Saudi Pharmaceutical Market

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الراجحي المالية
alrajhi capital

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Key themes

Saudi pharmaceutical market is expected to experience faster growth due to government support, insurance companies favouring generics, and capabilities of local drug manufacturing companies.

Generics pharma market to grow at a much faster rate than the industry particularly in specialized therapeutic areas like dermatology and the gastrointestinal system.

Jamjoom Pharma is recommended as overweight due to its strong cost control, superior R&D team, and focus on specialized therapeutic areas.

SPIMACO is recommended as underweight due to high overhead costs and dependence on inorganic growth, while Astra Industries has control over operating costs but lags behind Jamjoom Pharma in efficient capital allocation.

Summary of rating and target price

Stock	Rating	Price Target	Upside
SPIMACO	UW	SAR 34.0	-20.0%
Jamjoom	OW	SAR 134.0	+13.0%
Astra	Neutral	SAR 93.0	-3.0%

Note: UW – Underweight, OW – Overweight

Saudi Pharmaceutical Market

We initiate our coverage on Saudi Pharmaceutical manufacturing companies with an Overweight recommendation on Jamjoom Pharma, Neutral recommendation on Astra Industries and Underweight on SPIMACO. The Saudi pharmaceutical market is poised to grow at a much faster rate than its recent history led by supportive measures by the government, the push from insurance companies for generics, and growing capabilities of the local drug manufacturing companies. Moreover, within the pharma market, the growth expectations for generic drugs is much higher than the industry (8.1% CAGR during 2019-2024 versus 5% for the total pharma market). Within generic, the specialized therapeutic areas (TAs) are expected to grow at a relatively higher rate with dermatology and the gastrointestinal system expected to exhibit robust CAGRs of around 10% during 2022-2026. Amidst these strong growth prospects, the drug manufacturing companies that have the scale and expertise are well positioned to capture the growth. However, as the pricing in the industry is regulated, the companies that have strong R&D capabilities (1st generic producers) and control over costs are better positioned to capture market leading position and enjoy higher margins. In our view, Jamjoom is a high-quality company with strong control over costs, superior R&D team, focus on specialized TAs. On the other hand, SPIMACO and Tabuk are the national champions in general medicine and have the scale to collaborate with global MNCs to produce their drugs locally. However, SPIMACO struggles with high overhead costs and is dependent on inorganic growth to achieve its topline growth guidance while Astra Industries, though has control over operating costs, lags JP in terms of efficient capita allocation.

SPIMACO: SPIMACO is a market leader in the Saudi pharmaceutical industry, especially in general medicine therapeutic area. Despite their market leadership, SPIMACO faces challenges in maintaining industry leading profitability due to elevated costs and relatively lower exposure to specialized TA's. SPIMACO is undergoing a major restructuring plan to address legacy issues that have impacted its growth and profitability through launching high-value drugs, investing in R&D capabilities, and reducing development timelines, etc. However, the company is also relying heavily on inorganic route to achieve its growth and profitability guidance. Moreover, the M&A is expected to be funded through debt. In our view, pursuing inorganic growth comes with risks in the current high-interest rate environment. Post the strong rally YTD, the stock is currently trading at 30x on our 2027E expected EPS of SAR 1.45 (only organic), which is even higher than JP's current multiple of 28x on 2024E EPS. We initiate our coverage on SPIMACO with a target price of SAR 34/sh and a "Underweight" rating. Given that the company is currently lossmaking and bottom-line is expected to be depressed in the near term, 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 2.3x to its average sales in 2023 and 2024, which is based on 20% discount to its relevant peer set. For EV/EBITDA, we are using average EBITDA of 2026 and 2027 (full benefits of transformation) and applying 16x multiple. Based on 50% weightage to each method, our fair value for the stock is SAR 34/share, which is 20% lower than the current market price, implying underweight recommendation.

Jamjoom Pharma (JP): Jamjoom Pharma is well placed to benefit from the growing healthcare market in the KSA and other MEA countries. It currently operates in around 36 countries with a diverse portfolio of 118 brands across 8 therapeutic segments, while having leadership positions in Ophthalmology (#1 player) and Dermatology (#2 player). It has best in class margin profile, and even better than the matured generic players seen across the globe. The stock offers 15% bottom-line growth and 24% FCF growth potential over the next five years. The company has zero debt, thus ample room to boost its growth by acquisitions, increase payout ratio as well as boost its ROE levels. The strong margins and return ratios indicate the quality of the management as well as the moats of the business. The company's high capex (2019-2022) phase is behind us, thus going forward it will witness a period of high cash flow generation. These parameters meet all the criteria of a company that has attributes of both quality and growth, which we have noticed only in a few other stocks in the KSA, such as Habib. We believe the stock can command a PEG of 2.25x-2.5x, thus implying a forward P/E multiple of 34x-38x. We initiate coverage on Jamjoom with a target price of SAR 134/share and an "Overweight" rating. The key risk is the exposure to the Egypt market mainly through its new facility. In an extreme scenario of complete write-off, we see a potential loss of SAR 1.7 bn in the market cap, which would imply a fair value of SAR 110/share. In our base case scenario, which is 30% exports from the Egyptian facility and 70% sales in the local market of Egypt, the currency exposure is on the positive side, thus would benefit if the EGP pound depreciates.

Astra Industries (Astra): Tabuk Pharma, a subsidiary of Astra Industrial Group, holds a prominent position in Saudi Arabia's generic market with a 6% share. It excels in general medicine and gastrointestinal markets and operates in various therapeutic areas with a production capacity of over 2.0 billion units per year. Tabuk has a successful track record of manufacturing and marketing drugs under exclusive agreements with global companies. It has an exclusive agreement with Pfizer Saudi Limited for important medicines and holds the marketing authorization for the Moderna COVID-19 vaccine in Saudi Arabia. The pharma segment enjoys high gross margins of around 55%, strong cost control measures, and is projected to achieve high single-digit growth. Astra also operates in the steel structures industry, poised to benefit from growing demand. We initiate coverage on Astra Industrial with a target price of SAR 93/sh and a "Neutral" rating. Given the conglomerate nature of the business and no major synergies between the subsidiaries, we have used the SOTP method to value the company and assigned a conglomerate discount of 15%. We have assigned 20x EV/multiple to our EBIT estimated for 2023 and 2024, a discount of about 15% to JP given Tabuk's lower margin profile and more exposure towards relatively lower growth segments. For its specialized chemicals business, we are assigning a multiple of 15x given its low volatility in margins and exposure to stable and marque clients such as SABIC. For the steel business, we have used 2026e EBIT as profitability in the next two years and true earnings potential would start reflecting from 2026. We are assigning 10x multiple for the steel business due to the expected growth in demand for steel structures. Based on the SOTP method, our fair value for the company is SAR 93/share, that is in line with the current market price, implying Neutral recommendation. At our fair value, the implied P/E on 2023/2024e EPS of SAR 4.5/share is 21x.

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Saudi Pharma Market Overview

Generics to grow at a faster rate, derma and GIT key growth areas.

The Saudi pharmaceutical market is the largest market in the MENA region (37% of the MENA market) and is expected to grow at a much faster rate than its recent history. As per IQVIA, the total KSA pharma market is expected to grow at a rate of 5% between 2022 and 2026E versus 3% growth during 2018-2021. Further, the growth expectations for the generic drug market are much higher as the government plans to focus on making healthcare affordable and support local pharma companies, which are mostly generic drug players. As per Pharmexcil report, the generic market as of 2019 was around 35% of the total Saudi Pharma market and is expected to grow at a CAGR of around 8.1% between 2019-2024.

In terms of therapeutic areas (TA), the growth potential for general medicine, which is the largest segment and accounts for 1/3rd of the total market, is largely flattish in the medium term. However, there are other TA's, such as Gastrointestinal, Dermatology, Ophthalmology and consumer health (mostly OTC drugs), which are expected to grow by high single digit. The specific categories like dermatology and the gastrointestinal system are expected to exhibit robust CAGRs of around 10% during 2022-2026. These categories benefit from innovative products and present significant opportunities for the expansion of local generics. Sedentary lifestyles have contributed to a high prevalence of obesity, diabetes, cardiovascular and gastrointestinal diseases, as well as weather-related ailments like asthma and allergies. In addition to long-term drivers such as high prevalence of chronic illnesses such as obesity, diabetes and cardiovascular diseases, the medium-term growth is expected to be supported by the several government measures under Vision 2030 to boost its local pharma market and reduce the dependency on imports.

…Supported by initiatives under vision 2030…

Saudi Arabia currently relies heavily on imports from the USA, Europe, China, and India to meet its pharmaceutical product consumption needs. However, as part of Saudi Arabia's Vision 2030, the country aims to increase domestic pharmaceutical production and raise the share from 20% to 40%. To achieve this goal, the Kingdom has been fostering partnerships with global manufacturers such as AstraZeneca, Pfizer, and GlaxoSmithKline, emphasizing technology and research-driven collaborations. Consequently, local manufacturers have expanded their portfolios, leading to an increase in the contribution of locally produced pharmaceutical products from 30% in 2018 to 36% in 2021.

The government is rolling out several incentives to boost the domestic pharma industry as mentioned below.

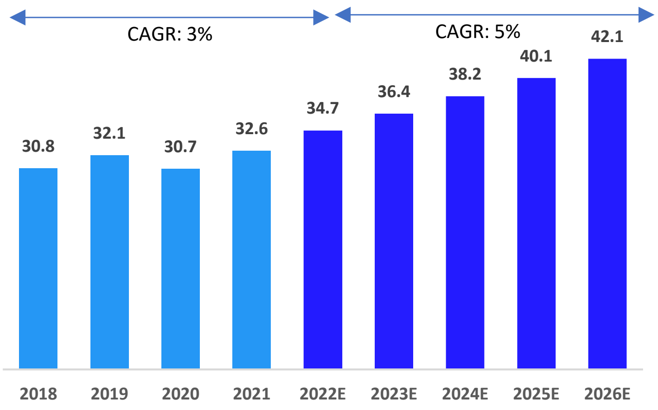
- To encourage a transition from pharmaceutical imports to domestic manufacturing, the government plans to offer guaranteed offtake agreements for its MoH and other government affiliated hospitals through its procurement agency, National Unified Procurement Company (NUPCO). The total KSA pharmaceutical tender business is valued at SAR21bn and is mainly dominated by NUPCO. NUPCO is responsible for holding these tenders and centralizing procurement, warehousing, distribution, and re-exporting of pharmaceuticals and medical equipment. This initiative aims to support domestic pharmaceutical production, either through wholly owned facilities or contract manufacturing organizations (CMOs).
- Global companies are encouraged to boost local production by promising offtake agreements with NUPCO and better pricing. In contrast, imported pharmaceuticals are restricted to distribution through Saudi companies.
- Additionally, the government leverages NUPCO's purchasing power to enforce certain requirements. By 2024, only companies with regional headquarters in Saudi Arabia will be eligible to submit proposals for NUPCO tenders. This measure serves

as an incentive for companies to establish a local presence and reinforces the country's commitment to promote domestic manufacturing.

In response to the incentives provided by Vision 2030, major global biopharma companies have been establishing local manufacturing sites. Pfizer inaugurated a USD 50 mn manufacturing and packaging facility to produce 16 pharmaceutical products, demonstrating its commitment to transfer expertise and technology to the local market. As part of their investment, Pfizer was granted full ownership of its local affiliate.

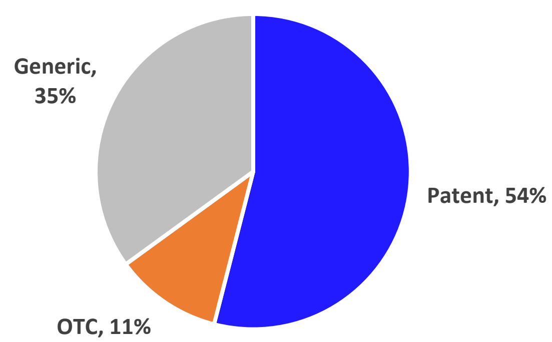
GSK plc has also made significant investments in local manufacturing facilities and aims to localize 75% of their production in Saudi Arabia, a process known as "Saudizing." Furthermore, Novartis entered into a partnership with Saudi Arabia's Ministry of Investment in 2022. The collaboration focuses on localizing cell and gene therapy production, as well as conducting clinical research and development, while facilitating the transfer of these advanced technologies to the country. These initiatives highlight the proactive efforts of global biopharma companies to align with Vision 2030 and contribute to the growth of the local pharmaceutical manufacturing sector in Saudi Arabia.

Figure 1 **KSA Pharma. Market to see sustainable growth (SAR bn)**



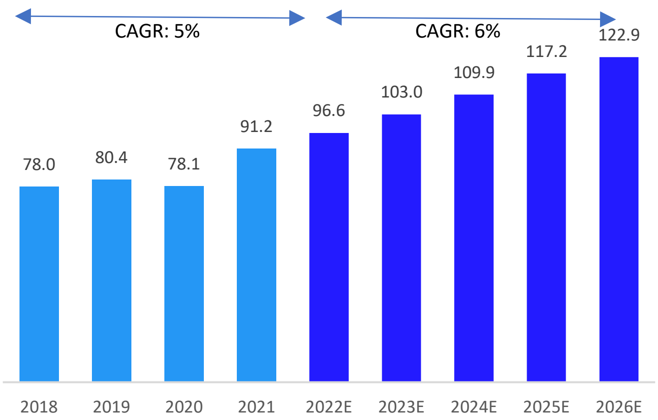
Source: IQVIA Market Prognosis 2021–26 (May 2022), SPIMACO 1Q23 PPT, Al Rajhi Capital,

Figure 2 **Saudi Pharmaceutical Market composition (2019)**



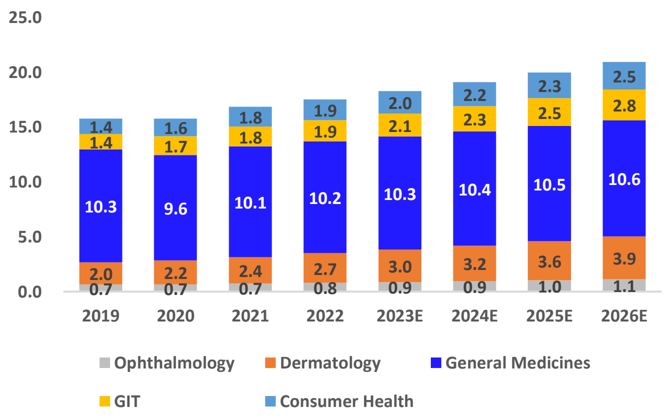
Source: Pharmaexcil (2020 Report), Al Rajhi Capital

Figure 3 **MENA Ex. KSA Pharma. (SAR bn)**



Source: Euromonitor, Al Rajhi Capital,

Figure 4 **Market size for Top 5 TA for KSA (SAR bn)**

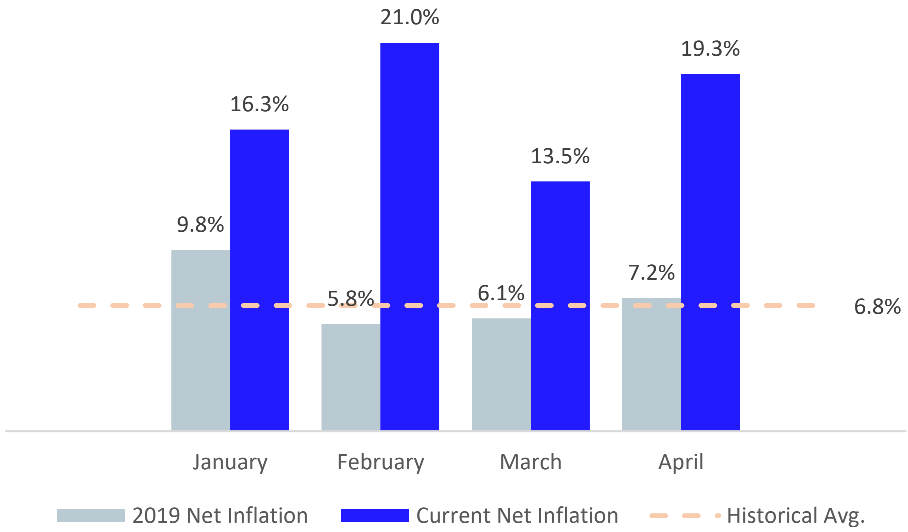


Source: Euromonitor, Al Rajhi Capital,

Insurance's focus on lowering claims expenses to support generics

The insurance industry has taken double digit price hikes in recent years in the wake of rising inflation post Covid and several developments such as new table of benefits, Article 11, etc. Despite the price hikes, the insurance industry is struggling with elevated claims, thus the focus from the insurance is on lowering the claims per patient. One of the key measures to achieve lower claims per patient is promoting generics drugs over branded. As part of first phase of new table of benefits effective October 2022, prescriptions should focus on active ingredients than prescribing branded drugs. The new regulation is expected to reduce payouts from insurance companies for branded products when generics are available. Although, it is effective from October 2022, the full impact is yet to be observed.

Figure 5 **YTD inflation (Q1 – 23) vs. Same period 2019 (Q1 – 19)**



Source: Bupa 4Q22 PPT, Al Rajhi Capital

Summary of Insurance drug formula from CCHI

- Service providers must prescribe medications using generic names, following SFDA guidelines, with some exceptions.
- Pharmacists are required to automatically replace brand names with generic names, except in specific cases:
    1. Prohibition of substitution for certain generic drugs according to SFDA regulations.
    2. Insured individual's request for a specific trade name, subject to copayment based on policy (0-50% of selected trade name price).
    3. Physician's request to maintain brand name for innovative drugs, with conditions:
        (1) Proper medical justification and submission of supporting documents for approval by the insurance company. If approved, copayment based on price of approved generic as per policy.
        (2) If medical justification is denied, copayment set at 0-50% of selected trade name price according to policy type.
- Co-insurance rates for medications are defined as follows:

- Generic, non-prescription drugs and innovative treatment without generic alternatives: 20% co-insurance with a maximum payment participation of SAR 30.
- Innovative treatment with a generic alternative: 0-50% co-insurance based on an agreement between employer and insurance company regarding maximum participation.

Competitive landscape in KSA and peer comparison

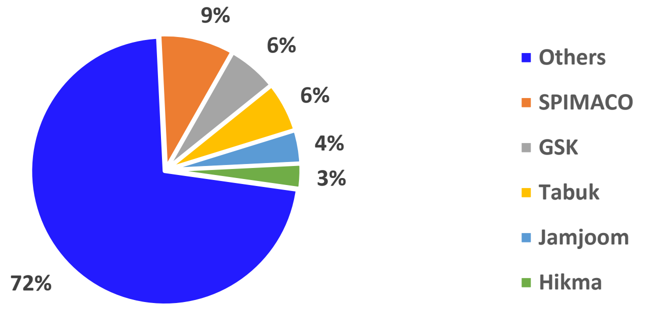
The KSA's pharma market is a highly fragmented market with presence of many global MNC's as well generic players from emerging markets such as India and China. Among the local players, SPIMACO is the largest drug manufacturer followed by Tabuk and then Jamjoom.

SPIMACO has the largest production capacity of 2.4 bn units per annum followed by Tabuk's 2.0 bn units p.a. SPIMACO has a strong national presence bolstered by its portfolio of well-known brands, including Fevadol and Sapofen and has the largest market share of over 14% in the general medicine category. The company's competitive advantages include a reputation for pediatric therapeutic treatments, strategic alliances and agreements with regulatory bodies to supply private and public healthcare sectors with prescribed general medicines, and an extensive distribution network for over-the-counter varieties. It has a notable market share in the government tender business of 9% compared to Tabuk's 8% and JP's only 1%. Despite its market dominance, SPIMACO faces challenges in maintaining higher margins. This is primarily due to a higher cost base and a significant percentage of licensed products in its portfolio, comprising approximately 27% of its offerings. In contrast, Jamjoom has no licensed products, while Tabuk has only a minimal percentage. Currently, in its top 10 drugs around 30% of sales is contributed by licensed drugs. The lower margins for SPIMACO can also be attributed to its comparatively low investment in research and development (R&D) expenses. Over the last five years, SPIMACO has allocated around 2% of its revenue to R&D, whereas Jamjoom and Tabuk have dedicated 4%-5% and around 3%, respectively. Investing in R&D is crucial for pharmaceutical companies to develop their own drugs and remain competitive in the industry.

Tabuk is the second largest player and is renowned for its broad product portfolio of treatments and expertise in manufacturing generic formulas of popular patented brands, such as Nexium. The company's core therapeutic areas include GI and diabetes, cardiovascular, musculoskeletal, respiratory, infection, and the central nervous system. It develops, produces, and markets generic medicines, with a significant presence in the region. Tabuk has a leading market share of 8.1% in the GIT category (2nd largest player and also has a notable share of 8.5% in the general medicine category (3rd largest player).

On the other hand, JP has just 113 mn of per annum production facility but is a market leader in high value drug segments such as Optha (21% share), Derma, GIT and only 2% share in the general medicine segment. Moreover, unlike SPIMACO and Tabuk, the company produces all of its drugs under its own brand name, where the other two pharma producers have agreements with global MNCs to produce licensed drugs. Thus, despite having less than 10% of the production capabilities in terms of volumes versus its peers, it generates revenues of 917 mn versus SPIMACO and Tabuk's SAR 1.4 bn and SAR 1.1 bn. Going forward, Jamjoom Pharma is planning to become a key strategic supplier in the Kingdom's public healthcare system. To achieve this goal, the company plans to reduce manufacturing and procurement costs, establish a dedicated team to increase participation in public tender contracts across its product range, and expand its presence in key markets such as the Gulf, Iraq, and Egypt.

Figure 6 **Saudi Market key players**



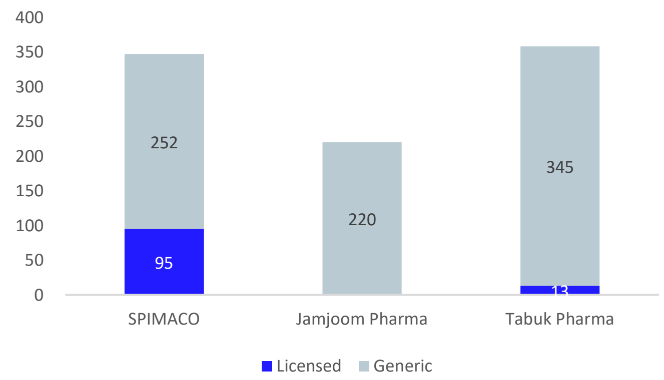
Source: Euromonitor, Al Rajhi Capital

Figure 7 **Plant Details**

Company	Manufacturing Plants	Area of the sie (sq m)	Plant area (sq m)	Annual Capacity (mn units)	Employees	Products
Jamjoom Pharma	Jeddah Main Facility	46,500	19,000	113	501	Oral Solid dosage forms, Sterile dosage forms, Oral liquids, Dermal products, Soft-gel capsules
	Egypt Main Facility	15,527	7,500	52	150	Oral Solid dosage forms Dermal products Sterile dosage forms
	Jeddah Sterile facility	7,500	4,400	25	50	Sterile dosage forms
SPIMACO	Qassim (KSA)	150,000	60,000	1,561	900+	Oral Solids, Oral Liquids, Antibiotics, Antispetics filling lines, Aseptics ampule lines
	Dammam (KSA)			181	200	Fillings lines, Secondary packaging
	Overseas			640	60	Fillings lines, Secondary packaging
Astra	Tabuk (KSA)	100,000	35,000	1,600	900	Dry oral suspensions, oral liquids, semisolids, and vials. One building dedicated to manufacture Cephalosporins.
	Dammam (KSA)	14,000	NA	50	200	Liquid vials, lyophilized vials, and ampoules. A specialized section of the Dammam site has been allocated for injectables.
	Algeria	6,200	3,000	150	60	Currently oral solid dosage (tablets and capsules). Future plans: liquid preparations and nasal sprays.
	Sudan	8,500	6,500	260	200	Tablets, capsules, and liquid preparations

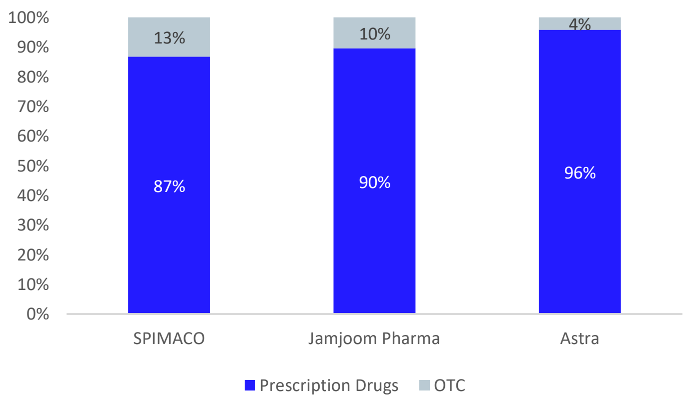
Source: Company Data, Al Rajhi Capital

Figure 8 **Licensed and Generic mix**



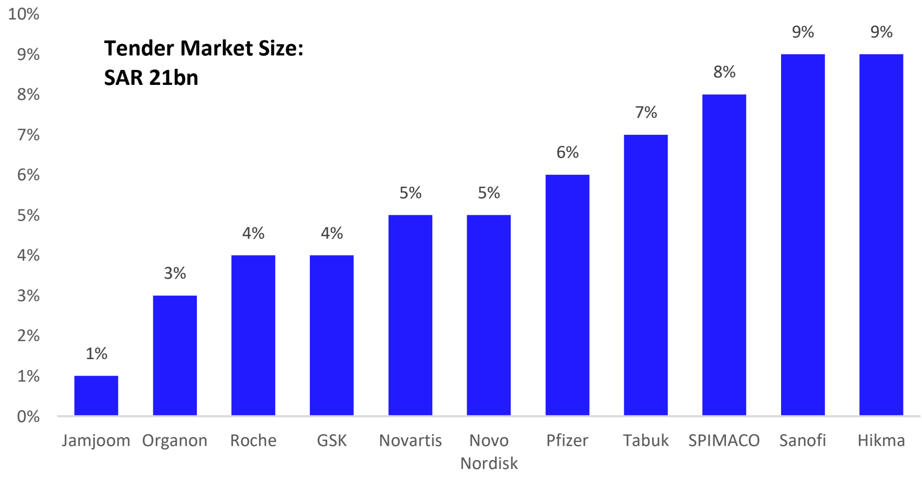
Source: SFDA, Al Rajhi Capital. Note: there are three types of Drug Licenses, one is Retail Drug License which is issued to a firm to run a chemist shop, second one is a Wholesale Drug License which is issued to a firm who wants to sell drugs on a wholesale level, and third one is Drug Manufacturing License which is issued to manufacture of drugs.

Figure 9 **Prescription & OTC mix**



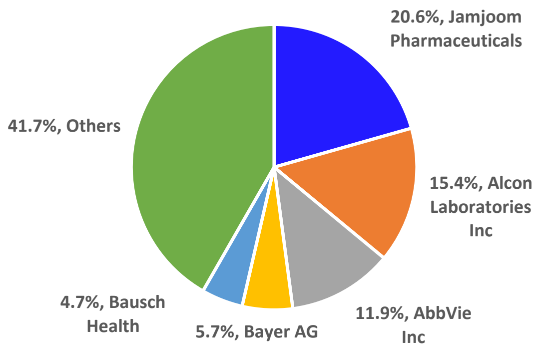
Source: SFDA, Al Rajhi Capital

Figure 10 **Top 10 companies in Tender Market (Market share)**



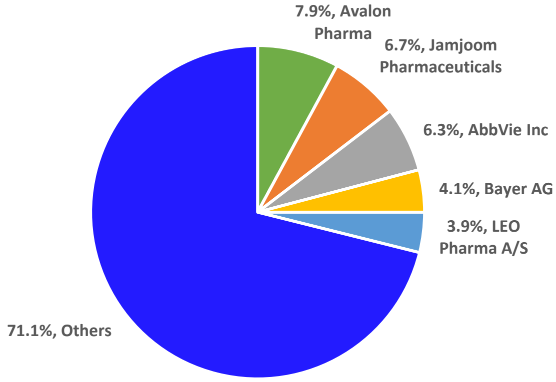
Source: IQVIA MAT June 2022, Al Rajhi Capital

Figure 11 **Ophthalmology Competitive Landscape, KSA – 2021**



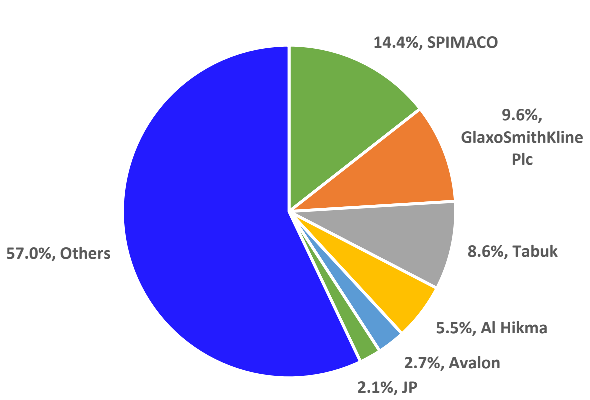
Source: Euromonitor, Al Rajhi Capital

Figure 12 **Dermatology Competitive Landscape, KSA – 2021**



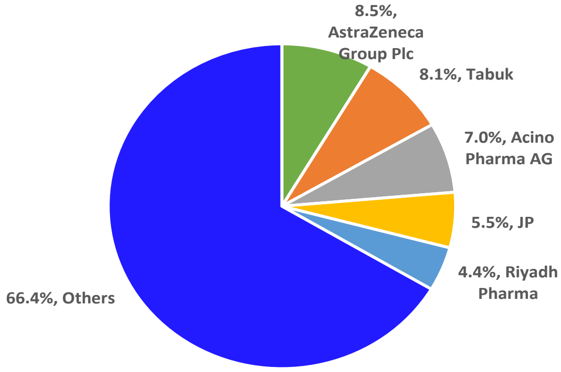
Source: Euromonitor, Al Rajhi Capital

Figure 13 **General Medicine Competitive Landscape, KSA – 2021**



Source: Euromonitor, Al Rajhi Capital

Figure 14 **GIT Competitive Landscape, KSA – 2021**



Source: Euromonitor, Al Rajhi Capital

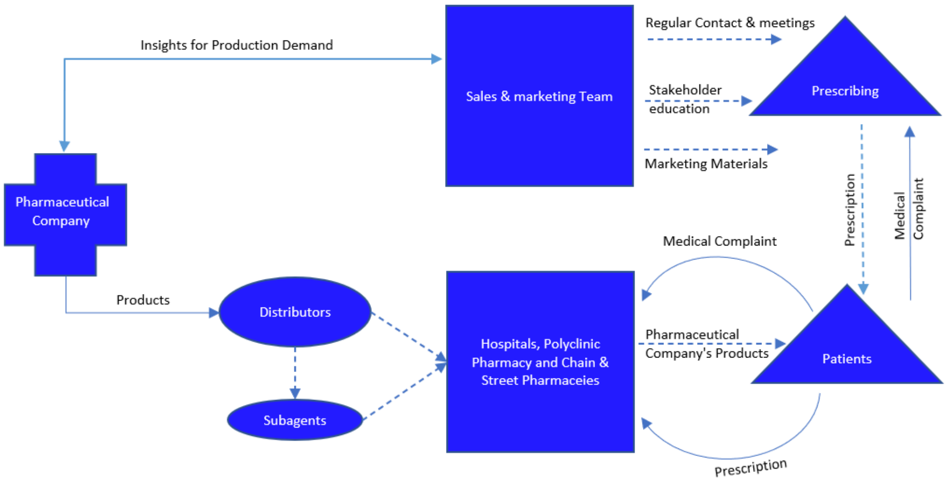
Value Chain of the pharma industry

The sales team is responsible for creating demand for the product, which is done via well-informed exchange with the prescribers. The sales team are well-qualified pharmacists (as required by SFDA) who are made into product experts by the company as they invest heavily in high-quality training and education programs for them. The salespeople also have access to highly detailed and data-driven salesforce monitoring tools. Key metrics are gathered on a daily basis to better monitor the activity and performance.

Once the product is launched, the company sells its medicine to the distributor. There are two channels of sales 1) to-market sales, and 2) in-market sales. The first one, i.e. to-market sales are when a Company makes sales to its distributor. These are known as primary sales and are recorded as revenue in Company's books. Secondary sales, i.e. in-market sales are the sales made by the distributor to the market in general (pharmacies, hospitals, and tenders). So, these sales are an indicator of conversion of to-market to in-market sales.

The generic company is not the first one to bring the drug onto the market and has the originator product sales record as a reference point for the demand for the drug. Despite this, the company aims to remain a bit conservative on how much it produces as the risk of unsold inventory is borne by the company. Hence, more is only produced when they get feedback from their distributors regarding the demand for the new products.

Figure 15 **Value Chain**



Source: Jamjoom Presentation, Al Rajhi Capital

SFDA: Pricing and Drug Approval Process

SFDA is the sole regulatory body that overlooks the safety, security, quality, and efficacy of drugs and issues licenses for drug marketing. Not only this, the regulatory body has complete authority in setting the prices of each product. Normally, first and second generic products enjoy the highest pricing (As per JP management, could be just 10-20% below the originator product) while third and fourth generic and so on are assigned lower prices. Hence, generic players focus on producing the first or second generic products.

The repricing of the drug is only done if the originator product has been repriced or when a more cost-effective alternative is introduced to the market. This implies that, if the raw material prices increase, the generic companies will rely on SFDA for repricing otherwise will be exposed to margin erosion. The generic players can make a compelling case with the SFDA and request a price increase, but it is a long and tedious process.

SFDA has periodically changed the list of regulated reference prices as well as margins in the past. Recently, in 2021, the SFDA enforced reductions in the prices of certain products. The reduction was mandated after reviewing global API prices and posting a market analysis relating to products classified as lifesaving or critical drugs.

The MAA (Marketing Authorization Application) process for pharmaceutical products follows these steps:

Submission:

- Complete application form and pay fees via SDR system.
- Upload product file meeting SFDA guidelines.

Validation:

- Technical validation: Automated validation by SDR system, with results communicated via email.
- Business validation: Check for compliance, with opportunity to complete missing/incorrect information within 30 working days.

Assessment:

- Evaluation/Inspection: Distribution of request to relevant departments for quality, safety, and efficacy assessment.
- Inspection: Conducted if needed, based on manufacturing line approval status.
- Inquiry and response: Electronic inquiry for additional information, with response expected within 60 working days.

Pricing:

- Pricing review: Examination of product price according to SFDA rules.
- Inquiry and response: Electronic inquiry for further information, with response expected within 60 working days.

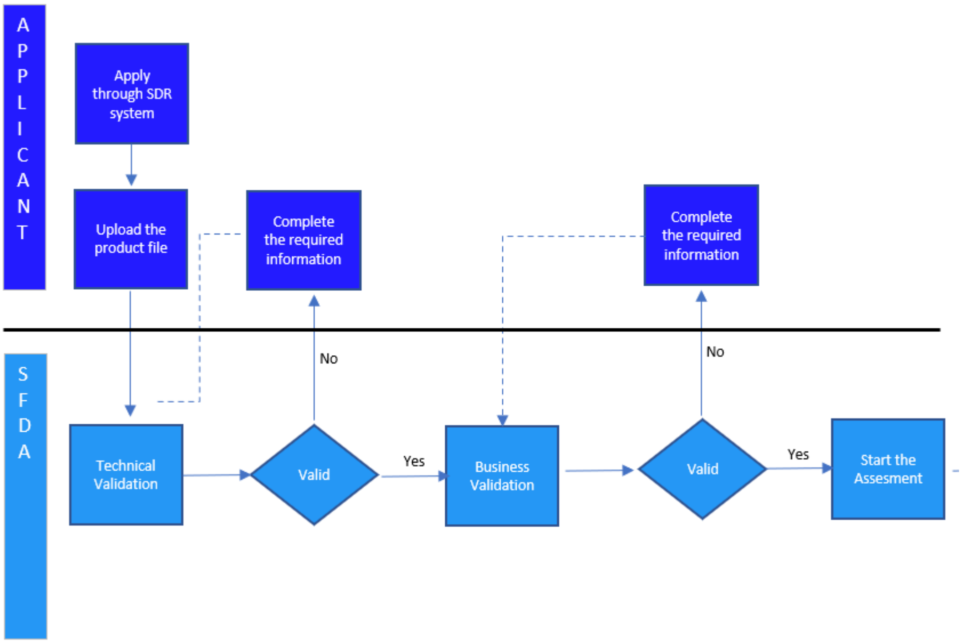
Registration:

- Rejection risk: Failure to respond within specified time frames may lead to rejection.
- Decision and notification: Registration Committee reviews request and decides on approval, rejection, or need for more information.
- Issuance of MA: Approved applicants are notified through SDR system to issue Marketing Authorization.

Appeal:

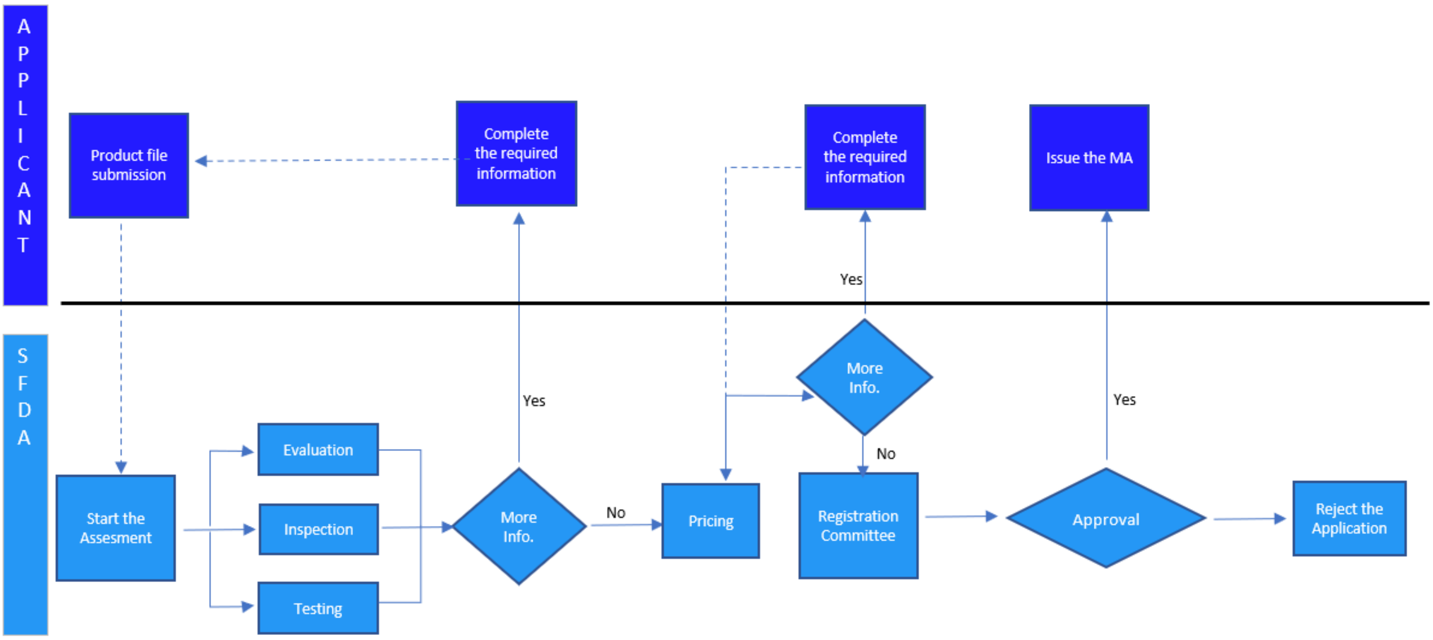
- Appeal process available: Applicants can appeal within 60 calendar days as per Guidance for Submission.

Figure 16 **Drug Submission Process**



Source: SFDA, Al Rajhi Capital

Figure 17 **Drug Licensing – Marketing Authorization**



Source: SFDA, Al Rajhi Capital

Figure 18 **Drug Timelines (Days)**

	Technical Validation	Business Validation	Evaluation /Inspectio	Pricing	Product Licensing	TOTAL
No. of Waves	-	3	4		-	
Human Generic	-	10	120	20	15	**155**
Human New Drugs registered in SRA	-	10	245	20	15	**280**
Human New Drugs not registered in SRA	-	10	370	20	15	**405**
Human Biologics registered in SRA	-	10	245	20	15	**280**
Human Biologics not registered in SRA	-	10	370	20	15	**405**
Radiopharmaceuticals	-	10	245	20	15	**280**
Veterinary Generics	-	10	150	-	15	**165**
Veterinary New Drugs registered in SRA	-	10	245	-	15	**260**
Veterinary New Drugs not registered in SRA	-	10	370	-	15	**385**
Veterinary Biologics registered in SRA	-	10	245	-	15	**260**
Veterinary Biologics not registered in SRA	-	10	370	-	15	**385**
Herbal & health products	-	10	120	20	15	**155**

Source: SFDA, Al Rajhi Capital

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Pharma Sector Relative Valuation

Figure 19 **Relative Valuation**

			Forward			TTM		Forward		Margins			Sales growth		
Region	**Peer Set**	**Market Cap (SAR mn)**	**EV/EBITDA**	**EV/EBIT**	**EV/Sales**	**ROE**	**PB**	**PE**	**PS**	**Gross**	**EBITDA**	**EBIT**	**TTM**	**2023E**	**2024E**
	SPIMACO	5,250	NA	NA	4.0x	-8.3%	3.3x	NA	NA	39.7%	-2.5%	-8.8%	12.7%	6.5%	3.0%
	Jamjoom	8,274	24.9x	26.4x	6.8x	19.7%	5.7x	29.8x	6.2x	64.8%	28.3%	25.5%	24.6%	17.1%	15.0%
	Taro Pharma	5,227	NA	5.2x	0.2x	1.5%	0.8x	29.2x	2.3x	46.8%	9.1%	3.1%	2.1%	9.7%	NA
MEA	Hikma Pharmaceuticals	20,082	7.9x	9.8x	2.5x	8.2%	2.4x	12.4x	1.9x	49.2%	26.0%	11.2%	-1.4%	9.0%	3.9%
	Teva Pharma	31,796	6.2x	6.9x	1.9x	-18.6%	1.1x	3.3x	0.6x	46.7%	-5.3%	-14.1%	-4.1%	0.5%	1.6%
	Adcock Ingram	1,803	6.9x	8.2x	1.0x	16.7%	1.6x	9.9x	1.0x	35.1%	14.3%	12.1%	8.0%	4.1%	4.2%
	Aspen Pharmacare	16,350	NA	NA	2.6x	7.9%	1.1x	11.8x	NA	47.4%	26.9%	22.5%	-0.4%	4.7%	8.0%
	Astra Industrial	7,640	NA	NA	2.7x	29.8%	3.9x	NA	NA	40.1%	18.3%	15.3%	14.2%	NA	NA
	Enlight Renewables	7,758	44.5x	113.4x	NA	3.1%	1.9x	41.3x	NA	79.0%	69.1%	47.2%	NA	473.4%	41.5%
	Perrigo Co Plc	17,049	NA	12.5x	1.8x	-2.8%	0.9x	13.0x	0.9x	32.7%	10.4%	1.8%	8.5%	8.2%	4.0%
	Mayne Pharma Gro	985	NA	NA	0.9x	10.0%	0.5x	NA	1.2x	40.3%	-24.5%	-43.9%	-3.7%	-37.0%	36.6%
Developed	Endo International	13	NA	NA	3.1x	NA	NA	NA	NA	52.9%	-85.1%	-102.2%	-25.5%	NA	NA
	Viatris Inc	44,476	5.9x	6.3x	1.9x	9.2%	0.6x	3.4x	0.8x	40.0%	29.1%	9.9%	-10.5%	-3.9%	-1.8%
	Jiangsu Hengru-A	161,925	NA	NA	13.9x	10.4%	8.0x	65.0x	13.0x	83.6%	18.0%	15.3%	-12.9%	15.6%	15.4%
	Organon & Co	19,678	NA	7.0x	2.2x	NA	NA	4.8x	0.8x	62.8%	28.9%	25.4%	-3.5%	1.8%	3.3%
	Mankind Pharma	30,626	27.5x	32.1x	7.6x	NA	NA	38.8x	6.7x	73.6%	50.4%	48.3%	NA	13.0%	14.0%
	Torrent Pharma	29,099	32.6x	38.1x	7.2x	20.5%	10.3x	40.0x	6.1x	NA	30.0%	22.6%	12.4%	28.8%	12.1%
	Towa Pharma Co	2,362	NA	20.7x	1.1x	1.6%	0.6x	10.7x	0.4x	34.8%	11.9%	2.6%	26.1%	30.2%	7.9%
	Asymchem Labor-A	22,908	NA	NA	3.4x	23.0%	2.8x	18.0x	NA	47.2%	34.7%	31.2%	76.3%	-2.8%	10.9%
	Cipla Ltd	37,290	13.8x	17.4x	3.5x	12.7%	3.5x	23.7x	3.2x	NA	22.4%	17.2%	3.9%	15.9%	10.4%
	Dr Reddy's Labs	39,334	11.8x	15.6x	3.3x	21.4%	3.7x	20.0x	3.2x	56.7%	28.4%	23.2%	14.7%	24.0%	7.3%
	Zydus Lifescience	26,511	14.2x	18.7x	3.5x	11.4%	3.3x	21.9x	3.0x	NA	20.7%	16.6%	16.3%	26.8%	7.6%
Emerging	Zhejiang Nhu-A	24,799	9.9x	NA	3.5x	13.0%	2.0x	10.7x	2.5x	36.9%	35.3%	26.5%	-1.6%	13.2%	15.6%
	Hansoh Pharmaceutical	39,274	NA	19.6x	6.2x	12.1%	3.3x	26.0x	7.2x	90.8%	32.5%	28.8%	-5.6%	13.7%	14.0%
	Kalbe Farma	23,276	NA	NA	3.1x	16.4%	4.3x	24.8x	NA	40.5%	17.1%	14.7%	9.3%	12.7%	8.8%
	Shijiazhuang Y-A	22,407	11.4x	13.9x	3.1x	28.4%	3.6x	16.9x	3.3x	63.8%	26.4%	22.8%	49.9%	3.1%	11.1%
	Shanghai Fosun-A	40,208	NA	NA	2.3x	10.2%	1.8x	17.2x	NA	47.1%	13.1%	7.5%	7.5%	14.2%	14.1%
	Shanghai Fosun-A	40,208	NA	NA	2.3x	10.2%	1.8x	17.2x	NA	47.1%	13.1%	7.5%	7.5%	14.2%	14.1%
	Cspc Pharmaceutical	39,680	NA	NA	2.2x	21.7%	2.5x	12.2x	NA	71.9%	27.5%	24.1%	11.0%	8.3%	8.9%
	Sichuan Kelun-A	21,921	NA	19.2x	2.3x	14.4%	2.5x	19.5x	2.1x	52.6%	19.1%	12.9%	13.8%	12.5%	8.8%
Median - MEA		**7,957**	**7.4x**	**8.2x**	**2.6x**	**8.0%**	**2.0x**	**12.1x**	**1.9x**	**46.8%**	**16.3%**	**11.6%**	**5.1%**	**6.5%**	**4.0%**
Median - Developed		**17,049**	**25.2x**	**9.8x**	**2.1x**	**9.2%**	**0.9x**	**13.0x**	**0.9x**	**52.9%**	**18.0%**	**9.9%**	**-7.1%**	**5.0%**	**9.7%**
Median - Emerging		**29,099**	**13.8x**	**19.2x**	**3.3x**	**13.7%**	**3.0x**	**19.5x**	**3.2x**	**49.9%**	**26.4%**	**22.6%**	**11.7%**	**13.7%**	**10.9%**

Source: Bloomberg, Al Rajhi Capital

SPIMACO
Pharmaceuticals: Healthcare
SPIMACO AB: Saudi Arabia
5 July 2023

US$1.380bn	66.18%	US$9.162mn
Market Cap	Free Float	Avg. Daily Volume

Target price	34.00	20% below current
Current price	43.15	as at 04/07/2023

Existing rating

Underweight | Neutral | Overweight

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SPIMACO

Initiating with a TP of SAR 34/sh and an Underweight rating

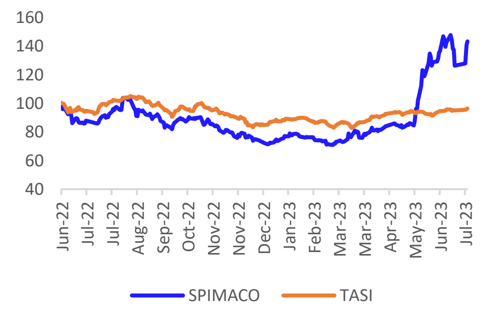
SPIMACO is a market leader in the Saudi pharmaceutical industry, especially in general medicine therapeutic area. Despite their market leadership, SPIMACO faces challenges in maintaining industry leading profitability due to elevated costs and relatively lower exposure to specialized TA's. SPIMACO is undergoing a major restructuring plan to address legacy issues that have impacted its growth and profitability through launching high-value drugs, investing in R&D capabilities, and reducing development timelines, etc. However, the company is also relying heavily on inorganic route to achieve its growth and profitability guidance. Moreover, the M&A is expected to be funded through debt. In our view, pursuing inorganic growth comes with risks in the current high-interest rate environment. Post the strong rally YTD, the stock is currently trading at 30x on our 2027E expected EPS of SAR 1.45 (only organic), which is even higher than JP's current multiple of 28x on 2024E EPS. We initiate our coverage on SPIMACO with a target price of SAR 34/sh and a "Underweight" rating.

Leader in the private space: SPIMACO is the largest pharma player with a leadership position in both the government as well as private space. The company is the number one player in the KSA's private market with a share of 7.6% (as of Q1 2023) and 9% share in the total pharma market. It has a dominant market share in several therapeutic areas, that comprise 46% of the private market. In addition to being a leading player in the private space, the company also has strong exposure to the government market, it generates 13% of its overall revenues from the government and has 8% share in the tender business.

Strong product pipeline and increasing focus on R&D: As part of the restructuring program the company targets to notably increase the share of specialized TA's from current 22% to 55% by 2027. To achieve this the company targets to launch 30 drugs per year and has about 114 drugs in pipeline, of which 76% are related to the specialized TA's. It also plans to boost its R&D capabilities and has already initiated measures by raising its R&D budget. However, the strategy requires investments and higher costs, which would weigh on its already elevated cost base. Thus, the company will have to rely on growing its topline and capture market share to boost its profitability, as scope for cost control is limited.

Restructuring plan promising, but relies on M&A: SPIMACO has initiated a major restructuring plan to resolve its legacy issues that has weighed on its growth as well as profitability over the recent years. The company's turnaround plan is focused on growing the topline rather than reducing the costs. It targets topline growth of 13-15% CAGR by 2027 and EBITDA margin of 15-17%. It targets to achieve profitability through launching high value drugs, investing in R&D capabilities and several other measures. However, we are bit cautious about its guidance of 13-15% topline growth and mainly its profitability target of 15-17% EBITDA margin, which is heavily reliant on M&A. The company is eyeing an M&A of target size of over SAR 500 mn in sales to achieve its guidance. Ex-M&A, the implied organic + business development guidance is around 9-10%.

Performance (Rebased to 100)



Earnings

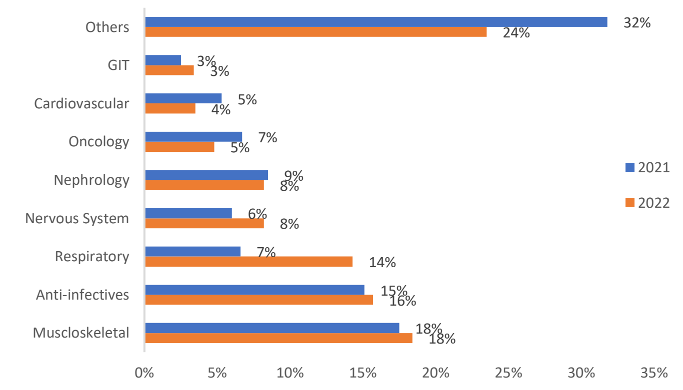
(SAR mn)	2022	2023E	2024E
Revenue	1,426	1,621	1,776
YoY %	-2.3%	13.7%	9.6%
Gross Profit	566	746	835
GM Margin %	39.7%	46.0%	47.0%
YoY %	-8.8%	31.7%	11.9%
EBITDA	(36)	128	154
EBITDA Margin	-2.5%	7.9%	8.7%
Net Income	(165)	18	48
Net Income Margin %	-11.6%	1.1%	2.7%
EPS	(1.38)	0.15	0.40
ROE	NM	1%	3%

Source: Company data, Al Rajhi Capital.

Valuations: Given that the company is currently loss making and bottom-line is expected to be depressed in the near term, 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 2.4x to its average sales in 2023 and 2024, which is based on 10% discount to its relevant peer set. For EV/EBITDA, we are using average EBITDA of 2026 and 2027 (full benefits of transformation) and applying 16x multiple. Based on 50% weightage to each method, our fair value for the stock is SAR 34/share, which is 20% lower than the current market price, implying underweight recommendation.

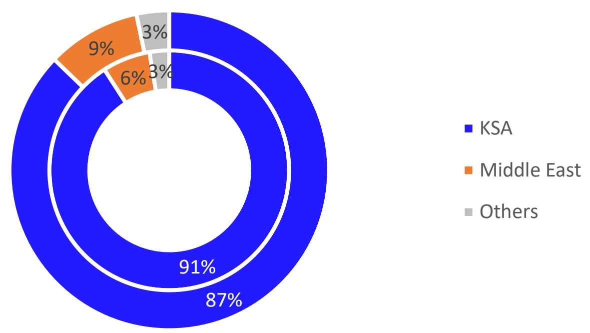
Financials in Charts

Figure 20 **Revenue mix by TA**



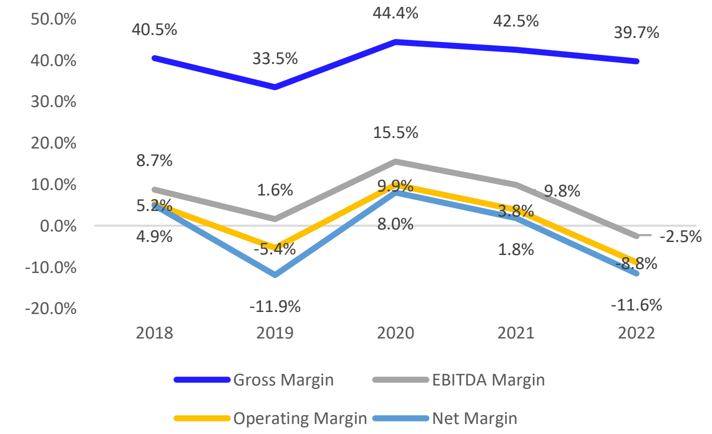
Source: Company Data, Al Rajhi Capital

Figure 21 **Revenue mix by geography (Outer circle: 2022, Inside: 2021)**



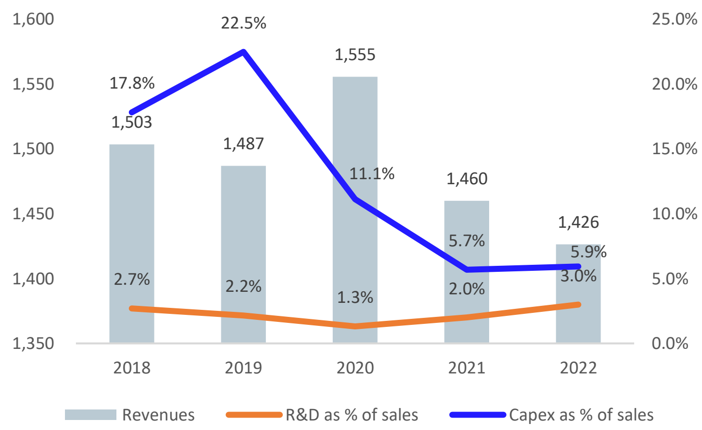
Source: Company Data, Al Rajhi Capital

Figure 22 **Margin profile over the years**



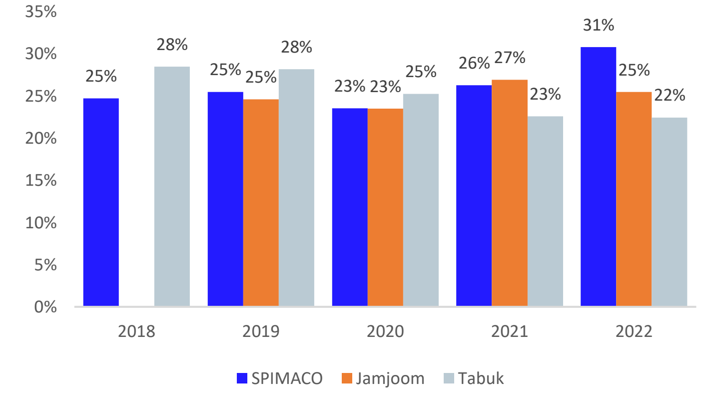
Source: Company Data, Al Rajhi Capital

Figure 23 **R&D and Capex as % of Sales**



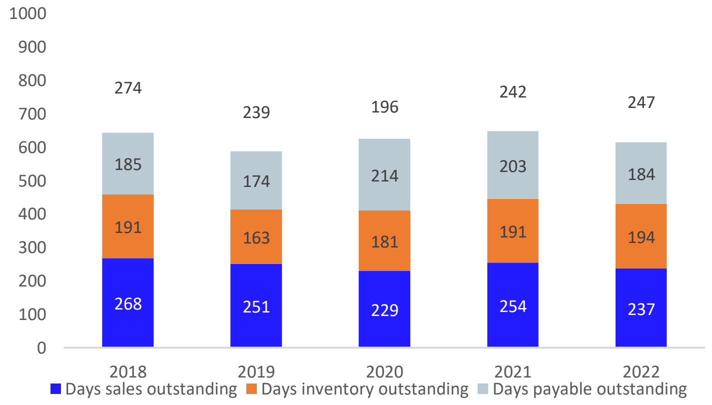
Source: Company Data, Al Rajhi Capital

Figure 24 **Employee expense as % of sales**



Source: Company Data, Al Rajhi Capital

Figure 25 **Cash Conversion Cycle**



Source: Company Data, Al Rajhi Capital

Company Overview

SPIMACO was established in 1986 and has since grown to become one of the largest pharmaceutical companies in Saudi Arabia. SPIMACO focuses on the development, manufacturing, marketing, and distribution of a wide range of pharmaceutical products, medical appliances, and consumer healthcare products. SPIMACO offers a diverse range of products across various therapeutic areas, including cardiovascular, central nervous system, respiratory, gastrointestinal, and dermatology.

The company's product portfolio includes prescription medications, over-the-counter drugs, medical devices, and nutritional supplements. SPIMACO has a strong presence not only in the domestic market but also in various international markets. The company has 5 production facilities with a capacity to produce about 2.4 bn units per annum spread across MENA region with the largest facility in Qassim, KSA. SPIMACO is the biggest player in the Kingdom with a total market share of 9%.

SPIMACO is targeting to be ranked number 1 in private market owing to a shift to a high-value formulations mix with focus on specialized therapeutic areas in private market with around 30 high value launches per year. Revenue mix targeted is 70:30 skewed towards KSA with target of growing 13-15% CAGR by 2027 with EBITDA margin of 15%-17%.

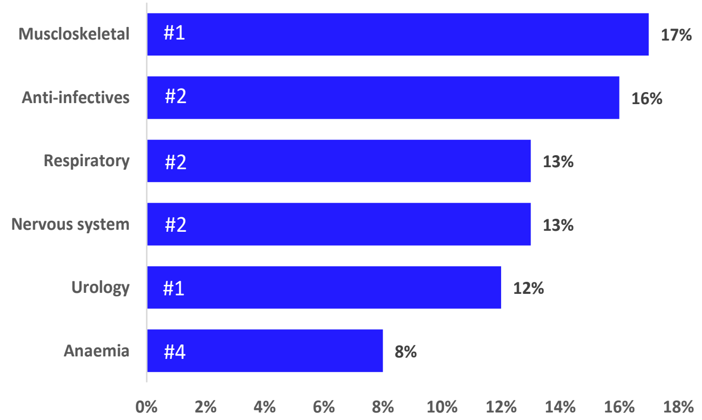
Investment Thesis

Diverse product portfolio and leadership position in the private space

SPIMACO has a diversified portfolio consisting of pharmaceutical products, medical appliances, and consumer healthcare products. This broad range reduces the company's reliance on any single product and allows it to seize opportunities across multiple therapeutic areas. With offerings in nine therapeutic areas, SPIMACO leads its peers in terms of therapeutic coverage. SPIMACO is the largest pharma player with a leadership position in both the government as well as private space. The company is the number one player in the KSA's private market with a share of 7.6% (as of Q1 2023) and 9% share in the total pharma market. It has a dominant market share in several therapeutic areas, that comprise 46% of the private market. In most of these therapeutic areas, the company has either number 1 or number 2 rank. It has a 17% market share in Musculoskeletal and 16% market share in anti-infectives therapeutic areas. SPIMACO has established partnerships and collaborations with international pharmaceutical companies and produces about 95 drugs as licensed drugs.

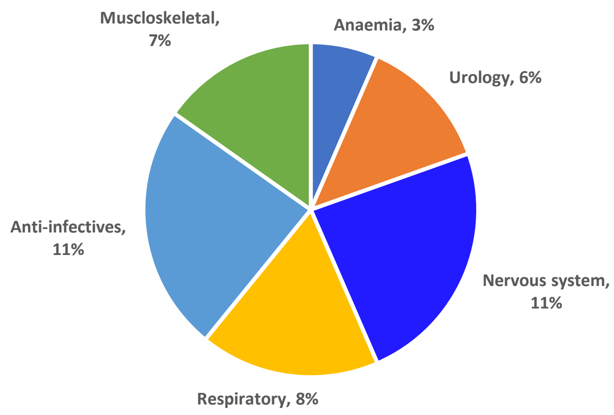
In addition to being a leading player in the private space, the company also has strong exposure to the government market, it generates 13% of its overall revenues from the government and has 8% share in the tender business, the second largest market share. The company's diverse product range, SKUs of more than 400 (as of Q1 2023), and well-established distribution network position has aided the company to become a market leader. It has 5 manufacturing facilities spread across 5 countries in the MENA region, 7 production lines and logistics and distribution capabilities spanning 13 countries. Currently, its market leadership is skewed towards common therapeutic areas (72% of the portfolio), however, the company plans to boost its exposure to specialized TA's.

Figure 26 **SPIMACO's market share in private market**



Source: Company Data, Al Rajhi Capital

Figure 27 **46% Therapeutic area share in private market**



Source: Company Data, Al Rajhi Capital

Strong product pipeline and increasing focus no R&D to boost high value formulation mix:

SPIMACO's current portfolio mix is skewed towards common therapeutic areas (78% of the portfolio), that earns relatively lesser margins than specialized TA's. This is also one of the reasons SPIMACO lagging its peers in terms of gross margins. However, as part of the restructuring program the company targets to notably increase the share of specialized TA's from current 22% to 55% by 2027. The focus is on four key specialized TA's: Onco, CVS, Metabolic and Nervous system. To achieve this the company targets to launch 30 drugs per year and has about 114 drugs in pipeline, of which 76% are related to these four specialized TA's. Moreover, the company also has a high-potent and oncology facility, that was recently approved by the SFDA. It is a unique facility in the KSA and has a capacity of producing 275 mn units per annum. This strategic plan to concentrate on higher-value drugs is expected to increase SPIMACO's market penetration and improve its profit margins.

The company plans to boost its R&D capabilities so that it increases its mix of in-house developed products (currently 60-70% of portfolio), that command higher margins. It has already initiated measures by raising its R&D budget, from just 2% of sales in 2021 to 3% of sales in 2022, and targets to raise it further to 3.3% in 2023. The benefits of higher scientific capabilities are already being witnessed. The company would be launching its first and also KSA's first biosimilar drug, Endosa (Enoxaparin Sodium), in Q3 2023. Enoxaparin Sodium is a lifesaving, low molecular weight heparin to replace heparin in emergency and critical clinical settings. As per the management, the market for Endosa is estimated to be around SAR 230mn and the market is expected to grow at a 5% CAGR over the next 5 years.

Figure 28 **SPIMACO's Pipeline for 2023-2027**

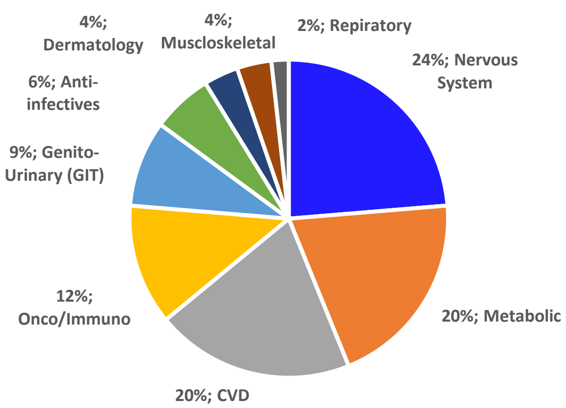
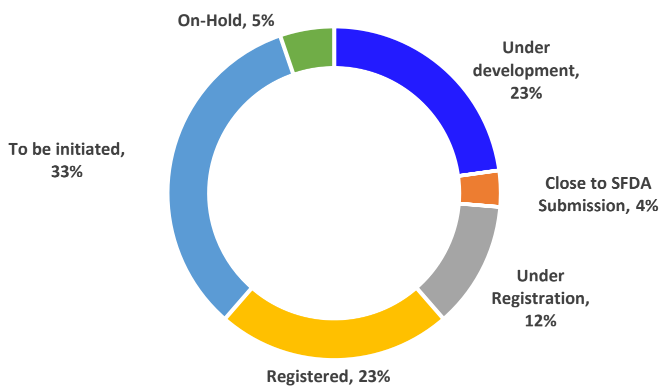


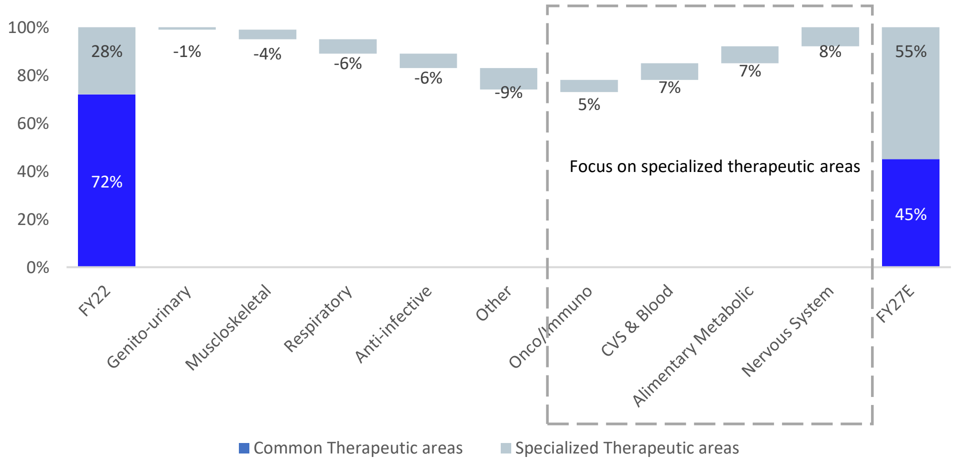
Figure 29 **Pipeline status**



Source: Company Data, Al Rajhi Capital

Source: Company Data, Al Rajhi Capital

Figure 30 **SPIMACO Formulation mix transformation**



Source: Company Data, Al Rajhi Capital

Restructuring plan looks promising, but profitability guidance relies on M&A

SPIMACO has initiated a major restructuring plan to resolve its legacy issues that has weighed on its growth as well as profitability over the recent years. The company's topline has declined over the years and even after the guided 12-14% topline growth in 2023, the sales would lag the total sales done in 2017. Moreover, at the net income level the company is struggling notably, it made paltry profits of just SAR 27 mn in 2021 and SAR 165 mn of losses in 2022 (that included restructuring costs). Its key legacy issues include mature product portfolio (top 3 products were launched 10 years ago), high contribution from low value products (more than 80% of the mix), slow new product launches, long development timelines (>4.5 years) and inefficient utilisation of the facilities.

The company's turnaround plan is focussed on growing the topline rather than reducing the costs. It targets topline growth of 13-15% CAGR by 2027 and EBITDA margin of 15-17% (margin in 2022 was -2.5% and in 2021 was about 10%). It targets to achieve profitability through launching high value drugs, investing in R&D capabilities to produce more in-house drugs. At the same time, the company plans to reduce the development timeline notably to 2-2.5 years, so that it can launch 1st-2nd generic compared to currently major products being third generics. In terms of efficiency, the company has already achieved some success as it managed to notably improve the utilisation of its under-utilised Dammam facility to 80% currently from 15% in 2021. Moreover, better commercial terms and reducing dependency on subagents should help the margins. All these measures look promising and should boost the topline as well as profitability. However, we are bit cautious about its guidance of 13-15% topline growth and mainly its profitability target of 15-17% EBITDA margin, which is heavily reliant on M&A. The company is eyeing an M&A of target size of over SAR 500 mn in sales to achieve its guidance. Ex-M&A, the implied organic + business development guidance is around 9-10%.

As per the management, the company is particularly interested in opportunities that can enhance its technical capabilities and expand its geographical footprint, specifically in areas like injectables. Europe appears attractive for injectables, as the MENA region lacks in this segment. While the company has already identified potential targets, it plans to announce deals when they align with its requirements. As per the management, it has secured funding of SAR 2.0 bn, thus could pay 3x-4x of the sales for acquisitions. Since the company is eyeing acquisition in injectables and overseas market such as Europe, we are concerned that it might have to shelve more than the implied multiple of 3x-4x of the sales. Moreover, focusing on the inorganic growth route may pose risks for SPIMACO due to the current high-interest rate environment, which would increase their finance costs and put additional pressure on their already low margins.

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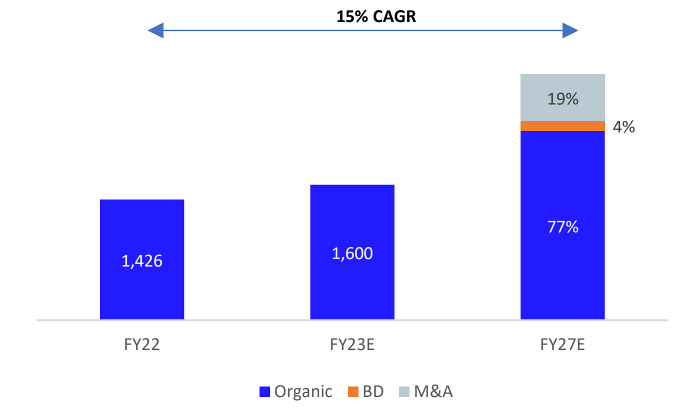
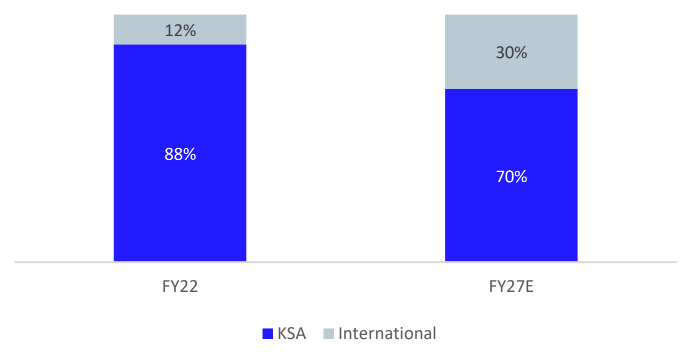
Figure 31 **SPIMACO's Revenue trajectory (SAR mn)**



Source: Company Data, Al Rajhi Capital

Figure 32 **SPIMACO sales by geography**

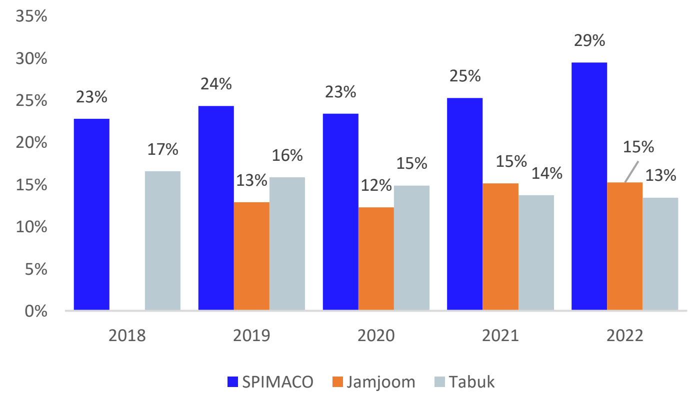


Source: Company Data, Al Rajhi Capital

….further high-cost base and requirement to boost R&D are key hindrances to achieving the profitability guidance

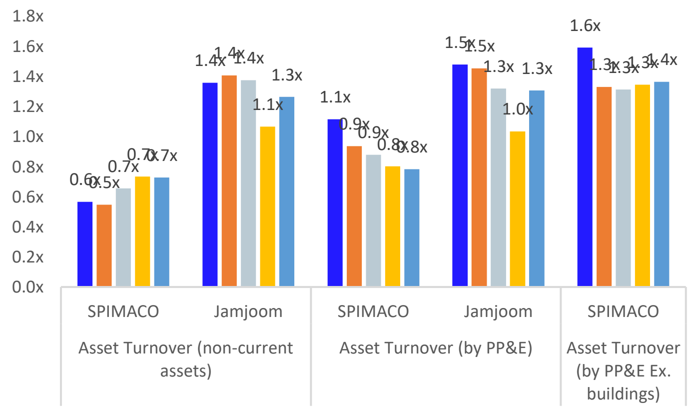
SPIMACO holds the highest market share and production capacity when compared to its competitors, Jamjoom and Tabuk. Despite its dominant position, SPIMACO encounters difficulties in maintaining higher profit margins. This is primarily due to elevated costs and a significant portion of licensed products, accounting for approximately 27% of its product offerings. The lower margins experienced by SPIMACO can also be attributed to its comparatively low investment in research and development (R&D) expenses. Over the past five years, SPIMACO has allocated around 2% of its revenue towards R&D, whereas Jamjoom and Tabuk have dedicated 4%-5% and approximately 3%, respectively. Investing in R&D is crucial for pharmaceutical companies to foster the development of proprietary drugs and maintain competitiveness within the industry. Further, Overhead employee expenses for SPIMACO has been at the higher end, around 29% of sales, this is without considering the employee expenses included in COGS, whereas Jamjoom and Tabuk have around 15% and 13%, respectively. Moreover, the asset turnover ratio for the company when compared to Jamjoom, which we believe is a closer comparison than Tabuk, has been on the lower end. The calculated turnover ratio (by non-current assets) for SPIMACO is around 0.7x and has increased when compared to 2018, whereas the same turnover ratio for Jamjoom is around 1.3x. We delved further and calculated the same ratio by PP&E, and we could see similar picture here that SPIMACO is lagging.

Figure 33 **Employee expenses as % of sales**



Source: Company Data, Al Rajhi Capital

Figure 34 **Turnover ratio**



Source: Company Data, Al Rajhi Capital

Assumptions and Valuations

Financial estimates

Despite the strong operating results in Q1 2023, topline growth of 37% y-o-y and EBITDA margins of 17%, the company kept its 2023 guidance of topline growth of 12-14% and EBITDA margin of 9-10% unchanged. We estimate 2023 sales growth at the top end of the guidance of 14%, however, we believe it will be difficult for the company to achieve the EBITDA guidance due to its high overhead costs. We estimate about 8% EBITDA margin for 2023 as we pencil in 46% gross margins but expect its high operating cost base to be sticky and grow by 2.5% further in 2023. Based on these, our EBIT estimate for 2023 is profit of SAR 36 m versus losses of SAR 126 m. We would like to stress the point that extrapolating the EBIT margins of 13% in Q1 2023 could be misleading as Q1 2023 is heavy in terms of revenues but light in terms of costs. The bulk of the selling & distribution activities and R&D expense is done in the second half of the year.

Beyond 2023, we estimate high single digit topline growth in the medium term supported by better utilization of other facilities (other than Qassim) and strong demand for generic drug products in the KSA. Overall, we estimate a topline growth of over 9% CAGR during 2022-2027E. The company guides for 13-15% growth during 2022-2027E, of which the implied organic plus business development growth is 9.3% and rest is from acquisitions. On gross margins, we expect continuous improvement, 100 bps each in 2024 and 2025, and expect it to peak and stabilize at 50% in 2027 and beyond. On EBITDA, we estimate continuous improvement and stabilize at 12-13% by 2026 and 2027e, and operating margins (EBIT) to stabilize at 8.7% in 2027E.

Despite the sharp improvement in topline and gross margins, the company will continue to lag the industry leading operating margins of Jamjoom of 25% as well as Tabuk's 23% (2022). This is primarily due to its relatively weaker gross margins (high exposure to government tenders and under-licensed products) and high overhead cost base.

We do not consider the potential acquisitions in our estimates yet, however, we consider the impact in valuations. Based on the company guidance, we derive the approximate size of target acquisition to be around SAR 500 mn in sales. Further, the focus is on M&A's, which are earnings accretive, thus we assume the EBITDA margin for the target acquisition of 25%. Generally, the company with these attributes trades at a multiple of over 3.0x-4.0x price to sales. Thus, the company will have to shelve over SAR 2.0 bn for its M&A strategy.

Valuations

Given that the company is currently loss making and we expect bottom-line to be depressed in the near term, we use a mix of EV/EBITDA as well as Price/Sales multiples to value the stock. Further, we also account for the company's plan to grow its topline through acquisitions. We do not include it in our estimates but consider it for the purpose of valuations. For Price/Sales, we apply a multiple of 2.4x to its average sales in 2023 and 2024, which is based on 10% discount to its relevant peer set (median). The P/S multiple of 2.4x implies hefty discount to Jamjoom's current P/S multiple of almost 6.2x, this is justified in our view due to Jamjoom's industry leading margins, zero debt and higher mix of high-value products in the portfolio, whereas SPIMACO is still struggling with high-cost base and low profit margins.

For EV/EBITDA, we are using average EBITDA of 2026 and 2027, as this is when we believe the company will achieve its more sustainable EBITDA. Since we are using EBITDA post recovery, we are applying 16x multiple. The 16x multiple is at 27% discount to Jamjoom's current EV/EBITDA multiple (22x on 2023/2024e EBITDA), which is again justified as even after the recovery, SPIMACO'S EBITDA margin of 12-13% (management's 15-17% guidance includes M&A) would be way below Jamjoom's EBITDA margin of 27-30%.

Based on 50% weightage to each method, our fair value for the stock is SAR 34/share, which is 20% lower from the current market price, implying Underweight recommendation.

Figure 35 **Valuation Methods (acquisition multiple)**

EV/EBITDA method	EBITDA (SAR mn)	Target multiple	EV (SAR mn)	Comments
2026/2027E EBITDA (organic)	272.8	16x	4,364	
Target company EBITDA plus synergies	150	20x	3,000	
Total enterprise value			**7,364**	
Current debt			1,582	
Debt for acquisition			2,000	Assumng the company to pay 4.0x of sales
Cash			384	
Market value (SAR mn)			**4,166**	

Price/sales method	Sales (SAR mn)	Target multiple	Market cap. (SAR mn)	Comment
2023/2024E sales	1,699	2.4x	4,077	Relevant peer set P/S multiple 3x

Acquisition assumptions	SAR mn	Comment
Target co. sales	500	
Debt	2,000	Assuming 4x paid for sales
EBITDA of target	125	
margin	25%	
Synergies	25	5% of sales
% of sales	5%	
EBITDA plus synergies	150	

Blended Methodology	Market cap (SAR mn)
EV/EBITDA (incl. acq)	4,166
Price/sales	4,077
Mix of both method (SAR mn)	4,122
No. of shares (mn)	120
Value per share	**34**
CMP	43
upside/(downside)	-20%

Source: Al Rajhi Capital

Figure 36 **Peer Set Relative Valuation**

		Forward			TTM		Forward		Margins			Sales growth		
Peer Set	Market Cap (SAR mn)	EV/EBITDA	EV/EBIT	EV/Sales	ROE	PB	PE	PS	Gross	EBITDA	EBIT	TTM	2023E	2024E
Dr Reddy's Labs	39,334	11.8x	15.6x	3.3x	21.4%	3.7x	20.0x	3.2x	56.7%	28.4%	23.2%	14.7%	24.0%	7.3%
Sun Pharmaceuticals	113,850	19.1x	25.3x	5.6x	16.3%	4.4x	27.3x	5.2x	NA	27.2%	21.4%	12.6%	25.4%	10.3%
Cipla Ltd/India	37,290	13.8x	17.4x	3.5x	12.7%	3.5x	23.7x	3.2x	NA	22.4%	17.2%	3.9%	15.9%	10.4%
Torrent Pharmaceuticals	29,099	32.6x	38.1x	7.2x	20.5%	10.3x	40.0x	6.1x	NA	30.0%	22.6%	12.4%	28.8%	12.1%
Lupin Ltd	18,585	16.0x	24.5x	2.7x	3.5%	3.3x	33.6x	2.2x	NA	10.6%	5.2%	0.5%	14.8%	10.8%
Aurobindo Pharmaceuti	19,142	8.7x	11.9x	1.7x	7.5%	1.6x	15.9x	1.5x	NA	15.3%	10.2%	5.4%	15.9%	8.0%
Hikma Pharmaceuticals	20,082	7.9x	9.8x	2.5x	8.2%	2.4x	12.4x	1.9x	49.2%	26.0%	11.2%	-1.4%	9.0%	3.9%
Taro Pharmaceuticals	5,227	NA	5.2x	0.2x	1.5%	0.8x	29.2x	2.3x	46.8%	9.1%	3.1%	2.1%	9.7%	NA
Teva Pharmaceuticals	31,796	6.2x	6.9x	1.9x	-18.6%	1.1x	3.3x	0.6x	46.7%	-5.3%	-14.1%	-4.1%	0.5%	1.6%
Jamjoom	8,274	24.9x	26.4x	6.8x	19.7%	5.7x	29.8x	6.2x	64.8%	28.3%	25.5%	24.6%	17.1%	15.0%
Average	32,268	15.7x	18.1x	3.5x	9.3%	3.7x	23.5x	3.2x	52.8%	19.2%	12.5%	7.1%	16.1%	8.8%
Median	24,590	13.8x	16.5x	3.0x	10.4%	3.4x	25.5x	2.7x	49.2%	24.2%	14.2%	4.6%	15.9%	10.3%

Source: Bloomberg, Al Rajhi Capital

Key Financials

Figure 37 **Income Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Revenue	**1,426**	**1,621**	**1,776**	**1,913**	**2,057**
y-o-y growth	*-2.3%*	*13.7%*	*9.6%*	*7.7%*	*7.5%*
Cost of Sales	(860)	(876)	(941)	(995)	(1,049)
Gross Profit	**566**	**746**	**835**	**918**	**1,008**
y-o-y growth	*-8.8%*	*31.7%*	*11.9%*	*10.0%*	*9.8%*
margins	*39.7%*	*46.0%*	*47.0%*	*48.0%*	*49.0%*
Selling and marketing expense	(373)	(389)	(428)	(451)	(485)
General & administrative expense	(265)	(268)	(289)	(301)	(301)
R&D expense	(43)	(52)	(57)	(61)	(65)
Impairment loss on trade receivables	(10)	0	0	0	0
Operating Profit	**(126)**	**36**	**61**	**104**	**156**
y-o-y growth	*-327.2%*	*-128.9%*	*67.7%*	*70.9%*	*49.7%*
margins	*-8.8%*	*2.2%*	*3.4%*	*5.5%*	*7.6%*
Finance cost	(43)	(46)	(38)	(32)	(27)
Share of profit from Equity & JV	24	24	24	24	24
Pre-Tax Income	**(145)**	**15**	**47**	**96**	**153**
Zakat	(25)	(1)	(5)	(10)	(15)
Loss from discontinued operations	(1)	(1)	(1)	(1)	(1)
Non-controlling Interests	(6)	(6)	(6)	(6)	(6)
Net Income/Net Profit (Losses)	**(165)**	**18**	**48**	**92**	**143**
y-o-y growth	*-872.2%*	*-111.0%*	*162.3%*	*91.9%*	*56.3%*
margins	*-11.6%*	*1.1%*	*2.7%*	*4.8%*	*7.0%*
EPS	(1.4)	0.2	0.4	0.8	1.2

Source: Company Data, Al Rajhi Capital

Figure 38 **Cash Flow Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash flow from Operations	(124)	60	130	115	164
Cash flow from Investing	478	(114)	(121)	(128)	(134)
Cash flow from Financing	(311)	(30)	0	0	0
Change in cash	6	(84)	8	(13)	30

Source: Company Data, Al Rajhi Capital

Figure 39 **Key Ratios**

	2022	2023E	2024E	2025E	2026E
ROA	-3.5%	0.4%	1.2%	2.4%	3.6%
ROE	-10.1%	0.9%	2.8%	5.4%	8.0%
Current Ratio (x)	1.4x	1.3x	1.3x	1.4x	1.4x
Asset turnover ratio (x)	0.3x	0.4x	0.4x	0.5x	0.5x
Inventory turnover ratio (x)	1.9x	1.9x	2.1x	2.0x	2.0x
Receivables turnover ratio (x)	1.5x	1.7x	1.7x	1.7x	1.8x
Capex to Sales	5.9%	6.0%	5.5%	5.4%	5.4%
FCF Yield (%)	-3.0%	-0.3%	1.0%	0.4%	1.2%
P/E (x)	-28.7x	260.7x	99.4x	51.8x	33.1x
P/BV (x)	3.1x	3.1x	3.0x	2.9x	2.6x
EV/EBITDA (x)	-123.0x	35.2x	29.0x	22.4x	17.5x

Source: Company Data, Al Rajhi Capital

Figure 40 **Balance Sheet**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash and equivalents	335	251	260	247	276
Investments at fair value	0	0	0	0	0
Accounts receivable, net	834	1,055	1,064	1,136	1,213
Inventories	495	428	480	507	535
Prepaid expenses and other	170	158	155	166	177
Time Deposits	45	45	45	45	45
Assets from discontinued operations	1	1	1	1	1
TOTAL CURRENT ASSETS	**1,881**	**1,940**	**2,006**	**2,102**	**2,247**
PP&E, net	1,830	1,860	1,888	1,920	1,957
Right of use assets	35	35	35	35	35
Other Intangible Assets	15	15	15	15	15
Investments in equity instruments - FVC	47	47	47	47	47
Deferred tax assets	23	23	22	25	27
TOTAL NON-CURRENT ASSETS	**1,951**	**1,980**	**2,008**	**2,042**	**2,081**
TOTAL ASSETS	**3,832**	**3,920**	**4,013**	**4,144**	**4,328**
Accounts Payable	403	480	516	547	578
Current portion of LT debt	677	677	677	677	677
Provision for financial guarantees	25	25	25	25	25
Lease liabilities	6	6	6	6	6
Dividends payable	159	159	159	159	159
Contract Liabilities	45	63	79	86	93
Income taxes payable	33	38	37	41	46
CURRENT LIABILITIES	**1,349**	**1,448**	**1,499**	**1,541**	**1,584**
LT debt	380	380	380	380	380
Lease liabilities	19	19	19	19	19
Contract liabilities	43	43	43	43	43
Employees' end of service benefits	313	313	313	313	313
Deferred revenue	35	42	41	44	47
NON-CURRENT LIABILITIES	**790**	**796**	**796**	**798**	**801**
Share capital	1,200	1,170	1,170	1,170	1,170
Statutory reserve	361	361	361	361	361
Other reserve	185	185	185	185	185
Retained earnings	(179)	(166)	(123)	(37)	101
Foreign currency translation reserve	(27)	(27)	(27)	(27)	(27)
SHAREHOLDERS EQUITY	**1,540**	**1,523**	**1,565**	**1,652**	**1,790**
TOTAL LIABILITIES	**3,832**	**3,920**	**4,013**	**4,144**	**4,328**

Source: Company Data, Al Rajhi Capital

Jamjoom Pharma

Pharmaceuticals: Healthcare
JAMJOOMP AB: Saudi Arabia
5 July 2023

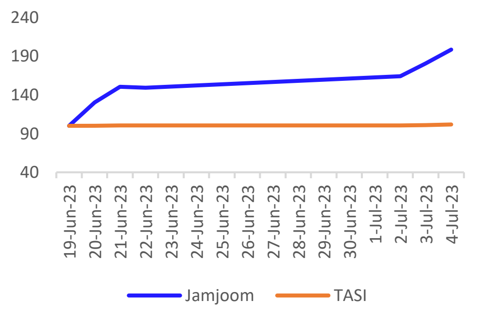
US$2.221bn	43.65%	US$69.75mn
Market Cap	Free Float	Avg. Daily Volume

Target price	134.00	13% above current
Current price	119.00	as at 04/07/2023

Existing rating

Underweight	Neutral	**Overweight**

Performance (Rebased to 100)



Earnings

(SAR mn)	2022	2023E	2024E
Revenue	917	1,074	1,235
YoY %	24.6%	17.1%	15.0%
Gross Profit	594	695	800
GM Margin %	64.8%	64.8%	64.8%
YoY %	25.1%	17.1%	15.0%
EBITDA	260	292	336
EBITDA Margin	28.3%	27.2%	27.2%
Net Income	171	246	284
Net Income Margin %	18.7%	22.9%	23.0%
YoY %	0.4%	43.7%	15.4%
EPS	2.45	3.52	4.06
DPS	2.13	2.11	2.43
ROE	14%	20%	21%

Source: Company data, Al Rajhi Capital.

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Jamjoom Pharma

Initiating with a TP of SAR 134/sh and an Overweight rating

Jamjoom Pharma is well placed to benefit from the growing healthcare market in the KSA and other MEA countries. It currently operates in around 36 countries with a diverse portfolio of 118 brands across 8 therapeutic segments, while having leadership positions in Ophthalmology (#1 player) and Dermatology (#2 player). It has best in class margin profile, and even better than the matured generic players seen across the globe. The stock offers 15% bottom-line growth and 24% FCF growth potential over the next five years. The company has zero debt, thus ample room to boost its growth by acquisitions, increase payout ratio as well as boost its ROE levels. The strong margins and return ratios indicate the quality of the management as well as the moats of the business. The company's high capex (2019-2022) phase is behind us, thus going forward it will witness a period of high cash flow generation. These parameters meet all the criteria of a company that has attributes of both quality and growth, which we have noticed only in a few other stocks in the KSA, such as Habib. We believe the stock can command a PEG of 2.25x-2.5x, thus implying a forward P/E multiple of 34x-38x. We initiate coverage on Jamjoom with a target price of SAR 134/share and an "Overweight" rating.

Leadership position in niche TAs: JP focuses on niche therapeutic areas such as Optha, Derma, and Consumer Health. It ranks highly in the KSA Ophthalmology, Dermatology, and Consumer Health landscapes. Over 50% of its sales come from these areas, where it holds a top-three market share. With technological support and a strong commercial team, JP has achieved significant market share gains, including capturing a leading position in the GIT segment and becoming category leaders in Vitamin D3 and Iraq's Optha and Derma markets.

Strong R&D team and healthy product pipeline: Compared to its peers, JP invests notably in its R&D, about 4.3% of sales on average in the last three years. The company has one of the largest R&D team in the region with end to end capabilities from literature review, patent filing to bioequivalence study. It has a success rate of 94% in bioequivalence study. This is reflected in its strong product pipeline. As of June 2022, a total of 72 products were in the pipeline at various stages of approval. Out of this, 64% of the pipeline is de-risked.

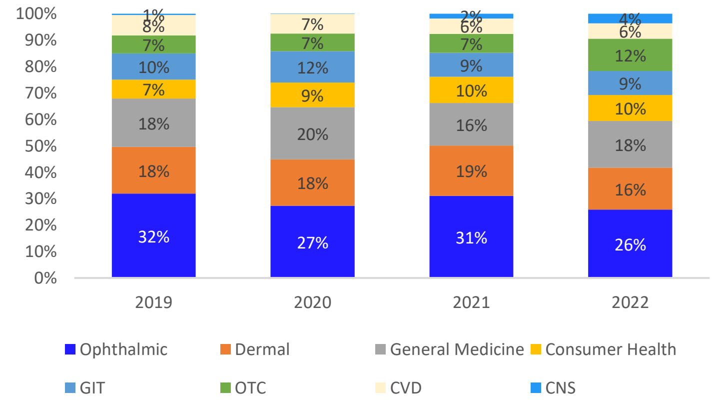
New capacities are state of the art facilities: JP's two new facilities, located in Egypt (52 mn units p.a.) and Jeddah (25 mn units p.a.) will increase its capacity by almost 70%. JP has started production of commercial batches of select products in the Egypt manufacturing facility and exhibit/test batches at the Jeddah Sterile facility, respectively. The commercial production is expected to commence in H2 2023. JP's advanced technological manufacturing capabilities sets it apart from its peers. It is a pioneer in several areas in KSA, including producing ophthalmic products in unit doses, using blow fill and seal technology, and employing advanced aseptic manufacturing that reduces human intervention. The new Jeddah facility is a state-of-the-art facility that will use blow fill and seal technology.

Valuations: JP's margin profile is one of the best in the industry and even better than the matured generic players seen across the globe. The company has zero debt, offers 15% bottom-line growth, 24% FCF growth over the next five years, and ROE and ROA levels well over 20%. We believe the stock can command a PEG of 2.25x-2.5x, thus implying a forward P/E multiple of 34x-38x. Our target price of SAR 134/share is based on blended average of both the P/E (fair value SAR 135/share) and DCF (SAR 134/share) methodology.

Key risks: The key risk is the exposure to the Egypt market mainly through its new facility. In an extreme scenario of complete write-off, we see a potential loss of SAR 1.7 bn in the market cap, which would imply a fair value of SAR 110/share.

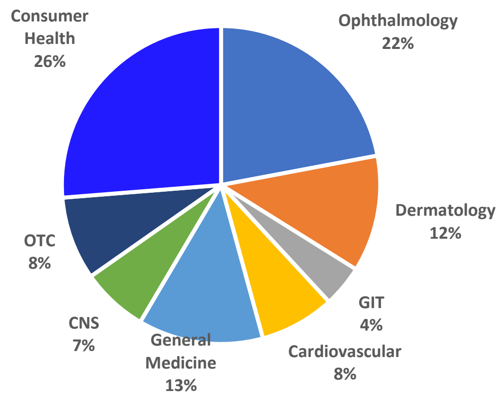
Financials in Charts

Figure 41 **Revenue mix over the years by TA**



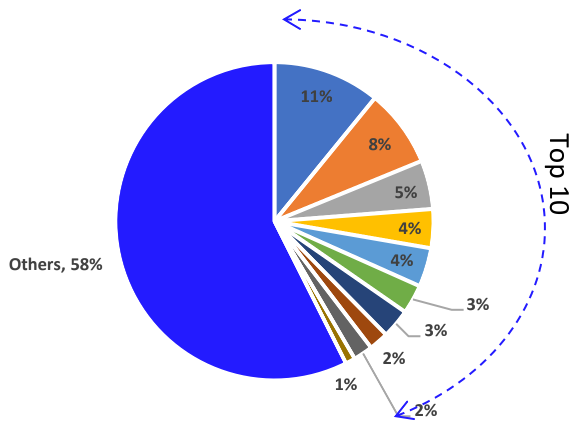
Source: Company Data, Al Rajhi Capital

Figure 42 **Active Portfolio**



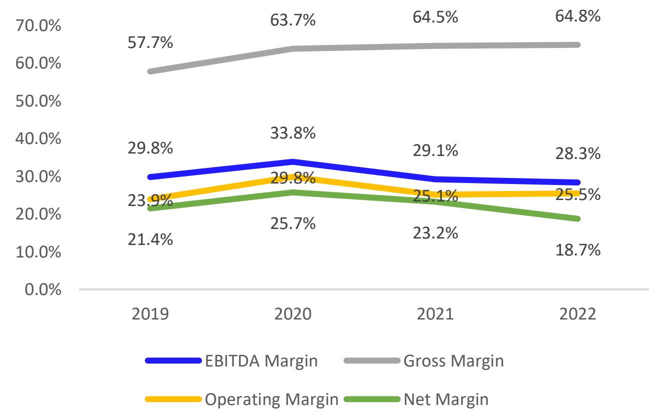
Source: Company Data, Al Rajhi Capital

Figure 43 **Supplier Concentration**



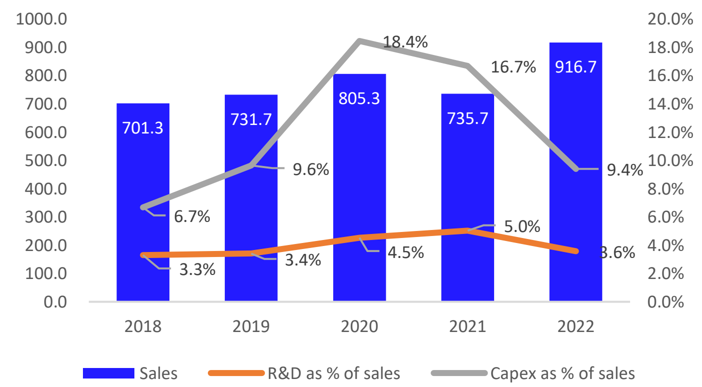
Source: Company Data, Al Rajhi Capital

Figure 44 **Margin profile over the years**



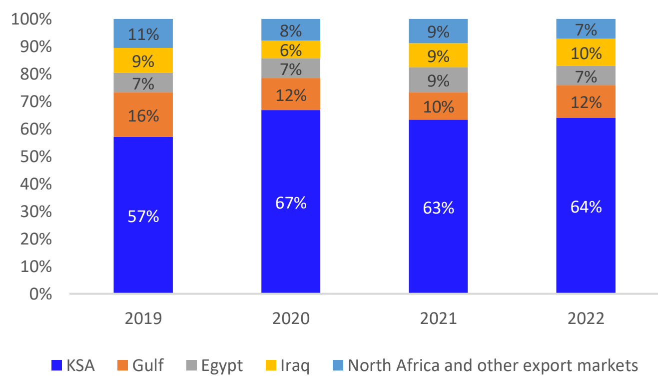
Source: Company Data, Al Rajhi Capital

Figure 45 **R&D and Capex as % of Sales**



Source: Company presentation

Figure 46 **Revenue mix by geography over the years**



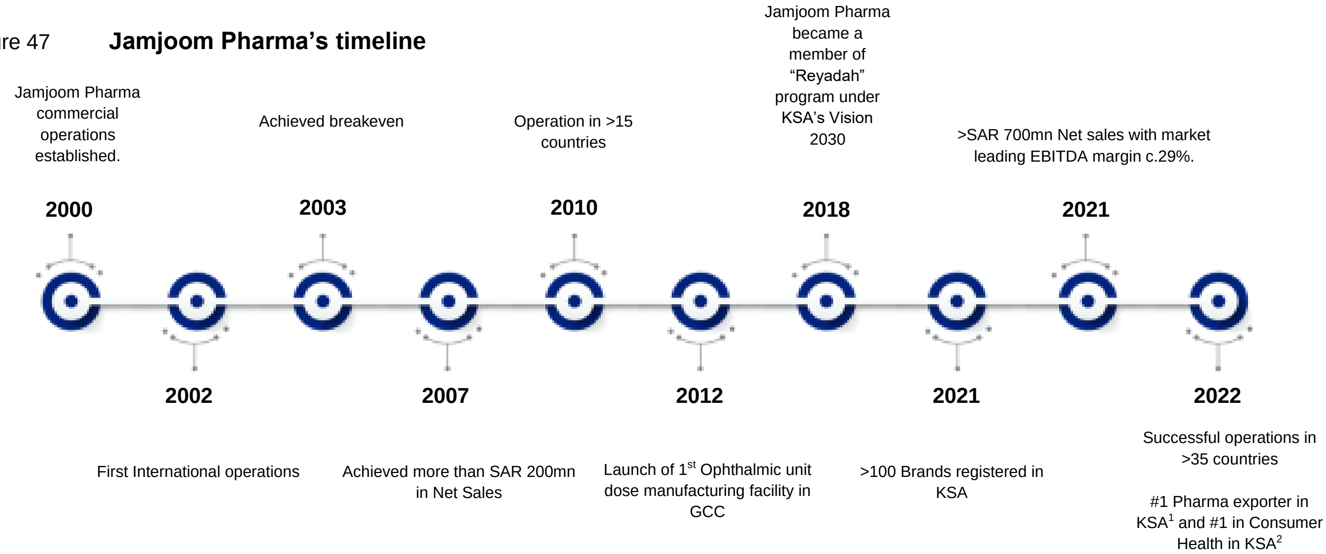
Source: Company presentation

Company Overview

Jamjoom Pharma launched commercial operations in the year 2000 and has since become a leading producer and distributor of pharmaceuticals in the region. The company's products include prescription and over-the-counter medications and healthcare products. Jamjoom Pharma is committed to providing high-quality healthcare solutions to the people of Saudi Arabia and the wider Middle East region. The company's primary focus was to establish a strong foothold in the Saudi Arabian domestic market. Subsequently, the company gradually expanded its operations to encompass various export markets across the Middle East, Africa, and the CIS region.

The company has a strong focus on research and development and invests heavily in this area to ensure that it stays at the forefront of the pharmaceutical industry. Jamjoom Pharma is the market leader in over 25% of all therapeutic sub-categories in KSA. It boasts a varied collection of 118 brands spanning 8 therapeutic categories making up the portfolio and has a presence in 36 countries across the MEA region. Jamjoom Pharma has optimal market coverage through a well-trained sales force of medical representatives, all of whom are 100%, qualified pharmacists.

Figure 47 **Jamjoom Pharma's timeline**



Source: Company data, Al Rajhi Capital Note: 1. According to IQVIA 2019-2021 ranking, calculated as total export revenue in the main Jamjoom Pharma markets for each company on the aggregate basis over 2019-2021; 2. #1 player in all therapeutic sub-categories where Jamjoom Pharma operates in KSA, according to YTD May 2022 IQVIA ranking

Jamjoom Pharma is projecting a 15%-17% growth rate for 2023 and expects to achieve a 12%-15% 3-year revenue CAGR from 2023-2026. Its 2023 EBITDA is predicted to remain consistent with the 3-year average at 30%, with a 100-150 basis point increase anticipated for 2024 and onwards. The company plans to achieve this uplift through continued market share capture and cost optimizations. Capex is expected to be around 4%-6% of net revenue for both 2023 and 2024. In addition, the company plans to maintain its annual dividend of 50%-60% of net income, subject to market conditions and strategic investment opportunities.

Investment Thesis

Jamjoom Pharma is well-placed to benefit from the growing healthcare market not only in the KSA but also in other MEA countries. It currently operates in around 36 countries with a diverse portfolio of 118 brands across 8 therapeutic segments, while having leadership positions in Ophthalmology (#1 player) and Dermatology (#2 player) as of 1H22. The key investment thesis around Jamjoom Pharma is as follows:

- **Leadership position developed on the back of strong sales team and strategic focus on niche TAs**

Jamjoom Pharma has a diversified portfolio spread across 8 therapeutic areas, however, unlike its peers that are more focused on general medicine, JP has focused on niche TAs (high growth segments) and created a leadership position in Optha, Derma and Consumer health (CH). The company ranks 1st in the KSA Ophthalmology landscape, 2nd in KSA Dermatology Landscape, 3rd in the KSA Consumer Health landscape, and 4th in KSA Gastrointestinal Products landscape, according to Euromonitor research. Over 50% of its sales come from TAs (Optha, Derma and CH), where the company is among the top 3 by market share. Further, its flagship products holds notable market share in sub-categories of its key TAs, such as HyFresh in Optha has a market share of 17%, Elica-M in Derma has a market share of 57%, while Omega-3 in Consumer health has a market share of 29%.

The company's strategy is to focus on high value creation drugs and high growth geographies. JP has identified four high growth markets and label them as “Drive” markets, which are KSA, Egypt, UAE and Iraq. It has a highly trained sales and commercial team of 635 employees, 51% of the total employee base, who are 100% qualified pharmacists and are dedicated to growing demand in these “Drive” markets. 90% of the commercial team is assigned to these “Drive” markets, of which 52% are in the KSA followed by 17% in Egypt, 13% in Iraq and 8% in UAE. Its sales team has an on-ground presence and has developed an in-depth understanding and expertise of regulations and requirements in each country. JP invests in high quality training and education programs to ensure the sales force become product experts in their field. Further, the commercial team is backed by highly advanced data-driven monitoring and performance management tool provided by a leading tech company, Salesforce.

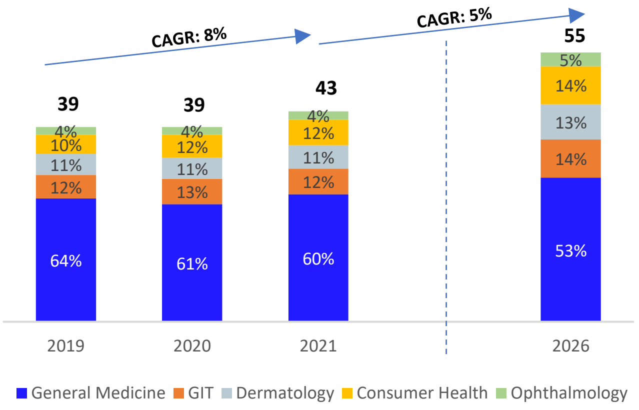
The company has reaped the benefits of having a strong commercial team that is backed by technological support. This is evident from the quick market share gains seen when it launched Zoron in GIT therapeutic area, which was previously dominated by imported products. The product managed to capture a 30% market share in KSA in the first year of launch and now has a number one position with 45% market share. Another notable success is the launch of "Vitamin D3," which addressed a significant market need for the KSA adult population affected by Vitamin D deficiency. Starting with a 15% market share in 2019, the product became the category leader with around 40% market share by 2021. Not only in KSA, the company has managed to capture number 1 and 2 position in Iraq's Optha and Derma market, backed by in-house sales & marketing team.

Figure 48 **JP market share in KSA at the therapeutic area level**

Therapeutic	Rank
Ophthalmology	1
Dermatology	2
General Medicine	9
Gastrointestinal Products	4
Consumer Health	3

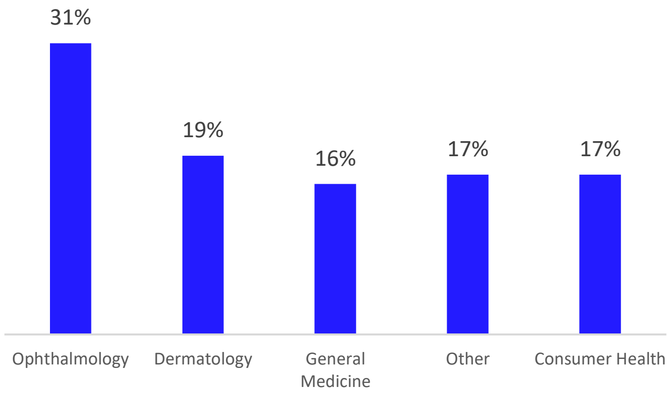
Source: Euromonitor, Al Rajhi Capital

Figure 49 **JP's largest TA to drive significant growth**



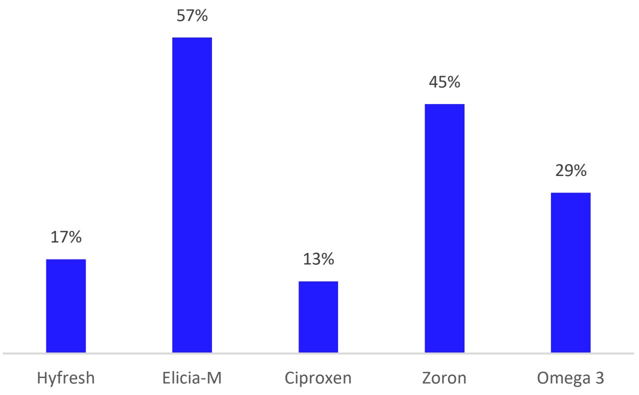
Source: Company Data, Al Rajhi Capital

Figure 50 **Revenue by category – FY21**



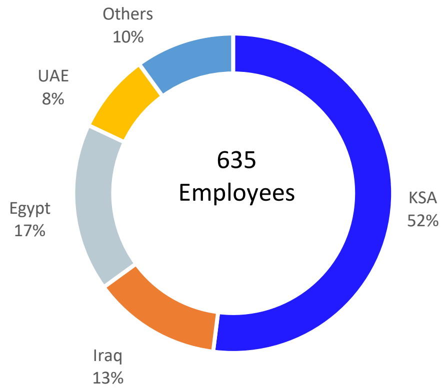
Source: Company Data, Al Rajhi Capital

Figure 51 **Key products market share across respective TA**



Source: Company Data, Al Rajhi Capital

Figure 52 **Commercial team headcount by country**



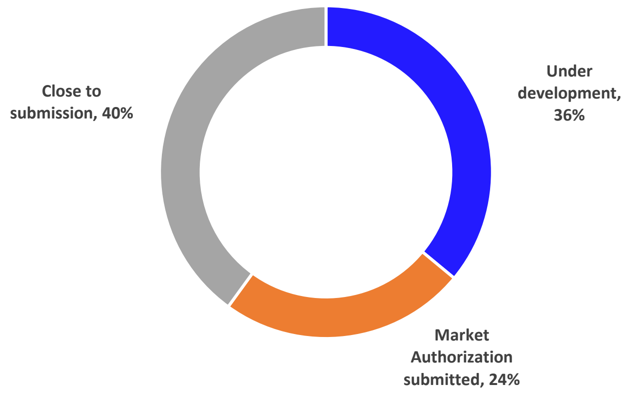
Source: Company Data, Al Rajhi Capital

- **Healthy product pipeline reflects the strong R&D capabilities:**

  Compared to its peers, JP invests notably in its R&D capabilities, about 4.3% of sales on average in the last three years. The company has a world class 3,000 square meters of R&D facility with one of the largest R&D team in the region. JP has about 91 scientists, 7% of the total workforce, out of which 80% hold Master's degree and 12% are PhD. The company has patents for 6 products, 25 product approvals in the KSA and has 6 research publications to its name. It has end to end R&D capabilities from literature review, patent filing to bioequivalence study. It has a success rate of 94% in bioequivalence study. Moreover, average approval time almost halved since 2018 (from 24+ months to 13 months now) displaying deep scientific expertise and local market familiarity. In 2021, its new product launches (17 products launched) contributed 18% to the topline.

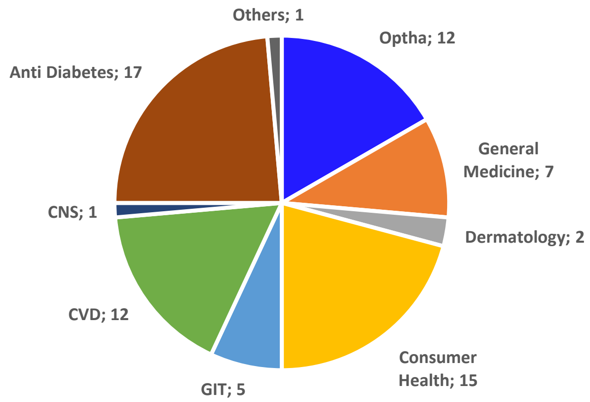
  Jamjoom Pharma's large pipeline of near-term products across multiple therapeutic areas demonstrates its R&D capabilities. As of June 2022, a total of 72 products were in the pipeline at various stages of approval. Out of this, 64% of the pipeline is de-risked, that is either market authorization is submitted or close to submission, thus implying the products will be launched in the near term. The upcoming roll-out of products in existing and new TAs will drive future high-growth opportunities. The healthy product pipeline caters to a wide variety of therapeutic areas namely Anti-diabetes, Consumer Health, Ophthalmology, and Cardiovascular making up 24%, 21%, 17%, and 17% respectively. Looking at the product under development, it has plans to roll out wide range of anti-diabetes drugs in the medium term, which will enable it to develop its diabetic portfolio given the high prevalence of diabetes in the kingdom.

Figure 53 **64% of the pipeline de-risked**



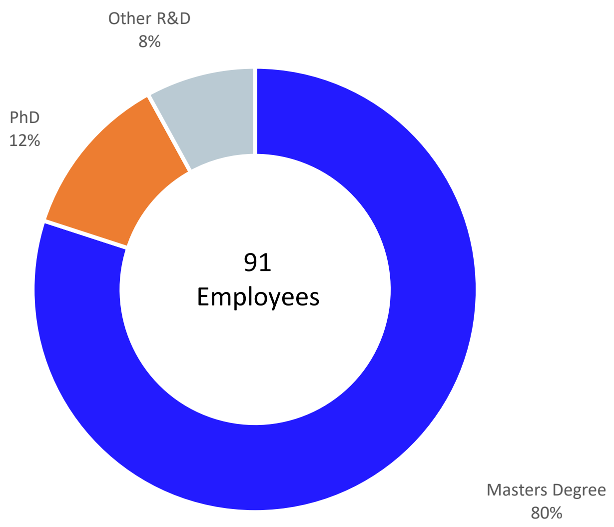
Source: Company Data, Al Rajhi Capital

Figure 54 **Product pipeline (mention number of products)**



Source: Company Data, Al Rajhi Capital

Figure 55 **R&D Team**



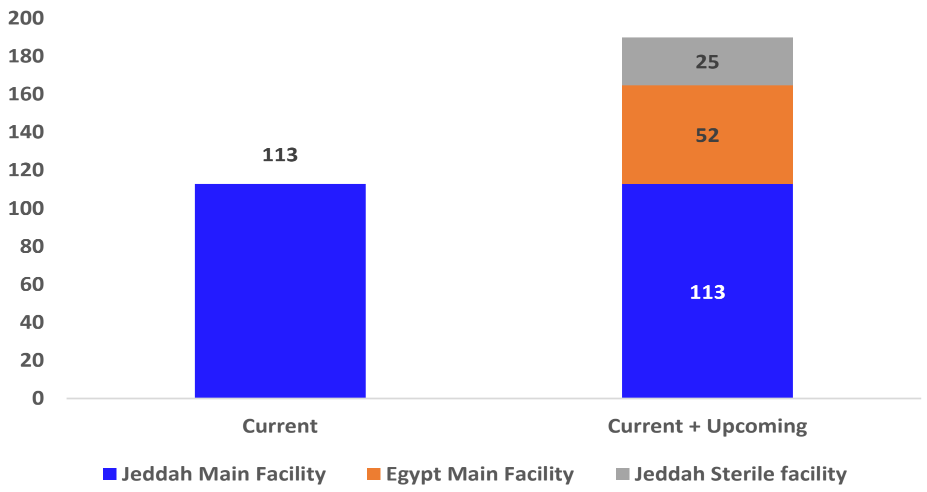
Source: Company Data, Al Rajhi Capital

- **Timely expansion and state of the art facilities should provide an edge:** Jamjoom is largely completed its expansion spree and two new facilities will be added in 2H23 and increase its capacity by almost 70%. These facilities are located in Egypt and Jeddah having a capacity of 52mn and 25mn units per annum, respectively. The majority of the CAPEX has already been done with a total of SAR362mn invested to date. These new factories will help Jamjoom to boost its sales in Egypt and existing markets in KSA. Currently, the company has its main facility in Jeddah, having a production capacity of 113mn p.a. The addition of new capacities is very timely given the growing KSA market and the government support to develop the local generic market. The two new facilities, which will raise the total capacity to 190 mn units per annum from the current 113 mn units per annum, should aid the company in further expanding its market share and achieve its topline guidance of 12-15% growth in the near term.

  The Egypt facility will include oral dosage, dermal products, and sterile dosage capabilities while the new Jeddah facility will exclusively have sterile dosage capacity. The Jeddah Sterile facility 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.

In terms of completion, JP has started production of commercial batches of select products in the Egypt manufacturing facility and exhibit/test batches at the Jeddah Sterile facility, respectively. The commercial production is expected to commence in H2 2023 in both plants.

Figure 56 **Current and Upcoming Facilities (units in million)**



Source: Company data, Al Rajhi Capital

..state of the art facilities provide an edge over the peers

JP's advanced technological manufacturing capabilities set it apart from its peers. The company is a pioneer in several areas in KSA, including producing ophthalmic products in unit doses, using blow fill and seal technology, and employing advanced aseptic manufacturing in a single continuous system reducing human intervention and eliminating the risk of microbial contamination. Further, it was the 1st in Saudi Arabia to manufacture VMS (Vitamins, minerals, and supplements) products in soft-gel capsules, which improves the bioavailability of poorly soluble molecules, resulting in better dose uniformity and reduced patient-to-patient variability. JP also is a pioneer in Glatt granulation system, a process that involves agglomeration and granulation to shape powder solids, and automated dermatology filling equipment. Additionally, the company utilizes several advanced technologies including modified-release tablets that modify the timing and/or rate of active ingredient release, drug layering that uniformly applies active ingredients in a layered coating, and bilayer tablets that combine two active substances to reduce the frequency of dosage.

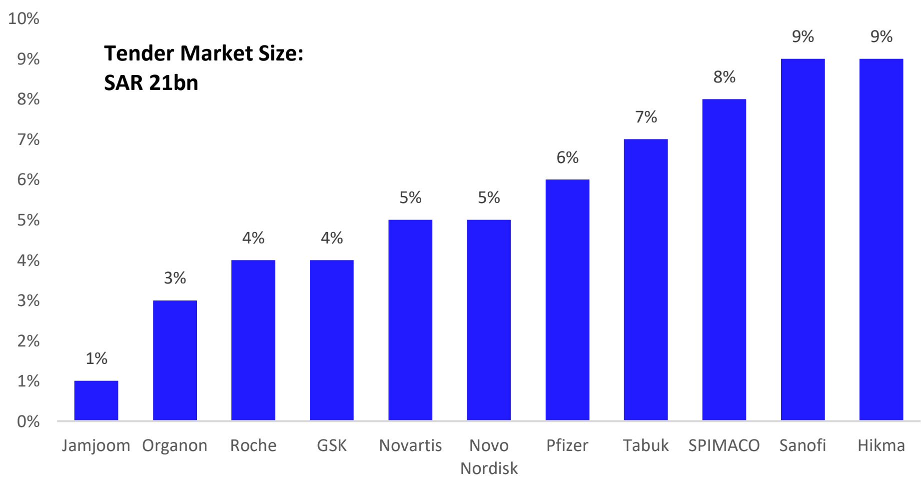
Figure 57 **Advanced technological capabilities differentiating it in the MEA region**

Blow fill and seal technology	Soft-gel capsule technology	Glatt granulation system	Automated dermatology filling equipment
1st in KSA to produce ophthalmic products in unit dose	1st in KSA to produce VMS products in soft-gel capsules	1st in KSA to use full containment vertical granulation system for OSD	Advanced machinery deployed in the dermatology line
Advanced aseptic manufacturing in one continuous system	Enhances bioavailability for poorly soluble molecules	Process for agglomeration and granulation shapes powder solids	Best-in-class, high capacity packaging equipment
Reduces human intervention and risk of microbial contamination	Improves dose uniformity and minimizes patient-to-patient variability	Easier and enhanced product handling	Enhances speed and efficiency as well as health & safety for employees

Source: Company data, Al Rajhi Capital

- **Gearing up for Public Tender Contracts:** The total KSA pharmaceutical tender business is valued at SAR 21bn per year and is managed by NUPCO on behalf of the KSA. Currently, JP has only 1% market share, thus the tender market offers a large growth opportunity. JP meets most of the criteria laid out by NUPCO to become a key player in the tender market such as local manufacturing presence, high quality products, critical product portfolio, etc. JP's largest facility is in Jeddah and the bulk of its sales & commercial team is present in the KSA, further it has a proven track record of high R&D capabilities. Thus, the KSA government could provide the company preference in terms of becoming an important player in the tender market. One of the concerns in having high exposure to the public tender business is lower margins. Jamjoom Pharma plans to offset the same by reducing manufacturing and procurement costs. The company aims to establish a dedicated team to increase participation in government tender contracts in Saudi Arabia, as well as in other key markets such as Gulf, Iraq, and Egypt, across its product range. Further, it also provides visibility for its two new facilities in terms of volume offtake.

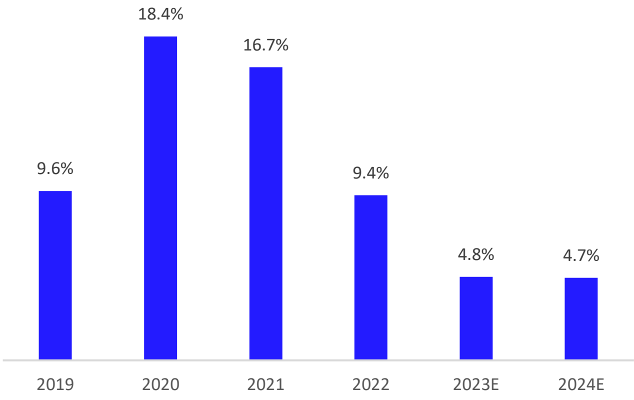
Figure 58 **Top 10 companies in Tender Market (Market share)**



Source: IQVIA MAT June 2022, Al Rajhi Capital

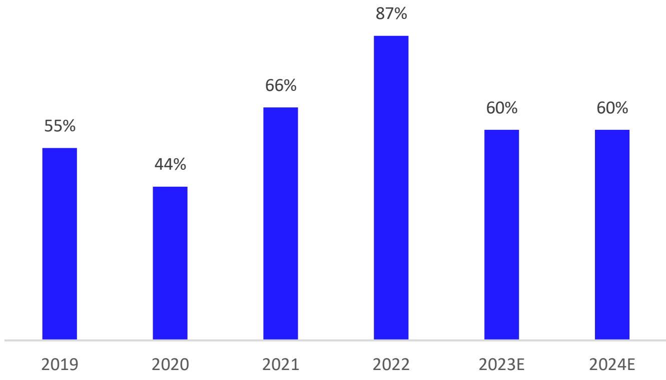
- **Disciplined capital allocation and healthy dividend payout:** Despite the capex program over the recent years, JP is debt free as it managed to fund the expansion entirely through its own cash flow generation, indicating the quality of the company. As the company's CAPEX spending will reduce notably to around 4-6% as a percentage of sales from an average of 15% (FY19-21), the company's balance sheet position will further improve, and it will have ample leeway for bolt-on acquisitions and higher dividend payout. The company is a consistent dividend payer with a payout ratio of around 55% (FY19-21) and going ahead it is expected to reach around 60%. In FY22, the company paid dividends of SAR149mn, representing a payout ratio of 87%.

Figure 59 **Capex as % sales**



Source: Company Data, Al Rajhi Capital

Figure 60 **Dividends to remain stable**



Source: Company Data, Al Rajhi Capital

Assumptions and Valuations

Company guidance conservative…

JP has guided for 15-17% revenue growth guidance for 2023 led by revision in prices by SFDA and its ongoing strategy of gaining market share. For the medium term, the company's expectations are 12-15% topline CAGR during 2023-2026 (including 15-17% growth guidance for 2023) as it plans to enter new geographies and therapeutic areas. On the margin front, the company expects 2023 EBITDA margin of around 30%, and beyond 2024 it expects EBITDA margin to further improve to over 30% supported by continued market share capture and cost optimizations. Given that the company is done with its expansion program, the capex is guided to fall to 4-6% of revenues in the near term.

JP has a robust pipeline for 2023, comprising 22 additional new products spanning nine brands (in addition to 4 new products launched in Q1 2023). Post the strong Q1 2023 results, we are estimating a sales growth of 17% y-o-y, at the top end of the 2023 sales guidance. Moreover, beyond 2023, we expect revenues to grow at almost 15% for the next three years, implying a CAGR of 15.4% from the base of 2022 till 2026, which is slightly higher than the company guidance (midpoint of 13.5%). In our view, given the ample capacity available post expansion, strategic focus on entering high growth TAs and the high demand for generics drugs in the KSA, the medium-term topline guidance provided by the company is conservative and the scope for exceeding the guidance is very high.

However, on the margin front we are a bit conservative as the operating margins could temporarily come under pressure in the near term as the company is in the phase of ramping up its new plants. We expect average EBITDA margin at 27.2% in 2023 and 2024, a decline of 110 bps versus 2022's margin of 28.3%. In Q1 2023, despite the sharp growth in revenues, EBITDA declined by 110 bps y-o-y. From 2025 onwards, we expect EBITDA margin to improve to 28.5% and hit a peak of almost 29% in 2027E supported by better utilization of the facilities, higher mix of high-value drugs, etc. The strong topline and a relatively resilient EBITDA should translate into a bottom-line CAGR of almost 15% for the next 5 years and over 16% for the next 3 years. The company has a track record of generating a healthy ROE level of average 16% (adjusted) in the last 4 years and the same is expected to improve every year and reach peak level of 24.1% in 2027E. Similarly, return on assets is also very attractive at an average 14% and expected to improve and peak at 23.6% in 2027E.

..Quality and growth deserves higher than.

Its margin profile is one of best in the industry and even better than the matured generic players seen across the globe. The stock offers 15% bottom-line growth and 24% FCF growth potential in the next five years. And the company has zero debt, thus ample room to boost its growth by acquisitions, raise dividend payout ratio, increase ROE levels by taking on leverage. The strong return ratios indicate the quality of the management as well as the moats of the business. The company's high capex (2019-2022) phase is behind us, thus going forward it will witness a period of high cash flow generation. These parameters meet all the criteria of a company that has attributes of both quality and growth, which we have noticed only in a few other stocks in the KSA, such as Habib. We believe the stock can command a PEG of 2.25x-2.5x, thus implying a forward P/E multiple of 34x-38x. However, given the forex risk (exposure to Egypt), we refrain from considering the top end of the range and value it at the midpoint, which is 36x. On 2023/2024e EPS of SAR 3.79/share, we arrive at a fair value of SAR 135/share through relative valuation methodology.

Our DCF derived valuation for the share is SAR 134/share. Our assumptions for the same are WACC of 8.4%, cost of equity of 10.45%, assumed debt to asset ratio of 35% (no debt currently, but assumed company will move towards optimal structure) and a terminal growth rate of 5.0%. Theoretically, any company that can generate a sustainable ROE of over 20% can maintain a mid-single growth (about 5%) at a reinvestment rate of just 25%. Thus, post its high growth phase (beyond 2027e), JP can maintain a payout ratio of 75% and grow at 5% for a fairly long period of time. Thus, we consider a terminal growth of 5% for our DCF calculation, which is at the higher end relative to its peers. Moreover, the company has ample room to boost its ROE levels by taking on leverage.

Our target price for JP is a blended average of both the methodologies, which is SAR 134/share. Along with a dividend yield of almost 2.0%, the total return potential is 15%, implying Overweight recommendation on the stock.

Figure 61 **DCF Valuation Summary**

Revenue Drivers	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
		12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032
No. of days		(97)	268	634	999	1,364	1,729	2,095	2,460	2,825	3,190	3,556
Time Remaining (Years)		(0.27)	0.73	1.74	2.74	3.74	4.74	5.74	6.74	7.74	8.74	9.74
EBIT	**184.8**	**233.3**	**266.9**	**309.1**	**377.0**	**438.8**	**482.8**	**517.8**	**548.6**	**575.6**	**603.9**	**633.6**
less: Cash Taxes	(17.4)	(15.0)	(21.7)	(25.6)	(34.0)	(44.0)	(48.4)	(51.9)	(55.0)	(57.7)	(60.5)	(63.5)
Cash Tax Rate	*9.4%*	*6.4%*	*8.1%*	*8.3%*	*9.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
NOPAT	**167.4**	**218.3**	**245.2**	**283.5**	**343.0**	**394.8**	**434.4**	**465.9**	**493.6**	**517.9**	**543.4**	**570.1**
Add: Depreciation	22.3	22.6	25.1	26.8	27.6	28.6	29.6	30.7	31.9	33.2	34.5	35.9
Less: Capex	(122.7)	(86.1)	(49.8)	(57.1)	(37.9)	(41.5)	(45.1)	(48.6)	(52.0)	(55.3)	(58.3)	(61.2)
Less: Change in working capital	22.1	(32.7)	(113.3)	(65.0)	(59.6)	(60.3)	(59.2)	(57.7)	(55.5)	(52.5)	(49.1)	(45.2)
FREE CASH FLOW TO FIRM	**89.0**	**122.1**	**107.2**	**188.1**	**273.1**	**321.6**	**359.8**	**390.3**	**418.0**	**443.3**	**470.5**	**499.7**
FCF per share	*1.27*	*1.74*	*1.53*	*2.69*	*3.90*	*4.59*	*5.14*	*5.58*	*5.97*	*6.33*	*6.72*	*7.14*
YoY % chg		*37.1%*	*-12.2%*	*75.5%*	*45.2%*	*17.8%*	*11.9%*	*8.5%*	*7.1%*	*6.0%*	*6.1%*	*6.2%*
Discount factor		1.03	0.94	0.87	0.80	0.74	0.68	0.63	0.58	0.54	0.50	0.46
PV of Free Cash Flows			**101.0**	**163.6**	**219.2**	**238.2**	**245.9**	**246.1**	**243.2**	**238.0**	**233.1**	**228.4**

Sum of present values of FCFs	**2,156.7**
Free cash flow (t+1)	524.7
Terminal value	**15,579.9**
Present value of terminal value	**7,121.4**
Enterprise Value	**9,278.0**
Less:	
Debt	0.0
End of service benefits + lease liab.	66.9
Add:	
Cash and Bank Balances	141.2
Investments	5.1
Equity value	**9,357.4**
Value per share	**134**
Upside/Downside	12.6%
Current Price	119
Shares Outstanding	70

Source: Al Rajhi Capital

Figure 62 **Blended Methodology**

Price to earnings method	
Justified P/E	36
Global peers	25
Premium to global peers	42.4%
2023e/2024e EPS	3.8
Value per share	**135**
CMP	119
Upside/(downside)	13%

Valuation Method	**Fair Value per share**	**Weightage**	**Weighted value per share (SAR)**	**Upside/downside**
DCF Valuation	134	50.0%	67	12.6%
Relative Valuation - P/E	135	50.0%	67	13.3%
Target price			**134**	
CMP			119	
Upside/(Downside)			**13.0%**	
Dividend yield			1.8%	
Total returns			**14.7%**	

Source: Al Rajhi Capital

Figure 63 **Peer Set Relative valuation**

		Forward			TTM		Forward		Margins			Sales growth		
Peer Set	**Market Cap (SAR mn)**	**EV/EBITDA**	**EV/EBIT**	**EV/Sales**	**ROE**	**PB**	**PE**	**PS**	**Gross**	**EBITDA**	**EBIT**	**TTM**	**2023E**	**2024E**
Dr Reddy's Labs	39,334	11.8x	15.6x	3.3x	21.4%	3.7x	20.0x	3.2x	56.7%	28.4%	23.2%	14.7%	24.0%	7.3%
Sun Pharmaceuticals	113,850	19.1x	25.3x	5.6x	16.3%	4.4x	27.3x	5.2x	NA	27.2%	21.4%	12.6%	25.4%	10.3%
Cipla Ltd/India	37,290	13.8x	17.4x	3.5x	12.7%	3.5x	23.7x	3.2x	NA	22.4%	17.2%	3.9%	15.9%	10.4%
Torrent Pharmaceuticals	29,099	32.6x	38.1x	7.2x	20.5%	10.3x	40.0x	6.1x	NA	30.0%	22.6%	12.4%	28.8%	12.1%
Lupin Ltd	18,585	16.0x	24.5x	2.7x	3.5%	3.3x	33.6x	2.2x	NA	10.6%	5.2%	0.5%	14.8%	10.8%
Aurobindo Pharmaceuti	19,142	8.7x	11.9x	1.7x	7.5%	1.6x	15.9x	1.5x	NA	15.3%	10.2%	5.4%	15.9%	8.0%
Hikma Pharmaceuticals	20,082	7.9x	9.8x	2.5x	8.2%	2.4x	12.4x	1.9x	49.2%	26.0%	11.2%	-1.4%	9.0%	3.9%
Taro Pharmaceuticals	5,227	NA	5.2x	0.2x	1.5%	0.8x	29.2x	2.3x	46.8%	9.1%	3.1%	2.1%	9.7%	NA
Teva Pharmaceuticals	31,796	6.2x	6.9x	1.9x	-18.6%	1.1x	3.3x	0.6x	46.7%	-5.3%	-14.1%	-4.1%	0.5%	1.6%
SPIMACO	5,250	NA	NA	4.0x	-8.3%	3.3x	NA	NA	39.7%	-2.5%	-8.8%	12.7%	6.5%	3.0%
Average	31,965	14.5x	17.2x	3.3x	6.5%	3.4x	22.8x	2.9x	47.8%	16.1%	9.1%	5.9%	15.0%	7.5%
Median	24,590	12.8x	15.6x	3.0x	7.8%	3.3x	23.7x	2.3x	46.8%	18.8%	10.7%	4.6%	15.3%	8.0%

Source: Bloomberg, Al Rajhi Capital

Key Risks

The upside risks include faster-than-expected new product launch and higher-than-expected demand for generics medicines, above expected dividends while **the downside risks** include the slower-than-expected spending on healthcare, fluctuation in currency (mainly EGP), and change in regulations and delay in launch of new products.

Adapts to Egypt's EGP Devaluation; Shifts accounting policy

JP currently generates about 7% of its sales from Egypt (2022), however, its net currency exposure is minimal given that it has a large team of sales & marketing team based in Egypt. 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.

However, the key concern is the new facility that the company has built in Egypt, with a capacity of 52 mn units per annum. The company has given an inter-company loan of USD 57 mn (SAR 214 mn) to build and complete the facility. We are considering the total funds invested in Egypt to be around this number. Egyptian pound has depreciated over 100% in the last one year or so. The company has already booked taken impact of SAR 96 mn on its equity so far due to the depreciation of EGP. However, in terms of accounting treatment, the company will now show the impact in other comprehensive income instead of P&L as it has converted the loan into Subordinated Perpetual Instrument in Q4 2022. Although, there is no impact on cash flows currently, the exposure does provide currency risk once the company starts producing and selling the drugs.

However, the currency risk would depend on the amount of sales done in the local market, Egypt, and overseas. Given that the company will also have a substantial cost base in Egypt once it starts operating the facility fully, the net currency exposure will depend on the mix of sales done in Egypt and overseas. As per the management, the Egyptian facility once fully operated will be used to serve both local market as well as it will serve as a production and distribution hub for North African markets. Further, we believe given the strong demand for generic drugs in KSA, once the company gets approval from SFDA to import drugs from its Egyptian facility, some amount of production could be diverted to the KSA market. Thus, if we assume that 30% of the production is exported, the net currency exposure from Egypt will have a positive impact in case of depreciation as the cost base will offset the sales in the local market. This is our base case scenario.

In stress case scenario, where there is further depreciation of 50% in EGP and the company decides to operate the facility at 50% utilization, then the impact on valuations would be around negative SAR 748 mn and that will knock off SAR 10/share from our target price of SAR 134/share, and the fair value after considering this scenario would be SAR 124/share.

In an extreme scenario where the company will be forced to write off the assets completely, the negative impact on valuations will be SAR 1.7 bn, translating into SAR 24/share. This implies the fair value in an extreme scenario to be around SAR 110/share.

Figure 64 **Scenario analysis for Egypt exposure from new facility**

	Scenario-1: Most likely scenario based on management guidance	**Scenario-2: 2nd most likely scenario in case the company is unable to export out of Eqypt**	
SAR mn unless specified	**30% exports from new Egypt facility**	**100% is sold locally, but capacity utilisation is 50%**	**Comments**
Total Asset Exposure	214	214	
Capacity (mn units per annum)	52	52	
Assumed avg price per unit (SAR)	8.1	8.1	25% discount to our estimated group pricing per unit of SAR 10.8 in 2022
Utilization	100%	50%	
Production from Egypt	**421.7**	**210.9**	
Export from Egypt	126.5	0.0	Assumed 30% to be exported to North Africa, KSA and other GCC in Scenario-1
Sales in Egypt (local market)	295.2	210.9	
Operating margin	25%	20%	Scenario-1: Cost advantage, however, to be conservative we are assuming similar margins Scenario-2: Assumed margins to decline to 20% if utilisation is 50%
Cost base in Egypt	316.3	168.7	
Net exposure to Egypt	(21.1)	42.2	
Net impact on P&L	**Positive in case of depreciation of Egyptian pound**	**(21.1)**	**Net negative impact in case of 50% depreciation in Scenario-2**
Multiple		35x	Considered our target price divided by 2023/2024e EPS
Net negative impact on valuations		(748.4)	
Valuations without currency risk		9,408.8	
Valuations including currency risk		8,660.5	
Number of shares (mn)		70	
Value per share (SAR)		**124**	

	Scenario-3: Most unlikely scenario Extreme risk of write off
Total Asset Exposure	214
Average asset base of 2023/2024E	1,162.7
Valuations based on our target price	**9,408.8**
Implied multiple over 2023/2024e asset base	8.1x
Valuations from Eqypt asset base	1,729.8
Valuations if complete write off	7,679.1
Number of shares	70
Value per share (SAR)	**110**

Source: Company Data, Al Rajhi Capital

Key Financials

Figure 65 **Income Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Revenue	**917**	**1,074**	**1,235**	**1,420**	**1,628**
y-o-y growth	*24.6%*	*17.1%*	*15.0%*	*15.0%*	*14.7%*
Cost of Sales	(323)	(378)	(435)	(495)	(563)
Gross Profit	**594**	**695**	**800**	**925**	**1,065**
y-o-y growth	*25.1%*	*17.1%*	*15.0%*	*15.6%*	*15.1%*
margins	*64.8%*	*64.8%*	*64.8%*	*65.1%*	*65.4%*
Selling and marketing expense	(261)	(319)	(364)	(407)	(465)
General & administrative expense	(55)	(69)	(80)	(87)	(99)
R&D expense	(33)	(40)	(47)	(54)	(62)
Impairment loss on trade receivables	(11)	0	0	0	0
Operating Profit	**233**	**267**	**308**	**376**	**438**
y-o-y growth	*26.3%*	*14.3%*	*15.7%*	*22.0%*	*16.4%*
margins	*25.5%*	*24.8%*	*25.0%*	*26.5%*	*26.9%*
Finance Income	(48)	0	0	0	0
Finance cost	(1)	(1)	(1)	(1)	(1)
Other (Expense)/Income	2	2	2	2	2
Share of profit from Equity & JV	(0)	0	0	0	0
Pre-Tax Income	**186**	**268**	**310**	**378**	**439**
Zakat	(15)	(22)	(26)	(34)	(44)
Net Income/Net Profit (Losses)	**171**	**246**	**284**	**344**	**395**
y-o-y growth	*0.4%*	*43.7%*	*15.4%*	*21.0%*	*15.1%*
margins	*18.7%*	*22.9%*	*23.0%*	*24.2%*	*24.3%*
EPS	2.4	3.5	4.1	4.9	5.6

Source: Company Data, Al Rajhi Capital

Figure 66 **Cash Flow Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash flow from Operations	229	161	249	315	367
Cash flow from Investing	(54)	(51)	(57)	(38)	(41)
Cash flow from Financing	(149)	(148)	(171)	(223)	(277)
Change in cash	29	(38)	21	54	49

Source: Company Data, Al Rajhi Capital

Figure 67 **Balance Sheet**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash and equivalents	141	103	125	178	227
Investments at fair value	5	5	5	5	5
Trade receivables	352	472	535	590	646
Inventories	132	150	184	210	239
Prepaid expenses and other	56	70	70	77	84
Assets from discontinued operations	1	1	1	1	1
TOTAL CURRENT ASSETS	**688**	**802**	**920**	**1,061**	**1,202**
PP&E, net	703	698	727	737	749
Right of use assets	2	2	2	2	2
Other Intangible Assets	14	14	14	14	14
Investments in equity instruments - FVC	0	0	0	0	0
TOTAL NON-CURRENT ASSETS	**720**	**715**	**744**	**754**	**766**
TOTAL ASSETS	**1,408**	**1,517**	**1,664**	**1,815**	**1,968**
Trade payables and other current liabilit	109	142	170	194	221
Lease liabilities	0	0	0	0	0
Income taxes payable	18	24	27	31	36
CURRENT LIABILITIES	**127**	**166**	**197**	**225**	**257**
Lease liabilities	2	2	2	2	2
Employees' end of service benefits	62	64	67	69	71
NON-CURRENT LIABILITIES	**65**	**67**	**69**	**71**	**73**
Share capital	700	700	700	700	700
Statutory reserve	67	67	67	67	67
Retained earnings	524	623	736	857	975
Foreign currency translation reserve	(75)	(105)	(105)	(105)	(105)
SHAREHOLDERS EQUITY	**1,216**	**1,285**	**1,398**	**1,519**	**1,637**
TOTAL LIABILITIES	**1,408**	**1,517**	**1,664**	**1,815**	**1,968**

Source: Company Data, Al Rajhi Capital

Figure 68 **Key Ratios**

	2022	2023E	2024E	2025E	2026E
ROA	13.1%	18.3%	19.5%	21.7%	23.2%
ROE	14.0%	19.7%	21.2%	23.6%	25.1%
Current Ratio (x)	5.4x	4.8x	4.7x	4.7x	4.7x
Asset turnover ratio (x)	0.6x	0.7x	0.8x	0.8x	0.9x
Inventory turnover ratio (x)	2.4x	2.7x	2.6x	2.5x	2.5x
Receivables turnover ratio (x)	2.5x	2.6x	2.5x	2.5x	2.6x
Capex to Sales	9.4%	4.7%	4.6%	2.7%	2.5%
FCF Yield (%)	3.0%	2.5%	4.5%	6.5%	7.7%
P/E (x)	24.5x	17.1x	14.8x	12.2x	10.6x
P/BV (x)	3.5x	3.3x	3.0x	2.8x	2.6x
EV/EBITDA (x)	15.6x	14.0x	12.1x	9.9x	8.5x

Source: Company Data, Al Rajhi Capital

Astra Industrial
Diversified: Industrials
ASTRA AB: Saudi Arabia
5 July 2023

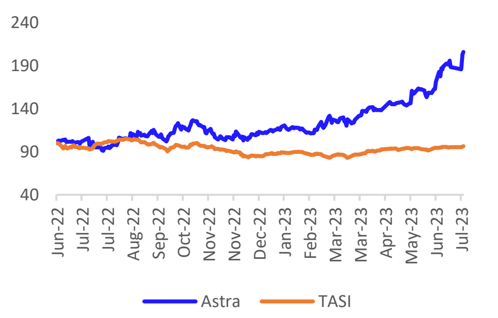
US$2.030bn	43.80%	US$4.34mn
Market Cap	Free Float	Avg. Daily Volume

Target price	93.00	3% below current
Current price	95.20	as at 04/07/2023

Existing rating

Underweight | **Neutral** | Overweight

Performance (Rebased to 100)



Earnings

(SAR mn)	2022	2023E	2024E
Revenue	2,594	2,884	3,148
YoY %	11.3%	11.2%	9.1%
Gross Profit	1,040	1,162	1,271
GM Margin %	40.1%	40.3%	40.4%
YoY %	16.3%	11.7%	9.4%
EBITDA	475	514	620
EBITDA Margin	18.3%	17.8%	19.7%
Net Income	303	329	418
Net Income Margin %	11.7%	11.4%	13.3%
YoY %	39.9%	8.6%	27.1%
Adjusted EPS	5.93	3.95	5.05
DPS	2.50	1.98	2.52
ROE	18%	16%	18%

Source: Company data, Al Rajhi Capital.

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Astra Industrial

Initiating with a TP of SAR 93/sh and a Neutral rating

Tabuk Pharma, a subsidiary of Astra Industrial Group, holds a prominent position in Saudi Arabia's generic market with a 6% share. It excels in general medicine and gastrointestinal markets and operates in various therapeutic areas with a production capacity of over 2.0 billion units per year. Tabuk has a successful track record of manufacturing and marketing drugs under exclusive agreements with global companies. It has an exclusive agreement with Pfizer Saudi Limited for important medicines and holds the marketing authorization for the Moderna COVID-19 vaccine in Saudi Arabia. The pharma segment enjoys high gross margins of around 55%, strong cost control measures, and is projected to achieve high single-digit growth. Astra also operates in the steel structures industry, poised to benefit from growing demand. We initiate coverage on Astra Industrial with a target price of SAR 93/sh and a "Neutral" rating.

Market leading share in general medicine: 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.

High margin and strong cost control: The pharma segment has the highest gross margins at around 55% (last three years average), indicating a higher proportion of own generic drugs. Despite a lower asset turnover ratio, strong cost control measures have led to attractive operating margins and return on assets (average 20.5% and 18.5% respectively in the last two years). With improving utilization, operating leverage is expected to boost margins.

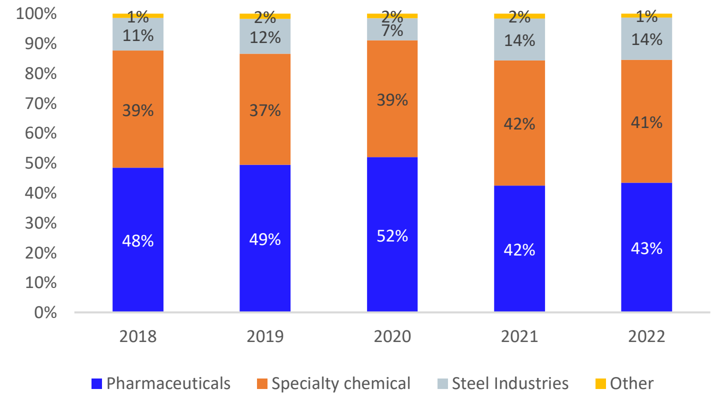
Steel industries segment could provide a positive surprise: The company operates in the steel structures and building frames business, poised to benefit from growing demand due to projects like GIGA and other construction endeavors. While facing competition from global MNCs, being a local player provides an advantage in winning contracts. The company has exposure to sectors like electricity, water desalination, and industrial projects, expected to drive notable growth. Despite a modest contribution to the group's revenue (14%), there is room for margin improvement as capacity utilization increases.

Chemical business to support 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. However, increased costs and inflation pressure may lead to a slight decline in gross margins in 2023. Nevertheless, margins are expected to improve to 31% in 2024 and stabilize thereafter. Operating margins could face some pressure due to higher operating expenses.

Valuations: Using the SOTP valuation method, we have applied for a conglomerate discount of 15% due to the lack of major synergies between subsidiaries. We assigned a 20x EV/EBIT multiple to our estimated EBIT for 2023 and 2024 for the pharma business, about 15% discount compared to Jamjoom due to Tabuk's lower margins and exposure to slower-growth segments. The specialized chemicals business is assigned a 15x multiple due to its stable margins and strong client base. For the steel business, we project notable profitability growth starting from 2026 and assigned a 10x multiple. The company's fair value is estimated at SAR 93 per share, largely in line with the current market, implying a Neutral recommendation on the stock.

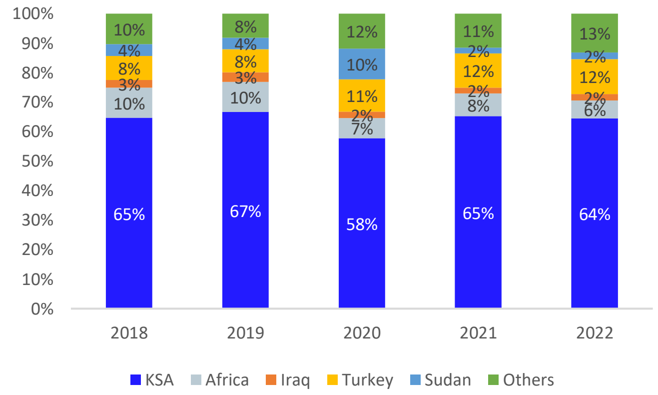
Financials in Charts

Figure 69 **Revenue mix over the years**



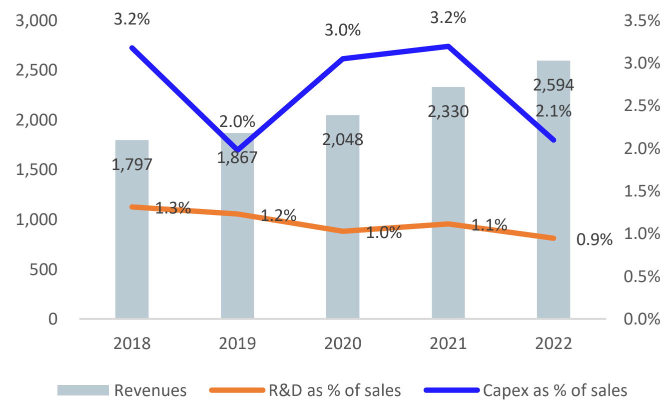
Source: Company Data, Al Rajhi Capital

Figure 70 **Revenue breakup by geography**



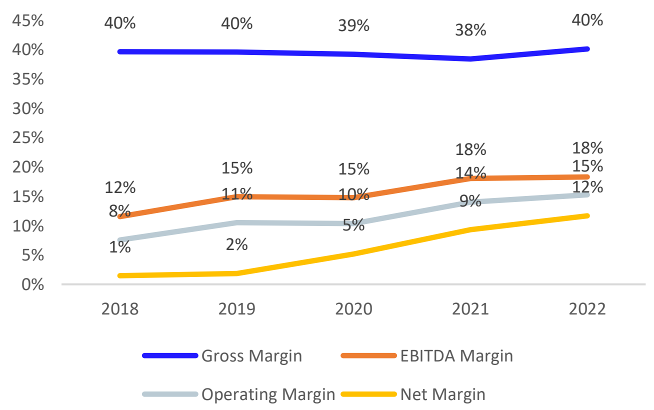
Source: Company Data, Al Rajhi Capital

Figure 71 **R&D and Capex as % of Sales**



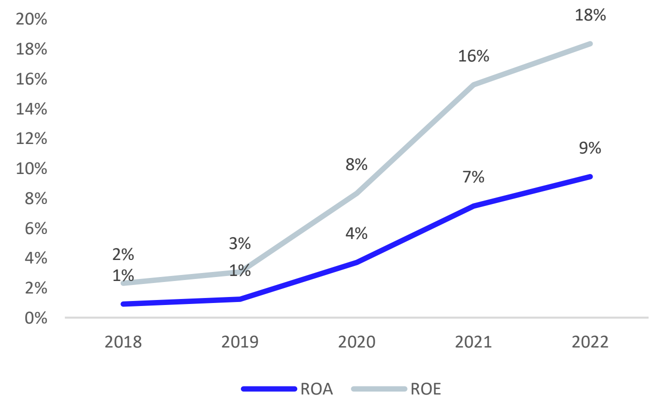
Source: Company Data, Al Rajhi Capital

Figure 72 **Margin profile over the years**



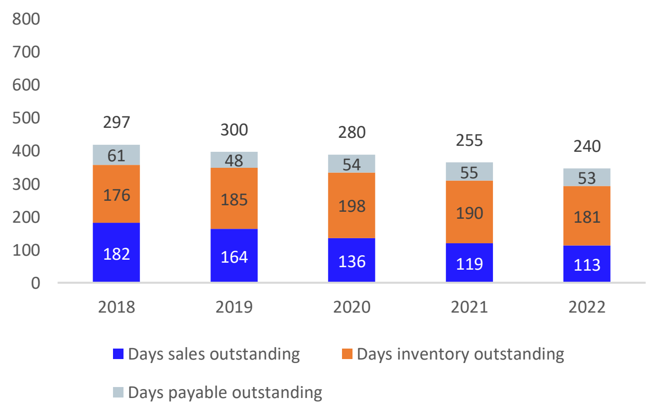
Source: Company Data, Al Rajhi Capital

Figure 73 **ROA & ROE over the years**



Source: Company presentation

Figure 74 **Cash conversion cycle**



Source: Company presentation

Company Overview

Astra Industrial Group is a conglomerate that owns several businesses and operates through its subsidiaries. The group's reporting structure is divided into three key segments, the largest of all is the pharmaceutical products (43% of revenues in 2022), followed by specialized chemicals (41% of the sales, includes petchem and agri-chem) and steel industries (14% of sales). The pharma business includes production, marketing and distribution of generic and under-licensed drugs through a wholly owned subsidiary, Tabuk Pharmaceutical. The chemical business, includes both petrochemicals and agrichemicals, operated through two different wholly owned subsidiaries, Astra Polymers Compounding Company (Astra Polymers) and Astra Industrial Complex for Fertilizers and Agrochemicals (Astrachem). The steel industries business is operated through International Building Systems Factory Company Limited ("IBSF"). It produces pre-engineered steel buildings and steel structures. The company is also active in the exploration of ores and minerals in Saudi Arabia, through its subsidiary, Astra Mining, in which it holds 77.3% stake. The revenues from the mining business is modest and shown as part of 'Other' segment.

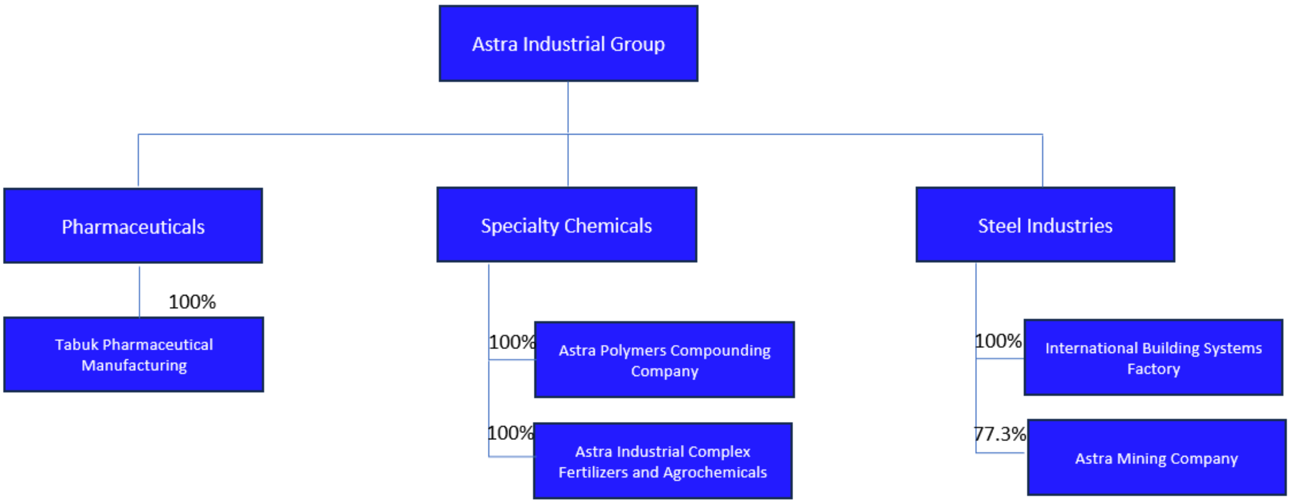
Tabuk Pharmaceuticals: Tabuk Pharmaceuticals is the second largest local pharmaceutical company in the Kingdom with a total annual production capacity of slightly over 2.0 bn units. The company produces generic drugs, which are sold under its own brands/trademarks, and also under-licensed drugs, for which it enters into partnership with several global branded drug manufacturing companies. It has a strong brand presence in KSA and MENA region (including UAE, Oman, Lebanon, Kuwait, Qatar, Egypt, and Sudan). Tabuk has two factories in KSA, with the largest one in Tabuk (1.6 bn units capacity), followed by Dammam (50 mn units). It also has two plants overseas, in Sudan and Algeria with capacity of 60 and 200 mn units, respectively.

Astra Polymers Compounding Company (Astra Polymers): Its main activity is to produce polymer compounds, colors and other additives. Astra Polymers is one of the most important producers in the Middle East Region of high-quality colors and additives which improve the properties of plastic products. This is in addition to Composite Thermoplastics (CTP) that are manufactured according to the requirements and specifications of customers. Astra Polymers practices its production through its factories located in the Kingdom of Saudi Arabia (Dammam and Rabigh), the United Arab Emirates, Turkey and India.

Astra Industrial Complex for Fertilizers and Agrochemicals (Astrachem): The company produces and markets agrochemicals and chemical fertilizers. For the purpose of performing its business, the company depends on the marketing and distribution network that covers all parts of the Kingdom of Saudi Arabia. Its sales also extend to most countries in the Middle East and North Africa through a specialized 25 network. Astrachem produces from its factories located in the Kingdom of Saudi Arabia and Turkey. In addition to the new factory that was acquired during 2022 year in Germany.

International Building Systems Factory (IBSF): International Building Systems Factory (IBSF) started in 1993 as a fabricator of Pre-Engineered Buildings (PEB) and structural steel to meet commercial and industrial requirements. It has two production facilities, one in Riyadh Industrial City and another in Jubail, with total capacity of 5,500 tons/Month capacity (66,000 tons/Year). It is a complete solution provider from the engineering stage of the project all the way to manufacturing and construction. The company designs and installs steel structures for oil and gas, petrochemical, electricity, water desalination and industrial projects. In addition to its primary activity, which is providing its customers with steel structures, IBSF provides value-added services especially in the field of construction, which services include erection, installation, supervision, civil works, and coordination with contractors and suppliers who may seek consultation of the company regarding optimum integration of their systems.

Figure 75 **Astra Group Structure**



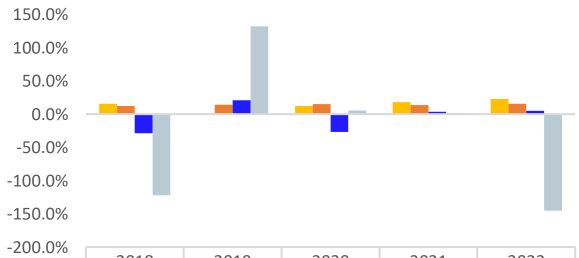
Source: Company data, Al Rajhi Capital

Figure 76 **Manufacturing Plant details (Pharmaceuticals)**

Manufacturing Plants	Area of the sie (sq m)	Plant area (sq m)	Annual Capacity (mn units)	Employees	Products
Tabuk (KSA)	100,000	35,000	1,600	900	Dry oral suspensions, oral liquids, semisolids, and vials. One building dedicated to manufacture Cephalosporins.
Dammam (KSA)	14,000	NA	50	200	Liquid vials, lyophilized vials, and ampoules. A specialized section of the Dammam site has been allocated for injectables.
Algeria	6,200	3,000	150	60	Currently oral solid dosage (tablets and capsules). Future plans: liquid preparations and nasal sprays.
Sudan	8,500	6,500	260	200	Tablets, capsules, and liquid preparations

Source: Company data, Al Rajhi Capital

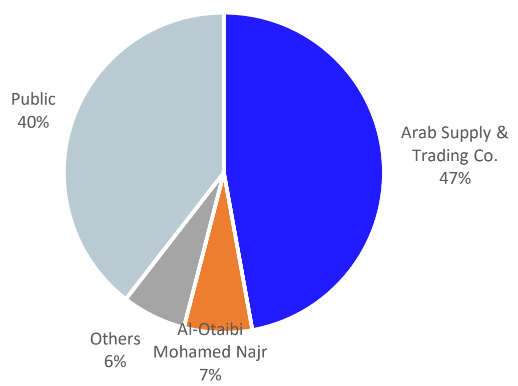
Figure 77 **Operating Profit**



	2018	2019	2020	2021	2022
Pharmaceuticals	15.5%	0.9%	12.4%	18.1%	22.9%
Specialty chemical	12.4%	14.3%	14.9%	13.9%	15.7%
Steel Industries	-28.5%	20.8%	-26.7%	3.3%	5.1%
Other	-122.2%	132.2%	5.3%	1.5%	-145.5%

Source: Company Data, Al Rajhi Capital

Figure 78 **Ownership**



Source: Bloomberg, Al Rajhi Capital

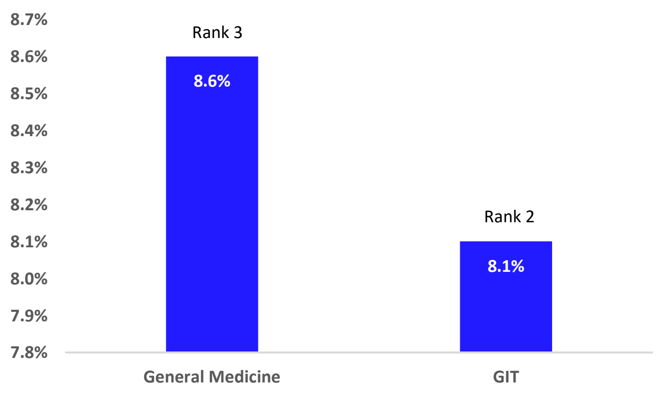
Investment Thesis

Key player in KSA's generic market

Market leading share in general medicine

Astra Industrial Group, through its Tabuk Pharma, has established a well-known brand in KSA's growing generic market. Tabuk Pharmaceuticals is the second largest player in the KSA with a market share of 6%. It has a leading market in general medicine and gastrointestinal markets with a market share of 9% and 8%, respectively. It operates in multiple therapeutic areas including CNS, cardiovascular, anti-infectives, respiratory, and muscular skeletal system. The company's production capacity of slightly over 2.0 bn units per annum, second to only SPIMACO's 2.4 bn units per annum. In addition to manufacturing its own generic drugs, the company has a well-established track record of manufacturing and marketing drugs under exclusive arrangements with several global companies. As per data available from SFDA, out of 358 products marketed by the company, 12 are under-license products.

Figure 79 **Tabuk market share in KSA at therapeutic level**



Source: Company Data, Al Rajhi Capital

Figure 80 **Licensed Drug List**

Drug Name	Strength	Status	Company
VFONAZ 50 mg film-coated tablet	50	Prescription	Pfizer Italia S.R.L
VFONAZ 200 mg film-coated tablet	200	Prescription	Pfizer Italia S.R.L
VFONAZ 200 mg powder for solution for infusion	200	Prescription	Pfizer Manufacturing Deutschland Gmbl
TERROSA	250	Prescription	GEDEON RICHTER PLC.
Roneza	5,10	Prescription	ELPEN PHARMACEUTICALS
Roneza	10,10	Prescription	ELPEN PHARMACEUTICALS
Roneza	20,10	Prescription	ELPEN PHARMACEUTICALS
Roneza	40,10	Prescription	ELPEN PHARMACEUTICALS
Spikevax bivalent	0.1	Prescription	Rovi Pharma Industrial Service
Avrolem	10	Prescription	Biocon Limited
Avrolem	5	Prescription	Biocon Limited
Avrolem	2.5	Prescription	Biocon Limited

Source: SFDA, Al Rajhi Capital

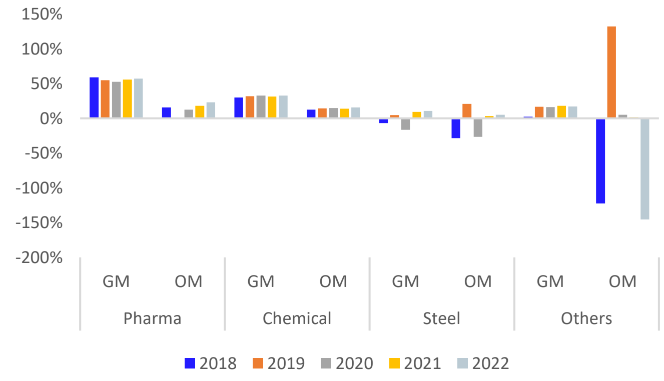
Well established relationship with global MNCs

Tabuk has an exclusive agreement with Pfizer Saudi Limited to manufacture important medicines in therapeutic areas, such as central nervous system (CNS), kidney dialysis/transplant and urology. Further, it also has an exclusive agreement to commercialize the Moderna COVID-19 Vaccine and future variant-specific booster candidates in Saudi Arabia. Under the terms of this agreement, Tabuk Pharmaceuticals will hold the marketing authorization for the Moderna COVID-19 vaccine in Saudi Arabia. Beyond the Moderna COVID-19 Vaccine and Moderna's updated variant booster candidates, the agreement also gives Tabuk the possibility to discuss opportunities to distribute other Moderna mRNA products if authorized in the future.

High margin and strong cost control

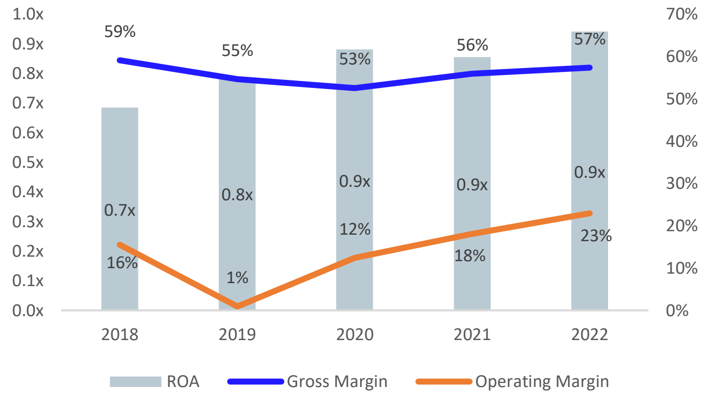
Among the three key segments, the pharma segment commands the highest gross margins of around 55% (last three years average), indicating that the mix of own generic drug is higher than SPIMACO. The company has strong cost control measures in place, despite asset turnover being below 1.0x (average 0.8x in the last two years), the operating margins and return on assets are at attractive levels (average 20.5% and 18.5% in the last two years, respectively). As the utilization improves going forward, we expect operating leverage to aid them in improving the margins. Given that the demand for the generic market is strong, we expect the pharma segment to grow by high single digit in the medium term and better utilization levels to push the operating margins higher to around 24-25% level.

Figure 81 **Margin Comparison on sector level**



Source: Company Data, Al Rajhi Capital

Figure 82 **Pharmaceutical Margin profile compared to ATO**

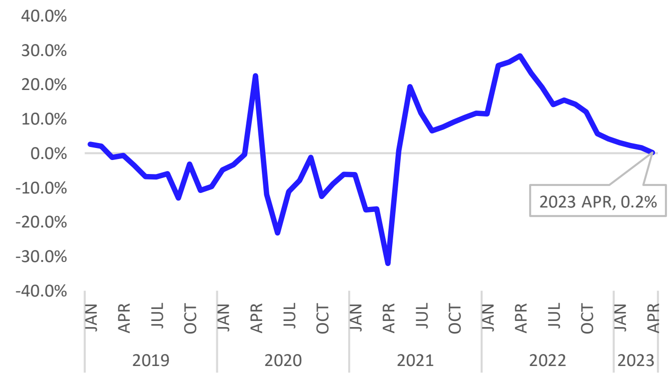


Source: Company Data, Al Rajhi Capital

Steel industries segment could provide a positive surprise

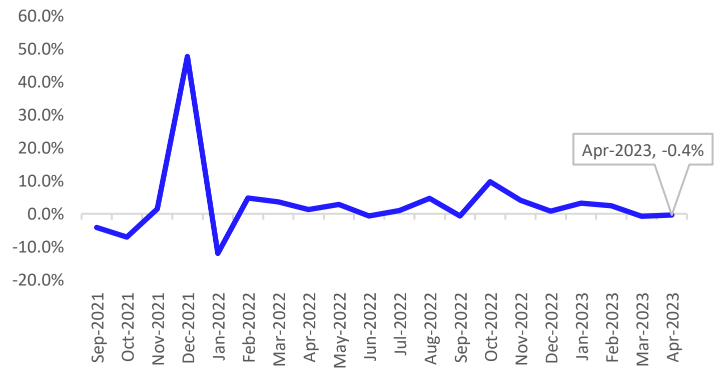
The company is in the business of producing steel structures and building frames, that could see notable demand going forward as the GIGA projects and several other construction projects gather pace. Although the company is smaller in size and there is stiff competition in this segment from large global MNCs, being a local player provide an advantage in terms of winning contracts. The company has exposure to sectors such as electricity, water desalination and industrial projects, which are expected to post notable growth going forward. The segment's contribution to the group topline is 14% (2022), however, operating profit contribution is just 4%. Further, the return on assets (3.3% in 2022, EBIT/total assets) and asset turnover of 0.64x is on the lower side, indicating ample room for expansion in capacity utilization levels. In our view, as the scale of revenues improves, the margins could improve notably for the company. We are conservative for the next two years (2023e and 2024e) on margins, however beyond 2024e we expect operating margins to increase to 5% and 7% in 2025e and 2026e, resp.

Figure 83 **IIP data (Mining and quarrying)**



Source: Company Data, Al Rajhi Capital

Figure 84 **Credit growth to Utilities**



Source: SAMA, Al Rajhi Capital

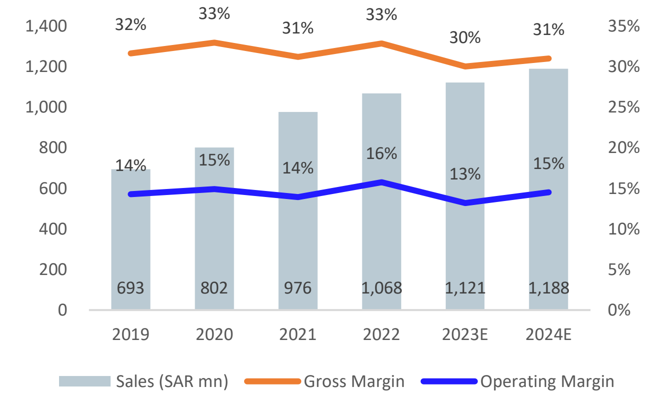
Source: Company Data, Al Rajhi Capital

Source: SAMA, Al Rajhi Capital

Chemical business has stable margins and cash flows:

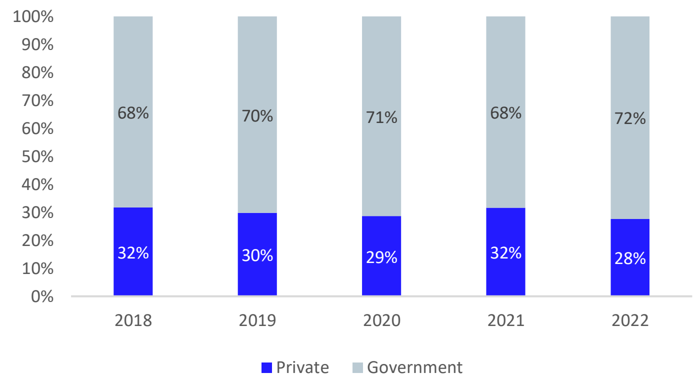
The company has exposure to both petchem and agrichem, however, its direct exposure to volatile high end petchem products and urea in agrichem is minimal. It is in the business of producing color additives in petchem, and soluble powder fertilizer in agrichem. This is evident from the stable gross margins in the last six years, it has hovered in a narrow range of 31-32%. Although, we expect some weakness this year as the cost base has increased and there is time lag in terms of passing on the cost to the end consumer. We expect gross margins of 30% in 2023e and that to improve to 31% in 2024e and stabilize at this level beyond 2024e. This could have some negative impact on the operating margins as the cost base for operating expenses has also gone up. At the same time, we see some pressure in the operating cost due to high inflation pressure.

Figure 85 **Stable margin profile for Chemical business**



Source: Company Data, Al Rajhi Capital

Figure 86 **Receivables mix**



Source: Company Data, Al Rajhi Capital

Revenue and margin assumptions

We expect the topline to grow by high single digit growth in the next three years (CAGR over 8% during 2022-2025e) mainly driven by strong growth in pharma and steel business, that should offset the relatively lower growth in the specialized chemicals business. At the same time, we expect gross margins to improve modestly and hover around 40.2%-40.4% margins in the next three years as better margins from pharma and steel offset slight pressure in the chemicals business. We estimate operating income to grow at CAGR of 9% during 2022-2025e, better than the topline growth, due to slight improvement in the gross as well operating margins. The better operating margins should be more than sufficient to offset the impact of high interest costs. Further, as the company has a cash balance of SAR 714 mn (at the end of Q1 2023), it is a strong position to manage the high working capital requirement. We estimate net income to grow at a CAGR of 10.2% during 2022-2025e aided by high single digit topline growth and slight improvement in the margins.

Valuations

Given the conglomerate nature of the business and no major synergies between the subsidiaries, we have used the SOTP method to value the company and assigned a conglomerate discount of 15%. the steel prices. Further, considering the high working capital requirements, we have deducted the funding required for working capital.

We have assigned 20x EV/multiple to our EBIT estimated for 2023 and 2024, a discount of about 15% to JP given Tabuk's lower margin profile and more exposure towards relatively lower growth segments. However, Tabuk has a proven track record of cost control and established partnership with global MNCs, thus the topline growth could be maintained at high single digit in the near term. For its specialized chemicals business, we are assigning a multiple of 15x given its low volatility in margins and exposure to stable and marque clients such as SABIC. For the steel business, we have considered 2026e EBIT as profitability is expected to notably jump in the next two years and true earnings potential would start reflecting from 2026. We are assigning 10x multiple for the steel business due to the expected growth in demand for steel structures.

Based on the SOTP method, our fair value for the company is SAR 93/share, that in line with the current market price, implying Neutral recommendation. At our fair value, the implied P/E on 2023/2024e EPS of SAR 4.5/share is 21x.

Figure 87 **Valuation Methodology**

SOTP	2023/2024e EBIT	Assigned multiple	Enterprise value	Comments
Pharma business	332	20x	6,642	High single digit to low-double growth potential. Used Jamjoom as a reference. 15% discount to JP's EV/EBIT multiple of 24x.
Chemicals	149	15x	2,232	Stable margins, to grow at mid single digit
Steel	46	10x	458	Strong growth potential, considered ebit of 2026.
Other segment	(9)	8x	(73)	Group holding and mining
Group level enterprise value			**9,259**	
Conglo. Discount		-15%	(1,389)	Unrealised businesses, thus 15% discount
Group level enterprise value (net)			**7,870**	
Debt			(561)	
Cash			714	
WC requirement (considered only 50% impact)			(615)	
Net equity			**7,409**	
O/S			80	
Value per share			**93**	
CMP			95	
Upside/(downside)			-3%	

Source: Al Rajhi Capital, Note: Steel business we have used 2026 EBIT

Figure 88 **Relative valuation**

			Forward			TTM		Forward		Margins			Sales growth		
Business	**Peer Set**	**Market Cap (SAR mn)**	**EV/EBITDA**	**EV/EBIT**	**EV/Sales**	**ROE**	**PB**	**PE**	**PS**	**Gross**	**EBITDA**	**EBIT**	**TTM**	**2023E**	**2024E**
Chemicals	SABIC	267,600	8.4x	12.0x	1.5x	5.7%	1.4x	28.9x	1.9x	21.5%	18.3%	11.2%	-2.4%	-83.3%	426.2%
	Yanbu National	26,831	14.2x	47.4x	4.1x	-1.7%	2.1x	30.0x	3.9x	13.8%	22.8%	6.3%	-26.2%	-17.9%	23.5%
	Saudi Kayan	20,250	11.7x	32.1x	3.1x	-13.5%	1.4x	43.5x	1.9x	-0.9%	13.8%	-7.7%	-26.0%	-15.1%	18.8%
	NIC	9,873	9.0x	9.2x	4.0x	4.6%	1.0x	13.7x	NA	22.3%	10.5%	4.5%	-3.4%	-6.3%	4.1%
	Rabigh Refining	18,882	24.1x	NA	1.1x	-24.0%	1.3x	NA	0.4x	3.0%	5.5%	0.0%	5.3%	-11.7%	7.9%
	Sahara International	27,867	10.1x	13.2x	2.9x	18.7%	1.7x	14.6x	NA	47.2%	48.5%	39.5%	-0.7%	-24.7%	3.9%
	SABIC Agri	61,980	12.1x	14.2x	2.9x	48.4%	3.6x	17.5x	NA	58.9%	58.7%	54.2%	34.1%	-47.8%	4.7%
	Arab Potash	14,382	NA	NA	1.8x	43.0%	1.8x	NA	NA	72.0%	62.8%	58.2%	41.5%	NA	NA
	Jordan Phosphate	14,917	NA	NA	1.2x	50.5%	1.8x	NA	NA	61.3%	51.7%	50.3%	38.0%	NA	NA
	Average	51,398	12.8x	21.4x	2.5x	14.6%	1.8x	24.7x	2.0x	33.2%	32.5%	24.1%	6.7%	-29.5%	69.9%
	Median	20,250	11.7x	13.7x	2.9x	5.7%	1.7x	23.2x	1.9x	22.3%	22.8%	11.2%	-0.7%	-17.9%	7.9%
Steel	Arabtec Holding	812	NA	NA	0.2x	-51.5%	1.0x	NA	0.1x	-4.3%	-6.8%	-9.1%	-21.0%	NA	-5.3%
	Drake & Scull	405	NA	NA	30.7x	NA	NA	NA	NA	9.1%	-87.8%	-97.4%	-40.1%	0.0%	NA
	Galfar Engineer	1,044	NA	NA	0.7x	7.6%	2.3x	NA	NA	4.0%	7.2%	1.9%	14.2%	NA	NA
	Tekfen	2,079	3.4x	4.5x	0.3x	33.8%	1.4x	4.8x	0.4x	11.8%	11.0%	9.0%	95.3%	23.9%	20.3%
	Eregli	19,406	7.5x	9.7x	1.2x	12.5%	1.1x	10.9x	NA	20.0%	21.3%	18.5%	43.6%	2.5%	22.8%
	El Ezz Aldekhela	1,969	1.7x	1.8x	0.5x	99.6%	1.8x	4.1x	0.1x	22.6%	20.5%	18.6%	23.2%	86.9%	-18.6%
	Ezz Steel	2,402	4.1x	4.5x	0.6x	NA	NA	6.2x	NA	22.4%	20.0%	18.3%	23.8%	56.2%	-3.5%
	Arcelormittal	87,095	3.8x	5.8x	0.4x	11.6%	0.4x	5.8x	0.3x	15.7%	16.1%	12.9%	-6.9%	-11.0%	-4.2%
	Thyssenkrupp Ag	18,313	1.9x	2.7x	0.1x	2.5%	0.3x	19.5x	NA	13.8%	6.5%	4.3%	7.7%	-8.4%	-3.9%
	Average	14,836	3.7x	4.8x	3.8x	16.6%	1.2x	8.5x	0.2x	12.8%	0.9%	-2.6%	15.5%	21.5%	1.1%
	Median	2,079	3.6x	4.5x	0.5x	11.6%	1.1x	6.0x	0.2x	13.8%	11.0%	9.0%	14.2%	2.5%	-3.9%

Source: Bloomberg, Al Rajhi Capital

Key Financials

Figure 89 **Income Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Revenue	**2,594**	**2,884**	**3,148**	**3,423**	**3,669**
y-o-y growth	*11.3%*	*11.2%*	*9.1%*	*8.7%*	*7.2%*
Cost of Sales	(1,554)	(1,722)	(1,877)	(2,039)	(2,184)
Gross Profit	**1,040**	**1,162**	**1,271**	**1,384**	**1,485**
y-o-y growth	*16.3%*	*11.7%*	*9.4%*	*8.9%*	*7.3%*
margins	*40.1%*	*40.3%*	*40.4%*	*40.4%*	*40.5%*
Selling and marketing expense	(359)	(399)	(435)	(473)	(507)
General & administrative expense	(255)	(283)	(309)	(335)	(359)
R&D expense	(25)	(25)	(35)	(38)	(41)
Impairment loss on trade receivables	(5)	0	0	0	0
Operating Profit	**396**	**433**	**535**	**601**	**674**
y-o-y growth	*21.3%*	*9.5%*	*23.5%*	*12.3%*	*12.2%*
margins	*15.3%*	*15.0%*	*17.0%*	*17.5%*	*18.4%*
Finance Income	9	0	0	0	0
Finance cost	(56)	(55)	(60)	(46)	(32)
Other (Expense)/Income	(12)	(12)	(9)	(9)	(9)
Pre-Tax Income	**337**	**367**	**467**	**546**	**633**
Zakat	(34)	(38)	(49)	(57)	(66)
(Loss)/gains from discontinued operations	183	0	0	0	0
Non-controlling Interests	11	13	14	15	16
Net Income/Net Profit (Losses)	**474**	**316**	**404**	**474**	**551**
y-o-y growth	*119.2%*	*-33.4%*	*27.8%*	*17.3%*	*16.2%*
margins	*18.3%*	*11.0%*	*12.8%*	*13.8%*	*15.0%*
Adjusted EPS	5.9	4.0	5.0	5.9	6.9

Source: Company Data, Al Rajhi Capital

Figure 90 **Cash flow statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash flow from Operations	357	107	429	498	589
Cash flow from Investing	572	(90)	(95)	(102)	(111)
Cash flow from Financing	(364)	(158)	(202)	(237)	(275)
Change in cash	629	(139)	134	161	205

Source: Company Data, Al Rajhi Capital

Figure 91 **Key Ratios**

	2022	2023E	2024E	2025E	2026E
ROA	10.5%	10.2%	12.3%	13.2%	14.0%
ROE	18.3%	16.2%	17.9%	19.1%	20.0%
Current Ratio (x)	1.9x	2.1x	2.2x	2.3x	2.4x
Asset turnover ratio (x)	0.8x	0.8x	0.8x	0.8x	0.8x
Inventory turnover ratio (x)	2.0x	2.0x	2.0x	2.0x	2.0x
Receivables turnover ratio (x)	3.2x	3.2x	3.1x	3.1x	3.1x
Capex to Sales	2.1%	3.0%	3.0%	3.0%	3.0%
FCF Yield (%)	4.3%	1.4%	6.8%	7.6%	8.8%
P/E (x)	12.3x	18.5x	14.5x	12.3x	10.6x
P/BV (x)	3.2x	2.6x	2.4x	2.2x	2.0x
EV/EBITDA (x)	10.9x	10.3x	8.3x	7.3x	6.3x

Source: Company Data, Al Rajhi Capital

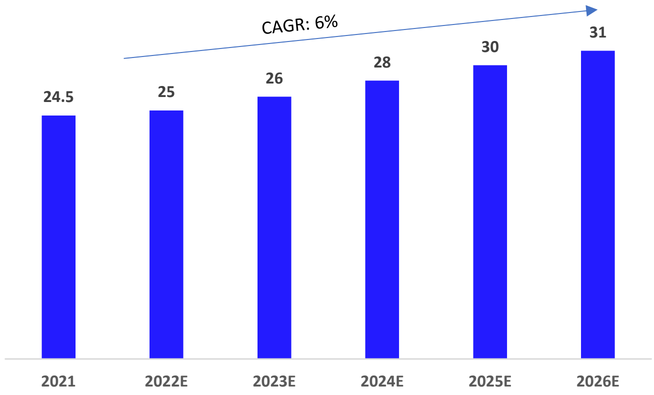
Figure 92 **Balance Sheet**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash and equivalents	676	534	665	824	1,027
Trade receivables	837	951	1,053	1,145	1,227
Inventories	783	905	979	1,063	1,139
Prepaid expenses and other	168	173	185	201	215
Time Deposits	163	163	163	163	163
Due from related parties	31	31	31	31	31
TOTAL CURRENT ASSETS	**2,658**	**2,757**	**3,076**	**3,427**	**3,803**
PP&E, net	789	794	803	816	831
Other Intangible Assets	73	73	73	73	73
Other non-current assets	5	9	9	9	10
TOTAL NON-CURRENT ASSETS	**867**	**876**	**885**	**898**	**914**
TOTAL ASSETS	**3,525**	**3,633**	**3,961**	**4,325**	**4,716**
Trade payables and other current liabilit	242	247	276	302	326
Accrued liabilities	563	508	578	645	702
Current portion of LT debt	428	428	428	428	428
Deferred tax liability	8	8	8	8	8
Income taxes payable	132	114	124	138	151
Due to related parties	0	0	0	0	0
CURRENT LIABILITIES	**1,374**	**1,306**	**1,414**	**1,521**	**1,616**
LT debt	100	100	100	100	100
Employees' end of service benefits	138	142	147	152	158
NON-CURRENT LIABILITIES	**238**	**243**	**248**	**253**	**258**
Share capital	800	800	800	800	800
Statutory reserve	407	407	407	407	407
Retained earnings	677	848	1,063	1,315	1,606
Foreign currency translation reserve	(34)	(34)	(34)	(34)	(34)
SHAREHOLDERS EQUITY	**1,849**	**2,020**	**2,236**	**2,487**	**2,779**
Non-controlling Interest	64	64	64	64	64
TOTAL LIABILITIES	**3,525**	**3,633**	**3,961**	**4,325**	**4,716**

Source: Company Data, Al Rajhi Capital

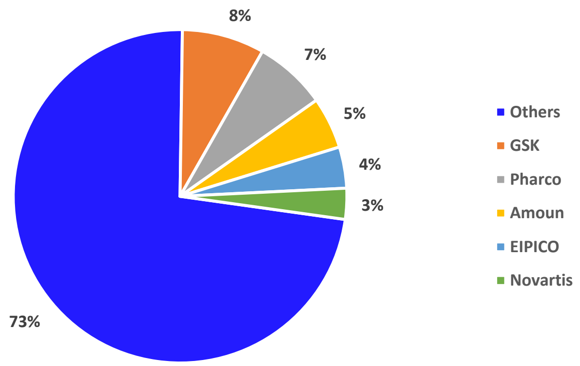
Appendix

Figure 93 **Egypt Pharma. Market to see sustainable growth (SAR bn)**



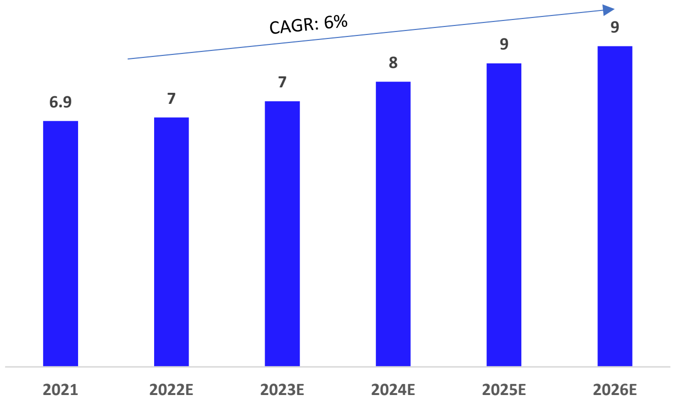
Source: Euromonitor, Al Rajhi Capital

Figure 94 **Egypt Market key players (SAR bn)**



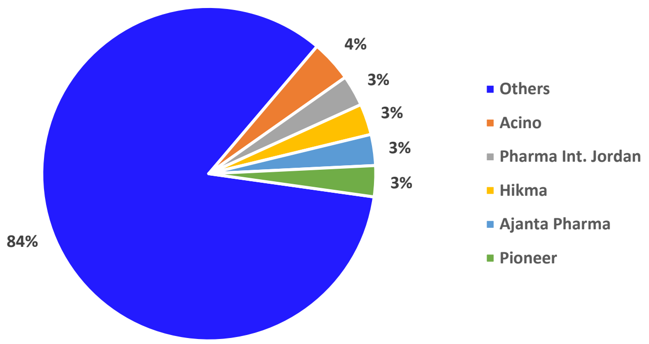
Source: Euromonitor, Al Rajhi Capital

Figure 95 **Iraq Pharma. Market to see sustainable growth (SAR bn)**



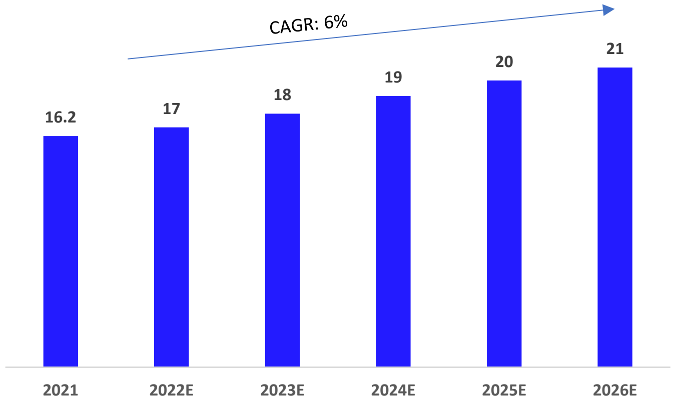
Source: Euromonitor, Al Rajhi Capital

Figure 96 **Iraq Market key players**



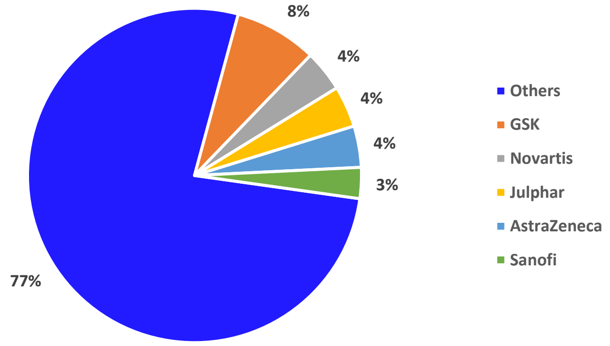
Source: Euromonitor, Al Rajhi Capital

Figure 97 **UAE Pharma. Market to see sustainable growth (SAR bn)**



Source: Euromonitor, Al Rajhi Capital

Figure 98 **UAE Market Key players**



Source: Euromonitor, Al Rajhi Capital

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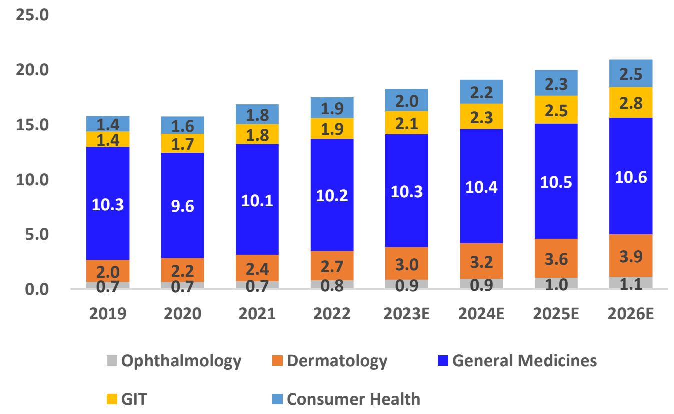
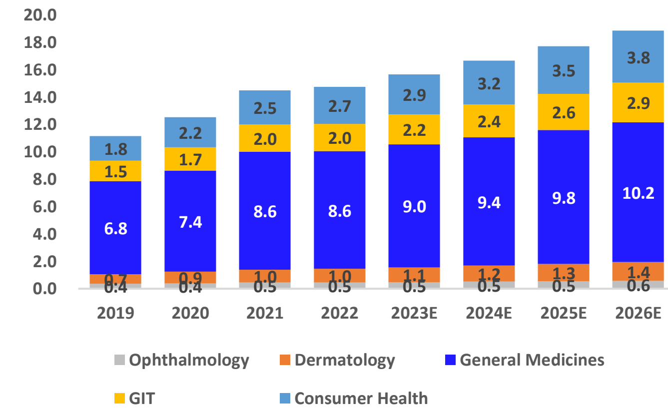
Figure 99 **Market size for top 5 TA for KSA (SAR bn)**



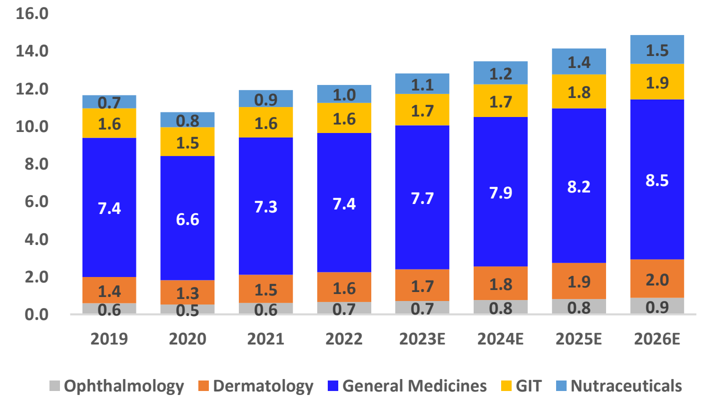
Source: Euromonitor, Al Rajhi Capital,

Figure 100 **Market size for top 5 TA for Egypt (SAR bn)**



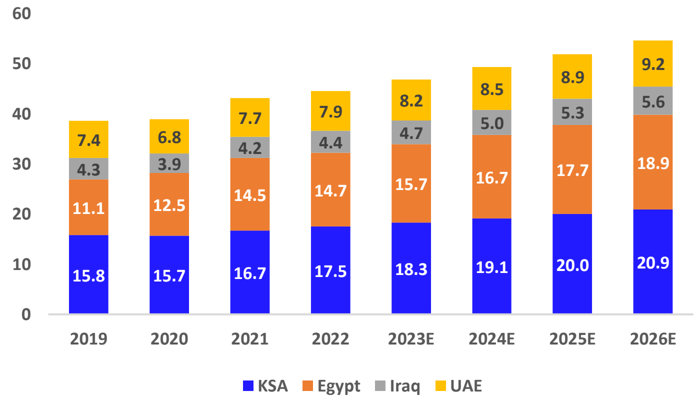
Source: Euromonitor, Al Rajhi Capital

Figure 101 **Market size for top 5 TA for Iraq and UAE (SAR bn)**



Source: Euromonitor, Al Rajhi Capital,

Figure 102 **Top 5 TA Overall Market size for MEA (SAR bn)**



Source: Euromonitor, Al Rajhi Capital

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Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"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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