

Saudi Arabian Mining Company (MAADEN AB) - 4Q23 Result Review

Analyst: Neetika Gupta

Recommendation:
Previous Reco.

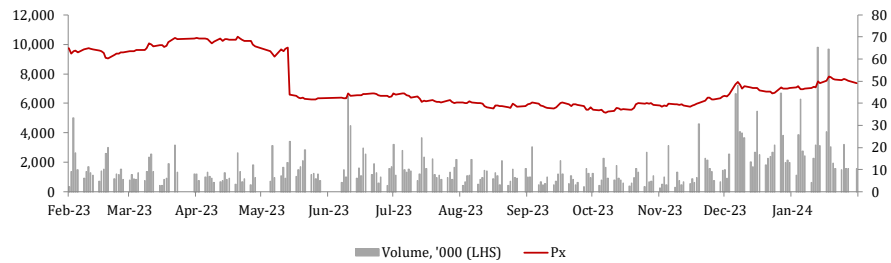
Hold
TP: SAR 37.5 per share; Hold on 07-September-2023

Fair Value (SAR):
Upside / (Downside):

UR
-

Date: 26-02-2024

Bloomberg Ticker	MAADEN AB
Current Market Price (SAR)	49.3
52wk High / Low (SAR)	53.3/35.4
12m Average Vol. (mn)	1,810.5
Mkt.Cap. (SAR bn)	49,141/182,004
Shares Outstanding (mn)	3,692
Free Float (%)	32.8%
3m Avg Daily Turnover (SAR mn)	1,20,005.7
6m Average Daily Turnover (SAR mn)	80,733.6
PE'24e (x)	50.2x
EV/EBITDA'24e (x)	18.2x
Dividend Yield'24e (%)	0.0%
Price Perf. (1m/3m) (%)	4.9%/26.1%



Revenue increases 29% YoY for 4Q23 largely in-line with U-Capital estimate

MAADEN's revenue for 4Q23 stood at SAR 8,035mn (-15% YoY and 29% QoQ). This exceeded the Bloomberg consensus of SAR 6,997mn but closely aligned with U-Capital's estimate of SAR 7,592mn. The notable QoQ revenue growth in 4Q23 can be attributed primarily to a 29% increase in DAP average prices and a 63% increase in Ammonia prices. Additionally, MAADEN experienced surge in sales volumes in Ammonia, Aluminum, and Base metals compared to 3Q23. For FY23, revenue totaled SAR 29,272mn, reflecting a 27% decline compared to FY22, primarily driven by lower commodity prices across all products except gold and due to reduced volumes in 3Q23 amid emergency maintenance in 3Q23.

Gross and operating profits increase significantly QoQ in 4Q23

The company's gross profit for the quarter amounted to SAR 2,784mn (6% YoY and 200% QoQ) surpassing the Bloomberg consensus of SAR 1,740mn and the U-Capital estimate of SAR 1,822mn. This outperformance against our estimate is attributed to lower-than-expected raw material costs in 4Q23. Operating profit stood at SAR 1,831mn (4% YoY and 763% QoQ) ahead of Bloomberg consensus SAR 965mn and U-Capital estimate of SAR 1,103mn. This beat compared to our estimate is mainly due to higher gross margins and lower-than-anticipated operating expenses in 4Q23. For FY23, operating income amounted to SAR 3,816mn, reflecting a 72% decline compared to FY22. This substantial decrease is primarily attributed to a lower top line amid a decrease in selling prices in 2023 along with emergency maintenance which resulted in lower volumes and margins in 3Q23.

Net profit decline 12% YoY - ahead of Bloomberg consensus and U-Capital estimate

MAADEN witnessed a net profit of SAR 890mn (-12% YoY) following a loss of SAR 83mn in 3Q23 due to emergency maintenance activity which significantly reduced volumes and profit margins. Net income exceeded the Bloomberg consensus of SAR 234mn and the U-Capital estimate of 261mn. The variance from our estimate is attributed to higher-than-expected operating margins (23% versus an expected 15%) and likely higher-than-anticipated profit contributions from joint ventures in 4Q23. For FY23, net income amounted to SAR 1,577mn, marking an 83% decline compared to FY22, driven by reduced selling prices in 2023 and lower volumes due to the shutdowns in 3Q23.

Target Price Under Review

In the first half of 2023, the fertilizer sector encountered challenges as prices sharply decreased along with shutdowns in 3Q23 which impacted the profitability of the company till September 2023. However, fertilizer prices saw an improvement starting 3Q23 along with increase in production volumes for MAADEN in 4Q23 resulting in strong results for the last quarter. Looking ahead to 2024, we anticipate further increase in prices of fertilizer (DAP and Ammonia) driven by supply chain constraints and disruptions in transit amid the Suez and Panama Canals disruption. Additionally, with commercial production underway at the Mansourah & Massarah Gold plant, we expect revenue to experience a surge from 2024 onwards amid increase in production of base metals (gold). MAADEN has seen a 37% increase in its share price since November 1st, 2023, and considering its robust financials for 4Q23, we have placed the stock under review. We will update our estimates and investment case accordingly.

Valuation

MAADEN is trading at 2024e P/E of 50.2x compared to the historical average 1-year forward P/E of 52.6x. Additionally, the stock is valued at EV/EBITDA multiple of 18.2x, based on the FY24 estimate, compared to the historical average of 17.1x.

Income Statement												
(SAR 'mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales	9,472	8,045	6,966	6,226	8,035	7,592	-15%	29%	6%	40,277	29,272	-27%
Gross profit	2,633	1,586	1,616	929	2,784	1,822	6%	200%	53%	16,249	6,914	-57%
Operating profit	1,767	930	843	212	1,831	1,103	4%	763%	66%	13,537	3,816	-72%
Net Profit	1,016	419	351	(83)	890	261	-12%	NM	241%	9,319	1,577	-83%
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholder's equity	45,069	45,543	45,883	45,758	46,423	46,230	3%	1%	0%	45,069	46,423	3%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross profit margin	28%	20%	23%	15%	35%	24%				40%	24%	
Operating profit margin	19%	12%	12%	3%	23%	15%				34%	13%	
Net profit margin	11%	5%	5%	-1%	11%	3%				23%	5%	
RoE (annualized)	9%	4%	3%	-1%	8%	2%				21%	3%	

Source: Financials, Tadawul, Bloomberg, U Capital Research

For our earlier report, please [click here](#).

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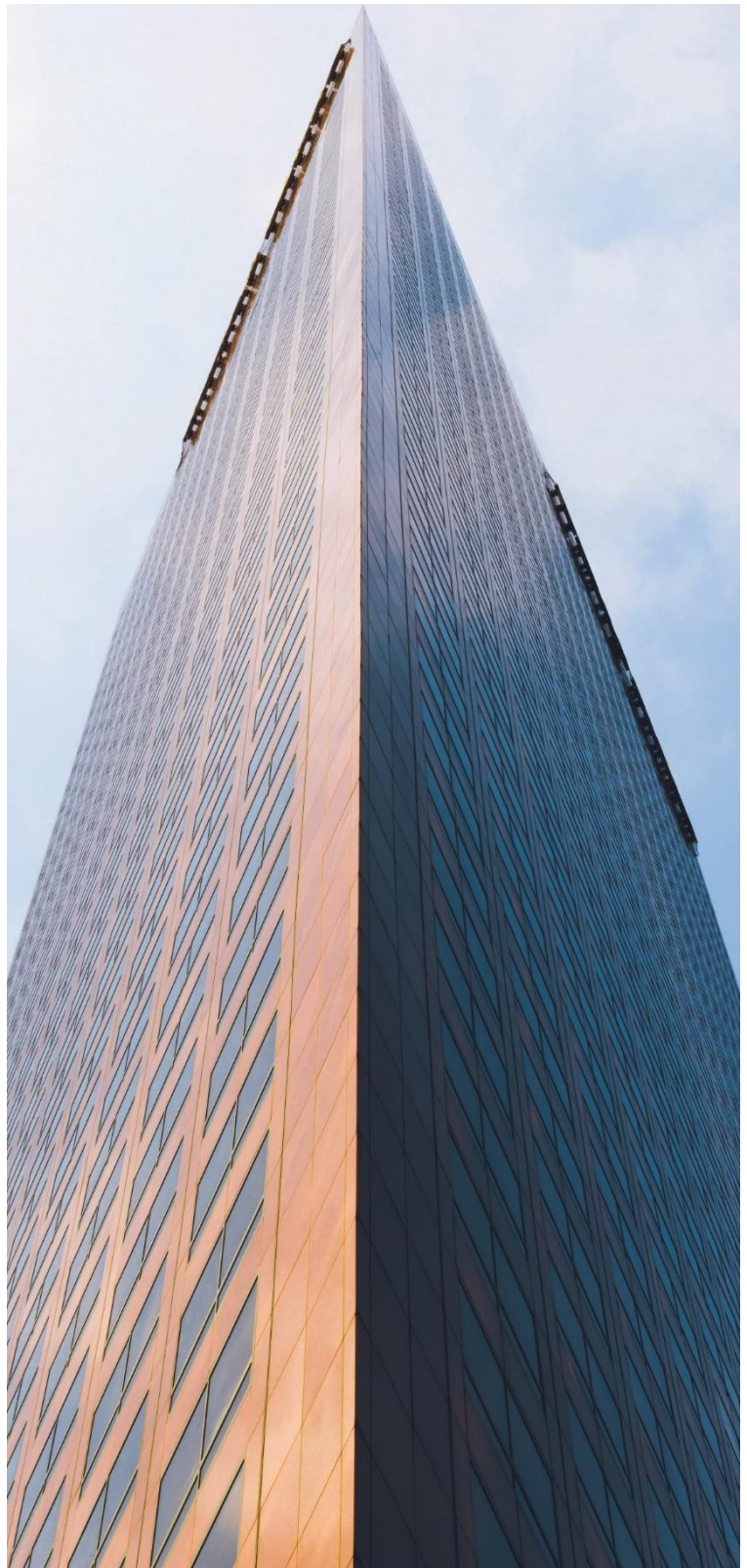
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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