

Al Masane Al Kobra Mining Co.

Mining and Metals
AMAK AB: Saudi Arabia
4th August 2024



Research Department
Madhu Appissa, CFA

US\$1.51bn
Market Cap.

56.13%
Free Float

US\$10.32mn
Avg. Daily Value traded

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Al Masane Al Kobra Mining Co.

TP raised, but remain cautious due to cloudy global economic environment

Neutral

Price Target (SAR): 62.7

Current (4th August 2024): 63.00
Upside/Downside: 0.4% below current

Valuation Multiples	23	24E	25E
P/E (x)	103.9	38.3	24.9
P/B (x)	4.6	4.6	4.6

Major Shareholders	% Ownership
Arab Mining Co.	14.24
Asas Mining Co.	13.33
National Lead Smelting Co. Ltd.	6.07

Price Performance	YTD	3M	1M
Absolute	10.3%	5.9%	0.2%
Relative to TASI	12.1%	10.9%	-0.7%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	488	741	899
Revenue growth	-16.3%	51.9%	21.3%
Gross profit	116	245	348
Gross margin	23.8%	33.1%	38.7%
EBIT	56	166	257
EBIT margin	11.6%	22.4%	28.6%
EBITDA	186	316	411
EBITDA margin	38.0%	42.6%	45.8%
Net profit	55	148	228
Net margin	11.2%	20.0%	25.3%
EPS	0.6	1.6	2.5
DPS	1.7	1.6	2.5
P/E (current)	103.9x	38.3x	24.9x
P/E (target)	103.5x	38.1x	24.8x
RoE	4.5%	12.1%	18.7%

Source: Company data, Al Rajhi Capital

AMAK's Q2 2024 results were solid with a strong beat on bottom line as higher metal prices and increased volumes catapulted its profits by 4x y-o-y to SAR 62 mn versus our expectations of 2x growth in bottom-line of SAR 34 mn. Given the high fixed cost base (70% fixed cost), the higher metal prices translated into solid operational leverage. In 2024, copper prices touched lifetime highs in May, albeit partly helped by supply outages. Despite copper prices coming off its highs, the current prices (as of 2nd Aug'24) is still up 6% compared to average prices in 2023 and the medium-term price forecasts (Bloomberg) remain healthy (further gains) indicating the demand for the yellow metal is pretty solid led by EVs and renewable energy. Moreover, the early price trends in Q3 2024 (July/Aug.) indicate that if prices do not decline much, then H2 2024 operating performance should continue to see benefits from the prices of its two main metals. The July/Aug. average for copper and zinc, if assumed stays for the rest of H2, should imply a 14% y-o-y increase for both the metal prices. At the same time, precious metal (account for over 40% of the revenues for FY23) prices are also on the uptrend and July/Aug. prices are higher by over 20% for both gold and silver compared to H2 2023.

In addition to the healthy pricing environment, the company is also expected to benefit from the rise in production volumes in H2 2024 and in the next couple of years. The company's Moyoath plant, expected to start contributing from Q3 2024, will increase the company's base metals processing capabilities notably, with zinc capacity rising by 80% and copper by 40% from the current levels. Moreover, the yield of Guyan mine (main product is gold) is expected to improve in the near term. In 2023, the utilization rate for Guyan mine is below 60% level, we anticipate improvement in 2024 by almost 400 bps to about 64%, that should result in a 10% y-o-y increase in production. Over the medium term, we expect the utilization level to gradually improve and reach 90% by 2028 as the company plans to explore underground reserves, that should improve the recovery.

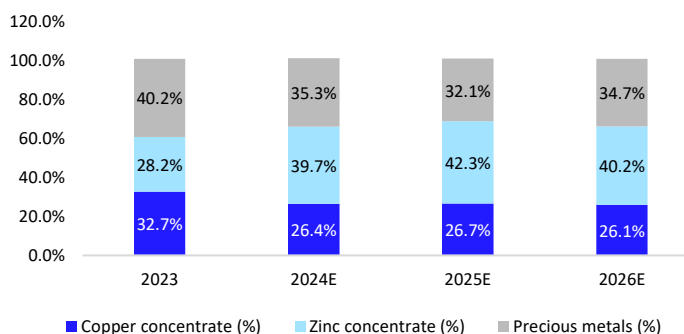
Thus, a combination of strong pricing and volume increase should boost the earnings in 2024 as well as 2025. We estimate EBITDA to increase by 70% y-o-y to SAR 316 mn in 2024 and further grow by 30% in 2025. In addition to this, the long-term catalyst exists in the form of KSA's policy to support local mining companies and allocate more licenses. In 2023, AMAK obtained 5 licenses to explore various minerals, including Gold, Copper, and Zinc, in many locations. Given that the company has hardly any debt, it is an advantageous position to fund the exploration plans. We raise our target price to SAR 62.7/share from SAR 54/share before but maintain our neutral recommendation on the stock. Despite the volume growth story, we are a bit skeptical about the near term global economic growth and the rising geopolitical risks. We would wait for signs that indicate the US economy is heading towards a soft landing and no major escalation on the geopolitical front. Key upside risks include sharp gains in gold prices given that rates are expected to come down in the US.

Figure 1 Production-Price Evolution

Key Indicators	2022	2023	2024E	2025E	2026E	2027E	2028E
Production Volumes (Al Masane + Guyan + Moyoath)							
Copper concentrate (dmt)*	21,190	19,515	26,542	31,352	32,347	32,347	32,347
Zinc concentrate (dmt)*	41,151	45,700	59,148	77,557	81,137	81,137	81,137
Gold (oz)	30,910	26,352	28,989	29,328	33,824	36,505	39,234
Silver (oz)	87,097	75,509	85,429	86,664	87,908	88,629	89,349
Pricing (\$)*							
Copper (\$/mt) #	8,788	8,523	9,150	9,502	9,978	9,921	10,020
Zinc (\$/mt) #	3,440	2,651	2,650	2,613	2,639	2,665	2,665
Gold (\$/oz)	1,801	1,943	2,323	2,540	2,653	2,715	2,729
Silver (\$/oz)	21.8	23.4	27.6	29.8	31.0	31.0	31.2

Source: Company data, Al Rajhi Capital; # Copper and Zinc Prices are LME averages; * 2024E-2028E is ARC estimate

Figure 2 Revenue Mix (2023-2026E)



Source: Company data, Al Rajhi Capital; 2024E-2026E is ARC estimates

Valuations: AMAK is currently trading at a 2024E EV/EBITDA of 18x and 2025E EV/EBITDA of 14x, which is a notable premium to global peers, that trade at an average multiple of 6.6x. However, compared to Maaden, national champion, the company is trading at broadly in line on 2025E. AMAK has a unique advantage of strong balance sheet and relatively high mix of precious metals. Further, the organic volume growth story is also encouraging. Thus, the current multiples, though appear to be on the higher side, is justified to a large extent. However, given the uncertainty around the recovery in the Chinese economy, economic and political uncertainty in the US, and rising geopolitical risks, in our view it is not prudent to assign a notably higher multiple than the current. At the same time, both copper and gold prices are trading closer to lifetime highs, thus it is exposed to downside risks. We would wait for signs of strength in the Chinese economy, signs of soft economic landing in the US and clarity on geopolitics, before revising the multiple upwards. We employ an EV/EBITDA valuation multiple to arrive at our fair value, given the nature of the capital-intensive business and different capital structure. At our 14x EV/EBITDA multiple on 2025E EBITDA, we derive a fair value of SAR 62.7/share, that is broadly in line with the current market price. Thus, we maintain our neutral recommendation on the stock.

Figure 3 Valuations

Relative Valuation Methodology (EV/EBITDA)	
2025e EBITDA (SAR mn)	411
Maaden 2025e multiple	14.4x
Target multiple (AMAK)	14.0x
EV (SAR mn)	
EV (SAR mn)	5,760
Net debt	113
Equity value (SAR mn)	5,647
No. of shares	90
Equity value (per share)	
Equity value (per share)	62.7
Current Price (SAR)	63.0
Upside (%)	-0.4%

Source: Al Rajhi Capital

Figure 4 Peer Analysis

Peer Company	Market Cap (USD)	EV/EBITDA trailing	EV/EBITDA FY24	EV/EBITDA FY25	P/E trailing	P/E FY24	P/E FY25	TTM Dividend Yield (%)
Local Players								
Maaden	48,232	20.1x	17.4x	14.8x	72.9x	49.8x	34.0x	NM
Pure Gold Players								
BARRICK GOLD CORP	31,259	9.6x	9.3x	7.1x	38.4x	18.6x	14.3x	2.05
NEWMONT CORP	53,619	8.2x	6.4x	5.1x	18.7x	15.1x	11.4x	2.25
KINROSS GOLD CORP	10,599	10.2x	7.6x	6.4x	23.0x	16.7x	13.1x	2.78
AGNICO EAGLE MINES LTD	36,752	6.4x	5.5x	5.4x	21.7x	15.1x	13.3x	1.37
GOLD FIELDS LTD	14,722	11.2x	8.8x	8.3x	33.6x	21.0x	19.0x	2.14
ZIJIN MINING GROUP CO LTD-H	56,693	6.2x	5.7x	4.2x	17.5x	13.2x	8.4x	2.48
Pure Copper Players								
First Quantum Minerals	10,113	10.2x	12.3x	6.6x	NM	NM	17.2x	0.48
Southern Copper	82,350	15.2x	13.3x	11.8x	29.4x	23.9x	21.1x	2.63
Ivanhoe Mines Ltd	16,725	NM	17.5x	9.0x	105.3x	36.1x	16.8x	NM
Lundin Mining	7,912	8.9x	5.4x	5.2x	79.7x	13.9x	12.9x	2.56
Diversified Metal Players								
RIO TINTO LTD	109,627	5.4x	4.7x	4.5x	12.3x	10.5x	10.4x	5.64
RIO TINTO PLC	109,414	5.4x	4.7x	4.5x	10.5x	8.9x	8.8x	6.78
VALE SA	49,326	3.7x	3.5x	3.4x	5.4x	5.0x	4.8x	13.28
BHP GROUP LTD	140,149	6.3x	5.4x	5.3x	18.9x	10.2x	10.4x	5.56
MINERAL RESOURCES LTD	6,923	6.5x	13.4x	10.2x	26.7x	74.4x	56.9x	1.68
KUMBA IRON ORE LTD	7,097	3.1x	3.4x	3.6x	6.4x	7.0x	7.6x	11.62
NMDC LTD	8,349	8.4x	6.6x	6.2x	12.5x	9.6x	9.2x	4.83
FORTESCUE LTD	41,128	4.0x	3.8x	5.1x	7.1x	6.8x	9.7x	10.22
VEDANTA LTD	20,759	6.8x	5.5x	4.9x	39.0x	11.3x	9.3x	4.95
<i>Local Players Average</i>		20.1x	17.4x	14.8x	72.9x	49.8x	34.0x	NM
<i>Gold Players Average</i>		8.6x	7.2x	6.1x	25.5x	16.6x	13.2x	2.18
<i>Copper Players Average</i>		11.4x	12.1x	8.2x	71.5x	24.6x	17.0x	1.89
<i>Diversified Metals Players Average</i>		5.5x	5.7x	5.3x	15.4x	16.0x	14.1x	7.2x
Overall Average		8.2x	8.0x	6.6x	30.5x	19.3x	15.4x	4.6x

Source: Bloomberg, Al Rajhi Capital; Data last updated on 28th July 2024

Financials

Figure 5 Income Statement

(SAR mn)	2023	2024E	2025E
Sales	488	741	899
Cost of Sales	(372)	(496)	(551)
% of revenues	76.2%	66.9%	61.3%
Gross Income	116	245	348
Selling and marketing expenses	(16)	(24)	(29)
General and Administrative expenses	(44)	(55)	(62)
% of revenues	12.2%	10.6%	10.1%
ECL Provision	0	0	0
Operating Expenses	(59)	(79)	(91)
% of revenues	12.2%	10.6%	10.1%
Operating Income	56	166	257
Financial costs	(8)	(12)	(12)
Other income	12	3	0
Profit before tax	60	157	245
Zakat & Tax	(6)	(9)	(17)
Net Profit Before Unusual Items	55	148	228
Non-controlling interest	0	0	0
Net Income	55	148	228
EPS (SAR/sh)	0.6	1.6	2.5
EBITDA	186	316	411

Source: Al Rajhi Capital estimates

Figure 7 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash from operations	291.2	172.6	316.2
Cash from investing	-398.4	-99.4	-104.0
Cash from financing	-163.2	-73.2	-166.1
Net change in cash and cash equivalents	-270.5	0.1	46.1
Cash and cash equivalents, end of the period	110.9	111.0	157.1

Source: Al Rajhi Capital estimates

Figure 8 Key Ratios

Key metrics	2023	2024E	2025E
Current ratio	2.9x	2.9x	2.8x
Gross margin (%)	23.8%	33.1%	38.7%
EBITDA margin (%)	38.0%	42.6%	45.8%
Operating margin (%)	11.6%	22.4%	28.6%
Net margin (%)	11.2%	20.0%	25.3%
ROA	3.8%	9.6%	14.0%
ROE	4.5%	12.1%	18.7%

Source: Al Rajhi Capital estimates

Figure 6 Balance sheet

(SAR mn)	2023	2024E	2025E
Assets			
Mine properties	638	622	604
Property and Equipment	374	340	308
Right of use assets	2	2	2
Deferred tax	29	29	29
Total non-current assets	1,043	993	943
Inventories	101	129	143
Trade and other receivables	130	183	222
Prepayments and advances	70	133	162
Cash and cash equivalents	111	111	157
Total current assets	411	556	684
Total Assets	1,454	1,549	1,627
Liabilities			
Employee benefit obligations	14	17	20
Loans and Borrowings	43	83	111
Non current portion of lease liabilities	1	1	1
Provision for mine closure asset	32	32	32
Total non-current liabilities	90	134	165
Loans and borrowings	67	102	136
Lease liabilities	1	1	1
Trade and other payables	46	52	57
Accruals and other non-financial liabilities	22	33	40
Provision for zakat and income tax	5	5	5
Provision form severance fees	2	2	2
Total current liabilities	144	195	242
Shareholders' equity			
Share capital	900	900	900
Share based compensation expense	6	6	6
Share premium	269	269	269
Statutory reserve	0	0	0
Treasury shares	(15)	(15)	(15)
Retained earnings	61	61	61
Equity attributable to shareholders of the Parent Company	1,220	1,220	1,220
Total Liabilities	1,454	1,549	1,627

Source: Al Rajhi Capital estimates

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