Dr Sulaiman Al Habib Medical Services Group Co
Healthcare – Industrial
SULAIMAN AB: Saudi Arabia
09 May 2022

US$18.66bn	24%	US$10.49mn
Market cap	Free float	Avg. daily volume

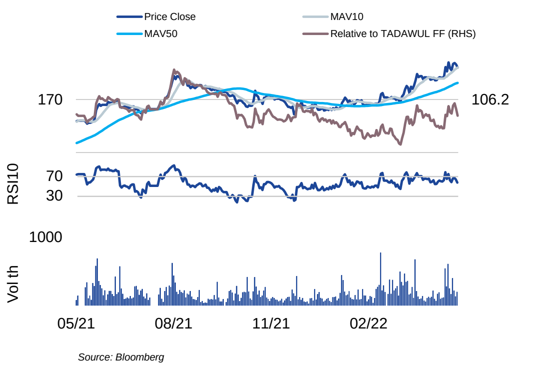
Target price	217.00	+9.5% over current
Current price	198.20	as at 8/5/2022

Research Department
Madhu Appissa, CFA,
Tel +966 11 836 5486, appissam@alrajhi-capital.com

Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	FY2021A	FY2022E	FY2023E
Revenue	7,250	7,738	8,695
Revenue growth	23.7%	6.7%	12.4%
Gross profit	2,330	2,549	2,806
Gross margin	32.1%	32.9%	32.3%
Operating profit	1,466	1,660	1,780
Op. margin	20.2%	21.4%	20.5%
Net profit	1,377	1,532	1,599
Net margin	19.0%	19.8%	18.4%
EPS	3.9	4.4	4.6
DPS	2.8	3.1	3.2
Payout ratio	71.2%	70.0%	70.0%
P/E	38.7x	45.3x	43.4x
EV/EBITDA	30.3x	34.4x	31.5x
RoE	26.9%	27.5%	26.5%

Source: Company data, Al Rajhi Capital

Dr Sulaiman Al Habib Medical Services Group

Raise target price to SAR 217

Habib's Q1 2022 results saw a very strong top-line growth of 18% along with margin expansion. The company saw improvement in the utilization levels for both inpatients as well as outpatients driven by strong growth in patients flows. Given that its matured hospitals had limited scope for improving utilization levels, the overall better occupancy rates appear to have been driven by Khobar, implying the company continues to gain market share in the region. Our Q1 2022 estimates for Habib were on the conservative side due to the tough comps last year (benefitted from pent up demand due to Covid in H2 2020, travel restrictions that limited outbound medical tourism). Post the strong numbers, we raise our FY 2022 estimates and now expect revenues to grow by 7% and net income to grow by 11%, lower compared to the Q1 2022 run rate as we expect H2 2022 to be lighter since H1 2021 benefitted from the roll out of additional beds in Khobar. Further, we continue to be cautious on the impact of removal of travel restrictions on the outbound medical tourism. As we increase our estimates for FY 2022 and the following years, our target price derived through DCF methodology (two stage method) increases to SAR 217/share from SAR 205/share before.

Recap of 1Q22 results

- Q1 2022 revenues of Dr. Sulaiman Al Habib Medical Services Group (Al Habib) were up 17.5% y-o-y to SAR1,991 mn, ahead of both our and consensus estimates of SAR1,655 mn and SAR1,883 mn respectively. Revenue growth was aided by growth across segment, especially the hospital segment, aided by improvement in both patient flow and occupancy rate of both inpatient and outpatient. Growth in hospital segment in turn had a favorable impact on the pharmacy segment.

- In line with the growth in revenue, operating profit grew by 20.7% y-o-y to SAR422 mn, as against SAR350 mn for the same period previous year. While gross margins improved by 66 bps on a y-o-y basis to 33.1% for Q1 2022, though operating cost increased by 18.4% y-o-y. In line with this, the company registered a net income of SAR391 mn, higher than both our and consensus estimate of SAR319 mn and SAR365 mn respectively.

- Al Habib have also recommended a dividend of SAR0.83 per share for Q1 2022, higher than 0.70 per share for Q4 2021 and Q1 2021. The dividend pay-out works out to 74% of the Q1 2022 net income.

Figure 1 Dr Sulaiman Al Habib Medical Services Group: Summary of Q1 2022 results

(SAR mn)	Q1 2022	Q4 2021	Q1 2021	Q1 2019	Q1 2020	*ARC Est.*	*Cons Est.*	*y-o-y*	*q-o-q*	*% ch vs. 2019*	*% ch vs. 2020*	*vs ARC*	*vs Cons*
Revenue	**1,990.9**	**1,968.1**	**1,694.8**	**1,227.9**	**1,343.3**	**1,654.6**	**1,883.3**	***17.5%***	***1.2%***	***62.1%***	***48.2%***	***20.3%***	***5.7%***
Gross Profit	**658.6**	**643.4**	**549.4**	**404.2**	**399.9**	**533.4**		***19.9%***	***2.4%***	***62.9%***	***64.7%***	***23.5%***	
G. margin	*33.1%*	*32.7%*	*32.4%*	*32.9%*	*29.8%*	*32.2%*							
Op. profit	**422.1**	**396.3**	**349.6**	**248.2**	**258.6**	**344.7**		***20.7%***	***6.5%***	***70.1%***	***63.2%***	***22.5%***	
Op. margin	*21.2%*	*20.1%*	*20.6%*	*20.2%*	*19.3%*	*20.8%*							
Net profit	**390.5**	**383.6**	**319.0**	**234.1**	**246.6**	**318.6**	**364.7**	***22.4%***	***1.8%***	***66.8%***	***58.4%***	***22.6%***	***7.1%***
Net margin	*19.6%*	*19.5%*	*18.8%*	*19.1%*	*18.4%*	*19.3%*	*19.4%*						

Source: Company data, Al Rajhi Capital, Argaam

Valuation and risks: We have increased our target price to SAR217/sh from earlier SAR205/sh before, that offers an upside of 9.5% and implies a 'neutral' rating. We continue to value the stock through a two staged DCF methodology given that the group is in an expansion phase and structural demand drivers would support growth beyond our explicit forecast period. We prefer the stock over its peers mainly on the back of significant capex program that the company has undertaken, that would boost its bed capacity by over 75% (highest growth among the peers) to almost 3,400 beds by 2024. Key risks include: 1) Weaker than expected growth in 2022 as 2021 was an exceptional year, 2) Weaker capacity utilisation 3) Lack of experience in Jeddah 4) Further outflow of expats that could hurt growth from insurance.

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Contact us

Mazen AlSudairi, CFA
Head of Research
Tel: +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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