

Saudi Arabian Mining Co-Maaden

Mining – Industrial

MAADEN AB: Saudi Arabia

08 December 2016

الراجحي المالية
Al Rajhi Capital



US\$12.41bn

Market cap

33%

Free float

US\$11.34mn

Avg. daily volume

Target price

40.00

0.45% over current

Current price

39.85

as at 7/12/2016

Research Department

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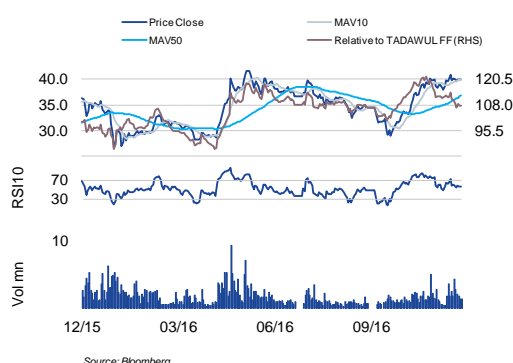
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/14A	12/15A	12/16E	12/17E
Revenue (mn)	10,792	10,956	9,719	13,450
Revenue Growth	78.5%	1.5%	-11.3%	38.4%
EBITDA (mn)	3,559	3,588	3,523	4,669
EBITDA Growth	114.7%	0.8%	-1.8%	32.5%
EPS	1.39	0.56	0.46	0.98
EPS Growth	-60.0%	-59.5%	-17.2%	111.5%

Source: Company data, Al Rajhi Capital

Saudi Arabian Mining Co-Maaden

Key NTP beneficiary

- The recent rally in commodity prices and the announcement of the third phosphate fertilizer project have driven up Ma'aden's share price above our previous target price of SAR38/share. The planned capacity of the fertilizer project is significant, at 50% of Ma'aden's existing phosphate capacity.
- Driven by Govt.'s National Transformation Plan (NTP), investment theme in the Kingdom is shifting to industrials sector as the Govt. plans to triple the contribution of mining industry to national wealth (as measured by GDP) by 2030. We believe Ma'aden is the one of the best plays on the NTP theme.
- We revise TP to SAR40/share (Neutral rating), implying EV/EBITDA (2017) of c21.2x. We employ a mix of relative and DCF valuation methodologies, and use an exit EV/EBITDA multiple of 15.7x for terminal value (peer multiples adjusted for tax by 1.6 times and weighed based on gross margin contribution by business segments).

Revising TP upwards: Commodity prices have risen steeply in the past few weeks mainly due to expectation of higher infrastructure spending by the US and cut in coal supply in China. Aluminium price was up 4% while Copper was up 19% in the last eight weeks. Mining stocks on an average have surged ~4% (Bloomberg World Mining Index). Ma'aden also has benefited from rally, with the stock now at SAR39.85/share, above our previous TP (SAR38/share). We revise our TP higher to SAR40/share using a mix of DCF and relative valuations post the rally in commodity prices. We have a Neutral rating on the stock. Further upside may be possible in case of a sustained increase in commodity prices or announcements of newer projects (see Figure 2 for sensitivity analysis). Our TP of 40/share implies a forward EV/EBITDA of c21.2x.

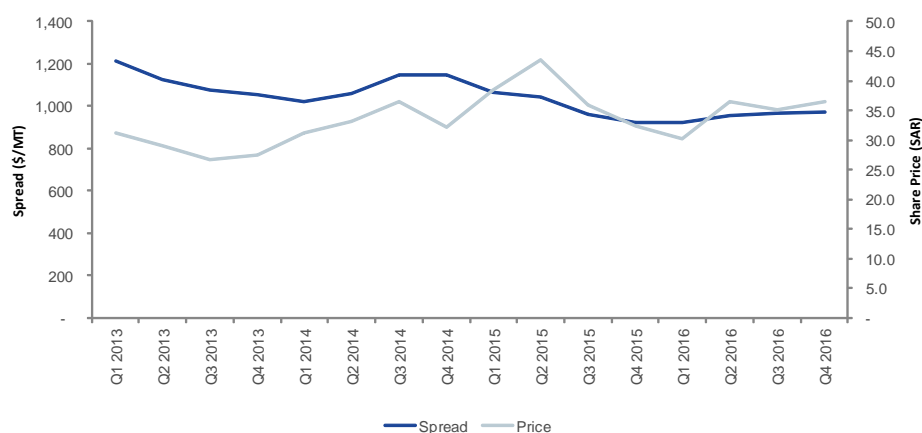
Ma'aden plans to ramp up phosphate production capacity by 50%: Ma'aden announced the development of its third phosphate fertilizer project on November 30, 2016. The estimated cost of the project is around SAR24bn with an annual production capacity of 3mn tonnes. The project will increase the company's phosphate fertilizer production by 50% (from 6mn tonnes currently) once it reaches full capacity by 2024. We observe that the global phosphate fertilizer market is currently oversupplied with massive planned capacity expansions of 7mn tonnes of P₂O₅ (out of which Ma'aden's WAS contributes 3mn tonnes) during 2015-2020 (source: IFA). Price of Phosphate fertilizer has been under pressure in 2016 due to the oversupplied market. Further capacity additions over the next few years will keep prices under check unless demand picks up. While the third project is still under feasibility stage and subject to various regulatory approvals, we believe the announcement is in-line with Government's Vision 2030 and NTP announcements. We would not be surprised to see further related announcements/investments.

Arbitrage opportunity has narrowed: Our tracker model which tracks Ma'aden's stock price movement with weighted price spreads (between prices of commodity and key raw materials, unadjusted for production), indicates that the past divergence has closed in, post the recent rally. Thus, unless commodity prices rally further, further upside might be limited. Share price was also supported by more production capacity coming online.

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Figure 1 Ma'aden's share price and weighed product – feedstock spread



Source: Company data, Al Rajhi Capital, Bloomberg

Sensitivity analysis to commodity prices: Given that Ma'aden is a commodity producer, it is exposed to the fluctuation in commodity prices, which can significantly impact the profitability of all its business segments. In our base case, we assume a gradual increase in gold, copper and aluminium prices during the forecasted period. However, we expect prices of phosphate fertilizers (DAP and Ammonia) to remain under pressure over the next couple of years, largely owing to an oversupplied market. While we do not expect any significant change in commodity prices from our base case, we have analyzed the possible impact on Ma'aden's profitability and valuation in case of a 5-10% deviation in commodity prices for from our base case.

Figure 2 Sensitivity analysis to the fluctuation in commodity prices

Commodity prices	Target Price Change (%)	Revenues (SAR 'mn)		EBITDA (SAR 'mn)	
		2016E	2017E	2016E	2017E
-10%	-11.0%	-2.5%	-9.8%	-5.6%	-22.7%
-5%	-5.3%	-1.3%	-4.8%	-2.8%	-11.2%
Base	0.0%	0.0%	0.0%	0.0%	0.0%
5%	4.9%	1.2%	5.0%	2.7%	11.7%
10%	9.4%	2.4%	10.0%	5.5%	23.2%

Source: Company data, Al Rajhi Capital

Key Play on NTP: We remain confident on the long term prospects as the company stands to gain from the support of the Govt. in the Kingdom through its NTP and Vision 2030 plans. Recent comments suggests that the Kingdom plans to triple the contribution of its mining industry to national wealth as measured by GDP by 2030. Near term estimates are likely to fluctuate on commodity prices and production levels. As long as there is no major deviation from scheduled plan of extraction of ores and commodities, we think the estimates fairly price in the current commodity price levels.

Valuation and risks:

We value the company using a mix of relative and DCF valuation methodologies. For terminal valuation, we apply an exit valuation multiple of 15.7x, which we arrive by using weighted average (weights based on business segment weights) of EV/EBITDA of peers (Figure 3). We apply an adjustment factor of 1.6x to the average peer EV/EBITDA multiple to account for the difference in taxes paid by Ma'aden and peers. Key risks to estimates are related to commodity price volatility, change in production schedule, movement in SAIBOR and key input prices (such as revision in fuel, electricity prices etc.).



Figure 3 Relevant peer EV/EBITDA multiple calculation

Ma'aden business segments	2020 Gross margin contribution	2017E Peer EV/EBITDA multiple
Gold	10%	7.5x
Phosphate	59%	11.5x
Aluminum	31%	7.2x
Relevant peer EV/EBITDA multiple (x)		9.8x

Source: Company data, Al Rajhi Capital, Bloomberg

Figure 4 Fair exit EV/EBITDA valuation multiple calculation to be used for terminal value

	2017E Peer EV/EBITDA multiple
Relevant peer EV/EBITDA multiple (x)	9.8x
Adjustment factor for lower WACC, debt and Tax	1.6x
Fair EV/EBITDA EV/EBITDA multiple	15.7x

Source: Company data, Al Rajhi Capital, Bloomberg



Income Statement (SARmn)	12/13A	12/14A	12/15A	12/16E	12/17E
Revenue	6,047	10,792	10,956	9,719	13,450
Cost of Goods Sold	(4,538)	(7,677)	(8,517)	(7,555)	(10,015)
Gross Profit	1,509	3,115	2,439	2,164	3,435
Government Charges					
S.G. & A. Costs	(906)	(1,118)	(1,135)	(878)	(1,161)
Operating EBIT	604	1,997	1,305	1,287	2,275
Cash Operating Costs	(4,390)	(7,233)	(7,368)	(6,196)	(8,782)
EBITDA	1,658	3,559	3,588	3,523	4,669
Depreciation and Amortisation	(1,054)	(1,561)	(2,284)	(2,237)	(2,394)
Operating Profit	604	1,997	1,305	1,287	2,275
Net financing income/(costs)	(159)	(317)	(506)	(700)	(1,047)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	1,427	102	56	49	67
Net Profit Before Taxes	1,872	1,782	854	635	1,295
Taxes	(55)	(44)	(46)	(38)	(32)
Minority Interests	(134)	(379)	(203)	(54)	(114)
Net profit	1,682	1,358	605	543	1,149
Dividends	-	-	-	-	-
Transfer to Capital Reserve					
	12/13A	12/14A	12/15A	12/16E	12/17E
Adjusted Shares Out (mn)	971	987	1,168	1,168	1,168
CFPS (SAR)	5.91	3.37	2.87	2.43	3.13
EPS (SAR)	3.47	1.39	0.56	0.46	0.98
DPS (SAR)	-	-	-	-	-
Growth	12/13A	12/14A	12/15A	12/16E	12/17E
Revenue Growth	8.4%	78.5%	1.5%	-11.3%	38.4%
Gross Profit Growth	-41.8%	106.4%	-21.7%	-11.3%	58.7%
EBITDA Growth	-8.0%	114.7%	0.8%	-1.8%	32.5%
Operating Profit Growth	-65.7%	230.9%	-34.7%	-1.4%	76.8%
Net Profit Growth	54.2%	-19.3%	-55.4%	-10.2%	111.5%
EPS Growth		-60.0%	-59.5%	-17.2%	111.5%
Margins	12/13A	12/14A	12/15A	12/16E	12/17E
Gross profit margin	25.0%	28.9%	22.3%	22.3%	25.5%
EBITDA margin	27.4%	33.0%	32.8%	36.3%	34.7%
Operating Margin	10.0%	18.5%	11.9%	13.2%	16.9%
Pretax profit margin	30.9%	16.5%	7.8%	6.5%	9.6%
Net profit margin	27.8%	12.6%	5.5%	5.6%	8.5%
Other Ratios	12/13A	12/14A	12/15A	12/16E	12/17E
ROCE	1.1%	2.6%	1.6%	1.4%	2.5%
ROIC	1.5%	3.7%	1.9%	1.6%	2.7%
ROE	8.9%	5.8%	2.2%	2.0%	4.0%
Effective Tax Rate	3.0%	2.5%	5.4%	6.0%	2.5%
Capex/Sales	211.4%	104.7%	122.6%	83.5%	27.9%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation Measures	12/13A	12/14A	12/15A	12/16E	12/17E
P/E (x)	11.5	28.7	71.0	85.7	40.5
P/CF (x)	6.7	11.8	13.9	16.4	12.7
P/B (x)	2.0	1.5	1.7	1.7	1.6
EV/Sales (x)	6.3	7.4	8.4	10.8	7.8
EV/EBITDA (x)	23.1	22.6	25.6	29.9	22.3
EV/EBIT (x)	63.4	40.2	70.5	81.8	45.8
EV/IC (x)	1.4	1.3	1.3	1.3	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Balance Sheet (SARmn)	12/13A	12/14A	12/15A	12/16E	12/17E
Cash and Cash Equivalents	4,337	11,974	4,308	8,323	9,282
Current Receivables	763	1,688	2,196	2,050	2,501
Inventories	1,883	2,441	2,942	2,587	3,444
Other current assets	147	836	1,870	1,870	1,870
Total Current Assets	7,130	16,416	10,418	13,931	16,198
Fixed Assets	55,139	65,459	77,085	83,014	84,444
Investments	491	1,295	1,203	1,121	1,072
Goodwill	-	-	-	-	-
Other Intangible Assets	274	410	372	318	252
Total Other Assets	917	961	299	361	420
Total Non-current Assets	56,821	68,125	78,960	84,815	86,188
Total Assets	63,951	84,541	89,378	98,746	102,385
Short Term Debt	1,208	1,585	2,143	1,936	2,204
Accounts Payable	2,051	2,035	1,857	1,656	2,195
Accrued Expenses	3,261	2,558	4,506	3,888	5,515
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	6,611	6,267	8,574	7,547	9,981
Long-Term Debt	31,595	43,377	43,295	53,093	53,035
Other LT Payables	440	959	1,603	1,603	1,603
Provisions	298	422	511	511	511
Total Non-current Liabilities	32,333	44,758	45,409	55,207	55,150
Minority interests	5,248	6,824	8,097	8,150	8,264
Paid-up share capital	9,250	11,685	11,685	11,685	11,685
Total Reserves	10,510	15,008	15,614	16,157	17,306
Total Shareholders' Equity	19,760	26,693	27,298	27,842	28,991
Total Equity	25,007	33,517	35,395	35,992	37,255
Total Liabilities & Shareholders' Equity	63,951	84,541	89,378	98,746	102,385
Ratios	12/13A	12/14A	12/15A	12/16E	12/17E
Net Debt (SARmn)	28,466	32,465	40,231	45,807	45,058
Net Debt/EBITDA (x)	17.17	9.12	11.21	13.00	9.65
Net Debt to Equity	113.8%	96.9%	113.7%	127.3%	120.9%
EBITDA Interest Cover (x)	10.4	11.2	7.1	5.0	4.5
BVPS (SAR)	20.35	27.05	23.36	23.83	24.81
Cashflow Statement (SARmn)	12/13A	12/14A	12/15A	12/16E	12/17E
Net Income before Tax & Minority Interest	1,872	1,782	854	635	1,295
Depreciation & Amortisation	1,054	1,561	2,284	2,237	2,394
Decrease in Working Capital	(1,020)	(259)	(747)	(319)	859
Other Operating Cashflow	(9)	(277)	(123)	53	31
Cashflow from Operations	1,896	2,807	2,268	2,607	4,579
Capital Expenditure	(12,786)	(11,296)	(13,431)	(8,112)	(3,758)
New Investments	3,004	(523)	(376)	-	-
Others	(578)	(2,401)	2,570	(71)	(72)
Cashflow from investing activities	(10,361)	(14,221)	(11,237)	(8,183)	(3,830)
Net Operating Cashflow	(8,465)	(11,413)	(8,969)	(5,576)	749
Dividends paid to ordinary shareholders	-	-	-	-	0
Proceeds from issue of shares	-	5,576	-	-	-
Increase in Loans	6,132	12,159	476	9,591	210
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	494	1,315	827	-	-
Cashflow from financing activities	6,626	19,051	1,304	9,591	210
Total cash generated	(1,839)	7,637	(7,666)	4,014	959
Cash at beginning of period	6,175	4,337	11,974	4,308	8,323
Implied cash at end of year	4,337	11,974	4,308	8,323	9,282
Ratios	12/13A	12/14A	12/15A	12/16E	12/17E
Capex/Sales	211.4%	104.7%	122.6%	83.5%	27.9%

Source: Company data, Al Rajhi Capital



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"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 12 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 12 month time horizon.

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