Middle East Healthcare Co.
Healthcare: Healthcare Provider
MEH AB: Saudi Arabia
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alrajhi capital الراجحي المالية

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US$1.77bn	44.33%	US$6.61mn
Market Cap.	Free Float	Avg. Daily Value traded

Middle East Healthcare Co.

Q4 miss, pressure in Riyadh and Jeddah

Neutral

Price Target (SAR): 76.0

Current : 72.3
Upside/Downside: 5.1% above current

Valuation Multiples	24A	25E	26E
P/E (x)	23.6	23.7	21.4
P/B (x)	4.1	3.5	3.0

Major Shareholders	% Ownership
Bait Al-Batterjee Medical Co.	54.69

Price Performance	1M	3M	YTD
Absolute	-14.3%	-0.8%	5.2%
Relative to TASI	-9.3%	0.2%	7.1%

Earnings

(SARmn)	2024	2025E	2026E	2027E
Revenue	2,883	3,161	3,537	3,833
Revenue growth	8.7%	9.6%	11.9%	8.4%
Gross profit	1,114	1,211	1,327	1,410
Gross margin	38.6%	38.3%	37.5%	36.8%
Operating profit	441	481	519	544
Op. margins	15.3%	15.2%	14.7%	14.2%
Net profit	282	280	312	357
Net margin	9.8%	8.9%	8.8%	9.3%
EPS	3.06	3.05	3.39	3.88
P/E	23.6x	23.7x	21.4x	18.6x

Source: Company data, Al Rajhi Capital

The 4Q24 results reiterated our thesis that rising competition in its home market, Jeddah, as well as in Riyadh, would weigh on its earnings. The decline in Riyadh revenues were much larger than expected at 19% y-o-y. Even in 3Q24, revenues in Riyadh were down 9% y-o-y. At the same time, Jeddah revenues were also down 3% y-o-y (impact calculated based on regional mix shared by the company). For the overall group in 4Q24, insurance and cash revenues were down on a y-o-y basis, while MoH revenues spiked. In our view, insurance and cash patients are vulnerable in terms of shifting to other hospital operators. Thus, the Q4 numbers imply that competition in Riyadh and Jeddah, could be the reason for weaker revenues in 4Q24. On the positive side, the company continues to grow its revenues in Dammam (+19% y-o-y) and Makkah (+53% y-o-y). Further, the company has now received approval to increase the capacity of its Dammam hospital to 300 licensed beds from 150 beds before. Also, both the Dammam and Makkah hospitals have received HIMSS accreditation, thus pricing could improve in 2025. Overall, the company guides for 2025 revenue growth in teens and improvement in EBITDA. However, we prefer to be conservative given that Al Habib will open its second hospital in Jeddah and in Riyadh the Sahafa hospital will witness further ramp-up. We estimate about 10% revenue growth in 2025 and broadly similar EBITDA margins. However, given that 2024 net income had impact of one-offs, our 2025 net income is largely flat y-o-y. In the backdrop of modest growth assumptions in 2025 and the increasing risk of market share loss in Riyadh and Jeddah, we now value the company at a lower multiple of 25x. Thus, we reduce our target price to SAR 76/share from SAR 82/share. We remain neutral on the stock.

Q4 2024 Earnings: Revenues of SAR 749mn (+4% y-o-y and +2% q-o-q) was a miss versus ours estimates. The revenue growth was impacted by lower revenues in Riyadh and Jeddah. The impact was curtailed by solid performance of Makkah and Dammam hospitals. Both gross profits and operating profits were a miss. However, reported net income benefited from one-off gain of SAR 45 mn. Adjusted for that, net income was a modest 3% miss.

Figure 1 **Summary of 4Q24 Earnings**

(SAR mn)	Q4 2024	Q4 2023	Q3 2024	ARC Est.	y-o-y	q-o-q	vs ARC
Revenue	**749**	**720**	**732**	**769**	***4%***	***2%***	***-3%***
Gross Profit	282	294	293	308	*-4%*	*-4%*	*-8%*
G. margin	*37.7%*	*40.8%*	*40.0%*	*40.0%*			
Op. profit	102	69	116	114	*48%*	*-12%*	*-10%*
Op. margin	*13.6%*	*9.5%*	*15.8%*	*14.8%*			
Net profit	**107**	**(127)**	**62**		*NA*	*74%*	
Net margin	*14.3%*	*-17.6%*	*8.4%*				
One-off gain	45						
ZATCA Provisions		(171)					
Adjusted Net profit*	**62**	**44**	**62**	**64**	*39%*	*0%*	***-4%***
Adjusted Net margin	*8.2%*	*6.2%*	*8.4%*	*8.3%*			

Source: Company Data, Al Rajhi Capital estimates

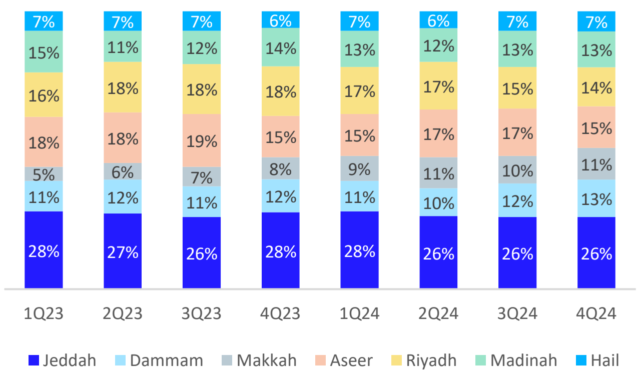
Valuations: As we trim our revenue estimates for 2025 as well as lower our target multiple, we reduce our target price. We value the company on a P/E methodology and apply a multiple of 25x, lower than before as well as other comparable names such as Dallah (target multiple 30x). The reason for the discount is the rising competitive risk in its home market, Jeddah, and relatively weaker balance sheet. Our target price of SAR 76/share is derived through 25x P/E multiple applied on 2025E EPS of SAR 3.05/share. At our new target price, the upside is about 5%, implying neutral recommendation on the stock.

Figure 2 **Valuations**

Valuation	Values
Forward P/E	25.0x
2025E EPS	3.05
Fair value per share (SAR)	**76.0**
CMP	72.3
Upside/Downside	5.1%

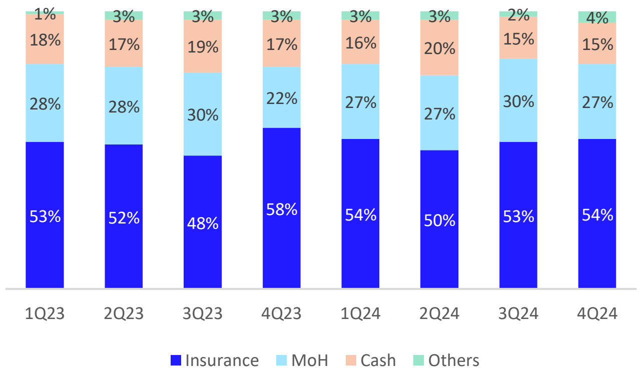
Source: Al Rajhi Capital estimates

Figure 3 **Revenue by region wise over the last 8 quarters**



Source: Company Data, Al Rajhi Capital

Figure 4 **Payor mix trend over the last 8 quarters**



Source: Company Data, Al Rajhi Capital

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