Saudi Arabian Mining Co-Maaden

Mining – Industrial
MAADEN AB: Saudi Arabia
11 February 2020

الراجحي المالية
Al Rajhi Capital

US$13.2020bn	35%	US$6.22mn
Market cap	Free float	Avg. daily volume

Target price	41.00	+1.9% over current
Current price	40.25	as at 10/2/2020

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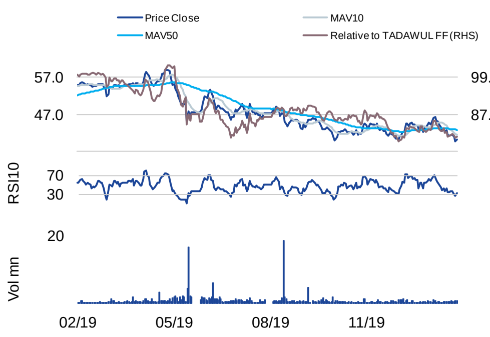
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2018	2019	2020e
Revenue	14,171	17,736	19,565
Y-o-Y	17.3%	25.2%	10.3%
Gross profit	5,102	2,304	4,080
Gross margin	36.0%	13.0%	20.9%
Net profit	1,848	(739)	337
Y-o-Y	158.5%	NM	NM
Net margin	13.0%	-4.2%	1.7%
EPS (SAR)	1.58	(0.63)	0.29
EBITDA	7,165	5,473	7,345
EV/EBITDA	14.8x	18.0x	13.4x

Source: Company data, Al Rajhi Capital.

Ma'aden

Q4: Earnings miss; Operations ramping up well

Ma'aden's Q4 2019 top-line beat our estimate led by higher than expected sales volumes at Al and Gold segments. Operations at newer plants (MWSPC and MRC plants) are ramping up well. However, higher cost associated with MWSPC and MRC plants impacted margins with EBITDA margin reducing from ~45% in Q4 2018 to ~29% in Q4 2019 (vs. ~33% expected). Further, impairment of SAR35mn along with lower other income and higher zakat, widened losses in Q4. Going forward, driven by weak prices, we expect the company's financial performance to remain under pressure. Commodity prices outlook (except Gold prices) remains weak on account of i) global economic uncertainty, ii) a slowdown in Chinese demand, and iii) relatively high inventory levels (particularly for DAP). Nonetheless, the company's efforts to optimize its cash costs further related to MWSPC plant and improve its working capital needs (-10% y-o-y lower in Q4 2019 vs. 41% y-o-y rise in Q4 2018) may enable it to partially offset the impact from lower commodity prices. Post Q4 earnings miss and updating our latest commodity prices forecast, we revise our TP to SAR41.0/sh. (SAR45.0/sh.). Post~9% decline in stock price this year, we have a Neutral rating (earlier Underweight) for the stock.

Q4 results summary: Ma'aden reported better-than-expected top-line (+13.9% q-o-q), due to higher-than-expected revenues across the segments. However, gross profit was largely in-line with our estimate as increased cash costs for the Phosphate and Aluminium segments offset the top-line beat. During the quarter, the company had also written down SAR35mn capital WIP assets. This, along with increased exploration costs, led to a miss at operating level. Further, lower other income and higher zakat provision resulted into a net loss of SAR277mn, missing our estimated net loss of SAR90mn.

Figure 1 Ma'aden Q4 2019 results

(SAR mn)	Q4 2018	Q3 2019	Q4 2019	Y-o-Y	Q-o-Q	ARC est
Revenue	**3,825**	**4,299**	**4,896**	**28.0%**	**13.9%**	**4,342**
Gross profit	1,047	639	656	-37.3%	2.7%	678
Gross margin	27.4%	14.9%	13.4%			15.6%
Operating profit	832	269	172	-79.4%	-36.2%	304
Operating margin	21.8%	6.3%	3.5%			7.0%
Net profit	**277**	**(92)**	**(277)**	**-199.8%**	**200.5%**	**(90)**
Net margin	7.2%	-2.1%	-5.6%			-2.1%

Source: Company data, Al Rajhi Capital

- **Phosphate segment:** Likely higher-than-expected contribution from the Meridian acquisition, along with slightly better product prices compared to our estimates, led to SAR142mn revenue beat for the segment.

- **Aluminium segment:** As our calculations, Alumina sales volume reached to 156kt in Q4, higher than our estimate of 60kt. This, along with better Aluminium realized prices pushed the segment revenues above our expectations.

- **Gold segment:** Gold sales volume jumped to 126kt in Q4 (vs. 105kt estimated), primarily due to higher ore volumes mined and milled at Ad Duwayhi and Sukhaybarat/Bulgah. Accordingly, the company reported the segment revenue at SAR710mn for Q4, 22% higher than our forecast.

Figure 2 Ma'aden Q4 2019 revenues by segment

(SAR mn)	Q4 2018	Q3 2019	Q4 2019	Y-o-Y	Q-o-Q	ARC est
Phosphate segment	**1,862**	**1,906**	**2,086**	**12.0%**	**9.5%**	**1,945**
DAP and ammonia	1,821	1,872	2,042	12.1%	9.1%	1,912
Industrial	41	33	44	8.1%	33.2%	33
Aluminium segment	**1,490**	**1,785**	**2,047**	**37.4%**	**14.7%**	**1,782**
Primary aluminium	1,152	970	1,047	-9.1%	7.9%	967
Alumina	160	79	168	5.1%	111.7%	74
Flat rolled products	178	736	833	367.9%	13.1%	740
Gold	**444**	**576**	**710**	**59.7%**	**23.2%**	**584**
Infrastructure / Others	**0**	**32**	**53**	**NM**	**64.6%**	**32**
Total revenues	**3,797**	**4,299**	**4,896**	**28.9%**	**13.9%**	**4,342**

Source: Company data, Al Rajhi Capital

Figure 3 Ma'aden: Production volume summary of Q4 2019

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Y-o-Y	Q-o-Q	ARC est
Gold ('000 ounce)	**118**	**103**	**98**	**96**	**78**	**85**	**105**	**131**	**36.5%**	**24.8%**	**105**
Phosphate											
Ammonium phosphate fertilizer ('000 tons)	755	789	770	856	1,233	1,328	1,396	1,265	47.8%	-9.4%	1,420
Ammonia ('000 tons)	599	507	524	616	591	600	455	616	0.0%	35.4%	455
Aluminium											
Alumina ('000 tons)	389	455	466	465	436	465	447	450	-3.2%	0.7%	447
Primary aluminium ('000 tons)	233	236	236	228	234	239	246	248	8.8%	0.8%	246
Flat rolled aluminium ('000 tons)	0	0	0	25	73	68	75	80	220.0%	6.7%	100

Source: Company data, Al Rajhi Capital

Figure 4 Ma'aden: Sales volume summary of Q4 2019

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Y-o-Y	Q-o-Q	ARC est
Gold ('000 ounce)	**118**	**103**	**98**	**98**	**78**	**85**	**105**	**126**	**28.6%**	**20.0%**	**105**
Phosphate											
Ammonium phosphate fertilizer ('000 tons)	728	750	760	887	1,101	1,264	1,407	1,135	28.0%	-19.3%	1,420
Ammonia ('000 tons)	354	301	337	359	396	348	179	368	2.5%	105.6%	279
Aluminium											
Alumina ('000 tons)	63	63	91	95	69	73	64	156	64.2%	143.8%	60
Primary aluminium ('000 tons) - External*	156	151	140	147	126	146	144	146	-0.7%	1.4%	144
Flat rolled aluminium ('000 tons)	0	0	0	19	71	NA	NA	NA	NM	NM	75

Source: Company data, Al Rajhi Capital. * As per our calculations

Valuation and Risks: The company's financial performance may remain under pressure in 2020 due to weak commodity prices outlook amid uncertain global economy and slowdown in China. For 2020e, we assume Gold price at US$1,560/t, while DAP and Aluminium prices are estimated at US$362/t and US$1,761/t, respectively. Moreover, we believe that higher costs associated with the MWSPC and MRC plants will continue to impact margins until it reaches their respective nameplate capacities. Nevertheless, the company is operationally well-positioned to achieve its long term growth plans, given the likely positive outcome of its future projects (P3 and Mansourah/Massarah gold mines). Post revision in our commodity price forecast and forward looking estimates, our revised fair value (existing businesses) stands at SAR33.4/share based on equal mix of DCF and relative valuation. We apply an exit valuation multiple of EV/EBITDA 12.2x (to 2025 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 (unchanged) to the average peer EV/EBITDA multiple to account for the difference in taxes & lower WACC of Ma'aden compared to its peers. 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.

We also add the estimated values of future projects at ~SAR7.6/share. Based on Market cap/ annual production, the third Phosphate project could add around SAR2.2/share to the share price. New projects related to Gold mining such as Mansourah / Massarah mine that are under feasibility stage, may add up to ~SAR5.4/share using the same metric.

Thus we arrive our target price at SAR41.0/share (SAR33.4/share + SAR7.6/share for future projects). At our target price of SAR41.0/share, the stock is currently trading at an EV/EBITDA of 12.8x on our 2020e EBITDA. We also revise our rating to Neutral (Underweight earlier) for the stock post ~9% decline in share price this year.

Figure 5 Relative valuation methodology

Ma'aden business segments	2022 Gross margin contribution	Target Peer EV/EBITDA multiple
Gold	20%	8.9x
Phosphate	49%	8.5x
Aluminium	31%	6.9x
Relevant peer EV/EBITDA multiple (x)		**8.1x**
Adjustment factor for lower WACC, debt and Tax		1.5x
Fair EV/EBITDA EV/EBITDA multiple		**12.2x**

Source: Company data, Bloomberg, Al Rajhi Capita

Figure 6 DCF - Sum of the parts valuation for core business

Segment	SAR/sh.
Equit value of Gold + Ind base metals	14.6
Equity value of Phosphate	10.0
Equity value of Aluminum	3.0
Others	-0.6
Group level cash	5.8
Value of associates and non-core assets	1.0
Fair value per share - Core operations	**33.8**

Source: Company data, Al Rajhi Capital

Figure 7 Valuation methodology for new projects

Valuation for new projects	
Gold	
Fair value of existing mines per share (SAR)	14.6
Total mineral reserves for mines under ops (mt)	183,210
Mansourah / Massarah mineral reserves (mt)	90,500
Fair value of new gold mines per share (SAR)	**7.2**
Uncertainty discount	25%
Implied value of new gold mines per share (SAR)	**5.4**
Phosphate	
Fair value of existing operations per share (SAR)	10.0
Current Phosphate consentrate capacity ('000 tonnes)	10,320
P3 capacity ('000 tonnes)	3,000
Fair value of P3 per share (SAR)	**2.9**
Uncertainty discount	25%
Implied value of P3 per share (SAR)	**2.2**

Source: Company data, Al Rajhi Capital

Figure 8 Summary of Valuation

Valuation Summary	SAR/sh.
Core operations	
Sum of the parts (DCF)	33.8
Group DCF	33.3
Relative valuation	33.3
Average fair value per share - Core	**33.4**
Estimated values of future projects	7.6
Final Target Price	**41.0**

Source: Company data, Al Rajhi Capital

The key upside risks can be attributed to stronger sales volume, commodity prices, and lower than expected cash costs and raw material costs (sulphur, coke), while weak commodity prices, higher than expected cash costs, key input prices, improvement in SAIBOR, and delay in production schedule may act as the key downside trigger.

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"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.

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