

Target Price: SAR90/share
Current Price: SAR75.5/share
Upside: 19.2% (+Div. Yield: 4%)
Rating: Overweight

Al Masane Al Kobra Mining Co. (AMAK)

KSA mining pure-play

- AMAK is set to benefit from Govt's 2030 vision which aims to add to mining GDP by SAR240bn by 2030 (3.75x from SAR64bn currently).
- The company enjoys low-cost production of high-quality/low-impurity metal. Extensions of mine life through expansions around existing mines and multiple exploration licenses ensure a sustained increase in production.
- Our Target Price (TP) is SAR90/sh. based on 50:50 DCF: EV/EBITDA methods on conservative metal prices. Our scenario analysis suggests a 14% increase in average TP for a 10% increase in prices and vice versa.

Healthy top-down position: The industry is well supported by the Govt. with mining prioritized as one of the pillars of the economy, given the mineral-rich landscape in the Kingdom (untapped mineral deposits at US\$1.3trn which is more than KSA's current GDP) in a sector with only 2 listed companies. AMAK has 2 mines (Masane/Guyan) in operation with a total processing capacity of 1.1mt/a and is set to increase its capacity to 1.45mt/a when the Moyeath (Masane expansion) starts in Q3 2023. Continued expansion around the 2 mines ensures mine-life extensions. Aqiq expansion (Guyan area) is next in the pipeline, which could start operations in 2-3 years. Also, the company has exploration licenses for multiple regions.

Favorable cost position: After the initial rally post the IPO the stock is moving in tandem with Copper and Zinc prices (Fig. 4). By 2024, we expect the rev. mix to be Zinc/Copper/Gold/Silver at 37%/29%/28%/5% resp. as Moyeath production (34% of 2024e rev) stabilizes. Please see Fig. 3 for our price assumptions. Mining cash costs are in the third quartile of the industry cost curve for Guyan and negative for Masane, helping group EBITDA margins reach 50%+ (2024e), in line with Maaden's and above global peers of ~42%.

Valuation and Risks: Having lower effective tax rates (10-12% of PBT) than that of global peers (30-40%) and high growth potential, we believe EV/EBITDA multiples are justified at at least 2x of global peers. Life of existing mines' being different from expectations, changes in the composition of the metal mix, collapse in commodity prices, unsuccessful exploration activities, entry of newer players resulting in higher-than-expected competition, and geo-political risks are key risks.

Figure 1: Key financial metrics

| SARmn | 2020a | 2021a | 2022e | 2023e | 2024e |
|---------------------|-------|-------|-------|-------|-------|
| Revenue | 375 | 587 | 571 | 578 | 783 |
| Revenue growth | 26% | 56% | -3% | 1% | 36% |
| Gross Profit | 134 | 268 | 209 | 223 | 359 |
| Gross Profit margin | 36% | 46% | 37% | 39% | 46% |
| EBITDA | 156 | 310 | 256 | 274 | 397 |
| Net profit | 89 | 197 | 134 | 149 | 268 |
| Net profit margin | 24% | 34% | 24% | 26% | 34% |
| EPS (SAR) | 1.3 | 3.0 | 2.0 | 2.3 | 4.1 |
| EV/EBITDA | 31.2x | 15.7x | 19.0x | 17.8x | 12.3x |
| P/E | 59.1x | 26.6x | 39.1x | 35.3x | 19.6x |

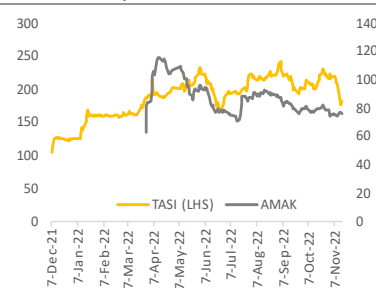
Source: Company data, GIB Capital

Stock data

| | |
|-----------------------|---------|
| TASI ticker | 1322.SE |
| Mcap (SARmn) | 4,976 |
| Trd. Val (3m) (SARmn) | 55.7 |
| Free float | 88.7% |
| QFI holding | 1.45% |
| TASI FF weight | 0.228% |

Source: Bloomberg

AMAK share price vs TASI



Source: Bloomberg

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Investment case

AMAK's **first mine** Al Masane started in 2012 and as per IPO prospectus, the mine has a total of Proven and Probable Ore Reserves of approximately 7.9 Mt which is equal to a life of mine of 10 years without any further exploration but practically is expected to continue for more than 15-20 years given ongoing exploration. The revenue mix is Zinc/Copper/Precious metals at 39%/38%/24% respectively. The mine contributed 81% of total revenues in 2021 and is expected to contribute ~48% in 2024e. The cash cost of production is negative because of the presence of Gold/Silver in its Copper and Zinc concentrates. The location of the mine is approximately 820km South East of Jeddah.

The **second mine** Guyan (100% Gold) started commercial production in 2021. This is around 12 km from the Al Masane mine and thus, the infrastructure can be shared helping to save on costs. This is likely to contribute ~26% of revenues in 2022e and 18% in 2024e. The calculated life of this mine based on reserves is 6 years without further exploration but is expected to extend further given the ongoing exploration.

The company is in the process of starting production of a **third orebody** called Moyeath which is next to the orebodies of Al Masane mine. It is expected to start production in July/August of 2023. Moyeath plant has a processing capacity of 350,000 tpa to lead to a total processing capacity of 1,450,000 tpa. Its production mix is expected to be mainly a mix of Zinc/Copper/others at full capacity similar to Al Masane given that it is an extension of Al Masane and we expect its revenue mix to be 50%/35%/15% [Zn/Cu/Others] by 2024e. based on the reserves and processing, lifetime could be a minimum of 7 years (though practically longer)– with the Capex for the mine coming from the IPO proceeds. It could contribute to 34% of 2024 revenues.

As for the total group, when all the 3 plants are operating at full capacity, the revenue mix is expected to be Zinc/Copper/Gold/Silver at 37%/29%/28%/5% respectively by 2024e, as per our analysis.

Apart from these 3 current mining opportunities, the company has several exploration licenses in various regions in KSA. The Company's total exploration footprint is approximately 679sq.km, including existing licensed (Al Masane, Guyan, Qatan) and new licensed areas. In August 2022 the company received four more licenses for Copper and Gold in Al-Dawadmi, Riyadh with a total area of 396.1sq.km. and the fifth one also in Al-Dawadmi region with an area of 82.84sq.km. The current existing mining operations are only in a small part of the total licensed area. As per our understanding, Aqiq mine is the next expansion (of Guyan mine) that could be operational in another 2-3 years. Aqiq has indicated reserves of 262,000 tonnes. We believe the company will be able to continue its production in a sustainable manner especially given its presence in a mineral resource-rich KSA.

Figure 2: Processing Capacities and Life of mines

| | Al Masane mine | Guyan | Moyeath |
|--------------------------------------------------------------|----------------|-------------|-------------|
| Processing capacity | 800,000 tpa | 300,000 tpa | 350,000 tpa |
| Reserves | 7.9 Mt | 1.7 Mt | 2.4 Mt |
| Calc. life of mine based on reserves (without exploration) * | 10 years | 6 years | 7 years |

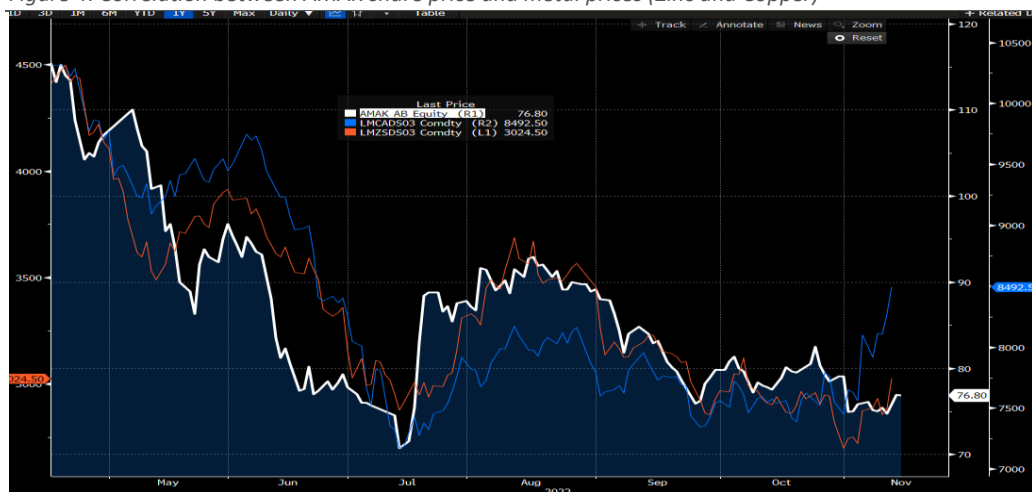
Source: Company, GIB Capital, *but all the mines are seeing ongoing exploration

Figure 3: Volumes and Prices

| | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e |
|------------------------|---------|---------|---------|---------|---------|---------|
| Al Masane | | | | | | |
| Zinc conc. sold (mt) | 45,825 | 42,398 | 39,130 | 39,130 | 39,130 | 39,130 |
| Copper conc. sold (mt) | 24,592 | 21,971 | 19,353 | 19,353 | 19,353 | 19,353 |
| Gold sold (Oz) | 12,375 | 10,700 | 8,000 | 8,000 | 8,000 | 8,000 |
| Silver sold (Oz) | 380,969 | 441,007 | 350,000 | 350,000 | 350,000 | 350,000 |
| Guyan | | | | | | |
| Gold sold (Oz) | 0 | 16,421 | 22,000 | 22,000 | 22,000 | 22,000 |
| Moyeath | | | | | | |
| Zinc conc. sold (mt) | 0 | 0 | 0 | 8,480 | 33,918 | 33,918 |
| Copper conc. sold (mt) | 0 | 0 | 0 | 2,197 | 8,788 | 8,788 |
| Gold sold (Oz) | 0 | 0 | 0 | 908 | 3,633 | 3,633 |
| Silver sold (Oz) | 0 | 0 | 0 | 39,734 | 158,935 | 158,935 |
| Prices | | | | | | |
| Zinc (US\$/t) | 1,851 | 3,012 | 3,433 | 2,886 | 2,795 | 3,031 |
| Copper (US\$/t) | 6,010 | 9,319 | 8,747 | 7,915 | 7,998 | 8,495 |
| Gold (\$/oz) | 1,734 | 1,799 | 1,792 | 1,671 | 1,749 | 1,753 |
| Silver (\$/oz) | 20 | 25 | 21 | 21 | 22 | 22 |

Source: GIB capital

Figure 4: Correlation between AMAK share price and metal prices (Zinc and Copper)



Source: Bloomberg

Figure 5: Total amount of deposits at Al Masane

| Mineral resource category | Deposit | Tonnes (Mt) | Cu(%) | Zn (%) | Au (g/t) | Ag (g/t) | CuEq (%) |
|---------------------------------|----------|-------------|-------------|-------------|-------------|--------------|-------------|
| Measured | Saadah | 1.22 | 1.11 | 4.37 | 1.08 | 33.2 | 3.35 |
| | Al Houra | 1.44 | 0.96 | 4.14 | 1.04 | 33.72 | 3.11 |
| | Moyeath | 0.24 | 1.03 | 10.95 | 1.2 | 67.78 | 5.43 |
| Indicated | Saadah | 1.4 | 1.42 | 3.84 | 0.82 | 24.64 | 3.24 |
| | Al Houra | 1.12 | 0.81 | 3.72 | 1.04 | 31.3 | 2.82 |
| | Moyeath | 1.36 | 0.7 | 7.5 | 1.22 | 60.17 | 4.11 |
| Measured & Indicated | | 6.78 | 1.01 | 4.96 | 1.04 | 37.86 | 3.42 |
| Inferred | Saadah | 1.01 | 1.12 | 3.2 | 0.85 | 23.17 | 2.79 |
| | Al Houra | - | - | - | - | - | - |
| | Moyeath | 0.79 | 0.8 | 7.55 | 1.22 | 58.44 | 4.21 |
| Inferred | | 1.79 | 0.98 | 5.11 | 1.01 | 38.63 | 3.41 |
| Total Mineral Resource | | 8.57 | 1 | 4.99 | 1.04 | 38.02 | 3.42 |

Source: Company data/SRK Consulting

Figure 6: Total amount of Deposits at Guyan mine

| Zone | Type | Category | Quantity Kt | Au (g/t) | K Oz |
|-------------|-------------|----------------------|-------------|----------|-------|
| Jabal Guyan | Open Pit | Indicated | 1,783 | 2.9 | 166.2 |
| | | Inferred | 112 | 2.6 | 9.4 |
| | | Indicated & Inferred | 1,895 | 2.9 | 175.6 |
| | Underground | Indicated | 277 | 2.1 | 18.7 |
| | | Inferred | 424 | 3.5 | 47.7 |
| | | Indicated & Inferred | 701 | 2.9 | 66.4 |

Source: Company data/SRK Consulting

Assumptions

Production: Production of AlMasane is expected to stay broadly flat in the coming years as it has reached max capacity. There may be some difference in the composition of metal produced by a few bps because of the change in the composition of ore as mining progresses at deeper levels.

Processing of Guyan plant is expected to reach max capacity in 2022 and we maintain it thereafter at flat levels. Despite having a life of 6 years based on reserves, we believe that the life of the mine could extend more than 6 years given ongoing exploration and hence keep the production levels flat over the years.

Production of Moyeath is expected to reach full utilization by 2024 and we keep production at 25% of full capacity in 2023.

Three key inputs in our valuation are:

- a) Metal prices
- b) Cash costs
- c) Val. Premium for AMAK over global peers

Prices: Company usually sells its products at LME standard prices unless the pricing is agreed upon by and between the buyer and seller. As for prices given that we are already at the end of 2022, the average prices for 2022 are broadly known (Fig 3). We take spot prices for 2023 and thereafter we take a midcycle (4 years avg.) for 2024. These prices are almost close to Bloomberg consensus prices. It is difficult to predict the level of prices and hence we show a scenario analysis in our valuation section for the target price at various price levels. Given that extraction costs are broadly fixed, price changes can lead to significant operating leverage.

Revenue: Revenue is recognized when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically transferred onto a vessel or other delivery mechanism. The revenue is measured at the amount to which the company expects to be entitled, being the estimate of the price expected to be received, i.e., the previous 10 working days London Metal Exchange (“LME”), and a corresponding trade receivable is recognized. The Company has signed a contract with Ocean Partners UK Limited whereby Ocean serves as the Company’s sole and exclusive marketing agent for the sale of Copper and Zinc concentrates and other payable metal from the concentrates.

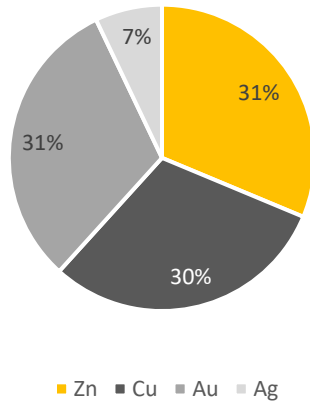
Figure 7: Metal prices

| Prices | 2020 | 2021 | 2022 | Spot |
|--------|-------|-------|-------|------|
| Zinc | 1,851 | 3,012 | 3,433 | 2906 |
| Copper | 6,010 | 9,319 | 8,747 | 7881 |
| Gold | 1,734 | 1,799 | 1,792 | 1747 |
| Silver | 20 | 25 | 21 | 21 |

Source: GIB Capital, Bloomberg

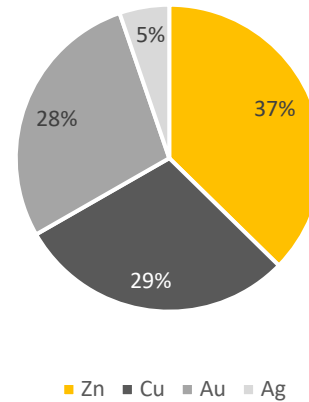
Overall, we expect revenue to grow by a CAGR of 9% from 2021 to 2025.

Figure 8: Revenue mix (2021)



Source: GIB Capital

Figure 9: Revenue mix (2024e)



Source: GIB Capital

Depreciation & Amortization is the biggest cost component followed by raw materials and employee salaries

Margins:

Cash costs for Guyana and AlMasane mines are the in the third quartile in terms of cost of production with \$755/oz (Gold) and negative \$65/tonne (Copper) in 2020 respectively. The cost is negative because of the presence of Gold/Silver in the Copper and Zinc concentrates. Our expected EBITDA margins are at 51% for 2024e, with a possibility of improvement in margins for Guyana as the grades improve when mining goes deeper, and operating leverage improves.

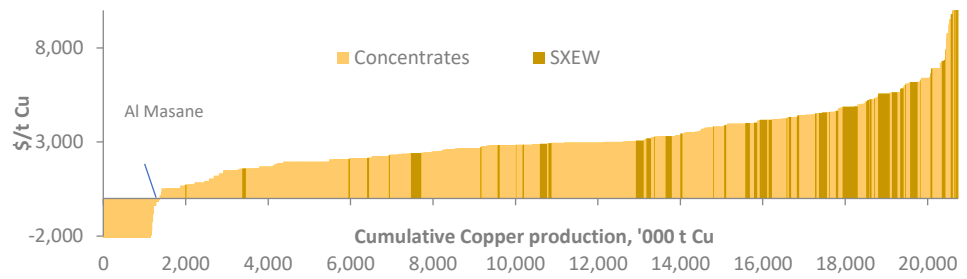
Production costs and direct expenses are classified as the cost of revenue. This includes raw materials, direct labor, and other attributable overhead costs. The key raw materials are reagents, explosives, drilling consumables, and spares for maintenance.

Depreciation & Amortization is the biggest cost component followed by raw materials and employee salaries explaining the high operating leverage in the company. Thus, the company's gross margin has improved remarkably since 2019 going from 27% to 46% in 2021. Given the drop in prices, we expect the gross margin to drop back to 36% before eventually going back to the mid-40s% from 2024.

Selling and distribution expenses include any costs incurred to carry out or facilitate selling activities of the Company which are mainly variable with advertising costs broadly fixed. Main variable costs typically include salaries of the sales staff, marketing, distribution, and logistics expenses. Overall, we expect the operating margin to decline from 37% in 2021 to 26% in 2022 in line with the decline in gross margin. Thereafter we expect the operating margin to remain at 36%-38% levels.

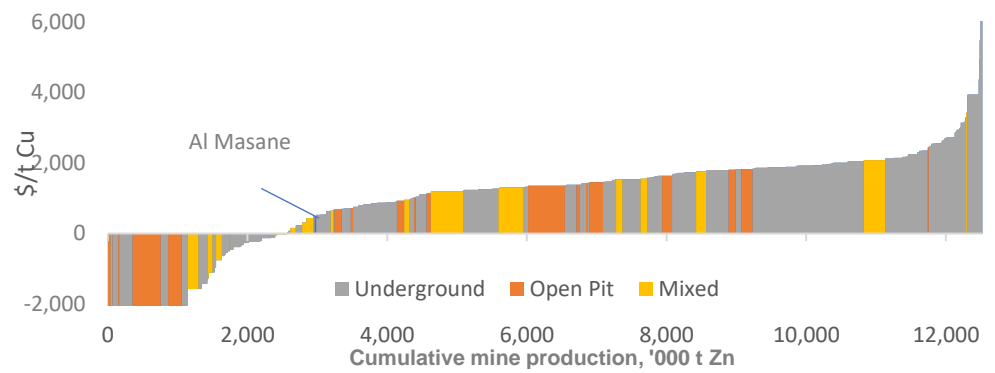
Calculations for Zakat and taxes are complex with around 10-12% of PBT. Severance fees are no more shown separately but are included in the Cost of goods sold.

Figure 10: CRU Copper cash cost curve by processing type, 2020, x-axis: '000t Cu; y-axis: \$/t



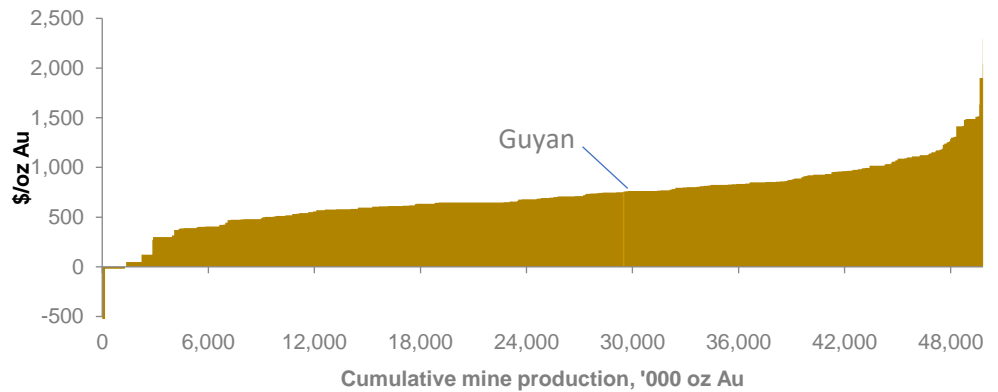
Source: CRU/Company data

Figure 11: CRU Zinc cash costs2 \$/t Zinc by mining type, 2020, x-axis: '000t Zn; y-axis: \$/t



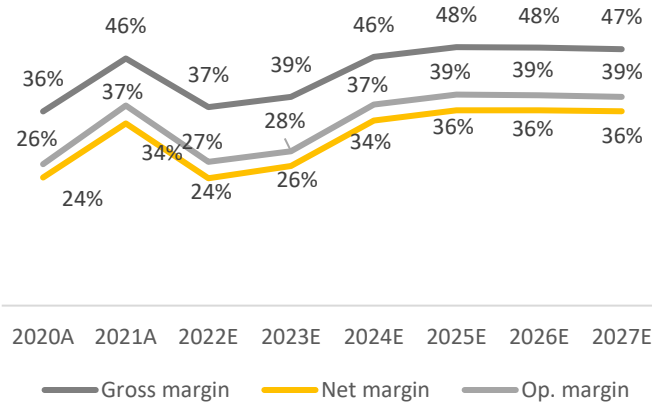
Source: CRU/Company data

Figure 12: 2020 CRU Gold cash costs2, 2020, x-axis: '000 oz; y-axis: \$/oz



Source: CRU/Company data

Figure 13: Improving margins



Source: Company, GIB Capital

Capex:

With significant investment already done, mining Capex in existing Al Masane and Guyan mines is likely to be minimal. We assume maintenance Capex at around 8% of Sales. The company plans to start production in the new plant expansion for Al Masane mine called Moyeath. Moyeath is located within the Al Masane Mine area and is scheduled to start operating in July/August of 2023. The company budgeted approximately SAR330 million for the project which the company spent 60% of already and procured all the necessary equipment for the processing plant. The company is funding the Moyeath project mostly through IPO proceeds. We believe that the company is planning to spend SAR132 million from FY22-23 to fully start the operation.

Cash flows and working capital:

The cash conversion cycle was 136 days in 2021. The company is already FCF positive (SAR127mn in 2021) and by 2024, AMAK is expected to generate strong free cash flows of SAR330mn on a sustainable basis in at least the next 5 years. Current FCF yield is around 2.7% with Moyeath expansion to come next year.

Valuation, scenario analysis, and risks

For valuation references, we take 2024 as the base year because by then the company would reach optimal operating rates. We use a mix of EV/EBITDA multiples and DCF methods.

Relative valuation:

On average, globally Copper/Zinc and Gold miners have an EBITDA margin of ~45+% (vs AMAK 2024e: ~50%) and trade at EV/EBITDA of ~6-7x.

For EV/EBITDA we use a 13.9x multiple on 2024 EBITDA and arrive at a relative valuation-based target price of SAR95/share. This multiple is taken from the average of global peers (7x) adjusted for lower tax (2x global peers). This is because, for every 100 units of EBITDA, AMAK makes more profit than any other global peer because of the low tax rates. Apart from this, AMAK has superior return metrics and the possibility of higher growth potential with its multiple exploration and mining licenses.

DCF: As for DCF, based on a terminal growth of 3% and a WACC of 8.8% with a target capital structure of 20%, we get a SAR84/share as the target.

We use an average of multiple and DCF based valuations which gives us a combined target price of SAR90/share and initiate on the company with an Overweight rating

Scenario analysis:

In the scenario we varied metal prices to get a range of target prices based on EV/EBITDA only.

Figure 14: Scenario analysis based on EV/EBITDA multiple

| | -20% | -10% | Midcycle | 10% | 20% |
|------------------|-----------|-----------|-----------|------------|------------|
| Zinc (US\$/t) | 2,236 | 2,516 | 2,795 | 3,075 | 3,354 |
| Copper (US\$/t) | 6,398 | 7,198 | 7,998 | 8,798 | 9,597 |
| Gold (US\$/oz) | 1,399 | 1,574 | 1,749 | 1,924 | 2,099 |
| Silver (US\$/oz) | 18 | 20 | 22 | 24 | 26 |
| TP (EV/EBITDA) | 71 | 77 | 95 | 113 | 97 |
| TP (DCF) | 59 | 77 | 84 | 90 | 130 |
| Avg | 65 | 77 | 90 | 102 | 114 |
| Change from base | -27% | -14% | | 13% | 27% |

Source: GIB Capital

Dividends

There were no dividends for 2021 because of the expansions. However, the 2022e dividend per share was SAR2.6, implying a 100%+ payout ratio in 2022e. We expect the company to pay SAR2.9/share as DPS in 2023.

Risks:

Life of existing mines' being different from expectations, changes in the composition of the metal mix, collapse in commodity prices, unsuccessful exploration activities, inaccurate assessment of newer mine's capacity/potential, entry of newer players resulting in higher-than-expected competition, geo-political risks are key risks. Also, new exploration/drilling is generally expensive and time-consuming and could lead to losses in the early stages of a new mine. An increase in prices of input materials such as consumables (explosives and chemical reagents) for mining and diesel which is used to produce power is a risk factor.

Figure 13: DCF Valuation

| (In SAR 'mn) | 2023e | 2024e | 2025e | 2026e | 2027e |
|----------------------------------------------|-------------|-------|-------|-------|-------|
| Pre-tax operating profit | 165 | 291 | 321 | 317 | 308 |
| Post-tax operating profit | 148 | 261 | 288 | 284 | 277 |
| Add: Depreciation & amortization | 109 | 106 | 99 | 95 | 91 |
| Change in working capital | 19 | -63 | -2 | 3 | 5 |
| Less: Capex | -79 | -60 | -52 | -49 | -48 |
| Free Cash Flow to Firm | 198 | 244 | 332 | 333 | 324 |
| Sum of present values of FCFs | 1096 | | | | |
| Terminal value | 5762 | | | | |
| Present value of terminal value | 3779 | | | | |
| Appraised value of the enterprise | 4876 | | | | |
| <u>Add:</u> | | | | | |
| Value of associates and non-core assets | 0.08 | | | | |
| <u>Less:</u> | | | | | |
| Net debt | 156 | | | | |
| Employees' Termination Benefits | -11 | | | | |
| Provision for mine closure cost | -35 | | | | |
| Minorities | 0.0 | | | | |
| Appraised value of the equity | 4986 | | | | |
| Number of shares ('mn) | 66 | | | | |
| Target price after 1 year (SAR/share) | 84 | | | | |

Source: GIB capital

Figure 15: Peer metrics

| Name | Market Cap (USD) | EV (USD) | P/E | | | EV/EBITDA | | | Gross Margin | ROE | tax rate | Ebitda margin | payout |
|--------------------------------|------------------|----------|-------------|-------------|-------------|------------|------------|------------|--------------|------|-------------|---------------|-------------|
| | | | Trailing | Curr. Yr | Next Yr | Trailing | Curr. Yr | Next Yr | | | | | |
| Copper Peers | | | | | | | | | | | | | |
| Southern Copper | 46,687 | 51,984 | 16.8 | 21.1 | 21.5 | 11.4 | 11.4 | 11.5 | 53.9 | 22.5 | 40.4 | 54.8 | 72.8 |
| Glencore PLC | 76,284 | 101,160 | 4.9 | 4.0 | 5.7 | 1.6 | 1.6 | 3.9 | | | 0.0 | 11.2 | 0.0 |
| Freeport-McMoRan Inc | 54,372 | 65,711 | 13.9 | 16.6 | 23.7 | 8.3 | 8.3 | 7.7 | 28.2 | 5.8 | 30.0 | 42.6 | 12.8 |
| BHP Group Ltd | 145,420 | 148,427 | | 10.3 | 11.6 | | | 5.4 | | | 32.4 | 61.2 | 87.5 |
| First Quantum Minerals Ltd | 17,497 | 24,382 | 13.4 | 17.6 | 27.3 | 9.1 | 9.1 | 7.9 | 23.2 | 4.6 | 42.7 | 49.2 | 0.8 |
| Antofagasta PLC | 16,573 | 19,835 | 19.2 | 24.6 | 27.2 | | | 7.0 | | | 35.7 | 51.4 | 108.9 |
| Sociedad Minera Cerro Verde SA | 10,852 | 10,136 | 10.9 | 10.2 | 10.3 | 4.1 | 4.3 | 4.7 | 45.2 | 16.7 | 38.2 | 51.0 | 58.8 |
| Median | | | 13.2 | 14.9 | 18.2 | 6.9 | 6.9 | 6.9 | 36.7 | | 37.0 | 51.0 | 58.8 |
| Zinc Peers | | | | | | | | | | | | | |
| Korea Zinc Co Ltd | 9,463 | 9,312 | 15.4 | 14.9 | 15.6 | | | 8.6 | 9.2 | | 28.8 | 13.9 | 43.8 |
| Hindustan Zinc Ltd | 16,035 | 14,101 | 13.6 | 11.6 | 12.7 | | | 6.9 | | | 31.7 | 56.4 | 79.1 |
| Nexa Resources SA | 701 | 2,027 | 4.9 | 4.5 | 5.2 | 3.4 | 3.7 | 3.1 | | 5.7 | 49.5 | | 30.6 |
| Inner Mongolia Xingye Mining C | 1,619 | 1,854 | 54.1 | | | | | | | | 30.9 | | 0.0 |
| Median | | | 22.0 | 10.3 | 11.2 | 3.4 | 3.7 | 6.2 | 9.2 | | 31.3 | 35.1 | 37.2 |
| Gold Peers | | | | | | | | | | | | | |
| Barrick Gold Corp | 28,968 | 37,266 | 18.3 | 19.5 | 20.4 | 6.5 | 6.5 | 6.5 | 33.2 | 5.3 | 29.0 | 52.1 | 32.6 |
| Newmont Corp | 36,933 | 39,428 | 26.6 | 24.4 | 26.0 | 8.7 | 8.7 | 8.3 | 48.3 | 5.9 | 99.1 | 26.9 | 158.5 |
| Franco-Nevada Corp | 27,134 | 26,077 | | 38.3 | 38.2 | 24.1 | 22.1 | 22.8 | 85.5 | | 0.0 | 89.9 | 30.2 |
| Newcrest Mining Ltd | 11,651 | 12,977 | 12.7 | 17.9 | 17.4 | 4.4 | 4.4 | 6.5 | | | 29.0 | 49.4 | 27.5 |
| Agnico Eagle Mines Ltd | 22,194 | 22,843 | | 22.4 | 24.5 | 8.3 | 8.4 | 7.9 | 54.6 | 4.4 | 39.9 | 42.5 | 62.6 |
| AngloGold Ashanti Ltd | 7,525 | 8,508 | | 12.8 | 11.3 | 4.8 | 4.8 | 4.5 | 23.5 | | 32.6 | 31.7 | 9.4 |
| Kinross Gold Corp | 5,413 | 7,534 | 24.9 | 24.6 | 13.9 | 4.9 | 5.1 | 4.8 | 52.4 | | 53.4 | 29.4 | 0.0 |
| Royal Gold Inc | 6,899 | 7,236 | 29.5 | 31.4 | 27.6 | 15.5 | 15.6 | 14.6 | 82.8 | 4.7 | 16.2 | 77.7 | 29.9 |
| Gold Fields Ltd | 9,855 | 10,891 | 9.8 | 11.7 | 13.0 | | | 5.2 | | | 33.9 | 60.0 | 5.3 |
| Yamana Gold Inc | 4,921 | 5,971 | | 19.4 | 23.9 | 7.0 | 7.1 | 6.9 | 55.6 | 3.9 | 76.9 | 48.4 | 71.1 |
| Eldorado Gold Corp | 1,311 | 1,519 | | 273.1 | 15.8 | | | 3.3 | | | 92.7 | -2.3 | 0.0 |
| Yamana Gold Inc | 4,921 | 5,971 | | 19.4 | 23.9 | 7.0 | 7.1 | 6.9 | 55.6 | 3.9 | 76.9 | 48.4 | 71.1 |
| Median | - | - | 20.3 | 42.9 | 21.3 | 9.1 | 9.0 | 8.2 | 54.6 | | 39.9 | 48.4 | 31.4 |
| Silver Peers | | | | | | | | | | | | | |
| KGHM Polska Miedz SA | 5,236 | 5,952 | 3.7 | 4.4 | 12.2 | 4.0 | 4.1 | 5.0 | 20.0 | 8.2 | 21.3 | 23.0 | 4.9 |
| Newmont Corp | 36,933 | 39,428 | 26.6 | 24.4 | 26.0 | 8.7 | 8.7 | 8.3 | 48.3 | 5.9 | 99.1 | 26.9 | 158.5 |
| Pan American Silver Corp | 3,253 | 3,140 | | 190.7 | 35.8 | | | 6.6 | | | 59.8 | 14.4 | 73.4 |
| Median | - | - | 15.2 | 73.2 | 24.7 | 6.4 | 6.4 | 6.6 | 34.1 | | 59.8 | 23.0 | 73.4 |

Source: Bloomberg

Figure 16: Relative valuation method

| | 2024E | Rev. weights |
|-------------------------------------------------------------|-------------|--------------|
| Copper | 6.9 | 29% |
| Zinc | 6.2 | 37% |
| Gold | 8.2 | 28% |
| Silver | 6.6 | 5% |
| Weighted avg. relevant peer EV/EBITDA multiple (x)* | 7.0 | |
| Adjustment factor for lower tax | 2.0 | |
| Fair EV/EBITDA EV/EBITDA multiple | 13.9 | |
| 2024E EBITDA (SARmn) | 397 | |
| EV (SARmn) | 5529 | |
| Equity (SARmn) | 5639 | |
| Target price - 1 year fwd (SAR) based on rel. method | 95 | |

Source: GIB capital

Company Profile

The Al Masane Al Kobra Mining Company (AMAK) was established in 2008. AMAK has become one of the major mining companies in the Kingdom of Saudi Arabia. The Company operates an underground Copper, Zinc, Silver, and Gold mine (Al Masane Mine) and a surface Gold mine (Guyan Gold Mine) in the Najran province of South West Saudi Arabia. The mines are located approximately 820km South East of Jeddah, 68km North North-West of Najran and 220km East of Abha.

The Al Masane Mine site is linked to the port of Jizan by sealed roads and has access to major regional airports located at Abha and Najran. The Al Masane Mine and its processing plant have a processing capacity of 2400 tpd, with a full capacity of 800,000 tpa.

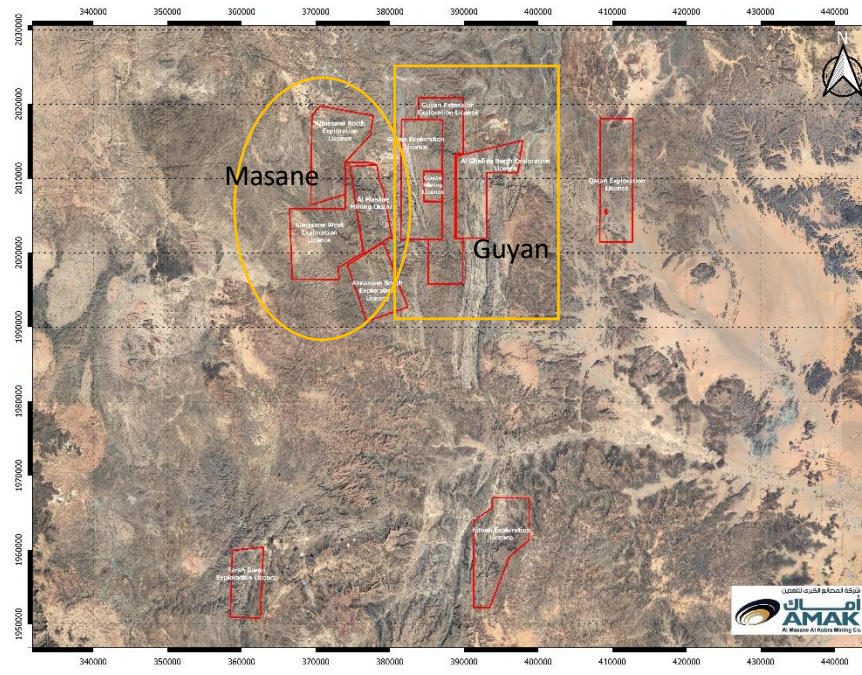
Ore is mined from two main orebodies, Saadah and Al Houra, at a depth of 100 to 400m below surface. A third orebody, known as Moyeath, is currently under development from the surface and underground. All mining and exploration activities for the Al Masane Project are undertaken within the area of the Al Masane Mining License which covers 44 square kilometers in the Najran region. The Al Masane Mining License area and the location of the Al Masane Mine are shown in the map below.

Figure 17: Location of the mines



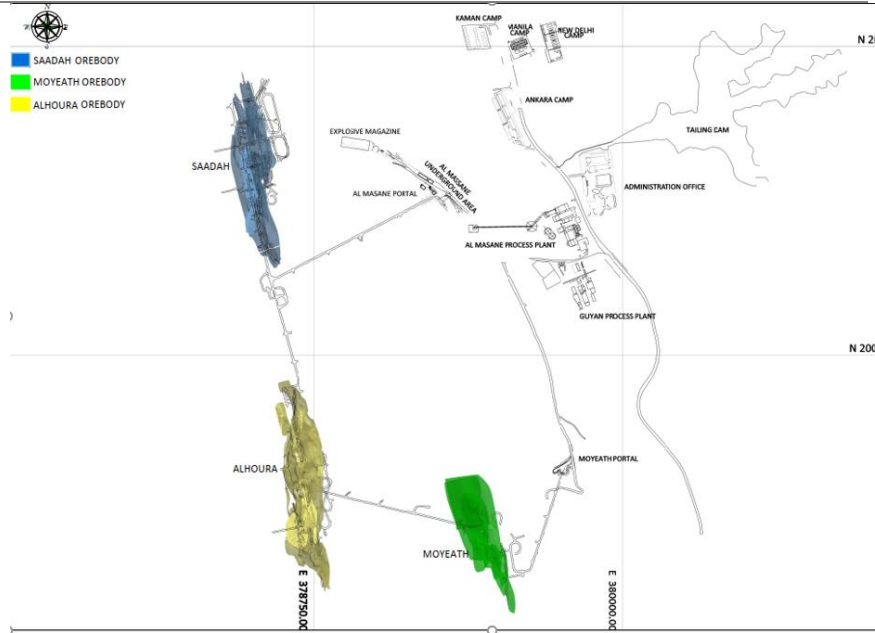
Source: Company data

Figure 18: Location of the ore bodies



Source: Company data

Figure 19: Location of the mines



Source: Company data

Al Masane mine

The Al Masane Mine and its processing plant produce Copper and Zinc concentrates from the mine's volcanogenic massive sulphide ore deposits by the flotation process. The Company also produces Gold and Silver Doré as a byproduct of the concentrate process, using the Merrill-Crowe Recovery Process.

The processing of the Copper, Zinc, Silver, and Gold ore occurs at the Al Masane Processing Plant, located approximately 500m from the portal tunnel which leads to the underground mine. The Al Masane Processing Plant commenced commercial operations in 2012G and was upgraded in 2016-17G to increase production capacity beyond its designed capacity of 700,000tpa.

Today the Al Masane Processing Plant has a capacity of 2,400tpd, which equates to 800,000tpa allowing for scheduled shutdowns and maintenance. The planned mechanical availability of the plant for the year ended 31 December 2020 was 92%. However, the actual availability of the plant was 94.8%, therefore exceeding planned availability. The Company optimizes the plant's availability by ensuring that it stocks spare parts for critical components, such as the mill gearbox and conducts planned preventative shutdowns each month. It has a stated life of 10 years.

The processing plant in Al Masane mine:

The plant uses several stages to recover semi-precious and precious metals from crushed ore. The crushed ore is produced at a separate crushing station where ROM ore is fed into a jaw crusher and then loaded onto the crushed ore stockpile. The crushed ore is then fed into the Al Masane Processing Plant where it is processed through the following stages:

Grinding: The crushed ore is fed through two separate grinding mills which grind the ore in two stage into a very fine powder which is then prepared with suitable chemicals to adjust for PH levels and make it suitable for the floatation process.

Flotation: The material received from the grinding mills is then fed into three flotation cells. The first flotation removes talc. The processed material is then fed into a second flotation cell which removes Copper, and then a third flotation cell which removes Zinc.

Filtering: Filters are then used to reduce the quantity of water from the material received from the Copper and Zinc floatation units to produce cakes with Copper content and cakes with Zinc content, known as Copper concentrate and Zinc concentrate respectively.

Leaching: Zinc tailings are sent to additional tanks where sodium cyanide is added to dissolve (leach) Gold and Silver.

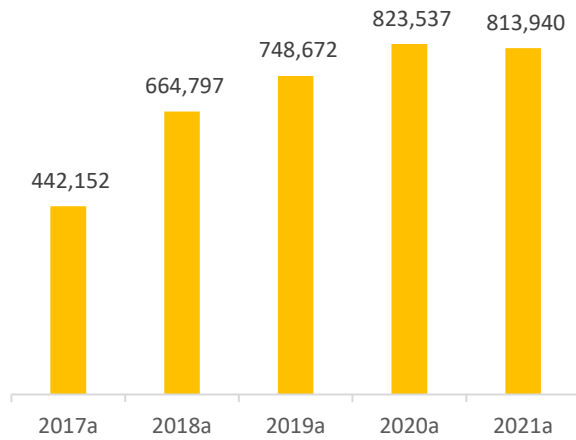
Precious Metals Recovery: The solution produced by the leaching process is then treated in Merrill-Crowe and SART circuits which are specialized units designed to recover residual Gold, Silver, Copper, and cyanide. The recovered cyanide is then re-used in the leaching process.

Bullion Production: The cakes produced are then treated with acid and then smelted into bars of Gold and Silver Doré in a furnace.

Copper and Zinc concentrate produced from the Al Masane Processing Plant are sampled for quality and trucked to the Company’s storage warehouse at the port of Jizan ready for transport to the Company’s customers

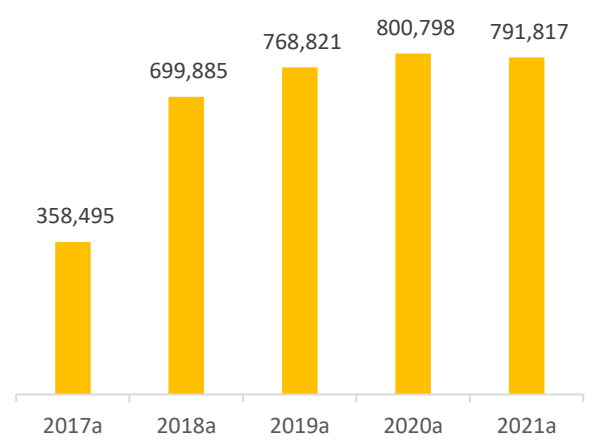
Waste products produced from the Al Masane Processing Plant, known as ‘tailings’, are deposited into a dry tailings storage facility which is designed to store the waste in compliance with applicable environmental standards.

Figure 20: Tonnes mined (underground) (metric tonnes) Al Masane



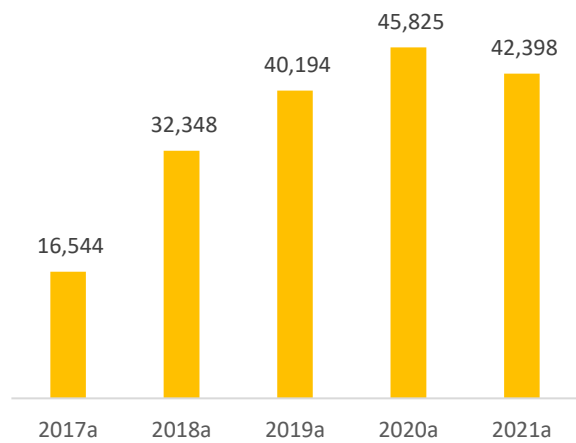
Source: Company

Figure 21: tonnes milled (metric tonnes) from Al Masane



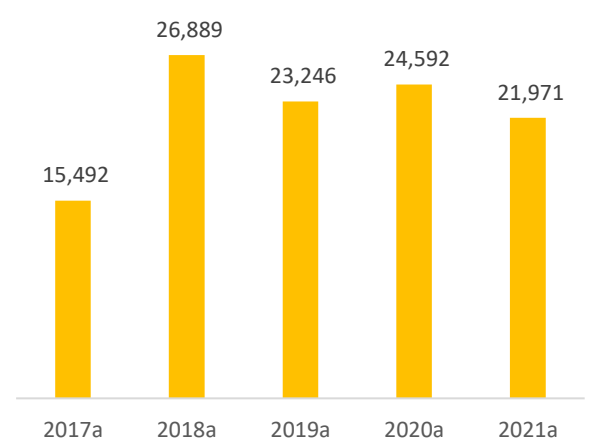
Source: Company

Figure 22: Al Masane Zn Concentrate (dmt) production



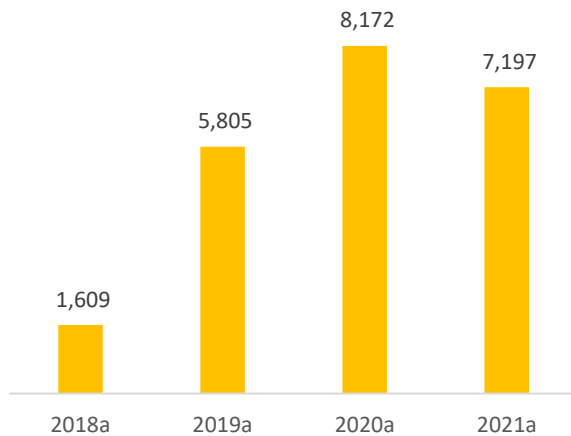
Source: Company

Figure 23: Al Masane Cu Concentrate (dmt) production



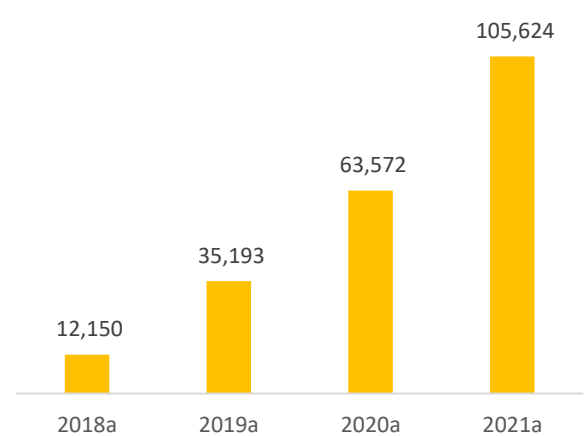
Source: Company

Figure 24: Al Masane Gold (oz) production



Source: Company

Figure 25: Al Masane Silver (oz) production



Source: Company

Guyan Mine

The Guyan Mine is a surface pit Gold mine located approximately 12km by paved road to the north-northwest of the Al Masane Mine and Processing Plant. The Guyan mine has an Ore reserve of 1.7 million tons which is equal to a life of mine of 6 years without any further exploration. The exploration of the Guyan Mine started in February 2016 and in December 2019. During this period the Company drilled a total of 26,450 meters in 224 drill holes using the diamond core drilling to define the mineralization for the Guyan North and South Veins of the Jabal Guyan Deposit as well as the veins associated with the Al Aqiq Deposit. These holes were drilled for infill and extension of the Guyan North and South veins and Al Aqiq Deposit, to increase confidence in the geological model, upgrade the Mineral Resource classification and provide more accurate volume and grade information for mine planning.

In terms of further mining, the most advanced prospect is the Al Aqiq deposit where sufficient work has been carried out to define a Mineral Resource.

Completion of construction and cold commissioning of the Guyan Processing Plant occurred in December 2020. The Guyan Mine extracts the Jabal Guyan South and North deposits and its processing plant produces Gold Doré using the gravity and carbon absorption processes. The mine produced its first Gold bullion in January 2021.

The Guyan Mine and its processing plant have a processing capacity of 1,000 tpd or 300,000 tpa and, based on this and taking into account expected ore grade and recovery factors, has a capacity to produce up to 36,000 oz of Gold per year.

The processing plant in Guyan mine:

The processing of the Silver and Gold ore occurs at the Guyan Processing Plant. Ore is crushed at the crusher station, which is located near the open pit. The crushed ore is then transported by land to the Guyan Processing Plant.

The crushed ore is processed at the Guyan Processing Plant through the following stages:

Grinding: The crushed ore is fed through two separate grinding mills which grinds the ore in two stage into a very fine powder which is suitable for leaching.

Leaching: The ground material is then processed through a set of 6 Leach Tanks, where cyanide is added to dissolve the Gold over a period of 24 hours.

Carbon Absorption: The dissolved Gold solution is then added to carbon-in-leach tanks where “activated carbon” extracts and absorbs the Gold and Silver from the solution.

Filtering: Excess water is then removed from the activated carbon which contains the Gold using an automated filter-press machine.

Elution and Electrowinning: Once the Gold content in the activated carbon reaches a certain level, the Gold is removed from the carbon in the “elution process” which uses a solution to remove the Gold from the carbon. The Gold is then deposited onto the steel cathodes using a process called “electro-winning”. The carbon is then re-used.

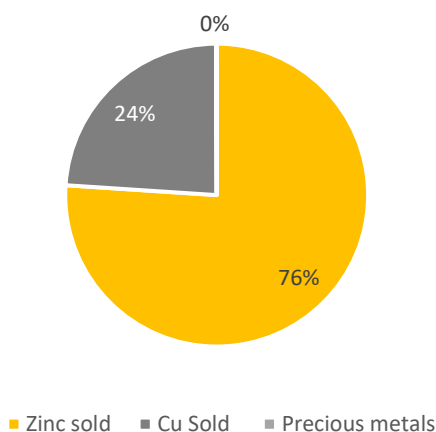
Bullion Production: The resulting Gold bearing material taken from the cathodes is then smelted into bars of Gold and Silver bullions (Doré) in a furnace.¹⁷ Waste products resulting from the process are placed in the tailings dam.

Figure 26: Guyan Gold mine details

| Guyan Gold Mine | 2021a |
|-------------------------------|---------|
| Tonnes milled (metric tonnes) | 350,338 |
| Gold sold (oz) | 17,706 |

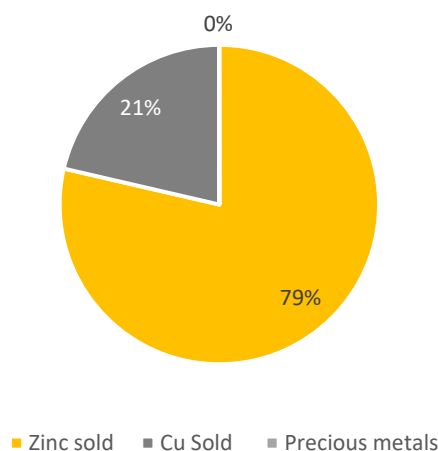
Source: Company

Figure 27: The company production mix in 2021



Source: Company, GIB capital

Figure 28: The company production mix in 2024



Source: GIB capital

Moyeath expansion

The Moyeath orebody located within the Al Masane Mine area contains higher levels of Zinc, less Copper, and more Silver than the average grades encountered at the current main orebodies. Accordingly, a different plant design to that of the Al Masane Process Plant was required to optimize the recovery of Zinc and Copper Concentrate.

The design capacity of the Moyeath Processing Plant is 350ktpa of ore and is located in the same mining camp of Al Masane. The design of the Moyeath Processing Plant is similar to that of the

Al Masane Processing Plant but calibrated to process higher Zinc and lower Copper feed grades than those currently processed at the Al Masane Processing Plant.

The main difference in process will be that, due to the high precious metal recoveries achieved in flotation, the process will not require the 'leaching' unit where tailings are sent to tanks where sodium cyanide is added to leach Gold and Silver.

Given the close proximity of the Moyoath Processing Plant site to the Al Masane Processing Plant and mine site, only limited additional infrastructure will be required. The main additional infrastructure will include additional power generation sets and an expanded accommodation camp.

The capital cost for the construction of the Moyoath Processing Plant is estimated at approximately SAR330mn.

Qatan Exploration License: In addition to the Al Masane and Guyan Exploration Licenses, the Company also holds the Qatan Exploration License. The license covers an area of 73.42 square kilometers and is located in the Qatan valley, Najran approximately 10 km east of the Guyan Project. The Qatan Exploration License permits the exploration of nickel and associated minerals.

Exploration areas: The Company obtained other exploration licenses from the Ministry of Industry and Mineral Resources for a number of minerals (Gold, lead, Zinc, Silver, Copper, nickel and iron ore) in various regions of the Kingdom, which include Riyadh, Hail, Al-Jawf, Al-Baha, Najran, Asir, Tabuk, Al-Qassim, the Northern borders, Medina and Makkah.

AMAK has currently exploration and mining licenses to explore ~152 sq.km of areas at Guyan and Qatan, and 54km² pursuant to the Al Masane Mining License and the Guyan Mining License.

Additionally, on Aug. 29, four exploration licenses were provided for Copper and Gold at Al-Dawadmi, Riyadh. The licenses will expire on July 6, 2027. The total area of the licenses is 396.1 square kilometers. On Nov. 7 an exploration license for Gold and Silver at Al-Dawadmi, Riyadh was also provided. The total area of the license is 82.84 square kilometres (sq km), and it will expire on Sept. 14, 2027.

Selling and distribution

The Company markets its Zinc and Copper concentrates through its Agent Ocean Partners, which sells the products into the international markets in return for a percentage commission of the value of the concentrates sold. The Agent is appointed under the terms of Agency Agreement. Pursuant to the terms of the Agency Agreement, the Agent enters into separate contracts with each buyer for the sale of the concentrates.

Buyers are selected through a formal tender process conducted by the Agent. Tenders are generally offered for a set number of shipments within the calendar year. Interested buyers generally compete on the basis of treatment charges and costs, as Zinc and Copper prices are set internationally. Selected buyers are recommended by the Agent and Company to the Commercial Committee for consideration. The Commercial Committee then selects the preferred buyer for specific shipments.

The Zinc and Copper concentrates are stored at the Company's storage warehouse at the port of Jizan where the Company stockpiles the necessary quantities of concentrate to delivery by ship to the buyer.

The Company invoices the Agent for each shipment once the ship leaves the port, with payment by the Agent for each shipment being fully secured against the original shipping documents. Typically, the Company receives 95% of the payment within 7 days of shipping the product.

Company strategy

Amak's strategy is to be an efficient low-cost producer of various mining outputs such as Copper, Zinc, Gold, Silver in KSA through its mines such as Guyan (open pit) and Al Masane (underground).

The company's main growth strategy is to extend the Al Masane mine's life to more than 20 years by developing resources at deeper levels and expanding exploration license areas. In terms of expansion plans, it has recently tripled the exploration area of Al Masane mine, which includes four known mineralization areas, such as Wadi Shan where the company intends to commence diamond drilling in 2022.

In terms of cost efficiency, it aims to be in the top quarter percentile of the low-cost producers of Copper, Zinc, and Gold to mitigate against the impact of the metal price cycle, while also producing high quality and low impurity Copper and Zinc concentrates in South East Asian region.

The Zinc concentrate is aimed at Chinese smelters, due to low impurities and high Zinc metal content in the concentrate. The Copper concentrate is also attractive to certain smelters due to considerable amount of Gold (+5 gpt) and Silver (+300 gpt). For instance, the Moyeath Copper Concentrate will have 24.7% Copper, 18.7gpt Gold and 596 gpt Silver (average LoM).

In terms of workforce, the company aims to train locals in order to reduce the reliance on expedited workforce as well as invest in digital mining platforms to reduce human exposure.

Ownership and IPO details

Al Masane Al Kobra mining company was incorporated as a Saudi closed joint stock company in Jeddah in 2007 with a capital of SAR450 million with 45 million shares.

The company was listed in the on Tadawul on March 29th 2022. IPO issue price was SAR63/share and the share closed at SAR81.9/share (30% listing gain) on the listing day.

AMAK received gross proceeds of SAR 609.3 million and net proceeds of SAR 594.8 million, with IPO-related company expenses of SAR 14.5 million.

In the offering, 10.1mn shares were sold by the existing shareholders, while the company issued 9.7mn new shares. The net proceeds are mainly used to develop the expansion project (Moyeath orebody), which is adjacent to existing mining operations.

Figure 29: Top shareholders of AMAK

| Top shareholders | |
|---------------------------|-------|
| Arab Mining Company | 14.2% |
| Asas Mining Company | 13.7% |
| National Lead Smelting Co | 6% |
| Mohammed Mana Aballala | 6% |

Source: Tadawul

Market dynamics

- As per vision 2030, Saudi Arabia’s mining sector could add SR240bn to the Kingdom’s GDP by the year 2030, from current levels of SAR64bn.
- Under the Saudi Vision 2030 development plan, mining is positioned as the third pillar of the Kingdom’s economic development, after energy and petrochemicals, as it aims to diversify the economy away from a reliance on oil.
- National Industrial Development and Logistics Program — a program created to support that vision — estimates the Kingdom’s untapped mineral deposits at \$1.3 trillion.
- The strategy will lead to a SR37 million decrease in imports as well as add 219,000 job opportunities to the Kingdom’s labor market.
- Given the rising demand for minerals, the revenues of international mining companies are anticipated to cross \$500 billion (sourced from Reuters interview with CEO of AMAK).

Given below are the price forecasts of analysts contributing to Bloomberg and the forward curve prices.

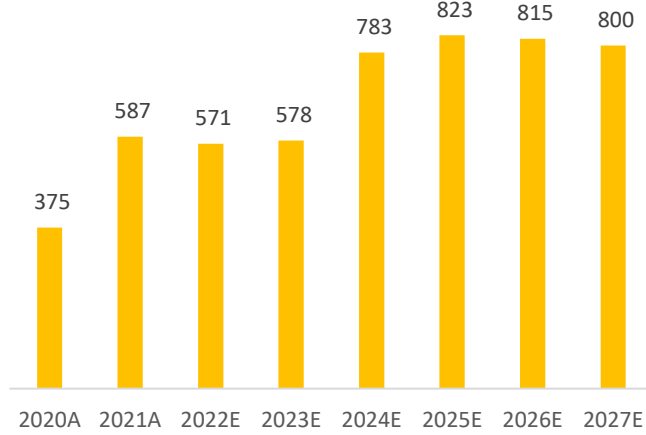
Figure 30: Bloomberg consensus forecasts

| | Spot | Q4 22 | Q1 23 | Q2 23 | Q3 23 | 2022 | 2023 | 2024 |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Zinc \$/mt - fwd curve | 3,025 | 2,896 | 2,874 | 2,837 | 2,798 | 3,427 | 2,816 | 2,661 |
| Forecast (Median) | | 3,100 | 3,000 | 3,000 | 3,100 | 3,500 | 3,000 | 3,023 |
| Copper \$/mt - fwd curve | 8,493 | 8,179 | 8,267 | 8,255 | 8,242 | 8,739 | 8,249 | 8,217 |
| Forecast (Median) | | 7,450 | 7,200 | 7,400 | 7,600 | 8,715 | 7,750 | 9,000 |
| Gold \$/tz oz - fwd curve | 1,771 | 1,726 | 1,775 | 1,797 | 1,819 | 1,788 | 1,808 | 1,889 |
| Forecast (Median) | | 1,700 | 1,737 | 1,750 | 1,750 | 1,800 | 1,800 | 1,776 |
| Silver \$/t oz - fwd curve | 22 | 21 | 22 | 22 | 22 | 21 | 22 | 23 |
| Forecast (Median) | | 20 | 20 | 21 | 21 | 21 | 21 | 21 |

Source: Bloomberg

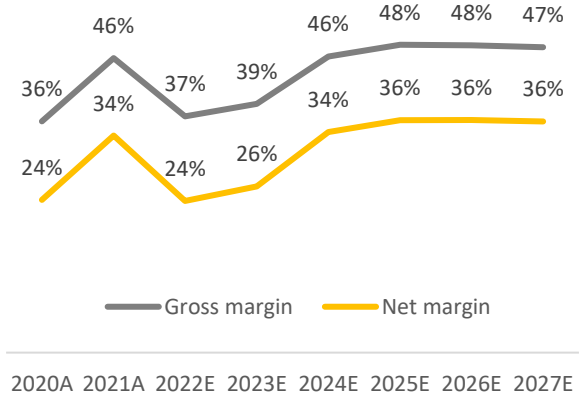
Financial analysis in charts

Figure 30: Annual revenues (SARmn)



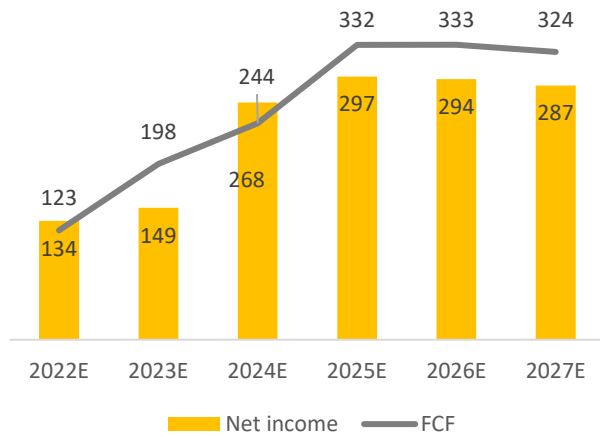
Source: Company data, GIB Capital

Figure 31: Annual gross and net margin



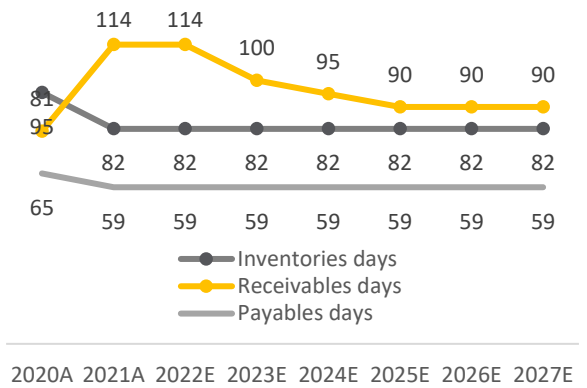
Source: Company data, GIB Capital

Figure 32: Improving FCF and net income (SARmn)



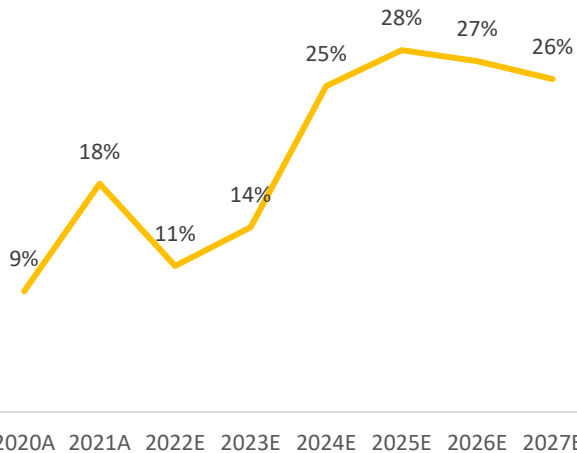
Source: Company data, GIB Capital

Figure 33: Inventory, receivables, and payable days



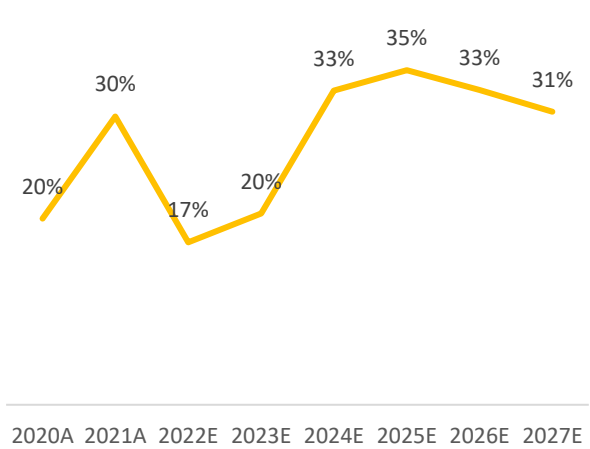
Source: Company data, GIB Capital

Figure 34: Return on assets



Source: Company data, GIB Capital

Figure 35: Return on equity



Source: Company data, GIB Capital

Financials

Figure 36: Summarized basic financial statements (SARmn)

| Income statement | 2020a | 2021a | 2022e | 2023e | 2024e |
|-------------------------|------------|------------|------------|------------|------------|
| Revenue | 375 | 587 | 571 | 578 | 783 |
| Revenue y/y | 26% | 56% | -3% | 1% | 36% |
| COGS | 241 | 319 | 362 | 355 | 424 |
| Gross Profit | 134 | 268 | 209 | 223 | 359 |
| Gross Profit margin | 36% | 46% | 37% | 39% | 46% |
| Sales & Marketing | 17 | 29 | 23 | 23 | 31 |
| G&A | 20 | 22 | 35 | 35 | 38 |
| Operating profit | 98 | 217 | 152 | 165 | 291 |
| Operating margin | 26% | 37% | 27% | 28% | 37% |
| Finance costs | 7 | 14 | 11 | 7 | 4 |
| Net income | 89 | 197 | 134 | 149 | 268 |
| Net margin | 24% | 34% | 24% | 26% | 34% |
| y/y | 225% | 122% | -32% | 11% | 80% |
| EPS | 1.3 | 3.0 | 2.0 | 2.3 | 4.1 |
| DPS | 0.0 | 0.0 | 2.6 | 2.9 | 3.0 |
| Payout | 0% | 0% | 128% | 130% | 74% |
| EBITDA | 156 | 310 | 256 | 274 | 397 |
| Net debt | 190 | (39) | (166) | (153) | (282) |

| Balance Sheet | 2020a | 2021a | 2022e | 2023e | 2023e |
|-------------------------------------|------------|--------------|--------------|--------------|--------------|
| Inventories | 63 | 71 | 81 | 79 | 95 |
| Trade Receivables | 83 | 183 | 178 | 158 | 204 |
| Prepayments and Others | 22 | 40 | 38 | 39 | 53 |
| Cash and Equivalents | 203 | 368 | 422 | 307 | 374 |
| Total Current Assets | 203 | 368 | 422 | 307 | 374 |
| Right of use assets | 9 | 8 | 7 | 6 | 5 |
| Property, Plant & Equipment | 720 | 704 | 722 | 692 | 647 |
| Total Non-Current Assets | 744 | 744 | 761 | 730 | 684 |
| Total Assets | 947 | 1,112 | 1,183 | 1,037 | 1,058 |
| Current Liabilities | 149 | 199 | 186 | 149 | 138 |
| Non-current Liabilities | 346 | 265 | 215 | 150 | 112 |
| Equity | 452 | 648 | 783 | 738 | 808 |
| Total Equity and Liabilities | 947 | 1,112 | 1,183 | 1,037 | 1,058 |
| BVPS | 5.4 | 7.7 | 9.3 | 8.8 | 9.6 |

| Cashflow | 2020a | 2021a | 2022e | 2023e | 2023e |
|--------------------------|------------|-----------|-----------|------------|-----------|
| Cashflow from Operations | 117 | 179 | 246 | 280 | 312 |
| Cashflow from Investing | -151 | -72 | -122 | -79 | -60 |
| Cashflow from Financing | 17 | -67 | -74 | -296 | -260 |
| Total Cashflows | -17 | 40 | 51 | -95 | -8 |

Source: Company, GIB Capital

Figure 37: Key ratios

| Key ratios | 2020a | 2021a | 2022e | 2023e | 2024e |
|-------------------------------------|-------|-------|-------|-------|-------|
| Profitability ratios | | | | | |
| RoA | 9% | 18% | 11% | 14% | 25% |
| RoE | 20% | 30% | 17% | 20% | 33% |
| Sales/Assets | 40% | 53% | 48% | 56% | 74% |
| EBITDA margin | 42% | 53% | 45% | 47% | 51% |
| Net margin | 23.7% | 33.6% | 23.5% | 25.8% | 34.2% |
| Liquidity ratios | | | | | |
| Current Assets/ Current Liabilities | 1.4 | 1.9 | 2.3 | 2.1 | 2.7 |
| Debt to Total Equity | 87% | 51% | 33% | 4% | 4% |
| Receivable Days | 81 | 114 | 114 | 100 | 95 |
| Inventory Days | 95 | 82 | 82 | 82 | 82 |
| Payable days | 65 | 59 | 59 | 59 | 59 |
| Debt ratios | | | | | |
| Net Debt/EBITDA | 1.2 | -0.1 | -0.6 | -0.6 | -0.7 |
| Debt/Assets | 0.4 | 0.3 | 0.2 | 0.1 | 0.1 |
| Valuation ratios | | | | | |
| P/E | 56.1 | 25.2 | 37.1 | 33.4 | 18.6 |
| P/B | 14.0 | 9.8 | 8.1 | 8.6 | 7.8 |
| EV/EBITDA | 31.2 | 15.7 | 19.0 | 17.8 | 12.3 |
| FCF yield | - | - | 2.7% | 4.4% | 5.4% |
| Div. Yield | 0.0% | 0.0% | 3.4% | 3.9% | 4.0% |

Source: Company, GIB Capital

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