

Saudi Arabian Mining Co-Maaden

Mining – Industrial

MAADEN AB: Saudi Arabia

18 April 2011

الراجحي المالية
Al Rajhi Capital



US\$6.19bn Market cap
35.6% Free float
US\$29.16mn Avg. daily volume

Target price **28.22** 12.43% over current
Consensus price **23.96** -4.5% over current
Current price **25.10** as at 17/4/2011

Existing rating

Underweight

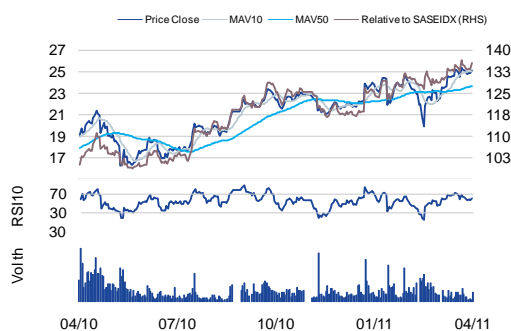
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	707	1,311	4,383	4,972
Revenue Growth	11.4%	85.6%	234.3%	13.4%
EBITDA (mn)	186	510	2,507	2,973
EBITDA Growth	2.0%	173.7%	391.8%	18.6%
EPS	0.01-	0.06	1.12	1.42
EPS Growth	-103.2%		1841.2%	26.4%

Source: Company data, Al Rajhi Capital

Ma'aden

Earnings boost on low zakat, higher gold price

Ma'aden recorded a 112% year on year increase in net profits in Q1 2011, on account of a robust 33% year on year rise in revenues. The company seems to be enjoying a huge rally in gold prices which are trading at an all time high level of US\$1,480 an ounce; and directly go into the revenues for Ma'aden. We were concerned over huge zakat payments in 2010 which the company seems to have addressed by reporting a very low zakat this quarter. Though we don't think this low level is sustainable mainly because it pays zakat on its cash balances which is close to SAR12bn. We expect to remain Overweight on Ma'aden with a target price of SAR28.2; we might cut our zakat forecasts and increase our earnings estimates after the company releases its full financials.

Earnings vs. our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue growth is very impressive:** Ma'aden reported revenue of SAR205mn, which is 33% higher than the same period last year. This high growth is due to higher gold prices which are trading now above US\$1,470 an ounce. Our average realized price for gold in Q1 for Ma'aden was US\$1,375 an ounce and our revenue expectation for Q1 was SAR184mn.
- Higher gold translated into all time high Gross Profit:** A strong revenue growth translated into a 59% year on year increase in gross profit in Q1, which is an all time high level for Ma'aden. It reported a gross profit margin of 62%, from around 53% in the same period last year. Though, SG&A costs increased 43% mainly due to increase in drilling activities and higher fixed costs relating to spending in new projects.
- Lower zakat boosted the net profit:** Ma'aden reported only SAR6mn as zakat expense in Q1, down significantly from Q4 2010(SAR107mn) and in Q1 2010(SAR33mn). These high zakat expenses have eroded profits from its books. However, we don't think this low zakat is also sustainable and unless the company reduces its cash balances, the zakat disbursements will be huge for them. As a result of this low zakat, the company reported SAR44mn in net profits. Ma'aden existing gold business remains skewed towards gold prices; which we expect to do well in the coming quarters supported by the rally in gold. We remain bullish on Ma'aden's ambitious plans to diversify into a different and integrated company – which is the basis of our Overweight rating. We stress that the two new ventures will dominate Ma'aden's financial performance from H2 2011 and beyond.



Corporate summary

Ma'aden was formed in 1997 by the Saudi government to facilitate the development of Saudi Arabia's non-petroleum minerals and to diversify away from petroleum based sectors. 50% of Ma'aden is owned by PIF. In July 2008, Ma'aden was listed in 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\$) 23.22bn / 6.19bn
52-week range 16.30 - 25.40
Daily avg volume (US\$) 29.16mn
Shares outstanding 925.0mn
Free float (est) 35.6%

Performance:	1M	3M	12M
Absolute	11.6%	6.6%	30.1%
Relative to index	4%	10.1%	35.2%

Major Shareholder:
Public Investment Fund 50%
GOSI 7.7%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	707	1,311	4,383	4,972
EBITDA (SARmn)	186	510	2,507	2,973
Net Profit (SARmn)	(13)	53	1,036	1,310
EPS (SAR)	0.01-	0.06	1.12	1.42
DPS (SAR)	-	-	-	-
EPS Growth	-103.2%	na	1841.2%	26.4%
EV/EBITDA (x)	124.6	45.5	9.3	7.8
P/E (x)	na	434.9	22.4	17.7
P/B (x)	1.4	1.4	1.3	1.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



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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.

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