



Ma'aden posted a strong set of results with a net income of SAR 2.17bn, but below AJC's estimate of SAR 2.7bn (consensus estimate of SAR 2.85bn), due to lower-than-expected top line and gross margin. Revenue was up 4.6% Q/Q but missed our estimate by 8%, as the weak sales volume of aluminum was partially offset by the higher sales volume of ammonia after commissioning ammonia project-3. Gross margin expanded by 373bps to 43.57% from 39.84% in the previous quarter, driven by better-realized prices of most products. Geopolitical tensions, supply constraints, and gas prices would keep fertilizer prices firm in the short term. We maintain our "Neutral" recommendation on the stock with a revised TP of SAR 50.0/share (Ex-bonus shares).

- Saudi Arabian Mining Company (Ma'aden) posted a net income of SAR 2.17bn in Q1-22, compared to the net profit of SAR 761mn posted in Q1-21 and SAR 2.09bn in Q4-21. The overall strong quarterly result is primarily attributed to i) better product price realization for most products except alumina, despite lower sales volume from ammonia phosphate fertilizer, primary aluminum, alumina, and gold; and ii) a noticeable increase in gross margin. The deviation from our estimates is mainly ascribed to the lower-than-expected top line. The contribution from joint ventures, as its share of income from MBCC and SAMAPCO, stood at SAR 170mn compared to our profit estimate of SAR 192mn and SAR 311mn recorded in Q4-21.
- Ma'aden reported a 4.6 %Q/Q increase in revenue for Q1-22 to SAR 8.91bn, below our estimate of SAR 9.7bn, impacted by a lower-than-expected Aluminum and ammonia sales volume, which was partially offset by ammonia sales from project-3. Sales volume of phosphates declined by 31 %Q/Q, registering a 1.06MT, along with a 7.1% Q/Q decline in ammonia volumetric sales. On a quarterly basis, primary aluminum and gold sales volume declined 15KMT and 0.5Koz, respectively. DAP and Ammonia average prices stood at USD 910/tonne (an increase of 21% Q/Q) and USD 885/tonne (an increase of 25% Q/Q). Gold average prices slightly increased by 4.6% Q/Q to USD 1,876/ounce, and aluminum average prices jumped to USD 3,241/tonne in Q1-22 from USD 2,760/tonne in Q4-21.
- Gross profit stood at SAR 3,884mn, an increase of 7.9% Q/Q. This is below our estimate of SAR 4,320mn, which can be ascribed to lower-than-expected revenue and gross margin. The gross margin expanded to 43.6% from 39.8% in Q4-21 but was slightly below our estimate of 44.5%. Ma'aden witnessed a 9% Q/Q EBITDA increase in Q1-22 to SAR 4.4bn. EBITDA margins increased by 184bps due to improved top-line and gross margin. Operating expenses stood at SAR 621mn, above our estimate of SAR 596mn, and the SAR 512mn recorded in Q4-21 due to an increase of 20% in selling, marketing, and logistic expenses.

AJC View and valuation: Ma'aden delivered a strong result in Q1-22, supported by improved commodity prices and margins. diammonium phosphate (DAP-Asia) prices moved up firmly to USD 1,075/tonne (up 95% Y/Y) during Q2-22 and traded at the highest level in a few years due to lower exports from Russia and Belarus. High gas prices would keep production costs elevated and discourage low prices in the short term. Strong commodity prices and production efficiency are the key short-term catalysts. We remain optimistic about Ma'aden's long-term growth, given the likely positive consequence of raising the operating rate of mostly all plants and its expansion plans. Additionally, the company's future gold projects in the Mansorah & Massarah mines have an estimated production capacity of 250k ounces/annum of gold and are expected to commence commercial production by H2-FY22. Ma'aden is expected to post a net profit of SAR 9.1bn for FY22 compared to SAR 5.2bn in FY21. The company's stock is currently trading at a P/E of 16.7x based on our FY22E EPS estimate. We value Ma'adan on 50% weight for DCF (2.0% terminal growth and 7.9% WACC) and EV/EBITDA (11.5x FY23 EBITDA) based on relative valuation, yielding a target price of **SAR 50.0/share**, with "Neutral" recommendation as the positive story is already reflected on the stock price.

Results Summary

SARmn	Q1-21	Q4-21	Q1-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	5,449.8	8,519.3	8,914.1	63.6%	4.6%	-8.4%
Gross Profit	1,436.4	3,394.2	3,884.1	170.4%	7.9%	-10.2%
Gross Margin	26.35%	39.84%	43.57%	-	-	-
EBITDA	2,193	4,053	4,404	101%	9.0%	-11.2%
Net Profit	761.2	2,090.2	2,171.9	185.3%	3.9%	-20.2%
EPS	0.62	1.70	1.76	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) 50.0

Upside / (Downside)* -18.5%

Source: Tadawul *prices as of 5th of June 2022

Key Financials

(in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenue	18,580	26,769	38,202	34,634
Growth %	4.8%	44.1%	42.7%	-9.3%
Net Income	(209.0)	5,227.7	9,057.1	7,351.6
Growth %	-71.7%	NM	73.3%	-18.8%
EPS	(0.17)	4.25	3.68*	2.99*

Source: Company reports, Aljazira Capital *Adjusted for bonus shares

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	13.8%	34.2%	42.0%	38.1%
Net Margin	-1.1%	19.5%	23.7%	21.2%
EBITDA margin	30.3%	44.9%	46.8%	44.1%
P/E	NG	18.5	16.7	20.6
P/B	2.34	4.03	2.65	2.35
EV/EBITDA (x)	13.7	9.8	8.8	9.5

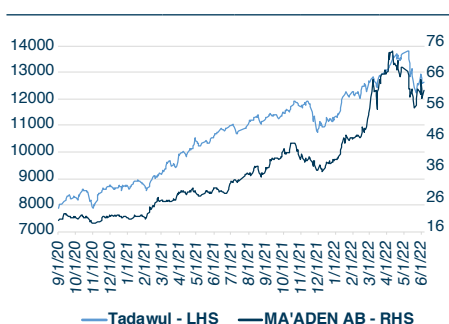
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	151.3
YTD %	56.7%
52 Week (High)/(Low)	75.40/27.80
Shares Outstanding (mn)	2,461.18

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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