

Saudi Arabian Mining Company (MAADEN) - Q3'23 Result Review

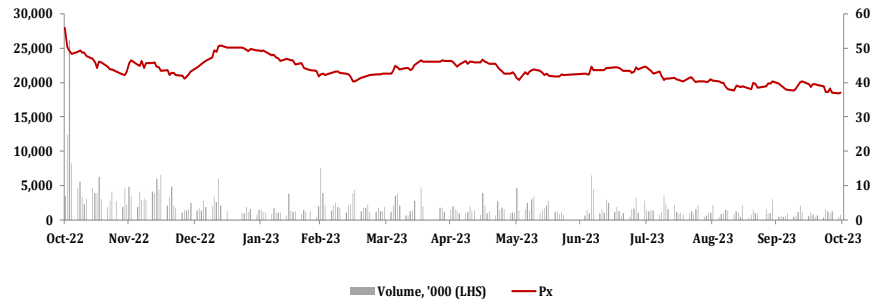
Analyst: Neetika Gupta

Recommendation: Hold
Previous Reco. TP: SAR 37.5 per share; Hold on 07-September-2023

Fair Value (SAR): 35.70
Upside / (Downside): -0.7%

Date: 31-10-2023

Bloomberg Ticker	MAADEN AB
Current Market Price (SAR)	36.0
52wk High / Low (SAR)	57/35.4
12m Average Vol. (mn)	2,106.2
Mkt.Cap. (SAR bn)	132,719/132,719
Shares Outstanding (mn)	3,692
Free Float (%)	32.8%
3m Avg Daily Turnover (SAR mn)	47,908.5
6m Average Daily Turnover (SAR mn)	61,613.4
PE 2023e (x)	59.2x
EV/EBITDA 2023e (x)	22.8x
Dividend Yield '23e (%)	0.0%
Price Perf. (1m/3m) (%)	-10.9%/-19.0%



Revenue decline 38% YoY, misses estimate.

Ma'aden witnessed a 38% YoY revenue decrease, amounting to SAR 6,226mn in Q3'23, which slightly fell short of our anticipated SAR 6,945mn. This variance in Q3'23 is likely attributed to lower-than-expected volumes for Phosphate division due to infrastructure failure resulting in a 20% decrease in revenue compared to previous quarter. This decrease was partially offset by a 10% QoQ increase in revenue from base metals. Aluminium witnessed a marginal decrease of 1% in Q3'23 vs Q2'23.

Gross and operating profits decrease significantly, missing estimates.

The company's gross profit and operating profit were SAR 929mn and SAR 212mn, respectively. These figures were below our estimated SAR 1,611mn and SAR 934mn. The deviation is likely attributable to lower-than-expected phosphate revenue (SAR 3,246mn vs SAR 3,836mn estimated). This is attributed to the infrastructure breakdown in Q3'23, resulting in reduced volumes for phosphate and increased maintenance costs, ultimately leading to lower-than-expected overall margins (Gross Margins: 15% vs 23% expected and Operating Margins: 3% vs 13% estimated). Margins were also affected in the Aluminium segment due to one-time post-restart expenses and industrial utility charges.

Net profit declined by 104% YoY, misses estimate.

The company incurred a net loss of SAR 83mn (-104% YoY and -124% QoQ), falling short of our projected profit of SAR 711mn. This was primarily due to lower-than-anticipated revenues and margins resulting from a breakdown, leading to a substantial decrease in Gross and Operating margins. Additionally, net income was adversely affected by higher-than-expected finance costs in Q3'23.

Maintaining our target price.

The global phosphate market is expected to remain stable in Q4'23, amid the robust demand in the Americas and the Middle East. In contrast, aluminium prices are still under pressure due to reduced demand, along with high inflation and interest rates. Furthermore, we anticipate an improved performance for base metals in Q4'23, driven by the increasing gold prices resulting from the ongoing conflict between Israel and Palestine. This growth could partially offset the sharp declines in the margins witnessed in phosphate and aluminium segments for FY'23e. Thus, amidst the uncertainties for 2023e, we are maintaining our "Hold" rating on the stock and keeping our target price at SAR 35.7 per share.

Valuation.

Ma'aden is trading at 2023e P/E of 59.2x compared to the historical average 1-year forward P/E of 34.8x. Additionally, the stock is valued at EV/EBITDA multiple of 22.8x, based on our FY23 estimate, compared to the historical average of 14.2x.

Income Statement												
(SAR 'mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales	10,014	9,472	8,045	6,966	6,226	6,945	-38%	-11%	-10%	30,805	21,237	-31%
Gross profit	3,574	2,633	1,586	1,616	929	1,611	-74%	-43%	-42%	13,616	4,130	-70%
Operating profit	2,954	1,767	930	843	212	934	-93%	-75%	-77%	11,770	1,986	-83%
Net Profit	2,103	1,016	419	351	(83)	711	-104%	-124%	-112%	8,303	687	-92%
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Shareholder's equity	35,651.3	45,069	45,543	45,883	45,758	46,594	28%	0%	-2%	35,651	45,758	28%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Gross profit margin	36%	28%	20%	23%	15%	23%						
Operating profit margin	29%	19%	12%	12%	3%	13%						
Net profit margin	21%	11%	5%	5%	-1%	10%						
RoE (annualized)	24%	9%	4%	3%	-1%	6%						

Source: Financials, Tadawul, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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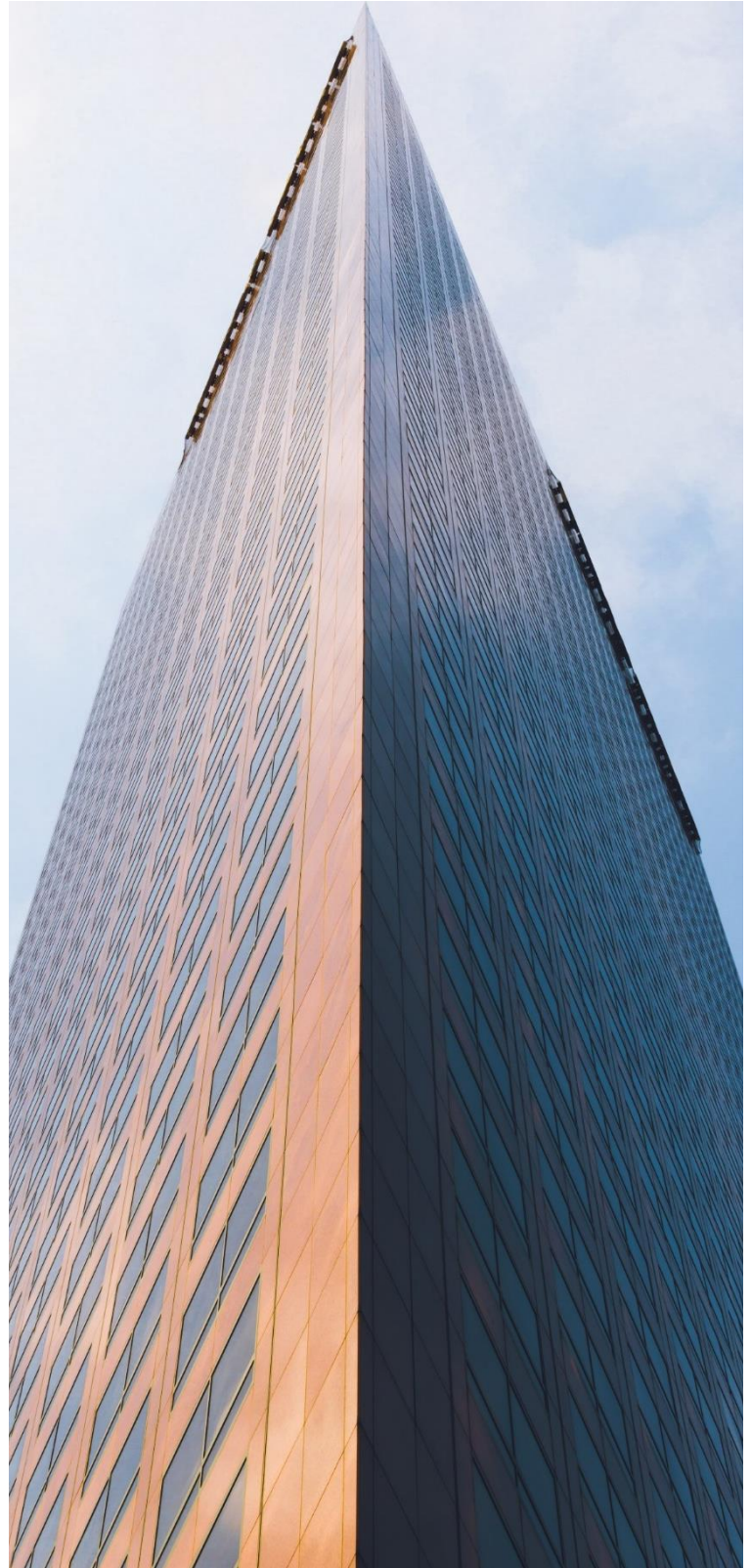
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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