



US\$9.62bn Market cap
33% Free float
US\$50.88mn Avg. daily volume

Target price **47.8** 22.6% over current
Consensus price **41.4** 6.2% over current
Current price **39.0** as at 26/10/2014

Research Department

ARC Research Team

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Existing rating

Underweight

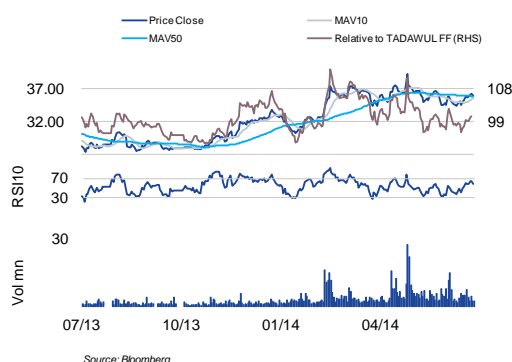
Neutral

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

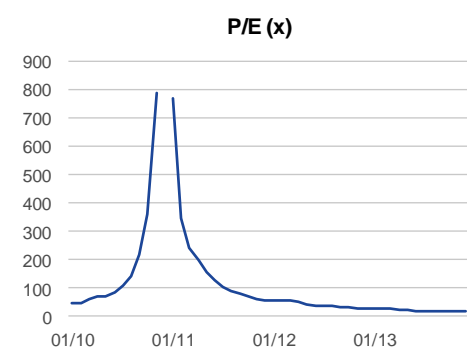


Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	5,577	6,047	8,115	8,809
Revenue Growth	263.8%	8.4%	34.2%	8.6%
EBITDA (mn)	2,745	1,772	2,351	3,779
EBITDA Growth	263.0%	-35.4%	32.7%	60.7%
EPS	1.18	1.82	0.99	1.97
EPS Growth	163.9%	54.2%	-45.5%	98.9%

Source: Company data, Al Rajhi Capital

Valuation



Ma'aden Q3 ahead of expectations

Ma'aden's Q3 net profit of SAR485.4mn (down 66.1% y-o-y) was ahead of both our (SAR414.9mn) and consensus forecasts (SAR434.3mn). Further, operating profit of SAR693.7mn (up 6.2x) beat our estimate by around 15%. The company attributed the rise in operating profit to an increase in revenues, lower technical, and general & administrative expenses. Stronger-than-expected earnings triggered positive sentiments among investors, as the stock gained 5.9% on Sunday. We believe SAMAPCO and the aluminum smelter units, which begun commercial production in July and September respectively, will bolster Ma'aden's net income going forward. Further, the aluminum rolling mill (380ktpa), which we anticipate to come on stream in Q1 2015, will lead to earnings accretion. We believe Ma'aden's diverse projects will add value to the stock over the long-term. We remain Overweight on Ma'aden with a target price of SAR47.8 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

- Revenues yet to be released:** Ma'aden is yet to report its Q3 top-line number. We had estimated revenues of SAR2.66bn for Q3 2014 (consensus: SAR2.85bn).
- Robust operating performance:** Ma'aden's gross profit of SAR936.6mn (up 136.2% y-o-y) came below our estimates of SAR1.18bn, which we believe was on account of higher cost of sales. However, lesser-than-anticipated exploration & technical expenses and general & administrative costs helped Ma'aden post stronger operating profit of SAR693.7mn, beating our forecast of SAR593.6mn.
- Bottom-line surpasses forecast:** Ma'aden reported net income of SAR485.4mn (down 66.1% y-o-y), beating both our and consensus estimates by 17% and 11.8% respectively. The y-o-y drop in the bottom-line was on account of receipt of contractual dues of SAR1.44bn in Q3 last year. The company also attributed the y-o-y drop in profits to higher financial expenses and a share in net losses from its joint ventures.

Figure 1 Ma'aden: Summary of Q3 2014 results

SAR mn	Q3 2013	Q2 2014	Q3 2014	y-o-y change	q-o-q change	ARC est
Revenues	1,608.8	2,386.2	NA	-	-	2,658.6
EBITDA	350.5	790.6	NA	-	-	886.2
EBITDA margin	21.8%	33.1%	-	-	-	33.3%
Operating Profit	96.0	501.5	693.7	622.3%	38.3%	593.6
Net Income	1,431.4	370.8	485.4	-66.1%	30.9%	414.9

Source: Company data, Al Rajhi Capital



- **Valuation and conclusion:** We believe Ma'aden's strong operating profit may have come on the back of higher sales of di-ammonium phosphate, since Q3 coincides with the agriculture season in Asia. Moreover, the aluminum smelters may have added to revenues more than we had anticipated, indicating that operations at Ma'aden's subsidiaries have almost been streamlined. Meanwhile, Ma'aden's rolling mill, which had begun initial operations in Q2 2014, is expected to come on stream in Q1 2015. Further, Ma'aden is working on the ambitious Wa'ad Al Shamal project (fertilizer project), which it expects to commence operations in late 2016. Consequently, we believe Ma'aden to be a long-term value play. We continue with our Overweight rating on the stock with a target price of SAR47.8 a share.

Major developments

Commercial production at its aluminum smelter

In accordance with its plans, Ma'aden began commercial production at its aluminum smelter on September 1, 2014. The smelter is designed to produce 740ktpa of aluminum. Ma'aden holds 74.9% stake in the aluminum subsidiary, Ma'aden Aluminum Company, while the rest is held by Alcoa.



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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