INVESTMENT RESEARCH | Saudi Arabia

Pharma retail

Nahdi Medical Company	BUY
12M Price Target (SAR)	159.85
CMP (SAR)	142.00
Potential Upside (%)	12.6%
Market Cap (SAR mn)	18,460
P/B (2024E)	7.0x
P/E (2024E)	19.4x
EV/EBITDA (2024E)	11.0x
Dividend Yield (2024E)	4.1%
ROE (2023E)	36.2%

Aldawaa Medical Services	NEUTRAL
12M Price Target (SAR)	103.99
CMP (SAR)	114.40
Potential Upside (%)	-9.1%
Market Cap (SAR mn)	9,724
P/B (2024E)	5.5x
P/E (2024E)	19.3x
EV/EBITDA (2024E)	14.5x
Dividend Yield (2024E)	2.3%
ROE (2023E)	28.3%

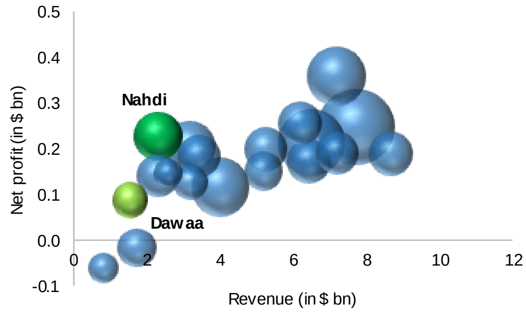
Saudi Pharma retail – imminent growth

The recent socio economic changes witnessed in Saudi is bringing radical changes to several sectors. One such area that has received significant interest is healthcare. The government has introduced several policy measures to overhaul the healthcare ecosystem which includes privatizing hospitals, encouraging indigenous production of pharmaceuticals and facilitating the distribution of medicines through private pharmacies. The trend towards privatizing the sector is still at its early stages and there are several unmet demands to capitalize, for the companies in this space. Some of the larger players in the segment who are already having sufficient market share will be the biggest beneficiaries of the current transformation. Amongst the several sub segments in healthcare, we believe the pharma retail segment is the best placed and has the highest beta considering the relatively lower regulatory requirements, minimal capex and easy access to customers. It is also a direct beneficiary of the growing and attractive consumer story that is currently under play in the country. Nahdi Medical Company and Aldawaa Medical Services are the two leading companies in the Saudi Pharma retail sector which got listed almost simultaneously in March 2022. However, despite belonging to a homogenous sector with little differentiation, they have diverse business models and cater to different customer segments. Post listing the share price of both these companies have moved in different directions with Nahdi dropping 33% from the high in Oct 2022 and gaining only 7.5% from the listing date. Whereas, Dawaa has increased almost linearly by 62% since listing. Both the companies trade at about 19.4x 2024 PE but have different growth rates, margin structures and return ratios. We are positive on the industry and believe both these companies are unique and will witness significant and steady increase in revenue and profits over the next five years.

Nahdi Medical Company (Nahdi, BUY TP SAR 159.85): Nahdi is the largest pharma retailer in Saudi with 1,105 outlets across the country and 12 in UAE. It focusses on premium non-pharma brands to entice its customers and hence has higher margins than peers. Post a period of flattish revenues, the company has embarked on a store rationalization process and focused on improving its digital presence. Geographical diversification into UAE is also garnering customers, along with addition of polyclinics. While exposure to government programs is minimal currently, we expect the company will participate in it going forward, which will help improve volumes. We have arrived at an intrinsic value for the company at SAR 159.85/share which provides an upside of 12.6%. We initiate coverage on Nahdi with a BUY rating.

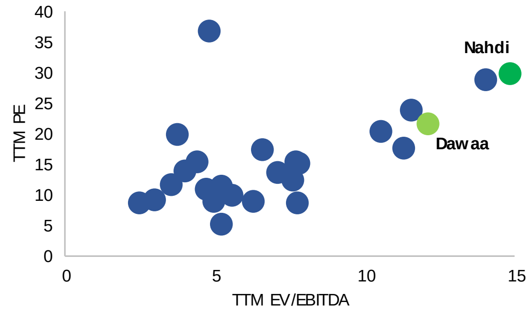
Aldawaa Medical Services (Dawaa, NEUTRAL TP SAR 103.99): Dawaa is the second largest pharmacy chain in the Kingdom with 879 outlets. The company focusses primarily on the middle class, with the majority of the pharma and non-pharma products catering to their need. Dawaa is associated with several government programs such as Wasfaty through which it hopes to increase its sales. As of 2022, Wasfaty accounted for 14% of the total revenue and is expected to grow at 25-30% CAGR over the next five years (2022-27e). The company is venturing into the manufacturing of medical equipment, which will provide a source of additional revenue. The company has lower net margins at c.5.3% compared to Nahdi. We arrive at an intrinsic value of SAR 103.99/share which is 9.1% lower than the current price, hence we initiate coverage with a NEUTRAL rating.

Both companies are amongst the top 20 globally

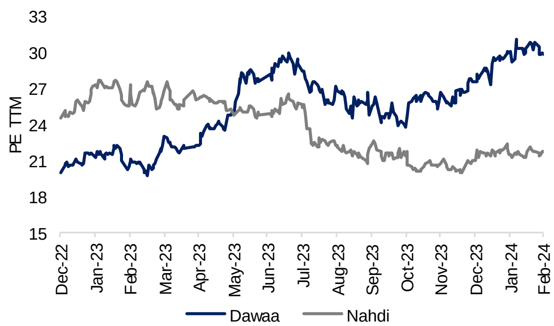


* Size represents market cap, Walgreens boot alliance is not considered

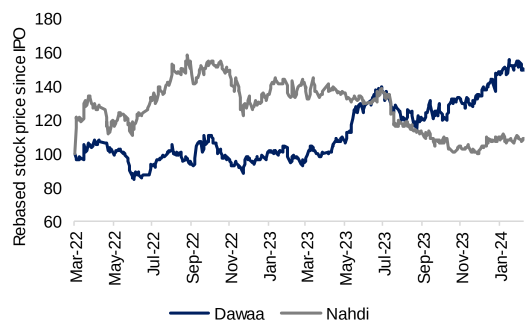
Premium valuations compared to global peers



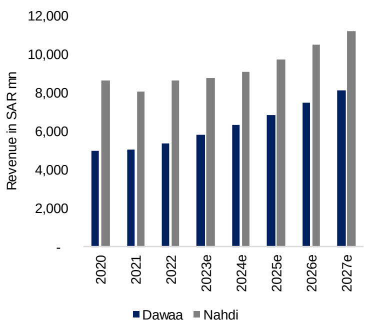
Valuations have diverged significantly

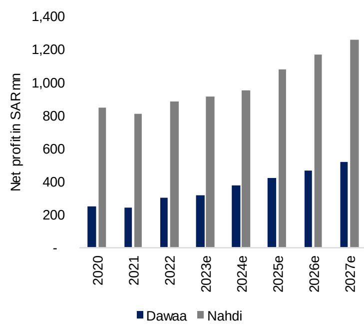


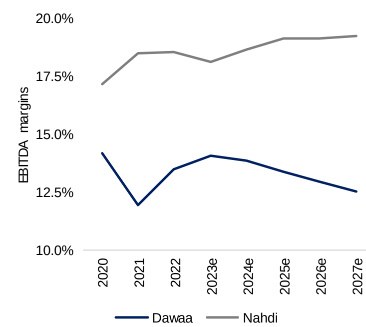
Prices moved in different trajectories post listing



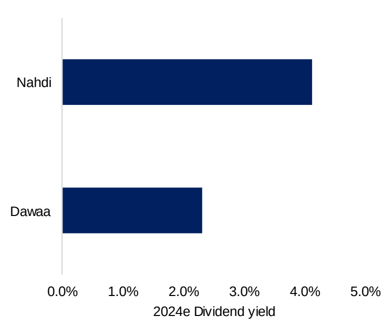
While growth rates are faster for Dawaa, Nahdi is a much larger company with higher margins

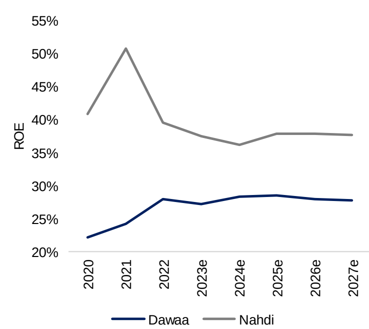


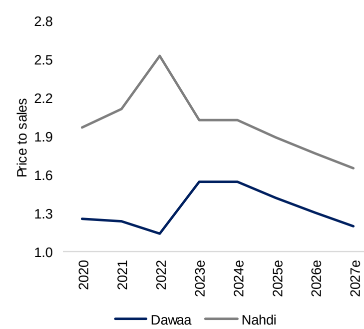




Nahdi offers higher dividend yield, has higher gross margins and premium valuation







Source: Bloomberg®, Company report, US research

INVESTMENT RESEARCH | Saudi Arabia

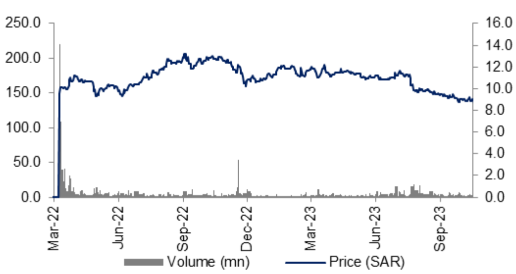
المتحدة للأوراق المالية ش.م.م
UNITED SECURITIES LLC

Pharma retail

BUY: 12M TP @ 159.85

Upside +12.6%

Valuation Summary (TTM)			
Price (SAR)			142.00
PER TTM (x)			21.7
P/Book (x)			8.1
P/Sales (x)			2.1
EV/Sales (x)			2.2
EV/EBITDA (x)			11.4
Dividend Yield (%)			3.5
Free Float (%)			39%
Shares O/S (mn)			130
YTD Return (%)			4%
Beta			0.8
(mn)		**SAR**	**USD**
Market Cap		18,460	4,922
Total Assets		18,641	4,971
Price performance (%)	**1M**	**3M**	**12M**
Nahdi Medical Co	2%	5%	-22%
Tadawul All Share Index	6%	13%	24%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	78,549	76,145	55,304
Avg Daily Volume (,000)	548	546	395
52 week	**High**	**Low**	**CTL***
Price (SAR)	190.00	129.00	10.1
* CTL is % change in CMP to 52wk low			
Major shareholders			
AL-NAHDI HOLDING CO			35%
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**	**2023e**
EPS (SAR)	NA	6.83	7.02
BVPS (SAR)	NA	17.26	18.78
DPS (SAR)	NA	2.31	5.50
Payout ratio (%)	NA	34%	78%



Nahdi Medical Company – bottomed out

Nahdi medical company is the largest pharmacy chain in Saudi with about 31% revenue market share. The company operates 1,105 outlets across Saudi and 12 in UAE. Additionally, it has entered into healthcare services with 5 polyclinics and 45 express clinics providing a complete range of healthcare services to its customers. Nearly 65% of the revenue is derived from non-pharma business through the sale of premium products related to health and wellness, beauty and other FMCG items. The company has collaborated with several international and local brands to service the needs of its premium customers. Unlike its peer Aldawaa, Nahdi is not an active participant in the government programs, such as Wasfaty, hence there is no dilution in margins and experiences higher revenue realization on its products. However, the recent rise in ecommerce has led to intense competition and the revenue growth has plateaued in this segment. The company has also been facing pressure on its core pharma business, which is growing at low single digits. The management is cognizant of the situation and has taken corrective measures such as store rationalization, increased focus on omni-channel revenues, and geographical diversification into UAE. Moving into healthcare services is also an additional revenue source for the company. We also expect the company to eventually participate in the government programs to grow its volumes. The stock price of Nahdi has declined by 33% after reaching a high of SAR 210/share, due to the flattish growth in the last one year. We believe the slump in revenue has bottomed out and measures taken to improve the sales will reflect positively going forward. We estimate revenue to grow at 6.2% CAGR (2022-27e) and profit to increase by 8.3% CAGR (2022-27e). We arrive at a blended intrinsic value of SAR 159.85/share, which provides and upside of 12.6% from current levels. Based on our target price we initiate coverage on Nahdi with a BUY rating.

Market leadership, expansion into UAE and healthcare services will protect downside: The government Vision 2030 plans to increase the Saudi population from the current 32mn to 50mn by 2030. This will be the main driver for volume growth in the case of companies that offer retail services such as Nahdi. The company with its successful operations for over 40 years has built a premium brand and a loyal customer base. Its market leadership position will be leveraged in the current upcycle and we expect the company to garner further market share going forward considering only few players of this size operate in the country. Expansion into UAE and adding polyclinics will further improve the customer base and protect further downside.

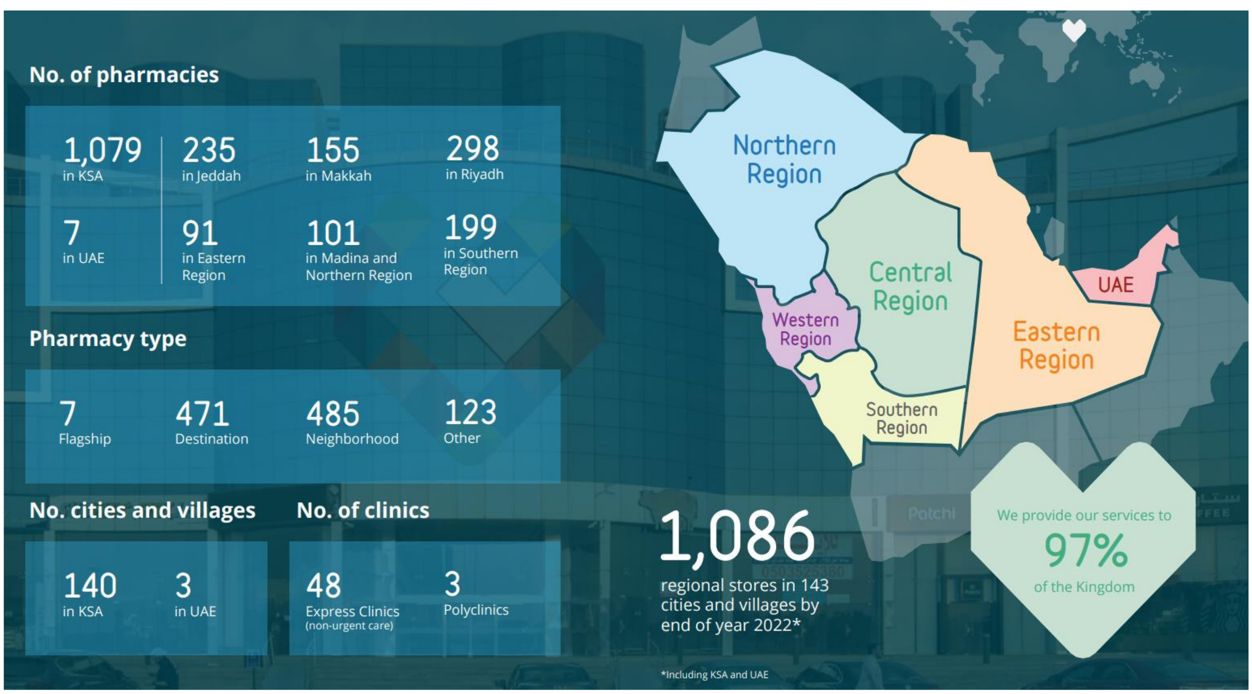
Valuation: We are extremely positive on the pharma retail sector based on its critical importance and rising consumer trend. Impetus provided by the government and its move towards privatization will bring volumes to players like Nahdi. We believe the stock price has undergone excessive pessimism and is currently undervalued compared to its peers. At current price it trades at a PE of 19.4x (2024) and has a 4% dividend yield. We believe the stock price has bottomed out and based on our intrinsic value of SAR 159.85/share we initiate coverage on Nahdi with a BUY rating.

Market leadership, omnipresence, premium clientele and high non-pharma sales

Nahdi is the largest pharma chain in Saudi…

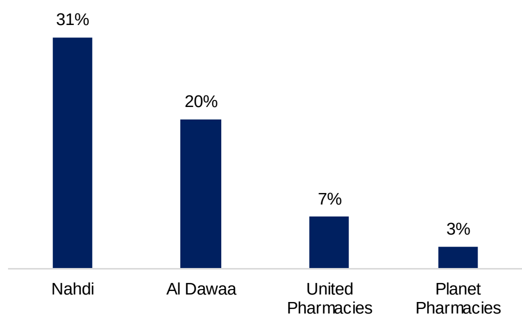
Nahdi operates 1,105 outlets in KSA constituting more than 10% of the total pharmacies in the Kingdom and covering 95% of the population. It has a revenue market share of 31% in Saudi and is the largest player in the pharma retail space. In an attempt to geographically diversify its business, it has also established 12 pharmacies in the UAE with a total store area of 441k sqm. Additionally, Nahdi operates three distribution centers in Jeddah, Riyadh and Abha equipped with latest technology that delivers more than 236mn units each year. Recently, it has ventured into healthcare services by setting up 5 polyclinics and more than 48 express clinics across Saudi. Nahdi's leadership in Saudi pharma retail is attributed to its non-pharma business through which it has managed to increase the footfalls into its stores. The non-pharma products contribute about 65% of the total revenue and includes categories such as mom & baby, wellness, beauty and other FMCG products sourced from major international and local suppliers.

Nahdi has entrenched presence across the country with over 1,000 outlets and polyclinics

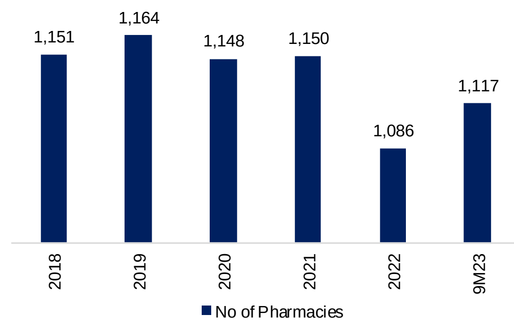


Source: Company report, Data as of 2022

Nahdi has 31% revenue market share in Saudi



No of pharmacies post rationalisation at 1,117



Direct import brand and private label brand products			
Product category	Brand name	Products	Number of years of products supply by the company
Private Label Brand Products			
Beauty care products	Accez	Nail care products, cosmetic accessories, hair accessories, nail care accessories	5
Mom & baby care	Gamar	Diapers, wipes and bath products	6
	Baby Oil	Baby milk, baby food	5
Oral and dental care	Nahdi	Thermometers, elderly care, plasters, gloves, wheelchairs, self-medication	6
Nutrients and healthy foods	Orex	Toothpaste, toothbrushes and oral care supplies	6
Personal hygiene	Beatswell	Vitamins and supplements	1
Skin care	Viora	Hand lotion, shower gel and body lotion	4
Hair remover	Clevie	Facial cleansers and face creams	3
Ladies care	Velveta	Hair removers and razors for women	4
Men care	Vibella	Intimate care products (wipes, feminine washes)	2
Sexual health products	Active Joe	Men's razor blades	4
Beauty care products	Connect	Condoms and lubricants	4
Direct Import Products			
Manuka honey	True honey	Manuka honey and cough drops	3
Blood pressure and thermometers	Citizen	Blood pressure measuring devices of various types, and flex thermometer	7
Breathing aids	Yuwell	Various inhalers	15
Home care	Medisana	Weight scales, massagers and masks	6
Personal hygiene products	Jatura Siberica	Hair, skin, body and baby care	3
Personal hygiene products	Nip Fab	Skin care	2
Personal hygiene products	Ducray	Hair and skin car	1
Personal hygiene products	Swiss Image	Skin care	5
Baby stuff	Twistshake	Baby bottles and other feeding essentials	3
Pregnancy test	Artron	Pregnancy and ovulation tests	6
Personal hygiene products	Nuxe	Skin and body care	1
Personal hygiene products	Rosal	Lips Moisturizer	8

Source: Company report, US research

Assortment of premium products targeted at affluent clientele…

The assortment of products of over 209 premium brands that it brings to the store is the main distinguishing factor for the company. It has specialized in a range of private label and direct import products, establishing relationships with international suppliers. The private label and direct imports contributed 14% to the overall revenue in 9M23 (+8% YoY). The company's network includes global majors such as Procter & Gamble, Bayer, Sanofi, Pfizer, Johnson & Johnson, etc. along with reputable local suppliers such as Tamr and Ismail Abu Dawood, Arak, Saqala and Benzagr.

Nahdi has consciously selected the assortment of products that cater predominantly to the upper middle class segment. Store locations are also situated in premium localities, unlike its competitors. Despite the premium pricing the company has managed to successfully add clients which we believe is commendable. Nuhdeek (a loyalty program started in 2014) has contributed to 73% of the total revenue indicating the large amount of repeat customers despite the higher pricing. Further, the company is yet to venture into the government tendering business, which has a lower margin and more of a play on volumes. These factors have enabled Nahdi to retain a higher average realization compared to its peers.

Al-Nahdi online and Al-Nahdi App facilitates the sale of pharma and other products easily from any location thereby providing an omni presence. In 9M23, the online revenue contribution increased to 16% from 13% in 9M22. Through the online platform, the company has the advantage of showcasing a larger range of products to the customer.

Expansion into new geographies and establishing healthcare services will add to the revenue stream

Entry into healthcare services a major positive and value addition…

Nahdi is focusing on building its healthcare services portfolio as a value addition and natural extension of its services. It entered the healthcare services segment in 2019 by opening its first polyclinic in Jeddah. Over the years, the company has expanded the range of healthcare services and currently serves customers through 5 polyclinics in Saudi offering over 15 specialties. It has also established a telemedicine service, which allows patients to book video consultations through the NahdiCare clinics app and home health care services that provide home visits for consultation.

Traction in the healthcare services has been visible with doubling of revenue from the segment during 9M23 to SAR 86mn compared to the same period last year. This segment also generated 1.2x additional revenue of SAR 100mn for the core pharmacy business. Patient visits during the 9M23 increased significantly by 172% to 485k from 178k visits in 2022. Virtual consultations surged 94% to 555k in 9M23 from 286k during the same period last year.

UAE will also offer additional growth going forward…

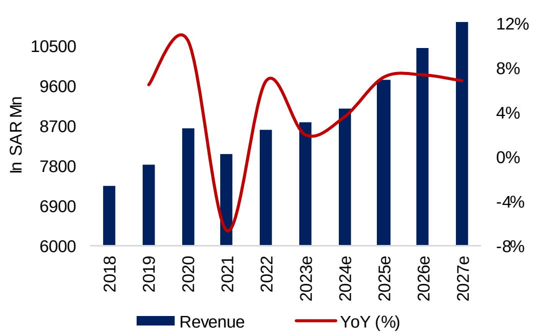
Besides the omni channel and digital sales, Nahdi continues its geographical expansion in the GCC market. In 2021, the company entered UAE by establishing a pharmacy in Dubai and currently it operates 12 pharmacies across Abu Dhabi, Dubai and Sharjah. Nahdi witnessed a 3x YoY revenue growth to SAR 40mn in 9M23 from UAE. The company envisages to increase the count significantly by opening additional pharmacies inside shopping centers and various neighborhoods in the medium term.

Single digit revenue growth, zero debt, moderate capex and stable margins will drive net profit

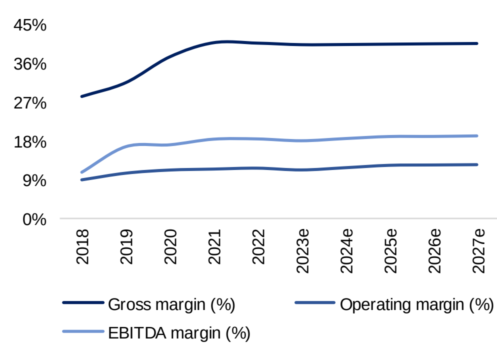
Revenue expected to grow at 6.2% CAGR (2022-27e) …

Revenue of the company has been segmented into Front shop and Pharma, both of which contributed equally in 2022 at SAR 4.2bn each. However, we are witnessing a faster growth in the pharma sales. We understand the intense competition in the non-pharma segment and proliferation of e-commerce websites to be the main reason for the declining growth trend.

Revenue to increase post UAE venture and polyclinics



Margins steady, costs under control



Source: Company report, US research

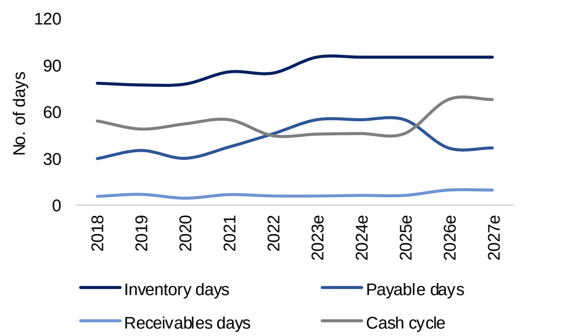
Margin will remain steady in the current range …

The cost of goods has moved in line with the revenue with no major volatility over the last five years 2018-22, as the company only operates as a re-seller of products. We do not anticipate any changes to this trend going forward. Gross margins have remained steady and is much higher than the peers due to the premium assortment of products at 40-42% (vs 37-39% of Aldawaa) in the last five years. Selling and admin expenses form a significant part of the operating expenses and have averaged between 26-27% of the revenue. We forecast similar levels going forward as well. Operating margins have averaged around 11%, while EBITDA has been at 18%. We do not see any variability in these margins going forward, until healthcare services, which is still at a nascent stage, start making a measureable impact.

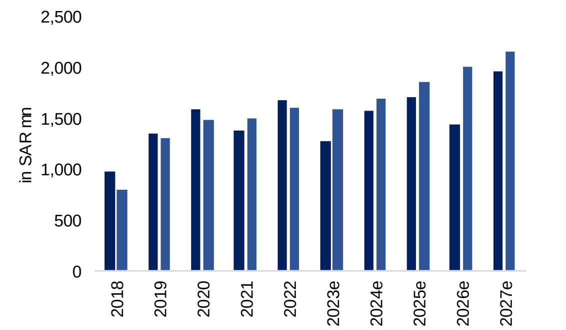
Low capex and debt free status makes it a clean balance sheet

Nahdi is a debt free company and finance cost is only attributed to the leasing expenses. The company has been trimming its store count on account of lower sales and increasing its digital footprint. We do not expect any significant capex other than that for maintenance, which will be in the range of SAR 200-250mn (c.3% of revenue). With limited capex and steady costs, cash has accrued in the balance sheet to the tune of SAR 916mn, which is nearly 50% of the current assets. As a result, we see no need for borrowing and the finance cost is likely to remain at current levels going forward.

Expect cash cycle to rise as govt exposure builds



Operating cash flow consistently high

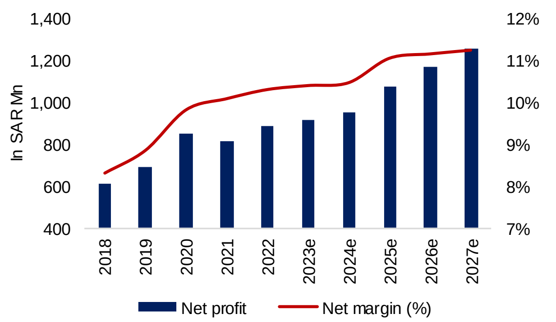


*Source: Company report, US research

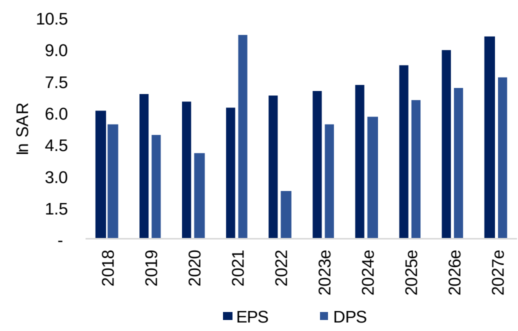
Net profit to grow at CAGR 8.3% (2022-27e)

Net margins are expected to remain steady with no major changes in the cost of operations and gross margins. We forecast it in the range of 10-11% till 2027e. We expect organic sales growth to emerge on account of economic buoyancy and measures taken by the management. This will lead to an improvement in topline growth and thereby translate into higher net profits going forward. We estimate a net profit growth of 8.3% CAGR (2022-27e). The availability of cash and low requirement for capex has resulted in high dividend payout of 80%, and we expect similar payouts to continue. At current price the stock trades at 4% dividend yield.

Higher topline growth will lead to increase in profits



High cash and low capex will keep payout at 80%



*Source: Company report, US research

Valuation

DCF value at SAR 159.59/share…

Nahdi is the largest pharmacy chain in Saudi and has a market share of 31%. Over the last couple of years the company has faced intense competition from local and foreign players resulting in a flattish growth. The stock price has reflected this lull and has declined by 33% from its peak of SAR 210/share in Oct 2022. We are positve that further downside is limited, considering the optimisim in the sector, the limited number of players to capture the upside and the significant underperofmance of the stock price. We have valued the company using DCF method, using forecasts through 2023e-2027e. We have considered the cost of equity at 9.8%, derived from a risk free rate of 5.0%, equity risk premium of 6.0%, and a beta of 0.79x. We arrive at a WACC of 9.8% for the company. We assume a terminal growth rate of 2% post the forecast period. Our DCF valuation of Nahdi provides an intrinsic value of SAR 159.59 per share.

Blended target price at SAR 159.85/share provides an upside of 12.6%…

We also provide a target multiples based on the industry averages, for EV/EBITDA we use 13x and for the PE multiple we consider 22x. We arrive at a peer valuation of SAR 159.13/share (EV/EBITDA) and SAR 161.10/share (P/E) and assign 25% weightage each to both. Together with the DCF methodology (50% wt), we arrive at a blended intrinsic value of SAR 159.85/share which is higher than the current price by 12.6%. We believe the price has witnessed excessive pessism and the stock is currently undervalued. Hence based on our blended target price and positive industry outlook we initiate coverage on Nahdi Medical Company with a BUY rating.

DCF Method (in SAR mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Post-tax operating profit (NOPAT)	**932**	**1,014**	**1,140**	**1,232**	**1,324**
Add: Depreciation & amortization	608	627	661	703	757
Less: Change in working capital	-276	-35	-54	-464	-87
Less: Capex	-264	-273	-292	-314	-391
Free Cash Flow to Firm	**1,000**	**1,333**	**1,454**	**1,157**	**1,603**
PV of Free Cash Flows	984	1,233	1,226	889	1,122
PV of Terminal Value					15,867
Enterprise Value					21,320
Less: Net debt					260
Less: Minorities & Pension liabilities					314
Equity value					**20,747**
No of shares					130
Fair value per share (SAR)					**159.59**

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.79
Equity Risk premium (Rm)	6.0%
Cost of equity (Ke)	9.8%
Terminal growth rate (g)	2.0%
Pre-tax Cost of Debt	0.0%
Effective tax rate	9.0%
After tax cost of debt	0.0%
Target Debt/Equity	0.0%
WACC	9.8%

Peer valuation	
EV/EBIDTA (TTM)	11.36
Target EV/EBIDTA	13.00
Fair value (SAR)	**159.13**
PE (TTM)	19.51
Target PE	22.00
Fair value (SAR)	**161.10**

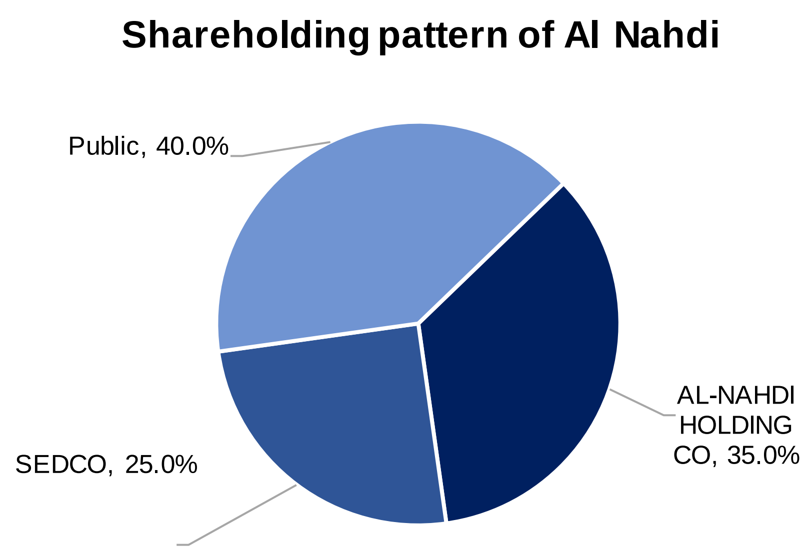
Valuation type	Wtg	Fair value	Wtd value
DCF	50%	159.59	79.80
EV/EBIDTA	25%	159.13	39.78
PE	25%	161.10	40.28
Target price			**159.85**
CMP			142.00
Potential upside			12.6%

Key risks

- Changes in market structure and entry of new players may lead to higher competition and loss of market share
- Changes in regulation can impact the cost structure and have a negative impact on profits.
- Entry into government programs can dilute margins and the current premiums will be eroded.

Company profile

Nahdi Medical Company was established in 1986 and is the leading pharmaceutical retailer in Saudi Arabia. “Nahdi” is a well-known brand with a 31% market share, dominating the Saudi retail pharmaceutical sector. The company generates revenue by selling pharma and non-pharma products through in-store and online sales. It also provides health care services through poly clinics, express clinics, telemedicine and home health care. Nahdi caters to 95% of the Saudi population across 143 cities and villages in KSA & UAE. The company was listed in March 2022 at a price of SAR 131 per share.



BOARD OF DIRECTORS

S.NO.	NAME	POSITION	CATEGORY
1	Saleh Salem Ahmed Bin Mahfouz	Chairman	Non-independent
2	Abdullah Amer Abdullah Al-Nahdi	Vice Chairman	Non-independent
3	Abdelelah Salem Ahmed Bin Mahfouz	Board Member	Independent
4	Yasser Ghulam Abdulaziz Joharji	Board Member	Non-independent
5	Junaid Sam Bajwa	Board Member	Non-independent
6	Romain Voog	Board Member	Independent
7	Abdulatif Ali Abdulatif Al-Seif	Board Member	Independent

Source: Bloomberg®, US Research

Income Statement (In SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	**8,642**	**8,066**	**8,616**	**8,785**	**9,099**	**9,749**	**10,465**	**11,179**
Direct Costs	-5,393	-4,762	-5,095	-5,227	-5,411	-5,788	-6,205	-6,620
Gross profit	**3,249**	**3,304**	**3,521**	**3,558**	**3,689**	**3,960**	**4,260**	**4,559**
Selling and distribution expenses	-1,988	-2,149	-2,240	-2,284	-2,320	-2,437	-2,616	-2,795
General and administrative expenses	-337	-307	-331	-334	-346	-370	-398	-425
Other operating income (Net)	41	72	52	44	45	49	52	56
Operating profit	**965**	**920**	**1,002**	**984**	**1,068**	**1,201**	**1,298**	**1,395**
EBITDA	**1,483**	**1,491**	**1,598**	**1,591**	**1,695**	**1,863**	**2,002**	**2,153**
Finance income	-	11	12	56	14	14	14	14
Finance costs	-58	-79	-79	-76	-76	-77	-79	-81
Other costs	-14	6	3	1	-	-	-	-
Profit before tax (PBT)	**893**	**858**	**937**	**965**	**1,006**	**1,138**	**1,233**	**1,328**
Income tax and Zakat	-45	-45	-50	-52	-54	-61	-67	-72
Net profit (PAT)	**848**	**813**	**887**	**913**	**952**	**1,077**	**1,167**	**1,256**

Balance Sheet (in SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	812	885	914	965	998	1,021	1,035	1,086
Investment property	179	230	254	255	255	255	255	255
Intangible assets	42	44	47	48	48	48	48	48
Right of use assets	1,207	1,328	1,167	1,146	1,140	1,155	1,188	1,235
Non-current assets	**2,240**	**2,487**	**2,382**	**2,414**	**2,441**	**2,480**	**2,526**	**2,624**
Inventories	1,149	1,116	1,183	1,359	1,407	1,505	1,613	1,721
Trade receivables	98	140	130	132	146	156	262	279
Prepayment and other current assets	171	142	174	286	296	317	340	363
Cash and cash equivalents	1,007	400	1,076	894	1,050	1,258	1,067	1,221
Current assets	**2,425**	**1,798**	**2,563**	**2,671**	**2,898**	**3,236**	**3,282**	**3,585**
ASSETS	**4,665**	**4,285**	**4,945**	**5,085**	**5,339**	**5,716**	**5,808**	**6,209**
Share capital	1,000	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Statutory reserve	110	191	280	280	280	280	280	280
Retained earnings	968	113	664	862	1,052	1,268	1,501	1,752
EQUITY	**2,078**	**1,604**	**2,244**	**2,442**	**2,632**	**2,848**	**3,081**	**3,332**
Employee defined benefits	330	387	381	314	325	347	372	397
Lease liabilities	829	992	792	808	816	849	883	919
Accruals and other non-current liabilities	14	19	20	14	14	14	14	14
Non-current liabilities	**1,173**	**1,398**	**1,193**	**1,136**	**1,154**	**1,210**	**1,269**	**1,330**
Lease liabilities	405	365	375	346	350	364	378	394
Provision for zakat/ Zakat payable	99	97	107	116	121	137	148	159
Trade payables	440	484	637	784	812	868	620	662
Accruals and other non-current liabilities	446	337	389	261	271	289	310	331
Current liabilities	**1,414**	**1,283**	**1,508**	**1,508**	**1,552**	**1,658**	**1,457**	**1,546**
LIABILITIES	**2,587**	**2,681**	**2,701**	**2,643**	**2,707**	**2,868**	**2,727**	**2,876**
EQUITY AND LIABILITIES	**4,665**	**4,285**	**4,945**	**5,085**	**5,339**	**5,716**	**5,808**	**6,209**

Cash Flow (In SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	1,585	1,382	1,670	1,270	1,570	1,711	1,436	1,959
Investing cash flow	-102	-300	-277	-328	-249	-234	-269	-358
Financing cash flow	-847	-1,689	-717	-1,123	-1,166	-1,269	-1,358	-1,447
Change in cash	**636**	**-607**	**676**	**-181**	**155**	**208**	**-191**	**154**
Beginning cash	371	1,007	400	1,076	895	1,050	1,258	1,067
Ending cash	**1,007**	**400**	**1,076**	**895**	**1,050**	**1,258**	**1,067**	**1,221**

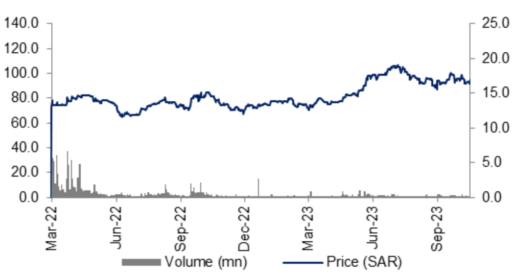
Ratio Analysis	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share								
EPS (SAR)	6.52	6.25	6.82	7.02	7.32	8.28	8.98	9.66
BVPS (SAR)	15.98	12.34	17.26	18.78	20.25	21.91	23.70	25.63
DPS (SAR)	4.12	9.69	2.31	5.50	5.86	6.63	7.18	7.73
FCF per share (SAR)	-7.30	-15.30	-7.65	-11.16	-10.88	-11.57	-12.51	-13.88
Valuation								
Market Cap (SAR mn)	17,030	17,030	21,736	17,810	18,460	18,460	18,460	18,460
EV (SAR mn)	17,281	17,987	21,827	18,070	18,575	18,414	18,655	18,552
EBITDA	1,483	1,491	1,598	1,591	1,695	1,863	2,002	2,153
P/E (x)	20.1	20.9	24.5	19.5	19.4	17.1	15.8	14.7
EV/EBITDA (x)	11.7	12.1	13.7	11.4	11.0	9.9	9.3	8.6
Price/Book (x)	8.2	10.6	9.7	7.3	7.0	6.5	6.0	5.5
Dividend Yield (%)	3.1%	7.4%	1.4%	4.0%	4.1%	4.7%	5.1%	5.4%
Price to sales (x)	2.0	2.1	2.5	2.0	2.0	1.9	1.8	1.7
EV to sales (x)	2.0	2.2	2.5	2.1	2.0	1.9	1.8	1.7
Liqiudity								
Cash Ratio (x)	0.71	0.31	0.71	0.59	0.68	0.76	0.73	0.79
Current Ratio (x)	1.71	1.40	1.70	1.77	1.87	1.95	2.25	2.32
Quick Ratio (x)	0.78	0.42	0.80	0.68	0.77	0.85	0.91	0.97
Returns Ratio								
ROA (%)	18.2%	19.0%	17.9%	18.0%	17.8%	18.8%	20.1%	20.2%
ROE (%)	40.8%	50.7%	39.5%	37.4%	36.2%	37.8%	37.9%	37.7%
ROCE (%)	26.1%	27.1%	25.8%	25.5%	25.1%	26.5%	26.8%	26.9%
Cash Cycle								
Inventory turnover (x)	4.7	4.3	4.3	3.8	3.8	3.8	3.8	3.8
Accounts Payable turnover (x)	12.3	9.8	8.0	6.7	6.7	6.7	10.0	10.0
Receivables turnover (x)	88.2	57.6	66.3	66.7	62.5	62.5	40.0	40.0
Inventory days	77.8	85.5	84.7	94.9	94.9	94.9	94.9	94.9
Payable Days	29.8	37.1	45.6	54.8	54.8	54.8	36.5	36.5
Receivables days	4.1	6.3	5.5	5.5	5.8	5.8	9.1	9.1
Cash Cycle	52.1	54.8	44.6	45.6	46.0	46.0	67.5	67.5
Profitability Ratio								
Net Margins (%)	9.8%	10.1%	10.3%	10.4%	10.5%	11.0%	11.1%	11.2%
EBITDA Margins (%)	17.2%	18.5%	18.5%	18.1%	18.6%	19.1%	19.1%	19.3%
PBT Margins (%)	10.3%	10.6%	10.9%	11.0%	11.1%	11.7%	11.8%	11.9%
EBIT Margins (%)	11.2%	11.4%	11.6%	11.2%	11.7%	12.3%	12.4%	12.5%
Effective Tax Rate (%)	5.0%	5.2%	5.3%	5.4%	5.4%	5.4%	5.4%	5.4%
Leverage								
Total Debt (SAR mn)	1,258	1,357	1,167	1,154	1,165	1,212	1,262	1,313
Net Debt (SAR mn)	251	957	91	260	115	-46	195	92
Debt/Equity (x)	0.6	0.8	0.5	0.5	0.4	0.4	0.4	0.4
Net Debt/Equity (x)	0.1	0.6	0.0	0.1	0.0	-0.0	0.1	0.0

Pharma retail

BUY: 12M TP @ 103.99

Downside -9.1%

Valuation Summary (TTM)			
Price (SAR)			114.40
PER TTM (x)			29.8
P/Book (x)			8.1
P/Sales (x)			1.7
EV/Sales (x)			1.8
EV/EBITDA (x)			15
Dividend Yield (%)			2.2
Free Float (%)			34%
Shares O/S (mn)			85
YTD Return (%)			8%
Beta			0.9
(mn)		**SAR**	**USD**
Market Cap		9,724	2,593
Total Assets		11,968	3,191
Price performance (%)	**1M**	**3M**	**12M**
Al-Dawaa Medical	2%	12%	51%
Tadawul All Share Index	6%	13%	24%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR)	11,595	16,297	15,666
Avg Daily Volume (,000)	105	150	154
52 week	**High**	**Low**	**CTL***
Price (SAR)	121.60	70.30	62.7
* CTL is % change in CMP to 52wk low			
Major shareholders			
RESOURCES HOLDING CO			32%
RAMLA HOLDING GROUP			20.0%
Fahd Al Saud Turki M			13.8%
Others			34.2%
Other details			
Exchange			Saudi Arabia
Sector			Healthcare-Services
Index weight (%)			0.3%
Key ratios	**2021**	**2022**	**2023e**
EPS (SAR)	2.81	3.59	3.72
BVPS (SAR)	11.64	12.88	13.75
DPS (SAR)	4.13	1.25	3.75
Payout ratio (%)	147%	35%	101%



Aldawaa Medical services – Volume growth

Aldawaa (Dawaa) is the second largest pharmacy chain in Saudi with 879 stores, 20% revenue market share, catering to over 72mn customers annually. Other than medicines the company also sells health/wellness products and medical equipment, thereby becoming a one stop shop for all healthcare needs. Over the past three decades it has built a loyal customer base and engaged with international brands to bring the best products into the country. Dawaa has built a world class supply chain infrastructure with a state-of-the-art warehouse facility in Sudair industrial area. The warehouse is one of the largest such facility in the country, with nearly 95% of the operations being automated. The facility is supported by a strong fleet of over 600 vehicles that cover the entire country 24x7. Dawaa has been an active participant in the government initiatives to overhaul the country's healthcare system as per the Vision 2030. It has benefitted from its association in the Wasfaty program which provides patients with e-prescriptions and free medicines. These medicines are routed through registered pharmacies such as Dawaa. During 2022, this program contributed to 14% of the topline and we expect the same to increase going forward. We forecast the company to report its highest revenue and profit in 2023 at SAR 5.8bn (+8.2% YoY) and SAR 316mn (3.6% YoY) respectively. The consumer story is strong in Saudi, with an attractive demography and highly affluent and growing population. Additionally, the rising job opportunities and liberalization of policies is attracting foreigners. All this auger well for the pharma sector and we believe companies such as Dawaa which offer critical services and have significant market share will be the biggest beneficiary of this upcycle. We expect revenue growth to be at 8.6% CAGR (2022-27e) and profit to increase by 11.2% CAGR (2022-27e). We arrive at a blended DCF/peer valuation based intrinsic value for the company at SAR 103.99/share, which is lower than the current price by 9.1%. Hence, despite our positive outlook on the company we initiate coverage on Al Dawaa with a NEUTRAL rating.

Second largest player with significant room for growth: We believe, Dawaa with its robust supply chain network, capable management, global associations, participation in government programs and omnipresence will be able to capture further market share and capitalize on the unmet needs of the Saudi pharma industry. Unlike Nahdi, which offers products that cater to the premium range, Dawaa has accommodated the larger middle class where it sees significant scope for volume growth. Further, diversification into manufacturing of medical equipment will add to the revenue by utilizing the same clientele.

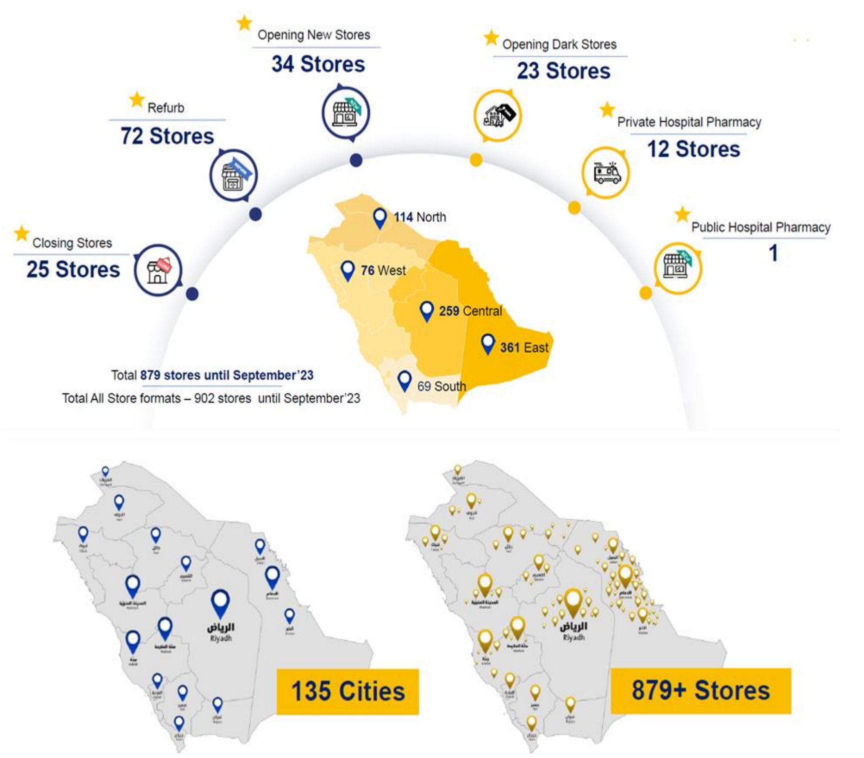
Valuation: We believe the increase in population and volume support from the government will keep demand for pharma consistent. Additionally, the rationalized assortment of non-pharma products will lead to improvement in realization and keep margins steady. We are positive on the company and the sector that it operates in. However, the stock price has moved up by 63% from its IPO price of SAR 73 (March 2022). At current price it trades at 19.3x 2024e PE and has only 2.5% dividend yield. Hence we initiate coverage on Aldawaa with a NEUTRAL rating and target price of SAR 103.99/share.

Second largest pharmacy, with dominant presence in central and eastern regions…

Well entrenched player in Saudi offering an assortment of products

Al Dawaa is the second largest pharmacy chain in Saudi operating 879+ stores across 135 cities and commanding c.20% of the market share on the basis of revenue. The company also sells products such as health and wellness, beauty products, medical equipment, etc. Currently the company sells over 27,000+ products across medicines, pharmaceuticals and cosmetics. The multi-channel operations which encompass both offline and online modes give Dawaa an omnipresence and enables it to cater to a larger customer base. The pharmacies are located at various premises, including hospitals, malls and as standalone stores serving about 72mn customers a year and dispensing 25mn prescriptions annually. Additionally, the company is also a participant in the various government programs such as Anat and Wasfaty, which provide a platform for higher volumes through regular and bulk procurement.

Dawaa is well entrenched across the country with 879+ outlets

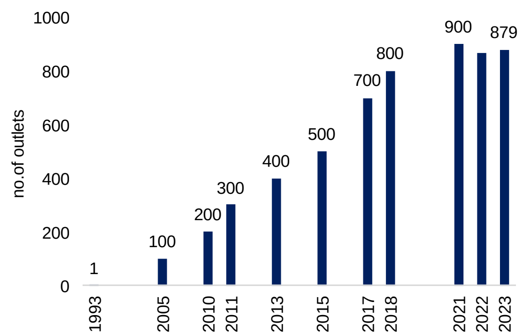


Source: Company reports

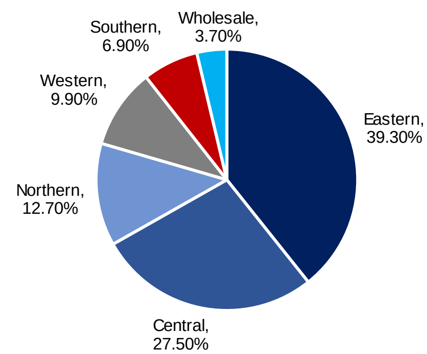
Rapid increase in store count between 2005-18…

Dawaa started from a single store in 1993 and reached its 100th store in about 12 years (2005). However, during the next 12-13 years the company witnessed rapid growth, with the number of store additions growing by 8x to touch 800 by 2018. Post refurbishment and closures of some stores in 2022, the company currently manages 879 stores (as of 9M23) in various formats along with an active online presence. The assortment of products sold have also undergone rationalization with slow moving inventory out of the pipeline. The preference has been to push higher margin products than catering to a long list of brands that are difficult to sell.

Post rapid expansion, store count to moderate



East and central contribute >50% to revenue



Source: Company reports, US research

Wide assortment of products, omni presence ensures loyal customer base…

The company manages about 1,900+ brands which include both in-house brands and private labels. The contribution of the in-house brands stood at 10% of the revenue as of 9M23. The company has entered into agreements with several international distribution agencies such as Guido Olocotino & C.S.N.C., Beauty Time for medical & skin care products, Vitane for herbs & food products, Jordan Sweden Medical & Sterilization Company for pharmaceuticals, and BioFilm, Inc. for health care products that include the Astroglide brand. Medical equipment has also been an active area of focus and the association with partners such as MEDIMA, Hansung and Lojer have been successful.

In an attempt to increase its customer base, Dawaa is aiming to provide a complete range of integrated services. It offers pharmacy led primary care, virtual clinics & telemedicine, specialized lab network, vaccination services, etc. It had also launched its online store in 2019 and since then digital sales has become an important part of the topline growth, with the contribution in 9M23 at 12% of total revenue. A broader range of customers have managed to place orders through the App & website for medicines and other products. The omni channel also assists customers by directly connecting them with pharmacists. We believe the wide assortment of products and accessibility has ensured a loyal customer base for Dawaa.

Sudair warehouse facility brings high level of operational efficiencies…

In order to improve the operational efficiencies, Dawaa has established two large logistics centers in Sudair industrial city, which started operations in 2019. A warehouse has been built to centralize the collection and delivery operations, thereby aiming to reduce the handling cost. The storage area of the facility is about 140k sqm with a capacity to accommodate over 90k pallets. It is almost fully automated, with 95% of the operations handled by machines. Additionally, the company operates a fleet of over 600 trucks and other vehicles with various capacities, which are available 24x7. The fleet manages to deliver over 1,000 parcels in a day and on an average cover a distance of 150k kms/day. The company also has sub warehouses located in Jeddah, Riyadh, Dammam, Abha, Tabuk, Sakaka, Hafr Al-Batin, and Al-Ahsa, with an area of more than 36k sqm. The centralized operations have increased the combined storage facility by 3x from 800 pallets to about 2,700 pallets a day. We believe that this state-of-the-art warehouse facility is unique and will be a major differentiator for the company as there are very few global peers who operate with such high levels of supply chain efficiency.

World class warehousing facility in Sudair offers a competitive edge to Dawaa

Aldawaa Medical Services
March 2024

Source: Company reports

Wasfaty program to drive volume and revenue growth

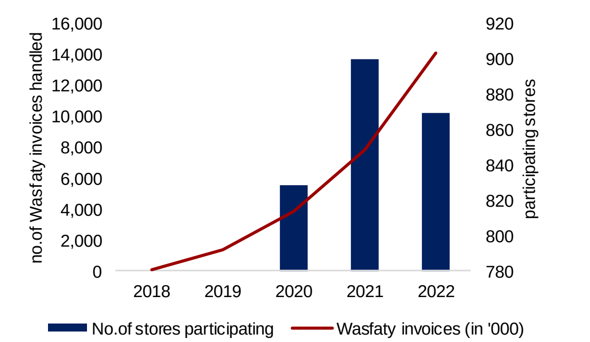
Wasfaty is an innovative platform to serve the citizens…

As part of the Vision 2030, the government undertook several initiatives to improve the healthcare system in Saudi. Wasfaty is one such program that has been implemented successfully connecting the entire health care ecosystem electronically. Apart from improving the efficiency and quality of health service, it also aims to reduce medical errors and has become cost effective mechanism. This program is connecting two government institutions – the Saudi MoH and National Unified Procurement Company (NUPCO) to over 3,197 pharmacies in 170 cities across the country. It is available in 225 hospitals and 2,086 care centers. The platform provides an electronic mechanism through which physicians at government hospitals can provide prescriptions to patients, who can then pick up the medicines from the nearest participating pharmacies free of cost. The e-prescription also enables the patient to check in real-time, the insurance availability of the medicines. With over 35mn prescriptions entering the platform, we believe this program is gaining traction and there is scope for participating pharmacies to grow in terms of volumes.

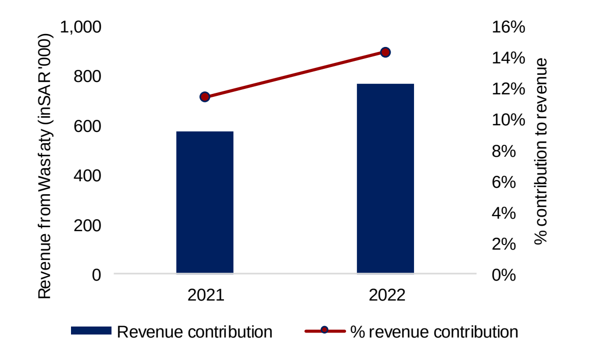
Dawaa is the main player in this program …

Dawaa has been a partner in the program since 2018 and has worked closely on building adequate infrastructure for its successful operations. It caters to about 70% of the Wasfaty prescriptions and is the biggest player in this segment. In 2021, Wasfaty contributed to 11% of the revenue, which grew to 14% in 2022. The number of invoices doubled from 7.3mn in 2021 to 14.1mn in 2022 evidencing the rapid acceptance of the platform.

Wasfaty prescriptions have grown multifold



Revenue contribution at 14% from Wasfaty



Source: Company reports, US research

However, the association with this program comes at the cost of margins and an increase in receivable days. Based on the record of the past few years we believe, despite the impact on the margins, the volume growth has led to increase in absolute profits for the company and higher inventory turnover. There has not been any marked increase in receivables since the company started participating in the program and we believe invoices from Wasfaty are settled on a monthly basis. Dawaa's proactive participation opens new avenues to improve the visibility of the pharmacy and to continuously bring into the fold a new segment of customers at minimal capital expenditure.

Moderate growth in store count, horizontal expansion into medical equipment

Store rationalization post a period of rapid growth …

Post a rapid period of growth, the management decided to rationalize the store count to bring it in line with the demand. Purchasing habits of customers have undergone a dynamic change recently and preference for online channels have been rising. This has led to a decline in the need for physical stores. As per the management guidance we expect another 60 stores from c.879 to come up by 2025, while increasing the online presence simultaneously.

The management has laid plans to establish high quality warehouses such as the one in Sudair across different parts of the country, thereby creating a hub and spoke model for efficient and cost effective handling of products. While this would have a positive impact on the cost, it will also increase the company's reach across the country and cover more business partners, customers and patients.

Medical equipment segment offers significant growth potential…

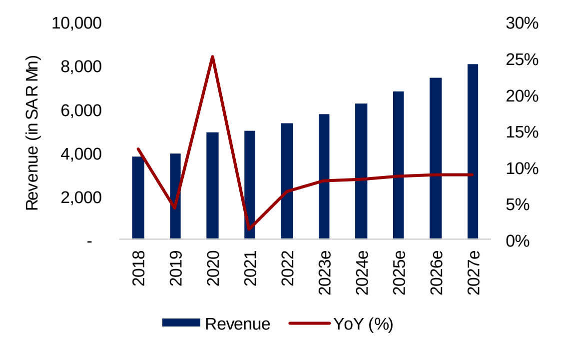
Additionally, entry into the medical equipment segment is gaining traction with the establishment of the Al Mutatawera Al Oula factory to manufacture single-person medical devices (PREMI). The factory will manufacture disposable medical products and consumables, medical examination tables, surgical furniture, medical beds with additives, thermometers, respirators, and anesthesia devices. These are expected to be sold to the government and private hospitals through tenders.

Steady revenue growth, stable margins and reducing debt to drive net profit

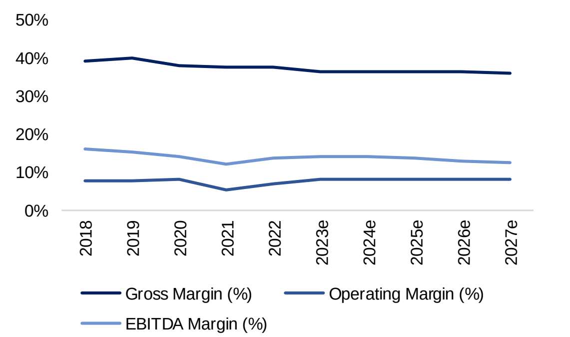
Revenue growth expected at 8.6% CAGR (2022-27e) …

While revenue is derived from both retail and wholesale segments, the retail dominates with a 95% contribution to the top line. Overall, revenue has grown by 9.7% CAGR (2017-22) largely on account of store additions and organic volume growth. We expect 2023 to be a record year for the company with the highest ever revenue of SAR 5.8bn (+8.2% YoY). Despite the plateauing of number of stores, the rationalization of the assortment of products is improving realization leading to the higher revenue. Increasing contribution from the Wasfaty program is also a growth driver for the volumes, which we believe will continue going forward. We expect revenue to increase at 8.6% CAGR (2022-27e).

Revenue growth expected at 8.6% CAGR (2022-27e)



Robust cost control will keep margins steady



Source: Company reports, US research

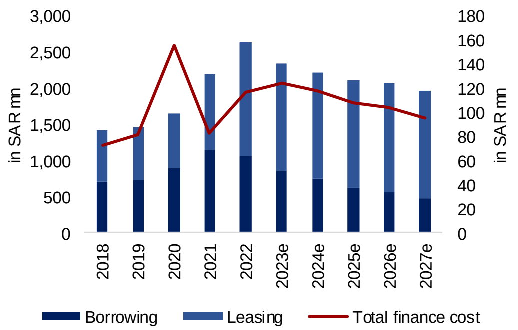
Well managed operating costs to keep margins stable …

The increase in cost of goods sold is much in line with the revenue and we do not expect this trend to change, as the company is a marketing company and not a manufacturer. Gross margins have stayed steady at 37-39% and we base our forecast for the next five years in the same range. Selling and distribution expenses have also remained steady in the range of 26-27% of the revenue, while the general admin expenses are well controlled at 2% of the revenue. Operating margins have stood between 7-7.5% in the past and except for the additional expenses that could be incurred from the new medical equipment factory there is unlikely to be any change in the margins. Our forecast does not include the equipment manufacturing business, since this is a new venture for the company.

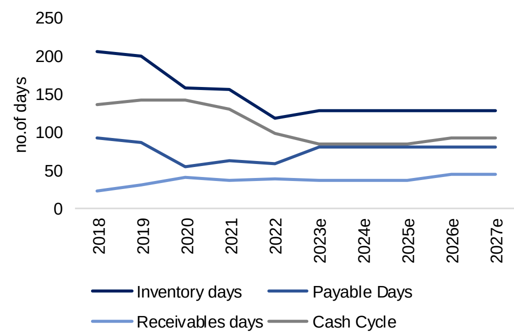
Limited capex and improvement in cash cycle expected …

The management has guided to add only about 10 stores annually over the next 5-6 years, hence we do not expect significant capex. Also, we expect the upcoming stores to be of smaller format and on leased space, requiring less capital to setup. We expect maintenance capex to continue in the range of SAR 190-220mn going forward. Since the business model is cash accretive with consistency in asset turnover, the company has relied on rotating working capital facilities to run its operations. Short term loans and bank ODs stood at SAR 672mn as of 9M23, while term loans were at SAR 158mn. We expect improvements in per store profitability and lower capex to translate into higher cash accrual and thereby resulting in lower requirement for working capital. Finance cost, which includes leasing expenses and borrowing costs are expected to remain around the current levels going forward due to the lower borrowing levels.

Higher operating turnover will reduce borrowing



Steady trend in working capital cycle

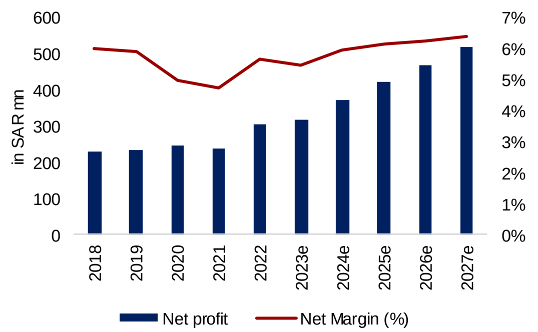


Source: Company reports, US research

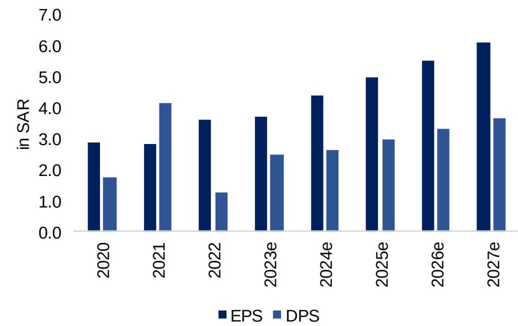
Net profit expected to grow steadily at 11.2% CAGR (2022-27e) …

We do not expect significant changes to the net margins and forecast it in the range of 5-6% till 2027e. The growth in revenues, steady margins and stable finance costs will lead to a net profit growth of 11.2% CAGR (2022-27e). The company has been paying dividends of SAR 1.25 per share on a half yearly basis, the latest of which was announced in Jan 2024 and distributed in Feb 2024. We expect payout to average around 60%, translating into a DPS of SAR 2.5-3.5/share going forward and a yield of 2-2.5%.

Net margins expected to hold in a tight range



Payout ratio expected at 60% going forward



Source: Company reports, US research

Valuation

DCF value comes to SAR 99.71/share…

Al Dawaa is the second largest pharmacy chain in Saudi and has a market share of 20%. It is one of the biggest beneficiary of the government's plan to overhaul the healthcare system in the country. We have valued the company using DCF method using forecasts through 2023e-2027e. We have considered the cost of equity at 10.5%, derived from a risk free rate of 5.0%, equity risk premium of 6.0%, and a beta of 0.92x. We arrive at a WACC of 8.8% for the company. We assume a terminal growth rate of 3% post the forecast period. Our DCF valuation of Dawaa provides an intrinsic value of SAR 99.71 per share.

Blended target price at SAR 103.99/share provides a downside 9.1%…

We also provide a target EV/EBITDA multiple of 12x and PE multiple of 23x (marginally higher than Nahdi considering the faster growth) to arrive at a peer valuation of SAR 115.45/share and SAR 101.10/share respectively. We assign 25% weightage each to the peer valuation and along with the DCF methodology (50% wt), we arrive at a blended intrinsic value of SAR 103.99/share which is lower than the current price by 9.1%. Despite our positive view on the company and industry we believe the price has run up beyond its fundamental intrinsic value. Hence based on our blended target price we initiate coverage on Al Dawaa with a NEUTRAL rating.

DCF Method (in SAR mn)	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
Post-tax operating profit (NOPAT)	**439**	**492**	**530**	**571**	**615**
Add: Depreciation & amortization	362	361	364	369	376
Less: Change in working capital	67	-98	-113	-124	-137
Less: Capex	-203	-189	-171	-186	-203
Free Cash Flow to Firm	**665**	**566**	**610**	**629**	**651**
PV of Free Cash Flows	656	528	523	496	472
PV of Terminal Value					8,916
Enterprise Value					11,590
Less: Net debt					2,949
Less: Minorities & Pension liabilities					166
Equity value					**8,475**
No of shares					85
Fair value per share (SAR)					**99.71**

Valuation parameters	
Risk free rate (Rf)	5.0%
Beta	0.92
Equity Risk premium (Rm)	6.0%
Cost of equity (Ke)	10.5%
Terminal growth rate (g)	3.0%
Pre-tax Cost of Debt	8.0%
Effective tax rate	5.0%
After tax cost of debt	7.6%
Target Debt/Equity	60.0%
WACC	8.8%

Peer valuation	
EV/EBIDTA (TTM)	14.60
Target EV/EBIDTA	12.00
Fair value (SAR)	**115.45**
PE (TTM)	22.84
Target PE	23.00
Fair value (SAR)	**101.10**

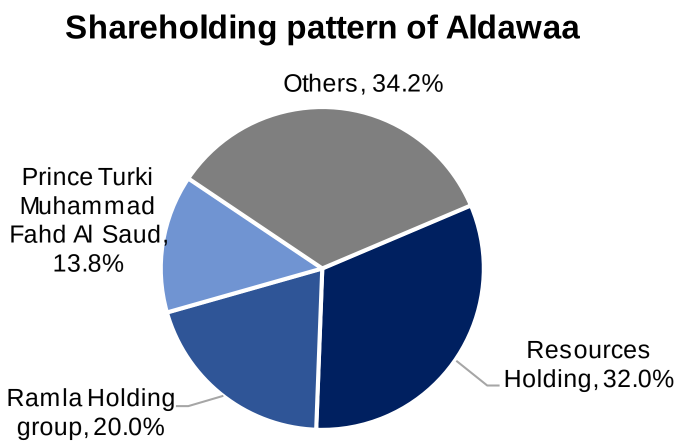
Valuation type	Wtg	Fair value	Wtd value
DCF	50%	99.71	49.85
EV/EBIDTA	25%	115.45	28.86
PE	25%	101.10	25.27
Target price			**103.99**
CMP			114.40
Potential upside			-9.1%

Key risks

- Changes in market structure and entry of new players may lead to higher competition and loss of market share
- Changes in regulation can impact the cost structure and have a negative impact on profits.
- Delay in receivables from the government can cause significant stress to the balance sheet.

Company profile

Al Dawaa was incorporated in 1993 by Mohammed Saad Butti Al-Farraj Al-Subaie who opened the first pharmacy in Khobar. The company saw further investments by the royal family (Mawarid Trading company) in 2008 post which it added several stores taking the total count to 879. Dawaa has both pharma and non-pharma products in its portfolio and manages nearly +1,900 brands. Over the period it has built associations with several international brands and developed its own products. The recent venture into manufacturing of medical equipment adds to the already exhaustive product pipeline. The company was listed in the Saudi exchange in March 2022 at a price of SAR 73/share post which the stock has appreciated by 62%.



BOARD OF DIRECTORS

S.NO.	NAME	POSITION	CATEGORY
1	Samir Mahmoud Fayad Abdulhadi	Chairman	Non Executive
2	Ibrahim Salem Salem Alrowies	Vice Chairman	Independent
3	Mohammed saad Butti Alfarraj	Board Member	Executive
4	Hamad Mohammed Mubarak Alhuthali	Board Member	Non Executive
5	Waleed Mohammed Abdullah Aljaafari	Board Member	Executive
6	Hassan Abdullah Dorrar Alsomali	Board Member	Independent

Source: Bloomberg®, US Research

Income Statement (In SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	**4,962**	**5,034**	**5,372**	**5,810**	**6,292**	**6,846**	**7,454**	**8,123**
Direct Costs	-3,081	-3,140	-3,353	-3,693	-4,006	-4,363	-4,757	-5,190
Gross profit	**1,881**	**1,894**	**2,020**	**2,117**	**2,286**	**2,482**	**2,697**	**2,933**
Selling and distribution expenses	-1,381	-1,510	-1,518	-1,540	-1,636	-1,780	-1,938	-2,112
General and administrative expenses	-107	-118	-133	-122	-138	-151	-164	-179
Operating profit	**393**	**266**	**369**	**456**	**512**	**552**	**595**	**642**
EBITDA	**702**	**600**	**724**	**818**	**873**	**916**	**964**	**1,018**
Finance costs	-155	-83	-117	-124	-118	-108	-104	-95
Other costs	23	63	66	1	-	-	-	-
Profit before tax	**261**	**246**	**318**	**333**	**393**	**444**	**492**	**547**
Income tax and Zakat	-15	-7	-12	-17	-20	-22	-25	-27
Net profit	**246**	**239**	**305**	**316**	**374**	**422**	**467**	**520**

Balance Sheet (in SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	658	823	942	995	1,020	1,015	1,011	1,010
Right of use assets	756	1,046	1,586	1,475	1,401	1,331	1,278	1,240
Intangibles	19	21	20	16	16	16	16	16
Equity instruments at FV through OCI	217	265	162	206	206	206	206	206
Non-current assets	**1,651**	**2,155**	**2,710**	**2,691**	**2,643**	**2,567**	**2,511**	**2,471**
Inventories	1,324	1,332	1,082	1,293	1,402	1,527	1,665	1,817
Accounts receivable and prepayments	530	496	564	697	755	821	894	975
Bank balances and cash	38	46	139	61	66	106	134	171
Other current assets	2	1	2	-	-	-	-	-
Current assets	**1,893**	**1,875**	**1,786**	**2,051**	**2,223**	**2,455**	**2,693**	**2,962**
ASSETS	**3,544**	**4,031**	**4,497**	**4,742**	**4,866**	**5,022**	**5,204**	**5,433**
Share capital	10	850	850	850	850	850	850	850
Reserves	109	68	-4	71	71	71	71	71
Retained earnings	994	71	249	353	503	671	858	1,066
EQUITY	**1,113**	**989**	**1,095**	**1,275**	**1,424**	**1,593**	**1,780**	**1,988**
Lease liabilities	576	812	1,374	1,283	1,289	1,296	1,302	1,309
Employee defined benefits	104	125	132	166	180	196	143	156
Term loans	-	-	277	138	118	100	100	100
Non-current liabilities	**680**	**938**	**1,783**	**1,588**	**1,588**	**1,592**	**1,545**	**1,565**
Accounts payable and accruals	456	532	534	812	881	960	1,046	1,142
Lease liability	189	227	203	192	193	194	195	196
Bank overdrafts Short term loans	891	1,156	778	722	622	522	472	372
Other current liabilities	101	138	103	154	157	162	166	171
Current liabilities	**1,751**	**2,104**	**1,618**	**1,880**	**1,853**	**1,837**	**1,880**	**1,881**
LIABILITIES	**2,431**	**3,042**	**3,401**	**3,467**	**3,442**	**3,430**	**3,425**	**3,446**
EQUITY AND LIABILITIES	**3,544**	**4,031**	**4,497**	**4,742**	**4,866**	**5,022**	**5,204**	**5,433**

Cash Flow (In SAR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	378	670	778	773	665	703	737	786
Investing cash flow	-282	-378	-283	-203	-189	-171	-186	-203
Financing cash flow	-184	-298	-347	-205	-217	-246	-273	-387
Change in cash	**-47**	**8**	**93**	**-78**	**6**	**40**	**28**	**37**
Beginning cash	85	38	46	139	61	66	106	134
Ending cash	**38**	**46**	**139**	**61**	**66**	**106**	**134**	**171**

Ratio Analysis	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share								
EPS (SAR)	2.90	2.81	3.59	3.72	4.40	4.96	5.49	6.12
BVPS (SAR)	13.09	11.64	12.88	15.00	16.75	18.74	20.94	23.38
DPS (SAR)	-	-	-	2.50	2.64	2.98	3.30	3.67
FCF per share (SAR)	-5.49	-7.96	-7.41	-4.81	-4.77	-4.90	-5.40	-6.94
Valuation								
Market Cap (SAR mn)	6,205	6,205	6,112	8,993	9,724	9,724	9,724	9,724
EV (SAR mn)	8,279	8,886	8,862	11,942	12,644	12,589	12,605	12,572
EBITDA	702	600	724	818	873	916	964	1,018
P/E (x)	29.3	30.2	23.7	22.8	19.3	17.1	15.5	13.9
EV/EBITDA (x)	11.8	14.8	12.2	14.6	14.5	13.7	13.1	12.3
Price/Book (x)	6.5	7.3	6.6	5.7	5.1	4.5	4.1	3.6
Dividend Yield (%)	0.0%	0.0%	0.0%	2.4%	2.3%	2.6%	2.9%	3.2%
Price to sales (x)	1.3	1.2	1.1	1.5	1.5	1.4	1.3	1.2
EV to sales (x)	1.7	1.8	1.6	2.1	2.0	1.8	1.7	1.5
Liqiudity								
Cash Ratio (x)	0.02	0.02	0.09	0.03	0.04	0.06	0.07	0.09
Current Ratio (x)	1.08	0.89	1.10	1.09	1.20	1.34	1.43	1.57
Quick Ratio (x)	0.33	0.26	0.44	0.40	0.44	0.50	0.55	0.61
Returns Ratio								
ROA (%)	7.0%	5.9%	6.8%	6.7%	7.7%	8.4%	9.0%	9.6%
ROE (%)	22.1%	24.2%	27.9%	24.8%	26.2%	26.5%	26.2%	26.2%
ROCE (%)	13.7%	12.4%	10.6%	11.1%	12.4%	13.2%	14.0%	14.6%
Cash Cycle								
Inventory turnover (x)	2.3	2.4	3.1	2.9	2.9	2.9	2.9	2.9
Accounts Payable turnover (x)	6.8	5.9	6.3	4.5	4.5	4.5	4.5	4.5
Receivables turnover (x)	9.4	10.1	9.5	8.3	8.3	8.3	8.3	8.3
Inventory days	157	155	118	128	128	128	128	128
Payable Days	54	62	58	80	80	80	80	80
Receivables days	39	36	38	44	44	44	44	44
Cash Cycle	142	129	98	91	91	91	91	91
Profitability Ratio								
Net Margins (%)	5.0%	4.8%	5.7%	5.4%	5.9%	6.2%	6.3%	6.4%
EBITDA Margins (%)	14.1%	11.9%	13.5%	14.1%	13.9%	13.4%	12.9%	12.5%
PBT Margins (%)	5.3%	4.9%	5.9%	5.7%	6.3%	6.5%	6.6%	6.7%
EBIT Margins (%)	7.9%	5.3%	6.9%	7.8%	8.1%	8.1%	8.0%	7.9%
Effective Tax Rate (%)	5.3%	4.9%	5.9%	5.7%	6.3%	6.5%	6.6%	6.7%
Leverage								
Total Debt (SAR mn)	2,112	2,727	2,889	3,009	2,986	2,972	3,016	3,019
Net Debt (SAR mn)	2,074	2,681	2,750	2,949	2,920	2,865	2,881	2,848
Debt/Total Assets (x)	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Debt/Equity (x)	1.9	2.8	2.6	2.4	2.1	1.9	1.7	1.5
Net Debt/Equity (x)	1.9	2.7	2.5	2.3	2.1	1.8	1.6	1.4

UNITED SECURITIES LLC

Saudi Pharma retail
3 March 2024

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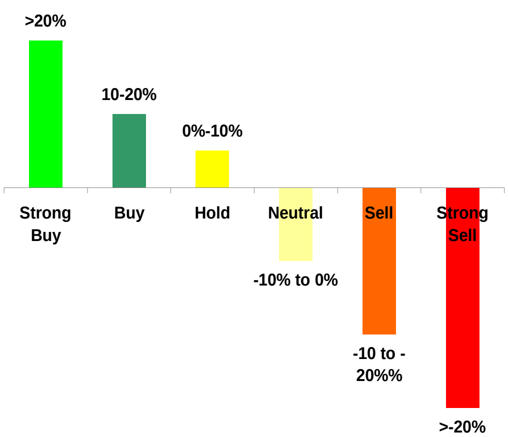
Rating Criteria and Definitions

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

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