

## Beyond just pharmacies!

We initiate coverage on Al-Dawaa with an Overweight rating and PT of SAR100.3. Al-Dawaa, with 864 stores, is the 2nd largest Saudi pharmacy retailer and holds c70% market share in Wasfaty program. We believe Al-Dawaa would be one of the key beneficiaries of the privatization of the healthcare sector while the recent change in its strategy towards healthcare and convenience, is a key stock driver. We expect recurring earnings to record a 2022-2027f CAGR of 15.8% to reach SAR526mn by 2027f. The stock is trading at 2023f P/E and EV/EBITDA of 25.0x and 10.2x vs peer group average of 24.7x and 14.1x, respectively.

- Al-Dawaa - a cornerstone in Saudi pharmacy market**

Al-Dawaa is one of the leading retail pharmacy chains in Saudi, with a wide network of 864 pharmacies across 135 cities in Saudi. In addition, the company has 2 mobile pharmacies and 22 dark stores, which play a key role in enhancing the omni-channel presence. Al-Dawaa has a market share of c7.5% in the pharmacy segment in Saudi. However, the company has recently changed its strategy from network expansion to optimization, which we believe will drive store productivity and returns. Going forward, we expect the company to follow a moderate store expansion strategy, to reach 908 stores by 2027f. Moreover, we believe increased focus on online offering and private label will increase efficiency and support margins.

- Wasfaty - a window of opportunities**

Al-Dawaa is a key player in Wasfaty program, catering to c70% of all Wasfaty prescriptions which represents c11-13% of the company's sales in 2022. Although prescriptions have relatively low margins on medicines, we believe the incremental pharmacy visitors open an opportunity for cross selling (c10% of Wasfaty sales by the end of 2022). Moreover, we believe being a leader in the program positions, Al-Dawaa as a prime candidate to take up public pharmacies as the privatization process accelerates under HSTP. The company is currently in the process of taking over the operation of 4 public sector pharmacies (1 in the central region and 3 in the southern region).

- Recurring earnings to record a CAGR of 15.8% in 2022-2027f**

We expect revenues to record a CAGR of 4.8% between 2022-2027f to reach SAR6.80bn by 2027f. As the company is optimizing its store network, we believe earnings growth will largely be a function of 1) higher store productivity and 2) growing online contribution. Wasfaty will remain the main driver of traffic, providing opportunities for cross selling while Premi would provide an upside potential for our revenue. We expect EBITDA margins to gradually expand from 13.5% in 2022 to 16.2% in 2027f, due to revision in Wasfaty margin in Q3 22, increase contribution of private label and cost efficiencies. We expect recurring net income to increase from SAR254mn in 2022 to SAR526mn in 2027f (CAGR of 15.8%). We expect capex requirements to remain low and deleveraging will be a priority. This would enable the company to maintain a dividend of SAR2.5/share in absolute terms.

- Initiating coverage with Overweight and PT of SAR100.3**

We initiate coverage on Al-Dawaa with an Overweight rating and a PT of SAR100.3. We believe opportunities from Wasfaty program and the new strategy will be a key stock driver going forward. The stock is currently trading at 2023f P/E and EV/EBITDA of 25.0x and 10.2x vs peer group average of 24.7x and 14.1x, respectively.

### Summary Financials

SAR mn	2022	2023f	2024f	2025f	2026f	2027f
Revenues	5,372	5,748	6,041	6,326	6,560	6,802
Gross profit	2,020	2,175	2,295	2,410	2,505	2,605
Gross margin (%)	37.6%	37.8%	38.0%	38.1%	38.2%	38.3%
EBIT	369	436	485	548	595	644
EBIT margin (%)	6.9%	7.6%	8.0%	8.7%	9.1%	9.5%
EBITDA	724	805	885	968	1,033	1,102
EBITDA margin (%)	13.5%	14.0%	14.7%	15.3%	15.8%	16.2%
Net Income	305	293	349	418	473	526
Net Income margin (%)	5.7%	5.1%	5.8%	6.6%	7.2%	7.7%
EPS (SAR per share)	3.59	3.44	4.10	4.92	5.56	6.18
Recurring Net Income*	254	293	349	418	473	526

Source: The company, SNB Capital Research estimates, \* Adjusted for fair value gains (losses) on swap derivative

Please refer to the last page for important disclaimer

## OVERWEIGHT

<b>Price target (SAR)</b>	<b>100.3</b>
Current price (SAR)	86.2
Upside/Downside (%)	16.4%

## VALUATION MULTIPLES

	22	23f	24f
P/E (x)	24.0	25.0	21.0
P/B (x)	6.7	6.2	5.6
EV/EBITDA (x)	11.4	10.2	9.3
Div Yield (%)	2.9	2.9	2.9

Source: SNB Capital Research estimates

## MAJOR SHERHOLDERS

Investor	% Ownership
AlMawarid Holding	32.0%
Prince Turki Al-Saud	13.8%
<b>Foreign Ownership</b>	<b>3.11%</b>

Source: Saudi Exchange, SNB Capital. As of 01 June 2023

## STOCK DETAILS

M52-week range H/L (SAR)	86.7/64.8
Market cap (\$mn)	1,954
Shares outstanding (mn)	85
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	11.7	14.6	10.1
Rel. to market	14.3	5.6	12.8

Avg daily turnover (mn)	SAR	US\$
3M	16.7	4.5
12M	22.2	5.9

Reuters code	4163.SE
Bloomberg code	Aldawaa.AB
	<a href="http://www.al-dawaa.com">www.al-dawaa.com</a>

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