Alpek 3Q21 Earnings Webcast Transcript

CORPORATE SPEAKERS

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Alejandro Elizondo:
[Slide 2] Hello and welcome to Alpek's Third Quarter 2021 Earnings Webcast.

[Slide 3] I am Alejandro Elizondo, Alpek's Investor Relations Officer, and today I have the pleasure of being joined by our CEO, Pepe Valdez, and our CFO, José Carlos Pons.

This presentation is divided into two parts. First, Mr. Valdez and Mr. Pons will comment on Alpek's third quarter 2021 performance and update on relevant events. Afterwards, we will move on to Q&A.

Please note that the information discussed today may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to certain risks and uncertainty. Actual results may differ materially, and the Company cautions the market not to rely unduly on these forward-looking statements. Alpek undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

I'd like to remind everyone that today's Webcast is being recorded and will be available on our website, at alpek.com. I will now turn the call over to Mr. Pepe Valdez.

José de Jesús Valdez:

Thank you, Alejandro.

Good morning everyone and thank you for joining us today. I hope you are all doing well. This morning I am pleased to begin by reporting that amid a favorable margin environment, Alpek has delivered another strong quarter. During this period, we set three new company records including our highest ever quarterly volume and Comparable EBITDA for the Plastics and Chemicals segment, as well as highest overall Comparable EBITDA for the first three quarters of any year.

[Slide 4]
Let's start by reviewing the main topics of today's webcast:

- First, Alpek has greatly surpassed financial performance expectations for the third quarter; José Carlos will review these in greater detail
- Second, we recently reached an important ESG milestone. As such, we will discuss new targets and action plans for our material ESG issues
- And third, we will provide additional insight into our revised 2021 Guidance, as per the Earnings Report released yesterday

[Slide 5]
Providing some context for our results, the third quarter of 2021 was marked by continued strength in the global economy and higher marine freight costs.

Demand for petrochemical products remained strong this quarter. Asian integrated Polyester reference margins averaged $318 dollars per ton. This was higher than Alpek's revised Guidance figure of $300 dollars per ton, which was based on the supply/demand balance expectations prevalent at the end of the previous quarter.

As I mentioned, an important factor supporting these higher-than-expected margins were marine freight costs, which have increased the gap between the Chinese and Asian Polyester reference margins to $90 dollars per ton in this quarter, versus only $46 dollars a year ago.

[Slide 6]
North American Polypropylene reference margins reached a new record with an average of 52 cents per pound, an 11% increase quarter-on-quarter partly due to continued demand strength, the impact of Hurricane Ida on U.S. Gulf Coast inventory levels, as well as the aforementioned high cost of Asian import alternatives.

At this point, I would like to turn the call over to José Carlos, who will go into more detail regarding the impact of these events on our financial results.

José Carlos Pons:

Thanks Pepe, and thank you all for being here with us today.

[Slide 7]
I would first like to highlight Alpek's outstanding overall performance throughout the quarter by focusing on some of our main achievements:

- A strong overall volume of 1.2 million tons, a record quarterly high for the Plastics & Chemicals segment
- Record Comparable Plastics & Chemicals EBITDA of $124 million dollars
- Overall Comparable EBITDA of $234 million dollars, a record accumulated figure for first three quarters in a year, as a result of strong volume and higher-than-expected PET and Polypropylene margins, as discussed by Pepe
- And a further Leverage reduction to 1.2 times, as last-twelve-months EBITDA significantly increased

[Slide 8]
If we take a look at Volume, Alpek reached 1.2 million tons this period, basically flat quarter-on-quarter.

In the polyester segment, volume was 2% lower quarter-on-quarter, largely due to:

- The extended effect of the drought that took place in the second quarter in Altamira, Mexico on PTA production, which partially carried over into the beginning of 3Q21
- And lower PET production from one of our facilities in the U.S Gulf Coast resulting from a short precautionary shut-down in anticipation of the arrival of Hurricane Ida

- Volume would have been similar to last year's record levels had it not been for these two nature-related events.
- In Plastics and Chemicals, Alpek set a new volume record, with a 16% increase year-on-year, mainly due to increased EPS output from our recently acquired facilities in the United States. However, excluding these new EPS sites, volume would have still been 4% higher versus last quarter.

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Moving on to raw material price dynamics:

- As the global economy has continued to show its strength, demand for refined products has kept rising despite slight supply reduction, leading to an increase in average spot Brent Crude Oil price to $73 dollars per barrel, 6% higher than in the second quarter
- Correspondingly, U.S. reference paraxylene prices also increased by 7% versus last quarter
- In Plastics and Chemicals, Propylene prices averaged 82 cents per pound, a 23% increase when compared to the previous quarter given the impact of Hurricane Ida on inventory levels and the high cost of import alternatives from Asia
- This rise in prices generated a positive Inventory Adjustment and Carry-forward effect across both of our business segments

[Slide 10]

Switching over to our EBITDA breakdown for the third quarter, we can see that Comparable EBITDA was $234 million dollars, 4% higher quarter-on-quarter, primarily due to PET, Polypropylene, and EPS reference margins that were significantly higher-than-expected, as well as record Plastics & Chemicals volume.

Reported EBITDA was $279 million dollars, 56% higher year-on-year, as this result also includes:

- A non-cash inventory gain of $22 million dollars
- And a positive Carry-forward effect of $21 million dollars

In terms of results by key segment, we can see that Polyester Comparable EBITDA was $107 million dollars, increasing by 5% quarter-on-quarter.

- Our results largely benefited from strong Asian Polyester reference margins averaging $318 dollars per ton, which remained high due to strong demand and the widened spread between Chinese and Asian margins

In Plastics & Chemicals, Comparable EBITDA reached a new quarterly record of $124 million dollars, an increase of 123% year-on-year mainly due to:

- Record Polypropylene reference margins of 52 cents per pound, also resulting from a strong supply/demand balance and the effect of high marine freight costs

[Slide 11]

With regards to Free Cash Flow generation:

- Net Working Capital investment increased by $245 million dollars, partly due to the continued rise in feedstock prices for Paraxylene and Propylene during the quarter,

- CAPEX totaled $32 million dollars, and was mainly used for maintenance and minor asset replacements
- Free Cash Flow totaled negative $27 million dollars as the increase in Net Working Capital offset EBITDA for this quarter

[Slide 12]
Finally, regarding our financial position during the third quarter:
- Alpek's Net Debt increased to $1.32 billion dollars
- However, last-twelve-months EBITDA increased sharply, resulting in an improved Leverage ratio of 1.2 times Net Debt to EBITDA, far exceeding investment-grade requirements
- If considering Net Debt to Comparable EBITDA, we can also see that Alpek has further improved this ratio to 1.6 times

Thank you everyone, I will now turn the call back to Pepe.

José de Jesús Valdez:

Thank you, José Carlos.

[Slide 13]
Regarding recent events, and as we announced in the press release last week, Alpek reached an important milestone regarding its work on ESG.

Over the past two years, we've found ways to improve the manner in which we identify ESG risks, how we proactively address these issues, and how best to disclose our progress. In our 2020 Annual Report, we published an updated ESG model and we have continuously improved our scores with the major ratings agencies.

The next step in our journey was to set clear and ambitious goals for each of these topics. During the third quarter, we carried out a deeply analytical review of the global ESG landscape, as well as our progress to date, which culminated in a set of 12 targets and corresponding action plans on which the company is fully aligned.

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There are four topics we would like to discuss that are likely most relevant to today's audience:

Let us begin with Carbon Emissions and Eco-Efficiency. Alpek believes the science is clear on the need for urgent and decisive action with regards to climate change. In accordance with the Paris Agreement, we plan to reduce greenhouse gas emissions from our global operations by 27.5% before 2030 and ultimately reach net zero emissions by 2050. To do so, we must accelerate the transition to fully renewable electricity sources, find energy saving opportunities across all our sites, and explore new technologies that will allow us to produce carbon-free steam.

On the topic of PET Circularity, where mechanical technology has already achieved recycling rates of 59% worldwide, we have formalized our intent to further expand our bottle recycling capacity to 300 thousand tons by 2025, allowing us to meet customer targets for recycled content. For Polypropylene and EPS, where waste gathering efforts are not yet as advanced, we are also focusing on finding circularity solutions through chemical recycling and biodegradability.

In terms of Occupational Safety, Alpek has a long history of achieving better-than-industry-average metrics. However, while our goal has always been to have zero accidents every day, today we are setting a quantifiable target to be in the top decile of the industry in recordable incidents. To reach this target we will focus on increasing the reach and frequency of external safety audits, complementing with increased use of technology, and performing company-wide campaigns to reinforce the importance of our individual actions on the company's safety levels.

Finally, regarding Corporate Governance, we have seen evidence that empowering a diverse team with the right information leads to better decision-making. As such we will present proposals to improve Board diversity at our upcoming Annual Shareholders' Meeting. In parallel we will increase access to our relevant ESG key performance indicators by year-end.

Rest assured that we maintain the same level of analysis, ambition and action plans for all our other material issues not presented today. These may all be found on our website.

We are confident that via this new approach we will achieve all our targets, maintaining a level of commitment to ESG equaled only by companies at the forefront of this movement. Moreover, we intend to keep an open mind, periodically reviewing and adjusting our approach as needed by these ever-changing topics.

[Slide 15]
Finally, regarding our outlook for the remainder of 2021, we have observed strong margins from previous quarters carry over into 3Q21, and with elevated marine freight costs likely to continue providing support to an already strong supply/demand balance across all our products, the Company has decided to update its guidance figures and underlying assumptions.

In the Polyester segment, Alpek expects the continuation of strong demand, with Asian integrated margins now expected to average $315 dollars per ton for the remainder of the year.

In the Plastics & Chemicals segment, the strength of Polypropylene margins is also expected to last through year-end, albeit at levels lower than current figures, but greatly surpassing our most recent forecast for the year. As such we expect average reference margins of 45 cents per pound for the fourth quarter.

Our updated Guidance figures are still based on an average Brent crude oil reference price of $70 dollars per barrel for 2021, unchanged from our previous Guidance, as demand for refined products has remained steady.

Based on these assumptions, Guidance for overall Comparable EBITDA in 2021 is now set at $850 million dollars, and $1.05 billion dollars for Reported EBITDA, as we still expect to end the year with a net positive Inventory Adjustment and Carry-forward effect.

It is worth noting, that if met, this figure would be the highest Comparable EBITDA ever in Alpek's history.

Volume guidance remains unchanged, as performance across both segments continues in line with our original Guidance and at a record-setting pace.

Guidance for CAPEX will also remain at $250 million dollars.

We're excited about the strong performance our Company has continued to exhibit, but even more so about the future growth opportunities that these recent results open for us.

As always, I would like to thank our team, customers, and suppliers for another stellar quarter. I would also like to thank you for your attention today.

I'll now turn the call back to Alejandro to open the Webcast for Q&A.

[Slide 16]

Alejandro Elizondo:

Thank you, Pepe. At this time, we will now move on the Q&A portion of our Webcast.

To ask your question live, we ask that you raise your hand virtually through the Zoom application. We will call on participants in the order that hands are raised.

Alternatively, you may also type your question through the Q&A function of this application. We will attempt to cover as many questions as time allows.

Q&A

Alejandro Elizondo:
Our first question comes from Nikolaj Lippmann with Morgan Stanley. Nik, your audio has been enabled, please unmute yourself and proceed with your question.

Nikolaj Lippmann, Morgan Stanley:
Thank you very much Alex, good morning everyone thanks for the call and for taking my questions and congratulations on the strong numbers. I've got three quick questions:
First, and I know you're not giving guidance for 2022, but on the polyester side when you know you have rising cotton prices, higher freight, can you discuss perhaps the balance of risk, to what degree do you have balance of risk to the upside into 2022 specifically for polyester? So that's question number one.

Question number two relates to rPET and how you express your targets there which is 300,000 tons which is a very concrete target for 2025. The brand owners, your clients, express it as a percentage of recycled content, as a percentage of the total product um can you, yeah am I overthinking this? …and I would also like to just ask, you know if you were able to buy recycled glycol, is that something that you would be interested in? In relationship to try to reach the target that will potentially allow you to operate at a higher rate in PTA and just use the the recycled glycol. Actually those are my questions, thanks a lot and congrats.

José de Jesús Valdez:
Well thank you Nik, your first question, I mean how do we see let's say margins for PET for 2022, well we at this moment, I have to say we do see a potential upside, an important potential upside in margins for PET based on many factors actually. I mentioned several times during my presentation the issue of the ocean freights as a factor that has enabled us to you know increase our sales into domestic markets particularly North America, and it has certainly tightened the supply demand situation for PET, but there are other factors at play, also again the ocean freights is one issue, but recently as I believe you must be aware there's been a significant increase in energy prices in Asia, particularly natural gas. There has been also in particular in China, some rationing of power supply and this has already translated over the last few days into even higher margins than we mentioned in our guidance. I mentioned that we were assuming $315 dollars per ton and margins for Asia before quarter-end and honestly today's margins, I mean if we specifically talk about today. The margin in China not in Asia is 360 dollars, so versus the $315 that I mentioned as our assumption, so that's another factor that might be playing in terms of improving margins and again the reasons for local margins in Asia to improve have to do a lot we believe in terms of energy and so yeah we do believe the significant upside for margins during the next year. At this point we are starting negotiations with our main customers for prices for next year so we will have a more definitive answer you know at the next meeting, but yes the trend is positive for margins in our products, I would say particularly PET.

Nikolaj Lippmann, Morgan Stanley:
Pepe, may I just ask a follow-up, so aluminum is obviously made largely of electricity and you know, are you seeing some substitution there that brand owners are maybe switching a little bit out of aluminum and also on the textile side, on the yarns are you seeing maybe as cotton prices have been rising that there's more demand for PTA from the textile industry or is it still too early?

José de Jesús Valdez:
Look Nik, it's difficult to exactly answer your question, what we have seen in PET is a much higher growth than we had forecasted, in 2020 if my memory is right, I think the consumption of PET in the U.S. increased by almost 3.9%, this year we're estimating 3.2 - 3.3% and for next year, we are estimating over 2%, and this compares with a previous you know estimation that the growth of PET would be somewhere, I'm talking virgin PET, that the growth of consumption in PET would be somewhere between 0 and 1% per year, so we have already seen a significant increase in PET. Aluminum at least until middle of this year has been in a way also limited by their capacity to produce, so I think they're also doing well in terms of volume, at least the visibility we have, they should be able to increase a little bit the capacity in the last or next months, but I could say that PET has surprised us in terms of the volume and I think of course it has to do with a higher growth in the market, development of a lot of new products developed

in PET and again, we see this when we talk to our customers, asking for additional volumes into next year, so it looks like the demand will continue strong. I think a lot of the changes, we mentioned last year you might recall, we were mentioning last year that one of the factors that we thought increased the demand for PET was the increase in take-out, all of the on-premise locations in many cases were closed and people were asking for take-out and in take-out sometimes the on-premise they have these refillable machines and in take-out obviously, you have to use bottles, you cannot use those machines. So we continue to see a little bit of that trend, take-out people continue to increase that, and so again we think the demand will continue to be very strong regardless of aluminum prices honestly.

Nikolaj Lippmann, Morgan Stanley:
Thank you.

José de Jesús Valdez:
In terms of our rPET target, look we committed, to our customers we have you know customer by customer sort of commitment for 2025, and the target that we said is for us to meet that commitment. Having said that, I think you're right, all of our customers are now coming back to us and they're asking us to try to increase those volumes and we're looking into those, and of course we are looking into all sort of opportunities, not only mechanical recycling, also chemical recycling and for sure your question of whether MEG, recycled MEG would be of interest to us, well of course. All of our recyclable products are of great importance to us, and again we set the target based on commitments we have but we are open and willing to increase those even further.
Now you have to keep in mind that in one of our largest markets, particularly in Mexico, there is a lot of other companies recycling PET, some of them our customers themselves, so for that reason they don't request particularly in Mexico they don't request as much recycled products, because they do have the capacity and there are other suppliers, important suppliers that are also in this business of recycling PET. So that's another explanation we are not the only supplier to our customers, and I guess that in my opinion should answer your questions.

Nikolaj Lippmann, Morgan Stanley:
Thank you very much.

Alejandro Elizondo:
Thank you, Nik. Our next question comes from the line of Vanessa Quiroga with Credit Suisse. Vanessa, your line has been opened, please go ahead and ask your question.

Vanessa, Credit Suisse:
Thank you, Alejandro, hi Pepe, hi José Carlos. I hope you can hear me well. I have a follow-up about the recycled PET question and this topic. So, is it correct to estimate your expected capacity of rPET as about 12% of your total PET capacity and you know if we compare this to the targets that we are seeing for your own customers obviously I mean 12% is lower than these targets, which go anywhere from 25 to 30% and even higher so given your previous answer, is it you know correct to assume that basically some market share, you're gonna lose some market share, your fair market share of rPET, to your own customers just to understand that very clearly, thank you.

José de Jesús Valdez:
I think what I tried to explain to Nik in the last part of this question and let me go back to using Mexico as an example, if you wouldn't mind. Today we don't produce rPET in Mexico and the reason why we don't produce rPET in Mexico is because our largest customers are almost self-sufficient in rPET so they are supplying their own rPET for themselves, so again that means that the 25% or whatever number they want to recycle 50% whatever, they are supplying a significant portion of it and what they have requested from us is equivalent or is included in the 300,000 tons per year. And no, we have not lost market share, we are increasing our market share, but we don't have let's say our customers do not request from us the 25 or whatever percentage they are using because they do have other sources, but we are increasing our market share. They, as I say, in some cases they're not even asking for anything today, because they have their own plants and their own means to get recycled PET.

Vanessa, Credit Suisse:
Okay Pepe thank you very much for that, and so my follow-up question would be about your growth plans. Do you expect for now that your, any inorganic growth, any acquisition that you make will be focused on your ESG or Evergreen-related plan or do you expect to do further in terms of vertical integration or any other product or strategy? Thanks.

José de Jesús Valdez:
Well we don't have any specific M&A opportunity right now, but we're looking into a lot of new and different fields to comply with our ESG targets. As I sort of mentioned, one of the key aspects to meet these reductions by 2030 and eventually 2050 carbon neutrality, is going to be renewable energy and we're looking for ways in which we are going to source that. And in some cases, Vanessa that might imply some acquisition or it might imply organic growth, if we don't find suppliers that can deliver that to us, we could build our own renewable facilities close to some of our sites. It could take us there and that's one example of a potential acquisition, let me continue first with the ESG ideas that we have, we're exploring new technologies obviously, we want, I mean, the first step and something has to be done before 2030, is a significant change in our power supply from whatever source we have today to renewable that's number one. Now another source, important source, of emissions for us is our manufacture of steam, and in that case we are using different ways to reduce steam in favor of power, and then for power we can use renewables, that's one way we can improve or reduce our CO_2 from steam and also we're looking for possibilities of, and let me just give you an example, I mean at this point it sounds a little bit far-fetched, but it’s moving. Green hydrogen is another opportunity that we're looking at to also replace using fossil fuels for the production of steam, and in fact there are some new and interesting technologies on that field that combine the production of green hydrogen with the renewable energy in the same site so we are looking at those type of projects from ESG and last but not least, we are also starting to look at carbon capture projects particularly we don't need those for 2030, but we do need those for the 2050 goal of neutrality.

So in terms of ESG those are all of the project opportunities that come and also related to ESG we do have projects to improve our usage, our consumption of energy in our plants which those are very much related to adapting new technologies and so that covers I think the ESG portion of your question.

And on the growth side other than ESG, well I mean as usual we're also looking for opportunities to improve our portfolio, to continue to grow, and we are at this point in a relatively healthy, we have a very healthy balance sheet and we have room to continue to grow not only with organic projects but also with some acquisitions.

Vanessa Quiroga, Credit Suisse:
Thank you very much Pepe.

Alejandro Elizondo:
Thank you, Vane. Our next question comes from the line of Ricardo Rezende with JP Morgan. Ricardo, please unmute yourself and ask your question.

Ricardo Rezende, JP Morgan:
Sorry can you hear me?

Alejandro Elizondo:
Yeah, we got you Ricardo.

Ricardo Resende, JP Morgan:
Okay sorry, so good morning, hope you guys are doing well thanks for taking my question. The first one, it's on your capital allocation, when you look at leverage, it has been declining, you just raised your guidance, looks like 2022 will be a very good year as well, so how should we think about capital allocation and especially on the dividend side?
The second question would be more about the working capital, we saw the large consumption during the quarter, so how should we think about working capital going forward, especially on the fourth quarter?
And then just lastly one very specific question, Pepe you mentioned about the Chinese margins that we're seeing today, just to confirm is that $360 dollars per ton that you mentioned? Thank you.

José de Jesús Valdez:
In terms of capital allocation well I mean what I can say is that we of course are looking first at the M&A opportunities and very much you know related to that, if we after taking a look at M&A opportunities find that we still have a strong balance sheet, we would also of course, we will have to look at dividends. We don't want to be on a permanent basis in an inefficient capital structure in our balance sheet. Having too much debt is not good, having too little debt is not good either, so I do believe that we would have to balance that, and depending on the M&A opportunities that we can execute, then we will also determine the dividends. So that probably responds your question.

In terms of working capital, it has increased a lot this year as a result of higher prices of crude oil and raw materials in general, so it has increased a lot, I am proud to say that in terms of investment as money in terms of U.S dollars in working capital, I have to say that we have been able to improve significantly our turnover of working capital, I mean the days of working capital have been reduced like four or five days probably compared to previous periods, so we have mitigated that increase of investment in working capital by higher efficiency, but also and again, I would say most of the increase in working capital in my opinion is behind us.

We believe prices will start, of raw materials, will start to come down and then we'll free up some investment in working capital in the next months, so that should be helpful for our balance sheet, as well. And your question of chinese margins, well I can tell you the $360 actually it was $370 today, not $360, $370. Yes, that's correct, and yes if you go back to the last spread between Asia and China over the last months, five - six months, you would expect that the Asian prices will be approximately $90 dollars higher, which will give you the $450 - $460 that you mentioned. However we don't have information, I mean, we have information from China on a daily basis, we don't have information from Asia on a daily basis and actually there's been sort of a holiday over there, over the last days, and so we don't have recent information, but yeah I would expect that the margins would probably remain around the spread between Asia and China around $90 dollars. I suppose only $45 - $50 dollars in previous years, and how long does it last? I have to tell you, we put a lot of effort into understanding this ocean freight dynamic and depending on who you ask everybody gives you a different answer but nobody really gives you a well documented answer so I don't know. At first they told us you know it was going to improve significantly by the middle of ‘21. Now we start to hear that this is going to continue for some time and perhaps go for most of next year, not necessarily at the same level, but we don't have really a good answer to your question, we would just be speculating.

Alejandro Elizondo:
Thank you Ricardo. Our next question comes from Ben Isaacson with Scotiabank, Ben please unmute yourself and ask your question.

Ben Isaacson, Scotiabank:
Great thank you, can you hear me okay?

Alejandro Elizondo:
Yeah, we got you Ben.

Ben Isaacson, Scotiabank:
Great, so I have three questions. The first question is on your ESG targets to reduce your emissions by 27% by 2030, can you talk about how specifically that will be achieved and the reason why I'm asking is I'm actually more interested in what your goal posts are for CAPEX spending to achieve that because of course that will reduce free cash flow available to shareholders over the coming years.

José de Jesús Valdez:
Look there's, I would say there are some actions that we are taking, that would not require a lot of investment, and again let me go back to replacing fossil, let me call it fossil power, with renewable power, okay that with today's technologies I would say they probably do not require a lot of investment there, and not only you do not require investment, you would most likely not incur in additional costs. In fact we do believe we might actually reduce costs, so those sort of actions are relatively no-brainers, let me put it that way, and that is a significant part of the reduction. Most of our CO_2 emissions are related to the energy that we consume both power and steam, okay so on the power side we have those

very specific opportunities then in terms of replacing again fossil power with renewables. We do have other projects where we do need more investment and where the idea would be to reduce the consumption of of both power and steam, to improve efficiency in our plants. In some cases these projects also imply a certain increase in capacity, reduction in other costs so we do have a group of other projects in that direction and here we do need some investment. We do have a very preliminary idea today, we might believe that from here to 2030 we would need probably an investment in the range of $315-$350 million dollars, but as a result of those investments we would probably improve our EBITDA like by $90. Okay so these projects come with important investment, but they also have a reasonable payback, so that's another group of projects, and I would say for 2030 those are the main ideas. Yes, and then again, in the balance you have to consider, we might have some footprint optimization, we might consider debottlenecking some plants and that would allow us to reduce some other plants that are not as efficient, but that's again part of the idea of the $350 and I would say that should take us to 2030 and as I mentioned beyond that, we'll have to continue to look for other opportunities. I think particularly the next step would be some additional power switch from closer to renewables we do have some contracts which expire beyond 2030 which we cannot cancel and then of course, as I mentioned, the steam opportunity right at that time will be very critical and then in footprint we have some assumptions of reducing or optimizing some of our sites, but at the same time we have some assumptions that we will have some growth, so we are including our 27.5% in potential new acquisitions.

Ben Isaacson, Scotiabank:
Perfect, thank you. My second question is on capital allocation, just to follow up on the on the dividend question, there's been a lot of talk about dividends and potential special dividends by Alpek and I just wanted to ask about share buybacks. Have you considered and what are your thoughts about repurchasing shares directly from ALFA, it sends a very good signal to the market that you see your stock as being undervalued, you also don't destroy the 18% free float and of course it also sends money to ALFA as well which accomplishes the same thing as a special dividend. Can you talk about whether or not you've evaluated that and what your thoughts are there?

José de Jesús Valdez:
We are looking at several alternatives and this could potentially be one of them, but what I can tell you is that's something that could be done. It depends a lot also on fiscal issues that we have to consider.

Ben Isaacson, Scotiabank:
Okay, thank you and my final question is just for an update on the timing, CAPEX, decision-making on Corpus Christi.

José de Jesús Valdez:
Well as I mentioned before, the outlook of the PET demand in North America has improved significantly over the last couple of years and yes we are at the, as we mentioned before, we are at the latest stage of having the investment estimate for Corpus and I would say we expect to make a decision on whether to restart let's say construction within the next two to three months.

Ben Isaacson, Scotiabank:

Yeah and then just finally on that point is there any possibility of increasing or decreasing the ownership, or is it set, your partnership, and there's not going to be any change? So all of the other partners feel the same or is it possible that someone will exit and sell?

José de Jesús Valdez:
Well I think it would be easier to sell than to buy, I think the partners are all quite eager to to move ahead with the project, so it's my opinion that seems to me everybody would be more in a buying mode than in a selling mode, so based on that I assume we're all going to stay the same.

Ben Isaacson, Scotiabank:
Great, thank you very much appreciate it.

Alejandro Elizondo:
Thanks Ben. Our next question comes from Andrés Cardona with Citi. Andrés please unmute yourself and ask your question.

Andrés Cardona , Citi:
Thanks Alejandro, good morning everyone I have two questions, let me try to to put together some ideas about two previous questions from my colleagues. The first one is you mentioned that you can invest on converting your facilities from virgin PET to recycled PET, I would like to understand how long does it take to complete that investment process, right? And the second one if you are considering M&A in different geographies than the Americas, so that would be the first point, and the second one is if you have analyzed potential impacts from the potential amendment to the energy reform in Mexico, thanks.

José de Jesús Valdez:
Okay, that's a good one. Convert yeah, well what you mean by conversion virgin PET to recycled PET is what we call single pellet solution. We do have one project to do that in one of our plants in the U.S. which will be approximately 33 thousand tons, but that would still be a minor part of our total program. Most of the growth that we are expecting for recycled PET is going to be the on-purpose sort of facilities. Again this decision of switching virgin PET to recycled PET is not as attractive, as the outlook for PET demand is improving.

Okay, if we were to be in a situation in the future where you have excess PET capacity that conversion would make more sense, but right now with the outlook I was sharing with you we're actually short of conversion PET capacity at least for the next two to three years until Corpus is established, so that's perhaps something that we will address later when we're closer to the start-up of Corpus. For the time being, our most important projects have their own solid-stating capacity together with the flake production.

Okay, now the ammendment to the energy reform in Mexico, well as you say is still a proposal we don't know if it's going to be approved, and what changes are going to be made into the proposal. Overall our concern if the proposal were to go exactly as it is, well I think it has a lot of problems honestly, I mean first of all it's not sort of, let's put it this way, the main issue I think for us would be potentially an increase in power cost, a significant increase in power costs versus the alternatives that we have today. That I think will be the major problem that we envision with this reform, particularly if it's applied retroactively. If it is not, if it's applied like for new projects and existing projects were to be allowed to continue, which is something that we would expect to happen, then the impact would not be as important for us. Still overall I think the impact for the mexican economy that depends so much on manufacturing is that an increase in power costs would reduce the competitiveness of most of the manufacturing plants in Mexico. So that's the biggest concern, that we would have with a decision like this, and again let's hope that is taken into consideration.

Alejandro Elizondo:
Thanks Andrés, our next question comes from the line of Gustavo Cunha with UBS, Gustavo please unmute yourself and ask your question.

Luiz Carvalho, UBS:
Sorry, can you hear me?

Alejandro Elizondo:
We can hear you, go ahead.

Luiz Carvalho, UBS:
It's Luiz Carvalho here, sorry. Hi Pepe and José Carlos, thanks for taking the questions, I would like to come back on this capital allocation discussion I think that we had a couple questions before, but just trying to understand what would be the strategy looking forward I think that you already mentioned that potentially would consider some, I don't know, some potential I would say inorganic growth or you mentioned something about dividends, but I'm just trying to understand what kind of returns are you looking and if you don't have the potential, you know M&A on your pipeline how would you see these dividends looking forward?
The second question is mostly about some of the products that you produce we, I mean prior to the pandemic, we saw lots of pressure from some bodies in terms of reducing for example the use of single-use plastics and after the pandemic we saw kind of a rise in terms of the consumption for these goods, and now that the pandemic is I would say somehow easing in some parts of the world, how are you following the utility consumption habits for these kind of products? Thank you.

José de Jesús Valdez:
In capital allocation and again I think the idea with capital allocation as I mentioned, I mean we're going to continue to pay dividends as Alpek, there's no question about that, I think the question is the amount of dividends that we're going to pay going forward and that depends again as it has been in the past, on the opportunities on the M&A side, but in all cases of course we will try to keep our Net Debt to EBITDA in levels that are similar to previous years, try not to go over 2.5, at least not enough on a permanent or in a long period of time, so it might be a little bit more for a short period of time, but that in a way I think is what’s going to decide on the dividends. We do have to pay dividends, those can be higher or lower depending on the opportunities that we find for M&A and in both cases I mean we'll try to be close to the leverages that we have mentioned you know 2.0 to 2.5 times Net Debt to EBITDA, that is the criteria that you can expect and you can see that will happen.

The pressure on plastics I mean that continues to be a major issue for us, and I think you know it's very interesting because in terms of plastic I think the biggest concern of the consumers, or of the communities, or the people, has to do with the waste. The way we manage the waste in plastics and in that sense the best way to change that, as we explained before, is through circular economy, through increased recycling. That's where we are working so hard and there's a lot of people working on that, and I think as we do improve the recyclability, particularly of PET, we will mitigate the pressure from society on that side.

On the other hand, and now that we are all so much focused on ESG, I think we believe that over time the key metric that everybody is going to be looking at is going to be CO_2 emissions. And again, when you look at plastics in terms of CO_2 emissions then you will realize, and hopefully we can convey this to the people in general, that from the perspective of CO_2 emissions PET is the best option for the consumer. And I will tell you something else, recycled PET is even better in terms of emissions of CO_2. So again I think as people are becoming more familiar with all of this, the perception about the plastics should improve, so from a theoretical point of view, the plastics we have an issue with waste, which we are addressing, but we have a great opportunity in terms of the advantage that plastic has on the CO_2 emissions and I think right now waste is a big issue, hopefully it will be resolved and mitigated the problem, but I want to think two, three, four years from now most of the concern of the people is going to be on CO_2 emissions and on that front I do believe that we have a big advantage, particularly, if we make all the changes that we're talking about, converting to renewable power and reducing, clean source to produce steam then I think our product is really very, very friendly with environment.

Luiz Carvalho, UBS:
Okay, very clear thank you very much.

Alejandro Elizondo:
Thank you Luiz. That was the last question we have time for today. Rest assured we will follow-up via email, if we were not able to get to your question on this call.

[Slide 17]
As always, I'd like to remind you that you can find both a video recording of today's webcast, as well as a transcript, on our website at alpek.com

Thank you all for participating in Alpek's Webcast.

Have a great day!