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Fakeeh Care Group

High quality operator, initiate with an Overweight and TP of SAR 66/share

Overweight

Target Price (SAR): 66.0

IPO Price: 57.5
Upside/Downside: 14.8% above offer price

Valuation Multiples	23E	24E	25E
P/E at listing price (x)	47.7	50.3	35.2
P/E at target price (x)	54.6	57.5	40.3

IPO Details

Offered Price	57.5
Offered Shares	49.8mn ordinary shares
Use of IPO Proceeds	Net of IPO proceeds to be distributed to selling shareholder and growth capex
Financial Advisor	HSBC

Post IPO	% Ownership
Ammar Soliman Abdel Kader Fakeeh	30.8%
Mazen Soliman Abdel Kader Fakeeh	30.8%
Manal Soliman Abdel Kader Fakeeh	15.4%

Earnings

(SAR mn)	2023	2024E	2025E
Revenue	2,327	2,764	3,296
YoY %	*15.6%*	*18.8%*	*19.3%*
Gross Profit	617	714	896
GM Margin %	*26.5%*	*25.8%*	*27.2%*
YoY %	*0.7%*	*15.8%*	*25.6%*
EBITDA	488	581	747
EBITDA Margin	*21.0%*	*21.0%*	*22.7%*
Net Income (Pre minority)	232	234	363
Net Income (Post minority)	280	265	379
Net Income Margin %	*12.0%*	*9.6%*	*11.5%*
YoY %	*-14.3%*	*-5.1%*	*42.8%*
EPS	1.4	1.1	1.6
ROE	19%	14%	12%

Source: Company data, Al Rajhi Capital, Note: EPS for 2023 is calculated based on 200mn shares, and from 2024 onwards have considered 232mn shares.
EBITDA: Operating Income + Depreciation & Amortization, might differ from company data.

Fakeeh Care Group, a Jeddah-based leading tertiary care hospital is embarking on an expansion spree that would boost its capacity by almost 3x and catapult it into one of the leading players in the KSA. The company plans to replicate its successful hub and spoke model in other geographies outside Jeddah and would be leveraging on its network of high-quality doctors and IT systems. In our view, top-tier hospitals are in a much better position to capture the growing healthcare market as the end demand is being driven by insurance clientele, which is linked to growing private sector in the country. Further, the business model that follows a hub and spoke approach has an edge in terms of attracting patients resulting in efficient conversion of outpatients to inpatients. Thus, we are reasonably confident that high end operators such as Habib and Fakeeh should be able to ramp up their upcoming facilities without any major risks. We expect revenues to grow at a CAGR of 15% over the next 7 years (2023-2030E) and EBITDA as well as net income to grow at a much better CAGR of 18% and 20%, respectively. Currently, the earnings are depressed, hurt by losses at its Riyadh hospital, that was acquired in 2022. However, we have noticed a strong improvement in patient visits and expect the hospital to breakeven on EBITDA by end of 2024 and on net income by early 2026. Thus, we believe using 2025 earnings to derive the valuations is more appropriate given the depressed 2023 and 2024 earnings. In terms of competitors, we compare Fakeeh to a narrow set of peers, that includes class A and VIP operators such as Dallah and Habib. In terms of growth, it is better to Habib (13% net income CAGR versus Fakeeh's 20% CAGR), but we would be cautious in terms of assigning higher multiples given Habib's precedence of successfully ramping up Khobar and experience of operating multiple hospitals. However, we believe it should trade at a premium to Dallah given Fakeeh's stronger margins, better return ratios, solid cash flow generation, and lesser exposure to MoH. We initiate our coverage with an Overweight recommendation and a target price of SAR 66/share.

Established brand in tertiary care: For 40 years, the company has been a top tertiary-care hospital in Saudi Arabia, pioneering IVF (1984), renal transplants (1985), and Davinci Robotic surgery. Jeddah Hospital Complex, the first private hospital accredited by JCI in 2006, was ranked Saudi Arabia's best private hospital by Newsweek (2022-2024). This hospital has over 100 ICU beds, which is 25% of the total 400 inpatient beds, and offers 50+ specialties. This hospital has earned a reputation in complex specialties; in 9M23, 16% of its patients were from complex specialties, contributing 32% of revenue.

Hub and spoke model another key enabler of volume growth: Fakeeh operates one main hospital and four advanced ambulatory centers in Jeddah, handling total 1.45mn outpatient cases (excluding Riyadh). Nearly half of these cases (48% as of LTM September 2023) are from the ambulatory centers, and a notable portion convert into inpatients for their main hospital. Key ambulatory centers include Medical Fakeeh, specializing in aviation medicine, and Basateen, the largest renal dialysis unit for outpatients. It runs a pretty successful hub and spoke model, that is reflected in the healthy outpatient to inpatient conversion of >5%, which is sector leading. The company plans to replicate this model in the other geographies, where it plans to build/operate a main hospital, such as Riyadh, Makkah, and Madinah.

Riyadh breakeven on net income likely by early 2026: The company's expansion into Riyadh came through acquisition, thus limiting the ability to open beds in a phased manner and control the costs. Thus, the losses have remained on the higher side, (2023: loss of SAR 181 mn, SAR 168 mn losses in 2022). However, post the integration and rebranding, the Riyadh hospital has seen notable jump in patient volumes as the company entered into an insurance agreement in March 2023. In Q4 2023 the hospital serviced 30.4k outpatients versus just 2.3k outpatients in Q1 2023 (no insurance agreement). At the same time, inpatient volumes were 1,081 compared to negligible in Q1 2023. We expect solid brand of Fakeeh Group to help capture the market in Riyadh, thus are reasonably confident on its guidance of achieving breakeven on EBITDA in 2024, but conservative on net profit breakeven (expect it to happen only in H1 2026). Nevertheless, at optimum utilisation level, the hospital should generate PAT (before minority interest) of about SAR 80-90mn by 2027/2028, margins of 14%-15%.

Expansion could triple the profitability in a base scenario: The company is embarking on its most significant expansion since its inception, aiming to increase its capacity from 635 beds (including Neom) to 1675 beds by 2028. Further, the company plans to replicate its hub-and-spoke model in Riyadh, Makkah, and Madinah. Despite execution risks, the promising outlook for the healthcare sector and growing insured population suggest that, if successful, revenues could almost triple by 2030, and net profits could nearly quadruple to almost SAR 1.0bn by 2030. This expansion is timely as other players enter Jeddah, threatening its market share, making diversification into Riyadh and Makkah/Madinah a strategic move for a long-term growth.

Levered to insured lives growth story: Fakeeh Group stands to benefit significantly from the growth in insured lives driven by privatization and saudization mandates. We estimate the Saudi medical insurance market to grow at a CAGR of nearly 11% from 2023 to 2030. With 87% of its revenue from insurance clients as of 9M23, Fakeeh has one of the highest exposures to insurance among its peers. We are optimistic about the growth in insured lives, and the demand for tertiary care hospitals in Saudi Arabia.

Use of IPO Proceeds (SAR mn, unless stated)	Amount
IPO Price (SAR)	57.5
New Ordinary Shares (mn)	*30.0*
Sale of current shares (mn)	*19.8*
IPO Size	**2,864**
Money raised through sale of new shares	**1,725**
Offering expenses	(75)
Net money raised through IPO	**1,650**
70%-80% to be used for growth plans	75%
Amount to be used for growth plans	**1,238**
20%-30% to be used for general purpose	25%
Amount available for general purpose	**413**
Total estimated cost of growth plans	**3,565**
Raised through IPO	1,238
Likely to be financed through debt and FCF	2,328

Use of IPO Proceeds: The total IPO size is about SAR 2.9 bn, of which new shares of 30mn to public implies the company would be generating proceeds of SAR 1.7 bn. Out of SAR 1.7 bn, 70%-80% funds are earmarked for growth plans, this reflects the company's commitment to expanding its operations and seizing growth opportunities. The remaining 20%-30% of the proceeds will be allocated for general purposes, providing flexibility for various operational needs and initiatives. The total estimated growth capex is SAR 3.6 bn, of which around SAR 1.2 bn will be funded through IPO proceeds (70-80% for growth) and the remaining through internal cashflows and some debt. Overall, the IPO proceeds will play a pivotal role in fuelling the company's growth trajectory, supporting strategic investments, and enhancing shareholder value in the long term.

Valuations: We apply a combination of DCF and relative valuation methods. Our analysis focuses on closely comparable companies in the listed space, namely Habib and Dallah, which share similar high-end clientele and premium market positioning. While Fakeeh's current EBITDA margins are lower and closer to Dallah's due to Riyadh losses, its pre-Riyadh performance aligned more closely with Habib in terms of margins, ROIC, and balance sheet strength. In terms of growth prospects, Fakeeh resembles Habib more than Dallah. We thus suggest a valuation multiple between these two peers, higher than Dallah but slightly lower than Habib. Accordingly, we assign a target multiple of 40x to 2025E EPS of SAR 1.63, that results in a fair value of SAR 65.3/share derived through RV method. Our DCF based fair value (two staged model) yields a fair value of SAR 66.2/share. Our target price, which is average of fair value of RV and DCF method, is SAR 66/share (rounded up), that implies an upside of almost 15% from the IPO price. Thus, we initiate our coverage with an Overweight recommendation.

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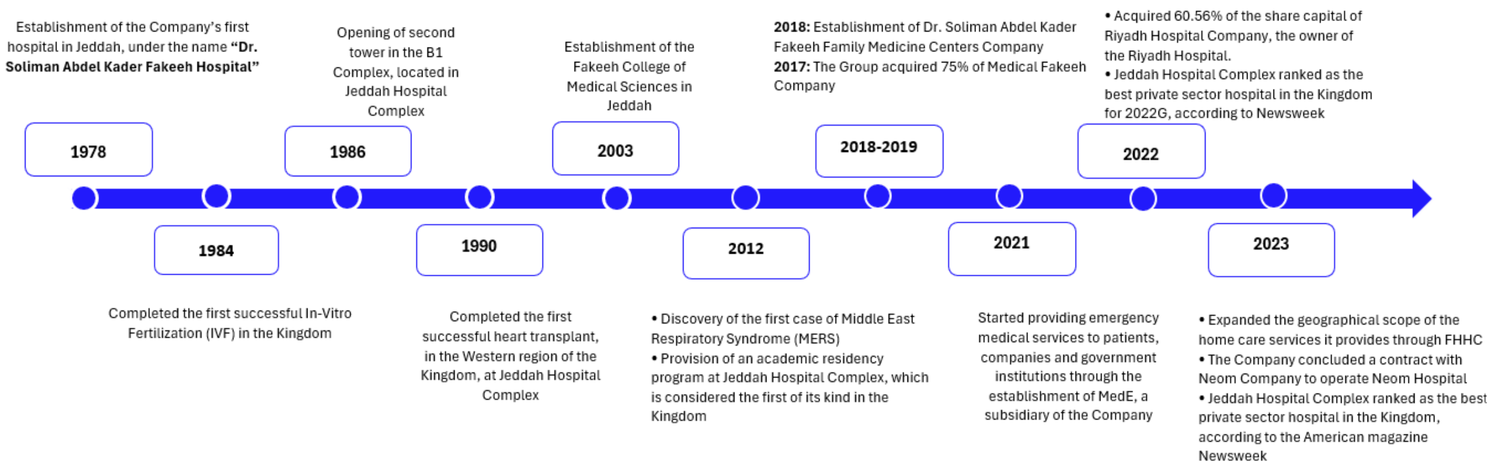
Company Overview

Fakeeh Care Group (FCG) stands out as one of the Kingdom's largest private healthcare providers, boasting over 46 years of experience and a stellar reputation across the GCC region. Its core activities encompass the establishment, management, and operation of multi-specialty hospitals, medical education facilities, rehabilitation centers, and medical support services including home healthcare and ambulance services. The Group's distinctive academic care model, supported by top-tier medical education, training, and technology, has redefined healthcare standards in the Kingdom, distinguishing it from other providers. Their comprehensive business model covers ambulatory, secondary, and tertiary care, specialty services, digital health solutions, medical product provision, and logistical support. Embracing the US healthcare model of a hub-and-spoke approach, the Group's multi-specialty hospitals serve as central hubs offering a full spectrum of services, complemented by satellite facilities such as medical centers and ambulatory care units, providing numerous advantages in healthcare delivery.

The Hub and Spoke model represents a patient-centered approach to healthcare delivery. It revolves around a central flagship hospital, acting as the "hub," providing tertiary level care, complemented by multiple large-scale outpatient clinics, known as "spokes," strategically located in densely populated regions. These spokes offer a comprehensive range of medical services, including urgent care, advanced radiology, internal medicine, family medicine, paediatrics, and women's health, among others. This model allows the Group to effectively manage medical centers closer to where people live and work, decentralizing the heavy traffic typically experienced by tertiary hospitals.

Figure 1 **Company Timeline**



Source: Company Data, Al Rajhi Capital,

The Group presently owns two multi-specialty hospitals: the Jeddah Hospital Complex and the Riyadh Hospital. Additionally, the Group operates Neom Hospital as per a framework agreement with Neom Company. Through its subsidiaries, the Group offers diverse healthcare services aimed at delivering premium quality care to patients. While the Group endeavors to offer a wide range of medical services across all its healthcare facilities, the provided summary encompasses all healthcare services offered by the Group collectively, rather than specific services available at each individual medical facility. The details for the hospitals and medical centers are as below:

- **Dr. Soliman Abdel Kader Fakeeh Hospital – Jeddah:** Established in 1978 in Jeddah's Al Hamra District, the Jeddah Hospital Complex annually treats nearly 1 million patients and conducts over 5,000 labor, transplant, and open-heart surgeries. It boasts one of the largest intensive care units in the GCC region and is the sole private hospital in the GCC with a closed behavioral health unit. Accredited by the JCI in 2006, it offers over 50 medical specialties, employing over 1,800 healthcare professionals across various departments.

  In addition to general healthcare services, the Jeddah Hospital Complex provides specialized care including acute intensive care for infants, pediatric oncology, renal transplant surgeries, comprehensive cancer care, and robotic surgeries. It specializes in tertiary healthcare procedures such as orthopedic, spine, and ear implants, as well as neurological and skull base surgeries. The complex features 400 inpatient beds, 134 clinics, 108 intensive care units, and 15 operating theaters, along with a 24/7 emergency care unit, reference lab, and advanced medical technology including PET-CT, hyperbaric oxygen therapy, and intestinal flowmetry. Spread across three medical buildings covering approximately 83,500 sqm, it operates on leased plots owned by the Heirs of Dr. Soliman Fakeeh.

- **Riyadh Hospital Company:** On October 27, 2022, Fakeeh acquired a 60.56% stake in the Riyadh Hospital from Rana Medical Services Company, subsequently renamed "Dr. Soliman Fakeeh Hospital Medical Company." This marked the Group's inaugural expansion into Riyadh, aligning with its vision to establish an integrated healthcare model prioritizing patient-centered, secure healthcare service. The Riyadh Hospital, equipped with 185 inpatient beds, 55 outpatient clinics, 10 operation theaters, and advanced technology, offers a broad spectrum of medical services, including cardiac, critical, emergency, pulmonary, pediatric, gynecological, and dental care, among others.

  Employing approximately 200 physicians across various departments, the hospital commenced commercial operations in June 2021 but only entered healthcare service agreements with insurance companies in March 2023. Spanning approximately 55,000 sqm, the hospital's premises sit on a plot of land measuring 6,358 sqm, owned by the Riyadh Hospital Company. Acquisition terms, customary in such agreements, were settled, including adjustments based on financial performance, with part of the purchase price held in escrow until agreed upon adjustments. Additionally, a shareholders' agreement governs the rights and obligations of the Riyadh Hospital Company's shareholders.

- **Medical Centers:** Apart from its multi-specialty hospitals, the Group extends healthcare services through four medical centers serving as the "spokes" of its Hub-and-Spoke model: (a) Medical Fakeeh in Jeddah; (b) DSFMC in Al Basateen District in Jeddah; (c) DSFMC in Al Nuzha District in Jeddah; and (d) Fakeeh Executive Clinic situated in the prominent Headquarters Business Park Tower in north Jeddah.

Figure 2 **Current and Upcoming facilities**

	Existing Assets			Upcoming Projects	
Hospitals	**Ambulatory Care Centers**	**Education & Healthcare services**	**Hospitals**	**Ambulatory Care Centers**	**Education & Healthcare services**
DFSH Jeddah	Medical Fakeeh	FCMS	DFSH Masar, Makkah	DSFMC, Alawali, Makkah	FCMS Expansion
DFSH Riyadh	DFSMC Basateen	Fakeeh Home Healthcare	DSFH South Obhur, Jeddah	DSFMC North Obhur, Jeddah	
NEOM Hospital	DSFMC Nuzha	Emergency Medical services	Al Hamra, Jeddah	DSFMC Al Hamra, Riyadh	
	DFSMC Executive Clinic	Fakeeh Tech	DSFH Jeddah Surgery Tower Extension	DSFMC Al Zahra, Jeddah	
	NEOM Advanced Medical center	Fakeeh Vision and other services	DSFH, Madinah		

Source: Company Data, Al Rajhi Capital

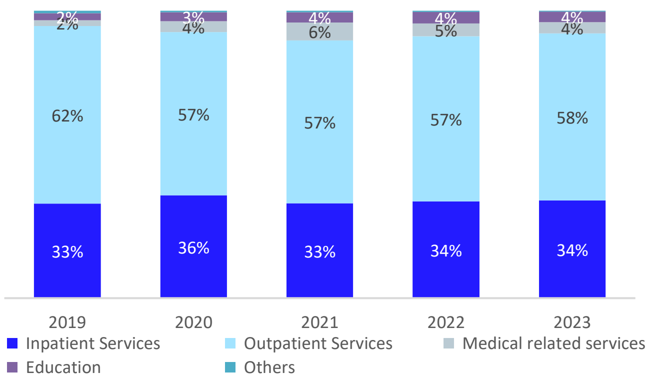
Figure 3 **Expansion pipeline details**

	Area (000 sqm)	Type	Beds	Clinics	Capex (SAR mn)	Const. Start	Opening
Hospitals							
DSFH - Madinah	73.5		200	49	500	80%	2H24
DSFH - Makkah	95.0	Land leased, Building owned	200	70	600	1H24	2H27
DSFH - South Obhur, Jeddah	120.0	Owned	300	100	900	2H24	1H28
DSFH - Surgical Tower Expansion	42.4	Land leased, Building owned	140		400	2H24	2H27
DSFH - Al Hamra, Jeddah	21.3	Leased	200		260	1H24	1H26
Ambulatory Centres							
DSFMC - Makkah	14.4	Land leased		20	100	Started	1H25
DSFMC - North Obhur, Jeddah	8.6	Owned		22	110	1H24	1H25
DSFMC - Al Zahra, Jeddah	18.6	Leased		60	55	1H24	1H25
DSFMC - Al Hamra, Riyadh	8.6	Owned		22	140	1H24	1H26
FCMS Expansion (Medical College)					500		2,027
TOTAL			**1,040**	**343**	**3,565**		

Source: Company Data, Al Rajhi Capital

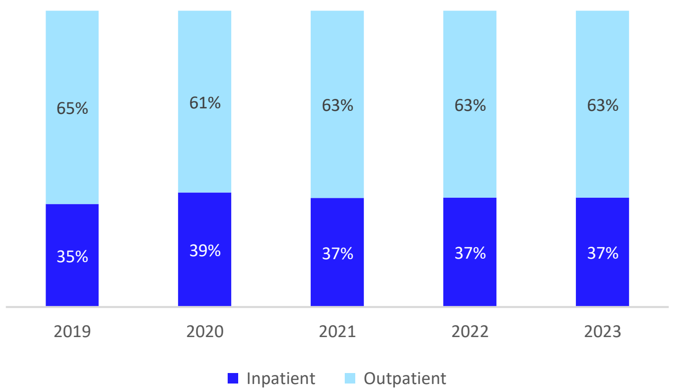
Financial Analysis in Charts

Figure 4 **Group Revenue split by business**



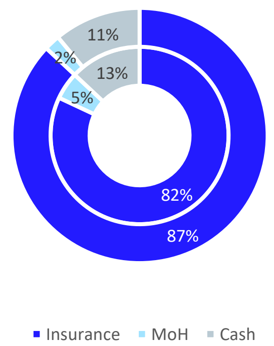
Source: Company Data, Al Rajhi Capital

Figure 5 **Healthcare revenue: Inpatient/Outpatient Mix (not adjusted for eliminations)**



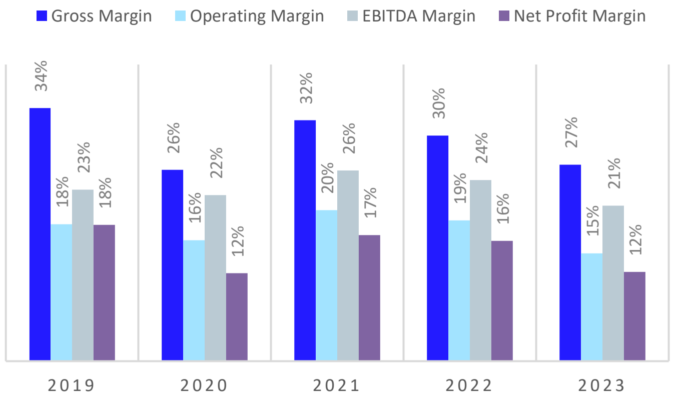
Source: Company Data, Al Rajhi Capital

Figure 6 **Payor Mix (Inside: Outside – 2020:9M23)**



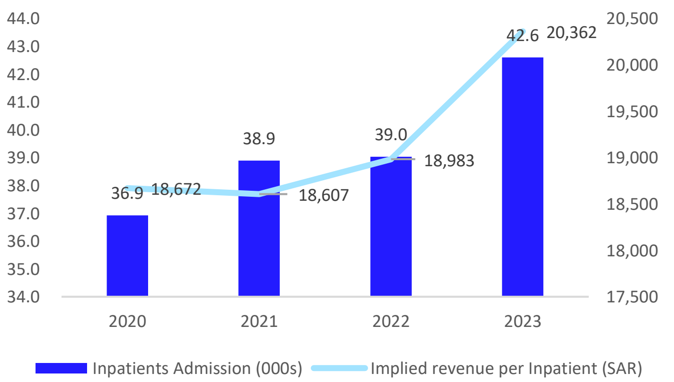
Source: Company Data, Al Rajhi Capital

Figure 7 **Margin over the years**



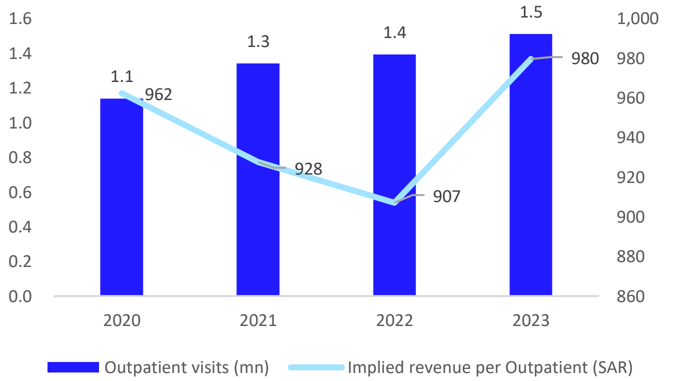
Source: Company Data, Al Rajhi Capital

Figure 8 **Inpatient KPIs**



Source: Company Data, Al Rajhi Capital

Figure 9 **Outpatient KPIs**



Source: Company Data, Al Rajhi Capital

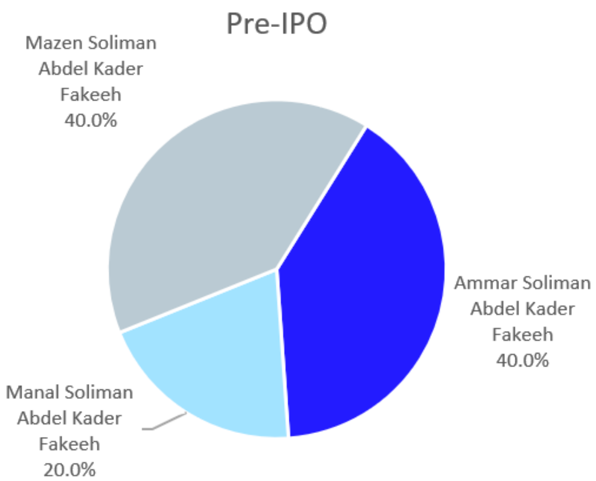
Figure 10 **Current hospitals and Centers' details**

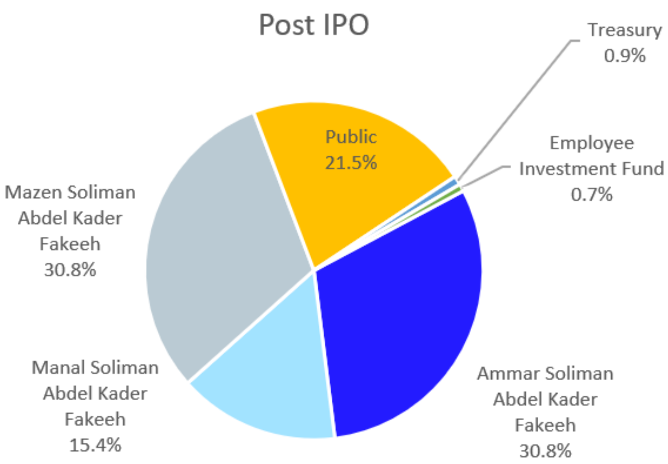
	Hospitals		
	DSFH Jeddah	DSFH Riyadh	NEOM Hospital
% Owned	100%	60.6%	Operator Model
Area (sqm)	83,500	55,000	
Beds	400	185	50
ICU Beds	108	28	20
OTs	15	10	5
Clinics	134	200	
Doctors	500	200	
Patients seen Annually	1mn	26.5k	

	Ambulatory Care Centers				
	Medical Fakeeh	DSFMC Basateen	DSFMC Nuzha	DSFMC Executive	Advanced Center
% Owned	75%	100%	100%	100%	Operator Model
Specialities	>30	>40	>30	>20	>15
Examination Rooms	69	27	16	12	12
Doctors	119	60	12	10	25
Nurses	114	84	32	19	42

Source: Company Data, Al Rajhi Capital

Figure 11 **Shareholding (Rounded off)**





Source: Company Data, Al Rajhi Capital.

Investment Rationale

Established brand in tertiary care and hub & spoke model in Jeddah to offset pressure from competition: Over the last 40 years, the company has earned a solid reputation as a top-tier tertiary-care hospital in the KSA and has been associated with innovations in complex surgeries. It was the first private hospital to offer IVF services in the KSA (1984), first to offer renal transplant in 1985, first to offer Davinci Robotic surgery in the KSA, etc. Moreover, the Jeddah Hospital Complex was the first private hospital in the Kingdom to be accredited by the JCI in 2006. According to Newsweek magazine's assessment, Jeddah Hospital has been ranked as the best private hospital in the Kingdom for three consecutive years, 2022G, 2023 and 2024.

With over 100 ICU beds, 400 inpatient beds, it offers over 50 medical specialties, including acute intensive care for infants, paediatric oncology, renal transplant surgeries, comprehensive cancer care, and robotic surgeries. It specializes in tertiary healthcare procedures such as orthopaedic, spine, and ear implants, as well as neurological and skull base surgeries.

Its brand and expertise can be recognised by the high share of complex specialities and its higher average revenue per patient. In 9M 2023, about 16% of its patients were from complex specialities, that contributed 32% of the total healthcare revenues, implying the high revenue per patients versus the rest of the inpatients. Moreover, its reputation can also be judged by the contracts awarded by the public sector. The company has been awarded the operation of 50-bed Neom Hospital as well as the award to run Advanced Medical Center in Neom. Moreover, the Group owns and manages Medical Fakeeh in partnership with the Saudi Arabian Airlines and was previously tasked with managing KAUST Medical Center.

This medical expertise is complemented by academic integration, through the Fakeeh College of Medical Sciences, that provides medical education, scientific research, community engagement converge, etc. The group leverages its own medical college for attracting talent as well providing its employees and health practitioners with academic training and state-of-the-art research facilities. Fakeeh College of Medical Sciences offers diverse programs for undergraduate and postgraduate studies, along with various short-term professional courses, fostering an environment dominated by a culture of continuous learning and innovation. Additionally, the Group has long-term partnerships with prestigious educational institutions, including the University of Dundee in the United Kingdom and the Royal College of Surgeons in Ireland.

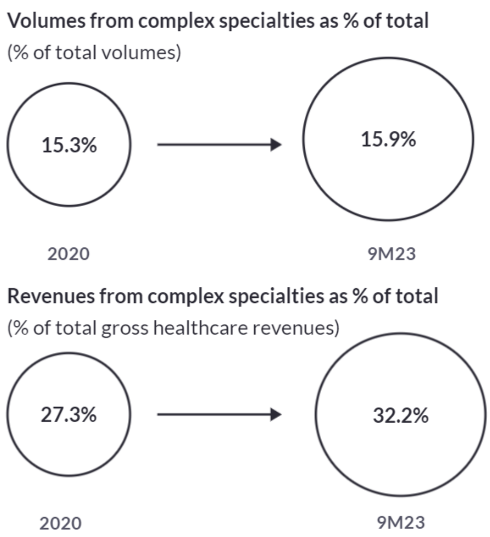
Figure 12 **Leader in the Kingdom's healthcare evolution**

Source: Company Data, Al Rajhi Capital

Figure 13 **Certification & Accreditations**

Source: Company Data, Al Rajhi Capital

Figure 14 **Complex surgery contribution has paced up**

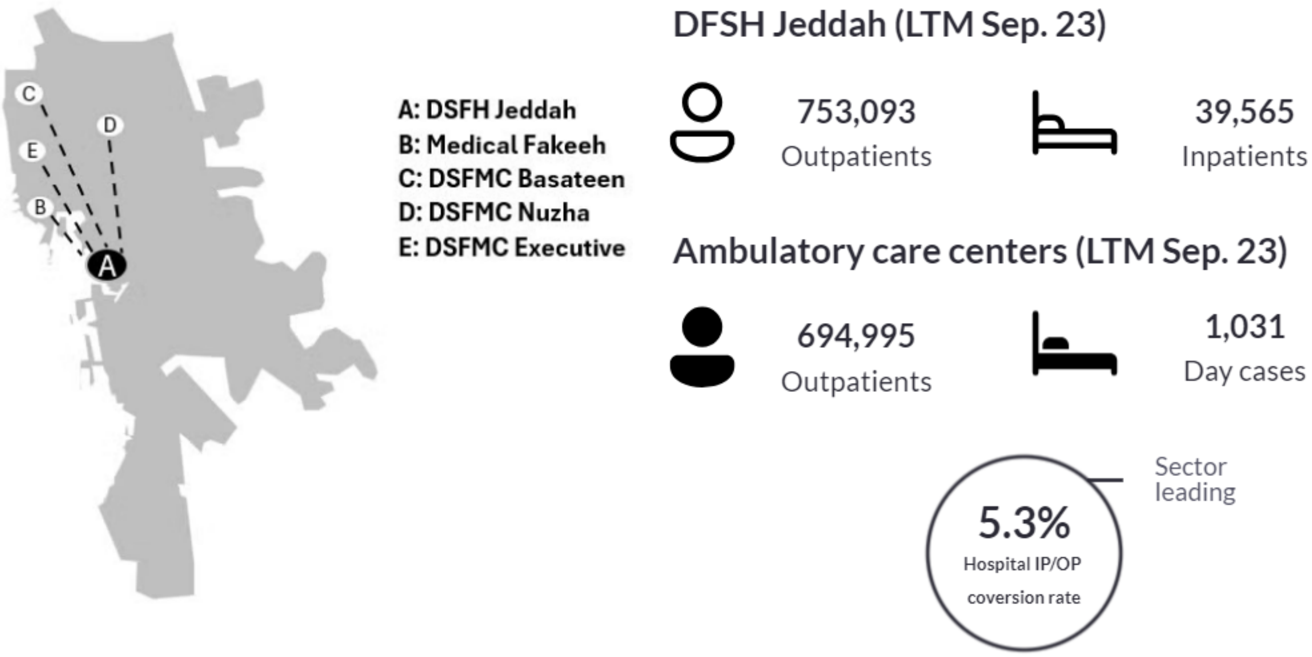


Source: Company Data, Al Rajhi Capital

…Hub and spoke model another key enabler of volume growth: The Hub and Spoke model represents a patient-centered approach to healthcare delivery. It revolves around a central flagship hospital, acting as the "hub," providing tertiary level care, complemented by multiple large-scale outpatient clinics, known as "spokes," strategically located in densely populated regions. These spokes offer a comprehensive range of medical services, including urgent care, advanced radiology, internal medicine, family medicine, paediatrics, and women's health, among others. Although, the company has just one main hospital, it caters to almost 1.45 mn outpatient cases (ex-Riyadh), of which almost half (48% as of LTM Sep. 2023) came from the 4 ambulatory centres (medical clinics) that it operates. Its 4-ambulatory care centers in Jeddah, act as a hub and spoke model and supports inpatient and complex surgeries volumes in its main hospital. The conversion ratio of hospital IP/OP is sector leading and pretty healthy at 5.3%. Moreover, these ambulatory centres are advanced medical clinics that in addition to general outpatient services also provides day-case surgeries, advanced diagnostic services, etc. Its Medical Fakeeh centre, is the first public private partnership (PPP) collaboration under the Vision 2030 initiatives. The care centre specialises in aviation medicine. Moreover, its Basateen centre in Jeddah offers the largest renal dialysis unit set up in outpatient clinics. Further, its executive clinic is one of its kind, luxurious and exclusive clinic that offers wellness programs, laboratories and executive check-ups. The company plans to replicate this highly efficient and proven model in Riyadh, and Makkah and Madinah, where it is now having presence through a tertiary care hospital.

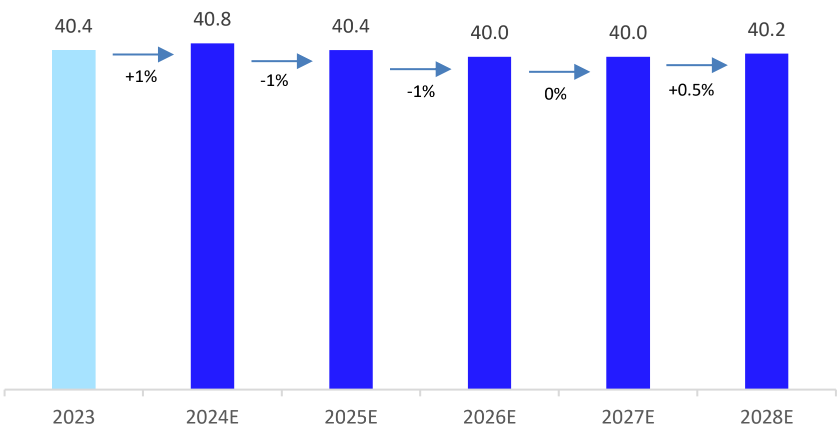
In our view, this kind of set up, hub and spoke, provides a unique advantage to the company as its patients can access ambulatory centres, where the wait time is lesser and the location is closer to their residence. Moreover, high quality tertiary care at its main hospital completes the cycle of patient journey. This integrated model, that provides both convenience and top-notch service, should help in terms of managing the impact from the upcoming hospitals in Jeddah. Nevertheless, to be on the conservative side, we estimate patient volumes at its Jeddah hospital to decline slightly in the next two years, 2025 (-1% y-o-y) and 2026 (-1% y-o-y). Moreover, we are also considering impact on pricing due to the growing competition. All said and done, the company should be able to manage the risks from competition to a large extent and maintain its overall growth supported by expansion in the other regions.

Figure 15 **Hub and Spoke Model in Jeddah**



Source: Company Data, Al Rajhi Capital

Figure 16 **Jeddah inpatient volumes (000s) to see minor impact from competition due to its brand and hub-spoke model**



Source: Company Data, Al Rajhi Capital

Riyadh turnaround on track: The company's expansion into Riyadh came through acquisition (60.56% stake from Rana Medical Services Company) in Oct. 2022, rather than a greenfield expansion. The company acquired an already operational hospital, that was commissioned in 2020. This limited the ability to open beds in a phased manner and made cost management a bit difficult. The hospital was loss making when acquired; in 2022 the accumulated losses were SAR 457 mn and the losses incurred during that year were SAR 168 mn. However, since the acquisition the company has rebranded the hospital and entered into an insurance agreement starting March 2023. Post the insurance agreement, there has been notable improvement in the patient volumes, in Q4 2023 the hospital serviced 30.4k outpatients versus just 2.3k outpatients in Q1 2023 (no insurance agreement). At the same time, inpatient volumes were 1,081 compared to negligible in Q1 2023.

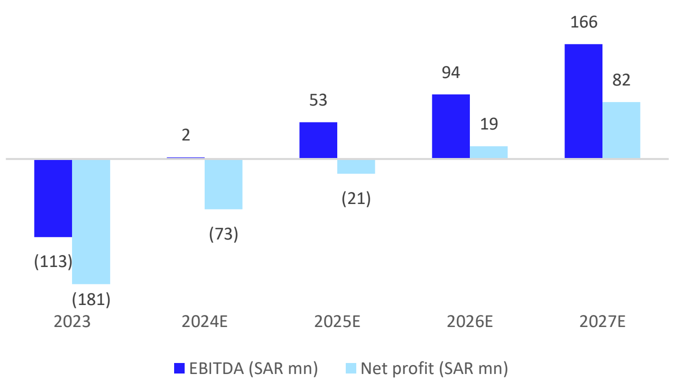
In our view, the improvement in patient volumes should continue. As per the company, the hospital should achieve breakeven on an EBITDA level in 2024 and on net profit level in 2025. Typically, a premium well-established hospital takes about 12-18 months for breakeven, thus the possibility of EBITDA breakeven is very high. However, on a net profit level we prefer to be conservative and assume breakeven only in 1H26 than 2025 given the high interest rate environment. Nevertheless, at an optimum utilisation level, the hospital should generate PAT (before minority interest) of about SAR 80-90mn by 2027/2028, implying margins of 14%-15%. In 2023, the losses at Riyadh (SAR 181mn pre-minority) were a drag on the overall profitability of the company, net income declined by 14% y-o-y to SAR 280mn. If we assume Riyadh hospital achieves breakeven on net income, no major improvement in net profit from existing assets and no contribution from Madinah and other hospitals, then the net profit would be SAR 390mn, implying EPS of SAR 1.7/share, and at top end of the IPO price range the implied P/E is 34x, which is broadly in line with the sector (before the recent correction) and a slight discount to Dallah.

Figure 17 **Riyadh Income statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**71**	**278**	**387**	**484**	**597**	**609**
Cost of Sales	(184)	(278)	(333)	(389)	(427)	(427)
Gross Profit	**(113)**	**1**	**54**	**95**	**170**	**182**
margins	*NM*	*0.2%*	*13.8%*	*19.7%*	*28.5%*	*29.9%*
Admin Expenses	(33)	(35)	(37)	(39)	(41)	(43)
Depreciation	(33)	(37)	(37)	(37)	(37)	(37)
EBITDA	**(113)**	**2**	**53**	**94**	**166**	**176**
margins	*NM*	*0.8%*	*13.8%*	*19.3%*	*27.8%*	*28.9%*
Financing Expenses	(33)	(34)	(31)	(29)	(27)	(27)
Pre-Tax Income	**(181)**	**(73)**	**(21)**	**19**	**91**	**101**
Zakat & Tax	0	0	0	0	(9)	(10)
Net Income/Net Profit (Losses)	**(181)**	**(73)**	**(21)**	**19**	**82**	**91**
margins	*NM*	*-26.1%*	*-5.6%*	*3.9%*	*13.8%*	*15.0%*
Non-controlling interest	**(71)**	**(29)**	**(8)**	**7**	**32**	**36**

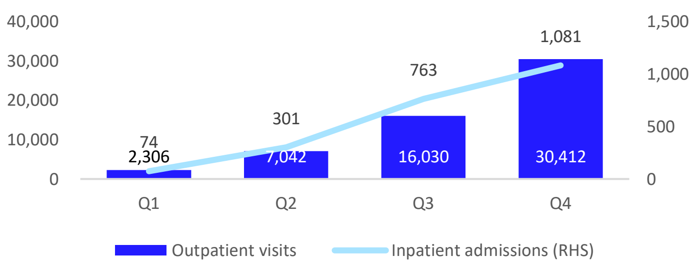
Source: Company Data, Al Rajhi Capital estimates.

Figure 18 **EBITDA & Net profit breakeven in 2024 and 2026**



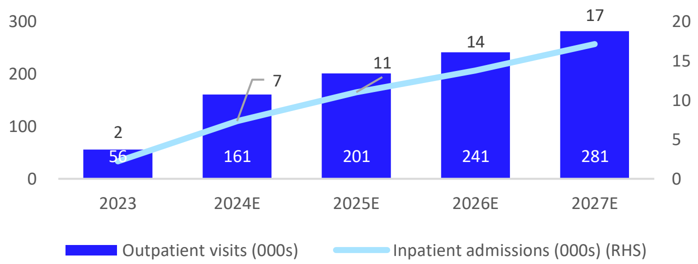
Source: Company Data, Al Rajhi Capital estimates

Figure 19 **Riyadh ramp up post insurance deal in Q1 23**



Source: Company Data, Al Rajhi Capital estimates.

Figure 20 **Riyadh mid-term volume estimates**

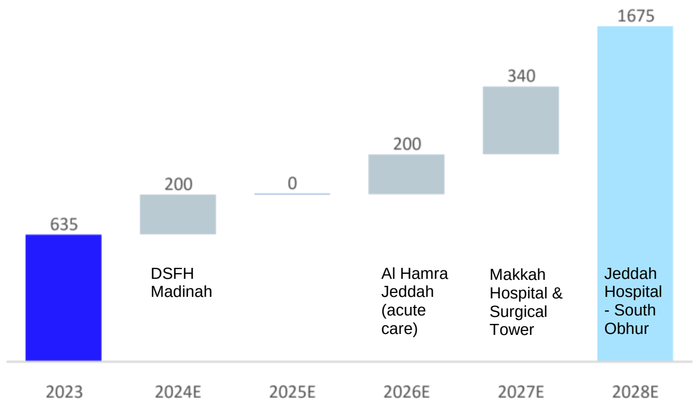


Source: Company Data, Al Rajhi Capital estimates

Expansion could triple the profitability in a base scenario: Since its inception, the company has never embarked on such a strong expansion path. It plans to almost quadruple its capacity from 400 beds (ex-Riyadh and Neom) to over 1600 beds by 2028. At the same time, it plans to replicate its hub and spoke model of ambulatory care centres and a tertiary care hospital in Riyadh, Makkah and Madinah. Although, it entails execution risk, but given the promising outlook of the hospital sector, growing insured lives and overall privatisation theme in the healthcare sector, if the company executes it with little hiccups, the revenues can triple by 2030 from the base of 2023, while net profits can almost quadruple to SAR 1.0 bn.

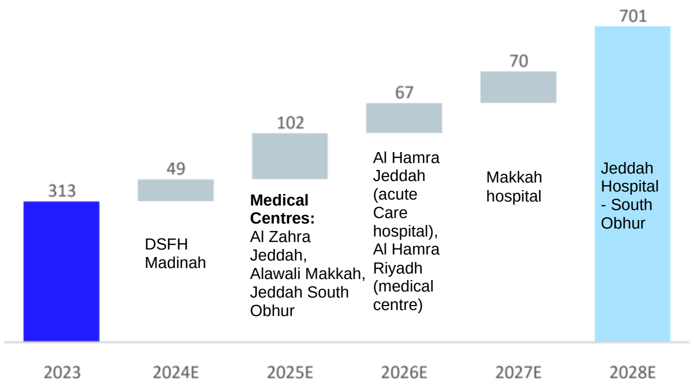
In terms of timing of expansion and venturing out of its home market, we believe it is a good move given that many listed players are entering in Jeddah and are on the verge of threatening its market share. Thus, diversifying its exposure to key markets such as Riyadh and Makkah/Madinah should bode well for the company from a long-term point of view. We remain reasonably confident that the company will protect its market share in Jeddah and see limited impact on patient volumes in the near term due to the rising competition. Further, the turnaround in Riyadh should also be in line with expectations as it leverages its solid reputation, IT systems and diverse offerings.

Figure 21 **Beds Expansion**



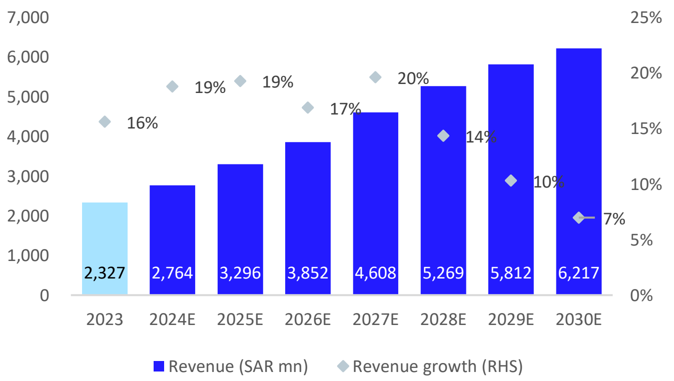
Source: Company Data, Al Rajhi Capital

Figure 22 **Clinics and Ambulatory Centers Expansion**



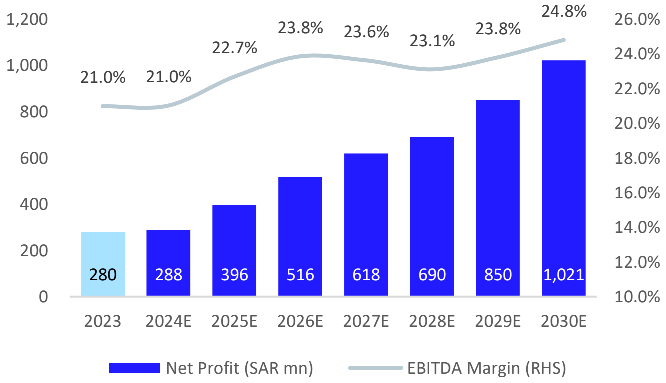
Source: Company Data, Al Rajhi Capital

Figure 23 **Revenue to triple by 2030**



Source: Company Data, Al Rajhi Capital

Figure 24 **Net profit to quadruple, margins to see improvement**



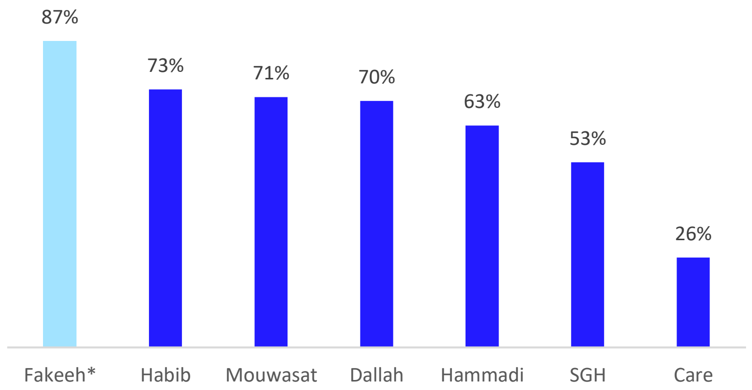
Source: Company Data, Al Rajhi Capital

Relatively better levered to insurance growth story: Fakeeh Group is a key beneficiary of growth in the insured lives. The ongoing privatisation in the job market and mandate of Saudization should boost the growth of insured lives in the near future. Our in house estimates for Saudi medical insurance market (GWP) is a CAGR of almost 11% (2023-2030E) for the next 7 years, led by mid-high single digit growth in the insured lives.

The company has one of the highest exposures to insurance clientele among its peers. Of the total revenues (as of 9M 2023), 87% share came from insurance, 11% from cash, and only 2% from MoH. This kind of patient profile is similar to Habib (has high cash exposure) and much better than Dallah or Mouwasat. As the company continues to build tertiary care hospitals, the share of insurance would continue to stay elevated. At the same time, we believe the emergence of tier-2 players in the medical insurance segment should dilute the current oligopoly market controlled by Bupa and Tawuniya and help the hospital operators in terms of better negotiation power. We remain optimistic on the insured lives growth story, expected dilution in bargaining power of top two insurance provider and the demand for tertiary care hospitals in the KSA.

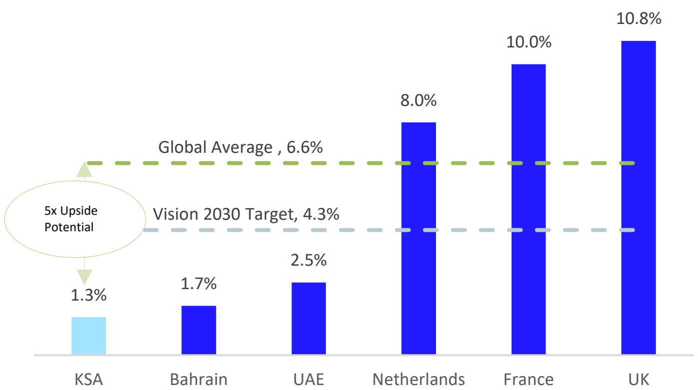
Having a high share of insurance and low share of MoH helps in terms of lesser working capital requirements, limited risk of delay in government payments and higher ECL provisions hurting profitability. The company's typical insurance agreements are for 3 years with agreed pre-set price increases, while the typical collection period is 45 days.

Figure 25 **Insurance Mix compared to peers (FY23)**



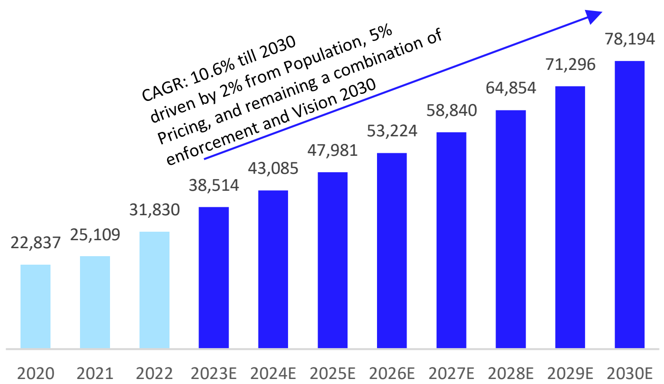
Source: Company data, Al Rajhi Capital, Note*: Fakeeh numbers are as of 9M23

Figure 26 **Insurance penetration has room to grow 5x**



Source: PwC Market Report issued 12 December 2023, Rasan PPT, Al Rajhi Capital

Figure 27 **KSA medical insurance GWP forecasts by ARC (SAR mn)**



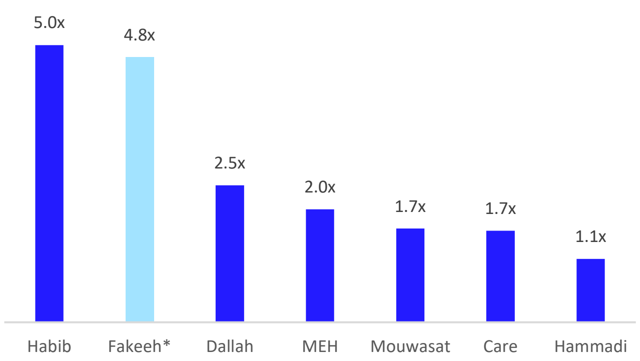
Source: SAMA, Al Rajhi Capital estimates

Peer comparison and Valuations

Overall, Fakeeh's financial and operational metrics are pretty solid and highlights Fakeeh's status as a premium healthcare provider, emphasizing its competitive edge in the premium healthcare segment. When examining the performance metrics per bed, Fakeeh is notably closer to Habib, and way ahead of Dallah.

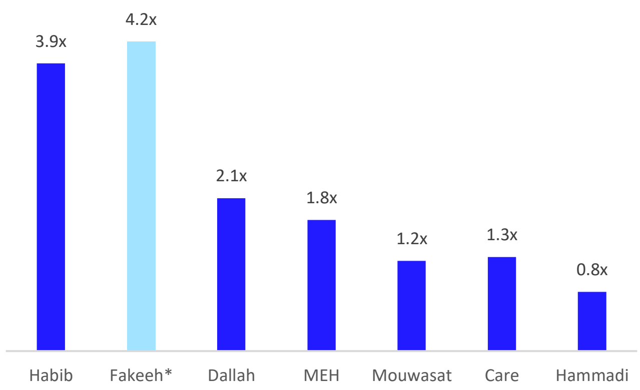
- **Revenue/Bed:** Fakeeh's 4.8x (2022 Pre-Riyadh) is closer to Habib's 5.0x and much better than Dallah's 2.5x, indicating a premium pricing strategy coupled with better service offering.
- **Costs/Bed:** Fakeeh's 4.2x is also closer to Habib's 3.9x, suggesting similar spending on doctors, nurses, medical equipments, consumables, etc.
- **EBITDA/Bed:** Fakeeh's 1.2x is broadly in line with Habib's 1.3x, and way ahead of Dallah's 0.5x, reflecting better profitability per bed compared to Dallah.

Figure 28 **Revenue per bed**



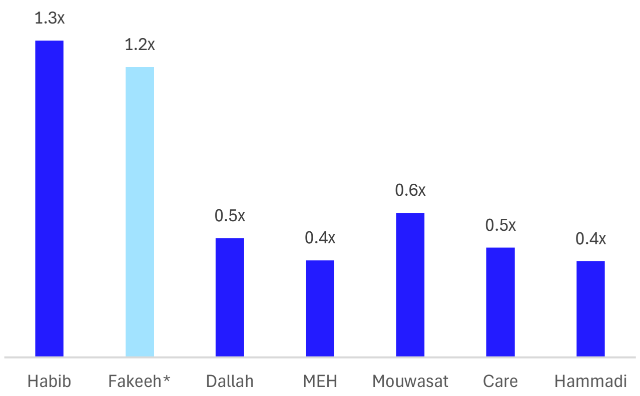
Source: Company Data, Al Rajhi Capital, Note*: Fakeeh's numbers are as of FY22 so as to be consistent with other hospital operators, as FY23 numbers have Riyadh financials which is still making losses

Figure 29 **Costs per Bed (COGS + Operating Exp.)**



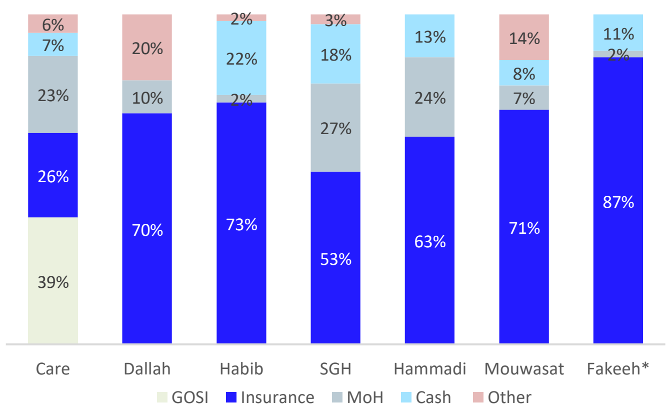
Source: Company Data, Al Rajhi Capital, Note*: Fakeeh's numbers are as of FY22 so as to be consistent with other hospital operators, as FY23 numbers have Riyadh financials which is still making losses

Figure 30 **EBITDA per bed**



Source: Company Data, Al Rajhi Capital, Note*: Fakeeh's numbers are as of FY22 so as to be consistent with other hospital operators, as FY23 numbers have Riyadh financials which is still making losses

Figure 31 **Payor Mix (FY23)**



Source: Company Data, Al Rajhi Capital, Note*: Fakeeh numbers are as of 9M23

Valuations:

We employ a mix of DCF and relative valuation (RV) methodology. In our view, the best comparable pees in the listed space are Habib and Dallah. All three companies have similar clientele (class A and VIP), similar margins and are considered to be premium hospitals in their respective market. Fakeeh Care Group's current EBITDA margins (due to losses in Riyadh) are closer to Dallah, while the balance sheet is also levered. However, pre-Riyadh, the margins, ROIC and balance sheet were closer to Habib. In terms of growth opportunities (2023-2030E), it is better than Habib (revenue CAGR of 15% and net income 20% vs. Habib's 12% and 13% CAGR, respectively), and much ahead of Dallah. Thus, we believe it should command multiples that is somewhere between these two companies, higher than Dallah but slightly lower than Habib. We assign a target multiple of 40x to 2025E EPS of SAR 1.63, a premium to Dallah, but slightly below Habib (used our target prices and 2025 EPS for the peers), to derive our fair value through RV method of SAR 65.3/share. As the Riyadh hospital is in the turnaround phase, we are using 2025 earnings to derive our fair value through RV method.

Despite better growth than Habib, we would give more credence to Habib when it comes to execution as Habib has experience of operating multiple hospitals and we saw success in Khobar, which was not its home market. At the same time, in case of Fakeeh Care we would follow a wait and watch approach before increasing the target multiple. First step would be to see more data on Riyadh turnaround and the costs management related to the new facility in Madinah. If the expansion plans turn successful, the potential growth is exponential. We estimate the revenues to almost triple to SAR 6.2bn by 2030 from the base of SAR 2.3bn in 2023, and net profits to quadruple from SAR 280mn in 2023 to almost SAR 1.0bn by 2030. However, this growth comes at a notable execution risk. Since its inception, the company has operated just one hospital and has been geographically limited to Jeddah. Now, it has ventured into a competitive market, Riyadh and is also exploring neighbouring cities, Makkah and Madina. Moreover, the size of capital expansion is humungous, the number of beds (post-expansion) is expected to rise to 1,675 beds from just 400 beds (ex-Riyadh and Neom), >4.0x and almost 3.0x growth (including Riyadh). On the positive side, the IPO proceeds will aid the growth capex (SAR 1.2bn IPO proceeds to fund SAR 3.6bn capex), and at the same time the internal cash flow generation is pretty healthy to support the funding to a large extent.

On the other hand, as bulk of the expansion (except Riyadh) will be happening in its home market, Jeddah and the neighbouring cities, (no new hospital outside Jeddah/Makkah/Madinah), then perhaps the execution risk is not that high. Although, we see rising competition in Jeddah to have impact on the pricing, but overall in terms of volume we do not see major risk as the company has established itself pretty strongly in Jeddah. We believe the company's strong brand and expertise in complex specialities should limit the loss of patients.

We are using a two staged DCF model, one is the explicit growth phase till 2030, and the second phase from 2030-2035, where we expect the company to reach a peak utilisation level, that would be coupled with minimal capex requirement. During 2023-2030E, which is our growth period, the FCF in the first two years is negative given the high capex requirements, however, by the end of 2030, the company should generate FCF of SAR 1.1bn. Our WACC assumption is same for the entire period, that is 8.6%, based on cost of equity of 10.6% and cost of debt of 6.5%, D/E weights of 45%/55%, while our assumption for terminal growth is 3.5%. Second stage assumptions: Based on our analysis at peak utilisation level, the company can generate EBITDA of SAR 1.86bn versus SAR 1.54bn EBITDA at the end of 2030. If we assume capex requirement of just about SAR 100mn, that means FCF generation of SAR 1.76bn versus FCF of SAR 1.1bn at the end of 2030. In terms of CAGR growth over the 5 years, this would imply a growth rate of almost 10% every year. Thus, this justifies our assumption of 10% annual growth in FCF in second stage during 2030-2035. Our fair valued derived through DCF method is SAR 66.2/share.

Our target price is SAR 66/share, derived through equal weights to RV (fair value SAR 65.3/share) and DCF derived fair value of SAR 66.2/share. At this target price, the implied upside is almost 15% from the IPO price. Thus, we initiate with an Overweight recommendation on the stock.

Figure 32 **Valuations**

DCF (SAR mn unless specified)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
	First Stage							Second Stage				
NOPAT	**369.0**	**482.5**	**618.5**	**754.4**	**853.2**	**999.2**	**1,138.1**					
Add: Depreciation	188.8	235.1	262.0	287.1	311.0	321.6	332.8	**Assumed CAGR growth of 10%**				
Less: Capex	(1,166.2)	(1,184.9)	(669.6)	(696.0)	(527.7)	(232.5)	(248.7)					
Less: Change in working capital	(54.9)	(204.0)	(157.1)	(139.4)	(213.9)	(167.5)	(112.7)					
FREE CASH FLOW TO FIRM	**(663.2)**	**(671.3)**	**53.8**	**206.1**	**422.6**	**920.9**	**1,109.5**	**1,220.5**	**1,342.6**	**1,476.8**	**1,624.5**	**1,786.9**
PV of Free Cash Flows	**(632.7)**	**(589.7)**	**43.5**	**153.6**	**290.0**	**582.0**	**645.7**	**654.1**	**662.7**	**671.3**	**680.1**	**688.9**
Sum of present values of FCFs	**3,849.6**											
Present value of terminal value	**14,023.1**											
Enterprise Value	**17,872.7**											
Less: Debt	(2,482.9)											
Less: Minority Interest	(235.2)											
Add: Cash	214.8											
Equity value	**15,369.3**											
Shares Outstanding	232.0											
Value per share	**66.2**											

Second Stage Assumptions (SAR mn unless specified)	Peak utilisation		Comments
	2030E	2035E	
Inpatient Utilization	**78%**	**85%**	
Inpatients (000s)	*124*	*135*	
Revenue per bed (SAR)	*21,928*	*21,928*	
Outpatient Utilization	**78%**	**90%**	
Outpatients (mn)	*3.6*	*4.1*	
Revenue per bed (SAR)	*1,009*	*1,009*	
Inpatient & Outpatient Revenues	**6,343**	**7,136**	**Assumed incremental EBITDA margins of 40%**
EBITDA	**1,541**	**1,859**	
FCF	**1,110**	**1,759**	
CAGR		**10%**	

Relative Valuation	Values
Dallah 2025 P/E	36.0x
Habib 2025 P/E	41.0x
Fakeeh Forward P/E	40.0x
2025E EPS	1.6
Fair value per share (SAR)	**65.3**

Methodologies	Value	Weight	Multiples
DCF	66.2	50%	33.1
Relative valuation	65.3	50%	32.7
Target Price (Rounded off)			**66.0**
Offer Price			57.5
Upside			14.8%

Source: Al Rajhi Capital estimates

Figure 33 **Comps**

Peers	Market Cap	EV	Beds Current	Beds Expansion	EV/Beds Current	EV/Beds Expansion	Mcap/Beds Current	Mcap/Beds Expansion	EV/EBITDA TTM	EV/EBITDA 2024	EV/EBITDA 2025	P/E TTM	P/E 2024	P/E 2025	P/S TTM	P/S 2024	P/S 2025
Habib	100,240	103,563	1,900	3,554	54.5x	29.1x	52.8x	28.2x	42.1x	35.3x	28.2x	47.6x	45.3x	37.8x	10.3x	7.4x	9.0x
Mouwasat	22,600	23,274	1,600	2,200	14.5x	10.6x	14.1x	10.3x	23.8x	20.2x	18.0x	34.1x	28.7x	24.9x	8.2x	6.4x	7.3x
Dallah	16,039	18,023	1,191	1,541	15.1x	11.7x	13.5x	10.4x	27.6x	26.1x	23.5x	41.7x	40.0x	32.3x	5.3x	4.6x	5.0x
Hammadi	8,016	8,131	1,028	1,328	7.9x	6.1x	7.8x	6.0x	18.9x	17.6x	16.8x	28.0x	24.8x	23.2x	6.9x	5.9x	6.3x
Care	8,782	8,533	655	1,025	13.0x	8.3x	13.4x	8.6x	26.5x	22.7x	20.0x	33.1x	30.9x	26.2x	7.9x	5.8x	6.5x
MEH	7,363	8,880	1,567	1,867	5.7x	4.8x	4.7x	3.9x	15.3x	14.2x	12.2x	40.5x	30.6x	21.5x	2.7x	2.2x	2.4x
Average	**27,173**	**28,401**	**1,324**	**1,919**	**18.5x**	**11.8x**	**17.7x**	**11.2x**	**25.7x**	**22.7x**	**19.8x**	**37.5x**	**33.4x**	**27.7x**	**6.9x**	**5.4x**	**6.1x**
Median	**12,410**	**13,451**	**1,379**	**1,704**	**13.8x**	**9.5x**	**13.4x**	**9.4x**	**25.2x**	**21.4x**	**19.0x**	**37.3x**	**30.7x**	**25.5x**	**7.4x**	**5.9x**	**6.4x**
Fakeeh	**13,340**	**17,440**	**635**	**1,675**	**27.5x**	**10.4x**	**21.0x**	**8.0x**	**35.7x**	**30.0x**	**23.3x**	**47.7x**	**46.3x**	**33.7x**	**5.7x**	**4.8x**	**4.0x**

Source: Company data, Al Rajhi Capital estimates, For Hammadi we have considered rooms
Note: Mcap. and EV and all the multiples for Fakeeh is based on the IPO price

Financial Assumptions

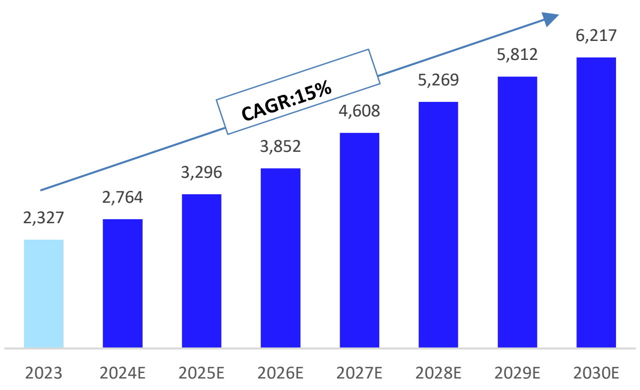
Revenue Analysis: Fakeeh reported a 4-year revenue CAGR of approximately 9% from 2019 to 2023. We project that the company's revenue will compound at a double-digit CAGR of around 15% over the next seven years (2023-2030E). This growth is expected to be driven primarily by patient volumes than pricing. Overall, we expect inpatient volumes to grow by 16% CAGR during 2023-2030E, and outpatient volumes to increase at a CAGR of 13%. In terms of pricing, we are expecting only modest growth (inpatient revenue/patient: 2% CAGR) with some pressure in the first two years (-1% in 2024 and -0.5% in 2025) and improvement starting 2026 as it reaches optimum utilisation levels. Further, for outpatient we expect hardly any growth in price improvement, thus there is scope for upside risks to pricing and margins.

Looking ahead, we anticipate that the utilization of the Riyadh facility will continue to improve helping the hospital achieve breakeven by early 2026 (net income) and will reach its optimum utilisation level by 2028. Furthermore, the commissioning of new hospitals in Madinah, Al Hamra Jeddah (acute care), Makkah, the Surgical Tower in Jeddah, and Jeddah South Obhur is expected to result in a significant increase in inpatient visits. We note Fakeeh is set to add more beds than all its peers except Habib. Makkah and Madinah are expected to ramp up quicker than Riyadh, as there are currently no premium hospitals offering complex treatment capabilities in these regions.

Cost & Margin Analysis: The company's cost structure indicates that a significant portion of expenses is attributed to employee salaries, materials, and consumables. We anticipate gross margins to remain under pressure in 2024 as Riyadh will just breakeven, however, it will improve starting 2025 supported by profits at Riyadh and gradual ramp up at Madinah. Given that all the other facilities are greenfield and the company will open the beds in a phased manner, in our view, the impact on margins should be manageable. By the end of 2030, the company should return to pre-Riyadh era margin levels, that is over 30% gross margins and EBITDA of 25%.

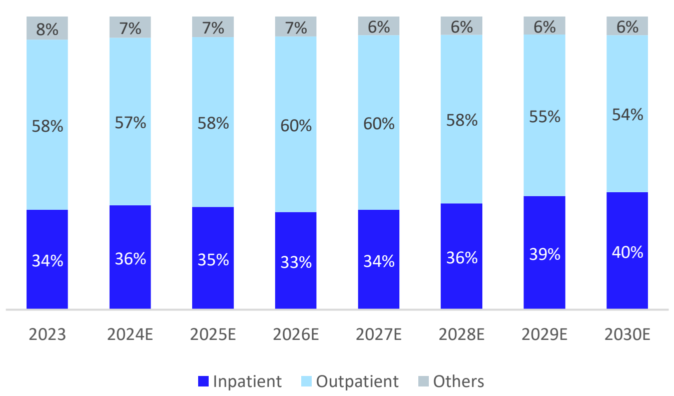
Balance Sheet and cash flow: The profit, capex, and working capital forecasts indicate negative free cash flows over the next couple of years. Consequently, we expect the net debt to EBITDA ratio to increase. However, starting 2026, we anticipate higher profits and reduced capex requirements, which will help deleverage the balance sheet. We project the net debt to EBITDA ratio to decrease to 2.5x by 2028, down from the current level of 4.2x and the peak of 4.9x expected in 2024 and 2025.

Figure 34 **Revenues to grow at 15% CAGR (SAR mn)**



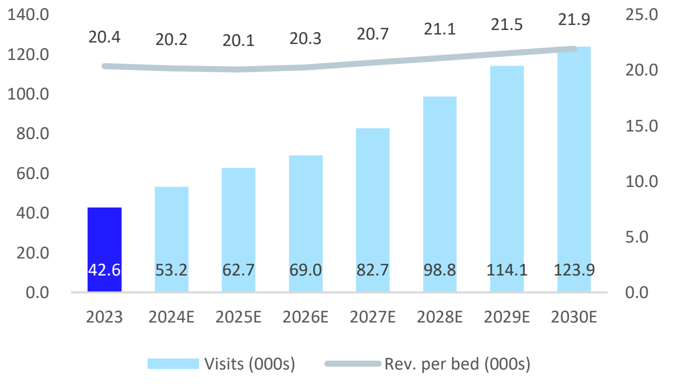
Source: Company data, Al Rajhi Capital estimates

Figure 35 **Revenue mix breakup**



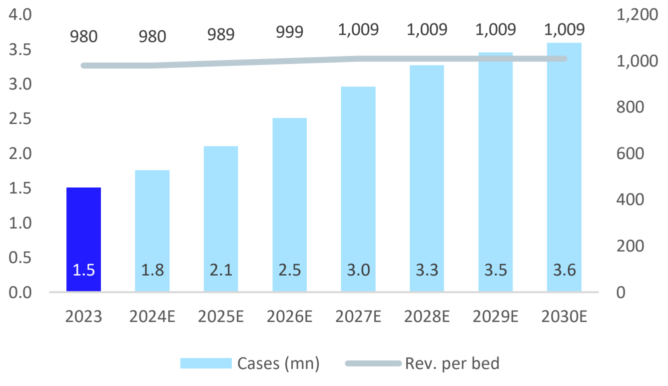
Source: Company data, Al Rajhi Capital estimates

Figure 36 **Inpatient KPIs**



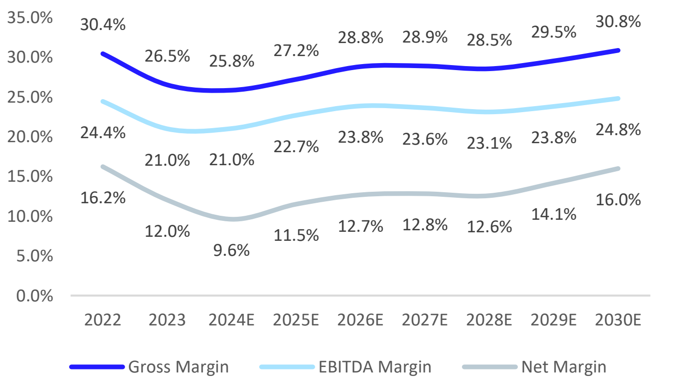
Source: Company data, Al Rajhi Capital estimates

Figure 37 **Outpatient KPIs**



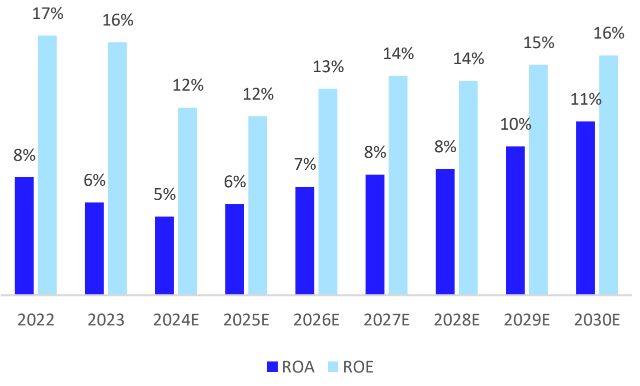
Source: Company data, Al Rajhi Capital estimates

Figure 38 **Margin Profile**



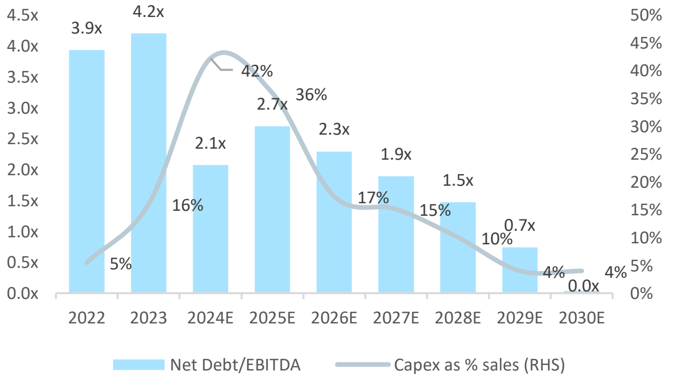
Source: Company data, Al Rajhi Capital estimates, Note: EBITDA: Operating Income + Depreciation & Amortization, might differ from company data

Figure 39 **ROA & ROE**



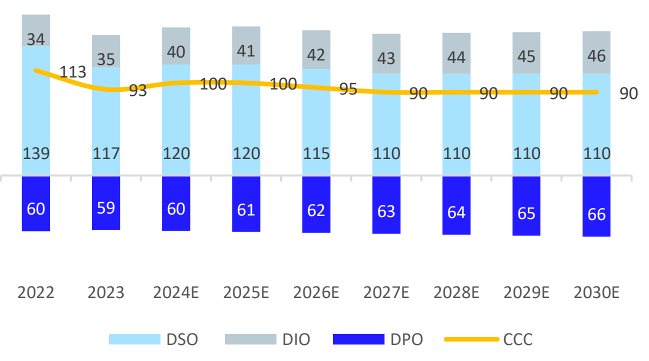
Source: Company data, Al Rajhi Capital estimates

Figure 40 **Leverage Profile**



Source: Company data, Al Rajhi Capital estimates

Figure 41 **Cash conversion cycle**



Source: Company data, Al Rajhi Capital estimates Note:DSO: Days Sales Outstanding, DIO: Days Inventory outstanding, DPO: Days payables outstanding, CCC: Cash conversion cycle

Industry Overview

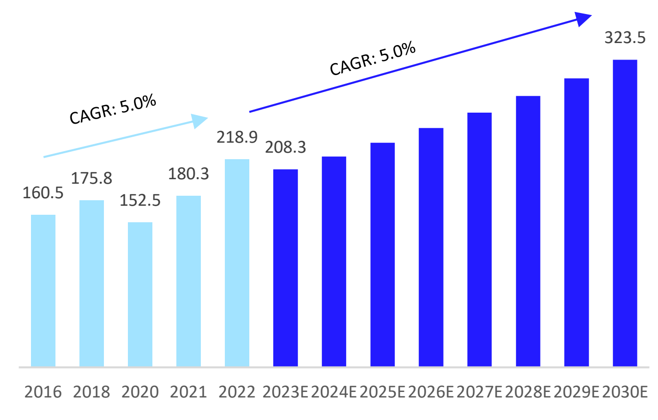
The Saudi Arabian government manages and funds the public healthcare system through the Ministry of Health (MOH), ensuring comprehensive healthcare services for all residents across the Kingdom. The healthcare expenditure in Saudi Arabia, as a percentage of GDP, has risen from 4.5% in 2013 to 5.3% in 2022. For the fiscal year 2023, the Saudi government has earmarked SAR 189bn for the health and social development sector, reflecting an increase from 13% of total government spending in 2017 to 17% in 2023. However, there remains a gap compared to developed nations, with the U.S. spending approximately 18.8% of GDP on healthcare in 2020, and the U.K. spending about 11.9% in 2021. Government health expenditure accounts for around 70% of the total in Saudi Arabia, indicating its significant role in domestic healthcare. To reduce public sector spending, the government is implementing various initiatives to enhance private sector participation. Both government and private sector investments are projected to increase, with public sector expenditure expected to reach SAR 210bn by 2030 and private sector spending estimated to rise to SAR 113bn. The combined market size of both sectors is forecasted to reach SAR 324bn by 2030.

While Saudi Arabia's per capita healthcare expenditure rose from SAR4,808 in 2016 to SAR6,803 in 2022, it remains notably lower than that of the United States and the United Kingdom. This suggests substantial growth potential within the Kingdom's healthcare sector.

The Health Sector Transformation Program, part of Saudi Vision 2030, entails crafting a comprehensive national strategy for the healthcare sector. This strategy aligns with the objectives of the National Transformation Program (NTP) and implements sustainable reforms to improve spending efficiency. The program aims to achieve several key objectives, including increasing the average life expectancy in the Kingdom from 75 to 80 years. This will be accomplished through initiatives under the NTP aimed at mitigating health risks that impact lifespan and quality of life. Additionally, the program aims to align the number of road deaths with international standards, aiming for 10 deaths per 100,000 people.

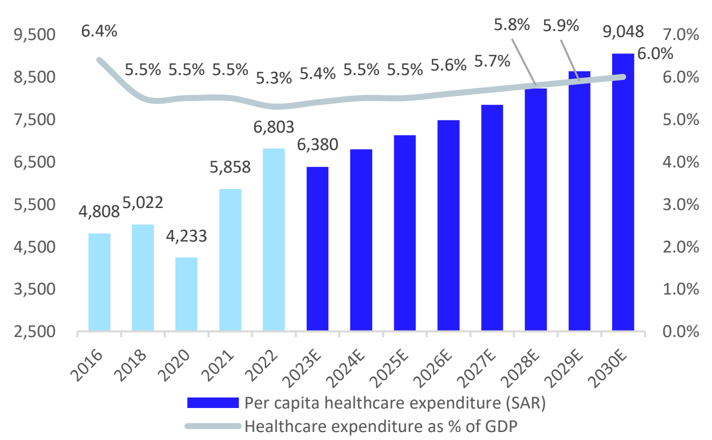
To align with the government's healthcare sector revitalization vision, the MOH has established a strategic framework to foster private sector investment in Saudi Arabia's healthcare system. This effort includes the approval of the Private Sector Participation (PSP) Law by the government in March 2021. Collaboration with the private sector is anticipated to significantly enhance the Saudi healthcare system by introducing advanced technologies, structured delivery systems, and innovative digital solutions. As part of this initiative, nine essential areas for private sector involvement in delivering healthcare services in the Kingdom have been identified: Rehabilitation, Long-term care, Home Care, Pharmacy, Extended Care, Primary Healthcare, Radiology, Laboratory services and Service launches for hospital and medical cities.

Figure 42 **Healthcare Expenditure (SAR bn)**



Source: World Bank, JLL Healthcare Analysis, Al Rajhi Capital

Figure 43 **Healthcare Expenditure as % of GDP**



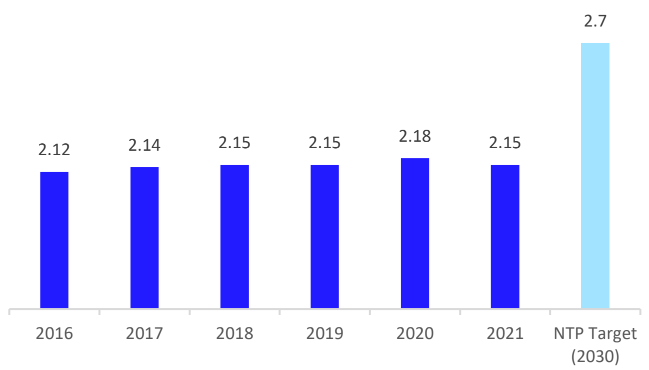
Source: World Bank, JLL Healthcare Analysis, Al Rajhi Capital

Availability of primary care centers and hospital beds

In 2021, Saudi Arabia had approximately 3,800 primary care clinics in the private sector, encompassing medical complexes and single-doctor private clinics. These clinics have experienced a CAGR of 8.3% since 2018, highlighting the expanding role of primary care infrastructure in healthcare delivery services. Additionally, there were 497 operational hospitals in both the public and private sectors, with the public sector owning 68% of them. Combined, these hospitals provided 77,224 hospital beds, translating to 2.15 beds per 1,000 population. However, this figure showed a slight decline compared to previous years and fell below that of some GCC countries as well as developed nations like the U.S. and the U.K., indicating that the addition of hospital infrastructure has not kept pace with the growing healthcare needs of the population.

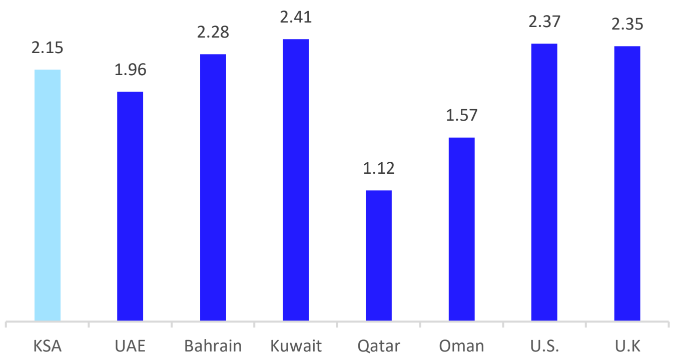
Key healthcare hubs like Riyadh and Jeddah in Saudi Arabia serve a wide patient base from across the country and the GCC. The National Transformation Program (NTP) aims to reach 2.7 beds per 1,000 population by 2030, requiring over 32,000 additional beds. While Saudi Arabia's bed density exceeds that of similar countries, there's a shortage of specialized beds for advanced care. Private sector intensive care beds represent less than 18% of the total, indicating the need for increased private sector involvement. The government encourages innovative healthcare models, including one-day surgery centers and home care. Leading healthcare groups like Fakeeh Care Group are diversifying services to cover various stages of patient care, from home healthcare to pharmaceuticals.

Figure 44 **Hospital bed density in the KSA per 1,000 population**



Source: Ministry of Health, Oxford Economics, JLL Healthcare Analysis, Al Rajhi Capital

Figure 45 **Comparison of hospital bed density per 1,000 population**



Source: Ministry of Health reports for various GCC countries; UAEStat; National Health Regulatory Authority (NHRA), Bahrain; Statista; Oxford Economics; JLL Healthcare Research and Analysis, Al Rajhi Capital

Jeddah Healthcare market

Jeddah is undergoing revitalization efforts to enhance residents' quality of life and transform into a global tourist hotspot, leveraging its historical significance and strategic coastal position along the Red Sea. Major investments totalling SAR 338bn are slated for real estate and infrastructure projects by 2030, including initiatives like the Jeddah Central redevelopment and the Jeddah Historical Rejuvenation project by the Ministry of Culture. These endeavours, along with government initiatives to elevate healthcare facilities to international standards, are set to significantly enhance healthcare services in the region.

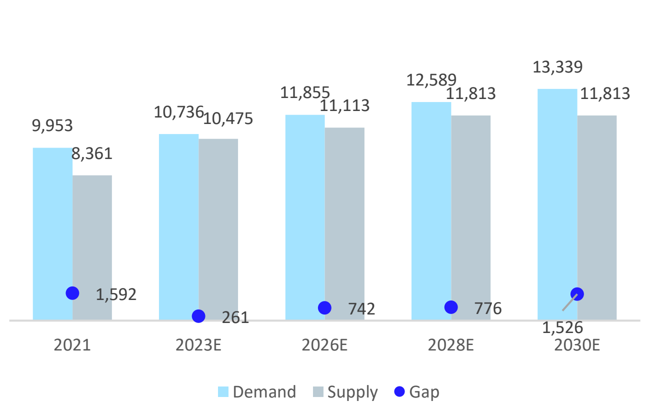
With its proximity to key megaprojects and as a crucial point for religious tourism, particularly Hajj and Umrah, Jeddah plays a strategic role in healthcare. Jeddah had an estimated total of around 10,475 hospital beds, encompassing both public and private sectors, according to estimates from 2023G. It is anticipated that approximately 3,400 additional beds will be introduced to Jeddah's hospital capacity between 2023G and 2028G, with roughly 75%-80% of these new beds planned for the private sector.

Meeting the National Transformation Program target of 2.7 hospital beds per 1,000 population by 2030 will necessitate over 13,000 beds, leaving an estimated gap of 1,500 beds. Jeddah's healthcare infrastructure also serves residents of Makkah and Madinah, mitigating gaps in those regions. As a healthcare hub in the Western Region, Jeddah is expected to meet growing demand, driven by the city's development, government focus on public-private partnerships, and Riyadh's overall growth strategy.

Private sector hospitals and beds accounted for approximately 66% and 40% of the total healthcare infrastructure respectively in 2021G. Key private medical groups, such as Dr. Soliman Abdel Kader Fakeeh Hospital and others, collectively offer around 1,500 to 1,600 beds. Between 2021G and 2023G, about 2,200 additional beds are either added or expected in private sector hospitals to meet rising demand.

Projections suggest a dominant need for high-quality tertiary healthcare beds, estimated at around 4,700 by 2030G. Long-term care beds are estimated to comprise approximately 30% to 35% of the total short-term beds. Various future projects, including expansions and new hospitals, indicate sustained growth in Jeddah's healthcare sector. The market is shifting towards specialized centers, like Al Murjan Long Term Stay Hospital and Bonyan United Gynaecology Hospital, reflecting evolving healthcare needs. New real estate developments in downtown Jeddah are expected to attract income and expatriates, creating opportunities for private healthcare services.

Figure 46 **Estimated demand for hospital beds in Jeddah (2021G-2030E)**



Source: Ministry of Health, MEED, Company Annual Reports, Secondary Research, JLL Healthcare Analysis, Al Rajhi Capital

Figure 47 **Estimated demand for key specialties in the addressable segment of Jeddah (2030E)**

Specialty	Bed Demand	Key Unmet Needs
Cardiac Sciences	721	Cardiac care CoE with provision of comprehensive diagnostic and therapeutic services like electrophysiology and ablation services and other high-end capabilities like transplants, sports cardiology, etc.
Neurosciences	212	Neurology care CoE with comprehensive infrastructure under one roof like stroke unit, neuro-ICU, neuro-navigation unit, etc., and high-end subspeciality services like autoimmune neurology, neurooncology, etc.
Oncology	417	Comprehensive patient pathway with strong diagnostics and integrated therapeutic services like medical care, surgery and radiology, including nuclear medicine, bone marrow transplant and stem cell programs, etc.
Orthopaedics	322	Comprehensive services like sports medicine and orthopaedic rehab centers and provision of Complex orthopaedic procedures, prosthetics, regeneration facilities, etc. Orthopedic Oncology and Transplant capabilities
Gastroenterology	289	Specialised and high-end services like bariatric surgery, GI oncology surgeries, and other subspecialities.
Respiratory	361	Comprehensive services like advanced diagnostics, therapeutic care, and availability of subspecialities.
Mental Health	878	Comprehensive care including advanced treatment modalities, psychological care, substance abuse management, etc.
OB-GYN	446	Boutique birthing and advanced gynaecology center with value-added services.

Source: OECD (2019G), Primary and Secondary Research, JLL Healthcare Analysis, Al Rajhi Capital

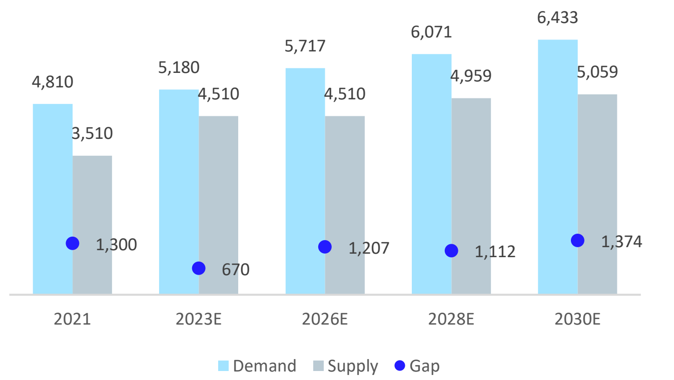
Makkah & Madinah Healthcare market

The healthcare sectors in Makkah and Madinah are poised for substantial growth, driven by religious tourism, particularly during Hajj and Umrah seasons. The Saudi government aims to accommodate 6.7 million Hajj pilgrims and 30 million Umrah pilgrims by 2030G, providing free and comprehensive healthcare services through a network of public hospitals and health centers, augmented by the private sector due to mandatory health insurance for pilgrims.

In Makkah, private hospitals cater to various medical specialties, addressing the diverse needs of patients, especially during Hajj, where 20% of pilgrims have underlying diseases. At present, healthcare in Makkah is predominantly provided by the public sector, with few private hospitals. However, projected population growth suggests a shortfall of over 1,300 beds by 2030G. Despite this, the private sector is poised for expansion, with major healthcare groups planning new additions. For example, the Group intends to open a 200-bed hospital in the region by 2027G, following the establishment of an integrated medical center in 2025G.

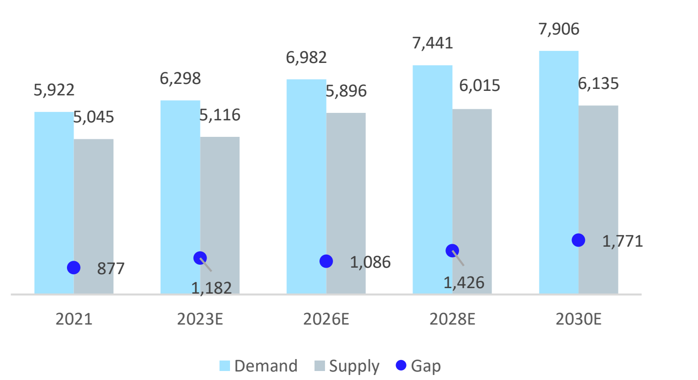
Similarly, in Madinah, religious tourism fuels healthcare sector growth, with plans to increase pilgrim numbers to boost tourism. The private healthcare sector is expanding, with hospitals like Al-Mouwasat Hospital and Saudi German Hospital representing a significant portion of private hospital beds. The Group plans to open new hospitals in both cities to meet growing demand. According to the NTP goal of achieving 2.7 medical beds per 1,000 people by 2030G, Madinah will require over 7,900 additional medical beds. This leaves an estimated shortage of more than 1,700 beds by 2030G.

Figure 48 **Estimated demand for hospital beds in Makkah (2021-2030E)**



Source: Ministry of Health, MEED, Company Annual Reports, Secondary Research, JLL Healthcare Analysis, Al Rajhi Capital

Figure 49 **Estimated demand for hospital beds in Madinah (2021-2030E)**



Source: Ministry of Health, MEED, Company Annual Reports, Secondary Research, JLL Healthcare Analysis, Al Rajhi Capital

Riyadh Healthcare Market

Population growth and economic development are poised to energize Riyadh's healthcare market, making it a significant contributor to the Kingdom's non-oil economy and economic diversification efforts. Efforts by the Ministry of Investment and the Royal Commission for Riyadh City (RCRC) to attract multinational company headquarters and develop infrastructure projects like King Salman Park and the Green Riyadh Project further bolster economic prospects.

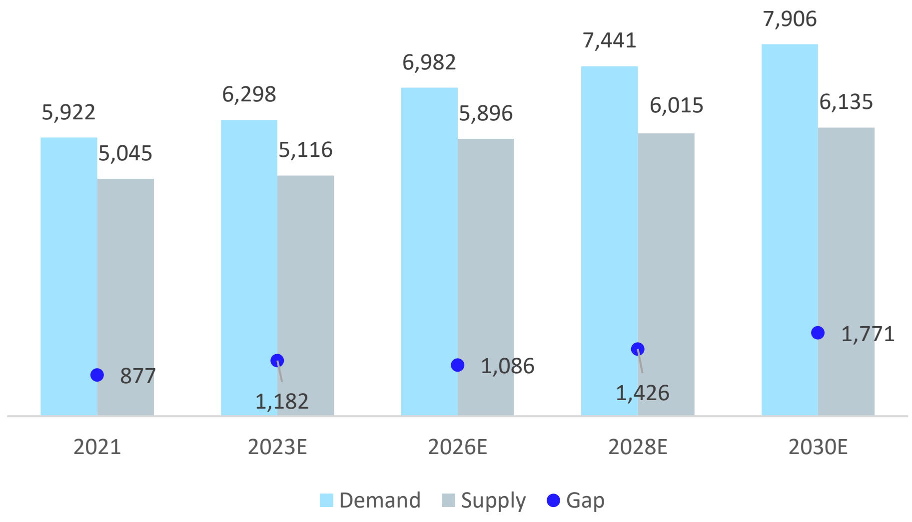
Despite currently having the highest concentration of hospitals in the Kingdom, with 44% privately owned among the total 104 hospitals, Riyadh faces a challenge of healthcare supply lagging behind population growth, resulting in an estimated shortage of over 2,000 beds by 2030G.

To address this gap, significant growth is expected in Riyadh's healthcare market, driven by expansion projects and public-private partnerships. Major healthcare groups like Dr. Sulaiman Al Habib Medical Group, Dallah Health, and Al Hammadi Group are planning expansions and new facilities.

Private sector healthcare services are gaining popularity, evident in the increasing number of private hospitals and clinics. Riyadh boasted 1,230 private clinics in 2021G, with outpatient visits reaching approximately 17mn. The outpatient sector is projected to grow at a CAGR between 6% and 7% by 2023G, while the private inpatient sector is expected to see a CAGR between 4% and 5%.

Fakeeh Care Group's plans to establish integrated medical centers in densely populated areas, with a recent land acquisition in Al Hamra and ongoing studies for two additional sites, reflect the market's dynamic growth trajectory.

Figure 50 **Estimated demand for hospital beds in Riyadh (2021-2030E)**



Source: Ministry of Health, MEED, Company Annual Reports, Secondary Research, JLL Healthcare Analysis, Al Rajhi Capital,

Higher Education Market

The Kingdom's higher education sector stands as the largest in the Arabian Gulf region, with roughly 1.97 million students enrolled in public universities and private institutions combined. The vast majority, around 95%, are enrolled in public and semi-public institutions, although private sector institutions, though comprising only about 5% of total enrollment, offer specialized programs catering to specific academic interests and career paths.

The concentration of enrolled students, over 65%, is in Riyadh, Makkah, and the Eastern Province, with anticipated growth in demand in the northern, northwest, and southern regions as those areas develop.

The demand for higher education is evident in improved enrollment rates, increased female participation, and a growing preference for high-quality private education. Majors experiencing heightened demand include healthcare, communications, IT, engineering, and business-related fields, reflecting changes in employment trends, skills shortages, and economic diversification goals outlined in Saudi Vision 2030.

Private educational institutions are witnessing significant interest in health and well-being majors, accounting for 35.4% of enrolled students, followed by business, management, law, engineering, manufacturing, and construction.

In Riyadh and Jeddah, the competitive landscape of private higher education mirrors the growing demand for specialized fields and high-quality education, prompting providers to offer programs tailored to market requirements.

To meet evolving market demands and align educational offerings with labor market needs, private education providers like the Group are positioned to fill gaps by offering specialized programs in medicine, business, and technology.

Figure 51 **HCDP metrics associated with higher education**

Metric	Baseline (2019)	2025 Commitment
Number of Saudi students enrolled in top 200 institutes in the world	4,069	10,000
Ranking of KSA on World Bank Human Capital Index	Index ranking: 84 out of 157	Index ranking: 45 out of 157
Number of KSA universities within global top 200 universities rankings	3	6
Number of KSA universities within global top 100 universities rankings	0	1
% of higher education institutions accredited by ETEC	23.4%	65.0%
% of private sector participation in spending on education	1.1%	1.2%
% of higher education students enrolled in STEM education compared to other subjects	22.0%	26.0%
% of higher education students enrolled in arts compared to other subjects	1.2%	2.0%
% of higher education graduates in employment within 6 months of graduation	4.5%	20.0%
% of Saudisation in high-skilled jobs	32.0%	40.0%

Source: Human Capability Development Program, 2021G-2025G, Al Rajhi Capital

Financials

Figure 52 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E
Revenue	**2,327**	**2,764**	**3,296**	**3,852**	**4,608**
y-o-y growth	*15.6%*	*18.8%*	*19.3%*	*16.9%*	*19.6%*
Cost of Sales	(1,710)	(2,050)	(2,400)	(2,743)	(3,277)
Gross Profit	**617**	**714**	**896**	**1,110**	**1,331**
y-o-y growth	*0.7%*	*15.8%*	*25.6%*	*23.8%*	*19.9%*
margins	*26.5%*	*25.8%*	*27.2%*	*28.8%*	*28.9%*
SG&A Expenses	(292)	(342)	(405)	(475)	(553)
Other	14	20	21	22	23
Operating Profit	**339**	**392**	**512**	**657**	**801**
y-o-y growth	*-11.4%*	*15.7%*	*30.8%*	*28.2%*	*22.0%*
margins	*14.6%*	*14.2%*	*15.5%*	*17.0%*	*17.4%*
Net Financing expenses	(84)	(137)	(117)	(110)	(109)
Pre-Tax Income	**255**	**255**	**395**	**547**	**692**
Zakat & Tax	(23)	(20)	(32)	(44)	(55)
Net Income (Pre minority)	**232**	**234**	**363**	**503**	**637**
Non-controlling interest	48	31	15	(15)	(46)
Net Income (Post minority)	**280**	**265**	**379**	**488**	**590**
y-o-y growth	*-14.3%*	*-5.1%*	*42.8%*	*28.8%*	*21.0%*
margins	*12.0%*	*9.6%*	*11.5%*	*12.7%*	*12.8%*
EPS	1.4	1.1	1.6	2.1	2.5

Source: Al Rajhi Capital estimates, Note: EPS for 2023 is calculated based on 200mn shares, and from 2024 onwards have considered 232mn shares.

Figure 53 **Cash Flow Statement**

Cash flow statement (SAR mn)	2023	2024E	2025E	2026E	2027E
Net cash flows from Operating Activiti	**304**	**375**	**401**	**615**	**792**
Capex	(372)	(1,166)	(1,185)	(670)	(696)
Others	1,342	0	0	0	0
Cash Flows from Investing Activities	**970**	**(1,166)**	**(1,185)**	**(670)**	**(696)**
Debt Proceeds/Repayment	(127)	0	100	100	0
Others	(1,250)	(57)	(69)	(79)	(87)
IPO Proceeds	0	1,650	0	0	0
Cash Flows from Financing Activities	**(1,377)**	**1,593**	**31**	**21**	**(87)**

Source: Al Rajhi Capital estimates

Figure 54 **Balance Sheet**

Balance Sheet (SAR mn)	2023	2024E	2025E	2026E	2027E
Assets					
Cash & Cash Equivalents	214	1,016	263	229	237
Receivables, Net	746	909	1,084	1,214	1,389
Inventory	163	225	230	236	241
Contract Assets	102	65	82	119	122
Prepayments and other current assets	163	159	220	249	290
Total Current Assets	**1,388**	**2,373**	**1,879**	**2,047**	**2,279**
Fixed Assets	1,635	2,638	3,610	4,038	4,463
Right-of-use asset	521	496	473	453	438
Intangibles	544	544	544	544	544
Others	143	143	143	143	143
Total Non-Current Assets	**2,844**	**3,821**	**4,771**	**5,178**	**5,587**
Total Assets	**4,232**	**6,194**	**6,649**	**7,225**	**7,866**
Liabilities					
Short term debt	524	524	555	585	585
Lease obligations	47	45	43	41	40
Trade payables	275	337	343	348	354
Accrued expenses	194	261	309	349	428
Zakat payable	24	24	24	24	24
Total Current liabilities	**1,065**	**1,191**	**1,274**	**1,348**	**1,431**
Long-Term Debt	1,196	1,196	1,266	1,335	1,335
Long-term lease liabilities	496	473	451	432	417
Employee's end of service benefit	219	225	232	239	246
Total Non-Current Liabilities	**1,911**	**1,895**	**1,949**	**2,007**	**1,999**
Total Liabilities	**2,977**	**3,086**	**3,224**	**3,354**	**3,430**
Total Equity	**1,255**	**3,108**	**3,426**	**3,871**	**4,437**
Total Equity and Liabilities	**4,232**	**6,194**	**6,649**	**7,225**	**7,866**

Source: Al Rajhi Capital estimates

Figure 55 **Key Ratios**

(SARmn)	2023	2024E	2025E	2026E	2027E
ROE	19%	14%	12%	14%	15%
ROA	6%	5%	6%	7%	8%
Current Ratio	1.3x	2.0x	1.5x	1.5x	1.6x
Debt to Equity	1.8x	0.7x	0.7x	0.6x	0.5x
Net Debt to EBITDA	4.2x	2.1x	2.7x	2.4x	2.0x
DSO	117	120	120	115	110
DIO	35	40	41	42	43
DPO	59	60	61	62	63
Cash Conversion	93	100	100	95	90
P/E (Offer price)	47.7x	50.3x	35.2x	27.3x	22.6x
P/B (Offer price)	13.1x	4.6x	4.1x	3.6x	3.2x

Source: Al Rajhi Capital estimate, Note: Shares considered are 232mn

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Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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