

3Q 2018 Results Update

November 1, 2018

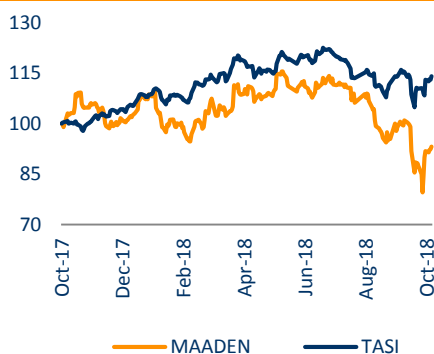
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	48.0
Target Price (SAR)	47.0
Upside/Downside (%)	(2.1%)

As of October 31st 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	56.1
52 Wk High (SAR)	60.0
52 Wk Low (SAR)	40.9
Total Outstanding shares (in mn)	1,168
Free Float (%)	34.6%

MA'ADEN vs. TASI (Rebased)

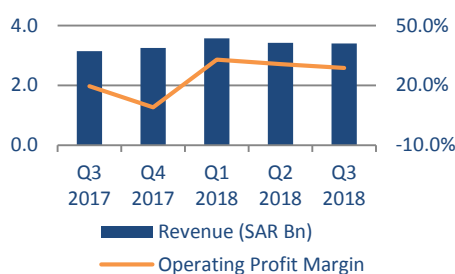


Price Performance (%)	Absolute	Relative
1m	(7.3%)	(6.2%)
6m	(15.5%)	(11.8%)
12m	(6.9%)	(20.9%)

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 31st October 2018

Net profit boosts on higher volume and increased price realization

Saudi Arabian Mining Co. (Ma'aden)'s net revenues surged 8.2% YoY to SAR 3,396mn during the third quarter, primarily owing to higher average sales prices of most products except gold. Growth in the Phosphate (+16.9% YoY) and Gold (+14.2% YoY) segments contributed to the topline. Sales from Aluminium segment declined (-2.6% YoY), pulled down by lower sales volumes amid rising volatility in the sector over global trade issues. The annual average realized price of ammonium phosphate fertilizer (APF) and ammonia rose 23.5% YoY and 51.0% YoY, respectively. This, coupled with absence of write-off expense, increase in income from time deposits, and a rise in the share of net profit of its JV (Ma'aden Barrick Copper Company) helped fuel the bottom line.

The demand for the company's key products (phosphate, aluminum, alumina and copper) remained strong. However, gold and ammonia prices remained weak during the quarter. We believe, escalating global trade tensions pose a downside risk, with volatility in the commodity markets is expected to remain high in the near term. Also, owing to currency depreciation in India, a key consumer market for phosphate, demand is likely to weaken in the next quarter. However, the shortfall in demand could be offset by a pick-up in demand from China, America and Europe, where the market remains firm. As such, we maintain a "Neutral" rating on the stock.

- Ma'aden's net revenues advanced 8.2% YoY to SAR 3,396mn, driven by higher price realization of alumina, APF and ammonia due to strong demand. Revenues dipped 0.5% vis-à-vis the previous quarter as mixed impact of higher sales volumes and lower prices of the products cancelled out any gains.
- Cost of sales declined 7.7% YoY to SAR 2,131mn, resulting in an improvement in gross profit (up 52.3% YoY to SAR 1,265mn). Gross profits, however, declined 4.0% QoQ owing to higher feedstock costs. Gross margin for the quarter stood at 37.3%.
- Operating profit came in higher, owing to higher revenues, lower costs and the absence of the expenses of the write-off of mine properties vis-a-vis in 3Q17. However, it declined 6.9% on QoQ basis, dragged down by higher feedstock and operating costs. Operating margin was 28.7% in 3Q18 (3Q17: 19.6%, 2Q18: 30.6%).
- EBITDA rose 28.4% YoY led by higher sales, which offset the increase in expenses. Margins expanded by 803bps annually to 50.9% in 3Q18. EBITDA declined 4.8% QoQ due to decrease in sales, coupled with higher feedstock cost and S & G&A expenses.
- Net profit attributable to equity shareholders for the quarter advanced 70.8% YoY to SAR 415mn vis-à-vis SAR 243mn posted in 3Q17. An increase in non-operating income more than offset by a 27.8% rise in financing charges stemming from the refinancing of a previous loan. However, net profit fell 19.8% QoQ as lower revenues and higher feedstock costs compressed profits.
- Ma'aden announced its third phosphate mega project, in line with its plans to expand and achieve desired growth. The project is expected to increase phosphate production capacity to 9 million tonnes.

Valuation: We have revised our target price downwards with a fair value of SAR 47.0 per share in effect of the recent share price decline. We have maintained our "Neutral" rating for the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	3.4	3.1	8.2%	15.2	12.1	26.0%
Gross Profit (SAR bn)	1.3	0.8	52.3%	5.4	3.9	38.0%
EBITDA (SAR bn)	1.7	1.3	28.4%	7.2	5.3	36.3%
Net Profit (SAR bn)	0.4	0.2	70.8%	2.1	0.7	188.4%
EPS basic (SAR)	0.36	0.21	70.8%	1.76	0.61	188.4%
Gross Margin (%)	37.3%	26.5%	10.8%	35.7%	32.5%	3.1%
EBITDA Margin (%)	50.9%	42.8%	8.0%	47.3%	43.7%	3.6%
Net Profit Margin (%)	15.3%	8.4%	6.9%	15.1%	6.5%	8.6%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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