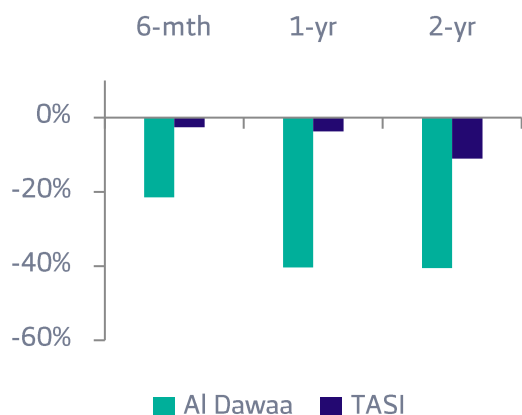


Market Data	
52-week high/low	SAR 86.7 / 46.0
Market Cap	SAR 4,213 mln
Shares Outstanding	85 mln
Free-float	50.4 %
12-month ADTV	149,022
Bloomberg Code	ALDAWAA AB



■ Margins Under Structural Pressure; Downgrading to Neutral

May 7, 2026

Upside to Target Price	0.9%	Rating	Neutral
Expected Dividend Yield	5.1%	Last Price	SAR 49.56
Expected Total Return	6.0%	12-mth target	SAR 50.00

Al Dawaa	4Q2025	4Q2024	Y/Y	3Q2025	Q/Q	RC Estimate
Sales	1,683	1,700	(1%)	1,703	(1%)	1,737
Gross Profit	585	603	(3%)	593	(1%)	594
Gross Margins	35%	35%		35%		34%
Operating Profit	106	124	(14%)	105	1%	114
Net Profit	61	85	(28%)	69	(12%)	76

(All figures are in SAR mln)

- Al Dawaa's 4Q25 results confirm what the prior three quarters had begun to suggest: the Company's margin compression is structural, not seasonal. Despite consistent top-line growth driven by store expansion, community locations, and private brand sales, gross margins have fallen Y/Y in three of the last four quarters (if 4Q24 is included, this expands to four of the last five). The modest 4Q25 Y/Y gross margin improvement does not change this conclusion – first quarters historically benefit from seasonal factors that we expect to mean-revert in 1Q26, which we acknowledge. However, we no longer view margin pressure as a transitional issue tied to the investment cycle, but as a structural feature of the current store-economics model and overall market dynamic.
- Revenue of SAR 1.68 bln (vs. our SAR 1.73 bln estimate) and gross profit of SAR 585 mln were in line with our forecasts, while operating profit of SAR 106 mln (-14% Y/Y, +1% Q/Q) also tracked our model. However, net profit of SAR 61 mln missed our SAR 76 mln estimate by ~20%, falling -28% Y/Y and -12% Q/Q. The miss reinforces our concern: top-line and gross-margin metrics are stable on a quarterly basis, but the costs associated with continued expansion – additional branches, multi-channel infrastructure, private brand investment, are clearly flowing through to net margin in a way that previous models, including ours, did not adequately capture. Quarterly dividends remain consistent and materializing as expected, which we view as a partial offset to recent share price weakness, but insufficient to anchor a constructive thesis on its own.
- We lower our 12-month target price to SAR 50.00 and downgrade our recommendation to Neutral. The TP revision reflects a recalibration of our long-term margin assumptions to align with the multi-quarter trend, and a higher discount applied to growth investments where the unit-economics outcome remains uncertain. We acknowledge the stock has already de-rated materially; our framework suggests risk-reward is now balanced at current levels rather than skewed positively. We would revisit a more constructive view on evidence of (1) gross (and net) margin stabilization and recovery over a minimum of two consecutive quarters, (2) accretive contribution from private-brand and multi-channel segments at the store-economics level, and (3) clearer communication from management on the long-term margin profile of the expanded store base.

Brennan Eatough
 brennan.eatough@riyadcapital.com
 +966-11-203-6808

■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Riyad Capital is a Saudi closed joint stock company with paid-up capital of SAR 500 million. Licensed by the Saudi Arabian Capital Market Authority (No. 07070-37). Commercial Registration No. 1010239234. Head Office: 3128 Financial Boulevard, 6671 Al Aqeeq Dist., Riyadh 13519, Kingdom of Saudi Arabia. Ph: 920012299.

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report. Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.