

SECTOR UPDATE

Q1 2023

NHIC to drive growth

We maintain our long-term positive outlook on the Saudi Healthcare sector. The introduction of NHIC is a key catalyst for the sector which is expected to 1) increase the insurance penetration by 3x and 2) improve the receivables cycle. We expect the sector's bed capacity to record a CAGR of 10% during 2022-25f, while revenue and net income are forecasted to grow at a CAGR of 13.7% and 21.7%, respectively. We maintain our neutral rating across our coverage, as we believe the current valuations are pricing-in the underlying positives. We initiate coverage on Dallah Healthcare (DHC) with a Neutral rating and a PT of SAR156.8.

- Private sector attracts the largest number of patients**

In 2021, the healthcare sector's bed capacity stood at 77,224, with MoH representing 58.7% (45,330 beds) of the total, followed by the private sector with a 23.2% share (17,889 beds). Despite the lower share in beds, the private sector attracted the largest number of patients at 63mn, followed by MoH at 62mn. In terms of inpatients, MoH treated the largest number of patients at 1.4mn, followed by the private sector (1.1mn patients). We highlight that the private sector had the highest utilization as it treated 61.7 patients/bed, compared to MoH (30.4/bed) and OGS (44.3/bed), indicating shorter stays and/or higher efficiencies. In Saudi, beds penetration level per 1,000 stands at 2.2 beds, as compared to OECD average of 3.8 beds which we believe provide an ample room for growth.

- NHIC to improve insurance coverage**

In 2022, 28% of the local population was covered by the private healthcare insurance, while the rest relied on government healthcare or cash payments. With the introduction of NHIC, insurance coverage for the local population is expected to reach 100%. We expect higher insurance coverage to improve inpatient and outpatient traffic. Moreover, we believe NHIC would result in reducing receivables cycle for the healthcare providers. Accordingly, average DSO for companies under coverage is expected to decline gradually to 130 days by 2025f from 150 days in 2021.

- 2023f earnings growth to continue**

We expect the sector's earnings to grow by 30% yoy in 2023f, backed by strong performance across stocks under coverage. We expect the number of beds to increase by 15% in 2023f, while EBITDA margins are expected to expand from 25.3% in 2022 to 27.0% in 2025f. HMG is forecasted to record a net income growth of 32% yoy in 2023f on higher patient footfall and margin improvement. Mouwasat is expected to post a net income of SAR771mn for 2023f, backed by higher patient inflow. Hammadi is estimated to post earnings of SAR307mn in 2023f (+26.2% yoy) due to improved utilization and lower depreciation expenses. We expect DHC to record net income of SAR328mn for 2023f on improving efficiency and higher number of beds.

- Positive outlook is priced-in**

Although the outlook for the sector is positive, we believe it is fully priced-in at the current levels. In general, we prefer companies with 1) strong expansion plans, 2) favourable customer mix, and 3) healthy receivable cycle. We initiate coverage on DHC with a Neutral rating and PT of SAR156.8. Strong revenue/bed and a favourable revenue mix are its key strengths. Moreover, the company's acquisition strategy is a key catalyst. The stock trades at a 2023f P/E and EV/EBITDA of 39.5x and 26.1x, vs the peers average of 39.7x and 24.7x, respectively.

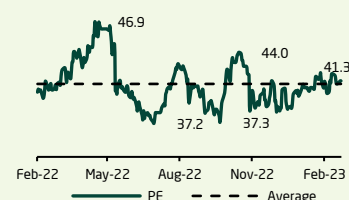
Valuation summary

	Rating	PT (SAR)	Current price	Upside/Downside (%)	P/E (x) 2023f	EV/EBITDA 2023f	EV/Bed 2023f	Div Yield 2023f	Stock perf ytd (%)
HMG	Neutral	256.4	275.0	(6.8)	44.3	35.0	34.9	1.7	24.6
Mouwasat	Neutral	225.0	229.8	(2.1)	59.6	23.3	13.8	0.8	10.0
Hammadi	Neutral	55.2	48.9	14.0	26.7	18.2	7.8	2.6	21.8
SGH	Neutral	34.0	35.9	(5.3)	28.9	20.9	3.1	0.0	41.1
Dallah	Neutral	156.8	146.6	7.0	39.5	26.1	15.0	1.8	-0.9

Source: SNB Capital Research estimates. All prices as of 28 March 2023

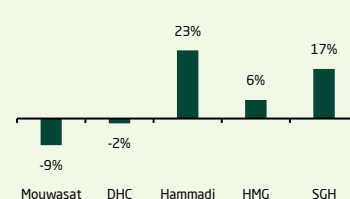
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SECTOR P/E



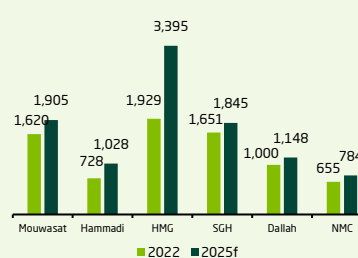
Source: Saudi Exchange, SNB Capital Research

YTD PERFORMANCE



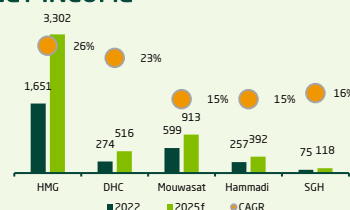
Source: Saudi Exchange, SNB Capital Research

BED CAPACITY



Source: Company Financials, SNB Capital Research

NET INCOME



Source: Company Financials, SNB Capital Research

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Growth via M&A

We initiate our coverage on Dallah Healthcare (DHC) with a Neutral rating and PT of SAR156.8. DHC is one of the largest healthcare providers in Saudi, with more than +1,000 beds and strong presence in Riyadh in addition to Makkah and Jeddah. Unlike other sector players, the company's expansion plans focus on acquisitions which is a key stock driver. However, the relatively high operating expense is the main concern. We expect DHC's revenues to record a 2022-27f CAGR of 7.8%, reflecting a net income CAGR of 20.7%. The stock is trading at a 2023f P/E and EV/bed of 39.5x and 15.0x compared to its peer average of 39.7x and 14.9x, respectively.

- **A large player with a strong presence in Riyadh**

DHC is one of the oldest healthcare providers in Saudi, with 4 hospitals and +1,000 beds. Off the total, c87% of its beds are located in Riyadh. This bodes well for the company, supported by strong population growth to reach 15mn by 2030f. Moreover, the company operates Makkah Medical Centers (134 beds, 35 clinics) in Makkah, and has stakes in International Medical Center (IMC) and AlFagih Hospital. In 2021, total patient traffic stood at 1.84mn (2015-2021 CAGR of 11.2%). We expect improving utilization to support revenue growth going forward.

- **Acquisition strategy, a key stock catalyst**

The company embarked on a M&A strategy starting from 2020 as it acquired a 58.6% stake in Care shield and a 90% stake in Makkah Medical Centres. In 2022, the company increased its stake in International Medical Centre to 27.2% (from 8.2% in 2021). Driven by strong population growth, we believe the acquisition strategy will primarily focus on Riyadh, followed by Makkah and Jeddah, with strategic takeovers under consideration for 2023f-24f, we believe further M&A deals will be the key catalyst going forward.

- **Net income to record a CAGR of 20.7% in 2022-27f**

We expect revenues to post a CAGR of 7.8% from SAR2.49bn in 2022 to SAR3.62bn in 2027f, on the back of improved capacity utilization and margins. DHC has one of the highest revenue per bed of SAR2.5mn (as of 2022), which is not fully reflected in margins given its high cost base (2022 EBITDA margin of 20.4% vs industry average of 24%). Supported by scale, higher utilization and higher income from IMC, we expect net income to grow at 2022-2027f CAGR of 20.7% to reach SAR703mn.

- **Initiate coverage on DHC with a Neutral rating and PT of SAR156.8**

We initiate coverage on DHC with a Neutral rating and a PT of SAR156.8. We believe DHC's outlook is positive driven by MoH initiatives and higher insurance penetration. The M&A strategy remains its key catalyst with support coming from improved utilization of existing hospitals. The stock trades at a 2023f P/E and EV/Bed of 39.5x and 15.0x compared to the peers average of 39.7x and 15.0x, respectively which we believe is pricing-in all the positives.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	2026f	2027f
Revenues	2,488	2,810	3,040	3,261	3,456	3,623
Gross Income	895	1,060	1,088	1,219	1,318	1,387
Gross margin (%)	36.0%	37.7%	35.8%	37.4%	38.1%	38.3%
Operating Income	392	501	477	600	689	749
Operating margin (%)	15.8%	17.8%	15.7%	18.4%	19.9%	20.7%
Net Income to Parent	274	362	357	516	620	703
Net margin (%)	11.0%	12.9%	11.7%	15.8%	18.0%	19.4%
EPS (SAR per share)	3.1	3.7	3.7	5.3	6.4	7.2

Source: The company, SNB Capital Research estimates

NEUTRAL

Price target (SAR)	156.8
Current price (SAR)	146.6
Upside/Downside (%)	7.0

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	48.1	39.5	40.1
P/B (x)	6.6	5.1	4.9
EV/EBITDA (x)	29.5	26.1	27.0
Div Yield (%)	1.4	1.8	1.7

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
Dallah AlBaraka Holding	48.6%
Kun Holdings	7.9%
Foreign Investors	7.0%

Source: Saudi Exchange, SNB Capital Research

STOCK DETAILS

M52-week range H/L (SAR)	176/99
Market cap (\$mn)	3,813
Shares outstanding (mn)	97.7
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	0.3	(0.9)	44.0
Rel. to market	(4.5)	(0.8)	64.1

Reuters code	4004.SE
Bloomberg code	DALLAH.AB
	www.dallahhealth.com

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