



US\$5.82bn Market cap
35.6% Free float
US\$25.52mn Avg. daily volume

Target price **28.20** 19.5% over current
Consensus price **23.96** 1.5% over current
Current price **23.60** as at 05/02/2011

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Underweight

Neutral

Overweight

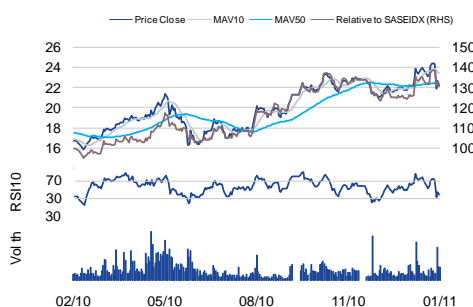
Key themes

Capitalising on Saudi Arabia's vast mineral wealth, Ma'aden has entered into two new businesses: phosphate to start in 2011, and aluminium to start in 2013. We believe Ma'aden will utilise low-cost raw materials and benefit from government support to be a success story in the long run.

Implications

We rate Ma'aden as Overweight. We believe the company's sales will still rise strongly in 2011 with the commencement of phosphate business. Good and transparent disclosure should add a premium to its share price, and we see it as a good long-term investment.

Performance

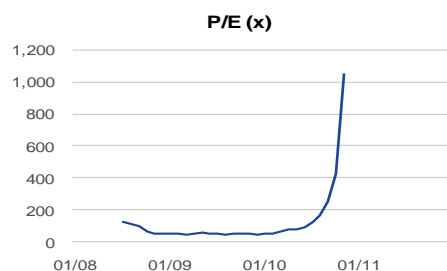


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	707	1,313	4,355	4,964
Revenue Growth	11.4%	85.8%	231.8%	14.0%
EBITDA (mn)	186	523	2,184	2,595
EBITDA Growth	2.0%	180.6%	317.8%	18.8%
EPS	0.01-	0.06	0.84	0.96
EPS Growth	-103.2%		1284.3%	13.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Ma'aden High zakat is eating up profits

This report follows our Flash View comment of 17th January, 2011. While Ma'aden achieved better than expected results operationally in Q4 2010, a high zakat burden resulted in a net loss for the second straight quarter. Unless Ma'aden tries to decrease its cash reserves, it will continue to generate high zakat. This means that there could be losses in the coming quarters until phosphate is launched and turnover and profits expand. Nevertheless, we are optimistic about the company's plans for long-run diversification and remain Overweight with an unchanged target price of SAR28.2 implying 20% upside.

Revenues & operating results were better: As mentioned in our Flash View comment, Ma'aden recorded Q4 revenue of SAR196mn which is an impressive 46% year on year increase. This is the highest revenue for Ma'aden in any quarter. This revenue translated into an all-time high gross profit of SAR120mn, EBITDA of SAR57mn and operating profit of SAR36mn. These operational results were helped by the strong rally in the gold price during Q4 2010. The average realised price of gold for Ma'aden in Q4 2010 was US\$1,358 an ounce. The company also managed to sell some by-products like low-grade bauxite and zinc worth SAR6.9mn and SAR5.7mn respectively, contributing to increased margins during Q4. Ma'aden earned an EBITDA margin of 18.5% in Q4 compared to the 7.5% margin earned during Q4 2009.

Company's cash management questionable: While operating results were excellent, the company posted a net loss of SAR64mn, mainly due to high disbursement of zakat. The zakat paid in Q4 was SAR107mn, up by a remarkable 500% from the zakat charge for Q3 2009. This high zakat has eaten up the profits earned during the whole of 2010. For 2010, the company paid total zakat of SAR207mn which is 29% of its revenue for the year. The reason for the high zakat is the fact that the company maintains high cash balances – something which we find very strange. We note that Ma'aden earned only SAR171mn in investment income for the whole year from its cash investments, which is a lower sum than its zakat charge.

Balance sheet will carry high debt from now on: As indicated in our initiation of coverage report of 2nd August, 2010 and in follow-on reports, from now on Ma'aden will carry substantial gross debt intended to finance both its phosphate business (due to be launched soon) and its ambitious aluminium project. Gross debt on the balance sheet stood at SAR13.5bn at the end of Q4 2010; we expect this to rise to SAR17.8bn by 2011. However, due to its large cash reserves net debt is much lower at SAR1.7bn. As Ma'aden's EBITDA only includes earnings from the gold business, Ma'aden's net debt/EBITDA ratio for Q4 2010 is superficially high at 7.8x. We expect this ratio to come down quite sharply after the phosphate business is launched, reaching 4.4x by the end of 2011 and .

Conclusion: We do not consider Ma'aden's financial results to be particularly meaningful ahead of the launch of its phosphate business. We believe the company will struggle to record a net profit over the next couple of quarters, mainly due to its high zakat disbursement. Nevertheless, we think many investors are rightly looking beyond Ma'aden's current state and focusing on the company's long-term prospects which are bright. We remain Overweight.



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 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\$)	21.82bn / 5.82bn		
52-week range	15.85 - 24.45		
Daily avg volume (US\$)	25.52mn		
Shares outstanding	925.0mn		
Free float (est)	35.6%		
Performance:	1M	3M	12M
Absolute	5.8%	4.9%	41.3%
Relative to index	8.3%	1.9%	37.3%
Major Shareholder:			
Public Investment Fund	50%		
GOSI	7.7%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	707	1,313	4,355	4,964
EBITDA (SARmn)	186	523	2,184	2,595
Net Profit (SARmn)	(13)	56	781	887
EPS (SAR)	0.01-	0.06	0.84	0.96
DPS (SAR)	-	-	-	-
EPS Growth	-103.2%	na	1284.3%	13.7%
EV/EBITDA (x)	143.7	58.9	15.2	13.1
P/E (x)	na	392.9	28.4	25.0
P/B (x)	1.3	1.3	1.3	1.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Ma'aden: gold is stagnant Q4 2010: operating results excellent

Ma'aden's operating results were robust on account of the high gold price in Q4

Ma'aden reported sales growth of 46% from SAR134mn in Q4 2009 to SAR196mn in Q4 2010. EBITDA grew by 459% to SAR57mn and operating profit grew by 259% to SAR36mn in the period. The results were better than in the previous two quarters, as the company made efforts to control costs as drilling activities have increased. The higher gold price and the sale of low-grade bauxite and zinc also helped the company to post better than our expected operating numbers. We believe Ma'aden will aim to keep its gold production constant in order to increase the lifespan of its mines. In 2010, Ma'aden produced and sold just above 140,000 ounces of gold. We think unless new mines are introduced, this is the optimal capacity for Ma'aden in terms of production.

Figure 1. Ma'aden's Q4 2010 results

(SAR mn)	Q4 2009 actual	Q3 2010 actual	Q4 2010 actual	% chg.	Q4 2010 ARC est.	Comment
Revenues	134	159	196	46.2%	180	Revenues were up significantly above our forecast, on account of the higher price of gold in Q4, as well as the sale of other metals like low-grade bauxite and zinc.
Gross Profit	72	84	120	65.3%	99	Gross profit was healthy due to the rally in the gold price in Q4 as well as the sale of by-products.
Gross Margin	54.0%	52.7%	61.0%		55.1%	As estimated, the gross margin improved significantly in this quarter compared to the previous quarter, on account of a surge in the gold price.
SG&A Costs (inc. dep.)	(72)	(84)	(59)	-17.9%	(62)	SG&A cost was surprisingly low; we expect it to increase in the coming quarters, mainly due to an increase in drilling activities and an increase in fixed costs related to new ventures.
EBITDA	45	19	57	26.8%	34	EBITDA improved significantly, as SG&A was controlled and the higher price of gold increased the margin.
EBITDA margin	33.3%	12.1%	28.8%		19.1%	As above.
Depreciation & amort.	(35)	(22)	(20)	-41.4%	(20)	Depreciation is difficult to forecast for Ma'aden because of indefinite wear and tear in its mines.
Operating Profit	10	(2)	36	259.7%	14	Operating profit surged on a year on year basis, mainly because of the low base in Q4 2009.
Net Profit before Zakat	350	33	40	-88.6%	50	na
Zakat	(18)	(34)	(107)	499.7%	(30)	High zakat is a big issue for the company, as it is eroding its profits.
Net Profit*	334	(1)	(64)		20	Because of the high zakat payout, the company posted a net loss in Q4.
Capex	(1,549)	(731)	(1,787)	15.4%	(820)	We expect a surge in capex for the coming quarters as well, as a result of investment in the aluminium business.
Capex/Sales (%)	962%	310%	459%		456%	We expect the capex/sales ratio to be high in coming quarters due mainly to construction of the aluminium smelter.
Net Debt	(2,736)	141	1,762		1,537	Swing from net cash to a minor debt position reflects heavy investment; we expect net debt to surge in the near term.
Net Debt/EBITDA	(15.3)	1.8	7.8		11.2	Net debt/EBITDA ratio will swing up rapidly before falling again after the launch of phosphate business.

Source: Company data, Al Rajhi Capital. Please note that Q4 2009 net profit includes a one time fee of SAR300mn earned from Alcoa for entering into Aluminium JV.

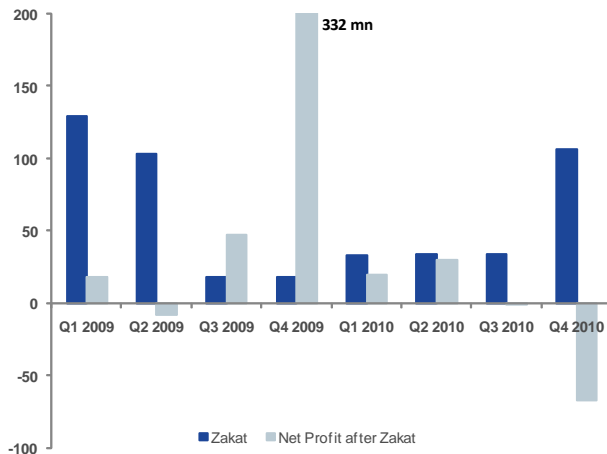


Zakat payout is very high and unless the company reduces its cash balance it will remain high

Zakat paid by the company is unnecessarily high

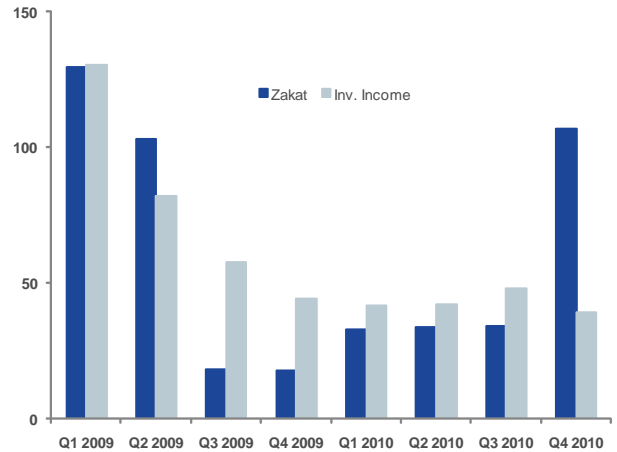
Despite recording respectable operating results, the company posted a net loss of SAR64mn, mainly on account of high zakat payment. In Saudi Arabia, companies pay zakat either on their net profits or, if their cash levels are high, on their capital base. Because Ma'aden maintains high gross cash balances, it has been paying very high zakat charges for two years. These high zakat charges have greatly eroded net profitability. Since the investment income on the company's gross cash has been no more than the zakat charges paid, we do not see the reason for maintaining the high cash balances. We think it would be better for Ma'aden to utilise its cash in capital expenditure.

Figure 2.1 Zakat v/s Net Profits



Source: Company data, Al Rajhi Capital

Figure 2.2 Zakat v/s Investment income



Source: Company data, Al Rajhi Capital

2011: look forward to H2

We think the phosphate launch will change the financial position of the company

We think Ma'aden's financial performance will be similar to that of Q4 for the next two quarters at least, till the time when it launches its phosphate operations. We have conservatively assumed that Ma'aden will not generate revenues and profits from phosphate till Q4 2011, and considering the trend of high zakat pay outs we think Ma'aden will incur net losses in Q1 to Q3 too. However, if the company manages to launch its phosphate operations by Q2 2011 as publicly announced, then its financial performance will look much better.

We forecast revenue of SAR1.3bn in 2011, an 85% increase over 2010. This is mainly driven by revenue from phosphate which we have included only from Q4 2011 and beyond. We have assumed that phosphate capacity utilisation in Q4 will be 10%. We should also note that we have revised up our forecasts for zakat charges over the first three quarters.

Aluminium financing worth SAR15bn arranged

While we do not expect the aluminium business to be launched till the end of 2013, the company has arranged financing for the aluminium project worth SAR15.1bn; this is mentioned in the company's Q4 report. A consortium of financial institutions and the Saudi Public Investment Fund has approved this facility. This suggests that the project is running smoothly and that the company has ample cash to proceed with Phase 1 construction of the aluminium project. It is worth mentioning that the aluminium project is worth SAR40bn in total, with ownership split between Ma'aden (75%) and Alcoa (25%).

Around 40% of the aluminium financing arrangement is complete



Figure 3. Summary of Q1 2011 & FY2011 forecasts

SAR mn	Q1 2010A	Q1 2011E	YoY change %	FY 2010A	FY2011E	YoY change %
Revenue	153	184	20%	707	1,313	86%
Gross Profit	81	104	30%	394	725	84%
Gross margin						
EBITDA	50	56	10%	166	523	215%
EBITDA margin	33%	30%		24%	40%	
Operating Profit	17	22	34%	69	315	354%
Net Profit	21	-37		-33	56	
Net Profit margin	13%				4%	

Source: Company data, Al Rajhi Capital

We expect operating results to be good in Q1; however, high zakat payment might result in another quarter of net loss



Revenue surge in 2011 & beyond will help drive profitability.

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	634	707	1,313	4,355	4,964
Cost of Goods Sold	(306)	(312)	(588)	(1,893)	(2,075)
Gross Profit	328	394	725	2,462	2,888
Government Charges					
S.G. & A. Costs	(253)	(304)	(409)	(773)	(877)
Operating EBIT	75	90	315	1,688	2,012
Cash Operating Costs	(452)	(520)	(790)	(2,171)	(2,369)
EBITDA	183	186	523	2,184	2,595
Depreciation and Amortisation	(108)	(97)	(207)	(495)	(583)
Operating Profit	75	90	315	1,688	2,012
Net financing income/(costs)	314	171	70	(570)	(760)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	302	1	-	-	-
Net Profit Before Taxes	659	189	242	976	1,109
Taxes	(269)	(207)	(186)	(195)	(222)
Minority Interests	5	5	-	-	-
Net profit available to shareholders	395	(13)	56	781	887
Dividends	-	-	-	-	-
Transfer to Capital Reserve					
	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	925.0	925.0	925.0	925.0	925.0
CFPS (SAR)	0.538	0.085	0.285	1.379	1.589
EPS (SAR)	0.427	(0.014)	0.061	0.844	0.959
DPS (SAR)	0	0	0	0	0
Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	37.9%	11.4%	85.8%	231.8%	14.0%
Gross Profit Growth	44.8%	20.1%	83.9%	239.7%	17.3%
EBITDA Growth	683.9%	2.0%	180.6%	317.8%	18.8%
Operating Profit Growth		19.4%	251.9%	435.2%	19.1%
Net Profit Growth	173.5%	-103.2%		1284.3%	13.7%
EPS Growth	95.9%	-103.2%		1284.3%	13.7%
Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	51.7%	55.8%	55.2%	56.5%	58.2%
EBITDA margin	28.8%	26.4%	39.8%	50.1%	52.3%
Operating Margin	11.8%	12.7%	24.0%	38.8%	40.5%
Pretax profit margin	103.8%	26.8%	18.5%	22.4%	22.3%
Net profit margin	62.2%	-1.8%	4.3%	17.9%	17.9%
Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	0.3%	0.3%	0.9%	4.1%	4.4%
ROIC	0.3%	0.0%	0.2%	3.7%	3.9%
ROE	2.4%	-0.1%	0.3%	4.6%	5.0%
Effective Tax Rate	40.8%	109.5%	76.7%	20.0%	20.0%
Capex/Sales	1129.4%	586.5%	272.5%	65.1%	44.3%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	56.1	na	392.9	28.4	25.0
P/CF (x)	44.5	281.9	84.1	17.4	15.1
P/B (x)	1.3	1.3	1.3	1.3	1.2
EV/Sales (x)	34.4	37.9	23.4	7.6	6.8
EV/EBITDA (x)	119.3	143.7	58.9	15.2	13.1
EV/EBIT (x)	290.4	298.6	97.5	19.6	16.8
EV/IC (x)	0.8	0.8	0.8	0.8	0.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

EBITDA should surge over the next few years; however, net profit growth will be constrained by financial costs.

We expect the capex/sales ratio to remain high till the aluminium business is completed

P/E and EV/EBITDA will decline sharply once the phosphate business has commenced



Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	11,519	11,755	12,041	13,415	16,135
Current Receivables	53	30	372	1,960	2,234
Inventories	206	332	1,239	2,395	2,532
Other current assets	383	372	372	372	372
Total Current Assets	12,131	12,489	14,024	18,142	21,272
Fixed Assets	14,144	20,319	23,689	26,030	27,644
Investments	-	-	-	-	-
Goodwill	-	-	-	-	-
Other Intangible Assets	2,936	2,017	2,018	2,016	2,016
Total Other Assets	19	86	86	86	86
Total Non-current Assets	17,098	22,422	25,793	28,132	29,746
Total Assets	29,230	34,911	39,817	46,274	51,018
Short Term Debt	-	-	-	-	-
Accounts Payable	621	831	1,859	2,395	2,631
Accrued Expenses	969	1,401	929	2,177	2,234
Dividends Payable	-	-	-	-	-
Other Current Liabilities	45	55	55	55	55
Total Current Liabilities	1,906	2,494	3,050	4,834	5,126
Long-Term Debt	8,783	13,517	17,809	21,703	25,268
Other LT Payables	-	1	2	-	-
Provisions	176	196	196	196	196
Total Non-current Liabilities	8,959	13,714	18,007	21,899	25,463
Minority interests	1,782	2,134	2,134	2,134	2,134
Paid-up share capital	9,250	9,250	9,250	9,250	9,250
Total Reserves	7,332	7,319	7,376	8,156	9,044
Total Shareholders' Equity	16,582	16,569	16,626	17,406	18,294
Total Equity	18,365	18,704	18,760	19,541	20,428
Total Liabilities & Shareholders' Equity	29,230	34,911	39,817	46,274	51,018

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	(2,736)	1,762	5,768	8,288	9,133
Net Debt/EBITDA (x)	14.98-	9.46	11.04	3.80	3.52
Net Debt to Equity	-14.9%	9.4%	30.7%	42.4%	44.7%
EBITDA Interest Cover (x)	(0.6)	(1.1)	(7.5)	3.8	3.4
BVPS (SAR)	17.93	17.91	17.97	18.82	19.78

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	659	189	242	976	1,109
Depreciation & Amortisation	108	97	207	495	583
Decrease in Working Capital	(310)	415	(693)	(959)	(118)
Other Operating Cashflow	(319)	(394)	(186)	(195)	(222)
Cashflow from Operations	138	307	(429)	316	1,352
Capital Expenditure	(7,166)	(4,144)	(3,577)	(2,836)	(2,197)
New Investments	7,576	(256)	-	-	-
Others	(1,136)	(1,209)	-	-	-
Cashflow from investing activities	(726)	(5,609)	(3,577)	(2,836)	(2,197)
Net Operating Cashflow	(588)	(5,302)	(4,006)	(2,520)	(845)
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(7,160)	823	-	-	-
Cashflow from financing activities	803	5,557	4,292	3,894	3,564
Total cash generated	215	256	286	1,375	2,719
Cash at beginning of period	11,335	11,519	11,755	12,041	13,415
Implied cash at end of year	11,550	11,775	12,041	13,415	16,135

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	1129.4%	586.5%	272.5%	65.1%	44.3%

Source: Company data, Al Rajhi Capital

Gross debt level will remain high from now on

Net debt/EBITDA will jump this year but should then fall to a normal level in 2012 and beyond



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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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