Saudi Arabian Mining Co-Maaden

Mining – Industrial
MAADEN AB: Saudi Arabia
20 April 2015

الراجحي المالية
Al Rajhi Capital

US$13.43bn	33%	US$117.7mn
Market cap	Free float	Avg. daily volume

Target price	**41.1**	-4.7% over current
Consensus price	**32.9**	
Current price	**43.1**	as at 16/4/2015

Existing rating

Underweight	**Neutral**	Overweight

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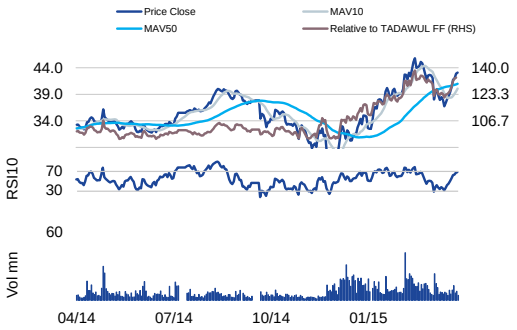
Flash view

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



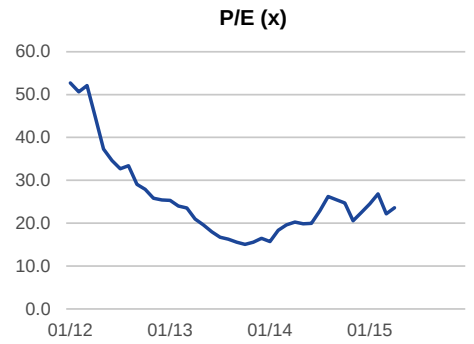
Source: Bloomberg

Earnings

Period End (SAR)	12/14E	12/15E	12/16E	12/17E
Revenue (mn)	9,673	10,850	12,335	14,100
Revenue Growth	60.0%	12.2%	13.7%	14.3%
EBITDA (mn)	2,950	4,594	5,277	6,269
EBITDA Growth	66.5%	55.7%	14.9%	18.8%
EPS	1.36	2.78	3.21	3.94
EPS Growth	-25.2%	104.0%	15.8%	22.6%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Ma'aden
Q1: Below estimates

Ma'aden reported net profit of SAR260.9mn (up 108% y-o-y), below our estimate (SAR332mn) as well as consensus estimate (SAR343mn). On a q-o-q basis, profits declined by 30.6% on lower sales volumes and product prices. We believe that the aluminium and phosphate plants operated at lower than expected utilization rates, resulting in the company missing both our and consensus forecasts. The aluminium business has been gaining traction over the past few quarters, which we believe is a strong positive for Ma'aden and will continue to offer earnings growth going forward. We will revisit our estimates once the detailed financials are published. For now, we downgrade our rating to Neutral and keep the target price at 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

- **Revenues:** Ma'aden is yet to publish its Q1 revenues. Given the miss at the net and operating profit levels, we expect the company to report revenues lower than our SAR2.9bn estimate (consensus: SAR3.4bn).
- **Gross and operating profit came below estimates:** Ma'aden gross profit stood at SAR615.8mn (+55% y-o-y), below our estimate of SAR833.6mn. Operating profit rose 101.5% y-o-y to SAR387mn, below our estimate of SAR503.9mn as well. The company's net profit came in at SAR260.9mn vs. our (SAR332mn) and consensus (SAR343mn) estimates.
- **Conclusion:** Ma'aden is still in expansionary mode. The company's aluminium business is expected to be fully operated by the end of 2015 as the rolling mill and refinery under trial operations. Further, Ma'aden is developing another fully-integrated phosphate plant at Wa'ad Al Shamal, which it expects to be functional by late 2016. We believe Ma'aden is a long-term value play. For now, we downgrade our rating to Neutral and keep the target price at SAR41.1 a share.

Figure 1 Ma'aden: Summary of Q1 2015 results

	Q1 2014	Q4 2014	Q1 2015	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	1775.5	3478.2	Not disclosed	na	na	2999.5
EBITDA	462.3	1258.2	Not disclosed	na	na	984.3
EBITDA Margin	26%	36%	Not disclosed	na	na	33%
Operating Profit	192	609	387	101.6%	-36.5%	504.6
Net Profit	125.1	375.9	260.9	108.6%	-30.6%	332.7

Source: Company data, Al Rajhi Capital

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.

Unplanned shutdown at the Ammonia unit

Ma'aden announced that it has completed an unscheduled maintenance shutdown at the Ammonia plant to repair its cooling facility, which lasted for ~10 days. This came after the completion of the scheduled maintenance shutdown announced earlier in February. There was no major financial impact, according to the company.

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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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