Saudi Arabian Mining Co. (Ma'aden) (1211.SE)

Rating	**OUTPERFORM***
Price (28 Oct 08, SAR)	13.05
Target Price (SAR)	36.57[1]
Market cap. (SRls m)	12,071.25
Enterprise value (SRls m)	8,220.7

**Stock ratings are relative to the relevant country index.*
[1]Target price is for 12 months.

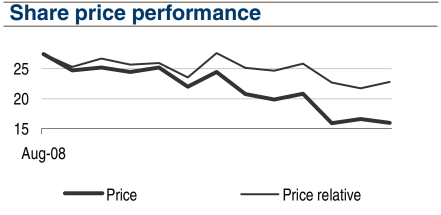
Research Analysts
Zeid Massad
+971 4 362 0187
zeid.massad@credit-suisse.com

COMPANY UPDATE

Flush with cash, phosphate project on track

- **Event:** Ma'aden reported its first results in 2008 after going public in July of 2008. Credit Suisse global agricultural team updates its global short-/mid-term phosphate outlook.
- **Q3 2008 in line:** reported SAR 64m vs. our estimate of SAR70m, a (130% increase YOY). No production figures were posted yet, but the increase from last year is probably attributable to (1) higher realized gold prices after starting out 2008 with a clean commodity hedge book and (2) receiving over SAR10bln of IPO and privatisation proceeds in Q3, and earning investment income on idle cash.
- **9-month bottom line dwarfed by one-time privatisation costs:** While gross profits were up 234% YOY, Ma'aden reported an operating loss of SAR37m vs our estimate of SAR198m profit, due to expensing Ma'aden's IPO/privatisation costs.
- **Flush with cash, phosphate project finance secured:** Ma'aden has already secured over US$3.8bln of project financing to fund the debt component of its US$5.5 phosphate project. Q3 2008 balance sheet headlines indicate SAR13bln of current assets after the company receives IPO proceeds. As per the company's latest statement, the project and supporting railway is still on track for a late 2010 launch of the world's upcoming largest and lowest cost fully integrated rock to fertiliser Diammonium phosphate (DAP) production facility.
- **We update our fertiliser forecasts; effect on Ma'aden's estimates:** We revise Credit Suisse's short- to mid-term phosphate fertiliser outlook downwards. This has no bearing on Ma'aden's valuation, as our assumptions for production starting in 2011 are in line with current long-term assumptions.
- **Valuation:** We maintain our Outperform recommendation and our SAR36.57/sh price target.

Share price performance



The price relative chart measures performance against the MSCI Arabian markets index - GCC CI index which closed at 523.29 on 24/10/08
On 24/10/08 the spot exchange rate was SAR4.73/Eu 1. - Eu 0.79/US$1

Performance Over	1M	3M	12M
Absolute (%)	-34.4	-57.2	—
Relative (%)	-15.6	-31.2	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	12/10E
Revenue (SAR m)	244.1	635.1	710.3	724.6
EBITDA (SAR m)	6.90	608.09	551.43	538.20
Net Income (SAR m)	-26.5	268.3	211.7	-286.4
CS adj. EPS (SAR)	-0.03	0.29	0.23	-0.31
ROIC (%)	—	—	—	—
P/E (adj., x)	-454.73	45.00	57.01	-42.15
P/E rel. (%)	—	—	—	—
EV/EBITDA	1,754.5	18.0	36.9	53.2

Dividend (2007A, SAR)	—	IC (12/08E, SAR m)	—
Dividend yield (%)	—	EV/IC	—
Net debt (12/08E, SAR m)	-3,850.5	Current WACC	9.0
Net debt/equity (12/08E, %)	-25.6	Free float (%)	50.0
BV/share (12/08E, SAR)	16.3	Number of shares (m)	925.00

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS.

Phosphorus: Visibility Is Low, but the Evidence Is Bullish

Nutrients are commodities, and for the most part, when demand falls, prices fall with them. But as we have argued for more than a year, the market structure in phosphorus is far better than many investors, and some in the industry, tend to believe. Among all the nutrients, we think the risk/reward balance is strongest in phosphorus right now, despite lower-than-expected near-term visibility.

In late August, it became evident that Brazil's distribution system was backing up—with both phosphorus and potash. Producers across the globe knew it, but didn't worry much about it (because it was a slow season, and most indicators were positive). Demand from India was robust, and, by most accounts, India's pipeline is still not full. But the credit crunch, coupled with a late planting season for winter wheat in the US, meant that the pipeline would not (and did not) clear in October, as most had assured themselves (and each other) that it would.

US farmers saw an opportunity, and like farmers in Parana, Brazil, they are exploiting it exactly as they should. By delaying purchases, they hope to break the supply discipline in phosphorus that some big players have sometime suggested isn't as strong as it should be.

So will it work? Will a "buyers strike" break the will of phosphorus producers who tend to like to keep their facilities running? The evidence says that both sides will win—prices will go down, but profits should still improve, thanks to sharply lower costs. Mosaic's promise of up to a 1mm-ton production cut should keep the US market fairly tight. PotashCorp hasn't set a number, but says it remains fully committed to supply discipline (PotashCorp practically invented supply discipline in fertilizer). But the North American players are only about 27% of global phosphorus, and as PotashCorp likes to remind investors, there are a lot more phosphorus players than potash producers.

However, outside North America the situation is better than it appears. Many of those producers (like China) have limited reserves (China's are estimated at 30 years). So while there are many, they aren't inclined to blow through their reserves quickly, and certainly not at low prices (not when ag self-sufficiency is a goal). Will China run for cash and become a big exporter as new capacity comes on line? Not unless they want to be a net buyer in two decades (that wouldn't square well with their self-sufficiency goals).

Which brings us to OCP. Morocco has some of the world's best and biggest rock reserves. Will OCP run for cash and flood the market? In the past, it would have been tough to guess, but recently OCP has announced production cutbacks to balance supply and demand, and appears to be making good on those promises. While there isn't a track record there, producer behavior clearly suggests that big players are going to give supply discipline a try. While our price forecasts assume a considerable drop in rock prices, the potential for producers to outperform these forecasts is higher, we believe, than in the other nutrients. We remain fundamentally bullish on phosphorus; our targets reflect the lack of track record and visibility, at a time when investor confidence is not high.

Does supply discipline carry political risk? Will these producers be tagged as bad guys? If global food supply dwindles, we would expect some political pressure, but remember that the increase in fertilizer margins are the reason we have so many capacity expansions—clamp down on fertilizer profits, and you can expect a decline in fertilizer reinvestment that, on a global basis, we can't afford.

MAP & DAP: Costs Down, Profits Down Less

Supply discipline, as we see it, is better than ever in phosphorus. But sulfur prices are down 70% in for the fourth quarter on a contract basis (and headed the same direction in

North America). Rock prices have peaked, and are certainly headed lower. *But the notion that rock prices are headed to cash cost is mistaken, we believe*—neither the North American nor the Moroccan producers can justify their expansion plans at low rock prices. But with producers costs coming down (particularly via sulfur, but also in rock and energy), both sides can get what they want—customers get lower prices, and producers can get relatively strong margins. That balance may be upset later if input costs rise again, but for now DAP looks like a win-win situation (for the big, low cost producers, at least).

Certainly, lower sulfur costs are going to benefit producers; but customers may push for lower prices too. The big driver remains phosphate rock, multiples of which are required per tonne of DAP compared with sulfur or ammonia. So, just as long as phosphate rock producers stay disciplined (read, mimic their potash cousins) and allow rock prices to drop, but not to cash cost level, then there will still be plenty of margin in the chain.

"Let's just skip a year?"

The issue of demand destruction is much more complex in phosphorus. Unlike nitrogen, the need for and optimal application rates for phosphorus aren't as well understood in many emerging economies. And while we hear lots of stories about phosphates polluting rivers and streams (algae blooms like the one China saw just ahead of the Olympics are often caused by phosphate run-off), the reality is that phosphorus stays in the soil better than nitrogen.

Thus, where soil tests indicate that there is enough, it is likely that some farmers will cut back. But with the high cost of phosphorus, it is unlikely that too many farmers have been overapplying (soil testing helps avoid that). In other regions, where soil testing is less widespread, excess phosphorus is generally even less likely. Still, with prices down, farmers may well decide to sacrifice some yield and quality this year to cut costs.

Then there is the feed issue. Defluorinated phosphate (DFP) is a staple of chicken and pig feed in commercial production, and the financial struggle of US chicken farmers has been well documented. On the flip side, China has made a major push for more pigs, to counter the pork price inflation they experienced in 2008. Add to that the threat of global recession, and demand for grain and DFP feed for protein production may well be depressed in 2009 (10/22/2008, Impact of Credit Crises on Protein Consumption, R. Moskow).

So where does all this end up? Demand will certainly be down in Q4/08, and probably through the first part of 2009. But costs will be down too, fairly dramatically (sulfur, rock and transportation). For the highest cost producers, who tend to set the market price, this is very good news (they couldn't afford to see prices fall without costs coming down). For farmers feeling the pinch of low grain prices, the news is welcome relief. And for the lower cost producers (Maaden, Mosaic, etc.), the news is just fine…

We consider our phosphate forecasts to be conservative, relative to our other forecasts, particularly in light of the evidence of supply discipline. Our caution reflects the lack of a track record. Moreover, integrated producer margins remain robust.

Exhibit 1: Phosphate Price Forecast

	2006A	2007A	2008E	2009E		2010E	
Product				**Old**	**New**	**Old**	**New**
Phosphates							
Central Florida DAP $/st	$225	$364	$1,163	$1,313	$600	$1,298	$630
U.S. Gulf Export ($/mt)	261	419	1,271	1,421	660	1,406	690
North Africa Phosphate Rock ($	44	59	338	480	200	480	200
Sulfur							
Tampa Sulfur ($/LT)	$68	$72	$406	$535	$175	$525	$164

Source: Credit Suisse estimates, Fertecon, Green Markets

Companies Mentioned *(Price as of 27 Oct 08)*
Saudi Arabian Mining Co. (1211.SE, SRIsr16.00, OUTPERFORM, TP SRIsr36.57)

Disclosure Appendix

Important Global Disclosures

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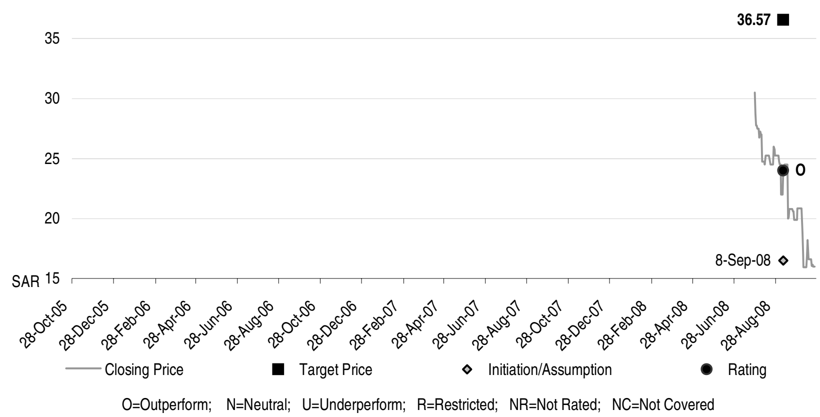
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for 1211.SE

1211.SE Date	Closing Price (SAR)	Target Price (SAR)	Rating	Initiation/ Assumption
08-Sep-08	24	36.57	O	X



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Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

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**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Underperform/Sell*	13%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (1211.SE)

Method: We used a DCF with a WACC of 9% over the expect life for Ma'aden's projects.

Risks: 1) Commodity risk: decline in commodities could affect cash-flows and valuations. 2) Project cost escalation risk: aluminum project runs this risk as building costs have not been locked-in, as is the case for the phosphate project. 3) Corporate governance/government risk: the Saudi government holding a 50% stake has the potential to affect Ma'aden's operations. 4) China policy reversal: if China removes its current tariffs on fertilizer exports, prices for DAP could fall, potentially affecting Ma'aden's cashflows and valuations.

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CREDIT SUISSE SECURITIES (Europe) Limited
Europe: +44 (20) 7888-8888