Saudi Arabian Mining Co.(MAADEN)

Result Flash Note 2Q-2019

Ma'aden posted a disappointing set of results with net loss of SAR 243.7mn; missing AJC and market consensus loss estimates of SAR 142.1mn and SAR 85.6mn respectively, due to higher than expected production cost and one-off impacts. Gross margin contracted to 11.98% from 13.41% in the previous quarter. Revenues were 4.5% above our estimates due to higher than expected contribution from newly commenced MWASPC project. We expect commodity prices to remain under pressure amid trade war concerns in the near-term. Improved ramp up of MWSPC and the current decline in SAIBOR may act as a key support to mitigate the impact on bottom-line. We reiterated our "**Neutral**" recommendation on the stock with revised TP of SAR 48.50/share.

- **Margins contraction and one-off impacts extend losses:** Saudi Arabian Mining Company's (Ma'aden) reported a net loss of SAR 243.7mn; against net profit of SAR 517.7mn in Q2-18 and a loss of SAR 127mn in previous quarter. Weak Q/Q bottom line is mainly attributed to i) decrease in average realized prices of most products. ii) higher COGS due to inventory write-down of SAR 149mn, despite a decline in raw material and utilities consumed. iii) an increase in tax expenses due to Write-off of deferred tax asset in MRC (SAR 164.1mn vs. 11.8mn in Q1-19) iv) an increase in finance cost (SAR 666.7mn vs. SAR 620.4mn in Q1-19). v) SAR 56mn share in net loss of SAMAPCO.

- **Strong revenue was driven by 14.8% increase in phosphate sales volume:** Ma'aden's posted strong sales in Q2-19 at 4,300mn (an increase of 25.9%Y/Y and 1.4%Q/Q); well above our estimates of SAR 4,113mn due to improved phosphates sales and production. Sales volume of phosphates increased by 14.8%Q/Q, registering a new record at 1.26MT, despite 12.1%Q/Q decline in Ammonia volumetric sales. On quarterly basis, Aluminum sales volume increased by 15.9% to 146KT, along with an increase of 9.0%Q/Q in sales of gold volume to stand at 85K, driven by improved production in Ad Duwayhi mine. DAP and Ammonia average prices stood at USD 230/tonne (a fall of 15.3%Q/Q) and USD 367/tonne (a fall of 15.3%), respectively. Gold average prices remained flat compared to previous quarter, but Aluminum average prices declined to USD 1,821/tonne in Q2-19 from USD 1,884/tonne in Q1-19, impacted by rising concern over the global economy growth.

- **Gross margin declined to 11.98% from 13.41% in Q1-19 on inventory write-down:** Gross profit stood at SAR 515.1mn, (a fall of 58.1%Y/Y and 4.5%Q//Q), below our estimate of SAR 568mn and SAR 569mn in previous quarter, which can be ascribed to the impact of inventory write-down of SAR 149mn, compared to a reversal of SAR 365mn in Q1-19. However, raw material and utilities cost witnessed a fall of 27.8% at SAR 1.4bn vs. SAR 1.94bn in Q1-19. Gross margin compressed to 11.98% from 13.41% in Q4-18.

- **Meridian acquisition is a key access to African markets:** Ma'aden has signed an agreement to acquire 85% of Meridian Group (African fertilizer distribution company) for SAR 525mn. This we believe will provide the company access to African fertilizer markets, while building an efficient distribution channel to other potential markets. Moreover, this acquisition further supports Ma'aden's 2025 strategy to expand operations and sales outside Saudi Arabia, which is expected to be completed in Q3-19.

AJC View and valuation: Ma'aden delivered strong sales volume in Q2-19, but witnessed pressure from weakened commodity prices and multiple one-off impacts; resulting in weak bottom line and margins. We expect commodity prices to remain under pressure amid trade war concerns in the near-term; while 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 costs associated with the MRC and MWSPC projects 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. 80% currently. 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 Q3-22. We revised down our FY19 bottom line estimate to net loss of SAR 737mn from previous loss of SAR 83mn. We value Ma'adan on 50% weight for DCF (2.3% terminal growth and 8.8% WACC) and EV/EBITDA (11.5x FY25 EBITDA) based relative valuation, yielding the target price of **SAR 48.50/share**, with "**Neutral**" recommendation.

Results Summary

SARmn (unless specified)	Q2-18	Q1-19	Q2-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**3,416.5**	**4,241.3**	**4,300.5**	25.9%	1.4%	4.5%
Gross Profit	1,240.4	569.1	515.12	-58.5%	-4.5%	-9.3%
Gross Margin	*36.31%*	*13.41%*	*11.98%*	-	-	-
EBITDA	1,815	1,392	1,310	-27.8%	-5.9%	-
Net Profit	517.8	(147.1)	(243.7)	NM	-65.5%	-71.5%
EPS	0.44	(0.13)	(0.21)	-	-	-

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

Neutral

Target Price (SAR)	**48.50**
Upside / (Downside)*	**0.9%**

Source: Tadawul *prices as of 30th of July 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	12,085	14,168	17,114	18,110
Growth %	27.7%	21.9%	20.8%	5.8%
Net Income	714.8*	1,847.9	(736.7)	(85.3)
Growth %	-	158.5%	NM	NM
EPS	0.61	1.58	(0.63)	(0.07)

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Gross Margin	32.5%	36.0%	14.4%	18%
Net Margin	5.9%	13.0%	-4.3%	-0.5%
EBITDA margin	36.9%	46.2%	32.9%	34.9%
P/E	84.8x	34.8	-	-
P/B	2.32x	2.30x	2.06x	2.07x
EV/EBITDA (x)	22.0x	16.2x	16.6x	14.4x
Dividend Yield	-	-	-	-

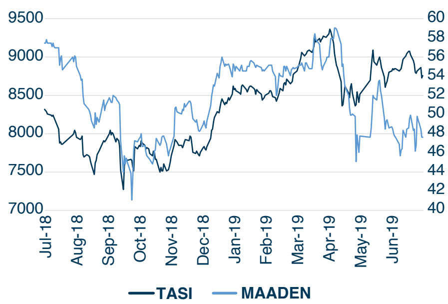
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	56.84
YTD %	1.01%
52 Week (High)/(Low)	59.60/40.90
Shares Outstanding (mn)	1,168.48

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