



US\$10.83bn Market cap
33% Free float
US\$69.00mn Avg. daily volume

Target price 41.1 26.0% over current
Consensus price 36.7 5.5% over current
Current price 32.5 as at 22/1/2015

Existing rating

Underweight

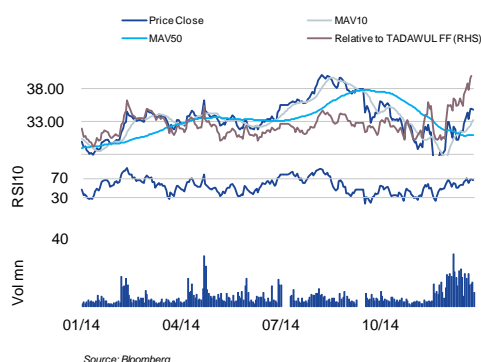
Neutral

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

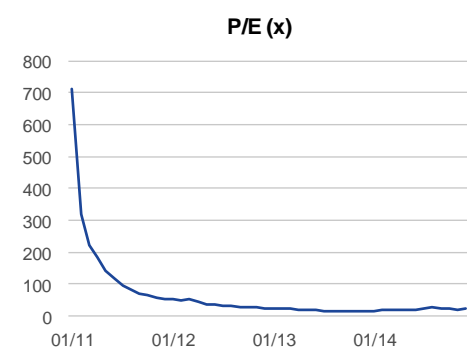


Earnings

Period End (SAR)	12/13A	12/14E	12/15E	12/16E
Revenue (mn)	6,047	9,673	10,850	12,335
Revenue Growth	8.4%	60.0%	12.2%	13.7%
EBITDA (mn)	1,772	2,950	4,594	5,277
EBITDA Growth	-35.4%	66.5%	55.7%	14.9%
EPS	1.82	1.36	2.78	3.21
EPS Growth	54.2%	-25.2%	104.0%	15.8%

Source: Company data, Al Rajhi Capital

Valuation



Ma'aden Q4: Healthy operations boost profits

Ma'aden reported operating profit of SAR610.8mn (up 12.8x y-o-y), closely matching our SAR618.7mn estimate. However, higher-than-expected financial expenses coupled with lower income from affiliates resulted in a net profit of SAR376mn, missing our forecast of SAR497mn. We had expected profit to rise sharply on the back of a sustained improvement in operations of the gold and phosphate businesses. The phosphate business has been gaining traction over the past few quarters, which we believe is a strong positive for Ma'aden. Further, the impending commencement of commercial production of its aluminum rolling mill will offer an earnings upside going forward. We believe Ma'aden is a long-term value play. We reiterate our Overweight rating on the stock with a target price of SAR41.1 a share.

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

- Yet to report revenues:** Ma'aden has not published its Q4 top-line number yet. In the wake of at-par operating performance, we expect revenues to come close to our expectation of SAR2.96bn (consensus: SAR3.18bn).
- In line operating profit:** Ma'aden's operating profit of SAR610.8mn (+12.8x y-o-y) came close to our estimate of SAR618.7mn. We had expected utilization rates to rise y-o-y as phosphate operations gained foothold and demand remained strong due to the ongoing winter agriculture season in Asia. Further, the initiation of commercial production of Ma'aden's aluminum smelter (in Q3 2014) may have contributed to profit growth.
- Net profit misses estimate:** Despite the robust operating performance, net income of SAR376mn came below both our (SAR497mn) and consensus (SAR546.5mn) forecasts. We believe a sharper-than-expected rise in financial and non-operating expenses and/or lower-than-anticipated income from affiliates (viz. SAMAPCO) may have resulted in the miss.

Figure 1 Ma'aden: Summary of Q4 2014 results

SAR (mn)	Q4 2013	Q3 2014	Q4 2014	y-o-y change	q-o-q change	ARC est
Revenues	1,851.2	3,151.9	NA	-	-	2,962.1
EBITDA	476.6	1,046.9	NA	-	-	952.4
EBITDA margin	25.7%	33.2%	-	-	-	32.2%
Operating Profit	44.4	693.7	610.8	1274.5%	-11.9%	618.7
Net Income	(29.2)	485.4	376.0	NM	-22.5%	497.0

Source: Company data, Al Rajhi Capital



Conclusion: Ma'aden's integrated phosphate fertilizer business, which contributes over 50% to the company's revenues, has been operating at healthy rates over the past few quarters. Amid growing population and a focus on food security, fertilizer demand remains strong, supporting the prices. Given the scenario, Ma'aden is developing another fully-integrated phosphate plant at Wa'ad Al Shamal, which it expects to come on stream by late 2016. Additionally, Ma'aden has begun initial operations at its aluminum rolling unit in Q2 2014. We expect the plant to commence commercial production in H1 2015. These businesses will bolster Ma'aden's earnings over the long-term.

Ma'aden recently increased its share capital from SAR9.25bn to SAR11.68bn through a rights issue offering. This will contain the otherwise ballooning leverage ratio, which had climbed due to its debt uptake to fund its phosphate and aluminum projects. We believe Ma'aden is a long-term value play. Consequently, we reiterate our Overweight rating on the stock with a target price of SAR41.1 a share.

Major developments

No dividends for 2014

Ma'aden's board of directors recommended not to pay any dividends for FY2014 as the company is still in the expansion phase. With Ma'aden investing ~SAR27bn in the Wa'ad Al Shamal project, we don't expect any dividends in FY2015 as well.

Developments at its alumina refinery

Ma'aden recently announced beginning of start-up operations at its alumina refinery. The company said that the unit is in the ramp-up stage and production will rise gradually to reach designed capacity of 1.8mn tons of alumina per year. However, the company hasn't announced any timeline regarding the commencement of commercial production.

JV with Barrick Gold Corp

Ma'aden announced that it has entered into an agreement with Barrick Gold Corporation to form a 50:50 JV (known as Maaden Barrick Copper Co.) that will acquire, develop and operate the Jabal Sayid copper project located around 100 km from Medina. The JV company has acquired the assets related to the project for which Ma'aden has paid ~US\$216mn for its 50% share. The company expects production to begin in late 2015.



Disclaimer and additional disclosures for Equity Research

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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 10% 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 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% 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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