



## MEPCO Reports 4% Revenue Increase QoQ for Q1'19

### Profitability Comes Under Pressure as International Paper Prices Plummet

**Jeddah, Saudi Arabia, 07 May 2019:** The Middle East Paper Co. ('MEPCO'), the region's leading vertically-integrated paper manufacturer, today announced its Q1 2019 results.

The company achieved quarterly sales growth of 4%, compared to the previous quarter. Profitability metrics came under pressure as international paper prices plummet due to weaker demand as anticipation of a slower world economy in 2019, Brexit outcomes, and US-China trade war remain vague. MEPCO is capitalizing on its dominant market leadership in the MENA region, remains agile and gearing up to capture more market share on price recovery.

### Strategic Highlights

Q1 2019 results show the impact of weaker international demand on containerboard paper, as shown by the metrics below. All comparisons are on QoQ basis:

- **Sales revenue** – Increased by 4.2%, reaching SAR 181.9 million
- **Gross profit** – decreased by 13.3%, reaching SAR 39.3 million and with a margin of 21.6%
- **EBITDA** – decreased by 12.6%, reaching SAR 36.2 million and with a margin of 19.9%
- **Net profit** – decreased by 52.9%, reaching SAR 5.8 million and with a margin of 3.2%

Eng. Sami Al Safran, MEPCO CEO, commented:

“This set of results does not come as a surprise for us. We previously communicated that the price hike that took place during the past couple of years, is bound to correct. However, the magnitude of correction was exacerbated by a number of significant global factors: 1) fears of a global economic slowdown in 2019.

As per the latest IMF report, the world economic growth is expected to slow down to 3.3 from 3.6 in 2019.



## Q1 2019 | Earnings Release

This resulted in a slower production by most manufacturers, especially European-based. 2) The inconclusive Brexit situation with the “no-deal” exit scenario leaving both the UK and Europe at a deadlock, and 3) the US-China trade war and what risks it could bring to international commerce. All these factors lead to an overall slowdown in the manufacturing level of most industries, thus negatively impacting demand on packaging materials. We expect this trend to continue throughout Q2 2019 with further pressure on margins.

On to the positives; MEPCO’s operating rate during Q1’19 was 93%, while most mills worldwide took excessive shutdowns, as evidenced by RISI statistics. Our inventory levels went down by the end of Q1’19 as we dispatch the highest sales volume in Q1 2019, including goods in transit. This proves MEPCO’s market dominance and superior product marketability.

The positive outcome of the anti-dumping case gives us confidence about the level of anticipated competition in GCC markets, minimizing risks of dumping practices in the future. The import tariffs on paper and containerboard products are now in effect.

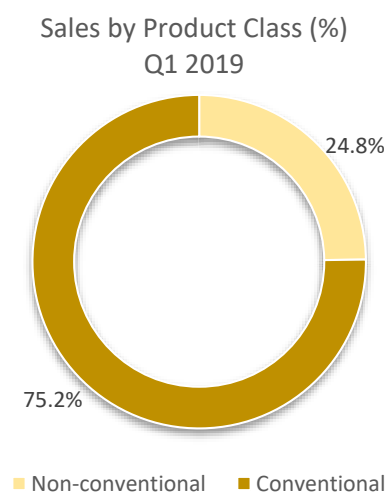
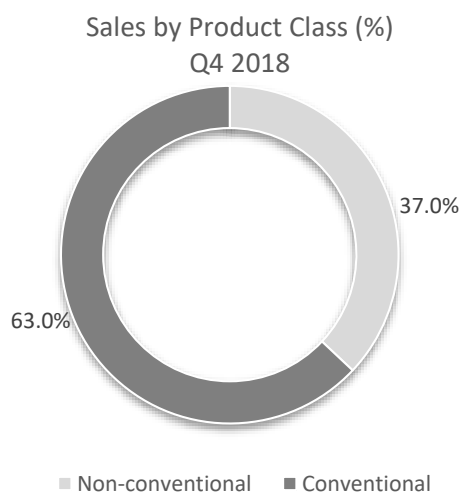
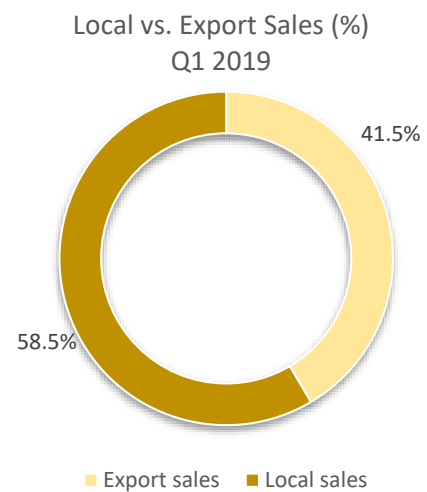
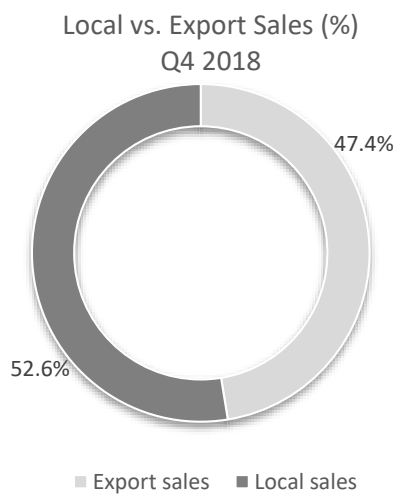
MEPCO remains agile at all times. We are confident in our operation, strategy, and position in the market. We faced many challenging times before; the senior management team is more than capable of enduring even more turbulent times. This is the nature of the paper industry, and we are quite prepared”.

## Q1 2019 | Earnings Release

### Sales Highlights

MEPCO's sales in Q1 2019 focused on conventional products and local sales. Reducing non-conventional sales helped cap the cost line due to increasing virgin fiber prices, while conventional products are favorable as OCC prices are dropping internationally. On the marketing front, the local market is still active, relative to international markets, especially European.

### Sales breakdown<sup>1</sup> by value (SAR)



<sup>1</sup> Refers to MEPCO standalone sales.

## Financial Review

For the 3 months ended 31 March 2019; all figures are in SAR '000 unless stated otherwise.

	Previous Quarter Q4 18	Current Quarter Q1 19	QoQ Change	Previous Period Q1 18	YoY Change
<b>Sales Revenue</b>	174,445	<b>181,844</b>	4.2%	225,011	-19.2%
<b>Gross Profit</b>	45,371	<b>39,325</b>	-13.3%	62,104	-36.7%
<b>Gross Profit %</b>	26.0%	<b>21.6%</b>	-4.4 bps	27.6%	-6.0 bps
<b>EBIDTA</b>	41,406	<b>36,208</b>	-12.6%	56,644	-36.1%
<b>EBIDTA %</b>	23.7%	<b>19.9%</b>	-3.8 bps	25.2%	-5.3 bps
<b>Net Profit</b>	12,286	<b>5,784</b>	-52.9%	28,076	-79.4%
<b>Net Profit %</b>	7.0%	<b>3.2%</b>	-3.8 bps	12.5%	-9.3 bps
<b>Earnings Per Share (SAR)</b>	0.25	<b>0.12</b>	-0.52 SAR	0.56	-0.79 SAR

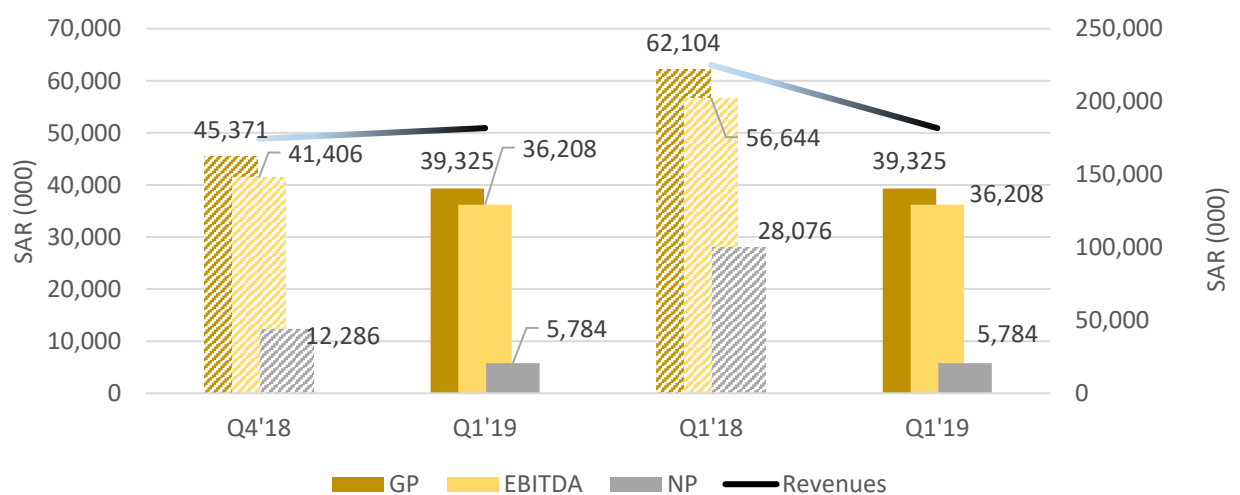
- **Annual sales revenue** – Increased by 4.2% to reach SAR 181.8 million from the previous quarter to partially offset declining prices. OCC prices declined but at a slower pace than end product prices.
- **Annual gross profit** – decreased by 13.3% to reach SAR 39.3 million on lower sales revenue levels due to weaker than usual international demand.
- **EBITDA line and margin** – Declined by 12.6% to reach SAR 36.2 million with a margin of 19.9%
- **Annual consolidated net profit** – dropped to SAR 5.8 million yielding a margin of 3.2% Net profit was impacted by realized loss on derivative instruments due to declining forward rate curve and increase in interest rates.

## Q1 2019 | Earnings Release

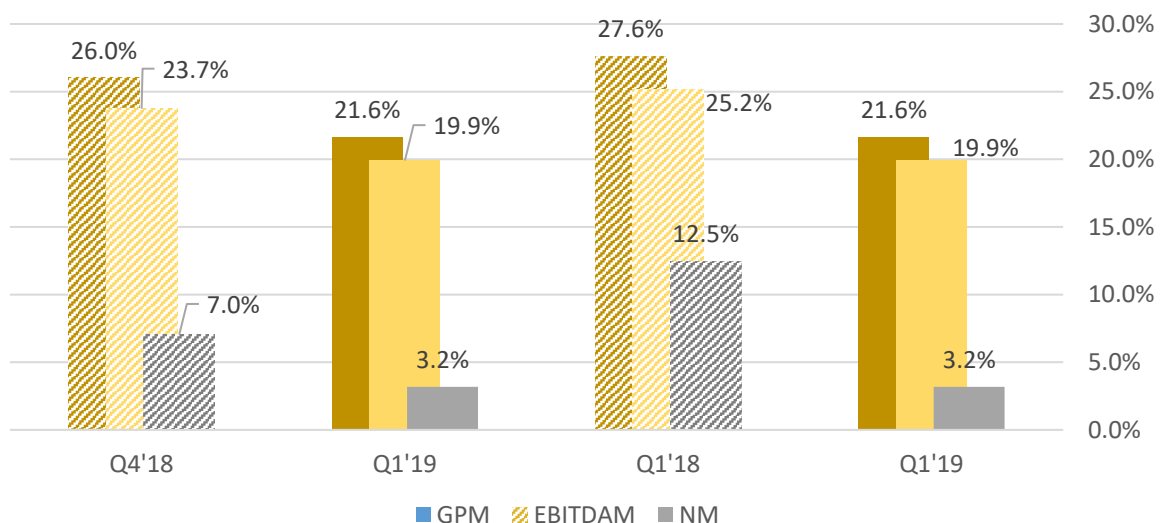
**Dr Mohamed Saleh Darweesh, MEPCO Group Chief Financial Officer, commented:**

”Our financial indicators reflect weaker demand on containerboard worldwide. While both the end product and raw material prices drop, the former was sliding at a faster pace resulting in sales revenue dropping more than cost of sales. The change in the derivative instruments line item is due to recording a mark-to-market loss in Q1, 2019 as well as in Q4, 2018, as compared to Q1, 2018. This was a result of a drop in the forward curve as market did not anticipate the increase in interest rates (LIBOR/SAIBOR). Also, the residual life of these interest rate swap deals is decreasing, hence the mark to Market value drop”.

**Revenues, Gross Profit, EBITDA, and Net Profit Trends | (SAR, 000) | QoQ and YoY**



**Gross Profit Margin, EBITDA Margin, and Net Margin Trends | (SAR, 000) | QoQ and YoY**





Debt Structure

As of 31 March 2019 (SAR ,000)

	Mar-19	Mar-18	Change (SAR)	Change %
STL	220,017	205,817	14,200	6.90%
MTL	475,816	468,183	7,633	1.63%
<b>Total debt</b>	<b>695,833</b>	<b>674,000</b>	<b>21,833</b>	<b>3.24%</b>
Cash Balance	36,471	36,385	86	0.24%
<b>Net debt</b>	<b>659,362</b>	<b>637,615</b>	<b>21,747</b>	<b>3.41%</b>
Equity	732,097	750,456	-18,359	-2.45%
<b>Debt/Equity (x)</b>	<b>0.95</b>	<b>0.90</b>	<b>0.05</b>	<b>-</b>
<b>Net debt/Equity (x)</b>	<b>0.90</b>	<b>0.85</b>	<b>0.05</b>	<b>-</b>

-Ends-

## About MEPCO

MEPCO is the leading vertically-integrated paper manufacturer in the Middle East, offering a diverse range of containerboard and specialty paper products for the packaging, construction, furniture and paper core industries worldwide. MEPCO supplies its products to the local Saudi market, as well as the GCC, Middle East and Africa. Its growing global footprint spans 41 countries, including across South Asia, the Americas and Europe.

The company's innovative approach – including energy- and water-efficient production – enables it to deliver significant environmental and economic benefits to its home market. Through its wholly-owned subsidiary WASCO, MEPCO sources raw material from across the Kingdom, ensuring a secure supply while providing measurable value to the Saudi economy.

MEPCO is listed on the Saudi Stock Exchange under Tadawul symbol 'MEPCO'. For more information, visit [www.mepco.biz](http://www.mepco.biz).

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