Al Hammadi Company For Development and Investment
Healthcare – Industrial
ALHAMMAD AB: Saudi Arabia
20 August 2017

الراجحي المالية
Al Rajhi Capital

US$1.148bn	44%	US$3.149mn
Market cap	Free float	Avg. daily volume

Target price	40.00	11.5% over current
Current price	35.87	as at 17/8/2017

Existing rating

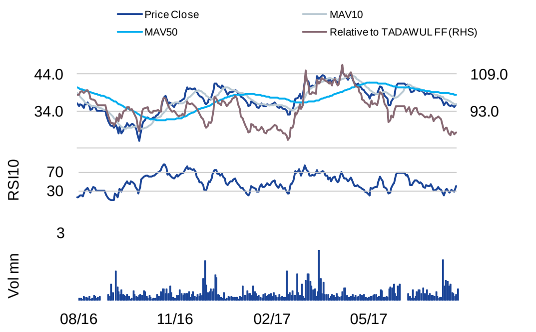
Underweight | **Neutral** | Overweight

Research Department
Mohammed Althunayyan
Tel +966 11 211 9395, althunayyanm@alrajhi-capital.com

Al Hammadi Hospitals
Q2 2017: Meets expectations

Hammadi's Q2 2017 results were largely in line with our estimates. The company's revenues grew ~28% y-o-y to SAR177mn, while net profit surged 24.4% y-o-y to SAR25.7mn, in line with our SAR25mn estimate. Growth is expected to remain elevated in the second half on improving utilization of the existing hospitals, and next year with the start of operations at Al Nuzah hospital (expected in late 2017 or early 2018). We don't expect the company to announce a dividend this year as well due to rising receivables and the ongoing expansion. We reiterate our target price of SAR40 on Al Hammadi with a Neutral rating.

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	561	606	751	975
Revenue Growth	16.5%	8.0%	23.9%	29.8%
EBITDA (mn)	184	151	196	260
EBITDA Growth	27.0%	-17.7%	29.4%	32.7%
EPS	1.18	0.62	0.98	1.29
EPS Growth	9.6%	-47.5%	58.1%	31.6%

Source: Company data, Al Rajhi Capital

Q2 2017 results: Key takeaways

- Revenue jumped ~28% y-o-y to SAR177mn, from the low base of Q2 2016, when the Olaya hospital remained closed due to the fire incident. In addition, improved contractual terms with some customers also supported the top line. However, we believe the top line growth was restricted by the pricing revision with health ministry.
- Gross margins fell ~880 bps y-o-y, however, the operating margin contraction was restricted only to ~200bps y-o-y to 19.2%. The lower profitability can primarily be attributed to increased costs related to the preparation of Al Nuzha hospital.

Our view

Hammadi's net profit has jumped 24.4% y-o-y in H1 2017. We expect top line growth to remain elevated in the second half with the improving utilization of the existing hospitals. However, the staffing for the new Al Nuzha hospital will weigh on profitability. Al Nuzah hospital will drive the company's top line growth in 2018 and also increase Hammadi's cash customer base due to its favourable location. The company's board of directors announced starting discussions with National Medical Care (Care) over a possible merger, we believe a merger would help both companies to address their specific issues (for more details please refer to our note on the merger).

Valuation

The company's expansions (Al Suweidhi and Al Nuzaha) along with the increase in receivables have put further pressure on its cash position. Thus, we don't expect dividends also this year. By 2016-end 95% of the company's receivables were related to two government entities and four insurance companies. The company's stock has been under pressure since May. The stock currently trades at ~28x FY18 EPS. For now, we reiterate our Neutral rating on the stock with a target price of SAR40 per share.

Figure 1 Hammadi: Summary of Q2 2017 results

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	138	180	177	27.9%	-2.0%	170
Gross profit	57.6	62.0	58.2	1.0%	-6.2%	60.4
Gross profit margin	41.7%	34.4%	32.9%			35.5%
Operating profit	29.1	34.7	33.9	16.2%	-2.3%	33.0
Net profit	20.6	28.0	25.7	24.4%	-8.3%	25.0

Source: Company data, Al Rajhi Capital

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

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

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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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