

MEPCO

CONFERENCE CALL TO DISCUSS MEPCO Q2 2021 RESULTS

Company: MEPCO

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Participants:

- Sami Al Safran, Chief Executive Officer
 - Johan Van Vuuren, Chief Financial Officer
 - Bassem Elshawy, Investment Relations Officer
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Moderator:

Bassem, please go ahead.

Bassem Elshawy:

Ladies and gentlemen, good afternoon. How are you? I think we're all excited for today's call. Thank you very much for joining, and sorry for keeping you waiting. We're just giving a few more minutes for people who might be caught up in other calls. Thanks again for joining us today. We're going to start as usual with the disclaimer for forward-looking statements. As management has made every effort to present a fair view of MEPCO's operation and the financial performance, it is important to acknowledge that expectations about future results, the common line of prevailing operational, financial and market conditions may change in the future.

Bassem Elshawy:

Management does not give forward-looking statements for financial investment decision purposes, does not take the responsibility to explain differences between the future and actual results stated in the course of this presentation. Thank you very much. I'm going to start today's call with a very quick overview about the results of the first half of 2021. This has been, of course, a very interesting period to report with an excellent set of financial and operational results.

Bassem Elshawy:

As we see the company's situation in the market has been more solid, and it's crystallized its ability to extract a lot of value and capture the potential of the upside price trend of end products, and manage

the cost side of operations to give that significant rise in the margins we achieved in the second quarter specifically of this year. The price trends that we've been witnessing since the last quarter of last year have been very steady.

Bassem Elshawy:

We see it as a solid trend that is continuing throughout the third quarter as well. And we also shared a very important light on the ability for us to manage the cost side of production, which is a result of the success of the operational efficiency initiatives that we started back in 2020. These initiatives are something that we repeat a lot and we talk a lot about because it's part of the pride that we take as management in what we have achieved so far at MEPCO.

Bassem Elshawy:

As we stand out as one of the lowest cost producers of containerboard in the region, this is something that gave us back the fruits now, and we can see the operational efficiency in action as we realize better results, and better margin, and higher productivity from our machines. Further to that, we also want to shed light on the progress of the growth initiatives that are represented mainly in the tissue project that we announced last year that is very well going on track.

Bassem Elshawy:

After we announced the contracting with TOSCOTEC to manufacture the tissue-making equipment, we are now working very hard to prepare the land in King Abdullah Economic City to receive this material. On the regulatory side, we are also happy to report to you that we have kick-started another case of anti-dumping for the GCC Europe investigation against anti-dumping practices.

Bassem Elshawy:

So this has been announced quite recently, and the investigation is going to be starting very soon. This is a process that might take 12 months or so, but we expect very positive results from it to ensure a level playing field when it comes to the containerboard market in the GCC. Also, another interesting piece of news is the approval of the technical and paper specification from SASO in Saudi Arabia.

Bassem Elshawy:

This also helps further regulate the market within the country, and gives us a very important niche to tap on, which is the local market. It opens another level of opportunity for us to increase our market share and strengthen our position locally. This is a very quick overview about the most important things we wanted to highlight. I will leave the floor to you now to ask questions.

Bassem Elshawy:

Myself here; Eng. Sami Al Safran, the CEO; and Mr Johan Van Vuuren, the group CFO are happy to address your questions. Please go ahead.

Moderator:

Thank you very much for the presentation. We will now be entering the Q&A part of the call. If you have any questions, please press *2 on your dial pad, and wait for your name to be called. Alternatively, you may ask a voice or a text question, if you are dialed in via the web. Thank you. Our first question comes from Ashar Saleem, Saudi Kuwait Finance House. Your line is open. Please go ahead.

Ashar Saleem:

Hi. This is Ashar Saleem from FALCOM Financial. Thanks a lot for the call, guys. I had a couple of questions. First is about the paper prices. How were they during the second quarter? And what trend are we seeing right now moving onto the third quarter? Because you see commodities basically going through the roof. That's one part of that. Secondly, we heard some talk on the street that there is some regulation that the government is coming up with regarding waste management. I think it's been building up for a long time. But I'm not sure if that's going to play positively or negatively in terms of pricing and the supply of waste in the market. So if you can just give some comment on that.

Ashar Saleem:

And secondly, regarding China, what's happening in there regarding demand and supply for waste paper? Any major changes that we must look out for in the last quarter going forward? Thank you.

Sami Al Safran:

Good afternoon, Ashar. Thank you for asking. I think, let's talk generally. China has the... Let's say from backward, China has banned the imports of waste paper globally. It used to be a consumer of waste paper by 25 million tons on annual basis against a global demand, a global supply of 170 million tons. No doubt, it is the largest consumer in the world, and for environmental reasons they have decided to eliminate totally the imports of waste paper to their country.

Sami Al Safran:

Accordingly, this resolution was since 2017, gradual basis, and it reached zero in 2021. We have seen a drastic change has happened is that, number one, the consumption of China marginally softened year-to-year due to the lack of supplied material. From the other side, we have seen a growing in demand happen from the other Asian continents, and from the producers which is United States and Europe that have absorbed the remaining 12 million tons in the last year.

Sami Al Safran:

So in another word, we've seen that the drop in consumption in China has been absorbed in other countries. But as a result, it puts pressure on the demand, and that continued. We have seen it I think, opened by the economy opening. A growth has happened. And now, most of the world are shipping their... they are supplying Chinese with their demands of containerboard.

Sami Al Safran:

That brings us to the next subject which is the waste paper prices. Globally, waste paper prices since January until now and it is continuous escalating. However, for the first time in our region, the direction went in a different way for the reasons that the National Waste Center here, they have announced new regulations of export licenses of waste paper, and that help the industries a lot to soften the local prices.

Sami Al Safran:

And we have seen that some of the prices would have been stabilized or moved downward. And we believe this will continue because, as we mentioned, in area of discussions that the raw material prices in Saudi Arabia is almost double than the similar peers in Europe and United States. Finally, their latest announcement about the Waste Management Center and the regulations, they have been approved.

Sami Al Safran:

We have mentioned this area that we are keen to enforce such regulation because due to the lack of such regulations of waste management, we end up in our country here paying prices of raw material that is double than our peers. We believe such kind of regulations will help from two sides, will help our subsidiary company, WASCO, to grow in their investments because as it's been mentioned earlier by the CEO of one of the large waste management companies in Saudi Arabia that there is a potential market of 65 billion riyal that should be unleashed.

Sami Al Safran:

From the other side, it will help us, MEPCO as a consumer, to see the local prices of Saudi Arabia comes closer to European and United States, which really should help positively in the bottom line.

Ashar Saleem:

If I may, I have a follow-up to that. Now, if waste management is expanding its domain, then the waste that was previously discarded or worth less, now it's worth something in the market, right? So previously, if you acquired waste easily, now it will be difficult because there'll be competition, and other people are coming up for that waste. Doesn't that drive up the prices for your major input? I mean, from my expectation that there will be a compression on the margins. But what you said is basically that's very positive thing. If you could just clarify that a little bit.

Sami Al Safran:

It's true, Ashraf. I think the best way is to see really what is happening in the modeling countries where waste management are extensively applied, On countries like United States, Germany, other places in Europe, you will find always the raw material prices which is the OCC at our case, is almost half of our cost here. And mainly because the waste management business cycle, when it's been started, it started that the producer of waste is the one who's financing the recycling process.

Sami Al Safran:

Today the recycling process is being fully financed by the consumer of the waste paper. Later on, I mean, when those regulations comes in force, reality that the producer will finance part of that cycle, which as a result will help to reduce the final product prices, whether it's waste paper or waste plaster core.

Ashar Saleem:

Thank you.

Sami Al Safran:

Is that clear, Ashraf?

Ashar Saleem:

Yes. That's clear. Thank you.

Moderator:

Thank you very much. Our next question comes from Anoop Fernandes from SICO. Please go ahead.

Anoop Fernandes:

Yeah. Hi. Good afternoon, guys. And congrats on a great set of numbers. I missed the point on the anti-dumping case that you've initiated. Against which regions are these? Could you please elaborate a bit on that?

Sami Al Safran:

Yeah. This anti-dumping case has been raised against three key countries that is supplying and affecting the local market, India, Germany, and France, and those considered to be the largest shipper to the region. Of course, if you remember four years ago, we have filed an anti-dumping case against Spain and Poland, and the investigation comes to the favor of the local mills, and duties was applied on the countries.

Sami Al Safran:

What has happened is that most of the international players have shifted their supply to the region from their manufacturing use in Spain to other places like Germany and France. So here we are trying to chase those players and regulate the market. Look, the most important thing, gentlemen, in this business is to regulate the market because MEPCO is an operating efficient company. We are cost leaders in different things.

Sami Al Safran:

However, we cannot defeat the dumping activities that is happening, and we believe taking such measures is the normal evolution as part of a process of regulation the market, to maintain a healthy performance for the local mill.

Anoop Fernandes:

Okay. So my question on this is, A, you've mentioned that China has stopped importing waste paper. So that naturally tightens the market for containerboard because they end up importing more containerboard, right? That's point one. Point two is the cost of freight itself has gone up so much. So how viable is it for you to be... I'm just thinking, how are you affected with dumping at a time when the freight charge on this corrugated paper would be phenomenally high when container freight rates are so high? Somehow, I'm not able to understand how in such tight, favorable market conditions, you're facing pressure on the dumping side. I mean, how is that happen?

Sami Al Safran:

It's a good question, Anup. Actually, usually, when you file a dumping case, you do not file it for a spontaneous situation. You file it against a trend. If you monitor the trend since 2019 until '20, there is a major supply from those countries at prices lower than their home market, which negatively affected the performance of the local mills. Of course, this year, things have been changed to our favor, but it does not really change the fact that there is a dumping activities and has to be regulated.

Sami Al Safran:

Because, it is against WTO regulations to sell your product at the export market lower than your home market. And that's what the complainant submitted as a proof that the international players are selling at the local market lower than their home market.

Anoop Fernandes:

The thing is considering that when the previous anti-dumping duty came in your favor, it was at a time when no one was even thinking about inflation. So right now, the question on everybody's mind is inflation. So do you think you will have a favorable verdict in your favor because pushing the price of packaging affects the economy at large. So just thinking, I mean, you have... Maybe it's an investigation, yes, but what is the likelihood that the outcome will come in your favor the same?

Sami Al Safran:

Look, Anup, you have to segregate between the economic trend and behavior, and what's been practiced as wrong commercial activities. When we filed the initial case, it was against the performance of the dumping countries in the year of 2015 and '16, where it created a lot of damage. And by the time we file it, things had been improved, our performance improved, but does not change the fact that there was dumping activities.

Sami Al Safran:

Now, similar things is happening now. In '19 and '20, there was an aggressive dumping at our region, and it had to be stopped. Finally, coming to the drivers of growth, reality that brought the demands to our favor was not actually being driven only due to the economical performance, rather that due to the e-commerce as one of the factors. And the COVID situation enhances the e-commerce, which as a result really puts the pressure from the local market at least to increase our supplies for the containerboard.

Anoop Fernandes:

Okay. Okay. Understood. Thanks. Thank you. Thank you very much.

Moderator:

Thank you. Our next question comes from Anas from SNB Capital. Please go ahead.

Anas Al-Safadi:

Salaam Alaikum. This is Anas Safadi from SNB Capital. I joined the call a little bit late, so I apologize if I'm asking redundant questions. I have three main questions. Firstly, on the recent hikes of paper prices, have we hiked in Q3? And what is the management's forecast on pricing for the later half of the year? That's on pricing. My second question is on the anti-dumping.

Anas Al-Safadi:

So today, in Q2, inshallah we had a great set of results. Do you think that the results of the anti-dumping case will be favorable given that we are at record high in terms of profitability? That's on the anti-dumping. And my final question is on the new regulation of the waste management industry. I think the new regulation was passed last week. Any changes on WASCO or MEPCO, in light of the new regulation?

Sami Al Safran:

Thank you, Anaf. You are always most welcome, at any time. Since most of those ones have been answered, I can rehash back again and quick. Regarding the price trends, I think we always speak about the demand because the demand is the one actually which really results in dropping the inventories, and as a result results in increasing the prices. Yeah, we have forecasted already that the demand will remain healthy through the whole year. Again, it's our expectations. We are not sure about any changes

that is happening, but based on the cycle and the performance we've seen in the global market here, we anticipate a healthy demand for the rest of the year.

Sami Al Safran:

The second thing regarding the anti-dumping case. I think the anti-dumping case like what we have mentioned, the case has been initially accepted for investigation. Usually, as per the practices, we've seen it as soon as the case being accepted, we notice some reaction from the market, where the dumping countries under investigation reduce their supplies to the region. And we, as the local mills, usually, we step in and we try to cover that demand by ourselves or by our countries which we supply.

Sami Al Safran:

And classically, that investigation should take an average of one year before the final resolution will come to confirm the dumping and apply duties or to reject the case. However, most of the time we have seen it, when the accepted investigation that there is some clear indications is happening. And the result, let's say, to accept and extend come to the favor for the line of investigation.

Sami Al Safran:

And finally, the waste management regulations which been endorsed. This is something have been actually addressed to public almost two years ago. We have anticipated such regulations to come. And in nutshell, this regulation will really open up the waste management business to a great level for those who's already present or who's qualified to do it. Look, we have a positive outlook to the waste management regulations that will open up the business opportunity greatly to WASCO.

Sami Al Safran:

And reality, like what my colleague mentioned earlier, we have conducted a strategy review of our businesses for both MEPCO and WASCO. We have actually taken in consideration such regulations to be in force. What is the business opportunities. And you might have seen a couple of months ago, we have announced our joint agreement with Jeddah Municipality to develop the waste management business in different areas in the city of Jeddah.

Sami Al Safran:

And this approach is in line with the waste regulations. So I could say that we are hamdillah proactive toward this one, and let's hope that we could see a positive impact for the favor of WASCO.

Anas Al-Safadi:

Thank you, Eng. Sami. Thank you.

Moderator:

Thank you very much. Just a reminder, for any additional questions, please press *2.

Moderator:

We have a follow-up question from Ashar Saleem from FALCOM Financial. Please go ahead.

Ashar Saleem:

Another question regarding the pricing and the cost. We saw a lot of commodity players seeing a lot of gains coming out of inventory. I mean, when I look at your results, compared to the last quarter, Quarter 1, '21, your top line is up 50 million, but that's not reflecting entirely in the gross or the operating level. So if I talk about inventory, what kind of inventory do you have in terms of months? And are we going to see that hit to the margins in the coming quarters, or is this going to be a representative quarter for the next part of the year?

Johan:

Okay. Can you guys hear me clearly? This is Johan speaking.

Moderator:

Yes. Please go ahead.

Johan:

Okay. Firstly, our stock levels are lower than historically has been the case for many reasons. We've kept our inventory levels at the most efficient levels. You will see that most of the unrealized profit and inventory has already been reflected in the results. We do not expect major changes when it comes to further stock effects from between Quarter 2 and Quarter 3, that will have any material impact on our results.

Johan:

That being said, we are carefully evaluating on a constant basis the most adequate stock levels and the different types of products that MEPCO indeed sources from WASCO. And in turn, ensure that WASCO acquires feedstock whenever it makes sense.

Ashar Saleem:

Okay. Thank you so much.

Moderator:

Thank you. We have a follow-up question from Anas, from SNB Capital. Please go ahead.

Anas Al-Safadi:

Yes, my follow-up question is on the freight costs. I'm seeing that efficiencies have been achieved on all fronts in terms of costs except on the SG&A, which management has attributed it to the freight costs in light of the freight surge situation. Is this the maximum that we could see in terms of costs in this line, or we could see higher freight costs going forward?

Sami Al Safran:

Yeah. In summary, no. You should not expect to see any further increase, Anas. I think, you're aware about exactly the situation. Our logistic team, they try to adjust their market selection based on the efficient logistic, which I think we have mitigated the impact of logistics. And we've seen to, we'll call it, a rational level. A bit of any changes, it could be plus and minus as marginal. But we should not see really and unpredicted situation in terms of logistics changes.

Anas Al-Safadi:

Fair enough. Thank you again.

Moderator:

Thank you. Our next question comes-

Sami Al Safran:

I'm sorry, Anas. Sorry, Anas. One more comment regarding the subject. Look, beside the freight cost are high or low, it is important to highlight that, ultimately, for us when we choose our clients base, which is those clients which creates a better revenue for us. So for example, last quarter we had opened a South American market that has a very high freight cost. But from the other side, the selling prices was so high that the margin in South Africa was similar or better than the local Saudi Market. So thankfully, it is not an ultimate objective to maintain. At least, that net margin out of that deal transaction is attractive for us.

Anas Al-Safadi:

Clear. Thank you.

Moderator:

Thank you. Our next question comes from [Jahul Saheed 00:25:34] from Blominvest. Please go ahead.

Jawaher Saeed:

Hi. Good afternoon.

Moderator:

Please go ahead.

Sami Al Safran:

Good afternoon.

Jawaher Saeed:

First, thank you for the call. I have few questions. My first question is how do you see the volume in the European markets going forward? And is there any differences between the local sales and export sales in terms of margin? And my last question is I want to know the key export market and how they are different in terms of profitability? Where do you prefer the export and the domestic? The local or the international market? Thank you.

Sami Al Safran:

Well, Jawaher, let me answer you for the last part. Then, we can go for this one. Of course, for us we prefer to sell certain products at a certain market. However, that's wishful. The fact is different. For example, on an average, the local market is more attractive than export. However, certain grades we have them that does not have the major demand in the local market. The only option is to sell them outside.

Sami Al Safran:

For example, a semi-chemical fluting that goes for agricultural application, we'll usually sell it to the market that has an agricultural demand like Egypt. So in conclusion, yanny, I could say to a major extent local is more attractive than export. However, we cannot give away exports because certain grades, the requirement has to be there. Coming to the distribution, the first captive market for us are the nearby markets like GCC and Levant, specifically Jordan.

Sami Al Safran:

The second one is North Africa, like Algeria. The third one is the Far East, like China. And comes after that one is the European continent. Sorry. Before European, of course, is Africa, east side of Africa. And then, the remaining is some satellite markets right and left. We tend to keep our export market for the main reason that we are 24/7 operating [inaudible].

Sami Al Safran:

We cannot hold the risk of focusing in a specific market, and then in case of any turbulence is happening, you get affected by your operation greatly. And that, we have seen it in last year pandemic, when some businesses was in total stagnant. Thankfully, MEPCO was in the highest operating level of our history because we were one of the few diversified market. And we did not face a challenge to divert our sales from market to market to maintain the operating efficiency of the plant.

Moderator:

Thank you very much. We have two follow-up questions. Ashar Saleem, from FALCOM Financial. Please go ahead.

Ashar Saleem:

Yeah. thanks again. I just wanted you to give me some color on the tissue paper factory. What's the update of the operating? What kind of utilizations are we expecting this year? Just your thoughts and the facts on that.

Sami Al Safran:

Tell me your question, you're asking about the utilization of the tissue?

Ashar Saleem:

Yeah. For the year end. For the year end.

Sami Al Safran:

Okay. Well, tissue is still right now under construction. It's a new project, and the capacity of the facility will be 60,000 pounds per annum, producing tissue jumble rolls, and mainly aiming to sell locally. So this should start operations in the first quarter of 2023.

Ashar Saleem:

2023. Will this be under a brand name, or it will be sold to other brands, like a private label?

Sami Al Safran:

No. This is a tissue jumbo roll not an end product. So our customers are the converting companies that make the end product, which you buy from the supermarket. So it's exactly like the containerboard.

Ashar Saleem:

Okay. Okay. Okay. Thank you.

Moderator:

We have a follow-up question from Anas from SNB Capital. Please go ahead.

Anas Al-Safadi:

I promise you guys, this is my last follow-up question.

Sami Al Safran:

No, please.

Anas Al-Safadi:

Eng. Sami, if you can just give us a holistic picture about the paper market. Last cycle paper prices were elevated for almost six to seven quarters. Today, we are seeing approximately all European players have been increasing their prices consistently. We saw three, four hikes since the end of 2020. When do you think prices, let's say, will invert given that this commodity, this paper market is very volatile. Do you think that we could see the paper prices continue on more than this last cycle of six, seven quarters or it's just the same?

Sami Al Safran:

[inaudible 00:31:25], you are asking a tricky question, Aniha. I've been telling the people that two guys are doing great job nowadays, drug dealers and paper makers. It's a bit, yanny, I think most of the information you mentioned is correct. It's a cyclical commodity prices like any other commodity. We used to see most of the time a cycle of two years upward then a downward trend. The downward side, trend cycle extended from 2019, '20, and now by '21, we've seen an upward trend. The only difference we have seen at this time is that it was very sharp growth of prices, and that was really subsidized by a major gap between supply and demand due to the pandemic situation. We've seen a drop of the inventory everywhere, and the pandemic has created a new dimension of packaging industries, which is an e-commerce, which start to be a fact and real. And the e-commerce today is the main driver for the demand of the containerboard.

Sami Al Safran:

So I mean, don't quote me for it, but if this cycle will continue as such, then we should see a bright two years for the paper industries, which is this year and next year. However, everything could be changed. The only question really is that the bottom factor of it, because I remember the bottom end of 2020, it's something we have not seen it in the last 10 years, and it just appeared to us surprisingly. Now with these changes, is this bottoming is going to appear again or not? I don't think so because most of imports when higher, including the new regulations of China, which means if you maintain that... if you lift the baseline, you should see then a healthy performance of the business. Again, this is only really my personal thought. I could be wrong, but this is my assessment from what is happening in the market now.

Anas Al-Safadi:

Fair enough. Thank you very much Eng. Sammy, always insightful.

Moderator:

Thank you very much. I will now pass the line to Bassem to read out the four text questions. Please go ahead, Bassem.

Bassem Elshawy:

All right. We have a question from Eshendra at FALCOM, is asking, given the market situation seems to be improving with the current product prices and the new regulation on waste, are you witnessing an impact from new competition both local and foreign players? The second question from Shandra is, can you remind us of the product prices that MEPCO did from Q4 2020 onwards, including the price increase that happened in the end of Q1 2021, and any price increases in second quarter of this year? So for the first part of the question about competition in waste management.

Sami Al Safran:

Well, let me answer this one in general. I mean, usually when the paper prices in local markets improve, and like what gentleman was mentioning here, the announcement of price increase was not only from MEPCO side. It was actually across different paper mills in the world. So that tells you that the commodity price is high across the whole continent, and this tells you that usually, you will not feel the competition due to that situation, because the margin is so healthy, that people would like to focus on their local market. So my answer is that even if there is a competition, we do not feel it. Coming to the next step regarding the waste regulations, like what I mentioned beginning of my discussion gentlemen here, part of the active initiatives we are doing in MEPCO is that we are trying to regulate and govern the local market in proper way to allow for fair competition.

Sami Al Safran:

Anti-dumping against the remaining three countries is one of the cases. End of this week, SASO have announced the technical specifications of the containerboard paper. And the next follow step is the specification of paper, and this is one of the measures we have taken to eliminate the low quality paper to enter the market. Another step is the National Waste Center is announcing a regulation to export the raw material outside before fulfilling the demand of the local market. So all of these steps, we are actually building a barrier on the competition to enter and destroy the market by regulating the market in a proper way, and I think this will reflect into a sustainability of growth, as well as, like, a sustainability of performance, and this is, like, a great support to the local mill.

Bassem Elshawy:

And I'm going to answer the second part of the question about the product prices. We do not state our selling prices. It is not part of the data set we release to the public due to the sensitivity of this information. MEPCO being the only containerboard company that is listed in the Middle East. So we apologize for not being able to disclose that. About the increases, we have passed a \$50 and an \$80 product price increases. The first one was in the fourth quarter of 2020, and the second one was in the first quarter of this year. There has not been any price increases in the second quarter.

Bassem Elshawy:

We have another... We have a question from Laurent-Patrick - Laurent, always happy to have you, and I'm going to read the question. "Hello, gentlemen. Two quick questions, please. Can you please confirm the timing of the KSA new regulation for wastepaper. And the second part is, is it fair to say that the third quarter of this year will be the first quarter with the full impact of this new regulation? Thank you.

Sami Al Safran:

Yeah. Well Patrick, actually, the export regulation have been announced, and it come in a force, and actually, there is an active workshop communication between us as a consumer, the supplier, under the... facilitated by the National Waste Center. So yeah, I think you could say by the third quarter. Let's say by the fourth quarter, you will see the full impact because the third quarter it's still National Waste Center trying to regulate and mitigate the impact of such regulations on the exporter, being some of them is already committed with international contracts and need to be fulfilled. However, I would say 80% of that impact is in Q3, 100% or 90% in Q4. Probably by the next year, we will see a full alignment for that one. And that's probably refer to what I have mentioned earlier that although the waste paper prices internationally went higher, from the local market it went... the other dimensions, it was a lower quarter-to-quarter for the reasons we mentioned.

Bassem Elshawy:

I believe we have another question. Okay. So we have a question about capex. The capex for the tissue project is... The total project cost 340 million Saudi riyals, and the project is expected to start commercial production in the first quarter of 2023. The sales volume during this quarter were around 100... The production volumes, sorry. We do not disclose sales volumes. We only disclose production volumes. It was about 100,000 tons.

Johan:

All right. Bassem, before you move on from the capex question, just for clarity. The question with regards to when does the tissue project capex commence? Under IFRS, we've already started capitalizing the cost we incur in the project. So if you look at the company notes to our financial statements, note number five has a section 4C work or capital work-in-progress. There's been additions year-to-date of around 25.5 million Saudi riyal, of which approximately half of that already relates to the tissue project, and you can expect that number to accelerate as we move into full-scale groundbreaking in the coming months.

Bassem Elshawy:

All right. We have a question, another follow-up question from Ashar. "Can we know your utilization of the second quarter, and how has it changed quarter-on quarter?"

Bassem Elshawy:

Well, as a rule of thumb our utilization is usually above 90%. So it has been steady throughout the previous couple of quarters. All right. We have I think more questions.

Moderator:

I think we will take a voice question now from Mr. Mohammed from HSBC. Please go ahead.

Mr. Mohammed:

Mr. Mohammed: Can you hear me? Hello?

Moderator:

Please go ahead, Mr. Mohammed. If you can just please speak a little bit louder because your voice is very inaudible right now.

Mr. Mohammed:

Okay. Thank you very much for arranging this call. You mentioned that you expect this line in the course [inaudible] of the new regulation, so [inaudible]. I just want to [inaudible]. How [inaudible] will cost per ton? Thank you. [inaudible]. You said their impact will be in Q4, maybe. How much you expect the decline in the cost?

Moderator:

Please stand on the line. I think the host has disconnected. We're just waiting for them to reconnect.

Moderator:

Once again, please stand on the line. The MEPCO team is just reconnecting to the call.

Moderator:

Once again, we'll have to give a minute or so for the MEPCO team to reconnect to our call. Mr. Mohammed, your line was very inaudible for the call. If you just don't mind, once the team reconnects, if you can just repeat your... repeat your question, please.

Moderator:

Bassem, hi. I think you are back live with us.

Bassem Elshawy:

All right.

Moderator:

Yeah. I've just asked Mr. Mohammed if he can please repeat his question because the line was very, very poor. So Mr. Mohammed, if you can hear us, please if you can repeat once again just a lot louder because we could not hear you. Your line was very, very poor. Please go ahead.

Moderator:

Unfortunately, we're unable to hear the question of Mr. Mohammed from HSBC. I'm seeing no further questions on both voice or text. I'll pass the line to the MEPCO management team to give the... Actually, apologies, we have one last follow-up question from Ashar Saleem from FALCOM. I will open your line for the final question. Please go ahead.

Ashar Saleem:

Thank you so much, and apologies for annoying a lot. My last question is about... You're above 90% utilization since a long time. Are we expecting any shutdowns, any repair, maintenance expected in this year, or how often do you do that in terms of the life of the plant?

Sami Al Safran:

Let's wait for reports for that one, but classically, we have a shutdown within the plan itself. That should not affect our production target.

Ashar Saleem:

Thank you.

Moderator:

Okay, we are seeing no further questions. I will pass the line back to the management team for the concluding remarks. Please go ahead.

Sami Al Safran:

Gentlemen, thank you very much for your time, and given, and your interest to analyze MEPCO. Personally, I'm really very delightful to see the outcomes of the two decades of activities into building a non-oil sector. Iconic investments in paper industry is giving the fruit. We are delightful that now most of the governmental institutes headed by the ministry of industry are really supporting the manufacturing to be on the fair position to grow and compete with the rest of the world. I hope this will continue really to reflect our business result, improve the confidence that our shareholders, and improve the return for our shareholders. Thank you very much, and thank you for the time you spent with us.

Moderator:

Thank you very much. We'll be concluding today's call and closing all the lines. Thank you.