Saudi Arabian Mining Co. (Ma'aden)

Investment Update

Growth driven by long-term expansion projects backed by high quality reserves with huge potential but already priced in current valuation.

Saudi Arabian Mining Co. (Ma'aden) is showing recovery in FY24 after a subdued performance in FY23. Higher volumes due to commissioning of new Mansourah-Massarah mine and favorable gold market conditions support the recovery. Moreover, the recent recovery in DAP and ammonia prices as well as improvement in Aluminum prices have been favorable. However, long term growth would be fueled by Saudi Arabia's Vision 2030 target of increasing the mining sector's contribution to GDP to USD 240bn. The Kingdom possesses huge mining potential with USD 2.5tn in untapped mineral resources. Aligning with the government's initiatives to develop the sector, Ma'aden is undertaking expansion plans across its key segments. We expect the company to witness volume growth attributable to expansion of capacities through Phosphate 3 project, Mansourah-Massarah ramp up, Ar Rjum expansion and Aluminum line 1&2 expansion. The expansion is more focused on high margin Gold and Phosphate segments that will aid improvement in margins in the long run. We forecast revenue CAGR of 6.0% during FY23-30E with EBITDA margin expansion from 30.5% in FY23 to 40.6% in FY30E. As a result, net profit is estimated to grow at 32.2% CAGR during FY23-30E. However, at current valuation the company's growth prospects seem to be priced in very well. Thus, we assign "Neutral" recommendation on Ma'aden with a TP of SAR 46.9/share.

Q3-24 topline aided by higher phosphate volumes and prices; missed our net income estimate owing to lower gross margin and credit loss provision despite positive one-offs: Ma'aden's net income declined 5.1% Q/Q to SAR 971mn, missing our estimate of SAR 1,071mn. The deviation from our estimates was mainly due to the lower-than-expected gross margin and the negative impact of credit loss provisions, despite one-off insurance claim income of SAR 94mn and fair value gain of SAR 52mn. Revenue jumped 12.0% Q/Q to SAR 8,045mn, in line with our estimate of SAR 7,691mn. The topline growth was mainly driven by a strong increase in Phosphate segment (+17% Q/Q), while Aluminum (+0.4% Q/Q) and Gold (+1% Q/Q) segment posted comparatively flattish topline. The Phosphate segment growth was driven by higher prices as well as sales volumes for both DAP (+10% and +4% Q/Q) and Ammonia (+17% and +20% Q/Q). Gold prices were up 7% Q/Q, but sales volumes fell 6% Q/Q due to maintenance at Sukhaybarat mine.

The gross margin came in at 29.9% vs. 30.5% in Q2-24 and was significantly below our estimate of 35.2%, mainly due to the lower-than-expected margin for the Gold segment. Operating profit fell 5.7% Q/Q to SAR 1,674mn, below our estimate of SAR 1,902mn. Lower insurance claim income, and credit loss provision weighed on operating income in addition to lower gross margin. On a Y/Y basis, Maaden returned to net profit from net loss of SAR 83mn, primarily due to a sharp growth of 29.2% Y/Y in the topline. The Y/Y growth in revenue was led by higher volumes and prices of key commodities such as DAP (price: +31% Y/Y; volume: +10% Y/Y), Ammonia (price: +24% Y/Y; volume: +19% Y/Y), Aluminum (price: +14% Y/Y; volume: stable Y/Y), and Gold (price: +29% Y/Y; volume: +2% Y/Y).

Saudi mining initiatives propel Ma'aden's expansion and long-term growth potential: Ma'aden's Strategy 2040 aims to achieve a tenfold increase in EBITDA by FY40. The company plans to accomplish this by enhancing production capacity in both existing and new mineral categories, utilizing strategies such as opening new mines and expanding current mining and processing operations. This approach is well-aligned with Saudi Arabia's Vision 2030, which emphasizes the development of the mining sector to contribute an estimated USD 240bn to the nation's GDP by 2030. With approximately USD 2.5tn in untapped mineral resources, the Kingdom is pursuing several large-scale mining projects. Ma'aden is the largest and most prominent player in the Saudi mining sector, thus the company is expected to play a vital role in implementation of strategic initiatives of the Kingdom in the sector that will result in long term growth for the company. Accordingly, Ma'aden is undertaking expansion plans across its key segments such as Phosphate 3 project, Mansourah-Massarah ramp up, Ar Rjum expansion and Aluminum line 1&2 expansion. Further, the company has the potential to increase production from some of the existing facilities. For e.g. Aluminum unit is currently operating at 85-90% utilization and has scope to increase production by improving the utilization rate.

Recommendation	Neutral
Target Price (SAR)	46.9
Upside / (Downside)*	-11.2%

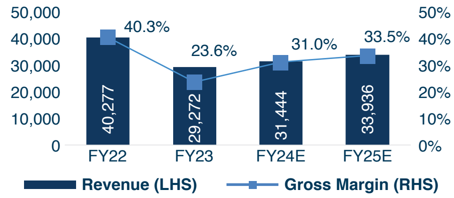
Source: Tadawul *prices as of 12th of December 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	40,277	29,272	31,444	33,936
Growth %	50.5%	-27.3%	7.4%	7.9%
Gross Profit	16,249	6,914	9,758	11,352
EBITDA	18,550	8,932	11,984	13,115
Net Income	9,319	1,577	4,197	6,310
Growth %	78.3%	-83.1%	166.1%	50.3%
EPS	2.52	0.41	1.10	1.66
DPS	0.00	0.00	0.00	0.00

Source: Company reports, Aljazira Capital; No. of share post capital hike

Revenue (SAR mn) and GP margin (%)



Source: AlJazira Capital, Company reports

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	40.3%	23.6%	31.0%	33.5%
EBITDA Margin	46.1%	30.5%	38.1%	38.6%
Net Margin	23.1%	5.4%	13.3%	18.6%
ROE	19.4%	3.7%	8.8%	11.2%
ROA	10.1%	1.9%	4.6%	6.3%
P/E	20.6	High	47.8	31.8
P/B	4.4	4.0	3.9	3.5
EV/EBITDA (x)	11.5	22.0	18.1	16.3

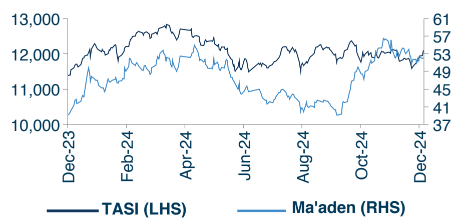
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	196.4
YTD%	9.6%
52 weeks (High)/(Low)	57.4/38.5
Share Outstanding (mn)	3,691.8

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Bloomberg, Aljazira Capital Research

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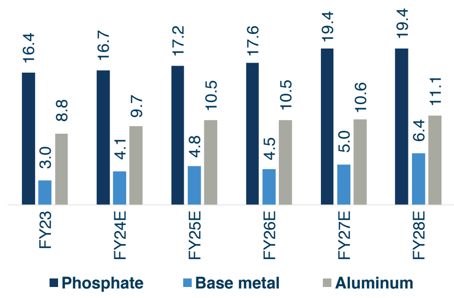
Phosphates 3 complex poised to solidify global leadership position in phosphate fertilizers with 50% capacity expansion: Phosphates segment is the largest segment for Ma'aden, contributing 56% of FY23 revenue. The company's Phosphates 3 project aims at expanding the current capacity of phosphate fertilizers by 50% from 6.0mn tonnes per annum to 9.0mn tonnes per annum. The expansion will take place in 2 phases. The first phase is expected to be completed by FY26E, adding 1.5mn tonnes per annum of capacity, while the second phase is expected to be completed by FY29E. Currently the production at existing DAP units is exceeding their nameplate capacity. Moreover, the company has a globally diversified presence. Hence, we believe expansion will bode well delivering growth for Ma'aden, as demand for its products exists. We anticipate phase I (which is under execution) commence operations in H2-26 and run at full capacity in FY27, while phase II is assumed to start operations in H2-29E. Accordingly, we forecast Phosphate segment revenue CAGR of 4.5% over FY23-30E. During this period, we expect DAP and ammonia prices to average USD 608 per ton and USD 405 per ton, respectively, as we expect prices to see moderation from recent short-term momentum and then a stabilization of prices.

Growth in base metal (gold) volumes and higher gold prices to support topline as well as margins; Mansourah-Massarah ramp up and Ar Rjum expansion to deliver long term growth: We expect Ma'aden's gold revenue in the near to medium term will be driven by commissioning of new Mansourah-Massarah mine and current strong global demand for gold. The project is expected to add 250k ounces per year to gold production. Moreover, Ar Rjum project, planned to be commissioned in FY27, is expected to add 200k-300k ounces. We forecast gold volumes to grow ~14% in FY24E and ~4% in FY25E. Over the long term, with our little conservative estimates compared to the company targets, we expect gold volume to increase at CAGR of 10.2% during FY23-30E, reaching ~801k ounces from ~407k ounces in FY23. Moreover, gold prices are expected to gradually stabilize in coming years after the current strong rally. Accordingly, revenue for the gold segment is estimated to grow at a robust CAGR of 14.8% during FY23-30E.

Margins are likely to improve gradually amid growth driven by high margin Gold segment: Ma'aden's future topline growth (FY23-30E CAGR: 6.0%) is expected to be mainly driven by Gold (CAGR: 9.9%) segment expansion further assisted by Phosphate (CAGR: 4.5%). Gold segment (EBITDA margin: 54.6%) has healthy margins compared to Phosphate (9M-24 EBITDA margin: 46.0%) and Aluminum (9M-24 EBITDA margin: 30.6% including insurance claim benefits) segments. Based on our forecast, the contribution of high-margin Gold segment to total revenue is likely to increase from 10% in FY23 to 18% in FY30, while low-margin Aluminum contribution will fall from 30% to 25% during the same period. The change in revenue mix is expected reflect positively on margins. Thus, we expect the gross margin to expand from 23.6% in FY23 to 34.1% in FY30E and EBITDA margin is likely to improve from 30.5% in FY23 to 40.6% in FY30E.

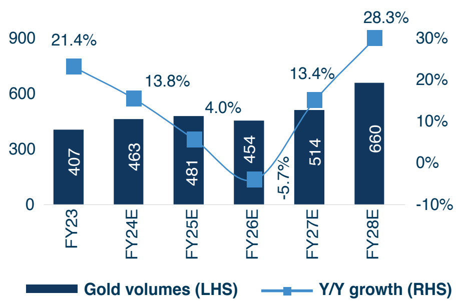
The planned increase in stake in subsidiaries may support bottom line but dilute ownership of the existing shareholders; potential merger with Alba could strengthen position in global Aluminum industry: Ma'aden is planning to acquire an additional 25.1% stake in MBAC and MAC from Alcoa, increasing ownership in both from 74.9% to 100%. Similarly, the company is also increasing its stake in MWSPC from 60% to 85%. These acquisitions may support net income by reducing the minority interest (9M-24 minority interest: SAR 710mn). On the flip side, Ma'aden plans to hike its stake in MBAC, MAC and MWSPC through issuing new shares (~111mn share – 3% of current capital for MWSPC and ~ 86mn – 2.3% for MAC and MBAC acquisition) which will dilute the ownership for existing shareholders by 5.3%. Moreover, Ma'aden has agreed to acquire SABIC's 20.6% stake in Alba and exploring a potential merger of Alba and Ma'aden's Aluminum business unit that may lead to forming global aluminum powerhouse in the region.

Revenue by key segments (SAR bn)



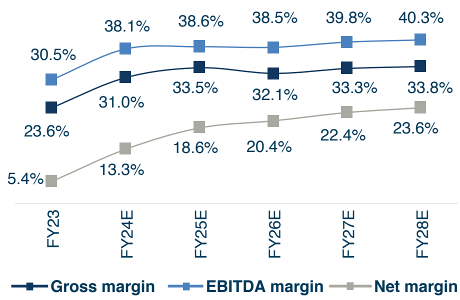
Source: Company reports, Aljazira Capital Research

Gold sales volume forecast ('000 ounce)



Source: Company reports, Aljazira Capital Research

Margins trend (%)



Source: Company reports, Aljazira Capital Research

Balance sheet leverage is anticipated ease despite medium to long term CAPEX requirement due to strong operating cash flow: Ma'aden's total debt amounted to SAR 36.9bn as of September 2024, reducing from SAR 37.3bn in FY23. The debt-to-equity ratio is expected to ease from 0.66x in FY23 to 0.59x in FY24 and reach 0.1x by FY30E, with total debt declining to SAR 8.5bn by FY30E. The company's strong cash flow generating ability allows it to fund expansion without stressing the balance sheet. We estimate CFO to increase from SAR 10.1bn in FY23 to SAR 16.9bn in FY30E, sufficient to fund CAPEX which is expected to average around SAR 4.0bn per year during this period. Moreover, FCF is estimated to increase from SAR 7.3bn in FY23 to SAR 13.9bn in FY30E, adding to the company's cash and providing room for returning shareholders capital in future through dividends or share buybacks.

AJC view and valuation: Ma'aden is well poised to benefit from Saudi government's focus on development and expansion of mining sector. The Kingdom possesses huge mining potential with USD 2.5tn in untapped mineral resources. Aligning with the government's initiatives to develop the sector, Ma'aden is undertaking expansion plans across its key segments. In the long term, Ma'aden's growth trajectory is likely to be underpinned by increased production volumes stemming from capacity expansions in its Phosphate and Gold segments, notably through the Phosphate 3 project, Mansourah-Massarah ramp-up, and the Ar Rjum expansion. These initiatives are expected to bolster profitability as the company shifts focus to higher-margin segments. We project a revenue CAGR of 6.0% over FY23-30E, with EBITDA margins improving from 30.5% in FY23 to 40.6% by FY30E. Consequently, net profit is forecasted to grow at a robust 32.2% CAGR over the same period. However, given the current valuation, much of the growth potential appears to be already factored into the stock price.

We value Ma'aden with equal weightage to DCF (WACC = 8.6% and terminal growth = 3.0%) and FY25E EV/EBITDA multiple of 15.0x (in line with historical trading multiple) to arrive at a TP of **SAR 46.9 per share**, implying 11.2% downside from current market price. Thus, we recommend a "**Neutral**" rating on the stock. The stock currently trades at EV/EBITDA of 16.3x and P/E of 31.8x based on our FY25 estimates. Key upsides to our valuation include – higher than expected commodity prices, more aggressive expansion, inorganic expansion, better than expected processing rates and grades of the minerals. Key downside risks are – delay in execution of planned expansion, volatility of commodity prices and regulatory changes.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	48.3	**50%**	24.1
EV/EBITDA	45.4	**50%**	22.7
Blended TP			**46.9**

Source: AlJazira Capital Research

Key Financial Data

Amount in USD mn, unless otherwise specified	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement							
Sales revenues	40,277	29,272	31,444	33,936	34,236	36,853	38,938
Y/Y	**50.5%**	**-27.3%**	**7.4%**	**7.9%**	**0.9%**	**7.6%**	**5.7%**
Cost of sales	(24,028)	(22,358)	(21,685)	(22,584)	(23,259)	(24,591)	(25,794)
Gross profit	**16,249**	**6,914**	**9,758**	**11,352**	**10,977**	**12,263**	**13,144**
Selling, marketing & logistic expenses	(880)	(630)	(560)	(540)	(475)	(438)	(425)
General & administration expenses	(1,629)	(1,967)	(1,936)	(2,020)	(1,970)	(2,047)	(2,123)
Exploration expenses	(203)	(485)	(628)	(609)	(547)	(515)	(505)
Operating profit	**13,537**	**3,816**	**7,182**	**8,200**	**8,005**	**9,287**	**10,119**
Y/Y	**82.6%**	**-71.8%**	**88.2%**	**14.2%**	**-2.4%**	**16.0%**	**9.0%**
EBITDA	**18,550**	**8,932**	**11,984**	**13,115**	**13,185**	**14,668**	**15,705**
Y/Y	**54.2%**	**-51.8%**	**34.2%**	**9.4%**	**0.5%**	**11.2%**	**7.1%**
Financial charges	(1,515)	(2,347)	(2,557)	(1,725)	(1,259)	(1,032)	(777)
Profit before zakat & minority interest	**12,187**	**1,424**	**4,608**	**6,476**	**6,747**	**8,255**	**9,342**
Income from short-term investments	278	848	786	755	762	770	778
Minority interest	(2,810)	(120)	(925)	(774)	(367)	(434)	(483)
Zakat	(889)	(524)	(547)	(745)	(774)	(915)	(1,022)
Net income after minority interest	**9,319**	**1,577**	**4,197**	**6,310**	**6,968**	**8,254**	**9,181**
Y/Y	**78.3%**	**-83.1%**	**166.1%**	**50.3%**	**10.4%**	**18.5%**	**11.2%**
EPS	**2.52**	**0.41**	**1.10**	**1.66**	**1.83**	**2.17**	**2.41**
DPS	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Balance sheet							
Cash & cash equivalents	6,338	10,537	13,392	9,219	10,546	16,846	21,495
Trade & other receivables	7,369	6,046	6,197	6,327	6,460	6,595	6,734
Inventories	6,874	7,200	7,488	7,713	7,944	8,183	8,428
Total current assets	**31,134**	**29,210**	**28,243**	**24,447**	**26,916**	**33,762**	**40,485**
Investments in JVs	1,296	1,601	6,821	7,168	7,865	8,568	9,254
TAADEN property	11,641	12,917	12,659	12,596	12,533	12,470	12,408
Property, plant & equipment	60,782	59,810	58,922	59,044	59,171	57,830	56,334
Total non-current assets	**80,452**	**82,663**	**87,804**	**88,308**	**89,575**	**89,424**	**89,153**
Total assets	**111,586**	**111,874**	**116,047**	**112,755**	**116,491**	**123,186**	**129,638**
Accrued expenses	4,552	5,070	6,084	6,510	6,661	7,077	7,445
Current portion of long-term borrowing	3,404	4,428	6,643	3,321	2,989	3,736	4,110
Total current liabilities	**12,963**	**14,723**	**17,935**	**15,092**	**14,963**	**16,180**	**16,975**
Long-term borrowing	38,052	33,179	29,751	23,108	19,787	16,797	13,061
Total non-current liabilities	**42,584**	**40,336**	**36,947**	**30,055**	**26,825**	**23,928**	**20,286**
Total liabilities	**55,546**	**55,058**	**54,882**	**45,146**	**41,788**	**40,108**	**37,261**
Share capital	24,612	36,918	38,028	38,028	38,028	38,028	38,028
Retained earnings	18,069	9,667	13,445	19,124	25,395	32,824	41,087
Total shareholders' equity	**45,069**	**46,423**	**51,780**	**58,129**	**65,129**	**73,408**	**82,610**
Total equity	**56,040**	**56,815**	**61,165**	**67,609**	**74,703**	**83,078**	**92,377**
Total liabilities & shareholders' equity	**111,586**	**111,874**	**116,047**	**112,755**	**116,491**	**123,186**	**129,638**
Key ratios analysis							
Liquidty ratios							
Current ratio (x)	2.4	2.0	1.6	1.6	1.8	2.1	2.4
Cash ratio (x)	0.5	0.7	0.7	0.6	0.7	1.0	1.3
Profitability ratios							
Gross profit margin	40.3%	23.6%	31.0%	33.5%	32.1%	33.3%	33.8%
Operating margin	33.6%	13.0%	22.8%	24.2%	23.4%	25.2%	26.0%
Net profit margin	23.1%	5.4%	13.3%	18.6%	20.4%	22.4%	23.6%
ROAA	10.12%	1.85%	4.56%	6.28%	6.49%	7.34%	7.44%
ROAE	19.44%	3.67%	8.81%	11.16%	10.45%	11.15%	10.72%
EBITDA margin	46.1%	30.5%	38.1%	38.6%	38.5%	39.8%	40.3%
Leverage ratio							
Debt / equity (x)	0.74	0.66	0.59	0.39	0.30	0.25	0.19
Market/valuation ratios							
EV/revenues (x)	5.3	6.7	6.9	6.3	6.1	5.4	4.9
EV/EBITDA (x)	11.5	22.0	18.1	16.3	15.8	13.6	12.0
EPS (SAR)	2.52	0.41	1.10	1.66	1.83	2.17	2.41
Book value per share (SAR)	11.9	12.2	13.6	15.3	17.1	19.3	21.7
Market price (SAR) *	51.9	48.6	52.8	52.8	52.8	52.8	52.8
Market capitalization (SAR mn)	191,603	179,235	200,787	200,787	200,787	200,787	200,787
P/E ratio (x)	20.6	117.0	47.8	31.8	28.8	24.3	21.9
P/BV ratio (x)	4.38	3.98	3.88	3.45	3.08	2.74	2.43
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Aljazira Capital Research; * Current no. of shares post capital hike are considered for historic financials for better comparison

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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.

Disclaimer