does that mean? How does it affect your margins? And your product mix? And how do you see that evolving going forward? Thank you.

Bassem ElShawy: Okay, in terms of volumes, our volumes were pretty much at the same level that we produced the biggest quarters. But the price is what has increased actually. This is why you see the big jump in sales revenues from 2018 to 2017. Sorry, the next part of the question was about what?

Asim Bukhtiar: Was regarding the mix of non-conventional grade, how does that affect margins, and maybe the realised product prices. Maybe some thoughts on what to expect going forward.

Bassem ElShawy: Okay, for the conventional versus non-conventional product, we're still carrying the same run rate of about 30% product mix. Non-conventional products we give some sort of support to the profitability and we're still carrying out the same rate[?], at least for the remaining of this year, unless something changes. So you might feel that this rate is still the current rate.

Asim Bukhtiar: Okay, alright. Thank you.

Speaker: Thank you.

Operator: There are no further questions from the phone, but again as a reminder, please press star one. We'll now take our next question from Abdulaziz Almansour, from NCB Capital. Please go ahead. Your line is open.

Abdulaziz Almansour: Yes, thank you for the call, Mr Sami and the rest of the management team. I have a question regarding the volumes sold in the manufacturing segment during the quarter. If you could give us like the volume and tonnage that were sold in the quarter? And then a question regarding also the recovery of raw material. We have observed that there was a decline in the collection of waste operations during 2017. And I want to see – if 2018, you have seen also further decline, given the fact that lately, like, the OCC have escalated in several parts of Asia? And my third question regarding the tariffs on exports of OCC, if any development on that front? And if you could give us, and tell us, what has been the change in, for example, this quarter[?] versus OCC prices from Q3 heading into Q4? Or from Q2 heading to Q4. Thank you.

Sami Safran: Let me answer you for the part related to WASCO. Like what we mention before, based on that is the relation between us and WASCO is an [inaudible] basis. And which we and WASCO are having an option to buy from outside import, or buy from our subsidies WASCO, based on the cost benefit that has affected revenue for MEPCO. And of course maintaining – WASCO to

maintain the healthy[?] prices, which as a result, we manage from beginning of the year until now, to slightly put pressure on the local market and reduce it, by importing from outside. We have imported an average of almost like 10% of our consumption from outside.

Regarding the mechanics, I think like what we mentioned before in our discussion is that, we feel that the international market of the raw material have to drop down, due to the measure that has been taken by China. And in last year, it was not impacted positively in our local market, which, as a result, we started and some other [inaudible] in the local market, importing from outside, putting pressure on the local prices. And by the second half, local market prices start to expand gradually from it. We believe this positive phenomena will continue for Q4. That being the export status, like what we mentioned before, as it is defined in the Export[?] Committee, and we haven't heard any developments yet about the subject, but we are continuing following up, regarding this subject. At least that would answer the first part.

Sami Safran: You asked about the volume. The volumes were pretty much flat, in terms of quantity relative to what was announced in the first few months of this year. It is not really part of this earnings really, so for regulatory reasons, I'm going to have to speak to [inaudible]. But this will give you an indication, clear enough, to know our level of production.

Abdulaziz Almansour: Okay, and Mr Sami, WASCO – I meant for WASCO's collection, whether they will sell to MEPCO or to other customers, have declined significantly in 2017. Did WASCO collection decline as well nine months of 2018, versus nine months of 2017? And if it was – if it declined, please can you quantify as a percentage how much decline was during the first nine months?

Sami Al Safran: Yeah, I mean, the reality, there is no decline nine months to nine months, except our consumption went higher. And at the beginning, we're pushing it up by – the first six months, by importing quantities from outside. Then in the Q3, WASCO had picked up, and they had recorded growth, at the favourable price we are looking for. So the drop is when – we call it an artificial drop

that had been made, and that's really the advantage of owning your own company, that you have an upper hand in the market to dictate and control the local prices of the raw material.

Abdulaziz Almansour: Yeah, it's for us, Mr Sami, an indication of local prices. If we see a pickup, then we'll know that the local prices are – since there is no index that we could follow in OCC local prices. So it will helpful for us if we know like the –

Sami Al Safran: So typically – yeah, if you see like a year-to-year performance, the local as much in the international. But the question is that, when they will respond? And, for example, the demand is higher in the local market, the market – local market will not respond in the raw material prices. So this is why we push it up the market by importing from outside, drop the local demand, and, accordingly, the local demand have responded to the international performance. Luckily we have this flexibility of expanding and shrinking down since the cost is not major on us.

Abdulaziz Almansour: Don't they export to China? To Indonesia? To other Asian [inaudible].

Sami Al Safran: No, it's not happening for 2018.

Abdulaziz Almansour: Okay, and if we talk about liner minus OCC prices locally. Comparing Q2, or Q3 to Q4, how much is the decline in this [inaudible]?

Sami Al Safran: It's difficult to put an absolute figure Abdulaziz. [Inaudible] of the OCC, it is almost – yeah, in line with that one, but definitely is difficult to put an absolute trend – figure.

Abdulaziz Almansour: Yeah, can we assume, for example, \$15, \$20 decline? In the spread, [inaudible] minus OCC?

Sami Al Safran: It's difficult to confirm anything, it's a bit tricky.

Abdulaziz Almansour: Okay. Thank you very much.

Operator: There are no further questions from the phone, but again, as a reminder, please press star one. As there are no further questions, I'll now turn the call back to your host for any additional or closing remarks.

Bassem EIShawy: Thank you very much for your time, and I hope we were able to answer all your questions. If you have any follow-up questions, please contact us by email or by phone, we're always available to answer your questions. We might be sending you a very short survey next week, so please do that survey, if you can, and return it to us, and thank you very much.

Operator: That will conclude today's call. Thank you for your participation ladies and gentlemen, you may now disconnect.