



CFC PROJECT: DAD GROUP

Reuters Code : DADI

Listing : Amman Stock Exchange

Valuation Analysis

Prepared and presented for the Certified Financial Consultant Course. All data and information's used in the analysis process is within the disclosed data by the Board and management of DAD Group.

Prepared by :

Jamileh "Ali Moustafa "

Table of contents

Introduction.....	1
Investment Summary.....	1
Industry Overview.....	3
Peer Group Overview.....	5
Company Overview.....	6
SWOT Analysis.....	7
Financial Overview.....	8
Valuation Methods & Assumptions.....	10
Financial Ratios Analysis.....	12

Introduction:

Financial statements projection , forecasting and valuation are very common in corporate financial analysis.

The reason is that it is very useful and important to forecast how much financing a company will require in future years and evaluating the performance of the corporate. The projections are achieved by using historical sales , accounting data and assumptions on future sales and costs. This project analyze and evaluate the financial position and performance of Dar Al-Dua'a company during the period 2010-2014.

Investment Summary:

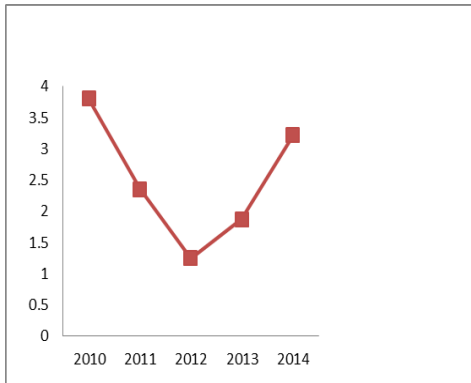
Operating revenues of DAD Group fluctuated during the past five years due to the high fluctuation in the gross margin ratio and the operational cost which lead with the continuous profit in the last two years and to increase in the stock price.

In 2014, DAD group achieved excellent results and growth rates of its operational indicators comparing to the last 4 years .DAD's stock has been impacted positively by growth and by the dividends distribution of 2014 reached to JD3.22 .

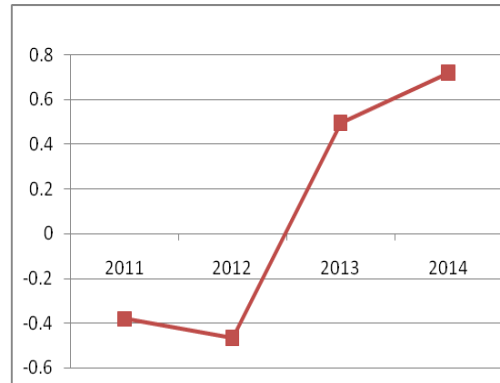
Table 01: DAD Group outstanding shares, net income and stock price:

Trading Information	2010	2011	2012	2013	2014
Closing Price (JD)	3.80	2.35	1.25	1.87	3.22
No. of Subscribed Shares	20,000,000	23,000,000	25,000,000	25,000,000	25,000,000
Market Capitalization (JD)	76,000,000	54,050,000	31,250,000	46,750,000	80,500,000
Fiscal Year Ended	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014

Closing Prices (JDs)



Closing prices (%)



- Based on the closing prices for the last 5 years DAD group witnessed a sharp decline in its closing prices in the year 2011-2012 due to its loss in exchange currency in its branch in Algeria. while in 2013 and 2014 DAD achieved excellent results and growth rates in all its operations
- In addition in 2014 net income grew by 30.4% ,reaching JD6.019 million .
- The corporate operating Revenues increases by 40% to reached JD68.969 million in 2014 .

Industry Overview:

The pharmaceutical market in Jordan has come a long way since its inception in 1962 with the establishment of Arab Pharmaceutical Manufacturing Company.

Through the past 48 years, the Jordan pharmaceutical industry has grown strongly and number of its companies now is 16, after merges and restructuring of many companies during the last two years.

The sector became an export driven industry distributing its products on more than 60 countries due to its high quality, excellent reputation, and its affordable price.

Pharmaceutical industry in Jordan is a pioneer exporting sector due to its high quality and excellent reputation. Therefore 81% of production is exported to foreign markets.

Jordan pharmaceuticals are now distributed worldwide in more than 60 countries and 90% of the exports are going to Arab countries. Jordan pharmaceutical companies have joint ventures and subsidiary companies in 8 Arab and foreign countries.

The pharmaceutical market in Jordan, like other MENA countries, is a branded market which means patented and generic pharmaceutical products are marketed under specific brand names.

The pharmaceutical sector in Jordan is primarily engaged in production of branded generics ranging from many dosage forms such as solids, semi-solids, liquids, aerosols as well as producing various under licensed products for multi-national companies.

The importance of the sector in the economy can be understood from the fact that it is the second largest export industry in Jordan after garment manufacturing. Currently close to three-fourths of total pharmaceutical production is meant for exports.

Products of Jordanian pharmaceutical companies are already registered in more than 60 countries world-wide including developed markets like USA and EU. Arab countries are the main export destinations for pharmaceutical products.

However the companies are now increasingly focusing on geographies like Eastern Europe (including former Soviet Union) and Africa to drive growth.

Jordanian pharmaceutical growth remain moderate at around 31% in 2014.the drop of oil prices have apposite effect on the industry. on the other hand inflation rate dropped dramatically in 2014 to reach 2.8% compared to 5.6% in 2013.

Table 2: pharmaceutical industry market capitalization and operating income

	2011	2012	2013	2014
Market Capitalization (JD)	156056177.5	102107857.7	100006112	164366774.3
Total Assets	214271452	207576056	220098487	212761399
Operating Revenues	85159746	98135634	101135048	127364559

Hikma is the largest Jordanian pharmaceutical company followed by Dar Al Dawa. Though the companies are primarily engaged in branded generic and under licensed manufacturing, many companies are focused on several niche areas. DAD Group is a well-diversified pharmaceutical company with three different lines of business: Branded Pharmaceuticals and Injectables.

Peer Group Comparison:

Sales and Profitability Analysis

Sales and Profitability Analysis among the Jordanian companies, Hikma is the clear leader with sales of JD 1489 M in 2012. Dar Al Dawa is a distant second with sales of JD 68,969,440 M in 2014.

The gap between the top two companies widened in recent years with wide geographic expansions by Hikma. Hikma currently derives a substantial chunk of its revenue from developed markets like USA and Europe. Hikma's foray into new lines of businesses such as Injectable has also contributed significantly to sales growth.

DAD Group plans to improve its sales growth in the coming years using its new plants in Jordan and MENA region.

The low operating expense of Hikma is attributed to the fact that close to half of its sales comes from outside the Middle-East region. In the Middle-East region, the sales commissions and expenses are on the higher side compared to developed markets. Most of the companies are trying to bring the expense to the level of 20% of sales. However they have not been very successful in that since operating in large number of export markets and competing against multinational companies in marketing branded generics, adds to their cost. There is most uniformity among the companies with regard to general and administrative (G&A) expenses.

DAD Group forced to continue in paying much expense in the markets that semi or fully closed in order to keep the opportunity to re-open these markets in the future as well as KSA market.

Company Overview:

- Dar Al Dawa Development & Investment Company Ltd. ('the Group') was established as a public shareholding company on 17 August 1975 with a paid in capital of JD 500,000. The Company's paid in capital has increased over the years to reach as of 31 December 2014 JD 25 million divided into 25 million shares at a par value of JD 1 per share.
- Dar Al Dawa has a strong presence in the MENA (Middle East and North Africa) market. Like other Jordanian pharmaceutical manufacturers, the company derives most of its sales from export markets. It has a presence in more than 16 countries in Middle East, North Africa, the Gulf region, sub-Saharan Africa, and Europe.
- The Group's main objectives are producing medical, chemical, and pharmaceutical products, and importing pharmaceutical products. The subsidiaries main objectives are marketing and distributing Dar Al Dawa products and producing some specialized medical products and investments activities.
- Dar Al Dawa manufactures a wide range of pharmaceutical products. It has more than 100 products (in more than 200 dosage forms) in approximately 20 therapeutic segments. The categories which contribute maximum to revenue include Anti-infective and Anti-inflammatories & Analgesics. Dar Al Dawa also produces drugs in therapeutic categories like Gastrointestinal, Cardiovascular, Central Nervous System, Dermatological, Respiratory, Ophthalmological, Ontological, Anti-diabetics, Anti-hemorrhoids, and Anti-histamines.
- The subsidiaries that are included in the consolidated financial statements are as follows:

Table 03: Subsidiaries Companies:

Company Name	Principle Activities	ownership
Algeria as a partial investment Dar Al- Dawa Algeria	Marketing	100%
SC. DAR AL DAWA PHARMA SRL-Romania	Marketing	100%
Alfa Healthcare Libya	Marketing	100%
Dar Al-investment co. Limited- Jordan	manufacturing	100%

In subsequent periods DAD Group increases its share in NUD and converts it to be a subsidiary company.

SWOT Analysis:

Strengths	Opportunities
Focus on providing high quality, affordable generic and branded medicines to help improve the quality of life for patients across their global markets	Rapidly building a leading global Injectable business and developing the portfolio of non-injectable products developing countries.
Wide range of product with good geographical coverage presence and resources in the Middle East and North Africa ('MENA'). Dar Al Dawa is a MENA-wide leader in pharmaceutical and consumer health products	Creating value and helping to improve the lives of patients.
Allowing increased investment in R&D, targeted business development and strategic acquisitions	Deliver high quality, affordable generic and branded generic medicines to patients by leveraging DAD position as a leading pharmaceutical manufacturer in MENA and emerging market
Strong cash flow generation supported their continuous investment in future growth.	
Weakness	Threats
Weak in investing in the training and development of employees and should hiring talented new employees to support DAD future growth plans.	Foreign currency exposure .
The increase in the price of raw and packaging. Materials might impact the company's Margins.	From the other pharmaceuticals industries which are going to enter and give a cut-throat competition
	Product patent regime poses serious challenge to domestic industry unless it invest in the R&D
	The Group's business faces geopolitical risk and uncertainties that could have a significant effect on its financial condition, results of operations or future performance and could cause actual results to differ materially from expected and historical results.

Financial Overview:

The corporate managed to achieve excellent financial results , net income before tax IN 2014 amounted to JD 8,950,329 compared to JD 6,737,186 in 2013.

Revenue and expenses:

DAD Group in the last five years is characterized by high fluctuation in its net income and net sales trend over the last five years.

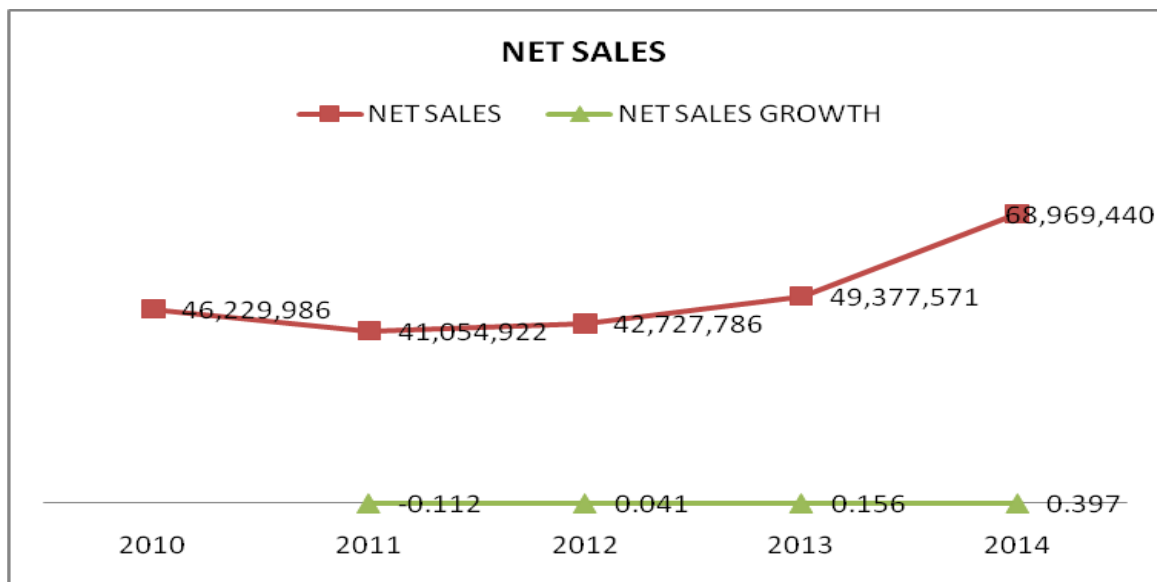
The fluctuation in net income mainly was due to the decrease in the profit margin in the year 2011 and 2012 also the un-expected new provisions in addition to the high Forex exposure of the DZD currency against the USD currency.

.DAD achieve high growth rates in 2014, operating revenues increased by 40% reaching JD68.969million

Net sales growth:

Operationally , DAD in 2014 compared to JD 49378 million in 2014.DAD made excellent strategic progress in year 2014, taking actions to strengthen our operations in the MENA region, significantly enhancing and expanding our global Injectable business and developing a product portfolio for our non-injectable generics business in the US. This has been achieved by focusing on key strategic priorities across businesses, increase efficiency and all of operational activities, and by cost reduction.

Chart 02: DAD Sales Growth (2010 – 2014)



DAD Group is working on the closed markets through focusing on the in-market sales in order to re-start exporting its goods to those markets.

Also DAD Group plans to expand its sales growth in the coming years specially when the new plants in Jordan and Algeria finished.

Profitability:

DAD Group net profit fluctuated due to the previous mentioned explanations and also due to the following points:

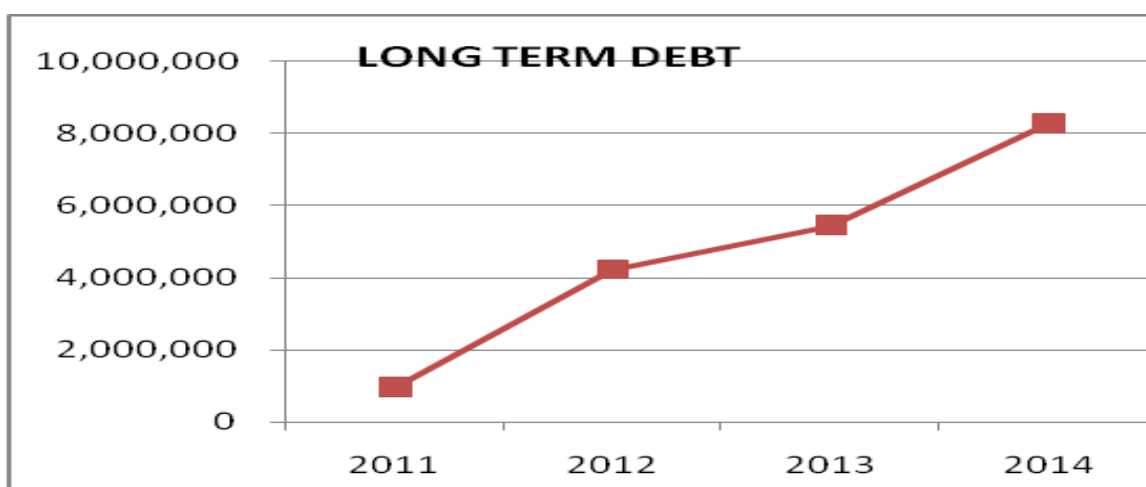
Un-Expected Provisions, Forex loss and Loss from the Associates:

Un-Expected Provisions: The Group Exposed to some other non-operating losses due to the un-expected provisions such as the impairment loss of some investments.

Funding Source:

The depend on the financial leverage through the long- term debit increased starting from year of 2008. And the company used its operation power and high net equity to borrow more money through banks. These loans mainly taken for a short run needs as letter of credit finance and dividends payment.

Chart 10: DAD Group long –term Debt (2010 – 2015)



Valuation:

For arriving at the fair value of the company under review, we have used The Discounted Cash Flow method and the Relative Valuation method.

Discounted Cash Flow (DCF) Method

The DCF valuation used here is based on the free cash flow to firm (FCFF) defined as cash flow left over after covering capital expenditure and working capital needs. The FCFF is estimated for the period 2015 to 2017, which is the terminal year. In the terminal year, all FCFF is capitalized. The FCFF and terminal value are then discounted back to present value on the basis of the discounting factor, which is the cost of capital for the company. The summation of all the present values of future cash flows and terminal value is the firm value of the company. Value of debt is deducted to arrive at the equity value of the company.

The key assumptions made for the DCF method are given below.

1. A risk-free rate of 4.3 % has been assumed.
2. A market return .05 % has been assumed (S&B500).
3. Average DAD stock return .23 % has been assumed .
4. Beta is assumed to be -.17.
5. The cost of equity derived using the Capital Asset Pricing Model (CAPM) is 5.02% .
6. The cost of debt 23.7% has been assumed .
7. WACC 7.1% has been assumed .
8. Number of shares outstanding 25080596 has been assumed
9. Total terminal values JD 273,875,824 has been assumed
10. Corporate value JD236,897,285

Based on the assumption discussed above , we arrived at a fair value for DAD Group: JD 9.275 ,The stock price is undervalued so the recommendation to **buy** it , since it's expected to increase in future.

Table 07: Free Cash Flow to Firm

	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
FCF	56409598	(3,463,882)	(14,431,110)	6614976	6050236	9531372	10484509
Terminal value							263391315
Total with Terminal value	56409598	(3,463,882)	(14,431,110)	6614976	6050236	9531372	273875824
NPV of terminal /corporate value	236897285						
Long term debt	(7,200,561)						
Cash at the beginning of 2014	2914719						
Equity value	232611443						
No shares out standing	25080596						
Target price per share	9.3						

Financial Ratios Analysis

Dar Al-Dawa Development and Investment company public shareholding Company ratios.

***Credit analysis:

1-Liquidity

Ratios	2013	2014	2015 (F)	2016 (F)	2017 (F)
Current ratio	2	2	2	1	1
Quick ratio	1	1	1	1	1

2- Activity ratio

Inventory takeover	2	3	2	2	2
Average age of inventory	182.5	122	182.5	182.5	182.5
T. assets turnover	0.487	0.688	0.688	0.688	0.688

3-Financial Leverage Ratios

Debt Ratio	0.459	0.446	0.447	0.447	0.447
Time interest earned ratio	4	3	4	3	3

4- profitability Ratios

	2013	2014	2015 (F)	2016 (F)	2017 (F)
Gross profit margin	0.517	0.512	0.512	0.512	0.512
EPS	2	2	3	5	7
ROA	0.487	0.688	0.688	0.688	0.688
ROE	0.090	0.115	0.195	0.260	0.331

Income Statement

(JD)	2010	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Operating Revenues	46,229,986	41,054,922	42,727,786	49,377,571	68,969,440	75,866,384	83,453,022	91,798,325
Operating Expenses	24,848,751	23,866,238	25,519,918	23,861,463	33,654,643	33,654,643	37,020,107	40,722,118
Gross Profit	21,381,235	17,188,684	17,207,868	25,516,108	35,314,797	38,846,277	42,730,904	47,003,995
General and Administrative Expenses	3,882,358	4,135,563	3,282,097	3,527,327	4,587,203	4,551,983	5,007,181	5,507,899
Selling and Distribution Expenses	10,747,566	10,316,052	9,904,991	11,415,545	17,517,731	18,966,596	20,863,256	22,949,581
Depreciation (period)	0	1,483,265	16,221,769	1,696,163	2,271,983	2,328,949	2,585,134	2,869,499
Other Operating Expenses	1,949,981	2,295,147	2,728,311	2,322,777	2,701,029	1,137,996	1,251,795	1,376,975
T .Operating Exp	16,579,905	18,230,027	32,137,168	18,961,812	27,077,946	26,985,524	29,707,366	32,703,954
Net Operating Income	4,801,330	441,922	1,292,469	8,250,459	10,508,834	14,189,702	15,608,672	17,169,539
Other Revenues	8,453,741	614,619	578,255	1,338,781	780,299	834,530	917,983	1,009,782
Other Expenses	2,310,845	5,154,364	3,650,055	2,852,054	2,338,804	2,275,992	2,503,591	2,753,950
Income Before Interest & Tax	10,944,226	(4,097,823)	(1,779,331)	6,737,186	8,950,329	12,748,241	14,023,065	15,425,371
Interest Expenses	1,356,005	1,726,851	1,744,377	1,833,428	2,605,983	3,231,419	4,006,959	4,968,630
Net Income before Tax	9,588,221	(5,824,674)	(3,523,708)	4,903,758	6,344,346	9,516,822	10,016,105	10,456,741
Income Tax (Period)	342,632	42,841	72,261	242,982	280,003	294,003	308,703	324,138
Universities and Research Train Fees	89,452	0	0	0	0	0	0	0
Board of Directors Remuneration	45,000	0	0	45,000	45,000	45,000	45,000	45,000
Net Income	9,111,137	(5,867,515)	(3,595,969)	4,615,776	6,019,343	10,380,349	15,199,671	21,238,079

Balance Sheet

Assets (JD)	2010	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Cash on Hand & at Banks	13,953,068	12,529,323	1,046,594	3,991,838	2,914,719	3,186,388	3,505,027	3,855,530
Account Receivables, Net TURN OVER	28,312,614	22,529,648	27,903,921	27,536,721	27,442,234	30,346,554	33,381,209	36,719,330
Post Dated Cheques	7,005,942	6,046,976	3,845,258	9,939,278	12,672,736	13,655,949	15,021,544	16,523,698
Short Term Investments	34,218	0	0	0	0	0	0	0
Inventory	21,566,606	16,785,611	10,291,266	12,888,874	12,377,812	13,655,949	15,021,544	16,523,698
Total Current Assets	76,128,294	65,260,258	48,910,599	62,137,634	62,037,258	62,072,496	66,929,324	73,622,256
Long Term Investments	11,034,354	7,467,007	4,090,069	2,607,195	2,721,325	3,034,655	3,338,121	3,671,933
Fixed Assets, Net	10,982,549	11,549,904	10,885,823	23,501,113	23,289,494	25,794,571	28,374,028	31,211,430
Projects in Progress	1,869,237	536,058	10,915,366	7,332,646	7,748,615	7,586,638	8,345,302	9,179,832
Total Fixed Assets	10,982,549	11,549,904	10,885,823	23,501,113	23,289,494	25,851,338	28,694,986	31,851,434
Other Assets	0	5,470,971	11,565,401	5,725,181	4,493,339	4,931,315	5,424,446	5,966,891
Total Assets	100,014,434	90,284,198	86,367,258	101,303,769	100,290,031	110,309,722	121,340,695	133,474,764
Liabilities (JD)								
Accounts and Notes Payable	6,855,335	6,038,910	5,135,761	8,567,353	7,222,770	7,404,021	7,367,498	7,497,934
Credit Banks	13,752,763	12,634,559	18,001,321	11,440,513	7,941,440	8,724,634	9,597,098	10,556,807
Accrued Part of Long Term Loans	1,536,545	2,718,023	0	2,796,734	3,808,277	3,853,093	3,860,305	3,857,961
Total Current Liabilities	31,198,825	32,412,654	32,043,180	37,824,061	37,059,943	40,967,847	45,064,632	49,571,095
Long Term Loans & Notes Payable	945,522	4,221,697	5,441,898	8,275,504	7,200,561	7,176,350	7,162,441	7,166,962
Other Liabilities	8,201,585	213,746	237,235	420,641	504,381	531,065	584,171	642,588
Total Liabilities	40,345,932	36,848,097	37,722,313	46,520,206	44,764,885	49,313,150	54,244,465	59,668,911
Shareholders' Equity (JD)								
Authorized Capital	20,000,000	23,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Subscribed Capital	20,000,000	23,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Paid-in Capital	20,000,000	23,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Compulsory Reserves	9,260,627	9,260,627	9,260,627	9,260,627	9,260,627	9,260,627	9,260,627	9,260,627
Voluntary Reserve	9,372,759	9,372,759	9,372,759	9,372,759	9,372,759	9,372,759	9,372,759	9,372,759
Other Reserves	8,884,753	8,884,753	6,412,791	6,417,762	3,729,613	#REF!	#REF!	#REF!
Treasury Stocks	0	0	3,460,776	3,460,776	3,460,776	3,460,776	3,460,776	3,460,776
Proposed Cash Dividends	0	0	0	2,500,000	3,125,000	5,000,174	7,903,829	11,256,182
Accumulated Change in Fair Value	(60,348)	(505,032)	(55,834)	(186,409)	(189,444)	(378,888)	(757,776)	(1,515,552)
Retained Earnings	11,894,161	3,116,347	(991,160)	2,327,888	5,380,971	5,380,174	7,295,842	9,981,897
Total Shareholders' Equity	59,351,952	53,129,454	45,538,407	51,231,851	52,118,750	53,106,469	58,417,116	64,258,827
Minority Interest	316,550	306,647	3,106,538	3,551,712	3,406,396	3,406,396	3,406,396	3,406,396
Total Liabilities & Shareholders' Equity	100,014,434	90,284,198	86,367,258	101,303,769	100,290,031	102,419,618	112,661,580	123,927,738