

Saudi Arabian Mining Co-Maaden

Mining – Industrial

MAADEN AB: Saudi Arabia

13 June 2019

الراجحي المالية
Al Rajhi Capital



US\$16.20bn

Market cap

35%

Free float

US\$15.91mn

Avg. daily volume

Target price
Current price

45.00 -13.5% over current
52.00 as at 12/6/2019

Research Department
Pritish Devassy, CFA

Tel +966 11 2119370, devassyp@alrajhi-capital.com

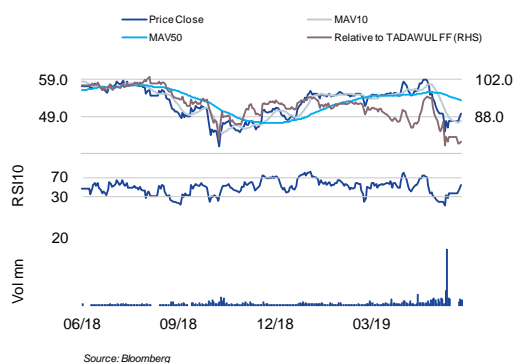
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2017	2018	2019e
Revenue	12,086	14,171	18,006
Y-o-Y	27.7%	17.3%	27.1%
Gross profit	3,932	5,102	3,779
Gross margin	32.5%	36.0%	21.0%
Net profit	715	1,848	339
Y-o-Y	NM	158.5%	-81.7%
Net margin	5.9%	13.0%	1.9%
EPS (SAR)	0.61	1.58	0.29
EBITDA	5,248	7,165	6,981
EV/EBITDA	21.0x	14.8x	15.7x

Source: Company data, Al Rajhi Capital.

Ma'aden

MRC, MWSPC projects weigh on profitability

Update on Mansourah / Massarah gold mines: Ma'aden Gold & Base Metals Company has signed a notice of contract (worth SAR2.3bn) for its Mansourah & Massarah Gold project. The project has an estimated annual production capacity of 250k ounces of gold with the trial and commercial production to begin by Q2 2022 and Q3 2022, respectively. Gold production in 2018 was 415k ounces. The company plans to produce 1mn ounces by 2025. Based on Market cap/ annual production, we estimate the fair value of these projects at ~SAR2.9/share (already factored in our prior valuation).

Right issue: In order to pursue potential acquisitions overseas, Ma'aden, as per some media reports, plans to raise funds through right issue later this year. While it is not confirmed, the issue size is estimated to be around US\$5bn. If materialized, this could be the region's largest rights issue in a decade. Further, reports suggest that its major shareholder, PIF (65% stake) may also participate in this issue. The stock had negatively reacted to this news, plunging more than 9.5% in a single day. However, it has recovered by 15.6% since then.

Ma'aden's subsidiary to buy Meridian Group: As a part to its long-term strategy to expand its footprint globally, Ma'aden's wholly owned subsidiary, Ma'aden Marketing and Distribution, has recently inked an agreement to acquire 85% of African fertilizer distribution company, "Meridian Group" in an all cash deal. Moreover, Ma'aden aims to purchase the remaining 15% of Meridian Group over the next four years. This will provide the company access to Southern African markets, where the phosphate demand is likely to grow by 5% annually in the next 10 years backed by rising population and improving awareness for the fertilizer usage. Further, the acquisition will also build the efficient distribution channel to its key targeted markets. The deal is expected to be completed in Sep 2019, subject to regulatory approvals.

Recap of Q1 results: Ma'aden reported a weak set of Q1 2019 results with both top-line and bottom-line missing our estimates. Q1 revenue came in slightly below our estimate (-4.4% miss; +3.1% consensus beat), primarily due to lower-than-expected sales volume of Gold and Aluminium and Alumina. Further, the company's cost of goods sold (+36.5% q-o-q; SAR3.7bn – the highest in history) outpaced the revenue growth (+10.9% q-o-q), primarily due to rise in production expenses led by higher costs related to the new plants (MWSPC and MRC). In addition, Ma'aden has also commercialized the power plant at the Aluminium segment and has started accounting full power generation costs, triggering the sharp jump in cost of goods sold and thereby impacting gross margins (~-16pps q-o-q) in Q1. Moreover, the company also witnessed a steep jump (~25% q-o-q) in financial costs following the commercialization of MRC and MWSPC plants. Consequently, the company reported a net loss during the quarter, missing both our and consensus profit estimates. Post below expected Q1 results and updating the latest commodity price deck, we revise our forward looking estimates, particularly cash costs for the Phosphate and Aluminium segments. Nonetheless, we remain positive on Ma'aden's long term growth prospects, as the MWSPC and MRC plants continue ramping up production in the coming months.

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Figure 1 Ma'aden Q1 2019 results

(SAR mn)	Q1 2018	Q4 2018	Q1 2019	Y-o-Y	Q-o-Q	ARC est	Comments
Revenue	3,566	3,825	4,241	18.9%	10.9%	4,437	Missed our estimate (consensus: SAR4,114mn), largely due to lower-than-expected sales volume of Gold and Aluminium and Alumina.
Gross profit	1,415	1,134	569	-59.8%	-49.8%	1,467	Weak product prices along with higher depreciation costs, led by WAS and MRC plants, pushed the gross profile below our estimates.
Gross margin	39.7%	29.6%	13.4%			33.1%	
Operating profit	1,172	832	252	-78.5%	-69.7%	1,144	Weaker gross profit further flowed down to operating level as well.
Operating margin	33%	22%	6%			26%	
Net profit	638	277	(127)	NM	NM	363	Further, increased financial expenses resulted into net loss, missing our estimate of SAR363mn (consensus: SAR315mn).
Net margin	18%	7%	-3%			8%	

Source: Company data, Al Rajhi Capital

Figure 2 Ma'aden: Production volume summary of Q1 2019

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Y-o-Y	Q-o-Q	ARC est
Gold ('000 ounce)	118	103	98	96	78	-33.9%	-18.8%	96
Phosphate								
Ammonium phosphate fertilizer ('000 tons)	755	789	770	856	1,233	63.3%	44.0%	1,178
Ammonia ('000 tons)	599	507	524	616	591	-1.3%	-4.1%	581
Aluminium								
Alumina ('000 tons)	389	455	466	465	436	12.1%	-6.2%	464
Primary aluminium ('000 tons)	233	236	236	228	234	0.4%	2.6%	228
Flat rolled aluminium ('000 tons)	0	0	0	25	73	NA	192.0%	71

Source: Company data, Al Rajhi Capital

Figure 3 Ma'aden: Sales volume summary of Q1 2019

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Y-o-Y	Q-o-Q	ARC est
Gold ('000 ounce)	118	103	98	98	78	-33.9%	-20.4%	96
Phosphate								
Ammonium phosphate fertilizer ('000 tons)	728	750	760	887	1,101	51.2%	24.1%	1,174
Ammonia ('000 tons)	354	301	337	359	396	11.9%	10.3%	291
Aluminium								
Alumina ('000 tons)	63	63	91	95	69	9.5%	-27.4%	94
Primary aluminium ('000 tons) - external	156	151	140	147	126	-19.2%	-14.3%	157
Flat rolled aluminium ('000 tons)	0	0	0	19	71	NA	273.7%	71

Source: Company data, Al Rajhi Capital

Valuation and Risks: Despite the near-term headwinds in the form of weak commodity prices, and higher costs associated with the MWSPC and MRC plants until it reaches their respective nameplate capacities, we remain positive on Ma'aden's long term growth prospects, given the likely positive outcome of its future projects, which could take a couple of years to fully ramp up. We expect commodity prices to remain under pressure amid trade war concerns in the near-term. We revise our forward looking estimates downwards, factoring in the steep increase in production costs in Q1 due to commercialization of MWSPC and MRC plants. Our revised fair value (existing businesses) is now at SAR38.9/share based on equal mix of DCF and relative valuation. We apply an exit valuation multiple of EV/EBITDA 11.4x (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 ~SAR6.1/share. Based on Market cap/ annual production, the third Phosphate project could add around SAR3.2/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 ~SAR2.9/share using the same metric.

Thus we arrive our target price at SAR45.0/share (SAR38.9/share + SAR6.1/share for future projects). At our target price of SAR45.0/share, the stock is currently trading at an EV/EBITDA of 14.5x on our 2019E EBITDA. We maintain our Underweight rating for the stock.



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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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 211 9449
Email: 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

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