

**Q2 FY19 Results Update**

**August 05, 2019**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	46.9
Target Price (SAR)	49.0
Upside/Downside (%)	4.6%

As of August 05<sup>th</sup> 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	54.7
52 Wk High (SAR)	59.6
52 Wk Low (SAR)	40.9
Total Outstanding Shares (in mn)	1,168
Free Float (%)	34.6%

**MAADEN vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(2.0%)	(8.1%)
6m	(13.3%)	(30.4%)
12m	(17.5%)	(28.8%)

**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 5<sup>th</sup> August 2019

**Ma'aden's net loss slips further in 2Q19**

Saudi Arabian Mining Co. (Ma'aden) recorded a net loss of SAR 244mn in 2Q19 due to various factors ranging from the lower realized price of key products, less share of profit from a joint venture, and commencement of commercial production at the Ma'aden Wa'ad Al-Shamal Phosphate Company. Revenue increased 25.9% YoY and 1.4% QoQ to SAR 4,301mn, primarily due to increased sales volume of ammonium phosphate fertilizer (APF) and aluminum flat-rolled products (FRP) as MWSPC and MRC reached full commercial operations. The company's EBITDA declined 27.8% YoY to SAR 1.3bn and operating profit fell 82% YoY to SAR 193mn.

Barring gold, prices of all core commodities sold by Ma'aden further weakened following the downward trends seen since 2018. Aluminum prices especially remained under pressure on continued uncertainty over the global trading environment even as restructuring of the company's aluminum rolling business progressed as planned. Meanwhile, production volumes of all commodities improved, whereas that of gold declined. Though the company expects to note record production levels in 2019 with continued focus on operational efficiency, challenges in the market remain. The government's efforts to improve the mining licensing system, along with sizeable budget allocation of SAR 33bn towards the energy, industry, mining, and logistics sectors in its 2019 budget, may fall short of providing the much-needed boost to the company's performance in the near term. Thus, we maintain our "Neutral" stance on the company.

- Ma'aden's net revenue advanced 25.9% YoY to SAR 4,301mn in 2Q19 on increased sales volume of APF and aluminum FRP as MWSPC and MRC reached full commercial operations. The weak prices of the commodities, barring gold, however curbed the revenue rise.
- Cost of sales for the period surged following the start of commercial production at Ma'aden Wa'ad Al-Shamal Phosphate Company and Ma'aden Rolling Company in December 2018. Thus, gross profit grew 4.5% QoQ, but contracted 58.5% YoY to SAR 515mn. The gross profit margin stood at 12.0%, compared to 11.6% and 36.3% in 1Q19 and 2Q18, respectively.
- Operating income continued to decline due to higher SG&A and exploration expenses over the comparable period. Operating profit for 2Q19 stood at SAR 193mn, compared with SAR 1,045 in 2Q18 and SAR252mn in 1Q19.
- EBITDA fell 27.8% YoY to SAR 1,310mn in 2Q19; the EBITDA margin dropped from 53.1% to 30.5%.
- Net loss attributable to equity shareholders for the year stood at SAR 244mn, compared with a profit of SAR 518mn a year ago and a loss of SAR 127bn in 1Q19. Higher input and operational expenses coupled with a lower profit share contribution from its joint venture (SAMAPCO) were primary reasons for the higher losses for the period.
- Ma'aden signed a SAR 2.27bn (USD 606mn) 36-month contract with Outotec and Larsen Consortium to handle the engineering, procurement, and construction of the Mansourah & Massarah Gold Project. Production is expected to start in 2Q22.
- Ma'aden's first international acquisition, of the East-Africa-based fertilizer distribution group Meridian, is progressing to plan and is expected to close in 3Q19.

**Valuation:** We slightly reduce our target price to a fair value of SAR 49.0 per share to factor in the company's recent financial performance. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	4.3	3.4	25.9%	17.5	14.2	23.2%
Gross Profit (SAR bn)	0.5	1.2	(58.5%)	2.5	5.1	(51.2%)
EBITDA (SAR bn)	1.3	1.8	(27.8%)	5.1	7.2	(28.5%)
Net Profit (SAR bn)	(0.2)	0.5	NM	(0.7)	1.8	NM
EPS basic (SAR)	(0.20)	0.44	NM	(0.59)	1.58	NM
Gross Margin (%)	12.0%	36.3%	(24.3%)	14.3%	36.0%	(21.8%)
EBITDA Margin (%)	30.5%	53.1%	(22.7%)	29.4%	50.6%	(21.2%)
Net Profit Margin (%)	(13.7%)	18.4%	(32.2%)	(6.7%)	15.8%	(22.5%)

Source: Company Financials, FALCOM Research

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**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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