

## Overweight

Price Target (SAR): 187.0

Current (6<sup>th</sup> June 2024): 137.00  
Upside/Downside: 36.5% above current

Valuation Multiples	23	24E	25E
P/E (x)	23.1	19.0	16.7
P/B (x)	5.2	4.0	3.5
ROE (%)	23.8	23.7	22.5

### Major Shareholders % Ownership

Arab Supply & Trading Co.	47.15
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Price Performance	1M	3M	YTD
Absolute	-20.3%	-16.5%	2.9%
Relative to TASI	-13.9%	-8.4%	6.3%

## Earnings

(SAR mn)	2023	2024E	2025E
Revenue	2,859	3,162	3,496
YoY %	10.2%	10.6%	10.6%
Gross Profit	1,187	1,315	1,454
GM Margin %	41.5%	41.6%	41.6%
YoY %	14.1%	10.8%	10.6%
EBITDA	622	703	801
EBITDA Margin	21.7%	22.2%	22.9%
Net Income	475	576	655
Net Income Margin %	16.6%	18.2%	18.7%
YoY %	0.2%	21.1%	13.7%
EPS	5.9	7.2	8.2
ROE	24%	24%	22%

Source: Company data, Al Rajhi Capital

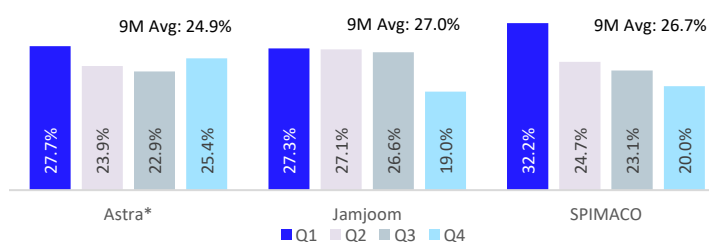
# Astra Industrial

## Q1 concerns overdone, upgrade to Overweight after recent correction

Despite reporting solid Q1 2024 numbers (topline: +13% y-o-y, net profits: +22% y-o-y), the stock has declined 28% from its YTD highs. Post-analyzing the segmental performance, the pharma topline growth (+8% y-o-y) appeared to be moderate compared to its peer, Jamjoom (+28% y-o-y), and the overall market (+14% ex-diabetes drug). Consecutive quarters of modest topline growth in the pharma business appear to have pressured the stock price. In our view, if this is the main reason for the decline in the stock price, then it is a clear buying opportunity. The pharma manufacturing is a B2B business where the company sells to the distributors and can consciously decide on the pattern of the sales. Some of the companies tend to have H1 very strong and Q4 relatively leaner to assess the inventory levels at the distributor and the end market demand. Astra follows a strategy where its Q4 is broadly in line with the first 3 quarters of the year, whereas its peers such as Jamjoom and SPIMACO have a much leaner Q4. In 2023, Astra's Q4 pharma sales mix as a percentage of total pharma sales was 25.4%, which is broadly in line with its first three quarters' average mix of 24.9%; while for peers, the Q4 is much weaker. Jamjoom's Q4 was 19% of the total sales in 2023, while SPIMACO was 20% versus 27% average mix in the first three quarters of the year. Thus, in our view, the moderate topline growth of Astra in Q1 is not a matter of major concern. Moreover, as the company would be delivering the NUPCO order (most of the impact to reflect in H2), the topline growth will remain solid for the rest of the year.

As we move forward, we continue to believe the overall growth in the pharma business will be low double digit, with H2 2024 being particularly strong, although we slightly trim our FY 2024 numbers to be on the conservative side. Further, we have noticed that working capital movement was unfavorable for the company in Q1, which weighed on the finance cost. As the unwinding of working capital is expected to happen in the remaining quarters, and the benefits of lower debt as well as higher term deposits (interest income) reflect in the remaining quarters, the bottom-line growth will continue to be solid. At the same time, the silver lining in Q1 2024 was the strong growth (>100% y-o-y) in the steel business, which is now contributing positively to the operating profit. Given that the steel business is levered to the construction story, we should continue to see strong growth in this business. However, we do not extrapolate the growth number from Q1 for the remaining quarters but continue to assume strong growth (+20%-25% y-o-y). Thus, we do not see anything to be concerning related to the Q1 results. We revise our target price to SAR 187/share and upgrade our recommendation to Overweight from neutral after the recent correction. At Thursday's closing, the stock offers an upside of 36.5%.

Figure 1 Quarterly Sales mix as % of Total sales



Source: Company Data, Al Rajhi Capital, Note\*: For Astra we have considered just pharmaceutical revenues

**Valuations:** Astra is a key player in the pharma industry led by its diverse exposure to therapeutic areas, strong relationship with the government and the expected growth from the tender business in the near term. Moreover, the improvement in the steel business should continue to improve the margins. We continue to value the company on an SOTP method. Post the recent correction in the broader market and the pharma space, we slightly trim our target multiple for pharma business to 28x from 30x, while keep our multiples unchanged for the other businesses. Given the recent jump in the working capital requirements, we are assuming the benefits of finance income to be limited (offset by finance costs), thus assuming the other segment (includes corporate expense) to make losses. Based on these assumptions, the fair value for the stock is SAR 187/share (slightly lower versus earlier TP of SAR 189/share), offering 36.5% upside from the Thursday's (6<sup>th</sup> June 2024) levels, that implies an Overweight recommendation on the stock.

Figure 2 **Valuations**

SOTP	Forward 12M EBIT	Assigned multiple	Enterprise value	Comments
Pharma business	467	28x	13,081	High single digit to low-double topline growth potential.
Chemicals	169	15x	2,529	Stable margins, to grow at a mid single digit
Steel	64	20x	1,273	Strong growth potential
Other segment	(50)	10x	(501)	Group holding and corporate expense. Mining disposed, thus losses to reduce.
<b>Group level enterprise value</b>			<b>16,383</b>	
Conglo. Discount		-10%	(1,638)	Unrelated businesses, thus 10% discount
<b>Group level enterprise value (net)</b>			<b>14,745</b>	
Debt			(618)	
Cash			1,320	
WC requirement (considered only 50% impact)			(451)	
<b>Net equity</b>			<b>14,995</b>	
O/S			80	
<b>Value per share (rounded off)</b>			<b>187.0</b>	
CMP			137.0	
Upside/(downside)			36.5%	

Source: Company Data, Al Rajhi Capital estimates

Note: Forward 12M EBIT contains 9M of 2024 EBIT and 1Q of 2025 EBIT.

## Financials

Figure 3 Income Statement

SAR mn	2023	2024E	2025E
<b>Revenue</b>	<b>2,859</b>	<b>3,162</b>	<b>3,496</b>
<i>y-o-y growth</i>	10.2%	10.6%	10.6%
Cost of Sales	(1,672)	(1,847)	(2,042)
<b>Gross Profit</b>	<b>1,187</b>	<b>1,315</b>	<b>1,454</b>
<i>y-o-y growth</i>	14.1%	10.8%	10.6%
<i>margins</i>	41.5%	41.6%	41.6%
Operating expenses	(656)	(689)	(734)
<b>Operating Profit</b>	<b>531</b>	<b>626</b>	<b>720</b>
<i>y-o-y growth</i>	34.3%	17.8%	15.0%
<i>margins</i>	18.6%	19.8%	20.6%
Net Financing expense	(26)	(20)	(22)
Other (Expense)/Income	(4)	4	4
<b>Pre-Tax Income</b>	<b>502</b>	<b>611</b>	<b>702</b>
Zakat	(29)	(36)	(49)
Non-controlling Interests	2	2	2
<b>Net Income/Net Profit (Losses)</b>	<b>475</b>	<b>576</b>	<b>655</b>
<i>y-o-y growth</i>	0.2%	21.1%	13.7%
<i>margins</i>	16.6%	18.2%	18.7%
EPS	5.9	7.2	8.2

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

SAR mn	2023	2024E	2025E
Cash flow from Operations	681	571	718
Cash flow from Investing	(88)	(231)	(141)
Cash flow from Financing	(228)	(661)	(262)
Change in cash	382	(319)	314

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

SAR mn	2023	2024E	2025E
Cash and equivalents	1,058	739	1,053
Trade receivables	944	1,103	1,096
Inventories	716	804	840
Prepaid expenses and other	148	190	210
Time Deposits	563	974	974
Due from related parties	3	3	3
<b>TOTAL CURRENT ASSETS</b>	<b>3,432</b>	<b>3,815</b>	<b>4,178</b>
PP&E, net	756	798	857
Other Intangible Assets	77	76	76
Other non-current assets	7	6	8
<b>TOTAL NON-CURRENT ASSETS</b>	<b>840</b>	<b>881</b>	<b>941</b>
<b>Assets held for sale</b>		<b>129</b>	
<b>TOTAL ASSETS</b>	<b>4,272</b>	<b>4,824</b>	<b>5,120</b>
Trade payables and other current liabilities	239	283	289
Accrued liabilities	613	734	734
Current portion of LT debt	812	466	466
Deferred tax liability	7	7	7
Income taxes payable	133	151	170
<b>CURRENT LIABILITIES</b>	<b>1,836</b>	<b>1,673</b>	<b>1,699</b>
LT debt	160	152	152
Employees' end of service benefits	145	144	151
<b>NON-CURRENT LIABILITIES</b>	<b>305</b>	<b>296</b>	<b>303</b>
<b>Liabilities held for sale</b>		<b>145</b>	
<b>SHAREHOLDERS EQUITY</b>	<b>2,128</b>	<b>2,708</b>	<b>3,115</b>
Non-controlling Interest	3	3	3
<b>TOTAL LIABILITIES</b>	<b>4,272</b>	<b>4,824</b>	<b>5,120</b>

Source: Al Rajhi Capital estimates

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