US$6.26bn	47.46%	US$12.19mn
Market Cap.	Free Float	Avg. Daily Value traded

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Overweight

Price Target (SAR): 136

Current (6th June 2024): 112.8
Upside/Downside: 20.6% above current

Valuation Multiples	23	24E	25E
P/E (x)	34.3	29.3	25.8
P/B (x)	6.9	6.2	5.6
ROE (%)	21.2	22.3	22.8

Major Shareholders	% Ownership
Al Subaie Mohammed Sultan Hammed	17.5
Al Subaie Nasser Sultan Fahad	17.5
Al-Saleem Suleiman Muhammad Suleiman	17.5

Price Performance	1M	3M	YTD
Absolute	-16.7%	-9.3%	0.9%
Relative to TASI	-10.2%	-1.2%	4.3%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,706	3,056	3,462
Revenue growth	*15.9%*	*13.0%*	*13.3%*
Gross Profit	1,313	1,473	1,628
Gross margin	*48.5%*	*48.2%*	*47.0%*
Operating Profit	748	875	979
Operating margin	*27.7%*	*28.6%*	*28.3%*
Net Income	658	771	876
Net Income margin	*24.3%*	*25.2%*	*25.3%*
Net Income growth	*9.7%*	*17.2%*	*13.6%*
EPS	3.3	3.9	4.4
DPS	1.8	2.1	2.3
P/E	34.3x	29.3x	25.8x
P/B	6.9x	6.2x	5.6x
ROE	21.2%	22.3%	22.8%

Source: Company data, Al Rajhi Capital

Mouwasat

Recent correction a buying opportunity

The recent correction in the broader market as well as the healthcare sector has resulted in buying opportunities in multiple names in this space. Among all, we find Mouwasat to be relatively more attractive at this level. On a trailing basis (TTM), Mouwasat is trading at 34x compared to the sector average of 37x. And on a forward basis, it is trading at 29x levels on 2024E and 26x on 2025E estimates. The Q1 2024 numbers were lower than expectations as revenues were impacted due to seasonality and Ramadan, and the company booked higher provisions than expected. Going forward, particularly in H2 2024, we anticipate solid growth led by pricing, volume contribution from LTC Madina and ramp up at Dammam, as well as lower provisions as the clean-up of books would be largely done. In Q2 2024, there is a possibility that provisions could stay elevated compared to Q2 2023, thus the benefits of higher topline growth might not be reflected in the bottom-line.

In our view, the slow growth over the last two years has notably impacted investor sentiment towards the stock and is trading at a notable discount to the sector. However, given its solid track record over the years on growth as well as cost control, any signs of improvement in growth would result in rerating. We have been cautious about the name for the last two years given the rising competition. However, as the stock has consolidated and is trading at 26x P/E multiple on 2025E and the company has multiple growth levers in the coming quarters, we believe the current level offers an attractive entry opportunity. There is a possibility that the seasonally weak quarter, Q2, might be further impacted by holidays starting earlier this year and ECL provisions could stay elevated. In our view, any weakness if such a scenario happens, then it should be used as a buying opportunity as we anticipate H2 2024 to be solid in terms of topline and net income. Post the weak Q1 earnings, we slightly trim our 2024 estimates and our target price to SAR 136/share from SAR 138/share. However, we upgrade the stock to Overweight from our Neutral recommendation as recent correction offers an upside of almost 21%, implying an Overweight rating.

Earnings for 2024 slightly trimmed, but 2025 largely intact: We trim our revenue estimates for 2024 by almost 2% and net profits estimate by almost 4% as we expect ECL provisions to stay elevated in H1 2024 versus our earlier expectations of normalisation. However, we expect H2 2024 to be solid in terms of top-line as well as bottom-line growth supported by the factors mentioned above. We expect revenues to grow by mid-teens in H2 and profit growth in the range of 25-30%. Overall, for the year as a whole, we expect revenues to grow by 13% y-o-y and bottom-line by 17% y-o-y. We also trim our 2025 revenue estimates but modestly by 1%, while keep our bottom line estimates broadly unchanged.

Figure 1 **Comparison of our estimates**

(SARmn)	2024E			2025E		
	Old	Revised	Change	Old	Revised	Change
Revenue	**3,103**	**3,056**	**-2%**	**3,505**	**3,462**	**-1%**
Gross Profit	1,492	1,473	-1%	1,641	1,628	-1%
Gross margin	*48.1%*	*48.2%*		*46.8%*	*47.0%*	
Operating Profit	910	875	-4%	985	979	-1%
Operating margin	*29.3%*	*28.6%*		*28.1%*	*28.3%*	
Net Income	**801**	**771**	**-4%**	**870**	**876**	**1%**
Net Income margin	*25.8%*	*25.2%*		*24.8%*	*25.3%*	
EPS	4.0	3.9	-4%	4.4	4.4	1%

Source: Al Rajhi Capital estimates

Valuations: As we slightly trim our estimates for 2024 and 2025, we reduce our target price modestly to SAR 136/share from SAR 138/share. We continue to value the stock at 33x on average EPS of 2024E and 2025E to derive the fair value. In our view, the company is entering a phase of low double digit to single digit topline growth in the near future driven by ramp up at existing facilities, price hikes and new hospital additions. In terms of capacity expansion, the number of beds are expected to increase from 1,600 to 2,220 by 2026. Moreover, the company will continue to maintain its focus on cost control and ensure the margins to be protected from the rising competition in its core markets. We have been cautious on the name for the last two years as we were anticipating it to report slowdown in the growth due to competition. However, in our view, price hikes this year and focus on LTC (less competitive) and the gradual ramp-up at existing facilities should help the company in restore growth. Post the recent correction (26.2% declined from the YTD highs), even at our reduced target price, the stock is offering an upside of 20.6%. Thus, we upgrade the stock to Overweight recommendation from neutral before.

Figure 2 **Valuations**

P/E	Multiples
Average EPS (2024/2025E)	4.1
PE Multiple	33x
Target price per share (SAR)	**136.0**
CMP (SAR)	112.8
Upside/(Downside)	20.6%

Source: Al Rajhi Capital estimates

Financials

Figure 3 **Income Statement**

SARmn	2023	2024E	2025E
Revenue	**2,706**	**3,056**	**3,462**
y-o-y growth	*15.9%*	*13.0%*	*13.3%*
Cost of sales	(1,392)	(1,583)	(1,834)
Gross Profit	**1,313**	**1,473**	**1,628**
y-o-y growth	*19.5%*	*12.2%*	*10.6%*
margins	*48.5%*	*48.2%*	*47.0%*
Operating Expenses	(565)	(597)	(649)
Operating profit	**748**	**875**	**979**
y-o-y growth	*12.8%*	*17.0%*	*11.8%*
margins	*8.6%*	*7.8%*	*7.9%*
Others	25	18	23
Finance cost	(46)	(48)	(42)
Pre-Tax Income	**727**	**845**	**960**
Zakat	(39)	(42)	(48)
Non-controlling Interest	(31)	(32)	(36)
Net Income	**658**	**771**	**876**
y-o-y growth	*9.7%*	*17.2%*	*13.6%*
margins	*24.3%*	*25.2%*	*25.3%*
EPS	3.3	3.9	4.4

Source: Al Rajhi Capital estimates

Figure 5 **Cash Flow Statement**

SARmn	2023	2024E	2025E
Cash flow from Operations	814	979	1,106
Cash flow from Investing	(475)	(485)	(780)
Cash flow from Financing	(434)	(287)	(191)
Change in cash	(95)	207	134
Cash and Cash Equivalents at the end of the year	49	256	391

Source: Al Rajhi Capital estimates

Figure 4 **Balance sheet**

SARmn	2023	2024E	2025E
Cash & Cash Equivalents	49	256	391
Receivables, Net	1,154	1,223	1,316
Inventory	197	245	308
Short-term Investments & Others	218	218	218
Total Current assets	**1,618**	**1,941**	**2,232**
Fixed Assets	3,046	3,286	3,783
Right-of-use asset	20	20	20
Intangibles	37	37	37
Others	244	252	260
Total Non-current assets	**3,347**	**3,595**	**4,100**
Total Assets	**4,965**	**5,536**	**6,332**
Short-term loans	266	106	100
Trade payable	232	287	362
Others	333	333	333
Total Current liabilities	**831**	**726**	**795**
Long-term loan	500	783	1,064
Employee Defined Benefit Liabilities	188	188	188
Lease liabilities	19	19	19
Total Non-current liabilities	**707**	**990**	**1,271**
Total Liabilities	**1,538**	**1,716**	**2,066**
Total Shareholders' Equity	**3,277**	**3,638**	**4,047**
Non-controlling equity	150	182	218
Total liabilities and equity	**4,965**	**5,536**	**6,332**

Source: Al Rajhi Capital estimates

Figure 6 **Key Ratios**

SARmn	2023	2024E	2025E
ROA	13.2%	6.9%	6.9%
ROE	21.2%	8.1%	9.6%
Current Ratio	1.9x	2.7x	3.2x
Asset turnover ratio	0.6x	0.6x	0.6x
DSO	156	146	139
DIO	52	52	52
DPO	61	61	61
Cash Conversion Cycle (Days)	147	137	130
Debt-Equity Ratio	0.2x	0.2x	0.3x
BVPS	17.1x	19.1x	21.3x
P/E	34.3x	29.3x	25.8x
P/B	6.9x	6.2x	5.6x

Source: Al Rajhi Capital estimates

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