



# Saudi Arabian Mining Company (Ma'aden)

Earnings Conference Call – Q1 2019

April 24, 2019





# **Reem M. Asaad**

## **Head of Investor Relations**





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## Non-IFRS financial measures

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# **Darren C. Davis**

## **President & Chief Executive Officer**



# Growth in revenues but pressure from weakened commodity markets

## Production



- Record ammonium phosphate production of 1,233 kt, a 63% increase year on year
- Ammonia and primary aluminium production at 591 kt and 234 kt unchanged year on year
- Flat rolled aluminium products at 73 kt for the quarter
- Gold production at 78 koz, a drop of 34% year on year

## Financial Performance



- Revenues increased 19% year on year to reach SAR4,241 MN
- EBITDA<sup>1</sup> down 29% year on year at SAR1,392 MN
- Net loss of SAR(253) MN compared to a profit of SAR754 MN last year
- Operating cashflow for the quarter SAR436 MN compared to SAR544 MN last year

## Market conditions



- Phosphate prices edged lower than previous quarter
- Aluminium prices weakened but there are signs of recovery
- Alumina prices softened as supply constraints eased
- Copper and gold remain volatile due to political and economic uncertainties

## Outlook



- Much uncertainty remains in the economic outlook
- Focus is on safety, optimizing production from our assets, and executing on our new projects
- Meridian acquisition is an important step in our growth and we continue to evaluate other opportunities

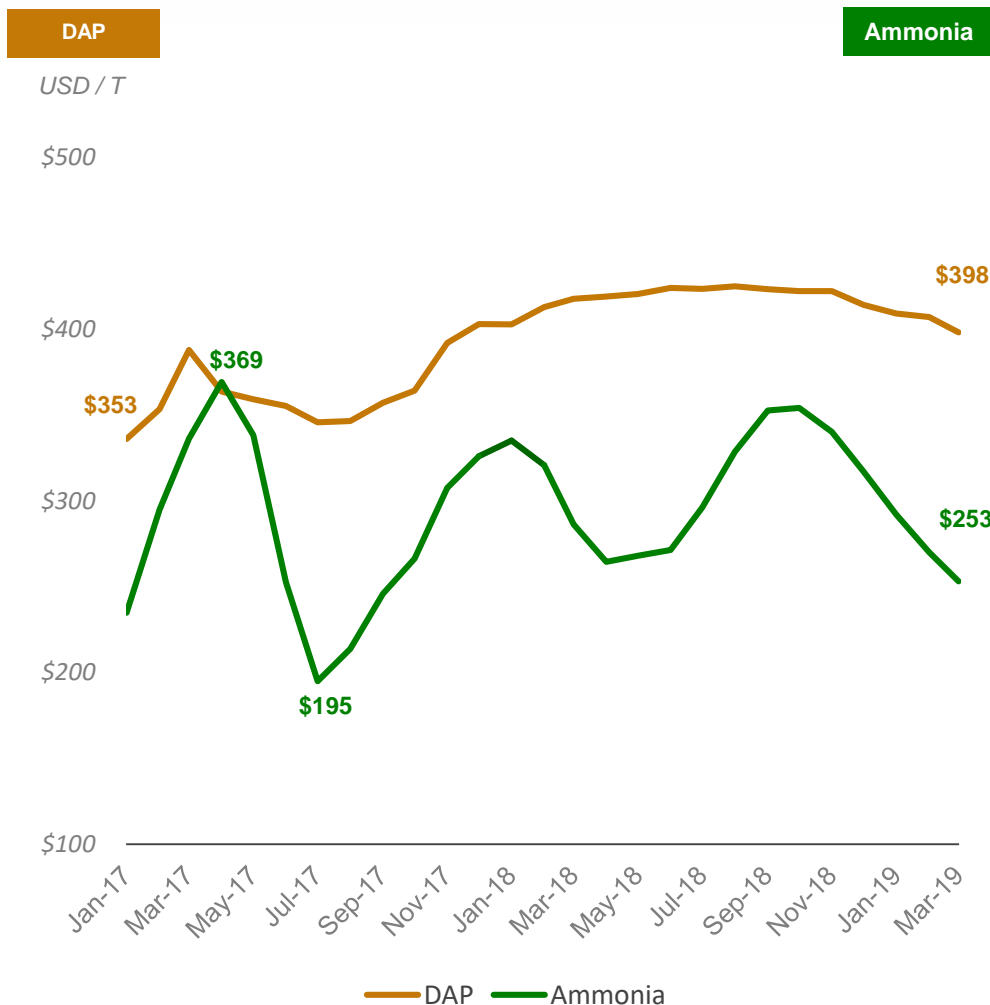
<sup>1</sup> see appendix for definition of non-IFRS terms

# Phosphate prices lower than previous quarter due to slow demand in some key seasonal markets

Phosphate price (KSA price index FOB), in USD / tonne, 2017- Q1 2019



## Key takeaways



**Phosphate prices** in Q1-2019 averaged ~6% lower than Q4-2018

**Unfavorable weather** in the US, Australia, and South Africa have impacted the fertilizer consumption in these usually active markets Q1 markets

**South America & India** markets are seasonally slow in Q1 accompanied with high closing inventory in India and unattractive farmers economics in Brazil

**Higher than usual phosphate exports from China** in Q1 due to slow seasonal domestic demand in China

In a move to balance the Q1 oversupplied market situation, **phosphate production out of the US and Morocco reported to be curtailed**

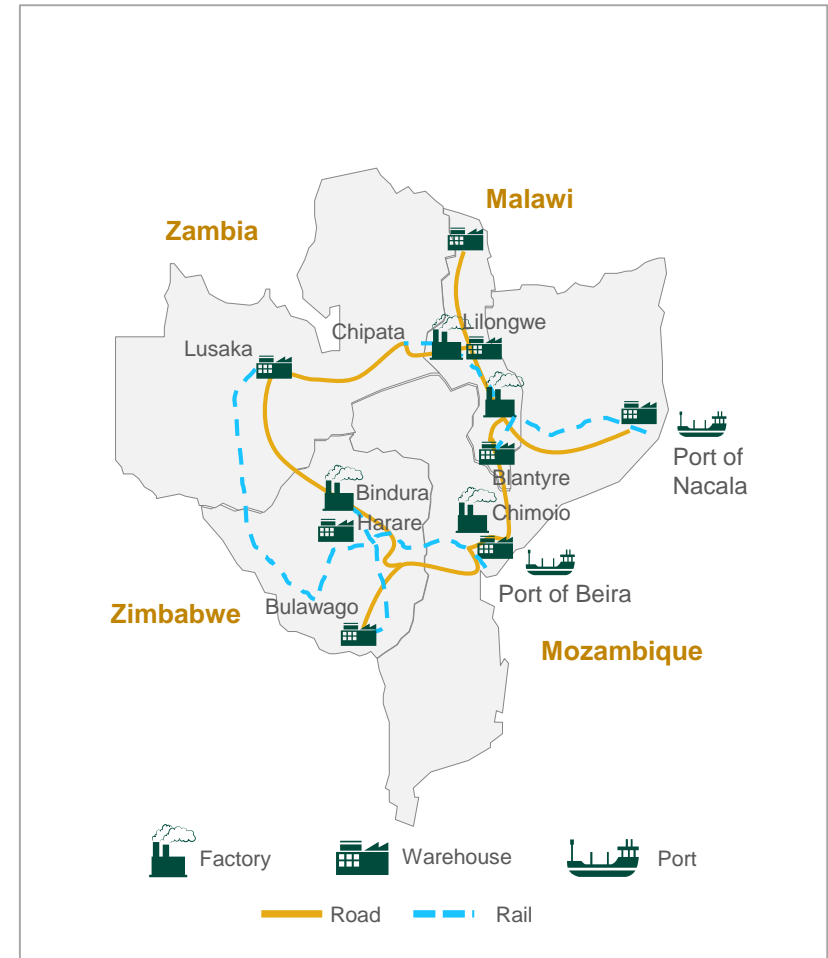
**Ammonia prices** in Q1-2019 averaged lower than Q4-2018 by ~\$65 due to weak demand from fertilizers and industrial consumers, in addition to new capacity from Russia (890 kt/year)

The reduction in **raw material costs** (-\$30/t for Sulphur) is providing some relief to overall cash costs for marginal producers which has pressured the market support price

Source: Fertecon & FMB

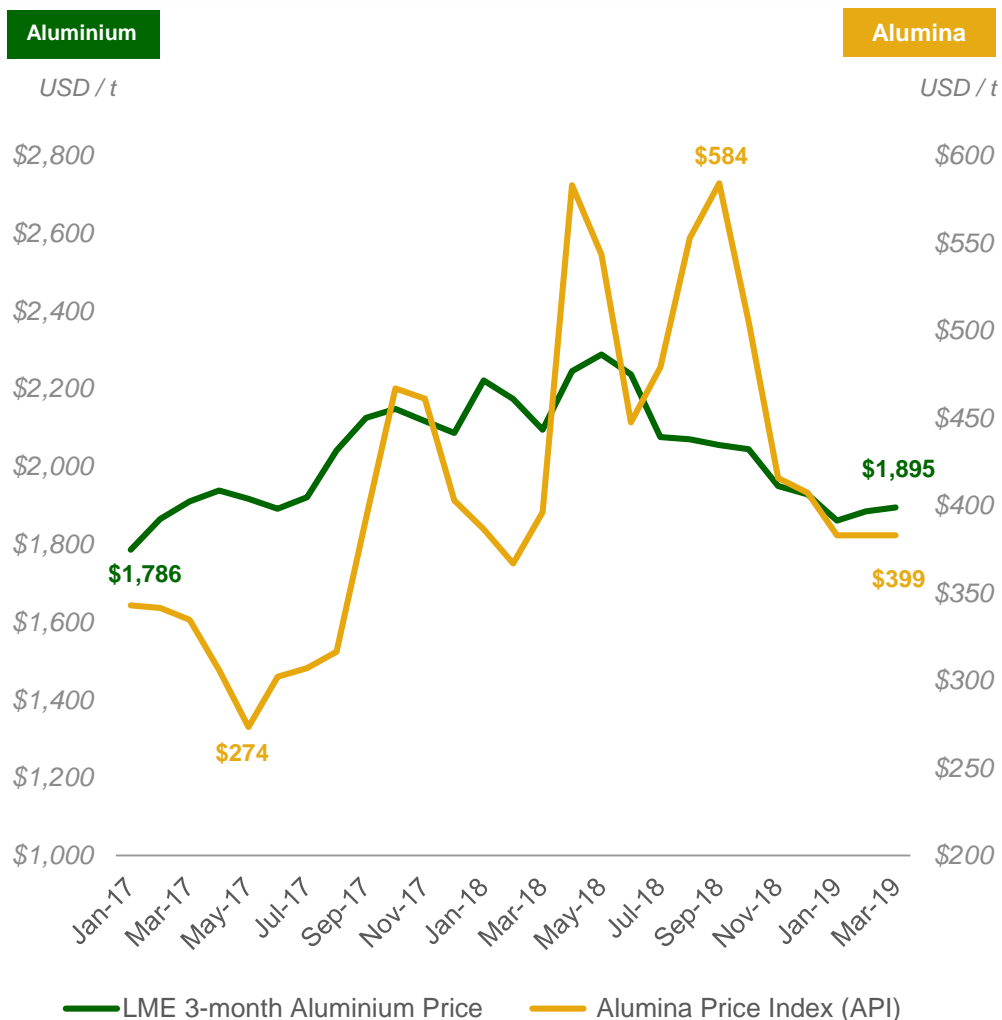
# Acquisition of Meridian distribution business an important step in establishing a global distribution presence

- On April 18, 2019, Ma'aden **signed a binding agreement to acquire 85%** of the Meridian Group (Meridian), based on an enterprise value of **USD 140 million**
- Meridian is a **leading agricultural inputs business headquartered** in Mauritius with operations in Southeast Africa
- Meridian distributes close to **half a million tonnes of fertilizer** across Malawi, Mozambique, Zimbabwe and Zambia
- Private equity investors and minority shareholders from Meridian's executive management currently own Meridian
- The acquisition **further Ma'aden's 2025 strategy**, which includes expanding operations and sales outside the Kingdom in key destination markets



# Outlook on demand and supply favorable for aluminium but trade and economic concerns keeping pressure on prices

Alumina and Aluminium prices, in USD / tonne, 2017- Q1 2019



## Key takeaways

**Aluminium price** in Q1 2019 lower by 5% compared to Q4 2018, pulled down by trade concerns and slow demand

Growth momentum has slowed but is expected to end in the near future with supportive and flexible policy actions – notably **China stimulus and the potential for a US-China trade deal**

**Alumina prices remained range-bound** in Q1 2019. The timing of the Alunorte refinery return to full capacity remains the key factor for future prices

Source: Ma'aden Aluminium SBU Analysis



# Both copper and gold prices higher on average during the quarter but gold under pressure to sustain the recovery

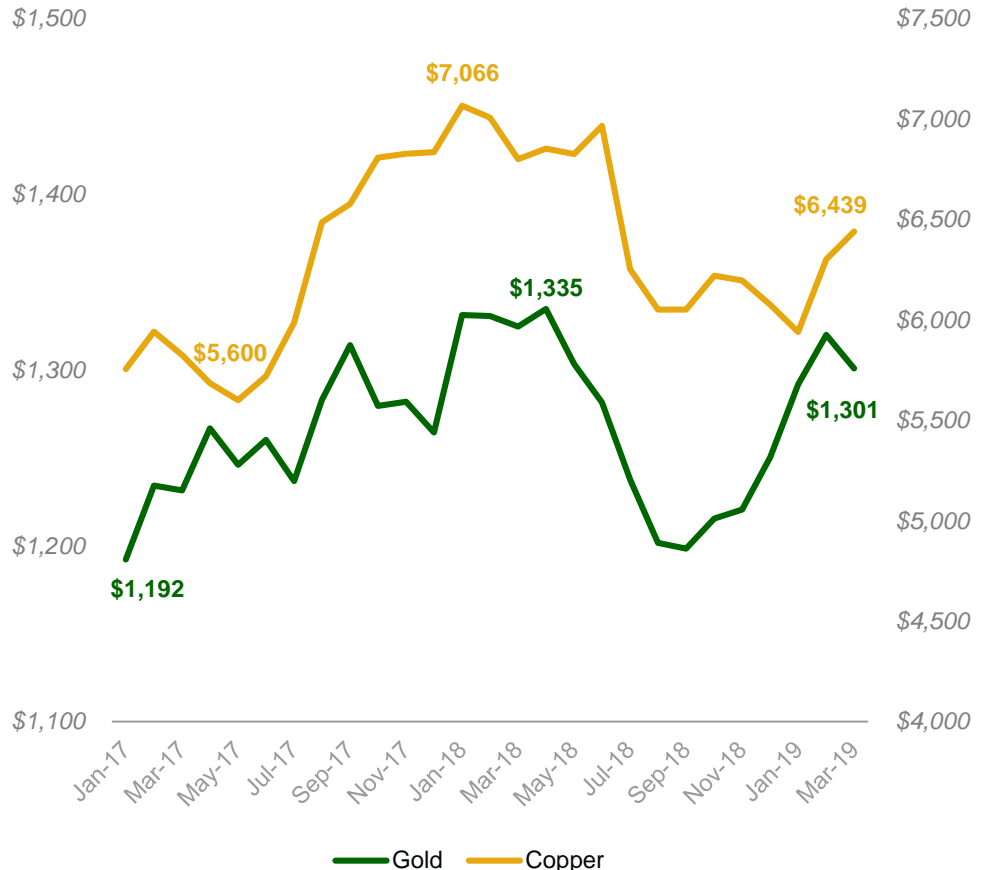
Gold and copper prices, in USD / oz and USD / tonne, 2017-19



## Key takeaways

### Gold

USD / Oz



### Gold

After recovery in late 2018 and early 2019, gold weakened again recently as the US Dollar strengthened and signs of more optimism on global growth emerged.

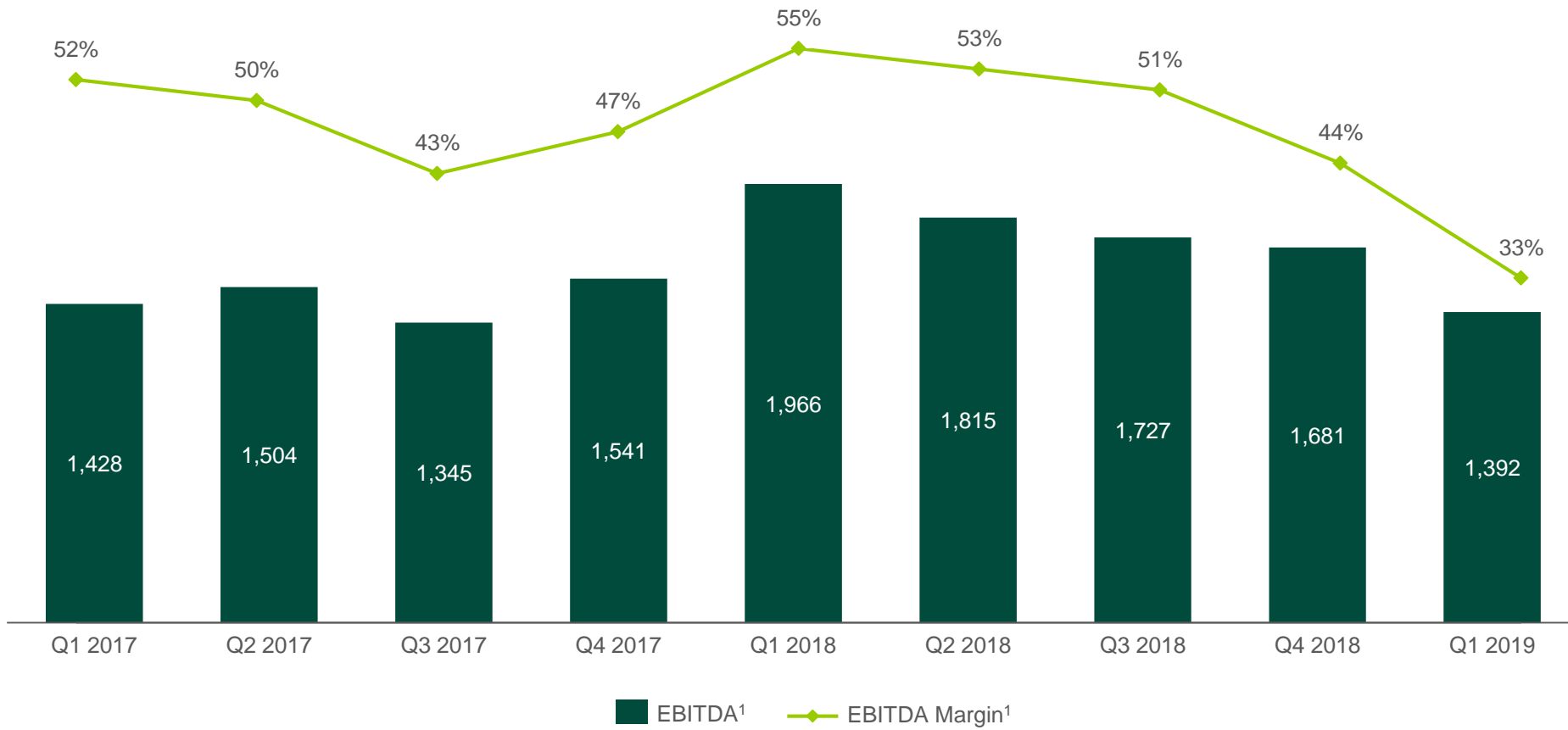
### Copper

The copper market is still expected to see supply deficit for 2019 although expectations for recovery from the lows of late 2018 may be impacted by slower short term demand growth. A more optimistic outlook for economic growth recently has supported the recent rally.

Source: World Bank

# Profitability remained strong but falling commodity prices over the last 9 months have squeezed margins

Quarterly EBITDA in mn SAR and margin in % (2017-2019)



<sup>1</sup> see appendix for definition of non-IFRS terms



# **Ali S. Al-Qahtani**

## **Chief Financial Officer**



# Consolidated sales and EBITDA by segment - quarterly



## Consolidated

	Q1-19	vs. Q1-18	vs. Q4-18
<b>Sales (mn SAR)</b>	4,241	↑ +19%	↑ +11%
<b>EBITDA (mn SAR)</b>	1,392	↓ -29%	↓ -17%
<b>EBITDA Margin (%)</b>	33%	↓ -22%	↓ -11%



## Phosphate

	Q1-19	vs. Q1-18	vs. Q4-18
<b>Sales (mn SAR)</b>	2,076	↑ +34%	↑ +10%
<b>EBITDA (mn SAR)</b>	815	↑ +6%	↓ -4%
<b>EBITDA Margin (%)</b>	39%	↓ -11%	↓ -6%

59% of Group EBITDA



## Aluminium

	Q1-19	vs. Q1-18	vs. Q4-18
<b>Sales (mn SAR)</b>	1,785	↑ +25%	↑ +20%
<b>EBITDA (mn SAR)</b>	444	↓ -47%	↓ -32%
<b>EBITDA Margin (%)</b>	25%	↓ -34%	↓ -19%

32% of Group EBITDA



## Gold

	Q1-19	vs. Q1-18	vs. Q4-18
<b>Sales (mn SAR)</b>	381	↓ -36%	↓ -14%
<b>EBITDA (mn SAR)</b>	133	↓ -63%	↓ -24%
<b>EBITDA Margin (%)</b>	35%	↓ -25%	↓ -5%

9% of Group EBITDA

Note (1): see appendix for definition of non-IFRS terms

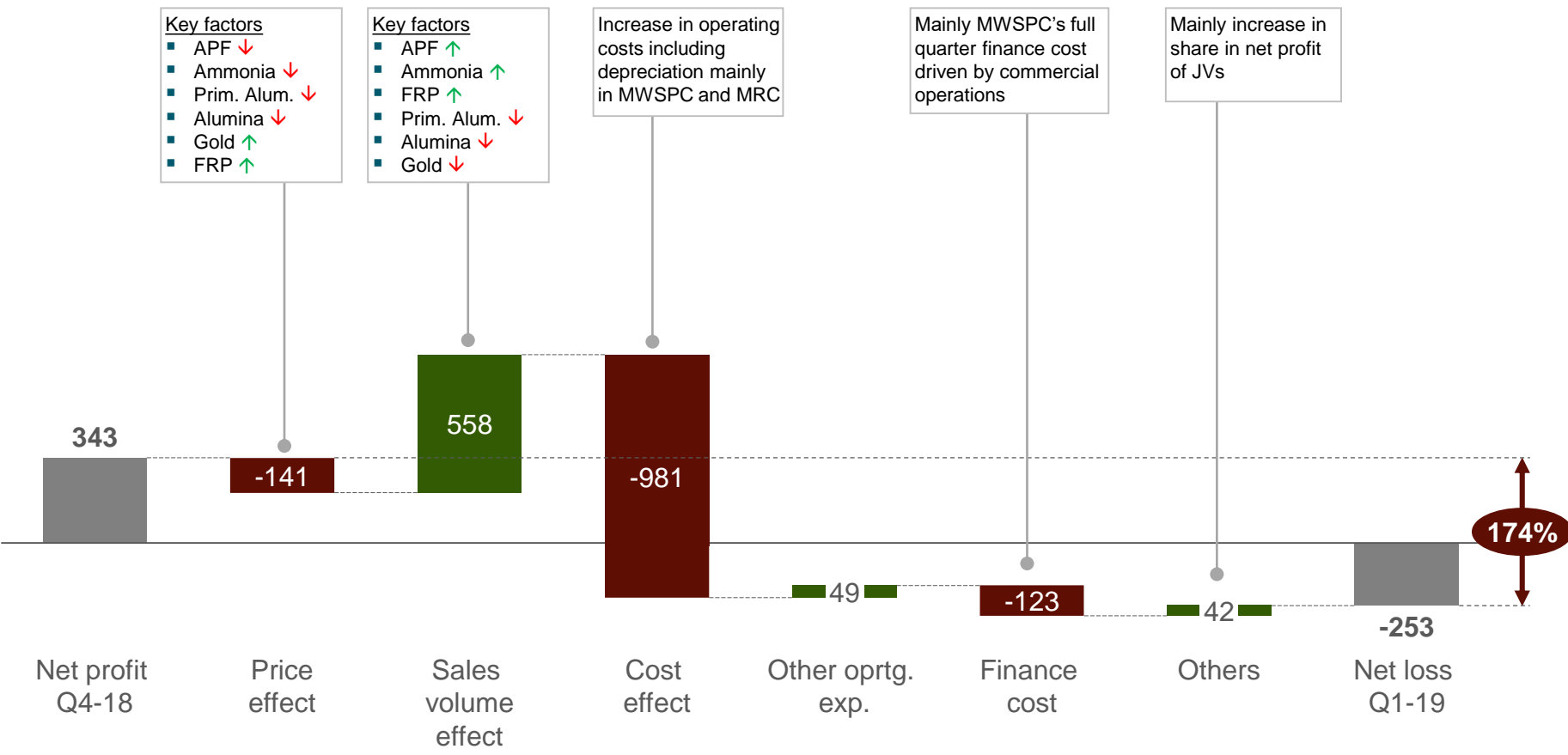
Note (2): Corporate functional department costs and other expenses not directly related to SBUs were allocated proportionately based on revenue share of each segment



# Net loss was mainly due to decrease in realized prices of most products combined with recognition of full operating costs, depreciation and finance cost of MWSPC and MRC

SRmn













Movement in net profit by line items - quarterly (q-o-q)



# Consolidated statement of profit or loss

SRmn

## Comparative P&L - quarterly

	Q1-19	Q4-18	Q1-18	Q1-19 vs. Q4-18		Q1-19 vs. Q1-18	
				SR	%	SR	%
<b>Sales</b>	<b>4,241</b>	<b>3,825</b>	<b>3,566</b>	 <b>417</b>	<b>11%</b>	 <b>675</b>	<b>19%</b>
Cost of sales	-3,598	-2,691	-2,151	-908	34%	-1,447	67%
<b>Gross profit</b>	<b>643</b>	<b>1,134</b>	<b>1,415</b>	 <b>-491</b>	<b>-43%</b>	 <b>-772</b>	<b>-55%</b>
<i>Gross profit margin%</i>	<i>15%</i>	<i>30%</i>	<i>40%</i>				
Selling, marketing and logistic expenses	-196	-179	-122	-17	9%	-74	60%
General and administrative expenses	-94	-157	-85	63	-40%	-9	1%
Exploration and technical services expenses	-28	-31	-17	3	-10%	-10	6%
Reversal / (impairment) of non-current assets, net		65	-19	-65	-100%	19	-100%
<b>Operating profit</b>	<b>326</b>	<b>832</b>	<b>1,172</b>	 <b>-507</b>	<b>-61%</b>	 <b>-847</b>	<b>-72%</b>
<i>Operating profit margin%</i>	<i>8%</i>	<i>22%</i>	<i>33%</i>				
Share in net profit of jointly controlled entity	95	7	44	88	1346%	50	114%
Income from time deposits	60	43	22	17	39%	38	178%
Finance cost	-620	-498	-364	-123	25%	-256	70%
Other income	-71	8	-20	-78	-992%	-50	-248%
<b>Profit/ loss before zakat and income tax</b>	<b>-211</b>	<b>393</b>	<b>853</b>	 <b>-603</b>	<b>-154%</b>	 <b>-1,064</b>	<b>-125%</b>
Zakat and income tax expense	-42	-49	-100	7	-15%	58	-58%
<b>Profit/ loss for the period</b>	<b>-253</b>	<b>343</b>	<b>754</b>	 <b>-596</b>	<b>-174%</b>	 <b>-1,007</b>	<b>-134%</b>
<i>Profit %</i>	<i>-6%</i>	<i>9%</i>	<i>21%</i>				
<b>Profit attrib. to shareholders' of the parent co.</b>	<b>-127</b>	<b>277</b>	<b>638</b>	 <b>-404</b>	<b>-146%</b>	 <b>-765</b>	<b>-120%</b>
Non-cont. interest's share of the period's profit	-126	66	116	-192	-290%	-241	-209%
<i>EPS (SR)</i>	<i>-0.11</i>	<i>0.24</i>	<i>0.55</i>	<i>-0.3</i>	<i>-146%</i>	<i>-0.7</i>	<i>-20%</i>

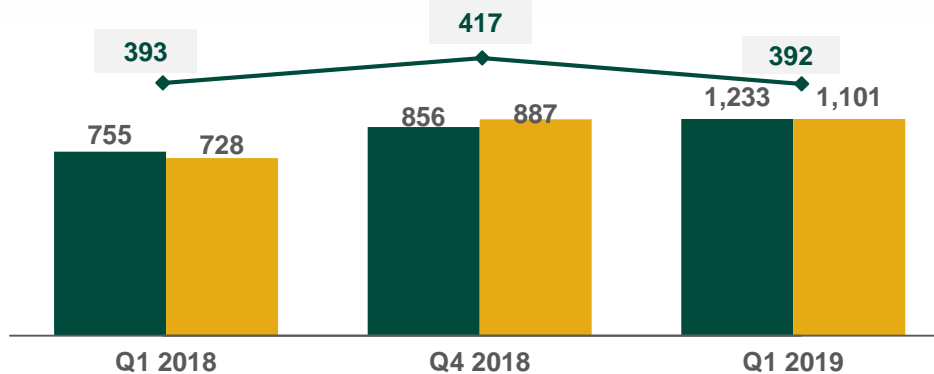
# Operational performance

# Phosphate performance

## Ammonium phosphate fertilizer (in kt and USD / tonne)



## Key takeaways



### Production volume of APF

#### MPC

- decreased by 8kmt y-o-y, due to unplanned plant shutdown in February and lower PAP production
- increased by 48kmt q-o-q, due to longer plant shutdown in Q4-18

#### MWSPC

- increased by 329kmt q-o-q, due to full quarter of commercial operations



### Sales of APF

- increased by 373kmt y-o-y,
- increased by 214kmt q-o-q,

driven by the MWSPC commercial operations



### Production volume of ammonia

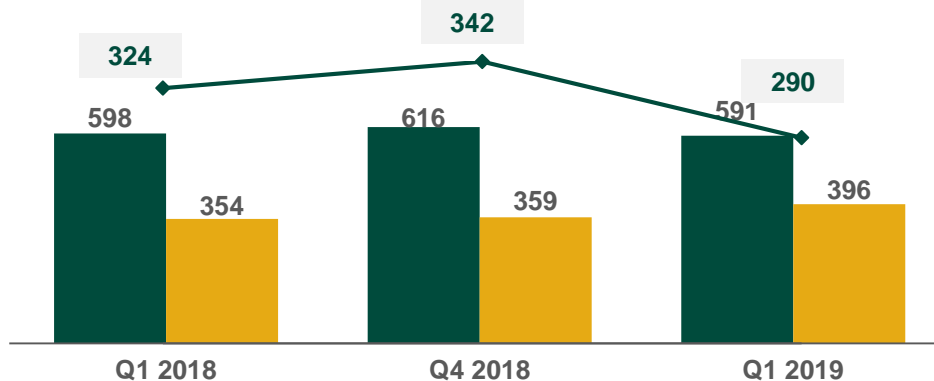
- decreased by 7kmt y-o-y
- decreased by 25kmt q-o-q, due to unplanned shutdown



### Sales of ammonia

- increased by 42kmt y-o-y
- increased by 37kmt q-o-q

## Ammonia (in kt and USD / tonne)



■ Production ■ Sales —◆— Average prices

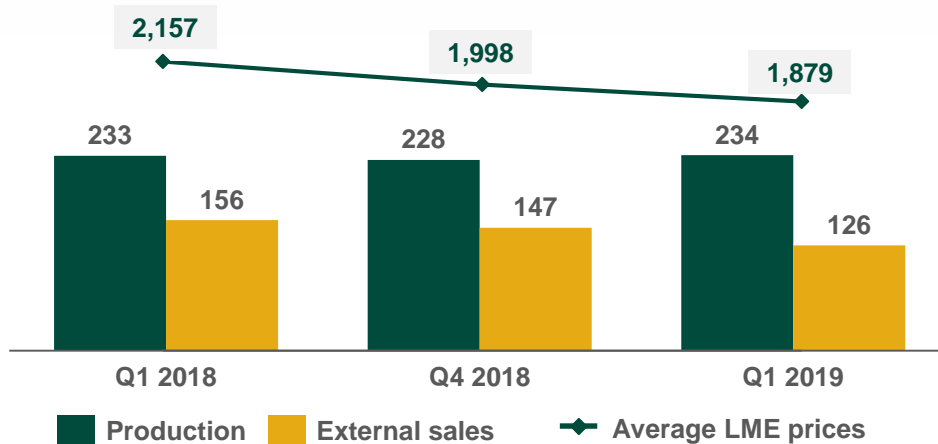


# Aluminium Performance

## Aluminium (in kt and USD / tonne)



## Key takeaways



### Production volume of aluminium

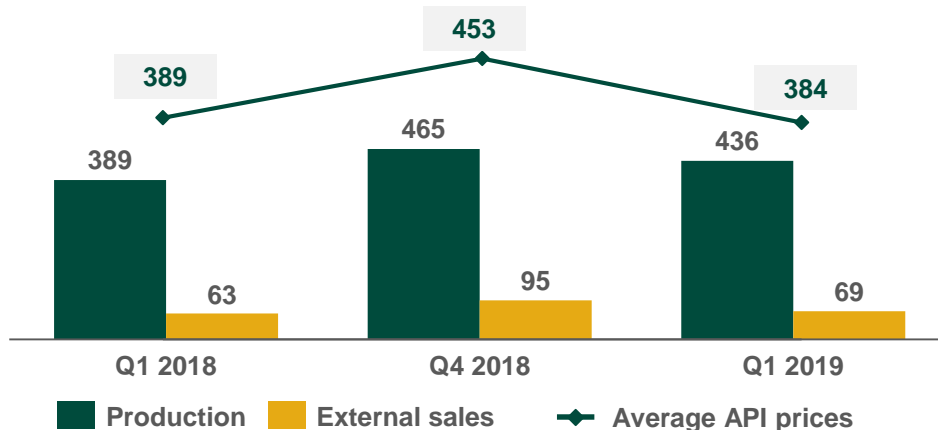
- production higher by 1kmt y-o-y
- increased by 6kmt q-o-q



### Sales of aluminium

- External sales lower y-o-y and q-o-q as more material consumed within rolling mill operation

## Alumina production (in kt and USD / tonne)



### Production volume of alumina

- increased by 47kmt y-o-y, driven by more stable production compared to last year
- decreased by 29kmt q-o-q, due mainly to limitation on export capabilities (storage capacity)



### Sales of alumina

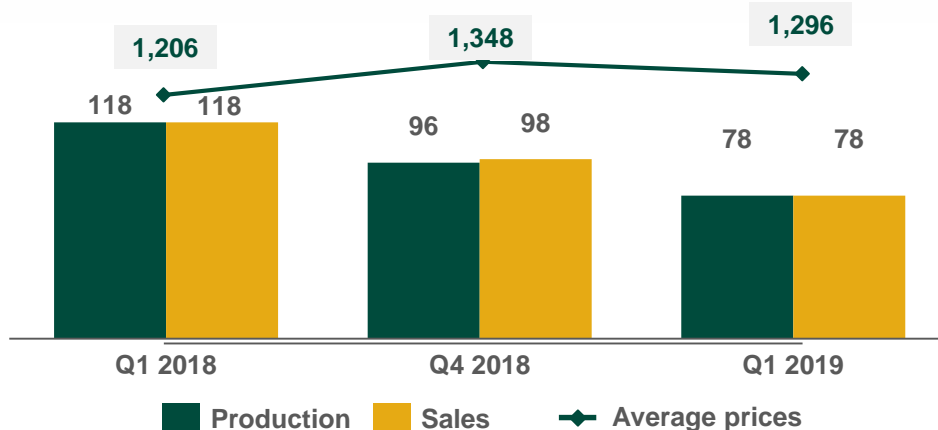
- increased by 6kmt y-o-y due to higher production
- decreased by 26Kmt q-o-q, driven by export constraints

# Gold and copper Performance

## Gold (in thousand ounces and USD / ounce)



## Key takeaways



### Production volume of gold

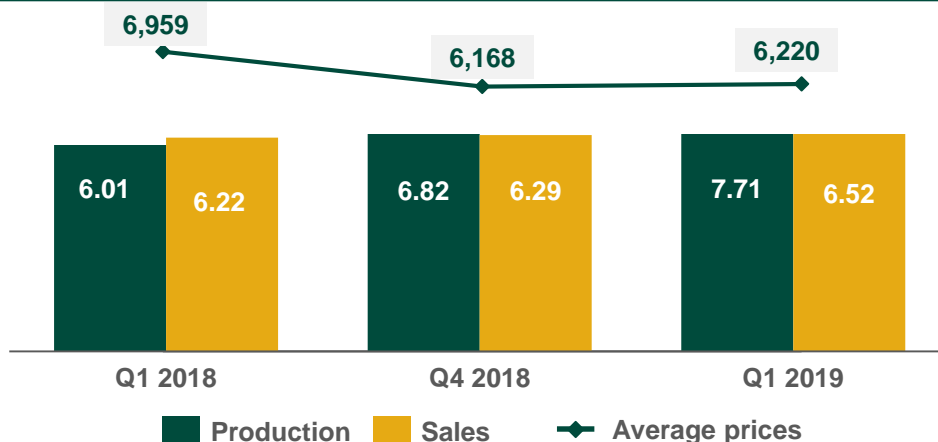
- decreased by 40koz y-o-y, due to lower mill feed Au grade in Ad Duwayhi and due to higher waste stripping
- decrease by 18koz q-o-q, due to drop in Ad Duwayhi production from lower mill feed Au grade and higher waste stripping

### Sales volume of gold in ounce

- decreased by 40koz y-o-y, due to drop in production mainly in Ad Duwayhi as explained above.
- decreased by 20koz q-o-q due to drop in production mainly in Ad Duwayhi as explained above.



## Copper (in kt and USD / tonne)<sup>1</sup>

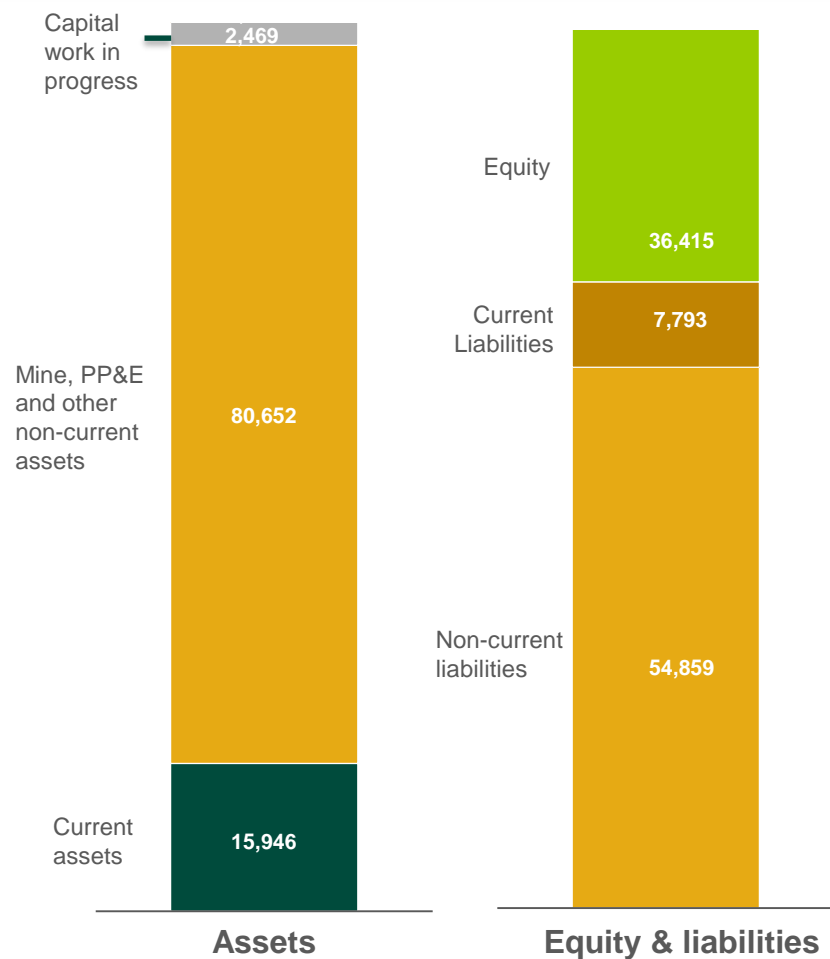


Note (1): Ma'aden attributable production & sales @ 50%

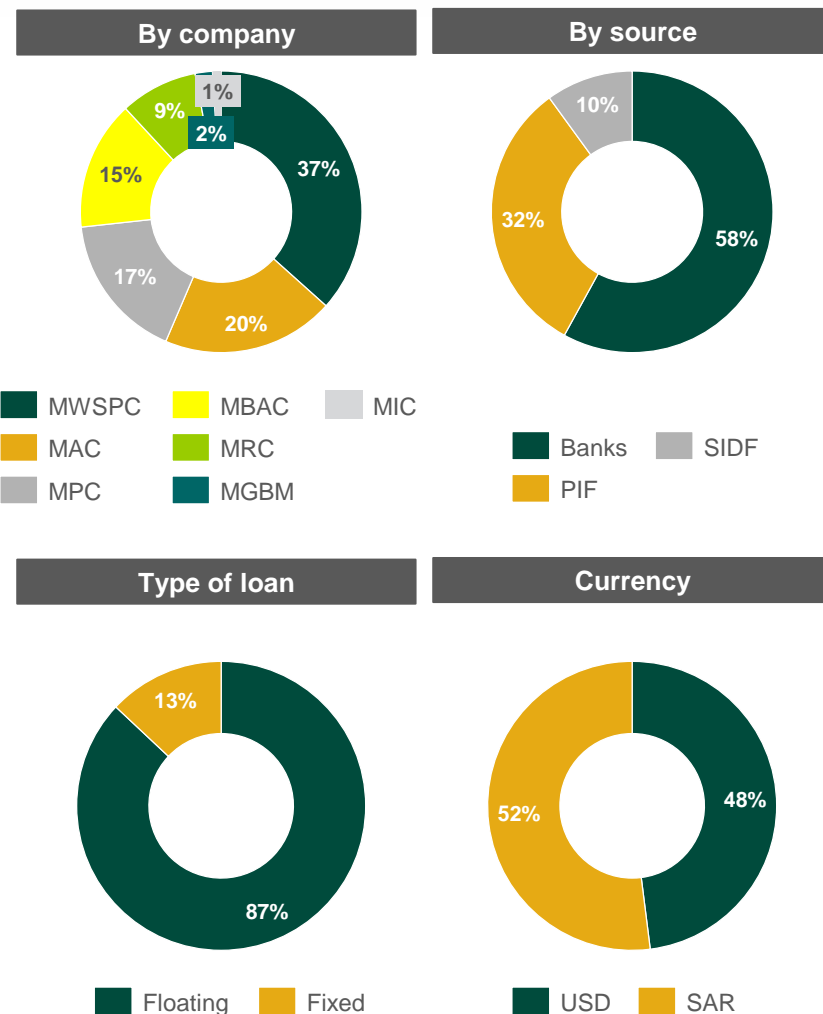
# Financial position

# Financial position at 31 March 2019

Balance sheet (in mn SAR)



Long-term borrowings (in %)



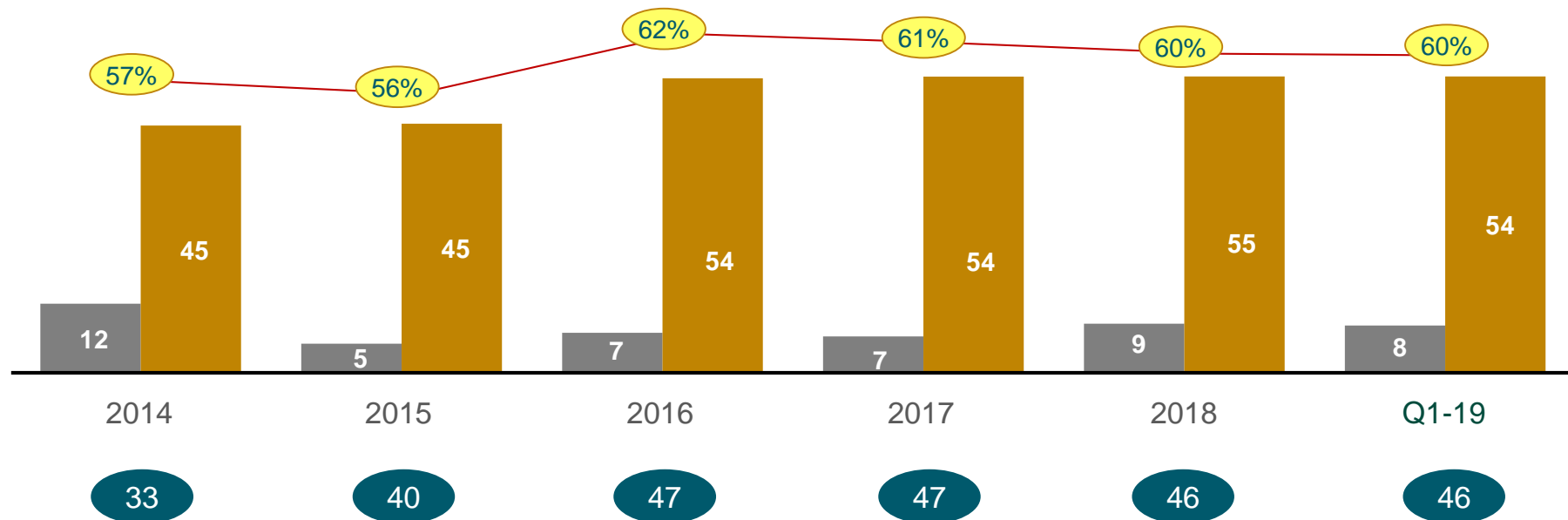


# Cash and long term borrowings

SRbn

5 year historical data

■ Cash, cash equivalents and time deposits ■ Long term borrowings ● Debt/total capital ratio<sup>1</sup> ● Net debt<sup>1</sup>



<sup>1</sup> see appendix for definition of non-IFRS terms

# Summary

## Strong production performance



- Production across the business is mostly in line with nameplate capacity or above
- Rolling mill operations continue to grow strongly
- Some challenges at Waad Al-Shamal but these are being overcome

## Commodity fundamentals remain solid



- Outlook for global economy remains uncertain
- Fundamentals in phosphate, aluminium, alumina and copper all remain strong but short term may see pressure on both copper and aluminium in particular if global economic weakness emerges
- Gold may benefit from continued economic volatility

## Headwinds in 2019



- Full year impact of depreciation and financial charges from Wa'ad Al Shamal and the rolling business will have a significant impact on 2019 earnings
- Outlook for commodity prices is uncertain and too early to call the trend for 2019
- However, some raw materials costs have been falling

## Opportunities for growth will be pursued with discipline



- The Meridian acquisition is an important first step in our international fertilizer strategy
- Further attractive growth opportunities in phosphate, gold and aluminium are being considered

# Q&A

# Appendix



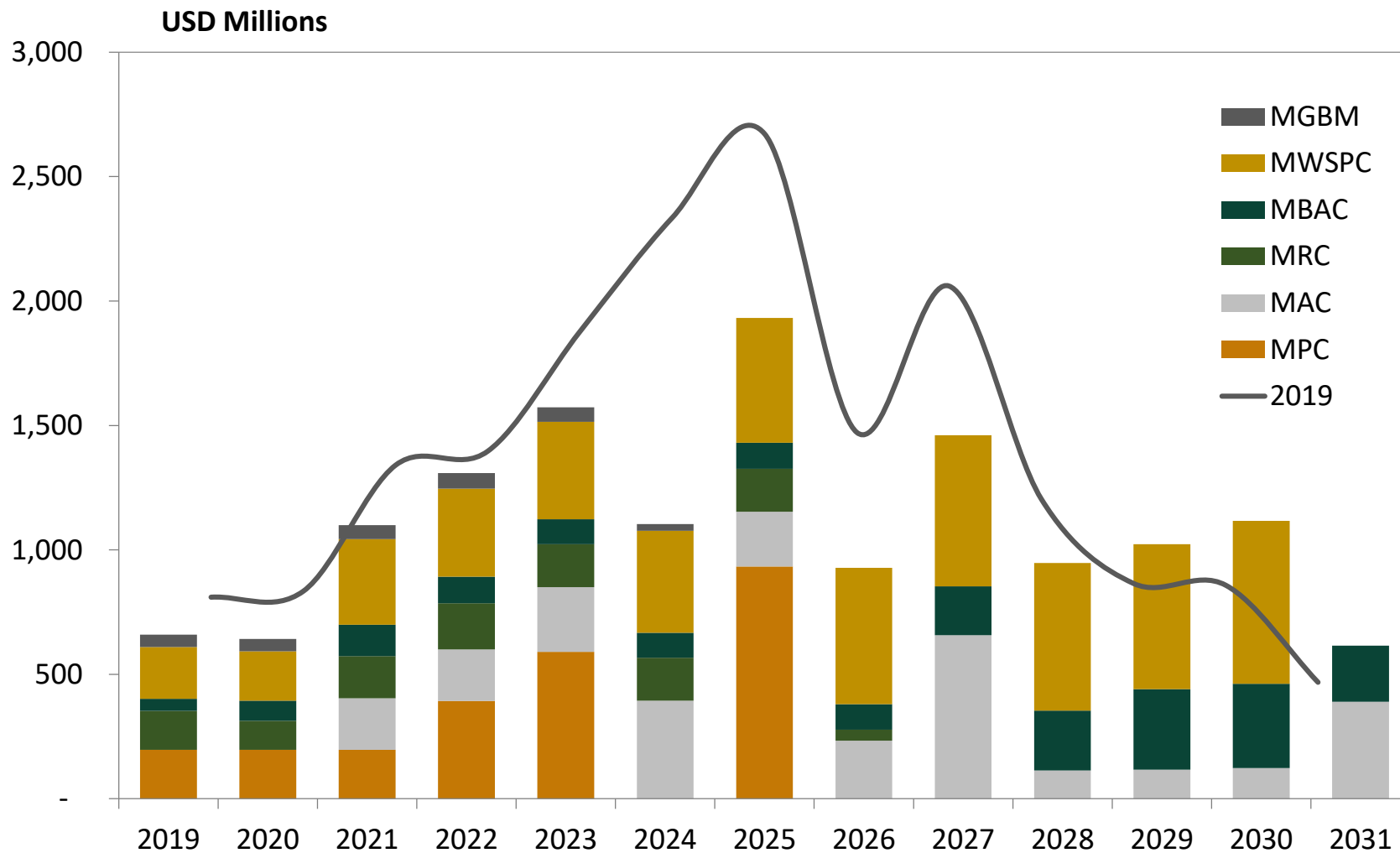
# Sales summary

Particulars <i>in thousand tonnes (except as mentioned)</i>	Q1-18	Q4-18	Q1-19
Phosphate business			
Ammonium phosphate fertilizer	728	887	1,101
Ammonia	354	359	396
Aluminium business			
Alumina	63	95	69
Primary Aluminium	156	147	126
Flat Rolled Aluminium	-	19	71
Precious and base metals business			
Gold ('000 ounces)	118	98	78
Copper <sup>1</sup> (kt)	6.22	6.89	6.52

Note (1): Ma'aden attributable share

# Debt repayment profile

Schedule debt repayment profile, in mn USD



# Non-IFRS Financial Measures

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- **Debt / Total Capital** = (Long-term borrowings + Current portion long-term borrowings) / (Long-term borrowings + Current portion of long-term borrowings + Total equity)
- **Operating Cashflow** = Net cash generated from operating activities
- **EBITDA** Earnings before interest, tax, depreciation and amortization, impairment and asset write offs.
- **EBITDA Margin:** Underlying EBITDA / Sales
- **Net Debt** = (Short-Term Debt + Long-Term Debt) - Cash and Cash Equivalents



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**Thank You!**

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