

**FY19 Results Update**

February 13, 2020

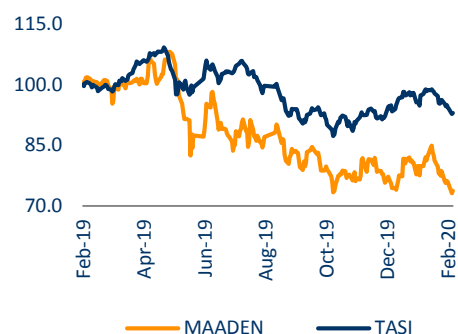
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	40.0
Target Price (SAR)	39.0
Upside/Downside (%)	2.5%

As of February 11<sup>th</sup>, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	47.0
52 Wk High (SAR)	59.6
52 Wk Low (SAR)	39.0
Total Outstanding Shares (in mn)	1,231
Free Float (%)	32.8%

**MAADEN vs. TASI (Rebased)**

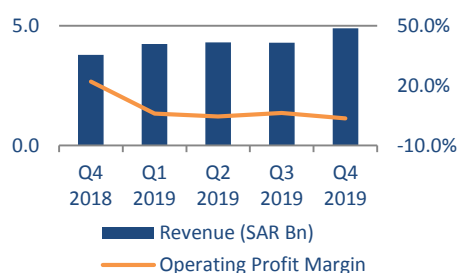


Price Performance (%)	Absolute	Relative
1m	(7.7%)	(3.2%)
6m	(15.3%)	(8.5%)
12m	(26.3%)	(19.3%)

**Major Shareholders (%)**

Public Investment fund	67.18%
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**Revenue (SAR bn) and Operating Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 11<sup>th</sup> February 2020

**Ma'aden swings to losses in FY19 on sharp rise in cost of sales**

Saudi Arabian Mining Co.'s (Ma'aden) net loss attributable to shareholders stood at SAR 739.5mn in FY19, as following the commencement of operations of Ma'aden Wa'ad Al-Shamal Phosphate Company (MWSPC) and Ma'aden Rolling Company (MRC) in December 2018, the cost of sales increased 66.2% due to a rise in volumes sold and increased input cost. The bottom line also suffered due to a lower profit share from the joint venture SAMAPCO. The company's revenue for the year increased 25.2% YoY to SAR 17.7bn, primarily due to an improvement in ammonium phosphate sales, even as the sales volume of ammonia, aluminum and gold declined. Barring gold, prices of all commodities declined, too. The company's operating profit slumped 78.0% YoY to SAR 886mn in view of the rise in cost of sales and higher SG&A expenses. The company's EBITDA, too, declined 22.5% YoY to SAR 5.6bn in FY19.

With the commencement of commercial operations at MWSPC and MRC, Ma'aden increased its production capacity considerably, yet it suffered from poor commodity prices for all products, except gold. The improvement in sales volume and gains at the top-line level were offset by an exceptional rise in cost of sales with the new production facility coming online. Despite progress in improving cost and working capital management, the company continues to face headwinds from the weak commodity outlook in the wake of global economic uncertainty. On the positive side, however, Ma'aden is set to complete the Debt for Equity swap for MRC's debt with an overall positive impact expected on its leverage ratios. The company's exploration program shows promise and other projects too are progressing as planned. In view of these factors, we maintain our "Neutral" stance on the company.

- Ma'aden's net revenue advanced 25.2% YoY to SAR 17.7bn in FY19 due to higher sales volume of all products, except ammonia, aluminum and gold. Sales of ammonium phosphate fertilizer were up almost 57% as MWSPC and MRC attained commercial operations. The lower prices of commodities, barring gold, however limited revenue growth.
- Cost of sales for the period surged 66.2% YoY when commercial production started at MWSPC and MRC in December 2018. Thus, gross profit contracted 52.9% to SAR 2.3bn; the gross margin slumped to 13.0% in FY19 from 34.5% in FY18.
- Operating income contracted 78.0% to SAR 886mn due to a rise in various cost items, including selling, marketing and logistic expenses (up 83%), general and administrative expenses (21%), exploration and technical services expenses (89%), and finance cost (37%). Operating margin shrank to 5.0% in FY19 as against 28.4% in FY18.
- EBITDA fell 22.5% YoY to SAR 5.6bn in FY19; the EBITDA margin dropped to 31.3%.
- Net loss attributable to equity shareholders for the year stood at SAR 739.5mn compared with the profit of SAR 1.8bn a year ago.
- The company said it would not issue any dividends for FY19 and would continue to build and finance the existing projects as per its strategy.
- On November 4, 2019, Ma'aden's Board approved the company's plan to increase capital through conversion of its debt to the Public Investment Fund (PIF) by SAR 2.99 billion by issuing 62,112,885 new shares to the PIF at SAR 48.08 per share.

**Valuation:** We revised our target price to a fair value of SAR 39.0 per share. We maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	4.9	3.8	29.1%	18.0	17.7	1.7%
Gross Profit (SAR bn)	0.7	1.0	(35.3%)	3.0	2.3	29.0%
EBITDA (SAR bn)	1.4	1.7	(15.8%)	6.3	5.6	14.1%
Net Profit (SAR bn)	(0.3)	0.3	NM	0.3	(0.7)	NM
EPS basic (SAR)	(0.23)	0.28	NM	0.25	(0.63)	NM
Gross Margin (%)	13.4%	26.7%	(13.3%)	16.5%	13.0%	3.5%
EBITDA Margin (%)	28.9%	44.3%	(15.4%)	35.2%	31.3%	3.8%
Net Profit Margin (%)	(8.8%)	10.3%	NM	0.8%	(8.6%)	NM

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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