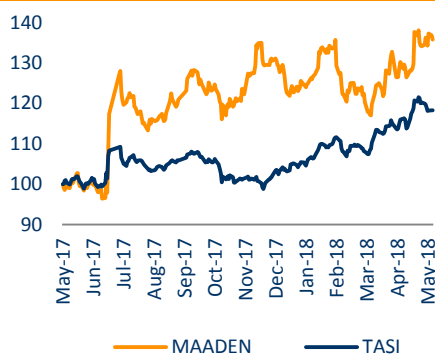


**1Q 2018 Results Update**
**May 09, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.5
Target Price (SAR)	52.2
Upside/Downside (%)	(7.6%)

*As of May 08<sup>th</sup> 2018*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	66.0
52 Wk High (SAR)	58.70
52 Wk Low (SAR)	39.50
Total Outstanding shares (in mn)	1,168
Free Float (%)	34.5%

**MAADEN vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	5.6%	3.8%
6m	7.1%	(9.9%)
12m	35.9%	19.1%

**Major Shareholders (%)**

Public Investment fund	49.99
General Org for Social Insurance	7.98
Public Pension Agency	7.45

**Quarterly Sales (SAR mn) and Operating Margin**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 8<sup>th</sup> May 2018

**Higher demand and better price realization improved 1Q18 profitability**

Saudi Arabian Mining Co. (Maaden)'s 1Q18 net profit more than doubled to SAR638mn on the back of higher sales volumes, improved product prices except for ammonia and increased share of joint venture's (Maaden Barrick Copper Co.) profits. The sequential turnaround from a net loss of SAR160mn reported in 4Q17 can be ascribed to lower finance costs, on-going cost reduction program, lower SG&A and exploration costs, and exclusion of non-recurring expense related to the impairment of PPE.

We expect the domestic sales to be supported by export volumes, as the company continues to remain committed to East African markets due to close proximity. During a recent visit to Nairobi, the company's CEO met with several Kenyan fertilizer customers and farmers to grow its sales and distribution presence. Moreover, the incremental capacity at Maaden's Waad Al Shamal Phosphate Company (MWSPC) will contribute to higher production and sales in 2018. We believe the company is progressing well with WAS P2 plant, which will lower its cash costs per tonne. However, uncertainty prevails due to volatile commodity prices, over-supply in the phosphate markets and higher power costs in the aluminium segment.

- Maaden's top line improved 31.6% Y/Y and 10.3% Q/Q to SAR 3,564mn in Q1 2018, driven by increase in sales volume of ammonia, ammonium phosphate fertilizer and gold, while the price realization of all the products improved except ammonia.
- Gross profits improved 52.6% Y/Y and 21.2% Q/Q to SAR 1,412mn due to lower raw material costs, while operating income improved at a much higher pace by 300% Q/Q driven by group's on-going restructuring initiatives, decrease in SG&A expenses and decline in exploration and technical services expenses. Consequently, the operating margins improved from 9.0% in 4Q17 to 32.9% in 1Q18 (1Q17: 26.7%).
- Net profit for the period stood at SAR 638mn (+131.5% Y/Y) versus a net loss in the previous quarter, led by lower finance costs due to debt restructuring and 44% increase in share of net profit of joint entity (Maaden Barrick Copper Company).
- Despite improved profitability, Maaden's cash flow from operating activities declined 28.1% Y/Y and 25.6% Q/Q to SAR 544mn in Q1 2018 (Q1 2017: SAR 757mn) due to an increase in trade receivables and advances and prepayments.
- While the aluminium and gold prices advanced due to improved market fundamentals, we believe volatility in the commodity markets will remain high in 2018. Given the fundamentals of the fertilizer market remain weak due to oversupply apprehensions, we expect subdued pricing in the coming quarters. We maintain a 'Neutral' stance on Maaden until we witness consistent demand upturn and price stabilization over the coming quarters.

**Valuation:** We have revised our target price upwards with a fair value of SAR 52.2 per share, in-line with current share price run-up and incorporating the strong 1Q18 performance. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	3.6	2.7	31.6%	14.4	12.1	8.0%
Gross Profit (SAR bn)	1.4	0.9	52.6%	4.8	3.9	2.1%
EBITDA (SAR bn)	1.9	1.4	36.3%	5.3	5.3	(2.3%)
Net Profit (SAR bn)	0.6	0.3	131.5%	0.7	0.7	0.4%
EPS basic (SAR)	0.55	0.24	131.5%	1.83	0.61	0.4%
Gross Margin (%)	39.6%	34.2%	5.5%	45.4%	32.5%	(2.6%)
EBITDA Margin (%)	54.6%	52.7%	1.9%	52.1%	43.7%	(5.5%)
Net Profit Margin (%)	17.9%	10.2%	7.7%	35.6%	5.9%	(2.7%)

Source: Company Financials, FALCOM Research

## 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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