Al Hammadi Holding
Investment Update

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Strategic transformation and doubling of capacity expected to face challenges of competition in Riyadh- current stock prices offer an upside at an "Overweight" recommendation.

Hammadi's FY24 net income of SAR 338.8mn (up 11.7% Y/Y) was supported by the SAR 55.3mn sale of its Al Rayan land in Riyadh. Normalizing results, however, Hammadi would have seen an estimated Y/Y decline of 1.9% to reach SAR 283.5mn. These pressures are a result of its strategic initiatives to increase pricing, which have hindered patient volumes by a 2.5% decline Y/Y and revenues to reach 1,153.9mn (down 1.9% Y/Y). Gross profit margins have also been hindered as a result of salaries and new hirings, as well as recent investments into new specialties and more cost on the MoH patient segment. These effects brought GPMs down by 90bps Y/Y to reach 33.1%. More price increases and a doubling of capacity going forward (via three new facilities) are met with an increasingly more competitive healthcare landscape. We are cautious on our patient volume estimates despite seeing a recovery in inpatient volumes throughout the year, to reach a revenue and net income CAGR of 12.6% and 7.6% respectively through FY24-30E. We expect cost pressures to remain as Hammadi aims towards more premium offerings ahead of DRG implementation. We revise down our TP to SAR 46.7 per share in light of increasing costs and competition, yet at an "Overweight" recommendation as prices offer a 21.3% upside for the provider doubling its capacity.

FY24 results weighed down by patient volumes as a result of a transition in strategic pricing initiative, margins, and supported by a SAR 55.3mn one-off from the sale of Al Rayan District land: Hammadi's FY24 net income of SAR 338.8mn (up 11.7% Y/Y) was supported by the SAR 55.3mn sale of its Al Rayan District land in Riyadh. Normalizing for the one-off income, we estimate results to be near SAR 283.5mn, down 6.5% Y/Y as Hammadi's revenue and margin profile was weighed down during the year as a result of pricing initiatives. The now class A/VIP provider, marked an upward change in its insurance classification and thus pricing, which resulted in total patient volumes to fall 2.5% Y/Y (across inpatients and outpatients). Lower patient volumes, and less MoH referrals throughout the year pressured revenues to decrease by 1.9% Y/Y to reach 1,153.9mn. New services introduced in FY24, and higher salaries and new hires slashed gross profit margins by almost 370bps Y/Y, and operating margins by 220bps (when excluding the one off land sale). In a sign of sequential improvement, however, inpatient volumes have improved on a Y/Y basis for three quarters, aiding Q4-24 net income to reach SAR 77.7mn (up 19.3% Y/Y and down 1.7% Q/Q) and revenues to reach SAR 322.8mn (up 6.3% Y/Y and 11.1% Q/Q). Q/Q net income decline was driven by spike in receivable impairments which tend to take place during Q4-24 and drove operating margins to decline by 390bps Q/Q to 24.3%, despite GP margins increasing 90bps Q/Q to reach 34.0%.

Price increases till FY27 and new specialized services ahead of DRG implementation earmark the current phase of Hammadi's strategic transition before new capacities are online: Hammadi's move to position itself as a class A+/VIP provider is a result of its direction to become a premium provider ahead of DRG pricing which the company expects to be in effect by FY27. Higher pricing for FY25 has been agreed at an average of 10%, and FY26 and FY27's expected increases are guided to be 7% and 5%, respectively. The road to being a premium provider does not come without cost, however, as premium DRG multiples on pricing are expected to be based on complexity of services offered. Which is why Hammadi has invested new specialized services, and plans to host centers of excellence across all its facilities and future facilities. Specialized hirings, competition over talent (with salary increases expected by end of Q1-25), as well as future expansions lead us to expect gross margins to remain pressured at a range of 33.4% in FY25 to a low of 31.0% seen in FY29E as a result of expansions before improving gradually thereafter; down from recent levels of 36.8% seen in FY23. Furthermore, there is profound competition in the premium class A+/VIP segment, which we have begun to see the effects of on other providers as the finite patient base in Saudi Arabia- and namely in Riyadh- are met with increasing options; and as the opening Habib's AlSahafa mega hospital coincides with pressures seen on other providers during FY24. Hammadi has experienced some of the competitive challenges via a decline in MoH referrals as another major player offers discounts. Challenges in hiring and maintaining talent also presents itself when competing with other premium providers. Our revenue estimates are driven by capacity expansions and price increases, with a cautious view on patient volumes, facility ramp ups, and the performance of the pharma segment's growth to reach an expected revenue CAGR of 12.6% across FY24-30. Increased costs, MoH service requirements, and ramp up phases are expected to pressure net margins gradually down to 21.0% by FY29E, down from 24.6% in FY24 (normalized), as FY24-30E net income CAGR is expected to grow at 7.6% (10.9% when normalizing FY24 base).

Recommendation	**Overweight**
Target Price (SAR)	**46.7**
Upside / (Downside)*	**21.3%**

Source: Tadawul *prices as of 7th of April 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	1,154	1,238	1,402	1,540
Growth %	-1.9%	7.3%	13.2%	9.8%
Gross Profit	382.5	413.8	454.7	503.9
OP Profit*	365.6	327.4	343.1	383.9
Net Income	338.8	298.4	314.2	343.9
Growth %	11.7%	-11.9%	5.3%	9.5%
EPS	2.12	1.86	1.96	2.15
DPS	1.30	1.20	1.30	1.40

Source: Company reports, Aljazira Capital *Inc. land sale

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	33.1%	33.4%	32.4%	32.7%
OP Margin	31.7%*	26.4%	24.5%	24.9%
Net Margin	29.4%	24.1%	22.4%	22.3%
EBITDA Margin	40.1%	38.8%	38.2%	39.0%
RoE	17.8%	14.9%	15.1%	15.8%
P/E (x)	18.1	20.7	19.6	17.9
P/B (x)	3.1	3.0	2.9	2.8
EV/EBITDA (x)	13.1	12.7	11.7	10.7
Dividend Yield	3.6%	3.6%	3.6%	3.8%

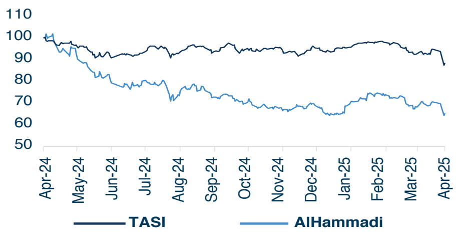
Source: Company reports, Aljazira Capital *Inc. land sale

Key Market Data

Market Cap (SAR bn)	6.2
YTD%	0.4%
52 weeks (High)/(Low)	61.5/36.1
Share Outstanding (bn)	160.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, AlJazira Capital Research

Equity Analyst
Ibrahim Elaiwat
+966 11 2256115
i.elaiwat@Aljaziracapital.com.sa

Three new facilities planned for launch by FY30 to double capacities from 600 inpatient rooms, and increase outpatient clinics by 2.6x to reach 580 clinics: Across the five year horizon, Hammadi plans to inaugurate three new facilities under its portfolio, all in Riyadh. All three facilities are planned to host 200 inpatient rooms and 120 clinics each. The Olaya facility is scheduled for opening in FY26, while Narjis is planned for Q1-28, with construction yet to begin. The most recently announced Al Mansiyah facility is expected for an FY29 opening. The expansions would bring Hammadi's total portfolio to 1,200 inpatient rooms and 580 clinics across five facilities in Riyadh. We estimate CAPEX ahead for FY25-29E to reach SAR 1.3bn, driven by the capacities planned. We expect its capacity expansions to drive the revenue and net income growth past FY30 for the relatively smaller provider. We expect longer than usual ramp up times due to increased competition in Riyadh.

Continued D/E levels expected as Narjis construction is scheduled for FY25 with more ahead in the expansion pipeline; ROE to remain stagnant while Hammadi undergoes costs of its transformation: The estimated CAPEX of SAR 1.3bn is guided to be funded by a mix of cash and debt, which we forecast to have Hammadi's debt to equity to peak to 0.17x by FY27 from its current 0.1x to fund its expansion CAPEX. Earnings generating time deposit balance is also expected to likely be used during FY25 for upcoming obligations. ROE generation is expected remain pressured until FY29, where it would recover back to 18.8%, after dipping to a low of 15.1% during FY26 as a result of the costs of expansions and competition; as compared to FY23 levels at 17.1%. We expect Hammadi's dividend payout to investors to remain at its current levels at annual payouts of 65-75% while it undergoes its transformation.

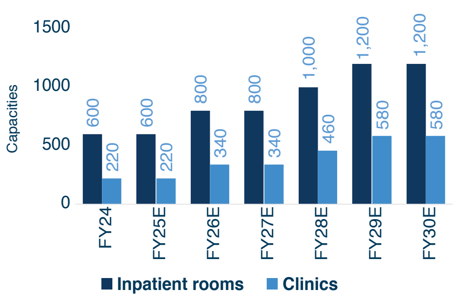
AJC view and valuation: A significant expansion plan lies ahead for Hammadi to double its inpatient rooms capacity and increase its outpatient clinics by 2.6x. We see risks in Hammadi's patient attraction to ramp up those facilities as it also undergoes a strategic initiative to place itself as a premium class A+/VIP provider. Revenue enhancements via planned price increases or decreased rejection rates are can offset these effects though we wait to see how significant the recovery in patient attraction could be in FY25 before revising our cautious view on patient volumes. Furthermore, we expect costs of new hirings to remain elevated in the future as a result of expansions and competition to further pressuring ROE generation. We revise down our TP of **SAR 46.7 per share** via way of 50% PE (25x on FY25E) and 50% DCF (WACC = 9.7% & terminal value = 2.5%) blended weightage valuations, at an "**Overweight**" recommendation due to upsides from current values.

Valuation Summary:

	TP (SAR)	Weight	Weighted TP (SAR)
DCF	52.5	50%	24.2
PE (25x on FY25E)	46.6	50%	26.1
TP (SAR/SAR)			**46.7**
Current Price			38.55
Upside/Downside			**21.3%**

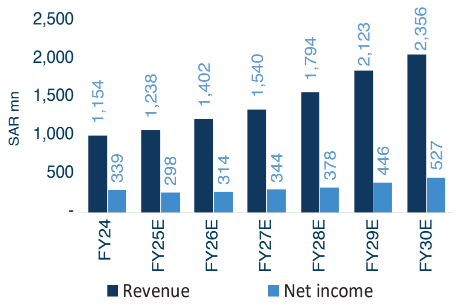
Source: AlJazira Capital Research

Fig 1: Three new facilities in Riyadh expected to double inpatient capacities by 2030



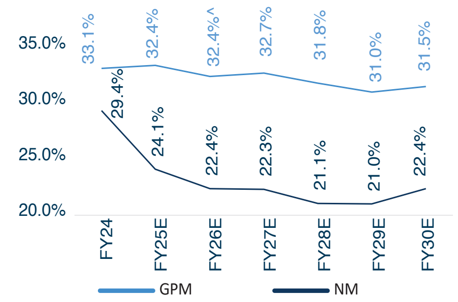
Source: Company disclosures, AlJazira Capital Research

Fig 2: Price increases to drive short term revenue growth before expansions



Source: Company presentations, AlJazira Capital Research

Fig 3: Expansions and increase cost in hiring competition expected to pressure margins



Source: Company presentations, AlJazira Capital Research

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key Financials

Amount in USD mn, unless otherwise specified	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement								
Revenues	1,177	1,154	1,238	1,402	1,540	1,794	2,123	2,356
Y/Y	**4.8%**	**-1.9%**	**7.3%**	**13.2%**	**9.8%**	**16.5%**	**18.3%**	**10.9%**
Cost	(743.6)	(771.4)	(824.6)	(947.7)	(1,036.0)	(1,223.4)	(1,464.7)	(1,613.3)
Gross profit	**433.1**	**382.5**	**413.8**	**454.7**	**503.9**	**571.1**	**658.8**	**742.5**
GPM	**36.8%**	**33.1%**	**33.4%**	**32.4%**	**32.7%**	**31.8%**	**31.0%**	**31.5%**
Operating Expenses	(116.9)	(102.1)	(114.4)	(140.5)	(150.1)	(174.9)	(199.6)	(212.0)
SG&A Expenses	(97.9)	(93.0)	(102.0)	(126.5)	(134.7)	(157.0)	(178.4)	(188.5)
Impairment losses on trade receivable	(19.0)	(9.1)	(12.4)	(14.0)	(15.4)	(17.9)	(21.2)	(23.6)
Other operating Income/(expense)	29.4	30.0	28.0	28.9	30.1	31.2	32.4	33.5
Gain/loss from disposal of property		55.3						
Operating profit	**345.6**	**365.6**	**327.4**	**343.1**	**383.9**	**427.4**	**491.5**	**564.0**
Y/Y	**18.5%**	**5.8%**	**-10.4%**	**4.8%**	**11.9%**	**11.3%**	**15.0%**	**14.7%**
Operating margin	**29.4%**	**31.7%**	**26.4%**	**24.5%**	**24.9%**	**23.8%**	**23.1%**	**23.9%**
Financing Expense	(25.8)	(23.8)	(22.9)	(22.2)	(31.4)	(39.1)	(31.4)	(19.0)
Fin Income	-	6.1	2.2	-	-	-	-	-
Income before zakat	**321.0**	**354.7**	**316.0**	**332.6**	**364.2**	**400.5**	**472.5**	**557.7**
Zakat	(17.6)	(15.9)	(17.6)	(18.5)	(20.3)	(22.3)	(26.3)	(31.1)
Net income	**303.3**	**338.8**	**298.4**	**314.2**	**343.9**	**378.2**	**446.2**	**526.6**
Y/Y	**17.9%**	**11.7%**	**-11.9%**	**5.3%**	**9.5%**	**10.0%**	**18.0%**	**18.0%**
EPS (SAR)	**1.90**	**2.12**	**1.86**	**1.96**	**2.15**	**2.36**	**2.79**	**3.29**
DPS (SAR)	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.90**	**2.00**	**2.40**
Balance sheet								
Assets								
Cash & equivalent	125	245	279	94	112	104	200	296
Receivables	571	442	514	551	583	653	760	836
Other current assets	88	92	86	92	99	114	133	145
Property plant & equipment	1,533	1,588	1,656	1,941	2,196	2,246	2,119	1,996
Other non-current assets	277	283	287	289	289	289	290	291
Total assets	**2,594**	**2,651**	**2,823**	**2,967**	**3,278**	**3,407**	**3,502**	**3,563.4**
Liabilities & owners' equity								
Payables	75	66	102	117	128	154	189	212
Other current liabilities	209	158	159	176	193	208	216	205
Long-term loans	164	165	175	180	344	336	236	127
Total other non-current liabilities	302	299	351	368	376	396	423	439
Paid -up capital	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Statutory reserves	67							
General reserves		101	131	162	197	235	279	332
Retained earnings	178	260	305	363	441	477	559	649
Total owners' equity	1,845	1,961	2,036	2,126	2,238	2,312	2,438	2,581
Total equity & liabilities	**2,594**	**2,651**	**2,823**	**2,967**	**3,278**	**3,407**	**3,502**	**3,563**
Cashflow statement								
Operating activities	351	464	431	505	549	593	646	750
Investing activities	(55)	(83)	(225)	(479)	(472)	(288)	(120)	(138)
Financing activities	(232)	(261)	(172)	(211)	(60)	(313)	(431)	(517)
Change in cash	65	120	34	(186)	18	(8)	96	96
Ending cash balance	**125**	**245**	**279**	**94**	**112**	**104**	**200**	**296**
CAPEX	(150)	(210)	(185)	(437)	(430)	(237)	(64)	(71)
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.8	3.5	3.4	2.5	2.5	2.4	2.7	3.1
Quick ratio (x)	2.6	3.2	3.1	2.3	2.3	2.2	2.5	2.8
Profitability ratios								
Gross profit margin	36.8%	33.1%	33.4%	32.4%	32.7%	31.8%	31.0%	31.5%
Operating margin	29.4%	31.7%	26.4%	24.5%	24.9%	23.8%	23.1%	23.9%
EBITDA margin	37.4%	40.1%	38.8%	38.2%	39.0%	37.1%	34.7%	35.0%
Net profit margin	25.8%	29.4%	24.1%	22.4%	22.3%	21.1%	21.0%	22.4%
Return on assets	12.0%	12.9%	10.9%	10.9%	11.0%	11.3%	12.9%	14.9%
Return on equity	17.1%	17.8%	14.9%	15.1%	15.8%	16.6%	18.8%	21.0%
Leverage ratio								
Debt / equity (x)	0.10	0.09	0.10	0.10	0.17	0.16	0.11	0.05
Market/valuation ratios								
EV/sales (x)	8.1	5.3	4.9	4.5	4.2	3.6	2.9	2.6
EV/EBITDA (x)	21.8	13.1	12.7	11.7	10.7	9.7	8.5	7.3
EPS (SAR)	1.9	2.1	1.9	2.0	2.1	2.4	2.8	3.3
BVPS (SAR) - Adjusted	11.5	12.3	12.7	13.3	14.0	14.4	15.2	16.1
Market price (SAR)	59.40	38.40	38.55	38.55	38.55	38.55	38.55	38.55
Market-Cap (SAR mn)	9,504.0	6,144.0	6,168.0	6,168.0	6,168.0	6,168.0	6,168.0	6,168.0
Dividend yield	2.4%	3.6%	3.6%	3.6%	3.8%	4.9%	5.2%	6.2%
P/E ratio (x)	31.3	18.1	20.7	19.6	17.9	16.3	13.8	11.7
P/BV ratio (x)	5.2	3.1	3.0	2.9	2.8	2.7	2.5	2.4

Sources: AlJazira Capital, Company Financials * Prices As of 7th April 2025

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - Director
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer