GIB CAPITAL

Target Price: SAR75/share
IPO price: SAR60/share
Upside: 25% (+Div. Yield: ~4%)
Rating: Overweight

Jamjoom Pharmaceuticals Factory Co.

A Prescription for Health and Wealth

- Healthy top-line growth (CAGR ~12% over 2022-25e), driven by new product launches, capacity expansion (+68% rise) and strengthening its footprints across the target markets.
- Focus on branded generics ensures high EBITDA margin (~30% in 2024e) and superior cash flows (~5% FCF Yield in 2024e).
- Initiate Jamjoom Pharma with a target price of SAR75/sh. and Overweight rating based on an avg. of DCF and PE (17x P/E on 2024e EPS) methods.

Timely expansions to strengthen the regional footprints: Jamjoom is expanding its production capacity by 68% from 113mn currently to 190mn (two new facilities in Jeddah and Egypt) in 2H23 to cater for the rising demand for generic drugs in its growing addressable target markets (KSA, Egypt, UAE and Iraq; 5% CAGR over 2021-26e) underpinned by favourable market dynamics and the regulatory push supporting local manufacturing. Further, a broad pipeline of new products (64% of the product pipeline is close to submission or under review), and growing tender business, could ensure healthy top-line growth of ~12% CAGR over 2022-25e amid a mostly regulated pricing environment.

Industry-leading margin profile: The company's focus on portfolio optimization in existing and new therapeutic areas (Consumer Health, Ophthalmology, Cardiovascular disease, and Anti-diabetes), along with continuous improvement in cost efficiency, enables it to continue to generate industry-leading margins (~64-65% gross margins vs. 44% industry average). Healthy volume-driven top-line and mostly stable margins (except in 2023/24 due to the ramping-up phase) would result in healthy operating cash flows (+15% CAGR over 22-25). However, the recent devaluation of USDEGP remains a headwind for the company. Nonetheless, a robust financial position (debt-free company) amid limited capex requirements will enable the company to steadily improve the payout (60% payout for 2023; ~4% yield) in the coming years.

Risks: Key downside risks are delay in new capacity adds, major product repricing from regulatory bodies, increased competition, cost inflation of raw materials, supply chain issues, lower sales volume, currency fluctuations and a change in distributor's commission rates.

Stock data	
Listing M.Cap. (SARmn)	4,200
Offer shares (mn)	21
IPO Size (SARmn)	1,260
Offering	30%
TASI Ticker	4015

Source: Company data, Tadawul

Valuation (SAR/share)	
DCF (50% weight)	71
P/E (50% weight)	78
Target Price (rounded)	**75**

Source: GIB Capital

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Revenue	917	1,054	1,224	1,279
Revenue growth	*25%*	*15%*	*16%*	*5%*
Gross Profit	594	675	780	823
Gross Profit margin	*65%*	*64%*	*64%*	*64%*
EBITDA	260	316	372	405
Op. income	233	279	334	365
Net profit	171	258	308	337
Net profit margin	*19%*	*25%*	*25%*	*26%*
EPS (SAR)	2.4	3.7	4.4	4.8
DPS (SAR)	2.1	2.2	2.6	2.9
P/E	24.5x	16.3x	13.6x	12.5x

Source: Company data, GIB Capital

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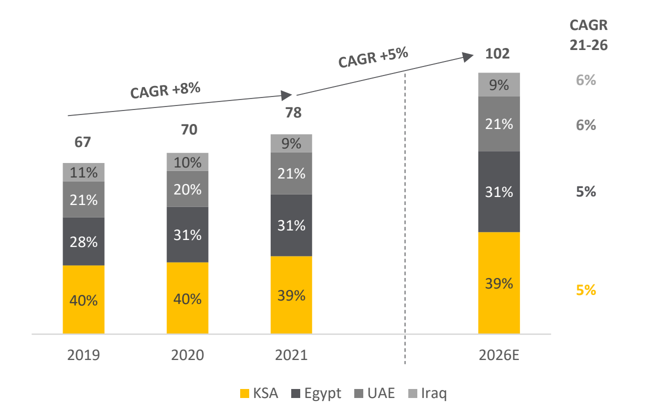
Investment Case

Strong growth potential in the target markets and therapeutic areas, backed by favorable market conditions and the regulatory push …

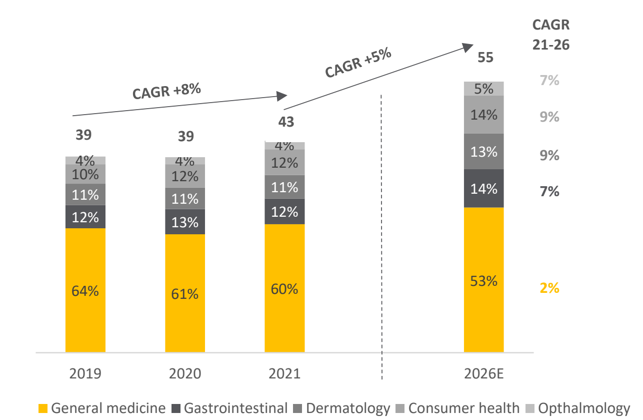
Jamjoom Pharma is one of the leading branded generics manufacturers in the MEA, catering to large and growing addressable markets, mainly KSA (~64% of top-line as of 2022), Gulf ex-KSA (~12%), Iraq (~10%), Egypt (~7%), and Others (~7%). These markets are likely to notably benefit from i) structurally attractive demographic conditions including an ageing population, ii) increasing prevalence of chronic conditions, iii) improving access to healthcare, and iv) strong government-led incentives and public investments in healthcare to reduce the dependency on imports (mainly from USA, Europe, China and India) and achieve self-sufficiency (36% in 2021 vs 40% targeted under KSA's Vision 2030), and v) rising coverage of the mandatory medical insurance.

Figure 2: The combined market size in target markets (SARbn)



Source: Euromonitor

Figure 3: The combined market size by therapeutic areas in the target markets (SARbn)



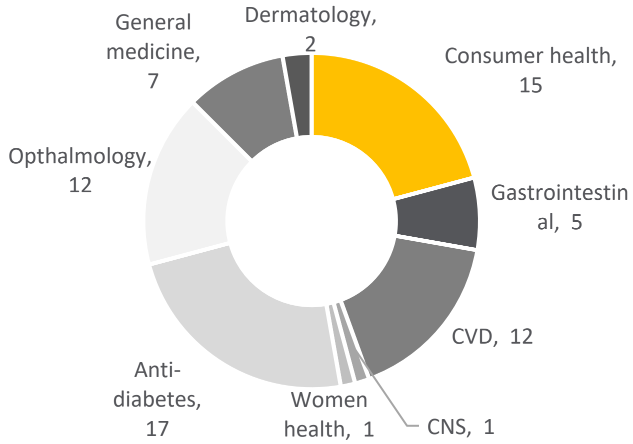
Source: Euromonitor

Consequently, the combined size of the pharmaceutical market in its core sales markets is expected to grow at a CAGR of ~5% over 2021-26e. Most of the growth will be driven by rising demand for Dermatology (+9% CAGR), Consumer Health (+9%), and Gastrointestinal (+7%) products, due to innovative product lunch and changing consumer lifestyles, offering a significant growth opportunity to the local generics, such Jamjoom.

… which bodes well for Jamjoom, aided by its diversified portfolio, strong local brand and robust R&D capabilities

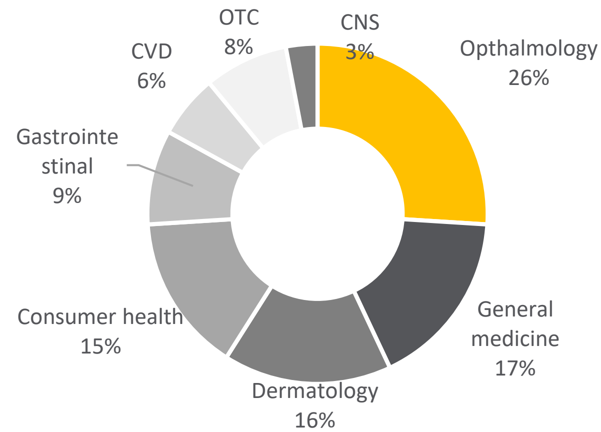
We believe that Jamjoom is well-positioned to capture significant growth in these target markets and across key therapeutic areas, aided by its well-diversified and specialized product portfolio of over 100 brands with a market-leading position across many therapeutic areas, established geographical presence (sells its product in 36 MEA countries), strong local brand, and new product launches. As of June 2022, the company had a large pipeline of 72 new products (26 under development, 29 close to Saudi Food and Drug Authority (SFDA) submission and 17 under review), mainly focusing on Consumer Health, Ophthalmology, Cardiovascular disease, and Anti-diabetes, which is in-line with its plan of expanding into profitable Therapeutic areas.

Figure 4: R&D pipeline (no. of products)



Source: Company data

Figure 5: Product mix (% of revenue, 1H22)

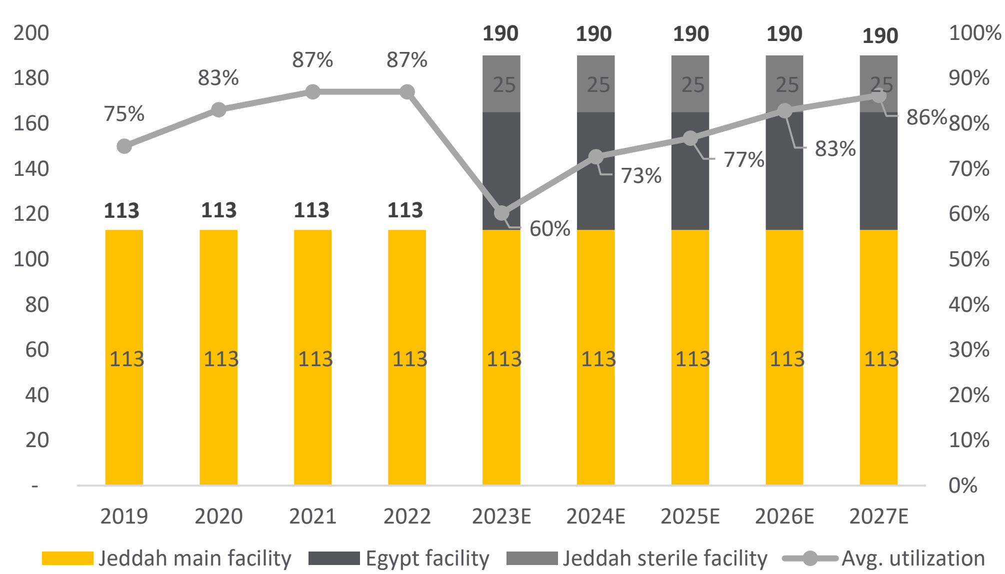


Source: Company data

New expansion projects ensure sustainable volume-driven growth despite pricing restrictions

Jamjoom has an efficient main operating production facility in Jeddah with a total annual production capacity of 113mn (85% utilization as of June 2022). In addition, the company is building two more facilities, one is in Egypt with an annual production capacity of 52mn, and the other is in Jeddah (sterile facility) with an annual production capacity of 25mn. These new facilities are expected to begin production during 2H23, taking the total annual production capacity to 190mn later this year. Post the completion of these expansions, the company will mainly focus more on producing Ophthalmic and Dermatology products (accounting for ~50% of total revenue in 2021), resulting in a change in the product mix going forward. Moreover, these expansions will not only help the company in meeting the growing demand across the therapeutic areas but also enables the company in exporting the products to the North African markets in a cost-effective way.

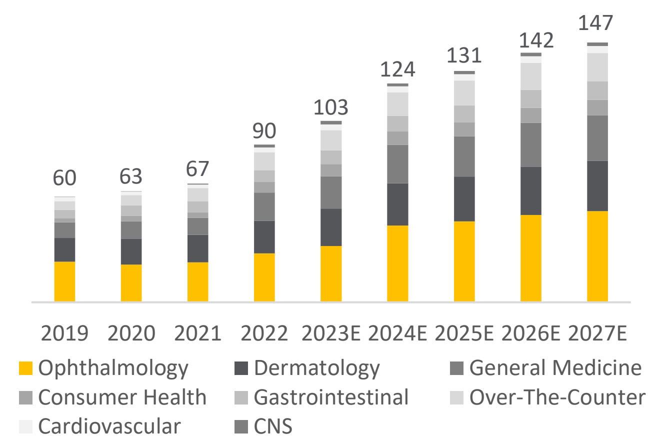
Figure 6: Capacity by plants (units in mn) and overall utilization (%)



Source: Company data, GIB Capital

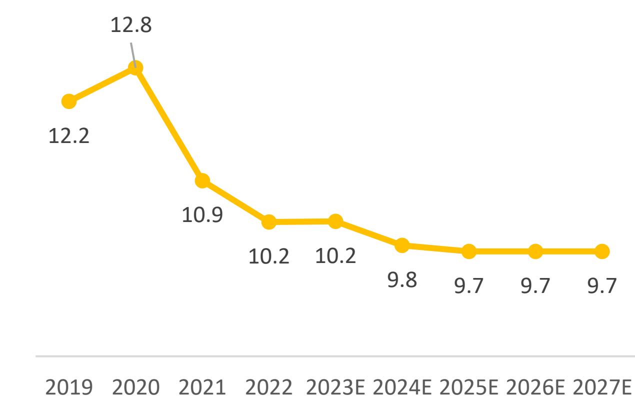
Over the past couple of years, the company spent heavily on building an effective sales and marketing team (qualified pharmacists as per SFDA requirements) to penetrate as well as strengthen its market positioning across its target markets, which will help the company in achieving sustainable volume-driven growth in the coming years, despite the pricing regulations in some of the key markets.

Figure 7: Volume by product (packs in mn)



Source: Company data, GIB Capital

Figure 8: Average prices (SAR/pack)

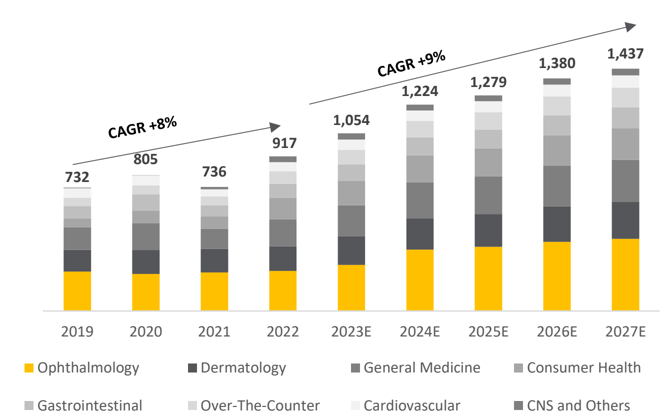


Source: Company data, GIB Capital

However, we expect the ARPU to continue to remain under pressure in the coming years, mainly due to stiff competition and regulatory pressure. In Saudi Arabia, pharmaceutical products are regulated and are subject to price controls, pressures, and other restrictions. The SFDA directly intervenes in setting the prices of pharmaceutical products and has periodically revised the regulated reference prices and margins following a review of global active pharmaceutical ingredient (API) prices and a market analysis relating to products classified as lifesaving or critical drugs. For example, in 2021, the SFDA mandated a decline in the price of certain pharmaceutical products, including some manufactured by Jamjoom.

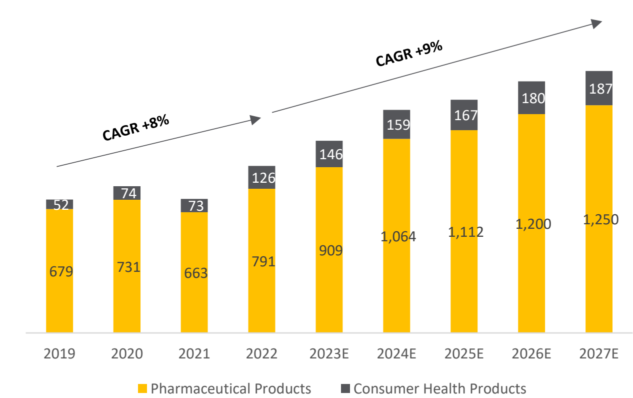
Overall, we expect the top-line to grow by 15% y/y in 2023e (15-17% guidance) and ~12% CAGR (12-15% guidance) over 2022-25e, driven by higher sales volume on new product launches, strengthening the market position in the core areas and increased branding initiatives.

Figure 9: Revenue by product (in SARmn)



Source: Company data, GIB Capital

Figure 10: Revenue by segment (in SARmn)

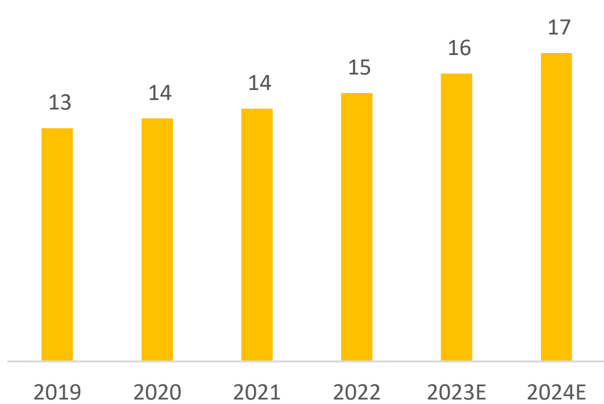


Source: Company data, GIB Capital

Growing Tender contracts to provide a huge additional growth potential

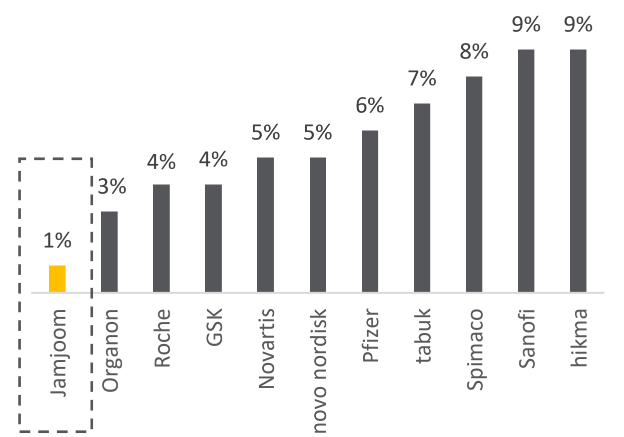
Post implementing the Government Tender and Procurement Law, The National Unified Procurement Company (NUPCO) is authorized to procure all the medicines and supplies for the government and public hospitals from the pharma manufacturers. Currently, the market size of the KSA tender business is estimated at SAR15bn (source: Jamjoom, SPIMACO), which is expected to reach over SAR17bn by 2024e. While Jamjoom's exposure to the KSA tender business is limited with just a 1% market share vs. an 8% market share of SPIMACO and 7% of Tabuk Pharmaceuticals, it contributed to ~10% of revenues (Jan-Nov 2022). The company plans to increase its participation in the government tender by lowering its manufacturing and procurement costs. Further, the company aims to establish a dedicated sales and marketing team, which will explore more opportunities in the public tender market in the KSA and the other key markets (Gulf, Egypt and Iraq). However, the management indicated that the overall revenue contribution from the public tender business will remain stable at the current level.

Figure 11: Tender market (in SARbn)



Source: SPIMACO board report

Figure 12: Market penetration by producers in the KSA tender market

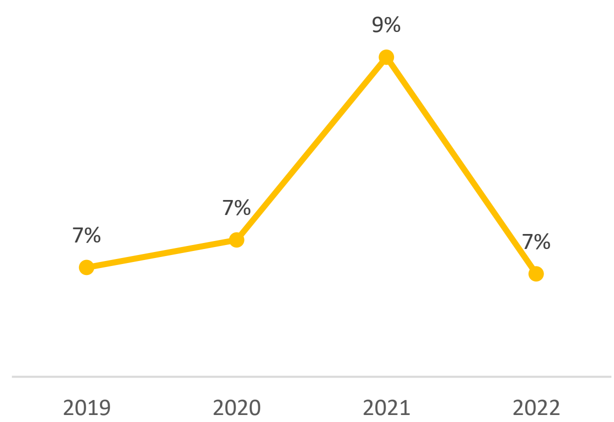


Source: Company data

Egypt – Fastest growing market, although with a risk of currency devaluation

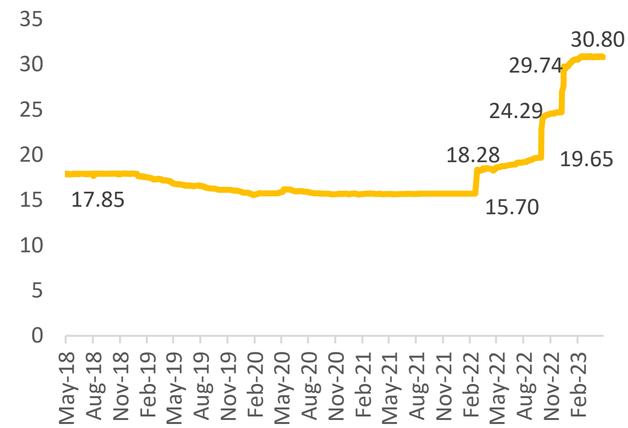
The Egyptian Pharmaceutical market is one of the fastest growing markets with a CAGR of 13.5% over 2019-21, driven by a rising population, improving accessibility of healthcare to a wider population, and an increased number of both private and public hospitals. Going forward, the local market is expected to continue growing at a CAGR of 5.2% over 2021-26e (source: Euromonitor), aided by the mandatory universal health insurance coverage, which was launched in phases by the Egyptian government in Sep 2019. As of July 2022, the government has already onboarded 4.5mn people and plans to cover the remaining citizens by 2032e. Being a key target market, Jamjoom has been strategically investing in the local market (accounting for 7% of total revenues) by setting up a new production facility, which will cater for the growing local demand for generic drugs as well as supply them to the North African markets with effectively lower distribution costs. In addition, the company may receive local advantages in the form of tax and remittance, among others. Accordingly, Jamjoom targets to transfer 100% of business for oral solids, dermal and ophthalmic (non-BFS) products to JP Egypt over the coming five years, while for the other products, JP KSA will continue to export products to the Egyptian market.

Figure 13: Egypt's revenue contribution to total revenue



Source: Company data

Figure 14: USDEGP movement



Source: Bloomberg, GIB Capital

However, the high dependency on imports of feedstock (APIs), and the recent devaluation of the Egyptian currency may act as headwinds for the company. The company incurred losses of SAR7.5mn in 1H22, mainly due to higher wages & salaries (mostly related to increased hiring for the new facility), increased sample distribution to grow the local market presence, and higher foreign exchange losses. The Egyptian Pound depreciated by ~23% (on an average basis) in 2022, resulting in currency-exchange losses worth ~SAR49mn related to its interest-free loans given to its Egyptian subsidiary for the construction of a new facility. In 4Q22, to prevent a further impact on the financials, the company converted this loan to an investment in equity repayable at a future date determined at the discretion of the subsidiary. Consequently, any future exchange gain/losses will now be charged to the comprehensive income, instead of recording it in the income statement. Further, the Egyptian government has been actively supporting local producers by allowing them price hikes for some products to offset the devaluation impact to some extent.

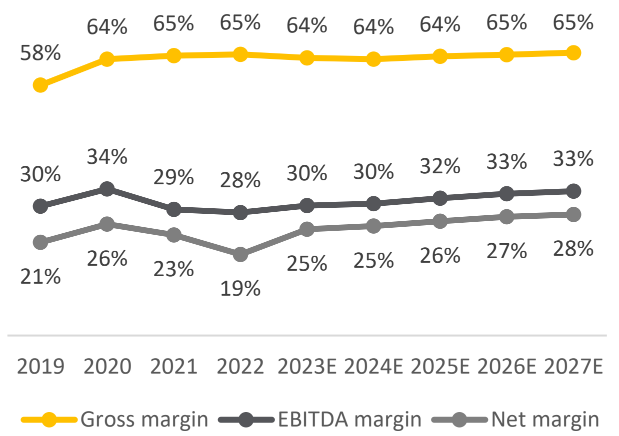
Margins to remain mostly firm, although might lower slightly in 2023-24 due to ramping up phase

Despite the supply chain issues during the pandemic period, the company has been consistently generating industry-leading margins, with gross and EBITDA margins ranging from 64-65% and 28-33%, respectively, over the past three years. While reclassification of R&D costs, change in the depreciation policy, and discount factors led to slight volatility in margins in the recent past, the company's focus on mostly high-margin products, and optimizing operations and workforce will keep the margins firm over the medium term.

However, for the near term, we expect a slight pressure on gross margin in 2023-24 before it starts improving gradually from 2025, given the ramping up phase of new plants (likely to start in 2H23), and additional depreciation charges related to these expansions. Further, increased participation in the public tender business will limit the margin expansions as it generates a lower gross margin (30-35% vs. ~65% group margin in 2022).

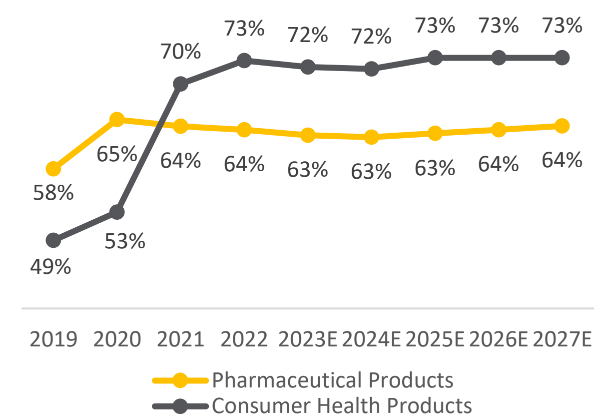
By segment, we expect consumer health products would continue to generate a higher gross margin of 72-73% compared to pharmaceutical products (63-64% margin) in the coming years. Further, we expect the EBITDA margin to remain mostly stable at ~30% in 2023-24, in line with the management guidance.

Figure 15: Gross, EBITDA, and net margins



Source: Company data, GIB Capital

Figure 16: Gross margins by segment

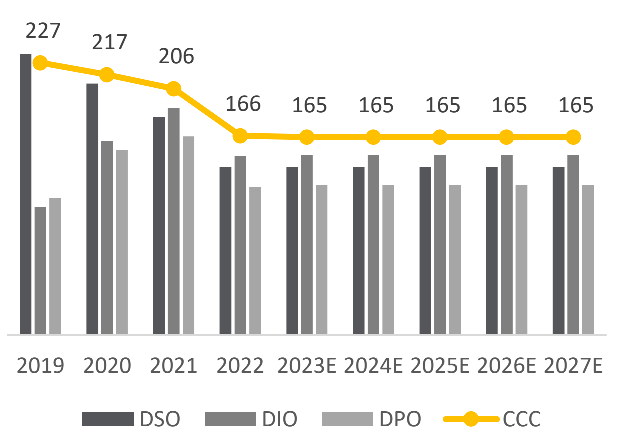


Source: Company data, GIB Capital

Improving working capital management

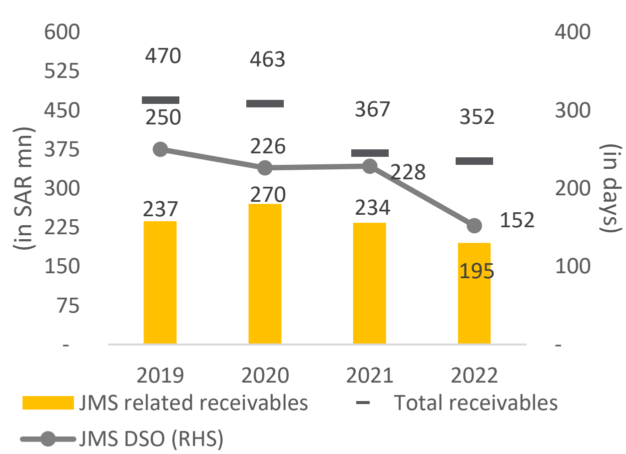
The company has shown a continuous improvement in the cash conversion cycle over the past few years, primarily due to i) improved collection policies, mainly for Jamjoom Medicine Store (JMS; largest distributor; related party) and ii) favorable payment terms. Going forward, we expect the company to continue following prudent working capital management, which will allow the company to quickly convert the invested cash. While growing business with Nupco (public tender business) may lead to a delay in the collection cycle (~180 days as per the payment terms), we see a limited impact on the working capital, due to the company's limited exposure and contribution to the top line.

*Figure 17: Cash conversion cycle (Days)**



*Source: Company data, GIB Capital. * Historical data are calculated*
Note: DSO – Days sales outstanding, DIO – Days inventory outstanding, DPO – Days payable outstanding, and CCC- Cash conversion cycle

Figure 18: JMS portion of amounts due from related parties

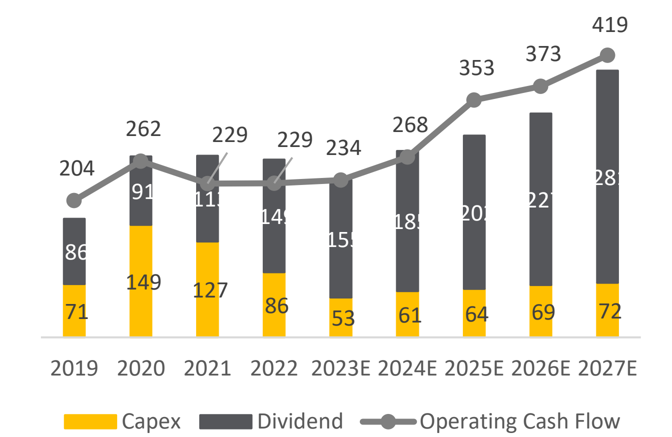


*Source: Company data, GIB Capital. * Historical data are calculated*

Robust financial position amid lower capex to ensure healthy dividend payouts

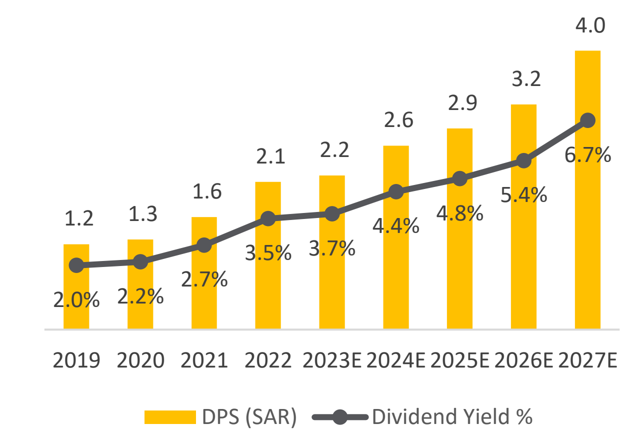
Jamjoom has been generating healthy operating cash flows (SAR230mn on average over 2019-22), with the company comfortably meeting its capital expenditure (CAPEX) requirements (SAR112mn annual capex on average) without any need for external funding. The company has been spending a significant capex from 2019 to construct two new facilities (Egypt Main Facility and Jeddah Sterile Facility). However, given most of the growth capex has already been spent, we expect a significant reduction in capex, starting in 2023. Hence, we expect the capex-to-sales ratio to be at 5% during the forecasted period, lower than the historical 4-year average of ~13%, but in line with the management guidance of 4-6%. Overall, strong cash flow, along with a robust debt-free balance sheet, provides notable headroom for future growth as well as improving dividends in the coming years.

Figure 19: Cash flows, dividend, and capex (SARmn)



Source: Company data, GIB Capital

Figure 20: DPS and dividend yields



Source: Company data, GIB Capital

Historically, the company, on average, paid 63% of net profit as dividends (SAR1.6 average DPS) over 2019-22. Going forward, the company is expected to continue to pay 50-60% of earnings as dividends (mostly semi-annually), subject to market conditions, implying a DPS of SAR2.2 (3.7% yield) and SAR2.6 (4.4% yield) for 2023e and 2024e, respectively. Over the medium term, robust cash flow generation amid limited capex requirements should allow the company to steadily improve the payout in our view.

Valuation and risks

We use an equal mix of P/E multiple and DCF methods for valuing the company. Relative valuations: For PE valuation, we use a 17x multiple on 2024 EPS and arrive at a relative valuation-based target price (1 year forward) of SAR78/share.

As for DCF, based on a WACC of 10%, we get SAR71/share as the DCF target price. We arrive at a weightage average target price of SAR75/share (rounded off). We initiate on the company with an Overweight rating.

Figure 21: DCF Valuation

SAR mn	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
EBIT	279	334	365	409	434	437	441	442
Taxes	*(22)*	*(27)*	*(29)*	*(33)*	*(35)*	*(35)*	*(35)*	*(35)*
EBIT minus taxes	**257**	**307**	**336**	**376**	**399**	**402**	**405**	**406**
(+) Depreciation & amortization	37	38	40	41	43	45	47	49
(+/-) Change in working capital	(62)	(79)	(25)	(47)	(26)	(3)	(3)	0
(-) Capex	(53)	(61)	(64)	(69)	(72)	(72)	(73)	(73)
(-) Lease payment	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Free Cash Flow to Firm	**178**	**204**	**286**	**301**	**345**	**372**	**377**	**383**
Terminal value								**6,102**
PV of FCF (explicit period)	1,558							
PV terminal	3,131							
EV	**4,689**							
(-) Debt, incl. lease liabilities	(3)							
(+) Cash	141							
(-) Minority	0							
(-) Pension/other liabilities	(62)							
(+) Investments	7							
Equity value	**4,772**							
Number of Shares (mn)	70							
Equity value per share (SAR)	68							
Target price (one year forward) (SAR)	**71**							
Cost of Equity	10.0%							
Cost of debt	0.0%							
Target D/A	0.0%							
WACC	10.0%							

Source: GIB Capital

DCF sensitivity analysis

Figure 22: Sensitivity of terminal growth rate and WACC

		Terminal growth				
		3.0%	**3.3%**	**3.5%**	**3.8%**	**4.0%**
WACC	**8%**	95	99	103	108	113
	9%	79	82	84	87	91
	10%	68	70	**71**	73	75
	11%	59	60	62	63	65
	12%	53	54	55	56	57

Source: GIB Capital

Peer multiples: The global peers are trading at a median of 14x PE (1Y forward). However, we believe that the stock deserves a premium, given its i) strong top-line growth (15% for 2023; 12% CAGR over 2022-25e), and ii) industry-leading margin profile (65% gross margin vs. ~44% peers). Based on the 17x target multiple and 2024e EPS, we derive the fair value of SAR78 per share.

Figure 23: Peer valuations

	Country	Mkt Cap (USDmn)	P/E Ratio (TTM)	Est P/E Current Yr	P/E - FY2	EV/T12 M EBITDA	Est. EV/ EBITDA - 1FY	Dividend Yield - FY1	P/B
Spimaco	KSA	1,388	N.A.	N.A.	N.A.	N.A.	72x	1.4	3.3
Perrigo Co PLC	Ireland	4,655	105x	13x	11x	11x	12x	3.4	1.0
Hikma Pharma	Jordan	5,348	29x	13x	12x	7x	8x	2.6	2.4
Sanofi India Ltd	India	1,907	25x	N.A.	N.A.	21x	N.A.	3.0	12.5
Aspen Pharma	South Africa	4,582	13x	12x	10x	10x	9x	1.9	1.1
Astra Industrial	KSA	1,888	21x	20x	17x	13x	14x	2.9	3.6
GlaxoSmithKline	India	2,932	40x	37x	34x	28x	28x	2.1	13.8
Novartis AG	Switzerland	230,745	31x	15x	14x	12x	13x	3.6	4.1
Ajanta Pharma	India	2,250	32x	26x	22x	22x	18x	0.8	5.5
Ningbo Menovo	China	548	15x	11x	9x	N.A.	8x	N.A.	1.8
Sinopep-Allsino	China	1,146	63x	59x	45x	N.A.	32x	N.A.	4.3
FDC Ltd/India	India	620	26x	N.A.	N.A.	19x	N.A.	N.A.	2.6
Median		**2,078**	**29x**	**15x**	**14x**	**13x**	**14x**	**2.6**	**3.4**
Jamjoom		**1,120**	**25x**	**16x**	**133x**	**16x**	**13x**	**3.7**	**3.5**

Source: Bloomberg, GIB Capital. As of 19 June 2023

Figure 24: Relative valuations and Average valuations

P/E based valuation			**Valuation (SAR)**	
P/E	17x		PE	78
EPS 2024 (SAR)	4.4		DCF	71
1yr fwd PE-based price (SAR)	**78**		**Average**	**75**

Source: GIB Capital

Risks

- **Dependency on limited number of distributors**: If any distributors encounter financial or other difficulties, then it may lead to delay in collection. Furthermore, the concentration of wholesale distributors through mergers and acquisitions or dependency on one or small number of distributors (JMS account more than 50% of sales) may result in such distributors gaining additional purchasing leverage, which may increase pricing pressure on the company's products and thereby affecting the financial performance.
- **Supply chain concentration:** A significant portion of the company's raw materials come from a relatively small number of suppliers (top 10 suppliers account ~42% of purchase value as of 2021) and If any suppliers were to terminate or fail to renew its supply agreement with the Company, or renew it on less favorable terms it may negatively impact the company operations, financial position.
- **Regulatory risks:** Pharmaceutical products are generally regulated and are subject to price controls and other restrictions by the government bodies. In case of any repricing in product prices due to the government's intervention may impact the company's top-line

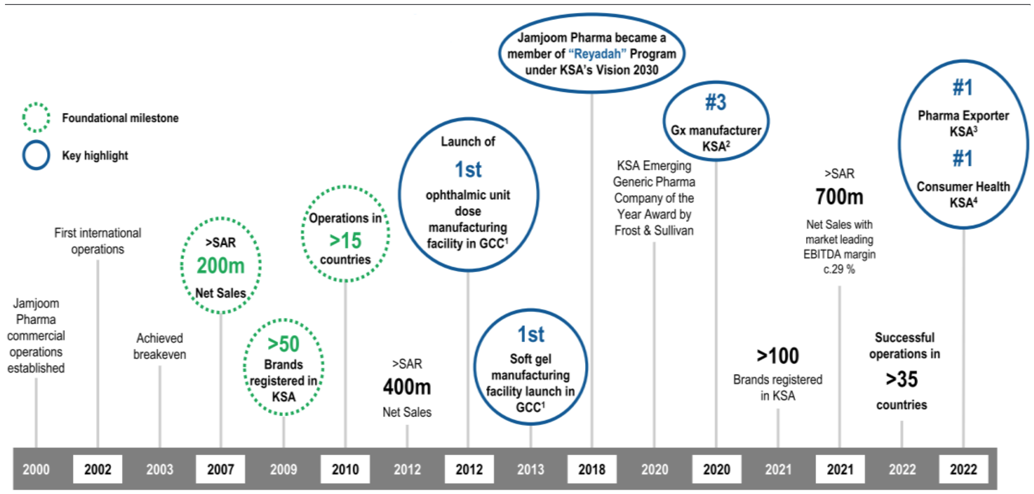
and margins, thereby by valuation. In addition, any unfavorable change in import/export laws (custom duties, anti-dumping duties among others) in the target markets may significantly impact the company’s business.

- **Delay in expansion projects:** We assume that the company’s two expansion projects will begin the commercial production in 2H23. Any delay in the commencement of these facilities may negatively impact our forecasts and may lead to a downward revision in our TP.
- **Currency fluctuation:** Jamjoom imports certain products and raw material from suppliers outside Saudi Arabia in foreign currency (primarily in EUR), and exports finished products from its manufacturing facilities in Saudi Arabia to its markets abroad. Any depreciation of the Saudi Riyal against foreign currencies not pegged to the Saudi Riyal will lead to an increase in the company’s operating costs, and fluctuations in foreign currencies against the Saudi Riyal may have a negative impact on the Company’s revenues and costs (as witnessed the recent impact of devaluation of USDEGP on the company’s financials).

Company Profile

Jamjoom Pharma ("Jamjoom") is one of the leading manufacturers of pharmaceuticals in KSA as it has been engaging in its activity since 2000 (>20 years) with the aim to provide high-quality pharmaceutical products to its consumers. The company's main business activities comprise the development, manufacturing and marketing of a wide range of branded generic pharmaceutical products. The company markets its products in 36 countries across the Middle East, Africa and the Commonwealth of Independent States and carries out its most significant operations and sales in the Kingdom, Egypt, Iraq, and UAE. The company generates revenue from the sale of its pharmaceutical products to distributors, who purchase the products directly and resell them onward to downstream customers such as hospitals, pharmacies, doctors and other healthcare providers.

Figure 25: Jamjoom key milestone



Source: Company data, GIB Capital

Notes: 1 Gulf Cooperation Council; 2 According to IQVIA 2021 ranking; 3 According to IQVIA 2019-2021 ranking, calculated as total export revenue in the main Jamjoom Pharma markets for each company on the aggregate basis over 2019-2021; 4 #1 player in all therapeutic sub-categories where Jamjoom Pharma operates in KSA, according to YTD May 2022 IQVIA ranking, MAT figures

Ownership structure

Figure 26: Ownership pre and post-Offering

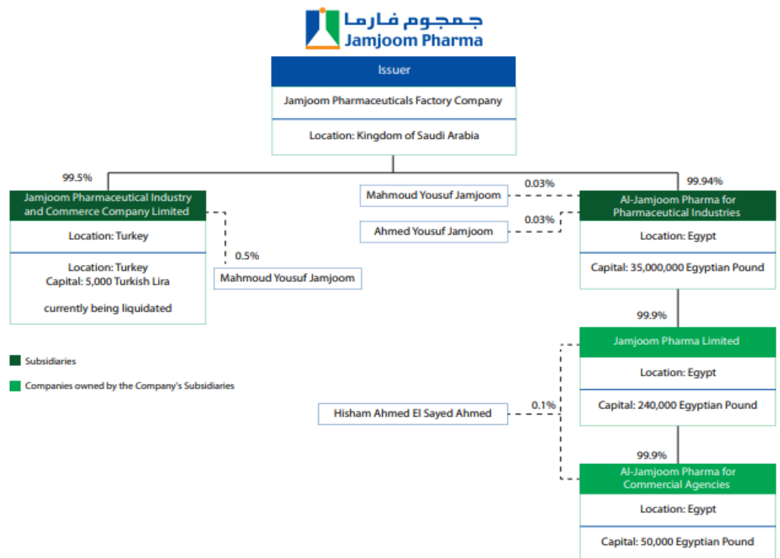
Shareholders	Pre-Offering	Post-Offering
Yousuf Mohammed Salah Jamjoom	59.5%	41.7%
Mahmoud Yousuf Mohammed Jamjoom	8.0%	5.6%
Walid Yousuf Mohammed Jamjoom	6.5%	4.6%
Mohammed Yousuf Mohammed Jamjoom	6.5%	4.6%
Ahmed Yousuf Mohammed Jamjoom	6.5%	4.6%
Alaa Yousuf Mohammed Jamjoom	6.5%	4.6%
Sanaa Yousuf Mohammed Jamjoom	6.5%	4.6%
Public	-	30.0%
Total	**100.0%**	**100.0%**

*Source: Company data, GIB Capital *Percentages has been rounded*

Subsidiaries

The company currently owns three subsidiaries in Egypt through direct and indirect shareholdings, accounting for ~7% of the company's total revenue in 2022. The company also has a subsidiary in Turkey, Jamjoom Pharmaceutical Industry and Commerce Company Limited, which is currently in the process of liquidation.

Figure 27: Subsidiaries



Source: Company data, GIB Capital

Products overview

As the company's business model focuses on generic products which are not protected by patents or other form of IP protection, being the first entry producer is important as it will have a lead in price as per regulation. The company developed and manufactured more than 100 different pharmaceutical products across eight therapeutic areas. The following table summarizes the company portfolio:

Figure 28: Categories of products as of 1H22

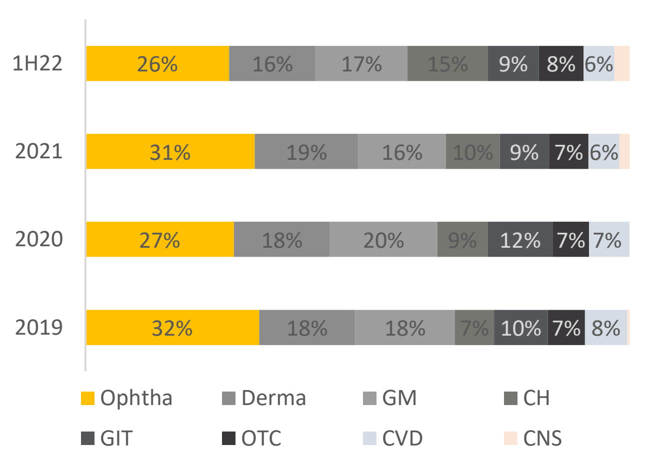
Therapeutic segment	No. of Brands	Selection of Brands
Ophthalmology	26	Hyfresh, Xolamol, Optidex-T, Tymer
Dermatology	14	Elica, Acretin, Lamifin, HiQuin
Gastrointestinal (GIT)	5	Dompy, Meva, Aciloc, Zoron
Cardiovascular (CVD)	9	Amvasc, Astatin, Lisino
General Medicine (GM)	15	Relaxon, Prima D3, Azi-Once
Central Nervous System (CNS)	8	Sequit, Lavie, Sumarex
Over the Counter (OTC)	10	Triopan, Contra, Betasept, Miragel, Rexofil
Nutraceuticals/Consumer Health (CH)	31	JP Vitamin D3, JP Omega 3, JP Melatonin

Source: Company data, GIB Capital

- Ophthalmology: One of the first to develop manufacturing capabilities in the Saudi market. The Company owns two sterile manufacturing units that produce all forms of ophthalmology products, such as multi-dose bottles and unit dose “Hyfresh UD”. Key products within the segment include dry eye products, miotics antiglaucoma prep, and anti-infectives-eye medications. The segment is the top contributor to Jamjoom revenues (31% as of 2021) and holds ~21% markets share in KSA private market as per Euromonitor. The largest product under this category is Hyfresh, an ophthalmic drop-based solution used to treat dry eye symptoms (17% market share in KSA as per IQVIA), with 5.3m units sold in 2021, and contributes over 40% of the category's revenue.

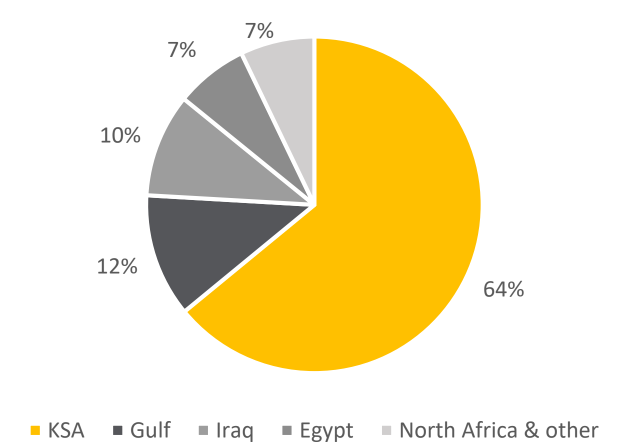
- Dermatology: Portfolio offering a range of creams and ointments for skin conditions which consisted of 23 stock-keeping units (SKUs) under 14 brands and in 30 countries. Second top contributor on topline (19% as of 2021), holds a 7% share (Second place) in the KSA private market as per Euromonitor. The flagship under the category is Elica, an anti-inflammatory, antipruritic, and anti-allergic cream, which holds 57% market share in KSA (as per IQVIA) with 10.6mn units sold in 2021.
- Gastrointestinal: The majority of the Portfolio consists of over the counter (non-prescription) products, with 10 SKUs under 5 brands. Key products include antiemetics, antinauseants, gastroprokinetic, and antiulcerants under brand names such as Dompy (4mn units sold in 2021), Meva (1mn), and Zoron (282k). The segment contributes around 9% of the topline (2021) and holds ~6% markets share in KSA private market as per Euromonitor (Forth place).
- Cardiovascular: Consists of 34 SKUs under 9 brands where the key products include calcium antagonists plain, lipid lowering medications and beta blocking agent plain under brand names such as Amvasc (1.1mn units sold in 2021) and Astatin (863k).
- General Medicine (GM): Key products include muscle relaxants, central and antirheumatic non-steroids under brand names such as Relaxon (4m units sold in 2021), Prima D3 (1.9m) and Ciproxen (549k). The product is a third top contributor to the top line (16% as of 2021) and holds 2% of the KSA private market as per Euromonitor.
- Central Nervous System (CNS): Recent therapeutic area entry with a low revenue contribution (2% as of 2021) and selling only in the Saudi market. The portfolio consisted of 8 brands which include antipsychotics, anti-epileptics, antidepressants and mood stabilizers.
- Over the Counter: OTC is medicine that can be purchased without a prescription from physicians. OTC portfolio consisted of 15 SKUs under 10, with key products within the include Triopan syrup, Contra soft gel capsules, Betasept mouthwash and vaginal douche, Miragel oral gel, Rexofil tablets and Flexall Plus topical cream.
- Nutraceuticals/Consumer Health: Products include dietary supplements and eight vitamin categories: omega, slimming, herbal extracts, antioxidants, beauty, vitamins, immunity and energy Products. The segment includes 31 brands, contributes 10% of the top line, and holds a 5% share in KSA private market as per Euromonitor. Omega, and Vit-D3, account for ~36% of the category's revenues.

Figure 29: Revenue mix



Source: Company data, GIB Capital

Figure 30: Majority for Rev. is coming from KSA 64% (as of 2022)

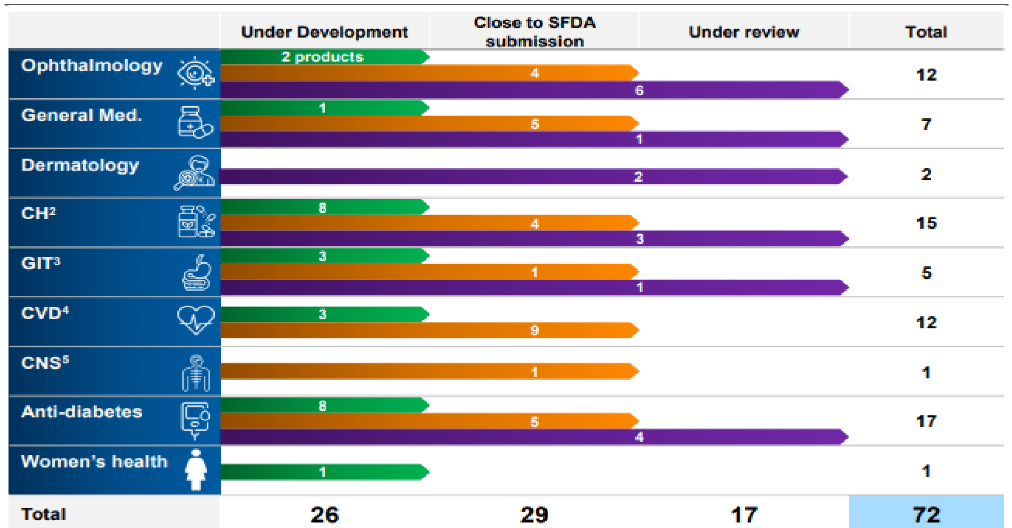


Source: Company data, GIB Capital

Product Pipeline:

The R&D team has the capacity to develop 12 to 15 products per year as per the management. In 2021, 17 products have been launched and currently, 24% of the pipeline has been submitted for approval to the SFDA. Furthermore, the management plans to roll out a wide range of anti-diabetes products, with expected launches into the market between 2022 and 2024.

Figure 31: Status of new products, the current average approval time is 13 months (vs 24 in 2018)



Source: Company data, GIB Capital

Facilities & Expansions

Overview: The company's primary operating production facility is located in Jeddah with an annual capacity of 113mn units. Jamjoom is currently developing a sterile manufacturing facility (25mn capacity) in Jeddah, and another facility in Egypt (52mn); both plants are scheduled to begin commercial production during the second half of 2023 (SAR362mn invested as of 2021). All 3 facilities are powered by advanced machinery and manufacturing lines from manufacturers such as Bosch, Getinge and Steris.

1. Jeddah main facility: This facility currently occupies a land of approximately 46,500 square meters, with a built-up area of 19,000 square meters. It has a production capacity of 113mn units. The Jeddah main facility is capable of producing a wide range of pharmaceutical products, including:
    - Solid Doses - Tablets and Capsules
    - Sterile Doses - Eye drops and injections
    - Oral fluids - canned and regular drinks
    - Multiple Dosage Forms - Dry Suspension Powder
    - Dermal creams, ointments and gels
    - Form, fill and seal facility - sterile eye drops, single and multiple doses
    - Soft gelatin capsules
2. The Jeddah sterile facility: In 2019, the company started building a new sterile facility near the existing main facility, which will focus on producing ophthalmic products and will triple the company's unidose production capacity. The facility has been planned to provide

additional manufacturing capacity for the sterile products. This facility has two lines for ophthalmic products, with an annual production capacity of 25mn (on a shift of 8 hours basis):

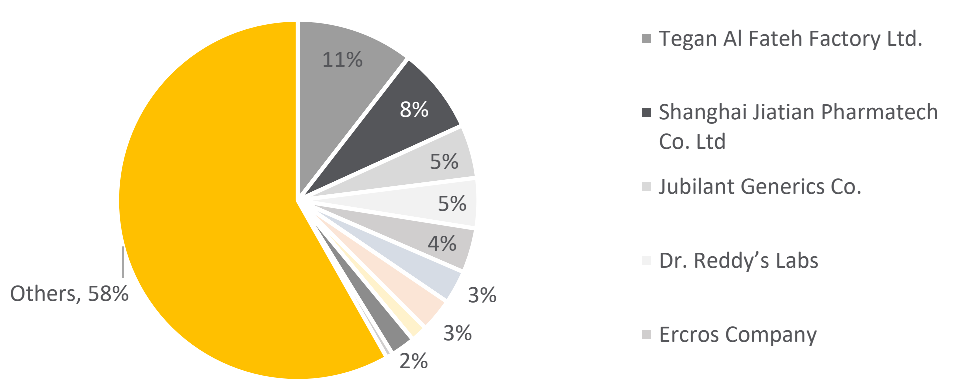
- 1.52mn units of eye drops
- 20mn units of multi-dose bottles
- 3.28mn of injections

3. The Egypt main facility has the following three production lines with a total annual capacity of 52mn.
   - Oral solid dosage forms (e.g., tablets and capsules), with a production capacity of 21.6mn units annually
   - Dermal products, with a production capacity of 14.4mn units annually
   - Sterile dosage forms (ophthalmic eye drops), with a production capacity of 15.8mn units annually

The Egypt Main Facility will serve as a backup and flexible production site for the current Jeddah plant. It is also intended to become the hub for production and distribution of the company's entire product range across all African markets served by the company (enjoying the lower shipping & distribution cost). By locating the manufacturing facility in Egypt, the company will also become a local producer in that country, allowing the company to benefit from regulatory incentives offered by the Egyptian government. Currently, the Egyptian government prohibits global manufacturers from registering more than a fixed number of products in the country. However, once the Egypt Main Facility is operational in 2H23, this cap will be lifted, helping the company to offer its full range of products in Egypt and benefit from additional sales in Egypt.

Suppliers: The most significant raw material used in the manufacturing process are API, which comprised 74% of all raw material purchases in 2021. The other key materials include excipients, EGC and coating materials. Around 90% of the required raw materials (APIs) are supplied from external sources as there is only one local API manufacturer in the Kingdom. The company procures a significant portion of raw materials from a relatively small number of suppliers with the top five suppliers together supplying ~42% of the total finished API requirements in the same period.

Figure 32: Supplier base breakdown (as of 2021)



Source: Company data, GIB Capital

Distributors: A significant portion of the company's sales have been made to a relatively small number of distributors, with the five key distributors accounting for about ~86%, ~81% and ~90% of the Company's total income for 2020-21, and 1H22, respectively. Jamjoom Medicine Store is the largest distributor (related party), accounting for 54%, 51% and 54%, respectively during the same period.

Strategy: Is formed of the following 5 key pillars providing a framework for working towards the realization of the company's Vision and Mission.

1. Focus on driving growth in key markets
2. Portfolio optimization in new and existing therapeutic areas
3. Capturing the potential of regional tender opportunities
4. Drive operational effectiveness and enhance governance
5. Developing, nurturing and retaining talent

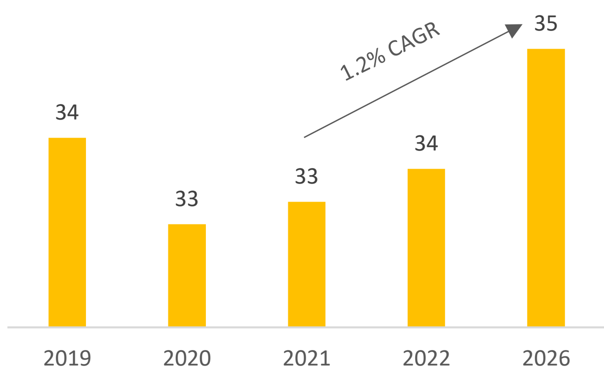
Market Dynamics

Saudi Arabia

In 2021, the Saudi pharmaceutical sector was worth SAR30.5bn, growing at a CAGR of 6.3% since 2019 and is expected to grow at a CAGR of 5.4% between 2021 and 2026 to reach SAR39.6bn. The growth is supported by positive macroeconomic factors, such as population growth, an ageing population, an increase in noncommunicable diseases and healthy Government spending to improve public healthcare. The population aged 65 years and above is expected to grow at a 2021-26 CAGR of 6.7% compared to total population growth of 1.2% in the same period.

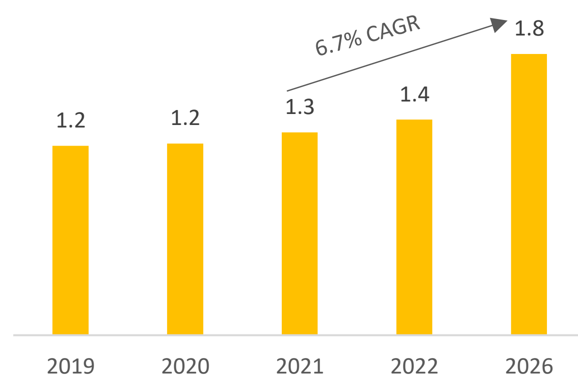
Currently (2021), locally produced pharmaceutical end-products account for ~36% (vs 30% in 2018) of the total sales, and one of the initiatives of Vision 2030 is to increase the contribution of locally produced pharma end-products to 40%. The KSA government is also encouraging technology and research-driven partnerships with global Big Pharmaceutical giants such as AstraZeneca and Pfizer while signing an MoU with GlaxoSmithKline (GSK) for local manufacturing and technological transfer.

Figure 33: KSA total population (mn)



Source: Company data

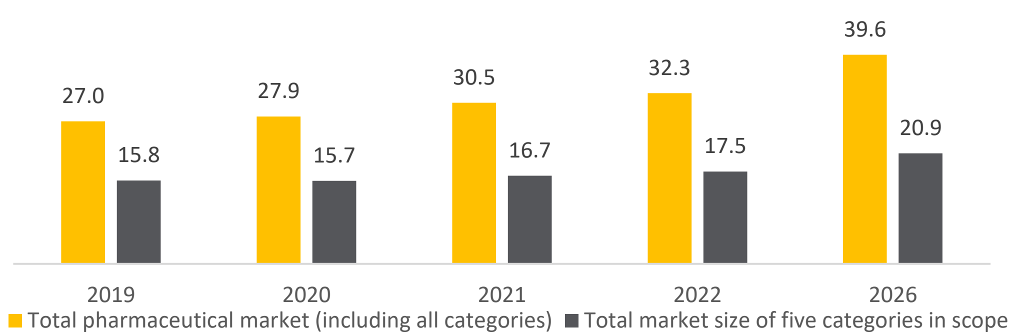
Figure 34: KSA ageing (65 & above) population (mn)



Source: Company data

The five pharmaceutical categories—Ophthalmology, Dermatology, General Medicines, Gastrointestinal products, and Nutraceuticals grew at a CAGR of 2.9% from 2019 to 2021, reaching SAR16.7bn (c.55% of the total market) in 2021 and is expected to grow at a CAGR of 4.6% (vs 5.4% for the entire market) to reach SAR20.9bn (US$5.6bn) by 2026, i.e., nearly 50% of the total market, down from 55% in 2021.

Figure 35: KSA, Pharmaceutical market size (SARbn)

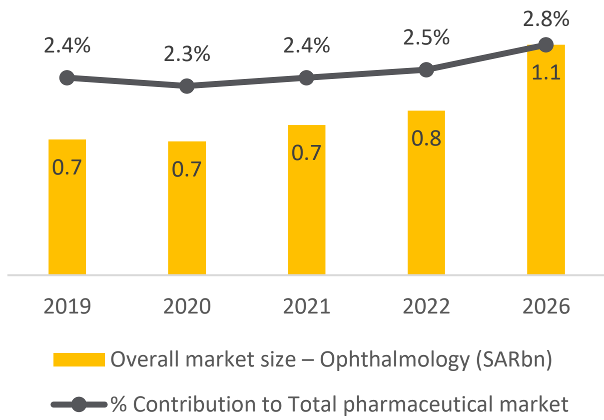


Source: Company data

Ophthalmology

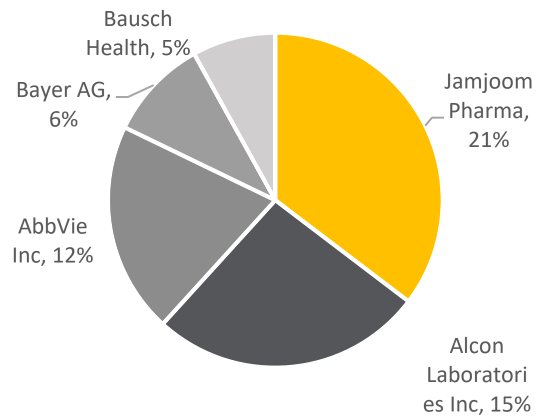
Ophthalmology grew at a CAGR of 5.2% during 2019-21 and is expected to grow at a CAGR of 8.9% to SAR1.1bn by 2026. Increased urbanization and growth in the ageing population, along with rising investments by multinational companies in the Kingdom, are expected to be the key drivers for growth over the forecast period. The top five players contributed 58.3% of the total market in 2021, with Jamjoom leading the pack with a 20.6% market share.

Figure 36: Ophthalmology market size (bn)



Source: Company data

Figure 37: Ophthalmology market share of the top 5 companies

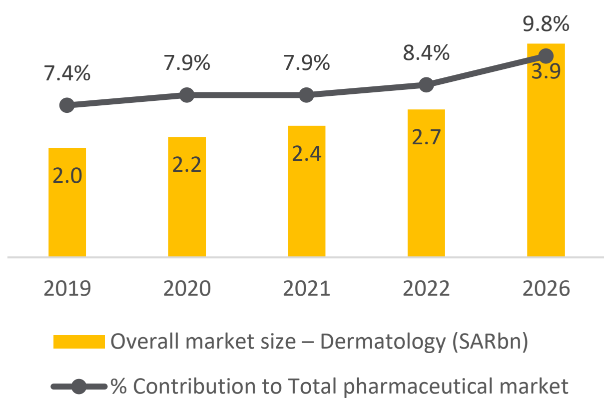


Source: Company data

Dermatology

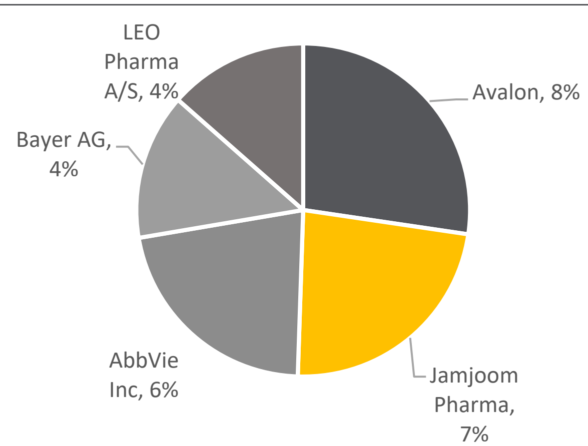
Dermatology increased at a CAGR of 9.5% over 2019-21 and is likely to rise at a CAGR of 10.2% to SAR3.9bn by 2026. An increase in disposable incomes that allowed for more expenditure on overall skin health and dermatology products, population growth, and a rising number of women in the workforce are some of the key drivers for the growth. The dermatology market in the Kingdom is highly competitive, with over 80 companies vying for a share of the pie. The top five players contributed 28.9% of the total market in 2021, with Jamjoom being runner-up at 6.7% market share.

Figure 38: Dermatology market size (bn)



Source: Company data

Figure 39: Dermatology market share of top 5 companies

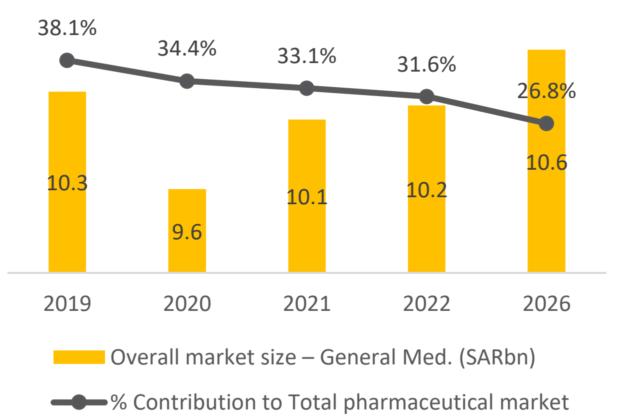


Source: Company data

General Medicines

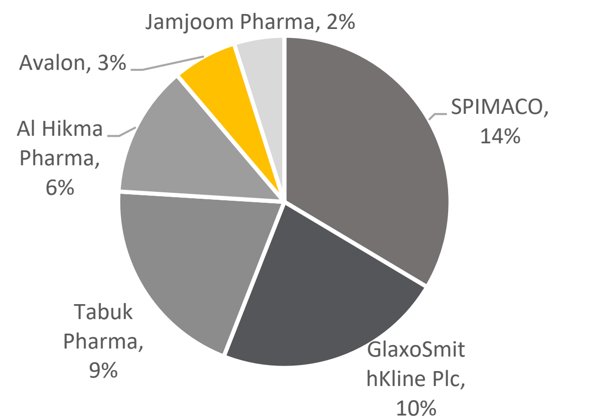
General Medicines declined at a CAGR of 1% during 2019-21 but are expected to grow at a CAGR of 1% to SAR10.6bn by 2026. The decline was largely due to supply chain disruption caused during the COVID-19 pandemic, which had a domino effect on this category including timely sourcing of Active Pharmaceutical Ingredients (APIs), the key raw material in manufacturing medicines. The top five players contributed 43% of the total market in 2021, with Jamjoom being at the bottom of the list at 2.1% of the market share, while SPIMACO, which accounts for 14.4% of the market, leads the pack.

Figure 40: General Medicines market size (bn)



Source: Company data

Figure 41: General Medicines market share of the top 5 Co.

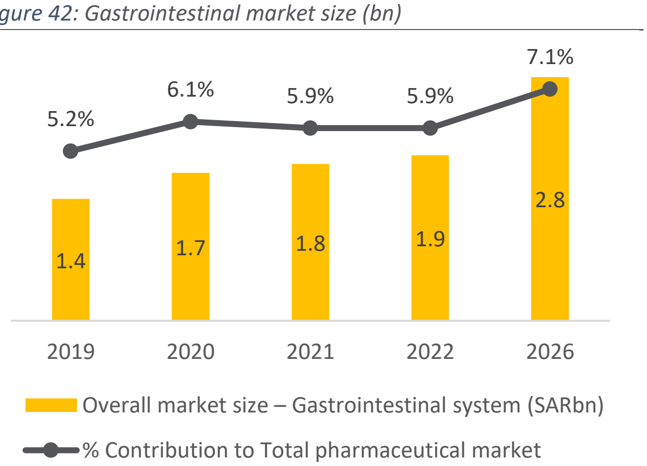


Source: Company data

Gastrointestinal Medicines

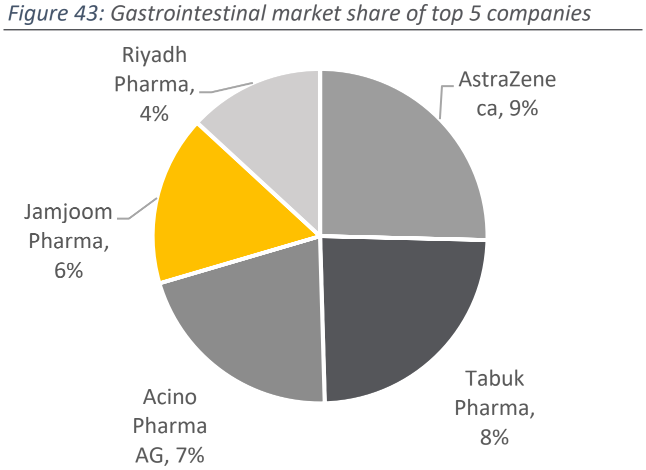
Gastrointestinal Medicines increased at a CAGR of 13.4% during 2019-21 but are expected to grow at a CAGR of 9.2% to SAR2.8bn by 2026. This category grew faster in the 2019-21 period vs. forecast because, during the pandemic, work-from-home routines led to a decline in physical activity and higher food consumption, resulting in increased demand for gastrointestinal products. The top five players contributed 33.6% of the total market in 2021, with Jamjoom being the second last in the list with a 5.5% market share in 2021.

Figure 42: Gastrointestinal market size (bn)



Source: Company data

Figure 43: Gastrointestinal market share of top 5 companies

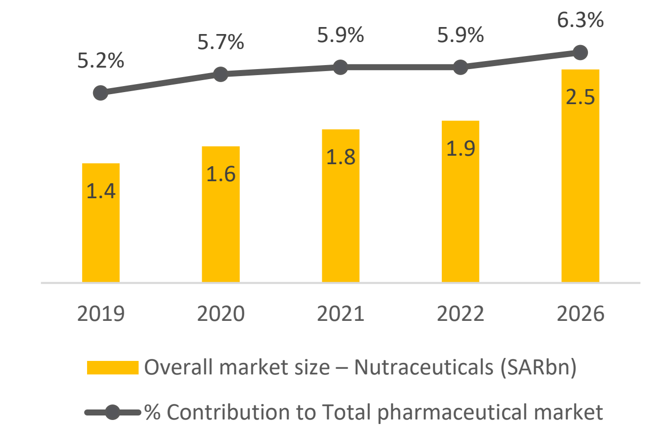


Source: Company data

Nutraceuticals

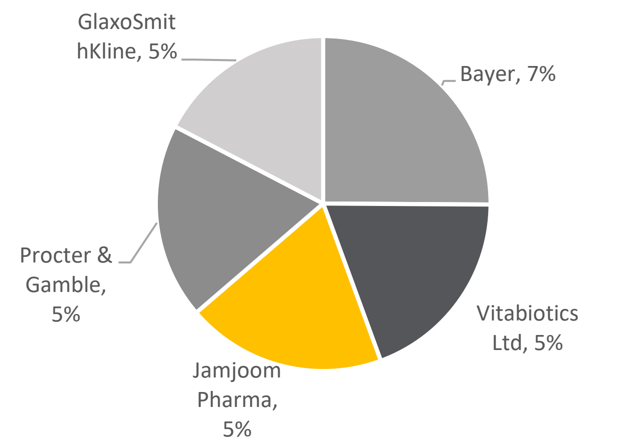
Nutraceuticals Medicines increased at a CAGR of 13.4% during 2019-21 but is expected to grow at a CAGR of 6.8% to SAR2.5bn by 2026. Rising consumer awareness of health and well-being during the COVID-19 pandemic was the primary growth driver. Subcategories such as diabetic care and vitamins performed strongly, particularly driven by vitamin C due to the general perception that it boosts the immune system and hence, reduces the symptoms of COVID-19. The top five players contributed 26% of the total market in 2021, with Jamjoom being the third in the list with a 5% market share in 2021.

Figure 44: Nutraceuticals market size (bn)



Source: Company data

Figure 45: Nutraceuticals market share of top 5 companies

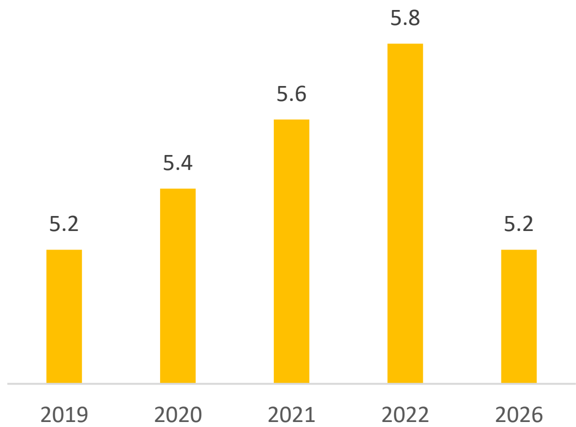


Source: Company data

Egypt

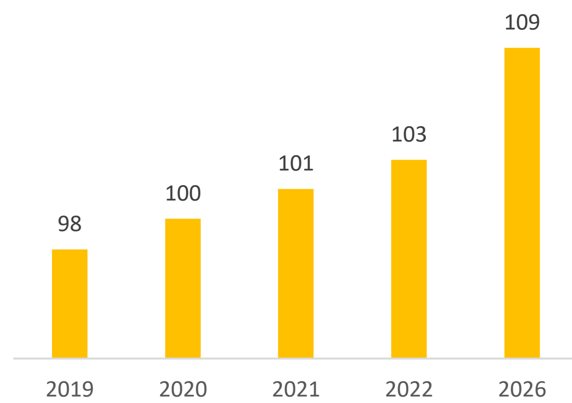
Egypt's pharmaceutical market is expected to grow at a CAGR of 5.2% between 2021-26 to reach SAR31.5bn. The countries' ageing population (>65 years) is, however, expected to decline at a CAGR of 1.2% during 2021-26, while the total population is expected to grow at a rate of 1.5% for the same period.

Figure 46: Egypt's ageing (65 & above) population (mn)



Source: Company data

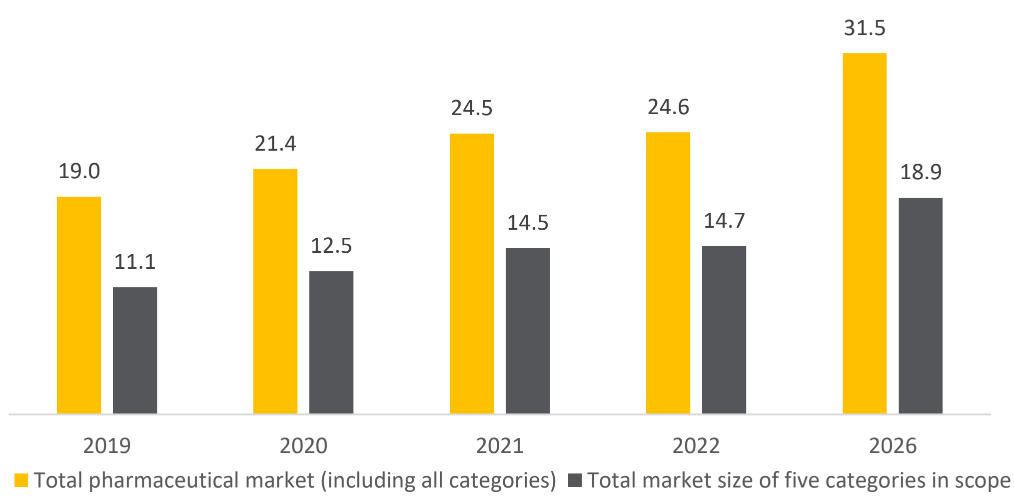
Figure 47: Egypt's total population (mn)



Source: Company data

The market for five categories - Ophthalmology, Dermatology, General Medicines, Gastrointestinal products, and Nutraceuticals is expected to grow at a marginally higher pace than the overall market at a CAGR of 5.4% (vs. 5.2% for the overall market) during 2021-26. The growth would be mainly supported by several factors, including a strong demographic split, expanding insurance coverage, and increased access to healthcare services for consumers. Additionally, strong public and private investments are being made in the market, including efforts to increase local production and reduce reliance on imports.

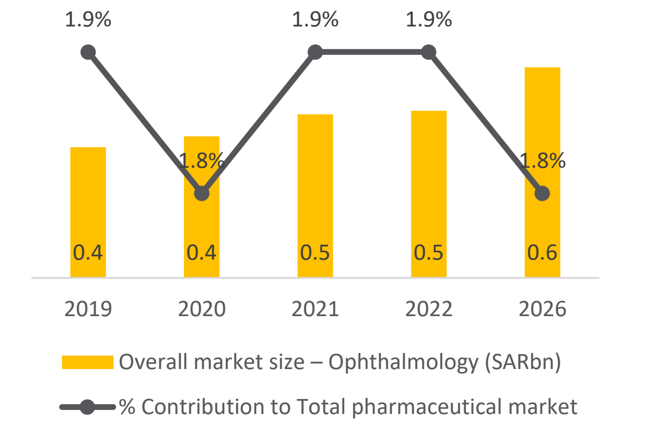
Figure 48: Egypt, Pharmaceutical market size (SARbn)



Source: Company data

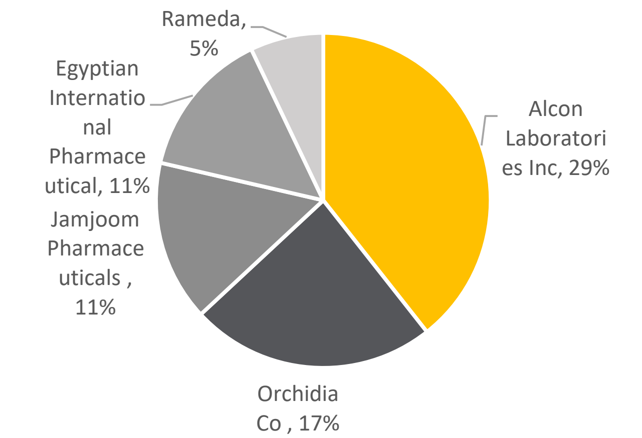
Ophthalmology

Figure 49: Ophthalmology market size (bn)



Source: Company data

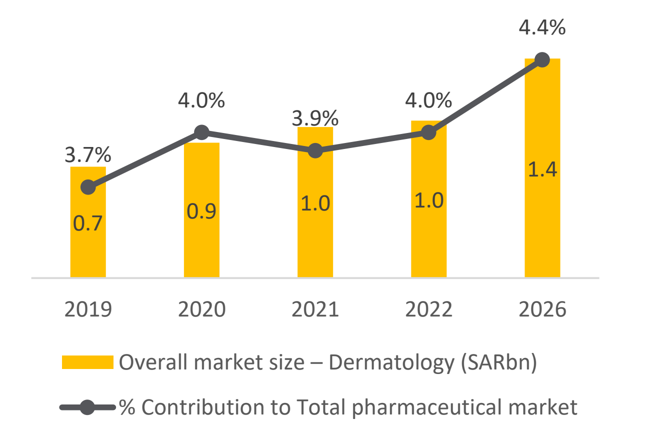
Figure 50: Ophthalmology market share of top 5 companies



Source: Company data

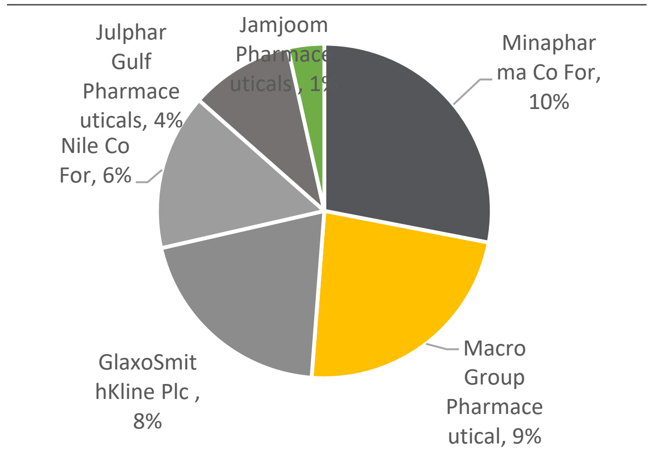
Dermatology

Figure 51: Dermatology market size (bn)



Source: Company data

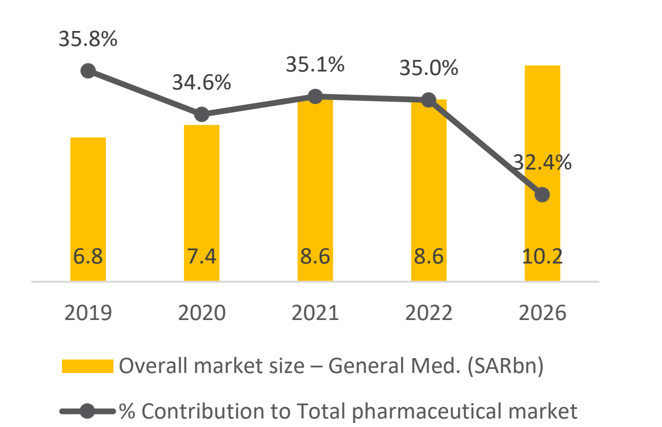
Figure 52: Dermatology market share of top 5 companies



Source: Company data

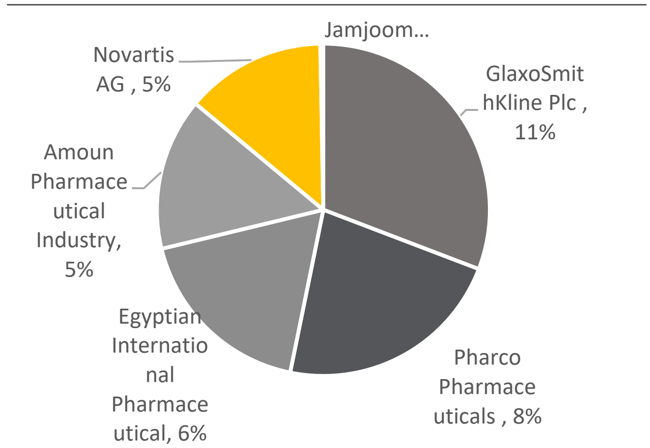
General Medicines

Figure 53: General Medicines market size (bn)



Source: Company data

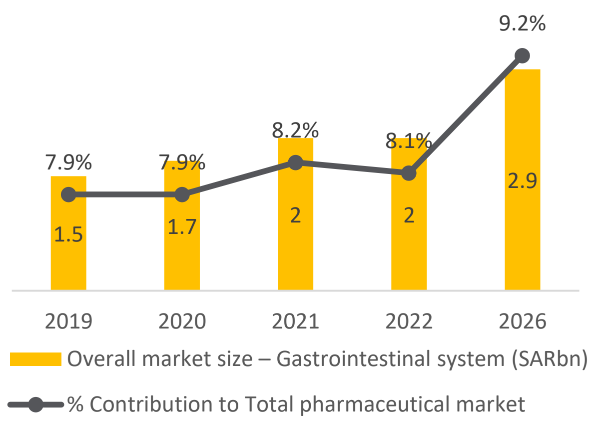
Figure 54: General Medicines market share of top 5 companies



Source: Company data

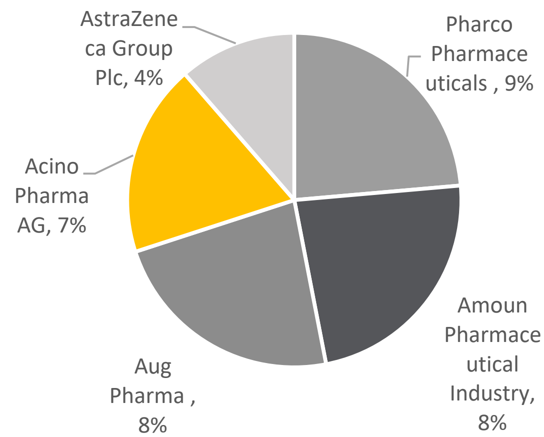
Gastrointestinal Medicines

Figure 55: Gastrointestinal market size (bn)



Source: Company data

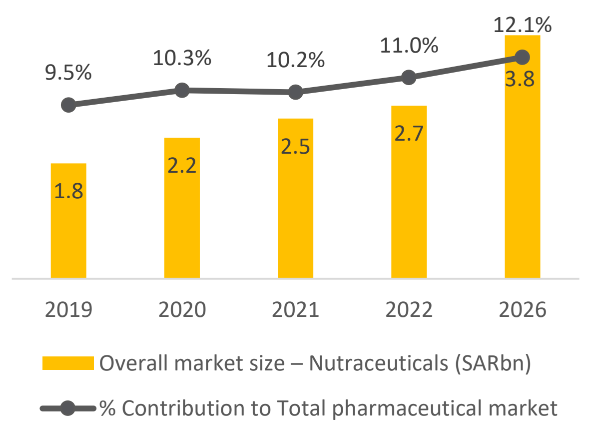
Figure 56: Gastrointestinal market share of top 5 companies



Source: Company data

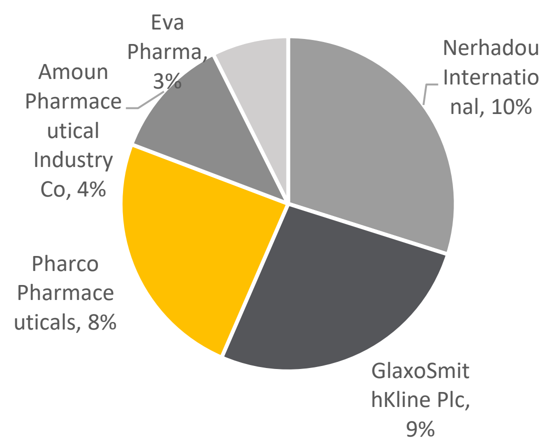
Nutraceuticals

Figure 57: Nutraceuticals market size (bn)



Source: Company data

Figure 58: Nutraceuticals market share of top 5 companies

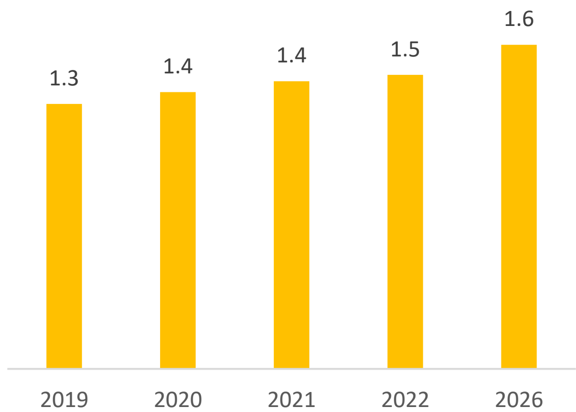


Source: Company data

Iraq

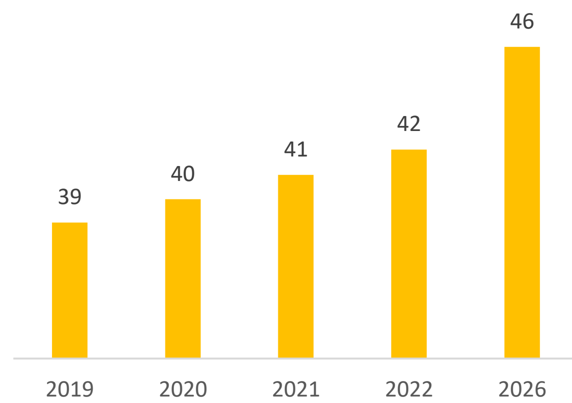
Iraq's total pharmaceutical market is expected to grow fastest among the four key markets (KSA, Egypt, and UAE) at a CAGR of 5.9% during 2021-26. The countries' ageing population (>65 years) is expected to grow at a CAGR of 2.4%, which is marginally higher than its total population growth.

Figure 59: Iraq's total population (mn)



Source: Company data

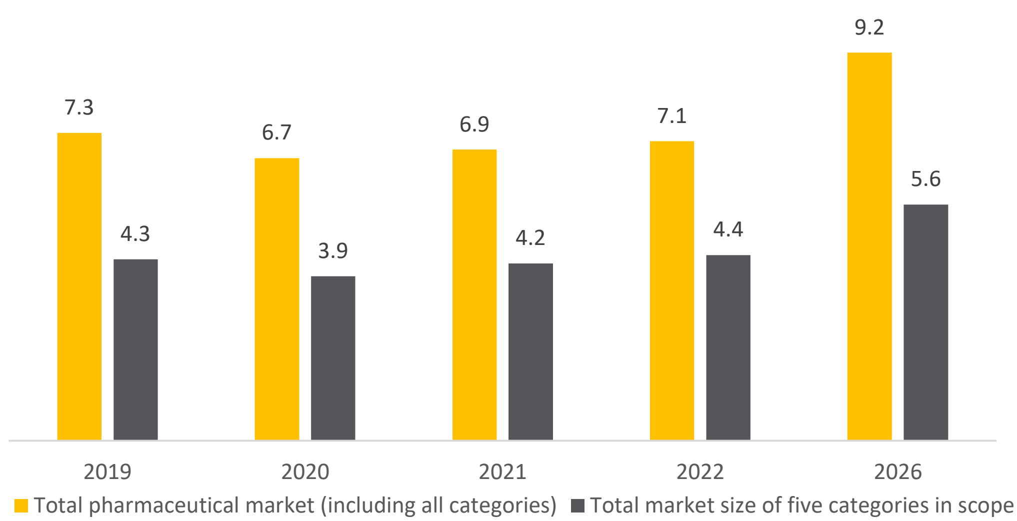
Figure 60: Iraq's ageing (65 & above) population (mn)



Source: Company data

The five pharmaceutical categories — Ophthalmology, Dermatology, General Medicines, Gastrointestinal products, and Nutraceuticals are expected to grow at a CAGR of 6.1% during 2021-26, which is the highest in the four key markets.

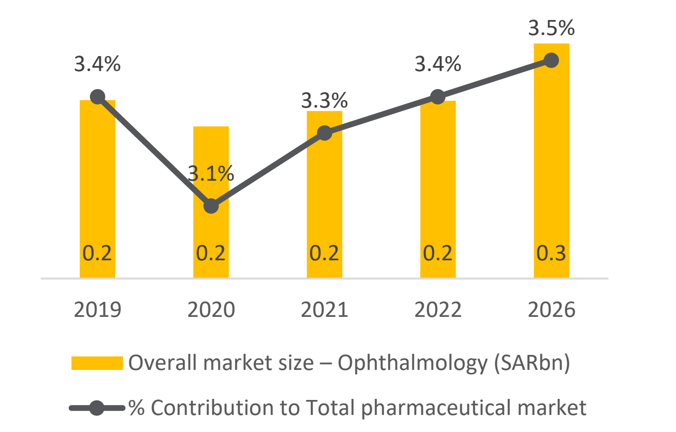
Figure 61: Iraq, Pharmaceutical market size (SARbn)



Source: Company data

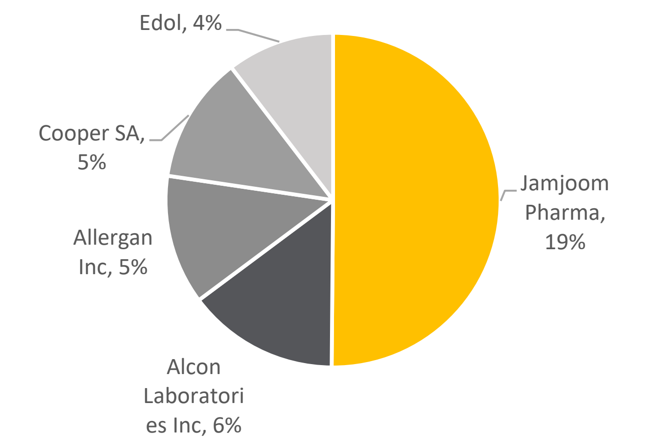
Ophthalmology

Figure 62: Ophthalmology market size (bn)



Source: Company data

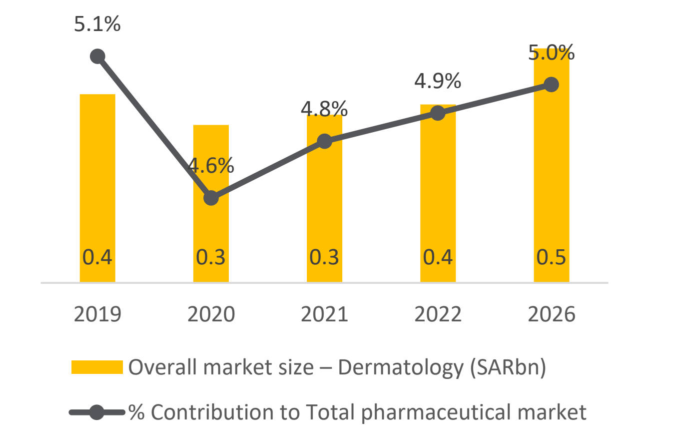
Figure 63: Ophthalmology market share of top 5 companies



Source: Company data

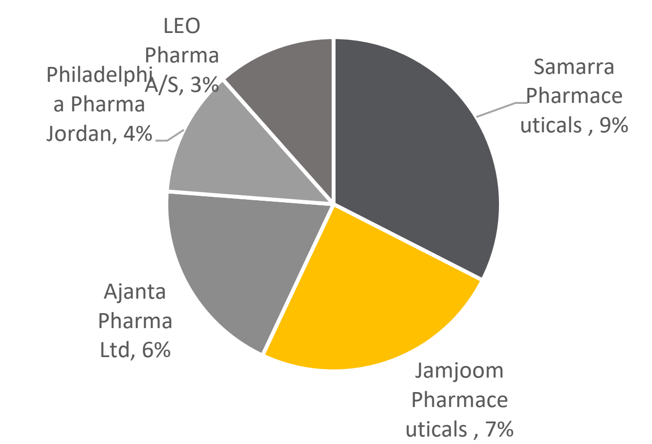
Dermatology

Figure 64: Dermatology market size (bn)



Source: Company data

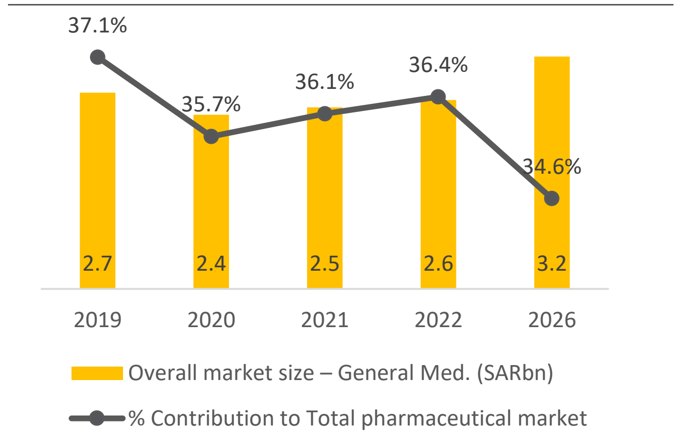
Figure 65: Dermatology market share of top 5 companies



Source: Company data

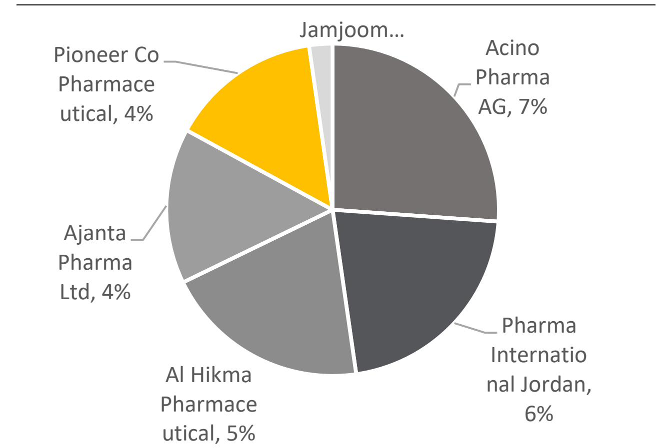
General Medicines

Figure 66: General Medicines market size (bn)



Source: Company data

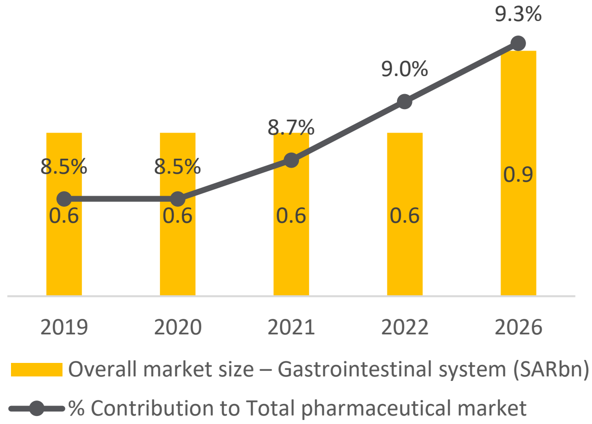
Figure 67: General Medicines market share of top 5 companies



Source: Company data

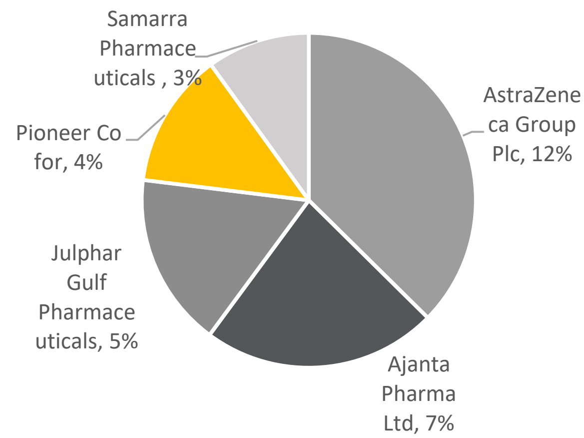
Gastrointestinal Medicines

Figure 68: Gastrointestinal market size (bn)



Source: Company data

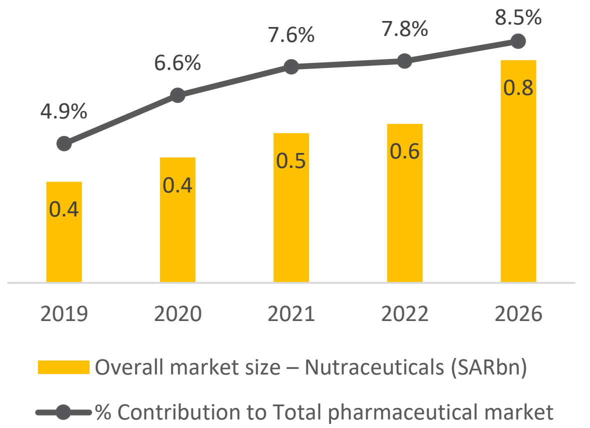
Figure 69: Gastrointestinal market share of top 5 companies



Source: Company data

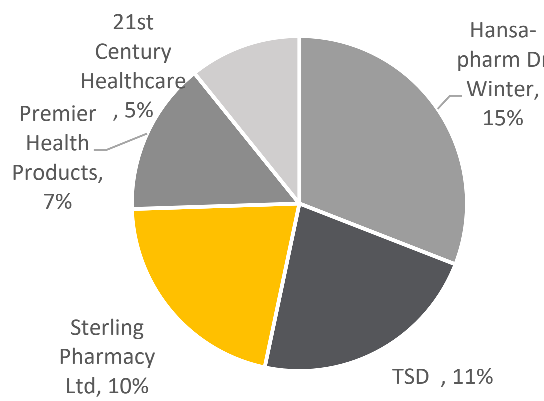
Nutraceuticals

Figure 70: Nutraceuticals market size (bn)



Source: Company data

Figure 71: Nutraceuticals market share of top 5 companies

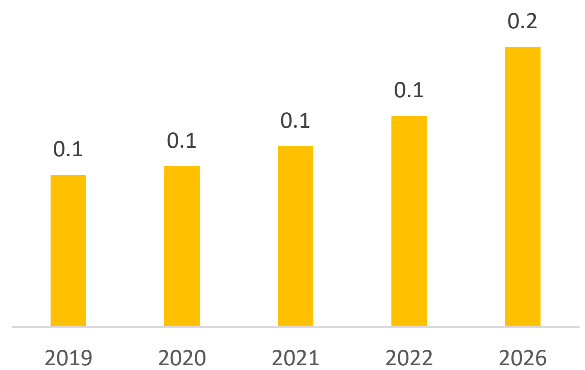


Source: Company data

UAE

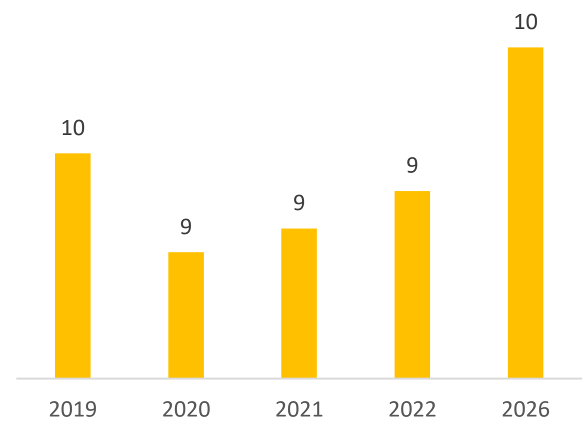
UAE's total pharmaceutical market is expected to grow at a CAGR of 5.6% during 2021-26. While the county's population growth is muted (+0.9% CAGR over 2021-26), the expected growth rate for 2021-26 for an ageing population (>65 years) is expected to grow at 9.1% over 2021-26.

Figure 72: UAE ageing (65 & above) population (mn)



Source: Company data

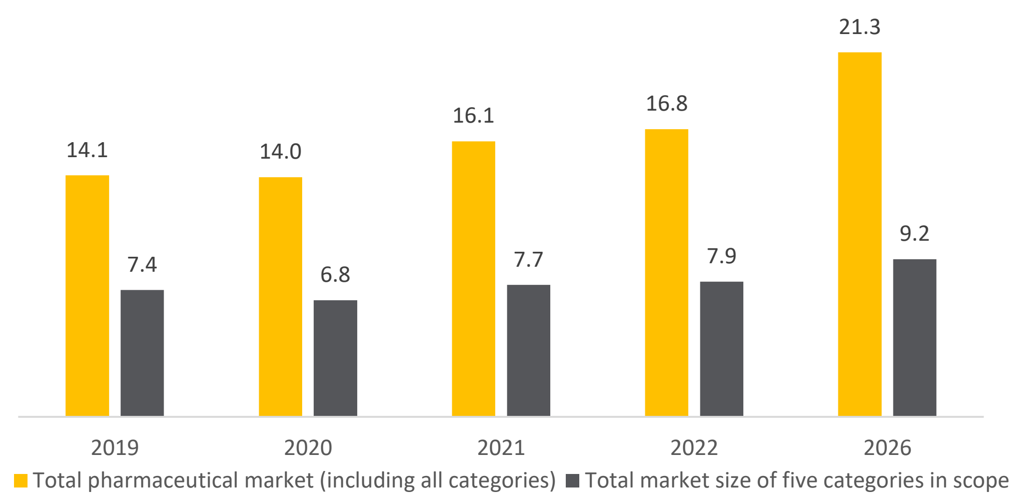
Figure 73: UAE total population (mn)



Source: Company data

The five pharmaceutical categories— Ophthalmology, Dermatology, General Medicines, Gastrointestinal products, and Nutraceuticals are expected to grow at a CAGR of 3.5% in 2021-26 compared to overall pharmaceutical market growth of 5.6%.

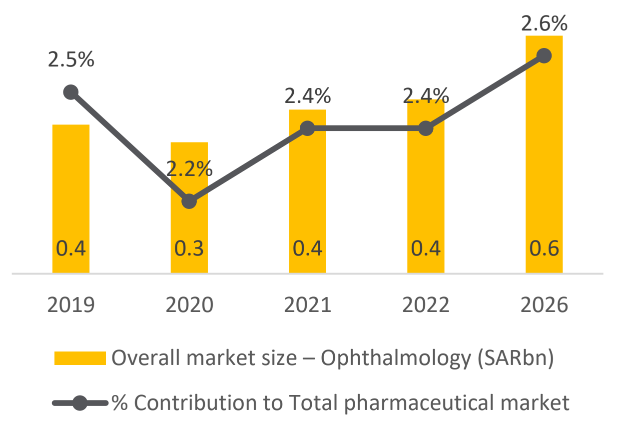
Figure 74: UAE, Pharmaceutical market size (SARbn)



Source: Company data

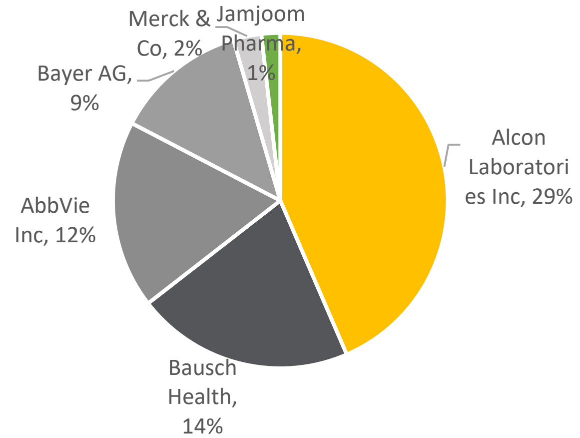
Ophthalmology

Figure 75: Ophthalmology market size (bn)



Source: Company data

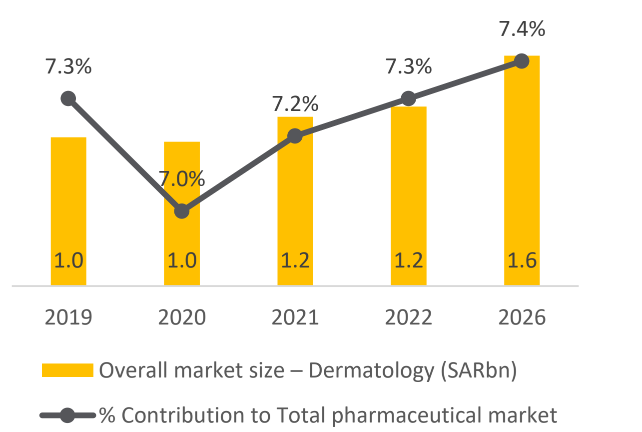
Figure 76: Ophthalmology market share of top 5 companies



Source: Company data

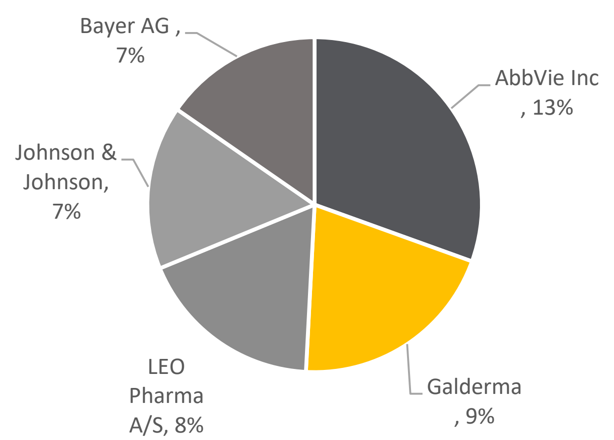
Dermatology

Figure 77: Dermatology market size (bn)



Source: Company data

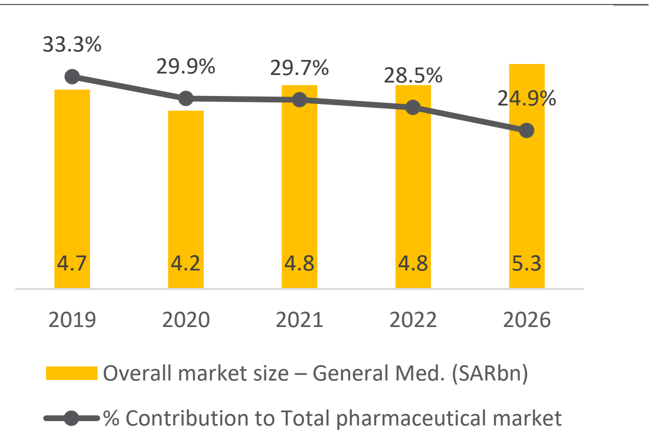
Figure 78: Dermatology market share of top 5 companies



Source: Company data

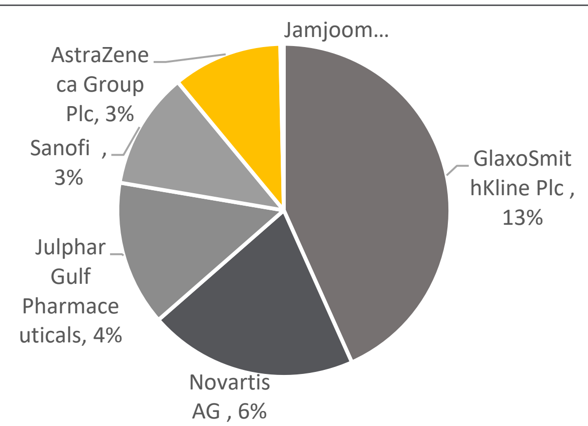
General Medicines

Figure 79: General Medicines market size (bn)



Source: Company data

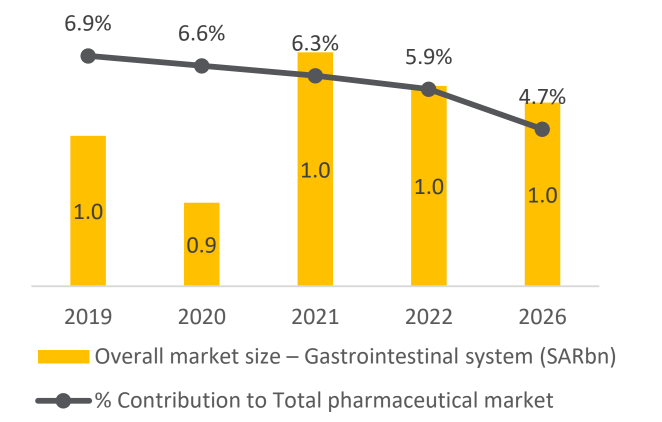
Figure 80: General Medicines market share of top 5 companies



Source: Company data

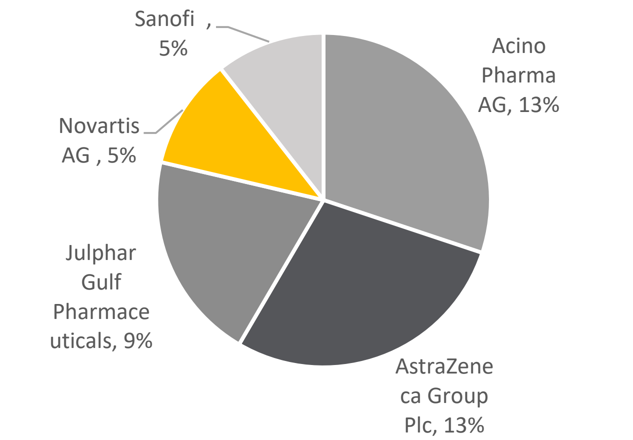
Gastrointestinal Medicines

Figure 81: Gastrointestinal market size (bn)



Source: Company data

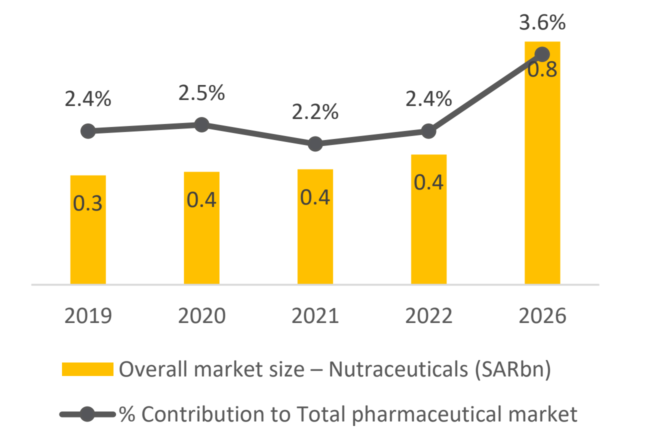
Figure 82: Gastrointestinal market share of top 5 companies



Source: Company data

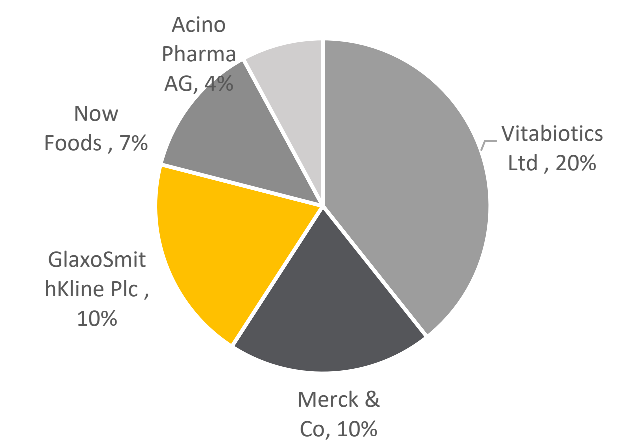
Nutraceuticals

Figure 83: Nutraceuticals market size (bn)



Source: Company data

Figure 84: Nutraceuticals market share of top 5 companies



Source: Company data

Key stakeholders

Ministry of Health

In KSA, the Ministry of Health (MoH) regulates healthcare-related activities and services. The ministry is also responsible for deciding patients' rights and responsibilities as well as collaborating with other authorities, which are critical in providing healthcare and related services. The MoH is the major source of funding behind healthcare-related expenses, and the majority of the hospitals and pharmacies are beneficiaries of the same.

The Saudi Food and Drug Authority (SFDA)

In KSA, the Ministry of Health regulates healthcare-related activities and services. The ministry is also responsible for deciding patients' rights and responsibilities as well as collaborating with other authorities, which are critical in providing healthcare and related services. The SFDA is also responsible for setting drug pricing guidelines. The SFDA has set guidelines to align drug prices in the Kingdom in line with international markets by setting up an international pricing reference (IRP), which consists of 20 countries whose drug prices are used as a reference to the price of drugs in KSA. Though recently, SFDA has taken initiatives to reduce dependency upon IRP and use a pricing mechanism that is more dependent upon added clinical value and pharmacoeconomic studies.

NPHIES

The National Platform for Health and Insurance Exchange Services is launched by the Cooperative Health Insurance Council (CCHI) and the National Center for Health Information (NHIC). This is a digital platform which is expected to increase efficiency in healthcare service providers' reimbursement process. This is also expected to increase patient inflow and could increase healthcare as well as pharmaceutical sales. Healthcare providers are still in the process of adopting the platform.

National Center for Health Information (NHIC)

The NHIC aims to bring the Saudi population under private insurance, which could increase the efficiency and payment cycles and hence, benefit the pharmacies. This may help pharmaceutical manufacturers by increasing the volume of products sold.

Summary of Financials

Figure 85: Summarized basic financial statements (SARmn).

Income statement	2022a	2023e	2024e	2025e
Revenue	**917**	**1,054**	**1,224**	**1,279**
revenue y/y	*25%*	*15%*	*16%*	*5%*
COGS	(323)	(379)	(444)	(456)
Gross Profit	**594**	**675**	**780**	**823**
Gross Profit margin	*65%*	*64%*	*64%*	*64%*
S&D	(261)	(295)	(330)	(339)
G&A	(55)	(64)	(73)	(74)
R&D	(33)	(37)	(43)	(45)
Impairment loss on financial assets	(11)	0	0	0
Operating profit	**233**	**279**	**334**	**365**
Operating margin	*25%*	*26%*	*27%*	*29%*
Finance costs	(49)	(1)	(1)	(1)
Other income	2	3	3	3
PBT	**186**	**281**	**335**	**367**
Zakat/tax	(15)	(22)	(27)	(29)
Net income	**171**	**258**	**308**	**337**
EPS (In SAR)	**2.4**	**3.7**	**4.4**	**4.8**
DPS (In SAR)	2.1	2.2	2.6	2.9
Payout	87%	60%	60%	60%
EBITDA	**260**	**316**	**372**	**405**
Net debt (w/ lease liabilities)	(139)	(166)	(187)	(273)

Balance Sheet	2022a	2023e	2024e	2025e
Cash and cash equivalents	141	168	190	276
Inventories	132	156	182	187
Trade receivables	352	404	469	491
Prepayments and other receivables	56	63	73	77
Total Current Assets	**688**	**797**	**920**	**1,035**
Property, plant and equipment	703	721	747	773
Right-of-use assets	2	2	2	2
Total Non-Current Assets	**720**	**736**	**759**	**784**
Total Assets	**1,408**	**1,533**	**1,679**	**1,819**
Current Liabilities	127	148	170	174
Non-current Liabilities	65	65	66	67
Equity	1,216	1,320	1,443	1,578
Total Equity and Liabilities	**1,408**	**1,533**	**1,679**	**1,819**
BVPS (In SAR)	17.4	18.9	20.6	22.5

Cashflow	2022a	2023e	2024e	2025e
Cashflow from Operations	(33)	(62)	(79)	(25)
Cashflow from Investing	229	234	268	353
Cashflow from Financing	(149)	(155)	(185)	(203)
Total Cashflows	**26**	**27**	**21**	**86**

Source: Company, GIB Capital

Figure 86: Key ratios

Key ratios	2022a	2023e	2024e	2025e
Profitability ratios				
RoA	12%	17%	18%	19%
RoE	14%	20%	21%	21%
Sales/Assets	65%	69%	73%	70%
Net margin	19%	25%	25%	26%
EBITDA margin	28%	30%	30%	32%
Liquidity ratios				
Current Assets/ Current Liabilities	5.4	5.4	5.4	6.0
Debt to Total Equity	0.0	0.0	0.0	0.0
Receivable Days	140	140	140	140
Inventory Days	149	150	150	150
Payable days	109	130	152	156
Cash conversion cycle	180	160	138	134
Debt ratios				
Net Debt/EBITDA	-0.5	-0.5	-0.5	-0.7
Net Debt/Equity	-0.1	-0.1	-0.1	-0.2
Debt/Assets	0.0	0.0	0.0	0.0
Valuation ratios				
P/E	24.5	16.3	13.6	12.5
P/B	3.5	3.2	2.9	2.7
EV/EBITDA	15.6	12.8	10.9	10.0
Div. yield	3.5%	3.7%	4.4%	4.8%
FCF Yield	2.9%	4.2%	4.9%	6.8%

Source: Company, GIB Capital

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