Dr. Soliman Abdel Kader Fakeeh Hospital Co.
Healthcare: Healthcare Provider
FAKEEHCA AB: Saudi Arabia
16 March 2025

alrajhi capital الراجحي المالية

US$3.27bn	22.79%	US$7.81mn
Market Cap.	Free Float	Avg. Daily Value traded

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Neutral

Price Target (SAR): 58.0

Current: 52.9
Upside/Downside: 9.6% above current

Valuation Multiples	24A	25E	26E
P/E (x)	40.1	35.0	29.0
P/B (x)	3.9	3.8	3.4
ROE (%)	14.5	11.3	12.3

Major Shareholders	% Ownership
Ammar Soliman Abdel Kader Fakeeh	30.8
Mazen Soliman Abdel Kader Fakeeh	30.8
Manal Soliman Abdel Kader Fakeeh	15.4

Price Performance	1M	3M	YTD
Absolute	-19.4%	-25.3%	-21.0%
Relative to TASI	-14.1%	-22.2%	-18.5%

Earnings

(SAR mn)	2024	2025E	2026E	2027E
Revenue	2,791	3,173	3,683	4,435
y-o-y	*20.0%*	*13.7%*	*16.1%*	*20.4%*
Gross Profit	699	767	940	1,177
GM Margin	*25.0%*	*24.2%*	*25.5%*	*26.5%*
y-o-y	*13.4%*	*9.7%*	*22.6%*	*25.2%*
EBITDA	522	580	730	912
EBITDA Margin	*18.7%*	*18.3%*	*19.8%*	*20.6%*
Net Income (Pre minority)	264	290	398	512
Net Income (Post minority)	288	351	423	494
Net Income Margin	*10.3%*	*11.1%*	*11.5%*	*11.1%*
y-o-y	*2.8%*	*22.0%*	*20.7%*	*16.7%*
EPS*	1.32	1.51	1.83	2.13
ROE	14.5%	11.3%	12.3%	11.3%

Source: Company data, Al Rajhi Capital.
Note: EPS for 2024 is calculated using based on the weighted average number of shares. From 2025 onwards, have considered the outstanding shares (232mn).

Dr. Soliman Abdel Kader Fakeeh Hospital Co.

Resilient in Jeddah, but Riyadh ramp-up slower than expected

Fakeeh's 4Q24 results fell short of expectations, with revenues increasing 12% y-o-y to SAR 743mn (+4% q-o-q), coming in 8% below our estimates. This marks a noticeable slowdown from the high 20% revenue growth seen in previous quarters, reflecting the impact of intensifying competition, in both Riyadh as well as Jeddah. The softer-than-expected volume growth in Riyadh in Q4 2024, with inpatient numbers declining 1% q-o-q and outpatient visits rising only 6% q-o-q was a key concern and now could delay the breakeven for the hospital. Meanwhile, in Jeddah, although the competition has intensified, where 3 new hospitals entered the market in 2024, overall, in FY24 the company has managed to protect its market share. Total volumes (including medical center) in Jeddah grew y-o-y, with outpatients rising almost 5% y-o-y led by its hub and spoke model (medical centres), while inpatient numbers were flat (versus our expectation of slight decline). However, sharp increase in staff cost was noticed in Jeddah due to new hospitals fighting to attract talent. Thus, a combination of slower than expected ramp-up in Riyadh in 2024 and rise in staff costs in Jeddah resulted in underperformance in terms of meeting core earnings expectations. On the positive side, the IPO proceeds aided in paying off the loans, sharply reducing the interest expense burden and limiting the impact of weak operating earnings on the bottom-line. The company is on the expansion spree and almost triple its bed capacity by 2028. We like the name due to its strong position in high-quality services and complex surgeries, and the anticipated growth in patient volumes and earnings. However, in the backdrop of intensifying competition in Riyadh and Jeddah, we prefer to be cautious and await trends that suggest the industry pie is also growing to accommodate the upcoming supply. We now expect EBITDA breakeven in Riyadh to be achieved only at the end of 2025 and net income breakeven to be achieved by late 2026. At the same time, we also assume limited improvement in the existing hospitals in Jeddah as Al Habib plans to open another large hospital in Jeddah this year. Thus, we trim our near-term revenue growth assumptions as well as gross margin estimates. Nevertheless, from a medium-term point of view, we continue to expect solid growth, revenue CAGR of 17% during 2024-2028E and net income (post minority) to grow by 22% CAGR. On the back of derating in the sector and uncertainty around the impact of rising competition on the near-term revenues for class A/VIP operators, we also reduce our target multiple for valuing the stock. Hence, we reduce our target price to SAR 58/share, ~10% upside from the current levels. Accordingly, we turn neutral on the name from Overweight.

4Q24 Earnings: Fakeeh's 4Q24 revenues (+12% y-o-y, +4% q-o-q) came in at SAR 743mn, 3% below our estimates. Patient volumes grew by about 11%, both inpatient and outpatient at a similar rate of 11% y-o-y. Gross profits decreased by 5% y-o-y as margins came to 22.2% for 4Q24, compared to 26.1% in 4Q23, and lower than our estimates. Operating profit decreased 23% y-o-y standing at SAR 72mn, with implied margins at 9.7% in 4Q24, lower sequentially as well as on y-o-y basis. Net Income stood at SAR 74mn (flat y-o-y, -21% q-o-q).

Figure 1 **Summary of earnings**

(SAR mn)	Q4 2024	Q4 2023	Q3 2024	ARC Est.	y-o-y	q-o-q	vs ARC	FY24	FY23	y-o-y
Revenue	**743**	**662**	**714**	**764**	***12%***	***4%***	***-3%***	**2,791**	**2,327**	***20%***
Gross Profit	165	173	184	207	*-5%*	*-10%*	*-21%*	699	617	*13%*
G. margin	*22.2%*	*26.1%*	*25.8%*	*27.1%*				*25.0%*	*26.5%*	
Op. profit	72	94	105	117	*-23%*	*-31%*	*-38%*	359	334	*8%*
Op. margin	*9.7%*	*14.2%*	*14.6%*	*15.4%*				*12.9%*	*14.4%*	
Net profit (Pre-minority)	**68**	**63**	**92**	**97**	*8%*	*-25%*	*-30%*	**264**	**232**	***14%***
Net margin	*9.2%*	*9.5%*	*12.8%*	*12.8%*				*9.4%*	*10.0%*	
Net profit (Post-minority)	**74**	**74**	**94**	**95**	*0%*	*-21%*	*-23%*	**288**	**280**	***3%***
Net margin	*9.9%*	*11.2%*	*13.1%*	*12.5%*				*10.3%*	*12.0%*	

Source: Company data, Al Rajhi Capital

Valuations: We value Fakeeh using relative valuation (RV) methodology. In our view, the best comparable peers in the listed space are Habib and Dallah. All three companies have similar clientele (class A and VIP) and are considered to be premium hospitals in their respective market. Currently, the margins of Fakeeh are under pressure due to losses in Riyadh hospital, however, ex-Riyadh, the margins are broadly similar to Al Habib and also the balance sheet is relatively stronger. Thus, we believe it should command multiples that is somewhere between these two companies. We assign a target multiple of 35x to 2025/2026E EPS of SAR 1.67, between Dallah's 28x target multiple and Al Habib's 38x multiple (target price /average 2025/2026 EPS) to derive our fair value through RV method of SAR 58/share. As the Riyadh hospital is in the turnaround phase and Madinah hospital will pressurise the earnings in 2025, we are considering both 2025 and 2026 EPS.

Figure 2 **Valuations**

Relative Valuation	Values
Dallah's target multiple	28.0x
Habib's target multiple	38.0x
Fakeeh Forward P/E	35.0x
2025/26E EPS	1.67
Fair value per share (SAR)	**58.0**
Current Price	52.9
Upside	9.6%

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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