

KSA Healthcare Valuation Rich: Prescribing Diet and Exercise

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Initiating Coverage

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Executive Summary

❑ Underlying fundamentals are favourable for private healthcare providers given:

- Demographic bulge as a quarter of the population moves into > 45 age bracket requiring greater healthcare needs
- Further increase in life expectancy (KSA: 74.5 vs Qatar: 78.2)
- Incidence of lifestyle diseases on the rise given obesity and smoking prevalence
- Comparatively lower per capita supply and healthcare spend
- Increased participation by private sector in healthcare spend from 25% → 35% as envisioned in National Transformation Program

❑ Catalysts for the sector:

- Mandatory private insurance coverage has elevated proximity, reputation and specialization as main selection criteria vs cost
- Next phase of insurance expansion is projected to cover public sector employees and eventually all KSA residents – this could be via public-private partnership, resulting in:
 - Wider choice of providers
 - Shorter wait times
 - Increased per capita outpatient visits
- Privatization: MoH is expected to reduce its role in hospital management and focus on administration and regulation of the sector:
 - Hospitals may be privatized through sale to domestic and international investors
 - Greater acquisition opportunities (particularly in Tier 2 cities) for existing providers
 - Under-performing hospitals could potentially close, directing patient flow to neighbouring facilities

❑ To capture demand, the 5 listed healthcare providers could:

- Add upwards of 2,000 beds through 2018, realizing on average SR 1.1 mn / bed / annum in revenues
- Deploy some SR 5 bn in capital expenditure through 2020
- **Increase revenues at +10% CAGR through 2018 and earnings at +6% CAGR**

❑ Escalation in staff salaries pose risk to Group gross margins which we estimate will hover around 42%

❑ Accelerating receivables, creating near-term headwinds, should subside through 2017 otherwise funding needs rise



Executive Summary (cont'd)

- ❑ Applied multiples-based valuation to capture market de-rating / re-rating potential
- ❑ Expecting low return and high volatility environment, though TASI forward P/E should recover to 13.5x from 12.0x
 - Healthcare has commanded 64% premium over the market P/E
 - Expect premium to continue given the sector's growth prospects, however caution that stocks are **priced to perfection** – earnings miss could lead to rapid sell-off
- ❑ Fundamentals are equally favourable, differentiate on:
 - Valuation, expansion and cash customers in overall mix
 - Care commands lowest market cap / bed
 - Following recent correction, MEAHCO looks cheap on P/E and P/B basis
 - Dallah has highest cash customer contribution (27%) in business mix and most ambitious expansion plans – 80% P/E premium to TASI will be difficult to sustain
- ❑ Initiate coverage on KSA Healthcare with Buy recommendation on Care and MEAHCO and Hold on Mouwasat, Dallah and Hammadi

Rating Summary (SR)	TASI Code	Last Close Price	12M Target Price	Recommendation	Exp Upside to Target (%)	Exp Div Yield (%)	Exp Total Return (%)
Mouwasat	4002	126.00	114	Hold	(9.5)	1.6	(7.9)
Dallah	4004	84.75	82	Hold	(3.2)	1.8	(1.5)
Care	4005	59.75	72	Buy	20.5	1.3	21.8
Hammadi	4007	34.20	28	Hold	(18.1)	2.2	(15.9)
MEAHCO	4009	55.00	62	Buy	12.7	3.6	16.4



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Sector Overview: Key Findings

- ❑ KSA healthcare spending lags developed countries' averages on various metrics (% of GDP, % of income, per capita basis) but that could be a consequence of relatively younger population and shorter life expectancy, however:
 - In the next decade over a quarter of the population will move into > 45 age bracket
 - Life expectancy will edge higher to meet regional levels from 74.5 to 78.2 (Qatar) on urbanization and improved living standards
 - Incidence of lifestyle diseases is on the rise given obesity and smoking prevalence
- ❑ Demand increase will further stress existing supply, prompting the government to shift healthcare burden to the private sector as envisioned in the National Transformation Program:
 - Private sector contribution to healthcare spending is projected to rise from 25% → 35% by 2020
 - Improvements in service quality and wait times
 - Double per capita healthcare visits
 - Privatization
- ❑ Key impetus to move these initiatives will be expansion of private insurance through a national plan, targeting public sector employees followed by all residents, resulting in:
 - Wider choice of service providers
 - Selection based on proximity, reputation and specialization – not on cost
 - Reduction in wait times and increase in outpatient visits
- ❑ Trends favour private providers however regulatory changes could be highly disruptive:
 - Shortage of Saudi medical professionals
 - Accelerated Saudization of healthcare sector
 - Higher administrative costs on non-Saudi professionals



KSA Healthcare Landscape

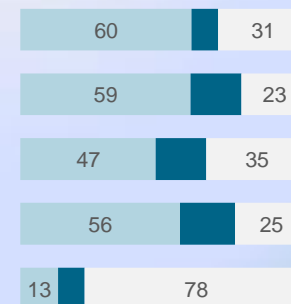
Scope for Growth

- ❑ Key supervision and monitoring authorities overseeing the sector include: Ministry of Health (MoH), Food and Drug Authority, Council of Cooperative Health Insurance and the Central Board for Accreditation of Healthcare Institutions (CBAHI)
- ❑ KSA health services are delivered through the MoH, Other Government and Private Sector hospitals.
 - Other Government hospitals, owned by state-affiliated entities, provide services to respective employees and families such as Saudi Aramco, National Guard
 - MoH and Other Gov't provide free healthcare while Private hospitals charge for services, consisting following customer types:
 - Cash, Corporate, Insurance and MoH referrals
- ❑ Primary, secondary and tertiary levels of health services delivered by MoH and Private hospitals
- ❑ Acute cases are treated abroad, primarily in the US, numbering nearly 1,500 in 2014
- ❑ MoH has been the main provider of hospitals in remote regions while Private sector has focused on major cities

Figures at a Glance

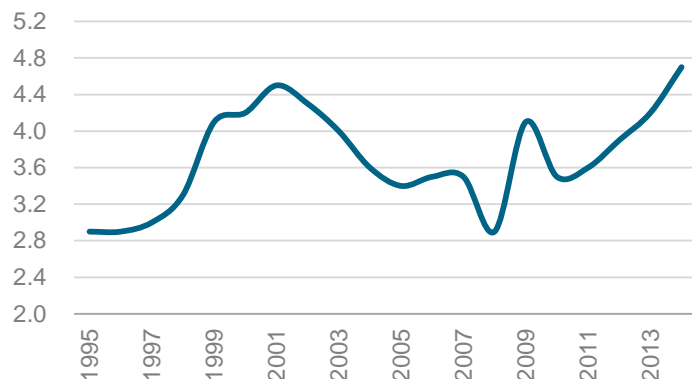
Metrics	Total	MoH	Other Government	Private Sector
Hospitals	453	270	42	141
Beds	67,997	40,300	12,032	15,665
Physicians	81,532	38,458	14,328	28,746
Nurses	165,324	91,854	31,702	41,768
Pharmacists	22,241	2,914	2,061	17,266

Composition (%) MoH – Other - Private

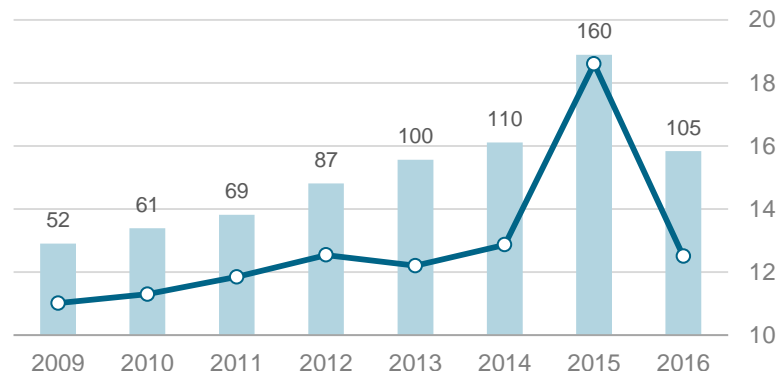


Demand Drivers: Healthcare Expenditure

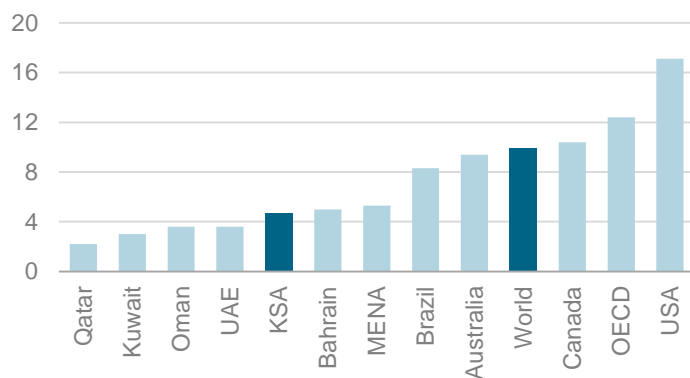
KSA Health Expenditure as % of GDP



KSA Budget Allocation to Healthcare (SR bn) and % of National Budget (RHS)



KSA Relative to Peers (% of GDP)



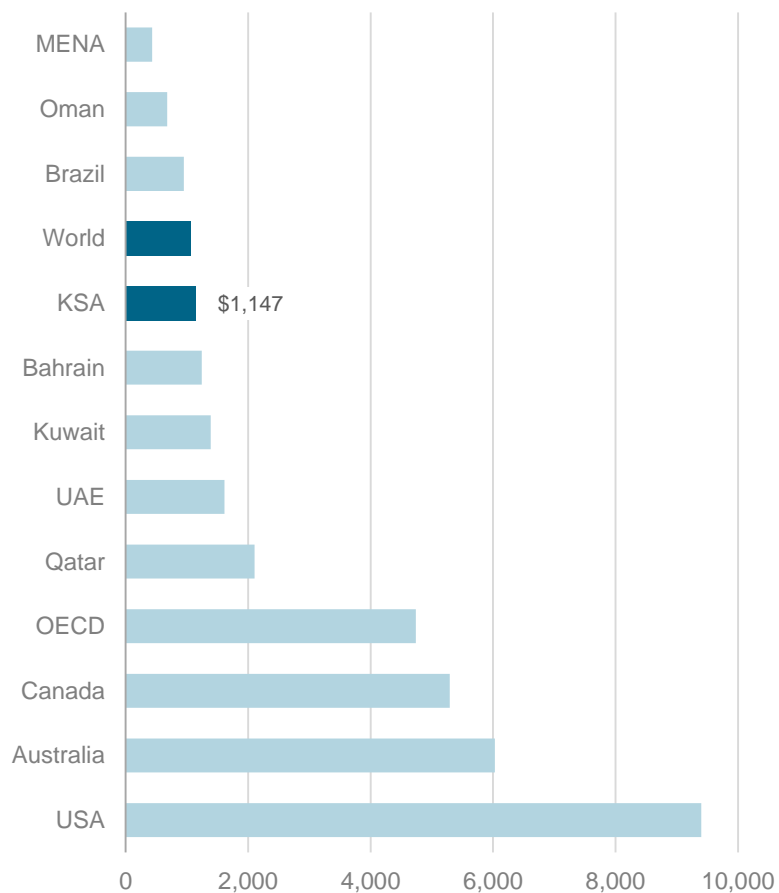
Scope for Growth

- ❑ KSA healthcare expenditure to GDP has steadily risen since 2010 to 4.7%
- ❑ Healthcare has received strong budgetary support (second to Education & Manpower Development) focused on medical staffing and new hospitals
- ❑ While KSA compares well relative to regional peers, healthcare spending is low compared to developed countries, possibly due to demographics and lower penetration – suggesting scope for growth for healthcare providers

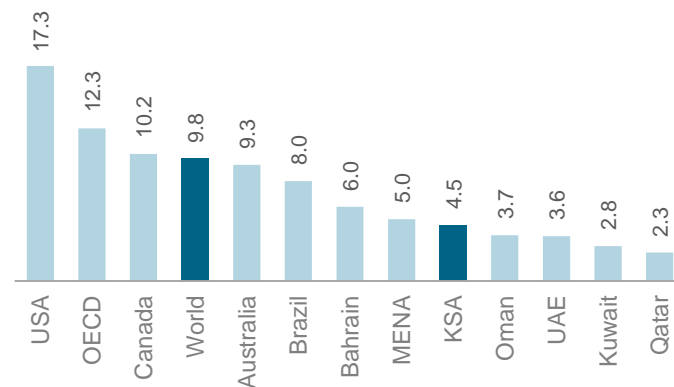


Demand Drivers: Healthcare Expenditure (cont'd)

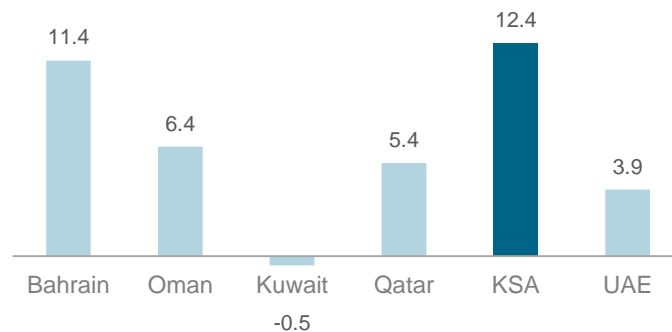
Per Capita Healthcare Expenditure (current \$)



Health Spend to Income (%)

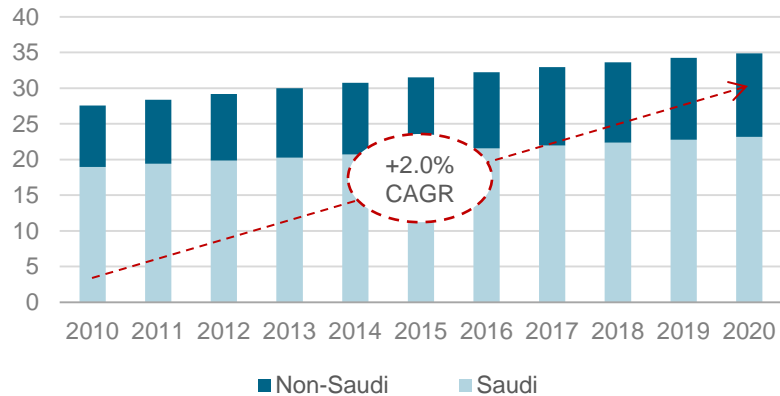


GCC Healthcare Spend CAGR (2009-14)

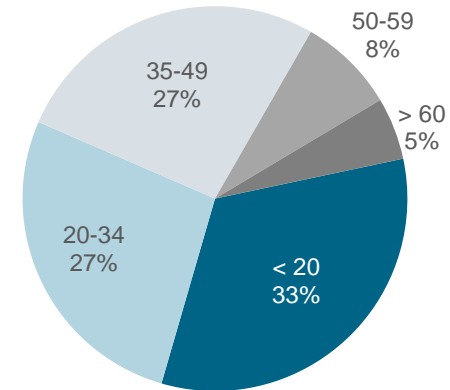


Demand Drivers: Demographics

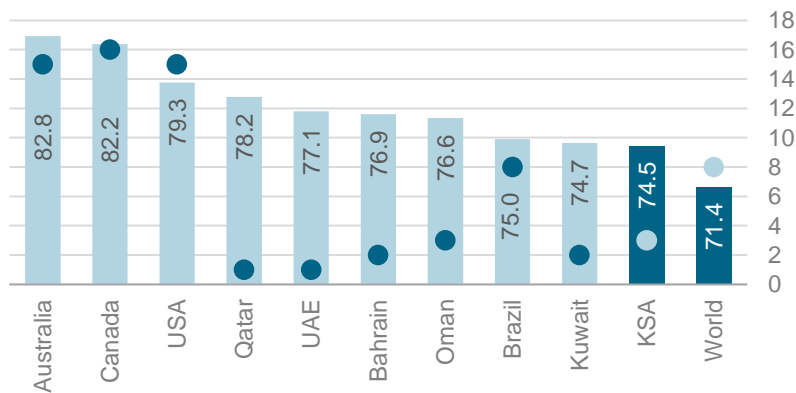
Projected Population Growth (mn)



Population by Age Bracket



Life Expectancy and % of Population Over 65 (RHS)



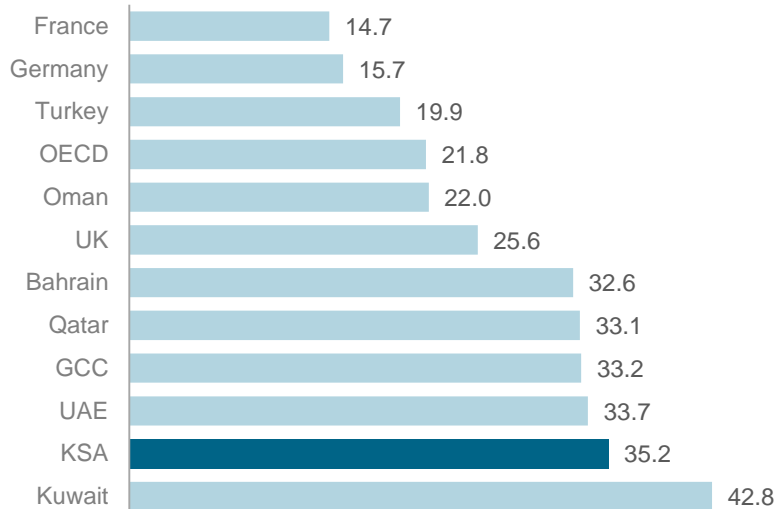
Forever Young?

- ❑ Demand for healthcare will rise as:
 - Population increases to nearly 35 mn by 2020 from 31 mn in 2016
 - Life expectancy increases requiring greater need for medical services
- ❑ While developed countries have over 14% of population over the age of 65, GCC is significantly younger with < 3% population over 65 – interestingly, all GCC states have seen stagnant older composition in the last 10 years

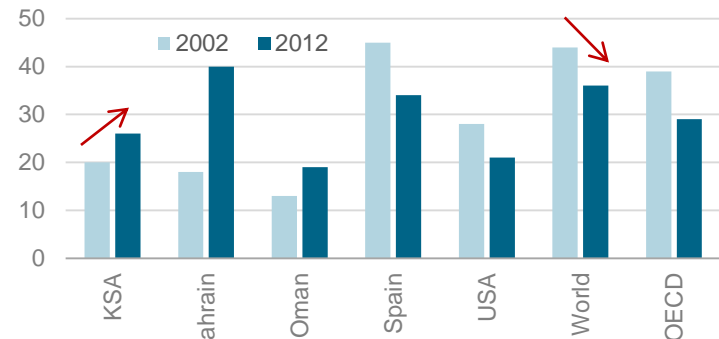


Demand Drivers: Lifestyle Diseases

Adult Obesity (% of Population)



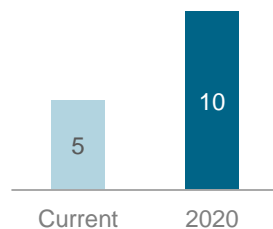
Smoking Prevalence in Males (% of Adults)



Living Dangerously

- Smoking declining globally but rising in KSA
- Sedentary lifestyle leading to obesity
- Obesity and smoking increase risk of diabetes (20-fold) and heart disease, leading to increased demand for health services

KSA Smokers (mn)

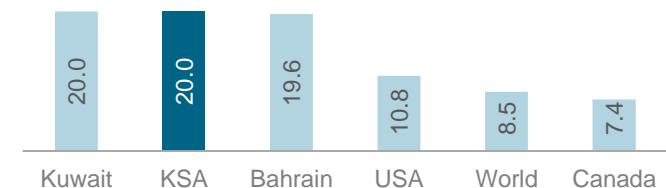


Estimated 15 bn cigarettes sold in KSA worth \$1.3 bn

KSA 4th highest importer of cigarettes

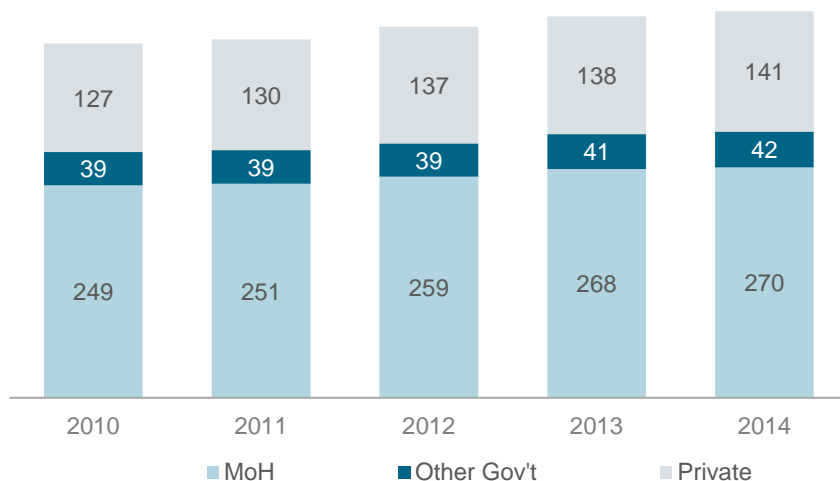
KSA 23rd highest consumer of tobacco in the world

Diabetes Prevalence (% of Adults)

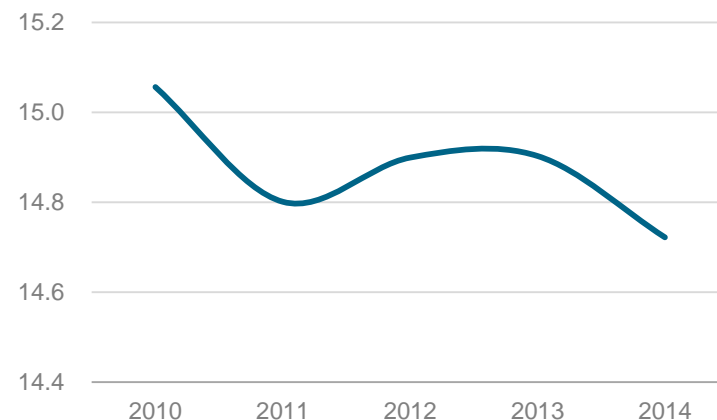


Supply Gap: Hospitals

Hospitals in KSA



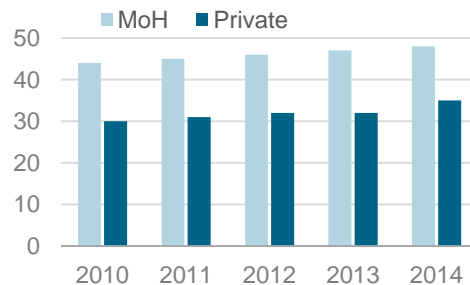
Hospitals per Mn Residents



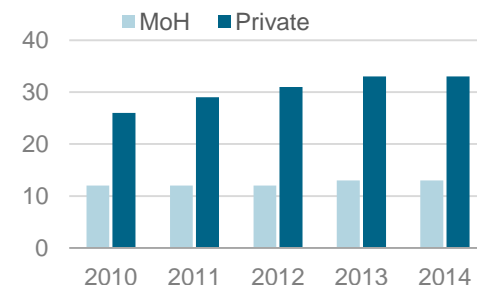
Overall 2.2% CAGR in hospitals with private sector leading at 2.6% CAGR

Hospital growth has kept pace with population growth, however over the coming decade demographic bulge and lifestyle will require accelerated infrastructure deployment

Hospitals in Riyadh



Hospitals in Jeddah



Supply Gap: Hospitals in the Pipeline

Al Madinah

Maternity and Children Hospital	400-bed capacity, with housing
A hospital in Badr	200-bed capacity, with housing
Al Mahd Hospital	200-bed capacity, with housing

Makkah

Raneeh Hospital	200 bed-capacity, with housing
Al Kharmah Hospital	200-bed capacity, with housing
Al Qunfudah Hospital	500-bed capacity, with housing
Trobah Hospital	100-bed capacity, with housing
Growth and Behavior Disorders Center	

Jeddah

The Medical Complex in Jeddah	1000-bed capacity, with housing
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Mahayel Asir

Maternity and Children Hospital	200-bed capacity, with housing
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Jazan

Al Qitaá Al Jabaly Hospital	300-bed capacity, with housing
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Almajmaáh

A hospital in Almajmaáh	300-bed capacity, with housing
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Dammam

A hospital in the west of Dammam	500-bed capacity, with housing
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Al Qatif

Al Qatif Hospital	500-bed capacity, with housing
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Al Ahsa

A hospital in Al Ahsa	500-bed capacity, with housing
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Riyadh

The Medical Complex in Riyadh	1000-bed capacity, with housing
Growth and Behavior Disorders Center in Riyadh	

Sharourah

A hospital in Sharourah	300-bed capacity, with housing
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East Region

Growth and Behavior Disorders Center	
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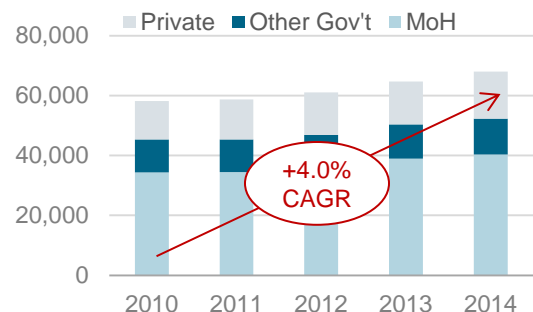
Asir

Al Qahmah and Al Barak Hospital	300-bed capacity, with housing
Khamis Mushait Hospital	500-bed capacity, with housing
East Asir Hospital	200-bed capacity, with housing

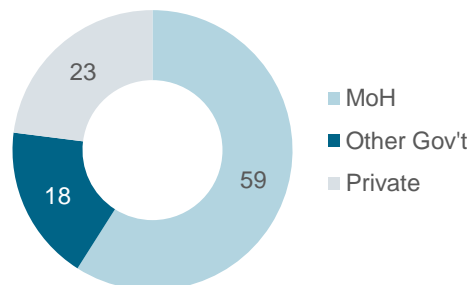


Supply Gap: Beds, Nurses and Physicians

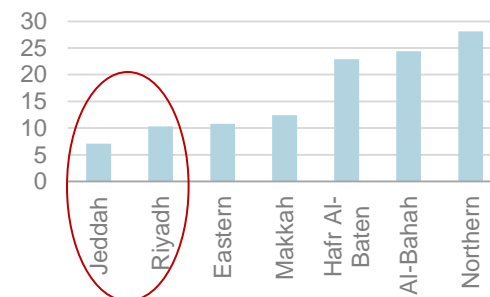
Total Beds



Beds by Sector (%)



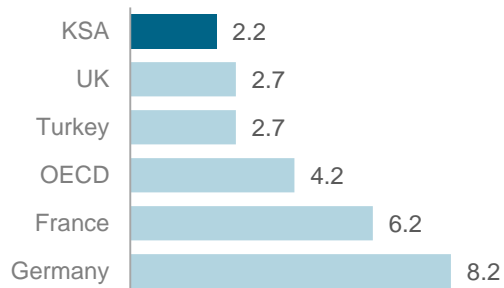
MoH Beds per 10,000 Population



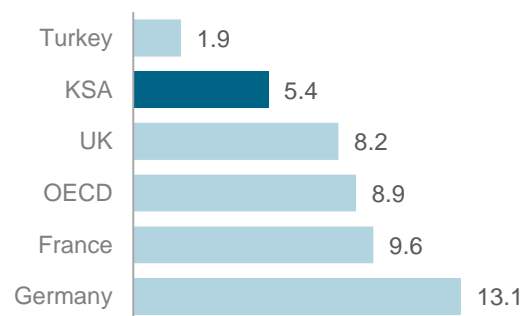
Low Penetration Rates

- Private sector added beds at 5.1% CAGR, plugging the supply-demand gap largely due to expansions at existing facilities
- However, bed density is the lowest in major cities of Riyadh and Jeddah due to pop. growth— suggesting room for further additions
- Private sector to increasingly shoulder demand for health services to alleviate pressure on gov't hospitals

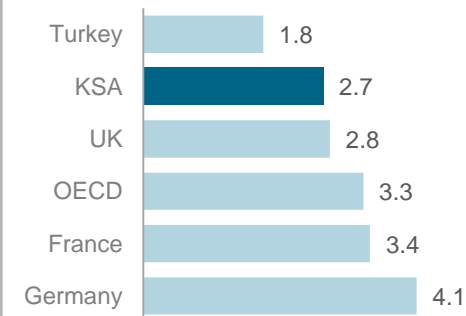
Hospital Beds per 1,000 Population



Nurses per 1,000 Population

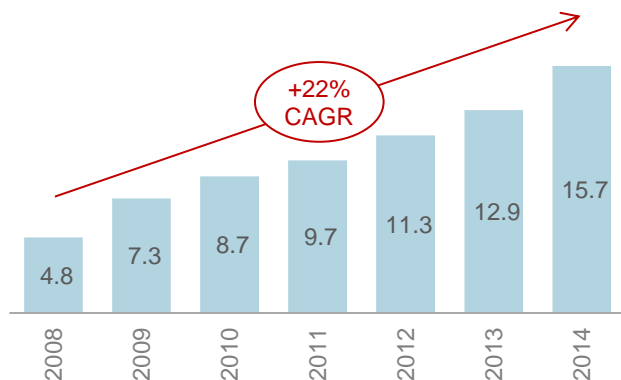


Physicians per 1,000 Population



Role of Insurance: Major Catalyst for Private Providers

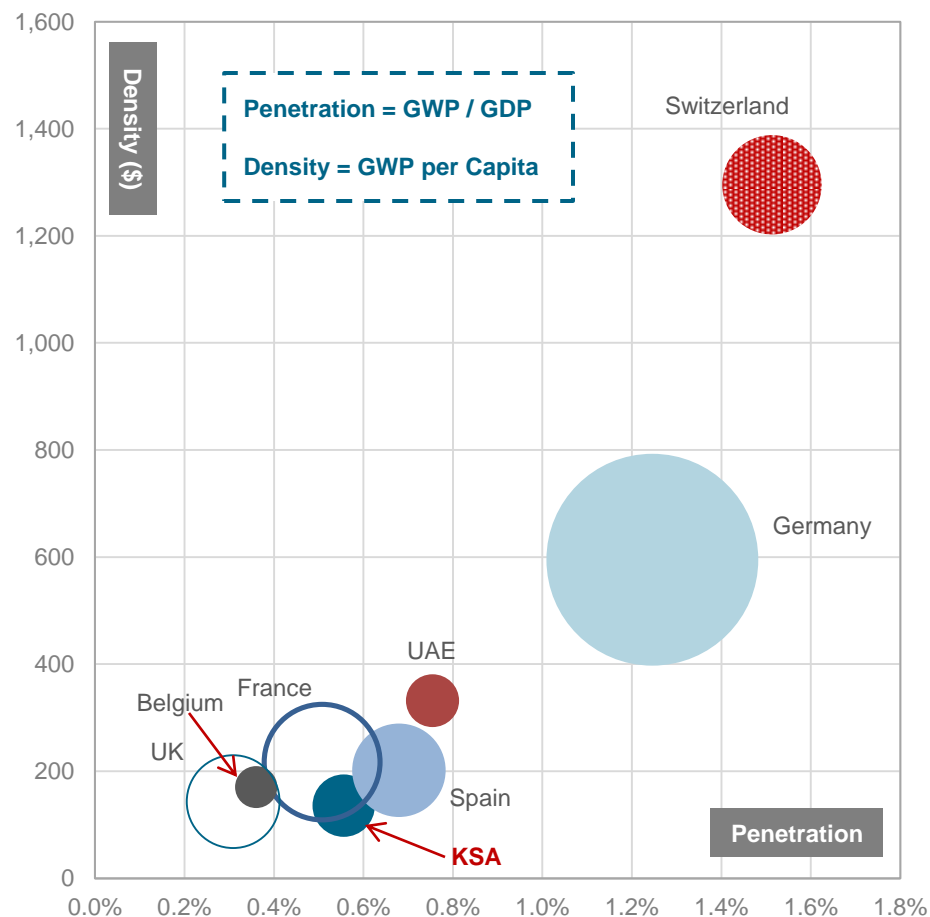
Health Insurance GWP (SR Bn)



Mandatory Health Insurance

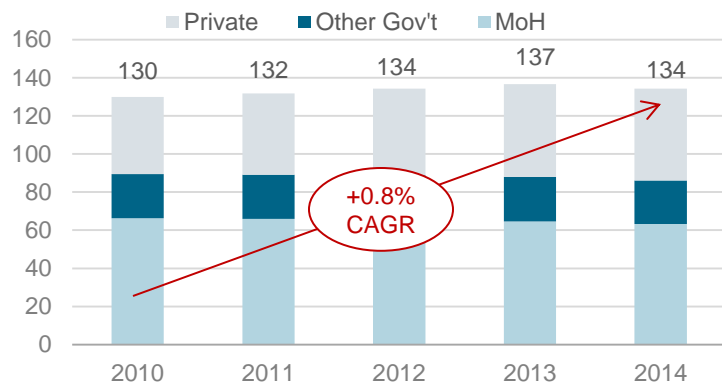
- ❑ 2005: Health insurance compulsory for all non-Saudis under the Cooperative Health Insurance Act
- ❑ 2008: Act extended to cover Saudis working in private sector
- ❑ Health insurance gross written premiums (GWP) increased at +22% CAGR since mandatory insurance
- ❑ KSA doctor visits should also rise on increased insurance penetration
- ❑ Consolidated market: Big 3 insurers (BUPA, Tawuniya, MEDGULF) hold 79% share

Health Insurance (Penetration & Density), Bubble Size (GDP)

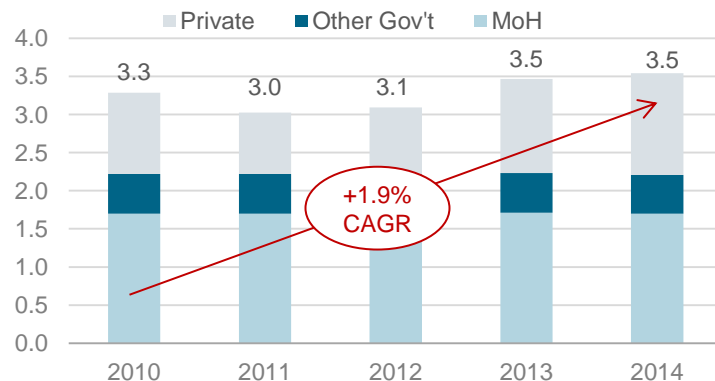


Role of Insurance: Cost Secondary Factor in Selection

Outpatient Visits (mn)



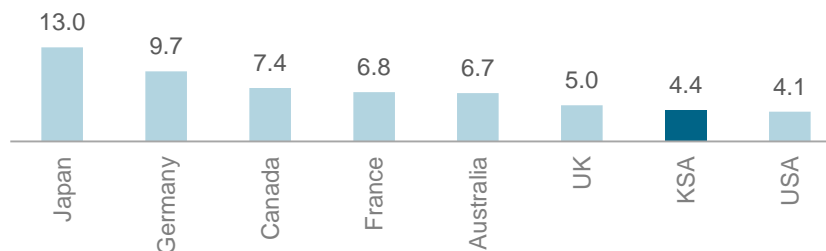
Inpatient Admissions (mn)



Private Sector Growth

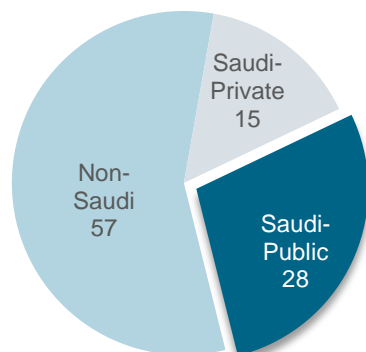
- ❑ Increased penetration of insurance coverage has made cost a secondary provider selection criteria – quality, reputation and specialization are increasingly driving patient flow
- ❑ As a result, outpatient growth at private providers has outpaced the overall sector at +4.4% CAGR vs. +0.8%
 - 4.4 per capita visits to clinics in 2014
- ❑ Further, inpatient admissions have tilted towards private providers comprising 38% of total admissions in 2014, up from 32% in 2010 and 23% in 2005
 - Average length of stay was 3.9 days at MoH hospitals in 2014
 - Average bed occupancy dropped from 60% in 2010 to 57% in 2014 at MoH hospitals

Per Capita Annual Outpatient Visits



Expanding Insurance Coverage

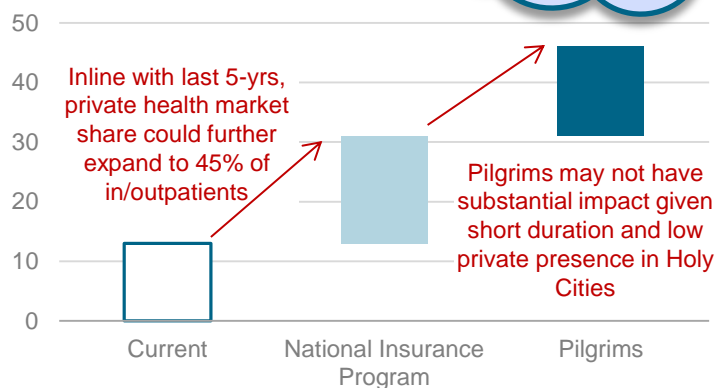
Total Workforce Composition (%)



Estimated 57% of KSA population lacks private health insurance

If market share expands, OP & IP flow to private providers could potentially increase by 25% and 20%, resp.

Potential Patient Pool (mn)



Increasing Health Coverage to Nationals

- ❑ National insurance plan expected to be announced and will encompass gov't funded insurance policies:
 - Next phase of insurance to cover nationals in the public sector
 - Followed by expansion of insurance coverage to all residents in KSA
 - Eventually health insurance will be mandatory for pilgrims (Umrah visitors targeted to reach 15 mn by 2020 and 30 mn by 2030, annually up from 8 mn currently)
- ❑ With expanding insurance coverage, patients will be less restricted to specific hospitals and will have wider choice of service providers – private sector market share gain potential
- ❑ Hospital selection will be determined by proximity, wait times, reputation and specialization
- ❑ MoH role will increasingly shift towards regulation and oversight, away from hospital operations and management
 - Privatization will likely force improvement in service quality, however existing private hospitals may have a head start
 - Supply-demand imbalance will continue to drive flow to private providers



Vision 2030: Trickle Down Effect

Economic Diversification

- Increase focus on non-oil sectors and non-oil revenue: targeting SR 1 tn by 2030 from SR 164 bn
- Transforming Saudi Aramco into a conglomerate through international partnerships, stake sale / IPO

Investments

- Through the Public Investment Fund greater international investments
- **Invite higher foreign direct investment in the country – target 5.7% of GDP by 2030 from 3.8% in 2015 – potential for regional and international entrants in healthcare**

Human Capital

- Generating more skilled labour and jobs
- **Target unemployment at 7% by 2030 from 11.6% in 2015 – potential for development of healthcare related industries**



Privatization

- Inviting higher participation from private entities, both domestic and international
- **Healthcare, Education among the sectors to see higher degree of private sector penetration – level playing field, hospital acquisition and mgmt opportunities**

Privatization could be:

1. MoH hospitals transferred to listed or private holding co
2. Individually list hospitals
3. Private sector acquiring or managing gov't hospitals

Social

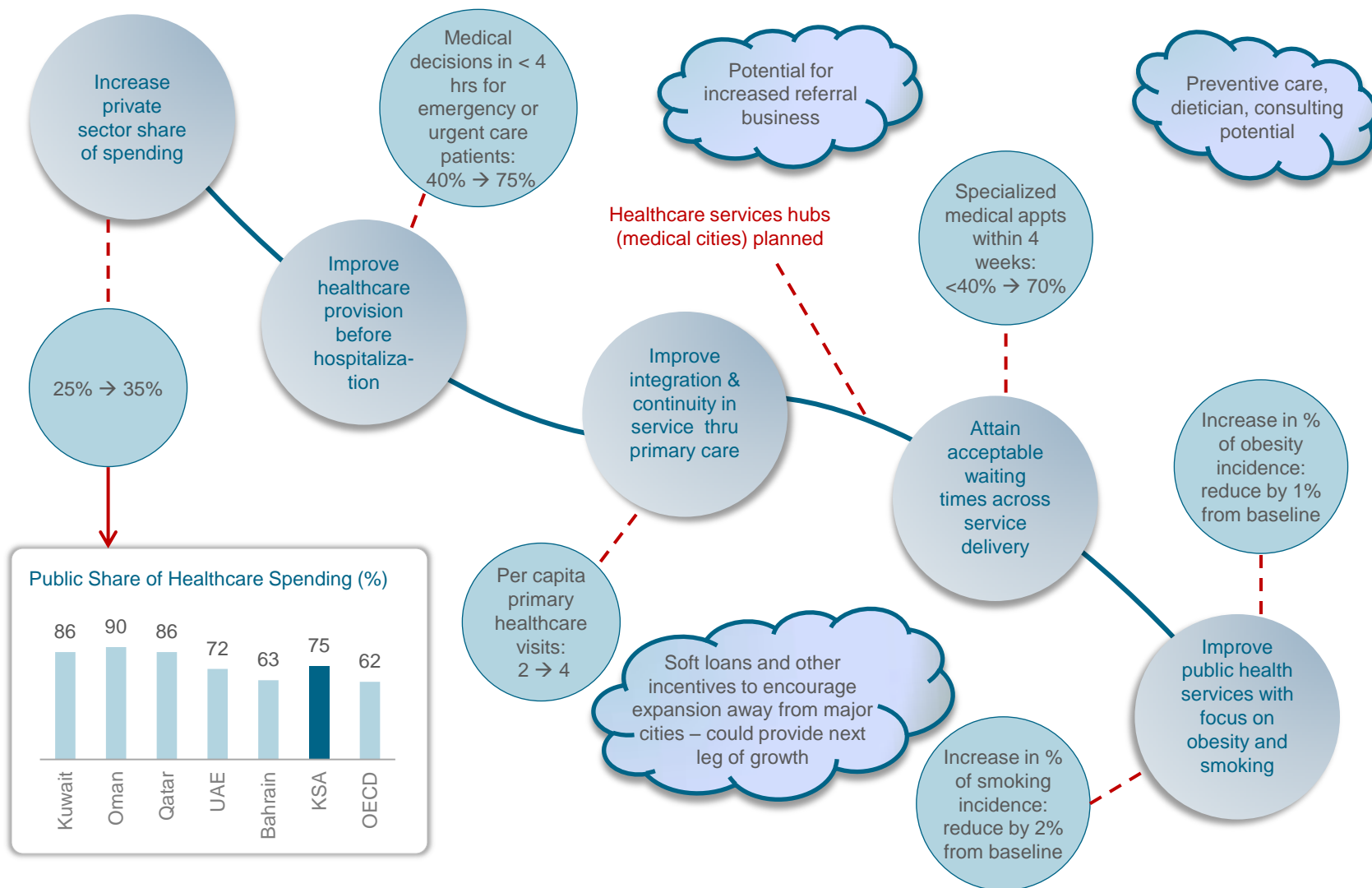
- Promote social contribution by companies
- Increase the contribution of the non-profit sector
- Promote volunteer work

Tourism

- Greater emphasis to promote tourism in the state
- **Increasing state capacity to handle a significantly large volume of pilgrims, from around 8 million to 30 million pa – implies greater need for high quality healthcare – potential for medical tourism**



NTP 2020 Targets: Increased Role of Private Sector



MoH 10-Year Plan

Infrastructure

- Beds capacity from 31,400 beds in 2009 to 70,693 beds by 2020
- Primary health care centers from 1,905 in 2009 to 2,109 in 2013 and 2,750 by 2020

King Faisal Medical City (SR 4.1 bn) with 1,350 beds + King Abdulaziz Medical City with 1,000 beds + King Abdullah Medical City (SR 3.8 bn) with 1,350 beds + expansion of King Fahad Medical City and King Saud Medical City

22 health projects including 19 integrated medical complexes valued at \$4.4 bn

Workforce

- Number of MoH's scholars to foreign countries increased from 1,049 in 2010 to 1,424 in 2011
- Number of internal scholarships increased from 600 employees in 2009 to 1,474 in 2012

King Khalid Medical City (SR 4.6 bn) in Dammam to open in 2018 to serve 7 mn patients in Eastern Province, comprising 1,500 bed hospital

Performance Improvement

- Drug Safety Program, Australian Medical Coding System, Clinical Audit Program
- Accreditation program for 65 hospitals along with another 61 in the pipeline

IT and e-Health

- E-health programs such as Pre-Marital Screening, Neonatal Protection, E-Poison Control, etc
- Linking hospitals to an electronic system to register and follow up the serious medical incidents, within 48 hours

Quality Control

- One-Day Surgery Program to bring one-day surgery from 2% in 2009 to 46% in 2013
- Visiting Physician Program to attract rare specialists from within and outside the Kingdom

Medical Supply and Equipment

- Establishing 29 warehouses in the first phase and 100 warehouses will be built in the second phase
- The guarantee period has been raised to become five years rather than two years

SR 23 bn planned spend over 5 years on reforming the sector including: healthcare services hub (medical cities), localization of pharma industry



Nationalization Poses Challenges

Physicians

Percentage	Total	MoH	Other Gov't	Private
Saudi	23.3	29.9	47.7	2.5
Non-Saudi	76.7	70.1	52.3	97.5
Saudi CAGR 2010-14	5.6	14.0	1.3	(7.2)
Overall CAGR 2010-14	5.4	5.1	2.5	7.5

Nurses

Percentage	Total	MoH	Other Gov't	Private
Saudi	37.2	59.6	14.1	5.2
Non-Saudi	62.8	40.4	85.9	94.8
Saudi CAGR 2010-14	10.1	10.3	14.4	7.6
Overall CAGR 2010-14	6.2	4.9	5.2	10.6

Pharmacists

Percentage	Total	MoH	Other Gov't	Private
Saudi	20.6	90.3	66.7	3.3
Non-Saudi	79.4	9.7	33.3	96.7
Saudi CAGR 2010-14	19.6	17.0	7.0	46.0
Overall CAGR 2010-14	10.5	13.0	4.2	11.0

Staff Shortage

Ministry of Labor announced plans to Saudize the healthcare sector. While the MoH is targeting 100k nationals employed in the sector by 2030.

- ❑ Although increase in Saudi medical staff has outpaced the overall sector growth in terms of physicians, nurses and pharmacists – pace will need to accelerate to achieve staffing goals in the mid-term
 - Domestic education infrastructure may be inadequate to achieve desired churn (on average < 1,000 Saudi physicians and < 5,000 nurses are added / year)
 - Study abroad program to bridge the gap
- ❑ Pharmacist nationalization has been successful but not so much for physicians and nurses
- ❑ Private sector Saudization ratio was 8% in 2014, suggesting a long way to go
- ❑ More immediate challenge for private healthcare will be accelerating administrative costs of employing non-Saudi staff (e.g. visa and permit fees)



Investment Risks

The following risk factors can impact our financial projections and consequent share price performance. Some factors may not be in the control of respective management teams and may persist over a prolonged period. Investors should carefully assess each risk factor as part of the investment rationale.

- ❑ Relationship with MoH, insurance companies and key corporate customers
- ❑ Rejected claims
- ❑ Regulatory and legislative changes
- ❑ Medical malpractice and inadequate insurance coverage
- ❑ Delays in projects or change in scope
- ❑ Unexpected closures due to fire, accident or non-compliance
- ❑ Receivables and funding constraints
- ❑ Rising rates and funding costs
- ❑ Staffing shortage or delays in on-boarding key personnel
- ❑ Staff turnover
- ❑ Competitive environment



Financial Analysis: Robust Expansion Pipeline

- ❑ Upwards of 2,000 beds could be added by end-2018 as all 5 providers on multi-year expansion plans, led by Dallah aiming to take bed count to some 1,400 and 750 clinics. Hammadi's Nuzha Hospital and MEAHCO's Hail Hospital are nearing completion and should be onstream early-2017
- ❑ The group is projected to deploy some SR 5 bn in capex through 2020 with Dallah and Mouwasat topping SR 1 bn spend each:
 - Group revenue growth expected at +10% CAGR through 2018, reaching SR 6.7 bn
 - On average some SR 1.1 mn generated per bed – new capacity should be comfortably absorbed given shortage and wait times
- ❑ Care and Dallah expected to register strong earnings growth though 2018 at +17% CAGR and +10% CAGR, resp. Hammadi will pull out of weak 2016 due to fire-related business disruption at Olaya Hospital with solid earnings rebound in 2017E and 2018E
 - Increase in depreciation poses earnings risk as projects under development become operational
 - Short-term funding could become more expensive as SAIBOR continues to escalate though group financial charges are benign
- ❑ Margins could vary depending on case mix however group gross margins expected to hover around 42%, with MEACHO topping the pack and Care lagging
 - Escalation in staff salaries, which comprise roughly half of cost of sales, poses main margin challenge
 - Increases in supplies costs should pass through to payee
 - Doubtful debt provisions booked in SG&A and could potentially pressure EBITDA margins on volume growth
- ❑ Group receivables jumped 29% in 1H16 – cash conversion taking longer 134 days vs 87 days:
 - Mouwasat and Hammadi most exposed while Care and Dallah saw modest uptick
 - Expecting ebb and flow in payments through mid-2017



Existing Capacity and Upcoming Expansion

Hammadi:

Expected to add 428 beds when Nuzha Hospital comes online, plus ramp-up at Suwaidi Hospital opened Aug-15

Mouwasat:

100 bed addition in Jubail by yearend. 214 bed long-term care facility in Dammam by 1H19. Site relocation in Madinah with 65 additional beds. 300 bed and 65 clinic Khobar hospital by 1Q19

MEAHCO:

Expects Dammam to complete in a much shorter timeframe than Hail, which was complicated by administrative issues

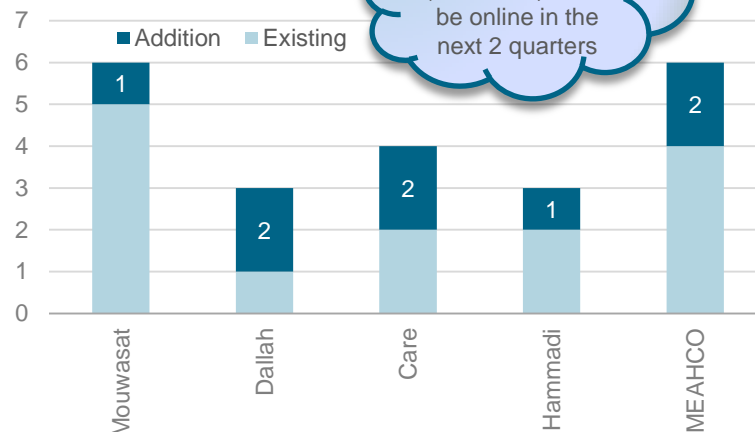
Dallah:

Targeting 1,400 beds and 750 clinics by end-2018 (including 30% equity stake in Dr. Faqih Hospital)

Care:

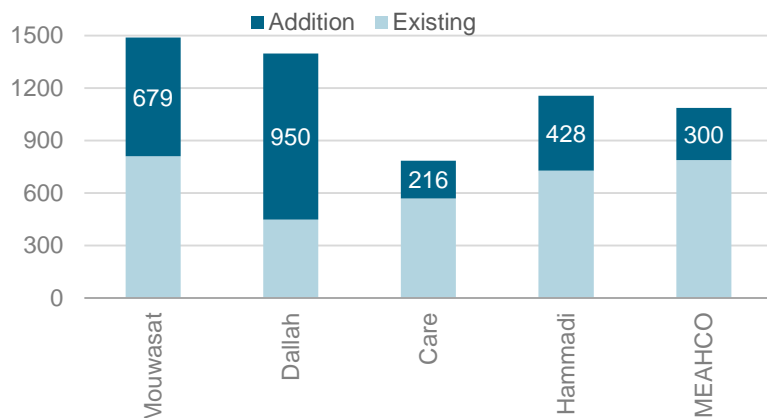
New Bldg with 230 beds at National Hospital. Old Bldg under renovation since Nov-15, nearly complete with 216 beds coming online early-2017. Looking at land for new hospitals in Riyadh and Jeddah (200 beds + 4 clinics each) – 2.5 yr timeframe

Hospitals



Nuzha (Hammadi) and Hail (MEAHCO) could be online in the next 2 quarters

Hospital Beds



SR 450 mn hospital in Khobar targeted for 1Q19

Looking at acquiring land for new hospitals in Riyadh and Jeddah (200 beds + 4 clinics each) at SR 1.7 bn total cost

Expansion at existing site (Western & Southern buildings), 6,300 m² land acquired in Riyadh for Medical Tower, Namar Hospital expected in 2018 + Jeddah Hospital

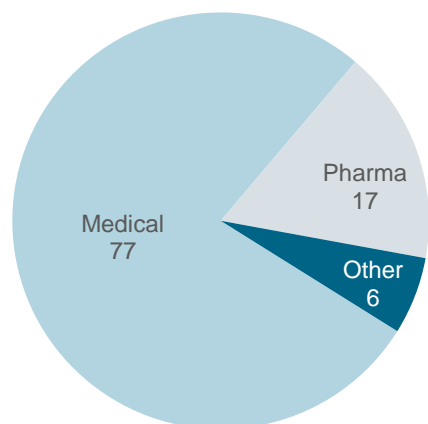
Suwaidi Hospital came online in 2H15, Nuzha is expected to commence beginning 2017

Hail is nearing completion while Dammam is targeted for 1Q18

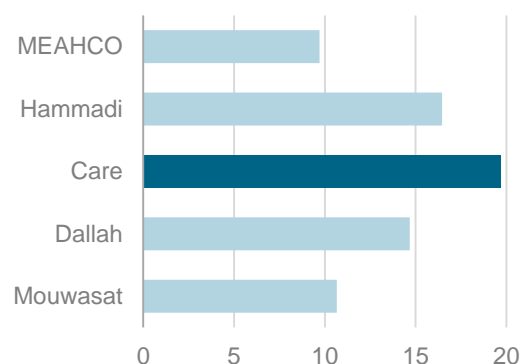


Revenue Metrics

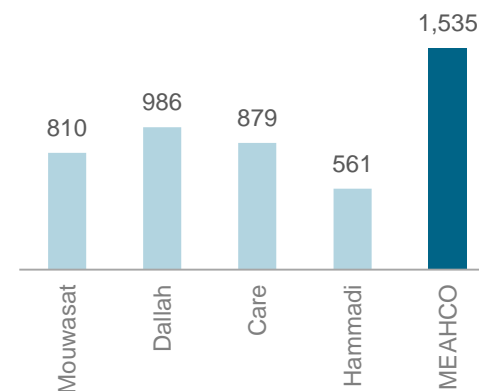
Group Revenue Composition (%)



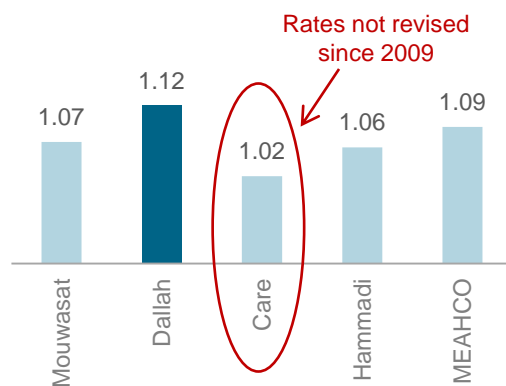
2015 Revenue Growth (%)



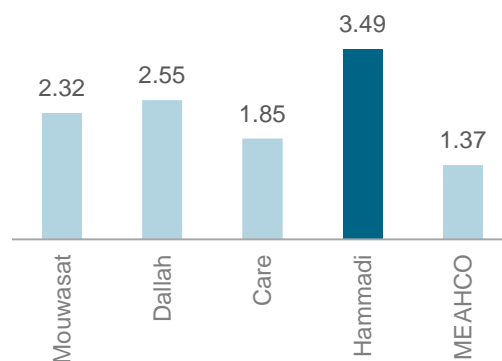
2015 Revenues (SR mn)



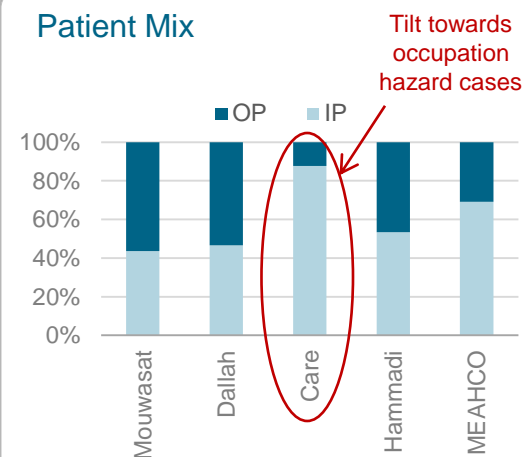
Est Revenue per Bed (SR mn)



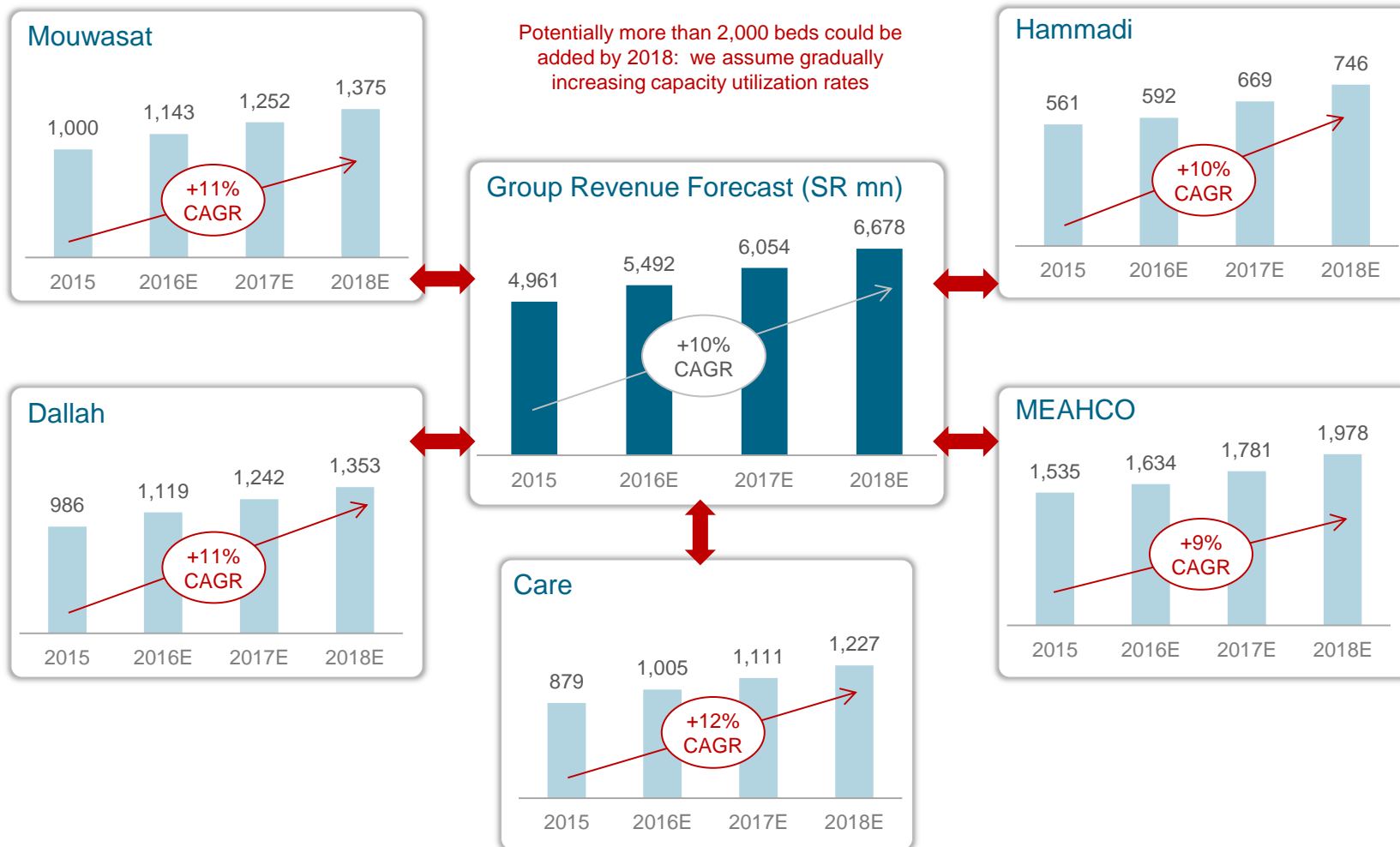
Est Revenue per Clinic (SR mn)



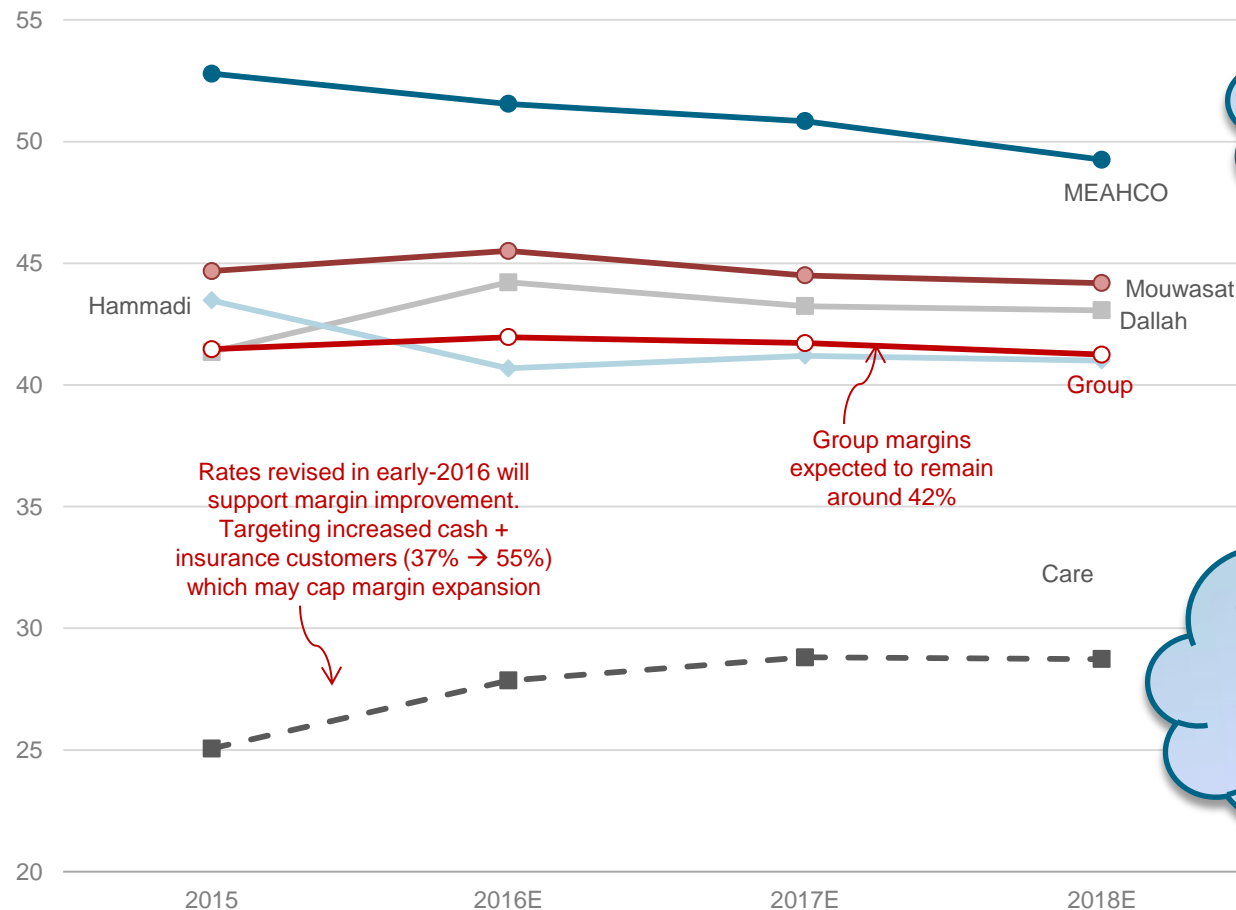
Patient Mix



Revenue Forecast

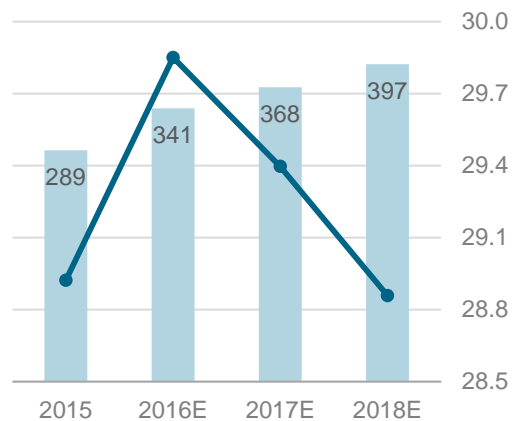


Gross Margins (%)

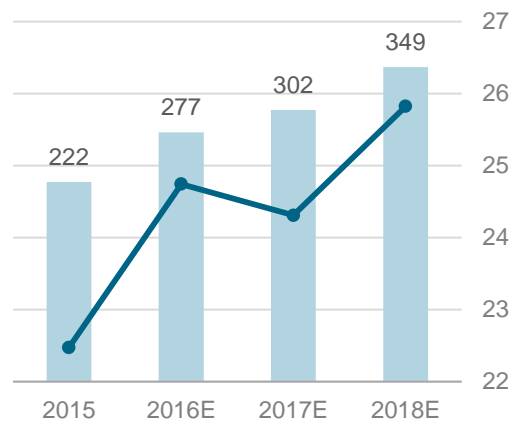


EBITDA (SR mn) and Margin (%) Outlook

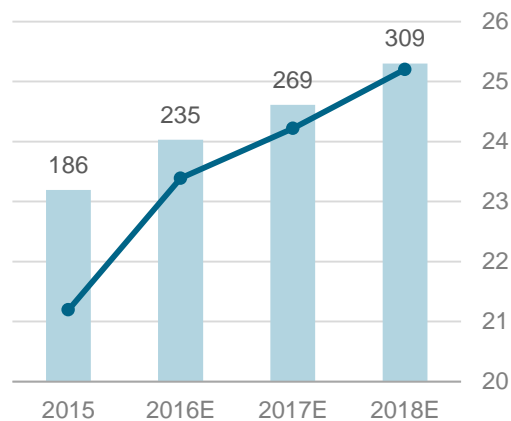
Mouwasset



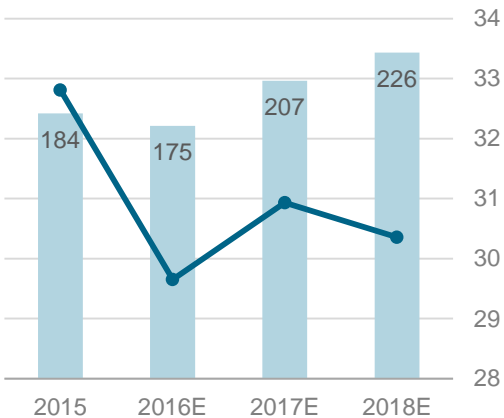
Dallah



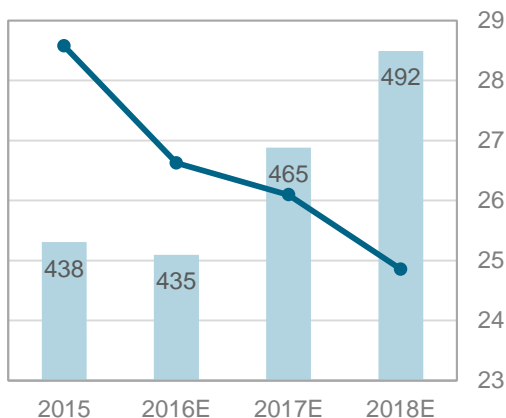
Care



Hammadi



MEAHCO

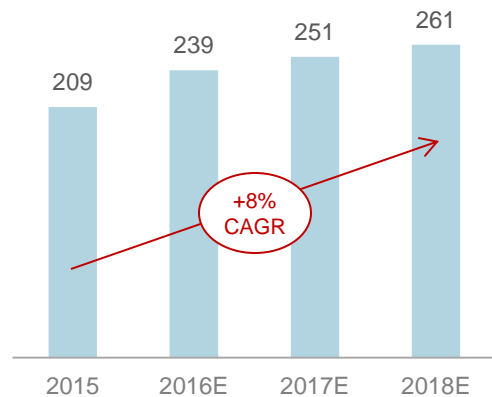


Expansion and receivables provisions are projected to pressure EBITDA margins

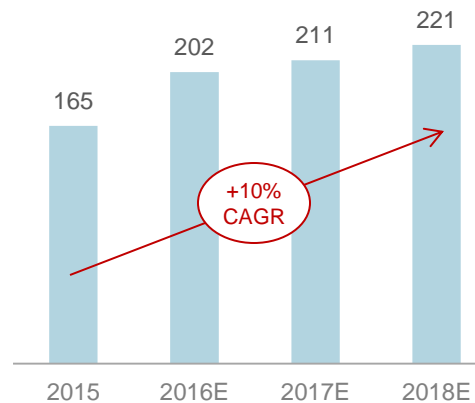


Earnings Outlook (SR mn)

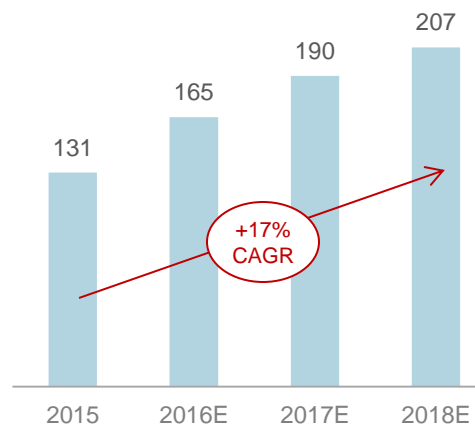
Mouwasset



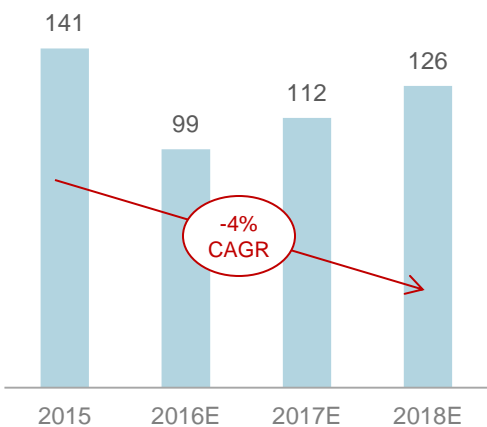
Dallah



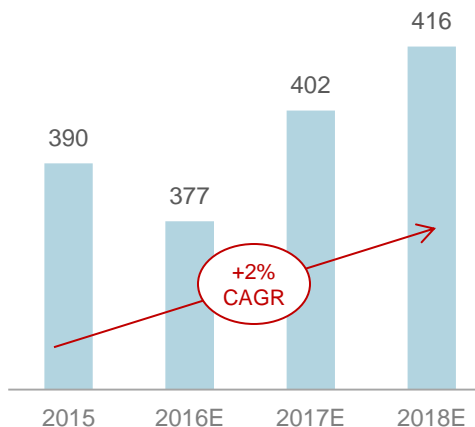
Care



Hammadi



MEAHCO

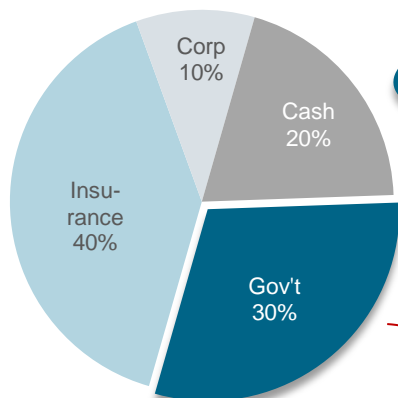


Earnings could be impacted by rising doubtful debt provisions and potential accounting treatment of overdue receivables. Completed projects will start booking financing charges and depreciation in P&L



Escalating Receivables Creating Liquidity Squeeze

Est Revenues by Payment Method



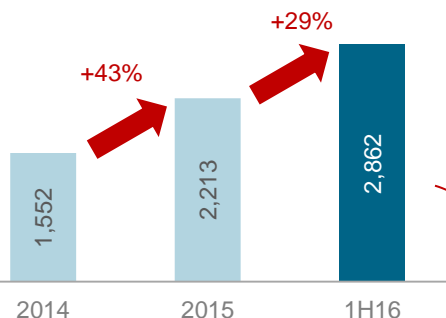
Group receivables have escalated at a far more rapid pace than revenues. In fact, sales growth in 2015 was +13% and -44% through 1H16 on annualized basis.

Mouwasat and Hammadi appear most exposed. Dallah saw benign increase in receivables

Growth in patient flow to private providers points to increased referrals from MoH

Care receivables mostly from GOSI (largest shareholder) with low risk

Group Receivables (SR mn)

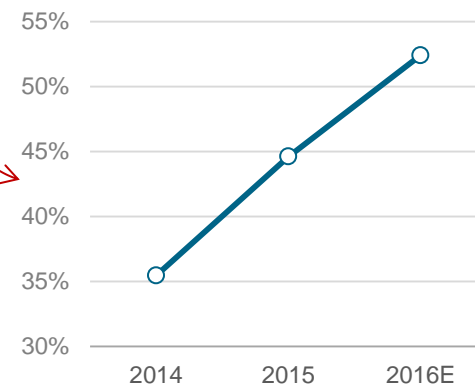


More sales on credit as receivables projected to climb to 52% of group revenues. Hammadi and MEAHCO most exposed.

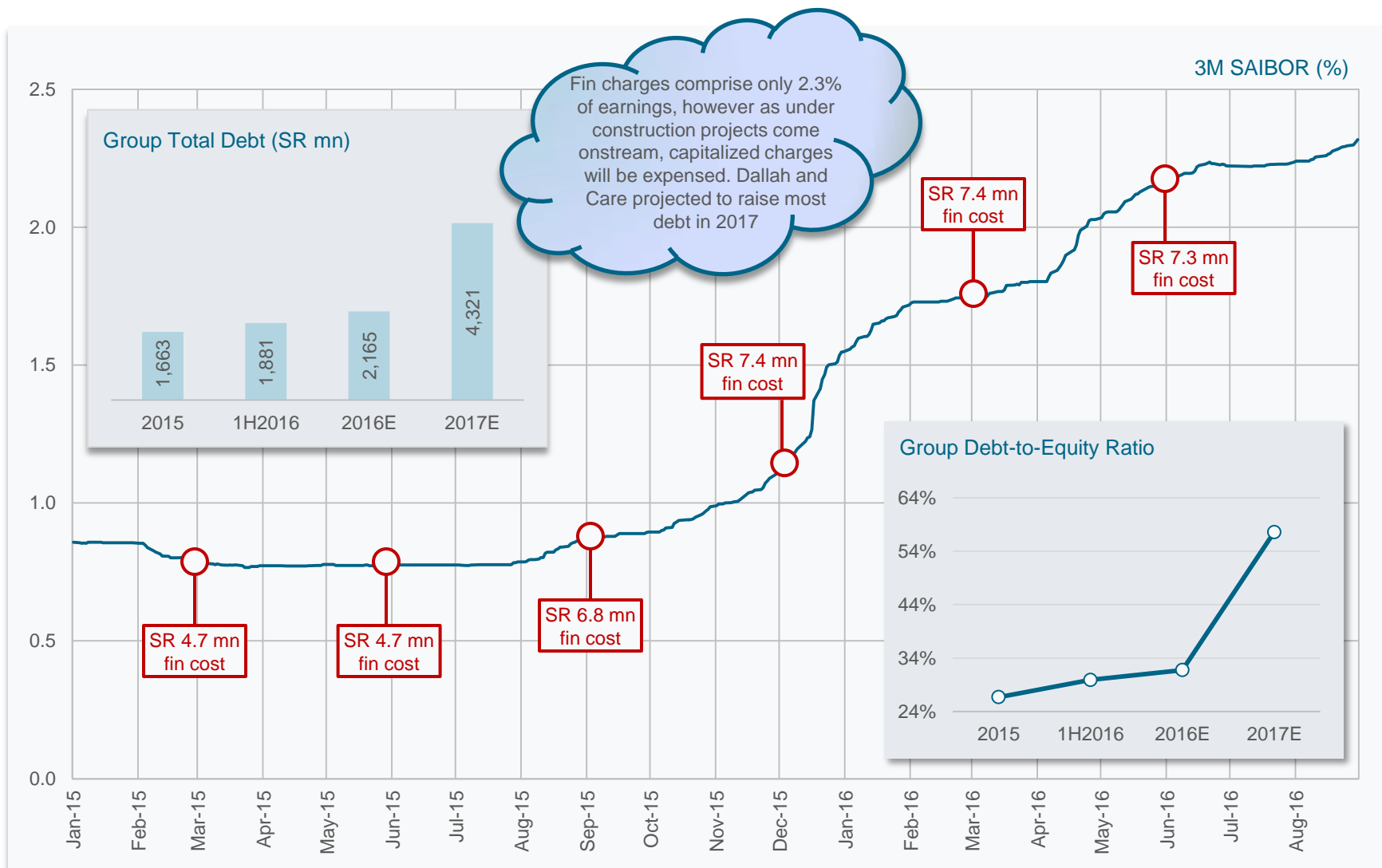
Lengthening Cash Conversion

- ❑ Average cash conversion cycle expected to increase from 87 days to 134 days from 2014 to 2016
- ❑ Funding needs may increase if collections continue to take longer
- ❑ Accounting treatment of delayed payments may be under scrutiny – potential for higher provisioning going forward

Group Receivables to Revenues



Moderate Debt Levels but Rising Rates Pose Future Funding Risk



Capex Profile

Hammadi: Heavy lifting done

Suwaidi Hospital came onstream in 3Q15

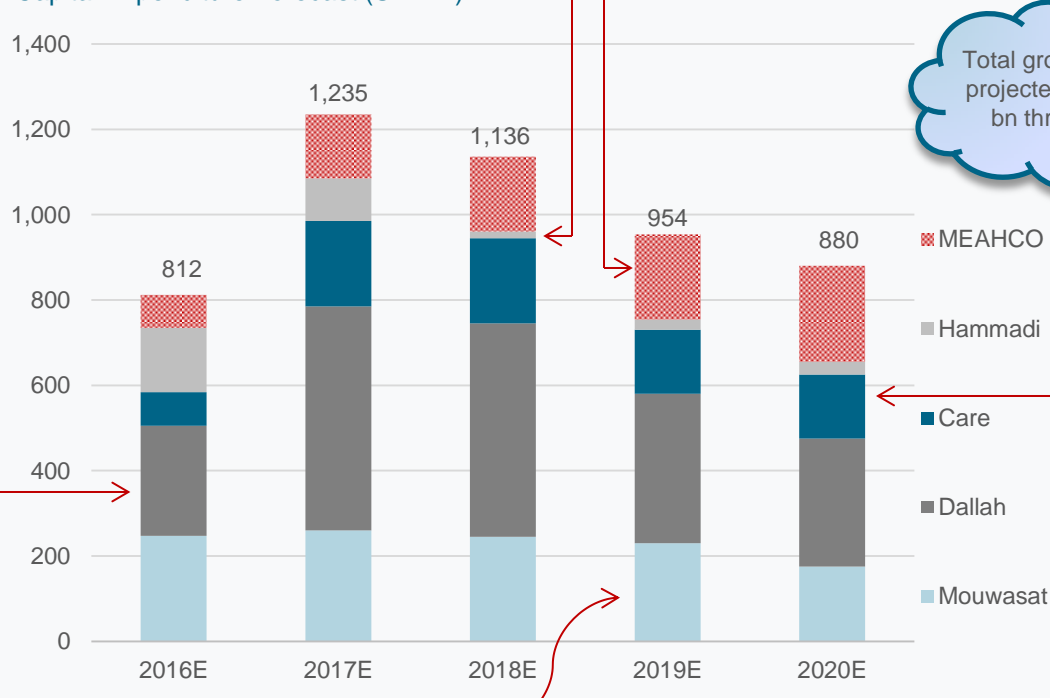
- Nuzha Hospital nearly complete, targeted to open 1Q17

MEAHCO: Dammam main upcoming project

Hail Hospital was initiated some 10 years ago and may now be reaching completion, targeted to open 2016/17

- Dammam Hospital expected 1Q18 will offer 150 beds & 100 clinics at estimated cost of SR 350 mn
- Expansion at existing hospitals to add 85 beds (Jeddah 32, Riyadh 30, Madinah 23) and 62 clinics

Capital Expenditure Forecast (SR mn)



Total group capex projected at SR 5 bn thru 2020

Dallah: Aggressive expansion

- Expansion at South & West bldgs to add 150 beds targeted for 2H18
- 65 clinics at North bldg
- Dallah Medical Tower, land acquired
- Namar Hospital targeted for 2018/19 launch
- Jeddah Hospital on the cards

Care: Low capex intensity

Targeting 200 beds + 40 clinics thru 2 phases at National Hospital – this is mostly complete. Expect replacement capex with moderate escalation for Riyadh and Jeddah hospitals. Capex plan under review by management

Mouwasat: Intensity to ease post-2019

- Expansion at Dammam Hospital (LTC) to add 214 beds costing SR 260 mn targeted for 1Q18
- SR 450 mn Khobar Hospital planned for 1Q19 opening
- Targeting SR 1 bn spend 2016-19



Valuation: Low Return Environment

- ❑ Multiples-based relative valuation methodology selected:
 - Captures market de-rating or re-rating potential
 - Planned capital expenditure limits available cashflow to shareholders and places near-term valuation discount
- ❑ Price-to-earnings analysis shows that:
 - IPOs were listed at prevailing TASI P/E while variation observed on P/B and EV/EBITDA basis
 - Listing multiples varied over time to reflect investor sentiment (e.g. Hammadi listed at 16x earnings when the market was trading 18x but MEAHCO commanded 15x matching TASI's P/E)
 - Healthcare has commanded an average 64% P/E premium over TASI in trailing 2 years
 - Premium may narrow but will continue – shaved historical premium by 10 ppt on Dallah, Care and Hammadi to arrive at target P/E
- ❑ On comparative basis:
 - Care is attractively priced at 16x earnings and 2.7x sales
 - Care's market cap per bed is the lowest within the group
 - Recent correction in MEAHCO has raised valuation appeal – market cap per bed is low considering that MEAHCO generates second highest turnover per bed
 - Hammadi prevailing P/E more than reflects upcoming Nuzha and capacity ramp-up at Olaya (post outage)

Expect TASI to remain under pressure but forward P/E should edge higher to 13.5x from current 12.0x

Key valuation assumptions:

1. Healthcare to outperform the market and will continue to command premium to TASI
2. Group should recover faster than overall market if sentiment mends
3. Target P/E reflects 2-yr average fwd P/E adjusted down for each stock – low return environment
4. Applied Target P/E to 2017E EPS to arrive at fair value



SR	2017E EPS	Target P/E	Vs Hist Avg	Fair Value
Mouwasat	5.01	22.7x	(7%)	113.79
Dallah	3.57	23.0x	(12%)	82.06
Care	4.23	16.9x	(14%)	71.52
Hammadi	0.94	29.8x	(11%)	27.91
MEAHCO	4.37	14.2x	(7%)	62.02



Listing Metrics

IPO	Mouwasat	Dallah	Care	Hammadi	MEAHCO
Listing Date	02-09-2009	17-12-2012	13-03-2013	15-07-2014	29-03-2016
Price (SR)	44.00	38.00	27.00	28.00	64.00
Offer size (SR mn)	330	540	365	630	1,767
Performance Since IPO	+186%	+123%	+121%	+22%	-14%

Largest
healthcare IPO
on Saudi market

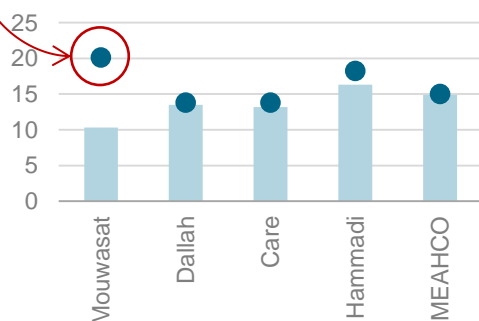
IPOs inline with market P/E
– 2009 market P/E an
exception given broad-
based earnings decline

On average 18% listing
premium to market P/B

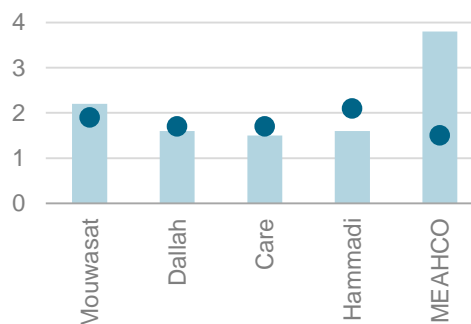
EV/EBITDA multiples have
dramatically escalated on recent
listings while market has been
range bound between 10-14x

Market P/E looks
like a reasonable
valuation
benchmark

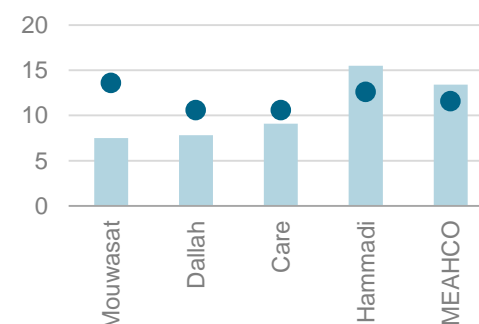
IPO P/E vs. Prevailing TASI P/E



IPO P/B vs. Prevailing TASI P/B

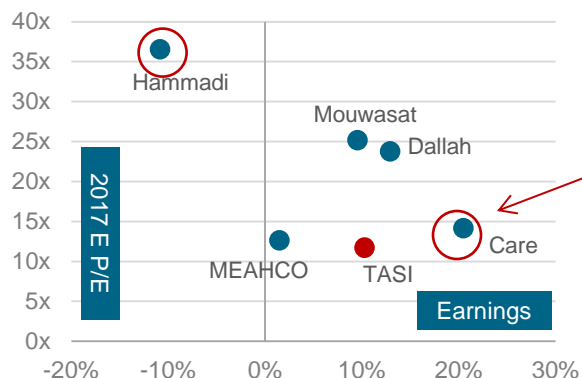


EV/EBITDA: IPO vs. Prevailing TASI



Relative Valuation

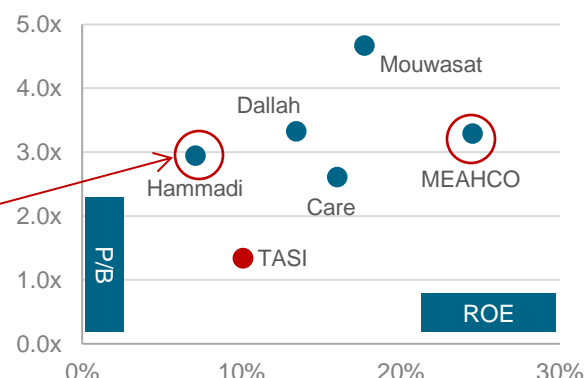
P/E vs. Earnings CAGR 2015-17E



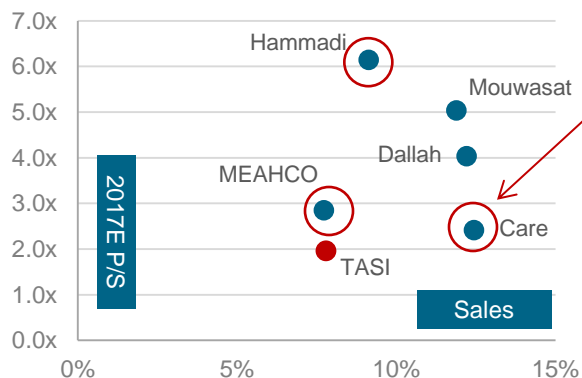
Hammadi trading at premium despite expectations of earnings de-growth – looks expensive on P/E basis
Care looks comparatively cheap

Hammadi commanding 3x P/B despite lower expected ROE than the market
MEAHCO looks attractive on this metric

P/B vs. ROE (2016E)



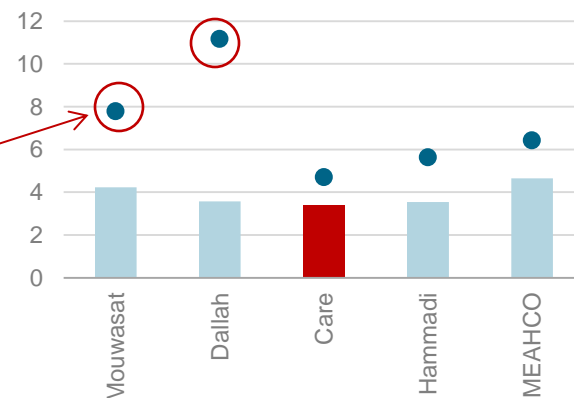
P/S vs. Sales CAGR 2015-17E



MEAHCO and Care commanding cheap sales multiple
Mouwasat looks expensive at 5x P/S while upcoming Nuzha Hospital is fully reflected in **Hammadi's** 6x P/S multiple

Market willing to pay significant premium per existing bed for **Dallah** and **Mouwasat**
 Meanwhile **Care's** expansion commands only SR 3.4 mn / bed

Mkt Cap per Existing and New Beds (SR mn)



2-Year Forward P/E Trading Range

TASI



Mouwasat



Dallah



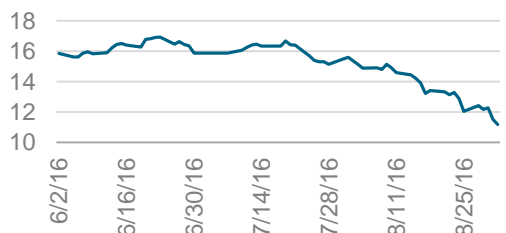
Care



Hammadi



MEAHCO (since listing)



Forward P/E	Average	Spread
Mouwasat	24.4x	68%
Dallah	26.1x	80%
Care	19.6x	35%
Hammadi	33.5x	131%
MEAHCO	15.2x	5%
Group	23.8x	64%
TASI	14.5x	---

Su-pree-moh!

- On average the group has traded at 64% premium to the market in the last 2 years – reflecting superior growth and upcoming expansion
- Spread should continue and possibly increase on privatization headlines over the next 12M even if the market de-rates
- International peers trade at 24.5x and 1.7x forward P/E and sales



Target P/E and Sensitivity

Historical premium

Mouwasat	TASI Forward Multiple				
68%	12.0x	12.5x	13.0x	13.5x	14.0x
-15%	18.4x	19.1x	19.9x	20.7x	21.4x
-10%	19.0x	19.8x	20.5x	21.3x	22.1x
0%	20.2x	21.0x	21.8x	22.7x	23.5x
+10%	21.4x	22.3x	23.1x	24.0x	24.9x
+15%	22.0x	22.9x	23.8x	24.7x	25.6x

Dallah	TASI Forward Multiple				
80%	12.0x	12.5x	13.0x	13.5x	14.0x
-15%	19.8x	20.6x	21.5x	22.3x	23.1x
-10%	20.4x	21.3x	22.1x	23.0x	23.8x
0%	21.6x	22.5x	23.4x	24.3x	25.2x
+10%	22.8x	23.8x	24.7x	25.7x	26.6x
+15%	23.4x	24.4x	25.4x	26.3x	27.3x

PPT change

Care	TASI Forward Multiple				
35%	12.0x	12.5x	13.0x	13.5x	14.0x
-15%	14.4x	15.0x	15.6x	16.2x	16.8x
-10%	15.0x	15.6x	16.3x	16.9x	17.5x
0%	16.2x	16.9x	17.6x	18.2x	18.9x
+10%	17.4x	18.1x	18.9x	19.6x	20.3x
+15%	18.0x	18.8x	19.5x	20.3x	21.0x

Hammadi	TASI Forward Multiple				
131%	12.0x	12.5x	13.0x	13.5x	14.0x
-15%	25.9x	27.0x	28.1x	29.2x	30.2x
-10%	26.5x	27.6x	28.7x	29.8x	30.9x
0%	27.7x	28.9x	30.0x	31.2x	32.3x
+10%	28.9x	30.1x	31.3x	32.5x	33.7x
+15%	29.5x	30.8x	32.0x	33.2x	34.4x

MEAHCO	TASI Forward Multiple				
5%	12.0x	12.5x	13.0x	13.5x	14.0x
-15%	10.8x	11.3x	11.7x	12.2x	12.6x
-10%	11.4x	11.9x	12.4x	12.8x	13.3x
0%	12.6x	13.1x	13.7x	14.2x	14.7x
+10%	13.8x	14.4x	15.0x	15.5x	16.1x
+15%	14.4x	15.0x	15.6x	16.2x	16.8x



Hold

SR 114

Recommendation

12M Target Price

Share Data (SR)

Last Close Price	126.00
Upside to Target (%)	(9.5)
Exp Dividend Yield (%)	1.6
Exp Total Return (%)	(7.9)
Shares Outstanding (mn)	50
Market Capitalization (mn)	6,300
Net Debt (mn)	410
Enterprise Value (mn)	6,710
3M ADTV	20,162
52W Hi – Low	147.75 – 94.00

Key Management

Mohammed Alsubaei	Chairman
Nasser Alsubaei	CEO
Mahmoud Sharab	CFO

Ownership (%)

Nasser Alsubaei	17.5
Suliman Al-Saleem	17.5
Mohammed Alsubaei	17.5
Public	47.5

Price Performance (%)

	Mouwasat	TASI	Retail
3M	(1.6)	(6.5)	(12.8)
6M	8.2	(4.0)	(12.5)
1YR	2.4	(18.5)	(32.0)

Valuation Multiples (x)

	2015	2016E	2017E
P / E	30.2	26.3	25.1
P / S	6.3	5.5	5.0
P / B	5.2	4.7	4.2
EV / EBITDA	23.2	19.7	18.2

Company Background

Dating back to 1975, Mouwasat started as a dispensary in Dammam and in 1988 launched Dammam hospital. Currently, the Company operates 5 hospitals in Dammam, Jubail, Madinah, Qatif and Riyadh with total bed capacity of 759 and 197 outpatient clinics. In addition, Mouwasat operates skin care, fertility and dietary centers. Some 79% of revenues are derived from Eastern region. By 2019, an estimated SR 450 mn hospital in Khobar is expected to launch. Aramco comprises roughly quarter of the revenues.

Drivers

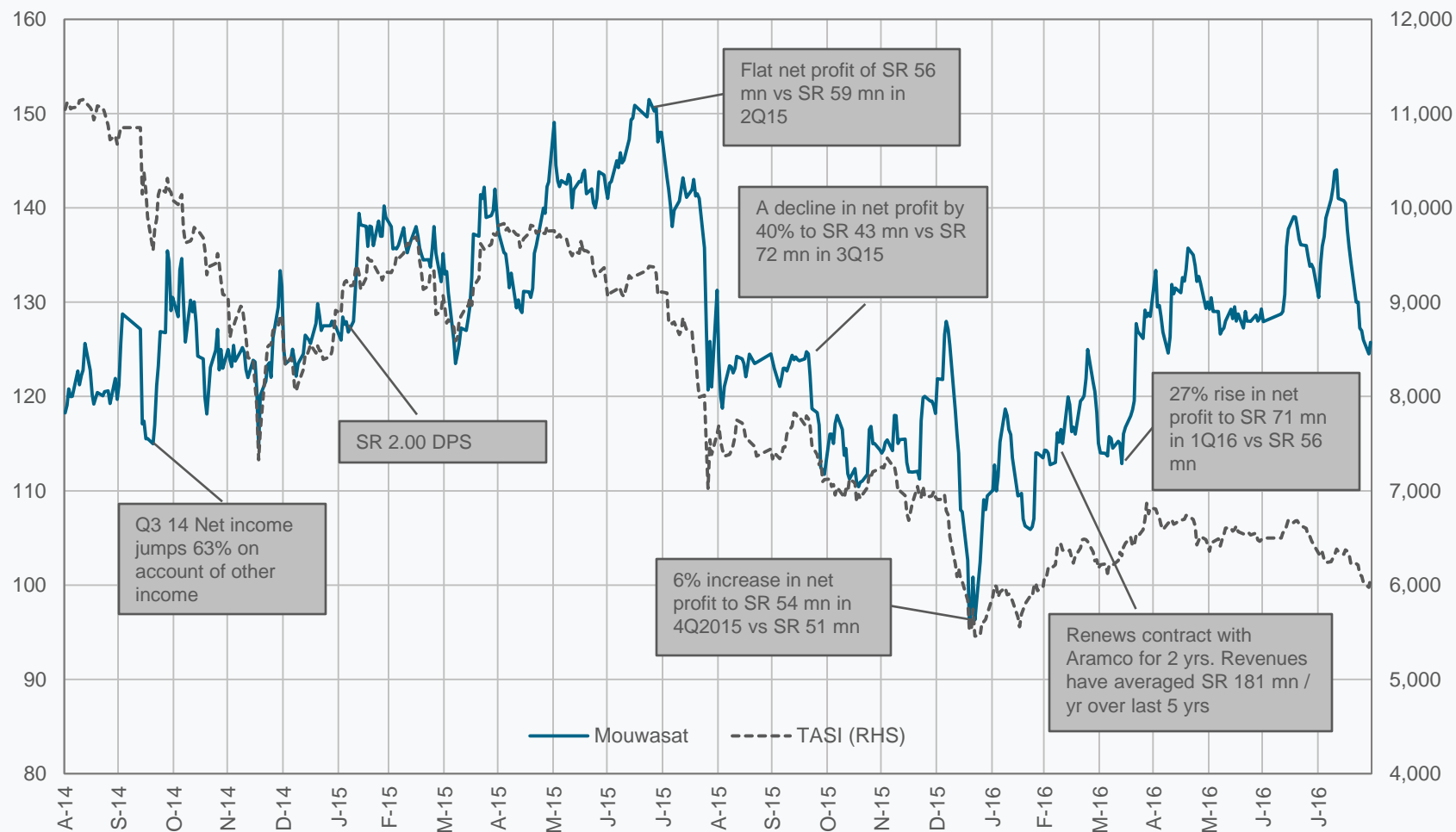
- Strong gross margins leave ample room to absorb potential increases in salaries
- Healthy expansion pipeline with projected 100 bed addition in Jubail by yearend
- Capex intensity expected to ease post-2019 providing some breathing room
- Manageable leverage ratios, improving cash conversion cycle (post-zakat cert) expected
- Expansion out of core Eastern region to Riyadh adds exposure to a large market though the upcoming Khobar hospital should be a key value driver

Risks and Hurdles

- Shares command rich P/E and P/B multiples
- Escalating receivables could require near-term funding and potentially higher provisions going forward
- CCC days increased to 63 at mid-2016, though we are projecting gradual normalization by end-2017, failure to do this could weigh on investor sentiment
- Relatively lower presence in Riyadh to capture city's population growth – building reputation and capacity utilization could take longer than expected
- Superior growth expectations priced into the stock, even flat earnings results in share sell-off (see 2Q15)
- Mouwasat had one of the lowest 2015 revenue growth in the group



Mouwasat Share Price History (2-year)



Mouwasat Summary Financials

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	1,000	1,143	1,252	1,375
Cost of sales	553	623	695	767
Gross profit	447	520	557	607
SG&A expenses	211	252	273	305
Other expenses	1	1	1	0
EBIT	235	268	284	302
Other income & expenses	4	5	2	(4)
Zakat & non-controlling	(30)	(33)	(35)	(37)
Net income	209	239	251	261
Shares outstanding	50	50	50	50
EBITDA	289	341	368	397
EPS	4.18	4.79	5.01	5.21
DPS	2.00	2.00	2.00	2.00

Cashflow Statement (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	207	243	266	338
Net capex	(168)	(247)	(260)	(245)
Cash from Investing	(239)	(98)	(260)	(245)
Net debt changes	36	37	219	364
Cash from financing	(69)	(73)	119	264
Change in cash	(101)	72	125	357
Ending Cash	81	153	278	635

* Note: 2015 Cash & equivalents includes term deposit

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	231	153	278	635
Receivables	271	413	446	490
Inventories & other	108	102	117	128
Current Assets	610	667	840	1,253
PP&E	1,212	1,387	1,564	1,714
Advances	23	25	75	85
Investments & other	26	26	26	27
Total Assets	1,871	2,106	2,505	3,079
Payables	147	189	190	210
Short-term loans	121	132	55	80
Other items	22	26	31	36
Current Liabilities	290	347	276	326
Long-term debt	326	351	648	987
Other items	51	57	64	70
Total Liabilities	667	756	988	1,383
Shareholder's Equity	1,204	1,350	1,517	1,695
Total Liabilities & Equity	1,871	2,106	2,505	3,079



Mouwasat Ratios

Growth (%)	2015	2016E	2017E	2018E
Revenues	10.7	14.3	9.5	9.8
EBITDA	5.0	18.0	7.8	7.8
EBIT	0.7	13.8	6.0	6.3
Net income	(13.0)	14.6	4.7	4.0
DPS	-	-	-	-
Receivables	23.4	52.1	8.1	9.8

Valuation	2015	2016E	2017E	2018E
P / S	6.3x	5.5x	5.0x	4.6x
P / B	5.2x	4.7x	4.2x	3.7x
P / E	30.2x	26.3x	25.1x	24.2x
EV / EBITDA	23.2x	19.7x	18.2x	16.9x
ROAE	18%	19%	17%	17%
ROAA	12%	12%	11%	9%

Margins (%)	2015	2016E	2017E	2018E
Gross	45	46	45	44
EBITDA	29	30	29	29
EBIT	24	23	23	22
Net	21	21	20	19
SG&A-to-Sales	21	22	22	22

Operating Metrics	2015	2016E	2017E	2018E
Beds	759	810	910	910
Clinics	197	264	279	299
Total Sales / Bed (SR mn)	1.3	1.4	1.4	1.5
Total Sales / Clinic (SR mn)	5.1	4.3	4.5	4.6
Fixed Asset Turnover	0.8x	0.8x	0.8x	0.8x

Ratios	2015	2016E	2017E	2018E
Debt / Equity	0.4x	0.4x	0.5x	0.6x
Net debt / EBITDA	1.3x	1.0x	1.2x	1.1x
Debt / Assets	0.2x	0.2x	0.3x	0.3x
Current Ratio	2.1x	1.9x	3.0x	3.8x
CFO / Sales	21%	21%	21%	25%
Payout Ratio	48%	42%	40%	38%
CCC (days)	41	53	64	64

Next Quarter Forecast	3Q16E	3Q15	Y/Y Chg	Q/Q Chg
Revenues	262	246	6%	(13%)
Gross profit	119	114	5%	(14%)
Gross margin	45%	46%	-	-
EBITDA	74	63	18%	(17%)
EBIT	56	49	14%	(21%)
Net income	49	43	14%	(21%)
EPS	0.98	0.86	14%	(21%)



Hold

Recommendation

SR 82

12M Target Price

Share Data (SR)

Last Close Price	84.75
Upside to Target (%)	(3.2)
Exp Dividend Yield (%)	1.8
Exp Total Return (%)	(1.5)
Shares Outstanding (mn)	59
Market Capitalization (mn)	5,000
Net Debt (mn)	375
Enterprise Value (mn)	5,375
3M ADTV	55,859
52W Hi – Low	92.75 – 49.50

Key Management

Tariq Alkasabi	Chairman
Ahmad Babaeer	CEO
Khalid Saud	CFO

Ownership (%)

Dallah Al Baraka Holding Co	54.6
Mohammed Al Faqih	5.3
Public	40.1

Price Performance (%)

	Dallah	TASI	Retail
3M	(3.3)	(6.5)	(12.8)
6M	14.3	(4.0)	(12.5)
1YR	6.3	(18.5)	(32.0)

Valuation Multiples (x)

	2015	2016E	2017E
P / E	30.3	24.7	23.8
P / S	5.1	4.5	4.0
P / B	3.6	3.3	3.1
EV / EBITDA	24.3	19.4	17.8

Company Background

Established in 1987, Dallah employs more than 4,000 personnel. Current capacity includes 448 beds and 220 clinics at its Riyadh complex. In addition, the Company manufactures some 150 pharmaceutical products for KSA, GCC and European markets. Presently, 2 third-party hospitals are managed by Dallah. In 2015, some 39k inpatients and 932k outpatients were catered to at the Company's facilities. Over the last 10 years, +10% CAGR in patient flow was recorded as the Company opened OB GYN (2007) and Pediatric (2013) hospitals.

Drivers

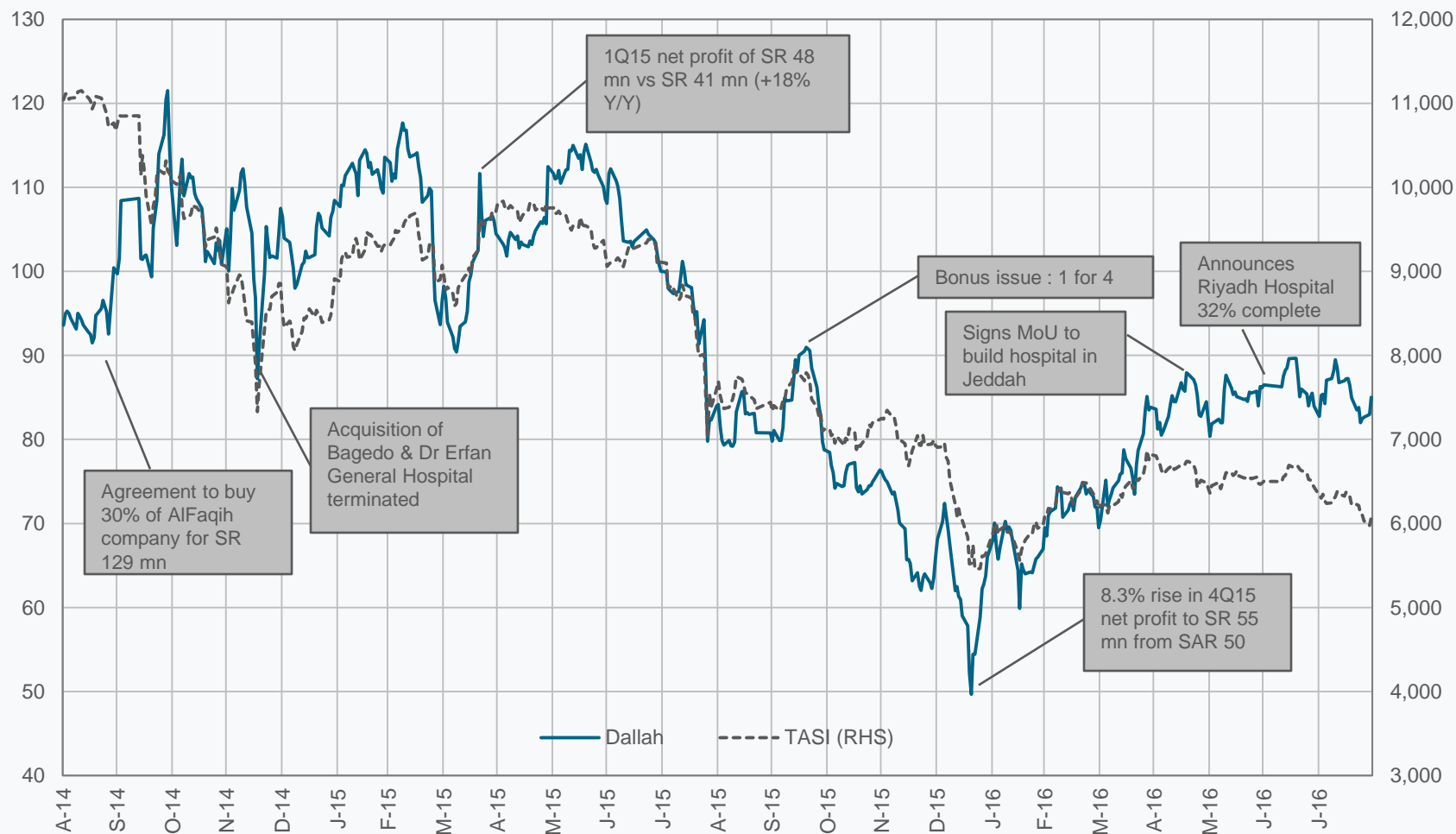
- Cash customers represent 27% of the overall mix resulting in relatively benign increase in receivables
- Strong expansion pipeline reaching 1,400 beds and 750 clinics by end-2018 Including: West expansion (250 beds), Namar Hospital (400 beds) and Dr. AlFaqih Hospital (308 beds)
- Past expansions have led to increased patient flow – good planning and execution
- Targeting per bed metrics through improved efficiencies and shorter avg length of stay
- Projected to deliver strong revenue and earnings growth in the Group through 2018

Risks and Hurdles

- EBITDA margins are at the lower end relative to peers which may impact valuation premium which is at the higher end
- DCF-based valuation yields significantly lower fair value given the aggressive capex plans over the next 5 years
- Debt-to-equity could escalate to nearly 1x over the next 2 years, though P&L impact will be deferred on capitalized fin charges
- Delays in project completion are possible which may render forecasts unachievable
- Dallah shares are priced for perfection, any earnings miss poses risk of sell-off. Healthcare has higher beta which may exacerbate during a broad market sell-off



Dallah Share Price History (2-year)



Dallah Summary Financials

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	986	1,119	1,242	1,353
Cost of sales	578	624	705	770
Gross profit	408	495	537	583
SG&A expenses	239	280	312	341
Other expenses	-	-	-	-
EBIT	168	215	225	242
Other income & expenses	6	0	(2)	(8)
Zakat & non-controlling	(10)	(13)	(12)	(13)
Net income	165	202	211	221
Shares outstanding	59	59	59	59
EBITDA	222	277	302	349
EPS	2.80	3.43	3.57	3.75
DPS	1.00	1.50	1.50	1.50

Cashflow Statement (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	206	259	272	305
Net capex	(185)	(258)	(525)	(500)
Cash from Investing	(327)	(262)	(525)	(500)
Net debt changes	197	160	1,050	(25)
Cash from financing	150	72	962	(114)
Change in cash	28	69	708	(308)
Ending Cash	93	162	870	562

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	93	162	870	562
Receivables	260	289	313	352
Inventories & other	197	199	240	261
Current Assets	550	651	1,423	1,175
PP&E	1,145	1,345	1,793	2,185
Advances	-	-	-	-
Investments & other	307	304	304	304
Total Assets	2,002	2,299	3,519	3,664
Payables	65	71	77	84
Short-term loans	148	187	287	337
Other items	61	65	89	96
Current Liabilities	274	324	453	518
Long-term debt	245	366	1,316	1,241
Other items	89	104	123	145
Total Liabilities	609	794	1,892	1,904
Shareholder's Equity	1,393	1,505	1,627	1,760
Total Liabilities & Equity	2,002	2,299	3,519	3,664



Dallah Ratios

Growth	2015	2016E	2017E	2018E
Revenues	14.7	13.4	11.0	9.0
EBITDA	16.6	24.9	9.1	15.8
EBIT	16.0	27.7	4.8	7.4
Net income	12.2	22.5	4.1	5.1
DPS	(33)	50	-	-
Receivables	8.4	4.8	15.0	12.5

Valuation	2015	2016E	2017E	2018E
P / S	4.8x	4.4x	3.9x	3.3x
P / B	3.4x	3.3x	3.1x	2.8x
P / E	28.8x	24.2x	22.9x	22.6x
EV / EBITDA	24.3x	19.4x	17.8x	15.4x
ROAE	12%	14%	13%	13%
ROAA	9%	10%	7%	6%

Margins	2015	2016E	2017E	2018E
Gross	41	44	43	43
EBITDA	22	25	24	26
EBIT	17	19	18	18
Net	17	18	17	16
SG&A-to-Sales	24	24	24	23

Operating Metrics	2015	2016E	2017E	2018E
Beds	422	448	623	1,200
Clinics	204	230	404	620
Total Sales / Bed	2.3	2.6	2.1	1.2
Total Sales / Clinic	4.8	5.0	3.2	2.4
Fixed Asset Turnover	0.9x	0.8x	0.7x	0.7x

Ratios	2015	2016E	2017E	2018E
Debt / Equity	0.3x	0.4x	0.4x	0.9x
Net debt / EBITDA	1.4x	1.4x	-0.7x	2.9x
Debt / Assets	0.2x	0.2x	0.2x	0.4x
Current Ratio	2.0x	2.0x	3.1x	2.3x
CFO / Sales	21%	23%	21%	20%
Payout Ratio	34%	43%	41%	40%
CCC (days)	88	84	82	85

Next Quarter Forecast	3Q16E	3Q15	Y/Y Chg	Q/Q Chg
Revenues	256	224	14%	(11%)
Gross profit	107	88	21%	(18%)
Gross margin	42%	39%	-	-
EBITDA	50	40	25%	(33%)
EBIT	34	26	28%	(43%)
Net income	32	27	21%	(41%)
EPS	0.55	0.45	21%	(41%)



Buy

Recommendation

SR 72

12M Target Price

Share Data (SR)

Last Close Price	59.75
Upside to Target (%)	20.5
Exp Dividend Yield (%)	1.3
Exp Total Return (%)	21.8
Shares Outstanding (mn)	45
Market Capitalization (mn)	2,680
Net Debt (mn)	176
Enterprise Value (mn)	2,856
3M ADTV	81,526
52W Hi – Low	73.00 – 40.70

Key Management

Eyad AlHussen	Chairman
Dr. Ahmed Saeed Al Amry	CEO
Kieran Gandy	CFO

Ownership (%)

GOSI	35.1
Public	64.9

Price Performance (%)

	Care	TASI	Retail
3M	(2.2)	(6.5)	(12.8)
6M	27.3	(4.0)	(12.5)
1YR	12.6	(18.5)	(32.0)

Valuation Multiples (x)

	2015	2016E	2017E
P / E	20.5	16.3	14.1
P / S	3.0	2.7	2.4
P / B	3.0	2.6	2.3
EV / EBITDA	15.3	12.1	10.6

Company Background

National Medical Care Company, founded in 1965, operates two hospitals in Riyadh. National Hospital was opened in 1967 and currently offers 250 beds and 22 clinics while Riyadh Care Hospital was launched in 1991 and offers 320 beds. In 2015, the Company launched Care Family Medical Centre, also in Riyadh, with 22 clinics. In addition, the Company engages in the distribution of medicines and medical supplies. In 2015, pharma sales comprised some 14% of total revenues. GOSI is the largest customer comprising a quarter of the revenues.

Drivers

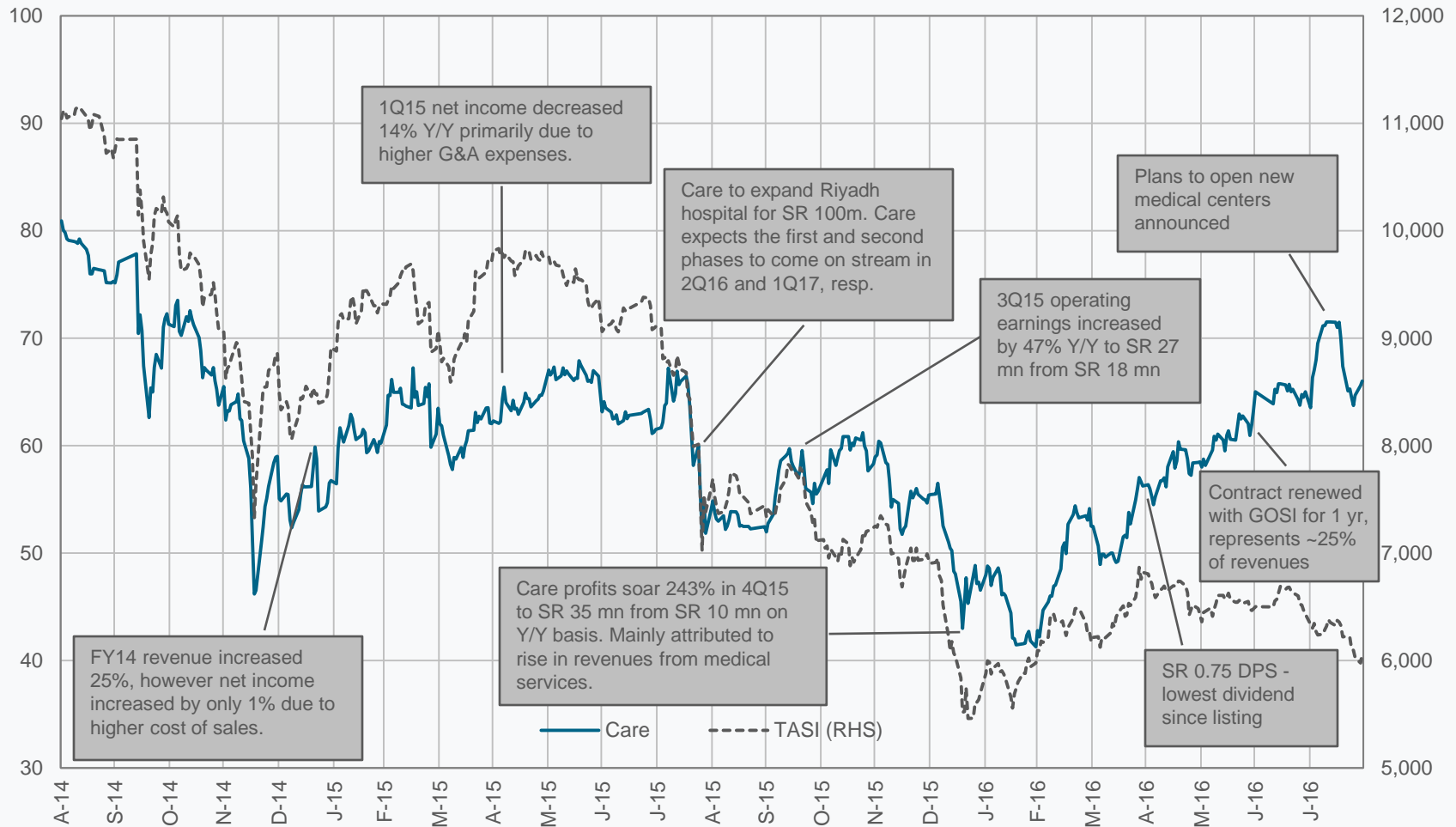
- Moderate expansion plan over the next two years means low capex intensity
- Care announced highest topline growth in 2015, relative to peers, of nearly 20% Y/Y
- Respectable revenue and earnings growth projected through 2018 at +12% and +17% CAGR, respectively
- Commands cheap P/S (2.7x) and P/E (16x) relative to peers given projected sales and earnings growth
- Care has the lowest market cap / bed (SR 3.7 mn) suggesting room for growth as new capacity comes online plus revised rates
- Long established operating history in major city of Riyadh plus potential to acquire gov't hospitals as privatization gains momentum

Risks and Hurdles

- Nearly 84% increase in receivables through 1H16 from end-2014 suggests low cash customers
- Gross margins are the lowest among peers at 25% vs Group average 42% - suggests comparatively lower capacity to absorb cost inflation (particularly salary expense)
- Estimated revenue per bed of SR 1.0 mn is the lowest in the Group suggesting longer bed occupancy and consequently lower margins
- Business concentration in occupation hazard cases may be contributing factor in margins



Care Share Price History (2-year)



Care Summary Financials

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	879	1,005	1,111	1,227
Cost of sales	658	725	791	874
Gross profit	220	280	320	352
SG&A expenses	92	110	124	139
Other expenses	-	-	-	-
EBIT	129	170	196	214
Other income & expenses	13	8	9	9
Zakat & non-controlling	(11)	(14)	(14)	(16)
Net income	131	165	190	207
Shares outstanding	45	45	45	45
EBITDA	186	235	269	309
EPS	2.91	3.67	4.23	4.62
DPS	1.55	0.75	0.75	1.00

Cashflow Statement (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	50	97	151	231
Net capex	(89)	(79)	(200)	(200)
Cash from Investing	(89)	(79)	(200)	(200)
Net debt changes	50	8	430	(110)
Cash from financing	(20)	(26)	396	(155)
Change in cash	(58)	(8)	347	(124)
Ending Cash	93	85	432	309

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	93	85	432	309
Receivables	558	709	807	890
Inventories & other	106	112	163	170
Current Assets	757	905	1,402	1,369
PP&E	651	668	794	899
Advances	-	-	-	-
Investments & other	6	2	2	2
Total Assets	1,413	1,575	2,198	2,270
Payables	176	181	184	180
Short-term loans	-	35	75	100
Other items	54	64	95	117
Current Liabilities	230	280	354	397
Long-term debt	219	191	581	446
Other items	67	75	78	80
Total Liabilities	516	547	1,013	923
Shareholder's Equity	897	1,028	1,185	1,347
Total Liabilities & Equity	1,413	1,575	2,198	2,270



Care Ratios

Growth	2015	2016E	2017E	2018E
Revenues	19.7	14.4	10.5	10.4
EBITDA	31.5	26.2	14.4	14.9
EBIT	41.8	32.3	14.9	9.3
Net income	39.7	26.0	15.3	9.2
DPS	-	(51.6)	-	33.3
Receivables	54.9	26.9	13.8	10.4

Valuation	2015	2016E	2017E	2018E
P / S	3.0x	2.7x	2.4x	2.2x
P / B	3.0x	2.6x	2.3x	2.0x
P / E	20.5x	16.3x	14.1x	12.9x
EV / EBITDA	15.3x	12.1x	10.6x	9.2x
ROAE	15%	17%	17%	16%
ROAA	10%	11%	10%	9%

Margins	2015	2016E	2017E	2018E
Gross	25	28	29	29
EBITDA	21	23	24	25
EBIT	15	17	18	17
Net	15	16	17	17
SG&A-to-Sales	10	11	11	11

Operating Metrics	2015	2016E	2017E	2018E
Beds	620	766	766	766
Clinics	150	152	155	155
Total Sales / Bed (SR mn)	1.4	1.3	1.5	1.6
Total Sales / Clinic (SR mn)	5.9	6.6	7.2	7.9
Fixed Asset Turnover	1.4x	1.5x	1.4x	1.4x

Ratios	2015	2016E	2017E	2018E
Debt / Equity	0.2x	0.2x	0.6x	0.4x
Net debt / EBITDA	0.7x	0.6x	0.8x	0.8x
Debt / Assets	0.2x	0.1x	0.3x	0.2x
Current Ratio	3.3x	3.2x	4.0x	3.4x
CFO / Sales	6%	10%	14%	19%
Payout Ratio	53%	20%	18%	22%
CCC (days)	165	196	210	220

Upcoming Quarter Forecast	3Q16E	3Q15	Y/Y Chg	Q/Q Chg
Revenues	241	211	14%	(7%)
Gross profit	64	51	26%	(23%)
Gross margin	27%	24%	-	-
EBITDA	54	42	28%	(30%)
EBIT	37	27	37%	(38%)
Net income	37	25	43%	(37%)
EPS	0.81	0.57	43%	(37%)



Hold

SR 28

Recommendation

12M Target Price

Share Data (SR)

Last Close Price	34.20
Upside to Target (%)	(18.1)
Exp Dividend Yield (%)	2.2
Exp Total Return (%)	(15.9)
Shares Outstanding (mn)	120
Market Capitalization (mn)	4,140
Net Debt (mn)	474
Enterprise Value (mn)	4,578
3M ADTV	137,853
52W Hi – Low	55.75 – 32.00

Key Management

Saleh AlHammadi	Chairman
Mohammed AlHammadi	CEO
Saed Hussein	CFO

Ownership (%)

Jadwa Healthcare Fund	21.0
Mohammed AlHammadi	10.0
Abdulzziz AlHammadi	10.0
Public	59.0

Price Performance (%)

	Hammadi	TASI	Retail
3M	(19.2)	(6.5)	(12.8)
6M	(18.2)	(4.0)	(12.5)
1YR	(31.4)	(18.5)	(32.0)

Valuation Multiples (x)

	2015	2016E	2017E
P / E	29.0	41.3	36.5
P / S	7.3	6.9	6.1
P / B	3.0	2.9	2.9
EV / EBITDA	24.9	26.1	22.1

Company Background

Established in 1985, Hammadi operates the Olaya Hospital in Riyadh with 300 beds and 74 outpatient clinics. In Aug-2015, Suwaidi Hospital was opened with total bed capacity of 428 and 64 clinics. The Company is currently in the final stages of Nuzha Hospital (also in Riyadh), targeted to open 1Q17 with 428 bed capacity and 64 clinics. Current headcount is 2,600 while the Company is ramping-up staff at its new hospital. Shares were listed on Tadawul in July-2014. In 1Q16, fire incident at the Olaya Hospital resulted in shutdown.

Drivers

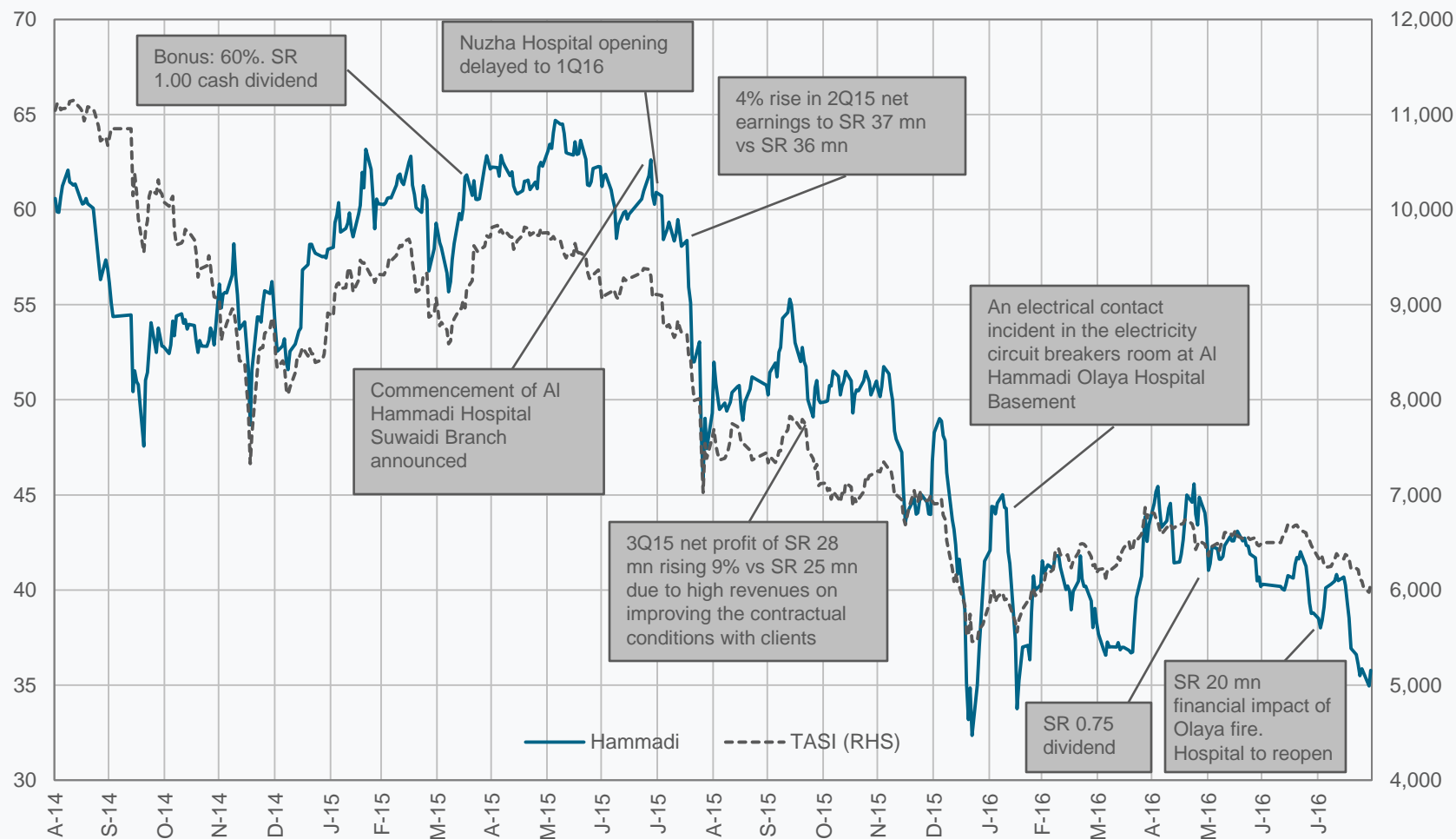
- Earnings expected to rebound sharply in 2017 (+32% Y/Y) as occupancy rates at Suwaidi increase from about 30% (targeting around 20% increment per year) and Nuzha comes onstream
- Long established operating history in Riyadh with prime location (Olaya)
- Recent SR 100 mn facility should cover immediate working capital needs limiting potential for further debt acceleration
- Beyond Nuzha, no capacity addition in the foreseeable future which means Hammadi has already done the heavy lifting – mostly replacement capex ahead

Risks and Hurdles

- Loss of patients at Olaya Hospital due to fire may be difficult to recover
- Immediate need to hire qualified staff for Suwaidi and Nuzha may take longer than expected, causing delays in ramp-up
- Some two-thirds of revenue is non-cash which could lead to further increase in receivables (up +175% since end-2014)
- Hammadi commanding significant premium to peers on P/S and P/E basis – may be difficult to sustain considering potential earnings de-growth relative to 2015
- Historically, Hammadi has traded at wide premium to peers (33.5x P/E vs Group avg 23.8x) which may be difficult to justify



Hammadi Share Price History (2-year)



Hammadi Summary Financials

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	561	592	669	746
Cost of sales	317	351	393	440
Gross profit	244	241	275	306
SG&A expenses	91	119	124	139
Other expenses	-	-	-	-
EBIT	153	122	152	167
Other income & expenses	(3)	(14)	(30)	(31)
Zakat & non-controlling	(9)	(9)	(9)	(10)
Net income	141	99	112	126
Shares outstanding	120	120	120	120
EBITDA	184	175	207	226
EPS	1.18	0.83	0.94	1.05
DPS	1.00	0.75	0.75	0.75

Cashflow Statement (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	88	(106)	184	164
Net capex	(197)	(150)	(100)	(16)
Cash from Investing	(197)	(150)	(100)	(16)
Net debt changes	(271)	243	175	(100)
Cash from financing	(346)	243	85	(190)
Change in cash	(454)	(14)	169	(42)
Ending Cash	89	76	245	203

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	89	76	245	203
Receivables	249	414	432	470
Inventories & other	41	49	54	59
Current Assets	380	539	731	733
PP&E	1,086	1,100	1,695	1,654
Advances	-	-	-	-
Investments & other	470	552	2	0
Total Assets	1,936	2,192	2,429	2,387
Payables	57	37	38	48
Short-term loans	150	265	190	140
Other items	34	48	78	81
Current Liabilities	241	350	305	269
Long-term debt	276	404	654	604
Other items	33	43	52	60
Total Liabilities	550	797	1,011	933
Shareholder's Equity	1,386	1,395	1,418	1,454
Total Liabilities & Equity	1,936	2,192	2,429	2,387



Hammadi Ratios

Growth	2015	2016E	2017E	2018E
Revenues	16.5	5.4	13.0	11.6
EBITDA	27.0	(4.7)	17.8	9.5
EBIT	17.1	(20.3)	24.2	10.1
Net income	9.6	(29.7)	13.2	11.8
DPS	n.a.	(25.0)	-	-
Receivables	88.7	66.2	4.3	8.8

Valuation	2015	2016E	2017E	2018E
P / S	7.3x	6.9x	6.1x	5.5x
P / B	3.0x	2.9x	2.9x	2.8x
P / E	29.0x	41.3x	36.5x	32.7x
EV / EBITDA	24.9x	26.1x	22.1x	20.2x
ROAE	10%	7%	8%	9%
ROAA	7%	5%	5%	5%

Margins	2015	2016E	2017E	2018E
Gross	43	41	41	41
EBITDA	33	30	31	30
EBIT	27	21	23	22
Net	25	17	17	17
SG&A-to-Sales	16	20	19	19

Operating Metrics	2015	2016E	2017E	2018E
Beds	400	500	956	1,156
Clinics	74	75	90	202
Total Sales / Bed	1.4	1.2	0.7	0.6
Total Sales / Clinic	7.6	7.9	7.4	3.7
Fixed Asset Turnover	0.5x	0.5x	0.4x	0.5x

Ratios	2015	2016E	2017E	2018E
Debt / Equity	0.3x	0.5x	0.6x	0.5x
Net debt / EBITDA	1.8x	3.4x	2.9x	2.4x
Debt / Assets	0.2x	0.3x	0.3x	0.3x
Current Ratio	1.6x	1.5x	2.4x	2.7x
CFO / Sales	16%	(18%)	28%	22%
Payout Ratio	85%	91%	80%	72%
CCC (days)	114	237	220	208

Upcoming Quarter Forecast	3Q16E	3Q15	Y/Y Chg	Q/Q Chg
Revenues	140	137	2%	1%
Gross profit	58	59	(1%)	2%
Gross margin	41%	43%	-	-
EBITDA	43	42	3%	9%
EBIT	30	32	(7%)	13%
Net income	24	28	(14%)	14%
EPS	0.20	0.23	(14%)	14%



Buy

Recommendation

SR 62

12M Target Price

Share Data (SR)

Last Close Price	55.00
Upside to Target (%)	12.7
Exp Dividend Yield (%)	3.6
Exp Total Return (%)	16.4
Shares Outstanding (mn)	92
Market Capitalization (mn)	5,062
Net Debt (mn)	168
Enterprise Value (mn)	5,230
Since IPO ADTV	838.5
Since IPO Hi – Low	78.50 – 47.80

Key Management

Sobhi Batterjee	Chairman
Mohammed Mamoun Al-Najjar	CEO
Alarma Varghese Thomas	CFO
Tahir Ayub	Deputy CFO

Ownership (%)

Bait Al-Batterjee Medical Co	54.7
International Financial Corp	8.4
Public	36.9

Price Performance (%)

	MEAHCO	TASI	Retail
3M	(20.9)	(6.5)	(12.8)
6M	n.a.	(4.0)	(12.5)
Since IPO	(14.1)	(18.5)	(32.0)

Valuation Multiples (x)

	2015	2016E	2017E
P / E	13.0	13.4	12.6
P / S	3.3	3.1	2.8
P / B	3.7	3.3	2.9
EV / EBITDA	11.9	12.0	11.3

Company Background

Founded in 1988, MEAHCO (Saudi German) is headquartered in Jeddah with total headcount of 3,700. MEAHCO operates 4 hospitals across Jeddah, Riyadh, Madinah and Aseer. The Company is nearing completion of its 150-bed Hail Hospital where it has 40% ownership of NHC (hospital owner and operator). In 2018, Dammam Hospital (150 beds and 100 clinics) is expected to launch. MEAHCO listed on Tadawul in Mar-2016 and is the latest healthcare provider to IPO. MEAHCO is the largest in the Group by revenues.

Drivers

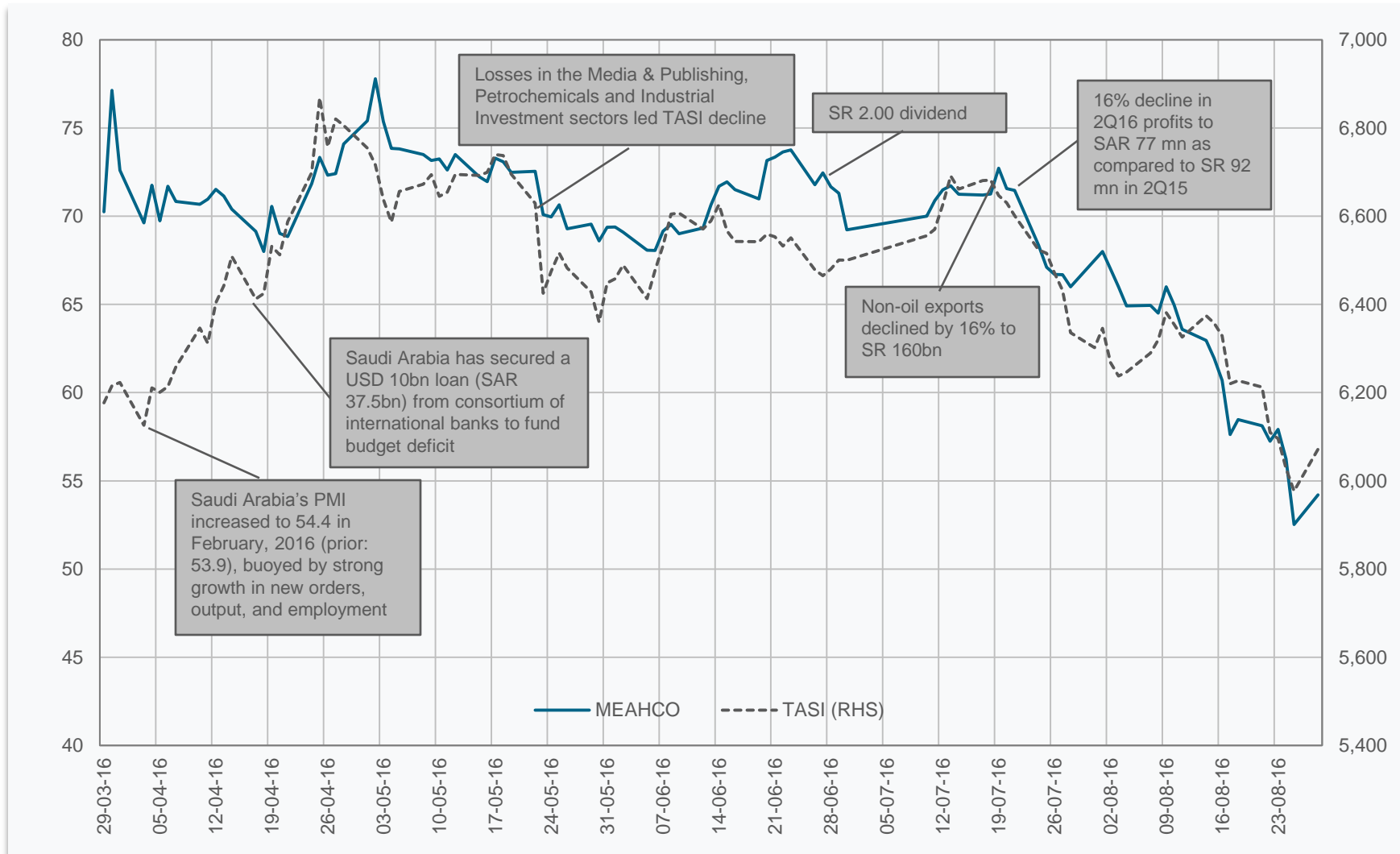
- Shares have dropped nearly 21% in the trailing three months and now appear in oversold territory
- At 13x earnings and 3.3x book, shares are attractively valued
- MEAHCO enjoys the highest gross margins in the Group and around 28% EBITDA margins
- Flow of payments expected in the coming weeks should ease receivables situation and investor concerns
- 60-65% utilization rate across the Company's 788 beds – suggests room for improvement thru IP services
- Strong brand recognition with visibility in multiple regions of KSA

Risks and Hurdles

- Escalating receivables pose near-term headwinds as cash conversion cycle has extended to 170 days in 1H16 from 131 days at end-2015
- Although recruitment of nurses and doctors is nearly complete at Hail and utilization is expected to ramp-up to 40% next year, modest probability of slippage exists
- Hail took nearly 10 years to reach fruition, Dammam is expected to come online in relatively shorter timeframe (2 years) given the learnings from Hail and less admin-related complications



MEAHCO Share Price History (Since IPO)



MEAHCO Summary Financials

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	1,535	1,634	1,781	1,978
Cost of sales	724	791	875	1,004
Gross profit	810	842	905	974
SG&A expenses	424	466	509	562
Other expenses	-	-	-	-
EBIT	386	376	396	412
Other income & expenses	4	1	6	4
Zakat & non-controlling	0	1	0	0
Net income	390	377	402	416
Shares outstanding	92	92	92	92
EBITDA	438	435	465	492
EPS	4.24	4.10	4.37	4.52
DPS	2.00	2.00	2.00	2.25

Cashflow Statement (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	194	400	398	455
Net capex	(115)	(221)	(300)	(325)
Cash from Investing	(115)	(221)	(300)	(325)
Net debt changes	6	51	283	(40)
Cash from financing	(159)	(144)	96	(248)
Change in cash	(80)	35	194	(118)
Ending Cash	56	91	285	167

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	56	91	285	167
Receivables	874	1,026	1,119	1,195
Inventories & other	132	99	114	124
Current Assets	1,062	1,216	1,517	1,486
PP&E	839	858	989	1,110
Advances	-	-	-	-
Investments & other	156	299	399	524
Total Assets	2,057	2,372	2,905	3,120
Payables	188	207	213	228
Short-term loans	105	149	147	132
Other items	96	92	98	107
Current Liabilities	389	448	457	467
Long-term debt	73	83	368	343
Other items	181	241	263	284
Total Liabilities	643	773	1,088	1,094
Shareholder's Equity	1,414	1,600	1,817	2,026
Total Liabilities & Equity	2,057	2,372	2,905	3,120



MEAHCO Ratios

Growth	2015	2016E	2017E	2018E
Revenues	9.7	6.5	9.0	11.0
EBITDA	20.3	(0.8)	6.8	5.8
EBIT	20.7	(2.7)	5.4	4.1
Net income	17.6	(3.3)	6.5	3.5
DPS	11.1	-	-	12.5
Receivables	45.6	17.3	9.1	6.8

Valuation	2015	2016E	2017E	2018E
P / S	3.3x	3.1x	2.8x	2.6x
P / B	3.7x	3.3x	2.9x	2.6x
P / E	13.0x	13.4x	12.6x	12.2x
EV / EBITDA	11.9x	12.0x	11.3x	10.6x
ROAE	31%	26%	24%	22%
ROAA	20%	17%	15%	14%

Margins	2015	2016E	2017E	2018E
Gross	53	52	51	49
EBITDA	29	27	26	25
EBIT	25	23	22	21
Net	25	23	23	21
SG&A-to-Sales	28	29	29	28

Operating Metrics	2015	2016E	2017E	2018E
Beds	788	788	908	1,033
Clinics	281	281	301	356
Total Sales / Bed	1.9	2.1	2.0	1.9
Total Sales / Clinic	5.5	5.8	5.9	5.6
Fixed Asset Turnover	1.8x	1.9x	2.1x	2.0x

Ratios	2015	2016E	2017E	2018E
Debt / Equity	0.1x	0.1x	0.3x	0.2x
Net debt / EBITDA	0.3x	0.3x	0.5x	0.6x
Debt / Assets	0.1x	0.1x	0.2x	0.1x
Current Ratio	2.7x	2.7x	3.3x	3.2x
CFO / Sales	13%	24%	22%	23%
Payout Ratio	47%	49%	46%	50%
CCC (days)	132	151	170	168

Upcoming Quarter Forecast	3Q16E	3Q15	Y/Y Chg	Q/Q Chg
Revenues	385	352	9%	(6%)
Gross profit	199	183	8%	(6%)
Gross margin	52%	52%	-	-
EBITDA	108	104	4%	17%
EBIT	93	90	3%	19%
Net income	93	91	3%	21%
EPS	1.01	0.99	3%	21%



Group Consolidated Financials and Ratios

Income Statement (SR mn)	2015	2016E	2017E	2018E
Revenues	4,961	5,492	6,054	6,678
Cost of sales	2,832	3,115	3,459	3,856
Gross profit	2,129	2,378	2,595	2,823
SG&A expenses	1,057	1,226	1,342	1,485
Other expenses	1	1	1	0
EBIT	1,071	1,151	1,252	1,337
Other income & expenses	24	0	(16)	(30)
Zakat & non-controlling	(60)	(68)	(71)	(76)
Net income	1,036	1,083	1,165	1,231
EBITDA	1,320	1,464	1,610	1,773

Balance Sheet (SR mn)	2015	2016E	2017E	2018E
Cash & equivalents	562	567	2,110	1,875
Receivables	2,213	2,851	3,117	3,398
Inventories	584	561	687	743
PP&E	4,932	5,358	6,835	7,563
Other Items	988	1,208	809	941
Total Assets	9,279	10,545	13,557	14,520
Total debt	1,140	1,396	3,567	3,621
Other items	1,845	2,270	2,426	2,616
Total Liabilities	2,985	3,666	5,993	6,238
Total Liabilities & Equity	9,279	10,545	13,557	14,520

Margins (%)	2015	2016E	2017E	2018E
Gross	43	43	43	42
EBITDA	27	27	27	27
EBIT	22	21	21	20
Net	21	20	19	18

Cashflows (SR mn)	2015	2016E	2017E	2018E
Cash from Operations	745	892	1,271	1,493
Cash from Investing	(967)	(810)	(1,385)	(1,286)
Cash from Financing	(444)	72	1,657	(442)
Ending Cash	412	567	2,110	1,875

Growth (%)	2015	2016E	2017E	2018E
Revenue	13	11	10	10
Gross	13	12	9	9
EBITDA	18	11	10	10
Net Income	10	5	8	6

Metrics	2015	2016E	2017E	2018E
Beds	2,989	3,312	4,163	5,065
ROAE	17%	17%	16%	16%
ROAA	12%	11%	10%	9%
Fixed Asset Turnover	1.0x	1.0x	0.9x	0.9x

* Note: Mouwasat 2015 Cash & equivalents includes term deposit



Recommendation and Conclusion

Initiate coverage on KSA Healthcare names with:

Rating Summary (SR)	TASI Code	Last Close Price	12M Target Price	Recommendation	Exp Upside to Target (%)	Exp Div Yield (%)	Exp Total Return (%)
Mouwasat	4002	126.00	114	Hold	(9.5)	1.6	(7.9)
Dallah	4004	84.75	82	Hold	(3.2)	1.8	(1.5)
Care	4005	59.75	72	Buy	20.5	1.3	21.8
Hammadi	4007	34.20	28	Hold	(18.1)	2.2	(15.9)
MEAHCO	4009	55.00	62	Buy	12.7	3.6	16.4

- ❑ Favourable fundamentals for each name, differentiate on:
 - Position in expansion cycle and capex deployment – prefer names near end of major deployment
 - Proportion of cash business in overall mix – prefer names with higher cash business
 - Valuation metrics – like names trading cheap, particularly on near-term headwinds
 - Exposure to main markets and operating history – like names with strong brand recognition in Riyadh and Jeddah
- ❑ Headlines to watch:
 - Nationalization of workforce
 - Privatization initiatives
 - Changes in private health insurance
 - Debt issuance and project delays or completion
- ❑ Valuation basis:
 - Expect low return environment with abnormal volatility
 - Healthcare expected to outperform / underperform TASI in a market upswing / correction



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