

# Saudi Arabian Mining Co.

Mining –Industrial

MAADEN AB: Saudi Arabia

10 August 2011

الراجحي المالية  
Al Rajhi Capital



**US\$6.04bn** Market cap  
**33.4%** Free float  
**US\$15.88mn** Avg. daily volume

Target price **31.00** 28.36% over current  
Consensus price **30.60** 26.71% over current  
Current price **24.15** as at 9/8/2011

Research Department  
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Underweight

Neutral

**Overweight**

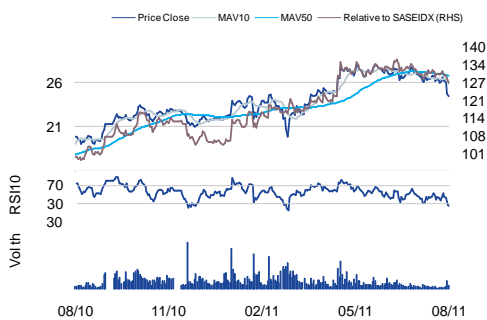
## Key themes

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 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. Good and transparent disclosures will add premium to its share price, and it's a good buy for the long term.

## Performance

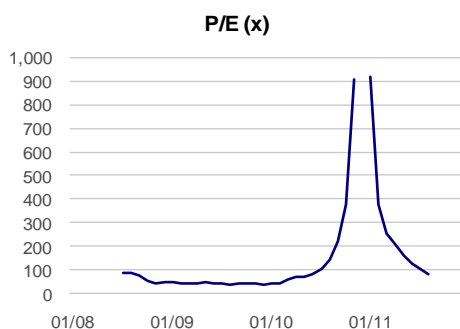


## Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	707	1,732	5,628	6,281
Revenue Growth	11.4%	145.1%	225.0%	11.6%
EBITDA (mn)	185	730	3,219	4,191
EBITDA Growth	1.4%	294.4%	340.7%	30.2%
EPS	(0.01)	0.43	2.51	2.48
EPS Growth	-103.2%		477.8%	-1.0%

Source: Company data, Al Rajhi Capital

## Valuation



Source: Company data, Al Rajhi Capital

# Ma'aden Attractive after recent fall

*Driven by strong rally in gold prices, Ma'aden's results showed an outstanding y-o-y growth in both sales and operating profit of 24% and 84% respectively; above our expectations of 16% and 11%. The recent rally in gold prices (up 21% this year) coupled with relatively low Zakat provision fed through to an exceptional increase of 100% in net profit. Nevertheless, we believe that low provision on Zakat is unsustainable and set to rise as the company still carries SAR9.7bn in cash and short term investments. That said, we feel Ma'aden has again become attractive at the current level as the share price recently took a beating in line with the whole market due to US related negative sentiments. We therefore upgrade our rating to Overweight while maintaining our target price at SAR31.0.*

**Operating results at all time high due to gold prices:** Ma'aden again reported all time high revenue and operating profit of SAR246mn and SAR72mn. This increase was supported by surging gold prices, which touched an average of US\$1,504 an ounce, above our expectation of US\$1,475 an ounce. The company has also managed to sell some by-products like low grade bauxite and zinc worth SAR8.1mn and SAR21.1mn respectively, translating into an increased gross and net margins of 65% and 25% respectively in Q2.

**Lower zakat boosted bottom-line in Q2:** Another major reason for a big jump in net profit has been lower zakat expense (SAR10mn) in H12011 compared to SAR66mn during H12010. However, we do not think this low zakat will be maintained as the company still carries around SAR10bn in cash which warrants higher zakat; and therefore we have raised our zakat estimates for the second half. We now expect a Zakat of SAR102mn for the rest of the year as against SAR141mn paid by the company during H22010.

**Ma'aden sending first DAP shipment to India:** Ma'aden announced this week its arrangements to send first shipment of 21,000 tons of DAP to India. As per industry sources, Ma'aden signed a contract with an Indian based fertilisers company to supply 2, 00,000 tonnes of DAP between August to March 2012. The price of the contract is reported to be US\$612 a tonne, including freight costs. This translates into SAR450mn worth of order book and roughly 6% of the installed capacities of Ma'aden's DAP. With Tadawul announcement, it is clear that Ma'aden's DAP commercial production has commenced.

**Future outlook and conclusion:** According to Reuters, central banks in the developing countries have added more than US\$10bn of gold to their reserves this year. In our view, global uncertainty continues to drive gold demand as these banks seek to diversify their exposure from bonds and currencies. Gold price rally directly fed through to a noticeable increase in revenues and profits of Ma'aden. With regard to phosphate, DAP prices are trading in the range of US\$680-US\$710 an ounce and is up 30% YTD definitely benefitting Ma'aden. On the other hand, the financing arrangement for second phase of alumina refinery has started, suggesting that the project is on track. We remain positive on the company's soon to be diversified business and positive long term story. Hence, we upgrade our rating to overweight as the share price recently fell to an attractive level. Our target price remains at SAR31.0.

Disclosures Please refer to the important disclosures at the back of this report.

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### 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 phosphate and aluminium businesses in 2011 and 2013 respectively.

### Share information

Market cap (SAR/US\$) 22.66bn / 6.04bn  
52-week range 19.10 - 28.00  
Daily avg volume (US\$) 15.88mn  
Shares outstanding 925.0mn  
Free float (est) 33.4%

Performance: 1M 3M 12M  
Absolute -9.3% -8.6% 22.5%  
Relative to index -1.2% -1% 26.6%

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	1,732	5,628	6,281
EBITDA (SARmn)	185	730	3,219	4,191
Net Profit (SARmn)	(13)	423	2,319	2,296
EPS (SAR)	(0.01)	0.43	2.51	2.48
DPS (SAR)	-	-	-	-
EPS Growth	-103.2%	na	477.8%	-1.0%
EV/EBITDA (x)	122.4	31.0	7.0	5.4
P/E (x)	na	56.5	9.8	9.9
P/B (x)	1.4	1.3	1.2	1.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

**Figure 1. Ma'aden: Q2 & Q3 results (actual and our estimates)**

(SAR) mn	2010Q2A	2011Q2E	2011Q2A	YOY % chg.	2010Q3A	2011Q3E	YOY % chg.
<b>Revenues</b>	<b>197.3</b>	<b>228.9</b>	<b>245.6</b>	<b>24.5%</b>	<b>159.4</b>	<b>291.1</b>	<b>82.6%</b>
<b>Avg. gold price (US\$ per ounce)</b>	<b>\$1,198</b>	<b>\$1,475</b>	<b>\$1,504</b>	<b>25.5%</b>	<b>\$1,233</b>	<b>\$1,645</b>	<b>33.4%</b>
<b>EBITDA</b>	<b>60.1</b>	<b>67.3</b>	<b>96.3</b>	<b>60.2%</b>	<b>19.2</b>	<b>113.8</b>	<b>492.1%</b>
EBITDA margin (%)	30.4%	29.4%	39.2%		12.1%	39.1%	
<b>Operating profit</b>	<b>39.2</b>	<b>43.4</b>	<b>72.3</b>	<b>84.3%</b>	<b>(2.5)</b>	<b>85.3</b>	
Operating profit margin (%)	19.9%	19.0%	29.4%		-1.5%	29.3%	
<b>Net Income</b>	<b>31.2</b>	<b>38.7</b>	<b>62.5</b>	<b>100.2%</b>	<b>(0.2)</b>	<b>72.4</b>	
Capex	611.1	1,404.2	1,404.2	129.8%	731.1	984.5	34.7%
<b>% of sales</b>	<b>310%</b>	<b>613%</b>	<b>572%</b>		<b>459%</b>	<b>338%</b>	
Net Debt (mn)	141.4	4,967.8	5,014.8	3446.1%	836.1	5,581.7	567.6%
Net Debt/EBITDA	0.6	18.4	13.0		10.9	12.3	

Source: Company data, Al Rajhi Capital

Profitability has been mostly driven by rally in gold prices

Net Debt/ EBITDA will remain high till the new business comes into full steam



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
<b>Revenue</b>	<b>634</b>	<b>707</b>	<b>1,732</b>	<b>5,628</b>	<b>6,281</b>
Cost of Goods Sold	(306)	(312)	(641)	(2,015)	(2,188)
<b>Gross Profit</b>	<b>328</b>	<b>394</b>	<b>1,090</b>	<b>3,613</b>	<b>4,093</b>
Government Charges					
S.G. & A. Costs	(253)	(304)	(466)	(599)	(610)
<b>Operating EBIT</b>	<b>75</b>	<b>90</b>	<b>625</b>	<b>3,014</b>	<b>3,483</b>
Cash Operating Costs	(452)	(521)	(1,001)	(2,410)	(2,090)
EBITDA	183	185	730	3,219	4,191
Depreciation and Amortisation	(108)	(96)	(106)	(205)	(708)
<b>Operating Profit</b>	<b>75</b>	<b>90</b>	<b>625</b>	<b>3,014</b>	<b>3,483</b>
Net financing income/(costs)	314	171	(8)	(396)	(526)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	302	1	(3)	-	-
<b>Net Profit before Taxes</b>	<b>659</b>	<b>189</b>	<b>533</b>	<b>2,531</b>	<b>2,870</b>
Taxes	(269)	(207)	(111)	(212)	(574)
Minority Interests	5	5	1	-	-
<b>Net profit available to shareholders</b>	<b>395</b>	<b>(13)</b>	<b>423</b>	<b>2,319</b>	<b>2,296</b>
Dividends	-	-	-	-	-
Transfer to Capital Reserve					
	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Adjusted Shares Out (mn)	925.0	925.0	925.0	925.0	925.0
CFPS (SAR)	0.538	0.084	0.547	2.728	3.248
EPS (SAR)	0.427	(0.014)	0.434	2.507	2.482
DPS (SAR)	0	0	0	0	0
<b>Growth</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Revenue Growth	37.9%	11.4%	145.1%	225.0%	11.6%
Gross Profit Growth	44.8%	20.1%	176.7%	231.4%	13.3%
EBITDA Growth	184.5%	1.4%	294.4%	340.7%	30.2%
Operating Profit Growth		19.4%	596.7%	382.6%	15.5%
Net Profit Growth	173.5%	-103.2%		477.8%	-1.0%
EPS Growth	95.9%	-103.2%		477.8%	-1.0%
<b>Margins</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Gross profit margin	51.7%	55.8%	63.0%	64.2%	65.2%
EBITDA margin	28.8%	26.2%	42.2%	57.2%	66.7%
Operating Margin	11.8%	12.7%	36.1%	53.6%	55.4%
Pretax profit margin	103.8%	26.8%	30.8%	45.0%	45.7%
Net profit margin	62.2%	-1.8%	23.2%	41.2%	36.6%
<b>Other Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
ROCE	0.3%	0.3%	1.8%	7.7%	7.9%
ROIC	0.7%	-0.1%	2.3%	11.1%	9.5%
ROE	2.4%	-0.1%	2.4%	12.8%	11.2%
Effective Tax Rate	40.8%	109.5%	24.9%	8.4%	20.0%
Capex/Sales	1129.4%	653.0%	246.1%	67.9%	46.6%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation Measures</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
P/E (x)	57.4	na	56.5	9.8	9.9
P/CF (x)	45.5	292.4	44.8	9.0	7.5
P/B (x)	1.4	1.4	1.3	1.2	1.0
EV/Sales (x)	35.7	32.1	13.1	4.0	3.6
EV/EBITDA (x)	124.1	122.4	31.0	7.0	5.4
EV/EBIT (x)	301.9	252.8	36.3	7.5	6.5
EV/IC (x)	1.5	1.1	0.9	0.8	0.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Gross debt level will continue to remain high as the two new businesses gets developed

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

<b>Balance Sheet (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Cash and Cash Equivalents	11,519	11,706	9,966	10,262	10,975
Current Receivables	53	30	488	1,468	2,826
Inventories	206	304	1,627	2,349	3,203
Other current assets	383	389	525	525	525
<b>Total Current Assets</b>	<b>12,131</b>	<b>12,429</b>	<b>12,606</b>	<b>14,603</b>	<b>17,530</b>
Fixed Assets	14,144	20,195	24,363	27,980	30,199
Investments	-	-	-	-	-
Goodwill	-	-	-	-	-
Other Intangible Assets	2,936	2,008	3,272	3,270	3,270
Total Other Assets	19	86	94	94	94
<b>Total Non-current Assets</b>	<b>17,098</b>	<b>22,289</b>	<b>27,729</b>	<b>31,344</b>	<b>33,563</b>
<b>Total Assets</b>	<b>29,230</b>	<b>34,718</b>	<b>40,335</b>	<b>45,947</b>	<b>51,093</b>
Short Term Debt	-	-	381	381	381
Accounts Payable	621	768	2,848	2,994	3,329
Accrued Expenses	969	1,267	2,034	2,701	2,826
Dividends Payable	-	-	-	-	-
Other Current Liabilities	45	54	92	92	92
<b>Total Current Liabilities</b>	<b>1,906</b>	<b>2,297</b>	<b>5,571</b>	<b>6,384</b>	<b>6,845</b>
Long-Term Debt	8,783	13,517	14,986	17,468	19,857
Other LT Payables	-	1	2	-	-
Provisions	176	196	202	202	202
<b>Total Non-current Liabilities</b>	<b>8,959</b>	<b>13,714</b>	<b>15,190</b>	<b>17,669</b>	<b>20,059</b>
Minority interests	1,782	2,134	2,600	2,600	2,600
Paid-up share capital	9,250	9,250	9,250	9,250	9,250
Total Reserves	7,332	7,323	7,724	10,043	12,339
<b>Total Shareholders' Equity</b>	<b>16,582</b>	<b>16,573</b>	<b>16,974</b>	<b>19,293</b>	<b>21,589</b>
<b>Total Equity</b>	<b>18,365</b>	<b>18,708</b>	<b>19,574</b>	<b>21,893</b>	<b>24,189</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>29,230</b>	<b>34,718</b>	<b>40,335</b>	<b>45,947</b>	<b>51,093</b>
<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Net Debt (SARmn)	(2,736)	1,811	5,401	7,587	9,263
Net Debt/EBITDA (x)	(14.98)	9.78	7.39	2.36	2.21
Net Debt to Equity	-14.9%	9.7%	27.6%	34.7%	38.3%
EBITDA Interest Cover (x)	(0.6)	(1.1)	94.1	8.1	8.0
BVPS (SAR)	17.93	17.92	18.35	20.86	23.34
<b>Cashflow Statement (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
<b>Net Income before Tax &amp; Minority Interest</b>	<b>659</b>	<b>189</b>	<b>533</b>	<b>2,531</b>	<b>2,870</b>
Depreciation & Amortisation	108	96	106	205	708
Decrease in Working Capital	(310)	(66)	870	(888)	(1,753)
Other Operating Cashflow	(319)	(100)	(75)	(212)	(574)
<b>Cashflow from Operations</b>	<b>138</b>	<b>118</b>	<b>1,434</b>	<b>1,636</b>	<b>1,251</b>
Capital Expenditure	(7,166)	(4,614)	(4,262)	(3,822)	(2,927)
New Investments	7,576	(446)	2,242	-	-
Others	(1,136)	(603)	(1,275)	-	-
<b>Cashflow from investing activities</b>	<b>(726)</b>	<b>(5,662)</b>	<b>(3,295)</b>	<b>(3,822)</b>	<b>(2,927)</b>
<b>Net Operating Cashflow</b>	<b>(588)</b>	<b>(5,544)</b>	<b>(1,861)</b>	<b>(2,186)</b>	<b>(1,676)</b>
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(7,190)	973	(1,709)	-	-
<b>Cashflow from financing activities</b>	<b>773</b>	<b>5,707</b>	<b>141</b>	<b>2,482</b>	<b>2,389</b>
Total cash generated	185	163	(1,720)	296	713
Cash at beginning of period	11,335	11,519	11,706	9,966	10,262
<b>Implied cash at end of year</b>	<b>11,520</b>	<b>11,682</b>	<b>9,986</b>	<b>10,262</b>	<b>10,975</b>
<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Capex/Sales	1129.4%	653.0%	246.1%	67.9%	46.6%

Source: Company data, Al Rajhi Capital

## Disclaimer and additional disclosures for Equity Research

### Disclaimer

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#### 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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