

Al Hammadi Company For Development and Investment

Healthcare – Industrial

ALHAMMAD AB: Saudi Arabia

الراجحي المالية
Al Rajhi Capital



US\$1.720bn Market cap
44% Free float
US\$69.65mn Avg. daily volume

Target price **78.00** -8.9% over current
Consensus price **120.0** 39.5% over current
Current price **85.0** as at 27/10/2014

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Existing rating

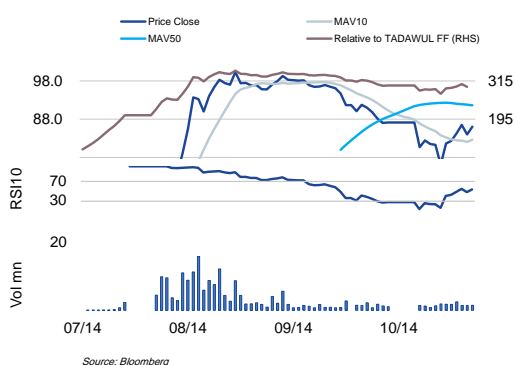
Underweight **Neutral** Overweight

Al Hammadi Company Q3: Good results

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/14E	12/15E	12/16E	12/17E
Revenue (mn)	541	862	1,288	1,608
Revenue Growth	24.6%	59.2%	49.5%	24.8%
EBITDA (mn)	159	250	376	470
EBITDA Growth	26.3%	57.3%	50.4%	25.1%
EPS	2.13	2.96	4.59	5.84
EPS Growth	0.2%	39.2%	55.0%	27.2%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Al Hammadi's Q3 net profit came in at SAR25.4mn, mostly in line with our expectation of SAR26.6mn. This implies a strong net profit growth of around 40% y-o-y, partly helped by the SAR1.3mn increase in other income and the low net profit margin during Q3 2013. The company is yet to report its revenue, whereas the Q3 gross profit came in at SAR45mn, above our expectations of SAR41mn. We believe this is likely due to better than expected patient traffic and utilization of resources at Olaya Hospital. We will revisit our estimates after the publication of detailed financials. Given that the stock price has declined to SAR85 from SAR100 levels in the past two months post our initiation, the downside from our existing target price of SAR78 is only 9%. Therefore, we upgrade our rating on the stock to Neutral from Underweight.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue:** Q3 Revenue is not yet reported. The Gross Profit came in at SAR45mn (strong 21.5% y-o-y growth), above our expectations of SAR41mn. This is likely due to better than expected patient traffic and better utilization of resources. The decline of 17% on a q-o-q basis is seasonal and is owing to the summer vacation, Eid and Ramadan holidays in Q3. Given that the trial run of its Al Suweidhi hospital started only on 25th September, we believe this strong y-o-y growth was mainly attributed to its Olaya hospital. However, it is to be noted that most of the doctors hired for its new hospital at Al Suweidhi had already started working in its Olaya hospital.
- Operating Profit:** Q3 Operating profit came in at SAR24.8mn, which was mostly in-line with our expectations of SAR26mn. The operating margin has most likely improved from 20% in Q3 2013 because of better utilization of resources.
- Net profit:** Q3 net profit came in at SAR25.4mn, mostly in line with our expectation of SAR26.6mn. This implies a strong net profit growth of around 40% y-o-y, partly helped by the SAR1.3mn increase in other income and a relatively low net profit margin of 19% in Q3 2013.
- Valuation:** In the past two months, the stock price has declined from SAR100 levels to around SAR85 currently, post our initiation report with an underweight rating. Hence, the downside from our target price of SAR78 per share has come down to 9%, and accordingly, we upgrade our rating on the stock to Neutral.



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

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 6-9 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 6-9 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 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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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