

SECTOR UPDATE

Q4 23

Unique exposure to healthcare sector potential

We maintain our positive outlook on the Saudi Pharmacy sector. Its strategic positioning between the Retail and Healthcare sectors is a main value proposition. The sector is a key play on Vision 2030's healthcare reforms and provides exposure to the ongoing social transformation. Shifting the strategy from convenience to experience and benefitting from the healthcare privatization initiatives are the main trends in the sector. This is approached through different routes as Al Dawaa is focusing on the public pharmacy sector while Nahdi is expanding its primary healthcare presence. We remain Overweight on Al Dawaa with a PT of SAR120.3 while upgrading Nahdi to Overweight with a PT of SAR152.2. Al Dawaa is trading at 2024f P/E of 21.0x while Nahdi is trading at 18.2x.

• A key beneficiary of healthcare transformation

The Saudi healthcare sector is going through a major transformation under Vision 2030. The Healthcare Transformation program aims to increase the private sector contribution through 9 main strategic areas including, primary healthcare and pharmacies. Furthermore, the national insurance was announced in October 2023, providing coverage to all Saudi citizens by 2026f. We believe the ongoing healthcare sector transformation is a key driver for the Saudi pharmacy sector, as it will create attractive growth opportunities. To capitalize on that, Al Dawaa approached it through Wasfaty program and the focus on the privatization of public sector pharmacies, while Nahdi's approach is revolving around primary healthcare.

• Measured expansions

Driven by Saudi social reforms (including the increase in women participation in the workforce and the growth in e-commerce), customers need are evolving from convenience to experience. Hence, a common theme across the sector is a change in strategies from aggressive store expansions to 1) improving network optimization and enhancing quality of services and 2) develop a comprehensive omni-channel strategy. Accordingly, Nahdi marginally increased its store count to 1,105 in Q3 23 (vs 1,091 in Q3 22), while Al Dawaa increased its store count to 902 (vs 869 in Q3 22). We expect both companies to follow a measured store expansion strategy and expect Nahdi and Al Dawaa stores to reach 1,135 and 938 by 2025f, respectively.

• Sector earnings to record a 2022-2025f CAGR of 8.6%

We expect the sector earnings to record a 3-year CAGR of 8.6% to SAR1.53bn by 2025f. Although Nahdi will face short-term earnings headwinds due to pressure on non-pharma segments, the increased focus on its private label, primary care and omni-channels will drive growth in the medium term. For AlDawaa, the key growth catalysts are network efficiency, cost optimization and public sector privatisation initiatives.

• Favourable positioning between Healthcare and Retail

We upgrade our rating on Nahdi to Overweight with a PT of SAR152.2 Nahdi's expansion plans in the healthcare segment, increased contribution from the private labels are the key positives. However, margins are expected to be under pressure in the near term due to challenges in non-pharma segments. We maintain our Overweight rating on Al Dawaa with a PT of SAR120.3. We believe the exposure to public healthcare sector is the major stock driver going forward.

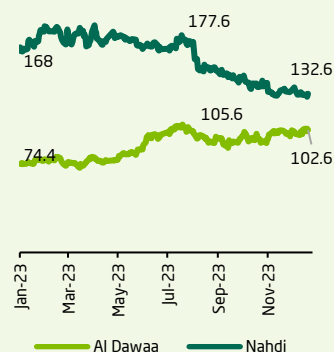
Valuation summary

	Rating	Mcap (US\$ mn)	PT (SAR)	CMP (SAR)	Up/Down side (%)	P/E (x) 2024f	EV/EBITDA 2024f	Div Yield 2024f	Stock perf ytd (%)
Nahdi	OW	4,514	152.2	130.2	16.9	18.2	9.4	4.1	(22.1)
Al Dawaa	OW	2,348	120.3	103.6	16.2	21.0	10.7	2.9	44.1

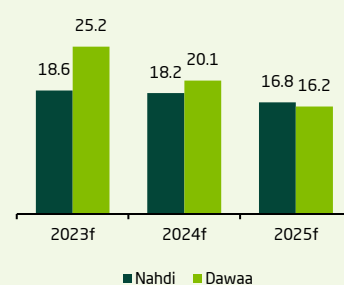
Source: SNB Capital Research estimates. All prices as of 19 December 2023

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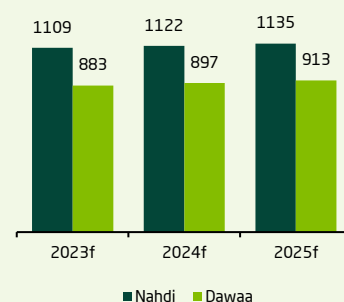
STOCK PERFORMANCE



P/E



STORE COUNT



Source: SNB Capital Research Estimates

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