

## Pharma retail

**BUY: 12M TP @ 78**

*Upside +13.9%*

### Valuation Summary (TTM)

Price (SAR)	68.50
PER TTM (x)	15.7
P/Book (x)	3.8
P/Sales (x)	0.9
EV/Sales (x)	1.3
EV/EBITDA (x)	9.6
Dividend Yield (%)	3.7
Free Float (%)	31%
Shares O/S (mn)	85
YTD Return (%)	-13%
Beta	1.0

(mn)	SAR	USD	
Market Cap	5,823	1,552	
Enterprise value	10,175	2,747	
Price performance (%)	1M	3M	12M
Al-Dawaa Medical Services	-10%	-12%	-28%
Tadawul All Share Index	0%	-1%	-11%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	6,558	5,734	9,973
Avg Daily Volume (,000)	80	78	131

<b>52 week</b>	<b>High</b>	<b>Low</b>	<b>CTL*</b>
Price (SAR)	98.20	65.75	4.2

\* CTL is % change in CMP to 52wk low

### Major shareholders

RESOURCES HOLDING CO	35%
RAMLA HOLDING GROUP	20.0%
Fahd Al Saud Turki M	13.8%
Others	31.2%

### Other details

Exchange	Saudi Arabia
Sector	Pharma Retail
Index weight (%)	0.2%

<b>Key ratios</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
EPS (SAR)	3.59	3.87	4.35
BVPS (SAR)	12.88	15.45	17.13
DPS (SAR)	0.00	2.50	2.50
Payout ratio (%)	0%	65%	57%



## Al Dawaa – margins disappoint

Al Dawaa Medical Services Co. (Dawa) reported 2Q25 revenue of SAR 1.68bn, broadly in line with our expectations and up 6.3% YoY. For 1H25, total revenue reached SAR 3.3bn, representing a 7.5% YoY increase. Within this, the retail segment which contributes about 93% of sales recorded modest growth of 1% YoY, while the wholesale segment performed better with a 4.3% YoY increase in 2Q25. Dawa benefits from an omni-channel presence, strong partnerships with the government, and the second-largest network of outlets in Saudi Arabia. However, despite these advantages, the company faces growing competition from newer players and continues to work on defending its market share. While the current revenue run rate appears satisfactory, we anticipate slower growth in 2H25.

Gross margins declined on both a YoY and QoQ basis, down 219bps and 160bps respectively. The contraction was driven by expansion-related costs, higher contributions from the lower-margin online channel, and government contracts. Operating expenses, particularly distribution and administration costs, grew faster than revenue, compressing operating margins by 137bps YoY. As a result, operating profit declined 10.9% YoY in 2Q25. Finance costs remained stable, while a declining tax rate over recent quarters provided some cushion to earnings. Net profit fell to SAR 87mn in 2Q25, down 9.7% YoY and 17.5% below our estimates, primarily due to weaker margins. We expect margin pressure to persist into 2H25. For the 1H25 net profit stood at SAR 192mn (+0.3% YoY).

In light of these results, we lower our 2025e revenue forecast to SAR 6.8bn (from SAR 7.1bn) and net profit to SAR 404mn (from SAR 417mn). Accordingly, we cut our target price to SAR 78 per share, implying an upside of 13.9%. With the stock trading at its lowest level since IPO, we see limited downside from here and maintain a BUY rating based on the potential upside from current levels.

**Valuation and outlook:** Al Dawaa has consistently faced challenges in defending its market share, requiring ongoing expansion, cost optimization, and customer retention through innovation. These initiatives have driven higher capex and operating expenses, placing pressure on margins. Despite this, the broader Saudi pharmaceutical retail story remains strong, and Al Dawaa stands as one of its key beneficiaries. Participation in government programs is expected to provide an additional growth catalyst that peers may struggle to replicate. We anticipate gross margins will remain under pressure and, as a result, we adopt a more moderate outlook on the stock. However, the recent sharp decline in share price has brought valuations down to an all-time low of 14.4x 2025e PE. At current levels, we view the risk-reward profile as favorable.

Income Statement (In SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b>Revenue</b>	<b>4,962</b>	<b>5,034</b>	<b>5,372</b>	<b>5,741</b>	<b>6,451</b>	<b>6,858</b>	<b>7,459</b>	<b>7,911</b>	<b>8,402</b>
Direct Costs	-3,081	-3,140	-3,353	-3,635	-4,158	-4,395	-4,717	-5,011	-5,331
<b>Gross profit</b>	<b>1,881</b>	<b>1,894</b>	<b>2,020</b>	<b>2,107</b>	<b>2,293</b>	<b>2,463</b>	<b>2,742</b>	<b>2,900</b>	<b>3,071</b>
Selling and distribution expenses	-1,381	-1,510	-1,518	-1,500	-1,642	-1,783	-1,939	-2,057	-2,185
General and administrative expenses	-107	-118	-133	-127	-135	-140	-186	-198	-210
<b>Operating profit</b>	<b>393</b>	<b>266</b>	<b>369</b>	<b>466</b>	<b>514</b>	<b>541</b>	<b>616</b>	<b>645</b>	<b>676</b>
<b>EBITDA</b>	<b>702</b>	<b>600</b>	<b>724</b>	<b>830</b>	<b>906</b>	<b>944</b>	<b>1,025</b>	<b>1,076</b>	<b>1,130</b>
Finance costs	-155	-83	-117	-124	-122	-118	-119	-111	-111
Other costs	23	63	66	-	-	-	-	-	-
<b>Profit before tax</b>	<b>261</b>	<b>246</b>	<b>318</b>	<b>342</b>	<b>392</b>	<b>422</b>	<b>497</b>	<b>534</b>	<b>565</b>
Income tax and Zakat	-15	-7	-12	-13	-22	-18	-25	-27	-28
<b>Net profit</b>	<b>246</b>	<b>239</b>	<b>305</b>	<b>329</b>	<b>370</b>	<b>404</b>	<b>472</b>	<b>508</b>	<b>537</b>

Balance Sheet (in SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property, plant and equipment	658	823	942	995	1,059	995	1,071	1,144	1,214
Right of use assets	756	1,046	1,586	1,476	1,448	1,565	1,581	1,597	1,613
Other non current assets	236	286	182	230	85	85	85	85	85
<b>Non-current assets</b>	<b>1,651</b>	<b>2,155</b>	<b>2,710</b>	<b>2,701</b>	<b>2,592</b>	<b>2,645</b>	<b>2,737</b>	<b>2,826</b>	<b>2,911</b>
Inventories	1,324	1,332	1,082	1,310	1,477	1,626	1,745	1,854	1,973
Accounts receivable and prepayments	530	496	564	447	748	891	970	1,028	1,092
Bank balances and cash	38	46	139	54	48	49	75	43	116
Other current assets	2	1	2	3	3	2	2	2	2
<b>Current assets</b>	<b>1,893</b>	<b>1,875</b>	<b>1,786</b>	<b>2,007</b>	<b>2,444</b>	<b>2,740</b>	<b>2,892</b>	<b>3,028</b>	<b>3,283</b>
<b>ASSETS</b>	<b>3,544</b>	<b>4,031</b>	<b>4,497</b>	<b>4,707</b>	<b>5,036</b>	<b>5,385</b>	<b>5,629</b>	<b>5,854</b>	<b>6,195</b>
Share capital	10	850	850	850	850	850	850	850	850
Reserves	109	68	-4	84	-3	-3	-3	-3	-3
Retained earnings	994	71	249	379	609	801	1,030	1,255	1,487
<b>EQUITY</b>	<b>1,113</b>	<b>989</b>	<b>1,095</b>	<b>1,313</b>	<b>1,456</b>	<b>1,648</b>	<b>1,878</b>	<b>2,102</b>	<b>2,334</b>
Lease liabilities	576	812	1,374	1,308	1,278	1,279	1,279	1,279	1,279
Employee defined benefits	104	125	132	140	167	176	189	200	213
Term loans	-	-	277	150	-	150	100	150	150
<b>Non-current liabilities</b>	<b>680</b>	<b>938</b>	<b>1,783</b>	<b>1,598</b>	<b>1,445</b>	<b>1,605</b>	<b>1,568</b>	<b>1,630</b>	<b>1,643</b>
Accounts payable and accruals	456	532	534	822	1,205	1,318	1,415	1,503	1,599
Lease liability	189	227	203	184	201	191	191	191	191
Bank overdrafts Short term loans	891	1,156	778	662	620	520	470	320	320
Other current liabilities	216	189	103	128	107	101	107	107	107
<b>Current liabilities</b>	<b>1,751</b>	<b>2,104</b>	<b>1,618</b>	<b>1,796</b>	<b>2,134</b>	<b>2,131</b>	<b>2,184</b>	<b>2,122</b>	<b>2,218</b>
<b>LIABILITIES</b>	<b>2,431</b>	<b>3,042</b>	<b>3,401</b>	<b>3,394</b>	<b>3,579</b>	<b>3,736</b>	<b>3,752</b>	<b>3,752</b>	<b>3,860</b>
<b>EQUITY AND LIABILITIES</b>	<b>3,544</b>	<b>4,031</b>	<b>4,497</b>	<b>4,707</b>	<b>5,036</b>	<b>5,385</b>	<b>5,629</b>	<b>5,854</b>	<b>6,195</b>

Cash Flow (In SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	378	670	778	726	683	825	810	889	935
Investing cash flow	-282	-378	-283	-168	-98	-114	-261	-277	-294
Financing cash flow	-184	-298	-347	-642	-592	-710	-522	-645	-568
<b>Change in cash</b>	<b>-47</b>	<b>8</b>	<b>93</b>	<b>-85</b>	<b>-7</b>	<b>1</b>	<b>26</b>	<b>-32</b>	<b>73</b>
Beginning cash	85	38	46	139	54	48	49	75	43
<b>Ending cash</b>	<b>38</b>	<b>46</b>	<b>139</b>	<b>54</b>	<b>47</b>	<b>49</b>	<b>75</b>	<b>43</b>	<b>116</b>

Ratio Analysis	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b>Per Share</b>									
EPS (SAR)	2.90	2.81	3.59	3.87	4.35	4.76	5.55	5.97	6.32
BVPS (SAR)	13.09	11.64	12.88	15.45	17.13	19.39	22.09	24.73	27.46
DPS (SAR)	-	1.25	-	2.50	2.50	2.85	3.33	3.58	3.79
FCF per share (SAR)	1.13	3.43	5.83	6.56	6.89	8.36	6.45	7.20	7.54
<b>Valuation</b>									
Market Cap (SAR mn)	6,205	6,205	6,112	8,993	6,664	5,704	5,704	5,704	5,704
EV (SAR mn)	8,279	8,886	8,862	11,914	9,921	8,964	8,985	8,955	8,978
EBITDA	702	600	724	830	906	944	1,025	1,076	1,130
P/E (x)	25.2	25.9	20.0	27.3	18.0	14.1	12.1	11.2	10.6
EV/EBITDA (x)	11.8	14.8	12.2	14.3	10.9	9.5	8.8	8.3	7.9
Price/Book (x)	6.5	7.3	6.6	5.5	5.0	4.4	3.8	3.4	3.1
Dividend Yield (%)	0.0%	1.7%	0.0%	2.4%	3.2%	4.3%	5.0%	5.3%	5.6%
Price to sales (x)	1.3	1.2	1.1	1.6	1.0	0.8	0.8	0.7	0.7
EV to sales (x)	1.7	1.8	1.6	2.1	1.5	1.3	1.2	1.1	1.1
<b>Liquidity</b>									
Cash Ratio (x)	0.02	0.02	0.09	0.03	0.02	0.02	0.03	0.02	0.05
Current Ratio (x)	1.08	0.89	1.10	1.12	1.15	1.29	1.32	1.43	1.48
Quick Ratio (x)	0.33	0.26	0.44	0.39	0.45	0.52	0.53	0.55	0.59
<b>Returns Ratio</b>									
ROA (%)	7.0%	5.9%	6.8%	7.0%	7.3%	7.5%	8.4%	8.7%	8.7%
ROE (%)	22.1%	24.2%	27.9%	25.1%	25.4%	24.5%	25.1%	24.1%	23.0%
ROCE (%)	13.7%	12.4%	10.6%	11.3%	12.8%	12.4%	13.7%	13.6%	13.5%
<b>Cash Cycle</b>									
Inventory turnover (x)	2.3	2.4	3.1	2.8	2.8	2.7	2.7	2.7	2.7
Accounts Payable turnover (x)	6.8	5.9	6.3	4.4	3.5	3.3	3.3	3.3	3.3
Receivables turnover (x)	9.4	10.1	9.5	12.8	8.6	7.7	7.7	7.7	7.7
Inventory days	157	155	118	132	130	135	135	135	135
Payable Days	54	62	58	82	106	110	110	110	110
Receivables days	39	36	38	28	42	47	47	47	47
Cash Cycle	142	129	98	77	66	73	73	73	73
<b>Profitability Ratio</b>									
Net Margins (%)	5.0%	4.8%	5.7%	5.7%	5.7%	5.9%	6.3%	6.4%	6.4%
EBITDA Margins (%)	14.1%	11.9%	13.5%	14.5%	14.0%	13.8%	13.7%	13.6%	13.4%
PBT Margins (%)	5.3%	4.9%	5.9%	6.0%	6.1%	6.2%	6.7%	6.8%	6.7%
EBIT Margins (%)	7.9%	5.3%	6.9%	8.1%	8.0%	7.9%	8.3%	8.2%	8.0%
Effective Tax Rate (%)	5.3%	4.9%	5.9%	6.0%	6.1%	6.2%	6.7%	6.8%	6.7%
<b>Leverage</b>									
Total Debt (SAR mn)	2,112	2,727	2,889	2,975	3,305	3,309	3,356	3,294	3,390
Net Debt (SAR mn)	2,074	2,681	2,750	2,921	3,257	3,260	3,281	3,252	3,274
Debt/Total Assets (x)	0.6	0.7	0.6	0.6	0.7	0.6	0.6	0.6	0.5
Debt/Equity (x)	1.9	2.8	2.6	2.3	2.3	2.0	1.8	1.6	1.5
Net Debt/Equity (x)	1.9	2.7	2.5	2.2	2.2	2.0	1.7	1.5	1.4

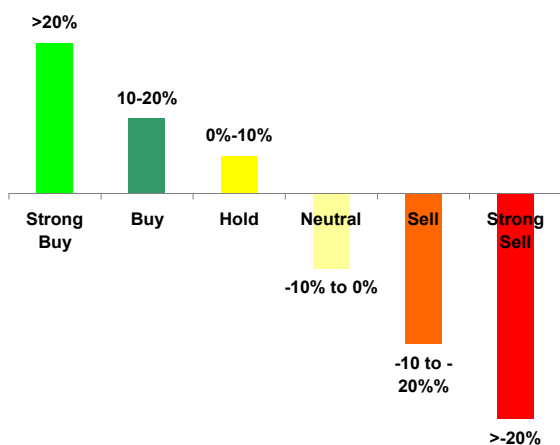
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

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

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