

Saudi Arabian Mining Co-Maaden

Mining –Industrial

MAADEN AB: Saudi Arabia

2 August 2010

الراجحي المالية
Al Rajhi Capital



US\$4.78bn Market cap
35.8% Free float
US\$26.40mn Avg. daily volume

Target price **23.67** 22.1% over current
Consensus price **20.40** 5.2% over current
Current price 19.40 as at 1/8/2010

Research Department
Mazhar Khan, Equity Research Analyst
Tel 966 12119248, khanm@alrajhi-capital.com

Underweight

Neutral

Overweight

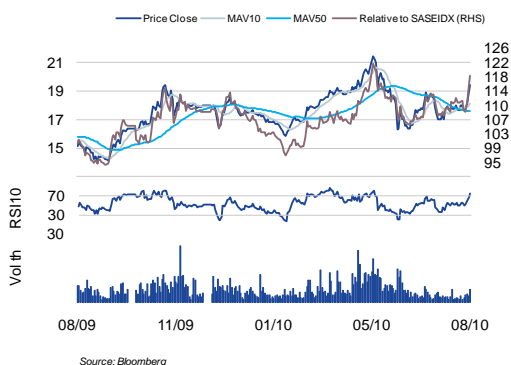
Key themes

Capitalising on Saudi Arabia's vast mineral wealth, Ma'aden has entered into two new businesses: phosphate to start in 2011, and aluminium to start in 2013-2014. We believe Ma'aden will utilise low-cost raw materials and benefit from government support to be a success story for the the long run.

Implications

We rate Ma'aden as Overweight. We believe the company's sales will increase strongly in 2011 with the commencement of the phosphate business. Good and transparent disclosure should add a premium to its share price, and we see it as a good long-term investment.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	634	729	3,586	5,280
Revenue Growth	37.9%	14.9%	391.8%	47.3%
EBITDA (SARmn)	221	238	1,623	2,604
EBITDA Growth	531.7%	8.0%	581.0%	60.5%
EPS	0.44	0.14	0.79	0.97
EPS Growth	43.5%	-67.6%	457.6%	22.7%

Source: Company data, Al Rajhi Capital

Ma'aden Revenue surge set to drive price

The gold mining company Ma'aden is on a three year expansion plan. While debt will jump this year as a result, we think investors should look six months ahead to 2011, in which we expect revenues to leap fivefold after the launch of the phosphate operations. Aluminium will follow phosphate, and by the end of 2013 we expect Ma'aden to be one of the leading diversified mine-to-metal companies in the world. Ma'aden will create value and deserves to trade on an EV/IC multiple of higher than 0.6x. We set a target price of SAR23.7, implying over 20% upside, and launch coverage with an Overweight rating.

Gold reserves expected to show unprecedented rise: With 9.2mn ounces of potential reserves and the discovery of two high-grade mines, Ma'aden expects to triple its production of gold by 2015. We expect a couple of the probable new mines to be operational by H2 2013 which should boost revenues significantly. Ma'aden should enjoy significant margins due to the high price of gold.

Phosphate business major new driver: Ma'aden's phosphate business will start operation by Q4 2010. After full operational launch, the company will be the world's largest supplier of diammonium phosphate (DAP) fertiliser and aims to take 15-20% of the global DAP market. We believe revenues will surge almost fivefold in 2011 when Ma'aden starts recording the revenues in its accounts.

Aluminium project back on track: With Rio Tinto backing out from the project in late 2008, following the global financial turmoil, Ma'aden's ambitions in the aluminium business were in jeopardy. Then Alcoa stepped in and the project started taking shape. In June 2010, the company officially announced that the construction of the rolling mill and smelter had begun and that operations would begin by end of 2013. Again, after operational launch of this project Ma'aden will be one of the world's largest fully integrated and cheapest producers of aluminium.

Government support will benefit Ma'aden: We believe the government, in a bid to diversify the national economy away from hydrocarbons, will lend good support to this industry. The Deputy Ministry for Mineral Resources (DMMR) assists in gold exploration activities, and the construction of a mineral rail track from Al Jalamid mine to the phosphate plant in Ras Az Zawr is testament to the fact that the government is keen to make this project a success.

Valuation: Ma'aden will create value on its invested capital. We rate Ma'aden as Overweight with a price target of SAR23.7, implying over 20% upside. We have arrived at the target price by assigning a 70% weighting to discounted economic profit valuation and a 30% weighting to comparative multiples analysis. We believe Ma'aden will start rallying upwards as the phosphate business approaches launch and thus see it as a good investment for the long term. The bulk of Ma'aden's value lies in the capital that has been deployed already rather than its future economic returns. The enterprise value/invested capital ratio is 0.6x and the price/book value is 1.0x, but we think the capital has been invested wisely in assets which will generate strong revenue growth and a respectable economic return in the future. In addition, we expect transparency and likely popularity with international investors to help drive the share price.



Page

- 3 Ma'aden group: ambitious expansion plans**
The gold mining group Ma'aden is expanding aggressively with projects close to US\$18bn in progress. Ma'aden is diversifying, but not out of compulsion. While we expect two new gold mines to start operation in 2013, phosphate and aluminium will drive growth from now on, and will soon dominate revenues. As such, Ma'aden should make a big contribution to Saudi Arabia's "economic diversification."
- 5 Ma'aden's gold business will continue to glitter**
Contrary to expectations, Ma'aden's gold business is here to stay, as there has recently been a discovery of 9mn ounces of gold reserves in the Arabian Shield in the northern region of Saudi Arabia. Ma'aden is doing well in continuing with the exploration work, and in finding new sites for possible gold discovery. The strength of the gold price will support revenues.
- 8 Ma'aden's phosphate business: the next big step**
The phosphate business will start in Q4 2010. With strong government support and global demand for fertilisers picking up, we expect this business to grow rapidly. As an integrated phosphates producer, Ma'aden's profitability should be strong. The tie-up with SABIC will help drive sales.
- 12 Ma'aden's aluminium business: back on track**
Ma'aden has a joint venture with Alcoa for its aluminium business; the estimated project cost is SAR40bn. Benefiting again from government support, Ma'aden will be the world's lowest-cost supplier of primary aluminium. Conditions in the aluminium market are currently subdued. However, we believe by the time Ma'aden starts its aluminium operations, the outlook will improve.
- 15 Ma'aden's financial performance: strong sales growth**
Ma'aden's revenue structure is set to change dramatically, and we expect phosphate to account for 78% of sales in 2011. The outlook for margins is favourable, and we expect the EBITDA margin to jump next year. However, the net margin will not expand as fast due to higher depreciation and financial costs. We expect gearing to surge in 2010 due to high investment, but to fall to a healthy level by 2011-12. Asset turnover is superficially low due to high work in progress, but underlying fixed asset turnover in gold is very good. Q2 results showed impressive growth and stable margins.
- 20 Valuation: long-run and comparative methods**
Our key long-run method of forecasting is discounted economic profit (DEP) forecasting. The greater part of Ma'aden's fair enterprise value lies in invested capital rather than discounted economic profits. Still, we think Ma'aden deserves to trade on a EV/IC multiple of higher than 0.6x. Our DEP fair value per share for Ma'aden is SAR27.9. Based on the aggregate EV/EBITDA multiples for the comparable companies, a fair share price would be SR13.8. We set a target price of SAR23.7 based on a 70/30% weighting for our two different valuation approaches.
- 24 Financial data**



Corporate summary

Ma'aden (Saudi Arabian Mining Company) was formed in 1997 by the Saudi government to facilitate the development of Saudi Arabia's non-petroleum minerals and to diversify the economy away from petroleum-based sectors. 50% of Ma'aden is owned by the Public Investment Fund. In July 2008, Ma'aden was listed on the Saudi Stock Exchange. Its business is mainly exploration of gold and it plans to enter into the phosphate and aluminium businesses in 2011 and 2013 respectively.

Share information

Market cap (SAR/US\$)	17.95bn / 4.78bn		
52-week range	13.95 - 21.45		
Daily avg volume (US\$)	30.00mn		
Shares outstanding	925.0mn		
Free float (est)	35.8%		
Performance:	1M	3M	12M
Absolute	-2.4%	-11.1%	13.9%
Relative to index	0.3%	-0.7%	8%
Major Shareholder:			
Public Investment Fund	50%		
Public	36.3%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	634	729	3,586	5,280
EBITDA (SARmn)	221	238	1,623	2,604
Net Profit (SARmn)	399	127	1,123	1,378
EPS (SAR)	0.44	0.14	0.79	0.97
DPS (SAR)	-	-	-	-
EPS Growth	43.5%	-67.6%	457.6%	22.7%
EV/EBITDA (x)	71.2	85.2	14.1	10.3
P/E (x)	41.2	127.2	22.8	18.6
P/B (x)	1.0	1.0	1.0	0.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

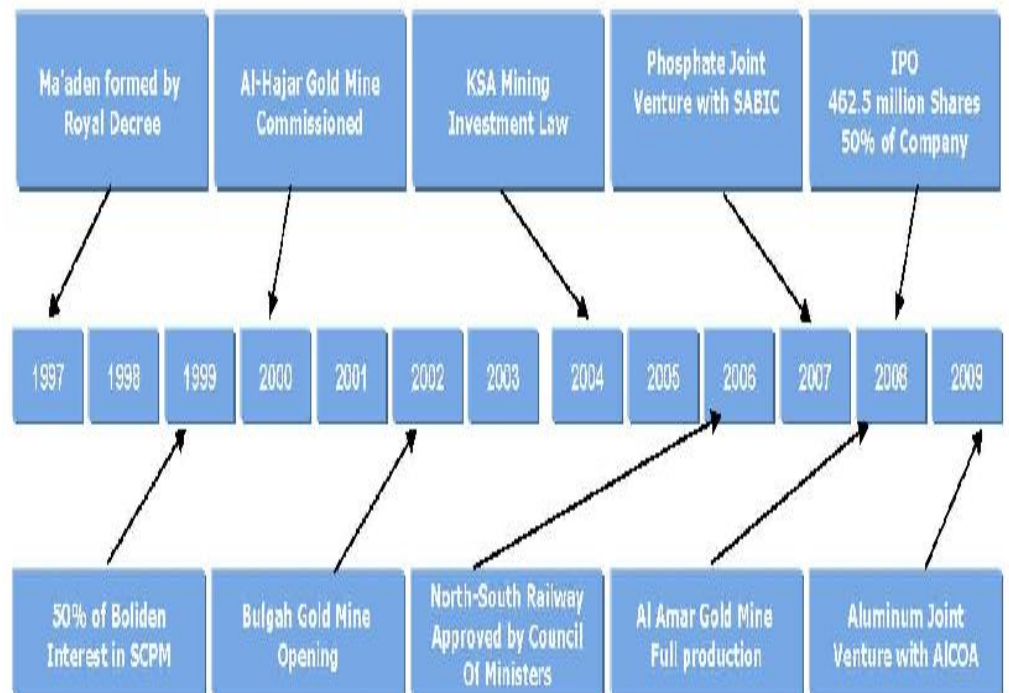
Ma'aden group ambitious expansion plans

Ma'aden currently has US\$18bn of investments in progress

Ma'aden is expanding aggressively with projects close to US\$18bn in progress, with investments in existing as well as new businesses. By 2014, the company will be successfully introducing two new businesses in Saudi Arabia: phosphate and aluminium. Ma'aden Phosphate Company (MPC) is a joint venture between Ma'aden and SABIC (70%:30%). MPC aims to supply 15-20% of the US\$25bn global fertiliser market. After completion, the phosphate plant will be the world's largest producer of diammonium phosphate (DAP) fertiliser. Another ambitious project of Ma'aden is the aluminium plant at an estimated cost of US\$10.5bn, which will become the world's largest fully integrated aluminium company and the lowest-cost supplier of primary aluminium, alumina and aluminium products. The project consists of a smelter and a rolling mill, and is due to begin operations in 2013 with the mine and refinery coming on stream in 2014.

Ma'aden has come a long way since its formation

Figure 1. Ma'aden's evolution since its formation



Source: Company data, Al Rajhi Capital



Ma'aden diversifying, but not out of compulsion

We expect two new gold mines to start operation in 2013

Gold business to grow as well

Ma'aden's gold sales volumes have been declining because there has been a delay in the exploration and exploitation process for new mines, and two of the existing mines will cease operations in 2010 and 2011 respectively. However, according to the company, there has recently been a discovery of 9mn ounces of gold reserves in the Arabian Shield in the northern region of Saudi Arabia. (Source: Ma'aden's investor presentation in London in June 2010). The company is doing well in continuing with its traditional gold business. We have assumed that in 2013 two new mines start operating which will boost the revenues from Ma'aden's gold business. We see a healthy 24% jump in gold revenues to SAR959mn in 2013. The company believes that it can achieve gold revenues of close to SAR1.8bn in 2015 based on an assumed price of US\$1,000 per ounce of gold.

The phosphate business will launch operations by Q1 2011

Phosphate and aluminium to drive growth from now on

Ma'aden expects the phosphate business to start in Q4 2010; however, we believe revenues will start from Q1 2011. We expect 78% of revenues to come from the phosphate business in 2011, and 82% in 2012, when the phosphate business will be fully operational. Ma'aden has an agreement with SABIC to distribute the output of the phosphate division. Given SABIC's strong distribution network in Asia, especially China, India and Pakistan, Ma'aden believes it can earn a good share (15-20%) of global demand.

Ma'aden has joint ventures with the global giants SABIC and Alcoa for the phosphate and aluminium businesses

Another ambitious project of Ma'aden, the aluminium business, will start operations by the end of 2013. It will capitalise on cheap gas allocation from Saudi Aramco and the advantages of being a fully integrated producer to be the world's lowest-cost supplier of aluminium. The company recently issued a press release announcing the construction of smelter and rolling mill in Phase 1 of the aluminium project.

Ma'aden has tie-ups with two global giants for its ambitious business: SABIC for phosphates and Alcoa for aluminium. SABIC has a 30% share in the phosphate business and Alcoa owns 25% of Ma'aden's aluminium business. SABIC has a global presence with offices in the US, Europe, Africa and Asia. The marketing arrangements for the phosphate business will be handled by SABIC which will distribute its products via its offices all around the world. This should be a critical factor that helps to ensure the business's success. Ma'aden is also set to benefit from Alcoa's technology expertise and experience in the aluminium business.

Ma'aden is one of the big steps forward for the Kingdom's economic diversification

A big contributor to Saudi Arabia's "economic diversification"

Ma'aden is a crucial player in Saudi Arabia's industrial and non-oil growth and its success will help pave the way for the Kingdom's plans of diversifying away from hydrocarbon revenues. It enjoys huge government support in the gold business. For instance, the earlier stages of gold exploration are conducted by the Deputy Ministry for Mineral Resources (DMMR), and the construction of the North South Railway project to carry phosphate deposits from Al Jalamid to the Ras Az Zawr plant and a sea port in Ras Az Zawr in the Eastern Region to facilitate exports are all conducted by the government to support the company. The government, through its financial agencies, has provided crucial finance and arranged funds which we think will prove to be beneficial in a couple of years.



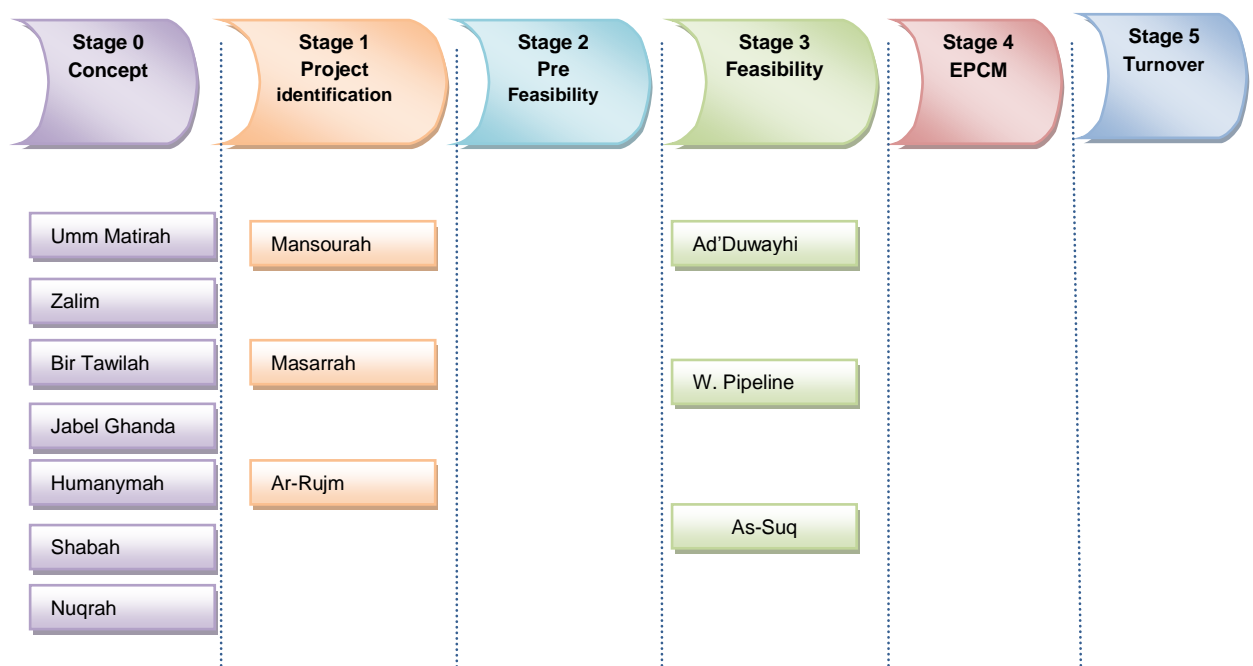
Ma'aden's gold business: will continue to glitter

Contrary to market's expectations, Ma'aden's gold business is here to stay

9mn ounces of gold reserves have been identified in the Arabian Shield

Ma'aden's gold sales volumes have been declining because there has been a delay in the exploration and exploitation process for new mines, whereas the company's two existing mines will cease operations in 2010 and 2011 respectively. However, according to the company, there has recently been a discovery of 9mn ounces of gold reserves in the Arabian Shield in the northern region of Saudi Arabia. The company is doing well in continuing with the exploration work, and finding new sites for possible gold discovery in the Arabian Shield. The Arabian shield area has been divided into two regions, the Central Arabian Gold Region and the Northern Shield Region, where Ma'aden has exploration license. Gold resources have been identified at Ad Duwayhi, As Suq, Mansourah, Massarah and Ar Rujm.

Figure 2. Ma'aden's proposed mines exploration details



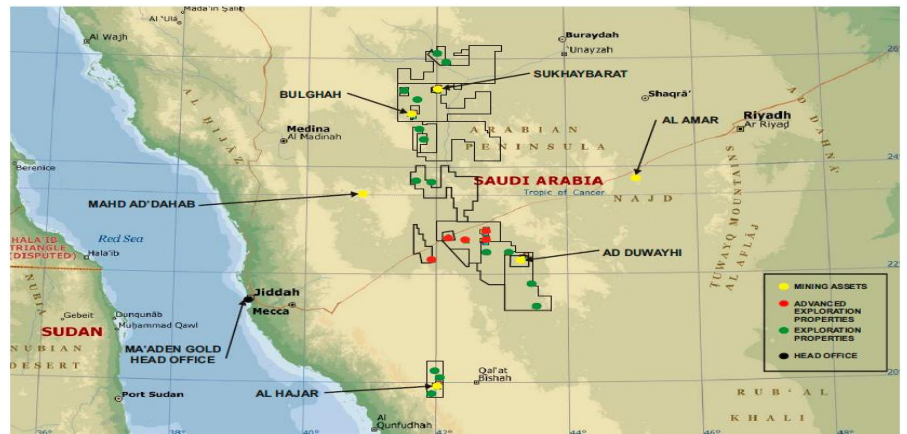
Source: Company data, Al Rajhi Capital

The above chart shows that Ma'aden has identified and is developing two probable mines, Ad'Duwayhi and As-Suq, for which a 500 km pipeline to provide sufficient water for the mines will be constructed. Treated waste water from Taif City will be carried to the mining sites. The cost of the pipeline is not disclosed by Ma'aden, but we assume that the pipeline work will start this year, most likely by Q3 2010. Apart from the two mines, three more are in an identification stage.

The increase in gold revenues over the past few years has primarily reflected the surge in the gold price which has jumped 70% since early 2007 and is now trading at over US\$1,100 per ounce. Ma'aden's policy of selling gold on the spot market at the London Metal Exchange has also benefited the company as gold has been on a stable rally. The company has been investing heavily to discover probable mines. According to Ma'aden, it has spent approximately US\$73mn on gold exploration over the period 2001 to 2009. As noted above, this investment in exploration has led to the discovery of 9mn tonnes of gold resources at an exploration cost of \$8 per ounce. This may be compared to the global average exploration cost of \$40 an ounce (inflation-adjusted; source: Ma'aden & Metal Economics Group).



Figure 3. Ma'aden's gold mines: location

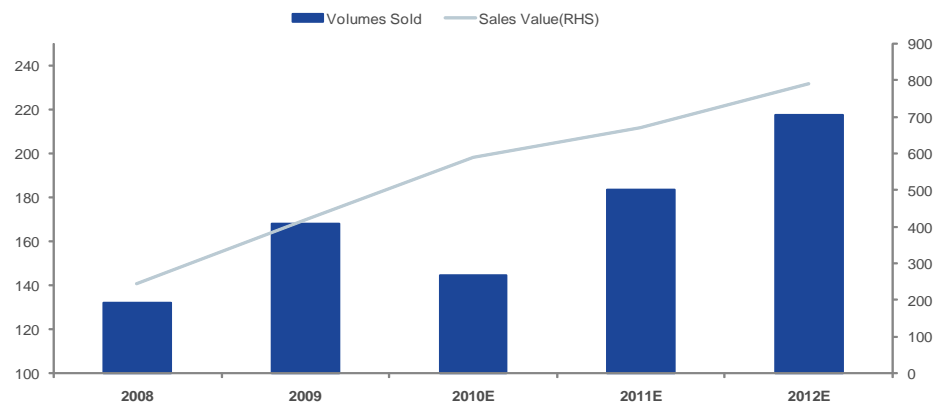


Source: SRK consulting, Al Rajhi-Capital

Surge in gold price will increase revenues

Between 2008 and now, the gold price has surged from USD\$650 per ounce to over \$1,100 per ounce due to uncertainty in real estate and equities around the world, and is considered a safe haven in the present uncertain environment. The gold price rose modestly in Q1 2010, ending the quarter at US\$1,115.5 per ounce, on the London PM fix, compared with US\$1,087.5 per ounce at the end of Q4 2009. Over Q2 2010, gold remained one of the least volatile commodities with an average volatility of 17.2% to date in 2010, down from 24.0% in the previous year (source: Bloomberg). We expect the gold price to stay at above \$1,100 per ounce at least till Q4 2010.

Figure 4. Ma'aden's gold business : revenue estimates



Source: Company data, Al Rajhi Capital

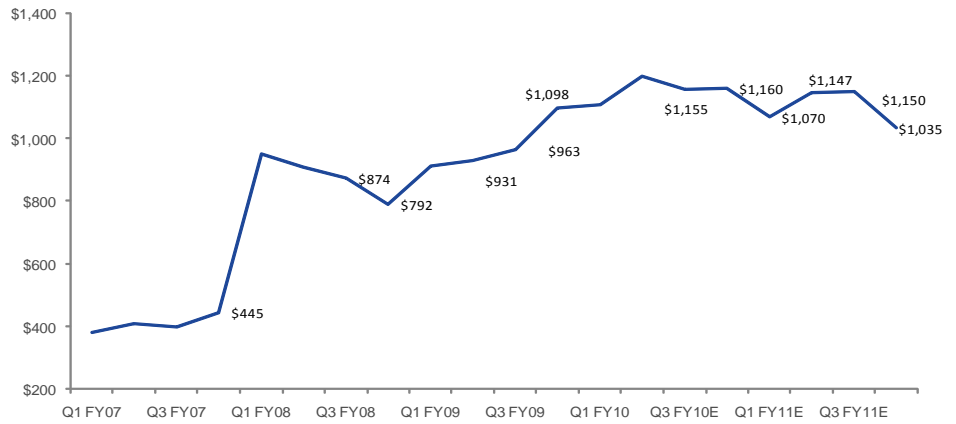
Gold sales volumes is expected to surge after the commencement of two new mines by end of 2012.

The surge in the gold price has increased the profitability of Ma'aden's existing gold mines. According to the company, the Sukhaybarat mine which had been stopped operationally due to its low grade (0.4 gram/tonne) and low gold content, is now being utilised for production again. The company enjoys good overall margins in gold production, with the margins boosted by the Ma'aden's ownership of two high-grade mines, Mahd Ad'Dahab (8.7 gram/tonne) and Al Ammar (9.9 gram/tonne). The cash cost per ton of production at these mines is around US\$370 per tonne compared to an industry average of US\$500 per tonne.



The gold price is trading near its all-time high due to its relative attractiveness in the current uncertain economic environment.

Figure 5. Gold: historical and future trends



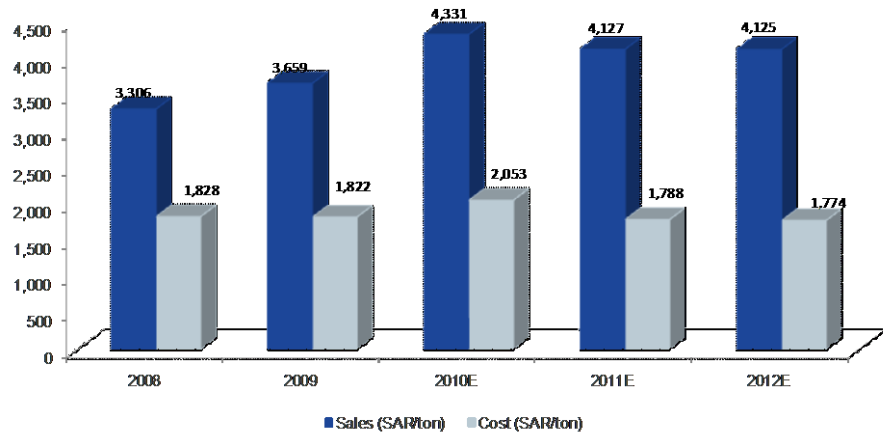
Source :Bloomberg, Al Rajhi Capital

Launch of high-grade mines should push up gross margin in gold

Revenue and cost estimates

We assume a fall in overall sales volume of gold in 2010 because we expect no major mine to start production this year. However, we expect a small recovery in gold sales volume in 2011 and a further increase in sales volume in 2012 when new mines will become operational. We estimate that the cost of sales will decline after the high grade mines, Ad'Duwayhi and As Suq, come into operation. We thus expect the gross margin from the gold business to increase from 49% in 2009 to 57% in 2012.

Figure 6. Ma'aden's gold sales and cost/tonne



Source: Company data, Al Rajhi Capital



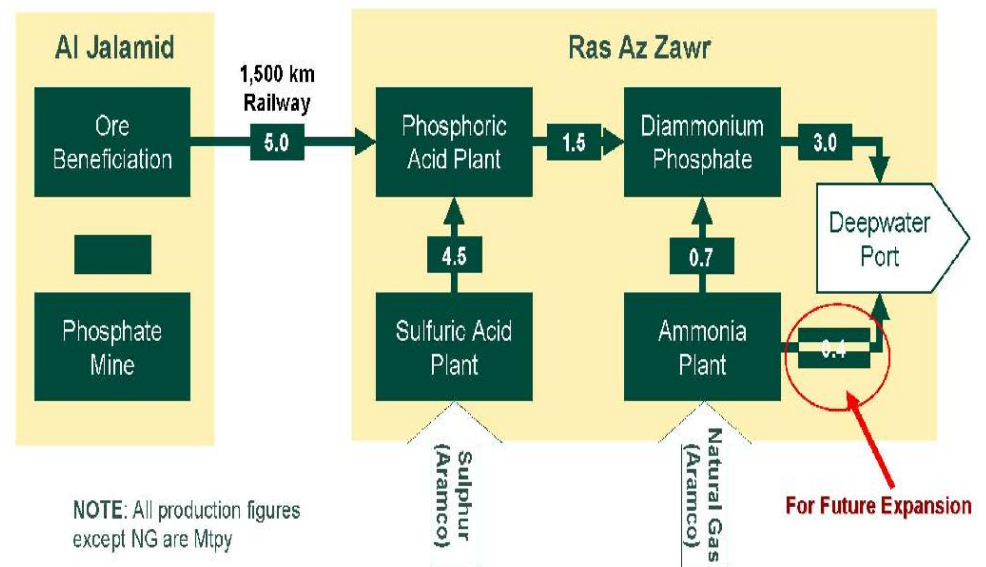
Ma'aden's phosphate business: the next big step

Phosphate business to start in Q4 2010

The Ma'aden Phosphate Company (MPC) was formed in 2007 as a joint venture with SABIC (70% Ma'aden, 30% SABIC) to explore phosphate deposits in the north of Saudi Arabia and to produce diammonium phosphate (DAP). MPC will be a fully integrated producer for DAP, the phosphate deposits which will transfer from Al Jalamid site in the north to the plant at Ras Az Zawr, near Jubail City in the Eastern Region of Saudi Arabia.

Figure 7. MPC Integrated DAP Plant

DAP plant structure



Source: Ma'aden, Al Rajhi Capital

We expect the rail transport link for the phosphate business to be completed in Q4 2010

Ras Az Zawr consists of a chemical complex to produce sulphuric acid, phosphoric acid, ammonia and DAP. The sulphuric acid plant, with a capacity of 4.5mn tonnes per annum, will be used to produce phosphoric acid. The phosphoric acid plant has an annual capacity of 1.5 mn tonnes, and will be mostly used to produce DAP. The ammonia plant of 0.7 mn tonnes capacity will be used to produce DAP, and excess ammonia will be sold off after the production requirements are met. The DAP plant will have 2.92 mn tonnes capacity, and will consist of two independent plants, each having two production lines. To facilitate the process, a 1,500 km North-South railway has been built which will carry the phosphate concentrates for production. This railway project is scheduled to be completed in September 2010, enabling Ma'aden to utilise rail transport for carrying out its operations. In addition to this, the Ras As Zawr port has been built by the Saudi Ports Authority (owned by the government) at an approximate cost of SAR2.2bn. According to the authority, construction is on schedule and will begin trial operation in August 2010, and the port will receive its first ship in December 2010. The port is capable of handling 6mn tonnes of diammonium phosphate, 440,000 tonnes of ammonia, 1.0mn tonnes of caustic soda and 315,000 tonnes of alumina per year.

We expect MPC to start production by the end of 2010

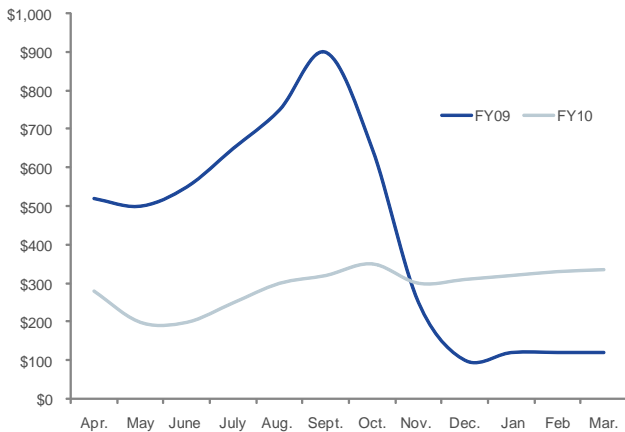
Ma'aden has begun trial production of its phosphate plant. We expect MPC to start production by the end of this year. However, we assume that the business will come into operation only by 2011. We have therefore assumed 55% capacity utilisation for 2011. We estimate the production will be in full swing from 2012.



Global demand for fertilisers picking up; this augurs well for Ma'aden

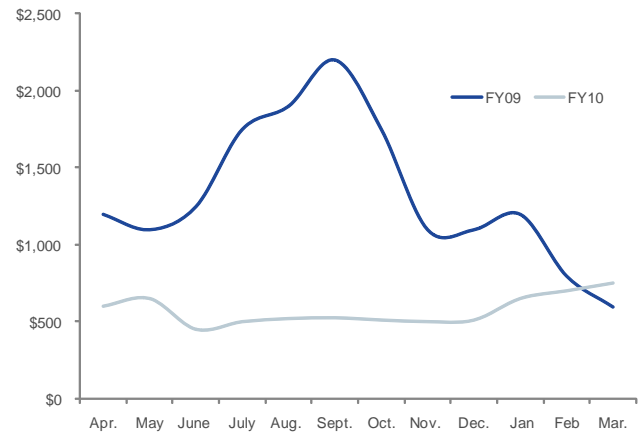
According to data from the International Fertiliser Industry Association (IFA), fertiliser consumption was severely impacted by the financial and economic downturn with consumption falling 6.7% in 2009 from 2008 to 156mn metric tonnes of nutrients (N+ P₂O₅+ K₂O, i.e. nitrogen plus phosphate plus potash). Supply of P and K fertilisers fell much more than consumption in 2009, dropping 10.5% and 19.8% respectively. Supply of nitrogen-based fertilisers fell much less than consumption, dropping by 1.5%. Demand increased in South Asia, Eastern Europe and Central Asia. Demand was stable in Africa and declined in all other regions. Slow recovery is anticipated in 2011 and beyond, with the bulk of demand for the next five years coming mainly from Asia. Ma'aden will benefit from its relationship with SABIC in distribution of fertilisers as the latter will handle marketing arrangements for its fertiliser products. SABIC has a major presence in Asia.

Figure 8.1 Ammonia – price comparison



Source: Fertecon

Figure 8.2 Phosphoric acid – price comparison



Source: Fertecon

In 2009, the international prices of ammonia and phosphoric acid witnessed substantial volatility. Of late, the prices have remained stable with ammonia trading at above US\$350 per tonne and phosphoric acid at above US\$700 per tonne. We expect prices to remain stable and within a range, as countries like India, which dominates demand for phosphate fertilisers (31% of total imports in 2008), have a fixed subsidy system for fertilisers. This means that, in the event of any violent fluctuation in prices, India will stop buying these raw materials, leading to a drop in the prices. Asia will be an important market for Ma'aden and close proximity to these countries will be an advantage.

China and India are the biggest consumers of phosphate-based fertilisers

Phosphate & potash fertiliser: global statistics

Diammonium phosphate (DAP) and muriate of potash (MoP) are the major fertilisers in the phosphate market. In 2008, East Asia (mainly China) with 8.4mn tonnes was the largest producer of DAP followed by the USA with 7.2mn tonnes and South Asia (mainly India) with 3.8mn tonnes. South Asia (mainly India) is the largest consumer with 9.7mn tonnes, which also makes it a major importer with 5.9mn tonnes.



Figure 9. Fertilisers: statistics

Fertilizers	Major Producers	Major Consumers	Major Importers
Ammonia	1. East Asia (43.9%) - mainly China	1. East Asia (43.2%) - mainly China	1. North America(45.7%)
	2. Eastern Europe(16.5%)	2. North America (15.2%)	2. West Europe(12.8%)
	3. South Asia(12.5%)	3. South Asia(12.9%) - mainly India	3. East Asia(16.5%) - mainly China
	- mainly India and Bangladesh		
Rock Phosphate	1. East Asia(36%) - mainly China	1. East Asia(37.5%) - mainly China	1. South Asia (17.6%) - mainly India
	2. Africa(23.3%) - mainly Morocco, Senegal and South Africa	2. North America (20%) - mainly USA	2. WestEurope (16.6%)
	3. North America (18.3%)	3. Africa (13.8%) - Morocco, Senegal and South Africa	3. East Asia (16%) - mainly China
Phosphoric Acid	1. East Asia(32.1%) - mainly China	1. East Asia (31.8%) - mainly China	1. South Asia (53.6%) - mainly India
	2.North America(25.8%) - mainly USA	2. North America (25%) - mainly USA	2. West Europe (19.3%)
	3. Africa(16.7%) - mainly Morocco, Senegal and South Africa	3. South Asia (10.3%) - mainly India	

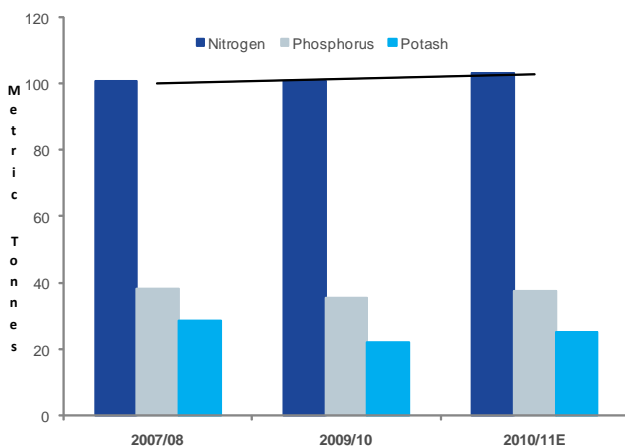
Source: Company data, Al Rajhi Capital

Phosphates market is highly concentrated, benefiting integrated producers

Integrated phosphates producers earn US\$150 per tonne compared to US\$45 per tonne for non-integrated producers

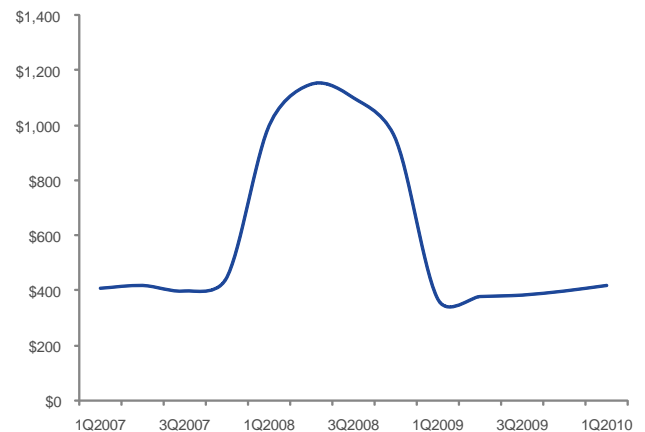
The global phosphates market is highly concentrated, with North Africa (mainly Morocco), the US, Russia and China controlling 85% of global phosphate rock reserves. We believe that Ma’aden, being an integrated producer, will attract huge demand due to its low-cost model. Based on our research, non integrated producers earn on an average US\$45 per tonne compared to integrated producers which net US\$150 per tonne. As phosphate rock, which is a major input in producing DAP, is trading at a relatively high price of over US\$100 per tonne compared to the historical average of US\$30, integrated producers stand at an advantage. Therefore, we expect Ma’aden’s profitability will be strong.

Figure 10.1 Global Fertiliser Consumption



Source: IFA

Figure 10.2 DAP price trends



Source: Company data, Al Rajhi Capital

Demand for fertilisers is strong and we expect prices to remain firm

Future outlook for fertilisers: positive

World fertiliser prices have been rising gradually since 2004, driven by demand for food crops, in addition to increasing prices of energy and freight. This demand has been propelled by rising food commodity prices, reflecting the need to satisfy the expanding population, and we expect the growth in consumption to continue. Global consumption has been stable for past three years and, according to the IFA, since agricultural market fundamentals remain positive, demand for nitrogen and phosphorus will continue to grow. We believe Ma’aden’s earnings and cash flow generation will increase considerably in 2011. This is largely due to



We expect the tie up with SABIC to be a big factor in the success of Ma'aden's phosphate venture

the impact of higher fertiliser prices, combined with the higher capacity utilisation in the second half of 2011. We forecast an average DAP price of US\$348 per tonne in 2011. For ammonia, we estimate a 2011 price of US\$379 per tonne. In 2011, we forecast Ma'aden's revenue from phosphates will reach SAR 2.74 bn. We further forecast EBITDA of SAR1.51bn and net income of SAR580mn for the phosphate business.

Tie-up with SABIC will be a major factor in driving sales

MPC has a contract with SABIC to sell 77% of DAP production through its global offices; Ma'aden will handle the remainder. Both will charge MPC a marketing fee for this service. SABIC will also be responsible for selling the excess of ammonia which will be left after production of DAP. These arrangements will hold for the first 15 years. Ma'aden is set to benefit from its close association with SABIC's global sales and marketing network and distribution channels. We think that it is a sound strategy by MPC to rely on SABIC which has a strong distribution network in emerging economies, in particular China and India. Other key markets identified are Pakistan, Taiwan and Korea. SABIC will take all excess phosphoric acid produced by the phosphate project for use in its Saudi Arabian operations in the earlier years. After 15 years both SABIC and Ma'aden will sell DAP and ammonia according to their percentage of ownership in MPC.



Ma'aden's aluminium business: back on track

Ma'aden has a joint venture with Alcoa for its aluminium business. The estimated project cost is SAR40bn

Besides the gold business, and phosphates business to be launched this year, Ma'aden's other important project is aluminium. It plans to become an integrated mine-to-metal producer with an estimated capex of SAR40bn. The project was started earlier, a joint venture between Rio Tinto and Ma'aden. However, the global economic crisis forced Rio Tinto to back out of the project and then the project went through with Alcoa. In December 2009, the two companies announced their joint venture to develop a fully integrated, world-class aluminium industry in the Kingdom. In its initial phases, the joint venture will develop a fully integrated industrial complex, consisting of a bauxite mine at Al Ba'aitha and an alumina refinery, aluminium smelter and rolling mill at Ras Az Zawr. The aluminium project involves the development, design, construction and subsequent operation of two integrated sites:

- Mining facilities at Az Zabirah, consisting of a bauxite mine and ore handling facilities; and
- Aluminium complex facilities at Ras Az Zawr; consisting of an alumina refinery, and aluminium smelter and a dedicated power plant.

On 20th June, 2010, the two companies announced in a press release that ground-breaking had begun for the construction of smelter and rolling mill. The construction work is on schedule and the smelter and rolling mill will begin operations in 2013 with the mine and refinery coming on stream in 2014. The company will be the regional hub of the Kingdom's new aluminium industry, and will be the Middle East's first, and one of the world's most technologically advanced, rolling mills.

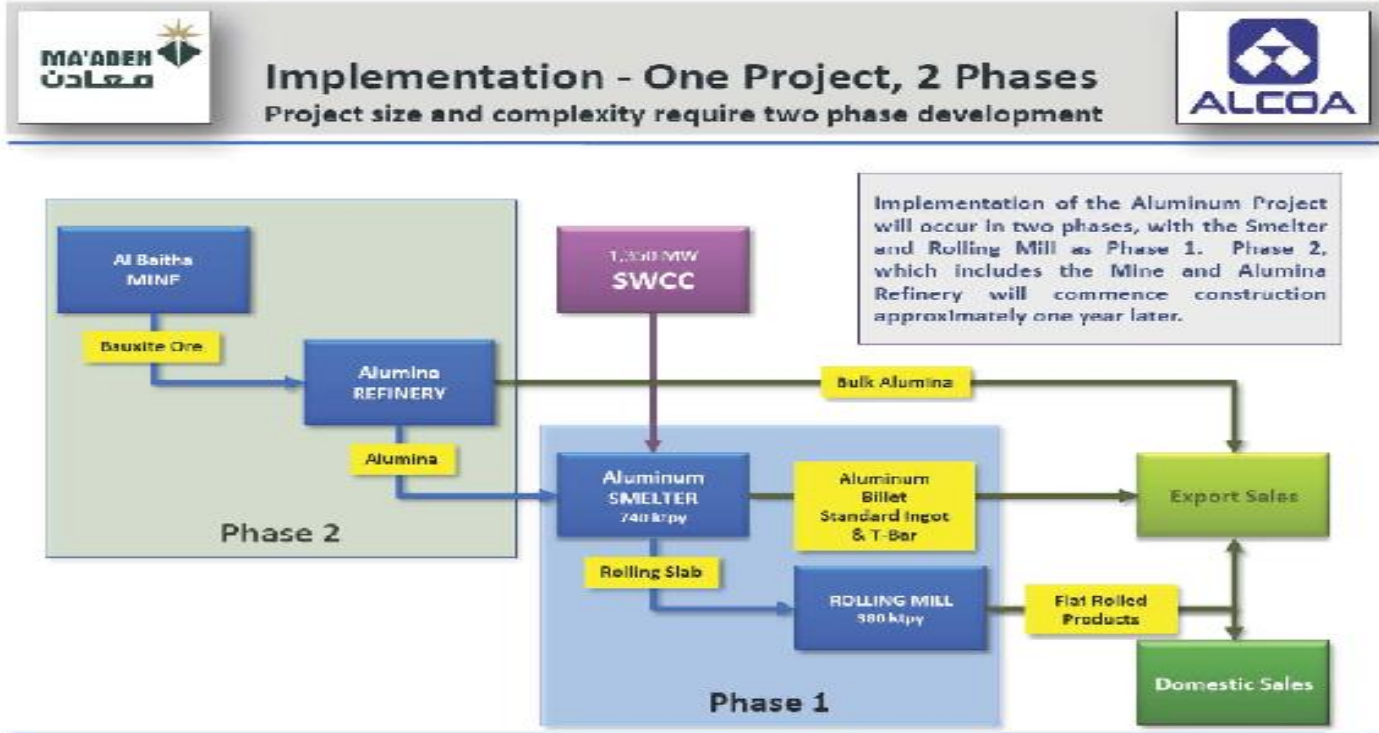
World's lowest-cost supplier of primary aluminium

Ma'aden's aluminium project will be among the most technologically advanced and cost efficient in the world. It will also be the first fully integrated plant in the GCC with a bauxite mine, alumina refinery and rolling mill. A power and water plant of 2,400 MW capacity and 1.025mn cubic meters of water per day is being set up by the government of which 1,350 MW of power and 25,000 cubic meters of water will be dedicated to the aluminium project. Energy as an input cost represents 30% to 35% of aluminium production cost and the project will benefit from the Kingdom's cheap energy sources. Smelters in high energy cost areas are becoming less competitive. There is no rolling mill factory in the GCC, and slabs are imported from other markets like the US, Korea, Europe or Brazil. The plant will satisfy the domestic and regional market for aluminium sheet, especially for beverage cans.

The government is again facilitating this project by setting up a water plant and power project



Figure 11. Ma'aden's aluminium phase 1 project structure.



Source: Ma'aden, Al Rajhi Capital

Aluminium in the present market conditions: subdued

However, we believe by the time Ma'aden starts its aluminium operations, the outlook will improve

Metals prices excluding gold have fallen recently

After a bull run for the past four years, a sharp correction over the past six months coupled with a shortage of liquidity in the markets and rising inventory has driven down metals prices (except gold), with little prospect of a recovery in the short run. For example, the aluminium price has corrected after touching US\$3,200 in August 2008, and now stands at close to \$2,000 per tonne. While 2013, when Ma'aden is expected to commence its aluminium production, is still a long way off, the outlook in the near term remains difficult. Inventory levels are rising forcing producers around the world to cut output. China has been leading from the front in production of and demand for metals. Thus, China's share of metal demand increased in 2009 compared to 2008 even when world demand excluding China declined 10-20% (source Bloomberg).

But even so M,a'aden should achieve good margins on aluminium production

There has been concern over metals pricing after the tightening of credit and interest rates in China. This may result in a cooling of rising inflation and speculation in Chinese property, which may in turn result in a decline in metals demand. China remains a crucial player in the world's aluminium consumption with 35.6% share of the world's output coming from the fastest-growing big economy (source: Bloomberg). Given the overhang of concerns about inflation, credit tightening in China, European budget deficits etc, we believe that the outlook for metals warrants caution. However, it seems unlikely that the share price of Ma'aden will be affected significantly by movements in aluminium prices at the moment. According to the company, after resuming aluminium production by end of 2013, it will have a production cost of less than US\$1,100 a ton, which implies an EBITDA margin of 50% considering the current aluminium price of \$2,200 per ton. Cheap energy will be a big advantage for Ma'aden and the management seems to be happy with the current pricing of metals.



We have been conservative with the aluminium revenue forecasts.

We have assumed a 50% capacity utilisation for aluminium in 2014, and a below-consensus price of US\$2,000 for aluminium. When the company provides additional details, we will adjust our forecasts for the aluminium business. We do not see much impact from the aluminium business on the share price in the near term. Any positive news may provide a short term rally, but in our view the major catalyst for Ma'aden's share price on a one year horizon will be the performance of the phosphates business.



Ma'aden's financial performance: strong revenue growth

Revenue structure changing

Currently, Ma'aden's revenue is derived entirely from gold. However, from 2011, when the phosphate business is due to start, the business will be dominated by phosphate. For 2010, we forecast revenue to increase by 15% to SAR729mn and we expect 2011 revenue to increase by nearly 400% to over SAR3.6bn.

Figure 12. Ma'aden's business - segmental forecasts

	2010E	2011E	2012E	2013E	2014E
Sales					
Gold	672	791	897	1,117	1,340
Phosphate	0	2,747	4,326	4,379	4,662
Aluminium	0	0	0	0	3,638
EBITDA					
Gold	214	319	440	563	685
Phosphate		1,303	2,164	2,243	2,084
Aluminium					1,580
EBITDA Margins					
Gold	31.9%	40.3%	49.0%	50.4%	51.1%
Phosphate		47.4%	50.0%	51.2%	44.7%
Aluminium					43.4%

Source: Company data, Al Rajhi Capital

Phosphate: 78% of revenue in 2011

Based on our estimates for 2011 and 2012, the phosphate business will come into full operation only in 2012, and hence for 2011, we have estimated a 55% capacity utilisation and 80% in 2012. We expect that the phosphate business will contribute 78% of Ma'aden's revenue at over SAR2.7bn in 2011, and that this will increase to 83% of the total sales to SAR4.3bn in 2012.

Favourable outlook for margins

We expect Ma'aden to achieve strong EBITDA margins from 2011, benefiting from the start of its phosphates business. We expect EBITDA to slide down from 34.8% in 2009 to 32.6% in 2010 due an increase in operating costs; we estimate that SG&A and exploration costs will increase by 8% in 2010 because of acceleration in gold exploration activities. However, we expect the EBITDA margin to rise sharply to 45.3% in 2011 because of good selling prices from phosphate.

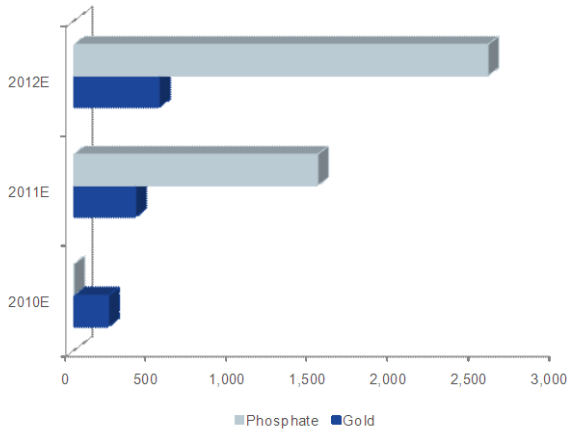
However, we do not expect Ma'aden's net profit margin to expand at a corresponding rate. This is because the company will start charging financial costs and other pre-operating charges, which are currently capitalised on the balance sheet, to the income statement once the phosphate business is launched. We expect the net margin to improve slightly from 16.1% (adjusted for one-time income from Alcoa) in 2009 to 18.0% in 2010. After that, we expect the net margin to rise to 20.4% in 2011, before dropping to 17.0% in 2012 as depreciation charges increase due to Ma'aden's huge capex build-up and as financial charges increase due to rising debt levels. However after the aluminium business comes into operation, we expect the net margin to recover to 20% or above.

EBITDA margin set to rise sharply in 2011

However, net margin will not expand at a corresponding rate

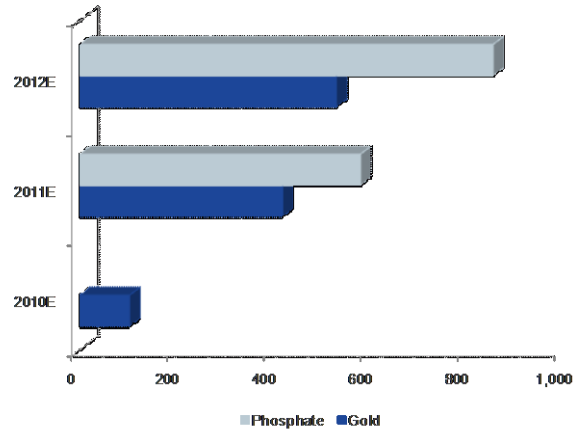


Figure 13.1 Ma'aden: EBITDA breakdown



Source: Company data, Al Rajhi Capital

Figure 13.2 Ma'aden : Net income breakdown



Source: Company data, Al Rajhi Capital

Ma'aden has huge debt, which belongs to new projects; it also has huge cash at the parent level

High debt but high cash equivalents too

By our calculation, Ma'aden had high gross debt of SAR12.1bn on the balance sheet as at Q2 2010, up from SAR11.8bn in Q1 2010. This debt has been raised to fund the company's new projects in phosphate and aluminium. Of this total, SAR3.16bn was contributed by the PIF (the 50% owner of Ma'aden) in Q1, while the remainder consisted of Islamic loans by commercial banks and financial institutions. The other major shareholder, SIDF, has also been providing funds to Ma'aden for its new businesses. Ma'aden has an unutilised loan facility of SAR600mn from SIDF. All the loans are long-term with a ten year repayment period starting from Q4 2011. The financial costs on these loans are also on the low side, ranging from LIBOR plus 0.5% to 1.15% per annum.

It should be noted that the debt has been raised at the level of the subsidiary companies. Ma'aden also has huge cash equivalents, of SAR12bn at the end Q2 2010, which belong to the parent company. At the end of Q2, Ma'aden therefore had a small consolidated net debt balance of SAR141mn. The fact that Ma'aden has high cash increases its "zakat" payment (the equivalent in Saudi Arabia of a tax charge), even though right now it has net debt.

Gearing should surge next year but then fall

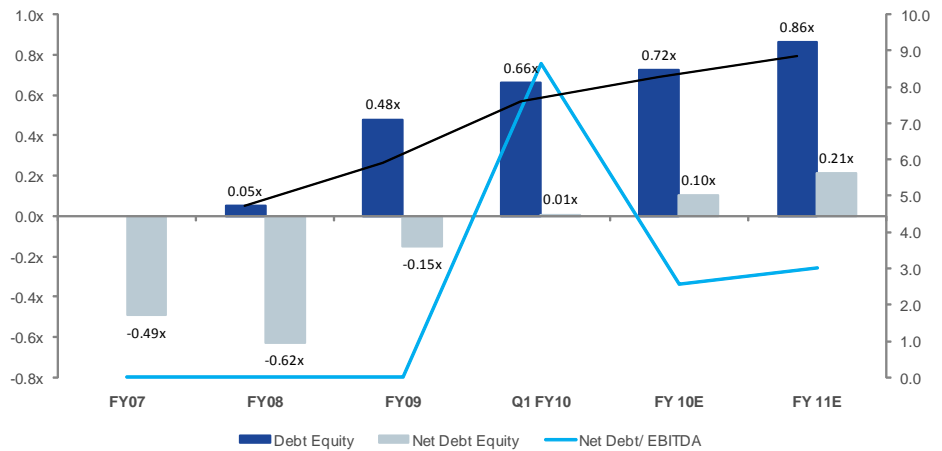
We believe Ma'aden will utilise its cash to part-finance its aluminium business. Gross debt will also increase as the board recently approved US\$4.5bn of debt funding for its aluminium business. In consequence of this additional debt raising and the high near-term expenditure plans, we expect the company to swing into a large net debt position this year. We therefore expect the company's net debt/EBITDA ratio to jump to a very high 7.9x in 2010. However, the earnings from the phosphate business should rapidly boost the EBITDA level. Consequently, the net debt/EBITDA ratio should fall to a more healthy level of 2.6x in 2011 and 2012.

We expect the balance sheet to carry substantial gross and net debt until 2014, when the aluminium business will start operation. After this, Ma'aden should generate sufficient cash to start repaying its debt.



We see Ma'aden raising debt in continuous stages to fund its businesses. However, the debts are long-term and carry low interest rates

Figure 14. Ma'aden's debt position



Note: Debt/equity and net debt/equity on left axis, net debt/EBITDA on right axis
Source: Company data, Al Rajhi Capital

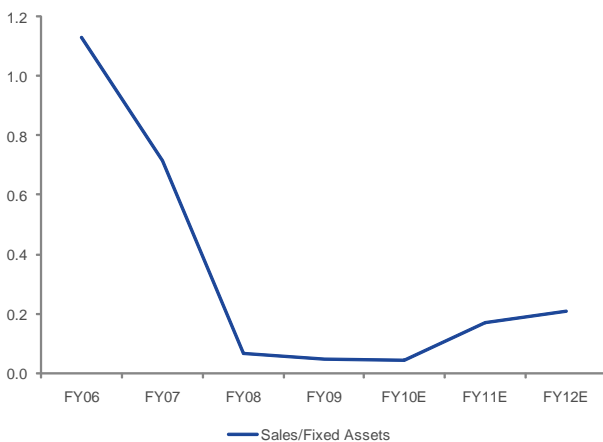
High assets result in low asset turnover. However, assets include WIP, which is not yet generating sales

Underlying asset turnover better than it looks

Ma'aden's ROE was low in 2009 at 2.4%, and we expect it to decline further in 2010. However, with the start of the phosphate business in 2011, we expect ROE to rise to 4.2% in 2011 and further to 4.9% in 2012. Low ROE reflects low asset turnover. If calculated simply as sales relative to total assets, asset turnover was just 0.02x in 2009. We estimate that asset turnover will increase to 0.09x in 2011. At first sight, these figures are extremely low and look like cause for concern.

However, we believe the headline asset turnover figure is very misleading, for two reasons. Firstly, total assets are swollen by Ma'aden's present high cash balances. This means that it makes more sense to compare sales to fixed assets. Secondly, work in progress, which includes new projects, accounts for a remarkable 95% of fixed assets. Work in progress is generating no sales. However, once Maaden's sales increase after its two new businesses come into operation, the sales to fixed assets ratio and return on equity will improve significantly. In the long run, we expect ROE to rise to 5.0% in 2012 and 7.9% by 2014.

Figure 15.1 Ma'aden's sales to fixed assets ratio



Source: Company data, Al Rajhi Capital estimates

Figure 15.2 Ma'aden's sales to fixed assets ratio (excl. WIP)



Source: Company data, Al Rajhi Capital estimates

Underlying fixed asset turnover in the gold business is around 3.7x

The low headline asset turnover and high work in progress reflect the massive investments made by Ma'aden over past two years in preparing for its new business projects. Back in 2007, before these projects started, Ma'aden was generating revenues of SAR244mn over fixed assets of SAR341mn, giving fixed asset turnover of 0.7x. In Q2 2010, we calculate that



We do not expect a dividend till 2015

Capex stands at a high multiple of sales

the sales to fixed assets ratio, excluding work in progress, stood at 3.7x. On this basis, we conclude that asset turnover in Ma'aden's gold business is very good. Looking forward, we expect asset turnover to improve substantially in Ma'aden's new businesses as sales expand. This should contribute to improving ROE for the company.

Dividend payment would make the share attractive

Ma'aden has not paid dividends since its listing in 2008. This has reduced the attraction of the stock to certain shareholders. Ma'aden might increase its popularity if it decided to reward its shareholders with dividend payments. However, we think it is unlikely in the near term because of the huge capex requirements for the aluminium business (SAR40bn over five years). In our model, we have assumed a dividend payment from 2015.

Q2 2010 results: impressive growth, stable margins

Ma'aden has recently published results for Q2 2010. The results exceeded our forecasts for earnings growth but the EBITDA margin fell marginally versus Q1 due to a surge in SG&A costs. We now predict 28.5% growth in adjusted net profit (excluding a one time fee of SAR301mn received from Alcoa in 2009) for 2010. We have updated our earnings estimates and fair value to reflect the Q2 results. Our detailed comments on the results are shown below. Note: due to relative lack of seasonality in the gold business, we regard both quarter-on-quarter (q-o-q) and year-on-year (y-o-y) comparisons as valid for Ma'aden.

Higher sales growth

After rising by 14% q-o-q in Q1, revenues increased by 29% q-o-q in Q2, compared to our forecast of growth of 9.7% q-o-q and of 11.9% y-o-y. The y-o-y sales growth looks very impressive, given that in Q2 2009 sales were boosted by very high volumes. This quarter, too, the revenue growth was driven by both increases in sales volumes and the impact of a higher gold price. The Q2 average selling price was US\$1,198 per ounce, 8% higher than the Q1 average selling price of US\$1,107 per ounce, and 28% higher than the US\$931 per ounce seen in Q2 2009. Sales growth was also boosted by SAR24mn of revenues from zinc sales, zinc being a by-product of gold exploration.

Gross margin up but EBITDA margin down:

Ma'aden's gross margin stood at 56% in Q2 2010 compared to 52% in Q1 2010 and 53% in Q2 2009, pushed up by the surge in gold prices. We believe the margin will stay at this level for the next two quarters, and that it will then only improve after the launch of phosphate business. However, the EBITDA margin fell from 32.8% in Q1 2010 to 30.4% in Q2 due to a 64% surge in SG&A and exploration costs from Q1. We see higher exploration costs in the coming quarters, on account of continuous exploration work on the company's new probable mines. The operating and net margins rose in Q2 versus Q1 2009 on account of a decline in depreciation. The operating margin stood at 19.9% and the net margin at 15.8%.

Lower capex/sales for the quarter; we expect a rebound:

Surprisingly, considering the company's massive ongoing investment projects, Ma'aden's capex/sales ratio declined from 661% in Q1 to 310% in Q2. While this level remains very high by conventional standards, we nevertheless expect the capex/sales ratio to rebound in coming quarters. Capital expenditure will be prominent for the next two years because of the ongoing construction of the aluminium project in particular.



Figure 16. Ma'aden: Q2 2010 results

(SAR mn)	Q2 2009 actual	Q1 2010	Q2 2010 actual	% chg.	Q2 2010 ARC est.	Comment
Revenues	176	153	197	11.9%	164	Revenues were 20% above our estimate, driven by an increase in both volumes and realised prices
Gross Profit	93	81	110	17.5%	95	Above our estimate, on account of a healthy 28.7% yoy jump in selling price of gold.
Gross Margin	53.0%	52.5%	55.6%		57.9%	1.3pp below our forecast, on account of higher production costs
SG&A Costs	-21	-10	-31	47.4%	-48	SG&A costs, as expected, surged due to higher exploration costs.
EBITDA	54	50	60	12.0%	57	Slightly above our forecast on account of robust growth in revenues, but still weighed down by a surge in SG&A costs which increased 47% yoy
EBITDA margin	30.4%	32.8%	30.4%			EBITDA margin stable since last year, however fell on a quarterly basis due to a surge in exploration costs.
Depreciation & amort.	25	34	21	-15.2%	32	Depreciation and amortisation is surprisingly low even though the capex has increased.
Net Operating Profit	29	17	39	35.1%	25	Above our forecast due a decline in the depreciation costs.
Net Profit before Zakat	-8	53	63	NA	67	As above
Zakat	-103	-33	-34	NA	-23	Zakat is down by one-third from the same quarter last year. However, the zakat rate remains very high at 54% of net profit before zakat. We remain unsure why the rate is quite so high, though the company's high gross cash balance seems the main reason
Net Profit	-7	21	31	NA	45	51% higher than Q1, however below our estimate as we had predicted a lower zakat figure for Q2; a decline in investment income also contributed
Capex	-2,671	-1,015	-611		-838	Capex was surprisingly low in Q2; we therefore expect a surge in capex for the remaining quarters as a result of investment in the aluminium business
Capex/Sales (%)	1515%	661%	310%		512%	We expect capex/sales ratio to be high in the coming quarters due mainly to construction of aluminium smelter
Net Debt	-5,726	-1,283	141		-543	Swing from net cash to a minor debt position reflects heavy investment; we expect net debt to surge in the near term
Net Debt/EBITDA	(26.7)	(6.4)	0.6		(2.4)	Net debt/EBITDA ratio is currently low and healthy, but will swing up rapidly before falling again

Source: Company data, Al Rajhi Capital

Summary of financial prospects

With strong revenue and profit growth backed by a higher realised price of gold, we expect Ma'aden to continue performing well in its core gold operation. The phosphate business should start in 2011 and grow rapidly to represent 76% of sales that year. The aluminium business should then start in 2014. As a consequence of the investment in the new operations, Ma'aden's gearing is set to swing round from a net cash position last year to a high net debt position, with a net debt/EBITDA ratio of 7.9x by the end of 2010. However, we believe that strong cash flows from the phosphate business can rapidly reduce the net debt/EBITDA ratio to a healthier level of 2.5-3.0x. With three businesses by the end of 2013, we expect Ma'aden to be one of the leading diversified mine-to-metal companies in the world and a strong diversified company in the region.



Valuation: long-run and comparative methods

Summary of our approach

Our key long-run method of forecasting is discounted economic profit (DEP) forecasting

Our key method of valuation for Ma'aden is long-run discounted economic profit (DEP), sometimes also called discounted long-run EVA ("economic value added"). This is a simple variation on discounted cash flow and is mathematically equivalent. In our models, we make explicit forecasts for income statement, balance sheet and cash flow out to 2021. We then assume a steady fading of return on invested capital, i.e. excess return, down to the cost of capital over a period of up to 40 years from end of our period of explicit forecasting. This approach avoids a common problem in long-run modelling: namely, that the analyst stops forecasting at some arbitrary point when the company in question is still generating high returns. In terms of financial theory this is implausible, and excess returns will eventually disappear through competition, regulation or some other means.

Our DEP valuations are sensitive to many factors, including assumed revenue growth, EBITDA margin and capex/sales ratio in 2021, i.e. the last year of explicit forecasting. Another important variable is the assumed duration of the period of competitive advantage, i.e. the period during which the company generates returns above weighted average cost of capital (WACC). Deciding on the length of the period of the competitive advantage is naturally a subjective exercise. We have assumed 30 years for Ma'aden, on the grounds that the new businesses of Ma'aden will provide positive cash flows till then and it would take several years for rivals to challenge it effectively.

Ma'aden benefits from a low effective rate of interest which reduces its WACC

However, as with any DCF-based approach, the factor to which the DEP valuation is most sensitive is WACC. We have assumed a WACC of around 8.1% for Ma'aden; which stems in part from relatively low interest on debt; by our calculation, Ma'aden pays an effective interest rate of 4.25% on gross debt. We attribute this low rate to the fact that a significant portion of Ma'aden's loans comes from the Public Investment Fund and these carry an interest rate of LIBOR plus 0.5%.

We use comparative multiples analysis in addition to DEP

WACC is in turn highly sensitive to assumed terminal capital structure. Estimating terminal capital structure is again a rather subjective exercise. We have calculated a terminal debt/(debt plus equity) ratio of 36% for Ma'aden which is close to the Q2 2010 debt level.

In addition to long-run DEP, we use comparative multiples analysis to value Ma'aden in relation to other regional players. Under this approach we use comparisons of valuation measures – notably, EV/EBITDA multiples – with other companies with similar business model to estimate fair value. As Ma'aden will turn into a diversified metal, fertilisers and a mining company by 2014, we have evaluated each business separately. We believe the share price will be driven dominantly by the fertilisers and gold business which will constitute 76% and 24% of Ma'aden's revenues in 2011 by our estimate. We have excluded its aluminium business from peer comparison, because we do not see the business impacting the share price yet. We have taken a weighted average of the two methods as our target price by giving a weight of 70% to the long-run DEP method and 30% to the comparative multiples analysis method. However, we see the comparative multiples method as a good indicator of performance and pricing in the real world.

High transparency likely to continue to support the company's share price

We expect Ma'aden's share price to be driven primarily by the commencement of its phosphate business and also the anticipated progress of its aluminium business. The company is doing well in releasing press statements from time to time in order to inform investors about the progress of its diversification. Good disclosure should help keep shareholders interested and supportive of the company's plans.

Below we discuss fair value for the company in detail.

Ma'aden's fair value

As mentioned, we use two valuation methods: long-run EVA and comparative multiples analysis. For the multiples analysis, we have used EV/EBITDA multiples for the two major segments: gold and phosphate. We have ignored the aluminium business from the comparative valuation because the operations will not begin until late 2013 or 2014.



Long-run DEP approach

In the long-run DEP method of estimating Ma'aden's fair value, we use a WACC of 8.1%. We calculate WACC as shown in the table below.

Figure 17. Ma'aden: weighted average cost of capital (WACC)

Risk-free Rate	4.0%
Expected Mkt Return - Risk-free Rate	11.2%
Adjusted Beta	0.9
Cost of Equity	10.8%
Pre-tax Cost of Debt	4.5%
Effective Tax rate	30.8%
After-tax Cost of Debt	3.1%
Target D/(D+E)	35.2%
WACC	8.1%

Source: Bloomberg, Al Rajhi Capital

The greater part of Ma'aden's fair enterprise value lies in invested capital rather than discounted economic profits

Still, we think Ma'aden deserves to trade on a EV/IC multiple of higher than 0.6x

We believe that the greater part of the value of Ma'aden lies in invested capital, i.e. the debt and equity financing which has already been deployed, rather than in future economic returns. Discounted economic profit, i.e. the present value of future economic returns or returns above cost of capital, represents only a small portion (about 8%) of our appraised fair enterprise value for Ma'aden of SAR29.5bn. (Discounted economic profit is shown in the table below as "total value created/destroyed".) From appraised fair enterprise value, we subtract net debt and minority estimates to give estimated fair equity value of SAR25.8bn. On this basis we estimate fair value per share for Ma'aden at SAR27.9. This is shown in the table.

Figure 18. Ma'aden valuation: discounted economic profit

Total value created / (destroyed)	2,320
Opening Invested capital	27,148
Total Enterprise Value	29,467
Less:	
Value of Debt (2010E)	-1,882
Minority Interests (2010E)	-1,782
Equity Value	25,803
No. of Shares (mn)	925
Fair Value per share	SAR 27.9

Source: Al Rajhi Capital estimates

While our estimate of the present value of Ma'aden's aggregate future economic returns is only modest (at SAR2.3bn), it is positive. In other words, we do believe that Ma'aden has invested its capital wisely in assets which will generate returns above cost of capital. On this basis, it is rather surprising that Ma'aden trades on an enterprise value/invested capital (EV/IC) multiple of just 0.6x. This ratio implies that, in the opinion of the stock market, Ma'aden is set to generate substantial economic losses in the future, or alternatively that it has over-invested in production assets which are now worth considerably less than the company paid for them. We do not accept either of these possibilities. At any rate, we believe that Ma'aden's market enterprise value deserves to be greater than 0.6x its invested capital. At our target price of SAR23.6, the EV/IC ratio would be 0.8x, which still represents a discount to invested capital.

Comparative multiples approach

We have valued Ma'aden's gold business and the forthcoming phosphate business separately by comparing them with peers. For Ma'aden's gold company, we have used three global competitors: Rio Tinto, BHP Billiton and Anglo American on account of the business nature of these companies which is mining. Regarding phosphate, we have chosen two regional fertiliser companies, SAFCO and Jordan Phosphate, as benchmarks. These companies are smaller than Ma'aden, but we believe that they are closely comparable considering their business nature and their presence in the same region. While Jordan Phosphate is a direct



For valuing Ma'aden's gold business on a comparative basis, we have used global mining companies

We have selected two regional fertilisers companies as benchmarks for Ma'aden

We set a target price of SAR23.7 based on a 70/30% weighting for our two different valuation approaches

competitor to Ma'aden's phosphate business, SAFCO comes a close second because of its involvement in urea fertilisers. The table below shows market values and valuation multiples for these companies compared to MPC.

Figure 19. Ma'aden's gold business: comparative multiples analysis

Companies	Region	Market Cap (\$ Mn)	Enterprise Value (\$ Mn)	EV/EBITDA		Bloomberg Codes
				FY10E	FY11E	
BHP Billiton	Global	186,827	195,412	7.9x	5.4x	BLT LN Equity
Rio Tinto	Global	117,001	137,404	5.6x	5.2x	RIO LN Equity
Anglo American	Global	51,568	64,559	5.7x	4.6x	AAL LN Equity
Aggregate Market Multiples				6.6x	5.2x	

Source: Bloomberg, Al Rajhi Capital

Figure 20. MPC: comparative multiples analysis

Companies	Region	Market Cap (\$ Mn)	Enterprise Value (\$ Mn)	EV/EBITDA		Bloomberg Codes
				FY10E	FY11E	
Jordan Phosphate	Middle East	1,499	1,326	8.3x	9.5x	JOPH JR Equity
SAFCO	Middle East	9,116	8,233	12.3x	11.2x	SAFCO AB Equity
Aggregate Market Multiples				11.5x	10.9x	

Source: Bloomberg, Al Rajhi Capital

Based on the aggregate EV/EBITDA multiples for the comparable companies, we estimate a fair share price for Ma'aden of SR13.8. We have given a 30% weighting to this method, on the grounds that Ma'aden has been expanding and it would not be appropriate to compare it with more mature companies which have been in operation for a long time. Moreover, the peer valuation excludes Ma'aden's planned total investment in aluminium of SAR40bn which we believe will increase fair value.

Figure 21. Ma'aden: comparative valuation

	Unit	EV	% Ownership	EV Ma'aden
Ma'aden Gold Company	SAR mn	1,407	100%	1,407
Ma'aden Phosphate Company	SAR mn	16,492	70%	11,544
Total EV		12,951		
Less Net Debt		141		
Equity Value		12,810		
Shares Outstanding		925		
SAR Value/Share		13.85		

Source: Company data, Al Rajhi Capital

We set our target price per share for Ma'aden at SAR23.7. We have arrived at this target price by giving a weighting of 70% to the long-run EVA method (SAR27.9 fair value per share), and of 30% to the comparative multiples method (SAR13.8 fair value per share). We believe that the wide gap between these two methods can largely be attributed to the fact that Ma'aden is currently undertaking aggressive expansion plans involving heavy investment.

Transparency in business to help Ma'aden

It is worth adding that Ma'aden is one the few companies in Saudi Arabia which are transparent with good disclosure and which are striving to achieve global best practice in financial reporting. The company has a dedicated investor relations operation which we believe should impress investors and help add a premium to its share price. The financial reporting is done in both Arabic and English with good breakdowns of all items in the balance sheet and income statement. Such transparency will, we think, serve the company



well in the long term. We believe the company should strive to be even more transparent and provide an updated breakdown of reserves and probable reserves in its mines. Also, the company should try and provide more information on the cost structure of its different business segments.



Revenue surge in 2011 will help drive profitability.

EBITDA should surge over the next few years; however, net profit growth will be constrained by financial costs.

We expect the capex/sales ratio to remain very high till the aluminium business is completed

P/E and EV/EBITDA will decline sharply once the phosphate business has commenced

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	460	634	729	3,586	5,280
Cost of Goods Sold	(233)	(296)	(318)	(1,623)	(2,241)
Gross Profit	227	338	411	1,963	3,039
Government Charges					
S.G. & A. Costs	(321)	(262)	(285)	(611)	(925)
Operating EBIT	(94)	76	126	1,352	2,114
Cash Operating Costs	(425)	(414)	(491)	(1,963)	(2,676)
EBITDA	35	221	238	1,623	2,604
Depreciation and Amortisation	(129)	(144)	(112)	(270)	(490)
Operating Profit	(94)	76	126	1,352	2,114
Net financing income/(costs)	290	314	158	52	(391)
Forex and Related Gains					
Provisions	(0)	-	-	-	-
Other Income					
Other Expenses	4	302	1	-	-
Net Profit Before Taxes	195	663	260	1,404	1,723
Taxes	-	(264)	(134)	(281)	(345)
Minority Interests	6	5	4	(393)	(483)
Net profit available to shareholders	202	404	131	730	896
Dividends	-	-			
Transfer to Capital Reserve					
	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	925.0	925.0	925.0	925.0	925.0
CFPS (SAR)	0.490	0.588	0.258	1.507	2.020
EPS (SAR)	0.304	0.437	0.142	0.789	0.968
DPS (SAR)	0	0			
Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth	88.5%	37.9%	14.9%	391.8%	47.3%
Gross Profit Growth	162.5%	49.3%	21.4%	377.7%	54.8%
EBITDA Growth	114.8%	531.7%	8.0%	581.0%	60.5%
Operating Profit Growth	198.9%		65.6%	971.1%	56.3%
Net Profit Growth	-9.3%	100.4%	-67.6%	457.6%	22.7%
EPS Growth	-72.6%	43.5%	-67.6%	457.6%	22.7%
Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	49.3%	53.4%	56.4%	54.7%	57.6%
EBITDA margin	7.6%	34.8%	32.7%	45.3%	49.3%
Operating Margin	-20.5%	12.0%	17.3%	37.7%	40.0%
Pretax profit margin	42.4%	104.5%	35.7%	39.2%	32.6%
Net profit margin	43.8%	63.7%	18.0%	20.4%	17.0%
Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	-0.5%	0.3%	0.4%	3.7%	5.0%
ROIC	-1.7%	0.3%	0.2%	3.4%	4.6%
ROE	1.9%	2.5%	0.8%	4.3%	5.0%
Effective Tax Rate	0.0%	39.8%	51.3%	20.0%	20.0%
Capex/Sales	1689.4%	1748.2%	475.7%	113.5%	87.1%
Dividend Payout Ratio	0.0%	0.0%			
Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	63.8	44.4	137.1	24.6	20.0
P/CF (x)	39.6	33.0	75.1	12.9	9.6
P/B (x)	1.1	1.1	1.1	1.0	1.0
EV/Sales (x)	12.7	27.0	29.8	6.8	5.4
EV/EBITDA (x)	166.9	77.7	91.2	15.0	10.9
EV/EBIT (x)	NA	224.7	172.2	18.0	13.4
EV/IC (x)	0.5	0.6	0.7	0.7	0.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Net debt/EBITDA will jump this year but should then fall after a surge in EBITDA in 2011

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E		
Cash and Cash Equivalents	11,335	11,519	11,474	12,700	13,211		
Current Receivables	114	53	212	1,043	2,425		
Inventories	167	206	256	2,186	2,904		
Other current assets	910	383	492	492	492		
Total Current Assets	12,430	12,131	12,385	16,373	18,983		
Fixed Assets	7,053	14,144	17,496	21,296	25,407		
Investments	-	-	-	-	-		
Goodwill	-	-	-	-	-		
Other Intangible Assets	1,810	2,936	3,502	3,502	3,502		
Total Other Assets	66	19	18	18	18		
Total Non-current Assets	8,929	17,098	21,016	24,817	28,927		
Total Assets	21,358	29,230	33,401	41,189	47,910		
Short Term Debt	-	-	-	-	-		
Trade Payables	-	-	-	-	-		
Dividends Payable	-	-	-	-	-		
Other Current Liabilities	-	-	-	-	-		
Total Current Liabilities	3,573	1,906	1,370	4,508	5,680		
Long-Term Debt	820	8,783	13,356	16,882	21,053		
Other LT Payables	-	-	-	-	-		
Provisions	139	176	184	184	184		
Total Non-current Liabilities	959	8,959	13,540	17,066	21,237		
Minority interests	639	1,782	1,778	2,171	2,654		
Paid-up share capital	9,250	9,250	9,250	9,250	9,250		
Total Reserves	6,938	7,332	7,463	8,193	9,089		
Total Shareholders' Equity	16,188	16,582	16,713	17,443	18,339		
Total Equity	16,827	18,365	18,491	19,615	20,993		
Total Liabilities & Shareholders' Equity	21,358	29,230	33,401	41,189	47,910		
Ratios	12/08A	12/09A	12/10E	12/11E	12/12E		
Net Debt (SARmn)	(10,515)	(2,736)	1,882	4,182	7,842		
Net Debt/EBITDA (x)	-	301.14	-	12.41	7.90	2.58	3.01
Net Debt to Equity	-62.5%	-14.9%	10.2%	21.3%	37.4%		
EBITDA Interest Cover (x)	(0.1)	(0.7)	(1.5)	(31.3)	6.7		
BVPS (SAR)	17.50	17.93	18.07	18.86	19.83		
Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E		
Net Income before Tax & Minority Interest	195	663	260	1,404	1,723		
Depreciation & Amortisation	129	144	112	270	490		
Decrease in Working Capital	2,669	-848	-467	377	-929		
Other Operating Cashflow	-263	-523	-388	-281	-345		
Cashflow from Operations	2,730	-564	-482	1,771	940		
Capital Expenditure	-7,774	-11,091	-3,468	-4,071	-4,601		
New Investments	494	-1,854	22	0	0		
Others	-700	-1,721	-691	0	0		
Cashflow from investing activities	-7,980	-14,667	-4,136	-4,071	-4,601		
Net Operating Cashflow	-5,250	-15,231	-4,618	-2,300	-3,661		
Dividends paid to ordinary shareholders	0	0	0	0	0		
Proceeds from issue of shares	11,750	0	0	0	0		
Effects of Exchange Rates on Cash	0	0	0	0	0		
Other Financing Cashflow	1,140	-498	-0	0	0		
Cashflow from financing activities	13,890	15,416	4,573	3,526	4,171		
Total cash generated	8,640	185	-46	1,226	511		
Cash at beginning of period	2,695	11,335	11,519	11,474	12,700		
Implied cash at end of year	11,335	11,519	11,474	12,700	13,211		
Ratios	12/08A	12/09A	12/10E	12/11E	12/12E		
Capex/Sales	1689.4%	1748.2%	475.7%	113.5%	87.1%		

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Dr. Saleh Alsuhaibani
Head of Research
Tel : +966 1 2119434
alsuhaibanis@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.