

Q1 FY19 Results Update

April 30, 2019

| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 56.0 |
| Target Price (SAR) | 52.1 |
| Upside/Downside (%) | (6.9%) |

As of April 29th 2019

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 65.4 |
| 52 Wk High (SAR) | 60.0 |
| 52 Wk Low (SAR) | 40.9 |
| Total Outstanding Shares (in mn) | 1,168 |
| Free Float (%) | 34.3% |

MAADEN vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (0.2%) | (6.1%) |
| 6m | 26.2% | 4.0% |
| 12m | (4.6%) | (15.3%) |

Major Shareholders (%)

| | |
|------------------------|--------|
| Public Investment fund | 65.43% |
|------------------------|--------|

Revenue (SAR bn) and Operating Profit Margin (%)



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

Ma'aden swings to loss in 1Q19 on increased costs from new operations

Saudi Arabian Mining Co. (Ma'aden) swung to net loss in 1Q19 due to additional costs related to the commencement of commercial production at the Ma'aden Wa'ad Al-Shamal Phosphate Company and Ma'aden Rolling Company in December 2018. Revenues increased 18.9% YoY to SAR 4,241mn as growth in the sales volumes of DAP and its flat-rolled product offset decline in the average realized price of all products and in the sales volumes of gold and aluminum. The company's EBITDA declined 31.4% YoY to SAR 1,336mn and operating profit fell 78.5% YoY to SAR 252mn.

Saudi Arabia has SAR 1.3tr worth of mining resources and plans to significantly increase the size of its mining, renewable, and logistic sectors. To this effect, the government allocated SAR 33bn toward the energy, industry, mining, and logistics sectors through its 2019 budget. Additionally, the government is working on a new system to shorten the mining licensing duration to a maximum of 60 days. These measures pave the way for better prospects for Ma'aden; however, escalating global tensions that add uncertainty to the commodity markets and labor market risks in KSA may derail some of the company's growth plans. Thus, we maintain our "Neutral" stance on the company.

- Ma'aden's net revenues advanced 18.9% YoY to SAR 4,241mn in 1Q19 as growth in the sales volumes of DAP and its flat-rolled product offset decline in the realized prices of all the products as well as sales volumes of gold and aluminum.
- Cost of sales for the period surged as a result of the commencement of commercial production at Ma'aden Wa'ad Al-Shamal Phosphate Company and Ma'aden Rolling Company in December 2018. Consequently, gross profit contracted 59.8% YoY to SAR 569mn; the gross profit margin also declined to 13.4% in 1Q19 from 39.7% a year ago.
- Operating income continued to decline for the fourth straight quarter; the fall was exacerbated by a surge in cost of sales owing to the commencement of new operations. Additionally, a rise in selling, administration, and exploration expenses further put pressure on operating profit. Operating profit for 1Q19 stood at SAR 252mn, compared with SAR 1,172mn a year ago.
- EBITDA fell 31.4% YoY to SAR 1,336mn in 1Q19, and the EBITDA margin dropped to 31.5% from 54.6% a year ago.
- Net loss attributable to equity shareholders for the year stood at SAR 127mn, compared with SAR 638mn in profit witnessed a year ago. An increase in the share of net profit of the joint venture Ma'aden Barrick Copper Company by 23% and SAMAPCO by 100%, failed to contain loss from higher cost of sales and finance expense.
- Ma'aden announced that no dividends would be paid for FY18, in line with FY17, owing to continued investments in existing and potential new projects.
- Ma'aden aims to increase its phosphate and aluminum output by maximizing the available capabilities and not by adding new production units. The company plans to add 3 million tons of phosphate fertilizers by 2025. Moreover, it is working toward raising its annual gold production to 1 million ounce.
- Maaden Marketing and Distribution, wholly-owned by Ma'aden, has signed a deal to acquire 85% of Mauritius based Meridian Group, based on an enterprise value of USD 140mn (SAR 525 mn). The deal is expected to be completed in 3Q19 and is subject to regulatory approvals.

Valuation: We have maintained our target price at a fair value of SAR 52.1 per share to factor in the company's recent financial performance. We have maintained our "Neutral" rating on the stock.

| | 1Q'19 | 1Q'18 | % YoY | FY19E | FY18 | % YoY |
|-----------------------|-------|-------|--------|-------|-------|--------|
| Revenues (SAR bn) | 4.2 | 3.6 | 18.9% | 17.9 | 14.2 | 26.6% |
| Gross Profit (SAR bn) | 0.6 | 1.4 | -59.8% | 5.3 | 5.1 | 3.8% |
| EBITDA (SAR bn) | 1.3 | 1.9 | -31.4% | 7.0 | 7.2 | -1.7% |
| Net Profit (SAR bn) | -0.1 | 0.6 | NM | 1.4 | 1.8 | -24.9% |
| EPS basic (SAR) | -0.11 | 0.55 | NM | 1.19 | 1.58 | -24.9% |
| Gross Margin (%) | 13.4% | 39.7% | -26.3% | 29.5% | 36.0% | -6.5% |
| EBITDA Margin (%) | 31.5% | 54.6% | -23.1% | 39.3% | 50.6% | -11.3% |
| Net Profit Margin (%) | -6.0% | 21.1% | -27.1% | 10.0% | 15.8% | -5.8% |

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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