alrajhi capital

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Key themes

Saudi pharmaceutical manufacturing companies have reported robust results in the 9M23. This growth is attributed to both increased product prices and higher volume demand.

Distributor inventory levels are reasonable, reducing stockpiling risk.

Optimism for the pharmaceutical industry in Saudi Arabia due to low generic medicine penetration and government support

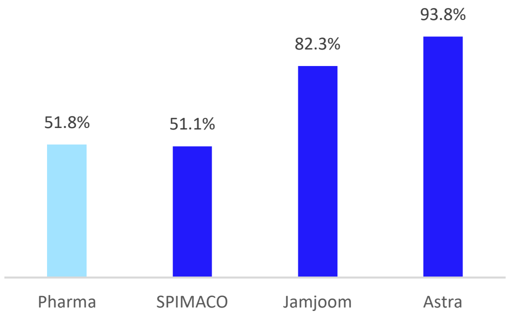
Jamjoom offers an attractive entry with a 2024E P/E of 25x, while cautious sentiment surrounds SPIMACO due to uncertainties related to a planned acquisition. Turn overweight on Astra as valuations appear attractive.

Summary of our ratings

Stock	Current Rating	Previous Rating	Current TP	OLD TP	CMP	Upside/ Downside
SPIMACO	Neutral	UW	32	34	32.9	-3%
Jamjoom	OW	OW	133	134	109.4	22%
Astra	OW	Neutral	125	93	100.2	25%

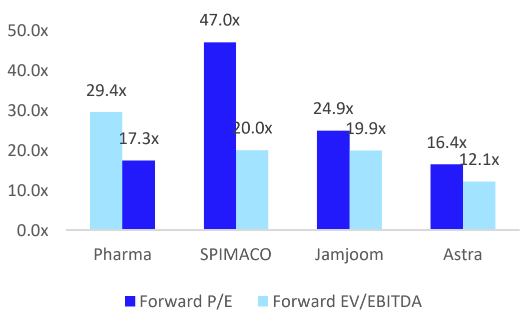
Source: Al Rajhi Capital. UW – Underweight, OW – Overweight

Pharma performance YTD



Source: Bloomberg, Al Rajhi Capital.

Forward P/E & EV/EBITDA



Source: Bloomberg, Al Rajhi Capital.

Saudi Pharmaceuticals

9M 2023 performance encouraging, Overweight on Jamjoom and Astra, neutral on SPIMACO

Saudi Pharmaceutical manufacturing companies have reported solid results in 2023 so far (9 months) boosted by both product price increases as well as volume growth. The latter has been supported by rise in hospital visits, rising insurance penetration (generic pharma products covered in insurance), seasonal flu, demand for consumer health products and government initiatives. On an aggregate (Jamjoom, SPIMACO and Astra), revenues grew by 18% y-o-y, while gross margins improved by 330 bps y-o-y on the back of product price hikes and benefits of operating leverage. Given the seasonal nature of the business, where the companies front load the sales (H1 heavier than H2), Q3 2023 sales growth (+9% y-o-y) has been relatively lower than H1 2023. We expect a similar trend to be repeated in Q4 as the companies would assess the inventory levels at the distributors and plan the sales accordingly for the next year. Given the robust earnings from hospital operators in Q3 2023 and the possibility of strong seasonal demand for healthcare services in Q4 2023, we anticipate the demand for pharma products to remain high. Further, the inventory levels at the distributors (considered Al Dawaa and Nahdi for the analysis) are reasonable at 66 days (as of 9M 2023), broadly in line with last two years average of 68 days. Thus, the risk of stock piling at the distributor level appears to be low.

From a medium to long term view, we are optimistic on the growth prospects of the industry given the low penetration of generic medicines and the government push for localization. Thus, the possibility of high-single digit to low-double digit growth prospects are high; SPIMACO's 9% organic CAGR target (2022-2027E) and Jamjoom's 3-year (2023-2026E) growth target of 12-15% are reasonable. Astra, on the other hand, does not provide guidance on the pharma business, however, given its strong partnership with global MNCs we believe even its topline should maintain a strong growth trend.

Despite the strong earnings performance from SPIMACO so far, we continue to be cautious on the stock as we wait for more clarity on the planned acquisition (out of its 3-yr CAGR target of 13-15%, 4-6% is expected to come from the inorganic route). We now consider only half of the value of the potential acquisition due to lack of clarity on the timelines. We do not see major risks to the current turnaround plan due to the exit at the top management level. We lower our target price to SAR 32/share but upgrade our recommendation to Neutral from Underweight.

Post the recent correction in Jamjoom, the stock trades at a 2023E P/E of 26x and if we assume 2024 to be the year of ramp up (EBITDA margins assumed to decline by 175 bps), the P/E on 2024 earnings is 25x. In our view, this provides an attractive entry opportunity into a quality stock that offers double digit bottom-line growth, end of capex phase to support higher dividend payout and strong balance sheet supporting inorganic growth potential. We maintain our target price broadly unchanged at SAR 133/share and reiterate our Overweight recommendation.

On Astra, we turn Overweight as we become more confident on its pharma portfolio and the prospects for improving profitability in the steel industries business. We raise our target price to SAR 125/share from SAR 93/share and turn Overweight on the stock. The stock is available at attractive valuations of 2023E and 2024E P/E of 19x and 17x, respectively. We continue to value the stock through SOTP methodology given the lack of synergies between the different businesses, however, we raise our multiple for the steel industries on the back of improved profitability.

Figure 1 **Summary of Earnings**

Sector Earnings	9M23	9M22	y-o-y	3Q23	3Q22	y-o-y
Revenue	4,284	3,642	*18%*	1,328	1,217	*9%*
Gross Profit	2,042	1,617	26%	614	494	24%
Gross margin	*47.7%*	*44.4%*		*46.3%*	*40.6%*	
Operating Profit*	798	427	*87%*	214	107	*101%*
Operating margin	*18.6%*	*11.7%*		*16.1%*	*8.8%*	
Net Income*	656	470	*40%*	171	71	*142%*
Net Income margin	*15.3%*	*12.9%*		*12.9%*	*5.8%*	

Stock	Revenue (SAR mn)	Net Income (SAR mn)*	Y-oY growth		Beat vs. ARC	
			Revenue	Net Income	Revenue	Net Income
SPIMACO	382	(10)	*7%*	*-79%*	*-4%*	*23%*
Jamjoom	293	77	*23%*	*69%*	*8%*	*9%*
Astra	654	103	*5%*	*46%*	*0%*	*-5%*

Source: Company Data, Al Rajhi Capital *Note: Numbers are adjusted for one-off items.

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US$1.05bn	79.5%	US$2.24mn
Market Cap.	Free Float	Avg. Daily Value traded

Neutral

Price Target (SAR): 32.0

Current: 33.4
Upside/Downside: 2.7% below current

Valuation Multiples	22	23E	24E
P/E (x)	NM	NM	49.9
P/B (x)	2.6	2.6	2.5
ROE (%)	NM	1.1	5.4

Major Shareholders	% Ownership
Arab Co. Drug Ind & Med App.	20.49

Price Performance	1M	3M	YTD
Absolute	8.0%	-14.2%	51.1%
Relative to TASI	3.9%	-0.4%	45.1%

Earnings

(SAR mn)	2022	2023E	2024E
Revenue	1,426	1,712	1,853
YoY %	*-2.3%*	*20.0%*	*8.2%*
Gross Profit	566	778	871
GM Margin %	*39.7%*	*45.4%*	*47.0%*
YoY %	*-8.8%*	*37.4%*	*11.9%*
EBITDA	(36)	161	231
EBITDA Margin	*-2.5%*	*9.4%*	*12.5%*
Net Income	(165)	11	80
Net Income Margin %	*-11.6%*	*0.6%*	*4.3%*
EPS	(1.4)	0.1	0.7
ROE	NM	1%	5%

Source: Company data, Al Rajhi Capital

SPIMACO

Restructuring plan on track, but progress on inorganic growth strategy weak

SPIMACO's restructuring plan, "fixing the core" launched in 2022, showed strong progress in 9M 2023 (revenues: +25%, adj. EBIDTA: +10.4 percentage points y-o-y, adj. net profits of SAR 67 mn). The plan emphasizes controlling overhead costs, investing in R&D (3.0% in 9M including capitalized costs), launching new products (registered 70 new SKUs, Endosa in Q3) and increasing exposure to high margin specialized therapeutic areas (TAs). We are now more confident in its restructuring plan and make changes to our 2024 estimates (pencil in higher adjusted EBITDA margins). However, we are disappointed with the progress on its acquisition plan, the company has not announced any major acquisitions so far. We were expecting acquisitions with sales potential of SAR 500 mn and EBITDA margin higher than the group's. The company maintains its guidance on inorganic growth strategy, but now we consider only half of the value from potential acquisition. Further, the back-to-back exit at the top management level has raised worries over the sustainability of the progress made so far on the turnaround plan. However, we are not much concerned about the changes given the strong credentials of the incoming personnel. As we consider lower value from potential acquisition, we lower the TP to SAR 32/share from earlier SAR 34/share. Post the sharp correction in the stock price since our initiation, it has reached closer to our target price and now offers 3% downside implying a 'Neutral recommendation from 'Underweight'.

Margin improvement highlights benefits of restructuring plan, exit at top management level should not impact the progress: The company's turnaround plan is focused on growing the top line through high value drugs, revised commercial terms and at the same time keeping a tight lid on the overhead costs. The benefits of high value drugs were reflected in the 9M gross margins, that improved by 525 bps y-o-y. The operating costs grew by just 12% y-o-y and adjusted for the provisions related to the labor dispute the increase was just 6% y-o-y, much lower than the 25% growth in the topline. Despite the 16% y-o-y rise in R&D costs, other costs such as selling & marketing and G&A grew by just 3% and 2%, respectively, highlighting the benefits of optimization in the team structure and processes. Although the company has reduced its workforce, the company has improved its compensation structure by including ESOPs for its key management personnel. This should incentivize the management and support the long-term goals of the company. The concerns around the back-to-back exits at the top management levels are unwarranted in our view. We acknowledge that Mr. Khaled, the ex-CEO, has played an instrumental role in restructuring the business, however, Mr. Jerome, the CEO, has the necessary credentials to take the strategy forward. Mr. Jerome is currently Chief of Operations and has 30+ years of experience in the pharmaceutical & healthcare industry. Further, the new chairman, Dr. Ahmed Hamdan Aljedai, is also a veteran in the pharma industry. Thus, we believe the growth strategy of the company should remain intact.

Endosa reflection of focus on R&D: One of the core objectives of the company's restructuring program is investing in R&D and increasing its share towards high margin TA's. R&D expenses rose by 16% y-o-y due to increased investments in product innovation, +20% y-o-y including capitalized costs, constituting 3.0% of the revenue in 9M 2023. Cardiovascular and Gastrointestinal areas saw sharp growth, while the Nervous System TA reported solid revenue growth keeping the sales share almost flat.

In 9M 2023, 13 SKUs were registered in Saudi Arabia within Oncology, Anti-infectives, Blood and Neurology, while 29 SKUs are under registration as of 30 Sep. 2023. Internationally, the company secured registrations for 57 SKUs, with 111 SKUs under the registration process as of 30 September 2023. In 3Q 2023, SPIMACO introduced Endosa, Saudi Arabia's first locally produced biosimilar product, that will be used in prevention and treatment of blood clots, particularly in emergency and critical settings. In terms of market size, the innovator product sales are about SAR 214 mn, and the market is expected to grow at 5% CAGR over the next five years. The drug is approved by the European Medical Agency and SFDA and highlights the company's robust capabilities in technical and regulatory aspects.

9M23 Results: SPIMACO's 9M23 revenue saw a 25% y-o-y growth to SAR 1.3bn, driven by improved client mix, higher sales in private and government sectors, and strong demand witnessed. Revenue in 3Q23 grew 7% y-o-y led by sale of products (+9% y-o-y). This increase was fueled by improved sales within both private and government channels, along with a surge in sales volumes, this was marginally offset by a drop in revenue from services which reported a 6.9% decline due to lower agency services from one of our subsidiaries. Gross profit grew 41% y-o-y coming at SAR 606mn in 9M23 and surged by 35% y-o-y, but declined 10% sequentially in 3Q23, reaching SAR 166mn. This y-o-y growth can be mainly attributed to the implementation of a revised commercial strategy, resulting in a favorable shift in the client mix and an upgraded marketable portfolio, combined with stringent cost control measures. As a result, the gross profit margin for 9M23 improved to 45.9% compared to 40.6% recorded in the same quarter of the previous year. Operating profits came in at SAR (17mn), but this was impacted by a one-off item of around SAR 31mn related to labor dispute in 3Q23. Having adjusted for the expense operating profit came to SAR 15mn. The increase stemmed mainly from strong growth in gross profit and disciplined operating expenses. Higher topline, lower-than-expected COGS, and an increase in net financing cost resulted in an Adjusted net income of SAR 67mn in 9M23 and an adjusted net loss of SAR 10mn in 3Q23.

Figure 2 **SPIMACO Earnings**

SPIMACO	9M23	9M22	y-o-y	3Q23	3Q22	y-o-y
Revenue	1,322	1,057	*25%*	382	357	*7%*
Gross Profit	606	429	41%	166	123	35%
Gross margin	*45.9%*	*40.6%*		*43.5%*	*34.5%*	
Operating Profit*	119	(32)	*-475%*	15	(30)	*NM*
Operating margin	*9.0%*	*-3.0%*		*3.9%*	*-8.4%*	
Net Income*	67	(58)	*-215%*	(10)	(45)	*-78%*
Net Income margin	*5.1%*	*-5.5%*		*-2.6%*	*-12.6%*	

Source: Bloomberg, Company data, Al Rajhi Capital. Note*: Adjusted for one-off items.

Valuation: Given that the company's 2024 bottom line does not reflect the potential growth in profitability and, we use a mix of EV/EBITDA as well as Price/Sales multiples to value the stock. We have also considered the impact of acquisition on the valuations. For Price/Sales, we apply a multiple of 2.0x to its sales in 2024E, broadly in line with global companies that earn similar margins. For EV/EBITDA, we are using 2024E EBITDA and applying 20x multiple. Based on 50% weightage to each method, our fair value for the stock is SAR 30/share, however we add the value of potential acquisitions on top of this (SAR 2/share, 50% of the potential value) that brings our target value for SPIMACO to SAR 32/share. This is 3% lower than the current market price, implying Neutral recommendation.

Figure 3 **Valuation**

EV/EBITDA method	EBITDA (SAR mn)	Target multiple	EV (SAR mn)	Comments
2024E EBITDA (organic)	231.1	20x	4,621	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			**4,621**	
Current debt			1,432	
Cash			236	
Market value (SAR mn)			**3,425**	

Price/sales method	Sales (SAR mn)	Target multiple	Market cap. (SAR mn)	Comment
2024E sales	1,853	2.0x	3,705	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)	3,425
Price/sales (organic)	3,705
Mix of both method (SAR mn)	**3,565**
No. of shares (mn)	120
Value per share	30
Value from potential acquisitions	2.1
Target Price	**32.0**
CMP	32.90
upside/(downside)	-2.7%

Source: Company data, Al Rajhi Capital

Financials

Figure 4 **Income Statement**

SAR mn	2023E	2024E	2025E
Revenue	1,712	1,853	1,988
y-o-y growth	*20.0%*	*8.2%*	*7.3%*
Cost of Sales	(934)	(982)	(1,034)
Gross Profit	**778**	**871**	**954**
y-o-y growth	*37.4%*	*11.9%*	*9.6%*
margins	*45.4%*	*47.0%*	*48.0%*
Selling and marketing expense	(365)	(392)	(416)
General & administrative expense	(253)	(264)	(277)
R&D expense	(46)	(49)	(53)
Impairment loss on trade receivables	4	(9)	(10)
Operating Profit	**77**	**156**	**198**
y-o-y growth	*-161.4%*	*101.9%*	*27.0%*
margins	*4.5%*	*8.4%*	*10.0%*
Finance cost	(74)	(83)	(66)
Share of profit from Equity & JV	27	27	27
Pre-Tax Income	**30**	**100**	**159**
Zakat	(13)	(15)	(24)
Non-controlling Interests	7	5	5
Net Income/Net Profit (Losses)	**11**	**80**	**130**
margins	*0.6%*	*4.3%*	*6.6%*
EPS	0.1	0.7	1.1

Source: Al Rajhi Capital estimates

Figure 6 **Cash Flow Statement**

SAR mn	2023E	2024E	2025E
Cash flow from Operations	(41)	79	130
Cash flow from Investing	(121)	(107)	(125)
Cash flow from Financing	14	0	0
Change in cash	(166)	(28)	5

Source: Al Rajhi Capital estimates

Figure 5 **Balance sheet**

SAR mn	2023E	2024E	2025E
Cash and equivalents	169	141	146
Accounts receivable, net	1,060	1,170	1,255
Inventories	471	508	534
Prepaid expenses and other	171	178	191
Time Deposits	101	101	101
TOTAL CURRENT ASSETS	**1,972**	**2,098**	**2,228**
PP&E, net	1,835	1,877	1,924
Other Intangible Assets	10	10	10
Deferred tax assets	26	26	29
TOTAL NON-CURRENT ASSETS	**1,960**	**2,001**	**2,051**
TOTAL ASSETS	**3,933**	**4,100**	**4,280**
Accounts Payable	442	515	543
Current portion of LT debt	434	434	434
Income taxes payable	30	40	45
CURRENT LIABILITIES	**1,208**	**1,280**	**1,322**
LT debt	649	649	649
Contract liabilities	43	43	43
Deferred revenue	35	45	47
NON-CURRENT LIABILITIES	**1,046**	**1,055**	**1,058**
SHAREHOLDERS EQUITY	**1,524**	**1,609**	**1,745**
TOTAL LIABILITIES	**3,933**	**4,100**	**4,280**

Source: Al Rajhi Capital estimates

Figure 7 **Key Ratios**

	2023E	2024E	2025E
ROA	0.8%	2.5%	3.8%
ROE	1.1%	5.4%	8.1%
Current Ratio (x)	1.6x	1.6x	1.7x
Asset turnover ratio (x)	0.4x	0.5x	0.5x
Inventory turnover ratio (x)	1.9x	2.0x	2.0x
Receivables turnover ratio (x)	1.8x	1.7x	1.6x
Capex to Sales	4.7%	6.0%	6.0%
FCF Yield (%)	NM	0.4%	1.0%
P/E (x)	NM	49.9x	30.8x
P/BV (x)	2.6x	2.5x	2.3x
EV/EBITDA (x)	30.7x	21.5x	18.0x

Source: Al Rajhi Capital estimates

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US$2.04bn	43.6%	US$8.45mn
Market Cap.	Free Float	Avg. Daily Value traded

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Overweight

Price Target (SAR): 133.0

Current: 108.6
Upside/Downside: 22% above current

Valuation Multiples	22	23E	24E
P/E (x)	44.4	26.4	24.8
P/B (x)	6.3	5.4	4.9
ROE (%)	14.0	22.0	20.9

Major Shareholders	% Ownership
Jamjoom Yousuf Mohamad Salah	41.65
Jamjoom Mahmoud Yousuf Salah	5.60

Price Performance	1M	3M	YTD
Absolute	3.4%	-4.4%	82.3%
Relative to TASI	-0.8%	9.4%	76.4%

Earnings

(SAR mn)	2022	2023E	2024E
Revenue	917	1,090	1,235
YoY %	*24.6%*	*18.9%*	*13.3%*
Gross Profit	594	708	802
GM Margin %	*64.8%*	*65.0%*	*64.9%*
YoY %	*25.1%*	*19.2%*	*13.2%*
EBITDA	260	342	367
EBITDA Margin	*28.3%*	*31.4%*	*29.7%*
Net Income	171	288	308
Net Income Margin %	*18.7%*	*26.4%*	*24.9%*
YoY %	*0.4%*	*68.1%*	*6.8%*
EPS	2.4	4.1	4.4
DPS	2.1	2.3	2.4
ROE	14%	22%	21%

Source: Company data, Al Rajhi Capital

Jamjoom Pharma

Egyptian exposure not a major concern, maintain Overweight

Despite a strong set of earnings in 9M 2023, the stock has been under some pressure in the recent months on profit taking as well as concerns over the Egyptian exposure. In this note, we share our analysis on Egyptian exposure and why the risk is overestimated and the concern over it is unwarranted in our view. At a devaluation of a further 25% in EGP, we see just 1-2% risk to the net profits. And if we include the potential sales from the freed-up capacity at the Jeddah main facility, then the impact is negligible to positive. Moreover, in an extreme scenario of no positive contribution from Egypt, and considering only the contribution from the upcoming Sterile facility in Jeddah, at peak capacity utilization, the EPS could be SAR 5.1/share, implying a P/E of just 21x. We continue to be bullish on the stock given its leadership position in the specialized TAs and the strong product pipeline. We keep our target price broadly unchanged at SAR 133/share (before SAR 134/share) and maintain our Overweight recommendation on the stock.

Figure 8 **Jamjoom Earnings**

Jamjoom	9M23	9M22	y-o-y	3Q23	3Q22	y-o-y
Revenue	893	720	*24%*	293	238	*23%*
Gross Profit	585	469	*25%*	187	151	*24%*
Gross margin	*65.5%*	*65.1%*		*64.0%*	*63.5%*	
Operating Profit	271	195	*39%*	85	60	*41%*
Operating margin	*30.4%*	*27.1%*		*28.9%*	*25.2%*	
Net Income	248	140	*78%*	77	46	*69%*
Net Income margin	*27.8%*	*19.4%*		*26.4%*	*19.2%*	

Source: Company Data, Al Rajhi Capital

9M 2023 performance led by high value drugs and price hikes: Jamjoom Pharma's revenue rose 24% to SAR 893.0 mn driven mainly by volume growth (+19% y-o-y), supported by price increases (+5% y-o-y) and new product launches (top 5 brands contributed 28% to the total revenues). Revenue growth was driven by solid growth in its Dermatology, General Medicine, and Consumer Health therapeutic categories. Anti-Diabetic brands - launched at the beginning of 2023 -generated SAR 7.3 mn of revenue. The benefits of strong volume growth were reflected in the operational leverage, adjusted EBITDA margin improved by 270 bps to 32.5%. The operating costs not directly related to production grew by just 13% y-o-y due to decent cost discipline and the focus on optimizing operations and workforce. S&D expenses increased by a modest 12.1% YoY due to the removal of distributor's commission for a key distributor at the end of 2022.

The Egyptian conundrum: Currently, the company has minimal exposure to the Egyptian market, it generated about 5% of revenues in 9M 2023 lower than 7% in 9M 2022 mainly due to depreciation in the EGP. As mentioned in our initiation note, the key concern is the new production facility with a capacity of 52 mn units, built at a cost of about SAR 214 mn. Thus, given that the production facility will be utilized to serve the local market mainly and later on to capture the North African markets, concerns are around the expected increase in Egyptian sales. In our view, the concerns are unwarranted as the company also has a sizeable commercial team based in Egypt, that would offset the currency risk to a large extent. The company has over 150 sales and marketing employees in Egypt, that accounts for 24% of the total commercial workforce. As per the sensitivity table provided by the company, in 2022 for every 1% appreciation/depreciation in EGP, the impact on net profit before tax in 2022 would have been just SAR 178, which is negligible.

This implies the cost base in 2022 was broadly in line with the sales generated from Egypt of about SAR 64 mn. Post the further depreciation (about 38% in 2023) in EGP, the current cost base in Egypt is estimated to be around SAR 40 mn to SAR 45 mn (assuming some increase in cost due to higher volumes). The company generated sales of about SAR 45 mn in 9m 2023 and if we assume about SAR 15 mn in Q4 2023E, then the potential sales from Egypt in 2023 could be around SAR 60 mn, thus a net currency exposure of about SAR 15-20 mn. This implies that even if EGP declines 25% further, the net impact could be about SAR 3.75-5.0 m, which is 1-2% of the 2023E net income.

Going forward, the focus would be on how the company manages its new facility in Egypt, that has a capacity of 52 mn units per annum, and the expected rise in Egyptian exposure. We believe the ramp up of the facility will be gradual and any meaningful production will be witnessed only in the second half of 2024. From a medium-term point of view and for our analysis of the risk, we are looking at a scenario whether the company can operate the facility at a utilization level that helps them in achieving break even and at the same time not increasing the exposure to Egypt notably.

We estimate the current units sold in Egypt to be around 20-30 mn per annum (assuming the per unit realized price to be SAR 2-3/pack, much lower than the group due to devaluation). Thus, the company can operate the plant at about 50% utilization level, which should be the breakeven level and maintain the similar exposure to the Egyptian market (5% of sales) as of now. Moreover, the freed-up capacity of 20-30 mn units at the Jeddah main facility can be utilized to be sold in KSA as well other GCC markets, that would yield better pricing and margins. Moreover, as the company ramps up its facility in Egypt, the cost base will further increase in a low-cost country and the facility can be used as a production hub for both Egypt and North Africa eventually. Currently, the company generates about SAR 75 mn from North Africa (estimated in 2023) and if we assume per unit price of about SAR 5-7/pack, then the units sold would be around 10-20 mn, thus the company can operate the plant at almost 75% utilization (serve both Egypt and North Africa) and keep the Egyptian and North African exposure to total sales at similar levels as now. Thus, from currency exposure, we do not this to be a major risk as such.

Earnings in case of no-Egypt: Jeddah's sterile facility with a capacity of 25 mn p.a. is expected to be launched in Q4 2023. Despite having the lower production capacity, this facility is more technologically advanced and would be producing high value drugs. It will specialize in the production of sterile dosage forms, including the innovative Blow, Fill, and Seal (BFS) technology. The facility aims to obtain certifications equivalent to those of the Jeddah Main facility. The introduction of the Jeddah Sterile facility will triple Jamjoom Pharma's unidose production capacity, significantly enhancing the company's manufacturing capabilities.

If assumed 20% premium to current aggregate pricing of SAR 8.4/pack, then the potential sales from this facility at 90% utilization level is SAR 226 mn. Given that the margins could be higher than the current, potential operating profits at 30% margins could be SAR 68 mn. If we keep the line items below operating profits constant, then the 2023E net profits could be around SAR 359 mn, translating into an EPS of SAR 5.1, versus current estimated 2023E net profits of SAR 288 mn and EPS of SAR 4.11. Thus, at a very conservative assumption of no further growth from Jeddah main facility and only considering the contribution from Jeddah sterile facility, the potential EPS could be SAR 5.1, implying a P/E of just 21x.

Further, there could be contribution from the Algerian JV in the near to medium term, however, we prefer to be conservative and are not considering any profits in our assumptions yet. The company has acquired a 49% stake in an Algeria facility from Sandoz. The capacity of the facility is 10 mn units per annum and this facility will be used for introducing innovative products tailored to the Algerian market. Currently, details around the sales and operating margins are not available and as per Q3 2023 filing, the loss for 9M 2023 was about SAR 0.92 mn mainly related to the pre-operating expenses. Thus, once production starts the plant should become profitable.

Outlook and guidance: The company has reiterated its FY 2023 revenue growth guidance of 17-19% (implied flattish growth in Q4) and EBITDA margin of about 31% (implied Q4 margin of 26.5%). The weakness in Q4 earnings is mainly a reflection of seasonality where the sales to the distributors are on the lower side and the company is calibrating its strategy for the next year. Going forward in 2024, we estimate a revenue growth of over 13% supported by contributions from the new facilities. The company guidance is for 12-15% revenue CAGR during 2023-2026 and EBITDA margin of about 30% from 2024 with 100-150 bps scope for improvement. We are estimating EBITDA margin of 29.7% in 2024E, a decline of 174 bps y-o-y due to the ramp-up phase of the facilities, and in the years beyond 2024 we expect the EBITDA margins to improve to 30% by 2026, but do not consider the company's guidance of 100-150 bps additional jump over the 30% margin yet. We would wait and watch the performance of the Egyptian facility and its impact on the aggregate margins before revising our margin estimates.

Valuations: We roll forward our P/E valuation to 2024E EPS and at the same time we prefer to be conservative on margins in the near term due to the ramp-up phase. Despite our conservative margin estimates and no positive contribution from Algeria facility, the net income is expected to grow by almost 11% CAGR for the next four years. We assign a 2024E P/E of 30x to EPS of SAR 4.39/share to derive fair value of SAR 132/share through relative valuation methodology. Our DCF derived fair value is SAR 133/share based on assumption of 8.6% WACC, terminal growth of 5.0% and FCF growth of almost 14% during 2023-2032E. Our target price is a blended average of P/E and DCF (equal weighted), which is SAR 133/share (earlier SAR 134/share) that offers an upside of 24% (including dividend yield of 2%) from the current levels.

Figure 9 **Valuations**

Price to earnings method	
Justified P/E	30.0x
Global peers	25.0x
Premium to global peers	20.0%
2024E EPS	4.39
Value per share	**132.0**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	133	50.0%	67	21.6%
Relative Valuation - P/E	132	50.0%	66	20.7%
Target price			**133**	
CMP			109.4	
Upside/(Downside)			**22%**	
Dividend yield			2%	
Total returns			**24%**	

Source: Company Data, Al Rajhi Capital estimates

Financials

Figure 11 **Income Statement**

SAR mn	2023E	2024E	2025E
Revenue	**1,090**	**1,235**	**1,407**
y-o-y growth	*18.9%*	*13.3%*	*14.0%*
Cost of Sales	(382)	(433)	(492)
Gross Profit	**708**	**802**	**915**
y-o-y growth	*19.2%*	*13.2%*	*14.2%*
margins	*65.0%*	*64.9%*	*65.0%*
Selling and marketing expense	(288)	(337)	(387)
General & administrative expense	(64)	(76)	(87)
R&D expense	(32)	(43)	(48)
Impairment loss on trade receivables	(8)	(10)	(11)
Operating Profit	**315**	**336**	**382**
y-o-y growth	*35.2%*	*6.6%*	*13.6%*
margins	*28.9%*	*27.2%*	*27.1%*
Finance Income	1	1	1
Finance cost	(1)	(1)	(1)
Other (Expense)/Income	1	1	1
Share of profit from Equity & JV	(4)	(2)	(2)
Pre-Tax Income	**312**	**335**	**381**
Zakat	(24)	(28)	(34)
Net Income/Net Profit (Losses)	**288**	**308**	**347**
y-o-y growth	*68.1%*	*6.8%*	*12.8%*
margins	*26.4%*	*24.9%*	*24.7%*
EPS	4.1	4.4	5.0

Source: Al Rajhi Capital estimates

Figure 13 **Cash Flow Statement**

SAR mn	2023E	2024E	2025E
Cash flow from Operations	353	293	323
Cash flow from Investing	(88)	(49)	(42)
Cash flow from Financing	(70)	(169)	(208)
Change in cash	190	74	72

Source: Al Rajhi Capital estimates

Figure 12 **Balance sheet**

SAR mn	2023E	2024E	2025E
Cash and equivalents	331	405	477
Investments at fair value	5	5	5
Trade receivables	357	407	464
Inventories	118	143	162
Prepaid expenses and other	43	68	77
TOTAL CURRENT ASSETS	**854**	**1,028**	**1,186**
PP&E, net	708	727	738
Other Intangible Assets	14	14	14
Investments	30	30	30
TOTAL NON-CURRENT ASSETS	**752**	**771**	**782**
TOTAL ASSETS	**1,607**	**1,801**	**1,969**
Trade payables and other current liabilities	121	161	183
Income taxes payable	15	27	32
CURRENT LIABILITIES	**136**	**188**	**216**
Lease liabilities	2	2	2
Employees' end of service benefits	68	70	73
NON-CURRENT LIABILITIES	**70**	**72**	**75**
SHAREHOLDERS EQUITY	**1,401**	**1,540**	**1,679**
TOTAL LIABILITIES	**1,607**	**1,801**	**1,969**

Source: Al Rajhi Capital estimates

Figure 14 **Key Ratios**

	2023E	2024E	2025E
ROA	20.7%	19.7%	20.2%
ROE	22.0%	20.9%	21.6%
Current Ratio (x)	6.3x	5.5x	5.5x
Asset turnover ratio (x)	0.7x	0.7x	0.7x
Inventory turnover ratio (x)	3.1x	3.3x	3.2x
Receivables turnover ratio (x)	3.1x	3.2x	3.2x
Capex to Sales	5.1%	4.0%	3.0%
FCF Yield (%)	3.5%	3.1%	3.5%
P/E (x)	26.4x	24.8x	21.9x
P/BV (x)	5.4x	4.9x	4.5x
EV/EBITDA (x)	21.5x	19.9x	17.4x

Source: Al Rajhi Capital estimates

US$2.14bn	43.80%	US$4.69mn
Market Cap.	Free Float	Avg. Daily Value traded

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Astra

Available at attractive valuations, turn Overweight

Overweight

Price Target (SAR): 125.0

Current: 100.2
Upside/Downside: 24.8% above current

Valuation Multiples	22	23E	24E
P/E (x)	17.1	18.9	16.5
P/B (x)	4.4	3.9	3.5
ROE (%)	18.3	21.7	22.1

Major Shareholders	% Ownership
Arab Supply & Trading Co.	47.15
Al Otaibi Mohammed Bin Najar	5.0

Price Performance	1M	3M	YTD
Absolute	12.4%	10.3%	96.5%
Relative to TASI	7.9%	13.6%	90.3%

Earnings

(SAR mn)	2022	2023E	2024E
Revenue	2,594	2,755	2,886
YoY %	*11.3%*	*6.2%*	*4.8%*
Gross Profit	1,040	1,114	1,210
GM Margin %	*40.1%*	*40.4%*	*41.9%*
YoY %	*16.3%*	*7.1%*	*8.6%*
EBITDA	475	571	632
EBITDA Margin	*18.3%*	*20.7%*	*21.9%*
Net Income	474	488	567
Net Income Margin %	*18.3%*	*17.7%*	*19.7%*
YoY %	*119.2%*	*2.9%*	*16.2%*
Adjusted EPS	5.9	5.3	6.1
DPS	2.5	2.7	3.1
ROE	18%	22%	22%

Source: Company data, Al Rajhi Capital.

The benefits of operating leverage were clearly visible in the 9M results as a strong jump in revenues in pharma as well as the steel industries notably improved the margins. Going forward, we believe the steel industries segment could be a dark horse due to the ongoing construction activities in the region. Currently, the segment is a drag on the overall margins, gross margins of just about 8-10% versus the group's 40%. However, the company plans to focus on improving the profitability of this business, that can improve the overall margins of the group. Moreover, the largest segment of the company, Pharma, is expected to maintain its strong momentum given the positive catalysts for the overall generic drug market. The company can maintain a strong growth in this segment with minimal incremental investments as it plans to focus on debottlenecking. On the back of a quicker than expected turnaround in the steel business and the strong momentum in the pharma business, we raise our earnings estimates for 2024E as well as value the steel business at a higher multiple than before. We estimate the company to grow its overall topline at mid-high single digit, but operating income to grow by low double digit as margins are expected to improve. Despite such attractive growth prospects, the stock trades at an attractive P/E of 19x on 2023E and at about 17x on 2024E EPS. Thus, we raise our target price for the company to SAR 125/share from SAR 93/share and upgrade the stock to Overweight from neutral.

Figure 15 **Astra Earnings**

Astra	9M23	9M22	y-o-y	3Q23	3Q22	y-o-y
Revenue	2,069	1,865	*11%*	654	622	*5%*
Gross Profit	851	720	*18%*	261	220	*19%*
Gross margin	*41.1%*	*38.6%*		*40.0%*	*35.4%*	
Operating Profit	377	263	*43%*	114	77	*50%*
Operating margin	*18.2%*	*14.1%*		*17.5%*	*12.3%*	
Net Income	341	389	*-12%*	103	71	*46%*
Net Income margin	*16.5%*	*20.8%*		*15.8%*	*11.4%*	

Source: Company Data, Al Rajhi Capital

9M 2023 earnings: Despite the weakness in the specialized chemicals business (sales : -2% y-o-y, gross margins down 170 bps), the overall group margins have improved by 250 bps y-o-y supported by +525 bps margin gains in pharma and +75 bps in the steel business led by strong growth in the topline (11%), of which the pharma and steel business grew by 21% and 20%, respectively. In Q3 2023, revenues grew 5% y-o-y but declined 2% sequentially to SAR 654mn, coming largely in line with our estimates. Gross profits came in at SAR 261mn (+19% y-o-y and -6% q-o-q), 5% above our estimates. Implied gross margins came in at 40.0%, seeing an improvement from 35.4% in 3Q22 but down from 41.7% in 2Q23. Operating profits came in at SAR 114mn (+50% y-o-y and -8% q-o-q), being 4% below our estimates. Higher topline, higher-than-expected COGS, and a decrease in net financing cost resulted in a 46% y-o-y increase in net profit to SAR 103mn.

Margins to remain elevated in pharma: Tabuk Pharma, a subsidiary of Astra Industrial Group, is a prominent player in Saudi Arabia's generic market with a 6% market share. It excels in general medicine and gastrointestinal markets, holding market shares of 9% and 8% respectively. Tabuk operates in various therapeutic areas and has a production capacity of over 2.0 billion units per year. In addition to manufacturing its own generics, the company has a successful history of producing and marketing drugs under exclusive arrangements with global companies. Out of its 358 marketed products, 12 are under-license. Going forward, this business can grow at low double digit to high single without any green field expansion as the company plans to focus on debottlenecking the existing plants. Thus, the margins could remain elevated at around 60% gross margins in the near to medium term.

Steel industries segment could provide a positive surprise: The company operates in the steel structures and building frames business, poised to benefit from growing demand due to projects like GIGA and other construction endeavors. While facing competition from global MNCs, being a local player provides an advantage in winning contracts. The company has exposure to sectors like electricity, water desalination, and industrial projects, expected to drive notable growth. Going forward, the company focuses on improving profitability in this segment supported by better product mix and high margin contracts.

Chemical business to provide stable margins and cash flows: The company operates in petrochemicals and agricultural chemicals, focusing on color additives and soluble powder fertilizer. Gross margins have remained stable around 31- 32% in the past six years given the cost-plus model. However, increased costs and inflation pressure lead to a slight decline in gross margins in 2023. Nevertheless, margins are expected to remain resilient at 29% in the near to medium term.

Outlook: We estimate the company to grow at mid to high single digit in the near term led by its pharma business (9% CAGR 2023-2027E), but partly offset by modest growth in specialized chemicals (5.5% 2023-2027E). We are estimating steel business's sales to decline in 2024 given the contractual nature of the business, but profitability is expected to improve. However, beyond 2024 we expect steel industries to grow by 10% CAGR for three years. Overall, we expect revenues to grow by almost 7% over the next four years, operating income by 12% on better margins. The bottom-line, that would benefit from lower finance cost, should grow at 13% CAGR during 2023-2027E.

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 15%). However, we have raised the valuation multiple for the steel business and are now considering 2024E earnings given the expected improvement in profitability. We assign a 23x EV/EBIT (15% discount to Jamjoom Pharma's implied EV/EBIT at our target price) to the pharma business given the strong margins and the notable market share. The specialized chemicals business is assigned a 15x multiple due to its stable margins and strong client base. Based on these assumptions, the company's fair value is estimated at SAR 125/share, a 25% upside to current market price, implying an Overweight recommendation.

Figure 16 **Valuations**

SOTP	2024e EBIT	Assigned multiple	Enterprise value	Comments
Pharma business	426	23x	9,808	High single digit to low-double growth potential. 15% discount to Jamjoom's EV/EBIT based on our TP
Chemicals	171	15x	2,562	Stable margins, to grow at mid single digit
Steel	18	15x	275	Strong growth potential
Other segment	(61)	8x	(485)	Group holding and mining
Group level enterprise value			**12,159**	
Conglo. Discount		-15%	(1,824)	Unrealated businesses, thus 15% discount
Group level enterprise value (net)			**10,335**	
Debt			(828)	
Cash			1,064	
WC requirement (considered only 50% impact)			(552)	
Net equity			**10,018**	
O/S			80	
Value per share			**125**	
CMP			100	
Upside/(downside)			25%	

Source: Company Data, Al Rajhi Capital estimates

Financials

Figure 17 **Income Statement**

SAR mn	2023E	2024E	2025E
Revenue	**2,755**	**2,886**	**3,129**
y-o-y growth	*6.2%*	*4.8%*	*8.4%*
Cost of Sales	(1,641)	(1,676)	(1,809)
Gross Profit	**1,114**	**1,210**	**1,320**
y-o-y growth	*7.1%*	*8.6%*	*9.1%*
margins	*40.4%*	*41.9%*	*42.2%*
Operating Expenses	(623)	(655)	(686)
Operating Profit	**491**	**555**	**634**
y-o-y growth	*24.1%*	*13.0%*	*14.3%*
margins	*17.8%*	*19.2%*	*20.3%*
Finance cost	(25)	(20)	(11)
Other (Expense)/Income	7	5	5
Pre-Tax Income	**473**	**540**	**628**
Zakat	(48)	(54)	(63)
Non-controlling Interests	(2)	(2)	(2)
Net Income/Net Profit (Losses)	**427**	**488**	**567**
y-o-y growth	*-9.9%*	*14.3%*	*16.2%*
margins	*15.5%*	*16.9%*	*18.1%*
Adjusted EPS	5.3	6.1	7.1

Source: Al Rajhi Capital estimates

Figure 19 **Cash Flow Statement**

SAR mn	2023E	2024E	2025E
Cash flow from Operations	347	556	594
Cash flow from Investing	(64)	(70)	(72)
Cash flow from Financing	55	(244)	(284)
Change in cash	349	242	238

Source: Al Rajhi Capital estimates

Figure 18 **Balance sheet**

SAR mn	2023E	2024E	2025E
Cash and equivalents	1,025	1,267	1,505
Trade receivables	1,103	982	1,064
Inventories	791	855	922
Prepaid expenses and other	169	170	185
Time Deposits	170	170	170
Due from related parties	31	31	31
TOTAL CURRENT ASSETS	**3,289**	**3,474**	**3,878**
PP&E, net	759	749	741
Other Intangible Assets	71	71	71
Other non-current assets	4	8	7
TOTAL NON-CURRENT ASSETS	**835**	**828**	**820**
TOTAL ASSETS	**4,124**	**4,302**	**4,697**
Trade payables and other current liabilit	264	251	273
Accrued liabilities	613	564	635
Current portion of LT debt	604	604	604
Deferred tax liability	7	7	7
Income taxes payable	126	118	131
CURRENT LIABILITIES	**1,614**	**1,544**	**1,650**
LT debt	224	224	224
Employees' end of service benefits	145	152	160
NON-CURRENT LIABILITIES	**370**	**377**	**384**
SHAREHOLDERS EQUITY	**2,078**	**2,320**	**2,601**
Non-controlling Interest	62	62	62
TOTAL LIABILITIES	**4,124**	**4,302**	**4,697**

Source: Al Rajhi Capital estimates

Figure 20 **Key Ratios**

	2023E	2024E	2025E
ROA	12.4%	12.8%	14.0%
ROE	21.7%	22.1%	23.0%
Current Ratio (x)	2.0x	2.3x	2.4x
Asset turnover ratio (x)	0.7x	0.7x	0.7x
Inventory turnover ratio (x)	2.1x	2.0x	2.0x
Receivables turnover ratio (x)	2.8x	2.8x	3.1x
Capex to Sales	2.2%	2.3%	2.3%
FCF Yield (%)	2.5%	6.1%	6.4%
P/E (x)	18.9x	16.5x	14.2x
P/BV (x)	3.9x	3.5x	3.1x
EV/EBITDA (x)	13.8x	12.1x	10.4x

Source: Al Rajhi Capital estimates

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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