

Transcript

MEPCO Q1 24 conference call

Thursday, May 23, 2024

Nour Eldin Sherif Good morning and good afternoon, ladies and gentlemen. And thank you for joining us today. This is Nour Eldin Sherif. And on behalf of Arqaam Capital, I'm delighted to welcome you to MEPCO's first quarter results conference call. I have with me here today, Mr Sami Al Safran, Group President, Mr Amr Masry, Group CFO, Mr Ahmed Fazary, Group CCO, and Mr Mohamed Elsherief, Waste Strategy Director. With no further delay, I will turn over the call to Mr Amr.

Mr Amr Masry Good morning and good afternoon, everyone. Without further delay, I will go through the presentation. This presentation is prepared by MEPCO and contains basic information about company activity as of the last published results. The information is presented in summary rather than detailed forms. This information, including any forward-looking statements, should not be taken as basis of investment recommendation, solicitation for any of the company's tradeable securities. While management has made every effort to present a fair view of MEPCO's operational and financial performance in this presentation, it is important to note that expectations about the future results that come in light of prevailing operational, financial and market conditions may change in the future.

Management does not recommend using such forward-looking statements in financial modelling or investment decision-making. It thus takes no liability to explain differences between future actual results and what was stated in the course of this presentation. Hello, guys. We will start the presentation now. Based on Nour's presentation, we have here with us Engineer Sami Safran, our Group President, myself, who will be presenting, the Group CFO, Ahmed El Fazary, our Group Chief Commercial Officer, and Mohamed Elsherief, the Group Strategy Director for Waste Management.

We start by outlining our outline. We will speak about the key performance indicators for the first quarter. We'll speak about some macroeconomic review. We will take you through the industry and market of the containerboard. Then we'll go through the tissue. And we will present a small slide about our export and our local sales for both containerboard and tissues. Then we'll take you through the financial review and our management outlook. Starting with our key performance indicators, MEPCO achieved a total sale of 243 million for Q1 2024. This is 9% higher from last year.

Our gross profit margins are at 32.5 million. This is 8% lower than last year. And our EBITDA is 15.4 million. That is 42% lower from last year. Our net losses for the current year are 18.7 million. This is higher by 164% from last year's net losses. And our cost of sales are at 210 million for the first quarter of 2024. This is 12% higher than last year. Contribution margins for the first quarter reached 13%. That is 241 basis points lower than our last year performance for the same period. EBITDA margins are at 6%. This is 556 basis points lower than Q1 2023. And our net income margin is minus 8%. This is 452 points lower than the same period for last year.

Through the macroeconomic review, we have presented the changes in the real GDP for Saudi Arabia since the year 2019, up to Q1 2024, although the growth of the GDP in Saudi Arabia is showing a negative 1.8% for the first quarter of 2024. But it is worth mentioning that the non-oil sector has grown by 2.8% and the governmental activities grew by 2%. The decrease is mainly driven from the oil activities in the country. We have also reflected here the estimates of the International Monetary Fund about the world economy that is projected to grow 3.2%, while emerging markets, excluding China, are expected to grow at a rate of 4.3%.

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From an industrial and market demand review, there was a slight adjustment for the year 24 and 25 for the world containerboard. All the information are based on the Fastmarkets price report. The containerboard market was expected actually to grow at the rate of 4.2% for the year 2024 and 3.4% for the year 2025. This has been slightly adjusted to 3.3% for the year 24 and 25. MEPCO remains with its current market share of 30% in Saudi Arabia. The global containerboard market still remains at 188 million tonnes. The MENA region share is 3.4 million tonnes and Saudi Arabia, 1.2 million tonnes.

In terms of division between virgin containerboard and recycled containerboard, the virgin containerboard growth still constitutes about 6.7% for the virgin and 4.1% for the recycled containerboards. In terms of pricing-wise, we have presented the benchmark that is currently used for our products. That is mainly the testliner 2 for Italy and the OCC international price is Europe average. For the testliner, we can see that the prices are averaging between 394 and 389, while the OCC prices have slightly increased from \$92 to \$100. We have also presented the newly published fluting and testliner picks for the GCC markets.

We can see that starting from early 2024, the prices for the GCC started increasing. The prices were at 409 for the testliner. We've seen an increase during the last three months for 443, while for fluting, the prices ended the year at 384. And we've seen this jump back to 423 as of the end of March. For the tissue market, in the tissue market, demand growth remains stable for the year 2024 at 2.3%. Globally, the total tissue consumption, it's still expected. It's still projected at 44 million tonnes. Saudi Arabia is at 250,000 tonnes. And the average growth for the tissue consumption is 3.2% globally and 3.5% for Saudi Arabia.

In terms of comparative prices, we have updated our figure for the international benchmarking and included the Q4 of 2023 for the pulp. The average price for the softwood is increasing and remains increasing for the current quarter. We have seen an increase from the price in Q4 2023 at around \$643. Moving to MEPCO's performance for the first quarter, in terms of volume changes, MEPCO has seen for Q1 a decrease in the export volume of 12%, while we have seen our local sales increase by 5% compared to the Q4 2023. Year-on-year Q1 2023 versus Q1 2024, export volumes have dropped by 38%, while local sales volume have increased by 34%.

If we move to the sale distribution, we can see that some of the impact of the change in volume is mainly due to the increase that we've seen in the tissue market due to introduction of Juthor, where the local sales for Q1 reached 8,000 tonnes, while the export volume for the first quarter are 3,900 tonnes. Juthor current revenue is... For the first quarter, Juthor managed to achieve 58 million in total revenue and we have reached the utilisation capacity of 80%. Going back to our sales values, in terms of export, we have a drop of 121 in our sales value and a drop of 57% in our local sales value, while our exports have increased year-on-year and our local sales have dropped.

Moving to our financial reviews, starting by comparison between our current quarter and our last quarter, in terms of sales revenue, MEPCO has achieved 9% increase in sales revenue from 224 million to 243 million. In terms of the gross profit, our gross profit bottomed in Q3 2023. It was at 1%. Given the current change in the prices, the current increase in the prices, we have managed to increase the gross profit margins to 13%, achieving 32.5 million in total gross profit. We can see that the average sale prices have increased by 1%, while our cost of sales have dropped per tonne, have dropped around 11%.

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This is quarter versus quarter. Year-on-year, we managed to increase the sales from 224 to 243 million. That is a 9% increase. While gross profit margins are still lower than Q1 2023 by 8%. Gross profit margins for the first quarter of 2023 were 35.3 million, while for Q1 2024, it is 32.5 million. Selling prices are still lower than the first quarter of 2023 by 3%, while the cost per tonne have dropped by 1% compared to the first quarter of 2023. In terms of our variable costs, we have achieved a drop of 15% in Q1 2024 compared to our previous quarter, the last quarter of the year 2023. This drop is mainly due to the decline in the raw material prices, the OCC prices.

While if we go back to the year versus year, we can see an increase in our cost of sale from 189 million to 211 million. This increase is mainly due to the introduction of the new facility, Juthor, our tissue paper, where the utilities' costs have increased, production overheads have increased and the depreciation has increased. Moving to our EBITDA margin, quarter versus quarter, we've closed the year for 2023 at negative 2.4 million EBITDA. EBITDA has grown 742% this year, achieving 6% and moving the company back to positive EBITDA of 15.4 million. In terms of net income, our losses have decreased 48%.

We've closed Q4 2023 at a loss of 36 million. Losses for the first quarter of 2024 dropped to 18.7 million. Year-on-year, for the first quarter of 2023, we have achieved 26.6 million for EBITDA and a margin of 12%. The first quarter [inaudible 00:17:37] still lower than the first quarter of 2023. Our Q1 EBITDA is 15.4 million and the margin is 6%. Net income-wise, the Q1 of 2023 achieved 7 million in total losses, while the Q1 of 2024 achieved 18.7 million losses. That is a difference of 185% higher than the Q1 2023. The main reason for this decline between the Q1 23 and the Q1 24 is the difference in prices. Prices in Q1 2023 were still higher than the current prices of Q1 2024.

Going to our net profit and the main breakdown of our net profit versus the Q1, we can see that sales revenues have increased by 9%. This is mainly due to two increases. One is the increase in quantity with the introduction of Juthor and the second is the increase in the sale prices versus the last quarter of last year. In terms of costs, costs are lower for the first quarter in 2024 versus the last quarter of 2023, Q4 2023. This is mainly driven by lower cost of fibre and lower maintenance costs. Selling and distribution costs were lower for the first quarter due to the decrease in the export sales.

G&A balances are higher than the last quarter of 2024. This is mainly due to a reversal of a provision that had occurred in the last quarter of 2023. But comparing the actual G&A like-to-like, the G&A are still at the same level of the Q4 2023. Impairment and financial losses have increased for this quarter. This is mainly due to the expected credit loss model. Comparing our performance with the first quarter of 2023, we have a favourable sales increase, mainly coming from the increase of the sales volume, driven by the introduction of the tissue factory in the mid of the year 2023 and the selling and distribution decrease due to the decrease in the exports.

In terms of the unfavourable variances, the gross profits have reduced. This is mainly driven by the introduction of Juthor, where our operating costs has increased in the first quarter of 2024 versus the first quarter of 2023. G&A, compared to the first quarter of 2023, has increased. 3.5 million of this increase is due to reallocation between cost of sale and G&A. And another 2 million is related to the introduction of Juthor, an increase in our salary base. In terms of our working capital, our working capital ratios have increased from 2.6 to 2.4. The main reason for the increase of our working capital is basically due to the introduction to the payment of the new capital injection that has occurred in the Q1 2024.

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Cash flows from operation have dropped between Q1 2023 and Q1 2024 by 91%, mainly driven by increase in inventory, increase in trade receivables and the difference in price between the two quarters. Our net debt has dropped. This is driven by the additional capital that we have received in the Q1 2024. And our net debt-to-EBITDA has dropped to minus 5.84 from 14.28 in Q1 2023. In terms of the market outlook, Ahmed will take you through the details of the market outlook. But in brief, the global containerboard is experiencing a gradual recovery in the demand and the prices as well as Juthor is currently at 80% and expected to complete the ramp-up by early Q3 2023.

In terms of our revenue diversification, with the increase of Juthor, MEPCO is diversifying its revenue portfolio. And we have started also selling additional recyclable materials in the waste management sector as well. From a strategic perspective, we remain committed to the strategy and the expansion that we have announced earlier. And based on these last two weeks before last month, actually, we have announced the partnership with Voith to manufacture and install the equipment for our new factory for containerboard, expected to launch in 2027. Thank you, everyone. And we open the floor for questions.

Nour Eldin Sherif Thank you very much for the presentation. If you have a question, please raise your hand or submit your question in the Q&A box. We have our first question from Shouk . Please unmute yourself locally.

Shouk Shahrani Hi. This is the Shouk Shahrani from Lazard. Thank you for the presentation. I just want to have more clarity when it comes on the containerboard business, given now that it's consolidated the tissue and the containerboard when I look at the average selling price and in the volume. But just if you can explain to me in brief what is happening in terms of the pricing and volume related to containerboard, it's going to be better. And I want to see the trend in Q over Q. You mentioned there is a recovery. But based on the numbers, we have more than 20% decline in the revenue for containerboard in year-over-year. There's slight improvement in Q over Q, but I want to see the breakdown between the volume and the sales.

Mr Ahmed Fazary Hello, Shouk and everyone. This is Ahmed Fazary. I'm the Vice President, Commercial. Let me answer your question through taking you through a briefing about the market in general and the market development. Look, 2024, since Q1, we see that it's on a growth trajectory and we expect between 2024 and 2025, the growth rate in demand to be somewhere from 3 to 3.5%. Maybe this year, the expected growth rate is a little slower than anticipated in the first half, but we anticipate that second half of the year should grow at a faster pace. There has been a couple of price increase announcements since the beginning of the year by major paper mills globally.

The price increase announcements, some of them are passed to the market and some are yet to get passed to the market. It's mainly attributed to two main factors. The biggest driver here for the price increase announcements is the costs, the increasing costs, especially the fibre costs. The OCC prices are increasing everywhere. Logistics costs are also increasing in most markets and destinations. The other factor that attributes to this price increase is the slight improvement in demand. There's a growth in demand. Yet again I emphasise that it's not as fast and as strong as anticipated, but we believe that we are yet to see a bit of a stronger growth.

We also monitor inventory rates globally of finished goods and we see that this year looks healthier compared to 2023. If I am to label 2023, I would label it as the destocking year. Whether we're talking about paper mills or even industries that are being served by the packaging industry. To take you through our performance in specific in terms

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of volumes and prices, I'll give you high-level indicators on macro and Juthor performance. MEPCO sales volume Q over Q has dropped by 1%, but it actually increased 2% compared to the same quarter 2023, while the price increased by 6% Q over Q.

Looking at Juthor performance in the first quarter, our sales volumes increased by 5% Q over Q and our selling prices have increased by 8%, again, Q over Q. That's the overall performance broken down by volume and prices. And let me also share information that is available publicly, prices have increased by about 12%, if you follow the index for the main products, the fluting and the test liners. So that's a quick briefing. Please feel free to ask any further detailed questions.

Shouq Very clear. Thank you so much. And just to follow up on that. So we have the average price, as what you said and it's also in the press release when it comes to MEPCO container board. And the implied price growth in Q over Q is 6%. But as I remember, that you increased the prices twice in the first quarter. So is it fair to say that based on my rough calculation and my numbers, average selling price would increase around more than high single digit or around low double digit, something like that, in Q over Q basis?

But is it fair to say that the increase, because it happened gradually by the end of January and the beginning of Feb, that we will see a better price recovery in Q2? Can you give us a rough number about the average selling price increase in Q2 versus Q4 last year?

Ahmed El Fazary Look, Shouq, it's very difficult to pin a price since we're already in the middle of Q2. But I can tell you that definitely, there's a gradual improvement in prices. Every passing month, there's a growth in prices compared to the previous month. So you can rest assured that, as I mentioned to you, we're on a growth trajectory in terms of volumes and prices.

Shouq Clear. Thank you so much. And just another question regarding the expansion plan. We saw the announcement in Tadawul regarding the signing to develop the new plant for paper, for the container board. But any update when it comes to the tissue plant?

Ahmed El Fazary Sami, can you please answer?

Sami Al Safran Yes. Good afternoon. Good afternoon, Shouq. Yes, we have announced the container board, which is the largest expansion for the company history, at an investment of SAR 1.8 billion, which will be executed, inshallah, within three years. We are finalising the revision of the feasibility study based on the new updates. We are targeting, maximum, at least by Q2 here to deliver to the market some updates about the progress. But in a nutshell, it's progressing well. The tissue is similar to the container board.

Shouq Clear. Thank you so much. I'll leave the floor to others to ask, then I'll come back in the queue.

Nour Eldin Sherif Thank you. Our next question comes from Salman. Please unmute yourself locally.

Salman Al Hagbani Good afternoon. This is Salman Al Hagbani from Al Rajhi Capital. So I have a question regarding Juthor. So what's the recent updates regarding the energy generators? Are you still using diesel? What's the reason? When will we use the natural gas for the Juthor plant?

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Sami Al Safran Good afternoon, Salman. The original plan for Juthor is to be connected with the natural gas. That's the basis of building the facility at KAEC. Unfortunately, the natural gas connection was supposed to arrive one year before the commissioning, which it did not.

Thankfully, it has reached. It's being pressurised during this month. We have, alhamdulillah, partially converted part of our requirement to the natural gas. We are targeting, by early June, we will be completely depending on the natural gas, which should very positively impact the financial result of Juthor.

Salman Al Hagbani That's great. Thank you so much. That's all from my side.

Nour Eldin Sherif Thank you. Our next question comes from Abdulrahman. Please unmute yourself.

Abdulrahman Yes. I just wanted to ask about the contribution of Juthor for this quarter in terms of revenue and profitability, and what utilisation rate has it reached by the end of the quarter?

Ahmed El Fazary Hi, Abdulrahman. In terms of utilisation rate, Juthor has achieved 80% of its capacity in utilisation rate. And in terms of quantities, Juthor has added around 12,000 tons versus the last quarter of 2024.

Abdulrahman And I just want to understand, is it currently profitable during this quarter? Currently...

Ahmed El Fazary Well, starting from March 2023, the company started achieving profits, although the utility prices are still high.

Abdulrahman I see. That's very clear. And just one last question on the pricing for Juthor. You mentioned in the slide for pricing of tissue paper that pulp prices are currently increasing and should have a positive impact on selling prices. Could you please help us understand the dynamic between increase in pulp prices and the final selling price, how that benefits Juthor in that aspect?

Ahmed El Fazary I'll take this one, just to answer you. Look, it's not a matter of increasing pulp prices benefiting or harming selling prices. There's a strong correlation between pulp prices and selling prices of tissue. So whenever there are drops in prices in pulp, definitely this gets reflected to the market, and the other way around. So pulp prices have been on the rise, and the market has been aware of this, and we were able to pass the price increase of the pulp to the market. So the market is accepting the increase in selling prices in the tissue.

Abdulrahman I see. That's clear. And just one last question on the recent increase in energy prices. Could you give us a rough number on the impact of higher energy costs during this quarter on MEPCO? And has the increase in selling prices for container abroad offset that cost increase?

Ahmed El Fazary Yes, we had published earlier the impact of the increase in selling prices on the company for the year 2024. The total selling prices increase in terms of material costs was about 24 million for the whole year. We do, yes. With the increase in the selling prices that had happened in Q4 and continues through the year, the company was able to mitigate the increase in its energy costs and in the transportation costs as well.

Abdulrahman That's very clear. Thank you so much.

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Nour Eldin Sherif Thank you. Our next question comes from Aakarsh. Please go ahead.

Aakarsh Tomar Hi. This is Aakarsh from SICO. Thank you very much for the opportunity. I have two quick questions. One is, I wanted to understand your exports versus regional markets dynamic. So based on the indices you have shown, it seems like it is more beneficial for you to sell locally than export. If you can give us more colour on that, how is exports versus regional for you in terms of prices and in terms of margins. And second question is on your raw materials. I wanted to know, how much is the virgin pulp, and how much is recycled? Thank you.

Ahmed El Fazary I'll take your first question regarding our distribution of sales between export and domestic market. Look, let me take you back a few steps and bring here on the table the significant change that happened, which was the Red Sea shipping crisis. This led us to re-evaluate our constitution of sales between domestic and export.

Red Sea crisis, to be completely transparent with you, came with opportunities and challenges. It was very challenging for us to export our products to certain regular markets where the freight increased drastically. And those markets became more attractive to other suppliers, who had better freight advantage over us.

Accordingly, we reacted to the subject, and we started reducing our export sales to those expensive reachable markets and emphasised more on export markets, other export markets where it was challenging for our competition to reach at competitive prices and, of course, the local market.

Just to give you a figure, our local sales in the first quarter, opposed to first quarter 2023, increased by 21%. So there's a big increase. Probably, that's the highest local sales that we've recorded ever in the company. And this comes also with the advantage of reduced logistics costs.

So as I always mentioned, the company is very, very agile in regards to sales, and we have the capability to shift from one export market to another or the local market. And it was an opportunity for us to increase our sales in the local market, with the shortage of supplies by competing export markets to our own home markets. Amr, would you like to take the second question regarding costs?

Amr Masry So hi, Aakarsh. Can you please repeat the question?

Ahmed El Fazary He's muted.

Amr Masry Aakarsh?

Sami Al Safran Amr, I think the question of Aakarsh is about the distribution between virgin and recycled pulp and our consumption for both container board and tissue.

Amr Masry So for container board, the consumption of recycled pulp is around 70%, and then you have the other materials, whereas for the virgin pulp, the consumption is around 80% for the pulp, and the remaining will be the other components of the cost for the tissues.

Sami Al Safran Aakarsh, I would like to comment further on my colleague's answer regarding the export market. MEPCO, through progressively the last two decades, we maintain an average of 40% export of our market.

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And the main driver, like what my colleague Ahmed mentioned, is that really the agility and the flexibility to grow and adjust ourselves between the supply and the demand.

However, during this year, we fulfilled our responsibility, as the local market in Saudi Arabia faced the challenge in terms of supply of material due to the Red Sea disturbance. We have adjusted ourselves to fulfil the local market requirements, which has definitely a direct benefit to us in terms of logistics cost. However, strategically, we would like to maintain the export market, as it is feeding our even future expansion growth.

Regarding the raw material consumption, in the container board side, we tend to maximise the consumption from the local material of waste paper. And that enhances our circular economy and fulfils the market demand and, of course, increases the local content of our industry.

However, when it comes to the tissue market, the tissue, long ago, like one decade ago, was dependent on the recycled material. But nowadays, the dominating market in the tissue is mainly prime. And that's the reason of our... That's the action we have taken when we built our manufacturing facility for tissue, is that we built based on a virgin pulp. The same thing for the expansion, because we could see very clearly that this is the market trend, and we would like to retain with the trend.

Nour Eldin Sherif Thank you so much. So the next question comes from Nada. Please unmute yourself locally.

Nada Hi, gentlemen. Thanks a lot for the call. I have a follow-up question on the pulp prices and the pricing dynamics. So if I'm understanding that right, basically, you maintain a certain spread between the pulp prices and jumper oil, so that spread disregards the movement of the pulp prices. So am I understanding this right?

Ahmed El Fazary Right, yes.

Nada Yes. And for Juthor specifically, I see another competitor is expanding their capacity, especially in the jumper oil. If you can give us an idea about the market size, the local market size, and how much of that market is important, so that will give a clear idea about what's happening exactly. Thank you.

Ahmed El Fazary Okay, let me give you some idea about the market demand and production figures so that you would get an understanding about the gap between demand and supply.

Look, the market, the tissue market here in Saudi Arabia consumes about 300,000 tons per annum roughly, plus or minus, while the currently installed capacities are around 180,000 tons, maximum 200,000 tons. So there's still a gap of 100,000 tons that is unfulfilled. I cannot comment on competition, but provided the annual growth rates in demand and the gap between supply and demand, we believe that there is room still for the market to grow. I hope this answers your question.

Nada Yes. Thank you very much.

Nour Eldin Sherif Thank you. The next question comes from the Q&A box. Can you give us some clarification between TM6 and Juthor, because it seems they are the same product?

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Sami Al Safran True. The terminology of the TM, just like the PM issue, every tissue machine, we give it a number. So today, we have TM4, which is the existing Juthor factory. As we are moving to the new container board machine, we call it PM5. And then the new tissue machine is coming, and we call it TM6.

In conclusion, it's the same product. It's a brownfield project, because when we built PM5, sorry, when we built Juthor, we kept a space for doubling the capacity. So that's why we are expecting that the investment into the new project expansion off TM6 at Juthor will be in a lower investment cost, as most of the infrastructure had been established initially in the project.

Nour Eldin Sherif That's very clear. We have a follow-up question from Abdulrahman. Please unmute yourself.

Abdulrahman Yes. I just had a few questions on your expansion plans. Can we get an update on the M&A pipeline regarding going downstream? And also, any updates on the waste management strategy? You mentioned that you're going deeper into the waste management field with WASCO and Estidama.

Sami Al Safran I will answer probably the M&A part and will leave to my colleague, Muhammad, to elaborate regarding the waste management. The M&A part is moving as per schedule. We are in advanced talks for different targets. Still, we are targeting Saudi Arabia targets.

We expect later on, once we successfully close the transactions, is to look in the nearby region. And this will be a very classical model of most of the businesses in the packaging industry, to be integrated backward and forward. Regarding the waste management side, I will let my colleague, Muhammad, elaborate further on it.

Muhammad Thank you, Abdulrahman. Actually, as we said, we have finalised our strategy forward for the waste management, and we focused on capitalising on our presence specifically in the cities where we have done some investments. This is starting from Jeddah. We are trying to capitalise on our subsidiary, Estidama, by building a full eco-park.

We are just awaiting that incentives and the support from [Inaudible 00:19:56], which we are expecting to hear very soon. And based on this, we'll be able to unlock the first-of-its-kind project in the region, which is going to be the eco-park. Part of the eco-park, as we announced before, is going to be the waste to energy to supply PM5 the new paper.

And then the same we are trying to replicate all across the city, as I said, where we do present. A couple of months back, we have announced an MOU with ABAM, which is the investment arm of Makkah, which is something similar to Jeddah. We hope we are able to announce something very soon, in the coming weeks, on the progress of the partnership.

The same thing we are doing for Al-Ahsa. We are trying to leverage the current investment, where we are trying to expand further specifically into the alternative energy as well as emphasising or enhancing our investment in recycling, either for paper or the other plastic... Or the other recyclable material. Did this answer your question, Abdulrahman, or do you need further information?

Abdulrahman Yes. That's great to hear. And just one final question. Any update on the OCC export issues when dealing with the MWAN regulator?

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Muhammad Let me give you a quick update. We started to form an alliance with the other paper mill, which is along with one of the state-owned companies as well on this. We started to form a coalition to speak one language on ban of the export. We got a signal last month from MWAN that they are reducing the licenses by 25%. Yes, though we don't feel the effect yet on the ground, but this is what has been communicated verbally.

Now we are completing the case and the presentations on the impact of this on the local industries, where we'll be able to share this with MWAN next week. But the good thing is that we start to see traction from the other peers in the industry, where they are getting effect on this. As I said, we saw understanding from MWAN, though the impact is not that real.

Abdulrahman That's great to hear. We wish you good luck.

Muhammad Thank you.

Nour Eldin Sherif Thank you. We have a follow-up question from Shouq. Please unmute yourself.

Shouq I just have one question regarding the OCC prices. So my understanding is one of the reasons why it's dropping in a Q-over-Q basis is mainly the Red Sea disruption. So if that's resolved or something like that, or maybe the issue is we saw more export activity, how do you see the prices going for the OCC versus what is the normalised price per ton for OCC?

Muhammad We need to agree on one benchmark. Let us say, currently, there is a price war which is going to expect to continue till August, where most of the export, as you know, is going to India. Most of the paper mill is shutting down in August, we'll see increment in the prices till August.

And then, starting from September and October, we will start the realisations of the price goes down to the normal prices. The current prices, as announced at RISI and even our market intelligence, we speak about 225 to India. We are expecting this to go down to 180, but this is going to happen only in October.

What we are trying to do from our side, we are trying to control our operations and activity to ensure that we are able to secure the feedstock of the 450 tons, while we are preparing for increasing the capacity to be prepared for PM5. So we are trying to take whatever possible internal measures to control the prices from our side, not to be hit much with the price war which is happening right now. For sure, we are getting affected, but all what we are trying to do right now is to control, based on our presence across Saudi in 19 or 20 locations. This is what we are trying to do now.

Shouq Just to understand, you're talking about the impact on overall, the global prices. But now, what's impacting the local prices, there is major factors that is making the difference between the prices globally and locally, which is basically the issue of, I would say, exporting tissues, sorry, exporting the OCC. And that is limited now because of the crisis, so that's why the prices are down for OCC. But if that recovered, and that's a risk on them, can you explain to me?

Ahmed El Fazary If I may just interfere in that part, just like the container board and tissue, the global market is one small marketplace. So when you start experiencing price increases elsewhere, like in North America and in

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Europe, naturally it has an impact and an effect on the local market price. So going forward, yes, we do expect that waste paper prices will increase because of the increases that we're witnessing elsewhere.

Shouq Okay.

Ahmed El Fazary So does this put some clarity to the...?

Shouq Yes, I've got it now. Very clear.

Ahmed El Fazary Great.

Shouq But if we hope, like with some of the agreements with the municipality of Jeddah, Mecca, etc., and we have support from the government side, then it should be at a discount to the global prices, right?

Ahmed El Fazary To a certain extent.

Sami Al Safran Shouq, if I may elaborate more on the subject here, I think seeing this one as the single digits, you are fully correct. The question is that how much we are materialising. If you remember, two years ago, we have mentioned that the cost of the OCC prices in Saudi Arabia is double than the European sector, which is the equivalent there.

Now, if we benchmark the local prices of OCC in Saudi Arabia, comparing with Europe, the gap is smaller. Why is it happening? Due to the logistic disturbance that is happening right now. My colleague, Muhammad, mentioned that MWAN has promised to control the export, yet we haven't seen it on the ground, we haven't realised it fully.

However, does it impact that delta between the local prices and European prices? The answer is yes. The gap is getting smaller. Today, for example, while it is in Europe at \$120, we are here almost at \$160. So the gap was in a favourable situation for us.

However, our ultimate objective is to bring the gap to zero, because this is the fair competition between both parties, and we are continuously working with MWAN as a regulator, because the export of waste paper is regulated by MWAN, in addition to the Ministry of Industry. And that is the frequent topics happening with him. They have hired actually a consultant to do further assessment for the market.

But ultimately, I could tell you that a few good news there. Number one is that does the Saudi market have the required volume for our expansion project? The answer is yes. Last year, for example, Saudi Arabia had exported 400,000 tons in addition to the local consumption, which confirms the available raw material in the local market. And that really helps us briefly to go smoothly with the expansion project without the concern of the raw material.

The second thing, the strategy my colleague, Muhammad, mentioned, which is actually enhancing the geographic presence of WASCO and further control of the raw materials, because those are the source that really helps us to control it, i.e. when we run the agreement between WASCO and Jeddah municipality and we establish Estidama, we could see that the control of the city of Jeddah gives a favourable situation to us, comparing with the rest of the cities. And we are intending to expand this strategy to the rest of the kingdom, alhamdulillah.

Transcript

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Shouq Very clear. Thank you so much. [Inaudible 00:29:23].

Nour Eldin Sherif Thank you. There are no... Okay. So we have one follow up from Abdulaziz. Please unmute yourself locally.

Abdulaziz AlMulhem Yes. Hi, gentlemen. This is Abdulaziz AlMulhem from Alpha Capital. Just a question from my end. Since there is a price difference between us and global in terms of OCC, we operate in much higher prices, why doesn't the company import OCC to Saudi just to lower the raw material cost?

Sami Al Safran It's a good question, actually. That's something we are always keeping our eyes on, Abdulaziz. In 2019, we had actually imported an average of 40,000 tons to the local market for further control. We will keep doing it. But bear in mind, Abdulaziz, the example I mentioned right now. If the price is in Europe at \$120, and then you still need another \$60 to \$70 to bring it up to here, it becomes nonviable to import right now.

So whenever there is a gap, we try to be an arm's-length basis with our subsidiaries, WASCO. So if the favourable situation comes for the import, we'll move to the import to rationalise the local market. But until now, the local market is a more favourable situation to buy locally.

Abdulaziz AlMulhem Very clear. Thank you, gentlemen.

Nour Eldin Sherif Thank you. There are no further questions on the Q&A box or the list of attendees, so I will turn over the call to MEPCO's management to conclude today's call. Thank you.

Sami Al Safran Thank you, gentlemen, for your attendance. No doubt, the Q1 results confirm our expectations. The comparison between the Q4 and the Q1 performance, we could see among order levels, there is an improvement in the financial and operational performance of MEPCO, driven by our presence in the market, the favourable price increase, the destocking, like what's been mentioned by my colleagues here, in addition to our agility to adapt ourselves to the changes in the business environment.

We anticipate Q2, inshallah, that will be more favourable than Q1. In addition to, we are moving progressively and executing our strategy that we have announced. Very clearly, we have addressed our announcement about the magnitude signature with Voith, which is the expansion of project with SAR 1.8 billion investment. Very soon, we will be announcing, inshallah, the tissue project in addition to our parallel activity of many transactions.

Finally, the waste management investment, which we strongly believe, down the road, it will constitute a major player of MEPCO, and keeping in mind that WASCO has a legacy of two decades in that area. So I believe we will be probably the most benefiting company from those changes.

And physically, on the ground, we are talking with six different investment opportunities in the waste management. Hopefully, in the coming six months, we will be announcing some of them from both, whether from controlling the raw material side to secure the feedstock requirements for our expansion project and diversifying to other waste management business, because this is aligned with Saudi Arabia's strategy, which is focusing on diverting from the landfill.

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We would like to thank you for the trust on MEPCO and MEPCO management, and we hope we can deliver our commitment to you. Thank you very much.

Nour Eldin Sherif Thank you very much. We have a last question from Bader, but we will let management reply to this offline because we are overdue with this call. So thank you very much for attending, and this concludes our call today. You may now disconnect. Thank you.

Sami Al Safran Thank you.