



Q3/9M 2020 | Earnings Release

Solid YTD Performance

Cost optimization plans turn positive results

Jeddah, Saudi Arabia | 28 October, 2020 | The Middle East Paper Co. ('MEPCO'), the region's leading vertically-integrated paper manufacturer, today announced its Q3/9M 2020 results.

MEPCO recorded 500%+ YTD net income growth compared to the same period last year. This is driven by increased volumes and efficient cost management. Gross profit and EBITDA margins stood at 19.7% and 20.7%, respectively. 9M 2020 net income reached SAR 16.0 million, up from SAR 2.6 million for the same period last year.

Quarterly, sales revenues were impacted negatively by decreasing prices following demand stabilizing as the consumers cease to overstock. Q3'20 margins were also negatively impacted by increasing raw material cost, which increased due to lower recovered paper availability during the lockdown period.

Strategic Highlights

- **Sales revenue** – recorded SAR 167.5 million, 13.5% lower QoQ on relative selling price decline. 9M 2020 revenues close to unchanged with a slight 0.7% to record SAR 535.0 million.
- **Gross profit** – Dropped by 43.7% and 5.5%, QoQ and YoY, respectively. High raw material cost contributed significantly to the larger drop QoQ. However, 9M 2020 GPM stands at 19.7%.
- **EBITDA** – Quarterly EBITDA of SAR 31.2 million followed suit with a decline of 28.3% whereas the 9M 2020 showed an increase of 16.6% at SAR 110.5 million. EBITDA profitability margins remain in a comfortable zone as it records 18.6% and 20.7% for the quarter and the 9M, respectively.
- **Net profit** – Came under pressure for the quarter, recording a steep decline of 96.7% impacted mainly by the drop in selling price. Net income stood at SAR 0.4 million. For the 9 months, net profit soared to reach SAR 16.0 million, compared to a low base a year ago.

Eng. Sami Al Safran, CEO, commented: "The performance of the first nine months of this year exceeds expectations. These nine months have been exceptionally challenging at multiple dimensions. With unprecedented levels of uncertainty, swift shifts in consumer behaviour, pricing, as well as logistical challenges,



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The sudden wave of demand witnessed in the March-to-May 2020 period resulted in overstocking for most corrugators. Now, as life returns to normal, demand and supply normalize, with less demand.

This situation, however, is corrective in nature, and has reached its end. We are witnessing an international uptrend in pricing as some international players announced price increases. This should give an uplift to the overall price levels, which should be reflected partially in Q4'20 and Q1'21.

We continue to focus on local sales while making sure our international key customers' demands are fully met on time. This strategic shift in sales achieved savings of c. SAR 4 million YoY in transportation cost.

It is important to note the lagging effect of price changes. Every quarter will be affected by contracts committed during the previous quarter at prices prevailing then. Accordingly, this quarter reflects the drop of selling prices witnessed late Q2'20.

Year-to-date, although sales revenues seem relatively flat, we were able to sell 10% more volumes compared to the same period a year ago. This helped us on two fronts: 1) offset lower price levels, and 2) achieve relative lower cost per ton.

On the raw materials side, the lockdown period in KSA negatively affected the availability of waste paper as schools, offices, and universities stopped operations. With limited supply, local prices increased. Aided by WASCO, we were able to gather sufficient quantities locally. In addition, we used available inventories, and further secured our raw material stocks through importing additional quantities.

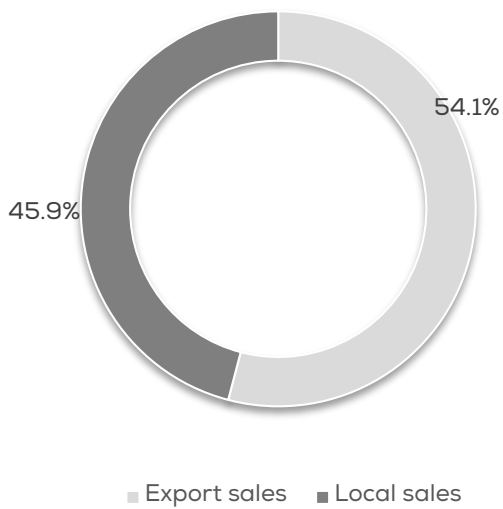
We are looking forward to ending this year with an excellent set of results".

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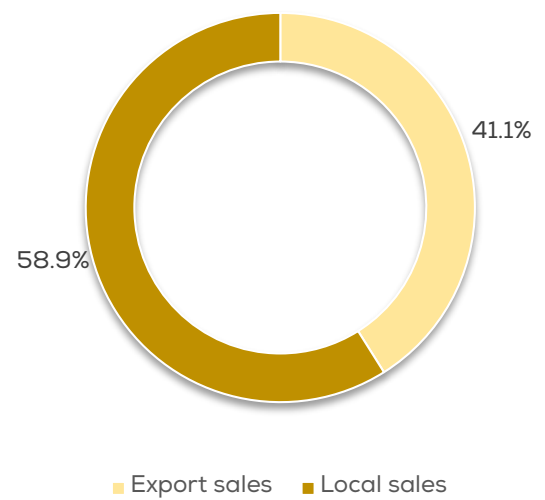
Sales Highlights

Sales breakdown¹ by value (SAR)

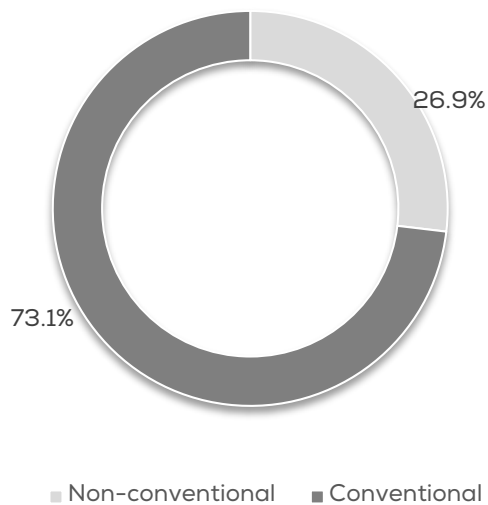
Local vs. Export Sales (%)
9M 2019



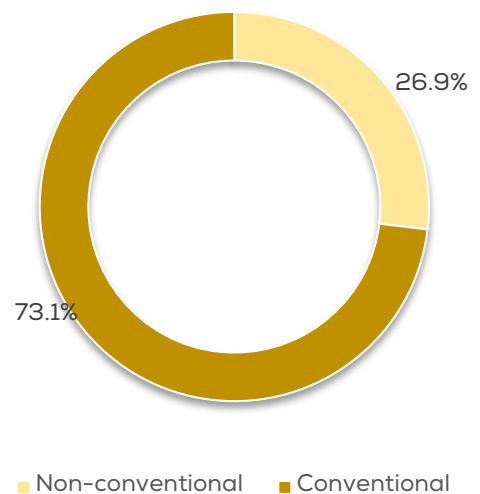
Local vs. Export Sales (%)
9M 2020



Sales by Product Class (%)
9M 2019



Sales by Product Class (%)
9M 2020



¹ Refers to MEPCO standalone sales.



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Financial Review

For the 3 and 9 months ended 30 September, 2020; all figures are in SAR '000 unless stated otherwise.

	Previous Quarter	Current Quarter	<i>QoQ Change</i>	Previous Period	Current Period	<i>YoY Change</i>
	Q2 20	Q3 20		9M 19	9M 20	
Sales Revenue	193,622	167,480	<i>-13.5%</i>	538,597	534,967	<i>-0.7%</i>
Gross Profit	44,772	25,217	<i>-43.7%</i>	111,712	105,603	<i>-5.5%</i>
<i>Gross Profit %</i>	<i>23.1%</i>	<i>15.1%</i>	<i>-8.1 bps</i>	<i>20.7%</i>	<i>19.7%</i>	<i>-1.0 bps</i>
EBIDTA	43,513	31,205	<i>-28.3%</i>	94,775	110,476	<i>16.6%</i>
<i>EBIDTA %</i>	<i>22.5%</i>	<i>18.6%</i>	<i>-3.8 bps</i>	<i>17.6%</i>	<i>20.7%</i>	<i>3.1 bps</i>
Net Profit (Loss)	11,440	383	<i>-96.7%</i>	2,613	15,947	<i>510.2%</i>
<i>Net Profit (Loss) %</i>	<i>5.9%</i>	<i>0.2%</i>	<i>-5.7 bps</i>	<i>0.5%</i>	<i>3.0%</i>	<i>2.5 bps</i>
Earnings Per Share (SAR)	0.23	0.01	<i>-0.22</i>	0.05	0.32	<i>0.27</i>

bps=basis points

Dr Mohamed Saleh Darweesh, Group Chief Financial Officer, commented: “

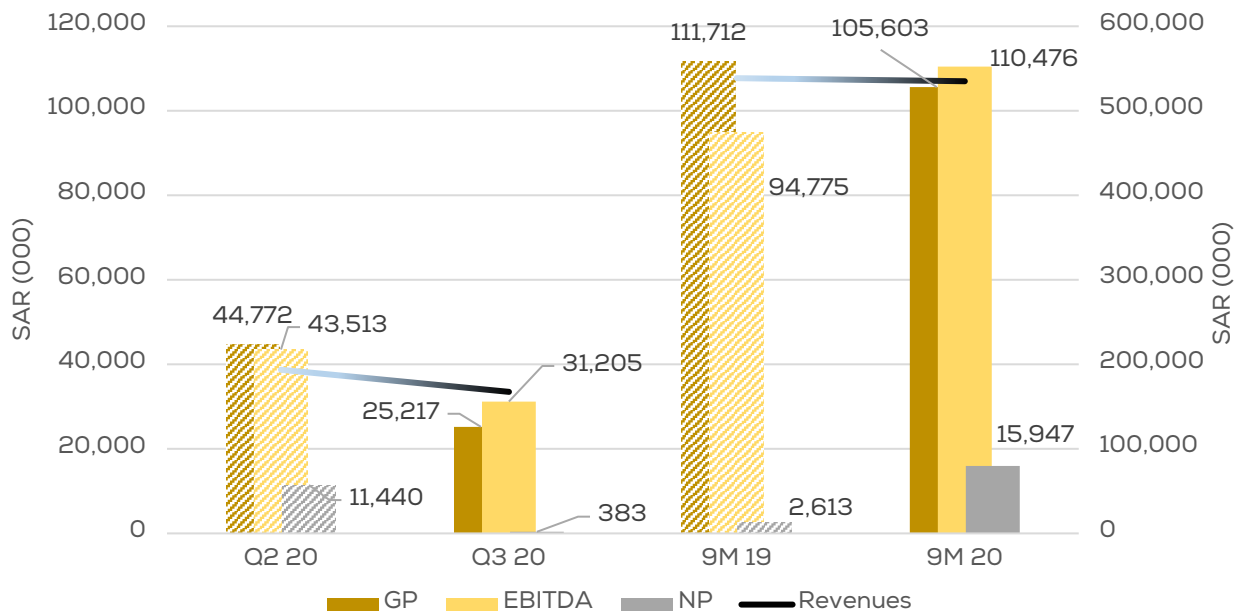
I am proud to report important cost rationalizing achievements for 9M 2020 compared to the same period last year. A 5.6% drop in average cost of sales per ton mainly due to drop in average fiber purchase prices. A 13.1% drop in S&M / G&A due to decrease in selling expenses, employee cost, and other fixed expenses. A 183.2% decrease in allowance for impairment of accounts receivable, A 25.4% drop in finance charges due to drop in borrowings level by 8.1% as well as decrease in LIBOR and SIBOR, and a 6.9 % drop in trade receivables due to improved collections from customers by 2.6% YoY.

We continue deleveraging our capital position through debt repayment and restructuring debt at favourable rates. As of September 2020, our debt to equity reached a record low of 0.79x, while our net debt to equity recorded 0.75x.

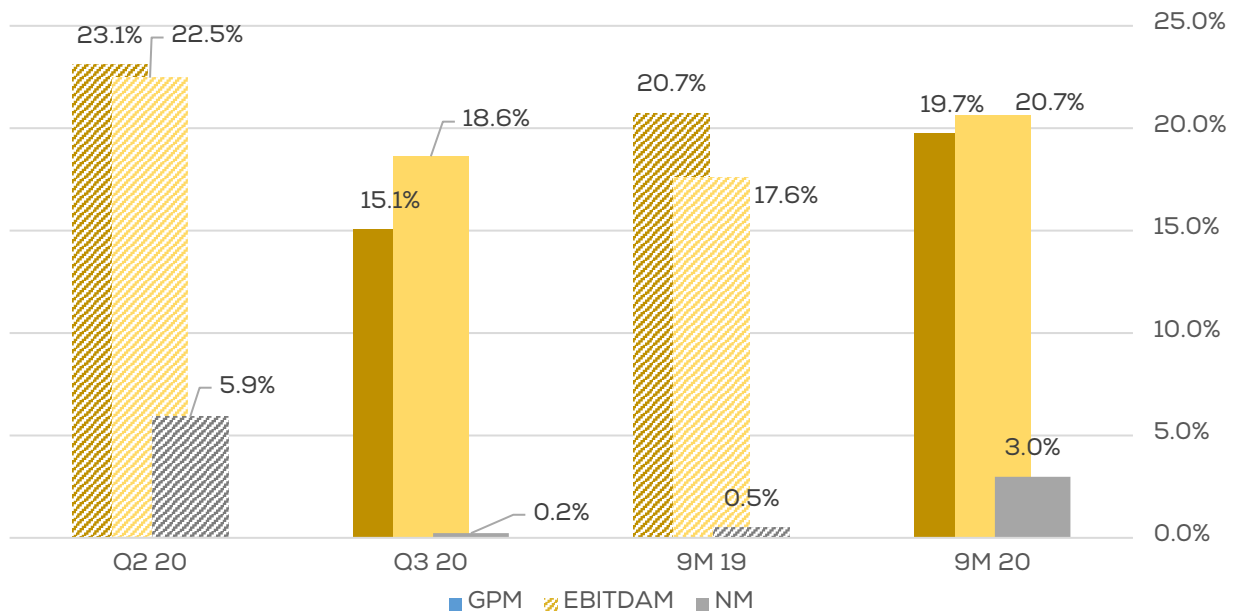
MEPCO is in perfect financial shape that enables it to fuel future growth with confidence”.

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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 30 September 2020 (SAR ,000)

	Sep-20	Sep-19	Change (SAR)	Change (%)
STL*	90,740	121,983	-31,243	-25.6%
MTL**	499,628	520,454	-20,826	-4.0%
Total debt	590,368	642,437	-52,069	-8.1%
Cash Balance	29,735	17,276	-72,896	72.1%
Net debt	560,633	625,161	-64,529	-10.3%
Equity	747,325	728,926	18,399	2.5%
Debt/Equity (x)	0.79	0.88	(0.09)	-
Net debt/Equity (x)	0.75	0.86	(0.11)	-

* STL includes: Notes Payable liability against import bills

** MTL includes: Current Portion of Term Loans

-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.

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