Alpek 4Q24 Earnings Webcast Transcript

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Bárbara Amaya:
[Slide 2]
Good morning, everyone, and welcome to Alpek's Fourth Quarter 2024 Earnings Webcast.

[Slide 3]
I am Bárbara Amaya, Alpek's IRO, and I am pleased to welcome you today to our call, along with Jorge Young, our CEO, and José Carlos Pons, our CFO, who will be taking us through today's webcast presentation.

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In today's agenda:

- First, Jorge will provide a high-level overview, as well as the progress made on the key initiatives and priorities that we established early last year,
- Second, José Carlos will review our financial performance, and
- Then, Jorge will discuss Guidance, outlook, as well as our priorities for 2025,
- Finally, we will open the floor to your questions.

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 uncertainties. 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 it is because of new information, future events, or otherwise. Financial results are expressed in U.S. dollars unless otherwise specified.

For your convenience, this Webcast is being recorded and will be available on our website. Jorge, I'll turn the call over to you.

Jorge Young:
[Slide 5]
Thank you, Barbara. Good morning, everyone, and thank you for joining us.

I'm happy to report that Comparable EBITDA reached $699 million dollars, exceeding both our original and revised Guidance. Our stronger performance was mainly driven by our ability to capitalize on the effects from higher-than-expected container freight costs and stable reference margins. As a reminder higher container freight costs support our margins, as the cost of imported products increases.

I would like to highlight that throughout 2024, Alpek implemented key initiatives to enhance its competitiveness and operational efficiency, maintaining a disciplined approach while navigating the challenging industry conditions.

A strategic priority was our deleveraging strategy, supported by cash flow generation of $104 million dollars and disciplined capital allocation.

These efforts have contributed to strengthening our balance sheet and better positioning the Company to navigate the current market landscape as the industry gradually improves.

I'm excited to share the progress we've made in strengthening our competitiveness. In 2023, we launched a comprehensive, long-term strategy designed to reinforce our leadership position with a focus on two key areas:

1. Optimizing our footprint and cost structure, and
2. Driving cash flow generation

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In 2024, we surpassed the ambitious goals set in our plan driven by targeted actions focused on continuous improvement, such as:

- The organizational restructuring of our business,
- improving energy supply contracts,
- inventory management and footprint optimization

On this last note, during the last quarter we began the process to shutdown the EPS facility at Beaver Valley, Pennsylvania. This decision is expected to generate an additional $20 million dollars in cost savings on a run-rate annualized basis, bringing the expected total of the various measures to approximately $100 million dollars by the second half of this year.

The aforementioned initiatives are part of an ongoing process for Alpek and we will continue to further enhance our competitiveness across our portfolio.

[Slide 7]
Now, I'll turn the call over to José Carlos who will discuss overall financial performance for the quarter.

José Carlos Pons:
[Slide 8]
Thank you, Jorge. Hello, everyone and thank you for joining us today.

Let me dive deeper into the annual and quarterly results.

- During the quarter, volume resulted in 1.12 million tons, down 8% from the previous quarter given typical seasonality effects. This led to an Annual Volume of 4.75 million tons, representing a 2% increase from the previous year, reflecting stable demand levels across our business segments.

- Alpek generated $168 million in Comparable EBITDA as seasonal effects were slightly offset by stronger reference margins. Reported EBITDA for the quarter was $109 million, up 106% year-over-year. This figure included a negative inventory adjustment of $52 million, driven by a sequential decline in raw material prices towards the year-end.
- As Jorge previously mentioned, full year Comparable EBITDA reached $699 million, surpassing both revised and original Guidance by 4% and 17%, respectively. The Company's Reported EBITDA during 2024 was $646 million.
- Our dividend yield in 2024 was 9%, higher than our historical average, as we paid a dividend of $132 million in September to Shareholders.

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Now, looking into the Polyester segment:

- Quarterly volume decreased to 926 thousand tons, 2% higher than the previous year as there was a general demand improvement, but 7% lower quarter-on-quarter due to typical seasonality effects.
- Asian integrated PET reference margins reached an average of $305 dollars per ton, up 3% from the third quarter, and Chinese integrated PET reference margins averaged $170 dollars per ton.
- U.S. reference Paraxylene prices decreased by 13%, narrowing the disconnection between North American and Asian prices to $194 dollars per ton, 22% lower than the previous quarter yet remaining 8% higher compared to the same period last year.
- Quarterly Comparable EBITDA was $100 million, 18% lower than the previous year.

[Slide 10]
Turning to the Plastics and Chemicals segment:

- Volume during the quarter totaled 198 thousand tons, down 11% quarter-on-quarter but up 3% year-over-year, we saw stabled demand primarily in the Polypropylene business.
- Polypropylene reference margins remained flat at 15 cents per pound, while average Propylene reference prices declined to 42 cents per pound, down 21% from the previous quarter.
- North American EPS reference margins continued their recovery, averaging 43 cents per pound, 19% higher quarter-over-quarter. Meanwhile, average Styrene reference prices fell to 45 cents per pound, a 21% decline on a quarterly basis.
- And for Comparable EBITDA, results increased to $65 million, up 51% annually and 3% quarterly as reference margins improved sequentially, particularly for EPS.

[Slide 11]
Looking at Free Cash Flow for the year:

- We invested $224 million in Net Working Capital, primarily due to higher volume.
- Maintenance CAPEX resulted in $84 million, with total CAPEX standing at $121 million.

- This resulted in Operating Free Cash Flow for the year of $104 million driven by higher EBITDA and strategic efforts to maximize cash flow generation.

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Finally, regarding the Company's financial position:

- Net Debt increased to $1.9 billion, while the last-twelve-months reported EBITDA was $646 million, resulting in a Net Debt to EBITDA ratio of 2.9 times. I would just like to highlight that this is a considerable reduction from 3.7 times at the beginning of the year.
- We concluded the year in a stronger position, yet we remain determined to reaching our target of 2.5 times and will continue taking the necessary measures to achieve it.
- Finally, throughout the year, the Company maintained its investment grade ratings across the three main agencies, and all of them reaffirmed their "Stable" outlook.

Thank you for your time, I'll turn the call back to Jorge.

Jorge Young:
[Slide 13]
Thank you, José Carlos.

Now, let me discuss Alpek's Guidance as we enter the new year. For the petrochemical industry, the Company anticipates demand levels and reference margins similar to those seen during 2024.

Factors such as high container freight costs observed in 2024 are not currently expected to continue. Industry conditions are likely to remain challenging, therefore, our Guidance is based on the following assumptions:

- Asian Integrated PET Reference Margins of $270 dollars per ton.
- Chinese PET Reference Margins of $160 dollars per ton.
- North American Polypropylene reference margins at 14 cents per pound.
- We are also assuming a volume increase of 2%, as demand is expected to remain at stable levels.

Based on these assumptions, the overall Comparable EBITDA for 2025 is expected at $625 million.

Meanwhile, annual CAPEX is projected at $150 million, of which approximately $100 million will be allocated to scheduled maintenance, while the other $50 million towards strategic CAPEX, focusing on:

- Opportunities to expand our EPS footprint in North America, improving our ability to meet customer demand with sustainable, long-term solutions.
- Expanding our PET Sheet thermoform capacity in the Middle East to capitalize on market growth.
- Implementing various initiatives to optimize variable and fixed costs across all our sites.

[Slide 14]
As we enter 2025, we remain confident to navigate the industry cycle by focusing on enhancing our competitiveness, maximizing our cash flow generation and capitalizing our position as a strong domestic supplier.

Our main priorities will be:

- One: The execution of additional cost reductions across our sites. We have already begun with the shutdown of the EPS facility in Pennsylvania which is expected to yield around $20 million dollars on an annual basis.
- Two: We remain determined to achieve greater cash-flow, as we have done in the past, and we are planning to increase it through the following actions:
    - Improving Net Working Capital efficiency. In 2025, we do not anticipate a material investment in working capital for the year. Thus, in spite of the lower EBITDA in 2025 versus 2024, we expect our operating cash flow to be higher in 2025 versus 2024.
    - Another initiative is the sale of non-strategic assets while
    - Maintaining our disciplined approach to capital allocation.

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I would also like to highlight that our Guidance considers current market conditions. It is important to note that as we enter 2025 with a solid financial position, we will be better able to capitalize on potential opportunities that may arise, such as:

- A gradual rise in demand,
- Higher than expected ocean container freight costs,
- Or possibly stronger fair-trade measures against Asian overcapacity

Before moving to the Q&A session, I would like to take a moment to express my gratitude to our over five thousand team members worldwide for their dedication and commitment to excellence; to our customers for their trust; and to our suppliers for their partnership. I would like to end by extending my appreciation to our Shareholders and analysts for their continued interest in Alpek.

I'll turn the call back to Bárbara.

Q&A

Bárbara Amaya:
[Slide 16]
Thanks, Jorge. At this time, we'll be answering your questions.

To ask your question live, please raise your hand. We will call on participants in the order they appear.

You may also type your question through the Q&A function. We will attempt to cover as many questions as time allows.

Our first question comes from Tasso Vasconcellos from UBS. Tasso, please proceed with your question.

Tasso Vasconcellos, UBS:
Hi, Jorge, Jose Carlos, Barbara. Thanks for taking my question. I think my first question is on the company's capital allocation strategy. Alpek has been doing a good job on reducing the leverage despite this, let's say, challenging macro and industry moment. And of course, you have this clear goal to reach the 2.5 times and adapt to EBITDA, so maybe split the question here in two parts.

The first part, do you have a timeline in which you expect to reach this goal? Just trying to better understand here the timeline given the macro condition and the lower Comparable EBITDA, and also higher, CAPEX expected for 2025.

And the second part of the question is, how is this process linked to the resumption on dividend payments? I mean, is the 2.5 times indeed the main driver here to eventually resuming the dividend payments? Or is there any other metric?

I don't know, maybe a minimum cash balance, a minimum level of Free Cash Flow, leverage even lower, so that post the 2.5 times, I mean, post the dividend payments. The 2.5 times is still maintained. I would appreciate an additional color here on the dividend, a discussion process within the management and the board.

These are my 2 questions. Thank you.

Jorge Young:
Thank you, Tasso, for the questions. I think on first question, the first part of the question, on the timeline to reach the goal of 2.5 times. Needless to say, we want that to happen as soon as possible.

As an estimate, I mean, I think there is a chance or a possibility we reach that during 2025 towards the latter part of the year. It could slip into 2026, but that's something we don't want to see. So, I would say in the next two to four quarters is when we expect to see, to get closer to that goal.

Obviously, it will depend significantly on how our company performs, industry conditions, and so forth.

And second, how that is related to the process of paying a dividend. I think, through Alpek's history, Alpek has had a very solid track record of paying dividends to its shareholders. I think we want to have this goal that our level achieved no more than 2.5.

So that's something we will have to watch and consider as we go along. I think there is a chance that there might be a dividend pay later in the year, maybe towards the end of the year, or the second half of the year.

I think that still needs to be carefully analyzed and reviewed by our board and our shareholders, but the possibility exists. It's like trying to optimize both variables, and that's our key goal. And again, because we like to, at the same time, be very prudent with our balance sheet and maintain our investment grade, and continue to deliver the results our shareholders expect in terms of dividends.

So that's the balance that that we will manage. I'll ask José Carlos to also provide any additional points of view on this important question Tasso.

José Carlos Pons:
Thanks, I don't think there's a lot to complement, Jorge was very clear. But I'll say that we're strongly committed, as Jorge already pointed out in the first part of this call, in cost reduction.

I think that's kind of an upside that we have on our hands. Not only from the cost side, but also from the cash flow side, which could allow us to reach the 2.5 times earlier, and therefore be in a stronger position to pay out the dividend. We understand that that's something that our shareholders like from Alpek, and we are doing our best to balance as Jorge said on the two variables.

Tasso Vasconcellos, UBS:
That's very clear. Appreciate it. Thank you.

José Carlos Pons:
Thank you, Tasso.

Bárbara Amaya:
Our next question comes from Bruno Montanari from Morgan Stanley.

Bruno. Please proceed with your question.

Bruno Montanari, MS:
Hello, everyone. Thanks for taking my questions. I have one follow up from Tasso's question, and then two questions.

On the dividend, just to be clear, is there a commitment not to pay a dividend until you reach the 2.5 times leverage? Or would you consider paying a dividend, even if you finish the year slightly above the target leverage?

And then, my first question is more about the medium to long term. So, when does the company believe that margins could normalize to healthier standards? And what do you think needs to happen globally for an improvement in reference margins to start to be seen? Because this seems like a very prolonged trough of the cycle, right?

And then the second question also relates to the deleveraging effort. How reliant is the deleveraging process on the asset sales? And if you could provide us with an update on the initiatives you have been working on, it would be great. Thank you very much.

José Carlos Pons:
Thank you, Bruno. Thank you for your call.

I'll answer first the dividend. Well, I think the best example that we have to answer your question is what happened in 2024. We paid out a dividend. At that point, we had not reached the target, and we still paid a reasonable dividend.

So no, there is not that strong commitment, and we will need to balance the commitment that we have to reaching 2.5 times, vis-à-vis the shareholders, and as we did in 2024, we will do the same, and, as Jorge pointed out, likely be in the second half of the year. So, I think that's as clear as we can be. But no, there is not a strong commitment. I mean, there's a strong commitment to 2.5 times, but we feel that we can work around our target.

And I'll answer the third question, and maybe Jorge wants to point out on the long term margins, but the deleveraging is not reliant on asset sales. That would be a plus. We've been working throughout 2024 in looking at all opportunities to sell assets. We've not yet materialized significant sales. So, we've done a lot of cleaning and selling a lot of scraps, which contributes marginally to results. The biggest asset that we have on our balance sheet is the Monterey land. We now have a clearer view of the alternatives. We've done a lot of work.

We expect to still continue working throughout the first half of the year. That doesn't mean that we've not created value in that asset throughout these last few months.

So, non-reliant, we will have a clear picture this year, and that would be a plus. If we decide to monetize those assets all of a sudden, or we just continue to see if it's better to shareholders to develop in a specific form those assets. We'll keep you updated on that.

Jorge Young:
Yes, and the other question about our expectation of the industry cycle. I mean, obviously, that's a very difficult question to answer. I think we're planning for this year for the industry conditions to remain very challenging. Potentially some indicators that maybe by 2026, 2027, some markets like

construction that impact some of our products start to improve. Consumer demand for packaging, we don't expect significant changes. But there's still some growth in the industry, so it might take a couple of years for some overcapacity to be absorbed.

While we say that, at the same time there has been capacity rationalizations throughout the industry. I mean, we began with ourselves in 2023 and 2024. We did rationalize, our least efficient facilities in the Polyester segment. And now we're doing the same with EPS. But if you look in our industry, there are numerous examples of industry consolidation, and facing out less efficient capacity. The specific timing is uncertain. It might take another couple of years, but it can happen sooner if you get some combination of better demand and some further industry actions in terms of rationalizing capacity.

Then the situation could balance sooner than expected. I mean, this is an industry that is cyclical, and we have lived through cycles in the past. This has been a difficult one, as you mentioned. But again, our key to success is navigate the cycle being as lean as efficient as possible, watching the cash flow, and being a very good supplier to our customers, with good products, good service, and so forth.

So that's what I would say on that question.

Bruno Montanari, MS:
Thank you very much, Jorge, Jose Carlos. Very helpful.

José Carlos Pons:
Thank you.

Bárbara Amaya:
Our next question comes from Leonardo Marcondes from Bank of America.

Leo, please proceed with your question.

Leonardo Marcondes, BofA:
Hi team. Good morning. Thanks for picking my questions here. I have actually two questions.

The first one is more follow-up on Bruno's questions regarding, and it is regarding, the PP spreads. I mean, it's been 2 years that we're seeing flattish and very low PP spreads in the US, right? So, I was wondering if you could provide that background on this. What could help PP spreads to improve? It could be a drop in propylene spreads, or only demand should help the spread going forward?

My second question is more related to your operations. I mean, you have shutdowns some operations in the recent years amid this very chall4enging scenario for the petrochemicals, right? So, my question is, if the situation continues this though, should we see more capacity shutdown from you guys and thinking about your global footprint, which regions offer the highest profitability, and which ones offer the lowest one? Thank you.

Jorge Young:
Yes, on the questions, on the first one you asked, on polypropylene spreads. I mean, there was a round of capacity that came on streaming in our region in North America over the last couple of years.

I think differently to other of our products, like EPS or polyester, polypropylene tends to be a more regional case and situation. The fact that there is a wave of extra capacity in North America and that demand in the region has remained relatively flat. That's why we're facing this extended period of low margins.

As we have, similar lines. As I answered before. I mean, we expect this situation will continue in the short term. Again, if there is a small combination of improvement in demand, and maybe some capacity rationalization then the things could get in better shape. Again, sooner than what we'd anticipate.

But for now, we plan and operate and perform our business, conduct our business, assuming the condition will not improve. And when the conditions improve, like last year we had an upcycle in ocean container freights, we are in in a good position to capitalize. As in our all our businesses, in our polypropylene business we remain very focused on efficiencies and providing the best offering to our customer base, and we have been, in polypropylene, successfully navigating the current cycle.

As far as the other question. The way I understood it is, about our footprint and our regions. In our footprint, we have, most of our plants right now are more competitive plants in our system. I mean, we did take action on the least competitive ones.

We still have some plants that, in relative terms, are smaller in our footprint and we are always analyzing the contribution of each facility. Right now, we do not have any specific plans to shut down facilities beyond those that we have shared. But it's a process that we constantly look.

Some of our remaining assets have a good scale, good integration. Some of them not only have scale but have good access to raw materials. So again, we continue to assess our footprint but right now we continue to keep going with the plans that we have, and we might add some, on a smaller scale, but some capacity.

I think we have recently approved an investment to grow about 20 to 25 thousand tons for EPS capacity in the United States, with extrusion technology that will give us an improved product offering for customers. We will be able to offer recycled EPS. But, while we have been shutting down some of our least competitive plans and our fiber plans in the past, we continue to seek ways to invest in the business, not only to maintain it, but to find opportunities to create value.

So, no further rationalization plans at this moment, and indeed, we have again, as a new footprint to be added on EPS, small one on for about 20 to 25 thousand tons per year.

Leonardo Marcondes, BofA:
Got it. And if you allow me just one more question very quickly. Your understanding here, the run rate CAPEX for you guys, something around $250 million dollars per year, right? And this in 2025 will be the second consecutive year that you should deliver CAPEX pretty much well below this level. Right?

So, my question is, for 2026, 2027, I mean should we see a higher CAPEX there? Or do you think that you could continue spending the $150 million dollars of CAPEX every year over the next several years, while the scenario remains challenging?

Jorge Young:
Look Leonardo, I think we mentioned our Guidance is $150. So, 1 5 0, and we offered the breakdown that roughly $100 million dollars is to maintain our facilities, and $50 million is for cost reductions and some expansions. As I mentioned, EPS extrusion expansion, and we have a thermoforming small expansion in the Middle East. But that gives you an idea of the base requirement to maintain the business.

There might be years where our maintenance requirement is less than a hundred, and there might be years when it's somewhere above a hundred, maybe between $80 and $120. That's how our maintenance CAPEX will normally range, and the rest is the projects that we find that add value.

So right now, our Guidance for the year is saying a capital allocation that provides the scheduled and the expected and important maintenance requirements for facilities, and about 50 million dollars for all the initiatives. That includes potentially some finishing up some of the projects that we already had from previous periods.

But that gives you an idea going forward for 2026, and 2027. I think the maintenance is probably going to stay the same. A $100 million dollars, maybe $120, if it will require a little bit more maintenance, facilities, maybe $80 if we require less. And then the rest is up to us to bring a pipeline of projects that are attractive for our investors and shareholders.

And we do have some projects in the pipeline, I would say that we could potentially exceed the $150 and go back to the $200. But it's too early for us to present those in this forum.

I think we're eager to find opportunities to grow our business, and sometimes that will require CAPEX. But we're also navigating a low cycle in our industry. And, I would say that's a very common situation right now for all the chemical and petrochemical industries. So, industry conditions remain challenging, so we have to be conservative.

And obviously we don't sacrifice at all our maintenance of our facilities, but we measure our growth opportunities. In the meantime, we are nurturing opportunities, and eventually we like to go back to a higher CAPEX level, commensurate with growing our business.

Leonardo Marcondes, BofA:
Got it. Thank you very much.

Bárbara Amaya:
Our next question comes from Andrés Cardona from Citi. Andrés, please proceed with your question.

Andrés Cardona, Citi:
Hi! Good morning, Jorge, José Carlos.

I have three questions. The very first one is about the Guidance. $270 per ton. Just wanted to understand if this is more or less the level you see for contracts, and how it compares versus the last year? Just to see the directional view of the spot market. In this case, if I'm not wrong, it's 60% of the total volume.

The second one is going to the capital allocation and maybe adding a third leg to the debate. This is the type of opportunities in which Alpek has typically do some consolidation. And so, I just wanted to understand if you are willing to pursue opportunistic M&A, and how it ranks versus dividends, and perhaps the 2.5 times a target that you may have?

The third one is, if you could help us to understand how a potential resolution of the Russia and Ukraine conflict could benefit or affect Alpek into 2025 and onwards. Thank you.

Jorge Young:
Thanks, Andres, just to answer the question. The first one you mentioned, the reference margin of $270 per ton. That is the reference margin that happens in Asia. I think that tends to influence the rest of the world, to some extent, but it's not necessarily a 1-to-1 correlation with our margins. In some of our regions we have pricing structures that link closer to those type of reference margins, but it's not necessarily representative of the majority of our volume.

But yes, it tends to, I would say, is somewhat correlated and influenced by the changes in that reference margin, perhaps, more importantly though, is what happens with the container freight. Right now, container freights have been coming down, and we have factored that in our Guidance.

The capital allocation, and M&A, I think we have constantly, in all industry conditions, and throughout the cycles, we are alert and on top of analyzing opportunities for M&A that might allow our business to grow. So that continues. So, if the opportunity is very, very, very attractive, then it comes to the equation, and to the table and the priorities and are reviewed, right?

But right now, we don't have anything that I would say is brewing, or that is of significant size. Obviously, as soon as we have some of those opportunities identified, we'll provide more clarity but it's an ongoing process. And, as you mentioned in this part of the cycle some opportunities might arise, and we just stay alert to those opportunities.

The resolution of the Russia-Ukraine, I really can't tell when that could clearly happen. I think that is something on the news going on. I think the main effect that we saw from that war, when it happened, is that the network of vessels that move liquid petrochemicals throughout the world, and clean fuels increase their utilization. So, some of our imported raw materials, we source our raw materials, both locally, regionally and from overseas. Those that are from overseas that we bring in liquids. Those suffer a cost increase.

To the extent that this war is resolved, but not only that, that the flows of hydrocarbons that were happening by pipeline in the past get restored, especially from Russia into Europe. That will reduce the utilization of the fleet that moves again, clean fuels and petrochemicals, liquid petrochemicals. If that happens, then you could argue that the import freight for raw materials could improve for us.

But I think that still I don't see that scenario shaping object. And it requires multiple steps of restoring previous trade patterns. And that's still, on unknown, when that could happen, if at all.

Andrés Cardona, Citi:
Thank you. Thank you, Jorge. Maybe just coming back to the first question. So, for the contracted volume, did you see any improvement for the 2025 pricing versus last year?

Jorge Young:
It's a mix. It's a combination. I think there are some improvements in a region like North America, where last year we did not benefit from the increasing freight, because normally the agreements are for yearly periods.

So, some improvements in North America, but we would expect in South America and Europe, we have a small presence in Europe, some compression of the margins. But that is because mostly, the reference price, the reference margin is changing a little bit, but mostly because of the ocean freight in containers coming down.

I previously explained to you the issue about the liquid, the freight for liquid and clean fuels. That's a very different market dynamic than the freight of containers, the ocean freight of containers. That market is now, those shipping costs for dry containers are coming down, and that tends to impact our margins because the import parity of polymers and plastics tends to come down.

Andrés Cardona, Citi:
Thank you.

Jorge Young:
The net effect of both is captured in our Guidance, so it's a net reduction. Now, if the ocean freights improve or cycle up again during the year, that would be an upside for us.

Bárbara Amaya:
Our next question comes from Héctor Ugarte from Compass. Héctor, please proceed with your question.

Héctor Ugarte, Compass:
Hi Jorge. Hi José Carlos. Thank you for taking my call.

I just wanted to ask about the Guidance. I mean, I understand being conservative about the petrochemical margins given that you're not in control of them. But what I'm confused about is given that you were guiding for $600 million last year you had a $100 million, well, again, $75 and $20 million this year in cost saving measures and you're saying you're going to have $625 million of EBITDA. I mean, it seems like overly conservative, right?

I don't know if I'm missing something. I understand you saying margins are going to be lower because of freight costs going down, and all of that. But I mean, I just want to understand what I'm missing here, and how, even with these cost saving measures, you're going to be so low compared to this year? Thank you.

Jorge Young:
Yes, Héctor, I think what addresses your question is, we did achieve a significant amount of the savings last year already. That's the main difference. We began our cost reduction actions mostly in the second half of 2023 when we did shut down assets. You could say that without those our performance would have been much lower, yes, but that's where probably the gap in your analysis is. A significant percentage of our cost reduction begun materializing since early 2024.

Héctor Ugarte, Compass:
Right. But I mean, you did implement, and you achieved $700 million, right? So, to say, we're going to have $70 million less in EBITDA means things are going to go just bad, very bad in PetChem's industry as a whole, right? I mean, if we're expecting something similar to this year, perhaps something kind of lower, which you are saying, shouldn't really go $70 million down? I mean, that's what I'm confused about.

Jorge Young:
Yes, I think the main change from 2024 to 2025 is that we, again, we are expecting to see lower ocean container freight costs that make the import parity of competing products coming from Asian countries lower and that obviously, that impacts our margins. That's what we are factoring in the Guidance.

If the ocean container freight costs do not fall as much, or they if they cycle up, then that's an opportunity for us to improve overall Guidance. But the situation to begin the year is that those costs have been falling sharply and are very consistent with our Guidance. So, it's not like we are ahead of those right? I mean, that's exactly what we're seeing right now, and I think industries that are competing mostly with Asian products that travel in dry containers are facing the same situation.

Héctor Ugarte, Compass:
Ok, very clear. Thank you.

Jorge Young:
Thank you, Héctor.

Bárbara Amaya:
Our next question comes from Rodrigo Almeida from Santander. Rodrigo, please proceed with your question.

Rodrigo Almeida, Santander:
Hi, thank you Bárbara. Hi Jorge, José Carlos. Just two questions from my side.

I think the first one is just to make sure that I got things right here. So, when we look at the Guidance, I mean, you're talking about the reference margins over there, we should take that as market reference and then when we factor in the freight impact for you, that's when we see the bigger impact on EBITDA, right? Because you're putting up 2% on volumes, in the reference margins that you give us are high single digits, but EBITDA is declining low teens, right? So that's the effect from freight that I should be looking at, is that correct?

The second question that I have here is related to other things, I guess. Trying to understand a little bit what I should think about Free Cash Flow over the next few quarters to try to model a little bit better. In terms of working capital, if you could give us some color on how you're budgeting that for the year especially, you're expecting some flattish a little bit up volumes? I think it would be great, thank you.

Jorge Young:
Yes, as you mentioned the main effect is ocean container freight cost. That's the main one, for sure but there is another contributing factor, our business in Argentina is facing more competition than in previous years as that economy has now been open for the last couple of months, so that also has an smaller impact but a contributing factor in our annual Guidance.

The cash flow for this year, as I mentioned during my remarks, I think the cash flow this year will, in spite of the lower EBITDA, we expect it to be better and potentially materially better compared to the one in 2024, because we don't expect to see a significant investment in working capital throughout the year. It might be around zero, and if we are very successful in some of our actions it could be actually some recovery of cash flow.

If you look over the last two years, ‘23 and ‘24, we did recover $370 million dollars from working capital. It was a significant recovery in ‘23, and then some reinvestment in ’24. In ‘24, we did end the year still with the inventories not fully optimized, and we expect to see that optimization mostly beginning in the second quarter and through the second half of this year.

And the other factor is, in some of the terms, either terms with customers or with suppliers, there have been some improvements that we expect also to see in our cash flow in 2025. That's why we don't expect a material investment in the working capital line, and that will support our cash flow

and again, if we execute successfully, it might be some recovery, especially for the second half of the year.

Rodrigo Almeida, Santander:
Perfect, thank you so much.

Bárbara Amaya:
Our next question comes from Till Moewes, from Schroders. Till, please proceed with your question.

Till Moewes, Schroders:
Hello, can you hear me?

Bárbara Amaya:
Yes.

Till Moewes, Schroders:
Great thanks for taking my question, Barbara, Jorge and Jose Carlos.

It is about the Mexican president, who last week when she spoke about the secondary legislation of the energy form, said that she wants to strengthen the pet-chem sector as well as fertilizers. I know this was all a little bit fuzzy, but what is your first take on what this could actually mean zooming in here on petrochemicals and leaving fertilizers aside?

How could the Government get more involved in the sector to increase output, and what specific segments could be in focus here? And lastly, how could this affect you? A few years down the road.

Jorge Young:
I think we are obviously interested and eager to understand those plans. I don't think we have really much to comment on other than we are a petrochemical industry. We are very global, but we have still significant facilities in Mexico. We have a major pole of petrochemicals in Altamira, Mexico in the Gulf coast, and another one in southern Veracruz. Obviously, those are something of our interest, but we're yet to engage and to go through the ideas that are on the table.

Those would be long-term plans. Nothing really specific at this moment that we identify a specific or immediate action for us, but we are obviously we have interest on seeing some success and recovery on the petrochemical industry in Mexico and we are alert to those discussions.

Till Moewes, Schroders:
Any kind of ideas that have been specifically discussed, or that you think are hot topics for the government?

José Carlos:
Yeah, this is Jose Carlos, Till. We've been involved in the development of the plan Mexico. This is a plan that the government is putting together to foster certain investments, and they're looking at different parts of the petrochemical industry to improve the availability, for example, of some feedstocks that are critical to us. They're thinking on investing in some of their facilities, so that will allow us to have better feedstocks and increase our competitiveness.

We also talked in that plan Mexico, on certain needs that we have on infrastructure, safety for example, and there was also improvement in certain approvals and how to get this thing going faster.

So, we've been in. As Jorge said, we've been in touch in that process, and we're optimistic. We think that if this is done the right way that could improve our competitiveness in Mexico.

Till Moewes, Schroders:
Great. Thank you.

Bárbara Amaya:
Our next question comes from Federico Galassi, from Rohatyn Group. Federico, please proceed with your question.

Federico Galassi, Rohatyn Group:
Hi Jorge and José Carlos. Thank you for taking my question. The question is related to, last year Mexico increased 30 for 500 products from Asia, mostly China if I'm not wrong, you have tariff and duties in US, etc. Even with this tariff that you have in the region, the pricing from a lower container cost, as you mentioned, the prices of the margins, the prices of the competitiveness of Asian products is too high to affect the margins in here in Americas? I want to try to understand that.

Jorge Young:
Yes. The answer varies by country, Federico. I think in Mexico we did see increases in the duties of some of our products. Those duties apply. But some countries where Mexico, for example, has currently trade agreements, those didn't see the duties increased. And in our province, there is also significant regional competition.

So that's the reality of things. So, a duty increase doesn't necessarily translate into a normal price increase in the system. I think there is still significant competition regionally and some countries still access. However, some of the imports we were seeing on fair trade, some imports from China, those are now subject to higher duties. So, I think it was a positive effect for us at the end of the day.

In the United States, so far, the duties have not changed from what they have been over the last few years. I mean, obviously we're following everything that is happening right now. But right now, there have been no changes.

Federico Galassi, Rohatyn Group:
Okay, and the second question, if I may, when you see the year, you are expecting a better second part of the year, or a continual deterioration of the first half. Can you give us a clue of how you are seeing the trends?

Jorge Young:
You're talking about 2025?

Federico Galassi, Rohatyn Group:
Yes, 2025, yes, sure.

Jorge Young:
Normally, the first quarter and fourth quarter tend to be seasonally lower because of volume, second and third quarter tend to be stronger. That's normally how it behaves. But it's not very precise either, right? So, we expect to see that, I mean first quarter. Normally, it's low in volume that picks up in the second and third quarters, and then normally, at the end of the year customers tend to do inventory adjustments. So that's the typical seasonality in our business.

Federico Galassi, Rohatyn Group:
And in terms of spreads?

Jorge Young:
The spreads, for about a significant portion of our volume, tend to be set for the year, and some others vary throughout the year. I think the reference margins might begin a little bit below our Guidance, but that happens. We had a similar thing happen in the last couple of years. Then they also tend to improve in the mid portion of the year, and then they tend to slow down on the end of the year. So yes, the volumes tend to follow that seasonality, and the margins to some extent as well.

Federico Galassi, Rohatyn Group:
Okay, thank you.

Bárbara Amaya:
Our next question comes from Sofia Martin from GBM. Sophia, please proceed with your question.

Sofía Martin, GBM:
Hi, thank you for taking my question. I was wondering if I could ask two questions. The first one is a follow-up on the container costs coming from Asia. Is there any market reference that we could follow to track the evolution of these costs? I don't know. Maybe a ticker in Bloomberg, or anything that we can follow.

Jorge Young:
Yeah, I think we can follow with you separately on that one.

Sofía Martin, GBM:
Okay, thank you.

Sofía Martin, GBM:
And just a second question, could you share how much you export from your Mexican production to the US?

Jorge Young:
I think it's in the order of, probably 10% of our output that goes from Mexico to US. Like 5%. 5%.

José Carlos Pons:
Maybe that's a good point to highlight that we're more or less aligned in our footprint for the markets that we participate in. So, we have US operations for and mainly supply the US. And that's the also the case in Mexico and Latin America. So, I guess that's something that helps us mitigate the potential tariffs. That's probably your question.

Sofía Martin, GBM:
Yes, thank you.

Bárbara Amaya:
And we have a question through the Q&A function, I will proceed to read the question.

Can you please discuss the assumptions about tariffs that are embedded in your guidance? Would appreciate if you address tariffs both in Mexico and US and both relative to China and other Asian countries.

Jorge Young:
I think in our guidance we assuming no significant change in the tariffs from 2024 to 2025, if there was, for example increased tariffs to overcapacity to Asian countries that would tend to benefit our numbers for 2025.

Bárbara Amaya:
And one last question coming through the Q&A function, what sort of potential opportunities could we see during the next year? How are you planning to capitalize on them?

Jorge Young:
We have, through the actions we've taken to make our plants more competitive and enhance our overall position in the market. I think the things that could factor positively for us are if there is some more recovery in the demand, or if some of the trade measures against some of the Asian overcapacity materialize.

Another possibility for us is that we see, potentially, a rebound in the ocean containers freights that right now they have come down sharply. Again, by just maintaining a very strong presence for our customers with our facilities, we can provide a quick delivery, being a local supplier.

And again, our pursuit of cost reduction opportunities continues. So, we expect to find more as we go along.

Bárbara Amaya:
[Slide 17]
That was the last question in the queue. Thanks everyone for joining our Webcast. Have a great day!