

# Saudi Arabian Mining Co-Maaden

Mining – Industrial

MAADEN AB: Saudi Arabia

06 November 2017

الراجحي المالية  
Al Rajhi Capital



US\$16.38bn

Market cap

35%

Free float

US\$5.73mn

Avg. daily volume

Target price

36.00

-31.5% over current

Current price

52.57

as at 5/11/2017

Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

(SARmn)	2016	2017e	2018e
Revenue	9,504	13,048	15,725
Y-o-Y	-13.3%	37.3%	20.5%
Gross profit	2,021	4,281	5,516
Gross margin	21.3%	32.8%	35.1%
Net profit	(11)	1,637	2,563
Y-o-Y	NM	NM	56.6%
Net margin	-0.1%	12.5%	16.3%
EPS (SAR)	(0.01)	1.40	2.19
EBITDA	3,426	6,442	7,741
EV/EBITDA	29.3x	18.1x	15.1x

Source: Company data, Al Rajhi Capital

## Saudi Arabian Mining Co-Maaden Q3: Earnings miss on higher costs; Revise TP to SAR36/sh.

Ma'aden reported net profit of SAR243mn, missing our forecast (SAR292mn) and consensus estimate (SAR321mn). Despite Q3 top-line coming above our (+6.7% beat) and consensus (+9.4%) estimates on better-than-expected sales volumes for most segments, higher production costs for Aluminium segment was the primary reason behind the miss. Additionally financial expense, which rose ~70% y-o-y during the quarter, was above our expectation due to interest associated with MBAC, MRC and MWSPC in Q3 (which was earlier getting capitalized), partially offsetting the positive impact from higher income from associates. Though sales is on track or even better, the sharp improvement in cash cost which we saw first in Q1 2017 has not sustained. Post revising our model, our target price is now at SAR36/share (based on equal mix of DCF and relative valuations -EV/EBITDA of 15.1x by 2022) and we maintain our Underweight rating on the stock.

**Q3 revenue beat on higher sales volume.** Ma'aden reported Q3 top-line of SAR3,151mn, up 37% y-o-y (above our estimate of SAR2,953mn; consensus: SAR2,881mn), driven by higher sales volume across all the segments and improved prices for most products.

Figure 1 Ma'aden Q3 results summary

(SAR mn)	Q3 2016	Q2 2017	Q3 2017	Y-o-Y	Q-o-Q	ARC est	Comments
Revenue	2,308	2,995	3,151	36.6%	5.2%	2,953	Beating our estimates on higher-than-expected sales volumes
Gross profit	520	1,012	831	59.7%	-17.9%	920	Likely higher-than-expected increase in costs of aluminium production led to miss vs. our estimates at gross level
Gross margin	22.5%	33.8%	26.4%			31.1%	
Operating profit	325	774	614	89.1%	-20.6%	709	Missed our estimate, weighted down by lower gross margin due to higher production costs and one-off write off during the quarter.
Operating margin	14%	26%	19%			24%	
Net profit	107	323	243	126.1%	-24.7%	292	Higher-than-expected production cost and financial charges were partially offset by improved contribution from its JV and lower minority distribution, resulting into SAR49mn miss to our earnings estimate.
Net margin	5%	11%	8%			10%	

Source: Company data, Al Rajhi Capital

**Ramping up production.** In Q3, the company managed to increase its production sequentially across all the segments with phosphate fertilizer production rising 11.4% q-o-q and gold and primary aluminium production increasing 13% and ~10% respectively. While Q3 production data for most segments beat our estimates, we believe that the company's near-term performance will depend on further ramping up production, driven by WAS phosphate plant (likely to start in Q4), aluminium rolling mill, improvement in prices and better efficiencies.

Figure 2 Production highlights

	Q3 2016	Q2 2017	Q3 2017	Y-o-Y	Q-o-Q	ARC est
Gold ('000 ounce)	57	69	78	36.8%	13.0%	70
Phosphate						
Ammonium phosphate fertilizer ('000 tons)	708	668	744	5.1%	11.4%	720
Ammonia ('000 tons)	312	555	620	98.7%	11.7%	612
MPC	312	256	NA	0.4%	22.4%	313
WAS	0	299	NA	NA	0.0%	299
Aluminium	0	0	0	0	0	0
Alumina ('000 tons)	382	349	363	-5.0%	4.0%	383
Primary aluminium ('000 tons)	216	219	240	11.1%	9.6%	222

Source: Company data, Al Rajhi Capital

Please see penultimate page for additional important disclosures. Al Rajhi Capital (Al Rajhi) is a foreign broker-dealer unregistered in the USA. Al Rajhi research is prepared by research analysts who are not registered in the USA. Al Rajhi research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities, an SEC registered and FINRA-member broker-dealer.



Figure 3 Q3 sales volume

	Q3 2016	Q2 2017	Q3 2017	Y-o-Y	Q-o-Q	ARC est
<b>Gold ('000 ounce)</b>	<b>57</b>	<b>69</b>	<b>79</b>	<b>38.5%</b>	<b>14.5%</b>	<b>70</b>
<b>Phosphate</b>						
Ammonium phosphate fertilizer ('000 tons)	672	733	770	14.6%	5.0%	727
Ammonia ('000 tons)	151	393	470	211.3%	19.6%	453
MPC	151	111	179	18.5%	39.0%	154
WAS	0	282	291	NA	6.0%	299
<b>Aluminium</b>						
Alumina ('000 tons)	373	349	363	-2.7%	4.0%	383
External sale ('000 tons)	0	0	0	NA	NA	33
Primary aluminium ('000 tons)	216	217	239	10.6%	10.1%	222

Source: Company data, Al Rajhi Capital

**Fertilizers prices improve in Q4 so far; although likely to remain below its three years' average next year.** While aluminium (+5.5% q-o-q) and gold (+1.7%) prices advanced sequentially in Q3 on improved market fundamentals, Ammonia and DAP were under pressure, prices declining 35% q-o-q and 4%, respectively in Q3. However, fertilizers prices have recovered in Q4 so far with ammonia and DAP prices rising by more than 20% and 4% in October, which could support Q4 earnings if prices sustain at the current level. As the fundamentals of the fertilizer market remain weak amid oversupply concerns, we expect prices to remain below three years' average in the coming years. For 2018, we estimate US\$296/t average price for ammonia and US\$360/t for DAP in our model.

**Valuation and risks:** We believe that the company's long-term outlook remains intact, given the likely positive outcome of its long-term projects, which could take around 2-3 years to complete. We have revised our gross margin estimates lower to incorporate the higher-than-expected increase in production costs in Q3, leading to reduction in TP to SAR36/share based on equal mix of DCF and relative valuation. For relative valuation, we apply an exit valuation multiple of EV/EBITDA 15.1x (to 2022 estimated EBITDA), which we arrive by using weighted average of EV/EBITDA of peers (weights based on business segment weights). We apply an adjustment factor of 1.5x to the average peer EV/EBITDA multiple to account for the difference in taxes and lower WACC of Ma'aden compared to its peers. The stock is currently trading at an EV/EBITDA of 18.1x and 15.1x on our 2017E and 2018E EBITDA, respectively, higher than its global 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.).

**Projects in feasibility stage not factored into our estimates.** We do not factor in possible valuation benefit from its planned new phosphate project due to lack of details into our model. Based on our back of the envelope calculations (on Market cap/ annual production basis), the third Phosphate project could add around SAR4-5/share to the share price – hence any positive development could be an upside risk factor to our TP. We also do not incorporate new projects related to Gold mining such as Mansourah / Massarah mine that are under feasibility stage, which may add up to ~SAR3/share to our TP based on our back of the envelope calculations. In any case, we estimate the terminal value based on average multiple of peers at terminal period (terminal year of 2025) which implies that the company will be able to mine at the current rate even beyond terminal year.



## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### 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 12 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 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.

"Target price": We estimate target 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.

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.

### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel : +966 1 211 9449  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**