April 2025

KSA Pharma Industry

Increased focus on localization of pharma manufacturing to be the key growth impetus alongside favorable demo-graphics and rising chronic diseases

Initiation Coverage Report | April 2025

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KSA's pharma industry, the largest in MEA is poised to expand beyond its SAR 36.5bn market size over the next 4 years, driven by favorable demographics, rising chronic diseases and regulatory shifts. Population growth of 1.9% CAGR over 2022-30E and rise in 65+ population from 2.7% in 2022 to 3.7% by FY30E, support this trajectory. Chronic diseases remain a concern, with 19% of KSA adults being diabetic (vs 10% globally) and 24% being obese (vs 13% globally). Localization of pharma manufacturing is a key growth catalyst, reducing the reliance on imports from USA, Europe, China and India. Under Vison 2030, KSA launched HSTP program with a SAR 295bn budget, aiming to increase domestic production to 40%. These factors could drive industry's market size to SAR 44.0bn by 2027E, implying 4.8% CAGR over 2023-27E. This growth is expected to be led by Gastro, Ophtha and Respiratory therapeutic areas, which are poised to grow at 10.2/8.8/7.9% CAGR over 2022-26E. The sector experiences several sectoral tailwinds and thus we initiate coverage on JamJoom, Avalon Pharma and Astra Industrial. We initiate on JamJoom with a TP of SAR 167.2 at a "Neutral" recommendation, as the 101% rally since the IPO in Jun-23 prices in the positives driven by capacity additions and new therapeutic areas. We initiate on Avalon Pharma with a TP of SAR 137.4 at a "Neutral" recommendation, as the current valuation of 25.0x FY25E P/E captures the upside for the company seeking to expand its production capacity. We also initiate on Astra Industrial with a TP of SAR 180.8 at an "Overweight" recommendation, as we believe KSA's favorable demographics and ongoing regulatory shifts could benefit AIG's pharma business which not only accounts for the largest revenue share but also is a margin accretive business.

KSA's pharma industry is the largest in MEA region, fragmented and skewed towards competition over general medicines, ophtha, and derma therapeutic areas: KSA's pharma industry is pegged at SAR 36.5bn as on 2023 and has grown at 6.8% CAGR over 2018-23. Not only has it grown rapidly, it has also been able to maintain its dominant share consistently at a 35% average, in the Middle East & Africa (MEA) region. This is due to its rising and ageing population, and prevalence of lifestyle diseases due to the genetic conditions. Although the industry is driven by diverse therapeutic areas, general medicines, ophthalmology and dermatology account for 42% share of the entire industry as of 2022 and happen to be the key focus area for our coverage companies. Companies face competition on racing to being the first to market on drugs with expired patented, as well as competition from global players.

Push to localize pharma manufacturing in KSA is one of the key drivers for the industry: Over 2015-23, KSA cumulatively imported SAR 47.3bn worth of pharma products and accounted for 40% of total chemical and allied products imports. The locally produced drugs meet just 36% of the total drug consumption (as on 2021) and is a testament to KSA's heavy reliance on imports especially from the US, Europe, India and China. Reducing this dependency is one of the key priorities under the Healthcare Sector Transformation Program (HSTP), which targets to achieve at least 40% of domestic production from the existing 36% level.

Strong sectoral growth ahead driven by demographic shifts, rising chronic diseases; Growth to be broad based, with Gastro, Derma and Ophth areas leading the growth: The sector is set for strong growth over FY23-30E, driven by shifting demographics and rising chronic diseases. Population growth (1.9% CAGR over 2022-30E) and aging population (2.7% in 2022 to 3.7% by 2030E) create a favorable demand. Presence of chronic diseases further support this growth. Industry is poised to grow at 4.8% CAGR over 2023-27E, led by Gastro (10.2%), Ophtha (8.8%), Respiratory (7.9%), Derma (7.2%), Nutraceuticals (7.1%), General Medicines (1.0% CAGR) segments.

Four key players dominate the industry, but JamJoom demonstrates exceptional revenue growth and margin profiles, despite being a late entrant: The industry is dominated by 4 key players: SPIMACO, Astra's Tabuk Pharma, JamJoom and Avalon. SPIMACO is the oldest and the largest player in terms of revenues, while Tabuk is the largest based on production capacity. JamJoom although a late entrant, has scaled-up its revenues fast to the levels of SPIMACO, while Avalon although smaller is size, has attained commendable feat in derma and respiratory segments. In terms of financial performance, JamJoom leads on revenue growth and margins, while Tabuk and Avalon lead on RoE and RoA profiles. SPIMACO lags on all fronts.

Initiate coverage on JamJoom, Avalon Pharma and Astra Industrial: We initiate on **JamJoom**, **Avalon Pharma** and **Astra Industrial** with a TP of **SAR 167.2 per share**, **SAR 137.4 per share** and **SAR 180.5 per share**, respectively. We initiate on **JamJoom** with an "**Neutral**" recommendation as we believe the positives driven by capacity additions ramping up (in Jeddah and Egypt) and new therapeutic areas are already in the price, especially after the 101% rally since the IPO in Jun-23. We expect the new therapeutic areas and tender market opportunity to drive 10.6/14.2% revenue/earnings CAGR over FY24-30E. We initiate on **Avalon Pharma** with "**Neutral**" recommendation as the firm's diversification initiatives and upcoming expansions drive revenues, but the stock currently trades at 25.0x P/E on FY25E earnings, which reflects all the positives. The strategy of expanding existing business, launching new products and foraying into newer therapeutic areas could drive 15.5/20.0% revenue/earnings CAGR over FY24-30E. We also initiate on **Astra Industrial** with a "**Overweight**" recommendation as we believe KSA's favorable demographics and ongoing regulatory reforms could support AIG's pharma business which is both largest revenue contributor and margin accretive for the group.

Company	Recommendation	TP (SAR/share)	Upside/ Downside	Revenue CAGR (FY24-30E)	Net Profit (FY2025)	P/E	EV/ EBITDA (FY2025)	DY% (FY25E)
JamJoom	Neutral	167.2	10.8%	10.6%	444	23.9	20.2	2.3%
Avalon Pharma	Neutral	137.4	6.5%	15.5%	104	25.0	19.4	2.1%
Astra Industrial	Overweight	180.8	21.5%	7.3%	642	18.5	14.0	2.4%

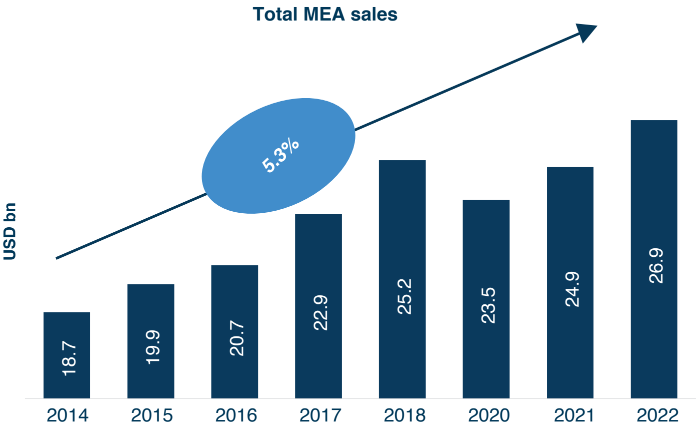
Source: AlJazira Capital research. Note: Net profit denoted in SAR mn. *Price as of 27th April 2025

Pharmaceutical Sector Structure & Regulatory Landscape

KSA consistently dominates MEA's pharma business

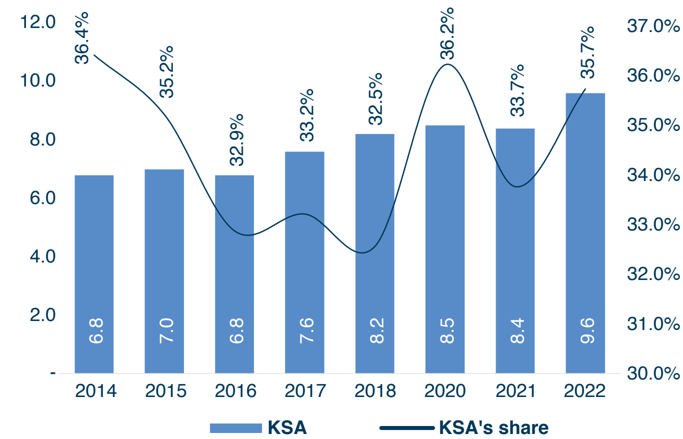
MEA's pharma business is pegged at USD 26.9bn as on 2022, with KSA leading the region at USD 9.6bn industry size. KSA has consistently maintained its dominant share over the seven years, attributable to its demographic profile, rising and ageing population, higher prevalence of lifestyle related diseases and KSA government's economic transformation through Vision 2030 program.

Fig 1. MEA's pharma industry grew at 5.3% CAGR over 2014-22



Source: IQVIA, AlJazira Capital research. Note: Based on Moving Annual Total as on Q3-24

Fig 2. KSA maintaining its dominant share within the range on an consistent basis

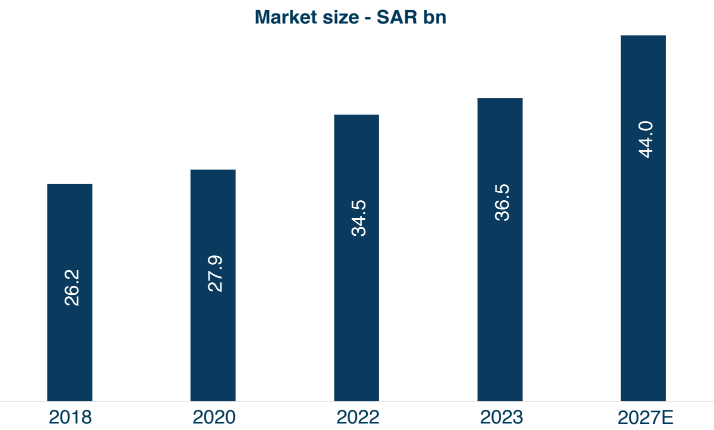


Source: IQVIA, AlJazira Capital research. Note: Based on Moving Annual Total as on Q3-24

General Medicines, Dermatology and Ophthalmology dominates KSA's SAR 36.5bn pharma industry

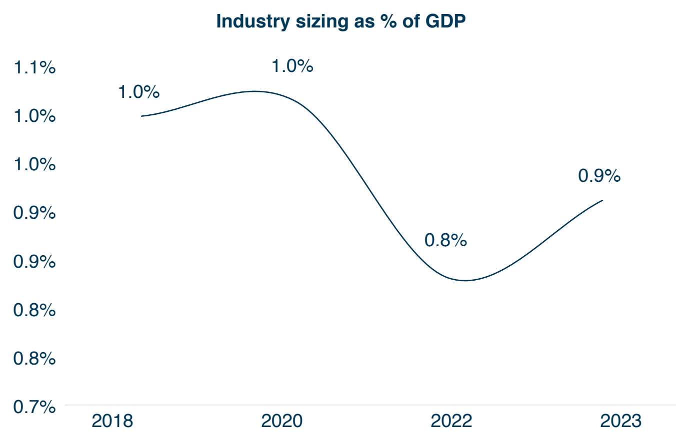
KSA's pharma industry has grown at 6.8% CAGR over 2018-23 to reach a market size of SAR 36.5bn. This growth was driven by a confluence of ageing and growing population, rise in non-communicable diseases and the government's initiatives to boost the public healthcare infrastructure. The COVID-19 pandemic acted as an additional catalyst for demand of pharma products, with heightened consumer awareness about immune health.

Fig 3. KSA's pharma industry grew at 6.8% CAGR over 2018-23



Source: JamJoom Prospectus, AlJazira Capital Research

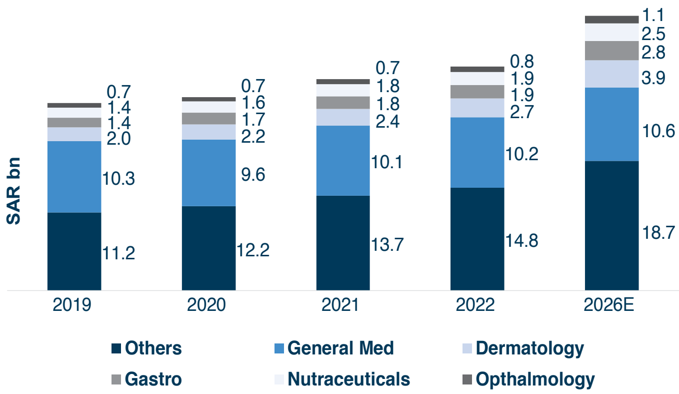
Fig 4. KSA's share as % of GDP is rangebound within 0.8-1% of the GDP



Source: JamJoom Prospectus, AlJazira Capital Research

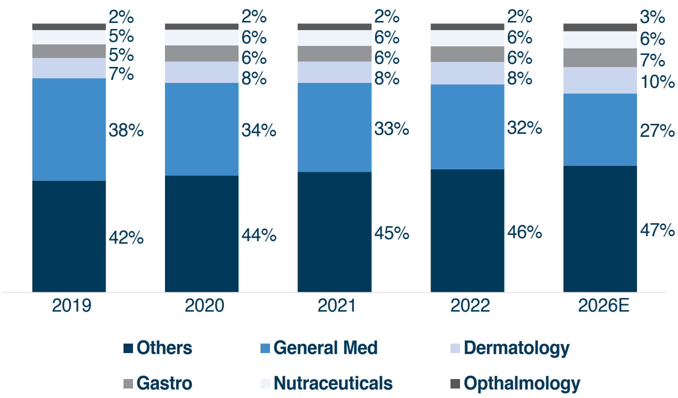
KSA's pharma industry is driven by a diverse range of therapeutic areas, reflecting its healthcare priorities and the prevalence of specific diseases. General Medicines is the largest single therapeutic area accounting for 32% and implying a market size of SAR 10.2bn (2022). Dermatology and Ophthalmology account for 10%, implying a market size of SAR 3.5bn (2022). These 3 therapeutic areas form the core focus areas for our coverage companies.

Fig 5. General Medicines dominates the KSA's pharma industry



Source: JamJoom Prospectus, AlJazira Capital Research

Fig 6. Contribution of general medicines declined due to disruptions in the supply chain during COVID-19



Source: JamJoom Prospectus, AlJazira Capital Research

Fig 7. Basic overview of the core therapeutic areas for JamJoom and Avalon

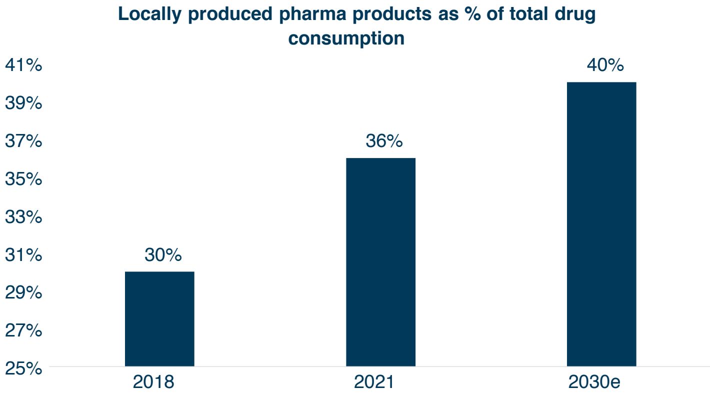
Therapeutic areas	Meaning	Remarks	Key players
Dermatology	Medicines and supplements for skin, hair and acne	Prescription-based medicines accounted for 70% of the market as on 2021, but demand for OTC-based products has surged due to increasing convenience	• Fragmented space with 80+ players • Avalon had 7.9% share as on 2021 • JamJoom had 6.7% share
General Medicine	Medicines for common illness and general healthcare needs	Focuses on primary care and includes treatments for non-specialized or non-chronic conditions	• Local companies maintain higher share • SPIMACO had 14.4% share as on 2021 • Avalon and JamJoom had 2.2% and 2.1% share
Ophthalmology	Diagnosis and Treatment of eye disorders	Driven by prescription-based products	• Top-5 players account for 58% of sales in 2021 • JamJoom had 20.6% share

Source: JamJoom Pharma Prospectus, AlJazira Capital research

The highly regulated pharma industry is aiming to strengthen local production through initiatives such as government tender markets

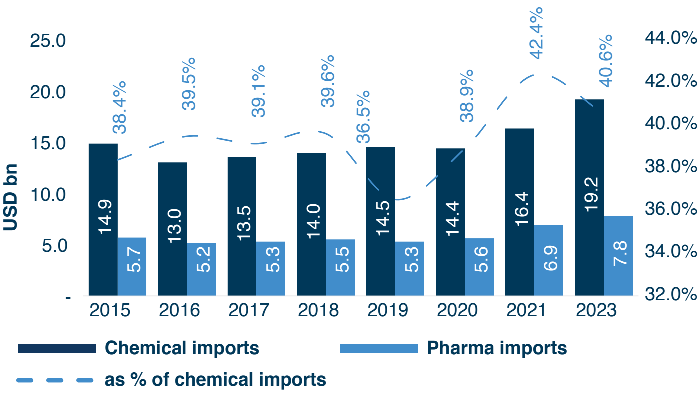
KSA relies heavily on US, Europe, China and India for API sourcing active pharmaceutical ingredients (APIs), while the local incumbents primarily focus on production of over the counter (OTC) products. Over 2015-23 KSA cumulatively imported USD 119.9bn worth of chemical and allied industry products, with pharma imports accounting for USD 47.3bn (39.5%). In 2021, the locally produced drugs met only 36% of total drug consumption, thus prompting KSA to target at least 40% domestic production through its robust strategies devised in Vision 2030.

Fig 8. Share of locally produced pharma products is at 36%



Source: JamJoom Prospectus, AlJazira Capital Research

Fig 9. Rising share of pharma imports in total imports of products of chemical and allied industries



Source: United Nations Comtrade, GASTAT, AlJazira Capital Research

The sector operates under Saudi Food and Drug Authority (SFDA), which regulates drug safety, quality and efficacy. Apart from being a watchdog on the incumbents, it also has the autonomous power to set the pricing for each product. Additionally, National Unified Procurement Company (NUPCO) a PIF owned company serves as a strategic arm to the government. It manages, procures, distributes and handles logistics of pharma products and medical equipments for the public healthcare sector. To ensure the security and efficiency of the strategic supply NUPCO launched the tender market, wherein domestic pharma producers compete on i) quality, ii) pricing and iii) time for delivery. The incumbents have devised strategies to foray into this space as it offers opportunity to significantly boost the top-lines through securing strategic and large sales of their products.

Sales agents & customer insights drive the entire drug manufacturing & distribution process

To gauge the business model of any industry, it is pivotal to dissect the value of chain of the industry. In the below section we have explained the value chain of KSA's pharma industry and the key market participants, which play a key role in the entire revenue generation for a pharma manufacturing company.

The drug manufacturing and distribution process begins when a patient experiences a medical complaint and visits a hospital or clinic. Based on the diagnosis, the doctor prescribes medication which the patient procures from a pharmacy. Customer insights from prescriptions and purchases are gathered by medical representatives (sales agents of pharma companies), who relay this information to the concerned pharma companies. These companies analyze the demand trends and conduct R&D to develop treatments for the ailments. The process then moves to sourcing APIs and formulating the drug under KSA's stringent regulatory oversight. Once manufactured, the drug is distributed to authorized distributors, who engage subagents to ensure the medication reaches pharmacies and, ultimately, the end consumer.

Fig 10. Sales agents play a pivotal role from demand generation to distribution in the pharma industry's value chain

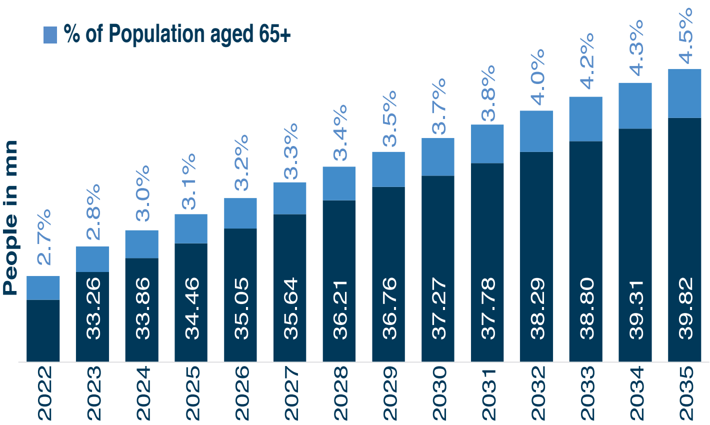
Source: AlJazira Capital Research

Sectoral tailwinds

Growing disposable income, population influx and rising chronic diseases to fuel KSA's pharma industry

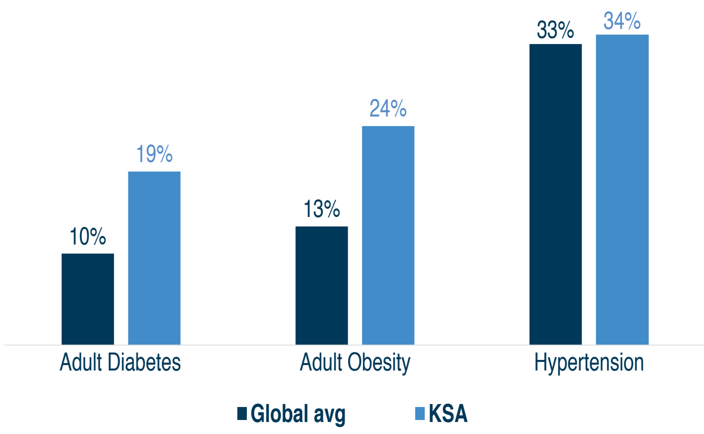
KSA's pharmaceutical consumption and needs are likely to be bolstered by confluence of demographic and economic factors. KSA's population is not only expected to increase (1.9% over 2022-30E), but also age at a faster pace. People aged 65+ are expected to grow at a 5.0% CAGR over the same period. The prevalence of chronic diseases which require long-term treatment further support this growth narrative, as 19% of KSA adults are diabetic (vs 10% globally) and 24% are obese (vs 13% globally). Economically KSA's consumer expenditure could grow at 4.3% CAGR over FY22-27E according to Euromonitor. This growth is likely to be driven by increase in women's labor force participation and rise in women's disposable income. This bodes well for KSA's pharma industry, as rising income levels aids demand over pharmaceutical segments such as dermo-cosmetics.

Fig 11. Government initiatives set to drive 1.9% population growth over 2022-30E, with a rapidly aging demographic



Source: GASTAT, World Bank, AlJazira Capital Research

Fig 12. Higher % of chronic diseases in KSA's adults could drive demand for healthcare services



Source: Company, AlJazira Capital research

Push to localize pharma manufacturing through HSTP program devised under Vision 2030

Over 2015-23, KSA cumulatively imported SAR 47.3bn worth of pharma products and accounted for 40% of total chemical and allied product imports. The locally produced drugs meet just 36% of the total drug consumption (as on 2021) and is a testament to KSA's heavy reliance on imports from US, Europe, China and India. Reducing this high dependency is one of the key priorities of KSA under its HSTP program, which targets to achieve at least 40% of domestic production from the current 36% level. The SAR 295bn of allocated budget under Vision 2030, ensure KSA's focus on developing its sector.

Generic drug market in support from CCHI and SFDA regulations

KSA's insurance and SFDA regulations are in support for local manufacturers as guidelines steer the healthcare sector towards generic drugs, in an effort to reduce cost on beneficiaries and provide equivalent safety and results for patients. The Council for Health Insurance (CHI) developed an Insurance Drug Formulary (IDF) with a skew towards generic drugs for insurance coverages. Under its guidelines, healthcare providers are required to prescribe drugs using their scientific name and not the brand name- while pharmacists are required to replace brand name drugs with generic ones for beneficiaries. Healthcare providers can request not to replace brand names with a clinical medical justification. Under the CHI's updated Essential Benefit Package- should a patient request a branded name which has a generic alternative, they would be subject to a copayment of 0-50% based on their insurance policy coverage. The regulatory skew towards generics support local manufacturers' in coming to market with alternative prescription and OTC drugs.

Regional tender markets supporting demand, facility utilization, and a channel for inventory release

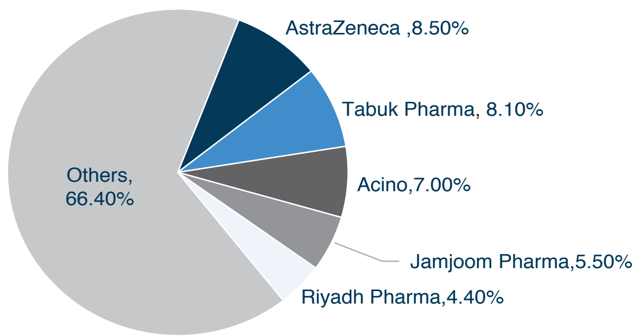
The government tender market is an SAR 21bn market (IQVIA, June 2022) led by NUPCO with its mandate to provide medical purchasing and procurement, storage, and distribution of medical supplies to serve government agencies and across 400 public hospitals and primary healthcare centers. Similarly Egypt's procurement agency 'Egyptian Authority for Unified Procurements' was established in 2019 is also involved in strengthening the country's strategic stockpile. All companies in our coverage have an exposure to sales in Egypt with initiatives to increase their roles in that geographic market. In turn, government tender market remains a consistent, and large, channel for demand for our covered firms which supports facility utilizations, and inventory turnover, however at times at a cost of competitive pricing and thus margins. Situational circumstances could also prompt the government to increase its medical stockpile and increase further demand for locally manufactured medicines, as during COVID periods. Jamjoom Pharma intends to increase its tendering market revenues to constitute 30% of revenues, while almost 21.4% of Avalon's FY23 revenues were from tendering markets (including Wasfaty, a NUPCO platform). Similarly, Astra aims to reinitiate its activity in the Egypt market by FY25.

Key Segments in KSA's pharma market

Lifestyle diseases and sedentary diet habit to continue the historical growth momentum for Gastrointestinal category over 2022-26E

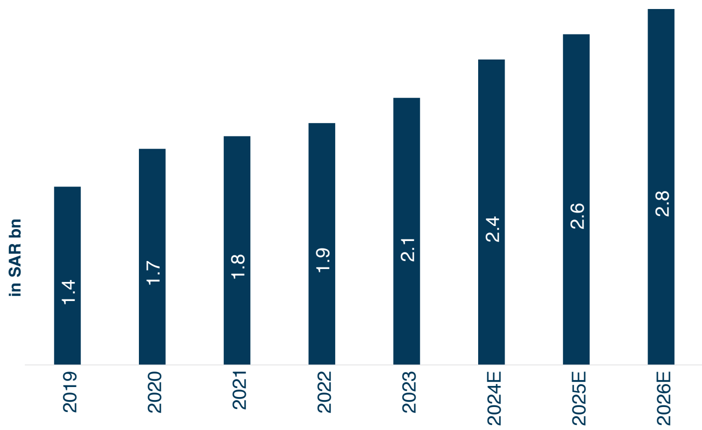
Stationary lifestyles during the Covid-19 era resulted in an increased demand for this category products, thereby driving a 13.4% CAGR over FY19-21. We expect the same growth rhythm to continue over 2022-26E due to i) prevalence of lifestyle diseases such as obesity and diabetes and ii) sedentary diet habits. We believe the market size of this category could reach SAR 2.8bn by 2026E, implying a 10.2% CAGR over 2022-26E. However, this category is characterized by a higher share of OTC products and fragmented competition. Limited coverage from health insurance programs and SFDA's regulatory decision to suspend medicines with H2 blockers (in line with global directions) resulted in a shift towards OTC medications. Moreover, in terms of competition, the industry is largely fragmented in nature, but top-5 players capture 34% of the market.

Fig 13. GIT market fragmented with OTC medication taking significant share of the segment



Source: Company, AlJazira Capital research

Fig 14. Sedentary diet and lifestyle habits to drive the market size to SAR 2.8bn by 2026E



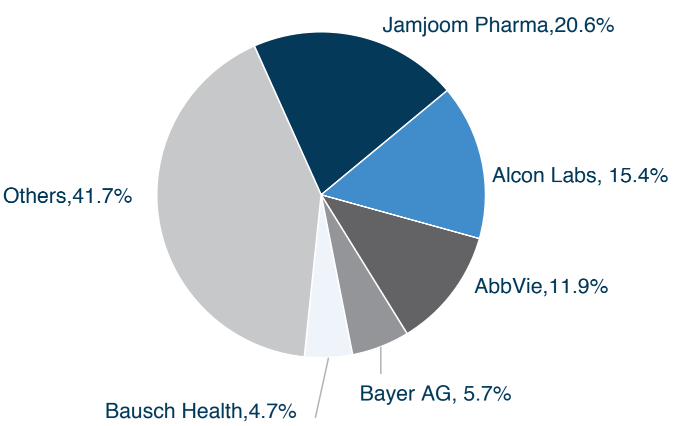
Source: Company, AlJazira Capital research

Ophthalmology a relatively smaller but growing segment with strong future prospects

Ophthalmology therapeutic market has grown historically at 6.6% CAGR over 2019-22 and could grow at a faster pace of 8.8% CAGR over 2022-26e to reach a market size of SAR 1.1bn. The segment treating eye conditions is expected to continue being supported by demand from post-surgery eye medications and non-elective operations.

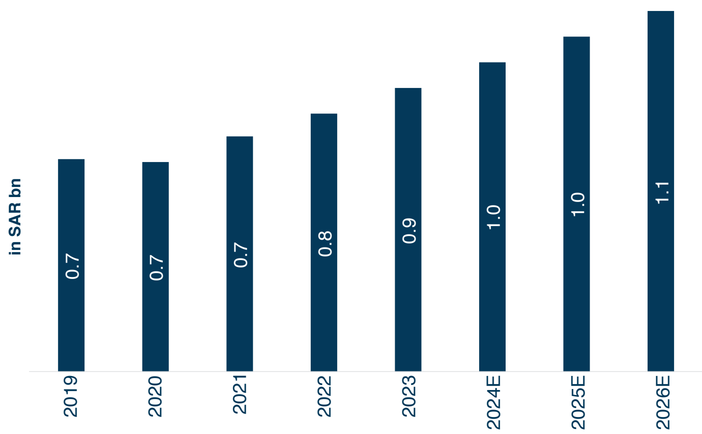
The segment is relatively consolidated, with the top five players sharing a total market share of 58.3% of the segment's value sales.

Fig 15. Jamjoom leads market share in the segment at 20.6% supported by regulatory push for localization



Source: Company, AlJazira Capital research

Fig 16. Historical growth impacted due to COVID led clinic closures but future growth to be strong at 8.8% CAGR

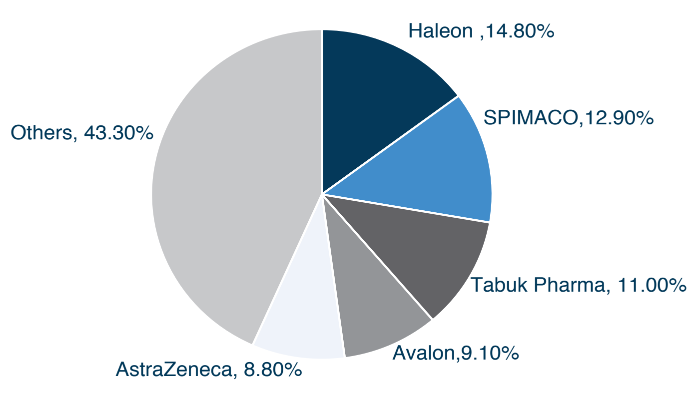


Source: Company, AlJazira Capital research

Future growth of respiratory segment to be fueled by aging population, increased healthcare access, weather conditions and increased smokers

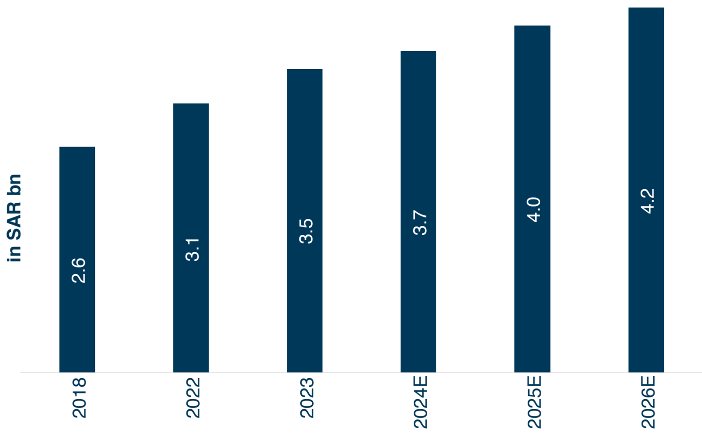
Respiratory segment is dominated by OTC products as they capture 65% of the market while prescription-based products account for the balance 35% share. This segment is relatively concentrated with top-5 players capturing 57% of the total value of sales as of 2022. Although this segment has historically grown at 4.9% CAGR over 2018-22, it is expected to surpass its historical growth rate over 2022-27E, driven by i) increased healthcare access diagnosing respiratory diseases, ii) aging population, iii) increase in adult smokers (from 7.1mn in 2022 to 7.4mn by 2026) and iv) continued seasonal needs for OTC medication. We believe the market size of this segment could increase from SAR 3.1bn in 2022 to SAR 4.2bn by 2026e, implying a robust 7.9% CAGR.

Fig 17. Respiratory market is largely concentrated with top-5 players capturing 57% share



Source: Company, AlJazira Capital research

Fig 18. Aging population, increased healthcare access, weather conditions and increase in smokers to drive market

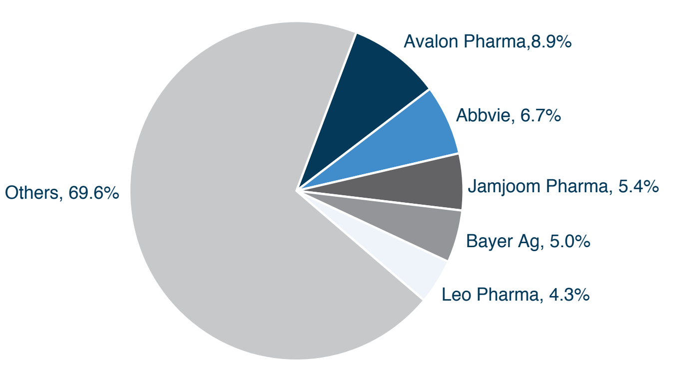


Source: Company, AlJazira Capital research

Dermatological segment to grow at 7.2% CAGR over FY22-26E supported by hair loss treatments, anti-acne agents and growth in general skin care interest

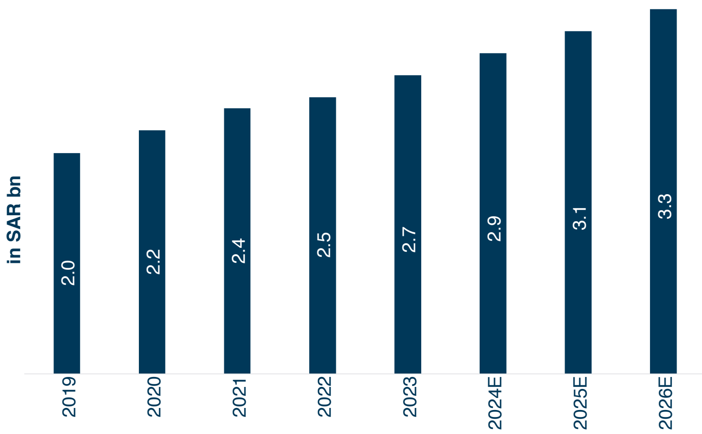
Anti-acne, Hair-loss treatment, Wound healing, Topical corticosteroids, and Emollients & Protectives form the key subcategories under Dermatology segment. These subcategories have grown at 8.9% CAGR over FY18-22 as problems like i) irritated skin, ii) hair loss, iii) general interest in skin health and iv) weather conditions drove the demand for the segment. These problems are believed to be persistent in KSA and thus bode well for the growth prospects of Derma therapeutic area. Support of digital sales and easy availability of these products at the pharmacy is likely to act as additional growth driver. Thus, we expect this therapeutic area to grow at 7.2% CAGR over FY22-26E to reach a market size of SAR 3.3bn.

Fig 19. Derma segment in KSA is fragmented with each player trying to grab the market share of its peers



Source: Company, AlJazira Capital research

Fig 20. Growth prospects for KSA's dermatological segment are strong



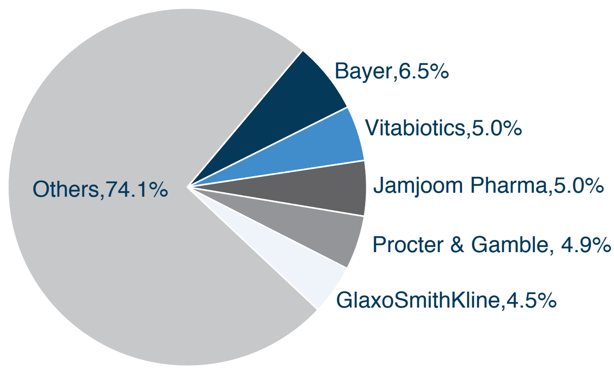
Source: Company, AlJazira Capital research

Nutraceutical's historical growth of 10.7% CAGR to slightly taper off over 2022-26e, but growth drivers to stay the same

Although SFDA has been given the larger responsibility to regulate new nutraceuticals, much of the segment is lesser regulated due to presence of OTC nutraceuticals. Less entry barriers resulted in a surge of new entrants over 2019-21, thus prompting larger players to offer promotions such as bulk sale discounts, and bundles on vitamins. Due to this the top-5 players account for just 25.9% of FY21 value sales, with Jamjoom being the only local player to be a top 5 provider.

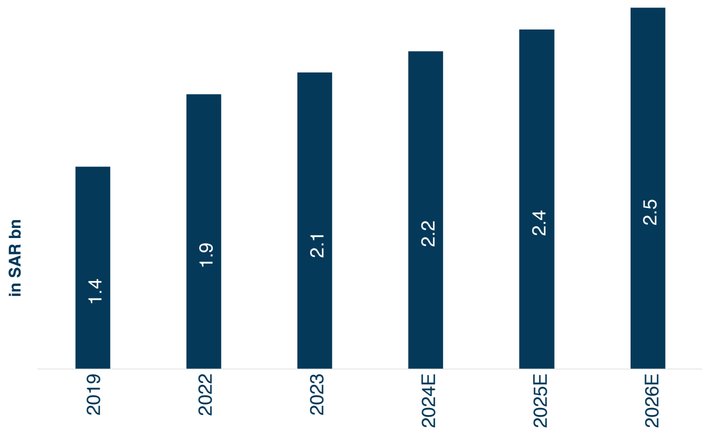
Rising consumer health awareness drove the demand for dietary supplements and vitamins, which led to the segment growing at 10.7% CAGR over 2019-22. For the future, active promotions by pharmacies and easy availability of products can make the segment reach a market size of SAR 2.5bn by 2026e, implying a 7.1% CAGR over 2022-26E.

Fig 21. Highly fragmented market with Jamjoom being the only local top 5 player



Source: Company, AlJazira Capital research

Fig 22 . Increased focus on consumer health awareness to drive the future growth for the segment

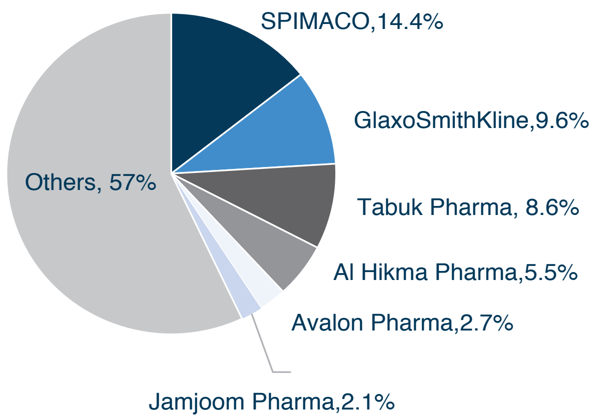


Source: Company, AlJazira Capital research

General medicines, a broader umbrella encompassing various segments to witness sluggish growth of 1.0% over 2022-26e

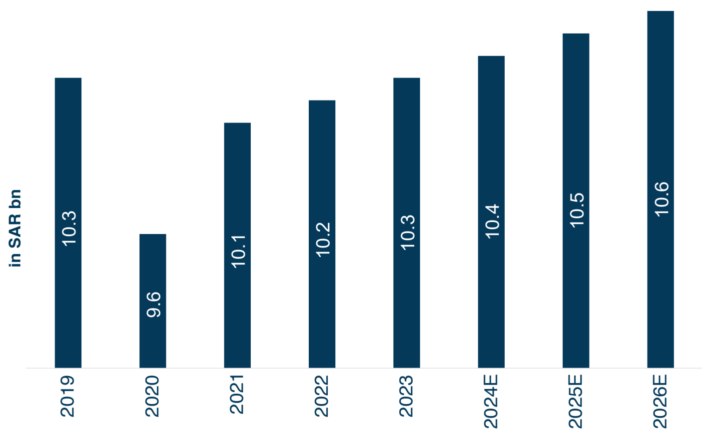
General medicine segment is a broader class, consisting of some overlapping medicines from prior segments. It covers common medicines such as pain killers, cold relief, hand sanitizers, and analgesics, anti-allergens. The segment saw disruptions during Covid stemming from supply chain issues for APIs, thus prompting government to increase localization. Due to this initiative, almost 50% of the segment's sales are from local providers with SPIMACO leading the category's market, with a share of 14.4% (Euromonitor, 2021). The broad segment is expected to be outpaced by other medical segments, as the segment is poised to grow at just 1.0% CAGR over 2022-26E.

Fig 23. Strong presence of local players in the general medicine category



Source: Company, AlJazira Capital research

Fig 24. General Medicine category to witnessed sluggish growth rate of 1.0% over 2022-26E



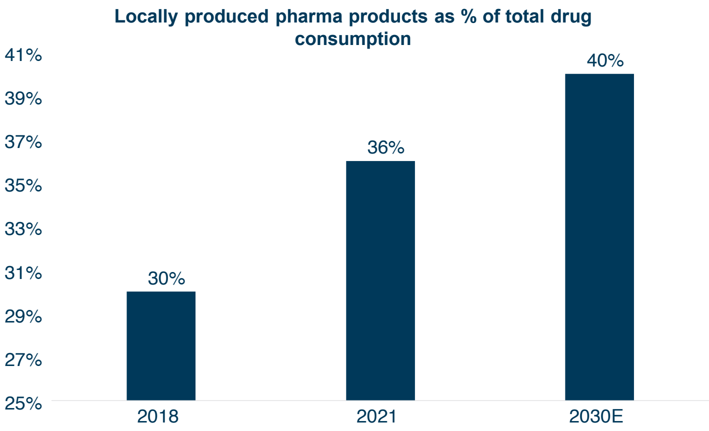
Source: Company, AlJazira Capital research

Competitive landscape

Competition driven by a race in being first to market for expired patents, and heavy reliance on imports shaping up a fragmented market

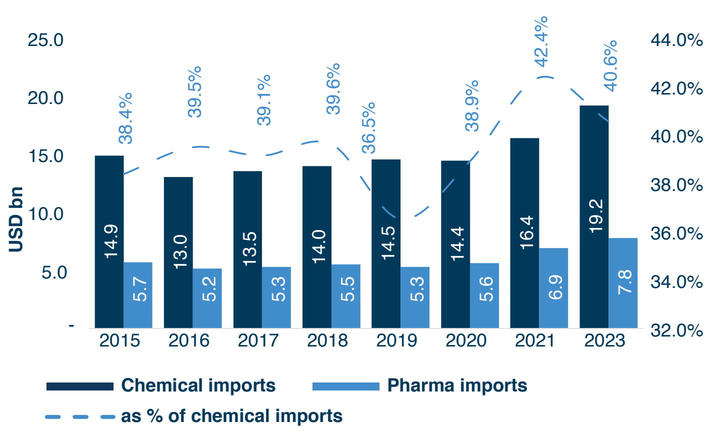
KSA's pharmaceutical market is fiercely competitive, driven by its heavy reliance on imports imports, as well as high fragmentation in key pharmaceutical segments. Furthermore, as much of the local production relies on OTC markets, companies compete in a race to be first to market for drugs with expiring patents. There is otherwise heavy dependency on imports which makes the domestic players like JamJoom Pharma and Avalon Pharma compete with global counterparts such as Novartis, Sanofi and also generic players from emerging nations like India and China. Over 2015-23 KSA has cumulatively imported USD 119.9bn worth of products of Chemical and allied industries, within which the cumulative imports of pharma products stood at USD 47.3bn, implying a cumulative share of 39.5%. Aiming to reduce this dependency, KSA's Vision 2030 aims to achieve local production of at least 40% of total pharma consumption. To achieve this, it is fostering intense competition among global and local players by promoting technology and research-driven collaborations. Major global manufacturers like AstraZeneca and Pfizer are forming strategic partnerships.

Fig 25. Share of locally produced pharma products is expected to rise just 400bps over 2021-30E



Source: JamJoom Prospectus, AlJazira Capital research

Fig 26. Rising share of pharma imports in total imports of products of chemical and allied industries



Source: United Nations Comtrade, GASTAT, AlJazira Capital research

Fig 27. Porters 5 forces analysis indicates for strong competitive forces in KSA's pharma industry

Threat of substitutes

• HIGH

- Generic and OTC products, where listed market is active, face risk of consumer options from herbal remedies and alternative remedies
- Basis our estimates, the Generic pharma segment accounts for 40% of KSA's pharma industry as on 2023

Competitve landscape

• HIGH

- Fragmented industry with presence of many global MNCs and generic players from emerging countries

Bargaining power of buyer & supplier

• MEDIUM

- Majority of pharma sales in KSA take place through large national distributors which are the buyers for KSA's pharma players
- National tenders face price competition

Threat of new entrants

• MEDIUM

- Regulatory oversight presents a barrier of complexity and quality control
- Global players backed by strong financial and technical support can enter the market
- OTC and generic products are competable areas

Source: AlJazira Capital Research

Four key players dominate KSA's listed pharma sector with Tabuk being the largest player in terms of production

KSA's listed pharma industry is dominated by four key players: i) SPIMACO, ii) JamJoom, iii) Avalon and iv) Tabuk Pharma. All these players focus on development, manufacturing, marketing and distribution of pharma products, medical equipments and consumer health products. In the figure below we have highlighted the businesses of these incumbents in detail.

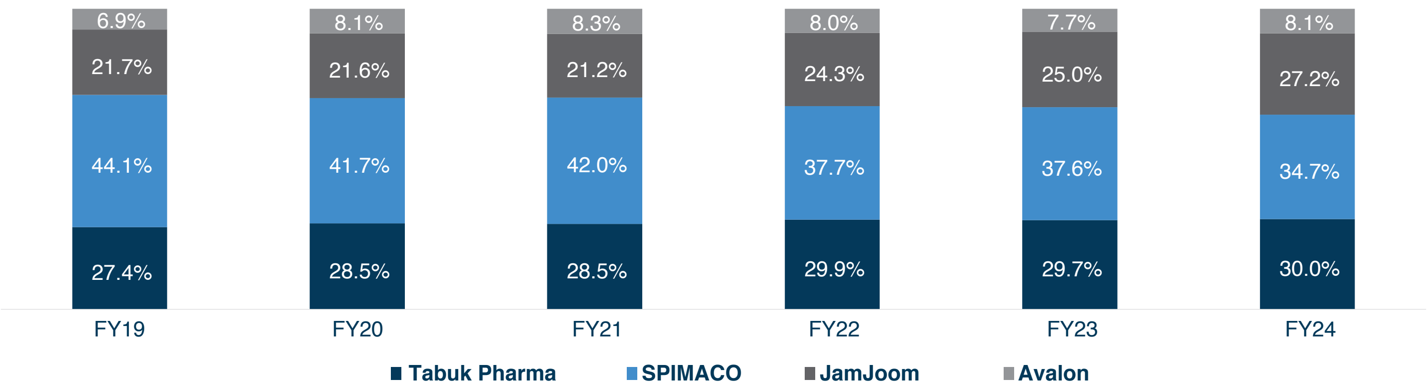
Fig 28. Business overview of the incumbents operating in KSA's listed pharma space

Particulars	SPIMACO	JamJoom	Avalon	Tabuk Pharma
Year of est.	1986	2000	1998	1988
Business	Produces prescription and OTC drugs	Produces generic prescription products	Produces branded generic, prescription and OTC drugs	Produces generic and under-licensed drugs
Geo presence	16 countries	36 countries	15+ countries	17 countries
Therapeutic areas	7	9	9	8
Production lines	5 units	4 units	3 units	4 units
Production volume	1,714mn units	186.5mn units	*51.7mn units	2,000mn units
Revenue – FY24	SAR 1,682.0mn	SAR 1,318.5mn	SAR 394.0mn	SAR 1,453.9mn

Source: Company, Argaam, AlJazira Capital research. Note: *Denotes production volumes for FY24E basis our internal estimates

Tabuk Pharma, the pharmaceutical arm of Astra Industrial Group is the largest pharma player in terms of production. It holds a prominent position in KSA's generic markets with a revenue-based market share of 30% as on FY24. It excels in general medicine and gastrointestinal markets and operates in 8 therapeutic areas. It has a successful track-record of manufacturing and marketing drugs under exclusive agreements with global MNCs. **SPIMACO** is the older player in the industry and has since then grown to become the largest player in terms of revenues and 2nd largest in terms of production. It commands a revenue-based market share of 35% as on FY24. It is the leader in general medicine therapeutic area. **JamJoom Pharma** started its operations with initial focus on the domestic market but eventually expanded its operations to encompass various export markets. It is the leader in Ophthalmology and second largest player in the Dermatology therapeutic area. It has a revenue-based market share of 27% as on FY24 and competes neck-to-neck with Tabuk Pharma. **Avalon Pharma** is one of the fastest growing player in the market with a leadership position in Dermatology, which is a fragmented therapeutic area. It is the 4th largest player for Respiratory therapeutic area and has a revenue-based market share of 8% as on FY24.

Fig 29. Although SPIMACO is the largest player, JamJoom has been gaining market share from it



Source: Company, Argaam, AlJazira Capital research.

Fig 30. Tabuk and JamJoom lead on the share of prescription based registered human drugs in 2023, while SPIMACO has the lowest share

Tabuk Pharma
- **547** human drugs in 2023
- **91%** RX-based
- **9%**OTC-based

SPIMACO
- **433** human drugs in 2023
- **82%** RX-based
- **18%** OTC-based

JamJoom
- **268** human drugs in 2023
- **88%**RX-based
- **12%** OTC-based

Avalon
- **78** human drugs in 2023
- **87%**RX-based
- **13%** OTC-based

Source: SFDA 2023, AlJazira Capital research.

JamJoom leads on revenue growth and margins, while Tabuk Pharma and Avalon lead on RoE & RoA; SPIMACO lags on all fronts

In the below figure we have analyzed the 4 dominant players in KSA's listed pharma space based on selected financial metrics, to gauge their financial strength.

- **Revenue size & growth:** SPIMACO is the largest player, while bottleneck competition exists between Tabuk Pharma and JamJoom. Despite entering the industry in 2000's JamJoom has scaled up fast to match Tabuk's revenues, who is one of the oldest players. This fast scale-up is also evident from the highest revenue growth (13.1%) for JamJoom over FY20-24.
- **Margins:** Tabuk Pharma has industry highest EBITDA and Operating margins. Its ability to control the impairments and management's strategy of rationalizing S&D spends is one of the key drivers for the margins. We believe a higher skew to prescription based human drugs (91%) versus 82/87/88% for SPIMACO/Avalon/JamJoom could be one of the key reasons for industry best margins for Tabuk Pharma.
- **Asset turns:** Tabuk Pharma and Avalon have been able to efficiently use its assets for generating sales, which is evident from his industry highest asset turns.
- **DSO days:** The industry seems to give 4-5 months of payback period to its customers, on an average basis. JamJoom and Tabuk Pharma have the lowest DSO days (88/124, respectively), while SPIMACO has the highest DSO days at 225.
- **RoE & RoA:** Despite having the industry highest margins, JamJoom lags behind Tabuk Pharma and Avalon in terms of RoE. This is attributable to higher dividend payout for JamJoom (66% on 3yr median), versus Avalon (55%) and SPIMACO (neglible).

Performance of our coverage companies

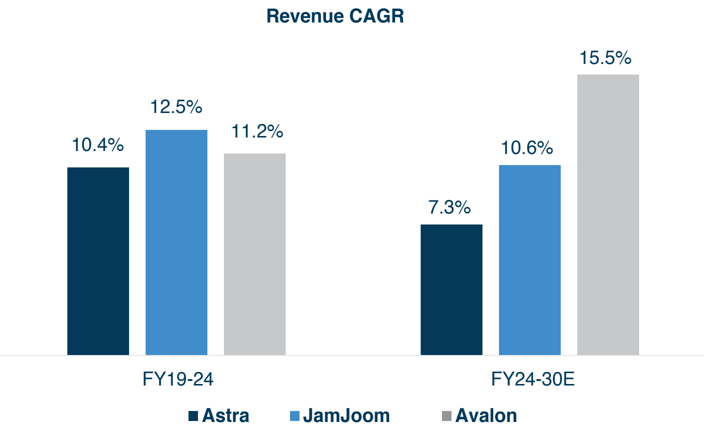
Fig 31. Financial analysis of the 4 key players in the industry:

in SAR mn	Tabuk Pharma	SPIMACO	JamJoom	Avalon	Sector Median
Revenues:					
FY24 Rev	1,454	1,682	1,318	394	**1,386**
Y/Y growth %	11.6%	1.7%	19.9%	16.4%	**14.0%**
FY20-24 CAGR	8.1%	2.0%	13.1%	6.9%	**7.5%**
3yr median:					
Cost drivers:					
R&D as % of rev	1.8%	3.0%	3.0%	DNA	**3.0%**
D&A as % of rev	4.1%	4.8%	2.8%	3.5%	**3.8%**
Int exp as % of rev	1.6%	4.2%	1.8%	1.8%	**1.8%**
EBITDA margins	33.9%	11.2%	31.7%	26.8%	**29.3%**
Opt margins	29.7%	6.4%	28.9%	23.1%	**26.0%**
Balance Sheet:					
Asset turns	1.10	0.41	0.72	0.76	**0.74**
DSO days	124	225	88	173	**148**
RoE	80.1%	2.4%	24.1%	24.4%	**24.2%**
RoA	31.0%	0.9%	20.6%	16.1%	**18.4%**
TTM Valuation:					
P/E (x)	DNA	HIGH	32.5	31.3	**31.9**
EV/EBITDA (x)	DNA	26.5	26.8	23.7	**26.5**

Source: Company, Argaam, AlJazira Capital research. Note: * DNA means Data Not Available

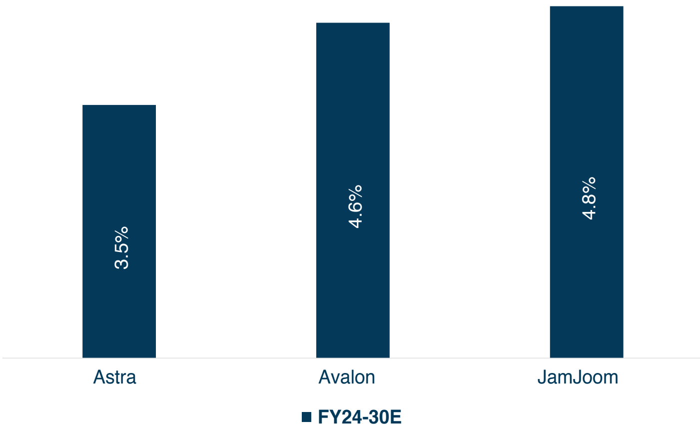
- **Revenue growth:** Within our coverage, we believe **Avalon Pharma** could likely outperform **JamJoom and Astra**, by growing at 15.5%, while the latter growing at 10.6/7.3%, respectively over FY24-30E. This outperformance shall be aided due to i) Avalon's plan of launching 3-5 unique pharma molecules annually, ii) its strong foothold in derma (#1) and respiratory segments (#4), and iii) 2x capacity increase to focus on new therapeutic segments.
- **Operating margins:** Within our coverage, we believe **JamJoom** could likely have better operating margin expansion trajectory than **Avalon and Astra**. Over FY24-30E, we expect JamJoom's operating margins to expand by 480bps to reach 33.7%. Avalon's operating margins could expand at 458bps to reach 27.7%, while Astra's operating margins could expand at 346bps to reach 25.0%.
- **Net income:** Within our coverage, we believe **Avalon** could likely have better net income growth than **JamJoom and Astra**. We expect the net income of Avalon to grow at 20.0% CAGR, while JamJoom's to grow at 14.0% CAGR over FY24-30E. Astra's net income could grow at 10.9% CAGR over FY24-30E.

Fig 32. Growth momentum to turn in the forecasted period; Avalon to outperform



Source: Company, AlJazira Capital research

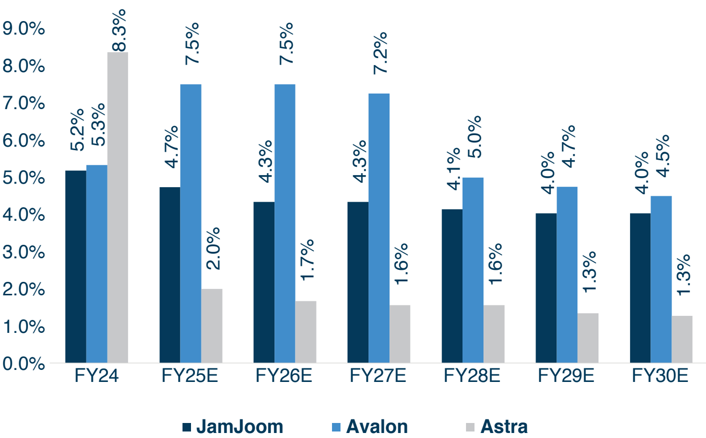
Fig 33. Higher scope of margin expansion in case of Avalon versus others



Source: Company, AlJazira Capital research

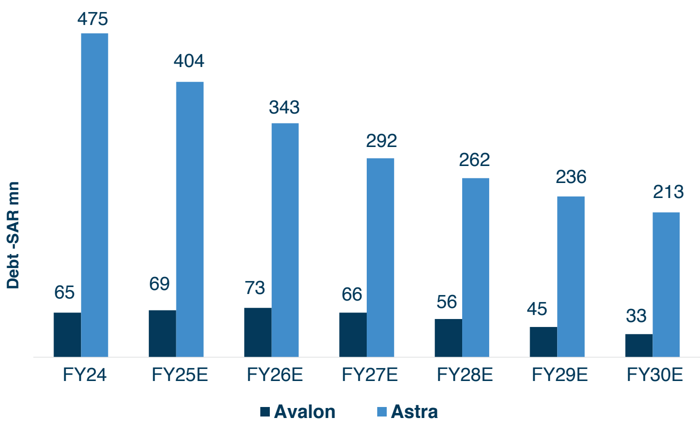
- **Capex:** Historical capex intensity for JamJoom was high (4-20%) due to the construction of Egypt and Jeddah facilities, while Avalon's historical capex intensity ranged from 5-13%, with 26% of the capex being spent in FY20. Astra's capex intensity was comparatively lower and within 2-8% of revenues. Going forward we expect that JamJoom and Astra have sufficient capacities to cater to the upcoming demand and thus it wont announce any major capex plans over FY24-30E. Accordingly we tone down our capex intensity for JamJoom from 5.2% in FY24 to an average of 4.3% over FY24-30E. Whereas for Astra we tone down from 8.3% in FY24 to an average of 1.6% over FY25-30E. In case of Avalon we expect a sharp increase in FY25E due to capacity expansions from Avalon 4 and 6 facilities, which could take the capex intensity from 5.3% in FY24 to 7.5% by FY25E, however post that we expect the intensity to gradually reduce to 4.5% FY25-30E, and for Astra we tone down from 8.3% in FY24 to an average of 1.6% over FY25-30E.
- **Debt profile:** JamJoom operates with negligible debt, whereas Avalon has a net debt/equity ratio of 0.12x in FY24. Going forward we expect Avalon to commence deleveraging of its balance sheet and thus we expect the net debt/equity ratio to reach -0.16x by FY30E. Astra operates at high debt levels due to its conglomerate status, but going forward we believe that the company will start repaying the majority portion of the debt, leading to improvement in the net debt/equity ratio from 0.12x in FY24 to -0.37x.

Fig 34. Capex intensity to moderate across our coverage companies over the forecasted period



Source: Company, AlJazira Capital research

Fig 35. We expect the management of Astra and Avalon to commence debt repayment over the forecasted period



Source: Company, AlJazira Capital research

Investment thesis & Valuations

KSA's rising and ageing population alongside sedentary lifestyle and diet habits has led to a higher number of people with chronic diseases. These characteristics have enabled it to achieve a dominant share in MEA's pharma industry and has pegged the market at SAR 36.5bn as of 2023. KSA's pharma industry is underpinned with heavy imports from countries like USA, China, Europe and India, which resulted in supply chain issues during the Covid era. To curb this dependency, KSA government, through its initiatives under Vision 2030, aim to achieve at least 40% of domestic production from the current 36% level. This push for local manufacturing is likely to act as an impetus for the industry which is poised to grow at 4.8% CAGR over 2023-27e and reach a market size of SAR 44.0bn by 2027e. The sector is likely to benefit from i) demographic shifts, ii) rising chronic diseases and iii) increasing disposable income. Population growth (1.9% CAGR over 2022-30E) and aging population (2.7% in 2022 to 3.7% by 2030E) create a favorable demand outlook. The prevalence of chronic diseases further supports the growth as 19% KSA of adults are diabetic (vs. 10% globally), and 24% are obese (vs. 13% globally). Within the diverse range of therapeutic areas available in KSA's pharma industry, Gastrointestinal, Ophthalmology, Respiratory, Dermatology and Nutraceuticals segments are likely to drive the overall sector's growth. Despite strong future prospects for the industry, we believe the competitive landscape is also poised to evolve. Currently the industry is dominated by 4 key players: SPIMACO, Tabuk, JamJoom and Avalon. SPIMACO is the oldest and the largest player, revenue wise, Tabuk is the largest production capacity wise. JamJoom although a late entrant, has scaled-up its revenues fast to the levels of SPIMACO, while Avalon although smaller is size, has attained commendable feat in derma and respiratory segments. We like JamJoom as it leads on revenue growth and margins, while Tabuk and Avalon lead on RoE and RoA profiles.

Sectoral tailwinds persist in the industry and thus we initiate on **JamJoom** with a TP of **SAR 167.2** and a "**Neutral**" recommendation, as we believe the growth narrative poised for JamJoom is already priced in. We expect the total revenues to rise from SAR 1,318mn in FY24 to SAR 2,407mn by FY30E, implying a 10.6% revenue CAGR over FY24-30E. The operating margins could expand by ~480bps over FY24-30E to 33.7%. We initiate on **Avalon Pharma** with a TP of **SAR 137.4** and an "**Neutral**" recommendation, as we feel that the company's strategy to introduce 3-5 molecules each year and focus on new therapeutic areas could drive the revenue growth, but the stock currently trades at 25.0x P/E on FY25E earnings, which reflects all the positives. We expect the total revenue to inch up from SAR 394mn in FY24 to SAR 937mn by FY30E, implying a 15.5% revenue CAGR over FY24-30E. The operating margins could expand by 493bps over FY24-30E to 28.0% by FY30E. We also initiate on **Astra Industrial** with a TP of **SAR 180.8** and an "**Overweight**" recommendation, as we believe KSA's favorable demographics and ongoing regulatory reforms could support AIG's pharma business which is both largest revenue contributor and margin accretive for the group. We expect the total revenue to inch up from SAR 3.1bn in FY24 to SAR 4.7bn by FY30E, implying a 7.3% revenue CAGR over FY24-30E. The operating margins could expand by 346bps over FY24-30E to 25.0% by FY30E.

Valuations: JamJoom trades at 23.9x 1-yr forward P/E, while Avalon and Astra Industrial trades at 25.0x and 18.5x 1-yr forward P/E.

Fig 36. Financial analysis between our coverage companies

Company	Revenue CAGR	Operating margins		Net profit CAGR	Net debt/equity ratio		RoE %	
	FY24-30E	FY24	FY30E	FY24-30E	FY24	FY30E	FY24	FY30E
JamJoom	10.6%	28.9%	33.7%	14.0%	- 0.18x	- 0.49x	23.9%	28.6%
Avalon	15.5%	23.1%	28.0%	20.0%	0.12x	- 0.16x	21.7%	28.8%
Astra Industrial	7.3%	21.5%	25.0%	10.9%	0.12x	- 0.37x	23.3%	19.4%

Source: Company, AlJazira Capital research.

Fig 37. Upside risks

- Faster ramp-up of manufacturing facilities
- Faster approval from SFDA for new product launches
- Higher than expected capacity utilization rates
- Better than expected economic growth

Source: AlJazira Capital research

Fig 38. Downside risks

- Any changes to the pricing from SFDA
- Reduction in prices by NUPCO under the tender market
- Delays in receiving regulatory approvals for drug manufacturing or marketing

Source: AlJazira Capital research

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JamJoom Pharma

Capacity additions and new therapeutic areas to drive growth; However, positives are in the price after 101% rally since IPO

Jamjoom's strong position in the Ophthalmology and Dermatology segment, ramping up of capacity additions in Egypt & Jeddah, move into new therapeutic categories (cardiometabolic), focus on R&D (90 R&D scientists and PhD graduates), revenue and earnings growth track record (12.5/17.4% revenue/earnings CAGR over 2019-2024), clean balance sheet, and focus on tender market (targeted to grow to 30% of revenues from 15%) places it as a key pharmaceutical provider in the listed market . Moreover, the high capex phase is behind and the company is well placed to benefit from sectoral tailwinds. Overall, we forecast revenues to rise at 10.6% CAGR over FY24-30E to reach SAR 2.4bn. Operating margins could expand by 480bps over FY24-30E to 33.7%, aided by cost rationalization and reduced distribution costs with the launch of Egypt and Algeria facilities. Negligible debt would ensure maximum flow through of operating profit to net income, which is estimated to grow at 14.0% CAGR over the period to reach SAR 783mn. After rallying 101% since the IPO, the stock currently trades at 23.9x 1-yr forward P/E, hence we believe the growth narrative poised for JamJoom is already priced in. We initiate our coverage on the stock with a TP of SAR 167.2 per share and an "Neutral" rating.

- **Outstanding performance on revenue front versus other coverage companies:** Over FY19-24 JamJoom's revenues grew at 12.5% CAGR and surpassed the growth rates of Astra's pharma segment and Avalon at 9.5%/11.2%. This growth was driven by new product launches (9 new launches), doubling of manufacturing capacity with the launch of Jeddah unit and efficient capacity utilization.
- **New facilities in Egypt and Jeddah increased the manufacturing capacity; Capex to remain in check in medium term:** JamJoom operated with a single manufacturing unit since inception but expanded post-FY22 by adding 3 new facilities. In 2023, it commenced operations at its 2nd unit (Egypt Main) and acquired a joint-venture facility in Algeria, followed by the launch of its 4th unit in Jeddah in 2024, increasing its manufacturing capacity to 241mn units by FY24. New Egypt facility would increase reach in relatively less regulated large North African region, reduce freight and other costs. Current utilization rates for Egypt stand at 48%, with management targeting 70% by the end of FY25. This capacity expansion was reflected in the capex intensity which ranged from 4-20% over FY18-24. During the period JamJoom spent cumulative capex of SAR 604mn, with ~47% spent in FY20-21 for Egypt and Jeddah facilities. With sufficient capacity to meet future demand, we expect no major capex plans for FY25-30E, with a minor spike in FY25 for upgrading its legacy Jeddah facility, while remaining in the guided range of 4%-6% over the period- a way down from the 16.7/9.4% in FY21/22.
- **New therapeutic areas and tender market to diversify revenue sources and drive 10.6/14.0% revenue/earnings CAGR over 2024-30e; gross margins however would see some pressure:** JamJoom's strategy of portfolio diversification (venturing into new therapeutic categories such as cardiometabolic) and focus on tender opportunities (tender business constitutes 55% of KSA pharma market; company aims increasing tender revenue to 30% of total revenues from ~20% currently) would be the key growth drivers. Accordingly, we forecast the total revenues to grow at 10.6% CAGR to reach a revenue base of SAR 2.4bn, over FY24-30E. Although the tender market and new cardiometabolic segment would boost the top-line growth, it will however impact the gross margins in the near term due to i) strong pricing power by NUPCO, ii) limited ability to adjust prices due to regulated pricing and iii) higher competition in new segments, where JamJoom is a late entrant. Despite these pressures, we expect the operating margins to expand by 480bps over FY24-30E, to reach 33.7%, driven by i) rationalization of costs, ii) reduction in distribution costs due to launch of Egypt and Algeria facilities, and iii) operating leverage. Since the company doesn't carry debt, the entire operating profits (adjusted for tax rate) could flow to the bottom-line. This could translate into a net income CAGR of 14.0% over the period, enabling the net income to reach SAR 783mn by FY30E.

Recommendation	**Neutral**
Target Price (SAR)	**167.2**
Upside/(Downside)	**10.8%**

Source: Tadawul *prices as of 27st of April 2025

Key Financials

(in SAR mn, unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	1,318	1,509	1,710	1,921
Growth %	19.9%	14.4%	13.4%	12.3%
Gross Profit	821	931	1,054	1,182
Operating Profit	381	455	525	600
Net Income	357	444	512	584
Growth %	21.9%	24.6%	15.3%	14.0%
EPS	5.09	6.32	7.29	8.31
DPS	2.55	3.60	4.44	5.40

Source: Company reports, Aljazira Capital

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	62.2%	61.7%	61.6%	61.5%
Operating Margin	28.9%	30.2%	30.7%	31.3%
Net Margin	27.0%	29.4%	30.0%	30.4%
RoE (x)	23.9%	26.4%	27.2%	28.0%
PE (x)	29.9	23.9	20.7	18.2
PB (x)	7.2	6.3	5.6	5.1
EV/EBITDA	24.8	20.6	17.7	15.4
Dividend Yield	1.7%	2.4%	2.9%	3.6%

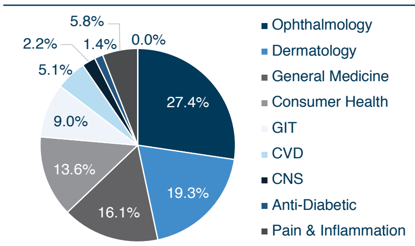
Source: Company reports, Aljazira Capital

Key Market Data

Current market price (SAR per share)	151.0
Market Cap (SAR bn)	10.6
52 weeks (High)/(Low)	202.4/124.8
Share Outstanding (mn)	70

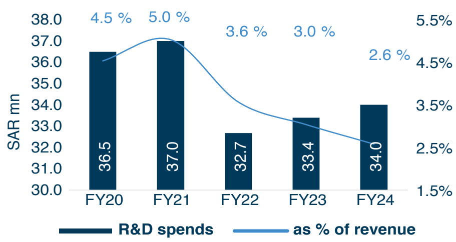
Source: Company reports, Aljazira Capital

Therapeutic business segments



Source: Company Reports, AlJazira Capital research

R&D spends



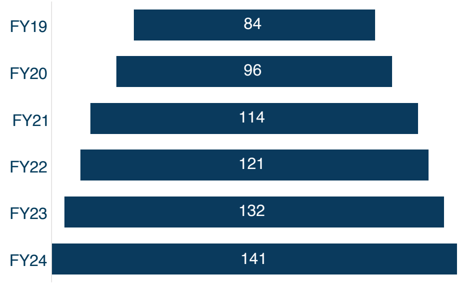
Source: Company, AlJazira Capital research

- **Driving innovation through its robust R&D capabilities with ~60 products in R&D pipeline at any given point of time:** Jamjoom is known for delivering high-quality, differentiated products to its markets, driven by its strong focus on R&D capabilities. It has over 90 R&D scientists and PhD graduates bringing innovation to the markets. This is evidenced by the registration of 268 human medicines and 103 herbal and health products in Saudi Arabia as of 2023. Between FY20-24, the company invested SAR 174mn in R&D, representing 3.6% of its cumulative revenues during this period. According to management at any given point of time, JamJoom has almost 60 products in the pipeline. As on FY24 out of its total R&D pipeline of 56 products, 22 products (40%) are under development, 22 (40%) are ready for SFDA submission and 12 (20%) are under SFDA review. Of these products in pipeline, JamJoom plans to launch 6-10 products in FY25. JamJoom's brand portfolio increased from 84 brands in FY19 to 141 brands by FY24.
- **Superior profitability profile compared to peers; debt free balance-sheet amidst no major capex can result in higher payout:** Jamjoom has superior profitability metrics with gross/net margins of 62.2/27.0% in FY24 as compared to 61.8/20.3% for Avalon and 49.8/1.9% for SPIMACO, respectively. The company has best in class ROE of 23.9% in FY24 vs 21.7/4.9% for Avalon and SPIMACO, respectively. Despite the recent capacity additions Jamjoom has a debt free balance sheet with Debt to asset of 0, compared to 34.8% and 12.4% for SPIMACO and Avalon pharma. Due to no major capex commitments, improving working capital requirement, and a clean balance sheet we expect payout to increase from 61% in 2024 to 72% in 2030E. Accordingly, we estimate the DPS to increase from SAR 3.1 per share in FY24 to SAR 8.0 per share by FY30E, thereby implying the dividend yield to increase from 1.6% in FY24 to 5.2% by FY30E. Further the RoE profile could expand from 23.9% in FY24 to 28.6% by FY30E

Investment thesis and Valuation: We believe the favorable demographics alongside the regulatory shifts taking place in KSA's pharma industry could act as sectoral tailwinds for JamJoom. Further the management's strategy of prudent expansion in key markets, strengthen its local presence, portfolio expansion and expansion in tender opportunities regionally could be the additional growth drivers. Thus, we anticipate the company's revenues to grow from SAR 1.3bn in FY24 to SAR 2.4bn by FY30E, implying a robust 10.6% CAGR. Late venture into the competitive cardiometabolic segment is expected to challenge margins, and while the tender market could boost the top-line growth, and utilizations, it will however could impact the gross margins in the near term. Despite these pressures we expect the operating margins to expand by 480bps over FY24-30E, to reach 33.7%, driven by i) rationalization of costs, ii) reduction in distribution costs due to launch of Egypt and Algeria facilities, and iii) operating leverage. Net profit is forecasted to compound at 14.0% CAGR over FY24-30E to reach a base of SAR 783mn.

We value JamJoom with 50% weightage to DCF (WACC = 9.3%, terminal growth rate = 3.5%) and 50% weight to FY25E P/E (30.0x) to arrive at a TP of **SAR 167.2/share**, implying 10.8% upside. After rallying by 101% since the IPO, the stock currently trades at 23.9x 1-yr forward P/E, hence we believe that the growth narrative poised for JamJoom is already priced in. Hence, we initiate with a "**Neutral**" rating on the stock.

Number of brands



Source: Company, AlJazira Capital research

R&D pipeline

Segments	Under dvlpt	Ready for SFDA sub	Under review
Ophthal.	7	6	2
Derma.	2	1	-
Gen Med.	-	1	2
Con Health	2	6	4
GIT	2	3	1
CVD	7	2	-
CNS	-	-	-
Anti-Diab	2	3	3

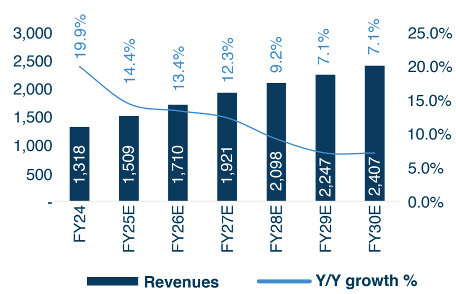
Source: Company, AlJazira Capital research

Production capability

Facility	Units Produced	Utilization rate %
Jeddah Main	147mn	100%
Jeddah Sterile	3.5mn	14%
Egypt	24.9mn	48%
Algeria	11.3mn	75%

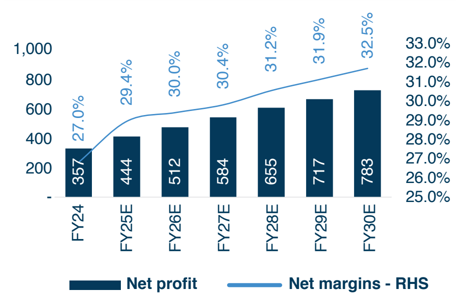
Source: Company, AlJazira Capital research

Revenue growth



Source: Company, AlJazira Capital research

Net margin trajectory



Source: Company, AlJazira Capital research

Company Overview

The JamJoom family, promoters of JamJoom Pharma forayed into KSA's pharma market in 1960s as a distributor of imported pharmaceuticals from large international companies. The 2000s marked the beginning of JamJoom Pharma by manufacturing branded generics in ophthalmic segment from its Jeddah facility. In a span of just ten years, JamJoom achieved i) SAR 200mn revenue run-rate, ii) sold products in 15+ countries, iii) forayed into Dermatology therapeutic area and iv) launched 50+ pharma medicines in KSA. Through the management's rigor, R&D capabilities and expansion of product offerings, JamJoom expanded its operations. It has expanded its arsenal of manufacturing facilities to four which helped it increase its annual production capacity from 113mn units in 2019 to 225mn by FY24E. Expanding its footprint in 36 countries enabled it to capture a 27.2% revenue-based market share within the listed pharma players, by FY24. It has strengthened itself with its 141 brands, spread across 9 therapeutic areas, which are marketed across the Middle East, Africa and Commonwealth of Independent State.

Fig 39. Journey of consistent growth and expansion

1994-00	2001-10	2011-20	2021-Present
• Established in 1994 • Began construction of Jeddah Main facility in 1997 • Commenced operations at Jeddah Main facility in 2000	• Forayed into Bahrain in 2002 • Launched derma products in 2003 • Revenue run-rate touched SAR 200mn in 2007 • Launched 50+ products in KSA • Presence in 15+ countries	• Launched Consumer Health division in 2014 • Established largest R&D center in KSA in 2016 • Received 12 trademarks for its products by 2020	• 100+ trademarks registered • Expanded to 35+ countries in 2022 • Floated IPO in 2023 • Egypt facility launched in 2023 • Acquired Algeria facility in 2023

Source: Company, AlJazira Capital research.

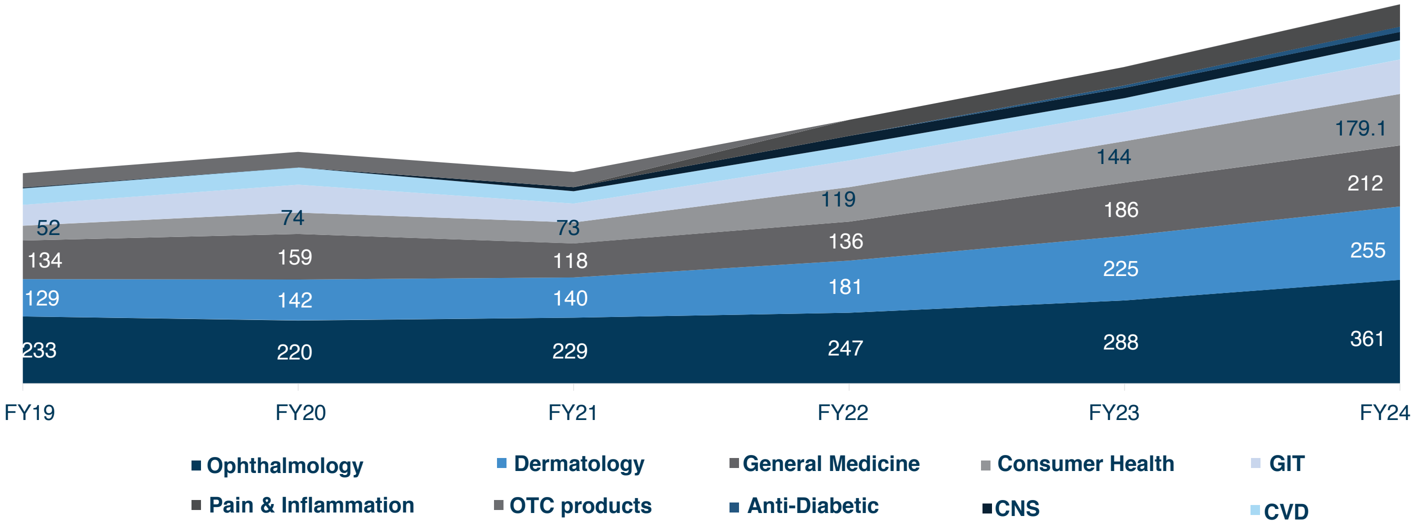
Business Model

Expanding activity from Opth., Derma., and General Medicine and into newer cardiometabolic therapeutic areas, which has also benefitted it to expand its gamut of product offerings

Since inception JamJoom has been focusing on Ophthalmology, Dermatology and General Medicine therapeutic areas, which combined accounted for 68% of FY19 revenue. However, as the management strategized to contribute to national and regional self-sufficiency through newer product launches and venturing into newer therapeutic areas, the revenue contribution of these three therapeutic areas reduced to 63% in FY-24. This strategy is reflected in JamJoom's recent foray into diabetic therapeutic area which lays robust growth potential driven by higher % of diabetes in KSA adults (19%), versus the global average of 10%.

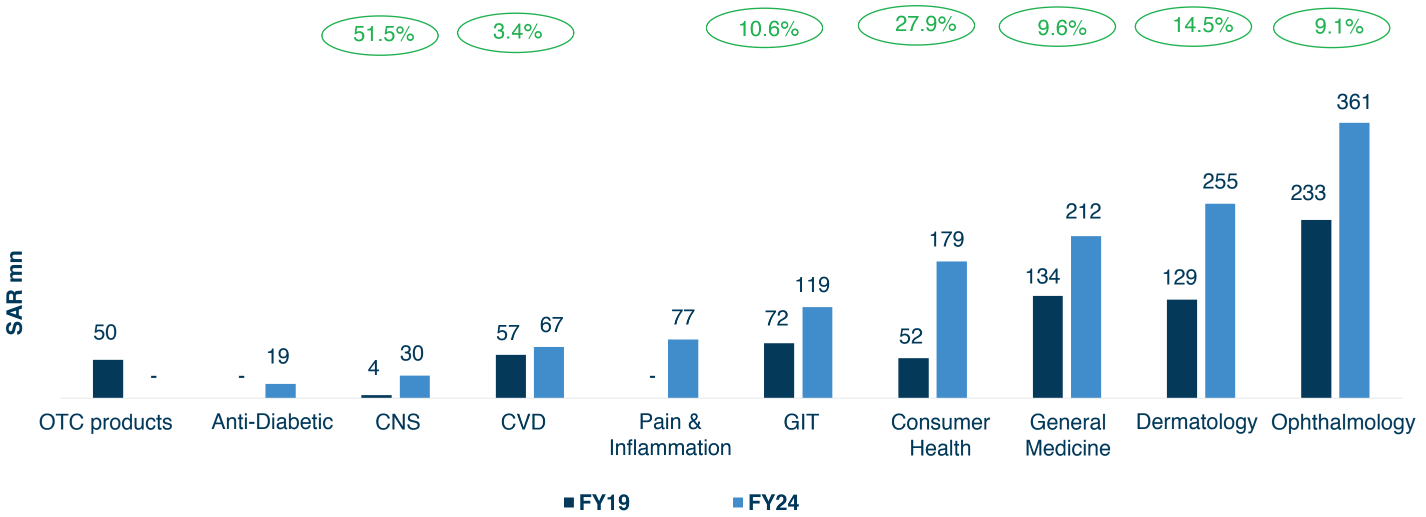
This diversification from the three core therapeutic areas has led to a broad-based revenue growth across all the segments (ex-Cardiovascular) for JamJoom. Central Nervous System (CNS) and Consumer Health have led the overall revenue growth over FY19-24. CNS grew at a robust 51.5% revenue CAGR to reach a base of SAR 29.6mn, while Consumer Health grew at 27.9% CAGR to reach a base of SAR 179.1mn. However, Cardiovascular and Ophthalmology have been laggards as their revenues grew 3.4% / 9.1% CAGR, respectively.

Fig 40. Revenue stagnation witnessed in Ophthalmology and General Medicine, as the company diversified and entered into newer therapeutic areas



Source: Company, AlJazira Capital research.

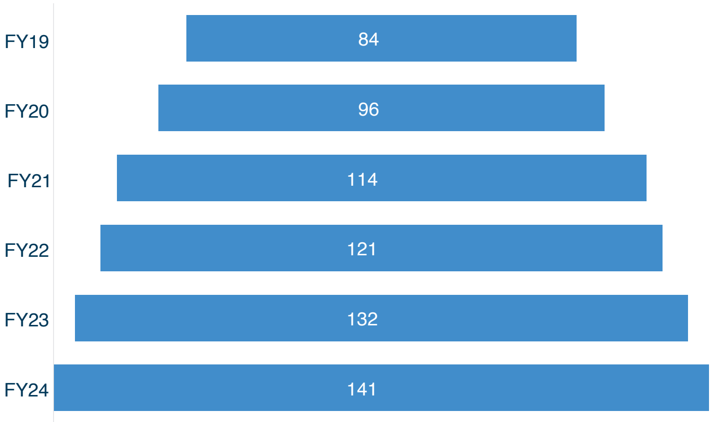
Fig 41. The newer therapeutic areas have reported robust revenue growth, while Ophthalmology and General Medicine from the core therapeutic areas have been relatively laggards



Source: Company, AlJazira Capital research, *% change in bubble represents FY19-24 CAGR growth.

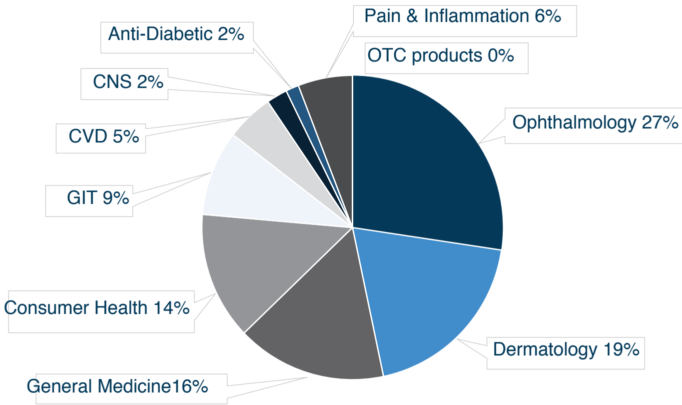
JamJoom's gamut has extensive medicines which consist of 141 brands, spread across 9 therapeutic areas. Within these therapeutic areas, the company has laid focus since inception on i) Ophthalmology, ii) Dermatology and iii) General Medicine, which combined accounted for 63% of FY-24 revenues. As per the last published data as on H2-22, these 3 therapeutic areas had around 55 brands, accounting for almost 48% of the total brands. As the company expanded into newer geographies and forayed into newer therapeutic areas, its ambit of brands expanded from 84 in FY19 to 141 by FY24. This wider product offering enables it to cater to a larger target audience, as KSA's pharma industry is driven by ageing population, rising chronic diseases.

Fig 42. Expansion of brands due to geographic expansion and entry into newer therapeutic areas



Source: Company, AlJazira Capital research

Fig 43. Ophthalmology, Dermatology and General Medicine still account for majority share in FY24



Source: Company, AlJazira Capital research

Strategic sourcing which ensures continuity and quality for JamJoom

To manufacture pharma medicines, JamJoom relies on Active Pharmaceutical Ingredient (API) as a raw material, along with excipients, EGC and coating materials. In terms of the packaging materials such as bottles, foils, it relies on European suppliers. Whereas with regards to the secondary packaging materials like cartons and leaflets, it is sourced locally. As a part of its sourcing strategy, it focuses on procuring high-quality APIs from its network of 95 suppliers, at competitive prices. Given the limited availability of APIs domestically, it imports 90% of its APIs. This makes JamJoom prioritize building long-term relationships with the suppliers. To mitigate supply chain risks, it strives to maintain at least 2 suppliers for most products and also registers for alternative suppliers.

Fig 44. Reliance on multiple API suppliers helps JamJoom insulate itself from supply chain risks

India: Dr Reddy's / Jubilant Generics			
Spain: Ercros Co	Taiwan: Syn Tech Chem	Czech Republic: Contipro AS	UAE: Chemifine DMCC

Source: Company, AlJazira Capital research. Note: Suppliers as on H1-22

Distributors assume the warehousing and logistics risk

JamJoom has 4 manufacturing facilities located in Jeddah (2), Egypt (1) and Algeria (1), through which it manufactures Finished Dose Form which includes solid, semi-solid, liquid and sterile pharma medicines. These facilities have an annual capacity of 241mn units. It then sells these products to distributors, who resell it to i) pharmacy retailers, ii) hospitals and iii) direct customers. The risk of warehousing and logistics is not assumed by the pharma manufacturers, but by the distributors, as they are responsible for collecting and servicing the orders placed by the end customers.

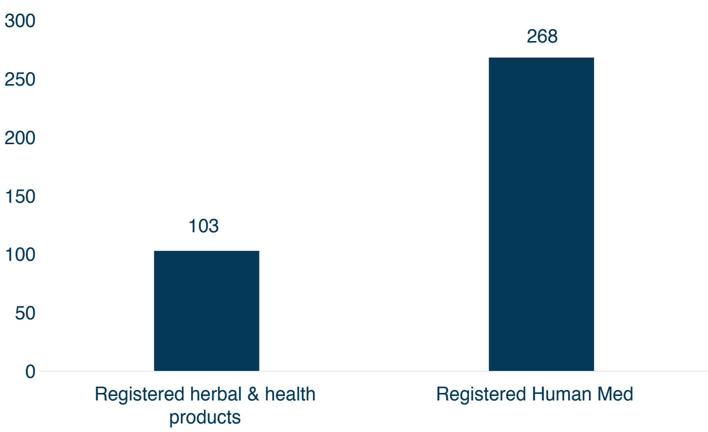
Competitive Advantages

Driving innovation through robust R&D capabilities

Jamjoom is recognized for delivering high-quality, differentiated products to its markets, driven by its strong focus on R&D capabilities. The company's team, comprising over 90 R&D scientists and PhD graduates, has a proven track record of successfully bringing innovative products to the markets. This is evidenced by the registration of 268 human medicines and 103 herbal and health products in Saudi Arabia as of 2023. The R&D team's expertise spans a wide range of dosage forms, enabling Jamjoom to expand its operations across multiple therapeutic areas. Between FY20-24, the company invested SAR 174mn in R&D, representing 3.6% of its cumulative revenues during this period.

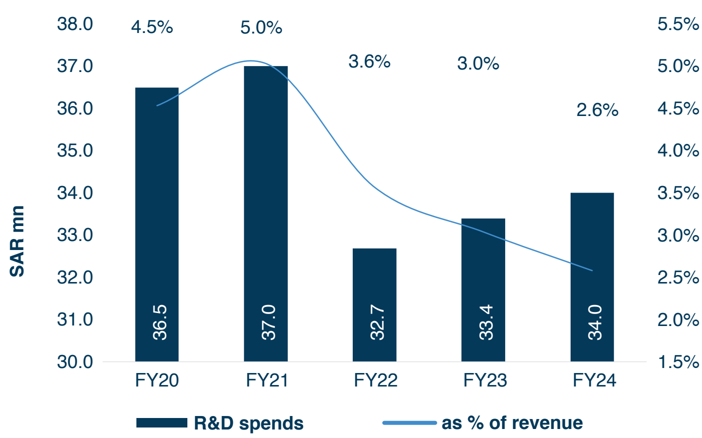
Further the management boasts that at any given point of time, the company has almost 60 products in its R&D pipeline. As on FY24 out of its total R&D pipeline of 56 products, 22 products (40%) are under development, 22 (40%) are ready for SFDA submission and 12 (20%) are under SFDA review. Of these products in pipeline, JamJoom plans to launch 6-10 products in FY25.

Fig 45. Wide range of products across categories registered with SFDA in 2023



Source: SFDA, AlJazira Capital research

Fig 46. Absolute R&D spends have been range-bound for the last 3 years



Source: Company, AlJazira Capital research

Expanding horizon through diversified range of product offerings

Driven by its ambition to become a leading organization in the Middle East and Africa (MEA) region by 2026, Jamjoom's management has focused on diversifying into new therapeutic areas by expanding its product portfolio. This strategic initiative is reflected in the impressive growth of its brand portfolio, which increased from 84 in 2019 to 141 as of FY24. The broadening of product offerings has enabled it to cater to a wider range of market segments thus contributing to a notable increase in its revenue-based market share, which grew from 16.9% in FY2019 to 27.2% by FY24. This expansion underscores Jamjoom Pharma's commitment to innovation and market leadership.

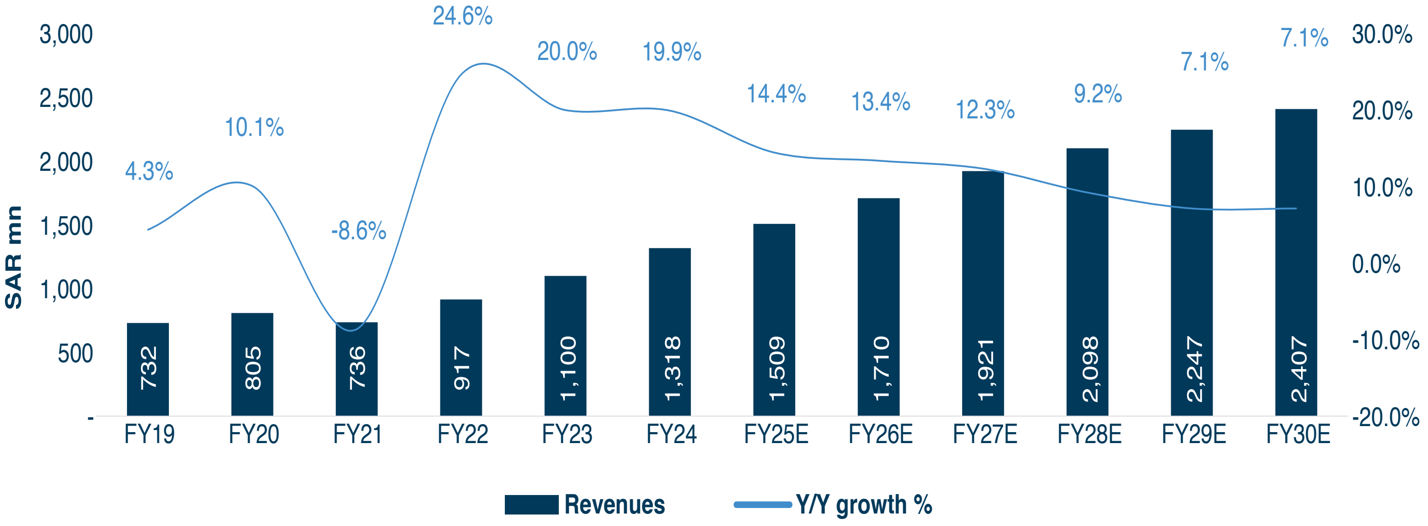
Financial Analysis

Attractive industry fundamentals, strategic expansion into newer markets and therapeutic areas to be the key revenue drivers in the near to medium term

Over FY20-24 JamJoom's revenues grew at 13.1% CAGR, which surpassed the growth rates of its listed peers in KSA. This growth was driven due to an increase in annual capacity and efficient capacity utilization. Sectoral benefits driven by shifting demographic profile characterized by population growth, aging population, rising lifestyle diseases and longer life expectancy are likely to be key growth drivers for JamJoom in the medium term. Further its strategy of prudent expansion in key markets, strengthen local presence, investing in multiple opportunities for portfolio expansion and expand in tender opportunities regionally is likely to act as a catalyst to its growth over FY24-30E. Accordingly, over FY24-30E, we forecast the total revenues to grow at 10.6% CAGR to reach a revenue base of SAR 2.4bn.

JamJoom's i) technical know-how gained with 2 decades of presence, ii) robust R&D capabilities, iii) wide geographic presence and iv) wide gamut of product offerings, is likely to benefit it in being at the forefront of KSA's sectoral tailwinds in the pharma sector.

Fig 47. JamJoom is set to sustain its historical revenue growth, driven by sectoral tailwinds and management's prudent expansion plans

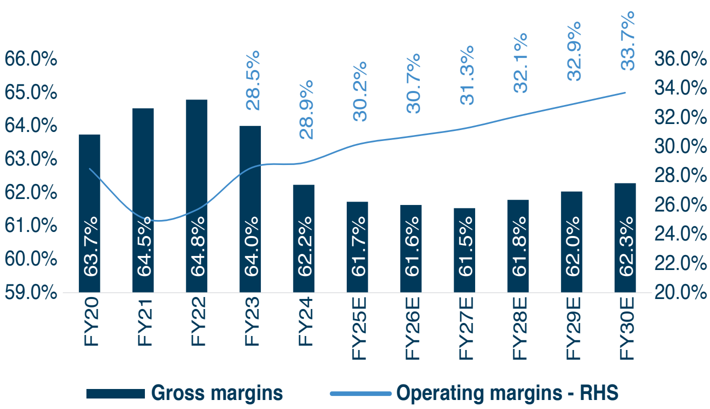


Source: Company, AlJazira Capital research

Near term gross margin pressures due to new segments and tender market expansions, but cost rationalization to drive operating margins; No reliance on debt to enable flow through of operating margins to the bottom-line

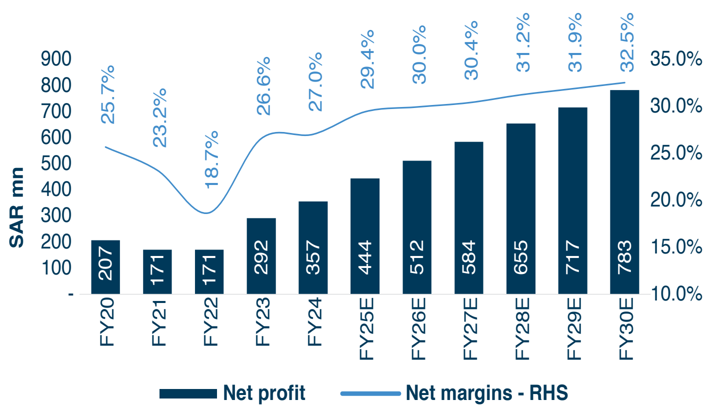
Over FY18-24, JamJoom's gross margins have been within 58-65% bracket, however going forward we expect some near-term pressures as the company expands its focus in the tender markets, which demonstrates i) strong pricing power by the strategic buyer – NUPCO, and ii) limited ability to adjust prices due to price regulations prevailing in KSA's pharma industry. Thus, over FY24-27E we expect the gross margins to contract by 70bps to reach 61.5%. However, post FY27E we expect gradual improvements and believe the gross margins could reach back to 62.3% level by FY30E. JamJoom's operating margins expanded from 24.5% in FY18 to 28.9% by FY24 due to increased capacity utilization, better volume growth and cost rationalization. Going forward we expect the same momentum to continue as the company enhances its focus on i) cost rationalization, ii) reduction in distribution costs due to launch of Egypt and Algeria facilities, and iii) operating leverage. Thus, we forecast the operating margins to expand by 480bps over FY24-30E to reach 33.7%. Since the company doesn't depend on debt, the entire operating profits (adjusted for tax rate) could flow to the bottom-line. This could translate into a net income CAGR of 14.0% over the period, enabling the net income to reach SAR 783mn by FY30E.

Fig 48. Near-term gross margin pressures from tender market expansion; cost cuts to support operating margin improvement



Source: Company, AlJazira Capital research

Fig 49. Debt-free operations could enable the entire operating profit to flow to the bottom-line, after adjusting for taxes



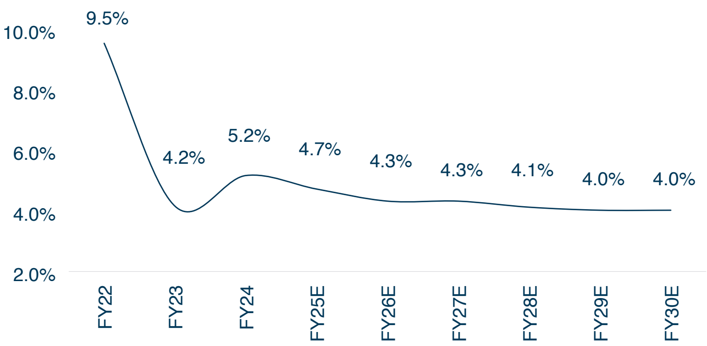
Source: Company, AlJazira Capital research

Historical capex intensity had been high due to construction of new facilities, but over forecasted period it is expected to normalize

During FY18-24, the company's capex intensity had been within 4-20% of revenues, as the company spent SAR 604mn cumulatively. Around 47% of this cumulative capex was spent over FY20-21, to construct its manufacturing facilities in Egypt and Jeddah. We believe that the company has sufficient capacity to cater to the upcoming demand and thus it won't announce any major capex plans over FY25-30E. Accordingly, we tone down the capex intensity from 5.2% in FY24 to a range of 4.0-4.7%, with a minor spike in FY25E to maintain its Jeddah legacy facility.

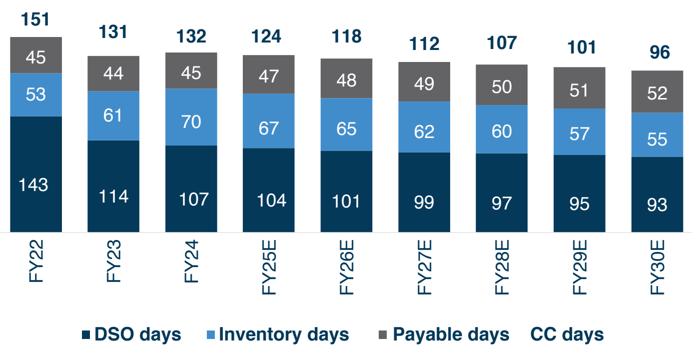
In terms of working capital, the company efficiently managed its cash conversion cycle which declined from 199 days in FY18 to 132 days by FY24. This reduction was driven by a sharp decline in DSO days (from 181 days to 114 days). Going forward we expect the DSO days to decrease gradually despite company's expansion into tender markets. Accordingly, we expect the DSO days to reach 93 days by FY30E. Although higher exposure to tender markets should elevate inventory days as well, we expect the ongoing operational efficiencies and optimization program is expected to reduce the inventory days. Accordingly, we expect inventory days to reduce from 70 days in FY24 to 55 days by FY30E. In terms of payable days, we expect it to gradually increase to 52 days over FY25-30E. With the confluence of these factors, we expect the cash conversion cycle to improve from 132 days in FY24 to 96 days by FY30E.

Fig 50. Capex intensity to ease as the current capacity meets the future demand



Source: Company, AlJazira Capital research

Fig 51. Working capital efficiency expected over the forecasted period aided by sharper decline in DSO days

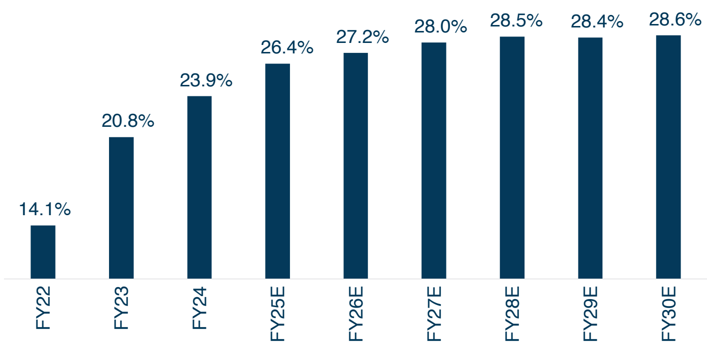


Source: Company, AlJazira Capital research

Lower capex requirement, negligible debt, improving working capital requirement and margins to expand the RoE profile and payouts to shareholders

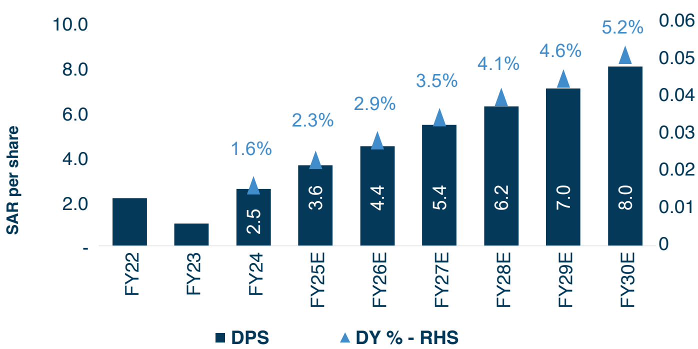
As we expect the company to demonstrate i) efficiency in its working capital requirement, ii) low capex requirements, iii) negligible debt levels and iv) improved margins, this shall ensure consistency in cash generation and thus aid in elevating shareholder payouts and the RoE profile. Accordingly, we estimate the DPS to increase from SAR 2.5 per share in FY24 to SAR 8.0 per share by FY30E, thereby implying the dividend yield to increase from 1.6% in FY24 to 5.2% by FY30E. Further the RoE profile could expand from 23.9% in FY24 to 28.6% by FY30E.

Fig 52. RoE profile to expand as the company drives its net margin expansion over the forecasted period



Source: Company, AlJazira Capital research

Fig 53. DPS and DY% to strengthen driven by lower capex and working capital efficiency



Source: Company, AlJazira Capital research

Valuation and Risks

We have performed 50% DCF and 50% P/E based valuation based on our forecasts for the next seven years. We assumed risk free rate of 4.25%, market risk premium of 6.3% and beta of 0.80 to arrive at WACC of 9.3%. Terminal growth rate is assumed at 3.5%. Our valuation of JamJoom based on DCF yielded an enterprise value of SAR 9.9bn and a fair value to equity shareholders of SAR 10.1bn, which translated into a value of **SAR 144.9 per share**. We also valued JamJoom using a relative valuation method based on 12-month forward P/E multiple of 30.0x and applied it to our FY25E earnings to reflect its growth prospects. Using P/E based valuation our value is **SAR 189.6 per share**. Further assigning 50% weightage to DCF and 50% to P/E based valuation methodology, we have arrived at a weighted target price of **SAR 167.2 per share**.

Fig 54. Discounted Cash Flow model

	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
NOPAT	**423**	**488**	**558**	**626**	**687**	**754**
Depreciation & Amortization	37	39	40	42	44	45
Change in working capital	22	(42)	(43)	(26)	(13)	(11)
Capex	(71)	(74)	(83)	(87)	(90)	(97)
FCFF	**412**	**411**	**472**	**555**	**628**	**691**
Discounting factor	0.94	0.86	0.79	0.72	0.66	0.61
Present value of FCFF	**388**	**354**	**373**	**401**	**415**	**418**
Sum of present value						2,349
PV Terminal Value						7,532
Enterprise value						**9,881**
Equity value to common shareholders						10,143
No of outstanding shares (mn)						70.0
Fair value per share						**144.9**

Source: AlJazira Capital research

Fig 55. DCF key assumptions

Terminal growth rate	Risk premium				
	5.25%	5.75%	6.25%	6.75%	7.25%
2.90%	153.7	143.3	134.2	126.2	119.0
3.20%	160.6	149.2	139.3	130.6	122.9
3.50%	168.4	155.8	144.9	135.4	127.1
3.80%	177.2	163.2	151.1	140.8	131.8
4.10%	187.3	171.5	158.1	146.7	136.9

Above is an illustration of sensitivity of our DCF based target price to the changes in terminal growth rate (range: 2.4 %-3.6%) and risk premium (range: 5.25%-7.25%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 119.0 (at terminal growth rate of 2.4% and risk premium of 7.25%) and a maximum of SAR 189.3 per share (at terminal growth rate of 3.6% and risk premium of 5.25%).

Fig 56. Relative valuation using P/E multiple

FY25E P/E (x)	30.0
FY25E EPS	6.3
TP (SAR per share)	**189.6**

Source: AlJazira Capital research

Fig 57. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	144.9	50%	72.4
P/E	189.6	50%	94.8
Total			**167.2**

Source: AlJazira Capital research

Fig 58. Key upside risks

- Faster ramp-up of manufacturing facilities
- Higher than expected capacity utilization rates
- Success in being first-to-market for newly non-patented drugs

Source: AlJazira Capital research

Fig 59. Key downside risks

- Any modifications to the current pricing which is regulated by SFDA, could impact profitability
- Delays in receiving regulatory approvals for new products
- Any reduction in prices or cancelling quantities by NUPCO under the tender market could impact the operations

Source: AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	1,318	1,509	1,710	1,921	2,098	2,247	2,407
Y/Y	**19.9%**	**14.4%**	**13.4%**	**12.3%**	**9.2%**	**7.1%**	**7.1%**
Cost	(498)	(577)	(656)	(739)	(802)	(853)	(908)
Gross profit	**821**	**931**	**1,054**	**1,182**	**1,296**	**1,394**	**1,499**
R&D Expenses	(34)	(36)	(37)	(38)	(39)	(39)	(40)
G&A Expenses	(71)	(78)	(85)	(92)	(96)	(99)	(101)
Other operating Income/(expense)	(18)	(13)	(14)	(16)	(18)	(19)	(20)
Operating profit	**381**	**455**	**525**	**600**	**673**	**739**	**811**
Y/Y	**21.5%**	**19.4%**	**15.4%**	**14.3%**	**12.2%**	**9.8%**	**9.7%**
Financing Expense	(24)	(8)	(7)	(6)	(3)	(3)	(4)
Income before zakat	**383**	**478**	**551**	**628**	**705**	**771**	**843**
Zakat	(26)	(33)	(39)	(44)	(50)	(54)	(59)
Net income	**357**	**444**	**512**	**584**	**655**	**717**	**783**
Y/Y	**21.9%**	**24.6%**	**15.3%**	**14.0%**	**12.2%**	**9.3%**	**9.3%**
EPS (SAR)	**5.09**	**6.32**	**7.29**	**8.31**	**9.32**	**10.19**	**11.14**
DPS (SAR)	**2.5**	**3.60**	**4.44**	**5.40**	**6.25**	**7.03**	**8.02**
Balance sheet							
Assets							
Cash & equivalent	262	470	621	770	946	1,142	1,332
Receivables	444	431	475	523	560	587	616
Other current assets	323	338	371	403	426	441	456
Total current assets	**1,029**	**1,239**	**1,467**	**1,696**	**1,932**	**2,170**	**2,404**
Property plant & equipment	672	680	688	703	718	734	753
Other non-current assets	71	69	68	66	64	63	61
Total assets	**1,772**	**1,988**	**2,222**	**2,465**	**2,714**	**2,966**	**3,217**
Liabilities & owners' equity							
Payables	173	195	226	259	289	316	345
Total other current liabilities	29	31	35	40	43	47	50
Total current liabilities	**202**	**227**	**262**	**299**	**332**	**362**	**394**
Total non-current liabilities	**79**	**79**	**79**	**79**	**79**	**79**	**79**
Paid -up capital	700	700	700	700	700	700	700
Reserves	791	982	1,181	1,386	1,602	1,824	2,044
Total owners' equity	**1,491**	**1,682**	**1,881**	**2,086**	**2,302**	**2,524**	**2,744**
Total equity & liabilities	**1,772**	**1,988**	**2,222**	**2,464**	**2,714**	**2,966**	**3,217**
Cashflow statement							
Operating activities	263	504	509	581	671	748	818
Investing activities	(62)	(71)	(74)	(83)	(87)	(90)	(97)
Financing activities	(217)	(253)	(312)	(380)	(439)	(494)	(564)
Change in cash	(16)	180	122	118	145	163	157
Ending cash balance	**261**	**470**	**621**	**770**	**946**	**1,142**	**1,332**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	5.1	5.5	5.6	5.7	5.8	6.0	6.1
Quick ratio (x)	3.8	3.4	3.2	3.1	3.0	2.8	2.7
Profitability ratios							
Gross profit margin	62.2%	61.7%	61.6%	61.5%	61.8%	62.0%	62.3%
Operating margin	28.9%	30.2%	30.7%	31.3%	32.1%	32.9%	33.7%
EBITDA margin	33.2%	34.1%	34.4%	34.7%	35.4%	36.1%	36.8%
Net profit margin	27.0%	29.4%	30.0%	30.4%	31.2%	31.9%	32.5%
Return on assets	20.1%	22.3%	23.0%	23.7%	24.1%	24.2%	24.3%
Return on equity	23.9%	26.4%	27.2%	28.0%	28.5%	28.4%	28.6%
Leverage ratio							
Market/valuation ratios							
EV/sales (x)	7.9	6.7	5.8	5.1	4.6	4.2	3.9
EV/EBITDA (x)	24.8	20.6	17.7	15.4	13.5	12.1	10.8
P/E ratio (x)	29.9	23.9	20.7	18.2	16.2	14.8	13.6
P/BV ratio (x)	7.2	6.3	5.6	5.1	4.6	4.2	3.9
Dividend yield	1.7%	2.4%	2.9%	3.6%	4.1%	4.7%	5.3%
Current Market Price		151.0	151.0	151.0	151.0	151.0	151.0
Market Cap (SAR mn)		10,570	10,570	10,570	10,570	10,570	10,570

Source: Company, AlJazira Capital research

Avalon Pharma

Avalon's plan to introduce 3-5 new pharma molecules each year, its strong foothold in derma (1st place in 2022) and respiratory segment (4th place in 2022), and 2x increase in installed capacity from 58mn to 124mn to focus on new therapeutic areas such as cardio metabolic, oncology and ophthalmology are likely to diversify income sources and expand revenues at 18.4% CAGR over FY24-27E. Gross margins could see pressure as new therapeutic areas face stiff competition, however operating margins could expand 240bps over FY24-27E due to economies of scale, resulting in bottom-line CAGR of 23.6% over FY24-27E. Company would also benefit from increased production capacity from Avalon 4 & 6 expansions, as well as plans to ramp up participation in other geographic and product markets. After the 25% price rally since IPO, the stock currently trades at 2025E forward P/E of 24.95x. We initiate our coverage on the stock with a TP of SAR 137.4 per share and a "Neutral" rating.

- **Historical revenue growth at the back of strategic expansions and capacity increases:** Avalon's business strategy of focusing on growth in existing business, new product and brand launches and expanding beyond Saudi led to a 11.2% revenue CAGR over FY19-24, thus recording the second-best growth rate in our coverage companies, after JamJoom. To diversify revenues, the company doubled its manufacturing capacity, especially in the solid pharma category due to the commencement of Avalon 2 factory.
- **Largest market share in fast-growing derma segment and 4th biggest player in respiratory segment:** Operations in derma segment have been Avalon's forte for many years. Its unique positioning through some flagship products in a fast-growing segment has enabled it to achieve a leadership position with 8.9% market share (2022). Over FY18-22 the segment had been one of the fastest growing segments with a growth rate of 8.9%. This robust growth is expected to continue over FY23-27E with 7.1% growth rate, driven by growing demand for products for hair loss, increasing awareness of physical appearance, and growing demand for dermatitis & acne related products. Growing awareness and higher women participation in work force are also going to drive demand for derma-cosmetic niche (which has a lot of over the counter products). Avalon's 2nd largest segment is the respiratory market, where it has 4th place in terms of market share (9.1% market share) this segment is also one of the fastest growing segments, because increasing prevalence of respiratory illness, due to the general harsh climate, increasing air pollution and habitual smoking amongst youngsters.
- **2x capacity increase over FY22-23 to diversifying revenue; focus is on growing cardiometabolic and oncology segment:** Over FY22-23 the company increased its manufacturing bandwidth by 2x to an annual capacity of 124mn units. This capacity expansion was witnessed across solid pharma category due to the construction of Avalon 2 factory. This factory also added new production lines for creams, liquids and solid medicines. This notable expansion is targeted to grow its roots in the CMD and oncology segment. Avalon's generates 75% of revenues from derma and respiratory segments, which increases the risk of revenue concentration. However, the company has strategized to diversify its exposure to these two segments by foraying into specialized therapeutic areas such as ophthalmology, neurology and cardiometabolic (CMD). The company has made the largest increase in solid pharma category increasing capacity by 335% from 8.1mn strips to 35.3mn strips. Total capacity for creams has grown by 115% from 19mn tubes to 40.8mn tubes. Liquid pharma capacity increased by 124% to 29.5mn boxes from 13.2mn boxes.

Recommendation	Neutral
Target Price (SAR)	137.4
Upside/(Downside)	6.5%

Source: Tadawul *prices as of 27st of April 2025

Key Financials

(in SAR mn, unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	394	482	562	655
Growth %	16.4%	22.4%	16.6%	16.4%
Gross Profit	243	296	344	399
Operating Profit	91	117	140	167
Net Income	80	104	125	151
Growth %	21.3%	29.6%	20.9%	20.7%
EPS	3.99	5.17	6.25	7.54
DPS	2.00	2.64	3.25	4.00

Source: Company, AlJazira Capital

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	61.8%	61.3%	61.1%	60.9%
Operating Margin	23.1%	24.2%	24.9%	25.5%
Net Margin	20.3%	21.5%	22.2%	23.1%
RoE (x)	21.7%	24.7%	26.1%	27.4%
PE (x)	30.5	25.0	20.6	17.1
PB (x)	6.6	6.2	5.4	4.7
EV/EBITDA	23.2	19.5	16.3	13.7
Dividend Yield	1.6%	2.1%	2.5%	3.1%

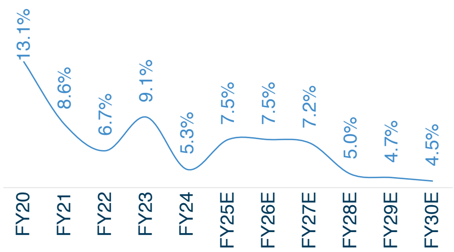
Source: Company reports, Aljazira Capital

Key Market Data

Current market price (SAR per share)	129.0
Market Cap (SAR bn)	2.6
52 weeks (High)/(Low)	156.0/107.0
Share Outstanding (mn)	20.0

Source: Company reports, Aljazira Capital

Capex intensity

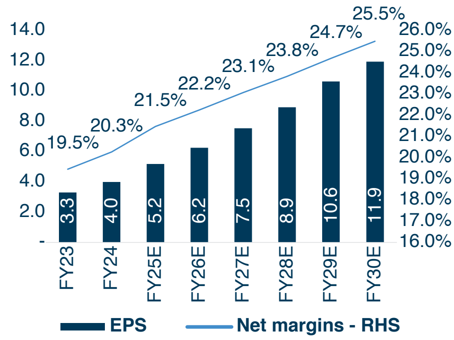


Source: Company Reports, AlJazira Capital research

- **Sales growth to stay in high teens; gross margins to edge down due to competition, however, operating margins to benefit from economies of scale:** Avalon managed to deliver revenue CAGR of 11.2% over 2019-24, with the growth coming from the two of its largest selling products: Avogain (a topical solution that stimulates hair growth and prevents hair loss) and Salinose (a saline solution to moisturize and cleanse the nose), despite impact of lower revenue per unit from tender business (as compared to exports and retail sales). We forecast the revenues to grow at 18.4% CAGR over FY24-27E (company guidance 18%), driven by increase in creams and solid/liquid pharma products sales in CMD and oncology segment. The company plans on bringing between 3-5 new pharmaceutical molecules annually from global markets that have not yet been launched in the Kingdom before. It also plans to increase its exports share to 30% by FY30E and beyond. We remain conservative and expect slight (80bps) decline in gross margins over 2024-27E as new pharma categories have higher competition. However, we see operating margins to expand from 23.1% in 2024 to 25.5% in FY27E, due to economies of scale. Overall, we forecast net income to post a CAGR of 23.6% over 2024-27E to reach 150.9mn (as compared to FY19-22 CAGR of 5.2%).
- **Capex requirement to moderate while aiming towards 4 and 6; Company could increase payouts due to improving return profile:** Over FY19-24, Avalon's spent SAR 152mn cumulatively on capex, thus implying a capex intensity of 5-13%. Around 26% of this cumulative capex was spent in just FY20. Going forward we expect an increase in the near term capex intensity mainly towards Avalon 4 and Avalon 6 facilities. This can expand the capex intensity from 5.3% in FY24 to 7.5% by FY25E. However, post FY25E we expect the intensity to reduce gradually and reach 4.5% by FY30E. This shall ensure consistency in cash generation and thus shall aid in elevating the shareholder payouts and the RoE profile eventually. Accordingly, we estimate the DPS to increase from SAR 2.0 per share in FY24 to SAR 6.7 per share by FY30E, thereby implying the dividend yield to increase from 1.5% in FY24 to 5.2% by FY30E. Further the RoE profile could expand from 21.7% in FY24 to 28.7% by FY30E.

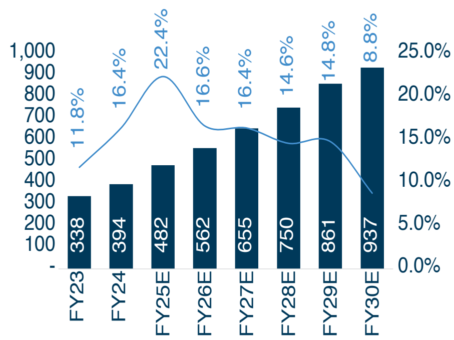
Investment Thesis and Valuation: KSA's favorable demographics alongside the regulatory shifts taking place in the pharma industry could act as sectoral tailwinds for Avalon. Further its multi-pronged strategy of focusing on expanding existing business segments, launching new products and foraying into newer geographies could act as additional growth drivers for Avalon's growth narrative. Accordingly, we expect the revenues to grow from SAR 394mn in FY24 to SAR 937mn by FY30E, implying a robust 15.5% CAGR. This growth shall pressure the company's gross margins from 61.8% in FY24 to 60.9% by FY27E due to higher competition. However, we expect the operating margins to increase by 458bps over FY24-30E, to reach 27.7% due to economies of scale. Net profit is forecasted to compound at 20.0% CAGR over FY24-30E to reach a base of SAR 239mn. We value Avalon with 50% weightage to DCF (WACC = 9.3%, terminal growth rate = 3.5%) and 50% weight to FY25E P/E (28.0x) to arrive at a TP of **SAR 137.4/share**, implying 6.5% upside. Hence, we recommend an "**Neutral**" rating on the stock

Net margin and EPS trends



Source: Company, AlJazira Capital research

Revenue trajectory



Source: Company, AlJazira Capital research

Company Overview

Having presence in KSA since 1998, **Avalon Pharma** manufactures and markets medical products in KSA and 15 other countries. It specializes in the manufacturing of generic prescription-based medicines, beauty brands and consumer health products. With the help of its experienced leadership and strategic alliances with international companies in Europe, it has been able to build a portfolio of 250+ products, spread across 70 brands. It expanded its reach to the wider market by foraying into 9 diverse therapeutic areas. Commencing its operations in KSA's pharma industry with just 1 manufacturing unit, over the years Avalon has expanded to 3 units, which aided it in increasing its annual production quantity from 39.0mn in FY20 to 44.9mn by FY23. This has enabled it to capture a 8.1% revenue-based market share among the listed players, as on FY24.

Fig 60. The milestones in the success journey of Avalon

1998-05	2006-13	2014-20	2021-Present
• Established in 1998 • Makes debut in KSA retail market in 2000 • Completed construction of Avalon 1 factory in 2003 • Commenced exports to GCC in 2004	• Received approvale from MoH to manufacture in 2006 • Forayed into UAE and other GCC states by 2010 • Added solid pharma production line in 2013	• Inaugrated R&D facility in 2015 • Launched Avalon 2 and Avalon 3 in 2015 • Merged with Middle East Distribution Co. in 2018 • Established a subsidiary in UK in 2019	• Introduced Avalon 4 in 2021 • Completed expansion at Avalon 2 in 2022 • Floated IPO in 2023

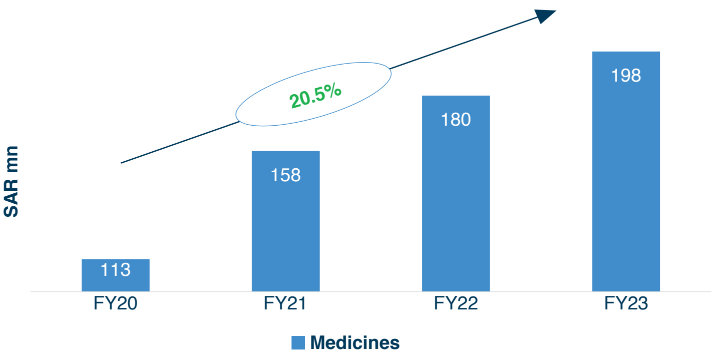
Source: Company, AlJazira Capital research.

Business Model

Evolution from cosmetics focused player to medicines focused player

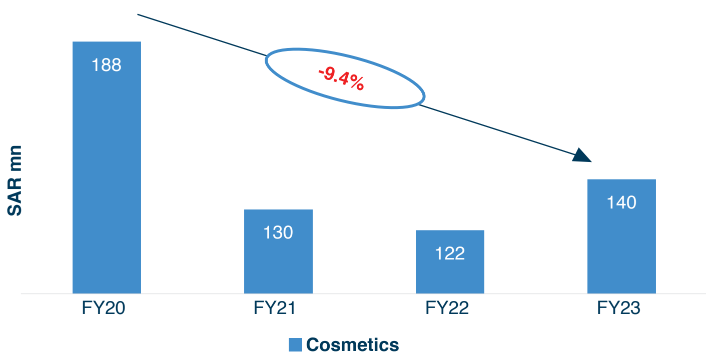
Avalon Pharma, since its inception, has focused on dermatological and skincare products, as reflected by the 62% contribution of the Cosmetics business segment to its FY20 revenues. However, the company underwent a significant transformation in its business focus following the COVID-19 pandemic. By FY23, the revenue mix had shifted, with Medicines business segment emerging as the dominant contributor, as it accounted for 59% of FY23 revenues. Between FY20 and FY23, the Medicines segment demonstrated a robust CAGR of 20.5%, driven by increased demand for therapeutic products. In contrast, the Cosmetics segment faced challenges, recording a revenue decline of 9.4%. Notably, Avalon's sterilizer product line, particularly its "EZ Clean" product, experienced a substantial surge in demand during FY20–21, fueled by heightened hygiene awareness amidst the pandemic.

Fig 61. Covid-19 proved to be an inflection point for Avalon's Medicine business segment



Source: Company, AlJazira Capital research

Fig 62. Prominence of Cosmetics business segment has been constantly declining



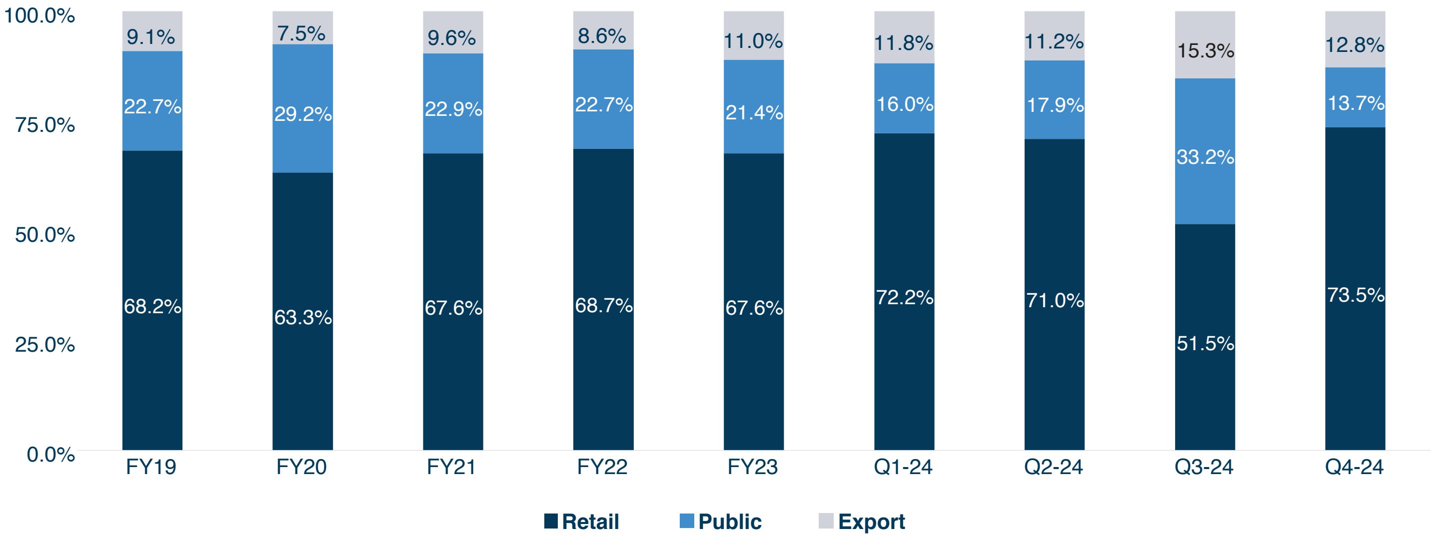
Source: Company, AlJazira Capital research

From retail to global, Avalon's changing client landscape and continuous strengthening of customer relationships through quality service enabled it to expand its product portfolio to 250+ SKUs

Since its inception, Avalon has prioritized delivering quality service to its customers, which played a key role in building strong, long-lasting relationships. The company's client base includes a wide range of sectors, such as health institutions, government hospitals, private hospitals, clinics, pharmacies, and hypermarkets. While Avalon has traditionally held a strong position with retail clients, recent strategic shifts have seen the company focus more on cultivating relationships with public sector and export-oriented clients. This shift drove the revenue share of retail clients from 68.2% in FY19 to 51.5% by Q3-24. In contrast, the share of public sector clients increased from 22.7% in FY19 to 33.2% by Q3-24, and the share of export-oriented clients has grown from high single digits (9.1% in FY19) to mid-teens (15.3% by Q3-24). These changes reflect Avalon's evolving business strategy and its focus on diversifying its client base.

However, the strong and long-lasting relations which Avalon has developed over the years has helped it serve as a foundation for expanding its product portfolio to 250+ products under 70+ trademarks and across 9 diverse therapeutic areas.

Fig 63. Strategic shift from retail clients to public and export clients is visible



Source: Company, AlJazira Capital research

Strong ties with its customers and especially the government

Since its establishment, Avalon Pharma has successfully forged strong and enduring relationships with its customers, particularly within the government sector. A key driver of this success has been the company's active participation in NUPCO (National Unified Procurement Company) tenders, which has enabled Avalon Pharma to secure significant contracts with government entities. These partnerships not only highlight Avalon Pharma's ability to meet the stringent demands of public sector procurement but also underscore its reputation as a trusted supplier of high-quality pharmaceutical products. One of the notable advantages of Avalon Pharma's engagement with the government channel is its ability to sell products in large volumes, which leads to more efficient utilization of production facilities. By leveraging bulk sales, Avalon Pharma can streamline its manufacturing processes, optimizing production capacity and reducing operational costs. Over time, this approach contributes to the company's operational leverage, allowing for enhanced profitability as fixed costs are spread over larger production volumes. As Avalon Pharma continues to deepen its presence in the government sector, it stands to benefit from sustained growth and a solid foundation for long-term success.

Financial Analysis

Multi-pronged strategy focusing on growing existing business, launching new products and foraying in newer geographies, coupled with attractive industry fundamentals to drive revenue growth story for Avalon

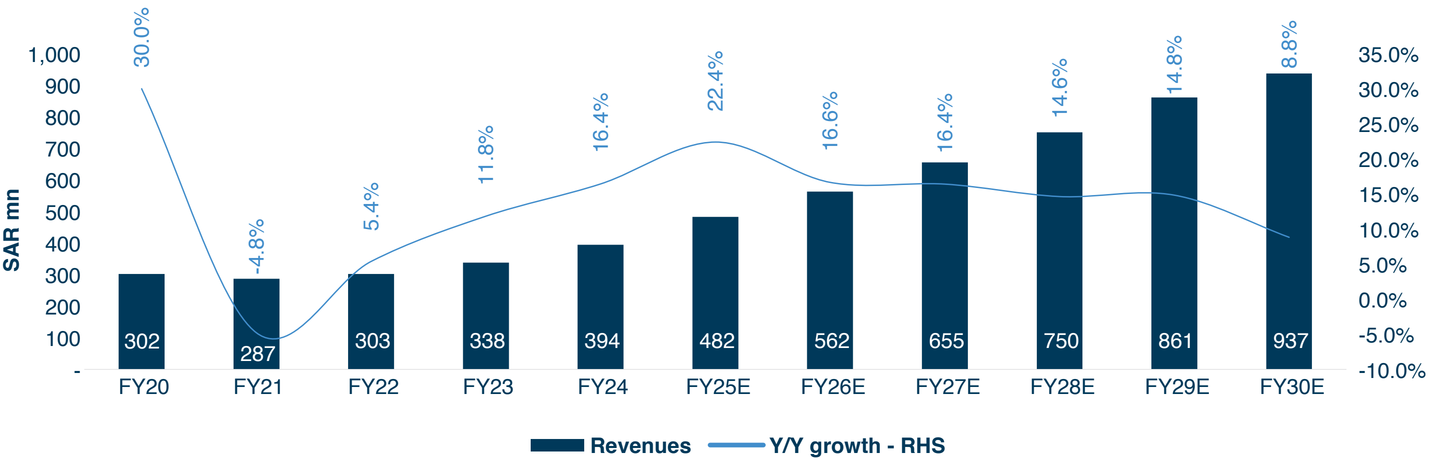
In sync with KSA's Vision 2030 to develop the sector, Avalon has developed business strategy focusing on i) growth in existing business, ii) investing in new products and brands and iii) expanding beyond Saudi. To expand its customer base and gain market share, the company will be targeting to accelerate their growth in a multi-pronged manner, encompassing the following strategies:

- Developing current main brands
- Taking advantage of the government's increasing preference for awarding contracts to local manufacturing companies
- Exploring partnerships with large chain pharmacies

Avalon's management has strategized to target the whitespace of availability of molecules in KSA, by focusing on bringing 3-5 new pharma molecules annually from the global markets. This will likely benefit Avalon in enhancing its image and competitiveness in the local markets. Further its endeavor to expand beyond Saudi will acts as the third key growth pillar. Apart from these internal growth drivers, the sectoral benefits driven by shifting demographic profile characterized by population growth, aging population, rising lifestyle diseases and longer life expectancy is likely to act as a catalyst to Avlon's growth story in the medium term. This shall translate into a robust 15.5% revenue CAGR over FY24-30E, taking the revenue base to SAR 937mn.

Avalon's i) technical know-how gained with 2 decades of presence, ii) wide gamut of product offerings and iii) strong ties with the government, is likely to benefit it in being at the forefront of KSA's sectoral tailwinds in the pharma sector

Fig 64. Revenue growth at 15.5% CAGR over FY24-30E due to management's strategy to foray into new therapeutic segments and introducing 3-5 pharma molecules annually from global markets which are not yet launched in KSA

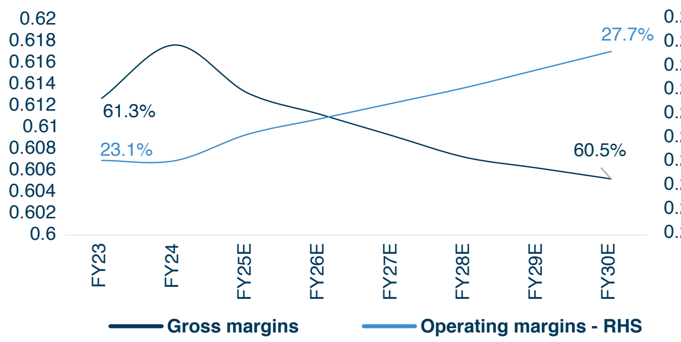


Source: Company, AlJazira Capital research

Foraying into newer geographies and therapeutic areas could impact gross margin trajectory in the near-term, but economies of scale and cost rationalization to aid in operating margin expansion

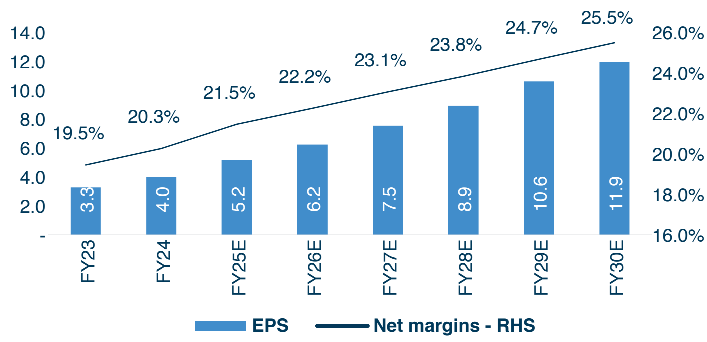
Avalon's operating margins contracted from 26.0% in FY19 to 23.1% by FY24 due to a decrease in the capacity utilization. Going forward we expect the gross to contract by 120bps over FY24-30E as new pharma categories face stiff competition. Further as the company remains active in an increasingly more competitive tender markets regionally, the gross margins could be pressured further due to i) strong pricing power by NUPCO which is a strategic buyer and ii) limited ability to adjust prices due to regulated pricing. However, we believe the operating margins could expand from 23.1% in FY24 to 27.7% by FY30E, at the back of economies of scale and cost rationalization. As interest rate cuts are anticipated and Avalon de-levers its balance sheet, it will help the net income grow at 20.0% CAGR over FY24-30E to reach SAR 239mn.

Fig 65. Gross margins pressured because of presence of stiff competition and expansion in tender markets



Source: Company, AlJazira Capital research

Fig 66. Interest rate cuts and delivering of balance sheet could aid in expansion of net margins

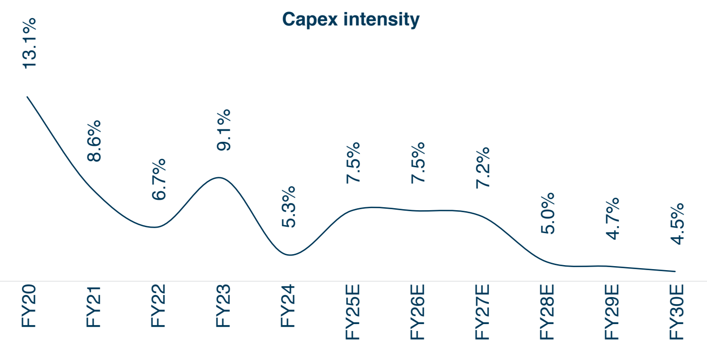


Source: Company, AlJazira Capital research

Capex requirement to gradually moderate with increased capex intensity in FY25E; De-levering of balance sheet expected alongside efficiency in working capital cycle

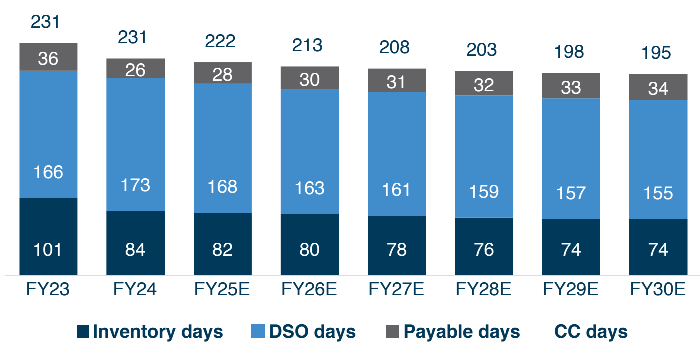
During FY18-24, the company's capex intensity had been within 5-13% of revenues, as the company spent SAR 131mn cumulatively. Around 26% of this cumulative capex was spent in just FY20, constructing 2 manufacturing facilities and 1 warehouse, along with a few acquisitions. Going forward we expect a sharp rise in FY25E mainly towards Avalon 4 and Avalon 6 facilities. This can expand the capex intensity from 5.3% in FY24 to 7.5% by FY25E. However, post FY25E we expect the intensity to reduce gradually and reach 4.5% by FY30E. In comparison to JamJoom its closest peer, Avalon operates with higher debt levels, albeit still at minimum levels. However, going forward we believe the company will start repaying the majority portion of the debt, leading to an improvement in the net debt/equity ratio from 0.12x in FY24 to (0.14x) by FY30E. In terms of working capital, the company's cash conversion cycle increased from 203 days in FY19 to 231 days by FY24. This rise was driven by a sharp increase in inventory days (from 65 days to 84 days). However, going forward we expect inventory days to gradually decrease to its historical trends. Accordingly, we expect the inventory days to reach 74 days by FY30E. However, post FY24, we expect the DSO days to improve to 155 days by FY30E. In terms of payable days, we expect it to marginally increase and reach 34 days by FY30E, from 26 days in FY24. With the confluence of these factors, we expect the cash conversion cycle could improve from 231 days in FY24 to 195 days by FY30E.

Fig 67. Capex intensity to rise in FY25E due to Avalon 4 and 6 but to gradually moderate to 4.5% by FY30E



Source: Company, AlJazira Capital research

Fig 68. Working Capital efficiency led by significant reduction in inventory and DSO days

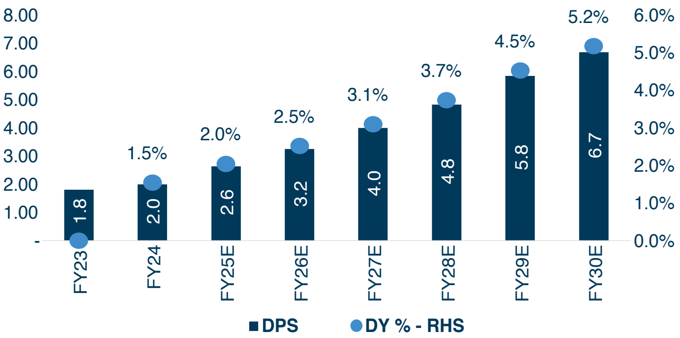


Source: Company, AlJazira Capital research

Shareholder payouts and the RoE profile could increase driven by lower capex requirements, efficient working capital cycle and de-levering of the balance sheet

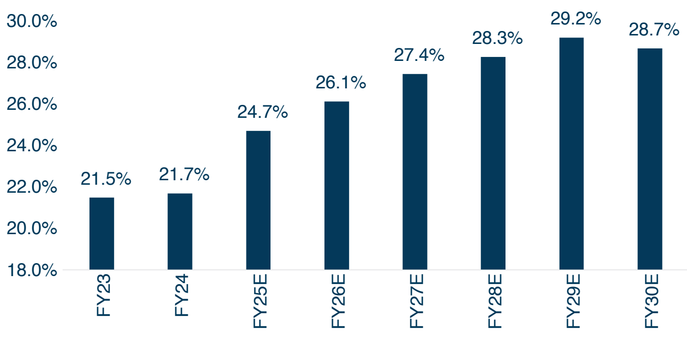
Over FY19-24 the company sourced a total of SAR 430mn of funds via debt and internal cash flows. Historically the company has had a higher reliance on internal cash flows for sourcing funds as the contribution from internal cash flows were 80% of the total sourced funds, while reliance on debt was just 17%. In terms of application of these sourced funds, majority of the application has been towards dividends (43%), followed by capex (35%) and debt repayment (9%). Going forward we expect the company to focus on internal cash flows for sourcing and on dividends for application of the funds. This will be at the back of i) lowering of capex requirement, ii) efficiency in working capital requirement and iii) de-levering of balance sheet. This shall ensure consistency in cash generation and thus shall aid in elevating the shareholder payouts and the RoE profile eventually. Accordingly, we estimate the DPS to increase from SAR 2.0 per share in FY24 to SAR 6.7 per share by FY30E, thereby implying the dividend yield to increase from 1.5% in FY24 to 5.2% by FY30E. Further the RoE profile could expand from 21.7% in FY24 to 28.7% by FY30E.

Fig 69. Lower capex, efficient working capital and delevering of debt could aid in higher DPS



Source: Company, AlJazira Capital research

Fig 70. RoE profile expansion to be driven at the back of robust net income expansion



Source: Company, AlJazira Capital research

Valuations & Risks

We have performed 50% DCF and 50% P/E based valuation based on our forecasts for the next seven years. We assumed risk free rate of 4.25%, market risk premium of 6.3% and beta of 0.85 to arrive at WACC of 9.3%. Terminal growth rate is assumed at 3.5%. Our valuation of Avalon based on DCF yielded an enterprise value of SAR 2.64bn and a fair value to equity shareholders of SAR 2.60bn, which translated into a value of **SAR 130.0 per share**. We have also valued Avalon using a relative valuation method based on 12-month forward P/E multiple of 28.0x and applied it to our FY25E earnings to reflect its growth prospects. Based on P/E based valuation our value is **SAR 144.7 per share**. Further assigning 50% weightage to DCF and 50% to P/E based valuation methodology, we have arrived at a weighted target price of **SAR 137.4 per share**.

Fig 71. Discounted Cash Flow model

	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
NOPAT	**108**	**130**	**155**	**182**	**216**	**241**
Depreciation & Amortization	17	20	22	25	28	31
Change in working capital	(13)	(32)	(42)	(41)	(46)	(31)
Capex	(36)	(42)	(47)	(37)	(41)	(42)
FCFF	**77**	**75**	**88**	**129**	**156**	**199**
Discounting factor	0.94	0.87	0.79	0.73	0.66	0.60
Present value of FCFF	**72**	**65**	**70**	**94**	**103**	**120**
Sum of present value						**524**
PV Terminal Value						2,118
Enterprise value						**2,643**
Equity value to common shareholders						2,600
No of outstanding shares (mn)						20.0
Fair value per share						**130.0**

Source: AlJazira Capital research

Fig 72. DCF key assumptions

		Risk premium				
Terminal growth rate		5.25%	5.75%	6.25%	6.75%	7.25%
	2.90%	138.9	128.6	119.6	111.7	104.7
	3.20%	145.6	134.3	124.5	116.0	108.4
	3.50%	153.2	140.7	130.0	120.7	112.5
	3.80%	161.8	147.9	136.0	125.8	117.0
	4.10%	171.5	155.9	142.8	131.6	121.9

Source: AlJazira Capital research

Above is an illustration of sensitivity of our DCF based target price to the changes in terminal growth rate (range: 2.9%-4.1%) and risk premium (range: 5.25%-7.25%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 104.7 (at terminal growth rate of 2.9% and risk premium of 7.25%) and a maximum of SAR 171.5 per share (at terminal growth rate of 4.1% and risk premium of 5.25%).

Fig 73. Relative valuation using P/E multiple

FY25E P/E (x)	28.0
FY25E EPS	5.2
TP (SAR per share)	**144.7**

Source: AlJazira Capital research

Fig 74. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	130.0	50%	65.0
P/E	144.7	50%	72.4
Total			**137.4**

Source: AlJazira Capital research

Fig 75. Key upside risks

- Faster ramp-up of manufacturing facilities
- Higher than expected capacity utilization rates
- Better than expected economic growth.

Source: AlJazira Capital research

Fig 76. Key downside risks

- Any modifications to the current pricing which is regulated by SFDA, could impact profitability
- Delays in receiving regulatory approvals for new products
- Any reduction in prices or cancelling quantities by NUPCO under the tender market could impact the operations
- Instability of the markets in which Avalon aims to expand might have an impact on the operations and revenue generation

Source: AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	394	482	562	655	750	861	937
Y/Y	**16.4%**	**22.4%**	**16.6%**	**16.4%**	**14.6%**	**14.8%**	**8.8%**
Cost	(151)	(186)	(219)	(256)	(295)	(339)	(370)
Gross profit	**243**	**296**	**344**	**399**	**456**	**522**	**567**
S&D Expenses	(96)	(114)	(131)	(149)	(167)	(187)	(199)
G&A Expenses	(54)	(61)	(70)	(79)	(88)	(98)	(103)
Impariment loss	(4)	(4)	(5)	(5)	(6)	(7)	(8)
Operating profit	**91**	**117**	**140**	**167**	**196**	**232**	**260**
Y/Y	**16.3%**	**28.2%**	**19.8%**	**19.5%**	**17.6%**	**18.1%**	**11.9%**
Financing Expense	(5)	(5)	(5)	(4)	(4)	(3)	(3)
Income before zakat	**86**	**111**	**135**	**163**	**192**	**229**	**257**
Zakat	(7)	(8)	(10)	(12)	(14)	(16)	(18)
Net income	**80**	**104**	**125**	**150.9**	**179**	**213**	**239**
Y/Y	**21.3%**	**29.6%**	**20.9%**	**20.7%**	**18.4%**	**18.9%**	**12.4%**
EPS (SAR)	**3.99**	**5.17**	**6.25**	**7.54**	**8.93**	**10.61**	**11.93**
DPS (SAR)	**2.00**	**2.64**	**3.25**	**4.00**	**4.82**	**5.84**	**6.68**
Balance sheet							
Assets							
Cash & equivalent	23	45	55	51	71	96	148
Receivables	217	222	251	288	326	370	397
Other current assets	115	131	146	163	183	205	223
Total current assets	**355**	**398**	**452**	**503**	**580**	**671**	**768**
Property plant & equipment	121	134	151	171	179	189	200
Other non-current assets	51	56	62	67	71	74	74
Total assets	**527**	**588**	**664**	**741**	**830**	**934**	**1,042**
Liabilities & owners' equity							
Short-term loans	65	69	73	66	56	45	34
Long-term loans	-	(0)	(0)	(0)	(0)	(0)	(0)
Payables	27	37	46	55	65	77	86
Total other current liabilities	**41**	**39**	**42**	**45**	**52**	**60**	**65**
Total current liabilities	134	144	161	166	173	181	185
Total non-current liabilities	**25**	**24**	**24**	**24**	**24**	**24**	**24**
Paid -up capital	200	200	200	200	200	200	200
Reserves	168	219	279	350	432	528	633
Total owners' equity	**368**	**419**	**479**	**550**	**632**	**728**	**833**
Total equity & liabilities	**527**	**588**	**664**	**740**	**829**	**934**	**1,042**
Cashflow statement							
Operating activities	35	108	112	131	163	194	238
Investing activities	(20)	(36)	(42)	(47)	(37)	(41)	(42)
Financing activities	(8)	(49)	(61)	(87)	(106)	(128)	(145)
Change in cash	8	22	9	(3)	19	25	52
Ending cash balance	**23**	**45**	**55**	**51**	**71**	**96**	**148**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.7	2.8	2.8	3.0	3.4	3.7	4.2
Quick ratio (x)	2.5	2.4	2.5	2.7	2.9	3.2	3.4
Profitability ratios							
Gross profit margin	61.8%	61.3%	61.1%	60.9%	60.7%	60.6%	60.5%
Operating margin	23.1%	24.2%	24.9%	25.5%	26.2%	26.9%	27.7%
EBITDA margin	27.1%	27.8%	28.3%	28.9%	29.5%	30.2%	30.9%
Net profit margin	20.3%	21.5%	22.2%	23.1%	23.8%	24.7%	25.5%
Return on assets	15.2%	17.6%	18.8%	20.4%	21.5%	22.8%	22.9%
Return on equity	21.7%	24.7%	26.1%	27.4%	28.3%	29.2%	28.7%
Leverage ratio							
Debt / equity (x)	0.18	0.16	0.15	0.12	0.09	0.06	0.04
Market/valuation ratios							
EV/sales (x)	6.3	5.4	4.6	4.0	3.4	2.9	2.6
EV/EBITDA (x)	23.2	19.5	16.3	13.7	11.6	9.7	8.5
P/E ratio (x)	30.5	25.0	20.6	17.1	14.5	12.2	10.8
P/BV ratio (x)	6.6	6.2	5.4	4.7	4.1	3.5	3.1
Dividend yield	1.6%	2.0%	2.5%	3.1%	3.7%	4.5%	5.2%
Current Market Price		129.0	129.0	129.0	129.0	129.0	129.0
Market Cap (SAR mn)		2,580	2,580	2,580	2,580	2,580	2,580

Source: Company, AlJazira Capital research

Astra Industrial Group

AIG is a reputed conglomerate in KSA, with majority of its revenues being derived from its pharma business. It has achieved the feat of largest listed pharma player in terms of production capacity, with a revenue-based market share of 30% as on FY24. Its i) strong R&D capabilities, ii) leadership position in general medicine and iii) strong affiliations with global pharma leaders, differentiates it from its peers. The revenue growth for AIG over the forecasted period is likely to be driven by the pharma business, despite promising industry outlooks in its steel segment. Intense competition and commoditized product is likely to curtail the industry growth for these divisions. Accordingly, we expect the overall revenues to grow at 7.3% CAGR over FY24-30E, to reach a base of SAR 4.7bn. The low margin chemicals and steel business to add onto gross margin pressure in the near-term. But with growth in high margin pharma business, the gross margin pressure is likely to be offset. The operating margins could be at 25.0% by FY30E (346bps expansion over FY24-30E) driven by economies of scale and cost rationalization. Anticipated rate cuts and de-levering of balance sheet could aid in 10.9% net income CAGR over FY24-30E. The stock currently trades at 2025E forward P/E of 18.5x. We initiate our coverage on the stock with a TP of SAR 180.8 per share and an "Overweight" rating.

- **Pharmaceutical segment to carry the growth, steel business with cost-plus model supported by backlog, while specialty chemicals awaits better economic conditions:** KSA's Chemicals and Polymers industry has a long-term promising outlook, but we believe that slowed global economic activity, intense competitive landscape and the commoditized nature of AIG's chemical business shall curtail the growth rate. Its project based steel business with a capacity of 5,000 metric tonnes a year is supported by KSA centric backlog, as well as a cost-plus model protecting margins. However, KSA's pharma industry is poised for robust 4.8% growth over FY23-27E, driven by i) population growth, ii) rise in ageing population, iii) rising chronic diseases and iv) lucrative government initiatives. This could bode well for AIG's Tabuk Pharma due to its i) strong client and government connects and ii) superior R&D. The growth of the pharma segment is critical to AIG as it not only accounts for the largest revenue share for the group, but also it is a margin accretive business. These high margins will help AIG to offset the narrow margins generated in other business divisions.
- **AIG is all about the Pharma business, wherein it has attained leadership position due to its strong marketing capabilities and strong affiliations:** AIG's Tabuk Pharma is the largest listed pharma player in terms of production capacity. It has achieved this feat at the back of its 2 decadal experience, strong marketing capabilities, and strategic affiliations. Moreover, it has a strong track record of manufacturing and marketing drugs under exclusive agreements with global MNCs, aiding in reinforcing its leadership in Kingdom's generic pharma market. Current utilization levels are near 90% (excluding Sudan's halted operations), while the reopening of its Egypt facility, possibly by H2-25, is a short term growth driver for the segment, and its capacity utilizations.
- **AIG to maintain historical sales growth rhythm over FY23-30E, with pharma business being the core growth contributor:** The pharma business of AIG shall continue to act as a major growth impetus for the overall revenues of the group due to lucrative industry fundamentals, strong R&D capabilities, largest manufacturing capacity, leadership position in the general medicine space and strong affiliations with global pharma leaders. Over FY19-24 the overall revenues of the group delivered a revenue CAGR of 10.4%, which was primarily led by pharma business due to surge in covid led demand. We forecast the same momentum to continue over the forecasted period, with pharma business being the core growth contributor. Over FY24-30E, we expect the pharma revenues to grow from SAR 1,454mn to SAR 2,322mn, implying 8.1% CAGR (versus 10.6/15.5% for JamJoom/Avalon)

Recommendation	Overweight
Target Price (SAR)	180.8
Upside/(Downside)	21.5%

Source: Tadawul *prices as of 27st of April 2025

Key Financials

(in SAR mn, unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	3,062	3,297	3,618	3,901
Growth %	8.6%	7.7%	9.7%	7.8%
Gross Profit	1,342	1,454	1,605	1,737
Operating Profit	658	728	821	905
Net Income	589	642	743	836
Growth %	24.0%	9.0%	15.6%	12.5%
EPS	7.36	8.03	9.28	10.44
DPS	3.00	3.50	4.00	4.50

Source: Company, AlJazira Capital

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	43.8%	44.1%	44.3%	44.5%
Operating Margin	21.5%	22.1%	22.7%	23.2%
Net Margin	19.2%	19.5%	20.5%	21.4%
RoE (x)	23.3%	22.1%	22.2%	21.7%
PE (x)	24.4	18.5	16.0	14.2
PB (x)	5.7	4.1	3.5	3.1
EV/EBITDA	19.9	14.1	12.4	11.0
Dividend Yield	1.7%	2.4%	2.7%	3.0%

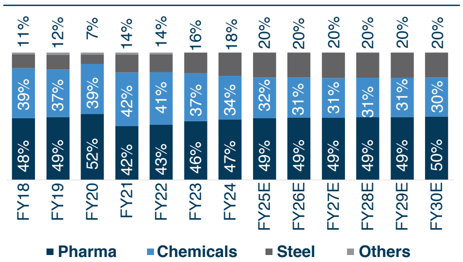
Source: Company reports, Aljazira Capital

Key Market Data

Current market price (SAR per share)	148.8
Market Cap (SAR bn)	11.9
52 weeks (High)/(Low)	207.0/125.6
Share Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital

Revenue segmentation

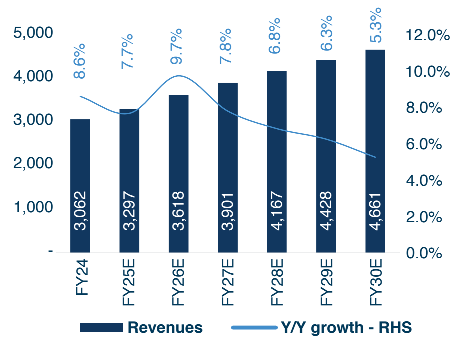


Source: Company, AlJazira Capital research

- **Higher share of pharma business to aid in gross margin expansion, while operative leverage could aid in operating margin expansion:** AIG's operating margins expanded from 10.5% in FY19 to 21.5% by FY24 due to robust growth by the high margin pharma business. Since we expect the future growth to be majorly contributed by high margin pharma business, gross margin expansion momentum could continue over the forecasted period. Thus, we forecast the overall gross margins to expand by 151bps from FY24 reach 45.3%. This expansion is expected to come majorly from Pharma business, whose gross margins could expand by 120bps, while Chemical business' gross margins could expand by 93bps, and Steel's by 69bps. In the past the group has kept all major overheads in a narrow range through its cost rationalization programs. Going forward, we expect the cost rationalization program to continue, supported by operating leverage at play. This could drive the operating margins by 346bps over FY24-30E, to reach 25.0% level.
- **Limited capex needed from hereon could increase shareholder payouts:** Over FY19-24, AIG spent SAR 648mn cumulatively on capex, thus implying a capex intensity of 2-8%. We expect that AIG has sufficient capacity to cater to the upcoming demand and thus it will not announce any major capex plans in the medium term. Accordingly, we tone down the capex intensity from 8.3% in FY24 to an average of 1.6% over FY25-30E. This should ensure consistency in cash generation and shall aid in elevating the shareholder payouts. Accordingly, we estimate the DPS to increase from SAR 3.0 per share in FY24 to SAR 6.0 per share by FY30E, thereby implying the dividend yield to increase from 2.0% in FY24 to 4.0031% by FY30E.

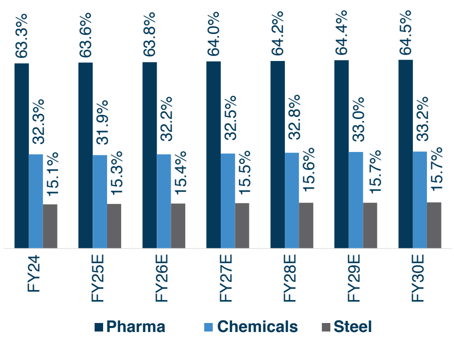
Investment Thesis and Valuation: KSA's favorable demographics alongside the regulatory shifts taking place, especially in the pharma industry could act as sectoral tailwinds for AIG, as the pharma business not only accounts for the largest revenue share for AIG but also is a margin accretive business. Accordingly, we expect the overall revenues to grow from SAR 3.1bn in FY24 to SAR 4.7bn by FY30E, implying a robust 7.3% CAGR. This growth shall come with a cost, as we expect the gross margins of pharma business to be pressured in the near term as the company expands its opportunities in the tender markets domestically. However, chemicals and steel business could help offset the margin impact due to pharma business. Thus, we expect gross margins to rise by 151bps and reach 45.3% by FY30E. We expect the operating margins to increase by 346bps over FY24-30E, to reach 25.0% due to economies of scale. Net profit is forecasted to compound at 10.9% CAGR over FY24-30E to reach a base of SAR 1,096mn. We value AIG with 50% weightage to DCF (WACC = 9.1%, terminal growth rate = 3.0%) and 50% weight to sum of all parts P/E based valuation to arrive at a TP of **SAR 180.8/share**, implying 21.5% upside. Hence, we recommend an "**Overweight**" rating on the stock.

Revenue trajectory



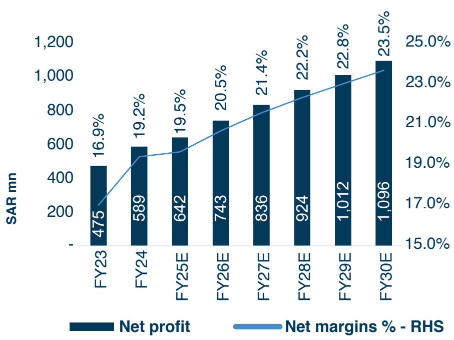
Source: Company, AlJazira Capital research

Segmental margins



Source: Company, AlJazira Capital research

Net margin trend



Source: Company, AlJazira Capital research

Company Overview

Astra Industrial Group **(AIG),** one of the well-known conglomerates in KSA has been operating since 1979, with a vision to be one of the premier industrial investment enterprises in the MENA region. AIG acts as a holding company and functions primarily through its investments in its subsidiaries which are spread across i) Pharma, ii) Specialty Chemicals, iii) Power & Steel. The pharma division has been of utmost importance to the group, as it accounts for nearly 51% of the revenues as on Q3-24, followed by Specialty Chemicals, which accounts for 36%. The group has expanded its operations across 41 countries spanning across Africa, Asia, USA and Europe but derives more than 60% of its revenues from KSA. The group benefits from geographically diversified manufacturing plants which are present across 13 countries.

Fig 77. Acquisitions played a pivotal role in Astra's journey of becoming a conglomerate

1979-00	2001-10	2011-20	2021-Present
• Established in 1979 • Forayed into Chemicals segment in 1988 • Forayed into Polymers business in 1993 • Established Tabuk Pharma in 1994	• Reorganized the group structirein 2006 • Floated IPO in 2008 • Forayed in Iraq for steel manufacturing, via Al-Tanmiya • Acquired stakes to expand Pharma and Polymers business	• Polymers factory commissioning at Rabigh in 2011 • Started commercial production at Tanmiya in 2013 • Established pharma plant at Dammam in 2015 • Commissioned pharma factory in Algeria in 2019	• Al Tanmiya sold its subsidiary in 2022

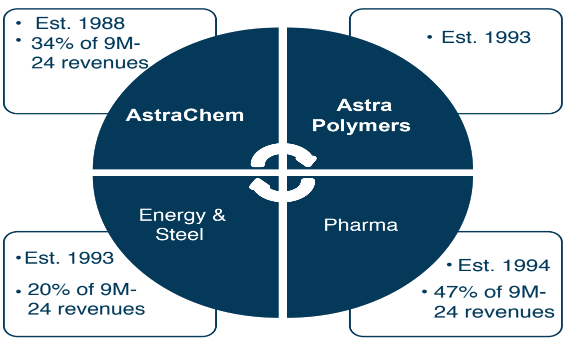
Source: Company, AlJazira Capital research.

Business Segments

A multi-faceted manufacturing conglomerate having over 4 decades of presence in KSA

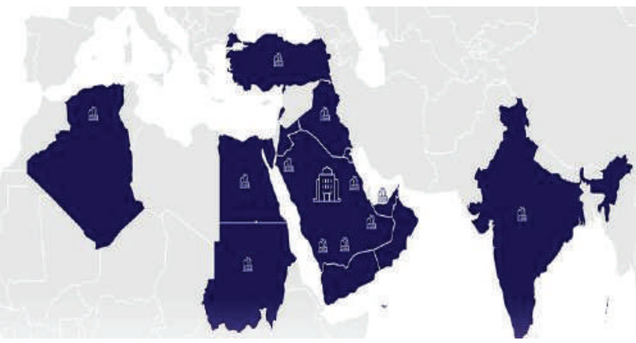
AIG has a long history as diversified Saudi industrial holding company, operating through autonomous companies. These companies have become leaders in their respective markets. It initially forayed into the Specialty Chemical business by founding AstraChem in 1988 to import and distribute high quality agrochemicals, fertilizers, public health and veterinary pesticides, seeds and other agricultural inputs. Immediately after gaining momentum in the specialty chemicals business, the group set up the Polymers division under Astra Polymer Compounding Company and Energy & Steel business under International Building Systems Factory Company (IBSF). The Polymers division was established in 1993 to meet the demands of the plastic and petrochemicals industries, while the energy & steel division was established to produce pre-engineered steel buildings and steel structures in KSA to meet the business and industrial requirements. Feeling the dearth to expand its operations, soon in 1994 the group forayed into the pharma business by establishing Tabuk Pharma in 1994.

Fig 78. Business divisions building the entire Astra Group



Source: Company, AlJazira Capital research

Fig 79. Global footprint of the group across some major continents

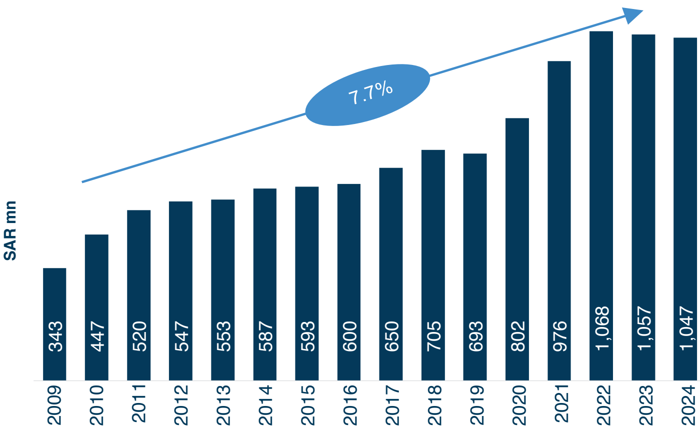


Source: Company, AlJazira Capital research

Specialty Chemicals Business – 34% of FY24 revenues

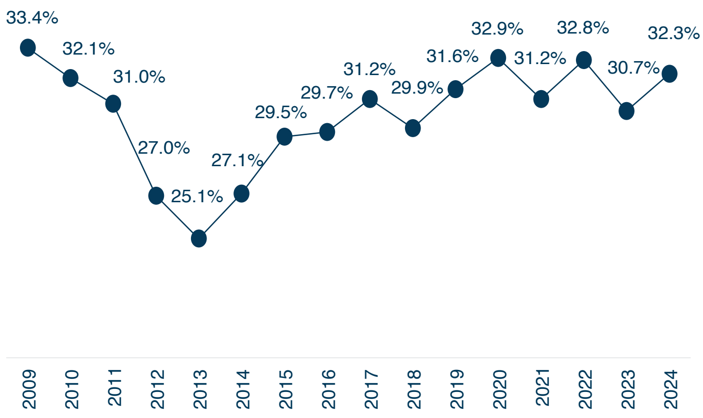
AIG's operates its chemicals business through its AstraChem subsidiary. It's 3 decadal experience in this business has helped AIG establish partnerships with farmers and agricultural companies in the MENA, Central Asia and Europe regions. By expanding its operations, it has been able to produce 150+ products across agrochemicals, fertilizers, public health and veterinary pesticides, seeds and other agricultural inputs. Its far-reaching distribution network enables it to cover 24 countries, through its 3 manufacturing plants situated in KSA and Turkey. Its revenues have increased from SAR 343mn in 2009 to SAR 1,047mn by FY24, implying a robust 7.7% CAGR over FY09-24. While its gross margins have hovered at an average of 30.5% over the said period.

Fig 80. Revenues of AIG's specialty chemical business have scaled at a robust 7.7% CAGR over FY09-23



Source: Company, AlJazira Capital research

Fig 81. Gross margins have been on an upward trajectory since the dip in 2013

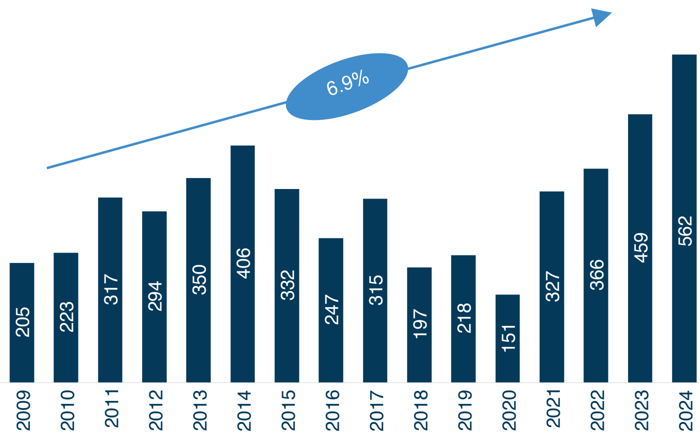


Source: Company, AlJazira Capital research

5,000 metric tonne capacity Energy & Steel Business – 18% of FY24 revenues

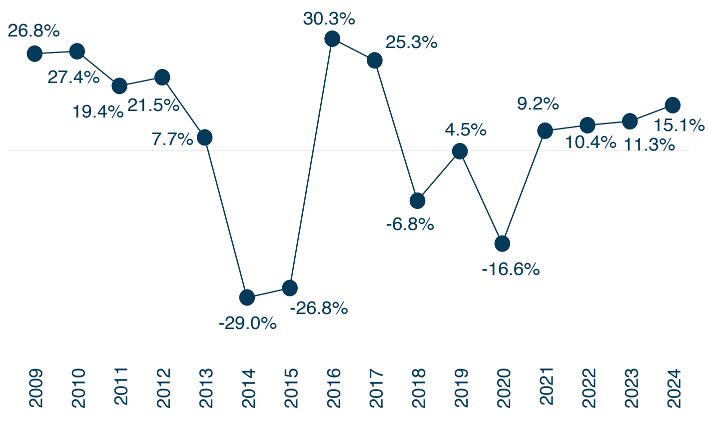
AIG operates this business via IBSF, which focuses on designing and manufacturing of steel buildings and industrial structures. It has become a trusted leader in the industry due to its 2+ decades of presence and its track record of producing 10K structures across 35 countries. The division owns and operates 3 factories in Riyadh (3,500 metric tonne capacity) and 1 heavy structure plant in Jubail (1,500 metric tonne capacity). Although the manufacturing operations are mainly concentrated in KSA, the division is active in the gulf countries and the rest of MENA. Its revenues have increased from SAR 205mn in 2009 to SAR 562mn by FY24, implying a robust 6.9% CAGR over FY09-24. While its gross margins have hovered at an average of 8.1% over the said period while improving to 15.1% during FY24.

Fig 82. Revenues of AIG's energy & steel business have scaled at 6.9% CAGR over FY09-24



Source: Company, AlJazira Capital research

Fig 83. Gross margins though have been volatile and has averaged at 8.1% over FY09-24



Source: Company, AlJazira Capital research

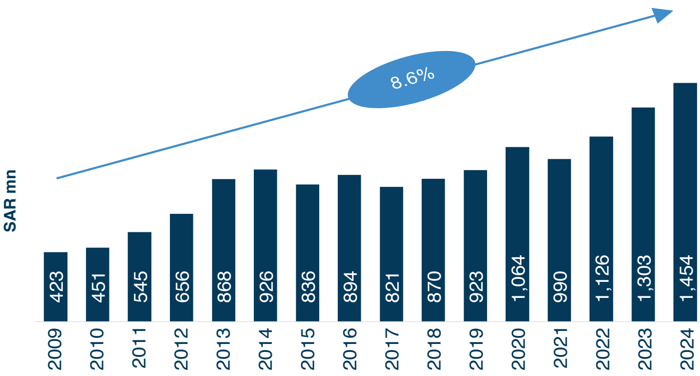
Astra Polymers – a part of AstraChem

This division is a part of the AstraChem subsidiary and is a polymer compound and additive manufacturing company. Over 1993-23 this division has emerged as a market leader in the region for producing Masterbatch, dust-free additives and custom-made thermoplastic compounds. Its 25+ years of expertise has enabled AIG to garner the status of preferred partner for several global petchem producers. Its 120,000 tonne capacity is able to distribute network to deliver the products in 25+ countries. A plan for FY26 intends to cover up the overheads for its India facility (500 tonne capacity) via utilization of its UAE capacity of 60,000 tonnes, further improving the segments utilization and cost efficiency. This division has an exclusive agreement with BASF (largest global chemical manufacturer) to produce customer specific blends in KSA. This partnership has helped the group to maintain a high quality of product portfolio with the technology supported provided by the global behemoth.

Tabuk Pharma – 47% of FY24 revenues

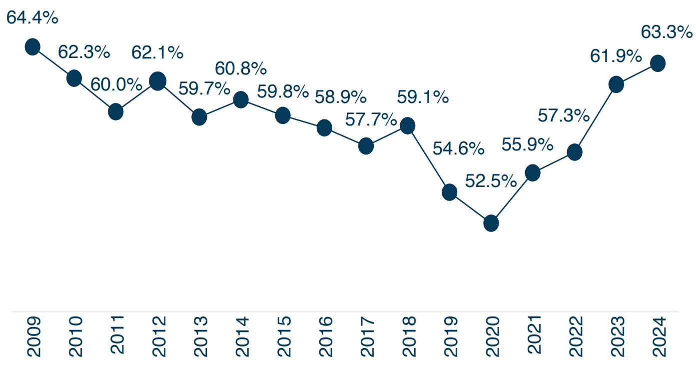
AIG has leveraged its 2 decades of experience, strong marketing capabilities, and strategic affiliations to establish itself as the largest player in KSA's listed pharma sector by production capacity. Tabuk Pharma the subsidiary under which the group operates the pharma business, specializes in general medicine and gastrointestinal treatments within the 8 other therapeutic areas across which it operates. It has a strong track record of manufacturing and marketing drugs under exclusive agreements with global MNCs, reinforcing its leadership in the Kingdom's generic pharma market. As of FY24, Tabuk Pharma held a 30% revenue-based market share supported by its 4 manufacturing facilities. Within KSA's listed pharma landscape, it had the highest number of registered human medicines in 2023, totaling 547. Financially, AIG's revenue has grown from SAR 423mn in FY09 to SAR 1,454mn by FY24, reflecting a robust 8.6% CAGR over FY09–24, while its gross margins have averaged 59.4% during this period.

Fig 84. Revenues of AIG's pharma business has grown at a robust 8.6% CAGR over FY09-24



Source: Company, AlJazira Capital research

Fig 85. Gross margins have been resilient especially after the dip in 2020



Source: Company, AlJazira Capital research

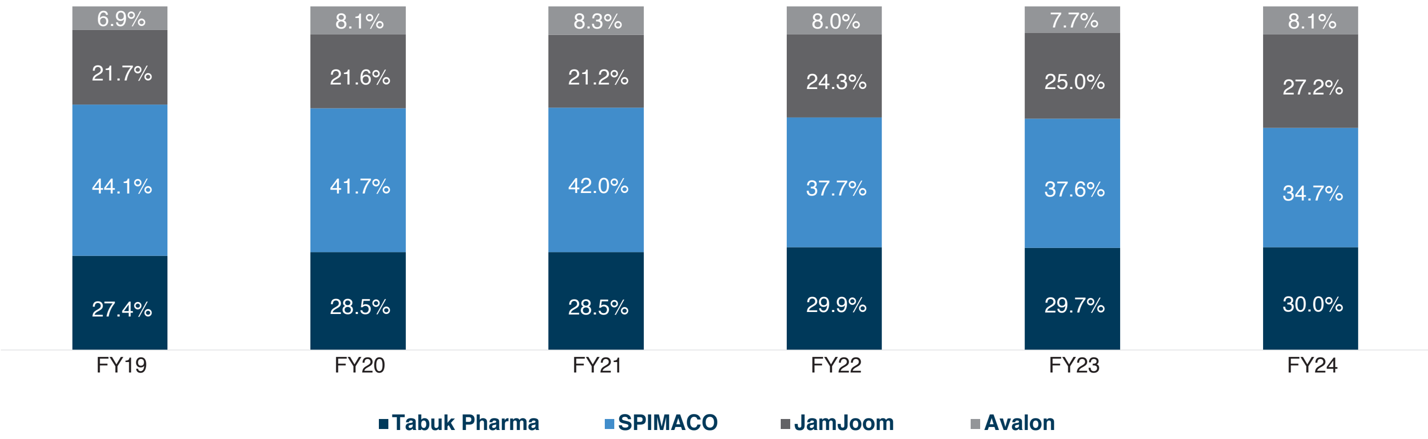
Tabuk Pharma has established a strong track record in manufacturing and marketing pharmaceutical products under exclusive agreements with leading global MNCs. These strategic partnerships have enabled Tabuk Pharma to introduce a diverse portfolio of high-quality branded generics and specialty medicines, catering to the evolving healthcare needs of the region.

Fig 86. Tabuk Pharma is the trusted partner for global pharma leaders

Date	Deals	Partner country	Purpose
Dec-24	Bio-Thera	China	Introducing biosimilars in KSA
Oct-24	Hanmi Pharma	South Korea	South Korean entity foray into KSA by partnering with Tabuk
Sep-24	Biocon	India	Market diabetes drugs in KSA
May-24	Formosa	Taiwan	FDA approved ophthalmic suspension in KSA
Feb-24	GlobalPharma	UAE	Locally manufacture pharma products in UAE
Jun-23	Levolta Pharma	USA	Commercialization of investigational Osteoarthritis therapy in MENA
Mar-22	Cumberland Pharma	USA	Introduce life-saving antibiotic in KSA via Tabuk
Jun-21	Moderna	USA	Commercialize covid vaccine

Source: AlJazira Capital research

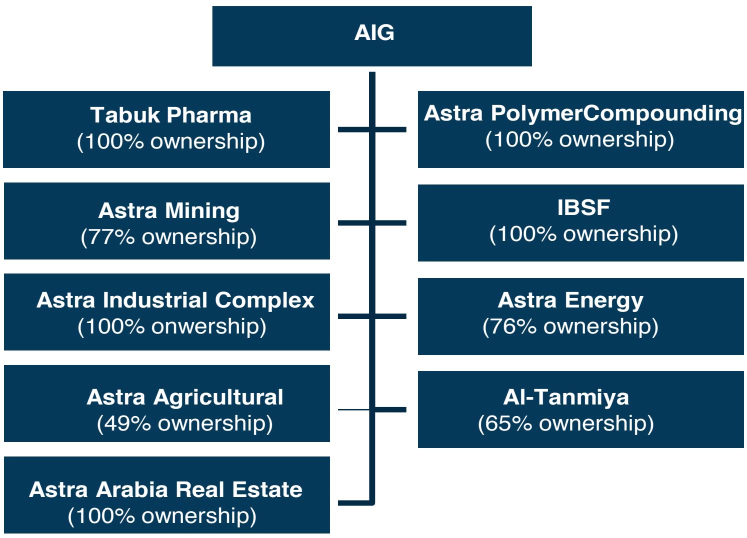
Fig 87. Confluence of multi-decadal expertise, diversified offerings and trusted partner for global pharma leaders has enabled Tabuk Pharma to be the second largest player in KSA's listed pharma landscape, in terms of revenues



Source: Company, AlJazira Capital research

Group Structure

Fig 88. AIG operates through numerous subsidiaries, some of which have attained market leadership



Source: Company, AlJazira Capital research

Financial Analysis

Pharma business to act as a major growth impetus for AIG's overall revenues, while Chemicals and Steel business to report sluggish growth over FY24-30E

KSA's pharma industry is poised for robust 4.8% growth over FY23-27E, driven by i) population growth, ii) rise in ageing population, iii) rising chronic diseases and iv) lucrative government initiatives. The KSA government has imposed several regulations to promote local pharma manufacturing. As per these new regulations, only companies with headquarters in Saudi are allowed to submit proposals for NUPCO tenders. Further there could be restriction on distribution of imported pharma products through Saudi companies, unless they have manufacturing facilities within country. These regulations place Tabuk Pharma at an advantageous position, due to its i) strong client and government connects and ii) superior R&D.

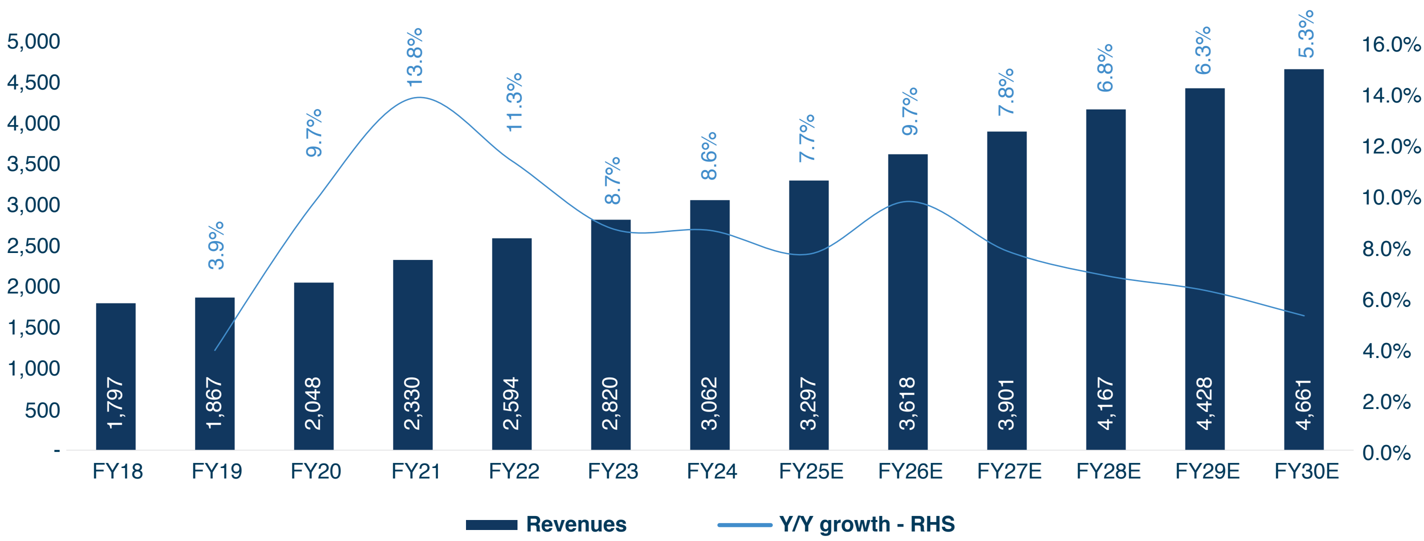
The growth of the pharma segment is critical to AIG as it not only accounts for the largest revenue share for the group, but also it is a margin accretive business. These high margins will help AIG to offset the narrow margins generated in other business divisions. Thus, we expect the revenues from pharma segment to increase from SAR 1,454mn in FY24 to SAR 2,322mn by FY30E, implying a robust 8.1% CAGR over the said period.

Although KSA's Chemicals and Polymers industry has a promising outlook over the longer-term, the commoditized nature of AIG's chemical business in the face of a slowdown in global economic activity shall curtail the growth rate of this division. The revenues of this division have been flattish for the last 5-6 quarters, thus magnifying the impact of competition. Based on the recent trends, we expect conservative growth for AIG's Chemicals division. A plan for FY26E, however, intends to cover up the overheads for its India facility (500 tonne capacity) via utilization of its UAE capacity of 60,000 tonnes, further improving the segments utilization and cost efficiency. Thus, we forecast the revenues to grow from SAR 1,047mn in FY24 to SAR 1,420mn by FY30E, implying a 5.2% CAGR over the said period.

The steel business on the other hand is protected with a backlog and a cost-plus model that has grown its gross margins from 9.2% in FY21 to 15.1% by FY24. Thus, we forecast the steel division revenues to grow from SAR 562mn in FY24 to SAR 919mn by FY30E, implying a 8.5% CAGR over the said period.

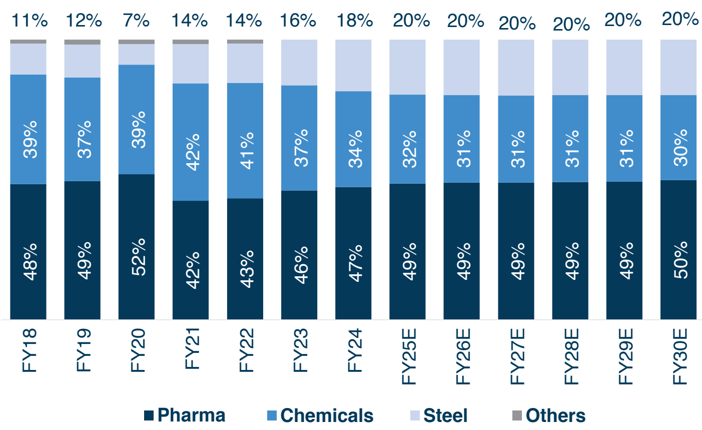
We believe the pharma and the steel business shall act as the major growth impetus for the overall revenues of the group. Accordingly, we expect the overall revenues to grow from SAR 3,062mn in FY24 to SAR 4,661mn by FY30E, implying a 7.3% CAGR over the said period.

Fig 89. AIG to reflect the historical revenue growth momentum over the forecasted period and is poised to expand its revenues at 7.3% CAGR over FY24-30E



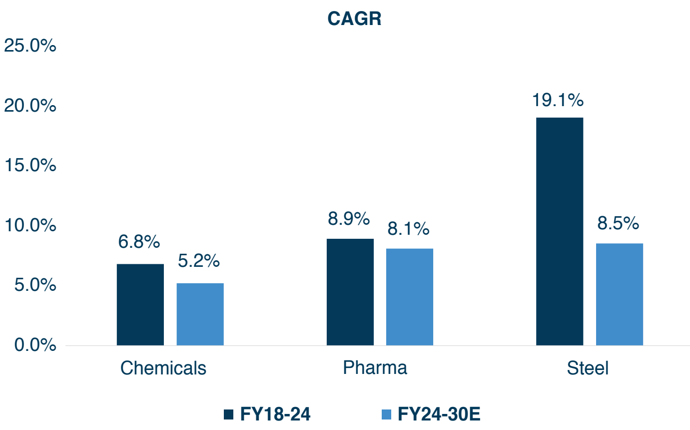
Source: Company, AlJazira Capital research

Fig 90. Pharma to continue its historical dominance with fast increase in share expected in Steel business



Source: Company, AlJazira Capital research

Fig 91. Steel business drove the historical revenue growth, but steel and pharma to be key drivers



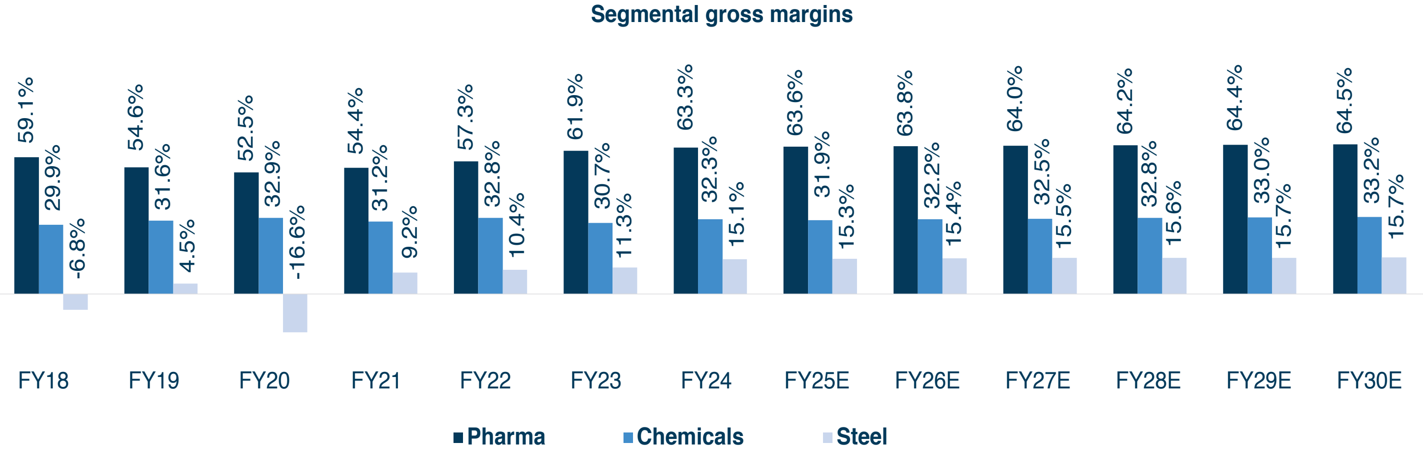
Source: Company, AlJazira Capital research

Higher share of pharma business to aid in gross margin expansion, while operative leverage could aid in operating margin expansion; Interest rate cuts and de-levering of balance sheet to drive net income

Over FY19-24 AIG's overall gross margins expanded by 429bps to 43.8% by FY24. This was driven by 870bps expansion in the gross margins of pharma business, which expanded at the back of covid led surge in demand and strategic partnerships with global MNC's. Since we expect the future growth to be majorly contributed by high margin pharma business, the gross margin expansion momentum could continue over the forecasted period. Thus, we forecast the overall gross margins to expand by 151bps to reach 45.3%, while slightly facing ramp up costs of Egypt facility ramp up, which is expected to reopen by H2-25. This expansion is expected to come majorly from Pharma business, whose gross margins could expand by 120bps, while Chemical business' gross margins could expand by 93bps, and Steel's by 69bps.

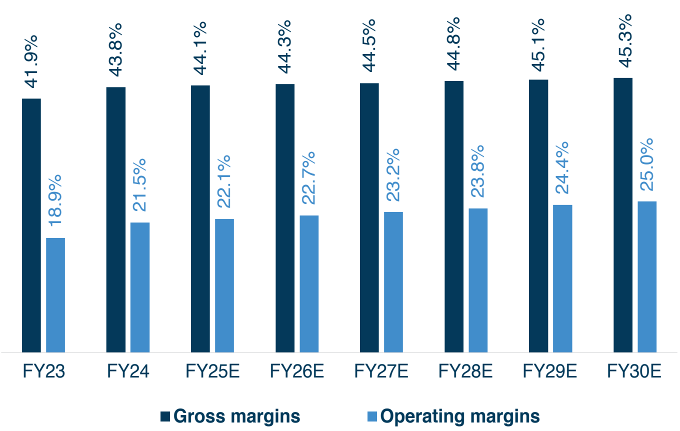
In the past the group has kept all major overheads in a narrow range through its cost rationalization programs. Going forward, we expect the cost rationalization program to continue, supported by operating leverage at play. This could drive the operating margins by 346bps over FY24-30E, to reach 25.0% level. Further as interest rate cuts are anticipated and AIG de-levers its balance sheet, it will help the net profits to grow at 10.9% CAGR over FY24-30E to reach SAR 1,096mn.

Fig 92. Majority of the gross margin expansion over the forecasted period could be contributed by the pharma business, followed by chemicals and steel business



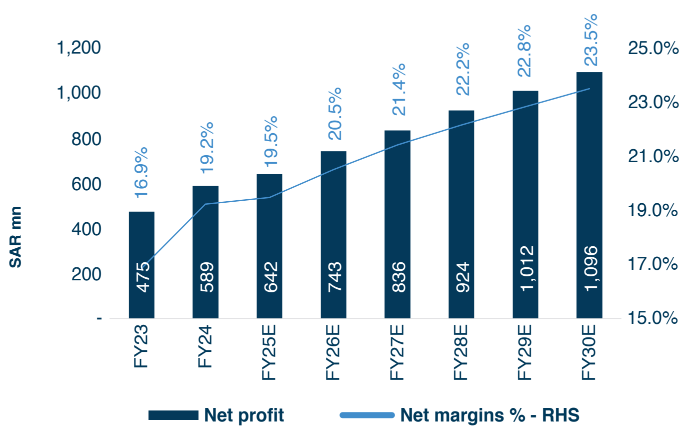
Source: Company, AlJazira Capital research

Fig 93. Gross margin to be driven by Pharma business while cost rational to drive operating margins



Source: Company, AlJazira Capital research

Fig 94. Interest rate cuts and de-levering of balance sheet could drive the net income in the future

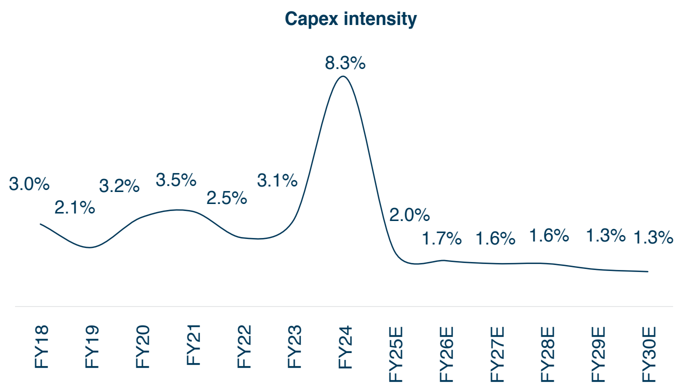


Source: Company, AlJazira Capital research

Lower capex required for future growth, while de-levering of balance sheet expected alongside efficiency in working capital cycle

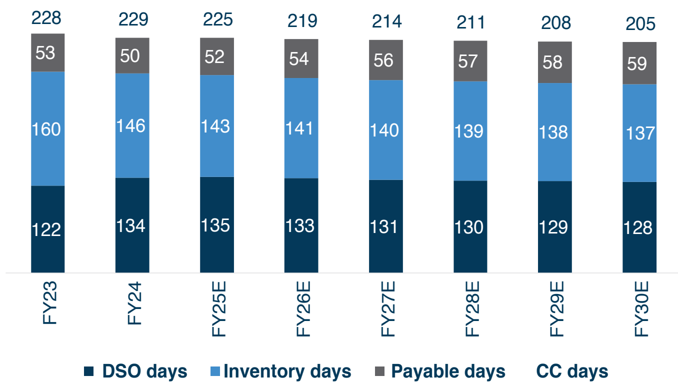
During FY19-24, the company's capex intensity had been within 2-8% of revenues, as the company spent SAR 648mn cumulatively, with SAR 255mn (39%) being spent in just FY24. Thus, we believe that the company has sufficient capacity to cater to the upcoming demand and thus it won't announce any major capex plans over FY25-30E. Accordingly, we drastically tone down the capex intensity from 8.3% in FY24 to an average of 1.6% over FY25-30E. AIG operates with high debt levels, however, going forward we believe the company will start repaying the majority portion of the debt, leading to an improvement in the net debt/equity ratio from 0.12x in FY24 to -0.36x by FY30E. In terms of working capital, the company's cash conversion cycle decreased from 300 days in FY19 to 229 days by FY24. This fall was driven by a sharp decrease in inventory days (from 197 days to 146 days). Going forward we expect inventory days to gradually decrease to 137 days by FY30E. As the NUPCO collection rate improves we expect the DSO days to improve marginally from 134 days in FY24 to 135 days by FY25E. However, post FY25E, we expect the DSO days to decrease to 128 days by FY30E. In terms of payable days, we expect it to increase further and reach 59 days by FY30E, from 50 days in FY24. With the confluence of these factors, we expect the cash conversion cycle to improve from 229 days in FY24 to 205 days by FY30E.

Fig 95. Capex intensity to fall from the record highs in FY24 to an average of 1.6% over FY25-30E



Source: Company, AlJazira Capital research

Fig 96. Working Capital efficiency to improve going forward driven by sharp decrease in inventory days

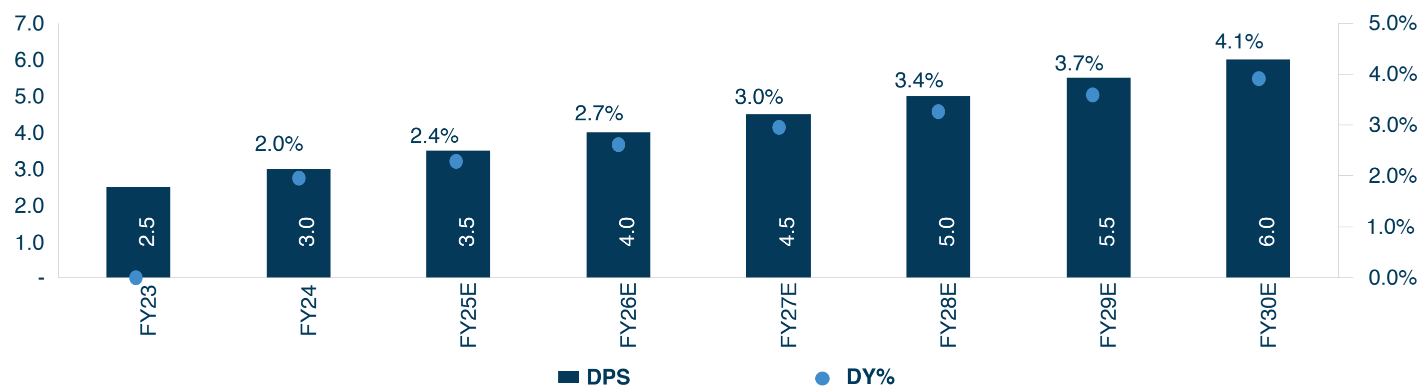


Source: Company, AlJazira Capital research

Shareholder payouts could increase driven by lower capex requirements, efficient working capital cycle and de-levering of the balance sheet

Over the forecasted period the i) lowering of capex requirement, ii) efficiency in working capital requirement and iii) de-levering of balance sheet shall ensure consistency in cash generation and elevate shareholder payouts and the RoE profile. Accordingly, we estimate the DPS to increase from SAR 3.0 per share in FY24 to SAR 6.0 per share by FY30E, thereby implying the dividend yield to increase from 2.0% in FY24 to 4.1% by FY30E.

Fig 97. Lower capex, efficient working capital and reduction in debt could enhance shareholder payout



Source: Company, AlJazira Capital research

Valuation and Risks

We have performed 50% DCF and 50% sum of all parts P/E based valuation based on our forecasts for the next six years. We assumed risk free rate of 4.25%, market risk premium of 6.3% and beta of 0.8 to arrive at WACC of 9.1%. Terminal growth rate is assumed at 3.0%. Our valuation of AIG based on DCF yielded an enterprise value of SAR 15.1bn and a fair value to equity shareholders of SAR 13.9bn, which translated into a value of **SAR 174.3 per share**. We have also valued AIG using sum of all parts relative valuation method on its business segments, and applied it to their respective FY25E earnings to reflect its growth prospects, along with a 10% conglomerate discount on the group valuation. Based on P/E based valuation our value is SAR 187.2 per share. Further assigning 50% weightage to DCF and 50% to P/E based valuation methodology, we have arrived at a weighted target price of **SAR 180.8 per share**.

Fig 99. Discounted Cash Flow model

	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
NOPAT	**655**	**739**	**815**	**893**	**972**	**1,047**
Depreciation & Amortization	120	116	109	112	111	118
Change in working capital	(44)	(37)	(29)	(40)	(37)	(30)
Capex	(66)	(60)	(61)	(65)	(59)	(59)
FCFF	**666**	**757**	**834**	**900**	**987**	**1,076**
Discounting factor	0.94	0.87	0.80	0.73	0.67	0.61
Present value of FCFF	**629**	**657**	**664**	**656**	**659**	**658**
Sum of present value						**3,922**
PV Terminal Value						11,161
Enterprise value						**15,083**
Equity value to common shareholders						13,948
No of outstanding shares (mn)						80.0
Fair value per share						**174.3**

Source: AlJazira Capital research

Fig 100. DCF key assumptions

Terminal growth rate	Risk premium				
	5.25%	5.75%	6.25%	6.75%	7.25%
2.40%	184.5	172.0	161.0	151.2	142.4
2.70%	192.9	179.3	167.4	156.8	147.3
3.00%	202.3	187.3	174.3	162.8	152.7
3.30%	212.8	196.3	182.0	169.5	158.5
3.60%	224.6	206.3	190.5	176.8	164.9

Source: AlJazira Capital research

Above is an illustration of sensitivity of our DCF based target price to the changes in terminal growth rate (range: 2.4%-3.6%) and risk premium (range: 5.25%-7.25%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 142.4 per share (at terminal growth rate of 2.4% and risk premium of 7.25%) and a maximum of SAR 224.6 per share (at terminal growth rate of 3.6% and risk premium of 5.25%).

Fig 101. SOTP P/E multiple valuation

	FY25E EPS (SAR)	Multiple	Value/Sh
Pharmaceutical	6.0	30.0x	180.13
Specialty Chemicals	1.2	15.0x	18.00
Steel & Others	9.9	12.0x	9.31
Value P/Sh (SAR)			208.0
Conglomerate Discount			-10%
Target Price Per share (SAR)			**187.2**

Source: AlJazira Capital research

Fig 102. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	174.3	50%	87.2
P/E	187.2	50%	93.6
Total			**180.8**

Source: AlJazira Capital research

Fig 102. Key upside risks

- Faster than expected re-openings of Egypt and Sudan facilities
- First to market venture in expired patent drugs
- Better than expected economic growth supporting demand on specialty chemical segment

Source: AlJazira Capital research

Fig 103. Key downside risks

- Having presence in multiple countries, exposes the company to higher regulatory risks
- Significant volatility in raw materials, which accounts for 65% of direct costs, could impact severely on the margin profile
- Lower than expected economic growth
- Later than expected Egypt opening and utilization optimization

Source: AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	3,062	3,297	3,618	3,901	4,167	4,428	4,661
Y/Y	**8.6%**	**7.7%**	**9.7%**	**7.8%**	**6.8%**	**6.3%**	**5.3%**
Cost	(1,720)	(1,843)	(2,014)	(2,164)	(2,299)	(2,432)	(2,548)
Gross profit	**1,342**	**1,454**	**1,605**	**1,737**	**1,868**	**1,996**	**2,113**
S&D Expenses	(412)	(441)	(480)	(514)	(545)	(574)	(600)
G&A Expenses	(224)	(237)	(257)	(273)	(288)	(301)	(312)
Impariment loss	(19)	(17)	(16)	(13)	(12)	(8)	(6)
Operating profit	**658**	**728**	**821**	**905**	**992**	**1,080**	**1,163**
Y/Y	**23.5%**	**10.6%**	**12.7%**	**10.3%**	**9.6%**	**8.9%**	**7.7%**
Financing Expense	(107)	(88)	(67)	(51)	(42)	(35)	(27)
Income before zakat	**626**	**732**	**846**	**952**	**1,053**	**1,153**	**1,249**
Zakat	(73)	(73)	(85)	(95)	(105)	(115)	(125)
Net income	**589**	**642**	**743**	**835.6**	**924**	**1,012**	**1,096**
Y/Y	**24.0%**	**9.0%**	**15.6%**	**12.5%**	**10.6%**	**9.5%**	**8.3%**
EPS (SAR)	**7.36**	**8.03**	**9.28**	**10.44**	**11.55**	**12.64**	**13.70**
DPS (SAR)	**3.00**	**3.50**	**4.00**	**4.50**	**5.00**	**5.50**	**6.00**
Balance sheet							
Assets							
Cash & equivalent	178	353	639	981	1,362	1,793	2,282
Receivables	1,121	1,216	1,315	1,396	1,480	1,560	1,629
Other current assets	1,482	1,583	1,712	1,845	1,979	2,121	2,265
Total current assets	**2,781**	**3,152**	**3,666**	**4,222**	**4,820**	**5,474**	**6,176**
Property plant & equipment	782	780	754	737	739	739	728
Other non-current assets	765	780	784	788	789	790	791
Total assets	**4,328**	**4,713**	**5,203**	**5,747**	**6,349**	**7,003**	**7,695**
Liabilities & owners' equity							
Short-term loans	435	370	315	267	241	217	195
Payables	236	263	298	333	360	387	412
Total other current liabilities	888	945	1,026	1,096	1,158	1,218	1,268
Total current liabilities	**1,559**	**1,578**	**1,639**	**1,696**	**1,758**	**1,821**	**1,875**
LT loans	39	33	28	24	22	20	18
Total other non-current liabilities	199	191	183	176	170	163	158
Total non-current liabilities	**238**	**225**	**212**	**201**	**192**	**183**	**175**
Paid -up capital	800	800	800	800	800	800	800
Reserves	1,724	2,086	2,509	2,984	3,508	4,080	4,696
Total owners' equity	**2,531**	**2,910**	**3,351**	**3,848**	**4,396**	**4,994**	**5,638**
Total equity & liabilities	**4,328**	**4,713**	**5,203**	**5,747**	**6,349**	**7,003**	**7,695**
Cashflow statement							
Operating activities	730	751	859	959	1,043	1,138	1,240
Investing activities	(746)	(164)	(160)	(164)	(154)	(154)	(167)
Financing activities	(863)	(365)	(357)	(397)	(460)	(506)	(537)
Change in cash	(879)	163	286	342	380	432	488
Ending cash balance	**178**	**353**	**639**	**981**	**1,362**	**1,793**	**2,282**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.8	2.0	2.2	2.5	2.7	3.0	3.3
Quick ratio (x)	1.7	1.8	1.8	1.9	2.0	2.0	2.1
Profitability ratios							
Gross profit margin	43.8%	44.1%	44.3%	44.5%	44.8%	45.1%	45.3%
Operating margin	21.5%	22.1%	22.7%	23.2%	23.8%	24.4%	25.0%
EBITDA margin	27.1%	28.1%	28.6%	29.1%	29.7%	30.3%	31.1%
Net profit margin	19.2%	19.5%	20.5%	21.4%	22.2%	22.8%	23.5%
Return on assets	13.6%	13.6%	14.3%	14.5%	14.6%	14.4%	14.2%
Return on equity	23.3%	22.1%	22.2%	21.7%	21.0%	20.3%	19.4%
Leverage ratio							
Debt / equity (x)	0.19	0.14	0.10	0.08	0.06	0.05	0.04
Market/valuation ratios							
EV/sales (x)	4.8	3.6	3.2	2.9	2.6	2.3	2.1
EV/EBITDA (x)	19.9	14.1	12.4	11.0	9.8	8.7	7.7
P/E ratio (x)	24.4	18.5	16.0	14.2	12.9	11.8	10.8
P/BV ratio (x)	5.7	4.1	3.5	3.1	2.7	2.4	2.1
Dividend yield	1.7%	2.4%	2.7%	3.0%	3.4%	3.7%	4.0%
Current Market Price		148.8	148.8	148.8	148.8	148.8	148.8
Market Cap (SAR mn)		11,904	11,904	11,904	11,904	11,904	11,904

Source: Company, 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.

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