

## A veteran in new cities

We initiate coverage on Fakeeh Care (FCG) with a Neutral rating and PT of SAR64.8. Primarily based in Jeddah, Fakeeh provides premier healthcare services to c1.5mn patients annually through its unique Hub-Spoke model and supported by a prominent medical college with +1,700 students. The company is expanding its presence to Riyadh, Madinah and Makkah that will more than triple its bed capacity from 585 in 2023 to 1,625 in 2028f. This, along with other initiatives, will grow revenues to SAR5.71bn by 2028f from SAR2.33bn in 2023, translating into a CAGR of 19.7%. Therefore, we expect earnings to record a 5-year CAGR of 21.4% to SAR734mn in 2028f. The stock is trading at 2024f P/E and EV/EBITDA of 45.1x and 26.1x vs peer group average of 31.8x and 23.9x, respectively.

- Fakeeh - Jeddah and now moving beyond**

Established more than 40 years ago, Fakeeh Care is a premier healthcare provider, primarily based in Jeddah. Its flagship hospital host 400 beds, serving +1.0mn patients annually with a wide reach across the city through its 4 medical centres. Recently, the company started its expansion journey, starting in Riyadh (185 beds) and Neom (50 beds through O&M). It also runs a prominent medical college with over c1,700 students currently enrolled. Going forward, the company is planning to strengthen its position in Jeddah and expand its presence in Riyadh, Madinah and Makkah by establishing 5 new hospitals and 4 medical centres. This is expected to more than triple the bed capacity from 585 beds in 2023 to 1,625 beds by 2028f, placing Fakeeh Care as the third largest listed player.

- Higher reliance on insurance**

Given Fakeeh Care's main focus on premium healthcare, the company has a higher reliance on insurance business. Insurance accounted for c70% of total revenues and is higher than major players like Hammadi, SGH and Care and close to HMG levels. This enabled FCG to have one of the best cash conversion cycles in the industry. In 2023, it had a cash conversion of 96 days, which is significantly lower than its listed peers (with the exception of HMG with a negative cash cycle).

- Earnings to record a CAGR of 21.3% in 2023-2028f**

We expect revenues to record a 2023-2028f CAGR of 19.7% to reach SAR5.71bn by 2028f. The growth will be largely driven by ramp-up of the new facilities (mainly Riyadh and Madinah), as we believe Jeddah Hospital is already running at +80% capacity. We forecast revenues from outpatients to record a 5-year CAGR of c20%, while inpatient revenues are expected to show a CAGR of c18%. For Education, we expect it to record a 5-year revenue CAGR of 19.8% to SAR232mn in 2028f, as enrolled students grow from c1,450 in 2023 to 3,317 in 2028f. EBITDA margins are expected to be under pressure in the near-term before gradually improving with the ramp-up of the new facilities. We expect net profit to increase from SAR280mn in 2023 to SAR734mn in 2028f, translating into a CAGR of 21.3%. We expect capex levels to accelerate due to the ongoing expansions, which would result in limited FCF generation, increase leverage and lower payout in the mid-term.

- Initiating coverage with a Neutral rating and PT of SAR64.8**

We initiate coverage on Fakeeh Care with a Neutral rating and a PT of SAR64.8. The prominent position in Jeddah, favourable client mix, unique operating model and strong expansion plans are the key positives. However, the stock is trading at 2024f P/E and EV/EBITDA of 45.1x and 26.1x higher than the peers average of 31.8x and 23.9x, respectively which we believe fully price in the positives.

### Summary Financials

SAR mn	2023	2024f	2025f	2026f	2027f	2028f
Revenues	2,327	2,783	3,344	3,947	4,777	5,706
Gross profit	617	733	892	1,071	1,309	1,594
Gross margin (%)	26.5%	26.3%	26.7%	27.1%	27.4%	27.9%
EBIT	339	455	535	616	790	991
EBIT margin (%)	14.6%	16.3%	16.0%	15.6%	16.5%	17.4%
Net Income att. to shareholders	280	311	368	421	571	736
Net margin (%)	10.0%	10.8%	11.5%	11.4%	12.6%	13.4%
EPS	1.2	1.3	1.6	1.8	2.5	3.2

Source: The company, SNB Capital Research estimates

Please refer to the last page for important disclaimer

## NEUTRAL

Price target (SAR)	64.8
Current price (SAR)	60.5
Upside/Downside (%)	7.0%

### VALUATION MULTIPLES

	23	24f	25f
P/E (x)	50.2	45.1	38.1
P/B (x)	13.8	4.7	4.2
EV/EBITDA (x)	34.8	26.1	21.7
Div Yield (%)	NA	0.2	0.3

Source: SNB Capital Research estimates

### MAJOR SHARHOLDERS

Investor	% Ownership
Mazen Fakeeh	30.9%
Ammar Fakeeh	30.9%
Manal Fakeeh	15.4%
Foreign Ownership	1.59%

Source: Saudi Exchange, SNB Capital. As of 29 July 2024

### STOCK DETAILS

M52-week range H/L (SAR)	66.7/54.8
Market cap (US\$ mn)	3,743
Shares outstanding (mn)	232
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	Since IPO
Absolute	(0.5)	6.1
Rel. to market	(0.3)	5.7

Avg daily turnover (mn)	SAR	US\$
1M	99.9	26.6
Since IPO	199	53.2

Reuters code	4017.SE
Bloomberg code	Fakeehca.AB
	www.fakeeh.care

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