

# Market Insights & Strategy

Global Markets

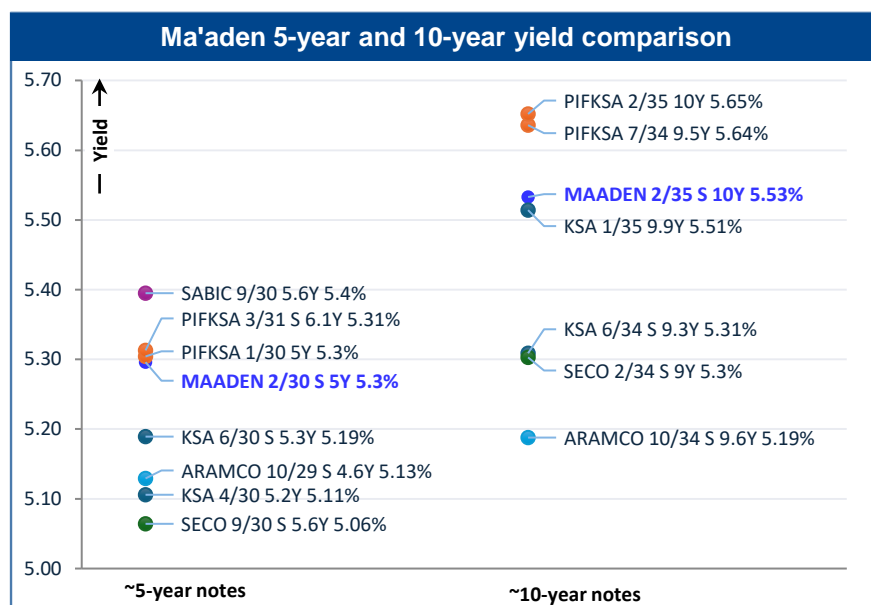
12<sup>th</sup> February 2025



## Saudi Ma'aden A Strategic Growth Story Backed by Strong Market Confidence

Saudi Ma'aden stormed into the capital markets with a dual-tranche bond issuance that not only reaffirmed its strategic importance but also underscored the appeal and appetite for Saudi debt among global investors. The issuance, a \$750m 5-year bond and a \$500m 10-year bond, was met with overwhelming demand, signaling strong investor appetite. The 5-year tranche priced at T+100 bps, tightened a significant 40 bps from initial price thought (IPT) of T+140bps. The 10-year tranche priced at T+110bps, tightened an even steeper 45bps from IPT of T+155bps. Order book for the deal peaked at \$11.5bn (5Y at \$5.3bn & 10Y at \$6.2bn) during the bookbuilding process, while final aggregate orderbook was ~\$9.2bn, which indicates that some of the orders dropped from the book due to the price tightening, which is a common phenomenon during the book building process. Nevertheless, the deal was a mega success for Ma'aden, considering the fact that: (1) it was the debut deal from Ma'aden; (2) it's a new credit for global investors; and (3) it still achieved significant oversubscription. Based on the final orderbook, the 5Y year sukuk was oversubscribed by 5.7x, while the 10-year was almost 10x oversubscribed.

Our estimate suggests the Maa'den (Baa1/BBB+) deal was priced approximately 10 basis points (bps) above its owner Public Investment Fund's (PIF, Aa3/A+) sukuk curve. However, we believe the fair value would have been closer to 20-25 bps above PIF, given the two-notch rating difference. In our opinion, the achieved tightening reflects scarcity value, a diversification opportunity (away from PIF, Aramco, etc.), PIF's backing of the deal and Ma'aden's pivotal role in Saudi Arabia's Vision 2030 framework. Both sukuk traded higher in the secondary after becoming free to trade, such was the demand, though we saw some profit taking after the rally. The 10-year Sukuk has outperformed, currently trading 15bps inside from where it was priced, while the 5-year is tighter by 10bps.



Note: Closing yields as of 11-Feb-2025; Sources: Bloomberg / FAB

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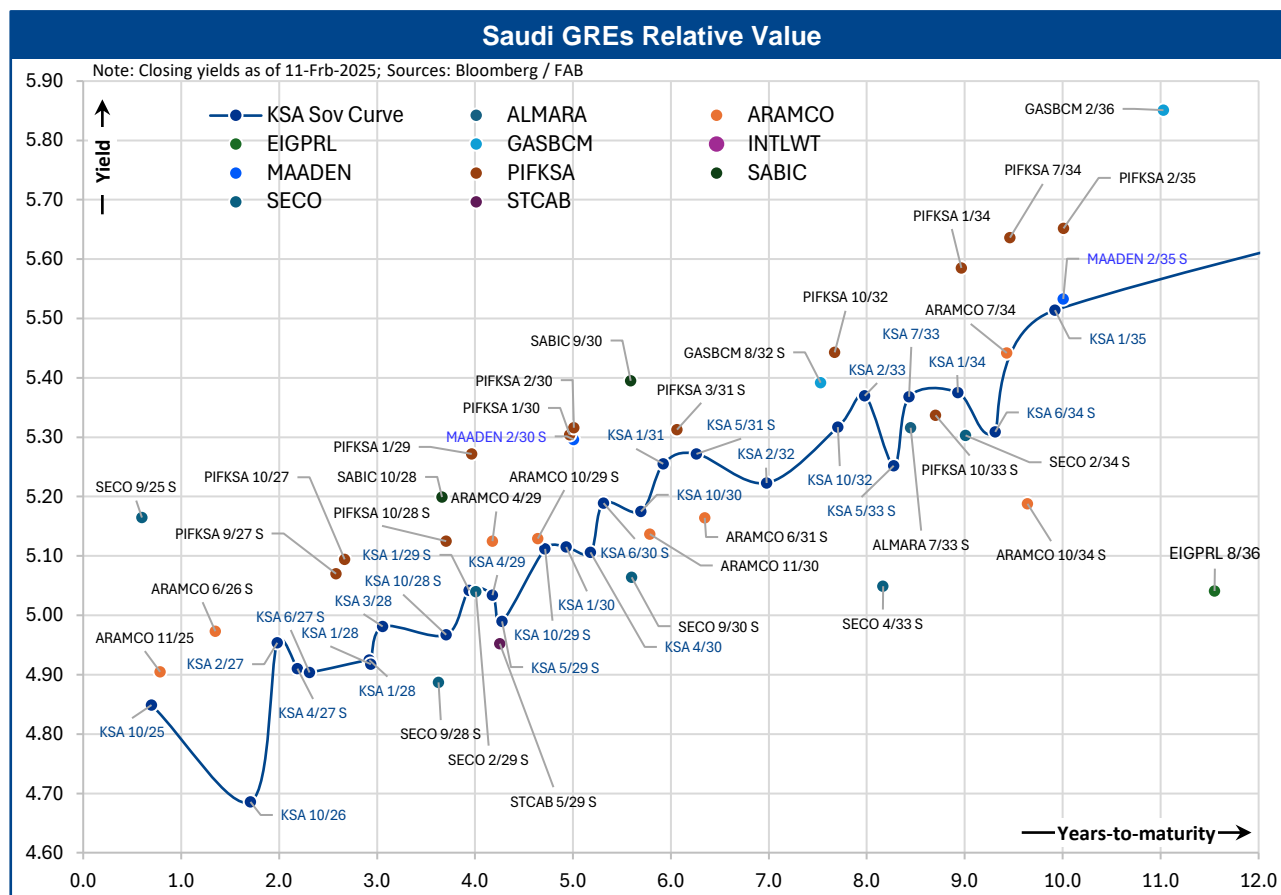
**Strong demand was observed from US investors**

Notably, nearly half of the total orders for the Ma'aden Sukuk deal originated from US investors, demonstrating the credit's appeal to a deep and sophisticated investor base. Building on the success of the Ma'aden deal, the Saudi Electricity Company (SEC) closed a dual tranche sukuk deal on Tuesday (11<sup>th</sup> Feb). SEC priced a \$1.5bn 5-year Sukuk at T+85bps, and a \$1.25bn 10-year Green Sukuk at T+95bps, achieving 35bps price tightening from the IPTs on the back of significant orderbook (more than 4x of issue size). The success of these deals indeed validates our assessment that sufficient appetite still exists for a variety of Saudi paper, and that it is readily absorbed by the market.

Ma'aden's debut deal was in Sukuk format, a structure which attracts substantial Islamic liquidity during the bookbuilding process. Such deals typically involve a diversified group of local bookrunners with strong relationships with local Islamic accounts in their respective jurisdictions. However, we observed no non-Saudi local banks on this deal. Instead, a long list of international banks was present, which is uncommon for regional sukuk deals and usually occurs when the issuer prefers allocating to international investors. We believe this was intentional and likely orchestrated by the PIF, given the sovereign wealth fund's strong international investor relationships. This strategy also ensures that under-allocated local Islamic accounts will act quickly to purchase the paper when supply becomes available from these international accounts, thus maintaining secondary market liquidity. In our opinion, this was a win-win strategy.

The Ma'aden deal further confirms the global appeal of sukuk as a fixed-income asset class. It is no longer viewed as an instrument solely for Islamic investors; increasingly, global investors are allocating to this asset class to diversify their portfolios and access new sources of liquidity. In 2023, New York-listed Air Lease Corporation became the first US corporation to issue a sukuk. According to media reports, the Africa Finance Corporation plans to issue a sukuk soon to diversify its funding sources. The GCC and Egypt fixed-income primary bond market is attracting considerable interest from international investors, and we expect this momentum to continue.

Watch this space for more developments....



## Fundamental Analysis of Ma'aden

### Credit Ratings

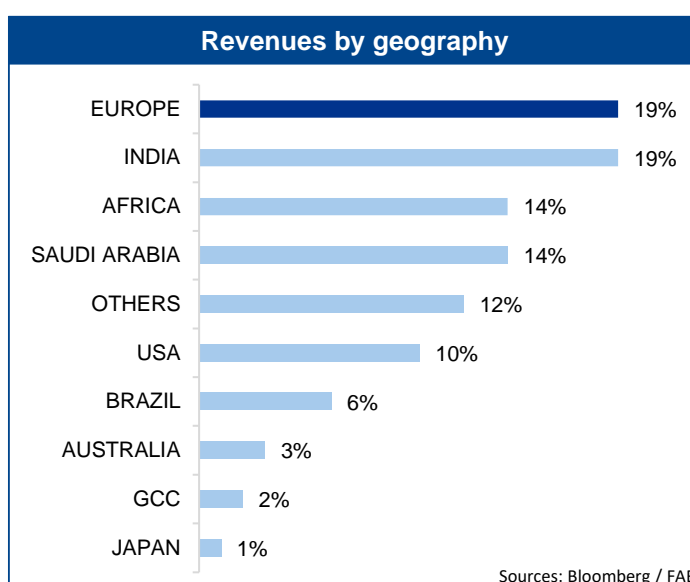
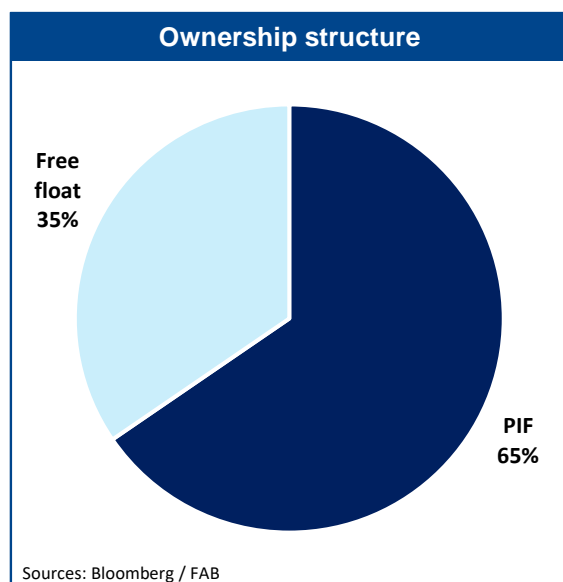
Agency	Rating	Outlook
Fitch	BBB+	Stable
Moody's	Baa1	Stable

**Fitch:** In Feb'2025, Fitch re-affirmed Ma'aden's BBB+/stable ratings based on its large scale and diversification, cost advantage due to access to very competitively priced natural gas and vast mineral resources, strong sovereign support, continued debt reduction and flexible growth capex cycle. Fitch estimates that EBITDA net leverage improved to 2.1x in 2024 from 2.7x in 2023, but expects it to increase to 2.9x in 2025 due to higher growth capex and the acquisition of a 20% stake in Aluminium Bahrain from Saudi Basic Industries Corporation. Upgrade triggers include EBITDA net leverage below 2.5x on a sustained basis, sustained positive FCF and stronger ties with the state. Downgrade triggers include EBITDA net leverage >3.5x and sustained FCF, negative rating action on Saudi Arabia or weaker ties with the state.

**Moody's:** Moody's has assigned Baa1/stable long term issuer rating to Saudi Ma'aden. Key rating drivers are Ma'aden's strong business profile as a multi commodity producer, its leading fertilizer business and sizeable aluminum operations, strong PIF backing, and exposure to the volatile commodity prices. Upgrade triggers include Debt/EBITDA below 2x, Cash flow/RCF >30% and continued robust liquidity. Downgrade triggers include Debt/EBITDA >3.5x, RCF/Debt<20% and any significant weakening in liquidity.

### Company Profile

Established by a royal decree in 1997, Saudi Arabian Mining Company (Ma'aden) is the largest mining and metals company in the Middle East (revenue: \$7.8bn in 2023). By segment, about 60% of Ma'aden 2023 revenues came from operations related to phosphate, 30% from aluminum and 10% from base metals and others. Over 80% of consolidated EBITDA came from phosphates. Ma'aden operates 17 mines and sites, has 6800 employees and exports products to over 30 countries.



### Strategic role in Saudi Vision 2030

The mining sector plays a strategic role in Saudi Vision 2030, serving as a key pillar in economic diversification and reducing dependence on oil. The Saudi mining sector is expected to triple its GDP contribution from \$17bn (in 2019) to \$75bn by 2030. Ma'aden plays the key role under this strategy as the primary mining company of the government. Ma'aden's current strategy includes \$2.5bn annual capex over the next five years to grow its

phosphates, aluminum, gold, and base metals businesses. The company recently announced a joint venture with Saudi Aramco. The JV will engage in the exploration and mining of energy transition metals in the kingdom. Ma'aden and PIF together have created a venture called Manara Minerals Investment Company (Manara) to invest in mining assets globally and support the development of global supply chains. Manara's first deal was acquiring 10% stake in Vale SA's base metals business for \$2.6bn in 2023.

Saudi Arabia leads the GCC mining sector with vast reserves of gold, copper, bauxite, and phosphate. Saudi recently revised its estimate of untapped mineral resources, raising the value from the US\$ 1.3 trillion (forecasted eight years ago) to \$2.5tn (in 2024). This \$1.2tn increase was attributed to the discovery of higher reserve quantities, the addition of new minerals like rare earths to the list and a reassessment of commodity prices. Investment in the Saudi mining sector was traditionally restricted to Saudi nationals (or citizens of other GCC countries). The mining investment law enacted in 2021 significantly eased restrictions allowing foreign companies to obtain mining licenses without the need for a Saudi partner in most cases. To accelerate exploration and development, Saudi also introduced an incentive package worth SAR 683m (~\$182m).

### Key credit drivers (SWOT)

- **Government backing (+)** PIF is Ma'aden's majority shareholder. In 2019, PIF supported Ma'aden through a rights issue participation via ~\$800m debt-to-equity swap. Moody's and Fitch assign a two-notch rating uplift above Ma'aden's standalone credit profile based on expectation of support from PIF (Moody's A1 positive), if needed
- **Low-cost base (+)** Ma'aden procures feedstock of molten sulphur and natural gas through long term supply agreements with Saudi Aramco. This supports healthy cash flow generation from operations through the cycle. Also, vertical integration across the phosphate and aluminium value chain (from mine to end-product) enables efficient cost management. Ma'aden's assets remain profitable even when prices fall below mid-cycle levels, and margins expand significantly when global energy prices are high. This was demonstrated by the EBITDA margin of 45% in 2021-2022 (peak prices), returning to its 2019-2020 level of 30% in 2023.
- **Liquidity (+)** The company has sufficient sources of liquidity to meet all its near-term debt and other obligations. At end of 2023, sources of liquidity included SAR 10.3bn (\$2.8bn) of unrestricted cash and cash equivalents; SAR 11.25bn (\$3bn) of unutilised committed multi-year revolving credit facilities available until 2027, and SAR 7.5bn (\$2bn) of cash flow from operations. These were sufficient to cover around SAR \$4.4bn (\$1.2bn) of current debt and lease maturities. Debt maturity profile is well scattered with 47% of Ma'aden's long term debt retiring after 2029. At end-2023, 86% of Ma'aden's debt had floating interest rates.
- **Geographic concentration (-)** Most of Ma'aden's operations are in Saudi Arabia thereby exposing it to the political, economic and regulatory environment in the region
- **High albeit reducing debt (-/+)** Ma'aden's net debt exceeded SAR 21bn (\$5.8bn) in 2023. However, the company is proactively focusing on debt reduction over the past few years. The company has not paid any dividends in recent years. Ma'aden's reported net debt fell to SAR 21.7bn in 2023 from SAR 46.5bn in 2018. The company targets Net debt/EBITDA ratio of 2-3x (2023 reported was 2.3x, although higher than 1.3x in 2022 due to weaker earnings).
- **Cyclicality (-)** Earnings and credit metrics are highly sensitive to the cyclical fertiliser and aluminium prices. Primary reason for a 52% YoY decline in 2023 EBITDA was lower commodity prices and higher raw material expenses
- **High capex (-)** Ma'aden has a significant capital spending program that Moody's projects will lead to negative free cash flow in 2024-25, although it recognises that most of the development projects are discretionary. 2023 capex stood at SAR 2.3bn vs SAR 0.6bn in 2022.

*Continued...*



## Growth strategy

Ma'aden's near-term growth strategy emphasizes partnering with established international players to mitigate execution risks, leveraging its history of joint ventures across business segments. Its 2040 strategy, launched in 2021, aims for 10x EBITDA growth by focusing on diversification through increased mining, international expansion, and downstream processing. The strategy also prioritizes sustainable mining practices to minimize environmental impact, along with cost optimization and workforce development.

## Latest results

Ma'aden reported Q3'24 sales of SAR 8bn, up 29% YoY driven by higher commodity prices except for ammonia and flat rolled products. Sales were also driven by higher volumes across most products. Q3'24 operating profit jumped to SAR 1.67bn from SAR 0.2bn in Q3'23 due to higher sales along with lower operating costs (last year incurred a one-off expense of SAR 493m). Total profit for the quarter was reported at SAR 1.2bn vs a loss of SAR 200m in Q3'23.

On a 9-month basis, revenue grew 6% YoY to SAR 22.6bn while EBITDA surged 45% YoY to SAR 8.8bn driven by higher commodity prices, volumes and improved production costs. Net debt/EBITDA came down to 1.9x as of Sep'24-end from 2.3x in 2023 primarily driven by earnings growth. Cash fell 12% vs 2023-end to SAR 13.7bn primarily due to investment in Manara.

## Debt maturity

Based on Ma'aden's most recent debt maturity schedule (as of the end of 2023), the company has a SAR 6bn (~\$1.6bn, ~16% of total debt) maturing in 2025. This includes SAR3.5bn in sukuk debt maturing in February 2025. We believe the proceeds from Ma'aden's recent \$1.25bn debt issuance will be partially allocated towards refinancing its expiring debt.

Long term debt maturity schedule as at 31-Dec-2023	SAR million	As % of total debt
2024	3,805	10%
2025	6,032	16%
2026	2,475	7%
2027	4,525	12%
2028	3,099	8%
2029 and thereafter	17,535	47%
<b>Total Debt</b>	<b>37,291</b>	

## Financial summary

P&L (SAR million)	9M'24	9M'23	YoY change	FY 2023	FY 2022	YoY change
Revenue	22,577	21,237	+6%	29,272	40,277	-27%
EBITDA	8,843	6,113	+45%	9,264	19,397	-52%
EBITDA margin	39%	29%	+10pp	32%	48%	-17pp
Adj. net profit	2,977	687	+333%	2,424	9,715	-75%
Adj. net profit margin	13%	3%	+10pp	8%	24%	
EPS	0.81	0.19	+334%	0.43	2.52	-83%
Balance Sheet (SAR billion)						
Cash	13.7	14.9	-8%	15.6	16.4	-5%
Long term debt	33.6	34.9	-4%	37.3	41.2	-9%
Net debt	19.9	20.0	-1%	21.7	24.8	-13%
Net debt/EBITDA	1.9x	2.3x		2.3x	1.3x	

Sources: Company Financial Statements

## FAB Global Markets

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