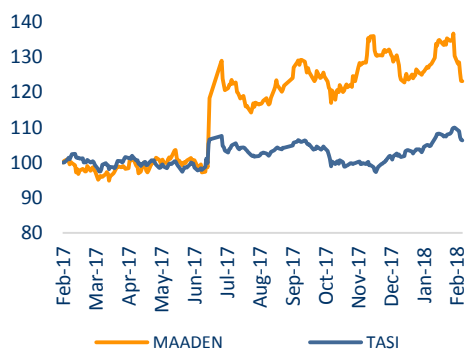


Initiation Coverage
February 9, 2018

Recommendation	Neutral
Current Price (SAR)	50.9
Target Price (SAR)	46.5
Upside/Downside (%)	(8.7%)

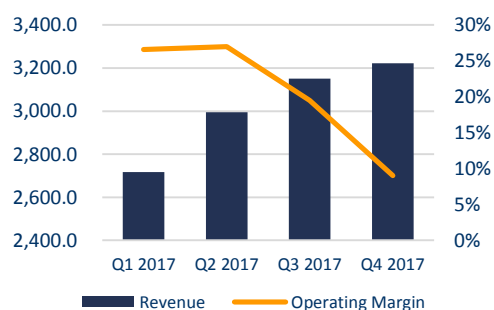
As of February 08, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	59.5
52 Wk High (SAR)	57.1
52 Wk Low (SAR)	39.0
Total Outstanding shares (in mn)	1,168.5
Free Float (%)	34.5

MAADEN Vs TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(3.0%)	(4.3%)
6m	5.6%	2.0%
12m	23.1%	16.9%

Major Shareholders (%)	%
Public Investment fund	49.99
General Org for Social Insurance	7.98
General Retirement Org	7.45

Quarterly Sales (SAR mn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 08th February 2018

In FY 2017, Saudi Arabian Mining Co. (Maaden)'s revenue grew 27.7% YoY to SAR 12.1bn, driven by higher price realisation and increased production, whilst profit was SAR 714.8mn as compared to loss of SAR 10.7mn in the previous year. However non-recurring items incurred in the last quarter dragged down the results.

Weighed by increase in financing expenses and impairment charge, the company significantly missed market expectations, raising doubts on its ability to elevate its operational performance. On the flip side, the strong global economy and ramp up in production provides the company with significant revenue visibility. Given the significant run up in share price before result announcement, we believe, it would be prudent to adopt a wait and watch policy for a while till it produces tangible improvement in its operating performance. Considering all the factors in play, we recommend neutral rating with a target price of SAR 46.5.

Weak Q4 2017 results as company incurs non-recurring charges

In Q4 2017 the company's revenue grew by a healthy 36% YoY; however, the bottom line was adversely impacted by an impairment loss of SAR 446mn in the fair value of Maaden Rolling Company's assets and higher financing expenses of SAR 518mn. The underperformance in Q4 2017 also pulled down the annual performance below street expectations.

Commodity prices on an uptrend

Prices of ammonium phosphate, aluminium and copper rose notably in Q4 2017 owing to production disruption, a result of stringent environmental policies introduced by the Chinese government. Prices also benefitted from elevated demand due to the optimism on global economic prospects and depreciating US dollar. However, gold prices showed weakness in the last quarter. We believe global economy is on a strong foundation which is beneficial for commodity prices; however the recent market turmoil could adversely commodity prices.

Ramp up in production progressing well; however doubts persist

The company continues to ramp up production. Notable production increase has been achieved in gold (332K ounces production, up 47% vs. 2016) and ammonia (2,343K tonnes production, up 91% vs. 2016). Whilst production in primary aluminium was up 4.8% vs. 2016 to 916K tonnes of, production of ammonium phosphate fertilizer was up 5.0% vs. 2016 to 2,859K tonnes and production of alumina was up 4% vs. 2016 to 1,484K tonnes. Moreover, the company has stated that ammonium phosphate fertilizer production from Wa'ad Al Shamal plant is ramping up rapidly, and development of new gold and phosphate projects too is progressing well. The company is also in talks with Alcoa to assess the feasibility of potential expansion of smelting capacity (600,000 metric tonnes per year). The company's planned capacity expansion is near completion. However, recent operational performance has raised doubts about future net income growth in case the company incurs impairment or other one off charges.

Valuation: We valued Maaden using the DCF Approach to arrive at a fair value of SAR 46.5 per share. We considered WACC at 6.8%, with a terminal growth rate of 2.0%.

	2017	2018E	2019E	2020E
Revenues (SAR bn)	12.1	14.4	17.1	17.1
Operating Profit (SAR bn)	2.4	3.6	3.8	3.6
EPS (SAR)	0.6	1.9	2.1	2.0
Operating Margin (%)	20.1%	25.1%	22.4%	21.2%
D/E (x)	1.6	1.4	1.2	1.1
RoE (%)	2.3%	6.5%	6.8%	6.2%
P/E (x)	84.8	27.6	24.9	26.0
Price/BV (x)	1.8	1.6	1.5	1.5
EV/EBITDA (x)	22.5	16.6	15.1	14.5

Source: Company Financials, FALCOM Research

Initiation Coverage

February 9, 2018

Valuation Summary

Explanation of valuation methodology and assumptions

We valued Maaden using the DCF Approach to arrive at a fair value of SAR 46.5 per share. We considered WACC at 6.8% with a terminal growth rate of 2.0%. In relative terms, Maaden is trading at 1yr forward EV/EBITDA of 16.6x, at a premium of 78.2% to its sector peers and 43.1% to the Tadawul All Share Index.

SAR Mn	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	
EBIT	2,435	3,605	3,836	3,630	3,354	
Taxes	(149)	(463)	(512)	(492)	(461)	
Depreciation, amortization and impairment	2,850	3,294	3,448	3,589	3,721	
Changes in working capital	(905)	469	(196)	323	62	
Net capital expenditure	(2,939)	(1,291)	(1,021)	(1,023)	(1,029)	
Free Cash Flow to firm	1,292	5,614	5,555	6,027	5,647	
Discount Factor		0.9	0.9	0.8	0.8	
PV of free cash flow to firm		5,292	4,903	4,981	4,370	
Net Present Value (A)					19,546	
PV Terminal Value (B)					92,854	
Assumed Terminal Growth Rate					2.0%	
Discount Rate					6.8%	
Enterprise Value (A+B)	1,12,400	WACC Assumptions				
Total Cash	4,352	Risk free rate				2.8%
Total Debt	53,958	Equity Risk Premium				10.2%
Minority Interest	8,432	Beta				1.1x
Equity Value in SAR mn	54,361	Cost of equity				13.6%
Number of shares in mn	1,168	Post tax cost of debt				2.5%
Target Price in SAR per share	46.52	Weight of equity in capital structure				39.0%
CMP in SAR as on February 8th, 2018	50.9	Weight of debt in capital structure				61.0%
Upside/(Downside) to current market price	(8.7%)	WACC				6.8%

Source: Company Financials, FALCOM Research Estimates

Risks

Upside Risks:

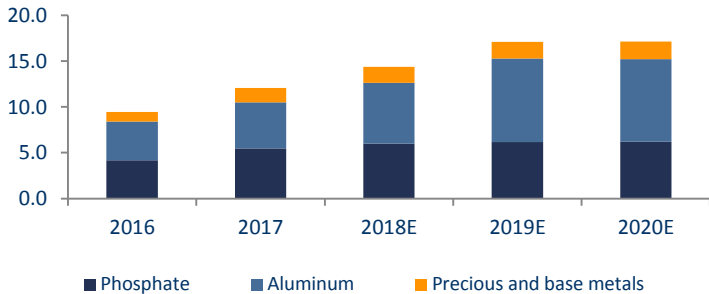
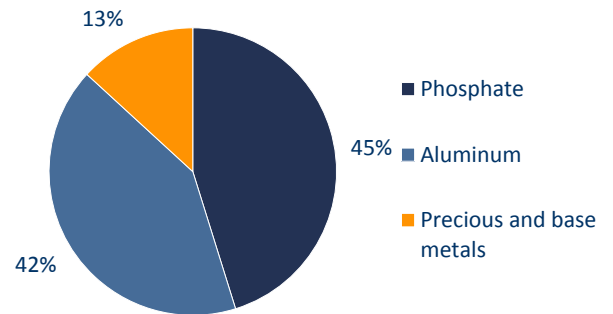
- Better-than-expected operational performance could result in significant revaluation of the stock.
- Commodity prices could rise faster than anticipated to drive company bottom-line and top-line.
- Stronger than anticipated demand could result in earnings surprise on the upside.

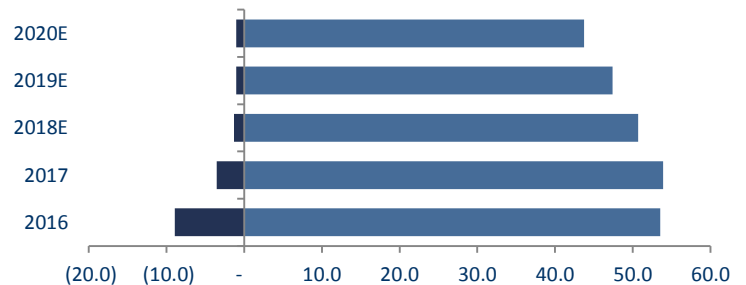
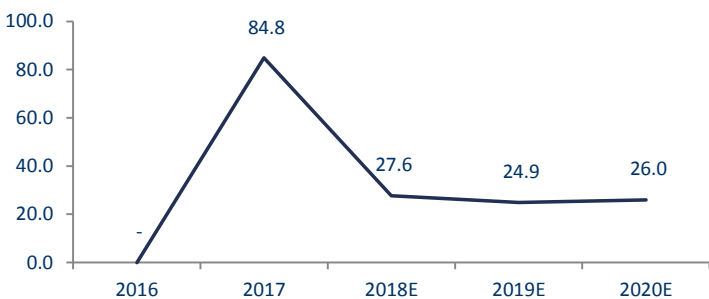
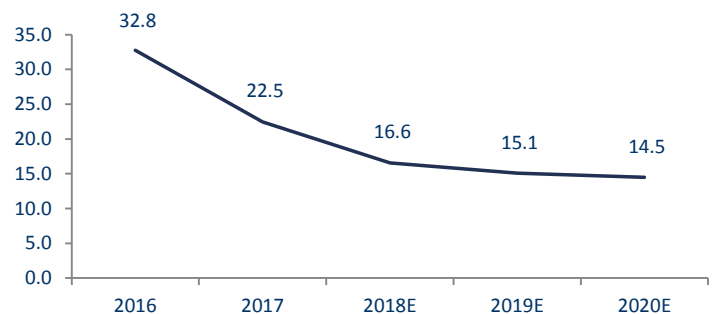
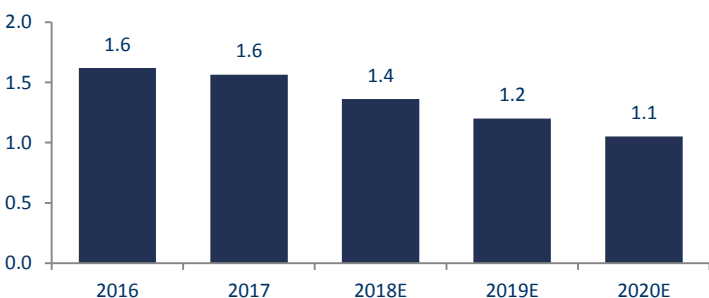
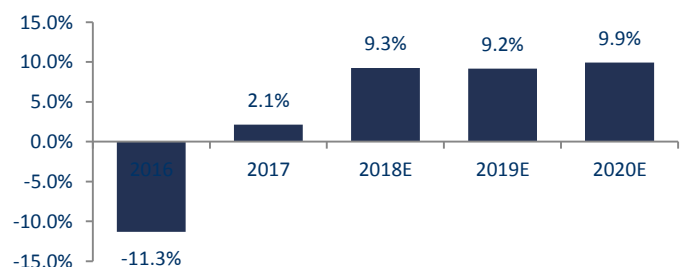
Downside Risks

- Weaker than expected global economy will negatively impact commodity prices.
- Impairments and other exceptional items could weigh on the company valuation.
- Failure to pass on raw material price increase to consumers would contract operating margins.

Initiation Coverage

February 9, 2018

Key Charts
Revenue (SAR bn)

Revenue Split (2017)

EBITDA & Margins

CAPEX and Debt

Price to Earnings

EV/EBITDA

Debt/Equity (x)

Free Cash Flow Yield


Source: FALCOM Research Estimates

Initiation Coverage

February 9, 2018

Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Sales	12,086	14,387	17,102	17,145
Gross Profit	3,932	4,766	5,215	5,013
EBITDA	5,285	6,900	7,283	7,219
EBIT	2,435	3,605	3,836	3,630
Earnings from Associates	102	114	128	144
Net Interest	(1,616)	(836)	(782)	(721)
Other	13	12	17	20
PBT	933	2,895	3,199	3,073
Zakat	(149)	(463)	(512)	(492)
Minorities	70	237	252	246
Net Income	715	2,195	2,435	2,335
EPS	0.6	1.9	2.1	2.0
DPS	-	-	-	-

BS (SAR mn)	2017	2018E	2019E	2020E
Cash	4,352	6,078	7,135	8,477
Current Assets	7,832	8,001	9,016	8,871
Fixed Assets	79,958	77,942	75,507	72,937
Intangibles	346	358	367	370
Investments in associates and JVs	934	1,048	1,176	1,320
Total Assets	95,117	95,123	94,895	93,670
Current Liabilities	4,285	4,917	5,658	5,830
Short Term Debt	3,230	3,209	3,209	3,209
Long Term Debt	50,728	47,517	44,203	40,536
Shareholders Equities	34,530	37,253	39,481	41,614
Total Liabilities	95,117	95,123	94,895	93,670

CF (SAR mn)	2017	2018E	2019E	2020E
Operating Cash Flow	3,868	5,825	6,252	6,309
Working Capital Changes	(850)	248	(273)	316
Cash Flow from Operating Activities	3,018	6,072	5,978	6,625
Capex	(2,939)	(1,291)	(1,021)	(1,023)
Cash Flow from Investing Activities	(3,972)	(1,405)	(1,149)	(1,167)
Changes in Debt	287	(3,232)	(3,313)	(3,667)
Dividends	-	-	-	-
Cash Flow from Financing Activities	926	(2,941)	(3,773)	(4,116)

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Revenue	27.7%	19.0%	18.9%	0.3%
EBITDA	68.8%	30.6%	5.6%	(0.9%)
Operating profit	297.5%	48.1%	6.4%	(5.4%)
PBT	NM	210.3%	10.5%	(3.9%)
Net Income	NM	210.1%	10.5%	(3.9%)

Ratios (%)	2017	2018E	2019E	2020E
Gross Margin	32.5%	33.1%	30.5%	29.2%
EBITDA Margin	43.7%	48.0%	42.6%	42.1%
EBIT Margin	20.1%	25.1%	22.4%	21.2%
Net Margin	6.5%	16.9%	15.7%	15.1%
ROE	2.3%	6.5%	6.8%	6.2%
ROCE	2.8%	4.1%	4.5%	4.3%
ROA	0.8%	2.6%	2.8%	2.8%
Debt/Equity	1.6x	1.4x	1.2x	1.1x
Net Debt/EBITDA	9.4x	6.5x	5.5x	4.9x
FCF Yield	2.1%	9.3%	9.2%	9.9%
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Valuation	2017	2018E	2019E	2020E
PE	84.8x	27.6x	24.9x	26.0x
PB	1.8x	1.6x	1.5x	1.5x
EV/EBITDA	22.5x	16.6x	15.1x	14.5x
EV/EBIT	48.7x	31.7x	28.6x	28.8x
EV/Sales	9.8x	7.9x	6.4x	6.1x

Peer Valuations	12M Fwd PE	12m Fwd EV/EBITDA
Yanbu National Petrochemical	15.0x	9.6x
Saudi Arabian Fertilizer Co	20.7x	15.7x
Saudi Kayan Petrochemical Co	17.7x	9.0x
Saudi Basic Industries	14.0x	7.3x
Saudi Arabian Mining Co	27.6x	16.6x
Sector Median	16.4x	9.3x
TASI	13.8x	11.6x

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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