alrajhi capital الراجحي المالية

Research Department

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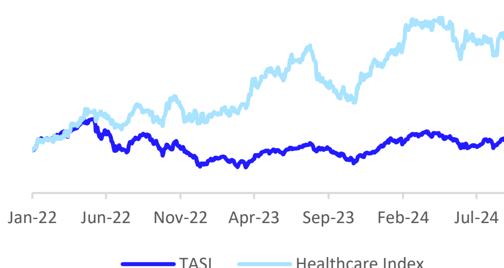
Key themes

The healthcare sector experienced a significant correction from its peak in April 2024 as near-term catalysts fade.

Hospitals are focusing on price hikes and hiring specialized doctors to prepare for the DRG implementation in 2025, with Dallah and Hammadi particularly active in this area

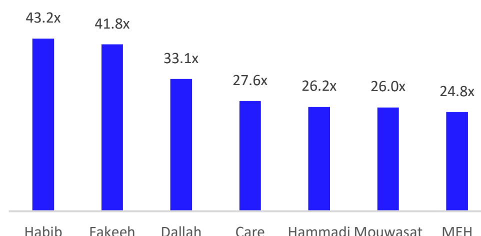
Despite the sector's correction, selective opportunities exist, with Dallah upgraded to Overweight, while Mouwasat and Fakeeh maintain Overweight, neutral on others

Healthcare vs TASI (Rebased to 100)



Source: Bloomberg, Al Rajhi Capital.

1yr BF P/E on current market price



Source: Bloomberg, Al Rajhi Capital. . Forward P/E is calculated based on CMP upon average of FY24/25E EPS from ARC estimates.

Summary of our ratings

Stock	Current Rating	Previous Rating	New TP	Old TP	Upside/ Downside
Dallah	Overweight	Neutral	192.0	164.0	20.0%
Mouwasat	Overweight	Overweight	122.0	136.0	14.9%
Fakeeh	Overweight	Overweight	66.0	66.0	13.8%
Habib	Neutral	Neutral	316.0	301.0	4.2%
MEH	Neutral	Neutral	82.0	95.0	8.3%
Care	Neutral	Neutral	214.0	199.0	8.6%
Hammadi	Neutral	Neutral	48.0	56.0	6.9%

Source: Bloomberg, Al Rajhi Capital, CMP is considered as of 1st September close

Saudi Healthcare

Price hikes and focus on mix before DRG is effective, selective opportunities even after the correction

The healthcare sector has corrected 7% from its peak achieved in April 2024, and the average decline (ex-Habib) has been about 24% from their highs. As near-term catalysts disappear and valuations price in most of the positives, the sector saw some profit taking. Further, the investors turned their focus on the upcoming influx of capacity, impact of DRG implementation, flattish growth in the insured lives in the recent quarters, etc. In 1H24 (more comparable to last year), the topline for our coverage grew by 10.3% y-o-y (ex-Fakeeh), the lowest growth in first half in the last two years (1H23: 15.6%, 1H22: 14.8% y-o-y). Despite the benefits of inorganic growth, ramp-up at most of the hospitals and price hikes, the 10% growth in H1 cautions about the impact of high base (last two years were solid) and the slowdown in the insured lives in the last one year or so. A couple of trends have notably dominated in H1 2024, 1) price hikes and 2) the focus on hiring specialized doctors to boost mix of complex surgeries. As volume turn flattish, hospitals are negotiating with the insurance on pricing with Mouwasat and Hammadi leading the pricing revision, while Dallah is focusing on improving the case mix and raising prices on some services. The hospitals that lacked high exposure to complex surgeries are focusing on increasing the same as they prepare for the DRG implementation. The year 2025 will see shadow billing and the actual implementation will be in the following years. As the base rate will be uniformed across the Kingdom and the multiplier will be subject to share of complex surgeries, services offered, etc. the hospitals are focusing on hiring specialized doctors. We have noticed Dallah and Hammadi, in particular focusing on this.

On DRG, there is no clarity on who would benefit as the pricing will be a function of base rate, that will be average of all the hospitals (with outliers being removed), and the multiplier applied over the base rate, which would be subject to range of services being offered, the mix of complex surgeries being conducted, etc. Our preliminary analysis indicates that Care (if GOSI patients gets included) as well as Mouwasat should benefit, as despite having decent share of complex surgeries, their pricing is relatively on the lower side (figure 6).

On capacity influx, we have noticed that premium hospitals that offer a range of medical services, modern layout and specialist doctors have not struggled in terms of ramping up the capacity. Fakeeh, Habib and Saudi German have posted solid topline growth in 1H24. Moreover, Dallah's topline has also benefited as it shifted its focus towards offering more specialized treatments since last year. On the other hand, we have noticed patients' volumes either declining or flattish at hospitals that are yet to have high share of specialized doctors or the facilities being old and requires spending on modernization of the facility. Thus, it is evident that as we approach the phase of high-capacity growth, Habib and Fakeeh are well positioned to ramp up their facilities.

Despite the correction, the sector is trading at a trailing P/E (last 4Qs) of 36x, thus we believe only selective opportunities exist in the sector. We upgrade Dallah to Overweight as we believe the recent acquisitions should be earnings accretive in the medium term. We trim our target price for Mouwasat but maintain Overweight as valuations have turned attractive; also maintain Overweight on Fakeeh. On the other hand, we maintain neutral on Care and Habib, but raise our target prices. On Hammadi and Saudi German, we lower our target prices and maintain our neutral recommendation.

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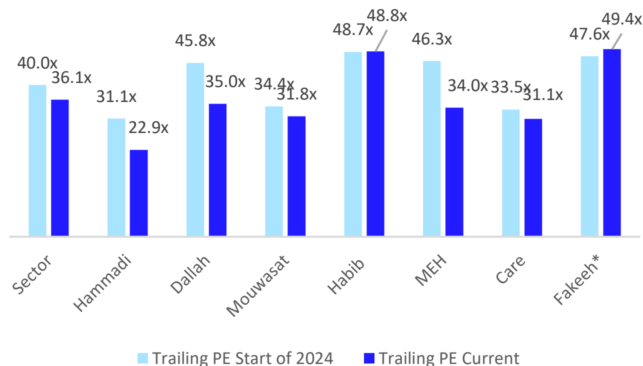
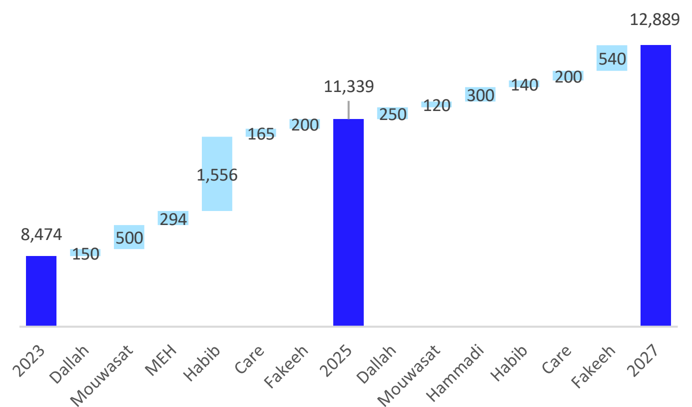
Figure 1 **Valuations have seen contraction**



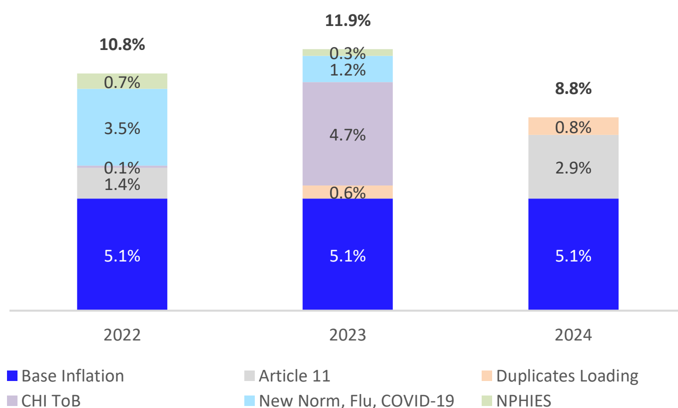
Source: Company Data, Al Rajhi Capital, Note*: Fakeeh's Trailing PE Start of 2024 is as on the date of its listing

Figure 2 **Strong influx of bed capacity**



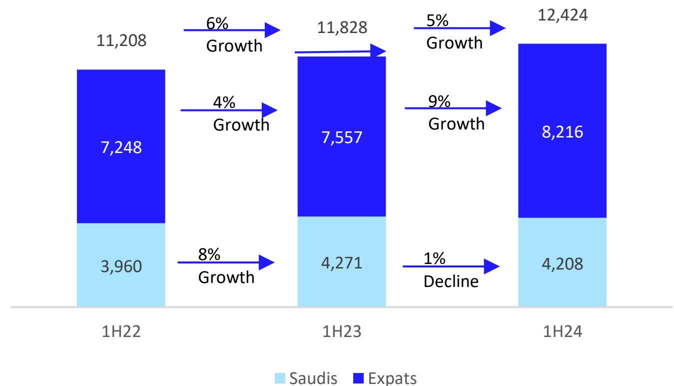
Source: Company Data, Al Rajhi Capital, Beds from Acquisition not considered here

Figure 3 **Insurance Claims indicator (Bupa medical inflation) slows down**



Source: Bloomberg, Al Rajhi Capital.

Figure 4 **Saudi insured lives decline due to cancellation of duplicate policies and slowdown (in '000)**



Source: Bupa Presentation, Al Rajhi Capital

Figure 5 **Valuations**

Hospitals	Revenues			Gross Profit			Operating Profit			Net Profit		
	2Q24	y-o-y	vs. ARC	2Q24	y-o-y	vs. ARC	2Q24	y-o-y	vs. ARC	2Q24	y-o-y	vs. ARC
Dallah	765.0	14.2%	3.2%	298.0	26.8%	14.6%	141.0	36.9%	23.7%	112.0	111.3%	41.8%
Mouwasat	690.0	10.0%	-0.9%	307.0	4.8%	-4.4%	176.0	0.6%	-1.7%	153.0	1.3%	-3.8%
Hammadi*	263.0	-5.1%	-3.0%	86.0	-7.5%	0.0%	75.0	0.0%	15.4%	63.0	-1.6%	16.7%
MEH*	713.0	14.3%	7.2%	279.0	21.8%	13.9%	106.0	53.6%	8.2%	42.0	5.0%	7.7%
Habib	2,574.0	13.3%	0.6%	878.0	13.3%	5.3%	552.0	10.6%	8.4%	555.0	14.0%	0.7%
Care*	297.0	21.2%	4.6%	108.0	33.3%	9.1%	65.0	18.2%	6.6%	56.0	16.7%	-1.8%
Fakeeh*	654.0	19.8%	-0.5%	162.0	28.6%	-1.8%	43.0	65.4%	7.5%	47.0	14.6%	-9.6%
Combined	**5,956.0**	**13.2%**	**1.4%**	**2,118.0**	**15.6%**	**5.4%**	**1,158.0**	**15.6%**	**8.6%**	**1,028.0**	**16.3%**	**3.7%**

Source: Company Data, Al Rajhi Capital, Note*: Adjusted for one-offs, reversals, etc.

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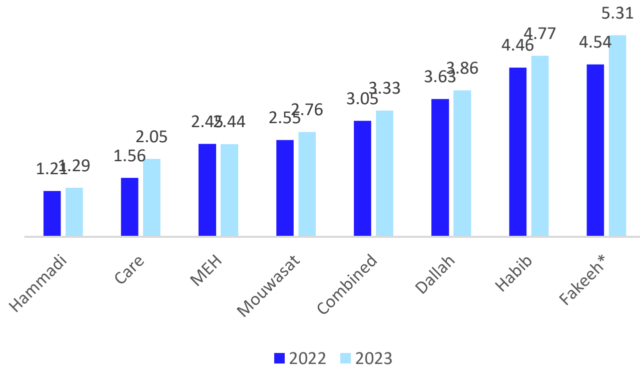
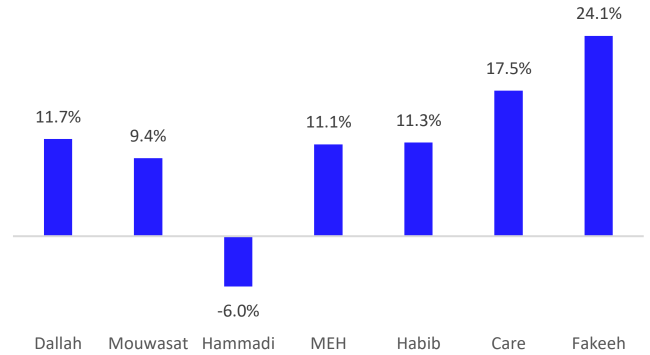
Figure 6 **Revenue per utilized bed across hospitals (SAR mn)**



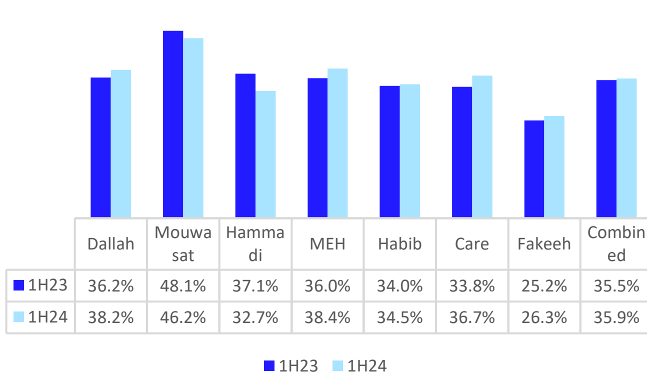
Source: Bloomberg, Al Rajhi Capital. Note*: For Fakeeh, have not considered Riyadh beds here

Figure 7 **1H24 Revenue has seen growth due to price hikes and new capacity/acquisitions (SAR mn)**



Source: Company Data, Al Rajhi Capital

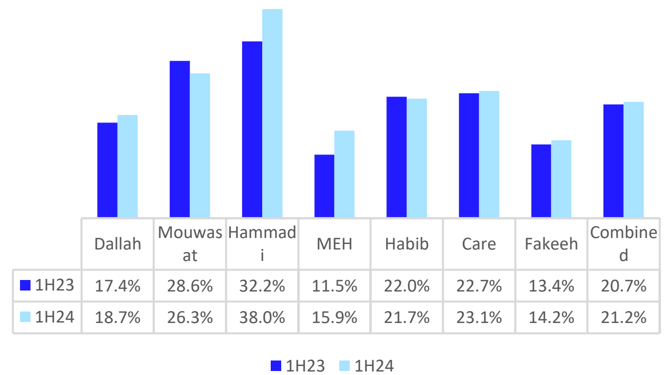
Figure 8 **Leading to gross margin improvements**



	Dallah	Mouwasat	Hammadi	MEH	Habib	Care	Fakeeh	Combined
1H23	36.2%	48.1%	37.1%	36.0%	34.0%	33.8%	25.2%	35.5%
1H24	38.2%	46.2%	32.7%	38.4%	34.5%	36.7%	26.3%	35.9%

Source: Company Data, Al Rajhi Capital

Figure 9 **Operating margins also have seen expansion**

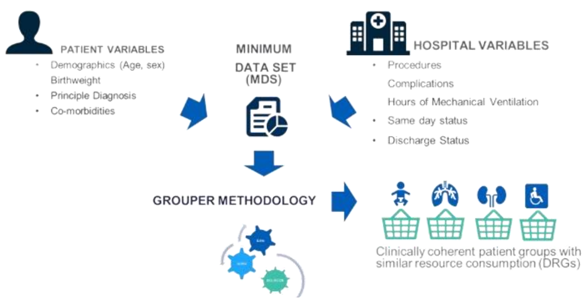


	Dallah	Mouwasat	Hammadi	MEH	Habib	Care	Fakeeh	Combined
1H23	17.4%	28.6%	32.2%	11.5%	22.0%	22.7%	13.4%	20.7%
1H24	18.7%	26.3%	38.0%	15.9%	21.7%	23.1%	14.2%	21.2%

Source: Company Data, Al Rajhi Capital

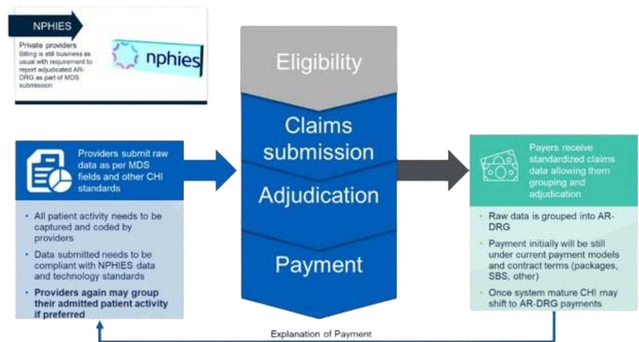
DRG: The AR-DRG is a classification system that provides a clinically meaningful way to relate or group the number and types of admitted care patients treated in a hospital to the resources required by the hospital. In CHI, the admitted patient episodes are classified using ICD-10-AM diagnoses codes and SBS interventions along with other routinely collected MDS data including age, gender, birth weight, length of stay, admission weight, hours of mechanical ventilation, discharge status, and encounter type. The grouping process consists of the following steps: • Demographic and clinical edits; • Major Diagnostic Category (MDC) assignment; • Pre-MDC processing with potential MDC reassignment; • ADRG assignment; • Diagnosis Complexity Level (DCL) assignment and Episode Clinical Complexity Level (ECCL) scoring; and finally, • DRG assignment.

Figure 10 **DRG Grouping Process**



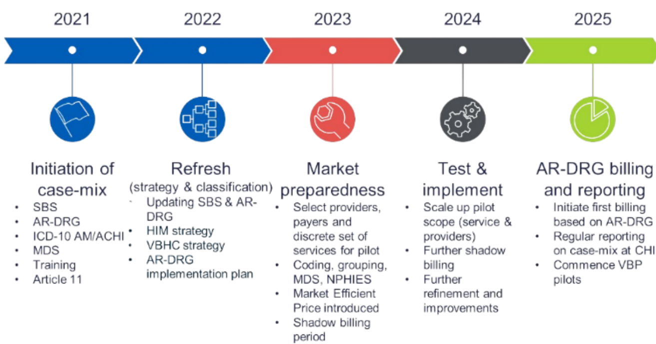
Source: CHI, Al Rajhi Capital

Figure 11 **High level business processes for claims submission and adjudication via NPHIES**



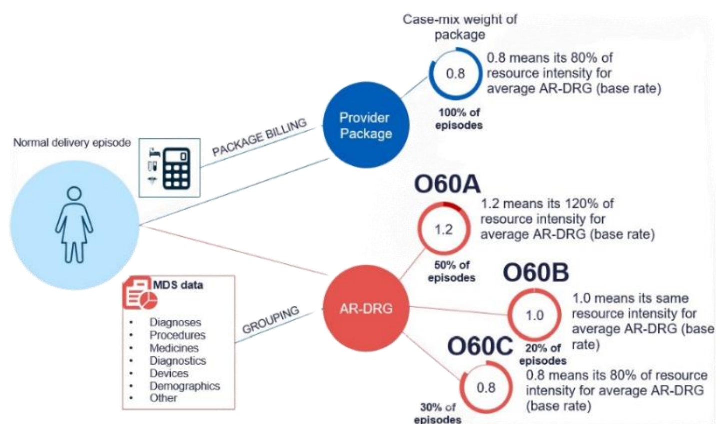
Source: CHI, Al Rajhi Capital

Figure 12 **CHI AR-DRG implementation timelines**



Source: CHI, Al Rajhi Capital

Figure 13 **Shadow billing process**



Source: CHI, Al Rajhi Capital

Disclosures: Please refer to the important disclosures at the back of this report.

Dallah Healthcare Co.
Healthcare: Hospitals
DALLAH AB: Saudi Arabia
1 September 2024

US$4.15bn	41.93%	US$3.38mn
Market Cap.	Free Float	Avg. Daily Value traded

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Dallah Healthcare Co.

Turn positive after the details of the acquisitions

Dallah continued its solid performance in Q2 driven by its focus on value-added services and improving the case mix. Despite Q2 being a seasonally weak quarter, the solid improvement in the gross margins mainly reflects the measures undertaken last year by recruiting specialists and introducing new services and sub-specialists. Despite the solid results, the share price reaction was muted as the company announced details about the two acquisitions and the share-based funding. The market is concerned that the current losses at these two hospitals will weigh on the group performance, additionally pressured by the dilution. However, we are of the view that these acquisitions can be a strong catalyst for the company to maintain its solid run rate in the next 4-5 years. We were neutral on the name before due to its rich valuations, relatively stretched balance sheet and the rising competition in Riyadh. However, with this deal the company will expand into the eastern provinces, offsetting the risks of competition in its home market. At the same time, the price paid for these acquisitions is even cheaper compared to greenfield expansion. Moreover, funding through shares at a trailing P/E of 37x is a solid strategy in our view as the hospital operator will not see any incremental pressure on the balance sheet. We revise our investment case on Dallah and upgrade the stock to Overweight from neutral with a target price of SAR 192/share.

Acquisition at very attractive price: The company has disclosed the funding details related to the Al Ahsa (97.41% stake) and Al Salam (100% stake) hospitals that it plans to buy from Ayyan investment. The agreed value of the deal is SAR 660 mn, which is to be totally funded through issuance of new shares. Post issuance of the new shares, the dilution will be limited to just 4% as the company benefited from its high share price in recent months, average price considered new share issuance is SAR 169.5/share, that implies a trailing P/E of 37x. The acquisition will notably boost its bed capacity from over 1,250 beds (considered bed additions in 2024 and only majority stake hospitals not associate companies) to almost 2,000 beds (495 beds from Al Salam and 220 beds from Al Ahsa). Considering the total net debt of Ayyan investment of SAR 847mn, the acquisition is at an EV of SAR 1.5bn. Given that Al Salam is a new hospital (opened in Oct. 2022) and loss making, the deal valuation is not comparable on profitability metrics. Thus, we compare on a per bed metric and conclude that the deal valuation is pretty attractive, as the implied EV/bed is just 2.1mn per bed, cheaper than the typical greenfield capex of SAR 2.5-4.5mn per bed (including land) for a class A operator.

Concern over pressure on group profits unwarranted: The muted share price performance of Dallah after the announcement indicates that the market is worried about the losses at Al Salam (SAR 96mn in 1H24, annualized SAR 192mn) and thin profits at Al Ahsa. Given that Al Salam started its operations in October 2022, the losses are pretty normal as hospitals take 2-3 years to breakeven on net profit level. Thus, we are not worried about losses in particular. We are rather worried about the growing competition in Khobar that could delay the breakeven duration. Nevertheless, the valuation paid for Al Salam, equity value of just SAR 251mn and net debt of SAR 847mn (assumed all the debt related to Al Salam) results in EV of SAR 1.1bn, that implies EV/bed of SAR 2.2mn. For a class A/VIP hospital of 495 beds built on an area of 100k sq m, the acquisition value is pretty favorable to Dallah.

Overweight

Price Target (SAR): 192.0

Current: 160.0
Upside/Downside: 20.0% above current

Valuation Multiples	23E	24E	25E
P/E (x)	43.2	30.7	35.9
P/B (x)	4.5	4.2	3.5
ROE (%)	13.9	15.3	11.7

Major Shareholders	% Ownership
Dallah Al-Baraka Holding	48.71

Price Performance	1M	3M	YTD
Absolute	-1.1%	-3.0%	-6.9%
Relative to TASI	-2.1%	-9.0%	-8.7%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,943	3,238	4,057
Revenue growth	18.3%	10.0%	25.3%
Gross profit	1,079	1,247	1,400
Gross margin	36.7%	38.5%	34.5%
Operating profit	472	613	597
Op. margins	16.0%	18.9%	14.7%
Net profit	360	508	452
Net margin	12.2%	15.7%	11.1%
EPS	3.7	5.2	4.5
DPS	2.0	2.8	2.4
Payout ratio	54%	54%	54%
P/E	43.2x	30.7x	35.9x
RoE	14%	15%	12%

Source: Company data, Al Rajhi Capital

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If we assume land rate of SAR 2,500 per sqm, then the implied EV paid for construction is SAR 848mn and on a per bed basis it just SAR 1.7mn per bed, much lower than industry standard construction cost of SAR 2-3mn per bed (construction cost of new upcoming hospital in Al Aarid is SAR 2.8mn per bed). Also, it saves the company from the hassle of construction delays, cost overruns and delays related to receiving approvals from regulatory bodies. Coming to Al Ahsa, we believe the thin margins could be improved once Dallah adds more offerings, sub-specialties, provides better doctors, etc.

Growth to remain solid supported by acquisitions, organic expansion and improving profitability at associate companies: In addition to this acquisition, the company has also planned greenfield expansion in Al Aarid area of Riyadh with a bed capacity of 250 and 60 clinics on a land owned by the company at a construction cost of SAR 690mn. Further, this year the company will be adding 100 beds in Namar and 50 beds in Kingdom hospital. Thus, the overall capacity of the beds will double from 1,100 beds (2023) to over 2,200 beds by 2027 (Aarid to commence in 2H27). And if we include associate companies, IMC (27.2% stake) and Faqih (31.2%), the number of beds will be almost 2,900 beds, positioning it as the second largest listed hospital after Habib (after expansion). We estimate revenues to grow by a solid 12% CAGR during 2023-2028 and to almost double by 2030. At the same time, profits are expected to grow at a much faster pace of 17% during the same 5-year period supported by breakeven at the newly acquired hospital, ramp-up at Namar, lower finance cost and improving contribution from the associate companies. In recent quarters, the profits from associate companies have notably improved, especially at IMC. In 1H24, the company recorded profits of SAR 15mn compared to just SAR 6mn for the entire year of 2023. Similarly, in Faqih hospital, the group's share of loss reduced to just 1mn in 1H24 compared to loss of SAR 23mn in FY23. As Faqih continues to ramp up given the solid demand in Riyadh, there is enough scope for profits of JVs to improve further.

Valuations: Post acquisition, Dallah has catapulted itself into the second largest hospital after Habib and has notably improved its growth prospects. We believe the company can see multiple expansion going forward. As it now offers similar growth prospects as Habib and Fakeeh, we value the company at a higher multiple of 40x, a premium of 18% to our average target multiple of 34x, on blended average EPS of 2024 and 2025, that yields a fair value of SAR 192/share. On 2027E earnings, the implied multiple is just 29x as Al Salam's achieves breakeven. We raise our target price to SAR 192/share from SAR 164/share, that offers an upside of 20%. Thus, we upgrade the stock to Overweight from neutral recommendation.

Figure 14 **Acquisition details**

	Al Salam	Al Ahsa	Combined
Beds	495	220	715
Clinics	110	44	154
Equity paid (SAR mn)	251	420	671
Net Debt (SAR mn)	847		847
EV (SAR mn)	1,098	473	1,572
EV/Bed	2.22x	2.15x	2.20x
Land Cost (SAR mn)	250	75	325
EV Ex. Land (SAR mn)	848	398	1,247
EV/Bed Ex. Land	1.71x	1.81x	1.74x

SAR mn		2021	2022	2023
Al Salam	Revenues	-	0.7	50.2
	Net Income	(7.9)	(53.2)	(218.4)
Al Ahsa	Revenues	252.6	246.3	264.6
	Net Income	2.9	4.6	7.1

Source: Company Data, Al Rajhi Capital, Note: Land cost for Al Ahsa assumed lower compared to Al Salam. Net Debt has been considered from Ayaan's Financials and assumed the entire portion to belong to Al Salam.

Figure 15 **Valuations**

Dallah	Multiples
Sector P/E (Ex. Dallah)	33.0x
Forward P/E	40.0x
Premium/(Discount)	21%
2024E/2025E EPS	4.8
Fair value	**192.0**
CMP	160.0
Upside/Downside	*20.0%*

Source: Al Rajhi Capital estimates

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Figure 16 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**2,943**	**3,238**	**4,057**	**4,414**	**4,826**	**5,141**
y-o-y growth	*18.3%*	*10.0%*	*25.3%*	*8.8%*	*9.3%*	*6.5%*
Cost of Sales	(1,864)	(1,992)	(2,658)	(2,847)	(3,065)	(3,213)
Gross Profit	**1,079**	**1,247**	**1,400**	**1,567**	**1,762**	**1,928**
y-o-y growth	*20.5%*	*15.6%*	*12.3%*	*11.9%*	*12.4%*	*9.4%*
margins	*36.7%*	*38.5%*	*34.5%*	*35.5%*	*36.5%*	*37.5%*
Opex	(607)	(634)	(802)	(868)	(945)	(1,032)
as % of Sales	*20.6%*	*19.6%*	*19.8%*	*19.7%*	*19.6%*	*20.1%*
Operating Profit	**472**	**613**	**597**	**698**	**817**	**896**
y-o-y growth	*20.2%*	*29.9%*	*-2.5%*	*16.9%*	*16.9%*	*9.7%*
margins	*16.0%*	*18.9%*	*14.7%*	*15.8%*	*16.9%*	*17.4%*
Net Financing expenses	(104)	(114)	(154)	(159)	(153)	(147)
Others	33	67	73	79	81	82
Pre-Tax Income	**400**	**566**	**516**	**619**	**744**	**830**
Zakat & Tax	(15)	(21)	(26)	(31)	(37)	(42)
Net Income (Pre minority)	**385**	**545**	**490**	**588**	**707**	**789**
Non-controlling interest	(25)	(37)	(38)	(39)	(39)	(39)
Net Income (Post minority)	**360**	**508**	**452**	**549**	**668**	**750**
y-o-y growth	*31.2%*	*41.0%*	*-10.9%*	*21.3%*	*21.7%*	*12.2%*
margins	*12.2%*	*15.7%*	*11.1%*	*12.4%*	*13.8%*	*14.6%*
Shares Outstanding	97.3	97.3	101.6	101.6	101.6	101.6
EPS	3.7	5.2	4.5	5.4	6.6	7.4

Source: Company Data, Al Rajhi Capital estimates

US$1.97bn	66.15%	US$8.85mn
Market Cap.	Free Float	Avg. Daily Value traded

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Al Hammadi Holding Co.

Uncertainty remains

Neutral

Price Target (SAR): 48.0

Current: 44.9
Upside/Downside: 6.9% above current

Valuation Multiples	23E	24E	25E
P/E (x)	23.7	27.4	25.0
P/B (x)	4.0	3.9	3.6
ROE (%)	17.1	13.9	14.6

Major Shareholders	% Ownership
Al Hammadi Saleh Bin Mohammed.	13.16
Al Hammadi Abdulaziz Bin Mohammed	10.88

Price Performance	1M	3M	YTD
Absolute	-2.5%	-6.9%	-24.4%
Relative to TASI	-3.5%	-12.9%	-26.3%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	1,177	1,140	1,233
Revenue growth	4.8%	-3.1%	8.2%
Gross profit	433	380	424
Gross margin	36.8%	33.3%	34.3%
Operating profit	316	274	291
Op. margins	26.9%	24.0%	23.6%
Net profit	303	262	287
Net margin	25.8%	23.0%	23.3%
EPS	1.9	1.6	1.8
DPS	1.4	1.2	1.1
Payout ratio	74%	75%	60%
P/E	23.7x	27.4x	25.0x
RoE	17%	14%	15%

Source: Company data, Al Rajhi Capital

Among the names under our coverage, Al Hammadi reported the biggest drop in topline on a sequential basis, -5% q-o-q despite 1Q24 being relatively weak for the company. Nevertheless, the adjusted net income (adjusted for gains on land sale) was ahead of our expectations as the company saw net recoveries on receivables. On a semi-annual basis (1H24), that eliminates the impact of seasonality to a large extent, the topline declined by 6% y-o-y. As per the company, this drop is attributed to a temporary reduction in patient volumes driven by conscious decision to follow a premiumization strategy by categorizing Suweidi hospital as a Class A operator in the insurance network and also its decision to raise prices. The price hikes are in the backdrop of the upcoming DRG implementation and to account for more doctors and new sub-specialties being offered as it plans to increase its share of complex surgeries. Going into 2H24, the company is confident about the pick-up in the volumes and Q3 volume data also indicated that the volume decline in inpatient has been arrested. The 2Q24 inpatient volumes (9.7k versus 9.3k in 3Q23 and 9.1k in 2Q23) are now higher than 3Q23, implying volumes in 3Q24 should easily beat on a y-o-y basis. However, our key worry is the average patient yield in 2H24. Last year in the second half, the average inpatient yield was SAR 14.4k/inpatient. So far in 1H24, inpatient yield has been SAR 12.4k, and as the company is now losing SAR 6mn per month on revenues from MoH related to isolation charges that it used to receive until last year, thus the pricing is expected to be weak in 2H24. Moreover, there is also a possibility that the company is offering discounts to the cash patients and diverting the patient traffic from Nuzha to Suwedi hospital in order to promote it as a Class A facility. Thus, we are skeptical that the revenue decline could continue in 3Q24 and any notable improvement in the revenues should happen only in 2025 led by price hikes on insurance and benefits of premiumization strategy.

In the medium term, beyond 2024, the revenue and profit growth potential are attractive as it benefits from the premiumization strategy and the start of the Olaya facility in 2026. However, in the near-term uncertainty persists and could weigh on the stock price. We trim our 2024 estimates after weak H1 performance and concerns over Q3 inpatient yield. Consequently, we have reduced our target price to SAR 48/share from SAR 56/share before and maintained our neutral recommendation. Key upside risks include signs of volume pick in Suweidi and sharp improvement in the pricing in 4Q24.

2024 estimates and beyond: We now expect revenues to decline 3% y-o-y in FY24 from +4% earlier as 1H24 performance on the topline has been much weaker than expected. Further, we are worried about its 3Q24 performance as higher base in terms of pricing (average inpatient yield: SAR 15.3k versus SAR 12.4k in 1H24) will be difficult to replicate given the loss of revenues from the MoH patients. Moreover, we believe the benefits of premiumization strategy will reflect mostly in 2025 as the company offers more specialized services and leverages its class A footfall in Nuzha to divert patients to Suweidi. In 2025, we now estimate high single digit topline growth, +8%, led by better pricing (10% hike on insurance planned), recovery in volumes and higher share of complex surgeries. Beyond 2025, we expect revenues to grow at 16% CAGR during 2025-2028E supported by the contribution from the Olaya hospital (to start in 2026). In our view, given the benefit of location and its historical presence, ramp-up of Olaya should be quicker than expected.

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Valuations: Hammadi's share price has fallen notably (-34%) from its YTD highs and is the worst performing stock YTD (-23%) in the healthcare space. The weak performance in 1H24 and uncertainty around the impact of the premiumisation strategy has weighed on the sentiments. The stock is now trading at a 2024E P/E (adjusted EPS on a conservative basis) of 29x and at just 26x on 2025E EPS. The 29x 2024E P/E multiple, which is broadly in line with the lower end of the industry average, is pricing in earnings decline of 15% in 2024. Thus, we believe bulk of the negatives are already priced in the share price and we see limited downside potential from the current level. Nevertheless, the sentiments should only improve once the company reports recovery in volumes and pricing. As we trim our 2024 revenue estimates, we reduce our target price to SAR 48/share from SAR 56/share. We apply a P/E multiple of 28x, which is a discount of 20% to our average target multiple of 35x for the names under our coverage excluding Hammadi, on the one year blended forward EPS, which is average EPS of 2024E and 2025E, to arrive at our target price. The implied upside from the current level is around 7%, thus we remain neutral on the name.

Figure 17 **Volumes improved but yields seem to be under pressure**

KPIs	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Inpatient						
Volumes ('000s)	11.7	9.1	9.3	10.5	10.0	9.7
q-o-q growth		*-22.4%*	*2.2%*	*12.9%*	*-5.0%*	*-2.6%*
Revenues (SAR mn)	136.1	122.9	142.0	143.0	120.4	123.6
q-o-q growth		*-9.7%*	*15.6%*	*0.7%*	*-15.8%*	*2.7%*
Avg. Rev. per Inpatient	11,613	13,504	15,269	13,619	12,063	12,718
q-o-q growth		*16.3%*	*13.1%*	*-10.8%*	*-11.4%*	*5.4%*
Outpatient						
Volumes ('000s)	273.2	242.1	240.4	275.0	249.5	234.8
q-o-q growth		*-11.4%*	*-0.7%*	*14.4%*	*-9.3%*	*-5.9%*
Revenues (SAR mn)	102.7	94.5	100.8	108.8	106.8	93.7
q-o-q growth		*-8.0%*	*6.6%*	*7.9%*	*-1.9%*	*-12.2%*
Avg. Rev. per Inpatient	376	390	419	396	428	399
q-o-q growth		*3.9%*	*7.4%*	*-5.6%*	*8.1%*	*-6.7%*

Source: Company Data, Al Rajhi Capital

Figure 18 **Valuations**

Hammadi	Multiples
Sector P/E (Ex. Hammadi)	35.0x
Forward P/E	28.0x
Premium/(Discount)	-20%
2024E/2025E EPS	1.7
Fair value	**48.0**
CMP	44.9
Upside/Downside	*6.9%*

Source: Company Data, Al Rajhi Capital

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Figure 19 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**1,177**	**1,140**	**1,233**	**1,502**	**1,751**	**1,906**
y-o-y growth	*4.8%*	*-3.1%*	*8.2%*	*21.7%*	*16.6%*	*8.9%*
Cost of Sales	(744)	(761)	(810)	(1,004)	(1,177)	(1,251)
Gross Profit	**433**	**380**	**424**	**498**	**573**	**656**
y-o-y growth	*3.2%*	*-12.4%*	*11.6%*	*17.5%*	*15.2%*	*14.4%*
margins	*36.8%*	*33.3%*	*34.3%*	*33.1%*	*32.7%*	*34.4%*
Opex	(117)	(106)	(133)	(161)	(182)	(193)
as % of Sales	*9.9%*	*9.3%*	*10.8%*	*10.7%*	*10.4%*	*10.1%*
Operating Profit	**316**	**274**	**291**	**336**	**392**	**463**
y-o-y growth	*20.3%*	*-13.3%*	*6.1%*	*15.6%*	*16.4%*	*18.2%*
margins	*26.9%*	*24.0%*	*23.6%*	*22.4%*	*22.4%*	*24.3%*
Net Financing expenses	(26)	(19)	(14)	(11)	(12)	(11)
Others	31	30	35	35	35	35
Pre-Tax Income	**321**	**285**	**312**	**360**	**415**	**487**
Zakat & Tax	(18)	(23)	(25)	(29)	(33)	(39)
Net Income (Pre minority)	**303**	**262**	**287**	**331**	**382**	**448**
y-o-y growth	*17.9%*	*-13.7%*	*9.7%*	*15.3%*	*15.2%*	*17.4%*
margins	*25.8%*	*23.0%*	*23.3%*	*22.1%*	*21.8%*	*23.5%*
EPS	1.9	1.6	1.8	2.1	2.4	2.8

Source: Company Data, Al Rajhi Capital estimates

الراجحي المالية
alrajhi capital

US$1.89bn	44.33%	US$7.92mn
Market Cap.	Free Float	Avg. Daily Value traded

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Middle East Healthcare Co.

Competition/balance-sheet worries resurface

Neutral

Price Target (SAR): 82.0

Current: 75.7
Upside/Downside: 8.3% above current

Valuation Multiples	23	24E	25E
P/E (x)	38.7	27.8	22.4
P/B (x)	4.4	3.7	3.2
ROE (%)	12.5	15.2	16.2

Major Shareholders	% Ownership
Bait Al-Batterjee Medical Co.	54.69

Price Performance	1M	3M	YTD
Absolute	-2.2%	3.4%	-14.3%
Relative to TASI	-3.2%	-2.5%	-16.1%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,653	2,932	3,246
Revenue growth	23.3%	10.5%	10.7%
Gross profit	1,014	1,158	1,225
Gross margin	38.2%	39.5%	37.7%
Operating profit	342	449	491
Op. margins	12.9%	15.3%	15.1%
Net profit	180	250	311
Net margin	6.8%	8.5%	9.6%
EPS	2.0	2.7	3.4
P/E	38.7	27.8	22.4
RoE	12%	15%	16%

Source: Company data, Al Rajhi Capital.

MEH reported better than expected 2Q24 results with a solid topline growth of 14% and came in 7% ahead of our estimates, mainly led by cash patients (+29% q-o-q). In fact, it was the only company after Habib to report sequential growth in 2Q24, +3% q-o-q. Despite such a solid growth, the bottom-line performance was muted, adjusted for the one-off capital gains it grew only 3% y-o-y. This is mainly due to higher finance costs, that were up 2.5x to SAR 62mn from SAR 25mn in 2Q23. Thus, the bottom-line performance was slightly below expectations. Nevertheless, it did not warrant the kind of pressure that was seen in the stock price in recent months. From its YTD highs, the stock is down 42% and in the last one month it is down around 6%. In our view, this could be due to concerns around the growing competition in Jeddah and flattish revenue performance in Dammam, that had supported the growth last year. We are also bit skeptical about the competition in Jeddah as the entry of Habib in 2Q24 and efforts from Fakeeh to protect its market share could result in fierce competition in the near term. In 2Q24, the revenues from Jeddah were impacted, although seasonality had a factor, the impact was higher than expected. Despite such a solid growth in cash patients and MoH (+3% q-o-q), the revenues in Jeddah were down 4% q-o-q implying bulk of the decline would have come from insurance (the insurance patients could be relatively less sticky and can shift easily to other operators). Moreover, the company's move to offset the pressure on insurance by attracting cash patients (cash rev. up 29% y-o-y in Q2) through offering discounts and promotions on one hand protects the revenues but on the other hand confirms the possibility of rising competition in the region. We slightly lower our 2024 and 2025 estimates on concerns over competition and also trim our target price to SAR 82/share. Despite the lower target price, we maintain our neutral recommendation as the recent correction in the share price has priced in most of the negatives.

Insurance and Jeddah/Dammam performance: In 2Q24, insurance revenues declined by almost 4% q-o-q. Although, seasonality did play a part due to start of school holidays earlier than last year, but even the 1Q24 base had impact of more days of Ramadan compared to last time. Thus, the decline cannot be attributed entirely to seasonality. On the other hand, the cash revenues grew by 29% q-o-q to SAR 143mn from SAR 110mn in 1Q24 as the company spent on promotional activities and offered various discounts across the group. At the same time, the company admitted more MoH patients, +3% q-o-q. Despite such a solid growth in cash patients and MoH, the revenues in Jeddah were down 4% q-o-q implying bulk of the decline would have come from insurance. Although too early to determine and attribute it to the rising competition in Jeddah, but the trends so far at Habib (patient flow in new Jeddah hospital ahead of expectations as per the management) and Fakeeh (resilient numbers in Jeddah) cannot be ignored. Moreover, the performance in Dammam has stagnated and the company is yet to receive approval for the addition of new beds. The revenues in Dammam were down 6% q-o-q and 5% y-o-y and has been hovering around SAR 70-75mn per quarter for the last six quarters, except in 4Q23.

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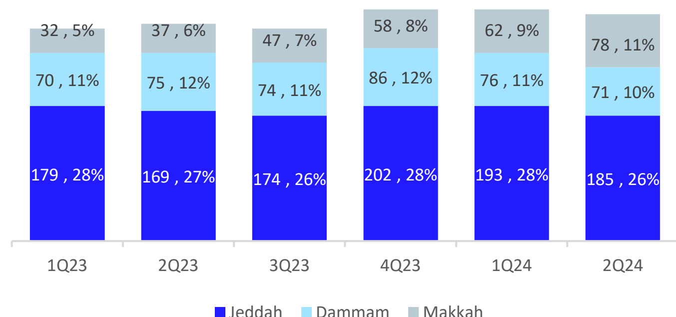
Receivables worsen further and finance costs could remain elevated: After some improvement in the receivables in 1Q24, SAR 2.1bn versus SAR 2.3bn at the end of FY23, the position deteriorated in 2Q24. As the company's MoH revenues grew by 3% q-o-q in Q2, the receivables have increased by SAR 148mn to SAR 2.3bn, implying no major payments received from the government in 2Q24. This has raised some worries over the requirement of working capital and the expected pressure on the debt. Despite the incremental EBITDA generation of about SAR 860mn in the last 6 quarters (from end of 2022 to 1H24), the debt position has deteriorated and increased further by around SAR 300mn to SAR 2.5bn from SAR 2.2bn at the end of 2022. The capex during this period was just SAR 366mn, implying bulk of the offsetting impact came from higher working capital requirements. Moreover, about 40% of its total debt is Sukuk where the finance rate is fixed at 7.2%, thus even if the rates decline the benefits would be limited to the company on a relative basis. On low ECL provisions, the company maintains its stance that it nets it off against the sales, however, it becomes difficult to track the development in the ECLs as revenues continue to grow. Thus, we remain sceptical and see this as a downside risk to cash flows.

2024E and way forward: All said and done, the recent correction makes the level attractive as the topline growth continues to be low double digit led by demand in Makkah and Riyadh. Further, its broad-based presence across regions in the KSA also insulates the company from the rising competition in the core markets of Jeddah, Riyadh, and Dammam. Further, the pricing should improve once the Dammam and Makkah hospitals receive HIMSS accreditations. We estimate the revenues to grow by 11% in both 2024 and 2025 each. As bulk of the growth is expected to come from better pricing (HIMSS accreditations) and volumes at existing facility (Makkah), operational leverage should result in margin improvement. And given the low base, the net income improvement is sharper in 2024, growth of 39% and 24% in 2025. However, margin improvement beyond 2025 would be difficult as the existing assets will mature and the company will have to manage start-up costs related to the expansion in Jeddah (to open in 2025).

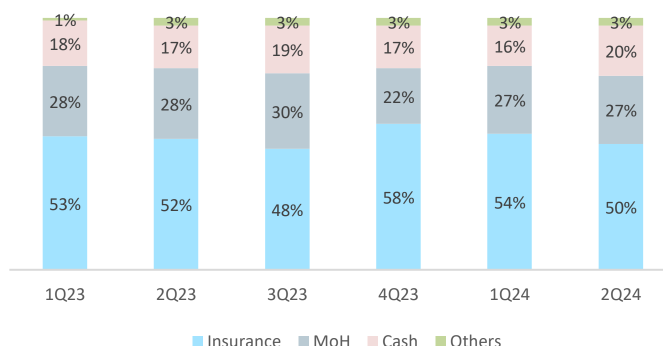
Valuations: Post 1H24 numbers, we trim our revenue estimate for 2024 and 2025 and consider the impact of rising competition, higher receivables, we adjust our target price to reflect the same. We value the company on a P/E methodology and apply a multiple of 27x, which is a discount of 25% to our average target multiple of 36x for the names under our coverage excluding MEH, on a blended forward EPS of 2024/2025E to arrive at our fair value of SAR 86/share. The reason for the discount to the sector's average multiple is primarily on the basis of the reasons mentioned above. As we reduce our target price to SAR 82/share from SAR 95/share before, the implied upside on the last close is around 8%. Thus, we maintain our neutral recommendation on the stock

Figure 20 **Revenues (SAR mn) and mix over last 6 quarters**



Source: Company Data, Al Rajhi Capital

Figure 21 **Payor Mix trend over last 6 quarters**



Source: Company Data, Al Rajhi Capital

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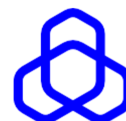
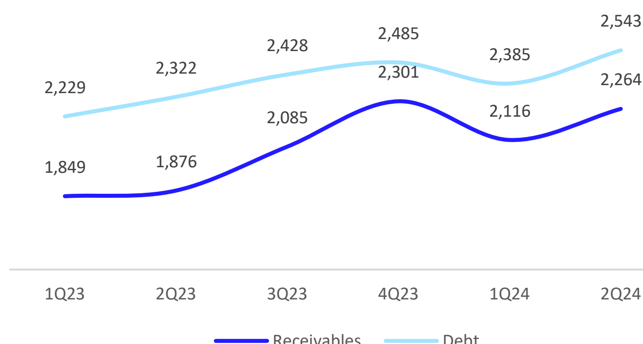


Figure 22 **Receivables and Debt (SAR mn)**



Source: Company Data, Al Rajhi Capital

Figure 23 **Valuations**

MEH	Multiples
Sector P/E (Ex. MEH)	36.0x
Forward P/E	27.0x
Premium/(Discount)	-25%
2024E/2025E EPS	3.0
Fair value	**82.0**
CMP	75.7
Upside/Downside	*8.3%*

Source: Al Rajhi Capital estimates

Figure 24 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**2,653**	**2,932**	**3,246**	**3,477**	**3,931**	**4,110**
y-o-y growth	*23.3%*	*10.5%*	*10.7%*	*7.1%*	*13.1%*	*4.6%*
Cost of Sales	(1,639)	(1,774)	(2,022)	(2,194)	(2,511)	(2,585)
Gross Profit	**1,014**	**1,158**	**1,225**	**1,284**	**1,421**	**1,526**
y-o-y growth	*49.2%*	*14.2%*	*5.7%*	*4.8%*	*10.7%*	*7.4%*
margins	*38.2%*	*39.5%*	*37.7%*	*36.9%*	*36.1%*	*37.1%*
Opex	(672)	(710)	(734)	(795)	(888)	(919)
as % of Sales	*25.3%*	*24.2%*	*22.6%*	*22.9%*	*22.6%*	*22.4%*
Operating Profit	**342**	**449**	**491**	**489**	**532**	**607**
y-o-y growth	*20.3%*	*31.0%*	*9.4%*	*-0.3%*	*8.8%*	*14.0%*
margins	*12.9%*	*15.3%*	*15.1%*	*14.1%*	*13.5%*	*14.8%*
Financing expenses	(156)	(183)	(158)	(141)	(122)	(97)
Others	15	15	15	16	16	16
Pre-Tax Income	**202**	**280**	**348**	**364**	**426**	**526**
Zakat & Tax	(18)	(27)	(33)	(35)	(40)	(50)
Net Income (Pre minority)	**184**	**254**	**315**	**330**	**385**	**476**
Minority Interest	(3)	(3)	(3)	(3)	(3)	(3)
Net Income (Pre minority)	**180**	**250**	**311**	**326**	**382**	**473**
y-o-y growth	*139.7%*	*38.9%*	*24.4%*	*4.8%*	*17.2%*	*23.8%*
margins	*6.9%*	*8.7%*	*9.7%*	*9.5%*	*9.8%*	*11.6%*
EPS	2.0	2.7	3.4	3.5	4.2	5.1

Source: Company data, Al Rajhi Capital estimates

Mouwasat Medical Services Co.

Healthcare: Hospitals
MOUWASAT AB: Saudi Arabia
1 September 2024

US$5.62bn	47.46%	US$8.17mn
Market Cap.	Free Float	Avg. Daily Value traded

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Overweight

Price Target (SAR): 122.0/share

Current: 106.2
Upside/Downside: 14.9% above current

Valuation Multiples	23	24E	25E
P/E (x)	32.3	27.9	24.4
P/B (x)	6.1	5.4	4.9
ROE (x)	21.2	22.1	22.7

Major Shareholders	% Ownership
Al Subaie Mohammed Sultan Hammed	17.5
Al Subaie Nasser Sultan Fahad	17.5
Al-Saleem Suleiman Muhammad Suleiman	17.5

Price Performance	1M	3M	YTD
Absolute	-9.2%	-0.7%	-5.0%
Relative to TASI	-10.3%	-6.7%	-6.9%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,706	3,010	3,353
Revenue growth	15.9%	11.3%	11.4%
Gross profit	1,313	1,435	1,584
Gross margin	48.5%	47.7%	47.2%
Operating profit	748	847	968
Op. margins	27.7%	28.1%	28.9%
Net profit	658	762	871
Net margin	24.3%	25.3%	26.0%
EPS	3.3	3.8	4.4
DPS	1.8	2.0	2.3
Payout ratio	53%	53%	53%
P/E	32.3x	27.9x	24.4x
RoE	21%	22%	23%

Source: Company data, Al Rajhi Capital

Mouwasat Medical Services Co.

Weak operational performance, Overweight on valuations

In 2Q24, Mouwasat's topline (+10% y-o-y, 1H24: 9.4%) was a tad below expectations as patient volumes continue to disappoint. However, more than the topline it was the sharp increase in cost of sales in Q2 that disappointed us and led to the miss on the bottom-line. The company, that is well known for cost management, surprised the street after it saw an increase in cost (cost of sales up 2% q-o-q, sales down 4% q-o-q) on a sequential basis despite Q2 being lower on sales primarily led by weak volumes Although, part of the cost increase has been driven by the ramp-up of Madina LTC facility, which is now operating at 80% utilization for the 50 operational beds (total capacity of 100-120 beds). However, it was also driven by the staff inflation as well as the need to hire more specialist doctors and offer more sub-specialties as the competition is rising in the eastern region. In the medium term, this should help the company as it prepares for the DRG implementation but will weigh on the margins in the near term. Another concern has been the sharp increase in ECL provisions in the recent quarters, in the last 3 quarters, the company has taken total ECL provisions of SAR 125mn as it faces delay on the government receivables and Aramco's shift to fee for service has resulted in some rejections. However, as per the management it is largely done with the provisioning and H2 should be light on further provisions. On the back of rising competition and weak performance in 1H24 (volumes just around 5% y-o-y) and slower than expected ramp-up in Dammam LTC, the management now expects volume growth to be lower than its earlier guidance of 12% y-o-y in 2024.

Thus, we trim our revenue growth projections for 2024 and also margin assumptions. The sentiments have been hurt by the repeated weakness in the operational performance and its relatively slower ramp-up of new facilities/opening additional beds (current utilization at just 60%). The rerating of the multiple, trading again at historical P/Es of 32-34x would largely depend on signs of volume pick up and resilient margins. We now value the stock at 30x P/E multiple versus 33x before. We have been cautious about the name for the last two years given the rising competition. The stock has consolidated and is trading at 25x P/E multiple on 2025E and 26x on 1BF EPS. Further, the company has multiple growth levers in the coming quarters and in 2025 (new facilities in Jeddah and Yanbu), thus we believe further downside is limited and the current level offers a decent entry opportunity. We trim our target price to SAR 122/share from SAR 136/share, but remain Overweight on the name.

2024/2025 estimates trimmed, medium term growth of low double digit: We trim our revenue estimates for 2024 to 11% y-o-y from 13% before and net profit estimate to 16% from 17%. Despite this, 2H24 is expected to be solid in terms of profit growth (+42% y-o-y) mainly led by seasonally strong Q4 and lower provisions (SAR 86mn ECL provisions were booked in 4Q23). For 2025, we now expect 11% growth on topline versus 13% before, as we prefer to be conservative on volume growth assumptions. Going forward, the company plans to open more beds in Madina LTC as the current 50 beds are operating at 80% utilization and is also gauging demand for opening additional LTC beds in Dammam (ramp-up has been slower so far). Moreover, two new facilities in Jeddah (300 beds) and Yanbu (200 beds) will start in 2025, and a new 120 beds capacity is lined up in Riyadh (Qadisiya) in 2026. Overall, the bed capacity is expected to increase by 40% from current 1,600 (licensed, not operational) to over 2,220 by 2026. On the back of higher capacity and moderate price increases from insurance, we believe the company can maintain low double-digit growth in the near

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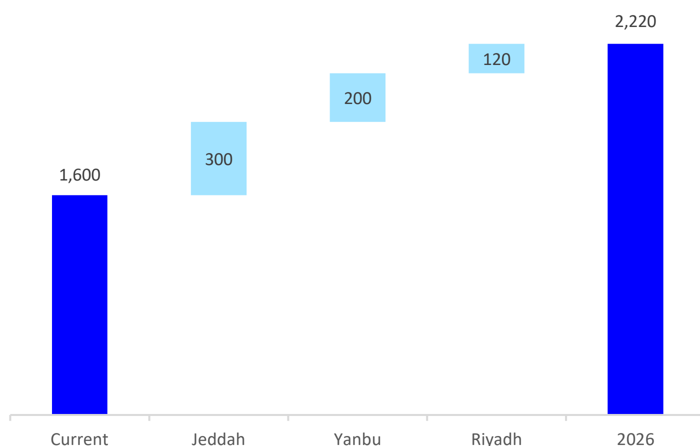
future despite the competition. We estimate revenues to grow at a CAGR of 11% during 2024-2027E and bottom-line also to maintain 12% CAGR growth over the next 3 years.

Valuations: As we trim our estimates for 2024 and 2025, we reduce our target price to SAR 122/share from SAR 136/share. We now value the stock at 30x P/E multiple from 33x before, which is applied on the average EPS of 2024E and 2025E to derive our fair value. The reasons for lower multiple have been mentioned above of which rising competition in the eastern region is our key worry. Despite this, the company should manage to achieve topline and bottom-line growth of low double digit over the next 3 years, thus we assign a P/E of 30x, which is a discount of 14% to our average target multiple of 35x for the names under our coverage. Post the recent correction, even at the reduced target price of SAR 122/share the stock offers upside of around 15%. Hence, we maintain our Overweight recommendation on the stock. Key upside risks are signs of volume pick, ramp-up of Dammam LTC and write-backs/recoveries on the government receivables.

Figure 25 **Capacity expansion (Beds)**



Source: Company Data, Al Rajhi Capital

Figure 26 **Valuations**

Mouwasat	Multiples
Sector P/E (Ex. Mouwasat)	35.0x
Forward P/E	30.0x
Premium/(Discount)	-14%
2024E/2025E EPS	4.1
Fair value	**122.0**
CMP	106.2
Upside/Downside	*14.9%*

Source: Company Data, Al Rajhi Capital

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Figure 27 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**2,706**	**3,010**	**3,353**	**3,707**	**4,112**	**4,365**
y-o-y growth	*15.9%*	*11.3%*	*11.4%*	*10.6%*	*10.9%*	*6.1%*
Cost of Sales	(1,392)	(1,575)	(1,769)	(1,987)	(2,187)	(2,302)
Gross Profit	**1,313**	**1,435**	**1,584**	**1,720**	**1,925**	**2,062**
y-o-y growth	*19.5%*	*9.3%*	*10.4%*	*8.6%*	*11.9%*	*7.1%*
margins	*48.5%*	*47.7%*	*47.2%*	*46.4%*	*46.8%*	*47.2%*
Opex	(565)	(588)	(616)	(659)	(726)	(768)
as % of Sales	*20.9%*	*19.5%*	*18.4%*	*17.8%*	*17.7%*	*17.6%*
Operating Profit	**748**	**847**	**968**	**1,061**	**1,199**	**1,294**
y-o-y growth	*20.3%*	*13.2%*	*14.3%*	*9.6%*	*13.0%*	*8.0%*
margins	*27.7%*	*28.1%*	*28.9%*	*28.6%*	*29.2%*	*29.7%*
Financing expenses	(46)	(37)	(37)	(50)	(60)	(57)
Others	25	26	23	29	35	36
Pre-Tax Income	**727**	**836**	**954**	**1,041**	**1,174**	**1,273**
Zakat & Tax	(39)	(42)	(48)	(52)	(59)	(64)
Net Income (Pre minority)	**688**	**794**	**907**	**989**	**1,115**	**1,209**
Minority Interest	(31)	(32)	(36)	(40)	(45)	(48)
Net Income (Pre minority)	**658**	**762**	**871**	**949**	**1,071**	**1,161**
y-o-y growth	*9.7%*	*15.9%*	*14.2%*	*9.0%*	*12.8%*	*8.4%*
margins	*25.4%*	*26.4%*	*27.0%*	*26.7%*	*27.1%*	*27.7%*
EPS	3.3	3.8	4.4	4.7	5.4	5.8

Source: Company Data, Al Rajhi Capital estimates

National Medical Care Co.

Healthcare: Hospitals
CARE AB: Saudi Arabia
1 September 2024

US$2.37bn	50.78%	US$5.18mn
Market Cap.	Free Float	Avg. Daily Value traded

Research Department
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Neutral

Price Target (SAR): 214.0

Current: 197.0
Upside/Downside: 8.6% above current

Valuation Multiples	23E	24E	25E
P/E (x)	36.7	28.8	26.5
P/B (x)	6.1	5.2	4.5
ROE (%)	16.6	18.0	16.9

Major Shareholders	% Ownership
Saudi Medical Care Group	49.20

Price Performance	1M	3M	YTD
Absolute	-7.9%	6.8%	13.0%
Relative to TASI	-9.0%	0.9%	11.1%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	1,082	1,270	1,492
Revenue growth	17.8%	17.4%	17.5%
Gross profit	370	467	545
Gross margin	34.2%	36.8%	36.5%
Operating Profit	243	296	353
Op. margin	22.4%	23.3%	23.7%
Net profit	241	307	334
Net margin	22.3%	24.2%	22.4%
EPS	5.4	6.8	7.4
DPS	2.0	2.0	2.0
Payout ratio	37%	29%	27%
P/E	36.7x	28.8x	26.5x
RoE	17%	18%	17%

Source: Company data, Al Rajhi Capital

National Medical Care Co.

Inorganic growth continues to drive the growth

Care continues to post solid topline growth supported by its inorganic growth strategy. In 1H24, topline grew by almost 18% y-o-y, with 11% of that growth coming from acquisitions (Albalad: +10.2% and Haram: +0.8%), while the LFL growth being 6.5% y-o-y despite the loss of the National guard contract. Ex-acquisitions, the company has benefitted notably from the MoH business, a combination of improved pricing (HIMSS accreditation) and volumes, that have led to a 59% y-o-y growth in MoH revenues in 1H24, while GOSI and insurance growth has been limited to 6% and 10% y-o-y, respectively. The bottom-line growth in 1H24 of 45% y-o-y has been supported primarily by the zakat reversals. Adjusted for the same (considered 1H23 zakat payments), the bottom-line growth would have been 18% y-o-y, broadly in line with the top-line growth. Going forward in 2H24 and 2025, we believe the strong topline growth should continue as enough incremental levers are available, however, bottom-line growth could lag the topline in the near term due to cost pressures and absence of zakat reversals. As we account for the latest acquisition and update our estimates, we raise our target price to SAR 214/share, derived through 30x P/E on blended average EPS of 2024E and 2025E. Based on the last closing, the upside is around 9%, thus we remain Neutral on the name.

Multiple growth catalysts: The company has entered into a 3-year contract with Prince Sultan Medical City for long term care patients with a contract value of SAR 381mn (annual revenues capped at SAR 127mn as per management on the call). The financial impact will start reflecting from 3Q24 and the company will be utilizing vacant beds at both Malaz and Rawabi branch, mainly the former. Currently, the utilization rate of Malaz (total 459 beds) is just 48% and Rawabi's utilization is 68%, implying in total 339 beds are available, which is enough to meet the requirement of 200-250 beds for this contract, thus no incremental capex required. However, the margin profile is similar to National guard, thus could weigh on the group margins a bit. Further, the acquisition of Al Salam hospital that has 100 beds and revenues of SAR 93mn (2023) but is a class C operator with relatively thin margins could also weigh on the margins. However, post integration with Care we believe the company can improve the revenue per bed yield notably through accreditations, diverse offering, and better services. In addition to these, in 3Q24, the company will also see contribution from the new mental health facility that has 40 beds and has received support from the MoH due to lack of similar facilities in the city. In the medium term, the company also has a greenfield expansion under pipeline of a large 400 bed hospital in Narjes, Riyadh, that would cater to class A/VIP patients and is planned to open in 2027 in a phased manner. Thus, overall, we believe the solid topline growth momentum can be maintained going forward.

2024E and the way forward: We estimate revenues to grow by 17% this year followed by 18% growth in 2025, led by both inorganic and organic growth drivers. However, we expect bottom-line to grow 27% in 2024 (2H24: 14%) much slower rate than 1H24's 45% due to absence of zakat reversals and only 9% in 2025 as we believe margins could come under pressure due to start of new beds, relatively weaker margins at Al Salam hospital, and higher finance costs. Also, the Haram branch has been a bit of a drag on the margins so far. Nevertheless, topline is expected to grow at a CAGR of 14% over the next 4 years (2023-2027E) and operational efficiency should offset some pressure on gross margins and maintain similar level of bottom-line growth in the medium term, although some pressure expected in the near term.

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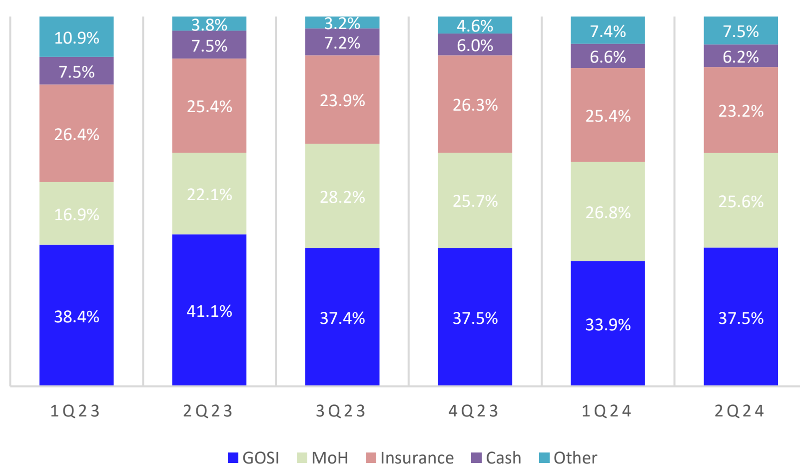
The stock currently trades at a trailing P/E of 31x, thus pricing in the growth to a large extent. The key upside can come from the DRG implementation, that if included for the GOSI patients, should improve the pricing notably for the company.

Valuations: Post the transformation strategy initiated in 2022, the company's growth prospects and return metrics (2024E ROE at 18% from 12% in 2021) have notably improved. So far, the company has done better than expected on its inorganic growth strategy by acquiring companies that are in the non-competitive segments such as LTC, Class C operator and has been mindful of the price paid for the same. Thus, we become more confident on the execution capabilities on the company. Hence, the stock's current multiple of over 31x (trailing) and 29x 2024E P/E, which is much higher than its historical average of around 23-25x, is justified to a large extent. As the growth momentum is expected to remain solid, we value the company at a forward multiple of 30x, which is a discount of 14% to our average target multiple of 35x for the names under our coverage excluding Care. On our blended forward average EPS of SAR 7.1/share, the derived fair value is SAR 214/share. We increase our target price to SAR 214/share from SAR 199/share before but maintain our neutral rating. We see upside risks to our target price from better than expected cost management in 2H24 and clarity on impact of DRG and inclusion of GOSI patients in calculating the multiplier.

Figure 28 **Payor mix change over the last 6 quarters**



Source: Company Data, Al Rajhi Capital

Figure 29 **Valuations**

Care	Multiples
Sector P/E (Ex. Care)	35.0x
Forward P/E	30.0x
Premium/(Discount)	-14%
2024E/2025E EPS	7.1
Fair Value	**214.0**
CMP	197.0
Upside/Downside	*8.6%*

Source: Al Rajhi Capital estimates

Figure 30 **Acquisition/ Contract Details**

Acquisition/ Contract Details	Type	Purchase Price/ Contract Value (SAR mn)	Beds	PP/Bed (SAR)	Annualised Revenue (SAR mn)
Al Haram - Makkah	Acquisition		54		8
Al Balad Hospital - Jeddah	Acquisition	193.2	175	1,104,000	104
Al Salam Hospital - Riyadh	Acquisition	44.0	100	440,000	93
Prince Sultan Medical City - Riyadh	3yr Contract	381.0			

Source: Company Data, Al Rajhi Capital, PP: Purchase price

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Figure 31 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**1,082**	**1,270**	**1,492**	**1,624**	**1,818**	**1,944**
y-o-y growth	*17.8%*	*17.4%*	*17.5%*	*8.9%*	*11.9%*	*6.9%*
Cost of Sales	(712)	(803)	(947)	(1,035)	(1,163)	(1,244)
Gross Profit	**370**	**467**	**545**	**590**	**654**	**700**
y-o-y growth	*27.6%*	*26.5%*	*16.5%*	*8.3%*	*11.0%*	*6.9%*
margins	*34.2%*	*36.8%*	*36.5%*	*36.3%*	*36.0%*	*36.0%*
Opex	(127)	(171)	(192)	(207)	(223)	(234)
as % of Sales	*11.7%*	*13.5%*	*12.9%*	*12.8%*	*12.3%*	*12.1%*
Operating Profit	**243**	**296**	**353**	**383**	**432**	**466**
y-o-y growth	*20.3%*	*22.0%*	*19.2%*	*8.4%*	*12.9%*	*7.8%*
margins	*22.4%*	*23.3%*	*23.7%*	*23.6%*	*23.8%*	*24.0%*
Financing expenses	(3)	(19)	(19)	(17)	(15)	(16)
Others	25	36	36	37	37	37
Pre-Tax Income	**265**	**313**	**371**	**402**	**454**	**486**
Zakat & Tax	(24)	(6)	(37)	(40)	(45)	(49)
Net Income (Pre minority)	**241**	**307**	**334**	**362**	**409**	**438**
y-o-y growth	*41.7%*	*27.3%*	*8.7%*	*8.5%*	*12.9%*	*7.2%*
margins	*22.3%*	*24.2%*	*22.4%*	*22.3%*	*22.5%*	*22.5%*
EPS	5.4	6.8	7.4	8.1	9.1	9.8

Source: Company Data, Al Rajhi Capital estimates

US$28.07bn	29.17%	US$17.05mn
Market Cap.	Free Float	Avg. Daily Value traded

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Neutral

Price Target (SAR): 316.0

Current: 303.4
Upside/Downside: 4.2% above current

Valuation Multiples	23E	24E	25E
P/E (x)	51.9	47.3	39.8
P/B (x)	15.7	14.4	13.1
ROE (%)	33.1	33.1	35.9

Major Shareholders	% Ownership
Al Habib Sulaiman Abdulaziz	40.03
Mohammed Abdulaziz Al Habib & Sons.	28.77

.

Price Performance	1M	3M	YTD
Absolute	6.8%	13.1%	6.8%
Relative to TASI	5.8%	7.2%	5.0%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	9,508	10,858	13,593
Revenue growth	14.4%	14.2%	25.2%
Gross profit	3,270	3,680	4,496
Gross margin	34.4%	33.9%	33.1%
Operating profit	2,096	2,312	2,838
Op. margins	22.0%	21.3%	20.9%
Net profit	2,046	2,246	2,666
Net margin	21.5%	20.7%	19.6%
EPS	5.8	6.4	7.6
DPS	4.3	4.7	5.6
Payout ratio	74%	74%	74%
P/E	51.9x	47.3x	39.8x
RoE	33%	33%	36%

Source: Company data, Al Rajhi Capital

Dr. Sulaiman Al Habib Medical Services Group

Q2 results indicate glimpse of ramp-up and cost management

Habib's 2Q24 results stood out in terms of cost management. Despite opening its first hospital in Jeddah and pre-operating costs related to the North Riyadh hospital (opened in June), the gross margins were flattish y-o-y and just 70bps lower on a sequentially basis. At the same time, the decline in the EBITDA margins on a y-o-y basis was limited to just over 50bps. The company's focus on opening the beds in a staggered manner and relying on workforce management (rotating between hospitals) is aiding in cost management. Moreover, on the revenues, despite the weak quarter seasonally, the revenues were up 2% q-o-q and as per the management the traffic at Jeddah (full quarter impact in Q2) is better than Khobar on a comparable basis. At the same time, the initial traffic in North Riyadh hospital, Al Sahafa, is even better than Jeddah. As per the company, it expects the Jeddah hospital to achieve EBITDA breakeven within 14 months, earlier than the breakeven time of 16-22 months for its recently opened projects. Thus, the developments so far underscore the brand value of the company and its experience of opening and ramping-up new hospitals. We continue to be optimistic on Habib's ability to ramp-up the upcoming hospitals, however, we prefer to be conservative on the cost part and believe the margins could be under pressure in H2 2024 as the company would be dealing with the opening of two large hospitals (330 beds in Jeddah (100 opened) and a large 500 beds hospital in North Riyadh). Further, the interest expense that has been capitalized so far should also reflect in H2, which should pressurize the bottom-line. Nevertheless, the trends so far indicate that revenue increase in 2025 will be solid and should limit the EBITDA compression to a large extent in 2025, in our view.

New projects: In addition to the two large hospitals opened in 2024 so far, the 3 more hospitals are expected to be launched by the end of this year, which are Women's Health Hospital (145 beds) in Riyadh, an extension to its existing hospital in Takhassusi, 350 beds hospital in North Jeddah and a 141 beds hospital in Al Kharj. Further in 2025, a 90 beds hospital is planned to come up in Al Hamra, Riyadh. Thus, in total including the two hospitals launched, more than 1500 beds capacity (licensed) will get added in just two years period, that is over 80% of its capacity as of 2023. Thus, the second half of this year as well as 1H25 will be very crucial in terms of getting insights on whether the industry is ready to absorb this much capacity in such a short span. We continue to be optimistic and believe the top-quality operators are in a better position to ramp-up given the offerings, quality of doctors and digital convenience.

2024 and the way forward: We estimate topline to grow by 14% y-o-y in 2024 led by a strong 2H24 (17% y-o-y vs. 11% in H1), in which the growth of the existing facilities will be complimented by the contribution from the two new hospitals opened in 1H24. At the same time, we assume gross margin contraction of 50bps in FY23, with H2's gross margins declining 130bps y-o-y compared to +42 bps y-o-y gain in 1H24. The impact is expected to be limited as Habib would rely on its existing presence and workforce in Riyadh to manage its 500-bed large hospital in North Riyadh. Moreover, as mentioned above, the beds will be opened in a staggered manner in line with the demand thus limiting the cost burden. For 2025, we estimate revenues to grow by 25% y-o-y and beyond 2025, a CAGR of 14% during 2025-2028E.

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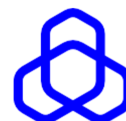
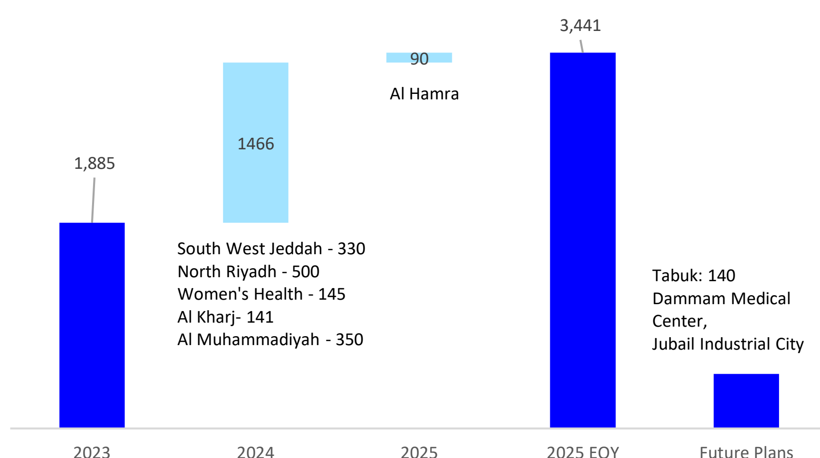


We assume gross margins to contract in 2025 by 80bps and gradually recover in the following years. Overall, we estimate topline and net profit CAGR of 17% and 16% during 2024-2028E.

Valuations: We apply a target multiple of 45x, which is a premium of 36% to our average target multiple of 33x for the names under our coverage excluding Habib, to the blended one year forward EPS, which is average of 2024E and 2025E to derive our target price. As the company has embarked on a solid growth path and has a proven track record of ramp-up in relatively quicker span of time, we remain optimistic on the growth prospects. On a sustainable basis, we believe the company should trade between 30-35x as the healthcare growth story is structural in nature and we would continue to see expansion beyond 2028 as well. Our fair value derived through the P/E methodology is SAR 316/share, which offers an upside of around 4%. Thus, we remain neutral on the stock.

Figure 32 **Capacity Expansion (beds)**



Source: Company Data, Al Rajhi Capital

Figure 33 **Valuations**

Habib	Multiples
Sector P/E (Ex. Habib)	33.0x
Forward P/E	45.0x
Premium/(Discount)	36%
2024E/2025E EPS	7.0
Fair value	**316.0**
CMP	303.4
Upside/Downside	*4.2%*

Source: Al Rajhi Capital estimates

Figure 34 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**9,508**	**10,858**	**13,593**	**16,407**	**18,994**	**20,237**
y-o-y growth	*14.4%*	*14.2%*	*25.2%*	*20.7%*	*15.8%*	*6.5%*
Cost of Sales	(6,238)	(7,178)	(9,097)	(10,949)	(12,637)	(13,422)
Gross Profit	**3,270**	**3,680**	**4,496**	**5,458**	**6,356**	**6,815**
y-o-y growth	*19.0%*	*12.5%*	*22.2%*	*21.4%*	*16.4%*	*7.2%*
margins	*34.4%*	*33.9%*	*33.1%*	*33.3%*	*33.5%*	*33.7%*
Opex	(1,174)	(1,368)	(1,658)	(1,952)	(2,260)	(2,388)
as % of Sales	*12.4%*	*12.6%*	*12.2%*	*11.9%*	*11.9%*	*11.8%*
Operating Profit	**2,096**	**2,312**	**2,838**	**3,506**	**4,096**	**4,427**
y-o-y growth	*20.3%*	*10.3%*	*22.8%*	*23.5%*	*16.8%*	*8.1%*
margins	*22.0%*	*21.3%*	*20.9%*	*21.4%*	*21.6%*	*21.9%*
Financing expenses	(70)	(107)	(159)	(149)	(130)	(108)
Others	144	157	150	144	151	158
Pre-Tax Income	**2,170**	**2,361**	**2,829**	**3,501**	**4,117**	**4,477**
Zakat & Tax	(69)	(80)	(113)	(158)	(247)	(291)
Net Income (Pre minority)	**2,101**	**2,281**	**2,716**	**3,344**	**3,870**	**4,186**
Minority Interest	(55)	(35)	(50)	(75)	(85)	(85)
Net Income (Post minority)	**2,046**	**2,246**	**2,666**	**3,269**	**3,785**	**4,101**
y-o-y growth	*23.9%*	*9.8%*	*18.7%*	*22.6%*	*15.8%*	*8.3%*
margins	*21.5%*	*20.7%*	*19.6%*	*19.9%*	*19.9%*	*20.3%*
EPS	5.8	6.4	7.6	9.3	10.8	11.7

Source: Company Data, Al Rajhi Capital estimates

Dr. Soliman Abdel Kader Fakeeh Hospital Co.
Healthcare: Healthcare Provider
FAKEEHCA AB: Saudi Arabia
1 September 2024

US$3.61bn	22.79%	US$37.14mn
Market Cap.	Free Float	Avg. Daily Value traded

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Dr. Soliman Abdel Kader Fakeeh Hospital Co.

H1 Riyadh volumes broadly in line

Overweight

Price Target (SAR): 66.0

Current: 58.0
Upside/Downside: 13.8% above current

Valuation Multiples	23	24E	25E
P/E (x)	41.5	50.7	35.5
ROE (%)	19.2	13.5	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
Absolute	-2.4%
Relative to TASI	-3.4%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	2,327	2,764	3,296
Revenue growth	15.6%	18.8%	19.3%
Gross profit	617	714	896
Gross margin	26.5%	25.8%	27.2%
Operating profit	339	392	512
Op. margins	14.6%	14.2%	15.5%
Net profit	280	265	379
Net margin	12.0%	9.6%	11.5%
EPS	1.4	1.1	1.6
DPS	5.0	0.1	0.2
Payout ratio	357%	12%	12%
P/E	41.5x	50.7x	35.5x
RoE	19%	14%	12%

Source: Company data, Al Rajhi Capital

Fakeeh Care Group's 2Q24 earnings were broadly in line with our expectations with topline matching our estimates and net profit (pre-minority) ahead of our estimates. Although, net profit (post minority) was below expectations implying that losses in Riyadh have narrowed more than we expected, while Jeddah's performance was a bit weaker. The near-term focus of the market is the turnaround of the Riyadh facility and the resilience of its flagship Jeddah hospital against the entry of Habib into Jeddah this year. The Q2 numbers did indicate some pressure on volumes (ex-Riyadh), inpatients declined 5% in Q2 2024 and 4% in H1 2024 on a y-o-y basis. As the decline was also seen in H1, the seasonality factor is not the sole reason. However, as per the company some of the beds were not operational, due to which the inpatient volumes (ex-Riyadh) were weaker on a y-o-y basis. In our view, it is a reasonable assumption that unavailability of beds was the key reason for the decline as outpatients' volumes (ex-Riyadh and only for Jeddah hospital) were flattish in H1 2024. Overall, outpatient numbers (ex-Riyadh) including medical centres were up over 6% y-o-y, highlighting the success of its hub and spoke model. We have factored in some impact on inpatient volumes in Jeddah this year (only 1% growth despite higher beds in H2) and 2025 and 2026 (-1% each) due to the rising competition, thus we are not very concerned about the trends in H1. On the other hand, the performance of the medical centres (outpatients up 6%) is commendable and provides us with confidence that it is in a much better position to tackle the rising competition in its home market.

In Riyadh, the patient trends so far are broadly in line with our expectations, with outpatients slightly ahead of expectations, while inpatients a tad below. Based on the H1 patient numbers, the outpatient volumes of 77k grew over 7x y-o-y and is now 48% of our FY 2024 estimated number. Given that H1 is seasonally weak, we are confident that the company will achieve our estimated number for the year. Further, inpatient numbers of 2.9k in H1 were 40% of our FY projected numbers, slightly below than expectations, however, the company plans to open additional beds in H2 2024 (110 beds in H2 2024 from 71 beds in H1), thus we are comfortable with our estimates.

We are positive on the name due to its strong position in high-quality services and complex surgeries, and the anticipated growth in patient volumes in Riyadh. We forecast a 15% compound annual growth rate (CAGR) in revenues over the next seven years (2023-2030E), with EBITDA and net income expected to grow at an accelerated rate of 18% and 20% CAGR, respectively. Although current earnings are constrained by losses at the recently acquired Riyadh hospital, we anticipate that these will improve significantly. We expect the Riyadh hospital to achieve breakeven on EBITDA by the end of 2024 and on net income by early 2026. Overall, despite the short-term challenges, the long-term growth potential remains compelling. We maintain our Overweight recommendation and target price of SAR 66/share, reflecting our confidence in Fakeeh Care's continued expansion and performance improvements.

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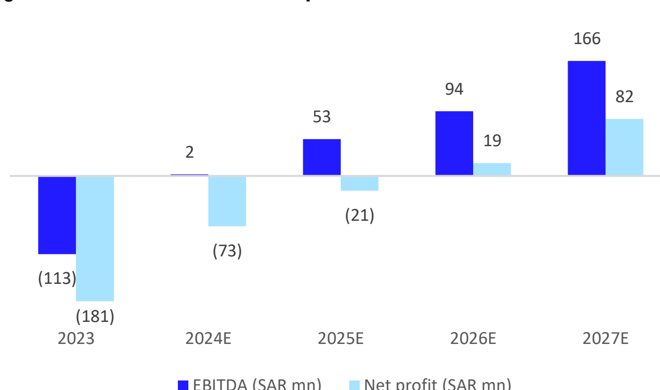
Figure 35 **Riyadh Income statement**

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**

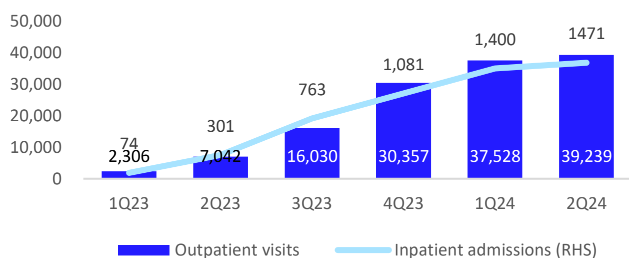
Source: Company Data, Al Rajhi Capital estimates.

Figure 36 **EBITDA & Net profit breakeven in 2024 and 2026**



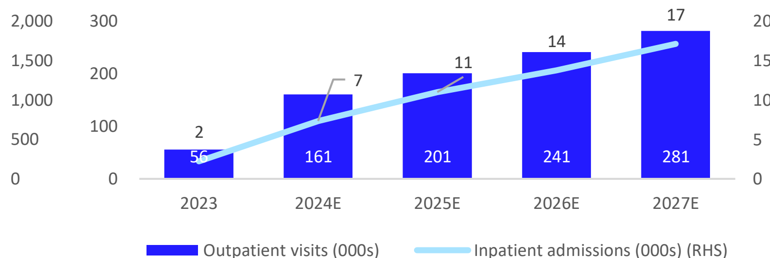
Source: Company Data, Al Rajhi Capital estimates

Figure 37 **Riyadh ramp up post insurance deal in 1Q23**



Source: Company Data, Al Rajhi Capital estimates.

Figure 38 **Riyadh mid-term volume estimates**



Source: Company Data, Al Rajhi Capital estimates

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 and Dallah (CAGR: revenue/ net income of 15%/20% vs. Habib's 13%/ 12% and Dallah's 10%/ 16%, respectively). Thus, we believe it should command multiples that is somewhere between these two companies. However, given that Dallah has acquired the recent hospitals at attractive prices, the ROIs should improve. Thus, we assign a target multiple of 40x to 2025E EPS of SAR 1.63, in line with the target multiple for Dallah, but below Habib (considered target multiple for both the companies), 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, while for the peers we consider 1 year blended forward EPS.

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

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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 14% from the last price. Thus, we maintain our Overweight rating on the stock.

Figure 39 **Valuations**

DCF (SAR mn unless specified)	First Stage							Second Stage				
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
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)	2030E	Peak utilisation 2035E	Comments
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 Target P/E	40.0x
Habib Target P/E	45.0x
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			58.0
Upside			13.8%

Source: Al Rajhi Capital estimates

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Figure 40 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E	2028E
Revenue	**2,327**	**2,764**	**3,296**	**3,852**	**4,608**	**5,269**
y-o-y growth	*15.6%*	*18.8%*	*19.3%*	*16.9%*	*19.6%*	*14.3%*
Cost of Sales	(1,710)	(2,050)	(2,400)	(2,743)	(3,277)	(3,766)
Gross Profit	**617**	**714**	**896**	**1,110**	**1,331**	**1,503**
y-o-y growth	*0.7%*	*15.8%*	*25.6%*	*23.8%*	*19.9%*	*13.0%*
margins	*26.5%*	*25.8%*	*27.2%*	*28.8%*	*28.9%*	*28.5%*
SG&A Expenses	(292)	(342)	(405)	(475)	(553)	(622)
Other	14	20	21	22	23	24
Operating Profit	**339**	**392**	**512**	**657**	**801**	**906**
y-o-y growth	*-11.4%*	*15.7%*	*30.8%*	*28.2%*	*22.0%*	*13.1%*
margins	*14.6%*	*14.2%*	*15.5%*	*17.0%*	*17.4%*	*17.2%*
Net Financing expenses	(84)	(137)	(117)	(110)	(109)	(96)
Pre-Tax Income	**255**	**255**	**395**	**547**	**692**	**810**
Zakat & Tax	(23)	(20)	(32)	(44)	(55)	(65)
Net Income (Pre minority)	**232**	**234**	**363**	**503**	**637**	**745**
Non-controlling interest	48	31	15	(15)	(46)	(83)
Net Income (Post minority)	**280**	**265**	**379**	**488**	**590**	**662**
y-o-y growth	*-14.3%*	*-5.1%*	*42.8%*	*28.8%*	*21.0%*	*12.1%*
margins	*12.0%*	*9.6%*	*11.5%*	*12.7%*	*12.8%*	*12.6%*
EPS	1.4	1.1	1.6	2.1	2.5	2.9

Source: Company data, Al Rajhi Capital estimates

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