



<b>US\$5.35bn</b> Market cap	<b>35.8%</b> Free float	<b>US\$18.10mn</b> Avg. daily volume
Target price	<b>28.50</b>	31.9% over current
Consensus price	<b>22.95</b>	6.3% over current
Current price	<b>21.60</b>	as at 17/10/2010

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**Existing rating**

Underweight	Neutral	<b>Overweight</b>
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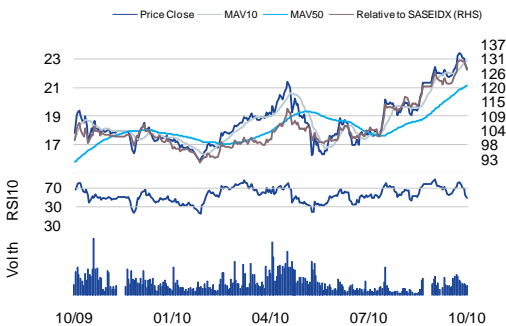
## Ma'aden Declining sales a concern

### Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Contrary to our expectations, Ma'aden's Q3 results were disappointing. While we await full results for a fuller understanding, we are now concerned over long-run prospects for its gold business. We remain optimistic about Ma'aden's new ventures: phosphate and aluminium. For now we remain Overweight on Ma'aden with a target price of SAR28.5. However, we may lower our forecasts for the gold business which in turn, may reduce our target price.

### Performance



Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	<b>Down</b>
Dividend estimates	Up	<b>No Change</b>	Down
Recommendation	Upgrade	<b>No Change</b>	Downgrade
Long-term view	Stronger	<b>Confirmed</b>	Weaker

### Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	634	765	3,620	5,276
Revenue Growth	37.9%	20.6%	373.0%	45.7%
EBITDA (SARmn)	221	259	1,646	2,600
EBITDA Growth	531.7%	17.5%	535.4%	57.9%
EPS	0.44	0.15	0.80	0.97
EPS Growth	43.5%	-65.9%	438.8%	21.2%

Source: Company data, Al Rajhi Capital

### Valuation



Source: Company data, Al Rajhi Capital

- Revenues decline due to low gold production:** Ma'aden reported a year-on-year revenue decline of 2.6% which was due to lower than expected gold production during the quarter. While we had expected a 5.5% decline in gold production from Q3 2009, because 2009 was the year when gold production hit an all time high, this decline was surprisingly steep.
- Gross profit/operating profit:** We had expected Ma'aden to benefit from the strong recent rally in the gold price. However, gross profit declined by 2.8% to SAR84mn from SAR86.4mn in Q3 last year. Ma'aden reported an operating loss of SAR2.5mn, for the first time since Q4 2008. We are also concerned about the drop in the gross profit margin from 62% in Q3 2009 to 53% in Q3 2010 which suggests that gold production costs have also increased. We assume that the company is either struggling to control costs or has incurred certain costs for the new businesses.
- Net profit:** Ma'aden recorded a net loss of SAR0.2mn for the first time since Q2 2009 when a huge zakat (tax) charge resulted in a loss. According to Ma'aden, in Q3 net profit was weighed down by additional administrative costs for the phosphate business as well as lower than expected returns from murabaha income. Note: Ma'aden pays zakat not on pre zakat profit, but on cash and short term investments which stood at SAR11.9bn in Q3.
- Conclusion:** Our major argument over Ma'aden's valuation remains intact. We believe the enterprise value to invested capital ratio of below 1.0x still provides upside to Ma'aden's fair value. Ma'aden's share price has gained over the past three months due to news flow about the new projects, the rally in the gold price and the proposed December launch of its new product line (phosphate). We think Ma'aden has been right to invest in two new ventures which will dominate its financial performance from 2011. As for gold, in our view the company needs to provide proper disclosures about its gold reserves which will help investors understand its gold business better.



### Corporate summary

Ma'aden was formed in 1997 by the Saudi government to facilitate the development of Saudi Arabia's non-petroleum minerals and to diversify the economy away from petroleum based sectors. 50% of Ma'aden is owned by PIF. In July 2008, Ma'aden was listed in the Saudi Stock Exchange. Its business is mainly exploration of gold and it plans to enter into the phosphate and aluminium businesses in 2011 and 2013 respectively.

### Share information

Market cap (SAR/US\$)	18.30bn / 4.900bn		
52-week range	15.85 - 23.45		
Daily avg volume (US\$)	18.10mn		
Shares outstanding	925.0mn		
Free float (est)	35.8%		
Performance:	1M	3M	12M
Absolute	0.7%	25.9%	24.2%
Relative to index	2.2%	23.8%	26.9%
Major Shareholder:			
Public Investment Fund	50%		
GOSI	7.7%		

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	634	765	3,620	5,276
EBITDA (SARmn)	221	259	1,646	2,600
Net Profit (SARmn)	399	133	1,129	1,368
EPS (SAR)	0.44	0.15	0.80	0.97
DPS (SAR)	-	-	-	-
EPS Growth	43.5%	-65.9%	438.8%	21.2%
EV/EBITDA (x)	91.1	95.1	16.7	12.1
P/E (x)	51.2	150.2	27.9	23.0
P/B (x)	1.2	1.2	1.2	1.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Figure 1. Ma'aden : Summary of Q3 2010 results

	Q3 2009	Q2 2010	Q3 2010	ARC Q3 2010		
				est.	% chg. y-o-y	% chg. q-o-q
<b>Revenue</b>	<b>164</b>	<b>197</b>	<b>159</b>	<b>205</b>	<b>-2.6%</b>	<b>-19.2%</b>
Gross profit	101	110	84	120	-16.8%	-23.4%
Operating profit	8	39	-3	42	na	na
Net profit	49	31	-0.2	44	na	na
SG&A	-55	-50	-59	-49	19.5%	19.5%
Zakat	-18	-34	-34	-37	1.5%	1.5%
<b>Gross margin</b>	<b>62%</b>	<b>56%</b>	<b>53%</b>	<b>58%</b>		
<b>Operating margin</b>	<b>5%</b>	<b>20%</b>	<b>-2%</b>	<b>20%</b>		
<b>Net profit margin</b>	<b>30%</b>	<b>16%</b>	<b>0%</b>	<b>21%</b>		
Gross debt	8.8	12.1	14.2	12.6		
Cash	14.5	12.0	11.9	11.7		

Source: Company data, Al Rajhi Capital



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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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