October 2024

Almajed For Oud Co.

Strong Performance Track Record, Promising Earnings Outlook Based On Robust Expansion Plan

Initiation Report | October 2024

Senior Equity Analyst

Fahad Qureshi, CFA

+966 11 225 6315

f.irfan@aljaziracapital.com.sa

Table of contents:

Expanding operational footprint and broadening product portfolio to position AlMajed as beneficiary of sectoral tailwinds

AlMajed will directly benefit from the increasing disposable income, favorable demographics, expansion in leisure/religious tourism, and multiple innovations in KSA's fragrance industry. The 49% rise in AlMajed's daily active users (DAUs) over last 12 months in a competitive fragrance industry is testament of its strong brand recall. The company's ability to swiftly launch products as per the customer tastes has enabled its portfolio of 132 brands to be a household name in KSA. Its strategy of product diversification and store expansion is estimated to enhance its market share from 5.2% in 2022 to 8.6% by 2027e. We expect 86 store additions by FY28e to 372 stores, and revenue per store to increase from SAR 2.68mn to SAR 3.54mn by FY28e. This could translate into an 11.4% revenue CAGR over FY23-28e and reach SAR 1,317mn revenues. Store maturity, higher revenue per store and operational leverage can drive margin improvement across gross, operating, and net levels. Over FY23-28e, we expect gross margins to reach 68.0% (+140bps), operating margins to reach 22.7% (+190bps) and net margins to reach 21.1% (+170bps). Healthy cash generation and lower capex enable strong dividend yield of 2.9% in FY24e, which is poised to rise to 9.0% by FY28e. We initiate coverage with "Overweight" rating and a TP of SAR 171.3/share.

Favorable demographics, macro environment and innovations in products offerings to attract demand in KSA's fragrance sector: KSA's fragrance sector is poised for a strong 13.0% average growth over 2022-27e. Key drivers for this growth are i) favorable demographics of large young population (63% of Saudis are under 30 years), ii) rising disposable income (from SAR 40k to SAR 45k by 2027e), iii) expansion in leisure and religious tourism (1.4x tourist growth and 2.2x pilgrims expected over 7 years), and iv) multiple innovation in product offering to be the key sectoral growth drivers. AlMajed is likely to be at the forefront of these tailwinds due to its i) long operating history (60+ years), ii) deep understanding of market demands, iii) its ability to swiftly launch new products, and iv) its wider product assortments. Revenue growth would be supported by buy now pay later and other fin-tech services such Tabby and Tamara.

Strategy of expansion in operational footprint and widening of product assortments could drive 11.4/13.3% revenue/earnings CAGR over 2023-28e: AlMajed has adopted a multi-faceted strategy, expanding both its domestic and international store presence and also broadening product portfolio. We anticipate a total of 86 store additions over FY24-28e taking the store count to 372. Leveraging its expertise in the industry and strong external partnerships, AlMajed aims to tailor its offerings to customer preferences. This combination of store growth and product diversification could lift revenue per store from SAR 2.7mn to SAR 3.5mn by FY28e. We forecast a revenue CAGR of 11.4% over FY23-28e, reaching SAR 1,317mn revenues. In terms of margins, we expect it to expand across gross, operating, and net levels, supported by store maturity, higher revenue per store, and operational leverage. Accordingly, we expect the gross margins to expand by 140bps while operating margins to rise by 190bps. A lower reliance on debt should drive bottom-line growth at CAGR 13.3% during 2023-2028. Amongst major product categories Perfumes enjoy gross margins of 79.5%, Oud segment had gross margins of 41.6%, while Essential oils and Incense had gross margins of 79.8% and 61.5% respectively in 2023.

AlMajed's DAUs suggests strong brand recall versus some of the bigger domestic peers: KSA's fragrance industry faces stiff competition with local players (50% share) leveraging on their strong traditional fragrance preferences and brand loyalty, while international players are gaining traction among young consumers, who are driven by global trends. Among local players, Arabian Oud leads with a 12.5% market share as of 2022, followed by Abdul Samad Al Qurashi with 9.4% market share. Deraah Perfumes has a market share of 6.1%, while AlMajed has a market share of 5.2%. Despite AlMajed's smaller size versus peers, DAUs trend suggest increasing traction for AlMajed brand. Over the last 12 months, the DAUs for peers have fallen 14-51%, while AlMajed's DAUs have grown 49%. We believe this is because of its strategy revolving around i) wide product assortments, ii) 'fast' product launches, and iii) competitive pricing. This strategy works in its favor in attracting customer base.

Recommendation	Overweight
Target Price (SAR)	171.3
Upside / (Downside)*	82.2%

Source: Tadawul *upside from the IPO prices

Key Financials

SARmn (unless specified)	FY23	FY24E	FY25E	FY26E
Revenues	767	951	1,056	1,160
Growth %	30.4%	24.0%	11.0%	9.9%
Gross Profit	511	642	713	785
Operating profit	160	201	228	254
Net Income	149	185	210	235
Growth %	18.6%	24.2%	13.7%	12.0%
EPS	5.95	7.38	8.39	9.40
DPS	1.58	2.75	4.50	6.00

Source: Company reports, AlJazira Capital Research

Key Ratios

	FY23	FY24E	FY25E	FY26E
Gross Margin	66.6%	67.5%	67.5%	67.7%
EBITDA Margin	34.7%	33.2%	33.3%	33.5%
Net Margin	19.4%	19.4%	19.9%	20.3%
PE (x)	15.8	12.7	11.2	10.0
PB (x)	5.5	4.3	3.7	3.2
EV/EBITDA (x)	8.8	7.0	6.1	5.3
Div Yield (%)	1.7%	2.9%	4.8%	6.4%

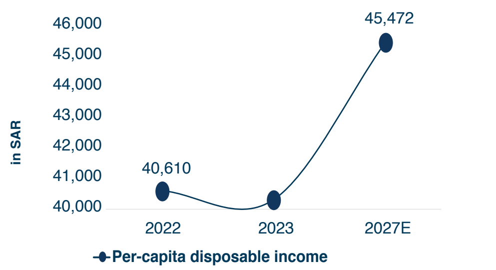
Source: Company reports, AlJazira Capital Research

Key Market Data

IPO price (SAR per share)	94.0
Market Cap at IPO price (SAR bn)	2.3
Share Outstanding (mn)	25.0

Source: Company reports, AlJazira Capital Research

Rising disposable income & consumer spending



Source: Company, AlJazira Capital research

Post IPO ownership

Shareholder	Shares (mn)	ownership
Khaled O. Al Majed	3.94	15.8%
Saad O. Al Majed	3.94	15.8%
Suliman O. Al Majed	3.94	15.8%
Majed O. Al Majed	3.94	15.8%
Badr O. Al Majed	0.88	3.5%
Mohammed O. Al Majed	0.88	3.5%
Public	7.50	30.0%
Total	**25.00**	**100.0%**

Source: Company, AlJazira Capital Research

Wide product assortments and swift product launches benefit AlMajed in having a strong brand recall: With ~675 SKUs encompassing 132 brands and a strong network of 286 stores, AlMajed's products have been on top-of-mind among the customers. Company focuses on having a competitive pricing strategy, maintaining high quality products and opulent appearance for attracting the customers. Its strong brand recognition is due to its deep understanding of the market demand and its ability to swiftly launch new products. Over FY21-23 the company added 181 new products, accounting for almost 27% of total 675 products. We highlight that, Perfume segment constitutes 64% of total sales, followed by Oud, incense, and essential oils which have 14.3%, 7.9%, and 6.1% share respectively.

Strong dividend yields to continue supported by, lower capex intensity and efficient working capital requirement: Almajed has a debt free balance sheet. In addition, capex intensity is expected to normalize going forward. Moreover, this lowering of capex intensity, coupled with efficient working capital could elevate shareholder payouts. AlMajed could generate CFO of SAR 294/313/349mn in FY24/25/26e, hence we estimate company to pay out SAR 2.75/4.5/6.0 per share dividend in FY24/25/26e, corresponding to a dividend yield of 2.9/4.8/6.4%.

Investment thesis and valuation: AlMajed is poised to benefit from favorable demographics of large young population, increasing disposable income, rising leisure and religious tourism and innovations in product offerings. Its two pronged strategy, 1) expanding domestic and international store presence, and 2) broadening its product portfolio, could lift revenue per store from SAR 2.7mn in FY23 to SAR 3.5mn by FY28e, thereby driving a revenue CAGR of 11.4% over FY23-28e and reaching a revenue base of SAR 1,317mn. Store maturity, higher revenue per store, and operational leverage would aid in margin expansion across gross, operating, and net levels. Accordingly, we expect 13.3% bottom-line growth over 2023-28e. We expect revenue and net income to grow by 24.0% Y/Y and 24.2% Y/Y, respectively in 2024. Further healthy cash generation, reduction in capex levels to enable the company to maintain strong dividend yield of 2.9% in FY24e, and which could rise to 9.0% by FY28e, basis our estimates.

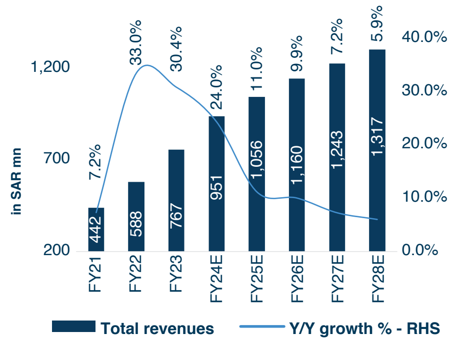
We value AlMajed assigning 50% weight to DCF (2.5% terminal growth and 10.50% WACC), while we assign 50% weight to PE (20.0x based on FY25e EPS), to arrive with an "**Overweight**" rating and a TP of **SAR 171.3/share**, offering an upside of 82.2% from IPO offering price of SAR 94 per share. Downside risks to our valuations are 1) lower than expected consumer spending, 2) price fluctuations and margin deterioration, and 3) seasonal fluctuations. Major upside risks to our target price are 1) Faster ramp up in stores, 2) Higher contribution of high margin segments and 3) More than expected store expansions.

DAUs trend over last 12 months (000s)

Peers	Sep-23	Aug-24	Inc/Dec
Arabian Oud	147.7	72.8	-51%
AlMajed	**40.6**	**60.7**	**49%**
Abdul Sam	40.8	22.7	-44%
Ajmal	5.4	4.6	-14%

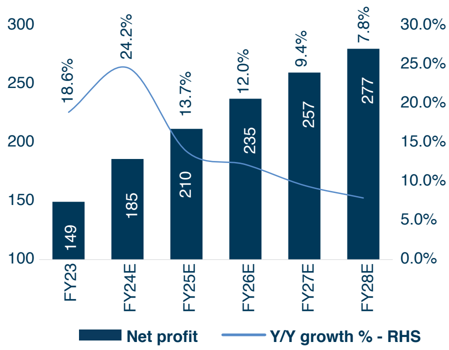
Source: Data.ai, AlJazira Capital research

Revenue growth over the medium term



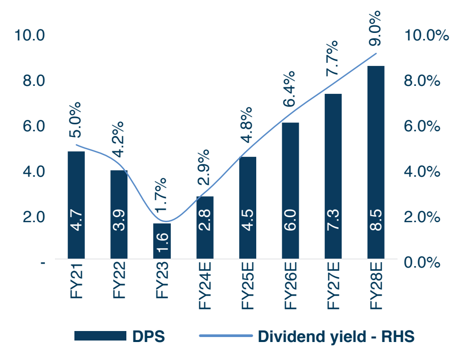
Source: Company, AlJazira Capital research

Net profit expansion trend



Source: Company, AlJazira Capital research

Dividend yield trends over the medium term

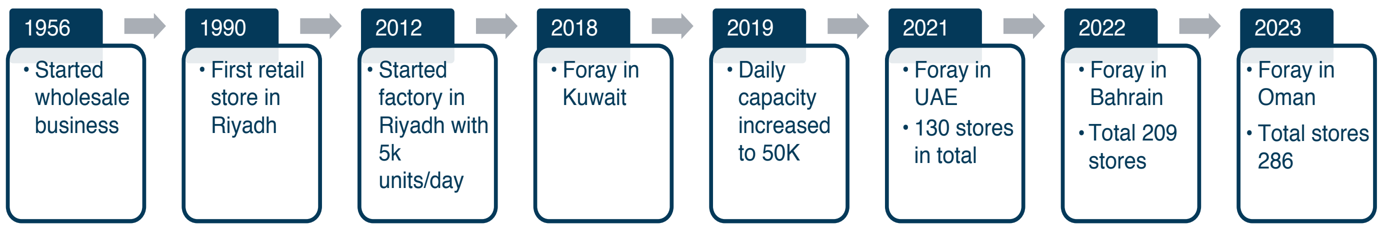


Source: Company, AlJazira Capital research

Company Overview

AlMajed Oud, established in 1956, has evolved from an Oud wholesaler into a leading perfumery brand with a portfolio of ~675 products across 6 categories and 132 brands. The majority of products are manufactured in its three production units, which operate at 70% capacity, producing 50,000 units daily. In addition to its own products, the Company also packages for third parties in its factory in order to maximize the utilization of its production lines and optimize its resources. The company maintains an omnichannel presence through 286 regional and international branches, and also supported by digital platforms, which helps it in serving a customer base concentrated across 5 GCC countries. Perfumes and Oud contributed 78% of the total SAR 767 million revenue and enabled the company to secure a 5.2% market share in 2022, based on total perfume sales in KSA. AlMajed aims to lead the Oud and perfume industry in the Middle East and globally by creating distinctive fragrances tailored to customer preferences.

Fig 1. Evolution of AlMajed from a wholesaler to premier perfumery company in the GCC



Source: Company, AlJazira Capital research

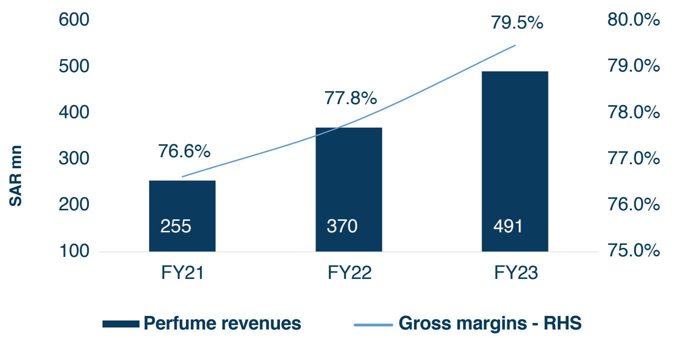
Segment Overview

AlMajed offers ~675 products across 6 categories, which are produced at its own manufacturing plants or sourced from reputable outside suppliers. Below we have deep dived in the product assortments and highlighted the financial performance for each category.

1. **Perfumes: (64% of FY23 revenues; 79.5% gross margin)**

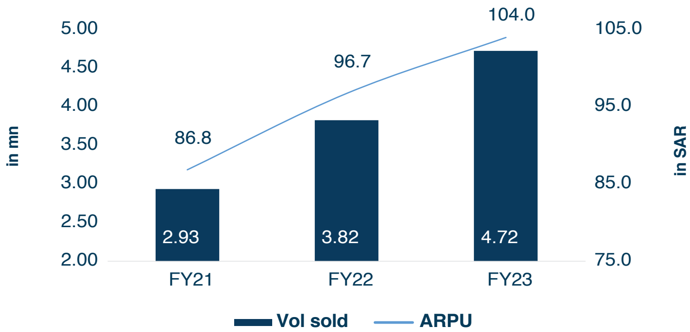
Since beginning its perfume offerings in 1990 with just 4 brands, AlMajed has expanded to 85 brands encompassing 199 SKUs, all manufactured in its Riyadh facility using raw materials from leading local and international suppliers. Its expertise in this category has enabled a broader product assortment and increasing perfume revenues from SAR 255 million (57.5% of total revenues) in FY21 to SAR 491 million (64.0% of total revenues) in FY23. Rise in volumes from 2.9mn in FY21 to 4.7mn in FY23, alongside the increase in average revenue per unit (ARPU) from SAR 86.8 to SAR 104.0 is a testament to robust demand for it's perfumery products and it's ability to command pricing power. Additionally, in-house manufacturing results in higher gross margins (79.5%) compared to other product categories.

Fig 2.Expertise in perfumes and a broader product portfolio drove revenue share from 57.5% to 64.0%



Source: Company, AlJazira Capital research

Fig 3. Rising volumes and ARPU is a testament of robust demand for perfumery products and pricing power

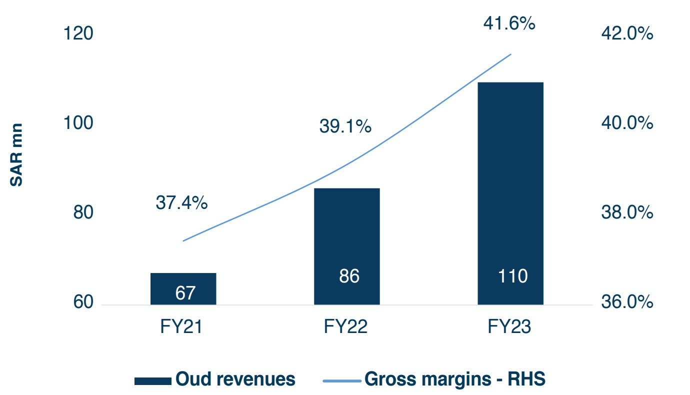


Source: Company, AlJazira Capital research

2. **Oud: (14.3% of FY23 revenues; 41.6% gross margin)**

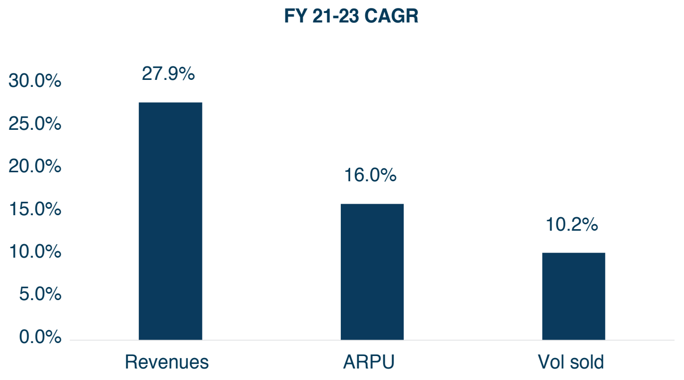
AlMajed began selling Oud in 1982 and now offers 90 natural and 2 synthetic Oud SKUs across 11 brands. Since Oud is a material which is extracted from one of the rarest and most expensive woods in the world, AlMajed imports its Oud products from its 8 international suppliers, primarily from Indonesia. The launch of 30+ new SKUs (33% of the total SKUs) since FY21 drove a significant rise in revenues, with a 27.9% CAGR over FY21-23, reaching SAR 110 million in FY23. Oud now accounts for 14.3% of total revenue. Revenue growth was driven by increase in ARPU from SAR 62.1 in FY21 to SAR 83.5 in FY23, while volumes rose from 1.08 million to 1.32 million. However, as the company imports and only packages these products locally, gross margins in this category is the lowest at 41.6%.

Fig 4. 33% of total SKUs were launched in past 3 years, driving a 27.9% revenue CAGR over FY21-23



Source: Company, AlJazira Capital research

Fig 5. ARPU growth was the primary revenue driver from FY21-23, while volume growth remained modest

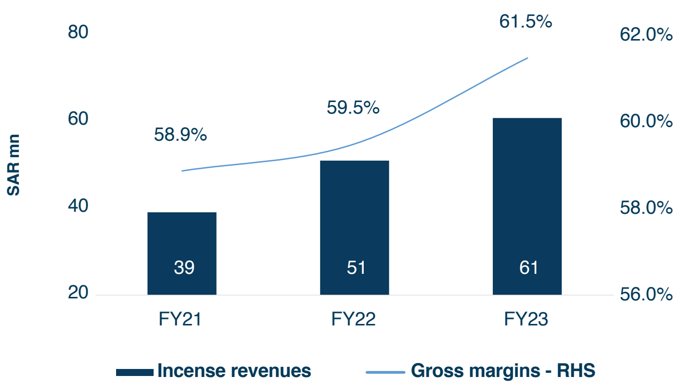


Source: Company, AlJazira Capital research

3. **Incense: (7.9% of FY23 revenues; 61.5% gross margin)**

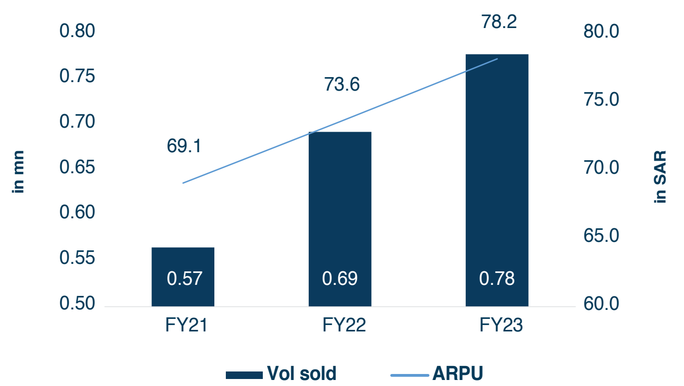
AlMajed began selling Incense in 1990 and now offers 20 SKUs under 3 brands. It imports the necessary materials for its incense products from 17 international suppliers, and then manufactures all of its incense products in its Riyadh factory. The revenues from this category have grown at 24.8% CAGR from FY21-23 to reach revenues of SAR 61mn. Steep rise in volumes sold was the primary revenue driver from FY21-23, while ARPU growth remained tepid. The volumes increased from 0.57mn in FY21 to 0.78mn in FY23, at the back of continuous new product launches, which were accepted well by the customers. While the ARPU increased modestly from SAR 69.1 in FY21 to SAR 78.2 in FY23. Incense has been the third most important category for the company with a share of 7.9% of FY23 revenues. In-house manufacturing enables the category to enjoy higher gross margins (61.5%) compared to other product categories.

Fig 6. Revenues growth of 1.5x and benefits of in-house manufacturing aided in 260bps margin expansion



Source: Company, AlJazira Capital research

Fig 7. Continuous product launches benefitted volumes, while limited pricing power impacted ARPU growth

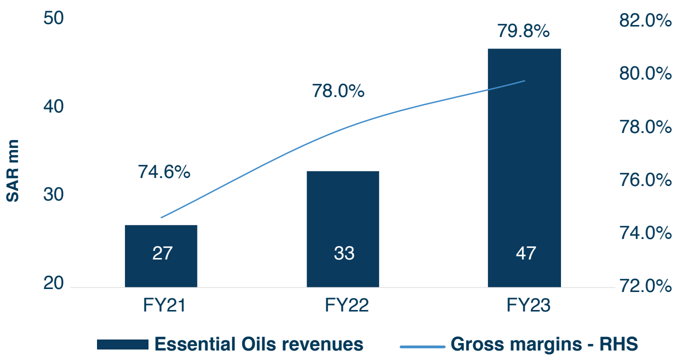


Source: Company, AlJazira Capital research

4. **Essential Oils: (6.1% of FY23 revenues; 79.8% gross margin)**

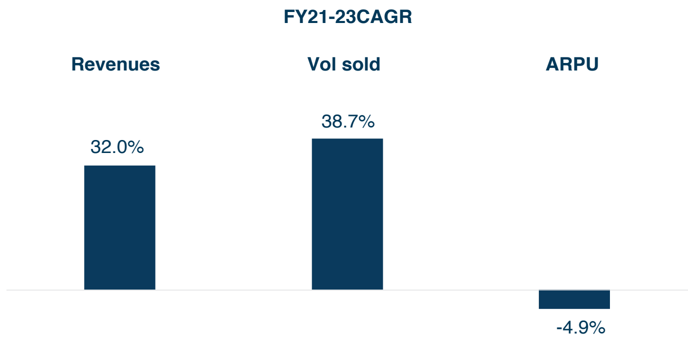
AlMajed began selling Incense in 1990 with just 3 SKUs, and now offers 76 SKUs under 31 brands. It imports the required materials from 15 international suppliers, and then manufactures all the products in Riyadh. The revenues from this category have grown at 32.0% CAGR from FY21-23 to reach SAR 47mn of revenues. Steep rise in volumes sold was the primary revenue driver from FY21-23, while ARPU growth declined. The volumes grew almost 2x from 0.20mn in FY21 to 0.38mn in FY23. The ARPU decreased from SAR 135.8 in FY21 to SAR 122.9 in FY23. In-house manufacturing and better growth in volumes enables the category to enjoy the highest gross margins (79.8%) amongst all other product categories.

Fig 8.Revenues reported 32.0% growth over FY21-23, while margins expanded 520bps



Source: Company, AlJazira Capital research

Fig 9. Volume growth was the primary revenue driver from FY21-23, while ARPU growth declined



Source: Company, AlJazira Capital research

5. **Plant-based products and Accessories & Gifts: (7.7% of FY23 revenues)**

Apart from perfumery products, AlMajed also sells plant-based products such as saffron. This forms a miniscule portion of the overall business, with a revenue base of just SAR 13mn (1.7% of total revenues). The company sources these products from 10 local and international suppliers. This is the only business which is loss making currently. Whereas in the Accessories & Gifts product category, it offers 285 SKU's. Most of the materials sold in this category includes the company's own products. The revenue from this category accounts for 6.0% of total revenues. Since this category majorly sells company's own products, the margins in this category are at 67.0% levels.

IPO Offering Summary

AlMajed is floating 7.5mn shares, representing 30.0% of its share capital, with a fully paid nominal value of SAR 10 per share. The IPO is divided into two tranches: one for institutional investors and the other for retail investors. The institutional investors will be allocated 100% of the offered shares. If retail investors fully subscribe to their allocated shares, the financial advisor will have the right to reduce the number of their allocated shares to 80% of the total offered shares. The subscription period for institutional investors and the book building process was open from August 25, 2024 to August 29, 2024 and was oversubscribed 156x. Retail offering was oversubscribed by 821.33%. The final offer price is set at SAR 94 per share.

Ownership (Pre and post IPO)

Fig 10. Al Majed family are the existing shareholders selling their stake to public investors

Shareholder name	Pre-IPO ownership		Post-IPO ownership	
	No. of shares (in mn)	% ownership	No. of shares (in mn)	% ownership
Khaled O. Al Majed	5.6	22.5%	3.9	15.8%
Saad O. Al Majed	5.6	22.5%	3.9	15.8%
Suliman O. Al Majed	5.6	22.5%	3.9	15.8%
Majed O. Al Majed	5.6	22.5%	3.9	15.8%
Badr O. Al Majed	1.2	5.0%	0.9	3.5%
Mohammed O. Al Majed	1.2	5.0%	0.9	3.5%
Public	0.0	0.0%	7.5	30.0%
Total	**25.0**	**100%**	**25.0**	**100%**

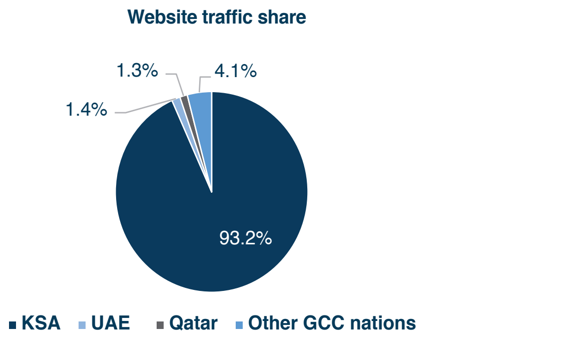
Source: Company, AlJazira Capital research.

Competitive Advantages

1. **Business longevity in KSA leveraged in expanding into other GCC nations**

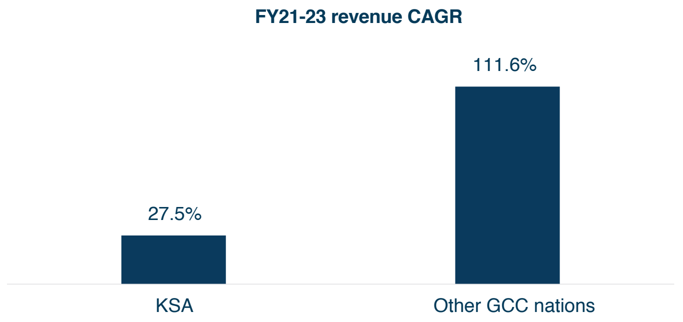
AlMajed has a reputed status in KSA's fragrance sector for 60+ years, benefitting it with a leadership position (5.2% share as of 2022). Its deep understanding of the market demand amassed from its 6 decadal experience has helped it increase presence in other GCC nations. This is evident from the fact that revenue growth from other GCC nations at 4.5x over FY21-23, has outperformed domestic revenue growth by 1.6x.

Fig 11. In August-24, AlMajed generated substantial 7% traffic on its website from other GCC nations



Source: Similarweb, AlJazira Capital research. Website traffic share data is as of August 2024

Fig 12. Successful expansion into GCC region, evident from its faster revenue growth over FY21-23



Source: Company, AlJazira Capital research

2. **Wide product assortments, swift in launching new products benefit AlMajed in having a strong brand recall**

With its wide product offerings of ~675 SKUs under 132 brands, and strong network of 286 stores (physical and digital presence) AlMajed's products have had a top-of-mind recall among the customers in KSA. The company focuses on competitive pricing strategy, maintaining high quality products and opulent appearance in order to attract customers.. The company has gained strong brand recognition due to the management's deep understanding of the market demand and its ability to swiftly launch new products. Over FY21-23 the company has added 181 new products (almost 27% of total 675 products), which has benefited AlMajed in scaling up its revenues at 31.7% CAGR and increase its products sold at 21.6% CAGR.

Fig 13. Highest number of monthly visits on AlMajed's website denotes a higher brand recall

Peers	Total monthly visits (in mn)	Visit duration (min:sec)	Pages per visit	Bounce rate
Almajed Oud	**0.67**	**1:13**	**3.41**	**32.16%**
Arabian Oud	0.53	2:46	3.28	43.47%
Abdul Samad Al Qurashi	0.40	1:56	3.12	45.66%
Rasasi	0.19	6:44	10.13	32.28%
Swiss Arabian	0.04	2:50	6.81	34.50%
Ajmal Perfumes	0.03	0:14	1.44	91.14%

Source: Similarweb, AlJazira Capital research. Data is for the month of August 2024

3. **Multiple and cohesive distribution channels helps it expand its market penetration**

The Company's omnichannel and extensive store network allows it to maximize customer outreach, in KSA and across the GCC. This efficient and well-established distribution network strengthens the Company's competitive position. Its 237 company owned and operated stores (CoCo stores) coupled with 49 GCC stores helps it to achieve growth by increasing the avenues to offer its products to a wider and newer customer base. Further its increasing focus on developing its online presence, in order to keep up the pace with changing customer behavior helps it in expanding its market penetration.

Industry Overview

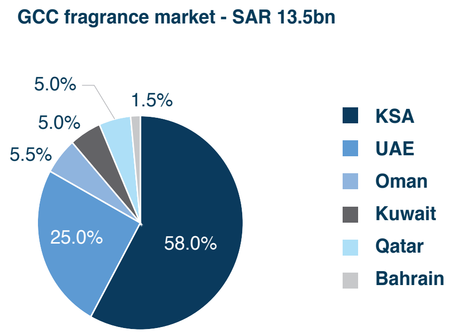
Perfumes account for a major portion of AlMajed's business and hence it becomes imperative to understand the industry nuances. In the following sections we have deep dived into KSA's and GCC's perfume industry.

GCC fragrance industry dominated by KSA, witnessing a shift of consumer taste to premium products

GCC's overall fragrance market is valued at SAR 13.5bn in 2022, with KSA's market at SAR 7.8bn (58% share) being the largest contributor. Within GCC region, Qatar and KSA's fragrance market recorded the fastest growth of 4.5% and 4.1% CAGR, respectively over 2018-22.

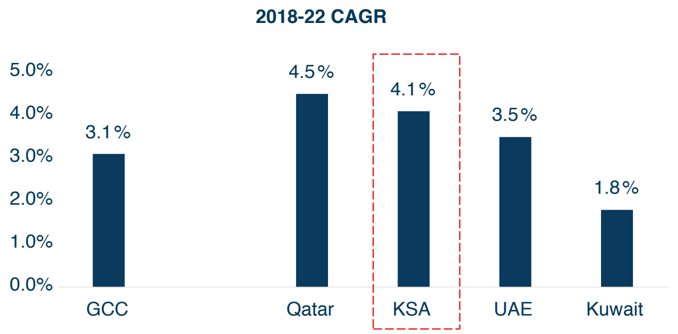
Fragrances denote a culture of generosity and self-expression and hence has made the people accustomed to scents in the region. However, there has been a strong cultural attraction towards luxury fragrances, hence over 2018-22, GCC region witnessed significant shifts in consumer tastes as customers were heavily influenced by premium products and international brands. Given the rise of digitally savvy young consumers seeking unique experiences, it is highly likely that these international brands will increasingly focus on adjusting their strategies to reflect local tastes. Thus, the market offers opportunities in demand for natural perfumes and reasonably priced fragrance products. The growth of fragrance market in the GCC is likely to benefit KSA the most due to its dominance over the region in terms of market share.

Fig 14. KSA holds a dominant position in GCC fragrance market, making it a key beneficiary of market growth



Source: Company, AlJazira Capital research

Fig 15. Qatar and KSA's markets have grown the fastest within the region

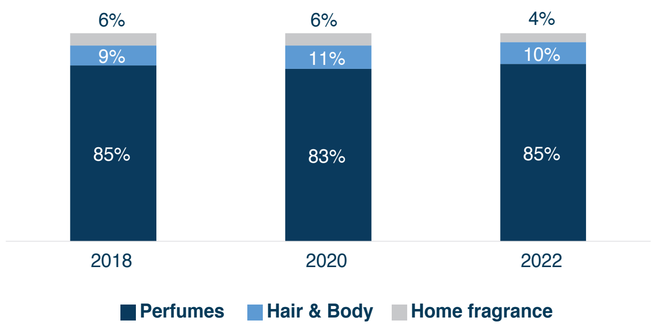


Source: Company, AlJazira Capital research

Perfumes holds significant importance to KSA's fragrance industry due to dominant share and fast growth

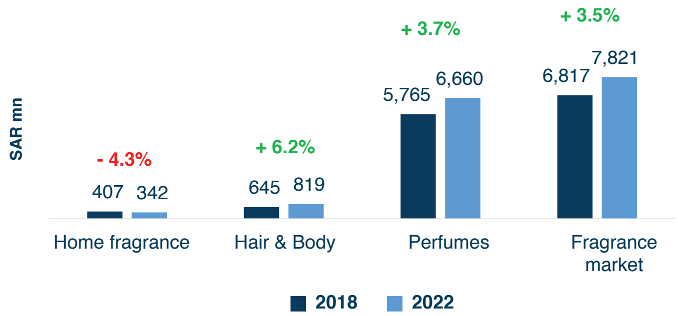
KSA's SAR 7.8bn fragrance market (2022) comprises of perfumes (85% share), hair and body products (10% share), and home fragrances (5% share). From 2018-22, home fragrances and perfumes grew at 6.2% and 3.7%, outperforming the overall market's 3.5% growth. Cultural and social customs, expanding tourism particularly during Hajj and Umrah, have been the key demand drivers for fragrances, especially Oud-based products which are popular as souvenir gifts.

Fig 16. Perfumes have dominated KSA's fragrance market for several years



Source: Company, AlJazira Capital research

Fig 17. Hair & Body fragrances and Perfumes are the key growth drivers for the fragrance industry in KSA



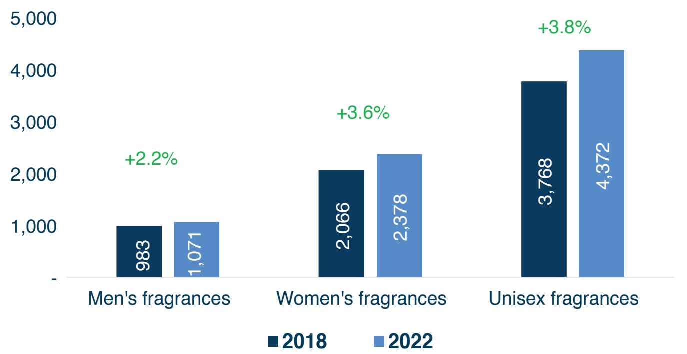
Source: Company, AlJazira Capital research

Unisex fragrances dominate in KSA, driven by a younger population base, thereby also making popular and luxury fragrances more prevalent

Fragrances have denoted a preference for luxury and tradition and hence has become very popular within both men and women in KSA. But KSA, which is dominated by younger population, show less interest in traditional classification of separating men's and women's fragrances. They prefer oriental perfumes that rely on authentic scents like sandalwood, musk, Oud and amber. To capitalize on this trend, many companies in KSA design gender-neutral fragrances.

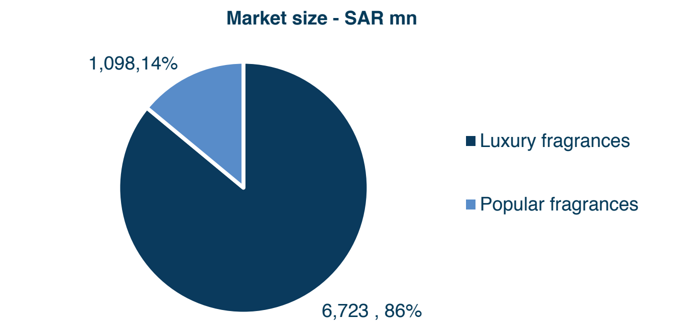
The average cost of fragrance products ranges between SAR 20-250 and is termed as popular fragrances, while the value of luxury fragrances is more than SAR 500. Due to a higher selling price the luxury products account for 86% of the fragrances market. However, in terms of consumption patterns, Saudis tend to use variety of fragrances, both luxury and popular, to create their own unique scent. This bodes well for AlMajed who is present across both popular fragrances and luxury fragrances.

Fig 18. Higher base of young population drives the popularity of unisex fragrances



Source: Company, AlJazira Capital research

Fig 19. Higher selling price of SAR 500 makes luxury fragrances dominate KSA's fragrance market by value



Source: Company, AlJazira Capital research

Fig 20. AlMajed is present across both popular and luxury fragrances making it cater to the Saudi masses and classes

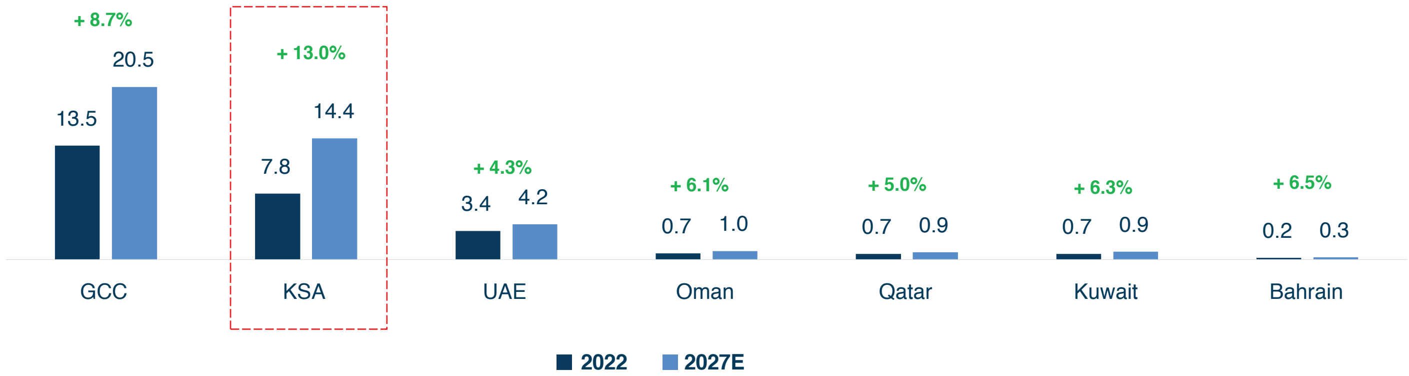
Category	No. of SKUs		
	Total fragrances	Popular fragrances	Luxury fragrances
Perfumes	107	104	3
Perfume Oil	20	16	4
Oud & Incense	42	35	7
Freshner	12	12	0
Collections	80	61	19
Saffron	3	3	0
Gifts	27	6	21
Total SKUs	**291**	**237**	**54**
as % of total		**81%**	**19%**

Source: AlMajed website and mobile app, AlJazira Capital research. Popular fragrances have average selling price of SAR20-250, while luxury fragrances have SAR 500+

Expansion in tourism, retail spaces and innovation to be key growth drivers for GCC's fragrance industry; KSA to account for 70% of share by 2027e and continue its dominance within the region

Rising number of tourists flocking to GCC nations, expansion of retail spaces and leading innovations of new forms of fragrances are expected to be the key drivers for GCC's fragrance market. The industry is expected to grow at a strong 8.7% CAGR from 2022-27e, to reach a market size of SAR 20.4bn. KSA is likely to continue its dominant position and reach almost 70% of the KSA's market by 2027e, driven by i) Vision 2030 initiatives, ii) enriching the Hajj and Umrah experience, iii) more than doubling the pilgrims target from current 13.5mn, to 30mn by 2030 and iv) rapid surge in tourists due to ongoing developments to boost the tourism sector

Fig 21. Rise in tourism, expansion of retail spaces and innovation in new forms of fragrances to drive robust growth for fragrance industry in GCC; KSA to lead the growth and continue its dominant position



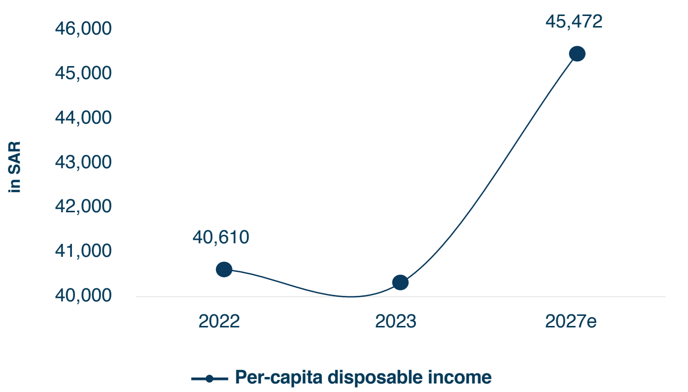
Source: Company, AlJazira Capital research

KSA fragrance industry poised for 2x growth by 2027e; Higher disposable income, along with rise in tourism to drive consumer spending and thus boosting consumption of fragrance products

KSA's fragrance market is expected to grow almost 2x from 2022-27e and reach SAR 14.4bn at the back of confluence of following factors;

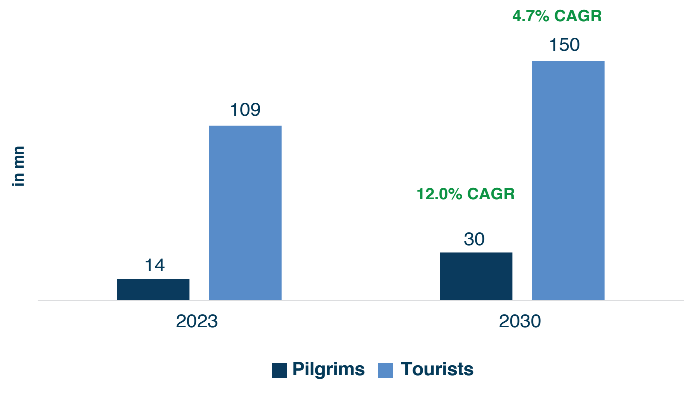
- **Rising disposable income driving consumer spending:** The per-capita disposable income in KSA is poised to grow from SAR 40K in 2022, to SAR 45K by 2027e. This growth of 2.4% is expected to be partially driven by rising women participation in the workforce. This will in a way also be the key reason for increase in consumer spending, which is expected to reach SAR 1.85tn by 2027e (3.7% CAGR over 2022-27e).
- **Booming leisure tourism and enriching Hajj & Umrah experience:** Rapid infrastructure developments are being carried out in KSA, as part of Vision 2030's focus on increasing the number of tourists from 109mn in 2023 to 150mn by 2030e. This would also be supported by KSA's focus on enriching Hajj & Umrah experience which is expected to expand the pilgrims capacity to 30mn by 2030e.
- **Innovation at the forefront in fragrance industry:** There are early signs of technological developments in the industry such as 3D printing on personalized perfume bottles. Government and industry efforts to advance these technologies will enhance customer experience and attract younger population who are digitally savvy and who seek unique, informed, and research-driven purchases.
- **Fintech to boost consumer purchases:** Revenue growth would be supported by buy now pay later and other fin-tech services such Tabby and Tamara.

Fig 22. Higher disposable income will drive consumer spending, and boosting consumption of fragrance products



Source: Company, AlJazira Capital research

Fig 23. Increase in pilgrims and tourists to acts as additional sectoral tailwinds



Source: Argaam, Vision 2030, AlJazira Capital research

Competitive landscape

Neck-to-neck competition exists in KSA's perfume industry because of a mix of traditional fragrance preferences and modern luxury brands. 50% of the market based on sales value as of 2022 is dominated by local players. These local incumbents have been capitalizing on their strong brand loyalty and expertise in traditional Arabian scents such as oud and musk. They also benefit from their deep cultural ties and established retail networks across the kingdom. Meanwhile some of the international luxury brands like Chanel and Dior are also increasingly gaining traction, especially among younger consumers who are drawn to global trends. However, these brands face challenges in adapting to the region's specific fragrance preferences, which heavily favor rich, long-lasting scents. Among the local incumbents, Arabian Oud leads with a 12.5% market share (2022), underscoring its dominance in traditional Arabian fragrances. Abdul Samad Al Qurashi follows with a 9.4% share sustained by its heritage offerings. Deraah Perfume has a market share of 6.1%, while AlMajed Oud captures 5.2% share. Meanwhile Coty Inc, an international entrant has secured 2.5% share, reflecting the rising influence of global brands.

Fig 24. Company profile of major local fragrance players based out in KSA

Peer	Products	Market share	Est. rev	Operational footprint	Unique selling point
Arabian Oud	Perfume, Incense, Oud, Home fragrances	12.7%	SAR 1,437mn	• 900 retail locations • 150 cities • 35 countries	• Focus on product designs, promotional activities
Abdul Samad	Perfume, Incense, Balms, Hair and body products, Cologne	9.4%	SAR 1,064mn	• 500 locations • Global presence	• Enriches customer experience with customized blending, perfume consultations • Only targets affluent customers with focus on traditional oriental scents
Deraah Perfume	Fragrances, Hair care products	6.1%	SAR 690mn	• 850 locations • 162 areas in KSA • Presence in 37 countries	• 20 registered trademarks • French origin products with focus on middle social and economic segment customers • Provides gifts and sample to increase likelihood of repeat purchase
AlMajed Oud	**Perfume, Incense, Oud, Oils, Plant-products, Accessories & Gifts**	**5.2%**	**SAR 588mn**	**• 300 locations**	**• Competitive pricing strategy • Wide product assortments • Swift in launching new products**

Source: Company, AlJazira Capital research. Revenues derived using market size derived using market share of AlMajed and its FY22 revenues

Despite the huge size of Arabian Oud and Abdul Samad, its daily active users (DAUs) have been significantly reducing over the last 12 months, whilst AlMajed's DAUs have been on an increasing trend. We believe this efficiency in AlMajed's DAUs is because of its strategy revolving across i) wide product assortments, ii) frequent product launches, and iii) competitive pricing, which benefits it to attract increasing customer base.

Fig 25. Wide product assortments, frequent product launches and competitive pricing drives the DAUs for AlMajed

Active users (in 000s)	Sept-23	Oct-23	Nov-23	Dec-23	Jan24	Feb24	Mar-24	Apr24	May24	Jun24	Jul-24	Aug24
Arabian Oud	**147.7**	**120.5**	**105.7**	**96.4**	**98.6**	**91.5**	**81.9**	**72.3**	**62.3**	**56.9**	**58.4**	**72.8**
IOS	86.8	72.4	65.4	60.3	61.1	58.4	55.3	49.7	43.4	41.2	41.5	49.7
Android	60.9	48.0	40.3	36.1	37.5	33.1	26.6	22.7	18.8	15.7	16.9	23.1
AlMajed Oud	**40.6**	**33.8**	**38.0**	**43.9**	**50.6**	**46.6**	**69.9**	**72.6**	**61.6**	**65.9**	**57.5**	**60.7**
IOS	26.6	22.3	25.7	28.9	34.1	30.9	47.6	48.2	38.7	41.7	37.4	40.3
Android	14.0	11.5	12.3	15.0	16.5	15.6	22.3	24.4	22.9	24.2	20.1	20.4
Ajmal Perfumes	**5.4**	**3.7**	**3.8**	**4.0**	**3.7**	**3.7**	**7.0**	**4.8**	**4.6**	**4.7**	**4.3**	**4.6**
IOS	5.0	3.3	3.4	3.6	3.2	3.4	5.9	3.8	3.4	3.7	3.7	4.1
Android	0.4	0.4	0.4	0.4	0.4	0.4	1.1	1.1	1.2	1.0	0.6	0.6
Abdul Samad	**40.8**	**38.3**	**34.5**	**30.8**	**28.8**	**29.7**	**28.4**	**26.2**	**25.6**	**25.0**	**23.3**	**22.7**
IOS	32.5	31.0	28.6	26.2	25.1	25.6	24.2	22.3	21.9	21.3	20.0	19.6
Android	8.3	7.3	5.9	4.6	3.7	4.1	4.2	3.9	3.7	3.7	3.3	3.1

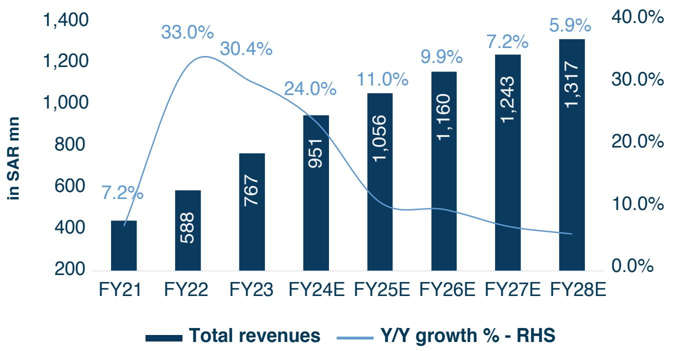
Source: Data.ai, AlJazira Capital research

Financial Analysis

Revenue growth momentum to continue driven by sectoral tailwinds, strategic store & product expansion

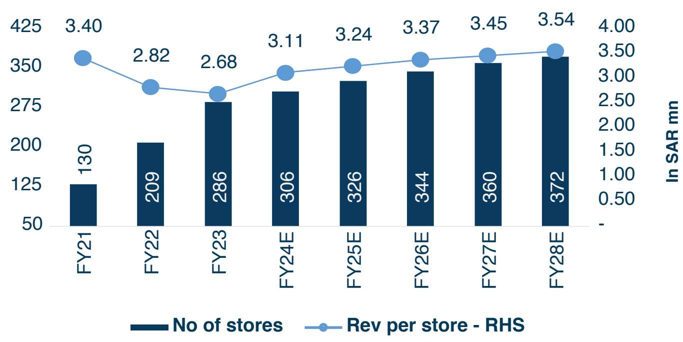
Historically, AlMajed's revenues have grown from SAR 442mn in FY21 to SAR 767mn by FY23, implying a strong 31.7% CAGR. Its quick product launches and expansion into multiple categories and geographies aided in a sharp growth of 21.6% in the volumes sold, while the ARPUs grew modestly at 8.3%. AlMajed is likely to benefit from the sectoral tailwinds in the fragrance industry. Favorable economic factors, technological innovations for personalized scents, and boost in tourism is likely to drive KSA's fragrance market at 13.0% CAGR over 2022-27e. Further according to the company's strategic plan for expanding its operational footprint and the product offerings in Kingdom and other GCC nations, we forecast the number of stores to increase from 286 in FY23 to 372 by FY28e. This confluence of store expansion and product diversification can expand the blended revenues per store from SAR 2.68mn in FY23 to SAR 3.54mn by FY28e. Going forward over the medium term (FY23-28e) we expect the revenues could grow at 11.4% CAGR over FY23-28e, and reach a revenue base of SAR 1,317mn by FY28e. We believe AlMajed will be the key beneficiary of the sectoral tailwinds poised for KSA's fragrance industry due to its i) long operating history, ii) deep understanding of market demands, iii) ability to swiftly launch new products, and iv) wider product assortments. Further its portfolio of brands are common and trusted brand within Saudi households.

Fig 26. Sectoral tailwinds, store expansion, rising product offerings to drive 11.4% revenue CAGR over FY23-28e



Source: Company, AlJazira Capital research

Fig 27. Store expansions to grow footprint, while operational efficiency to drive revenue per store

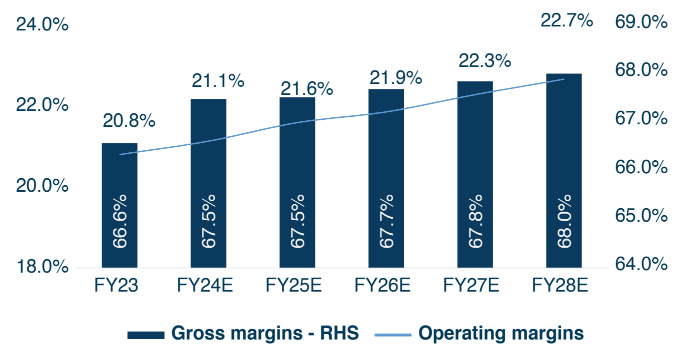


Source: Company, AlJazira Capital research

Significant margin expansion driven by store maturity, improving revenue per store and operating leverage

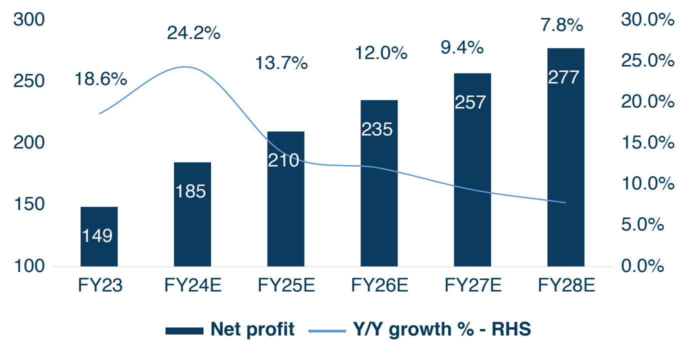
AlMajed's gross margins expanded significantly from 60.9% in FY20 to 66.6% in FY23, aided by i) pricing power indicated by increase in ARPU, ii) bargaining power with suppliers and iii) rapid store and product expansion. Pressure on gross margins due to higher number of store additions in the medium term (till FY28e) to be partially offset by increase in revenue per store. Thus, we expect the gross margins to grow gradually by 140bps till FY28e and reach 68.0% levels. Regarding operating margins, we forecast it to expand significantly by 33bps in FY24e, due to efficient cost rationalization portrayed by the company in Q1-24. Despite increasing selling & distribution cost (S&D) costs for expansion in KSA and GCC, we expect the margins to expand significantly, primarily at the back of operating leverage and better store maturity. We expect majority of the operating profits to flow into the net profits, and hence we expect the net profits to grow at 13.3% CAGR over FY23-28e, and net margins to reach 21.1% levels.

Fig 28. Despite store expansions, gross margins to expand gradually due to rise in revenue per store



Source: Company, AlJazira Capital research

Fig 29. Lower dependency on debt to drive majority of operating profits into net profits and drive 13.3% growth

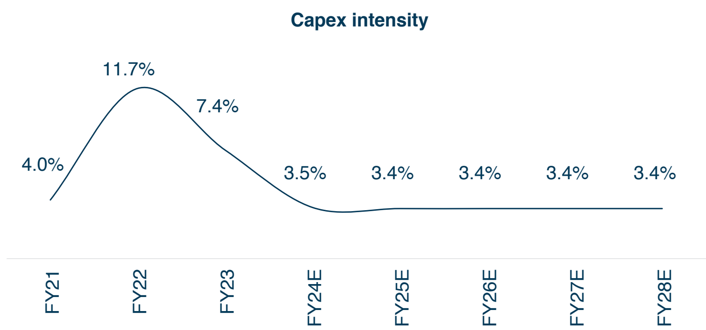


Source: Company, AlJazira Capital research

Minimum capex requirements, coupled with efficient working capital to elevate shareholder payouts

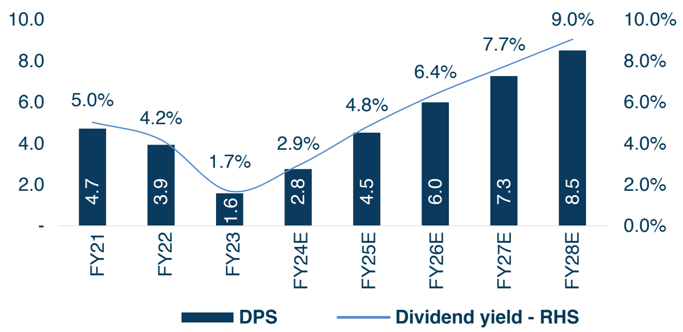
The company has efficiently controlled its cash conversion cycle which reduced from 185 days in FY20 to 111 days in FY23. This was largely due to significant efficiency in lowering inventory days from 195 days to 119 days. This efficiency ensures minimal working capital requirement for future cash flows in the medium to long term. Historically the company's capex intensity has been within 4-10% of revenues, with a sharp increase in FY22. Going forward we expect the capex intensity to moderate and gradually decrease to 3.4% by FY28e. To support the company's store expansions in the medium term, we believe that the company's internal cash flows would be sufficient and hence the company would not be in need of external debt financing. Efficient working capital requirement and low capex intensity will ensure consistency in cash generation, and thus aid in elevating shareholder payouts. We estimate the payouts to increase and accordingly forecast DPS to increase from SAR 1.6 per share in FY23 to SAR 8.5 per share by FY28e, thereby implying 9.0% dividend yield.

Fig 30. Capex intensity to normalize and reach historic levels



Source: Company, AlJazira Capital research

Fig 31. Efficient working capital requirement, easing capex and reducing debt levels to drive higher shareholder payouts



Source: Company, AlJazira Capital research

Risk Factors

- **Decline in consumption levels and changes in consumer preferences:** The Company's revenues highly depend on the consumer spending patterns. The continued success of the company depends on its ability to efficiently anticipate market trends as well as its ability to quickly respond to such changes. In order to stay ahead of the competitive landscape, the company is required to launch numerous products on frequent basis. Any failure in acceptance of products can impact its overall revenues and margin profile.
- **Heavy reliance on imported raw materials increases the risk of price fluctuations and margin deterioration:** The Company's ability to develop products depends on its ability to source the raw materials domestically and globally. Since the company imports majority of raw materials outside of the kingdom, the risk of price fluctuations is inevitable. Any significant increase in the raw materials could materially impact on the company's margins, as raw materials accounts for more 87% of the FY23 COGS.
- **Risk of seasonality:** Company's revenues are subject to seasonal fluctuations. The number of visitors and sales volume peak during discount promotions and special offers, such as Ramadan, Hajj and Umrah. The month of Ramadan and end-of-season accounts for more than 50% of company's annual revenues. Failure to predict these seasonal fluctuations in number of visitors and sales volume can significantly hamper the topline of the company.

Valuation Methodologies

We have performed 50% DCF and 50% PE based valuation based on our forecasts for the next five years. We assumed risk free rate of 4.25%, market risk premium of 6.25% and beta of 1.0 to arrive at WACC of 10.50%. Terminal growth rate is assumed at 2.50%. Our valuation of AlMajed based on DCF yielded an enterprise value of SAR 4.26bn and fair value to equity shareholders of SAR 4.36bn, which translated into a value of SAR 174.7 per share. We also have valued AlMajed using a relative valuation method based on 12-month forward P/E multiple of 20.0x and applied it to our FY25e earnings estimates. Based on the P/E based valuation our value is SAR 167.9 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 171.3 per share**.

Fig 32. Discounted Cash Flow model

	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	**316.1**	**351.2**	**388.3**	**416.1**	**439.7**
Change in working capital	18.5	32.2	32.0	25.4	22.5
Capex	33.3	36.2	39.7	42.6	45.1
Lease payments	**63.1**	**73.2**	**84.1**	**95.9**	**109.5**
FCFF	**238.2**	**274.0**	**296.4**	**303.0**	**307.6**
Present value of FCFF	232.3	241.8	236.7	219.0	201.2
WACC	10.50%	10.50%	10.50%	10.50%	10.50%
Enterprise Value					**4,263.4**
Less: Debt					0
Add: cash					100.9
Equity value to common shareholders					**4,364.3**
No of outstanding shares (mn)					25.0
Fair value per share					**174.7**

Source: AlJazira Capital research

Fig 33. DCF key assumptions

Terminal growth rate		Risk premium				
		5.25%	5.75%	6.25%	6.75%	7.25%
	2.00%	195.2	178.5	163.8	151.0	139.6
	2.25%	202.3	184.5	169.1	155.5	143.6
	2.50%	209.9	191.0	174.7	160.4	147.8
	2.75%	218.0	197.9	180.6	165.5	152.3
	3.00%	226.8	205.3	186.9	171.0	157.0

Source: AlJazira Capital research

Above is an illustration of sensitivity of our DCF based target price to the changes in terminal growth rate (range: 2.00%-3.00%) and risk premium (range: 5.25%-7.25%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 139.6 (at terminal growth rate of 2.00% and risk premium of 7.25%) and a maximum of SAR 226.8 per share (at terminal growth rate of 3.00% and risk premium of 5.25%).

Fig 34. Relative valuation using P/E multiple

P/E ratio (x)	20.0
FY25 EPS	8.4
TP	**167.9**

Source: AlJazira Capital research

Fig 35. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	174.7	50%	87.3
P/E	167.9	50%	83.9
Total			**171.3**

Source: AlJazira Capital research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	442	588	767	951	1,056	1,160	1,243	1,317
Y/Y	**7.20%**	**32.98%**	**30.4%**	**24.0%**	**11.0%**	**9.9%**	**7.17%**	**5.93%**
Cost of revenue	(168)	(211)	(256)	(309)	(343)	(375)	(400)	(421)
Gross profit	**275**	**377**	**511**	**642**	**713**	**785**	**844**	**896**
SG&A	(165)	(240)	(351)	(441)	(485)	(532)	(566)	(597)
EBITDA	**163**	**222**	**266**	**316**	**351**	**388**	**416**	**440**
Y/Y	**-7.9%**	**36.8%**	**19.7%**	**18.8%**	**11.1%**	**10.6%**	**7.2%**	**5.7%**
Operating profit	**109**	**138**	**160**	**201**	**228**	**254**	**277**	**299**
Y/Y	**-15.6%**	**25.9%**	**15.9%**	**25.9%**	**13.5%**	**11.2%**	**9.3%**	**7.8%**
Financial charges	(6)	(8)	(12)	(11)	(12)	(11)	(12)	(13)
Income before zakat	**107**	**133**	**157**	**195**	**222**	**248**	**272**	**293**
Zakat	(6)	(8)	(8)	(10)	(12)	(13)	(14)	(16)
Net income	**101**	**125**	**149**	**185**	**210**	**235**	**257**	**277**
Y/Y	**-18.5%**	**24.1%**	**18.6%**	**24.2%**	**13.7%**	**12.0%**	**9.4%**	**7.8%**
EPS (SAR)	**4.04**	**5.01**	**5.95**	**7.38**	**8.39**	**9.40**	**10.28**	**11.08**
DPS (SAR)	**4.72**	**3.92**	**1.58**	**2.75**	**4.50**	**6.00**	**7.25**	**8.50**
Balance sheet								
Assets								
Cash & equivalent	7	23	54	132	217	288	346	382
Other current assets	240	260	346	364	399	434	462	487
Total current assets	**248**	**283**	**400**	**496**	**617**	**722**	**808**	**868**
Property plant & equipment	61	105	133	133	135	137	139	141
Right of use assets	185	241	233	226	223	222	235	267
Total assets	**499**	**633**	**772**	**864**	**985**	**1,094**	**1,197**	**1,292**
Liabilities & owners' equity								
Trade payables	14	14	24	23	26	29	31	32
Other current liabilities	61	132	164	126	134	141	150	160
Total current liabilities	**75**	**146**	**188**	**150**	**160**	**170**	**181**	**192**
Lease liabilities – non-current	127	160	146	160	174	188	204	223
Total non-current liabilities	**134**	**169**	**157**	**171**	**185**	**199**	**215**	**234**
Share capital	50	250	250	250	250	250	250	250
Reserves	240	68	177	293	391	476	552	616
Total owners' equity	**290**	**318**	**427**	**543**	**641**	**726**	**802**	**866**
Total equity & liabilities	**499**	**633**	**772**	**864**	**985**	**1,094**	**1,197**	**1,292**
Cashflow statement								
Operating activities	168	237	169	293	313	349	383	409
Investing activities	(20)	(60)	(59)	(37)	(40)	(44)	(48)	(50)
Financing activities	(155)	(162)	(80)	(178)	(187)	(234)	(277)	(322)
Change in cash	(7)	16	31	78	85	71	58	36
Ending cash balance	**7**	**23**	**54**	**132**	**217**	**288**	**346**	**382**
Liquidity ratios								
Current ratio (x)	3.3	1.9	2.1	3.3	3.9	4.3	4.5	4.5
Quick ratio (x)	3.2	1.8	1.8	2.4	2.5	2.6	2.6	2.5
Profitability ratios								
Gross profit margin	62.1%	64.1%	66.6%	67.5%	67.5%	67.7%	67.8%	68.0%
Operating margin	24.7%	23.4%	20.8%	21.1%	21.6%	21.9%	22.3%	22.7%
EBITDA margin	36.7%	37.8%	34.7%	33.2%	33.3%	33.5%	33.5%	33.4%
Net profit margin	22.8%	21.3%	19.4%	19.4%	19.9%	20.3%	20.7%	21.1%
Return on assets	19.9%	22.1%	21.2%	22.6%	22.7%	22.6%	22.5%	22.3%
Return on equity	33.8%	41.3%	39.9%	38.1%	35.5%	34.4%	33.7%	33.2%
Leverage ratio								
Net Debt / equity (x)	(0.03)	(0.07)	(0.02)	(0.24)	(0.34)	(0.40)	(0.43)	(0.44)
Market/valuation ratios								
EV/sales (x)	5.3	4.0	3.1	2.3	2.0	1.8	1.6	1.5
EV/EBITDA (x)	14.4	10.5	8.8	7.0	6.1	5.3	4.8	4.5
Market-Cap	2,349	2,352	2,349	2,351	2,351	2,351	2,351	2,351
P/E ratio (x)	23.3	18.8	15.8	12.7	11.2	10.0	9.1	8.5
P/BV ratio (x)	8.1	7.4	5.5	4.3	3.7	3.2	2.9	2.7
DY (%)	5.0%	4.2%	1.7%	2.9%	4.8%	6.4%	7.7%	9.0%

Source: Company, AlJazira Capital research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer