Alpek 4Q22 Earnings Webcast Transcript

CORPORATE SPEAKERS

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Jorge Young, *Incoming Chief Executive Officer*

José Carlos Pons, *Chief Financial Officer*

Antón Fernández, *Investor Relations Officer*

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Luiz Carvalho, *UBS*

Leonardo Marcondes, *Bank of America*

Nikolaj Lippmann, *Morgan Stanley*

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Antón Fernández:
[Slide 2] Good morning, and welcome to Alpek's Fourth Quarter 2022 Earnings Webcast.

[Slide 3] I'm Antón Fernández, Alpek's IRO, and today I am happy to being joined by our CEO, Pepe Valdez, our CFO, José Carlos Pons, and for the first time, Jorge Young, our incoming CEO.

This presentation is divided into two parts. First, Pepe and José Carlos will comment on Alpek's fourth quarter and full-year performance, and then Jorge will remark on the 2023 Guidance figures. Afterwards, we will move on to Q&A.

Please note that the information discussed here today may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to certain risks and uncertainties. Actual results may differ materially, and the Company cautions the market not to rely unduly on these forward-looking statements. Alpek is under no obligation to update or revise any forward-looking statements publicly, 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 Pepe.

José de Jesús Valdez:
Thank you, Antón. Good morning, everyone, and thank you for joining us.

I am very pleased to state that in 2022 we reached record figures, making it Alpek's best year to date. The continued strong reference margins as well as high ocean freight costs, and high demand throughout most of the year, drove the Company to achieve outstanding figures. On an annualized basis, the Company reached the highest Volume, Revenue, Reported and Comparable EBITDA figures in its history.

As per recent company announcements, on March 1st I will leave my current role as CEO of Alpek and assuming the role of Senior Advisor at ALFA. Leading this incredible company for several decades has been a privilege and I was able to oversee its growth across geographies, but most importantly, I was able to see our Alpek community develop and thrive.

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And now I would like to introduce you to a dear colleague of mine, Jorge Young. Jorge was appointed Alpek's new CEO by the Board of Directors and will assume his new role on March 1st.

Jorge will also retain his responsibilities as President of the Polyester Business, which currently represents approximately 60% of Alpek's EBITDA.

I have confidence in him, as I've had the pleasure of working by his side for many years and am certain that his experience and trajectory will enable him to lead the Company successfully into the future. Throughout his extensive career at Alpek, Jorge has held key roles within our important Polyester division, including President of PET and Staple Fibers.

Jorge Young:
Good morning and thank you, Pepe. I will do my best to maintain the momentum you have generated at Alpek throughout all these years.

I very much appreciate your continuous support for the business, our customers, and the people of Alpek. On behalf of everyone, thank you!

I am very excited for this opportunity and grateful for the trust from the Board of Directors. I look forward to working with you all.

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José de Jesús Valdez:
Great, Jorge. Let's begin by reviewing the main topics of today's presentation:
- First, Alpek's financial performance for the fourth quarter was below our Guidance driven by the Polyester segment, however results for Plastics & Chemicals were above our expectations. José Carlos will review this in greater detail later on
- And second, Jorge will provide insight into 2023 Guidance figures and expectations, which we released earlier today

[Slide 6]
After three quarters of better-than-expected margins and results, this quarter, we saw the following:
- Reduced demand across our products, as a result of generalized destocking from customers on our value chain
- Unanticipated higher relative prices of paraxylene in the Americas versus Asia, which impacted our volume & margins in the polyester business
- Operating issues from one of our large PTA customers and longer-than-expected maintenance at our PTA Brazil facility
- Reference margins across our product portfolio were lower than in the third quarter, but slightly higher than what was expected in the Guidance

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- Another very important fact was faster than expected decrease in container freight rates from Asia, particularly for Polyester and EPS going into South America and Europe.

[Slide 8]
Regarding Alpek's ESG progress, we have made improvements on the following main material issues this year:

On CO2 emissions & Energy eco-efficiency, our Scope 1 & 2 Emissions decreased by 19% versus our 2019 SBTi base. One of our facilities transitioned to 100% renewable energy which led us to increase our clean energy intake by 7%.

Two - Circularity: We continue to make progress in PET circularity with the OCTAL acquisition and an addition to one of our facilities, we now have the capability to produce PET Sheet with different degrees of recycled content and additional Single Pellet Technology capacity:

- 33 thousand tons of PET sheet post-industrial recycling in Cincinnati
- 24 thousand tons of Single Pellet Technology at the Salalah plant in Oman
- And additionally, we incorporated 15 thousand tons of SPT recycled capacity at our Pearl River facility

We will continue to explore possible projects in both PET Sheet and PET Resin recycling.

Three - Occupational Safety: Our Total Recordable Incident Rate decreased by 5% versus our 2021 figures. We will continue to strive to be in the top decile of our industry and our goal, of course, is to achieve zero accidents.

Demonstrating our commitment and transparency towards our customers and investors, the Company improved its ESG ratings with all agencies. Let me mention a couple of recent highlights:

- CDP has updated our Climate Change rating from a C to a B
- For S&P, we have reached the top decile for our industry
- And in Sustainalytics, we're in the 25^{th} percentile in Chemicals industry

We will continue to work towards advancing on all of our materiality targets and prioritize action for our 2030 decarbonization goals.

José Carlos will delve more into the financial results.

José Carlos Pons:
Thanks Pepe and thank you all for being here with us today.

Let me provide some context for the quarterly results.

[Slide 9]
Asian integrated Polyester reference margins averaged $338 dollars per ton, higher than expected, and 16% lower than in the previous quarter, with the spread between Chinese and Asian margins increasing to $114 dollars per ton.

[Slide 10]
Meanwhile, Polypropylene reference margins declined to an average of 23 cents per pound, 32% lower quarter-on-quarter, mainly due to the following:

- The initiation of operations of added polypropylene capacity in Canada and the Gulf Coast in the U.S.
- And the weakening demand towards the end of the year

[Slide 11]
Also in North America, EPS average reference margins remained strong during the fourth quarter, declining to 64 cents per pound, 15% lower versus the previous quarter, yet remaining at high levels.

[Slide 12]
I would like to highlight some of Alpek's main achievements during the quarter and overall, for the year:

- Alpek surpassed its annual volume record reaching 5.07 million tons and setting a new historical high for its Polyester segment
- Quarterly Comparable EBITDA of $270 million dollars, mainly due to normalizing reference margins for all products
- Once again obtaining the highest-ever Annual Comparable EBITDA of $1.4 billion dollars, 45% higher year-on-year, driven by better-than-expected margins across all business segments throughout most of the year, as well as incremental volume from the recently incorporated PET business
- Recovered $3.5 million dollars in guaranteed debt from M&G Mexico during the quarter, totaling $26 million dollars for the year
- Leverage of 1.3 times while still delivering an extraordinary Dividend payment of $196 million dollars to Shareholders in the fourth quarter for a total dividend payment of $372 million dollars for the year and the payment of $94 million dollars towards an outstanding bond

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- Volume reached 1.23 million tons this period, a reduction of 10% quarter-on-quarter. This was related to seasonality and the softening of demand
- In the Polyester segment, volume was 1.01 million tons, 9% lower quarter-on-quarter, amid typical seasonality effects and PET demand softening, as well as maintenance at our Brazil facility.
- In Plastics and Chemicals, volume was 12% lower quarter-on-quarter, due mostly to seasonality and additional Polypropylene supply in the region
- On a full year basis, overall volume reached an all-time high of 5.07 million tons, a 6% rise year-on-year, related to the incorporation of the PET business in the Middle East and the solid demand experienced throughout most of 2022

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Moving on to raw material price dynamics:

- The fourth quarter was marked by a tight macroeconomic environment and continued inflationary pressures. The average spot Brent Crude Oil price decreased to $88 dollars per barrel, 11% lower than in the third quarter
- U.S. reference paraxylene prices decreased by 8%, in line with crude oil

- In Plastics and Chemicals, Propylene prices declined, averaging 32 cents per pound, a 31% decrease when compared to the previous quarter

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Moving on to the EBITDA breakdown for the quarter:
- We can see that overall Comparable EBITDA decreased to $270 million dollars; this was 36% lower than in the previous quarter primarily due to overall demand and normalization of reference margins across all products.

Reported EBITDA was $186 million dollars, 39% lower, quarter-on-quarter. This result also included:

- A negative inventory adjustment of $57 million dollars
- A negative carry-forward effect of $27 million dollars
- And mainly generated by declining crude oil, paraxylene and propylene prices

If we review results by key segments, Polyester Comparable EBITDA was $151 million dollars, 42% lower quarter-on-quarter and only 5% lower year-on-year.
- This was mainly due to the decrease in Asian integrated Polyester reference margins, which averaged $338 dollars per ton, 16% lower quarter-on-quarter

Annual Comparable EBITDA for the Polyester segment totaled $820 million dollars, 80% higher than in 2021.
- This was driven by the import parity benefit of freight costs, and the recently incorporated Middle East business

In Plastics & Chemicals, Comparable EBITDA was $120 million dollars, a 24% decrease quarter-on-quarter and 13% year-on-year. This was mainly due to:
- A decline in both EPS and PP reference margins
- Lower consumer demand impacted by market inflationary pressures

[Slide 16]
- In terms of 2022 overall results, Comparable EBITDA was a record-breaking $1.4 billion dollars, 45% higher than 2021 from better-than-expected margins and solid demand throughout most of the year across all key products

[Slide 17]
With regards to Free Cash Flow generation:
- Net Working Capital investment was reduced by $129 million dollars as raw material prices began to drop, especially in North America where paraxylene contract prices fell 8% versus the previous quarter
- Meanwhile, CAPEX totaled $51 million dollars and was mainly allocated towards maintenance, with a portion for the construction of the Corpus Christi Polymers facility
- This all resulted in a positive Free Cash Flow of $180 million dollars for the quarter

- It's also worth mentioning that Alpek distributed a total dividend of $247 million dollars in the quarter, representing $196 million dollars for Shareholders. For the full year, Alpek distributed a total of $494 million dollars, with $372 million dollars for Shareholders and remaining amounts for minority shareholders, leading to a dividend yield of 13%

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Finally, regarding the Company's financial position during the fourth quarter:

- Alpek's Net Debt increased to $1.86 billion dollars, 3% higher versus the previous quarter
- Last-twelve-months EBITDA was $1.46 billion dollars, resulting in a Leverage ratio of 1.3 times Net Debt to EBITDA

With regards to credit ratings, in 2022, Moody's and Fitch upgraded their outlook on Alpek from 'Stable' to 'Positive' and maintained their investment grade ratings, while S&P confirmed its investment grade rating and 'Stable' outlook for the Company.

Alpek maintains its commitment to continuing to strengthen its ratings.

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

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Jorge Young:

Thank you, José Carlos. To conclude, regarding 2023 Guidance, Alpek expects a solid year while considering the continued normalization of PET, PP & EPS reference margins, as well as ocean freight costs.

Our Guidance figures are based on the following key market and business assumptions:

- Average Brent crude oil reference price of $90 dollars per barrel
- Average container ocean freight costs are expected to remain at low levels impacting Polyester margins in South America and the EPS business
- Asian Integrated PET Reference Margin of $320 dollars per ton
- Gradual decline in North American Polypropylene margins, which remained high in 2022 and are expected to normalize closer to previous levels
- Volume slightly below 2022 levels due to the following:
    - In the Polyester segment, mainly driven from lower exports due to continued pressure from the disconnection between North American and Asian paraxylene prices
    - In Plastic & Chemicals mainly in EPS driven from softer demand due to construction slowdowns and packaging demand returning to regular levels, as well as in Polypropylene due to additional supply in North America

Based on these assumptions, overall Comparable EBITDA for 2023 is expected at $920 million dollars.

Annual CAPEX is expected at $445 million dollars, which includes $330 million dollars for strategic projects particularly the construction of Corpus Christi Polymers and another portion for cost improvement projects which may include footprint optimization opportunities.

Additionally, we anticipate a recovery between $100 to $150 million dollars in Net Working Capital as raw material prices continue to normalize.

Furthermore, Free Cash Flow generation before strategic CAPEX and dividends is expected to be at similar levels versus 2022.

Finally, from a financial standpoint, Alpek has kicked off 2023 with a solid position of 1.3 times Net Debt to EBITDA ratio. We expect leverage to remain in line with our requirements as an investment grade company, and well below our target of no more than 2.5 times.

I would like to thank our team, our customers, and our suppliers for supporting Alpek. I would also like to thank you, our audience, for your attention here today.

Pepe, I’ll turn the call back to you.

José de Jesús Valdez:
Thank you, Jorge. I would like to highlight that my departure from the role of CEO of Alpek culminates a five-year transition process to renew and strengthen our leadership team which is now composed by individuals with an average age of 49 years and with great experience because on average they have been at Alpek for 25 years.

I am proud to have worked with each of these executives throughout their careers and I am convinced that their expertise and tenure within the Company will enable them to make significant contributions for Alpek going forward under Jorge’s leadership.

I would also like to take a moment to thank all our stakeholders and each and every person, past and present, who has been a part of my journey here at Alpek. You have contributed to my growth and expertise, both professionally and personally, and I am grateful for the opportunity you have given me to work with you these past 46 years.

And to you, our Analysts and Investors, thank you for your interest, your participation and your commitment. You have my utmost respect for your professionalism and the work that you do on a daily basis. It has been a pleasure to speak with you all of these years.

Antón, we can go now ahead and open the Q&A.

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Questions and Answers

Antón Fernández:
Thank you, Pepe. At this time, we'll take your questions. To ask your question live, we ask that you raise your hand virtually. We will call on participants in the order that hands are raised. Alternatively, you may also type your question through the Q&A function. We will attempt to cover as many questions as time permits.

Our first question comes from Luiz Carvalho from UBS. Hi Luiz, please proceed with your question.

Luiz Carvalho, UBS:
Hi everyone, thanks for the opportunity. First of all, Pepe, congratulations and thanks for all your partnership during these years. Really glad to see your departure in a very good moment of the company, so thank you very much for everything and you know good luck on your new phase and Jorge good luck to you, hopeful to have, you know, many many interactions with you.

If I may have two basically questions here. The first one will be to Jorge, I mean, you are taking of course, you have been part of Alpek for years, and you know, taking a different position, so maybe I would like to hear from you what will be your main goals and main challenges that you foresee for the next, let's say, two or three years?

The second question is more on the capital allocation strategy also, I mean we see a very strong, you know, 2022 in terms of performance and dividends, so you now have I don't know, CAPEX, with I don't know, somehow expansion, so what can we expect in terms of, I don't know, capital allocation for 2023? Thank you.

Jorge Young:
Good morning, Luiz. Thank you for your questions, this is Jorge. I think, you know, for long term plans for the company is to continue the very solid strategy that I have been part of. I think among our main goals is continue to find growth opportunities and to conduct the business with financial prudence and, you know, our key task and challenge is to find and deliver those opportunities that, you know, provide value to the key stakeholders, allows us to keep a very strong commitment with our customers and show that through our actions of growth, you know, to reward investors with growth opportunities and the people, you know, to the extend we can grow. So that's our key goal and at the same time continue with financial prudence. I hope that answers your question, Luiz.

Luiz Carvalho, UBS:
Yeah, thank you. And on the capital allocation for the year ahead, I mean what are the plans in terms of deploying capital, anything related to, I don't know, to potential dividends or, I don't know, any further projects in terms of growth if you can share some updates on the Corpus Christi so, I mean, how can we think about the capital allocation, I don't know, plans for the year?

Jorge Young:
Yes, the capital allocation plan for 2023 has investments in projects and a dividend payout. In the capital projects, the main one is the Corpus Christi PTA-PET plan that is under construction now, so that's the largest projects, but we also have other relevant projects in our portfolio to improve substantially our cost competitiveness, so that's the, you know, as an example, we have in our PTA plans in general, opportunities to improve our competitive position in variable cost and we have advanced one of our projects for the Altamira PTA site which is our largest plan and is our expectation to wrap up the decision to start that project and start executing that later in the year, so that's also part of the key projects for 2023, and of course in due time, in the next few weeks there will be a communication to share the dividend plans for 2023.

Luiz Carvalho, UBS:
Okay, thank you very much, good luck!

Antón Fernández:
Thank you, Luiz. Our next questions come from Leonardo Marcondes from Bank of America. Hi Leonardo, please proceed with your question.

Leonardo Marcondes, Bank of America:
Hi guys, good morning everyone! Thank you for picking my questions. Just first I wanted to say good luck to Pepe in your future endeavors and also congratulations to charging his new role.

Well, my first question is regarding the Guidance, could you provide a bit more color on what are the drivers that will lead to a reduction in PET spreads for 2023? If you could also provide if there is any upside to your projections here and where that could come from?

My second question is regarding the Plastics & Chemicals segment, PP spreads are known to be weaker this year given all the capacity being added in the US, right, but on the EPS side, how do you guys expect spreads to behave in this year after a very strong 2022? Thank you.

Jorge Young:
Yes Leonardo, on your questions, first on Polyester, we have captured in our Guidance more, you know, competitive situation, in general in prices, in the case of Polyester the main effects are coming from the lower cost to ship products in containers and that affects some of our markets like South America and that's been captured in the Guidance and the other point of pressure that Pepe mentioned is raw material paraxylene, we expect that it will continue to stay elevated relative to Asian paraxylene prices and the issue or the implication is that it impacts our exports margins and our export volumes but that’s been captured in the Guidance.

In the case of EPS, it has a similar situation, the business needs to be competitive with import parity prices from other regions, mainly from Asia, but we have also significant opportunities to differentiate our offering, so both factors have been captured in the Guidance.

I think regarding the upside for our business, I think what could happen is that we see demand recovering, I think we have been somewhat conservative in our volume assumptions for demand of the business so to the extent we see, you know, more normalization of the demand in our domestic markets and eventually in our export markets when, you know, this condition that we have been mentioning under paraxylene, we expect that to be of temporary nature so when that situation normalizes, we would expect to recapture or reunite export markets, so I would say those are among the key upsides.

José Carlos Pons:
And in fact, to just complement Jorge, maybe I should also ask our investors to look at the Free Cash Flow generation in the year. We do have a potential upside in the Free Cash Flow generation as working capital is recovered throughout the year so I understand you will judge the performance on based on EBITDA but also Free Cash Flow is very important and will be continued to generate it throughout the year.

Leonardo Marcondes, Bank of America:
Okay thank you and regarding the Plastics & Chemicals segments and EPS?

Jorge Young:
Yeah, I have mentioned in EPS a similar effect, we expect more competitive margins as the cost of shipping products through the ocean has come down but as I mentioned before, I think we have an opportunity, or we can differentiate our offer with service and we expect to maintain a premium over the import parity.

Leonardo Marcondes, Bank of America:
Perfect, thank you.

Antón Fernández:
Thank you, Leo. Our next questions comes from Nikolaj Lippmann from Morgan Stanley. Hi Nik please proceed with your question.

Nikolaj Lippmann, Morgan Stanley:
Hi, good morning! Thanks for taking my questions, thanks for the call, Pepe I also wanted to both congratulate you and say thank you very much for this decade-long partnership and of course, Jorge congratulations on your new role.

I look at the fourth quarter numbers and see this nine percent quarter on quarter decline in volumes at the same time as pricing is coming down, so it looks like there's a lot of destocking going on into the lower prices, I wanted to see if you can give a little bit of color on how that if that's the right interpretation, that there's a bit of a buyer strike as prices are coming down and related to that question, when we think about the third quarter, well, clearly the price in trajectory is different, sorry, the fourth quarter, we're clear that the price in trajectory is different from the fourth quarter, how many months of weakness did we have, one, two or three in this quarter?

So that's a bit of a long first quarter, the second quarter, sorry the second question I have, could you provide a bit of color on the reason behind this PX decoupling, the price decoupling in paraxylene? I would appreciate that very much and then, if especially if it's linked to rational being shipped to other markets and thus providing a competitive advantage to certain Asian clients? Thank you very much guys.

Jorge Young:
Yes Nikolaj, this is Jorge. I think on fourth quarter volume, we saw a combination of the destocking, as you know, the customers experience adjustments in their inventory chains and it basically was throughout most of the months in the fourth quarter, I think it was, you know, a clear change between Q3 and Q4 in terms of that and as we mentioned, we also adjusted some of our exports volume and to remain competitive in our offering.

On the question of paraxylene and the decoupling, it's a complex story but I'll try to put it in very simple terms, it has to do a lot with the Russian-Ukraine situation, there was a big volume of refined products that were being exported by pipeline from Russia mostly into Europe, those flows have been stopping or reducing significantly but the refined products keep flowing now through vessels, so that is requiring much more vessels deployed to move refined products and that is impacting the shipping cost of liquids, especially clean liquids like fuels and petrochemicals and that reduces or impacts our ability to import paraxylene to offset the pressures.

The other factor that is impacting the cost of paraxylene is just the general situation in refineries. Refinery utilization rates globally are very tight and in particular the precursors or the feedstocks to make paraxylene bring blending properties to the gasoline like octane and vapor pressure and that's in particularly for the feedstock of paraxylene, that's another source of pressure, so I hope that answers your question Nikolaj.

José de Jesús Valdez:
Let me add something that might help you, also have a feeling of what or how soon this can change. As Jorge mentioned, there are really three factors I think that are causing this decoupling.

Number one he mentioned is the war, well let me put it in a different way, number one the most important difference is the gasoline spreads from refineries. The gasoline spreads normally are around ten dollars per barrel, the last year they, you know, increased in the summer up to 40-50 dollars per barrel which is unheard of and gradually it came back down to today they might be around 25 dollars per barrel, again the normal would be somewhere between 10 and 15 dollars, right now we are 25. We believe this year is going to be strong margins until new refining capacity comes into the picture so on that side, there is uncertainty but we are assuming in the Guidance that this will remain for the year.

The other reason that Jorge mentioned and this is more volatile, is this increase in ocean freight rates for liquids, in fact it was not an issue and we did not talk about this but summer 2022 it was the biggest disconnection between paraxylene in the U.S. and in Asia in history, we were at a point, I mentioned already that there were times where margins were close to 50 dollars or 50 dollars plus, at that time the disconnection in paraxylene was very high but we've contained the impact of this disconnection because we have availability of low freights from Asia so we imported or Alpek Polyester imported a lot of paraxylene, we were expecting that increase in the spreads for the summer so we prepared for that and we have a lot of imported PX so that decoupling at that time summer, May, June, July last year which was much higher than what it is today, we could mitigate to a great extent with impulse from Asia at the time freight rates from Asia, you know, were around fifty dollars per ton of paraxylene which is manageable for us.

Now at the end of the year, we normally, you know, gasoline spreads come down end of the year due to seasonality effect lower demand than in summer time, in driving season but unexpectedly because I have to say we do not put this into or capture this into the Guidance for the fourth quarter, the margins of gasoline came up again and the disconnection started to hurt and at that time first of all, we had not prepared to import more PX and second the freight rates were much higher than during summer time as a result of what Jorge was explaining, the approach in Ukraine war so what I'm saying is difficult to predict how long this is going to last but we need that, you know, it could change, I mean, when the spreads of gasoline go down, situation will improve to liquid freights start to come down then that will also go a long way towards solving this problem because as I said with a normal freight rate this decoupling is not a problem and third, and the other factor which is more difficult for us to forecast, the other way that this decoupling can be reduced is by the Asian PX prices to improve. The Asian producers of paraxylene are hurting a lot and the fact that they have relatively low margins or low prices for paraxylene I think to a certain extent has to do with the slow market in China for some of the products, I think the Chinese paraxylene producers are concerned about the demand being low and they've been very conservative with PX pricing, so any of these three factors, a change in any of these three factors could help mitigate this problem and so we have to be monitoring all of these. In the meantime, what I can say is that we are now planning to significantly increase our imports of paraxylene for the remaining of the year so that we can contain the differential in prices between the U.S. and Asia, so that we have done and hopefully that will help as I say reduce the problem.

Nikolaj Lippmann, Morgan Stanley:
Crystal clear. One follow-up, would it be fair to assume that it kind of hit you one, about one month six weeks into the quarter? It didn't hit you in the right in the beginning of the quarter, we were kind of into October before many of these movements really started hitting you.

José de Jesús Valdez:
No, I think October was already a weak month for us.

Nikolaj Lippmann, Morgan Stanley:
Okay.

José de Jesús Valdez:
And again, as Jorge explained, this is part of the reason I think together with the freight rates which hurt our margins in South America, I think this, well, the destocking which was but the destock into a certain extent was included in the Guidance, we did include some of that in the Guidance, so the changes versus Guidance most important freight rates and this paraxylene situation.

Nikolaj Lippmann, Morgan Stanley:
Okay, it is good news that it gets divided into the three months, so very clear, thanks for a good answer.

Antón Fernandez:
Thank you, Nik, our next questions come from Vicente Falanga from Bradesco.
Hi Vicente, please go ahead.

Vicente Falanga, Bradesco:
Hi Pepe, Jorge, José Carlos and Antón, I have a couple here:

Related to the 320 dollars per ton margin for PET in Asia that was in your Guidance, what sort of progression of this margin do you expect throughout the year? I mean it is our impression here that we're going to have a gradual increase as oil prices recover but wanted to see if that's the case. And then, the second question on your Capex, what sort of gains do you expect to have in your EBITDA from these optimization opportunities and if Altamira expansion is included in these optimization opportunities, and if you happen to have any incremental Capex overruns in Corpus Christi in this 445 number, thank you very much.

Jorge Young:
Good morning Vicente, on the question on the spreads and the margin, you know, I think the fourth quarter already ended fairly close to that level, in the 330s, I think we expect, you know, mostly steady throughout the years we did not model, you know, sharp changes in that reference margin for PET.

And then the question on the projects, it´s most than anything a cost optimization project for Altamira, but that would be a longer-term investment. It would be probably two years of execution and from that one we would not see specific benefits to that one in 2023 and we have others that we will have, you know, some benefit in 2023. We can provide some color and Guidance maybe in a separate session.

Vicente Falanga, Bradesco:
Great, thank you very much.

Antón Fernández:
Thank you, Vicente. Our next questions come from Guillermo Delgadillo from Santander. Hi Guillermo, please go ahead with your question.

Guillermo Delgadillo, Santander:
Yes, sure, thanks for the call.

Maybe on the first question, considering the Guidance what you said about the EBITDA of 920, what you said about the working capital, the comeback of the 150, CAPEX 445. You're still generating a lot of cash flow, 275, which if it's not the big number that everyone was expecting, at least most of the market was expecting some spreads normalization today, we got that, so that's close to a 10% free cash flow yield at these levels of the stock price.

The question is, how do you decide how much you're going to put in into the buybacks at these levels you're trading around five something times EBITDA which is in the low range of your historical range, one standard deviation below, at the same time, I'm guessing with the number that you released you still have like double digits ROE, return on invested Capital also, and on the other side, you have enough room as you said to distribute at least the ordinary part of the dividend which at this price is like seven percent.

So, when you decide how to use the cash flow, what are going to be the main guidelines, deciding between the buybacks considering the valuation, return on invested capital, ROI, etc., and the dividend distribution, which is, at least on my consideration, 10% of these prices versus the long-term rates either dollar turns Mexico or U.S. attractive enough.

And on the second question, is the Capex, we were expecting a little bit less, there's like 100 million more, so on that side, what is the IRR of that project, you mentioned something about Altamira two years payback but when you decided to do this investment, what was the IRR that draw you into the project?

José Carlos Pons:
Thank you, Guillermo, José Carlos speaking.

Well thank you, very good questions regarding our performance. First of all, I would like to state return on investment or return on assets or however you measured, well Alpek has performed very well throughout the last two or three years, well above our weighted cost of capital, so we're very pleased with that and we've also been able to optimize some of our assets, so the combination of good performance and optimization of certain assets, well, turned out to close to 20 percent depending on what you measure but for sure in a double-digit performance, so good performance on the company.

Regarding your question regarding free cash flow, certainly, we will have availability to decide how we use best of capital. Jorge has outlined certain Capex projects that we have, we're still working on them, and Jorge will comment more on that, but what we will plan in terms of dividends, we will have an assembly in the next few weeks. We will propose in that assembly, the shareholder assembly, an idea on dividends, it's at least a proposal will be similar to historical performance, not 2022, that was extraordinary, but at least to what we have been able to achieve in line to what you're saying seven to eight percent dividend yield.

Your question on buybacks it's a tricky one, I mean it's certainly believed that the Alpek's share it's not reflecting the performance of the company, we think that there's upside on the value of the share, we are evaluating the opportunity for buybacks but the issue is that we will take out liquidity to our stock so that's also important to our investors so we're kind of working throughout those limitations and see what we can do, but clearly, we're seeing how we can return capital to our shareholders, decided to buybacks or dividends.

Guillermo Delgadillo, Santander:
Great and just finally on the guidelines, the number, of oil when we see the PMI´s around the world U.S., China, Europe it seems that we are getting some floor. We are having this focus on the China reopening etc. and at the same time, we have had all the SPR releases from the U.S. government, so if this passes and if this recovery continues and if the U.S. manages to continue surprising on the economic surprise index, when would you be updating the Guidance? If oil remains stronger than expected when would you do an update to the Guidance, that will be after the first quarter or what usually is the time when you assess stronger conditions for the crude oil guidelines?

Jorge Young:
Yeah Guillermo, this is Jorge. Yeah, I would probably look at depending on how significant are the changes, but potentially mid-year, I mean, we will need to decide that. It depends a lot on how drastically these general variables would change throughout the year.

Guillermo Delgadillo, Santander:
Great, thanks for the answers.

Antón Fernández:
Thank you, Guillermo. Our next questions come from Pedro Gamma from Citi. Hi Pedro, please proceed with your question.

Andrés Cardona, Citi:
Hi, good morning all, this is actually Andres Cardona from Citi. Most of my questions have been asked but I have some very quick ones, but before I go over them, I want to thank José Valdez for his partnership and congratulate Jorge, adding to the comments from my colleagues.

If you can help me to understand in a little bit more detail the three percent decline in volumes and can you comment a little bit on a per segment basis, how do you see this?

The second is, how do you see the polypropylene margins at your 2023 Guidance, and the last one if you can provide some color about the Capex breakdown between maintenance, Corpus Christi and the new projects that you mentioned?

José Carlos Pons:
Let me start with your last question Andrés, nice to talk to you, this José Carlos. Regarding Capex maintenance, we're typically investing around 100 million dollars on maintenance so that's what's included in our Guidance, that will be in that order. The rest will be strategic Capex with the larger part of that Capex being Corpus Christi and the project in terms of efficiency that we're evaluating in Altamira.

In terms of polypropylene margins, similar to the ones that we saw at the end of 2022, so I guess we're looking at stability. We think that´s the level that they will maintain throughout the year.

In terms of the decline in volume, well it's basically stabilization from maintenance that we will have throughout the year and we're not expecting a big change. There could be a little bit of upside, depends on how big the destocking trend continues.

PX has had an effect on volumes indirectly because of the cost that it has implied, so we're rationalizing certain exports so to not, of course, lose money in those exports.

I hope that answers your questions Andrés.

Antón Fernández:
Thank you Andrés. Our next questions come from Sofía Martín from GBM. Hi Sofía, please proceed with your questions.

Sofía Martín, GBM:
Hi, thank you very much for your answers and thank you for your time José, and welcome Jorge to your new position.

I have two questions for you. The first one, I wanted to understand better your free cash flow generation during the quarter. Could you further explain the positive working capital that you had?

My second question was related to your P&C Comparable EBITDA. It grew one percent during the year, year on year, this despite a negative volume effect year on year as well and negative revenues, so I just wanted to understand a little bit better how this breakdown was, thank you.

Jorge Young:
Sofía, Jorge here. In the free cash flow generation during the fourth quarter, I think the main factor was declining prices, not much yet on volume, perhaps a little bit in volume, but mostly declining reference prices that explains the working capital recovery in Q4 and that's what we expect that will continue to some extent in 2023, and we will also normalize from some volumes, that's another source for our working capital.

José de Jesús Valdez:
Let me add something which is interesting also for you to understand. As Jorge said, normally our investment in working capital is very much related to sales prices and sales prices are very much a function of crude oil prices, so higher crude oil prices, higher sales prices, higher investment in working capital. But in particular, is something that is going to help us in 2023.

The other factor that can impact investment in working capital, apart from crude prices, is margins. When your margins increase, your EBITDA of course increases, but there is an effect because your investment in working capital also increases. The higher your margin the higher your investment in working capital in receivables.

So what you will see in 2023 is a very strong cash flow, actually, I think, we mentioned the free cash flow in 2023 is higher than in 2022 and part of that is investment in working capital was very important in

2022 and there is a negative investment in working capital, there is a recovery of working capital in 2023 and part of that recovery, of course it has to do with prices, but the only important part is, a side effect of reducing margins is that you also reduce your investment in working capital, so that's something to take into consideration. As I say, cash flow or free cash flow when you do the numbers in 2023 it's going to be over 500 million dollars if I remember correctly and it's higher than in 2022 and again I think this factor of margins also plays a role because at the end it helps you reduce your working capital.

José Carlos Pons:
You should look at the consistency of free cash flow generation for the last five years, it's very resilient.

José de Jesús Valdez:
But when you experience this, when EBITDA comes down you recover in working capital, when EBITDA goes up you invest in working capital, so that's why as opposed to EBITDA that has certain fluctuations of certain volatility, the cash flow has been extremely stable over the last four or five years and at around this level that I'm talking about, the 500 million dollars.

José Carlos Pons:
Sofía, just maybe to answer your question regarding the plastic and chemicals comparable EBITDA growth, yes, you're right, the plastic and chemicals reported EBITDA grew at a one percent rate between four quarter twenty-one and twenty-two, but we tend to point you to the comparable EBITDA which we really see as a better measure of performance of the company. There was a decline in that metric 2021 to 2022 and the reason being is the adjustment of margin. All in all, well we did see a normalization of margins and performance in the fourth quarter of 2022.

Sofía Martín, GBM:
Perfect, thank you very much.

Antón Fernández:
I believe that was our last question in the Q&A.

As always, I'd like to remind you that you can find a video recording of today's webcast as well a transcript, on our website www.alpek.com. Thank you all for participating in Alpek's webcast.

Have a wonderful day!