Al Majed Oud Co.

Investment Update

We lower estimates incorporating more discounts and change in sales mix; after 56.4% run-up from IPO price, we downgrade to “Neutral”

Al Majed recorded net income of SAR 120.9mn in Q1-25, up 88.8% Y/Y, substantially outperforming our estimate of SAR 57.8mn, due to full incidence of Ramadan in Q1-25. In contrast to last year, we expect a double-digit Y/Y and sequential decline in earnings in Q2-25, as there are no Ramadan days in the outgoing quarter. Performance, however, will improve in H2-25 (on a Y/Y basis) as there would be almost no effect of the 11-day shift in Islamic calendar on key sales seasons (national day and end of year) that are based Gregorian dates. Despite lower SG&A costs, we cut 2025/26 earnings estimates by 5.9/9.5% to SAR 198/213mn, as we build in higher promotions/discounts and shift in sales mix towards lower margin products. After the 56.4% run-up from IPO price of SAR 94 per share, the company trades at a 2025E PE of 18.7x, at which we see limited room for further re-rating. Hence, we downgrade to “Neutral” rating with revised price target of SAR 149.4/share.

Earnings surpassed expectations recording an 88.8% Y/Y increase in Q1-25, as Ramadan fell entirely in Q1-25 as compared to 20 days in Q1-24: Al Majed recorded net income of SAR 120.9mn in Q1-25, up 88.8% Y/Y (+704.3% Q/Q), substantially outperforming our estimate of SAR 57.8mn. Deviation to our forecast is mainly owed to full incidence of Ramadan in Q1-25, as compared to first 20 Ramadan days in Q1-24. We highlight that last 9 days of Ramadan (peak Ramadan season) had per day sales of SAR 13.1mn in 2024, 2.5 times the per day sales of SAR 5.2mn seen in first 20 days of Ramadan. Hence, the advancement of Ramadan entirely into Q1-25 had an above expected increase in revenues. Overall, due to the preponement of Ramadan/ Eid, LFL sales grew by 45% Y/Y, which along with 60 store additions and new product launches took total sales to SAR 410mn in Q1-25, up 60.2% Y/Y (+41.4% deviation). In percentage terms, Accessories & Gifts segment saw the highest increase in sales of 166.9% Y/Y, however, on an absolute basis Perfume segment sales witnessed the largest increase of SAR 88.8mn Y/Y (+55.1% Y/Y) in Q1-25. Gross profit expanded by 57.1% Y/Y to SAR 270.9mn (+47.2% deviation), however gross margins contracted by 130bps Y/Y to 66.1%, decline in margins is due to higher discount offered during Ramadan season (which we reiterate had 9 more days in Q1-25 vs Q1-24). Operating income increased by 87.8% Y/Y to SAR 128.4mn (+105.6% deviation), as OPEX to sales declined to 34.8% in Q1-25 compared to 40.7% in corresponding period last year. The company saw a healthy 85% Y/Y increase in e-commerce sales to SAR 30mn.

Double-digit year over year and sequential earnings decline expected in Q2-25; performance to normalize in H2-25: In contrast to last year, where sales were steady in Q2-24 up 5.7% Y/Y and 0.4% Q/Q, we expect a 34.5% Y/Y and 58.9% Q/Q decline in topline in Q2-25 to SAR 168mn. Consequently, we forecast earnings to decline by 61.2% Y/Y and 82.1% Q/Q to SAR 22mn in Q2-25, despite 432bps Y/Y and 534bps Q/Q increase in margins due to less discounts and promotions. Despite Hajj season we expect Q2-25 to be the weakest quarter of the year, since it has no Ramadan days. Performance, however, will improve in H2-25 (on a Y/Y basis), as there would be almost no effect of the 11-day shift in Islamic calendar on key sales seasons (national day and end of year) that are based Gregorian dates. Overall, due to expanding retail footprint, new product launches and improving LFL sales we expect the company to post a 15.0% Y/Y increase in topline in H2-25 to SAR 475mn, and correspondingly earnings are expected to record an increase of 27.0% Y/Y (excluding the SAR 5.7mn non-recurring IPO expense that was incurred in Q4-24).

Recommendation	Neutral
Target Price (SAR)	149.4
Upside / (Downside)*	1.6%

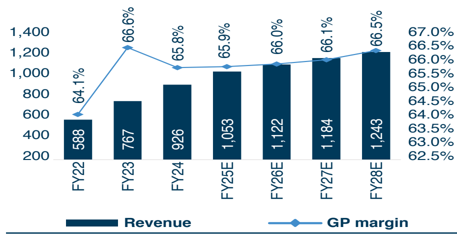
Source: Tadawul *prices as of 16th June 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenue	767	926	1,053	1,122
Growth %	30.36%	20.73%	13.73%	6.57%
Gross Profit	511	610	694	741
EBIT	160	179	219	236
Net Profit	149	157	198	213
Growth %	18.61%	5.57%	25.89%	7.67%
EPS	6.0	6.3	7.9	8.5
DPS	3.6	5.0	5.4	5.6

Source: Company reports, AlJazira Capital Research

Fig 1: Revenue (SAR mn) and GP Margin



Source: AlJazira Capital Research, Company reports

Key Ratios

	FY23	FY24	FY25E	FY26E
GP Margin	66.6%	65.8%	65.9%	66.0%
EBIT Margin	20.8%	19.3%	20.8%	21.1%
Net Margin	19.4%	17.0%	18.8%	19.0%
P/E (x)	15.8	23.3	18.7	17.3
P/B (x)	5.5	7.8	6.9	6.1
EV/EBITDA (x)	8.8	12.1	10.6	9.7
Dividend Yield	3.8%	3.4%	3.6%	3.8%

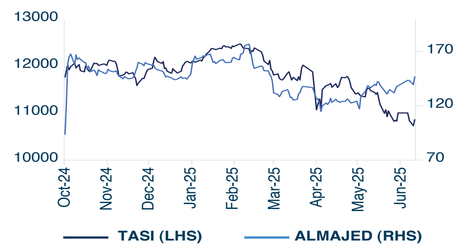
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	3.7
YTD%	0.68%
52 weeks (High)/(Low)	198.8/103.4
Share Outstanding (mn)	25

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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Despite lower SG&A costs, we cut margin & earnings estimates as we build in higher promotions/discounts and shift in sales mix towards lower margin products: Al Majed undershot our gross margin expectations in 2024 and Q1-25, due more promotion days and higher than expected contribution from lower margin segments. Building in higher promotions and changing product mix (more share of accessories and gifts), we revise down our 2025/26E gross margins by -162/172bps to 65.9/66.0%. On the other hand, the company has exceeded expectations in terms of operating efficiencies; as a result, we cut 2025/26E SG&A expenses by 2.0/5.2% to SAR 475/504mn. On a net basis we revise down our operating margins by 84bps each for 2025 and 2026, to 20.8% and 21.1%, respectively. Our revised 2025/26 earnings estimates stand at SAR 198/213mn, 5.9/9.5% lower than our earlier estimates. Overall, we expect the company to post a medium term 2024-28 revenue and net income CAGR of 7.6% and 13.1%, respectively, against earlier estimates of 9.2% and 15.3%.

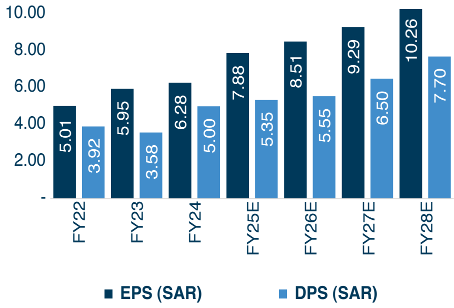
Low capex intensity, healthy cash generation, and debt free balance sheet to allow healthy stream of dividends: Historically AL Majed's capex intensity has remained within 3-12% of sales, with 4.6% in 2024. Going forward, we expect capex to average around 3.5% of sales over 2025-29. Low capex intensity, healthy operating cashflows of SAR 12.9 per share (2025E) and debt free balance sheet should enable the company to continue its healthy payout of 50-70% of earnings, as communicated by the management at the time of initial offering. Overall, we see the company paying out dividend of SAR 5.35/5.55 per share in 2025/2026, which corresponds to dividend yield of 3.6/3.8%, respectively. Though the company has not shared any intention of acquisitions, we highlight that it has expanded inorganically in the recent past (2022 acquisition of Khalta Perfumes Company that added 41 stores to company's portfolio) and since the company has the capacity to lever its balance sheet, we don't rule out further expansions through acquisitions.

AJC view and investment thesis: Unlike 2024, AL Majed's recent upbeat performance in Q1-25 will not sustain in Q2-25, as there are no Ramadan days included. We expect double-digit year over year and sequential decline in revenues and earnings in Q2-25; and performance to normalize in H2-25, where company is expected to post earnings growth of 27.0% Y/Y driven by branch additions, new product launches and higher LFL sales. Despite lower SG&A costs, we cut margin & earnings estimates as we build in higher promotions/discounts and shift in sales mix towards lower margin products. Our revised 2025/26 earnings estimates stand at SAR 198/213mn, 5.9/9.5% lower than our earlier estimates. Overall, we expect the company to post a medium term 2024-28 revenue and net income CAGR of 7.6% and 13.1%, respectively, against earlier estimates of 9.2% and 15.3%. After the 56.4% run-up from IPO price of SAR 94 per share, the company trades at a 2025E PE of 17.6x, at which we see limited room for further re-rating.

Valuation: We have assigned 50% weight to DCF (WACC 10.5% and 2.5% terminal growth) and 50% weight to 2025 PE (19x) to value the stock. Trading at 2025E Fwd. PE of 18.7x, we downgrade to a "**Neutral**" rating with an updated target price of **SAR 149.4/share**, implying an upside of 1.6% from last close.

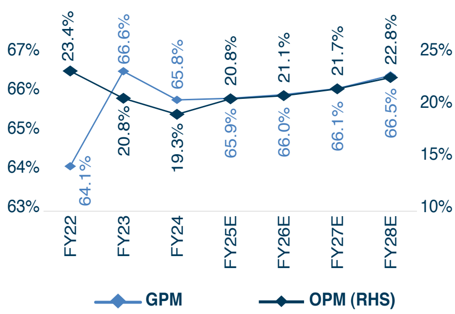
Downside risk: Slower than expected ramping up of new stores, larger/prolonged promotional campaigns that might impact GP margins, and increased share of low margin products. **Upside risk:** Further acquisitions due to debt free balance sheet, increase in payout to the upper end of guidance and faster ramping up of new stores.

Fig 2: EPS and DPS trend



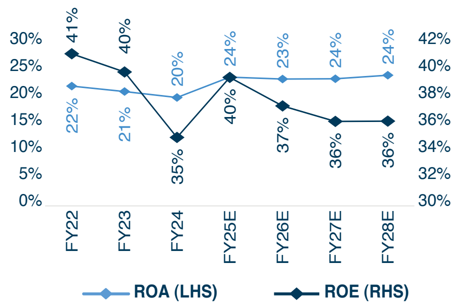
Source: Company reports, AlJazira capital Research

Fig 3: Gross and OPM trend



Source: Company reports, AlJazira capital Research

Fig 4: ROE and ROA



Source: Company reports, AlJazira capital Research

Blended Valuation

Valuation type	Fair Value	Weight	Weighted Fair Value
DCF	141.8	50%	74.5
PE 2025 (19x)	144.4	50%	74.8
Target Price (SAR/share)			**149.4**
Expected Capital Gain			**1.6%**

Source: Aljazira Capital Research, Prices as of 16th June 2025

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenues	442	588	767	926	1,053	1,122	1,184	1,243	1,297
Y/Y	**7.20%**	**32.98%**	**30.4%**	**20.7%**	**13.7%**	**6.6%**	**5.54%**	**4.96%**	**4.32%**
Cost of revenue	(168)	(211)	(256)	(316)	(359)	(382)	(401)	(417)	(430)
Gross profit	**275**	**377**	**511**	**610**	**694**	**741**	**783**	**826**	**867**
GPM	**62.1%**	**64.1%**	**66.6%**	**65.8%**	**65.9%**	**66.0%**	**66.1%**	**66.5%**	**66.8%**
SG&A	(165)	(240)	(351)	(431)	(475)	(504)	(526)	(543)	(556)
EBITDA	163	222	266	299	340	367	394	427	461
Y/Y	**-7.9%**	**36.8%**	**19.7%**	**12.2%**	**13.8%**	**8.0%**	**7.6%**	**8.4%**	**7.9%**
Operating profit	**109**	**138**	**160**	**179**	**219**	**236**	**257**	**283**	**310**
Y/Y	**-15.6%**	**25.9%**	**15.9%**	**11.9%**	**22.5%**	**8.1%**	**8.8%**	**10.2%**	**9.4%**
OPM	**24.7%**	**23.4%**	**20.8%**	**19.3%**	**20.8%**	**21.1%**	**21.7%**	**22.8%**	**23.9%**
Financial charges	(6)	(8)	(12)	(14)	(14)	(13)	(13)	(14)	(14)
Income before zakat	**107**	**133**	**157**	**166**	**209**	**225**	**245**	**271**	**298**
Zakat	(6)	(8)	(8)	(9)	(12)	(12)	(13)	(14)	(16)
Net income	**101**	**125**	**149**	**157**	**198**	**213**	**232**	**257**	**282**
Y/Y	**-18.5%**	**24.1%**	**18.6%**	**5.6%**	**25.9%**	**7.7%**	**9.2%**	**10.5%**	**9.9%**
EPS (SAR)	4.04	5.01	5.95	6.28	7.88	8.51	9.29	10.26	11.28
DPS (SAR)	4.72	3.92	3.58	5.00	5.35	5.55	6.50	7.70	8.45
Balance sheet									
Assets									
Cash & equivalent	7	23	54	30	79	132	185	235	307
Other current assets	240	260	346	385	389	410	429	440	449
Total current assets	**248**	**283**	**400**	**415**	**468**	**542**	**614**	**675**	**756**
Property plant & equipment	61	105	133	141	146	149	151	152	145
Right of use assets	185	241	233	237	252	255	261	267	271
Total assets	**499**	**633**	**772**	**794**	**867**	**947**	**1,028**	**1,096**	**1,174**
Liabilities & owners' equity									
Trade payables	14	14	24	45	39	41	44	46	48
Other current liabilities	61	132	164	123	129	130	134	135	137
Total current liabilities	**75**	**146**	**188**	**168**	**167**	**172**	**177**	**181**	**185**
Lease liabilities – non-current	127	160	146	143	152	154	159	160	164
Total non-current liabilities	**134**	**169**	**157**	**158**	**167**	**170**	**175**	**175**	**179**
Share capital	50	250	250	250	250	250	250	250	250
Reserves	240	68	177	218	282	356	426	490	560
Total owners' equity	**290**	**318**	**427**	**468**	**532**	**606**	**676**	**740**	**810**
Total equity & liabilities	**499**	**633**	**772**	**794**	**867**	**947**	**1,028**	**1,096**	**1,174**
Cashflow statement									
Operating activities	168	237	169	221	323	338	367	406	440
Investing activities	(20)	(60)	(59)	(36)	(40)	(43)	(45)	(47)	(43)
Financing activities	(155)	(162)	(80)	(209)	(233)	(242)	(269)	(309)	(325)
Change in cash	(7)	16	31	(24)	50	53	53	49	72
Ending cash balance	**7**	**23**	**54**	**30**	**79**	**132**	**185**	**235**	**307**
Liquidity ratios									
Current ratio (x)	3.3	1.9	2.1	2.5	2.8	3.2	3.5	3.7	4.1
Quick ratio (x)	3.2	1.8	1.8	2.3	2.3	2.4	2.4	2.4	2.4
Profitability ratios									
Gross profit margin	62.1%	64.1%	66.6%	65.8%	65.9%	66.0%	66.1%	66.5%	66.8%
Operating margin	24.7%	23.4%	20.8%	19.3%	20.8%	21.1%	21.7%	22.8%	23.9%
EBITDA margin	36.7%	37.8%	34.7%	32.2%	32.2%	32.7%	33.3%	34.4%	35.6%
Net profit margin	22.8%	21.3%	19.4%	17.0%	18.8%	19.0%	19.6%	20.7%	21.8%
Return on assets	19.9%	22.1%	21.2%	20.1%	23.8%	23.5%	23.5%	24.2%	24.9%
Return on equity	33.8%	41.3%	39.9%	35.1%	39.5%	37.4%	36.3%	36.3%	36.4%
Leverage ratio									
Net Debt / equity (x)	(0.03)	(0.07)	(0.02)	(0.06)	(0.15)	(0.22)	(0.27)	(0.32)	(0.38)
Market/valuation ratios									
EV/sales (x)	5.3	4.0	3.1	3.9	3.4	3.2	2.9	2.8	2.6
EV/EBITDA (x)	14.4	10.5	8.8	12.1	10.6	9.7	8.9	8.1	7.3
Market-Cap	2,349	2,352	2,349	3,652	3,687	3,677	3,677	3,677	3,677
P/E ratio (x)	23.3	18.8	15.8	23.3	18.7	17.3	15.8	14.3	13.0
P/BV ratio (x)	8.1	7.4	5.5	7.8	6.9	6.1	5.4	5.0	4.5
DY (%)	5.0%	4.2%	3.8%	3.4%	3.6%	3.8%	4.4%	5.2%	5.7%

Source: Company reports, Aljazira Capital Research

الجزيرة كابيتال
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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer