August 2020

Saudi Arabian Mining Co.(MAADEN)

Result Flash Note Q2-2020

الجزيرة كابيتال

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Ma'aden posted a disappointing set of results with net loss of SAR 434.1mn; above AJC's estimate of loss of SAR 382.2mn, due to lower-than-expected volumetric sales, OPEX increases and lower contribution from joint venture projects. Revenues were 4.3% below our estimate due to weak performance of MWASPC project on technical issues. Gross margin marginally expanded to 4.97% from 4.65% in the previous quarter, driven by decline in raw material and utilities cost. Going forward, products prices started to improve gradually and we expect further recovery beyond Q3-20 with the pick-up in the global economic activities. We reiterate our "**Neutral**" recommendation on the stock with revised TP of **SAR 40.40/share**.

- Saudi Arabian Mining Company's (Ma'aden) reported net loss of SAR 434.1mn; above our estimated loss of SAR 382.2mn. The overall weak result is primarily attributed to i) decline in volumetric sales of flat rolled products, ammonia phosphate fertilizer and ammonia ii) decline in average sales prices for most of the products except gold iii) an increase of 63%Y/Y in general and administrative expenses. The deviation from our estimates is mainly ascribed to (i) higher-than-expected impact on top line due to global lockdown ii) lower-than-expected contribution from joint ventures, as share of losses from MBCC and SAMAPCO stood at SAR -8.9mn, as compared to our profit estimate of SAR 33.4mn.
- Ma'aden's posted weak revenue for Q2-20 at SAR 4.02bn, below our estimate of SAR 4.21bn, impacted by weak product prices and lower than expected ammonia sales volume due to technical issues of MWASPC (it could take 3-4 quarters to be solved). Sales volume of phosphates increased by 3.9%Q/Q, registering a 1.28MT, despite 3.2%Q/Q decline in Ammonia volumetric sales. On quarterly basis, primary aluminum, and gold sales volume stabilized Q/Q at 251KT and 116KT, respectively. DAP and Ammonia average prices stood at USD 301/tonne (an increase of 1.2%Q/Q) and USD 189/tonne (a fall of 15.4%), respectively. Gold average prices jumped by 8.2%Q/Q to USD 1,710/ounce, but aluminum average prices declined to USD 1,532/tonne in Q2-20 from USD 1,728/tonne in Q1-20.
- Gross profit stood at SAR 199.9mn, (a fall of 61.2%Y/Y and 7.8%Q/Q). This is above our estimate of SAR 166.9mn, which can be ascribed to a decrease in cost of sales by 8%Q/Q. Raw material and utilities cost witnessed a fall of 14.9% at SAR 1.28bn vs. SAR 1.51bn in Q1-20. Thus, gross margin expanded to 4.97% from 4.65% in Q1-20 and our estimate of 4.0%. Ma'aden's witnessed 18%Y/Y EBITDA decline in Q2-20 to SAR 1.06bn, and the EBITDA margins declined by 379bps. Operating losses stood at SAR 163.4mn; above our estimated loss of SAR 142.7mn, impacted by an increase in G & A and exploration expenses by 63%Y/Y and 70%Y/Y, respectively.

AJC View and valuation: Ma'aden delivered weak result in Q2-20, pressured by weakened commodity prices, ammonia sales volume and an increase in OPEX; resulting in weak bottom line and margins. Ma'adan's products prices started to upswing gradually and we expect more recovery beyond Q3-20 with the pick-up in the global economic activities; however, the rising tension between the US and China is a key concern. Furthermore, despite the increase in finance cost for Q2-20 due to debt restructuring; we expect the current decline in SAIBOR may act as a key upside trigger for Ma'aden due to a heavy leveraged balance sheet. Although higher overall costs, MWSPC technical issues and weak commodity price are the key short-term concerns, we remain positive on Ma'aden's long term growth, given the likely positive consequence of raising operating rate of MWSPC to full capacity vs. current of 70%. This is in addition to the company's future gold projects in Mansorah & Massarah mine, which has an estimated production capacity of 250k ounces/annum of gold and is expected to commence the commercial production by Q3-FY22. We revise down our FY20 bottom line estimate to net loss of SAR 1,330mn from loss of SAR 737mn earlier. We value Ma'adan on 50% weight for DCF (2.3% terminal growth and 7.5% WACC) and EV/EBITDA (11.5x FY25 EBITDA) based on relative valuation, yielding the target price of **SAR 40.40/share**, with "**Neutral**" recommendation.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**4,300.5**	**4,355.2**	**4,016.4**	-6.6%	-7.8%	-4.3%
Gross Profit	515.1	202.7	199.9	-61.2%	-1.4%	19.7%
Gross Margin	*11.97%*	*4.65%*	*4.98%*	-	-	-
EBITDA	192.7	(119.3)	(163.4)	NM	-36.7%	14.2%
Net Profit	(243.7)	(353.3)	(434.1)	-78.2%	-22.9%	-13.5%
EPS	(0.20)	(0.29)	(0.35)	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	**40.40**
Upside / (Downside)*	**8.2%**

Source: Tadawul *prices as of 5th of August 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	14,168	17,736	17,224	18,441
Growth %	21.9%	25.2%	-2.9%	7.1%
Net Income	1,847.9	(739.5)	(1,330.1)	(662.0)
Growth %	158.5%	NM	-79.9%	50.2%
EPS	1.58	(0.60)	(1.08)	(0.54)

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	36.0%	13.0%	6.9%	10.4%
Net Margin	13.0%	-4.2%	-7.7%	-3.6%
EBITDA margin	46.2%	31.1%	27.2%	28.7%
P/E	34.8	NM	NM	NM
P/B	2.30x	1.76x	1.54x	1.57x
EV/EBITDA (x)	16.2x	16.9x	17.7x	15.0x

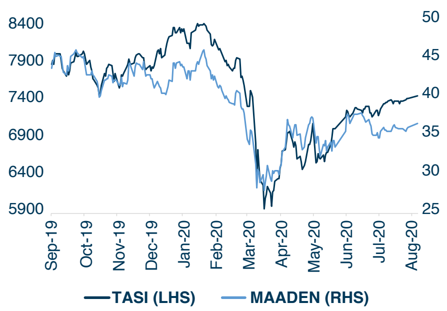
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	44.3
YTD %	-19.6%
52 Week (High)/(Low)	49.90/27.80
Shares Outstanding (mn)	1,230.59

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer