



Ma'aden posted a better-than-expected net profit of SAR 761.2mn; above AJC's estimate of SAR 682.4mn, due to lower-than-expected zakat & tax, and higher contribution from joint venture projects. However, revenues were 1.8% below previous quarter and missed our revenue estimates by 4% due to unscheduled shutdown of Ammonia Phosphate & Ammonia plants. Gross margin expanded by 252bps to 26.36% from 23.84% in the previous quarter, driven by better price realization on most products. Heavy demand keeps fertilizer prices strong, as Diammonium phosphate (DAP) prices traded at the highest level for the first time since Q2-19 due to pick-up in global economic activities. We upgraded our recommendation to **"Overweight"** on the stock with revised TP of SAR 62.0/share.

- Saudi Arabian Mining Company's (Ma'aden) posted net income of SAR 761.2mn in Q1-21; compared to SAR 572mn posted in Q4-20 and a net loss of 353mn in Q1-20. Net profit for Q1-21 came above AJC estimates of SAR 682.4mn. The overall improvement on a quarterly basis is attributed to i) better product price realization for most of the products except gold, despite decline in volumetric sales of ammonia phosphate fertilizer and ammonia ii) a noticeable decline in OPEX. The deviation from our estimates is mainly ascribed to (i) lower-than-expected zakat & tax ii) higher-than-expected contribution from joint ventures, as share of income from MBCC and SAMAPCO stood at SAR 160mn, as compared to our profit estimate of SAR 93mn.
- Ma'aden reported 1.8%Q/Q decline in revenue for Q1-21 to SAR 5,449mn, below our estimate of SAR 5,685mn, impacted by lower than expected ammonia phosphate and ammonia sales volume due to technical issues at MPC. Phosphate and Ammonia sales volume declined by 18.2%Q/Q and 18.5% Q/Q respectively. On quarterly basis, primary aluminum, and gold sales volume stabilized Q/Q at 256KMT and 96Koz, respectively. DAP and Ammonia average prices stood at USD 371/tonne (an increase of 6.2%Q/Q) and USD 263/tonne (an increase of 8.7%), respectively. Gold average prices declined by 3.0%Q/Q to USD 1,843/ounce, but aluminum average prices jumped to USD 2,039/tonne in Q1-21 from USD 1,998/tonne in Q4-20.
- Gross profit stood at SAR 1,436.4mn, (an increase of 408%Y/Y and 8.6%Q/Q). This is below our estimate of SAR 1,768mn, which can be ascribed to a lower-than expected gross margin. Gross margin expanded to 26.36% from 23.84% in Q4-20, but below our estimate of 31.0%. Ma'aden's witnessed 10%Q/Q EBITDA increase in Q1-21 to SAR 2.2bn, and the EBITDA margins increased by 414bps due to lower operating expenses. Operating expenses declined to SAR 349.4mn as compared to our estimate of SAR 440.9mn and SAR 479.4mn recorded in Q4-20, indicating towards effective cost control.

AJC View and valuation: Ma'aden delivered strong result in Q1-21, supported by improved commodity prices, strong contribution from joint ventures and a decline in OPEX; resulting in strong bottom line and margins. However, top line missed our estimates due to unscheduled shutdown after the strong recovery seen during previous quarter, we believe the company will continue its healthy recovery from the impact seen during last few quarters amid the pandemic. Furthermore, debt repayment and restructuring, strategy and low interest rate environment has acted as a key upside trigger for Ma'aden due to a heavily leveraged balance sheet. Diammonium phosphate (DAP) prices moved up firmly to an average of USD 371/tonne during Q1-21, traded at the highest level for the first time since Q2-19 due to heavy demand.

Although weaker than expected top line and gross margin due to MPC technical issues, strong commodity prices and production efficiency are the key mid-term catalyst, We remain positive on Ma'aden's long term growth, given the likely positive consequence of raising operating rate of mostly all plants. This is in addition to the company's future gold projects in Mansorah & Massarah mine, which has an estimated production capacity of 250k ounces/annum of gold and is expected to commence the commercial production by Q2-FY22. Ma'aden is expected to post a net profit of SAR 3,048mn for FY21, as compared to losses of SAR 209mn in FY20. We value Ma'adan on 50% weight for DCF (2.8% terminal growth and 7.5% WACC) and EV/EBITDA (11.5x FY25 EBITDA) based on relative valuation, yielding the target price of SAR 62.0/share, with **"Overweight"** recommendation.

Results Summary

SARmn (unless specified)	Q1-20	Q4-20	Q1-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,355.2	5,549.1	5,449.8	25.1%	-1.8%	-4.15%
Gross Profit	282.8	1,322.8	1,436.4	408%	8.6%	-22.8%
Gross Margin	6.49%	23.84%	26.36%	-	-	-
EBITDA	(119.3)	843.7	1,046.9	NM	24.1%	-26.3%
Net Profit	(353.3)	571.9	761.2	NM	33.1%	11.6%
EPS	(0.29)	0.46	0.62	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Overweight

Target Price (SAR) 62.0

Upside / (Downside)* 12.7%

Source: Tadawul *prices as of 2nd of May 2021

Key Financials

SARmn (unless specified)	FY18	FY19	FY20	FY21E
Revenue	14,168	17,736	18,580	21,778
Growth %	21.9%	25.2%	4.8%	17.2%
Net Income	1,847.9	(739.5)	(209.0)	3,047.7
Growth %	158.5%	NM	NM	NM
EPS	1.58	(0.60)	(0.17)	2.48

Source: Company reports, Aljazeera Capital

Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	36.0%	13.0%	13.8%	27.0%
Net Margin	13.0%	-4.2%	-1.1%	14.0%
EBITDA margin	46.2%	31.1%	30.3%	40.8%
P/E	34.8	NM	(238.5)	22.8
P/B	2.30x	1.76x	1.65x	2.09x
EV/EBITDA (x)	16.2x	16.9x	15.9	11.4

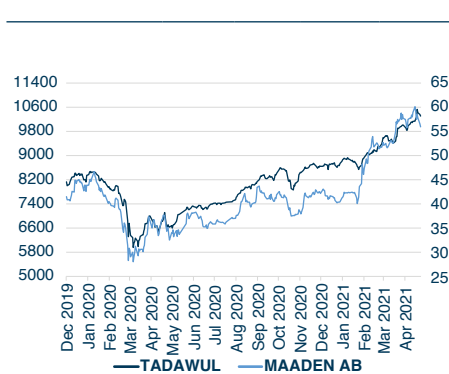
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap (bn)	69.03
YTD %	41.5%
52 Week (High)/(Low)	60.0/32.1
Shares Outstanding (mn)	1,230.59

Source: Company reports, Aljazeera Capital

Price Performance



Source: Tadawul, Aljazeera Capital

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Key Financial Data

All figures are in SAR mn; unless specified

	2018	2019	2020	2021E	2022E	2023E
Income statement						
Sales revenues	14,168	17,736	18,580	21,778	22,281	23,271
YoY sales revenue growth	21.9%	25.2%	4.8%	17.2%	2.3%	4.4%
Cost of sales	(8,478)	(15,064)	(16,013)	(15,901)	(16,186)	(16,726)
Gross profit	5,690	2,672	2,567	5,877	6,095	6,545
Selling, marketing & logistic expenses	(566)	(641)	(510)	(454)	(465)	(486)
General & administration expenses	(463)	(930)	(1,033)	(982)	(1,005)	(1,050)
Exploration expenses	(95)	(180)	(213)	(119)	(122)	(128)
Technical service 3xpenses	46.5	(35.2)	-	-	-	-
Operating profit	4,612	886	811	4,321	4,503	4,882
YoY growth in operating profit	88.3%	-80.8%	-8.5%	433.1%	4.2%	8.4%
Other income/(expenses)-net	(3.3)	87.4	(113.1)	49.9	52.0	54.1
Financial charges	(1,753)	(2,401)	(1,662)	(1,267)	(1,230)	(1,204)
Profit before zakat & minority interest	2,855	(1,428)	(965)	3,104	3,325	3,732
Income from short-term investments	124	205	72	42	43	43
Share in net loss/gain of jointly controlled entity	144	112	197	552	563	585
Minority interest	(398)	789	638	(347)	(371)	(411)
Zakat	(289)	(417)	(152)	(288)	(307)	(341)
Net income after minority interest	1,847.9	(739.5)	(209.0)	3,047.7	3,253.2	3,608.8
YoY growth in net income attributable to the parent company	158.5%	-140.0%	-71.7%	-1558.4%	6.7%	10.9%
Balance sheet						
Cash & cash equivalents	5,393	3,605	4,246	8,472	11,695	14,521
Short - term investments	3,557	3,187	1,466	1,467	1,468	1,469
Trade & other receivables	2,436	2,995	2,979	3,491	3,572	3,731
Inventories	4,312	5,759	5,932	6,466	7,048	7,683
Total current assets	15,930	15,803	14,933	20,213	24,107	27,736
Investments in JVs	1,424	1,117	1,027	1,224	1,776	2,339
TAADEN property	10,045	10,045	10,672	10,459	10,250	10,045
Property, plant & equipment	66,482	64,496	61,884	59,200	56,435	53,594
Total non-current assets	82,208	81,855	81,805	76,799	73,238	70,200
Total assets	98,138	97,658	96,737	97,011	97,345	97,936
Projects & other current payable	2,215	3,169	3,847	3,828	3,808	3,789
Accrued expenses	1,909	2,171	2,603	2,638	2,693	2,806
Current portion of long-term borrowing	3,436	2,688	3,105	3,261	3,424	3,595
Total current liabilities	7,897	8,560	10,134	10,311	10,516	10,787
Long-term borrowing	51,404	47,157	45,196	42,091	38,830	35,406
Obligation under lease finance	35	1,364	1,599	1,615	1,632	1,648
Total non-current liabilities	53,547	50,705	49,303	46,232	43,009	39,625
Total liabilities	61,444	59,265	59,437	56,543	53,525	50,412
Share capital	11,685	12,306	12,306	12,306	12,306	12,306
Share premium	8,391	10,739	10,739	10,739	10,739	10,739
Statutory reserves	1,054	1,054	1,054	1,359	1,684	2,045
Retained earnings	6,772	6,668	6,327	9,070	11,998	15,246
Total shareholders' equity	27,903	30,656	30,252	33,334	36,615	40,247
Non-controlling interest	8,792	7,737	7,048	7,119	7,190	7,262
Total equity	36,694	38,393	37,300	40,453	43,805	47,508
Total liabilities & shareholders' equity	98,138	97,658	96,737	96,996	97,330	97,921
Key ratios analysis						
Liquidity ratios						
Current ratio (x)	2.0	1.8	1.5	2.0	2.3	2.6
Cash ratio (x)	0.7	0.4	0.4	0.8	1.1	1.3
Profitability ratios						
Gross profit margin	40.2%	15.1%	13.8%	27.0%	27.4%	28.1%
Operating margin	32.6%	5.0%	4.4%	19.8%	20.2%	21.0%
Net profit margin	13.0%	-4.2%	-1.1%	14.0%	14.6%	15.5%
ROAA	2.93%	-1.56%	-0.87%	3.52%	3.73%	4.12%
ROAE	7.96%	-4.07%	-2.24%	8.77%	8.60%	8.80%
EBITDA margin	46.2%	31.1%	30.3%	40.8%	40.9%	41.0%
Leverage ratio						
Debt / equity (x)	1.4	1.2	1.2	1.0	0.9	0.7
Market/valuation ratios						
EV/revenues (x)	7.8	5.3	4.8	4.7	4.3	3.8
EV/EBITDA (x)	16.8	17.1	15.9	11.4	10.4	9.3
EPS (SAR)	1.50	(0.60)	(0.17)	2.48	2.64	2.93
Book value per share (SAR)	22.7	24.9	24.6	27.1	29.8	32.7
Market price (SAR) *	55.0	44.1	40.5	56.5	56.5	56.5
Market capitalization (SAR mn)	67,682.5	54,207.5	49,838.9	69,528	69,528	69,528
P/E ratio (x)	36.6	(73.3)	(238.5)	22.8	21.4	19.3
P/BV ratio (x)	2.43	1.77	1.65	2.09	1.90	1.73

Source: the company's report, AlJazira capital



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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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