

US\$3.38bn Market Cap. 45.68% Free Float US\$10.92mn Avg. Daily Value traded

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Overweight

Price Target (SAR): 183.0

Current (27th February 2024): 153.6
Upside/Downside: 19% above current

Valuation Multiples	24E	25E	26E
P/E (x)	21.8	18.4	16.7
P/B (x)	5.3	4.7	4.1
EV/EBITDA (x)	16.6	14.2	12.6

Major Shareholders % Ownership

Arab Supply & Trading Co.	47.15
Muhammad Najr Saqr Al-Otaibi	5.00

Price Performance	1M	3M	YTD
Absolute	20.9%	40.9%	18.9%
Relative to TASI	18.2%	27.4%	13.6%

Earnings

(SAR mn)	2023	2024E	2025E
Revenue	2,859	3,250	3,633
y-o-y	10.2%	13.7%	11.8%
Gross Profit	1,187	1,324	1,493
GM Margin	41.5%	40.8%	41.1%
y-o-y	14.1%	11.6%	12.7%
Operating Profit	531	669	779
OPerating Margin	18.6%	20.6%	21.5%
Net Income	475	586	694
Net Income Margin	16.6%	18.0%	19.1%
y-o-y	0.2%	23.4%	18.3%
EPS	5.9	7.3	8.7
DPS	3.0	3.7	4.3
ROE	24%	26%	27%

Source: Company data, Al Rajhi Capital

Astra Industrial

Solid Q4 numbers, TP raised to SAR 183/share

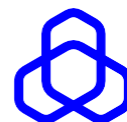
Astra's Q4 numbers were solid and much ahead of our expectations. The detailed financial results are not out yet to figure out the driver of the growth. However, we assume the driver to be the steel business, where the company has been gaining traction in the recent quarters supported by ongoing construction activity in the Kingdom. Moreover, its pharma business is also benefitting from growing demand for generics led by insurance (insurance packages promote generic drugs) as well as Wasfaty program. The results were solid and justifies the recent rally in the stock price. In our view, Astra is a key player in the pharma industry given its presence in specialized therapeutic areas as well as a leading position in general medicine. Moreover, its high exposure to government channel could aid in maintaining high volume growth in the near term. Its steel business can be a dark horse given the ongoing construction activity in the country. However, we see this business to be a non-core business and there is a possibility of this business being separated in the future. In the near term the steel business would show strong growth and margin improvement. Recently, the company exited its mining business for SAR 35 mn and debt settlement of SAR 129.6 mn. This indicates that there is a possibility of the company separating its steel business also, which in our view would unlock the potential value for the pharma and the chemical business. Moreover, the company has a cash balance of over SAR 1.0 bn, which provides an upper hand in a high interest rate environment and opens door for pursuing inorganic growth strategy. We increase our estimates for 2024 and 2025 notably led by steel business and we see the pharma business to maintain low double-digit growth in the near term supported by rising exposure to government channel as well as structural growth demand for generic pharma. We raise our target price to SAR 183/share from SAR 125/share and maintain our Overweight recommendation on the stock. Our valuations are derived through sum of the parts methodology shown in figure 2 below.

Results: Astra's revenue in 4Q23 grew 8% y-o-y and 21% q-o-q to SAR 790mn, coming 15% above our estimates. Revenue growth in 2023 full year was majorly due to growth in the pharmaceuticals and steel sector as per management. Given the high fixed cost base in the pharma business, the benefits of operating leverage were clearly visible. Gross margins came in at 42.5% versus our estimate of 38.3% and saw sequential improvement of 250 bps. Similarly, operating profits and net profits of SAR 154 mn and SAR 134 mn, were much above our expectations of SAR 114 mn and SAR 86 mn.

Figure 1 Earnings Summary Q4 2023

SAR mn	Q4 2023	Q4 2022	Y-o-Y	Q3 2023	Q-o-Q	ARC Est.	vs ARC
Revenue	790	729	8%	654	21%	686	15%
Gross profit	336	320	5%	261	29%	263	28%
Gross margin	42.5%	44.0%		40.0%		38.3%	
Operating profit	154	132	16%	114	35%	114	35%
Operating margin	19.5%	18.2%		17.5%		16.6%	
Net profit	134	86	57%	103	30%	86	56%
Net margin	17.0%	11.8%		15.8%		12.6%	

Source: Company data, Al Rajhi Capital

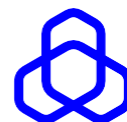


Valuations: We continue to value the company through SOTP valuation method due to lack of major synergies between the three different businesses (conglomerate discount of 10% now from 15% before). We have raised the valuation multiple for the steel business further to 20x given the strong growth potential and the company's focus on profitable contracts. We assign a 29x EV/EBIT (in line with Jamjoom as we believe Tabuk to grow at similar rate) to the pharma business given the strong growth, margins and the notable market share. The specialized chemicals business is assigned a 15x multiple due to its stable margins and strong client base. Post the exit of the mining business, we see losses in the other segment to reduce notably. Other segment is the residual segment and comprises of Astra Industrial Group Holding Company and Astra Mining. For now, we are assuming just SAR 4mn losses in the other segment related to head-office cost offset by improved interest income from high cash balance. Based on these assumptions, the company's fair value is estimated at SAR 183/share, a 19% upside to 27th February closing price, implying an Overweight recommendation.

Figure 2 **Valuations**

SOTP	2024e EBIT	Assigned multiple	Enterprise value	Comments
Pharma business	462	29x	13,410	Low-double growth potential, assuming multiple closer to Jamjoom
Chemicals	174	15x	2,613	Stable margins, to grow at mid single digit
Steel	36	20x	724	Strong growth potential
Other segment	(4)	10x	(36)	exit of loss making mining as well as interest income from time deposits to offset headoffice cost
Group level enterprise value			16,711	
Conglo. Discount		-10%	(1,671)	Unrelated businesses, thus 10% discount
Group level enterprise value (net)			15,040	
Debt (as of Q3 2023)			(828)	
Cash (as of Q3 2023)			1,064	
WC requirement (considered only 50% impact)			(626)	
Net equity			14,649	
O/S			80	
Value per share			183	
CMP			153.6	27th February 2024
Upside/(downside)			19%	

Source: Company data, Al Rajhi Capital



Financials

Figure 3 Income Statement

SAR mn	2024E	2025E	2026E
Revenue	3,250	3,633	3,898
<i>y-o-y growth</i>	13.7%	11.8%	7.3%
Cost of Sales	(1,926)	(2,140)	(2,288)
Gross Profit	1,324	1,493	1,610
<i>y-o-y growth</i>	11.6%	12.7%	7.8%
<i>margins</i>	40.8%	41.1%	41.3%
Operating Expenses	(655)	(714)	(754)
Operating Profit	669	779	856
<i>y-o-y growth</i>	26.0%	16.5%	9.8%
<i>margins</i>	20.6%	21.5%	22.0%
Finance cost	(25)	(16)	(10)
Other (Expense)/Income	5	5	5
Pre-Tax Income	649	768	850
Zakat	(65)	(77)	(85)
Non-controlling Interests	(2)	(2)	(3)
Net Income/Net Profit (Losses)	586	694	768
<i>y-o-y growth</i>	23.4%	18.3%	10.7%
<i>margins</i>	18.0%	19.1%	19.7%
EPS	7.3	8.7	9.6

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

SAR mn	2024E	2025E	2026E
Cash flow from Operations	627	680	804
Cash flow from Investing	(79)	(84)	(91)
Cash flow from Financing	(293)	(347)	(384)
Change in cash	255	249	329

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

SAR mn	2024E	2025E	2026E
Cash and equivalents	1,193	1,443	1,772
Trade receivables	1,119	1,251	1,342
Inventories	986	1,095	1,172
Prepaid expenses and other	197	220	237
Time Deposits	170	170	170
Due from related parties	31	31	31
TOTAL CURRENT ASSETS	3,696	4,210	4,723
PP&E, net	759	762	767
Other Intangible Assets	71	71	71
Other non-current assets	9	8	9
TOTAL NON-CURRENT ASSETS	839	841	847
TOTAL ASSETS	4,535	5,052	5,570
Trade payables and other current liabilities	290	324	349
Accrued liabilities	654	764	853
Current portion of LT debt	604	604	604
Deferred tax liability	7	7	7
Income taxes payable	137	157	172
CURRENT LIABILITIES	1,692	1,857	1,986
LT debt	224	224	224
Employees' end of service benefits	152	160	168
NON-CURRENT LIABILITIES	377	384	392
SHAREHOLDERS EQUITY	2,404	2,749	3,130
Non-controlling Interest	62	62	62
TOTAL LIABILITIES	4,535	5,052	5,570

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

	2024E	2025E	2026E
ROA	14.7%	16.0%	16.0%
ROE	25.9%	26.8%	26.0%
Current Ratio	2.2x	2.3x	2.4x
Asset turnover ratio	0.7x	0.8x	0.7x
Inventory turnover ratio	2.1x	2.1x	2.0x
Receivables turnover ratio	2.7x	3.1x	3.0x
Capex to Sales	2.3%	2.3%	2.3%
FCF Yield	4.4%	4.7%	5.6%
P/E	21.8x	18.4x	16.7x
P/B	5.3x	4.7x	4.1x
EV/EBITDA	16.6x	14.2x	12.6x

Source: Al Rajhi Capital estimates

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