



US\$5.64bn Market cap	35.8% Free float	US\$23.8mn Avg. daily volume
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Target price	28.20	22.6% over current
Consensus price	23.96	4.1% over current
Current price	23.00	as at 18/01/2011

Research Department
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Existing rating

Underweight Neutral **Overweight**

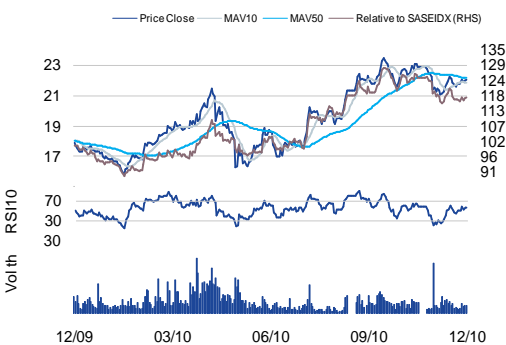
Ma'aden High Zakat burden resulted in loss

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.

While Ma'aden's operating results were excellent, benefiting from the high gold price, higher zakat provisions resulting from large cash balances led to a net loss. We are concerned over these large cash balances which in our view have not served any purpose for the company. That said, we remain bullish on Ma'aden's new ventures: phosphate and aluminium. We remain Overweight with an unchanged target price of SAR28.2 while we await the full results.

Performance



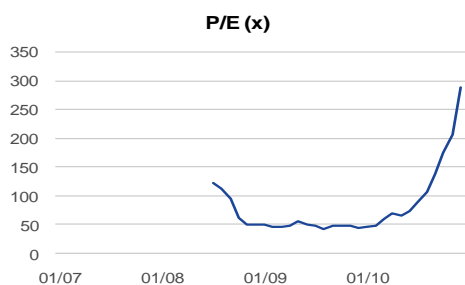
Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	634	686	1,280	3,798
Revenue Growth	37.9%	8.2%	86.4%	196.8%
EBITDA (mn)	149	162	416	1,730
EBITDA Growth	327.6%	8.7%	156.5%	315.7%
EPS	0.40	0.08	0.16	0.58
EPS Growth	83.3%	-80.8%	112.9%	257.8%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

- Gross profit/operating profit:** Ma'aden recorded an impressive 65% year-on-year increase in gross profit in Q4 2010 to SAR120mn, compared to our forecast of SAR99mn. This is an all-time high gross profit for Ma'aden in any quarter, and illustrates how the company benefited from the continuing rally in the gold price over Q4. Operating profit in Q4 stood at SAR36mn, much above our estimated operating profit of SAR8mn. This again shows the extent to which Ma'aden's profit margins benefited from the strength of the gold price in Q4. We estimate that Ma'aden's average realised price of gold in Q4 was US\$1,375 per ounce.
- Net profit:** Despite the strong operating results, Ma'aden suffered a loss of SAR65mn. According to the results statement, this reflects a recalculation of zakat for 2010 amounting to SAR70mn which was charged in Q4. We assume this means that Ma'aden underestimated zakat for the first nine months of the year. As we indicated in our initiation of coverage report on Ma'aden, "Revenue surge set to drive price" (2nd August 2010), high zakat payments reflect high cash balances and are a concern for Ma'aden. On the one hand, Ma'aden has high gross debt (SAR12.1bn at the end of Q3; we do not yet have a figure for Q4), which we expect to increase each quarter as the company finances its aluminium project. On the other hand, Ma'aden keeps around SAR11bn in murabaha deposits, which are almost equivalent to cash. Ma'aden pays high zakat on its profits because it has these deposits.
- Conclusion:** We believe the phosphate delay will make Ma'aden's results look disappointing for another two quarters or so. Sales and profits reflect only the gold business, while the balance sheet will continue to expand, and will include the ongoing project construction in aluminium and phosphate. We remain bullish on Ma'aden's ambitious plans to diversify into a different and integrated company – which is the basis of our Overweight rating. The company's share price has gained over the past month from the expectation of commercial launch of the phosphate business in June. We stress that the two new ventures will dominate Ma'aden's financial performance from H2 2011 and beyond.



Corporate summary	Share information	Valuation																																																							
Ma'aden was formed in 1997 by the Saudi Government to facilitate the development of Saudi Arabia's non-petroleum minerals and to diversify 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 phosphate and aluminium businesses in 2011 and 2013 respectively.	Market cap (SAR/US\$) 21.15bn / 5.64bn 52-week range 15.85 - 23.45 Daily avg volume (US\$) 23.84mn 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	<table border="1"> <thead> <tr> <th>Period End</th> <th>12/09A</th> <th>12/10E</th> <th>12/11E</th> <th>12/12E</th> </tr> </thead> <tbody> <tr> <td>Revenue (SARmn)</td> <td>634</td> <td>686</td> <td>1,280</td> <td>3,798</td> </tr> <tr> <td>EBITDA (SARmn)</td> <td>149</td> <td>162</td> <td>416</td> <td>1,730</td> </tr> <tr> <td>Net Profit (SARmn)</td> <td>369</td> <td>71</td> <td>151</td> <td>541</td> </tr> <tr> <td>EPS (SAR)</td> <td>0.40</td> <td>0.08</td> <td>0.16</td> <td>0.58</td> </tr> <tr> <td>DPS (SAR)</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>EPS Growth</td> <td>83.3%</td> <td>-80.8%</td> <td>112.9%</td> <td>257.8%</td> </tr> <tr> <td>EV/EBITDA (x)</td> <td>118.3</td> <td>135.2</td> <td>52.0</td> <td>15.0</td> </tr> <tr> <td>P/E (x)</td> <td>55.2</td> <td>287.4</td> <td>135.0</td> <td>37.7</td> </tr> <tr> <td>P/B (x)</td> <td>1.2</td> <td>1.2</td> <td>1.2</td> <td>1.2</td> </tr> <tr> <td>Dividend Yield</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> </tbody> </table> Source: Company data, Al Rajhi Capital	Period End	12/09A	12/10E	12/11E	12/12E	Revenue (SARmn)	634	686	1,280	3,798	EBITDA (SARmn)	149	162	416	1,730	Net Profit (SARmn)	369	71	151	541	EPS (SAR)	0.40	0.08	0.16	0.58	DPS (SAR)	-	-	-	-	EPS Growth	83.3%	-80.8%	112.9%	257.8%	EV/EBITDA (x)	118.3	135.2	52.0	15.0	P/E (x)	55.2	287.4	135.0	37.7	P/B (x)	1.2	1.2	1.2	1.2	Dividend Yield	0.0%	0.0%	0.0%	0.0%
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Figure 1. Ma'aden: Q4 2010 results

(SAR mn)	Q4 2009	Q3 2010	Q4 2010	% chg. y-o-y	% chg. q-o-q	Q4 2010 ARC est.
Gross Profit	73	84	120	65.2%	42.6%	99
Operating Profit	-10	-2	36			8
Zakat	-13	-34	-104*	700.0%	206.0%	-26
Net Profit	333.8**	-0.2	-65	n/a	31876.9%	17

Source: Company data, Al Rajhi Capital

*Ma'aden says the zakat provision increased in Q4 2010 by 70mn. Hence we have added 70mn to Q3 2010 Zakat level.

** Includes a one time fee of SAR300mn received from Alcoa for the proposed aluminium project.

Figure 2. Ma'aden: 2010 full year results

(SAR mn)	2,009	2,010	% chg. y-o-y	Q4 2010 ARC est.
Gross Profit	328	394	20.1%	371
Operating Profit	88	90	1.9%	66
Net Profit	395	-12.8		71

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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