

Target Price: SAR185/share
Current Price: SAR166/share
Upside: 11.4% (+Div. Yield: 2.1%)
Rating: Overweight

Astra Industrial Group (Astra)

Robust 4Q; Raise TP to SAR185 on strong growth potential

- Earnings likely to grow at a CAGR of ~16% over 2023-27e, primarily driven by the Pharma and Steel business, coupled with margin expansion across all segments.
- Robust balance sheet to support organic/inorganic expansion, as well as dividend growth.
- Post 4Q earnings beat, we revise our TP to SAR185/sh. (SAR127/sh. earlier) based on 1Y Fwd. DCF and P/E (24x on 2024e EPS) valuation approaches and rating to Overweight.

Strong 4Q result on better-than-expected performance of steel business: Astra reported strong 4Q23 results with top-line growing 8% y/y (21% q/q) to reach ~SAR790mn, surpassing our estimate (~SAR708mn) by 12%. This outperformance was largely attributed to a better-than-expected performance of steel business (+35% y/y; +58% q/q). Meanwhile, the Pharma and other segments revenues were broadly in-line. Robust top-line growth, coupled with better-than-expected margins across the segments (GPM: 42.5% vs 39.2% expected; OPM: 19.5% vs 17.0% expected) led to a beat at both gross and operating levels. This further flowed down to bottom-line as well with net income rising 57% y/y (+30% q/q) to reach ~SAR134mn, beating our and consensus estimates.

Change in estimates: Post robust 4Q results, we revise our estimates as follows: I) We maintain our positive outlook for the Pharma segment, projecting revenue to grow at a CAGR of ~10% (~8% CAGR earlier), with an anticipated improvement in gross margin within the range of 62-63% (up from ~60% previously; 63.7% in 4Q) over the period 2023-27e. This growth is supported by initiatives such as debottlenecking of existing plants, cost optimization, and favorable market dynamics. II) We have adjusted our medium-term top-line growth trajectory for the Steel business, shifting it to high-single digits from mid-digit earlier, accompanied with a slight improved margins. We believe that the company is well placed to benefit from ongoing spending on several mega projects in the Kingdom, III) Our estimate for the Specialty Chemical segment remains consistent, with revenue forecasted to grow at a +5% CAGR over the period 2024-27e. Consequently, we anticipate Astra's top line to grow at a CAGR of ~8% over the period 2023-27e, translating to a net income CAGR of ~16% during the same period.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	2,859	3,120	3,392	3,634
Revenue growth	10.2%	9.2%	8.7%	7.1%
Gross Profit	1,187	1,311	1,437	1,560
Gross Profit margin	41.5%	42.0%	42.4%	42.9%
EBITDA	593	719	819	918
Op. income	531	624	702	783
Net profit*	475	565	663	758
Growth y/y	-2.6%	20.1%	17.2%	14.3%
Net profit margin	16.6%	18.1%	19.5%	20.9%
EPS (SAR)	5.9	7.1	8.3	9.5
P/E	27.9x	23.5x	20.0x	17.5x

Source: Company data, GIB Capital * attributable to shareholders

Stock data

TASI ticker	1212
Mcap (SARmn)	13,280
Trd. Val (3m) (SARmn)	43.7
Free float	46.0%
QFI holding	10.0%
TASI FF weight	0.26%

Source: Bloomberg

Share price performance vs TASI



Source: Bloomberg

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Exit from mining business on the horizon; accretive to the bottom-line: Saudi Lime Industries recently entered into a binding agreement to acquire the entire stake in Astra Mining (Astra Group: 77.3% stake, Tharawat Mining: 22.7%). The total consideration for the deal is SAR164.6mn, with SAR35mn allocated for the acquisition of shares and the remaining SAR129.6mn designated for settling Astra Mining's debt. Considering the inherent volatility of the mining business (Astra Mining losses: SAR5.9mn in 2022 and SAR10.8mn in 2023), we view the decision to exit the mining segment as a positive strategic move for the Astra Group. This move allows the company to redirect its focus toward core and high-margin businesses, particularly the Pharma and Specialty chemicals segments. For now, we have not factored the sale in our forecast as the deal has not yet been finalized.

Healthy cash balance to support growth and dividends: Astra has a robust cash surplus of ~SAR1.6bn, which will help in partially offsetting the higher finance cost amid the elevated interest rate environment. Further, its strong balance sheet (net cash position) may enable the company to expand the Pharma and Specialty Chemical segments organically, inorganically as well as improving dividends gradually for the upcoming periods.

Valuation and Risks: Post 4Q23 results, we revise our forward-looking estimates to factor in the margin expansion and better-than-expected steel business performance, in addition to a change in a few valuation assumptions. Accordingly, we raise our target price to SAR185/share (SAR127 TP earlier) based on an equal mix of one-year forward DCF (9.6% WACC, 4.0% terminal growth; ~SAR181 TP) and P/E (24.0x on 2024e EPS; SAR189 TP) methods.

Astra Pharma business closest local peers are Jamjoom and Avalon, currently trades at 30x and 44x on our 2024e EPS. This is attributed to the significant growth potential in the market, supported by regulatory initiatives and ongoing capacity expansion by both companies. Taking a conservative approach, we consider a 27x multiple for Astra's Pharma segment (with a discount on Jamjoom) and a 16x for other segments to derive a 24x 1Y forward multiple for Astra, considering its exposure to other segments, relatively limited capacity expansion and higher leverage position.

Exposure to unstable markets, hyperinflationary currencies, lower-than-expected margin of the Pharma segment, prolonged working capital cycle, higher than expected provisioning, volatile profits of Steel segment, unprofitable sale of underperforming assets, lack of further growth opportunities in chemicals are key risks to our investment view.

Figure 2: 4Q23 results summary

SARmn	Q4 2023	Q4 2022	y-o-y	Q3 2023	q-o-q	GIBC Est.	vs. GIBC
Revenue	790	729	8%	654	21%	708	12%
GP	336	320	5%	261	29%	277	21%
GP margin	42.5%	44.0%		40.0%		39.2%	
Op. income	154	132	16%	114	35%	120	28%
Op. margin	19.5%	18.2%		17.5%		17.0%	
Net profit*	134	85	57%	103	30%	93	44%
NP margin	16.9%	11.7%		15.8%		13.1%	

Source: GIB Capital, Company data * attributable to shareholder

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