

Pharma retail

HOLD: 12M TP @ 159.85

Upside +4.6%

Valuation Summary (TTM)

Price (SAR)	152.80
PER TTM (x)	22.3
P/Book (x)	8.1
P/Sales (x)	2.3
EV/Sales (x)	2.1
EV/EBITDA (x)	11.4
Dividend Yield (%)	3.9
Free Float (%)	39%
Shares O/S (mn)	130
YTD Return (%)	12%
Beta	0.8

(mn)	SAR	USD
Market Cap	19,864	5,297
Total Assets	20,129	5,367

Price performance (%)	1M	3M	12M
Nahdi Medical Co	8%	14%	-11%
Tadawul All Share Index	2%	10%	24%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR)	123,525	96,292	68,010
Avg Daily Volume (,000)	799	672	482

52 week	High	Low	CTL*
Price (SAR)	190.00	129.00	18.4

* CTL is % change in CMP to 52wk low

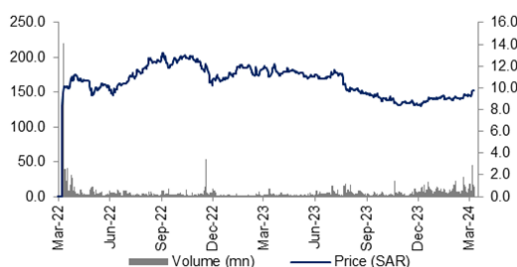
Major shareholders

AL-NAHDI HOLDING CO	35.0%
Saudi Economic & Dev	25.0%
Vanguard Group Inc/T	1.2%
Others	38.8%

Other details

Exchange	Saudi Arabia
Sector	Healthcare-Services
Index weight (%)	0.2%

Key ratios	2021	2022	2023
EPS (SAR)	NA	6.83	6.87
BVPS (SAR)	NA	17.26	18.94
DPS (SAR)	NA	5.31	5.50
Payout ratio (%)	NA	78%	80%



Nahdi Medical Co – low growth continues

Nahdi reported full year revenue for 2023 at SAR 8.7bn which was in line with our estimates and higher by 1.1% YoY. We had forecasted a flattish growth in 2023 based on the lower store count and increasing competition. The front shop continued its declining trend and for 2023 de-grew by 3.5%, whereas the pharma sales increased by an equal amount. Both segments currently contribute equally to the topline. The management in its earnings call highlighted the changes made in the assortment of products and over 5000 SKUs being added to increase the sales of the front shop. Efforts are being taken to strengthen the omni-channel offerings while focus is also on keeping the margins steady. Online contribution is currently 16% (vs 13% in 2022) of the topline and private label has increased to 13% (vs 10% in 2022). The company expects the contribution from online sales to reach 20% by 2026. Nahdi currently operates 6 polyclinics, the revenue from which has grown by 108% during the year albeit from a small base, but more importantly the polyclinics have complimented the pharma sales. The management has guided revenue from the polyclinics to increase by 4x by 2026 to around SAR 400mn (c. SAR 101mn) through the addition of 15-16 new polyclinics. Nahdi had diversified into UAE a few years ago and there appears to be visible traction in the segment. Revenue from UAE grew to SAR 60mn in 2023 from SAR 3mn in 2021. This is expected to double by 2026 on the back of store additions across all the emirates in the UAE. Gross margins remained steady all through the year expect for a slight decline in 4Q23. Overall for the year gross margin held at 40.4%, while EBITDA margin stood at 18.1% in line with historical averages. The company reported a one-off inventory provision write back of SAR 33mn due to changes in certain accounting policies which had a positive impact on the gross margins during the year. Nahdi is a high cash generating business with a net operating cash level of SAR 1.37bn. The company has maintained its high dividend payout of 80% in 2023 and we expect the same to continue going forward. We had initiated coverage on the stock recently with a target price of SAR 159.85. The stock has appreciated by 7.6% since our initiation. Based on the recent results we retain our estimates and target price. Considering the potential upside of 4.6% on the stock from current levels we provide a HOLD rating to Nahdi.

Valuation and outlook: Nahdi is the largest pharma retail player in Saudi with a physical presence of over 1000 outlets and active online sales. The company maintains about 30% market share and focusses on the premium segment where margins are higher. However, the increasing competition and lack of participation in government projects has kept growth at a bare minimum. While efforts are progressing on changing the front shop assortment and improving pharma sales we believe topline growth is unlikely to move beyond the mid-single digits in the near term. The company has guided for 3-5% growth in revenue in the medium term. Nahdi is debt free and maintains robust margins which offers comfort to valuation. The high operating cash will also ensure consistent dividend payouts. At current price the stock trades at 20x 2024e PE and dividend yield of 3.7%.

Income Statement (In SAR mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	8,642	8,066	8,616	8,714	9,039	9,704	10,439	11,170
Direct Costs	-5,393	-4,762	-5,095	-5,191	-5,333	-5,694	-6,120	-6,544
Gross profit	3,249	3,304	3,521	3,522	3,706	4,010	4,319	4,625
Selling and distribution expenses	-1,988	-2,149	-2,240	-2,249	-2,299	-2,426	-2,610	-2,792
General and administrative expenses	-337	-307	-331	-337	-335	-369	-397	-424
Other operating income (Net)	41	72	52	24	45	49	52	56
Operating profit	965	920	1,002	961	1,118	1,264	1,365	1,464
EBITDA	1,483	1,491	1,598	1,579	1,762	1,941	2,084	2,235
Finance income	-	11	12	65	14	14	14	14
Finance costs	-58	-79	-79	-83	-77	-78	-80	-82
Other costs	-14	6	3	2	-	-	-	-
Profit before tax (PBT)	893	858	937	944	1,055	1,200	1,299	1,396
Income tax and Zakat	-45	-45	-50	-52	-57	-65	-70	-75
Net profit (PAT)	848	813	887	893	998	1,135	1,228	1,321

Balance Sheet (in SAR mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Property, plant and equipment	812	885	914	1,040	1,174	1,299	1,416	1,522
Investment property	179	230	254	254	255	255	255	255
Intangible assets	42	44	47	51	48	48	48	48
Right of use assets	1,207	1,328	1,167	1,267	1,229	1,221	1,237	1,271
Non-current assets	2,240	2,487	2,382	2,613	2,706	2,823	2,956	3,096
Inventories	1,149	1,116	1,183	1,409	1,387	1,480	1,591	1,701
Trade receivables	98	140	130	173	145	155	167	179
Prepayment and other current assets	171	142	174	267	294	315	339	363
Cash and cash equivalents	1,007	400	1,076	910	814	1,014	1,214	1,432
Current assets	2,425	1,798	2,563	2,759	2,639	2,965	3,311	3,676
ASSETS	4,665	4,285	4,945	5,371	5,345	5,788	6,268	6,772
Share capital	1,000	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Statutory reserve	110	191	280	369	280	280	280	280
Retained earnings	968	113	664	794	1,051	1,335	1,642	1,973
EQUITY	2,078	1,604	2,244	2,463	2,631	2,915	3,222	3,553
Employee defined benefits	330	387	381	392	320	342	367	393
Lease liabilities	829	992	792	871	830	864	899	935
Accruals and other non-current liabilities	14	19	20	15	14	14	14	14
Non-current liabilities	1,173	1,398	1,193	1,277	1,164	1,219	1,280	1,342
Lease liabilities	405	365	375	304	356	370	385	401
Provision for zakat/ Zakat payable	99	97	107	113	127	144	156	168
Trade payables	440	484	637	894	800	854	918	982
Accruals and other non-current liabilities	446	337	389	320	267	285	306	327
Current liabilities	1,414	1,283	1,508	1,631	1,549	1,653	1,765	1,877
LIABILITIES	2,587	2,681	2,701	2,909	2,713	2,872	3,045	3,219
EQUITY AND LIABILITIES	4,665	4,285	4,945	5,371	5,345	5,788	6,268	6,772

Cash Flow (In SAR mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash from operations	1,585	1,382	1,670	1,369	1,544	1,785	1,916	2,062
Investing cash flow	-102	-300	-277	-384	-384	-410	-440	-469
Financing cash flow	-847	-1,689	-717	-1,151	-1,153	-1,267	-1,353	-1,440
Change in cash	636	-607	676	-166	-96	200	200	218
Beginning cash	371	1,007	400	1,076	910	814	1,014	1,214
Ending cash	1,007	400	1,076	910	814	1,014	1,214	1,432







Ratio Analysis	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Per Share								
EPS (SAR)	6.52	6.25	6.82	6.87	7.68	8.73	9.45	10.16
BVPS (SAR)	15.98	12.34	17.26	18.94	20.24	22.43	24.79	27.33
DPS (SAR)	4.12	9.69	2.31	5.50	5.70	6.55	7.09	7.62
FCF per share (SAR)	-7.30	-15.30	-7.65	-11.81	-11.82	-12.90	-13.79	-14.68
Valuation								
Market Cap (SAR mn)	17,030	17,030	21,736	17,810	19,864	19,864	19,864	19,864
EV (SAR mn)	17,281	17,987	21,827	18,075	20,237	20,085	19,934	19,768
EBITDA	1,483	1,491	1,598	1,579	1,762	1,941	2,084	2,235
P/E (x)	20.1	20.9	24.5	20.0	19.9	17.5	16.2	15.0
EV/EBITDA (x)	11.7	12.1	13.7	11.4	11.5	10.4	9.6	8.8
Price/Book (x)	8.2	10.6	9.7	7.2	7.5	6.8	6.2	5.6
Dividend Yield (%)	3.1%	7.4%	1.4%	4.0%	3.7%	4.3%	4.6%	5.0%
Price to sales (x)	2.0	2.1	2.5	2.0	2.2	2.0	1.9	1.8
EV to sales (x)	2.0	2.2	2.5	2.1	2.2	2.1	1.9	1.8
Liquidity								
Cash Ratio (x)	0.71	0.31	0.71	0.56	0.53	0.61	0.69	0.76
Current Ratio (x)	1.71	1.40	1.70	1.69	1.70	1.79	1.88	1.96
Quick Ratio (x)	0.78	0.42	0.80	0.66	0.62	0.71	0.78	0.86
Returns Ratio								
ROA (%)	18.2%	19.0%	17.9%	16.6%	18.7%	19.6%	19.6%	19.5%
ROE (%)	40.8%	50.7%	39.5%	36.2%	37.9%	38.9%	38.1%	37.2%
ROCE (%)	26.1%	27.1%	25.8%	23.9%	26.3%	27.5%	27.3%	27.0%
Cash Cycle								
Inventory turnover (x)	4.7	4.3	4.3	3.7	3.8	3.8	3.8	3.8
Accounts Payable turnover (x)	12.3	9.8	8.0	5.8	6.7	6.7	6.7	6.7
Receivables turnover (x)	88.2	57.6	66.3	50.4	62.5	62.5	62.5	62.5
Inventory days	78	86	85	99	95	95	95	95
Payable Days	30	37	46	63	55	55	55	55
Receivables days	4	6	6	7	6	6	6	6
Cash Cycle	52	55	45	43	46	46	46	46
Profitability Ratio								
Net Margins (%)	9.8%	10.1%	10.3%	10.2%	11.0%	11.7%	11.8%	11.8%
EBITDA Margins (%)	17.2%	18.5%	18.5%	18.1%	19.5%	20.0%	20.0%	20.0%
PBT Margins (%)	10.3%	10.6%	10.9%	10.8%	11.7%	12.4%	12.4%	12.5%
EBIT Margins (%)	11.2%	11.4%	11.6%	11.0%	12.4%	13.0%	13.1%	13.1%
Effective Tax Rate (%)	5.0%	5.2%	5.3%	5.5%	5.4%	5.4%	5.4%	5.4%
Leverage								
Total Debt (SAR mn)	1,258	1,357	1,167	1,175	1,186	1,234	1,284	1,336
Net Debt (SAR mn)	251	957	91	265	373	221	70	-96
Debt/Equity (x)	0.6	0.8	0.5	0.5	0.5	0.4	0.4	0.4
Net Debt/Equity (x)	0.1	0.6	0.0	0.1	0.1	0.1	0.0	-0.0

Key contacts

Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

Rating Criteria and Definitions

Rating	Rating Definitions
 Strong Buy	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
 Buy	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
 Hold	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
 Neutral	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
 Sell	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
 Strong Sell	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.