UNITED SECURITIES LLC.

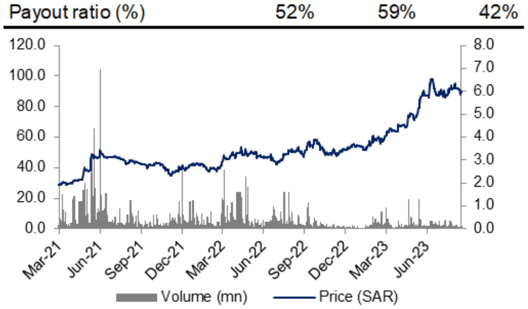
Astra Industrial Group

INVESTMENT RESEARCH | Saudi Arabia

Industrials

HOLD : 12M TP @ 96.59

Valuation Summary (TTM)			
Price (SAR)			91.00
PER TTM (x)			18.4
P/Book (x)			3.9
P/Sales (x)			2.6
EV/Sales (x)			2.5
EV/EBITDA (x)			13.0
Dividend Yield (%)			2.7
Free Float (%)			44%
Shares O/S (mn)			80
YTD Return (%)			76%
Beta			0.9
(mn)		**SAR**	**USD**
Market Cap		7,280	1,941
Total Assets		7,149	1,906
Price performance (%)	**1M**	**3M**	**12M**
Astra Industrial Group	2%	3%	76%
Tadawul All Share Index	-4%	-8%	-8%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	14,199	12,997	15,579
Avg Daily Volume (,000)	163	144	185
52 week	**High**	**Low**	**CTL***
Price (SAR)	101.80	45.70	99.1
* CTL is % change in CMP to 52wk low			
Major shareholders			
Arab Supply & Tradin			47%
Al Otaibi Mohammed B			6.9%
Vanguard Group Inc/T			1.7%
Others			44.3%
Other details			
Exchange			Saudi Arabia
Sector			Holding Companies-Di
Index weight (%)			0.2%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	1.44	2.53	5.93
BVPS (SAR)	16.57	18.15	23.12
DPS (SAR)	0.75	1.50	2.50
Payout ratio (%)	52%	59%	42%



Astra Industrial Group – Fairly priced

Astra Industrial Group (AIG) is the holding company of Tabuk Pharmaceuticals, the second largest pharma company in Saudi. AIG also has interests in agrichemicals, polymers, steel and mining. The group has a multinational exposure across the MENA, Asia and European regions with a wide production and distribution network. In over three decades AIG has become one of the largest manufacturing conglomerates in Saudi Arabia. We are positive on the company based on the recent impetus provided by the government to local manufacturers; AIG will be a big beneficiary of this initiative. Tabuk already has leadership position in most therapeutic verticals and will be able to gather further market share going forward. The pharma division which contributes 46.8% to the group revenues and 69% to the gross profit is the most important segment for AIG. We expect pharma revenue to grow at 16% CAGR (2022-27e), while gross margins will remain robust in the range of 55-57%. However, other segments are likely to witness slower growth on account of higher competition and commoditized product offerings. Overall, the group revenues are expected to grow by 10.3% and profit by 13.2% CAGR (2022-27e). The sale of loss making units, lower interest costs and higher operational efficiencies have led to improvement in net margins over the last couple of years from 5.2% in 2020 to 11.7% in 2022. The stock has rallied 5x in the last four years and by 77% YTD, on account of improved financial metrics and profitability. At current price the stock trades at 22x 2023 PE, which we believe incorporates most of the positives. Based on our DCF valuation we arrive at a target price of SAR 96.59/share which makes the stock fairly valued. Hence, despite the significant positives we initiate coverage on Astra Industrial with a HOLD rating.

Astra is predominantly a pharma story: Pharma sector in Saudi is undergoing a positive change. NUPCO (purchasing arm of the govt.) has laid out directives which will benefit local manufacturers. The sector has traditionally been dominated by foreign players and with this new regulation the prospects could change significantly. AIG holds 100% stake in its pharma subsidiary Tabuk Pharmaceuticals, which is the second largest in the country in terms of production capacity. Tabuk has exposure to most of the therapeutic areas and also has tie ups with international companies for production and distribution. It is a well-entrenched local player with exposure to Africa, Turkey and other parts of MENA. We are positive on Astra based on the expected change in fortunes of the pharma segment.

AIG maintains solid margins and has adequate cash: AIG has a proven record of maintaining stable margins despite an inflationary and volatile scenario. Its low-cost manufacturing centers in Egypt, Algeria, Turkey, India have contributed in keeping overheads low for the group. Further, the recent sale of the loss making Iraqi unit Alanmaa has increased the cash in the balance sheet (20% of total assets). AIG has traditionally had a low leverage level and with additional cash, it is currently a net negative debt company. AIG has not announced any significant capex and we believe it would rather focus on improving its operational efficiency instead. We are optimistic that the current financial discipline will continue and dividend payout likely to increase.

Valuation: AIG offers a play on the Saudi manufacturing opportunity which is currently developing with the support of accommodative regulations for local players. The group's exposure to the pharma segment is a major positive that will drive valuation. We expect other segments to also start contributing in the long term. The company has a clean balance sheet, high sustainable margins, low debt, adequate cash and limited capex plans. We are positive on AIG, but feel the current price has already discounted most of the positives. Hence, we initiate coverage on the stock with a HOLD rating and a target price of SAR 96.59/share, providing an upside of 6.2% from current levels.

Over the years Astra has ventured into multiple business segments …

Astra is a multi-faceted manufacturing conglomerate

Astra Industrial Group (AIG) is a leading multinational company incorporated in 1988 and headquartered in Riyadh, Saudi Arabia. The company operates across 4 major segments –

- Pharmaceuticals - develops, manufactures, markets and distributes branded generic pharmaceuticals
- Specialty chemicals –produces dust-free additives and custom-made thermoplastic compounds, paste colorants etc. for polymer manufacturing, and plastics processing industries. This segment also distributes a range of agrochemicals, fertilizers, public health and veterinary products, seeds and other agricultural inputs.
- Steel industries - manufactures steel billets, pre-engineered steel buildings and steel structures and rebar.
- Others - comprises of Astra Industrial Group Holding Company which has various investments across several industries and Astra Mining, a division that processes industrial minerals.

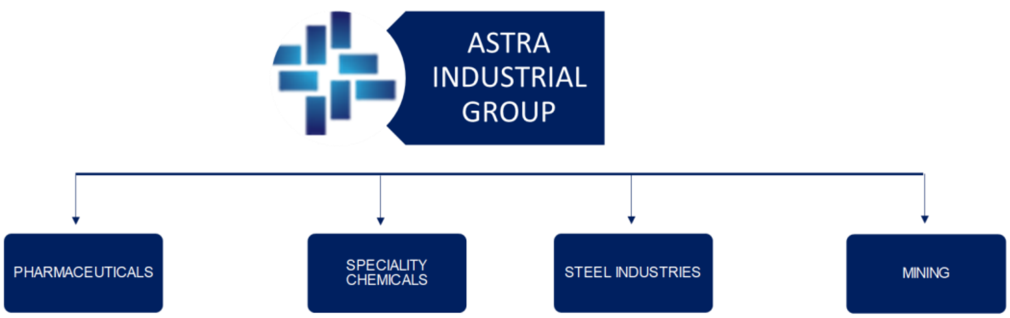
Establishment of various business of AIG over the last four decades

Source: Company reports, US Research

AIG is a holding company and functions through its investments in various subsidiaries - Tabuk Pharmaceuticals (pharmaceuticals), Astra Polymers Compounding Company (specialty chemicals), Astra Industrial Complex Fertilizers and Agrochemicals (specialty chemicals), International Building Systems Factory (steel) and Astra Mining Company (metals & mining). The group is currently present in 41 countries, but derives majority of its revenue from the domestic market (67% from Saudi in 1H23) followed by Turkey, Africa and others. The pharmaceutical and specialty chemical divisions are the key segments and together contribute to 85% to the top line and 95%

of the gross profit of the group. AIG has 12 manufacturing plants and an employee count of 1,500+ people. The group reported a revenue of SAR 2.6bn and a net profit of SAR 474mn in 2022.

AIG's web of business segments and operating subsidaries



Pharmaceuticals

Company	Country	Ownership
Tabuk Pharmaceutical Manufacturing Company (TPMC)	KSA	100%

Subsidaries of Tabuk Pharma

Company	Country	Ownership
Tabuk Pharmaceutical Research Company	Jordan	100%
Tabuk Pharmaceutical Company Limited	Sudan	100%
Tabuk Pharmaceutical Manufacturing Company	Egypt	100%
Eurl Societe Tabuk Algerie	Algeria	100%

Steel Industries

Company	Country	Ownership
International Building Systems Factory Company Limited	KSA	100%
Astra Energy LLC	Jordan	76%

Subsidaries of Astra Energy

Company	Country	Ownership
Fertile Crescent for Electricity Generation Company	Iraq	76%
Al-Tanmiya Company for Steel Manufacturing	Jordan	65%

Speciality Chemicals

Company	Country	Ownership
Astra Polymer Compounding Company Limited	KSA	100%
Astra Polymers free zone	Turkey	100%
Astra Polymer Pazarlama San. Ve Tic. A.Ş	Turkey	100%
Astra Specialty Compounds India Private Limited	India	100%
AstraChem	KSA	100%

Mining

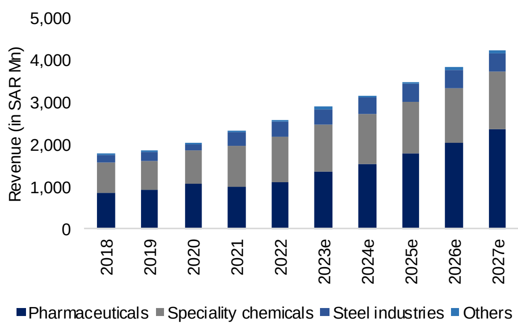
Company	Country	Ownership
Astra Mining Company Limited	KSA	77%

Subsidaries of Astrachem

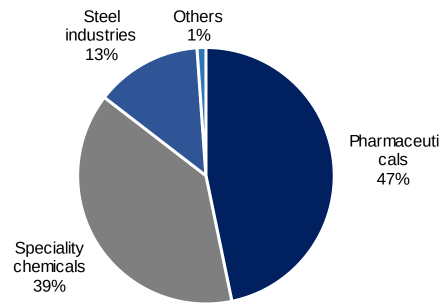
Company	Country	Ownership
AstraChem Saudia	Algeria	100%
AstraChem Morocco	Morocco	100%
Aggis International Limited	British Virgin Islands	100%
Chemidor Tarim Ticaret Limited Sirketi,	Turkey	100%
AstraChem Syria	Syria	100%
AstraChem Tashqand	Uzbekistan	100%
Astra Industrial Complex Co. Ltd.	Jordan	100%
Astra Nova, Turkey	Ukraine	100%
AstraChem Ukraine Ltd	Ukraine	100%
AstraChem Saudi Jordan Co.	Egypt	100%
Astra Agricultural Saudi Jordan Co	Egypt	100%
Astra Industrial Complex	Oman	100%
Green Highland Seeds Company Limited	Jordan	100%
AstraChem Agriculture Co, LLC	UAE	100%
Universal United Chemicals Co. Ltd.	China	100%
Astra Agricultural Company Limited	KSA	100%
CHEMNOVA Limited Liability Company	Algeria	49%
Agrostulln GmbH	Germany	100%

Source: Company reports, US Research

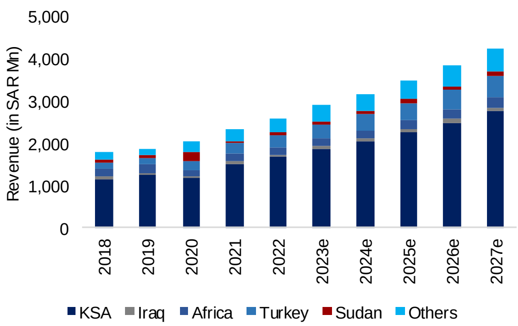
Steady growth in pharma and speciality chemicals



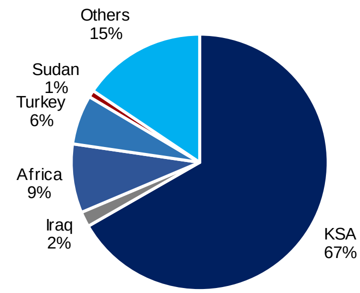
86% of the revenue contributed by 2 segments (1H23)



Growth across Saudi, Turkey and Africa



KSA remains the primary market (Revenue:1H23)



Source: Company reports, US Research

Preference to local manufacturing will provide the required impetus for AIG …

AIG has played an integral part in the development of the country by actively pursuing large scale industrial projects over the last three decades. Post restructuring of the group in 2006, AIG's portfolio has a combination of defensive pharma sector exposure along with sectors such as agrichemical and steel related industries. The company is one of its kind in the country with such diverse interests and a multinational exposure. Saudi is currently on a growth path and local manufacturing is being promoted by the government actively. We believe large industry houses such as AIG will be at a great advantage considering the already well established facilities, entrenched network and systemically important products.

Pharmaceutical segment offers stable revenue and profitability to the group

Pharma segment offers long term visibility to group revenues…

Tabuk Pharmaceuticals (TP) was established in 1994 and is currently the 2nd largest pharmaceutical company in Saudi. TP is involved in the manufacturing and distribution of generic and licensed pharmaceuticals drugs in various therapeutic areas (TA) such as general medicine (GM), gastrointestinal (GIT), central nervous system, cardiovascular, anti-infectives, respiratory, and muscular skeletal system. TP has over 250+ products and a total annual capacity of 2.06bn units manufactured across its 5 facilities spread in the MENA region. The company has particular focus in GM (market share 8.6%) and GIT (market share 8.1%). It has maintained its strong positions in the domestic market across both these TAs with #3 position in GM and #2 in GIT.

Manufacturing facilities are spread across the MENA region

Location	Annual Capacity (mn units)	Employees	Products
Tabuk (KSA)	1600	900	Dry oral suspensions, oral liquids, semisolids, and vials. One building dedicated to manufacture Cephalosporins.
Dammam (KSA)	50	200	Liquid vials, lyophilized vials, and ampoules. A specialized section of the Dammam site has been allocated for injectables.
Algeria	150	60	Currently oral solid dosage (tablets and capsules). Future plans: liquid preparations and nasal sprays.
Sudan	260	200	Tablets, capsules, and liquid preparations
Total	**2060**	**1360**	

Tabuk has presence across various important Therapeutic areas

Therapeutic areas	Tabuk	SPIMACO	Jamjoom
Opthalmology	×	×	•
Dermatology	•	×	•
Gastro	•	•	•
Cardio	•	•	•
Genral Medicine	×	×	•
CNS	•	•	•
OTC	×	×	•
Cons Health	•	×	•
Musculoskele	•	•	×
Anti infectives	•	•	×
Respiratory	•	•	×
Nephrology	×	•	×
Oncology	×	•	×

Source: Company reports, US Research

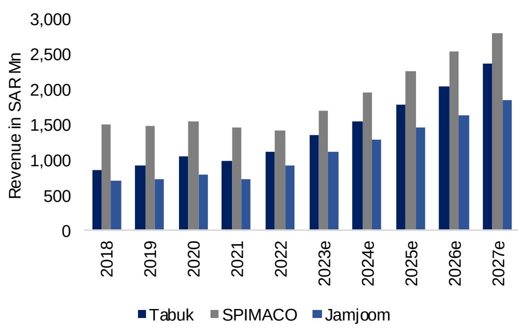
Tabuk is the biggest contributor to the group revenues and profits…

Tabuk has been the largest contributor to the group revenues and offers the much required stability in terms of consistent top line growth and margins. TP contributed 46.8% to the group revenue and 69% of the gross profit in 1H23. The segment has consistently maintained gross margins in the range of 55-57%. Pharma segment accounted for 54% of the fixed assets and 46% of the receivables of the group. While majority of the sales are directed towards the domestic market, the company has significant presence in Turkey and African markets as well. Tabuk' s association with Moderna to produce the Covid vaccine and more recently the exclusive agreement with US based Levolta Pharma is a vindication of the company's highly rated quality of production and distribution that enables it to engage with international players.

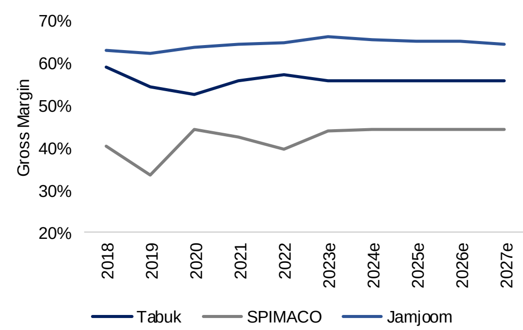
Tabuk to benefit from the impetus provided by the government …

Recently the government has introduced regulations to promote local manufacturing. As per the new directive, only the companies with their regional headquarters in Saudi will be eligible to submit proposals for NUPCO (the pharmaceutical purchasing arm of the government) tenders from 2024 onwards. Further, imported pharmaceuticals are likely to be restricted for distribution through Saudi companies unless they have manufacturing facilities within the country. This places local players such as TP, who have efficient operations, superior R&D, and well managed costs at an advantageous position to capture market share going forward.

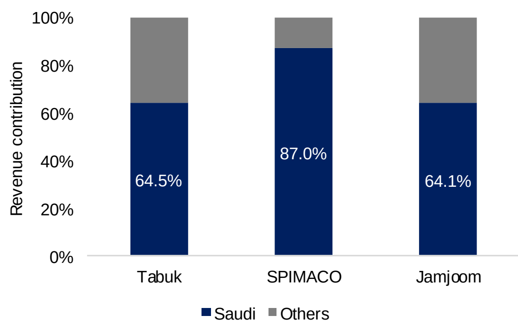
Tabuk to grow in line with competition



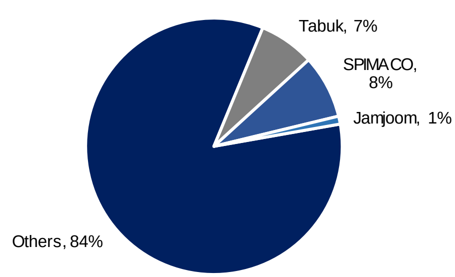
Gross margins are at industry median



Saudi exposure at 64.5% for Tabuk in 2022



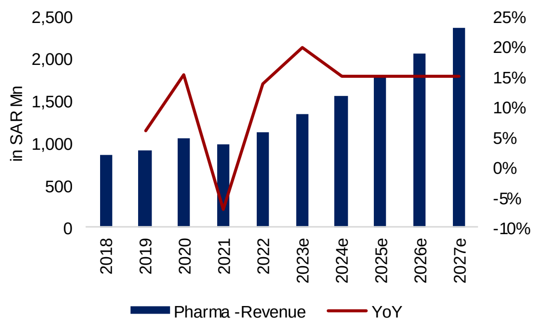
Scope for increasing market share in govt tendering



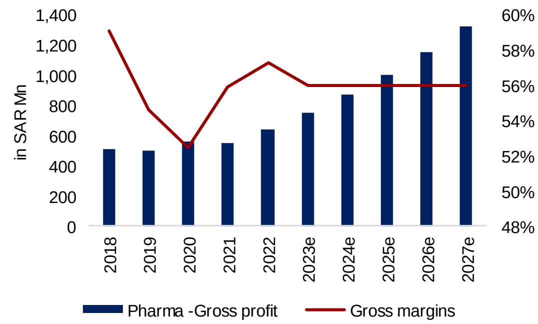
Source: Company reports, US Research

Based on the recent accommodative stance, we expect the industry growth rate to increase from mid-single digits to 14-16% CAGR (2022-27e). Tabuk is forecasted to grow at the upper end of the band at 16% CAGR (2022-27e) much in line with the industry. The high growth is evidenced in the 1H23 results, when the company reported 23.9% YoY growth in revenues and we expect it to end the year 2023 with a 20% YoY growth. Multiple product launches and focus on high value products, coupled with already existing leadership position and regulatory support will ensure growth of the pharma segment.

TP expected to grow at 16% CAGR (23-27e)



Gross margins have stabilised around 56%



Source: Company reports, US Research

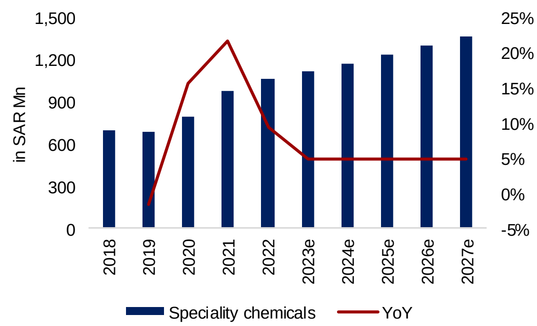
Tabuk is critical to the growth of AIG …

The growth of the pharma segment is critical to the prospects of AIG as it not only forms a significant part of the revenue and profit but the high margins ensure stability to the group and offsets the narrow margins from other smaller businesses. We believe the current impetus in this segment will be responsible to take the group revenue growth beyond 10.3% CAGR (2022-27e).

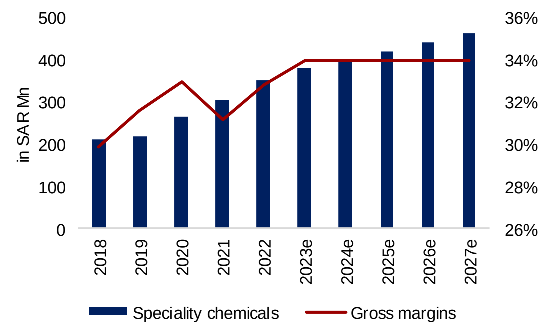
Speciality chemicals and fertilizers are systemically important businesses but growth to moderate

Speciality chemicals business is managed by two subsidiaries, Astrachem and Astra polymers. Both these companies together contributed to 38.7% of the group revenues and 28.9% of the gross profit in 1H23. Sales have grown by 10.9% CAGR over 2018-22 and gross margins have been in the range of 30-32%. The intrinsic demand for both fertilizers and high quality chemicals has translated into revenue growth for this segment.

High competition to slow segment growth



Cost control to keep margins steady



Source: Company reports, US Research

Agrochemicals essential for food security and to improve crop yield …

Astrachem is the agrochemical manufacturing subsidiary of the AIG group which began operations in 1998. The company has a product portfolio of 150+ products consisting of agrochemicals, fertilizers, public health, veterinary pesticides, seeds, and other agricultural products. It has 2 manufacturing facilities located in Dammam, with 7 production and packaging lines and 1 powder filing line, with an annual production capacity of 176,000 MT and 300 employees. Astrachem also maintains another facility in Turkey for producing pesticides and plant growth regulators. The company is currently the leading agrochemical company in Saudi with a distribution network spanning over 24 countries across the MENA, Central Asia, and Europe. Astrachem has lined up plans to further expand into larger international markets like China. Saudi Arabia is the largest market for agriculture in the GCC region, contributing SAR 53bn annually to the country's GDP. The scarcity of water resources has led to tighter regulations on the usage of land for arable purposes. Farmers are hence required to use fertilizers to increase the crop yield. This has generated significant demand for agrochemicals and Astrachem has been one of the beneficiaries of this scenario.

BASF provides high end technology to manufacture quality products …

Astra Polymers Compounding Company (Astra Polymers) is a polymer compound and additive manufacturing company founded in 1993. The company is a market leader in the region for producing high-quality masterbatch, dust-free additives and custom-made thermoplastic compounds, liquid or paste colorants for polymer manufacturing, polymer converting and plastics processing industries. This division has 5 production plants with 2 in Saudi and one each in UAE, Turkey, and India. The company has an exclusive agreement with Badische Anilin und Soda Fabrik

(BASF) the largest chemical manufacturer in the world to produce customer specific blends (CSB) in Saudi Arabia. This collaboration has helped the company maintain a high quality product portfolio with technology provided by a global leader. Saudi Arabia currently dominates the specialty chemicals market with a 70.5% market share in the GCC, at a valuation of USD 21.8bn. This market is expected to grow at a CAGR of 4.5% over 2023e-27e to reach a valuation of USD 31bn. Key factors that will drive the growth in the polymer segment will include increasing investments in construction, oil and gas, personal care and cosmetics, automotive sector institutional cleaners, textile chemicals and food additives among others.

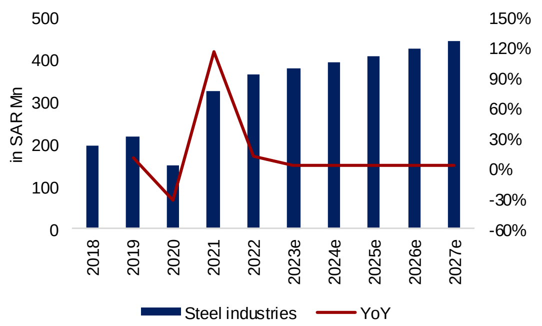
Despite the promising outlook for the industry, we expect significant competition and commoditized nature of business to curtail the growth rate of the segment. The revenue from this segment during the 1H23 was flattish evidencing the low growth. Based on this we forecast conservatively a growth rate of 5% CAGR over 2022-27e, which is lower than the historical average of 10.9% (2018-22). However, we estimate margins to move higher in the range of 33-35%, with increased production from low cost centers across the MENA/Asia region. We believe the speciality chemical division is involved in the manufacture of systemically important products and demand will remain steady

Other subsidiaries have low contribution but may offer growth in future

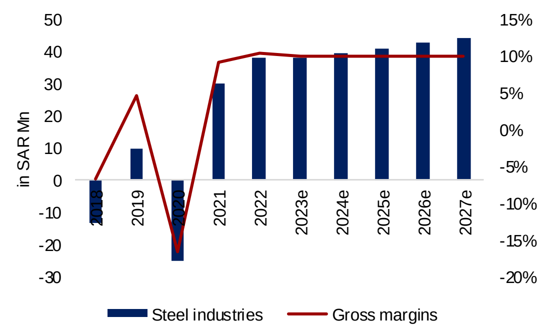
AIG group has several other business segments which have a lower contribution to revenue and profits. However, some of them offer significant scope for growth, scaling up opportunities and high margins such as the exposure to steel segment, through the International Building Systems Factory (IBSF). IBSF is a fabricator of pre-engineered buildings (PEB) and structural steel founded in 1993. The company operates through its 4 manufacturing plants located in KSA, with an annual production capacity of 66,000 tons/year. Over the past three decades the company has developed nearly 10,000 structures and has a client base across 36 countries with a primary focus in Saudi, UAE, and Bahrain. Major clients include large corporates such as ARAMCO, SABIC, ALBA, BAPCO, ADNOC etc. in the oil and gas industry and King Abdullah Sport City (KSA), Riyadh Metro (KSA), King Saud University (KSA) and Ministry of Finance (KSA).

Steel fabrication business will add to revenue not to profit …

Steel segment growth expected at low single digit



Stable margins expected in the range of 10%



Source: Company reports, US Research

The overall contribution of the steel segment to the group revenue was 13.4% in 1H23. The revenue of this segment grew by 16.7% CAGR 2018-22, but suffers from thin margins due to high cost of material and hence its contribution to the gross profit was a meagre 1.3% in 1H23. High competition from local and domestic players are likely to impact the growth of this segment and we estimate the sales to grow modestly at 4% CAGR (2022-27e).

Mining contribution is currently negligible …

Astra Mining is a more recent venture founded in 2011 and involved in the exploration of ores and minerals within Saudi Arabia. The mining operations are pursued through the factory located in the Al Kharj industrial area, which has a large land bank measuring 92,000 sqm. The company has a production capacity of 280,000 MTPA and manufactures industrial minerals like quick lime and hydrated lime. Astra Mining is currently in the process of expanding its operations by building 4 more factories in the same land area at an estimated capex of SAR 1.2mn over 2023-2027. This investment is estimated to increase the production capacity to 824,000 MTPA of industrial minerals (125,000 tons of quick lime and 99,000 tons of hydrated lime and 600,000 tons of other lime). The revenue of Astra mining in 2022 was SAR 33.9mn (1.3% of group revenue) and it reported a loss of SAR 9.6mn.

We believe the exposure to these industries provide diversification and offers scope for growth in a growing economy. While we are not forecasting any major addition to the bottom line from these segments, we are optimistic that couple of large contracts could change the fortunes in the steel segment and improvement in mining operations could be accretive over the long term.

Revenue growth in double digits, while margins to hold steady

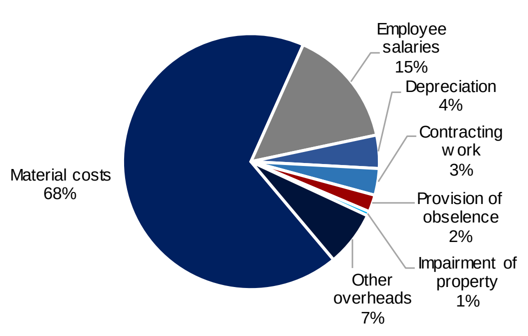
Pharma to be the growth driver going forward…

Revenue for the group has been growing at 9.6% CAGR (2018-22), largely contributed by the pharmaceutical and specialty chemical segment. Considering the impetus provided by the government, we expect growth in the pharma segment will increase. We are more conservative on the other segments in terms of growth and expect a moderation on account of higher competition in the specialty chemical and steel business. The higher growth in pharma and moderation across other segments will shift the revenue contribution of the various segments of the group. We expect the pharma segment to attribute 55.9% by 2027e, from the current 46.8% to overall group revenues. We have forecasted group revenues to increase by 10.3% CAGR (2022-27e).

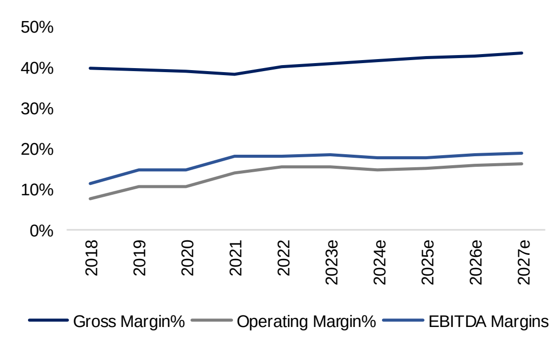
Group margins to remain steady…

Raw material costs contributed to 68% of the overall direct expenses for the group in 2022. AIG has rationalized its workforce and employee costs have reduced from 12% of revenue in 2018 to 9% in 2022. The group has kept all other overheads in a narrow range, thereby ensuring stability in gross margins. Gross margins for AIG have been historically in the range of 38-40% and we have forecasted a marginal increase to 43% by 2027e, on the back of further improvement in efficiency and higher contribution from low-cost manufacturing facilities. There has been no major volatility in the operating expenses and we expect the operating and EBITDA margins to remain robust at 15% and 18% respectively. We expect EBITDA to grow by 10.5% CAGR (2022-27e) primarily triggered by the pharma segment.

Material costs is the major direct expense (2022)



Operational efficiencies ensure stable margins

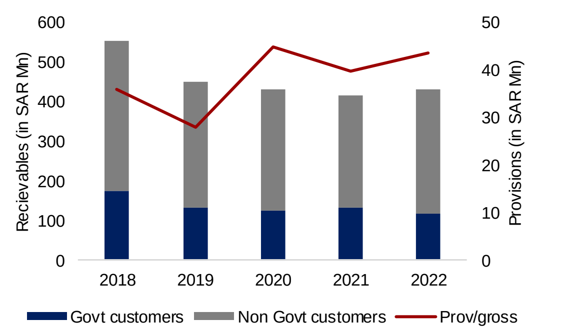


Source: Company reports, US Research

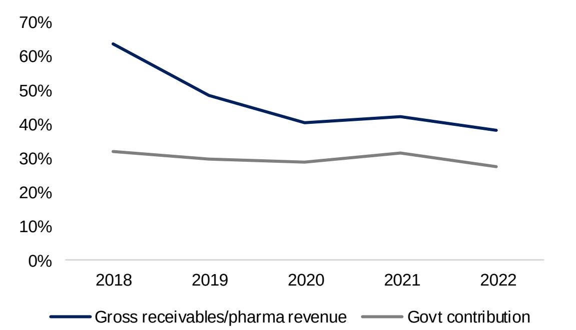
Pharma receivables on a declining trend…

The pharma segment suffered from significant increase in receivables due to its exposure to the government tendering. However, we are witnessing a tangible decline in this trend over the last four years. The overall gross pharma receivables have declined from 63.6% of segment revenues in 2018 to 38.2% in 2022. The composition of receivables from the government has also declined from 31.8% in 2018 to 27.7% in 2022. The group has also conservatively provisioned 10% of the gross pharma receivables for impairment. Overall group receivables have also been on a declining trend from 49.2% of revenue in 2018 to 32.3% in 2022. Other working capital parameters such as inventory and payables have been well managed and we do not expect significant volatility in the same.

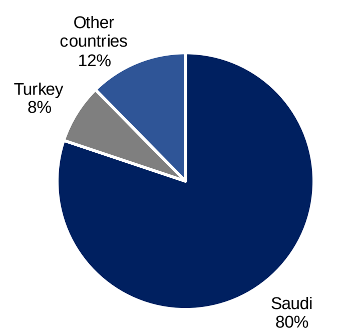
Non govt pharma recievables higher



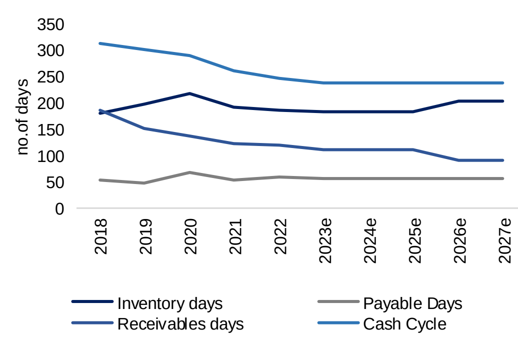
Govt share of recievables in pharma declining



Saudi related recievables form the majority



Recievable days likely to reduce

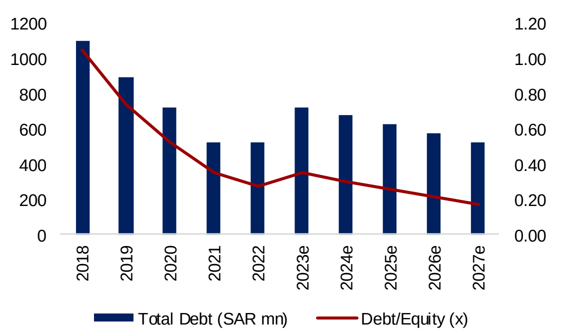


Source: Company reports, US Research

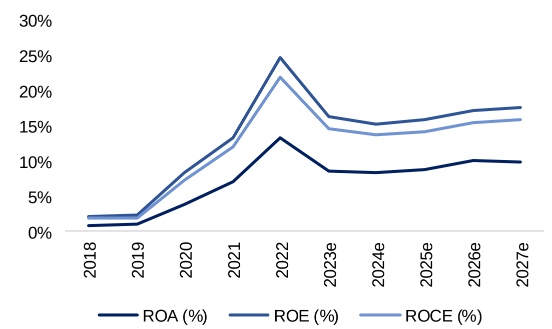
High cash, low capex and declining debt …

In February 2022, Al Tanmiya Co for steel manufacturing (a Jordanian steel manufacturing subsidiary of AIG) sold its entire investment in Alanmaa (an Iraqi entity involved in power and steel business) to Al-Ghad Al-Mutakamel Company for SAR 731.2mn. The net gain from the transaction was SAR 182.9mn which was recorded in the income statement of 2022 and resulted in higher profits and cash levels for the year. The higher cash has led to a negative net debt scenario for the group. The sale also resulted in reduction in the fixed assets from SAR 1,148mn to SAR 789mn. As of 1H23, the group carries cash of SAR 912mn which is 23% of the total assets. We believe the cash levels to be high considering that the company is a large scale manufacturer. The group operates on low debt and have limited plans for capex. We do not expect any increase in debt other than for working capital needs, however rising interest rates may lead to higher finance costs going forward. We expect debt equity ratio to reduce further from 0.37x as of 1H23 to less than 0.2x by 2027e.

Debt likely to reduce with no major capex expected



Return ratios to steady around current levels

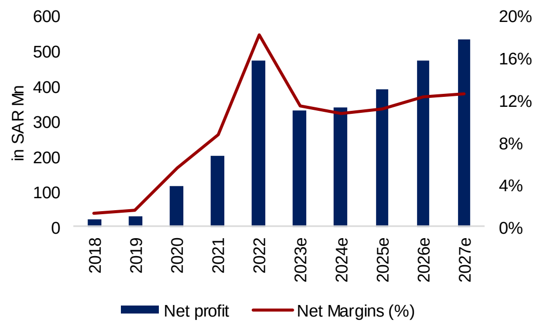


Source: Company reports, US Research

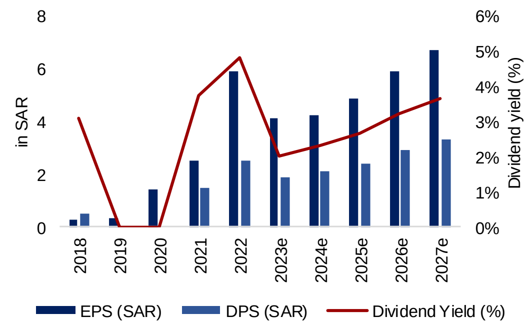
Strong financial position to ensure sustained profitability …

The growth in top line, consolidation of subsidiaries, disposal of non-performing entities, lower selling expenses, higher operational efficiencies and declining interest costs have combined to increase the net income for the group. Net margins have increased from 5.2% in 2020 to 11.7% in 2022 (before disc operations). We expect the company to maintain similar net margins going forward translating into a net income growth of 13.2% CAGR (2022-27e) (adjusting for disc operations in 2022). Based on the higher profitability, increase in cash levels and lack of capex plans, the company is likely to have a higher dividend payout going forward. AIG paid SAR 2.5/share in May 2023 based on the 2022 performance at a payout ratio of 42%. We have estimated this to increase to +50% over our forecast period.

Net margins to remain steady, net profit to grow



DPS to increase with higher profitability



Valuation

We have valued the company using DCF method using forecasts through 2023-2027e. We considered the cost of equity at 9.9% derived from risk free rate of 5.0%, equity risk premium of 6%, and beta of 0.81x. We arrive at a WACC of 9.52% for the company, after taking into account a cost of debt of 9% and a target debt to equity of 30%. We assume a terminal growth rate of 1% post the forecast period. Our DCF valuation of AIG provides an intrinsic value of SAR 96.59/share which is 6.2% higher from the current price.

DCF Method (in SAR mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Post-tax operating profit (NOPAT)	**404**	**430**	**477**	**551**	**616**
Add: Depreciation & amortization	90	95	100	106	112
Less: Change in working capital	-58	-100	-112	-154	96
Less: Capex	-87	-95	-104	-115	-127
Free Cash Flow to Firm	**349**	**330**	**360**	**388**	**698**
PV of Free Cash Flows	344	297	297	292	481
PV of Terminal Value					6,301
Enterprise Value					8,012
Less: Net debt					(147)
Less: Minorities & Pension liabilities					138
Equity value					**7,727**
No of shares					80
Fair value per share (SAR)					**96.59**

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.81
Equity Risk premium (Rm)	6.0%
Cost of equity (Ke)	9.9%
Terminal growth rate (g)	1.0%
Pre-tax Cost of Debt	9.0%
Effective tax rate	10.0%
After tax cost of debt	8.1%
Target Debt/Equity	30.0%
WACC	9.3%

DCF target price at SAR 96.59/share provides an upside of 6.2%…

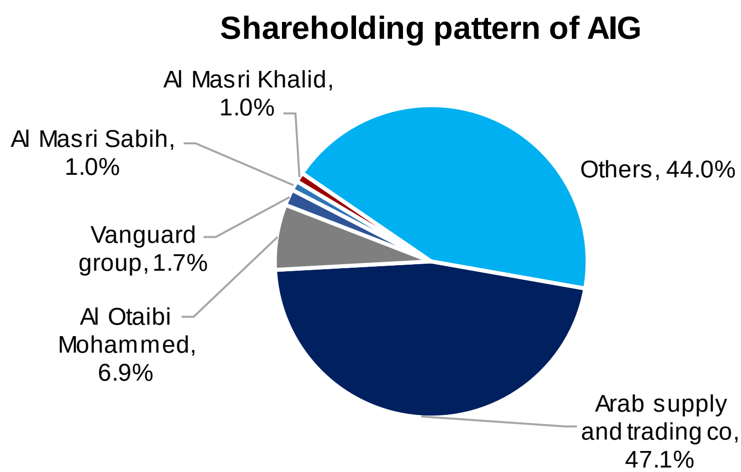
AIG has been an outperformer with market price reflecting the change in its fundamentals. The stock price has appreciated by 5x in the last 4 years and 76% YTD. While we are positive on the company primarily based on the pharma segment in which it operates, we believe most of the positives have already been discounted by the market and the current price is closer to the fair value. Hence we initiate coverage of the stock with a HOLD rating and a target price of SAR96.59/share.

Key risks

- Exposure to multiple countries poses currency risk, especially Turkey and Sudan
- The company has significant receivables, some from outside the country; the delay in recovery can result in financial loss.
- Variability of raw materials, which consist of over 65% of the direct costs, can cause significant volatility in the margins and impact the profitability.
- Slowing of the economy can cause lower demand for products
- Changes in regulations, especially related to pharma products can have significant impact on the financials and group strategy

Company profile

Astra Industrial Group (AIG) is a four-decade old manufacturing conglomerate which has interests in pharma, agrichemicals, polymers, steel and mining. AIG manages these businesses through its subsidiaries, some of the important ones include Tabuk Pharmaceuticals, Astrachem, Astra polymers, International Building systems factory, Astra mining etc. While predominantly serving the Saudi market, the group also has exposure to over 41 countries. AIG has established manufacturing plants across Africa, Asia and Middle east to cater to the respective regional markets.



BOARD OF DIRECTORS

S.NO.	NAME	POSITION	CATEGORY
1	Sabih Taher Masri	Chairman	Non Executive
2	Khaled Sabih Masri	Board Member	Non Executive
3	Ghassan Ibraheem Akeel	Board Member	Non Executive
4	Farraj Mansour Abuthenain	Board Member	Non Executive
5	Ali Abdulrahman AlSubaihin	Board Member	Independent
6	Mohammad Nejr AlUtaibi	Board Member	Non Executive
7	Kamil Abdulrahman Sadeddin	Board Member	Non Executive
8	Abdulkarim Ibraheem AlNafi	Board Member	Independent
9	Khalid Abdulaziz AlMana	Board Member	Independent

Source: Bloomberg®, US Research

Income Statement (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	1,867	2,048	2,330	2,594	2,891	3,169	3,481	3,832	4,227
Cost of goods sold	-1,129	-1,245	-1,436	-1,554	-1,709	-1,852	-2,011	-2,189	-2,387
Gross profit	**738**	**803**	**895**	**1,040**	**1,182**	**1,316**	**1,469**	**1,643**	**1,840**
Selling and distribution exp	-350	-364	-334	-359	-405	-452	-505	-565	-634
General and administrative exp	-152	-150	-185	-255	-289	-325	-365	-412	-465
Provision for impairment	-17	-55	-22	-5	-19	-39	-43	-23	-22
Research expenses	-23	-21	-26	-25	-29	-32	-35	-38	-42
Operating profit	**196**	**212**	**326**	**396**	**441**	**469**	**522**	**604**	**677**
EBITDA	**277**	**301**	**419**	**470**	**531**	**564**	**622**	**710**	**789**
Share of profit (loss) of JV	-31	-	-	-	-	-	-	-	-
Finance costs	-80	-48	-52	-47	-65	-61	-56	-52	-47
Other income (Net)	-72	-21	-32	-12	-6	-16	-17	-19	-21
PBT	**12**	**144**	**242**	**337**	**369**	**393**	**448**	**533**	**609**
Zakat and income tax expense	22	-38	-26	-34	-37	-39	-45	-53	-61
Net Profit before disc ops	**35**	**106**	**216**	**303**	**332**	**353**	**403**	**480**	**548**
Discontinued operation	-	-	-23	183	-	-	-	-	-
Net Profit	**35**	**106**	**194**	**486**	**332**	**353**	**403**	**480**	**548**

Balance Sheet (in SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	1,225	1,189	1,148	789	785	785	790	799	814
Intangible assets	30	32	36	73	71	71	71	71	71
Non-current assets	19	9	6	5	4	4	4	4	4
Non-current assets	**1,274**	**1,230**	**1,190**	**867**	**860**	**861**	**865**	**874**	**889**
Inventories	611	744	755	783	854	926	1,006	1,204	1,313
Trade receivables	767	757	767	837	867	951	1,044	958	1,057
Due from related parties	3	2	2	31	33	33	33	33	33
Prepayments and other assets	122	113	127	168	173	190	209	230	254
Cash and cash equivalents	45	54	46	839	1,094	1,172	1,267	1,380	1,768
Current assets	**1,547**	**1,671**	**1,698**	**2,658**	**3,021**	**3,271**	**3,559**	**3,804**	**4,424**
ASSETS	**2,821**	**2,901**	**2,888**	**3,525**	**3,882**	**4,131**	**4,423**	**4,678**	**5,312**
Share capital	800	800	800	800	800	800	800	800	800
Reserves	345	341	330	372	370	370	370	370	370
Retained earnings	71	184	322	677	809	1,013	1,239	1,518	1,825
NCI	-12	61	52	64	62	62	62	62	62
EQUITY	**1,203**	**1,387**	**1,504**	**1,913**	**2,042**	**2,246**	**2,472**	**2,750**	**3,058**
Loans and lease liabilities	143	43	41	100	100	100	100	100	100
Due to related parties	87	30	-	-	-	-	-	-	-
Employees defined benefit liabilities	126	123	133	138	145	162	183	206	232
Non-current liabilities	**356**	**195**	**174**	**238**	**245**	**262**	**283**	**306**	**332**
Trade payables	146	224	210	242	256	278	302	328	358
Accrued expenses and other current lia	272	338	411	563	598	648	704	657	955
Loans and lease liabilities	750	682	488	428	627	577	527	477	427
Other current liabilities	93	75	101	140	113	120	136	160	182
Current liabilities	**1,261**	**1,319**	**1,210**	**1,374**	**1,595**	**1,623**	**1,668**	**1,622**	**1,922**
LIABILITIES	**1,617**	**1,514**	**1,384**	**1,612**	**1,839**	**1,885**	**1,951**	**1,928**	**2,254**
EQUITY AND LIABILITIES	**2,821**	**2,901**	**2,888**	**3,525**	**3,882**	**4,131**	**4,423**	**4,678**	**5,312**

Cash Flow (In SAR mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	374	272	378	357	486	471	515	558	886
Investing cash flow	-63	-56	-80	572	-87	-95	-104	-115	-127
Financing cash flow	-334	-212	-308	-364	-67	-261	-283	-303	-337
Change in cash	-20	9	-8	792	255	78	95	113	388
Beginning cash	65	45	54	46	839	1,094	1,172	1,267	1,380
Ending cash	**45**	**54**	**46**	**839**	**1,094**	**1,172**	**1,267**	**1,380**	**1,768**

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (SAR)	0.4	1.4	2.5	5.9	4.2	4.4	5.0	6.0	6.8
BVPS (SAR)	15.0	17.3	18.8	23.9	25.5	28.1	30.9	34.4	38.2
DPS (SAR)	-	-	1.5	2.5	1.9	2.2	2.5	3.0	3.4
FCF per share (SAR)	3.9	2.7	3.7	11.6	5.0	4.7	5.1	5.5	9.5
Valuation									
Market Cap (SAR mn)	1,216	2,072	3,192	4,152	7,280	7,280	7,280	7,280	7,280
EV (SAR mn)	2,064	2,742	3,674	4,005	6,913	6,785	6,640	6,477	6,039
EBITDA	277	301	419	470	531	564	622	710	789
P/E (x)	40.9	17.9	15.8	8.8	21.9	20.6	18.1	15.2	13.3
EV/EBITDA (x)	7.4	9.1	8.8	8.5	13.0	12.0	10.7	9.1	7.7
Price/Book (x)	1.0	1.5	2.1	2.2	3.6	3.2	2.9	2.6	2.4
Dividend Yield (%)	0.0%	0.0%	3.8%	4.8%	2.1%	2.4%	2.8%	3.3%	3.8%
Price to sales (x)	0.7	1.0	1.4	1.6	2.5	2.3	2.1	1.9	1.7
EV to sales (x)	1.1	1.3	1.6	1.5	2.4	2.1	1.9	1.7	1.4
Liqiudity									
Cash Ratio (x)	0.04	0.04	0.04	0.49	0.69	0.72	0.76	0.85	0.92
Current Ratio (x)	1.23	1.27	1.40	1.93	1.89	2.02	2.13	2.35	2.30
Quick Ratio (x)	0.74	0.70	0.78	1.37	1.36	1.44	1.53	1.60	1.62
Returns Ratio									
ROA (%)	1.1%	4.0%	7.0%	13.5%	8.6%	8.6%	9.1%	10.3%	10.3%
ROE (%)	2.5%	8.3%	13.5%	24.8%	16.3%	15.7%	16.3%	17.4%	17.9%
ROCE (%)	1.9%	7.3%	12.1%	22.1%	14.5%	14.1%	14.6%	15.7%	16.2%
Cash Cycle									
Inventory turnover (x)	1.8	1.7	1.9	2.0	2.0	2.0	2.0	1.8	1.8
Accounts Payable turnover (x)	7.7	5.6	6.9	6.4	6.7	6.7	6.7	6.7	6.7
Receivables turnover (x)	2.4	2.7	3.0	3.1	3.3	3.3	3.3	4.0	4.0
Inventory days	197	218	192	184	183	183	183	201	201
Payable Days	47	66	53	57	55	55	55	55	55
Receivables days	150	135	120	118	110	110	110	91	91
Cash Cycle	300	287	259	245	237	237	237	237	237
Profitability Ratio									
Net Margins (%)	1.6%	5.6%	8.7%	18.3%	11.5%	11.2%	11.6%	12.5%	13.0%
EBITDA Margins (%)	14.9%	14.7%	18.0%	18.1%	18.4%	17.8%	17.9%	18.5%	18.7%
PBT Margins (%)	0.7%	7.0%	10.4%	13.0%	12.8%	12.4%	12.9%	13.9%	14.4%
EBIT Margins (%)	10.5%	10.4%	14.0%	15.3%	15.2%	14.8%	15.0%	15.8%	16.0%
Effective Tax Rate (%)	-178.8%	26.5%	10.6%	10.2%	10.0%	10.0%	10.0%	10.0%	10.0%
Leverage									
Total Debt (SAR mn)	893	724	529	529	727	677	627	577	527
Net Debt (SAR mn)	848	670	482	-147	-367	-495	-640	-803	-1,241
Debt/Equity (x)	0.7	0.5	0.4	0.3	0.4	0.3	0.3	0.2	0.2
Net Debt/Equity (x)	0.7	0.5	0.3	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4

Astra Industrial Group

01 November 2023

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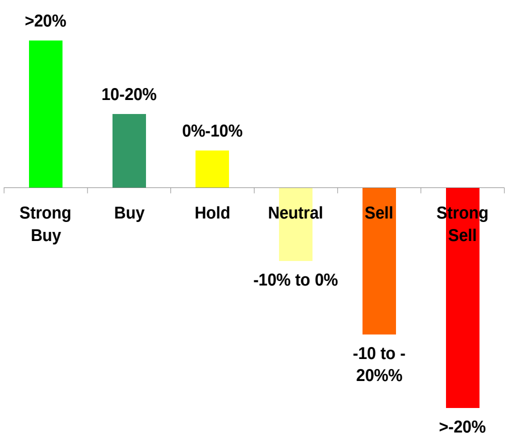
Rating Criteria and Definitions

Rating



Rating Definitions

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	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	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	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	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	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