

Saudi German

Weak Q4, reduce TP to SAR 95/share

Neutral

Price Target (SAR): 95.0

Current: 95.0
Upside/Downside: at par

Valuation Multiples	23	24E	25E
P/E (x)	48.5	35.4	27.3
P/B (x)	5.8	5.0	4.2
ROE (%)	12.5	15.0	16.6

Major Shareholders % Ownership

Bait Al Batterjee Medical Company	54.7
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Price Performance	1M	3M	YTD
Absolute	-14.1%	-3.3%	7.6%
Relative to TASI	-11.4%	-6.4%	3.3%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,653	3,010	3,419
Revenue growth	23%	13%	14%
Gross profit	1,014	1,182	1,314
Gross margin	38%	39%	38%
Operating profit	342	445	492
Op. margins	13%	15%	14%
Net profit	180	247	320
Net margin	7%	8%	9%
EPS	1.96	2.68	3.48
P/E	48.5x	35.4x	27.3x
RoE	12.5%	15.0%	16.6%

Source: Company data, Al Rajhi Capital

Q4 2023 was marred by higher than operating costs as the company recognized ECL provisions of SAR 28mn. In 9M 2023, the company booked ECL provisions of SAR 2.8mn on its receivable position of 2.1bn, which was 0.13%, negligible compared to the industry 's standard of 2.5%-3.5%. Even after the jump in Q4, the SAR 32mn ECL provisions is just 1.5% of its receivables as of 9M23, which is half of the industry standards. The rising receivable is one of our key concerns, in addition to its leverage. The company's receivable position deteriorated notably to SAR 2.3bn from SAR 1.6bn at the end of 2022. Although the company mentioned during the Q4 2023 earnings call that it has received some payments from MoH in Q1 2024, but it appears the payments are not notable enough to improve the receivables position yet. In the backdrop of high interest rates, the need for working capital requirements can hurt financial performance and offset any improvement in the top line. Moreover, we would continue to be cautious of the low ECL provisions booked by the company and consider the possibility of ECL provisions rising notably and that could be a potential downside risk to earnings and stock price.

For 2024, the company has guided for a mid-teen's topline growth and EBITDA margin of over 20%. The mid-teens growth depends on the capacity addition at Dammam (100 beds MoH approval pending), 100 beds at Makkah and 50 beds at Riyadh. In our view, the Makkah hospital ramp up could be faster than expected, while ramp up at Riyadh could take longer than expected given the rising competition in the market. Nevertheless, we estimate 13% topline growth in 2024 and EBITDA margin of 21%. As the company has communicated that they will continue with the current ECL methodology, we have not considered a spike in provisions yet. Overall, we expect net income to grow by 37% y-o-y supported by benefits of operating leverage (operating margin to improve by 190 bps y-o-y).

On the back of weak Q4 numbers and deterioration in the receivable position, we reduce our target price for the stock to SAR 95/share from SAR 113/share. In the backdrop of low double digit to mid-teens earnings growth beyond 2025, we value the stock at a blended forward P/E of 31x on 2024/2025 EPS. In terms of risks, high exposure to MoH, weak balance sheet and upcoming competition in Jeddah remain our key concerns. We maintain our neutral recommendation on the stock.

Figure 1 Summary of Q1 Estimates

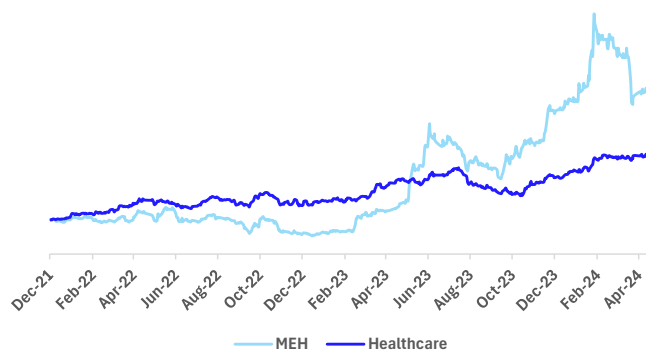
(SARmn)	1Q24E	4Q23	3Q23	2Q23	1Q23	1Q24E y-o-y	1Q24E q-o-q
Revenue	713	720	671	624	638	12%	-1%
Gross Profit	293	294	266	229	225	30%	0%
Gross Margin	41%	41%	40%	37%	35%		
Operating Profit	111	87	110	69	77	45%	27%
Operating Margin	16%	12%	16%	11%	12%		
Net Income	55	37	53	40	50	9%	49%
Net Income Margin	8%	5%	8%	6%	8%		

Source: Company Data, Al Rajhi Capital estimates

Q1 2024 preview: We estimate revenues to decline by 1% sequentially to SAR 713mn, but +12% growth y-o-y, due to Ramadan and seasonality impact. However, the costs could stay elevated due to the pre-operating expenses related to the capacity additions. Further, the interest expense could also remain high due to working capital requirements and a further increase in the debt levels. Overall, we estimate net income to grow at a relatively lower rate than the topline due to the above-mentioned factors and come in at SAR 55mn, +9% y-o-y.

Valuations: On the back of low to mid-teens growth beyond 2025, we value the stock at a blended forward P/E of 31x on 2024/2025 EPS. In terms of risks, high exposure to MoH and weak balance sheet remain our key concerns. We maintain our neutral recommendation on the stock.

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



Source: Bloomberg, Al Rajhi Capital

Figure 3 **Valuations**

Relative Valuation (PE)	Multiples
Forward P/E	31.0x
1BF EPS	3.1
Fair value per share (SAR)	95.0
CMP	95.0
Upside/Downside	0.0%

Source: Company Data, Al Rajhi Capital

Financials

Figure 4 Income Statement

Income Statement (SAR mn)	2023	2024E	2025E
Sales	2,653	3,010	3,419
<i>y-o-y growth</i>	23.3%	13.4%	13.6%
Cost of Sales	(1,639)	(1,828)	(2,105)
<i>y-o-y growth</i>	11.3%	11.5%	15.2%
Gross Income	1,014	1,182	1,314
<i>y-o-y growth</i>	49.2%	16.5%	11.2%
<i>margins</i>	38.2%	39.3%	38.4%
Employee costs	(395)	(476)	(532)
Selling and distribution expenses	(51)	(51)	(51)
Administrative expenses	(226)	(211)	(239)
Operating Income	342	445	492
<i>y-o-y growth</i>	144.0%	29.8%	10.6%
<i>margins</i>	12.9%	14.8%	14.4%
Investments and other	15	15	15
Financing Expense	(156)	(175)	(155)
Net income before tax	202	284	351
Zakat & Tax	(18)	(34)	(28)
<i>tax rate</i>	8.9%	12.0%	8.0%
Net Profit Before Minority Interest	184	250	323
Minority Interest (loss)/profit	(3)	(3)	(3)
Net Income	180	247	320
<i>y-o-y growth</i>	139.7%	37.0%	29.6%
<i>margins</i>	6.8%	8.2%	9.4%
EPS	2.0	2.7	3.5

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

Cash flow statement (SAR mn)	2023	2024E	2025E
Net cash flows from Operating Activities	191	626	553
Cash Flows from Investing Activities	(242)	(289)	(291)
Cash Flows from Financing Activities	80	(325)	(268)

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

Balance Sheet (SAR mn)	2023	2024E	2025E
Assets			
Cash & Cash Equivalents	44	56	50
Receivables, Net	2,301	2,408	2,667
Inventory	75	85	96
Other	155	155	155
Total Current Assets	2,575	2,704	2,968
Fixed Assets	2,502	2,587	2,663
Right-of-use asset	55	57	58
Intangibles	31	25	20
Total Non-Current Assets	2,598	2,679	2,752
Total Assets	5,173	5,383	5,719
Liabilities			
Short term debt	1,116	1,116	1,168
Other financial liab	6	6	6
Trade payables	559	631	713
Accrued expenses	291	329	372
Zakat payable	18	18	18
Total Current liabilities	2,003	2,112	2,290
Long-Term Debt	1,310	1,160	1,010
Long-term lease liabilities	46	46	46
Deferred income	9	9	9
Employee's end of service benefit	240	240	240
Total Non-Current Liabilities	1,606	1,456	1,305
Total Liabilities	3,608	3,568	3,595
Total Owners Equity	1,565	1,815	2,124
Total Equity and Liabilities	5,173	5,383	5,719

Source: Al Rajhi Capital estimates

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