Dr. Sulaiman Al Habib Medical Services Group

Healthcare - Industrial
SULAIMAN AB: Saudi Arabia
23 March 2023

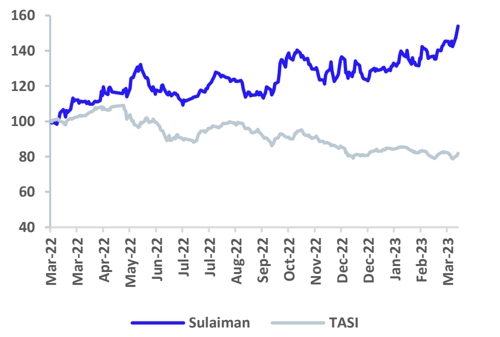
US$24.472bn	24.20%	US$9.32mn
Market Cap	Free Float	Avg. Daily Volume

Target price	253.00	3.5% below current
Current price	262.20	as at 23/03/2023

Existing rating

Underweight | **Neutral** | Overweight

Performance(Rebased to 100)



Earnings

(SARmn)	FY2022A	FY2023E	FY2024E
Revenue	8,311	9,388	12,708
Revenue growth	14.6%	13.0%	35.4%
Gross profit	2,748	3,017	3,947
Gross margin	33.1%	32.1%	31.1%
Operating profit	1,700	1,881	2,320
Op. margin	20.5%	20.0%	18.3%
Net profit	1,651	1,778	2,131
Net margin	19.9%	18.9%	16.8%
EPS	4.7	5.1	6.1
DPS	3.5	3.7	4.5
Payout ratio	73.8%	73.8%	73.8%
P/E	55.6x	51.6x	43.1x
EV/EBITDA	46.0x	39.8x	32.2x
RoE	29.4%	29.1%	32.2%

Source: Company data, Al Rajhi Capital.

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Raised target to SAR253/sh, maintain Neutral

Habib posted a very strong operating results in FY 2022 with a top line growth of 15% y-o-y, along with margin expansion (gross margins: +100 bps y-o-y, operating margins, OPM: +30 bps y-o-y). The margin expansion was mainly on the back of growth in the patient volumes and utilisation levels. The key highlight was the sharp growth in patient volumes, that grew by 20.5% y-o-y and versus 2020 base, it increased by 66%, a very notable feat. Bulk of the growth came from the outpatient (estimated: +21% y-o-y, +67% on 2020 base). The company has gained notable market share in Khobar and in 2022 the patient volumes in Khobar grew by 40% (as per the management on Q4 2022 call). Moreover, higher utilisation at its Suweidi hospital also helped the company. We appreciate the time period within which Habib achieved breakeven at its Khobar hospital (much quicker than anticipated), highlighting the demand for the brand. Its strategy of opening beds in a phased manner also limited the impact on the margins.

2023 assumptions and valuations: Going forward, in 2023e, we believe the company will post 13% growth in topline supported by ramp up of capacity at Khobar as well as through their focus on efficiency. Further, its two new and large hospitals, the North Riyadh (500 beds) and South Jeddah (330 beds), will also help the topline, but in the last quarter of the year. We are positive on the topline, however, we are slightly concerned about the impact on margins. As the company enters into a year of opening new hospitals and given the inflation related to manpower, we believe both gross and OP margins could be under pressure. We estimate GP and OPM of 32.1% (-100 bps y-o-y) and 20% (-50 y-o-y) in 2023e. Further, with interest expense going up, we believe the bottom line in 2023e will grow at a lower rate of 8% y-o-y. Currently, the shares are trading at a P/E of almost 47x on our blended average EPS of 2023e/2024e (SAR 5.58/share), premium to the sector average. In our view, the premium to the sector is justified, given that the company enters a phase of high net income growth starting next year (16% CAGR between 2027e-2023e). We raise our target price to SAR 253/share from SAR 217/share before. We maintain our neutral rating as we believe the margins could be under pressure in the near term and the current share price is already pricing in the benefits of high growth.

Figure 1 **Key Performance Indicators 2019A-2022A**

(SARmn)	FY2019	FY2020	FY2021	FY2022
Revenue	5,031	5,862	7,250	8,311
Gross Profit	1,538	1,864	2,330	2,748
Operating Profit	868	1,115	1,466	1,700
Net Profit	870	1,055	1,377	1,651
Patient Volumes	3.3	3.2	4.4	5.3
Utilisation Levels	NA	69%	72%	77%

Source: Company data, Al Rajhi Capital

Valuations: We value the company based on a blended approach with 40% weight to the two stage DCF methodology and 60% weight to relative valuation approach. The reason for higher weight to the RV method is due to prevailing market conditions, where we believe quality and defensive companies could command a premium. In our view, Habib with a ROE of around 29% and strong track record of growth and delivery, deserves a premium. Our fair value based on DCF is SAR 221/share. We believe FCF to grow at a CAGR of 22% between 2030-2022e during our explicit forecast period. In the transition phase, we believe FCF growth of 10% CAGR (2030-2035e) can be maintained supported by efficient utilisation of the capacity and modest price hikes. Our assumption for WACC is 8.8%, cost of equity is 10.5%, terminal growth is 4.0% (higher than the industry). Our fair value through relative valuation methodology is SAR 274/share, valued at a 45x P/E on our 2024e EPS of SAR 6.1/share when the company will see contribution from its two large hospitals. Our blended average fair value is SAR 253/share, which is our target price, which implies 3.5% downside from the current level, implying neutral rating on the stock.

Figure 2 **Valuation Table (Figures in SARmn)**

Weighted average price	Fair value	Weights	Value/share	Comments
DCF	221	40%	88	WACC 8.8%, CoE 10.5%, terminal growth of 4.0%, FCF CAGR of 22% between 2030-2022e
Relative valuation	274	60%	164	45x P/E on 2024e EPS
value per share			**253**	
CMP			262	
Price return			-3.5%	
Div. yield (2023E)			1.4%	
Total returns			**-2.1%**	

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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