

Neutral

Price Target (SAR): 56.0

Current: 57.8
Upside/Downside: 3.1% below current

Valuation Multiples	23	24E	25E
P/E (x)	30.5	29.7	28.2
P/B (x)	5.2	5.0	4.7
ROE (%)	17.1	16.5	16.5

Major Shareholders % Ownership

Al Hammadi Saleh Bin Mohammed	13.16
Al Hammadi Abdul Aziz Bin Mohammed	10.88

Price Performance	1M	3M	YTD
Absolute	-10.8%	-8.0%	-2.7%
Relative to TASI	-8.1%	-11.1%	-7.0%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	1,177	1,228	1,303
Revenue growth	5%	4%	6%
Gross profit	433	459	495
Gross margin	37%	37%	38%
Operating profit	316	322	347
Op. margins	27%	26%	27%
Net profit	303	312	328
Net margin	26%	25%	25%
EPS	1.90	1.95	2.05
DPS	1.40	1.46	1.23
Payout ratio	74%	75%	60%
P/E	30.5x	29.7x	28.2x
RoE	17.1%	16.5%	16.5%

Source: Company data, Al Rajhi Capital

Al Hammadi Holding

Uncertainty around patient volumes for Suweidi

Al Hammadi's Q4 2023 earnings was mixed with topline coming in line supported by better patient yield, but offset by lower volumes, while profitability was weak hurt by higher staff costs as well as higher ECL provisions. The decline in patient volumes was a key concern in Q4, which as per the company was due to the annual reclassification process carried out by insurance companies. This process resulted in the facilities upgraded to class A. During Q4 2023, inpatient volumes declined and stood at 10.5K (-17% y-o-y and +13% q-o-q) whereas Outpatient volumes stood at 275K (-4% y-o-y and +14% q-o-q).

Given that Hammadi is predominantly a B+ operator (55% share), particularly its Suweidi hospital (Q4 inpatient volumes down 20% y-o-y), thus the recent change in reclassification impacted Q4 volumes and has created uncertainty around the patient volumes in the near term. However, some impact can be offset by the company's focus on attracting complex cases by offering discounts and promoting its Suweidi hospital as a class A facility that offers a mix of quality and lower prices. The company can leverage on its Class A patient footfall at Nuzha hospital and divert some of the complex cases to Suweidi by offering them discounted prices. In case the company successfully gains traction in doing so, its revenues could improve despite lower volumes. However, we would prefer to wait for data to indicate the same. To offset lower volumes, the company's move to increase prices by mid-single digit for the insurance category should also help.

Nevertheless, we trim our revenue estimates for 2024 and now expect the topline to grow by slightly over 4% versus earlier estimate of almost 9% y-o-y growth, due to weaker volumes. Further, normalized ECL provisions (2023 benefitted from reversals) should also hurt the operating margin and the bottom line growth in 2024 (+3% y-o-y estimated). We continue to believe that Hammadi is a quality operator with strong balance sheet and its medium to long term growth profile is encouraging, although the growth is skewed towards 2026 and beyond. However, there is lack of clarity of the impact reclassification on its Suweidi hospital. Thus, on the back of lower earnings assumption for 2024 and uncertainty around patient volumes, we reduce our target price to SAR 56/share from SAR 64/share before. At our new target price, the stock implies a downside of 3.1% and neutral recommendation.

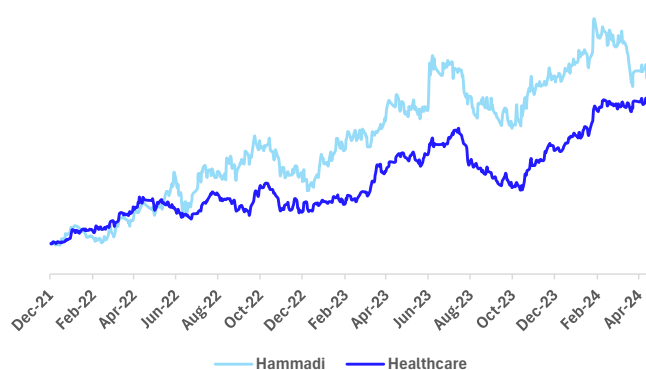
Figure 1 Summary of Q1 estimates

(SARmn)	1Q24E	4Q23	3Q23	2Q23	1Q23	1Q24E y-o-y	1Q24E q-o-q
Revenue	298	304	298	277	299	0%	-2%
Gross Profit	108	108	113	92	120	-11%	0%
Gross Margin	36%	35%	38%	33%	40%		
Operating Profit	87	71	87	93	92	-6%	22%
Operating Margin	29%	23%	29%	34%	31%		
Net Income	78	65	75	82	81	-5%	19%
Net Income Margin	26%	21%	25%	30%	27%		

Source: Company Data, Al Rajhi Capital estimates

Valuations: Based on the above-mentioned catalysts, we estimate the topline to grow by 4% and 6% in 2024 and 2025, respectively. We assign a P/E multiple of 28x to 2024/2025E EPS and arrive at our new target price of SAR 56/share, offering around 3% downside from the current levels and implying Neutral recommendation on the stock. The key upside risks to our assumptions are recovery in patient volumes at Suweidi supported by referrals from Nuzha and higher growth of MoH patients at Suweidi.

Figure 2 **Hammadi vs Healthcare Index (Rebased to 100)**



Source: Bloomberg, Al Rajhi Capital

Figure 3 **Valuations**

Relative Valuation Multiples	
Forward P/E	28.0x
1BF EPS	2.00
Value per share	56.0
CMP	57.8
Upside/Downside	-3.1%

Source: Company Data, Al Rajhi Capital

Financials

Figure 4 Income Statement

(SARmn)	2023	2024E	2025E
Revenue	1,177	1,228	1,303
Y/Y%	5%	4%	6%
COGS	(744)	(769)	(808)
Gross profit	433	459	495
Y/Y%	3%	6%	8%
<i>Gross margin</i>	<i>37%</i>	<i>37%</i>	<i>38%</i>
Operating Expenses	(98)	(101)	(109)
Impairment of credit losses	(19)	(37)	(39)
Operating profit	316	322	347
<i>Op. margins</i>	<i>27%</i>	<i>26%</i>	<i>27%</i>
Investments and other	31	34	29
Financing Expense	(26)	(26)	(29)
Profit before tax	321	330	347
Zakat & Tax	(18)	(18)	(19)
Net profit	303	312	328
<i>Net margin</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>
EPS	1.90	1.95	2.05
DPS	1.40	1.46	1.23
Payout ratio	74%	75%	60%

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

(SARmn)	2023	2024E	2025E
Cash Flows from Operating Activities	351	441	396
Cash Flows from Investing Activities	(55)	(86)	(195)
Cash Flows from Financing Activities	(232)	(215)	(153)
Change in Cash	65	140	47
Cash & Cash Equivalents at End of year	125	265	312

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

(SARmn)	2023	2024E	2025E
Cash & Cash Equivalents	125	265	312
Receivables, Net	580	553	599
Inventory	57	59	61
Other	22	22	22
Total Current Assets	784	898	995
Fixed Assets	1,533	1,518	1,604
Investment from associates	128	133	137
Right-of-use asset	125	125	125
Intangibles	24	24	24
Total Non-current Assets	1,811	1,799	1,890
Assets	2,594	2,697	2,885
Trade payable	75	77	81
Others	70	70	70
Short-term Debt	38	0	0
Short-term lease liabilities	14	14	14
Other	87	87	87
Total Current Liabilities	284	248	252
Long-Term Debt	164	223	272
Long-term lease liabilities	106	106	106
Other	196	196	196
Total Non-current Liabilities	466	525	574
Total Owners Equity	1,845	1,924	2,058
Total Liabilities	2,594	2,697	2,885

Source: Al Rajhi Capital estimates

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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.

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