الراجحي المالية
Al Rajhi Capital

US$6.68bn	35.6%	US$29.25mn
Market cap	Free float	Avg. daily volume

Target price	31.00	11.11% over current
Consensus price	23.96	-14.1% over current
Current price	27.90	as at 9/5/2011

Research Department
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Underweight | **Neutral** | Overweight

Ma'aden
Valuation almost priced in

Ma'aden achieved better than expected Q1 results mainly due to higher realised prices of gold which was recorded at US$ 1,395 an ounce. This higher price of gold translated into an all time high revenue at SAR228mn, rising by 16% year on year. With phosphate due to launch this year, we think going forward, Ma'aden share price will be mostly driven by phosphate business performance. We have accordingly accounted for the higher price of gold and DAP in our forecasts and hence raised our target price to SAR31. However, the share price has risen over 50% in a year on positive sentiments over its diversification plans. We see the valuation is almost priced in with a limited upside of 11% only. Thus, we downgrade our rating to Neutral.

Q1 Revenues & operating profit rose on high gold prices: Ma'aden higher sales and increased profits in Q1 should be attributed to the increase in gold prices, which touched an average US$1,395 an ounce, above our expectation of US$1,375 an ounce. Again in this quarter, Ma'aden recorded the highest revenue in any quarter, at SAR205mn, gross profit at SAR127.8mn and an impressive operating profit at SAR36.9mn. The company had also managed to sell some by-products like low grade bauxite and zinc worth SAR11.2mn and SAR1.5mn respectively, translating into an increased margins during Q4. Ma'aden earned a gross margin of 62% from 56% earned during same period, last year.

Gold mines life increased on controlled production: The Company has managed to prolong the life of its existing mines, by gradually cutting down on its production. We think the company did the right thing by slowing down production of its gold business, which we believe will get a boost only after the start of some of the proposed mines like Ad Duwaiyhi and As Suq. *(For details: see our initiation coverage of Ma'aden dated 2nd August 2010).*

Phosphate business will now increase its importance: Phosphate business will be the key driver for Ma'aden now as the commercial production is likely to begin this year. We have estimated phosphate revenues in our model from Q4 2011. On account of current rally in DAP prices, we have revised our DAP assumptions from US$450/ton to US$600/ton till 2013e and from 2014 onwards, our DAP price assumption is US$550/ton keeping in mind the volatility associated with fertilizers prices. The recent rally in DAP prices has been mostly due to increase phosphate rock prices which have almost doubled to around US$140/ton hurting non-integrated producers in the industry. In March, the company shipped 12,000 tonnes of ammonia to south Asian markets, making its intention clear that they want to roll the business soon.

Conclusion: We think this company will look totally different when phosphate and aluminium will come into picture. Ma'aden also carries huge gross debt mainly to finance its new businesses. The gross debt looks very high (SAR13.5bn), but Net debt is at a respectable level of SAR3.6bn. We expect it to come down quite sharply after phosphate business is launched and a Net Debt/ EBITDA of 3.2 times in 2012. The enterprise value/invested capital ratio now stands at 1.0x and the PB is 1.5x, 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. We have raised our target price from SAR28.2 to SAR31 to factor in higher gold and DAP prices. This implies an upside of 11%.

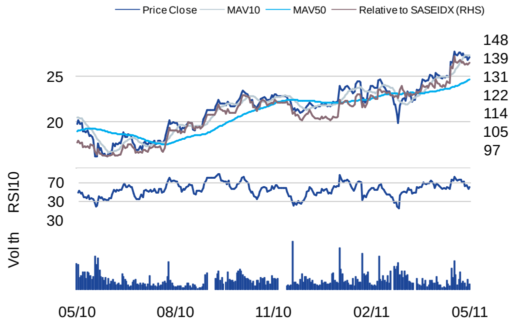
Key themes

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 top line will boost significantly in 2011 with the commencement of phosphate business. But at the moment we see limited upside as the stock has risen over 50% in last one year.

Performance

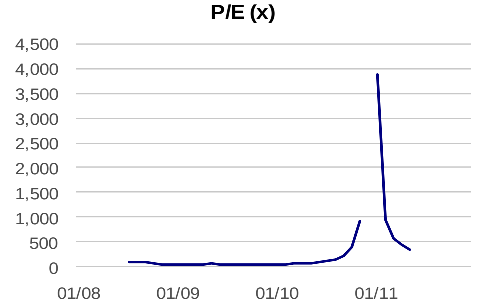


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	707	1,456	4,475	5,028
Revenue Growth	11.4%	106.1%	207.3%	12.4%
EBITDA (mn)	186	542	2,390	3,044
EBITDA Growth	2.0%	190.8%	341.3%	27.4%
EPS	(0.01)	0.22	1.38	1.52
EPS Growth	-103.2%		535.9%	10.3%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

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Corporate summary

Ma'aden was formed in1997 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 phosphate and aluminium businesses in 2011 and 2013 respectively.

Share information

Market cap (SAR/US$)	25.07bn / 6.68bn
52-week range	16.30 - 27.70
Daily avg. volume (US$)	29.25mn
Shares outstanding	925.0mn
Free float (est.)	33.4%

Performance:	1M	3M	12M
Absolute	6.7%	14.1%	40.4%
Relative to index	6.0%	13.8%	38.8%

Major Shareholder:	
Public Investment Fund	50%
GOSI	9.4%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	707	1,456	4,475	5,028
EBITDA (SARmn)	186	542	2,390	3,044
Net Profit (SARmn)	(13)	200	1,275	1,406
EPS (SAR)	(0.01)	0.22	1.38	1.52
DPS (SAR)	-	-	-	-
EPS Growth	-103.2%	na	535.9%	10.3%
EV/EBITDA (x)	134.6	46.3	10.5	8.2
P/E (x)	na	125.1	19.7	17.8
P/B (x)	1.5	1.5	1.4	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Gold mines life increase:
In the best interests of the company

Increasing mine life ensures smooth revenue inflow for coming few years.

In the Q1 disclosures, the company has released the life expectancy of its mines. We had argued that the company is aiming to keep production levels constant in order to increase the life span of its mines.

Figure 1. Mine lives for the operational mines (New & Old)

Mine	Exp. Closure date (Old)	Exp. Closure date (new)	Increase (years)
Mahad	2013	2016	3
Al Hajar	2011	2013	2
Sukhaybarat	2014	2015	1
Bulgah	2010	2017	7
Al Amar	2014	2018	4

Source: Company data, Al Rajhi Capital

Q2 2011 performance; in line with gold prices

Financials for the time being will be driven by gold prices until new business is launched

We have revised our gold forecasts upwards, on the back of higher gold prices. We now assume gold to be trading at US$ 1,475 an ounce in Q2. Our expectations for Q2 results are mentioned below:

Figure 2. Ma'aden: Q1 & Q2 results (actual and our estimates)

(SAR) mn	2010Q1A	2011Q1E	2011Q1A	YOY % chg.	2010Q2A	2011Q2E	YOY % chg.
Revenues	**153.5**	**183.7**	**205.2**	**33.7%**	**197.3**	**228.9**	**16.0%**
EBITDA	**50.4**	**50.9**	**58.1**		**60.1**	**67.3**	**12.1%**
EBITDA margin (%)	32.8%	27.7%	28.3%		30.4%	29.4%	
Operating profit	**16.5**	**18.7**	**36.9**	**123.5%**	**39.2**	**43.4**	**10.6%**
Operating profit margin (%)	10.8%	10.2%	18.0%		19.9%	19.0%	
Net Income	**20.6**	**(37.4)**	**43.7**	**112.0%**	**31.2**	**38.7**	**23.9%**
Capex	611.1	1,238.7	1,355.1	121.8%	611.1	1,404.2	129.8%
% of sales	**398%**	**674%**	**661%**		**310%**	**613%**	
Net Debt (mn)	(1,283.4)	3,045.0	3,594.6		141.4	4,967.8	3412.9%
Net Debt/EBITDA	(6.4)	14.9	15.5		0.6	18.4	

Source: Company data, Al Rajhi Capital

Revenue surge in 2011 & beyond 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 high till the aluminium business is completed

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

Income Statement (SARmn)	**12/09A**	**12/10A**	**12/11E**	**12/12E**	**12/13E**
Revenue	**634**	**707**	**1,456**	**4,475**	**5,028**
Cost of Goods Sold	(306)	(312)	(632)	(1,940)	(2,104)
Gross Profit	**328**	**394**	**825**	**2,536**	**2,924**
Government Charges					
S.G. & A. Costs	(253)	(304)	(436)	(479)	(491)
Operating EBIT	**75**	**90**	**389**	**2,056**	**2,433**
Cash Operating Costs	(452)	(520)	(915)	(2,085)	(1,984)
EBITDA	183	186	542	2,390	3,044
Depreciation and Amortisation	(108)	(97)	(152)	(334)	(611)
Operating Profit	**75**	**90**	**389**	**2,056**	**2,433**
Net financing income/(costs)	314	171	41	(437)	(611)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	302	1	(1)	-	-
Net Profit Before Taxes	**659**	**189**	**364**	**1,554**	**1,757**
Taxes	(269)	(207)	(165)	(279)	(351)
Minority Interests	5	5	1	-	-
Net profit available to shareholders	**395**	**(13)**	**200**	**1,275**	**1,406**
Dividends	-	-	-	-	-
Transfer to Capital Reserve					

	12/09A	**12/10A**	**12/11E**	**12/12E**	**12/13E**
Adjusted Shares Out (mn)	925.0	925.0	925.0	925.0	925.0
CFPS (SAR)	0.538	0.085	0.381	1.739	2.180
EPS (SAR)	0.427	(0.014)	0.217	1.378	1.520
DPS (SAR)	0	0	0	0	0

Growth	**12/09A**	**12/10A**	**12/11E**	**12/12E**	**12/13E**
Revenue Growth	37.9%	11.4%	106.1%	207.3%	12.4%
Gross Profit Growth	44.8%	20.1%	109.3%	207.4%	15.3%
EBITDA Growth	184.5%	2.0%	190.8%	341.3%	27.4%
Operating Profit Growth		19.4%	334.2%	428.1%	18.3%
Net Profit Growth	173.5%	-103.2%		535.9%	10.3%
EPS Growth	95.9%	-103.2%		535.9%	10.3%

Margins	**12/09A**	**12/10A**	**12/11E**	**12/12E**	**12/13E**
Gross profit margin	51.7%	55.8%	56.6%	56.7%	58.2%
EBITDA margin	28.8%	26.4%	37.2%	53.4%	60.5%
Operating Margin	11.8%	12.7%	26.7%	45.9%	48.4%
Pretax profit margin	103.8%	26.8%	25.0%	34.7%	34.9%
Net profit margin	62.2%	-1.8%	13.8%	28.5%	28.0%

Other Ratios	**12/09A**	**12/10A**	**12/11E**	**12/12E**	**12/13E**
ROCE	0.3%	0.3%	1.1%	5.0%	5.3%
ROIC	0.7%	-0.1%	1.0%	6.8%	6.9%
ROE	2.4%	-0.1%	1.2%	7.3%	7.5%
Effective Tax Rate	40.8%	109.5%	45.2%	18.0%	20.0%
Capex/Sales	1129.4%	586.5%	261.3%	70.6%	47.3%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Valuation Measures	**12/09A**	**12/10A**	**12/11E**	**12/12E**	**12/13E**
P/E (x)	63.5	na	125.1	19.7	17.8
P/CF (x)	50.4	318.9	71.2	15.6	12.4
P/B (x)	1.5	1.5	1.5	1.4	1.3
EV/Sales (x)	39.5	35.5	17.2	5.6	5.0
EV/EBITDA (x)	137.2	134.6	46.3	10.5	8.2
EV/EBIT (x)	333.9	279.6	64.4	12.2	10.3
EV/IC (x)	1.6	1.2	1.0	0.9	0.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Gross debt level will remain high from now on

Net debt/EBITDA will jump this year but should then fall to a normal level in 2012 and beyond

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	11,519	11,755	10,598	12,632	14,390
Current Receivables	53	30	384	1,207	2,263
Inventories	206	332	1,278	1,932	2,565
Other current assets	383	372	578	578	578
Total Current Assets	**12,131**	**12,489**	**12,838**	**16,349**	**19,796**
Fixed Assets	14,144	20,319	23,851	26,678	28,445
Investments	-	-	-	-	-
Goodwill	-	-	-	-	-
Other Intangible Assets	2,936	2,017	2,840	2,838	2,838
Total Other Assets	19	86	53	53	53
Total Non-current Assets	**17,098**	**22,422**	**26,744**	**29,569**	**31,336**
Total Assets	**29,230**	**34,911**	**39,583**	**45,918**	**51,132**
Short Term Debt	-	-	-	-	-
Accounts Payable	621	831	1,918	2,463	2,665
Accrued Expenses	969	1,401	1,598	2,221	2,263
Dividends Payable	-	-	-	-	-
Other Current Liabilities	45	55	70	70	70
Total Current Liabilities	**1,906**	**2,494**	**3,799**	**4,967**	**5,211**
Long-Term Debt	8,783	13,517	16,384	20,278	23,843
Other LT Payables	-	1	2	-	-
Provisions	176	196	199	199	199
Total Non-current Liabilities	**8,959**	**13,714**	**16,585**	**20,477**	**24,041**
Minority interests	1,782	2,134	2,426	2,426	2,426
Paid-up share capital	9,250	9,250	9,250	9,250	9,250
Total Reserves	7,332	7,319	7,524	8,798	10,204
Total Shareholders' Equity	**16,582**	**16,569**	**16,774**	**18,048**	**19,454**
Total Equity	**18,365**	**18,704**	**19,199**	**20,474**	**21,880**
Total Liabilities & Shareholders' Equity	**29,230**	**34,911**	**39,583**	**45,918**	**51,132**

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	(2,736)	1,762	5,786	7,646	9,453
Net Debt/EBITDA (x)	(14.98)	9.46	10.68	3.20	3.11
Net Debt to Equity	-14.9%	9.4%	30.1%	37.3%	43.2%
EBITDA Interest Cover (x)	(0.6)	(1.1)	(13.2)	5.5	5.0
BVPS (SAR)	17.93	17.91	18.13	19.51	21.03

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	**659**	**189**	**364**	**1,554**	**1,757**
Depreciation & Amortisation	108	97	152	334	611
Decrease in Working Capital	(310)	415	(3)	(309)	(1,445)
Other Operating Cashflow	(319)	(394)	(168)	(279)	(351)
Cashflow from Operations	**138**	**307**	**345**	**1,300**	**572**
Capital Expenditure	(7,166)	(4,144)	(3,806)	(3,160)	(2,379)
New Investments	7,576	(256)	27	-	-
Others	(1,136)	(1,209)	(836)	-	-
Cashflow from investing activities	**(726)**	**(5,609)**	**(4,614)**	**(3,160)**	**(2,379)**
Net Operating Cashflow	**(588)**	**(5,302)**	**(4,269)**	**(1,860)**	**(1,807)**
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(7,190)	803	245	-	-
Cashflow from financing activities	**773**	**5,537**	**3,112**	**3,894**	**3,564**
Total cash generated	185	236	(1,157)	2,034	1,758
Cash at beginning of period	11,335	11,519	11,755	10,598	12,632
Implied cash at end of year	**11,520**	**11,755**	**10,598**	**12,632**	**14,390**

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	1129.4%	586.5%	261.3%	70.6%	47.3%

Source: Company data, Al Rajhi Capital

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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