

# Saudi Arabian Mining Co. (MAADEN)

Target Price: SAR 66.5

Upside: 5.0%

Recommendation	Hold
Bloomberg Ticker	MAADEN AB
Current Market Price (SAR)	63.3
52wk High / Low (SAR)	85.4 / 38
12m Average Vol. (mn)	3.3
Mkt.Cap. (SAR bn)	77.9
Shares Outstanding (mn)	1230.6
Free Float (%)	32.8%
3m Avg Daily Turnover (SAR mn)	217.6
6m Average Daily Turnover (SAR mn)	232.3
PE 2023e (x)	16.4x
EV/EBITDA 2023e (x)	10.7x
Dividend Yield '23e (%)	0.0%

Price Performance:	
1 month (%)	-2.5%
3 months (%)	-0.6%
12 months (%)	66.8%

Source: Refinitiv, as of 22<sup>nd</sup> Dec. 2022

Price -Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP.	Weights
DCF	75.3	19.0%	80%
EV/EBITDA	22.3	-64.7%	10%
PE multiple	39.7	-37.3%	10%
<b>Target price</b>	<b>66.5</b>	<b>5.0%</b>	

Source: U Capital Research

December 26, 2022

Ayisha Zia

Head of Research

[a.zia@u-capital.net](mailto:a.zia@u-capital.net)

+968 24949036

- Largest multi-commodity metals and mining company in the Middle East.
- Diversified commodity mix (fertilisers, basic and precious metals)
- Vertical integration gives both the fertiliser and aluminium segments access to low-cost feedstock
- Global clientele (serving markets across Asia, Africa, Europe, and North and South America)
- We retain our Hold rating on the stock

Saudi Arabian Mining Company (MAADEN) reported a net profit (belonging to equity shareholders) of SAR 2,103 mn in 3Q22 (our estimate of a net profit of SAR 3,711 mn) compared to a net profit of SAR 1,272 mn in 3Q21. The bottom line was hit mainly due to a higher-than-expected fall in topline and an above-expected jump in direct cost. Moreover, the bottom line in 3Q22 was also impacted by higher operating expenses and interest costs compared to our estimates. However, on an annual basis, MAADEN's performance in 3Q22 was driven by higher topline garnered through the company's Phosphate segment (~65% of total revenue) and higher cost efficiency resulting in an operating margin of 29.5% compared to 28.0% in 3Q21. The topline performance of the Phosphate segment in 3Q22 was driven by improved sales volume and higher product prices. Sales volume for ammonia increased by ~411% YoY resulting from the commencement of Ammonia 3 production in 3Q22, while DAP volume increased by ~10% YoY. The ammonia sales price, on average, increased by ~77% YoY, while the sales price for DAP improved by ~23% YoY.

MAADEN's overall gross margin improved from 33.8% in 3Q21 to 35.7% in 3Q22 mainly due to lower direct cost reported in the company's Phosphate segment, which led to an improvement in gross margin from 33.0% in 3Q21 to 50.0% in 3Q22. However, partially offset by the falling Aluminium segment gross margin, which fell from 35.4% in 3Q21 to 2.8% in 3Q22 due to higher raw material prices (Coke, Caustic Soda, Pitch).

During 2Q22, MAADEN increased its share capital through a one-for-one bonus share distribution in a bid to boost its capital base and finance future growth plans, following which the number of shares increased from 1.23 bn to 2.46 bn.

**Valuation and risk:** Following 3Q22 earnings, we raise our FY22 bottom-line projection for MAADEN by 6.3%. In the midst of the ongoing conflict in Ukraine, we anticipate instability and unpredictability with extended consequences. Prices are anticipated to remain erratic in the face of unclear demand. The reopening of the Chinese economy and the evolution of the military situation will be the important events to follow in the coming months. After adjusting the bottom line and accounting for changes in valuation, we arrive at our updated target price of SAR 66.5 per share compared to SAR 65.3 per share earlier. We retain our Hold rating on the stock. The FY22 EPS estimate is SAR 4.1 vs SAR 3.9 (after adjusting for increase in number of shares) previously. Currently, the stock trades at 16.4x P/E and 10.7x EV/EBITDA, based on our FY23 estimates. The key downside risks to our valuation include an uptick in raw material prices, inflation and a higher interest rate, slowdown in economic activities and unfavorable swings in crude oil prices. Key upside risks to our valuation include rising demand from reopening the Chinese economy, recovery in commodities prices and stable to the falling interest rate.

## Valuation:

### Discounted Cash Flow

	FY22	FY23	FY24	FY25	FY26	Terminal Value
Pegged on December 22, 2022						
Time period index	0.02	1.02	2.03	3.03	4.03	4.03
<b>Free cash flow</b>						
PAT	10,087	9,505	8,362	7,181	8,406	
Interest (1-tax rate)	1,402	1,077	1,001	899	802	
Depreciation	4,782	5,067	5,092	5,300	4,604	
Changes in Working Capital	(353)	(583)	(3,311)	479	3,338	
Less: Capex	(1,439)	(3,064)	(2,209)	(2,046)	(2,119)	
<b>Free cash flow to firm (FCFF)</b>	<b>14,480</b>	<b>12,002</b>	<b>8,935</b>	<b>11,813</b>	<b>15,032</b>	<b>223,125</b>
Discounted FCFF	14,451	11,057	7,596	9,270	10,888	161,612

Enterprise Value	214,873
Less: Net debt (Includes leases)	29,474
Equity Value	185,399
Shares O/S	2,461
Equity Value per share	75.3
Current share price (SR)	63.3
% upside/downside	19.0%

We use DCF methodology with a WACC of 8.3% and a long-term growth rate of 1.5%, giving us a TP of SAR 75.3. Our DCF valuation is based on the following assumptions i) Risk-free rate of 4.28%, ii) Equity risk premium of 5.97%, iii) Beta of 1.49. We have given a weightage of 80% to the DCF valuation.

### Peer set

Company	Region	MCap (USD bn)	PE FY23E	EV/EBITDA FY23E
<b>Maaden</b>	<b>KSA</b>	<b>41.4</b>	<b>16.4</b>	<b>10.7</b>
Barrick	Canada	30.8	23.7	7.5
IQCD	Qatar	21.9	11.5	11.8
CF Industries Holdings	USA	18.3	6.3	4.4
SABIC Agrinutrients	KSA	18.2	10.3	7.9
Norsk Hydro	Norway	15.1	11.0	5.2
Yara International	Norway	11.0	6.2	4.2
Fertiglobe	UAE	9.8	9.0	4.8
ICL group limited	Israel	9.4	6.4	4.5
Alcoa corp	USA	7.9	14.3	5.5
<b>Median</b>			<b>10.3</b>	<b>5.2</b>

We have given an equal weightage of 10% each to the P/E and EV/EBITDA multiples. At a median peer P/E multiple of 10.3x and EV/EBITDA multiples of 5.2x, we arrive at a target price of SAR 39.7 and SAR 22.3 per share, respectively.

### Sensitivity table

#### MAADEN:AB

		Cost of Equity					Diammonium Phosphate (USD/mt)					
		11%	12%	13%	14%	15%	474	574	674	774	874	
Terminal Growth rate	1.00%	73.9	67.8	62.6	58.2	54.3	<b>2,289</b>	64.3	65.4	66.4	67.4	68.4
	1.25%	76.6	70.0	64.5	59.8	55.7	<b>2,389</b>	64.4	65.4	66.4	67.4	68.4
	1.50%	79.5	72.4	<b>66.5</b>	61.4	57.1	<b>2,489</b>	64.5	65.5	<b>66.5</b>	67.5	68.5
	1.75%	82.6	75.0	68.6	63.2	58.6	<b>2,589</b>	64.5	65.5	66.5	67.5	68.5
	2.00%	86.0	77.7	70.9	65.1	60.2	<b>2,689</b>	64.6	65.6	66.6	67.6	68.6
Aluminium (USD/mt)												

## Key Financials

(SAR mn)	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
<b>Income Statement</b>									
Sales	17,736	18,580	26,769	31,147	40,327	23,923	38,108	20,813	36,637
COGS	(15,064)	(16,013)	(17,614)	(16,398)	(23,451)	(12,811)	(22,546)	(11,219)	(22,708)
<b>Gross profit</b>	<b>2,672</b>	<b>2,567</b>	<b>9,155</b>	<b>14,749</b>	<b>16,876</b>	<b>11,112</b>	<b>15,563</b>	<b>9,594</b>	<b>13,929</b>
Selling, marketing and logistic exp.	(641)	(510)	(586)	(682)	(828)	(524)	(793)	(416)	(916)
General and administrative exp.	(930)	(1,033)	(1,005)	(1,170)	(1,420)	(898)	(1,359)	(728)	(1,282)
Exploration and technical services exp.	(180)	(213)	(149)	(174)	(154)	(144)	(144)	(125)	(138)
<b>Operating profit</b>	<b>886</b>	<b>811</b>	<b>7,414</b>	<b>12,724</b>	<b>14,474</b>	<b>9,546</b>	<b>13,267</b>	<b>8,324</b>	<b>11,592</b>
Income from time deposits	205	72	49	32	305	25	151	19	153
Finance cost	(2,401)	(1,662)	(1,207)	(1,135)	(1,485)	(1,031)	(1,140)	(942)	(1,059)
Share in income from JVs	112	197	728	649	515	682	682	716	716
<b>Income before zakat &amp; tax</b>	<b>(1,111)</b>	<b>(695)</b>	<b>6,925</b>	<b>12,270</b>	<b>13,968</b>	<b>9,222</b>	<b>12,960</b>	<b>8,117</b>	<b>11,402</b>
Zakat and Income tax	(417)	(152)	(443)	(507)	(784)	(515)	(719)	(559)	(632)
<b>Net income attributable to ordinary shareholders</b>	<b>(739)</b>	<b>(209)</b>	<b>5,228</b>	<b>9,488</b>	<b>10,087</b>	<b>7,023</b>	<b>9,505</b>	<b>6,096</b>	<b>8,362</b>
<b>Balance Sheet</b>									
Mine properties	10,045	10,672	11,688	11,860	11,813	11,849	13,557	11,617	14,393
Property, plant and equipment	64,496	61,884	58,940	55,062	55,954	51,140	52,868	47,198	49,734
Intangible assets and goodwill	356	318	287	246	258	204	226	162	189
Investment in joint ventures	1,117	1,027	1,209	2,290	1,292	2,123	1,574	2,062	1,786
Advances and prepayments	252	304	294	393	442	301	313	262	501
Time deposits	3,187	1,466	971	756	756	588	588	457	457
Cash and cash equivalents	3,605	4,246	8,136	20,649	18,491	30,977	26,592	41,017	32,450
<b>Total assets</b>	<b>97,658</b>	<b>96,737</b>	<b>103,338</b>	<b>113,214</b>	<b>115,289</b>	<b>116,599</b>	<b>123,218</b>	<b>120,800</b>	<b>128,466</b>
Share capital	12,306	12,306	12,306	12,306	24,612	12,306	24,612	12,306	24,612
Statutory reserve:	11,793	11,793	12,316	13,265	2,586	13,967	3,536	14,577	4,373
Retained earnings and reserve	6,668	6,327	11,140	19,679	18,652	25,999	27,207	31,486	34,733
Borrowings	49,845	48,302	46,844	42,649	42,649	38,687	38,687	35,621	35,621
Lease	1,267	1,337	1,244	1,032	897	901	595	803	364
<b>Total equity</b>	<b>38,393</b>	<b>37,300</b>	<b>43,969</b>	<b>55,732</b>	<b>57,153</b>	<b>64,438</b>	<b>69,394</b>	<b>71,996</b>	<b>80,164</b>
<b>Total liabilities &amp; equity</b>	<b>97,658</b>	<b>96,737</b>	<b>103,338</b>	<b>113,214</b>	<b>115,289</b>	<b>116,599</b>	<b>123,218</b>	<b>120,800</b>	<b>128,466</b>
<b>Cash Flow Statement</b>									
Cash from operating activities	3,105	3,849	9,416	18,357	17,101	14,378	16,176	13,066	11,995
Cash from investing activities	(2,557)	(1,449)	(3,769)	(1,436)	(2,203)	42	(3,812)	138	(2,840)
Cash from financing activities	(2,360)	(1,798)	(1,800)	(4,407)	(4,542)	(4,092)	(4,264)	(3,164)	(3,297)
Net changes in cash	(1,812)	603	3,847	12,513	10,356	10,327	8,100	10,041	5,858
Cash at the end of the period	3,508	4,111	7,958	20,471	18,314	30,799	26,414	40,840	32,272
<b>Key Ratios</b>									
Current ratio	1.8	1.5	1.7	2.3	2.2	3.1	2.8	4.0	4.0
Inventory turnover ratio	3.0	2.7	2.8	2.5	3.0	2.2	2.6	2.3	2.6
Debtors' turnover ratio	6.5	6.2	6.5	5.6	6.7	4.5	5.4	4.9	4.8
Trade payables ratio	4.0	3.6	4.3	3.4	4.2	3.3	3.7	3.2	4.3
Gross profit margin	15.1%	13.8%	34.2%	47.4%	41.8%	46.4%	40.8%	46.1%	38.0%
Operating margin	5.0%	4.4%	27.7%	40.8%	35.9%	39.9%	34.8%	40.0%	31.6%
Net profit margin	-8.6%	-4.6%	24.2%	37.8%	32.7%	36.4%	32.1%	36.3%	29.4%
EBITDA margin	31.3%	30.3%	44.9%	43.8%	47.8%	43.8%	48.1%	44.3%	45.5%
Average return on equity	-4.1%	-2.2%	16.0%	23.6%	26.1%	14.5%	19.3%	11.1%	14.4%
Average return on assets	-1.6%	-0.9%	6.5%	10.9%	12.1%	7.6%	10.3%	6.4%	8.6%
Debt/Equity (x)	1.33x	1.33x	1.09x	0.78x	0.76x	0.61x	0.57x	0.51x	0.45x
Interest coverage ratio (x)	0.4x	0.5x	6.1x	11.2x	9.8x	9.3x	11.6x	8.8x	10.9x
P/E	NA	NA	9.2x	14.2x	15.4x	19.3x	16.4x	22.2x	18.6x
EV/EBITDA	13.9x	13.0x	7.9x	13.4x	10.2x	17.4x	10.7x	19.8x	11.7x
EV/Sales	4.4x	3.9x	3.6x	5.9x	4.9x	7.6x	5.1x	8.8x	5.3x
EPS (SR)	(0.63)	(0.17)	4.25	9.6x	4.1x	7.1x	3.9x	6.1x	3.40
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt (SR 'million)	47,507	45,393	39,952	23,031	25,054	8,612	12,690	(4,593)	3,535
Net debt/ EBITDA	8.55	8.06	3.32	1.69	1.30	0.82	0.69	(0.50)	0.21
ROCE	1.0%	0.9%	8.2%	13.0%	14.6%	9.2%	12.3%	7.7%	10.0%

Source: Company Reports, U Capital Research

## Disclaimer

### Recommendation

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



### Ubhar Capital SAOC (U Capital)

Website: [www.u-capital.net](http://www.u-capital.net)

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: [research@u-capital.net](mailto:research@u-capital.net)

**Disclaimer:** This report has been prepared by Ubhar Capital (U Capital) Research and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any other purpose.