

1Q20 Results Update

June 03, 2020

Recommendation Neutral

Previous Recommendation	Neutral
Current Price (SAR)	35.8
Target Price (SAR)	33.0
Upside/Downside (%)	(7.7%)

As of May 31st, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	44.0
52-Wk High (SAR)	54.2
52-Wk Low (SAR)	27.8
Total Outstanding Shares (in mn)	1,231
Free Float (%)	32.8%

MA'ADEN vs. TASI (Rebased)



Price Performance (%)

	Absolute	Relative
1m	(4.3%)	(5.7%)
6m	(16.8%)	(8.5%)
12m	(25.1%)	(9.8%)

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 31st May 2020

Lower sales price and higher expenses widen net loss in 1Q20

Saudi Arabian Mining Co. (Ma'aden)'s net loss attributable to shareholders stood at SAR 353.3mn in 1Q20 compared with SAR 127.2mn in 1Q19 and SAR 276.5mn in 4Q19. Lower realized price for all of its products, barring gold, and decreased sales volume for ammonia and alumina despite higher sales volume for all other products led to a marginal revenue rise of 2.7% YoY. Higher cost of sales due to higher sales volume coupled with increased operating, exploration, and technical services costs led to the company recording an operating loss of SAR 119.3mn for the quarter. Furthermore, a dip in the share of net profit of joint ventures and increase in other expenses contributed to further widening of net loss for the quarter.

First quarter of the year 2020 continued to bring new challenges for Ma'aden, as it struggled with low prices for all of its commodities, except gold. Price of aluminium dropped from \$1,700/ton to below \$1,400/ton, and that of phosphate also retreated compared with last year, whereas the price of gold breached the USD 1,600/ton mark. The company's costs expanded, as the sales volume for most commodities increased due to lower prices and created pressure on the company's liquidity. The company's quick ratio fell to 0.99x by the end of 1Q20 compared with 1.14x at the end of FY19 and 1.41x in 1Q19. The short-term outlook for the company seems uncertain in view of the constrained mining activities and lower product prices. Despite this, the company holds considerable advantage over its peers with a high-quality mine asset base and a healthy balance sheet. The company's underperformance is in view of the global COVID-19 pandemic. Therefore, despite a few quarters of reported losses, we maintain our Neutral rating on the stock, as the company holds potential in the long term.

- Ma'aden's net revenue was marginally up 2.7% YoY, but it declined by 11.0% QoQ to SAR 4.4mn, owing to a decrease in the realized price of all products, except gold. Decrease in sales volume for ammonia and alumina further impacted the revenues.
- Cost of sales increased by 10.5% YoY to SAR 4.2mn, owing to the increase in sales volume of all the other products. Thus, gross profit contracted by 58.1% to SAR 202.7mn, whereas gross margin slipped to 4.7% in 1Q20, from 11.4% in 1Q19 and 13.6% in 4Q19.
- Higher selling, general, and administrative expenses along with increased exploration and technical service expenses (up 66.8% YoY) led to the company recording an operating loss for the quarter at SAR 119.3mn, compared with an operating profit of SAR 251.8mn in 1Q19 and SAR 171.8mn in 4Q19. Operating loss margin for 1Q20 stood at (2.7%), against operating profit margin of 5.9% in 1Q19 and 3.5% in 4Q19.
- The company's net loss was exacerbated by lower share of net profit from joint ventures, income from time deposits and an increase in other expenses.
- In March 2020, Ma'aden's shareholders approved withholding dividends for FY19.
- In April 2020, the company appointed Al Ohali as its new CEO.

Valuation: We revised our target price to a fair value of SAR 33.0 per share. We maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	4.4	4.2	2.7%	17.0	17.7	(4.1%)
Gross Profit (SAR bn)	0.2	0.5	(58.1%)	1.9	2.3	(18.8%)
EBITDA (SAR bn)	1.4	1.7	(15.8%)	4.8	5.6	(12.8%)
Net Profit (SAR bn)	(0.4)	(0.1)	177.7%	(0.7)	(0.7)	(4.5%)
EPS basic (SAR)	(0.28)	(0.10)	180.0%	(0.60)	(0.63)	(4.5%)
Gross Margin (%)	4.7%	11.4%	(6.8%)	11.0%	13.0%	(2.0%)
EBITDA Margin (%)	32.5%	39.6%	(7.1%)	28.5%	31.3%	(2.8%)
Net Profit Margin (%)	(14.6%)	(6.0%)	NM	(5.5%)	(8.6%)	NM

Source: Company Financials, FALCOM Research

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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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