

Al Hammadi Holding

Uncertainty around volumes, maintain neutral

The Q4 headline numbers were broadly in line with revenues slightly exceeding our expectations but margins a tad below our estimates. However, delving deep into the numbers, it unveils a mixed performance. The growth in the outpatient numbers in 4Q24 was sluggish (flat y-o-y), while revenue per inpatient declined 1% y-o-y despite the low base and price hikes for insurance. At the same time, the revenue growth in 4Q24 appears to have come from MoH, while revenues from cash patients reduced notably. Overall, FY24 was a tough year for the company due to weaker MoH referral revenues and the impact from its new premiumization strategy (2024-2026). Under this strategy, the company plans to focus on price hikes and invest in specialized services and offerings in order to secure a higher base revenue per patient under the new DRG system.

From a medium-term point of view, the premiumization measures could be earnings accretive, however, in the near term there is some uncertainty around the patient volumes. Given the price hikes and its move to reclassify Suweidi as a VIP/Class A/A+ hospital, the impact on patient volumes was noticed in 2024. In 2024, the mix of cash patients reduced to just 11% from 13% in 2023. As part of the strategy, the company has plans to further hike its prices in 2025 and 2026, thus there is a possibility that patient volumes could be under pressure, especially cash patients. At the same time, there is uncertainty around the insurance patients as well. Thus, we remain cautious and would prefer to follow a wait and watch approach. We now estimate 2025 revenues to grow by just over 3%, while expect gross margins to improve on price hikes. However, we are not assuming any major ECL reversals in 2025 and also do not consider the one-off gain on land sale booked in 2024, thus net earnings are expected to decline 17% from 2024 base. On Adjusted basis (ex-land sale gain), the net income is expected to decline by just 1% on higher opex. Accordingly, we reduce our target price to SAR 44/share from SAR 48/share before. Key upside risks to our assumption and target price would be improvement in insurance patient volumes and revenue per inpatient.

Q4 2024 results: 4Q24 revenues (6% y-o-y, 11% q-o-q) came 7% above our expectations. Gross profits increased by 3% y-o-y, lower growth rate than the topline as margins were lower on a y-o-y basis. Despite the beat on topline, operating profit (+11% y-o-y, -4% q-o-q) was in line with our estimates. On the other hand, net profit (+19% y-o-y) was 2% above our estimates mainly aided by lower than expected Zakat charge.

Figure 1 Summary of Earnings

(SAR mn)	Q4 2024	Q4 2023	Q3 2024	ARC Est.	y-o-y	q-o-q	vs ARC	FY24	FY23	y-o-y
Revenue	323	304	291	302	6%	11%	7%	1,154	1,177	-2%
Gross Profit	110	106	96	104	3%	14%	5%	382	433	-12%
G. margin	34.0%	35.1%	33.0%	34.5%				33.1%	36.8%	
Op. profit	79	71	82	79	11%	-4%	0%	366	343	7%
Op. margin	24.4%	23.4%	28.2%	26.2%				31.7%	29.1%	
Net profit	78	65	79	76	19%	-2%	2%	339	303	12%
Net margin	24.1%	21.5%	27.2%	25.1%				29.4%	25.8%	

Source: Company data, Al Rajhi Capital

Neutral

Price Target (SAR): 44.0

Current: 40.65

Upside/Downside: 8.2% above current

Valuation Multiples	24A	25E	26E
P/E (x)	19.2	23.2	21.7
P/B (x)	3.3	3.2	3.0
ROE (%)	17.8	13.9	14.2

Major Shareholders % Ownership

Al Hammadi Saleh Bin Mohammed	13.16
Al Hammadi Abdulaziz Bin Mohammed	10.88

Price Performance	1M	3M	YTD
Absolute	-8.0%	0.6%	5.9%
Relative to TASI	-3.0%	1.6%	7.7%

Earnings

(SARmn)	2024	2025E	2026E	2027E
Revenue	1,154	1,192	1,367	1,586
Revenue growth	-1.9%	3.3%	14.7%	16.0%
Gross profit	383	400	448	513
Gross margin	33.1%	33.6%	32.8%	32.4%
Operating profit	280	278	308	356
Op. margins	24.3%	23.3%	22.6%	22.5%
Net profit	339	280	300	340
Net margin	29.4%	23.5%	22.0%	21.4%
EPS	2.12	1.75	1.88	2.13
DPS	1.40	1.14	1.22	1.38
Payout ratio	66%	65%	65%	65%
P/E	19.2x	23.2x	21.7x	19.1x
RoE	17.8%	13.9%	14.2%	15.3%

Source: Company data, Al Rajhi Capital.

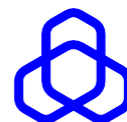
Note: 2024 had a one-off gain on sale of land

Valuations: After the weak performance in 2024, the stock price managed to recover in 2025 on bottom fishing. However, some weakness has been noticed after the 4Q24 results. Currently, the stock trades at a 2025E P/E of 24x, below its historical average as well as the peers. Although 2025 could be another challenging year as uncertainty over the patient volumes remain, beyond 2025, the growth prospects are encouraging. We estimate revenues to grow by about 14% and net income by about 13% during 2026-2028 led by Olaya hospital. Further, the company also has plans to build two more new facilities, with Al Narjis planned to be completed in 2028, while the recently announced Al Mansiyah to be completed before 2030. Thus, the growth could continue beyond 2028 as well. Nevertheless, the sentiments could remain weak in the near term and we would wait for revenue trends in H1 to revisit our investment case. We value the stock at a forward P/E of 25x applied on 2025E EPS of 1.75/share to derive our target price of SAR 44/share. At this target price, the implied upside is 8.2%, thus we remain neutral on the name.

Figure 2 **Valuations**

Relative Valuation	Values
Forward P/E	25.0x
2025E EPS	1.75
Value per share	44.0
CMP	40.65
Upside/Downside	8.2%

Source: Al Rajhi Capital estimates



Financials

Figure 3 Income Statement

SAR mn	2024	2025E	2026E	2027E
Revenue	1,154	1,192	1,367	1,586
<i>y-o-y growth</i>	-1.9%	3.3%	14.7%	16.0%
Cost of Sales	(771)	(792)	(919)	(1,073)
Gross Profit	383	400	448	513
<i>y-o-y growth</i>	-11.7%	4.7%	11.9%	14.6%
<i>margins</i>	33.1%	33.6%	32.8%	32.4%
Opex	(102)	(122)	(139)	(157)
<i>as % of Sales</i>	8.8%	10.2%	10.2%	9.9%
Operating Profit	280	278	308	356
<i>y-o-y growth</i>	-11.3%	-0.7%	10.8%	15.5%
<i>margins</i>	24.3%	23.3%	22.6%	22.5%
Net Financing expenses	(24)	(27)	(35)	(41)
Others	98	43	43	43
Pre-Tax Income	355	295	316	358
Zakat & Tax	(16)	(15)	(16)	(18)
Net Income	339	280	300	340
<i>y-o-y growth</i>	11.7%	-17.3%	7.2%	13.2%
<i>margins</i>	29.4%	23.5%	22.0%	21.4%
EPS	2.12	1.75	1.88	2.13

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

SAR mn	2024	2025E	2026E	2027E
Cash flow from operations	464	276	368	312
Cash flow from investing	(83)	(60)	(68)	(95)
Cash flow from financing	(261)	(32)	5	(121)
Change in cash	120	184	305	95

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

SAR mn	2024	2025E	2026E	2027E
Cash & Cash Equivalents	245	429	734	830
Receivables and other	451	549	574	698
Inventories	61	63	73	85
Pre-payments	22	22	22	22
Total Current Assets	779	1,063	1,404	1,635
Property and Equipment	1,710	1,669	1,637	1,631
Intangible Assets and Goodwill	27	27	27	27
Investment in Associates	135	142	149	156
Total Non-current Assets	1,872	1,838	1,813	1,814
Total Assets	2,651	2,901	3,217	3,449
Trade payables	66	68	79	93
Short-term Debt	19	0	0	0
Short-term lease liabilities	16	16	16	16
Govt. Grants	8	0	0	0
Others	116	116	116	116
Total Current Liabilities	225	200	211	225
Long-Term Debt	165	342	542	642
Long-term lease liabilities	104	104	104	104
Other	195	195	195	195
Total Non-current Liabilities	465	641	841	941
Total Shareholders Equity	1,961	2,059	2,164	2,284
Total Equity and Liabilities	2,651	2,901	3,217	3,449

Source: Al Rajhi Capital estimates

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