Saudi Pharmaceutical Market

Saudi Arabia

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Saudi Pharmaceuticals

Prefer Jamjoom and Astra, though upside limited after the YTD rally

Key themes

Investor interest in pharma manufacturing sector sparked by Jamjoom and Avalon Pharma listings.

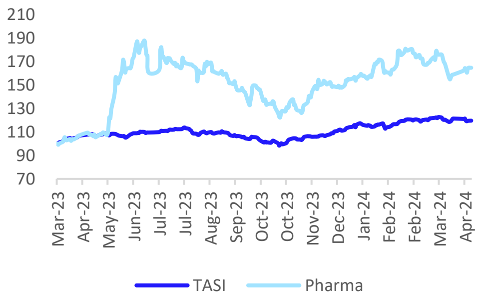
Strong revenue growth guidance from listed players attracting investor attention.

Despite recent hiccups, companies like Jamjoom and SPIMACO reaffirm 2024 guidance.

Structural growth story supported by government initiatives, insurance support, and new drug launches.

Rerating of valuations provide upside risks

Pharmaceuticals vs TASI (Rebased to 100)



Source: Bloomberg, Al Rajhi Capital.

Summary of our ratings

Stock	Current Rating	Previous Rating	New TP	Old TP	CMP	Upside/ Downsid
Jamjoom	Neutral	OW	143.0	133.0	131.8	8.5%
Astra	Neutral	OW	189.0	183.0	176.2	7.3%
Avalon	UW	OW	107.0	107.0	149.6	-28.5%
SPIMACO	Neutral	Neutral	35.0	32.0	38.5	-9.1%

Source: Bloomberg, Al Rajhi Capital estimates

Q1 2024 Estimates

Stock	Revenue			Net Income		
	1Q23	1Q24E	Change	1Q23	1Q24E	Change
Jamjoom	302	345	14.3%	84	99	17.0%
Astra	748	833	11.3%	123	147	19.8%
Avalon	55	62	12.0%	(0)	1	NM
SPIMACO	532	632	18.7%	55	73	33.7%

Source: Bloomberg, Al Rajhi Capital estimates

Post the listing of Jamjoom in 2023 and Avalon Pharma early this year, the pharma manufacturing sector, that was largely neglected, has received notable investor interest in recent months. This has been sparked by the strong earnings performance in 2023 and the visibility provided by most of the listed players in the form of revenue growth guidance of 10%-15% for the foreseeable future. Despite some hiccups in the last quarter, margins for Jamjoom in Q4 were weaker than expected, while SPIMACO reporting one-offs, the 2024 guidance has been reiterated by both Jamjoom and SPIMACO. Although the private hospital channel could witness some slowdown due to tough base in 2023 as well as slowdown in insured lives' additions, the government channel is expected to witness strong growth. Further, Wasfaty program and the insurance support for generics should help the demand at the pharmacy channel. We continue to believe that pharma manufacturing is a structural growth story supported by growth in insurance (promotes generics drugs), government's push to localize pharma production and healthy pipeline of new drug launches from most of the companies.

Jamjoom has reiterated its 2024-2026 topline growth target of 12%-15%, while SPIMACO has also reiterated its growth estimates of 13%-15%. We expect Astra's pharma segment to see another double-digit growth led by sales to the government channel. Given that H1 is particularly strong for the pharma manufacturing companies, we are heading into a phase of positive catalysts for the stocks (strong earnings). Thus, the YTD rally in the pharma stocks, both Astra and Jamjoom, are justified, in our view.

We see upside risks to the stock prices mainly coming from the rerating of valuation multiples. In our view, given the structural growth story, the sector could trade closer to the hospitals, that trade typically in the range of 30x - 40x. Currently, Jamjoom trades at 28x on forward 12 months EPS and Astra's implied pharma business trades at 27x. Although pharma manufacturers have lesser pricing power than the hospitals, the volume growth is more assured and the risk of oversupply is less compared to hospitals (huge influx of new beds in the next 2-3 years). However, we have not considered the rerating impact yet and would wait for performance of new product launches and the impact of growth in the government channel on the margins.

We slightly raise our target price for Jamjoom and Astra to SAR 143/share and SAR 189/share, respectively, as we roll forward our valuations to forward 12 months (9m 2024 and Q1 2025). We assume 30x forward P/E for Jamjoom and value Astra on SOTP method. On SPIMACO, we prefer to see more clarity on costs, but raise our target price to SAR 35/share on slightly better margin assumptions. On Avalon, we keep our target price of SAR 107/share unchanged and advise to take profits at the current level. The stock has come off its highs of SAR 193/share, but still trades at expensive valuations of 12m forward P/E of 38x, a premium of 36% to Jamjoom's current multiple. In our view, this is unjustified given Avalon's concentration and lack of exposure in specialized therapeutic areas.

Jamjoom Q1 2024: Jamjoom's stock price has declined a bit from its recent highs post its Q4 2023 earnings on concerns over dip in the gross margins. In our view, this gives an opportunity to enter into the stock as the 2024-2026 outlook remains intact (12%-15% revenue growth and 30%-31.5% EBITDA margin). Further, as the top line was a beat in Q4, the unchanged topline growth outlook implies higher 2024 revenue than our previous estimates. We are not particularly worried about the dip in the gross margins in Q4 as the margins declined mainly due to the impact of the high fixed cost base (80% fixed), rather than any deterioration in pricing/mix of products. Moreover, we believe margins to recover in Q1 as the pharma demand continues to be strong. We estimate revenues to grow by 14% y-o-y in 1Q24 supported by volume as well as some pricing benefits (price hikes were effective Feb. 2023) and net profits to rise by 17%. In our view, Jamjoom, given its diversified product portfolio and strong R&D team, is well positioned to benefit from the multiyear growth story of the pharma industry.

Figure 1 **Valuations**

Price to earnings method	
Justified P/E	30.0x
Forward 12M EPS	4.78
Value per share	**143.0**
CMP	131.8
Upside/Downside	**8.5%**

Source: Al Rajhi Capital estimates, Forward 12M EPS includes 9M of 2024 and 1Q of 2025

Astra Q1 2024: Astra is a key player given its presence in specialized therapeutic areas as well as a leading position in general medicine. We have noticed that the company is focusing on divesting non-core business (mining divested recently) as the focus is on improving profitability. Currently, its steel business is a potential divestiture candidate. This can have multiple benefits for the company. One is unlocking of value for its pharma business (lower conglomerate discount) and second is further strengthening of the balance sheet, the company currently has a cash balance of over SAR 1.6 bn and this could rise further if the company decides to divest its steel business. We estimate Q1 2024 revenues to grow by 11.3% and net profit to grow by 19.8% y-o-y, supported by further improvement in the margins as the company focuses on profitable growth in the steel business. In our view, its pharma business could maintain double digit growth in the near future led by government channel. As per the company, it expects minimal impact on margins despite the rising exposure to the government as lower S&M costs should offset the impact on gross margins.

Figure 2 **Valuations**

SOTP	Forward 12M EBIT	Assigned multiple	Enterprise value	Comments
Pharma business	460	30x	13,801	High single digit to low-double growth potential. In line with Jamjoom
Chemicals	164	15x	2,463	Stable margins, to grow at mid single digit
Steel	42	20x	844	Strong growth potential
Other segment	(59)	10x	(594)	Group holding and corporate expense
Group level enterprise value			**16,514**	
Conglo. Discount		-10%	(1,651)	Unrealated businesses, thus 10% discount
Group level enterprise value (net)			**14,863**	
Debt			(971)	
Cash			1,621	
WC requirement (considered only 50% impact)			(379)	
Net equity			**15,133**	
O/S			80	
Value per share			**189**	
CMP			176.2	
Upside/(downside)			7%	

Source: Al Rajhi Capital estimates, Forward 12M EBIT includes 9M of 2024 and 1Q of 2025

Avalon Q1 2024: We estimate Q1 revenues to grow by 12.0% y-o-y and net profit to come around SAR 1mn. Given its exposure to skin and hair, H1 is relatively weak versus H2, in contrast to other pharma companies that have exposure to general medicine and other specialized TAs. The stock is currently trading at a 12M forward P/E of 38x, which is notable premium to JP's 12m forward P/E of 28x. Although the company has guided for higher revenue growth (18% in the medium term) versus JP's 12%-15% revenue growth, we are skeptical and consider only 14% growth, that is broadly in line with JP's growth. We prefer to be conservative in terms of assuming higher growth in the tablet category given the lack of key products in the specialized therapeutic areas (other than derma and respiratory) currently as well as growing competition from other players. Moreover, its reliance on overseas markets, such as Egypt, Morocco, to achieve these growth targets, also compel us to be a bit conservative. We see a notable concentration risk for the company as only 2-3 products account for over 70% of its sales. At current valuation levels, we advise to take profits.

Figure 3 **Valuations**

Price to earnings method	Multiples/Values
Justified P/E	27.0x
Jamjoom P/E	30.0x
Discount to Jamjoom	-10.0%
Forward 12M EPS	3.97
Value per share	**107.0**
CMP	149.6
Upside/Downside	**-28.5%**

Source: Al Rajhi Capital estimates, Forward 12M EPS includes 9M of 2024 and 1Q of 2025

SPIMACO Q1 2024: The company has reported two consecutive weak quarterly earnings, although hurt by one-offs. In Q4 2023, the penalty related to NUPCO (delay in delivery) and charge for slow moving of inventory weighed on topline. For Q1 2024, we estimate revenues to grow by 18.7% and net profit to see 33.7% y-o-y growth. The company has guided for better EBITDA margins for 2024 than our earlier estimate of 12.5%. We keep our revenue estimates broadly unchanged but raise our EBITDA margin estimate to 12.7%. We raise our target price for SPIMACO to SAR 35/share from SAR 32/share before as we roll forward our valuations and also consider slightly better margins in 2024. However, we remain neutral on the name and would wait for more details on execution and cost control. On 12m forward EV/EBITDA, the stock trades at a multiple of 23x versus Jamjoom's 25x. We assign a target multiple of 20x and the discount to Jamjoom is mainly on the back of a weak EBITDA margin, less than half of its peers' 30% EBITDA margin. Nevertheless, we acknowledge that SPIMACO is a critical player in the Saudi Pharma sector given its market position in general medicine, exposure to government channel and presence across wider therapeutic areas. Further, its decision to increase its R&D spending and focus on launching new drugs in specialized therapeutic areas should help to improve the margins in the medium term. In our view, the current market value is pricing in bulk of the benefits.

Figure 4 Valuations

EV/EBITDA method	EBITDA (SAR mn)	Target multiple	EV (SAR mn)	Comments
12M Forward EBITDA	248.1	20x	4,961	Gowth potential in EBITDA (turnaround story) and margin improvement to continue. Assumed 20% discount to Jamjoom's implied target multiple of 25x.
Total enterprise value			**4,961**	
Current debt			1,432	
Cash			418	
Market value (SAR mn)			**3,947**	

Price/sales method	Sales (SAR mn)	Target multiple	Market cap. (SAR mn)	Comment
12M Forward sales	1,938	2.0x	3,876	Relevant peer set P/S multiple 3x

Acquisition assumptions	SAR mn	Comment
Target co. sales	500	
EBITDA of target	100	
margin	*20%*	
Synergies	25	5% of sales
% of sales	*5%*	
EBITDA plus synergies	125	
Target multiple (EV/EBITDA)	20x	
Enterprise value	**2,500**	
Debt	2,000	Assuming 4x paid for sales
Equity Value	**500**	
Number of shares	120	
Value per share	**4**	
Final Value of the share	2	Due to no major development on this front, we are assigning only 50% of the value

Blended Methodology	Market cap (SAR mn)
EV/EBITDA (organic)	3,947
Price/sales (organic)	3,876
Mix of both method (SAR mn)	**3,912**
No. of shares (mn)	120
Value per share	32.6
Value from potential acquisitions	2.1
Target Price	**35.0**
CMP	38.50
upside/(downside)	-9.1%

Source: Al Rajhi Capital estimates

Key Financials

Figure 5 **Jamjoom**

(SAR mn)	2023	2024E	2025E
Revenue	1,101	1,241	1,408
YoY %	*20.1%*	*12.7%*	*13.5%*
Gross Profit	704	786	900
GM Margin %	*63.9%*	*63.3%*	*63.9%*
YoY %	*18.5%*	*11.6%*	*14.6%*
EBITDA	340	371	427
EBITDA Margin	*30.9%*	*29.9%*	*30.3%*
Net Income	292	322	371
Net Income Margin %	*26.6%*	*26.0%*	*26.4%*
YoY %	*70.7%*	*10.3%*	*15.1%*
EPS	4.2	4.6	5.3
DPS	2.5	2.8	3.2
ROE	22%	21%	21%

Source: Al Rajhi Capital estimates, EBITDA might differ from company's number, EBITDA considered is Operating profit + D&A

Figure 6 **Astra**

(SAR mn)	2023	2024E	2025E
Revenue	2,859	3,216	3,593
YoY %	*10.2%*	*12.5%*	*11.7%*
Gross Profit	1,187	1,331	1,488
GM Margin %	*41.5%*	*41.4%*	*41.4%*
YoY %	*14.1%*	*12.2%*	*11.8%*
EBITDA	622	662	754
EBITDA Margin	*21.7%*	*20.6%*	*21.0%*
Net Income	475	562	634
Net Income Margin %	*16.6%*	*17.5%*	*17.6%*
YoY %	*0.2%*	*18.3%*	*12.7%*
EPS	5.9	7.0	7.9
DPS	2.5	3.2	3.6
ROE	24%	23%	22%

Source: Al Rajhi Capital estimates, EBITDA might differ from company's number, EBITDA considered is Operating profit + D&A

Figure 7 **Avalon**

(SAR mn)	2023	2024E	2025E
Revenue	338	374	434
YoY %	*11.8%*	*10.4%*	*16.2%*
Gross Profit	207	229	264
GM Margin %	*61.3%*	*61.3%*	*60.9%*
YoY %	*12.5%*	*10.4%*	*15.4%*
EBITDA	92	108	125
EBITDA Margin	*27.1%*	*29.0%*	*28.7%*
Net Income	66	76	89
Net Income Margin %	*19.5%*	*20.4%*	*20.5%*
YoY %	*10.7%*	*15.7%*	*17.0%*
EPS	3.3	3.8	4.5
DPS	0.9	1.9	2.2
ROE	22%	22%	22%

Source: Al Rajhi Capital estimates, EBITDA might differ from company's number, EBITDA considered is Operating profit + D&A

Figure 8 **SPIMACO**

(SAR mn)	2023	2024E	2025E
Revenue	1,653	1,891	2,080
YoY %	*15.9%*	*14.4%*	*10.0%*
Gross Profit	708	870	957
GM Margin %	*42.8%*	*46.0%*	*46.0%*
YoY %	*25.0%*	*22.8%*	*10.0%*
EBITDA	173	240	272
EBITDA Margin	*10.5%*	*12.7%*	*13.1%*
Net Income	(14)	82	121
Net Income Margin %	*-0.8%*	*4.4%*	*5.8%*
EPS	(0.1)	0.7	1.0
DPS	0.0	0.0	0.0
ROE	-1%	6%	8%

Source: Al Rajhi Capital estimates, EBITDA might differ from company's number, EBITDA considered is Operating profit + D&A

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