

Q3 FY19 Results Update

October 30, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	42.3
Target Price (SAR)	44.0
Upside/Downside (%)	4.0%

As of October 29th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	49.4
52 Wk High (SAR)	59.6
52 Wk Low (SAR)	39.6
Total Outstanding Shares (in mn)	1,168
Free Float (%)	34.6%

MAADEN vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(7.0%)	(6.2%)
6m	(23.0%)	(8.5%)
12m	(2.3%)	(6.8%)

Major Shareholders (%)

Public Investment fund	65.43%
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Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29th October 2019

Ma'aden manages to trim losses to beat average analyst estimates

Saudi Arabian Mining Co. (Ma'aden)'s net loss attributable to the shareholders stood at SAR 92.0mn in 3Q19, as despite a rise in the sales volume of flat rolled products (FRP) and ammonia phosphate fertilizers (APF), the realized prices of all core products, except gold, slipped. Cost of sales remained high following the commencement of the commercial operations of Ma'aden Wa'ad Al-Shamal Phosphate Company (MWSPC) and Ma'aden Rolling Company (MRC) in December 2018. The above factors, coupled with rising SG&A expenses and a low share of net profit of the joint venture Sahara & Ma'aden Petrochemicals Company (SAMAPCO), further impacted the bottom line adversely. Revenue increased 26.6% YoY to SAR 4,298.7mn. The company's EBITDA, however, declined 16.3% YoY to SAR 1,438.1mn and operating profit shrank 72.0% YoY to SAR 269.4mn.

Ma'aden's performance in the quarter continued to be marred by the low sales volumes of all products, except APFs and FRPs. In addition, the prices of all core commodities, except gold, continued to weaken, in line with the downward trends witnessed since 2018. Although the commercial operations of MWSPC and MRC have progressed as planned and the company expects to witness record production levels in 2019, challenges in the market remain. The continued focus on operational efficiency and government efforts to increase spending in the mining sector may be insufficient to fuel the currently required sharp upturn in the company's performance. Thus, in view of the glum commodity price outlook, we maintain our "Neutral" stance on the company, despite the company reporting a positive surprise to the street estimates.

- Ma'aden's net revenues advanced 26.6% YoY to SAR 4,298.7mn in 3Q19 owing to increased sales volumes of APFs and aluminum FRPs, with MWSPC and MRC achieving full commercial operations. The weak prices of the commodities, barring gold, however, curbed revenue rise.
- Cost of sales for the period surged 71.0% YoY following the start of commercial production at MWSPC and MRC in December 2018. Thus, gross profit grew 24.1% QoQ, but contracted 49.1% YoY to SAR 639.2mn. The gross profit margin stood at 14.9% compared with 12.0% and 37.0% in 2Q19 and 3Q18, respectively.
- Operating income grew QoQ but fell YoY, as SG&A and exploration expenses rose during the comparable period. Operating profit for 3Q19 stood at SAR 269.4mn compared with SAR 963.3mn in 3Q18 and SAR192.7mn in 2Q19.
- EBITDA fell 16.3% YoY to SAR 1,438.1mn in 3Q19; the EBITDA margin dropped from 50.6% to 33.5%.
- Net loss attributable to equity shareholders for the quarter stood at SAR 92.0mn compared with the profit of SAR 405mn a year ago and loss of SAR 243.7mn in 2Q19.
- Ma'aden entered a strategic cooperation agreement with PhosAgro to support global food security through fertilizer industry development projects. The Russian Direct Investment Fund (RDIF) also signed the agreement as third party to strengthen the areas of collaboration between the two companies.
- Ma'aden will hold the seventh extraordinary general meeting on November 4, 2019 to seek shareholders' approval for capital increase through the conversion of SAR 2.99bn of its debt by issuing new shares to the Public Investment Fund.

Valuation: We have downwardly revised the target price to a fair value of SAR 44.0 per share. We maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	4.3	3.4	26.6%	17.6	14.2	24.2%
Gross Profit (SAR bn)	0.6	1.3	(49.1%)	2.8	5.1	(45.5%)
EBITDA (SAR bn)	1.4	1.7	(16.3%)	5.8	7.2	(18.9%)
Net Profit (SAR bn)	(0.1)	0.4	NM	(0.3)	1.8	NM
EPS basic (SAR)	(0.07)	0.35	NM	(0.23)	1.58	NM
Gross Margin (%)	14.9%	37.0%	(22.1%)	15.8%	36.0%	(20.2%)
EBITDA Margin (%)	33.5%	50.6%	(17.1%)	33.0%	50.6%	(17.6%)
Net Profit Margin (%)	(5.9%)	15.0%	(20.9%)	(4.3%)	15.8%	(20.1%)

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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