أرباح المالية
Arbah Capital

IS THE SECTOR NOURISHING WELL?

Saudi Healthcare Sector
Detailed Coverage | November 2016

- Ample growth space for Saudi healthcare sector as the relative supply-demand gap is more, also analyzing against the growth matrix, arguably Saudi healthcare sector is in the growth phase.

- Government persistently expanding mandatory health insurance bracket, which will eventually end up with fully health insured society and precipitate growth of the sector.

- Life style and increasing health concerns are creating major opportunities for the sector such as:
  - Prevalence of smoking and obesity
  - Majority of mortality cases resulting from cardiovascular diseases
  - Continuous research and advancement in health sciences required to encounter new diseases
  - Prevalence of non-communicable diseases like diabetes

- Currently, Saudi healthcare sector is dominated by government hospitals. However, moderate growth has been noticed recently in the number of private hospitals and also the presence of private hospitals is likely to continue to increase going forward as the government aims to:
  - Encourage more participation from the private sector
  - Increase Foreign Direct Investment (FDI)
  - Accommodate more pilgrims in the future i.e. 30 million pilgrims per annum by 2030, consequently requiring more healthcare facilities

- If the prevailing low oil prices environment continues the government may find it difficult to keep the current pattern of healthcare spending.

EXECUTIVE SUMMARY

FUTURE EXPECTATIONS REGARDING DEMOGRAPHIC INDICATORS:

PARTICULARS	FUTURE EXPECTATIONS
Total population	We expect Saudi population to reach ~35 million by 2020, growing at CAGR of 2.0%
Life expectancy	Life expectancy expected to be ~80 years by 2030, inline with the government's vision 2030
Population age bracket	More than 62% population falling within age bracket of 15-49 years, expected to reach 64% by 2020

Total revenue of Saudi listed healthcare players reached SAR 5.0 bn by 2015, growing at a CAGR of 19.5 percent through 2011 – 2015. Total gross profit reached SAR 2.1 bn over the period 2011 – 2015. Gross profit margin remained impressive within the range of 38.7% and 44.3% over the same period.

We expect revenue of Saudi healthcare listed players to reach SAR 7.8 billion by 2018, growth at a CAGR of 16.1 percent through the period 2015- 2018 whereas gross profit margin is expected to remain around 44 to 45 percent through the period 2016 – 2018.

Saudi healthcare players' (more or less all) receivables are ramping up which may place a constraint on carrying out their future expansion plans. Thus, a healthcare player with more cash customer base is to be preferred. Amongst Saudi listed healthcare players, Dallah has the highest cash customer base.

Current rally of Saudi stock market, Tadawul, has left Saudi healthcare players with limited expected upside potential. In addition to that, the Saudi healthcare players have the following attributes:

- MEAHCO has recently approved a 10-year agreement for the management and supervision of Batterjee Medical City in Alexandria, Egypt. The project is expected to come online by 2019
- Recently Care has renegotiated its contract with GOSI on favorable terms.
- All the Saudi healthcare players are going through expansion phase, existing bed capacity is expected to be doubled by the end of 2018 with Dallah being the leader.

EXECUTIVE SUMMARY (Cont'd)

We have covered all five healthcare players listed on Tadawul. Based on our valuation and financial analysis, our recommendation summary is as follows:

	Recommendation	Fair Value SAR	Total Upside/ (Downside) Potential %*	Closing Price SAR
Mouwasat	Neutral	145.0	2.7	143.5
Care	Neutral	74.0	4.4	72.6
Dallah	Neutral	98.0	5.9	94.2
MEAHCO	Overweight	69.1	16.6	61.3
Hammadi	Neutral	36.0	(2.1)	37.5

Inclusive of dividend yield

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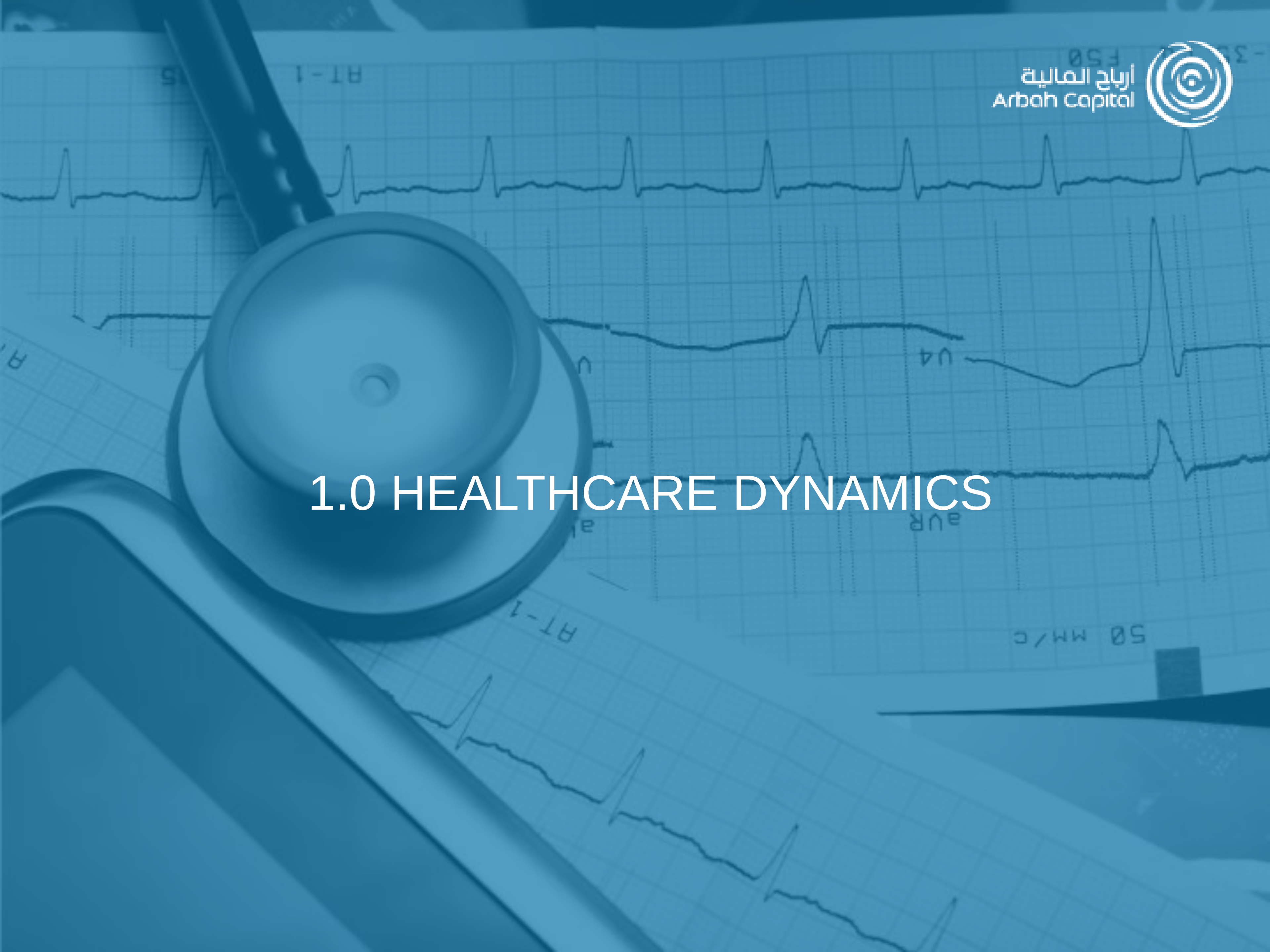
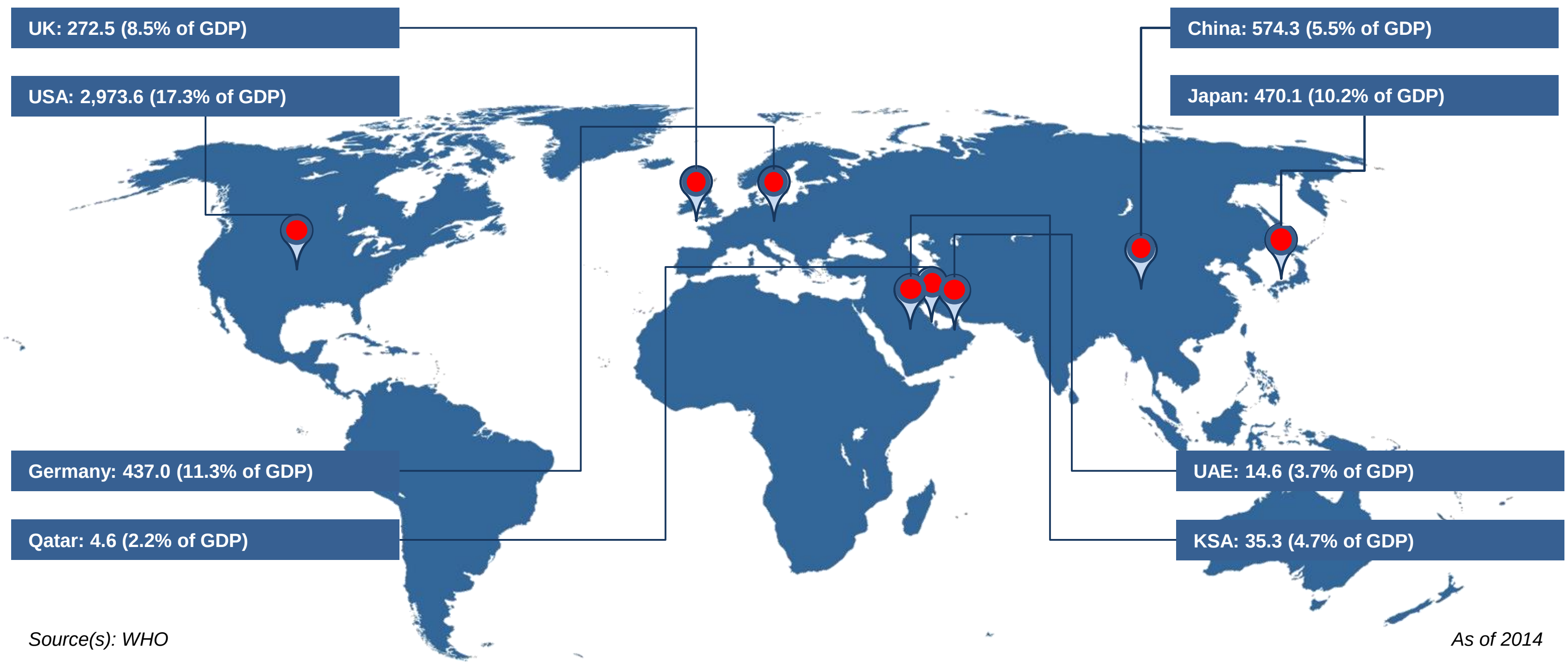


1.0 HEALTHCARE DYNAMICS

1.1 Sector Introduction

- Healthy society is considered one of the pillars of a country. Healthy society in turn gives birth to healthy workforce which contributes effectively and efficiently towards the economic progress of a country. To ensure healthy supply of workforce, considerable portion of GDP is spend on the provision of health related services.

Amount (US$ bn) of GDP Spend on Healthcare



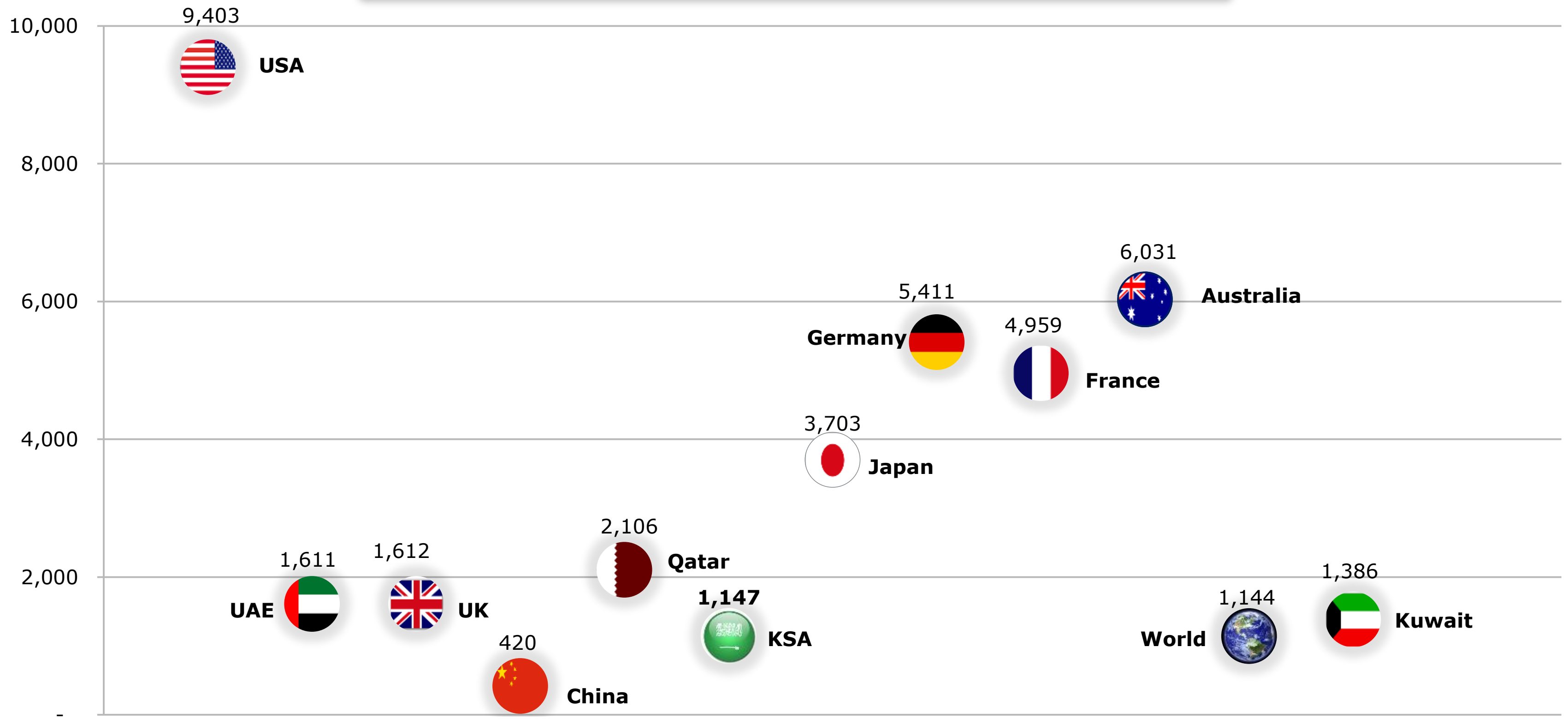
Source(s): WHO

As of 2014

1.1 Sector Introduction

- In Saudi Arabia healthcare spend per capita amounts to US$ 1,147.4, which is slightly above the world average of US$ 1,144.1. However, it has escalated at a CAGR of 12.4% through 2009-2014 whereas world's healthcare spend growth was recorded at a CAGR of 3.1% over the same period.

Healthcare Spend per Capita (US$)



Source(s): WHO, MoH

As of 2014

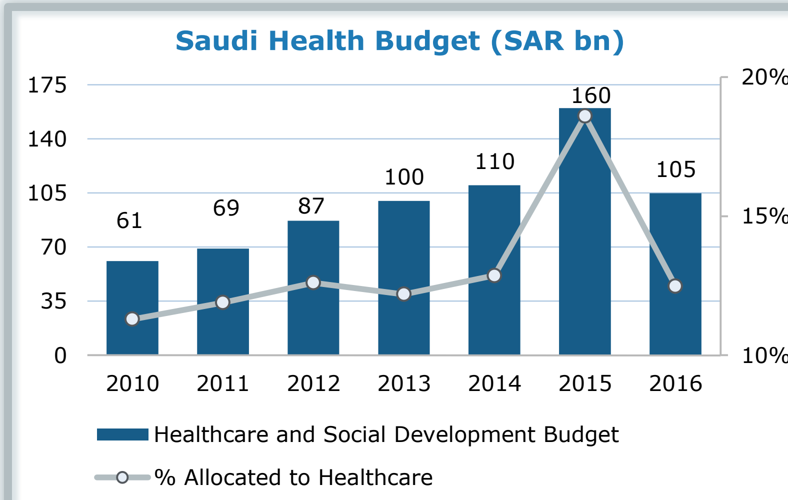
1.1 Sector Introduction

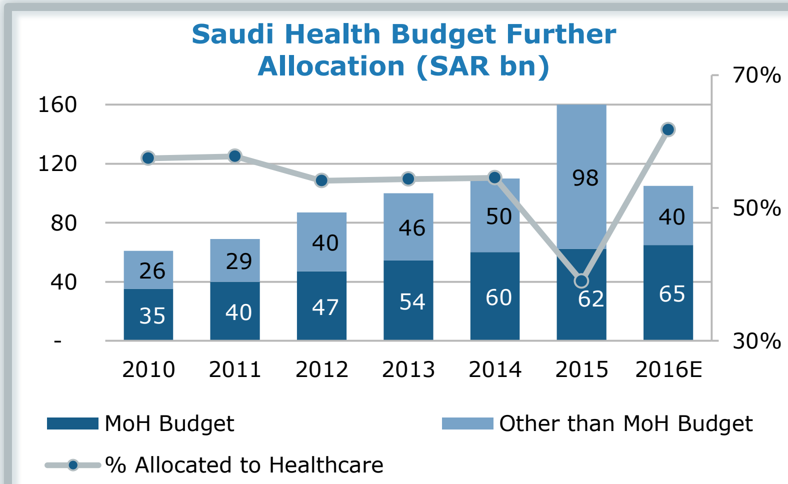
- Substantial portion of budget of Saudi Arabia is claimed by healthcare sector, for 2016 12.5% (amounting to SAR 105 billion) of the total Saudi budget was allocated for healthcare and social development.

- Persistent increase in amount of healthcare budget was noticed through the period 2010 to 2015. For the fiscal year 2015, Saudi healthcare budget reached its all time peak at SAR 160 billion.

- Saudi healthcare sector is mainly govern by the Ministry of Health (MoH). Budget is further allocated to MoH against the total budget allocation for healthcare and social development. Budget of MoH is used to mainly remunerate its workforce, which roughly accounts for 40% - 45% of MoH budget, and to carry out capital work: during the last three years (2012 – 2015) around SAR 5 billion yearly were spent to finance the projects of MoH.

- We expect MoH to continue its ongoing projects. Beyond 2016 we expect cut in the budget allocation for healthcare sector on the back of economic reforms, such as:
    - Privatization of the government hospitals
    - Mitigation of administrative costs



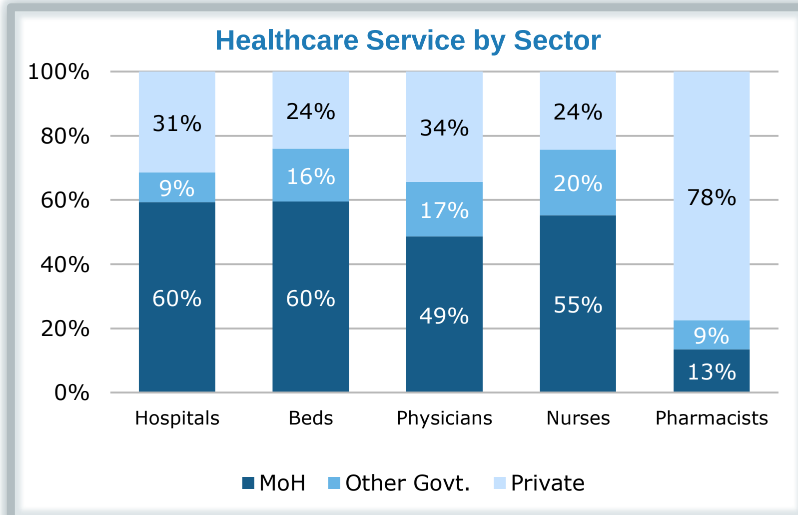


Source(s): MoH

1.1 Sector Introduction

- Robust population growth and lifestyle related diseases are widening the healthcare supply-demand gap; most of the Saudi hospitals are entertaining patients at almost full capacity, patients have to wait long for their appointment turn. In order to response that, grounds are being explored to provide quality healthcare services at a larger scale.
- As per the data released by MoH for 2015, Saudi healthcare sector is dominated by the government sector, comprising of a total of 317 hospitals with 52,746 beds. However, moderate growth in number of private hospitals has been noticed i.e. 15 new hospitals have been added since 2011.
- Going forward, we expect more private hospitals will be added, as importantly the government is looking forward to mitigate its operational cost burden. In order to achieve that, the Kingdom has come out with ambitious plans to reform the healthcare sector by encouraging the participation of the private sector.
- Also, we expect the widening of mandatory insurance coverage bracket to act as a major catalyst for fostering the private sector to increase its healthcare capacity and entertain more patients.

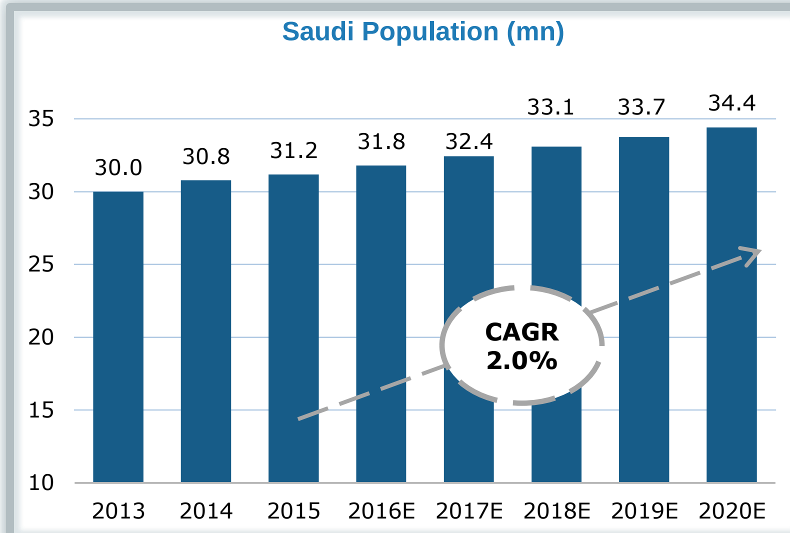
Healthcare Indicator	MoH	Other Govt.	Pvt.	Total
Hospitals	274	43	145	462
Beds	41,297	11,449	16,648	69,394
Physicians	41,240	16,419	29,097	84,756
Nurses	95,379	35,119	41,985	172,483
Pharmacists	3,184	2,132	18,308	23,624

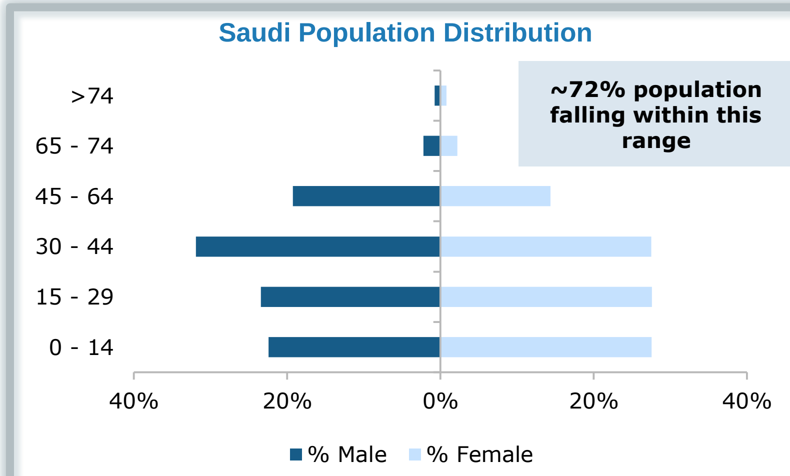


Source(s): MoH

1.2 Key Growth Factors

- Population growth is the building block for healthcare sector. According to the demographic indicators released by the Kingdom's Central Department of Statistics and Information (CDSI), the population of Saudi Arabia reached over 31.2 million by the mid of 2015, growing at an average annual rate of 3.1% over the last ten years. Moreover, we expect the population to reach ~34.4 million by 2020 growing at 2% annually inline with the IMF's projection.
- In relation to the population growth, going forward healthcare facilities need to be provided at a larger and advanced levels. Presently, the government is shifting its focus to the provision of tertiary and quaternary level healthcare services.
- Population distribution of Saudi Arabia is such that its almost 72% population falls within the working-age group (population within the range of 15 and 64 years). This age interval requires greater healthcare facilities. We expect that this age bracket will carry more weightage in the upcoming years, consequently more pressure on the healthcare system of Saudi Arabia will be exerted.
- As of 2015, expatriates constitute 33% of the total population.

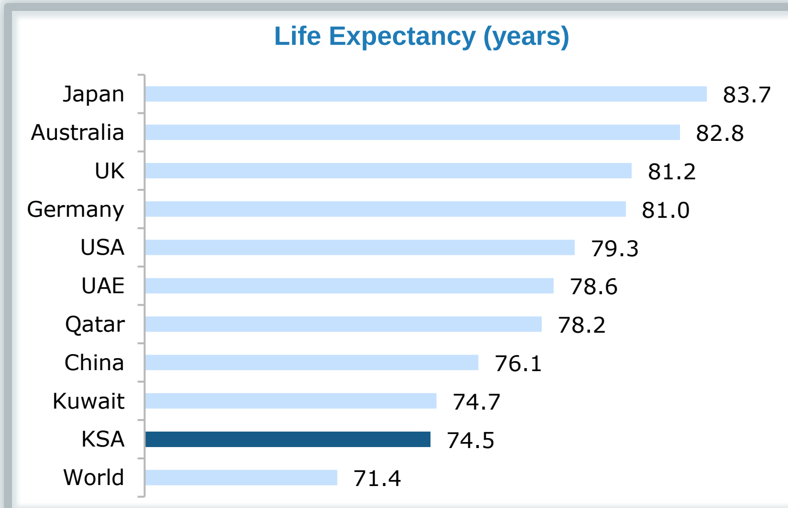


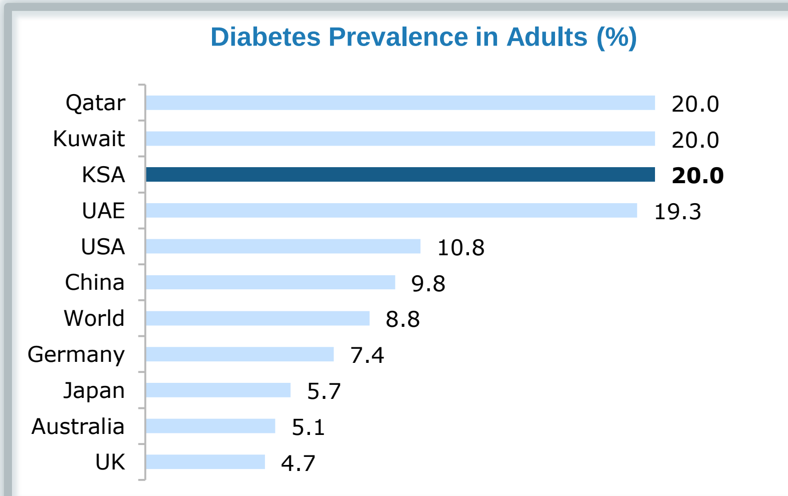


Source(s): CDSI, MoH

1.2 Key Growth Factors

- Dynamics of Saudi healthcare sector have shown positive changes in the past, for example, reduction in infant mortality rate and rise in life expectancy rate. Currently, life expectancy rate in Saudi Arabia is 74.5 years, which is still well below the life expectancy rate in advanced economies, however, it is better than the world average of 71.4 years.
- As indicated in the vision 2030, the government is looking forward to increase life expectancy rate to 80 years by 2030 (an increase by 5.5 years from the current level) which requires sufficient tertiary level of healthcare facilities.
- Lifestyle in Saudi Arabia is such that it gives rise to diseases like diabetes, blood pressure, obesity, cardiovascular diseases etc.
- Bad eating habits is the major cause for diabetes. Prevalence of diabetes in adults (20 years – 79 years) in KSA is 20 percent and it is ranked 3rd amongst countries with high prevalence of diabetes in adults.
- In 2015, 3.4 million cases of diabetes were reported in Saudi Arabia. Diabetes is commonly found in MENA region with 35.4 million people inflicted by this disease, this figure is expected to reach to 72.1 million by 2040.





Source(s): WHO, MoH, OECD

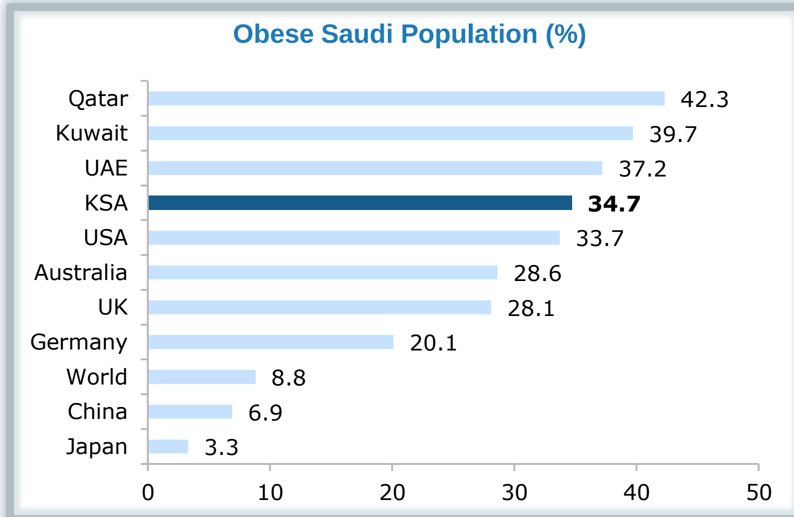
1.2 Key Growth Factors

- Obesity - lifestyle related disease in which a person becomes grossly fat. Prevalence of obesity in Saudi Arabia is common. Unhealthy eating habits, lack of physical exercise, late night sleep etc. become the root causes of this disease. According to the World Health Organization (WHO), in 2014, 34.7 percent adult population of Saudi Arabia were obese.

- In comparison to the rest of the world, overweight and obesity are highly prevalent in all GCC countries. In Saudi Arabia, obesity is more common in females than in males, as of 2014, 41.4 percent adult females were obese whereas 29.9 percent adult males were obese.

- We expect subdued increase in obesity in the Kingdom, as awareness among the people is increasing.

- One of the major causes for mortality in Saudi Arabia is cardiovascular diseases. In 2015, 17.8% mortality cases raised due to accidents and poisoning, followed by circulatory diseases (type of cardiovascular disease) of which 16.4% mortality cases were reported. Patients of cardiovascular diseases need intensive care; tertiary level of healthcare facilities are required. Hospitals providing tertiary level healthcare facilities are on the rise. We expect patients travelling abroad for treatment to come down.

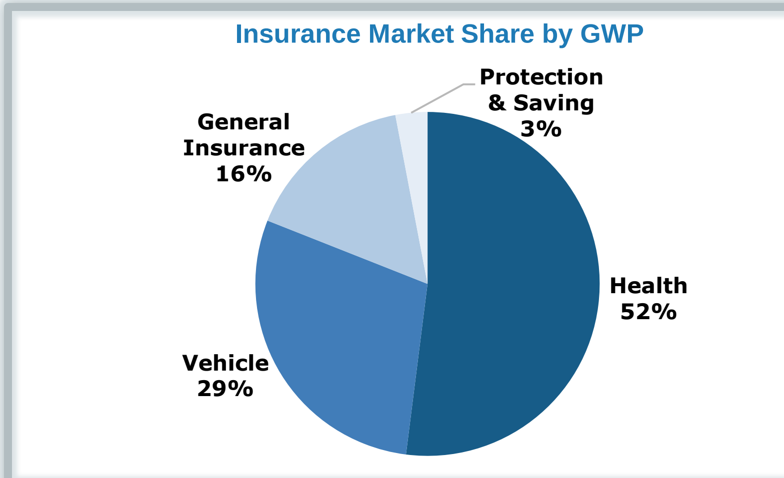


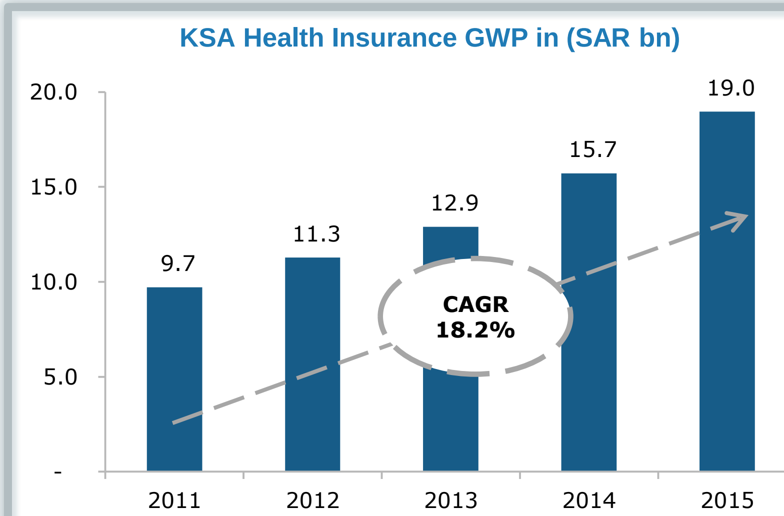
Top five causes of deaths in KSA in 2015 (Reported to MoH Hospitals)	
Accidents and poisoning	17.8%
Circulatory diseases	16.4%
Infant mortality	6.9%
Respiratory diseases	4.3%
Neoplasms	4.2%

Source(s): WHO, MoH, OECD

1.2 Key Growth Factors

- Health insurers facilitate patients through healthcare service providers against a periodic fee called premium. Admittedly, health insurance segment growth depicts growth of healthcare sector.
- Saudi health insurance segment dominates the insurance market. In terms of market share by GWP, by the end of 2015, 52 percent of the insurance market is captured by health insurance followed by vehicle insurance which holds 29 percent market share.
- Going forward, we expect widening of mandatory private health insurance for the public sector employees will be a key driver for the private sector.
- Health insurance in KSA has skyrocketed over the years; Gross Written Premium (GWP) has increased at a CAGR of 18.2 percent through the period 2011 – 2015.
- Health insurance penetration and density are low in the Kingdom in comparison with the world leading economies.
- We expect health premiums to increase going forward, moreover, health insurance segment is in the growth stage and thus with a potential to grow.





Source(s): SAMA

1.3 Supply – Demand Gap

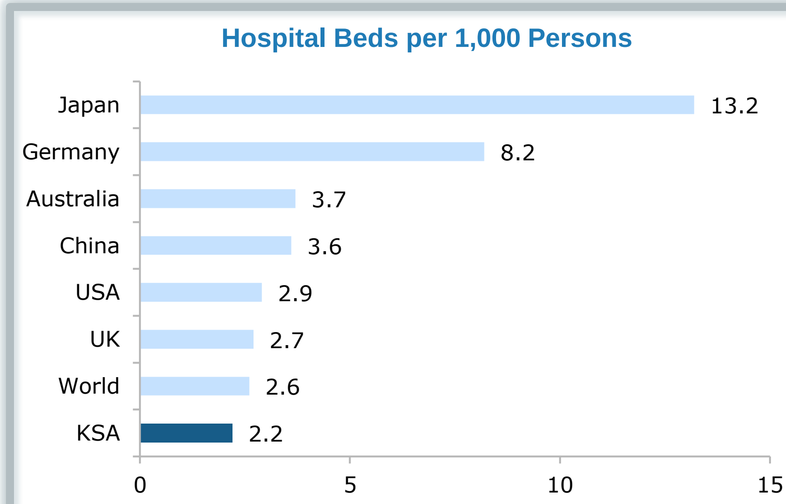
- Supply-demand gap in Saudi healthcare sector leaves ample space for growth. Private healthcare players are limited to urban areas only. Hospitals are running at their full patient accommodation capacity; patients have to wait long for their appointment turn.

- There are only 2.2 hospital beds available for every 1,000 persons in Saudi Arabia, this is in comparison with the world average of 2.6 (estimated figure) hospital beds per 1,000 persons.

- Total hospital beds in the Kingdom have reached 69,394, growing at a CAGR of 4.3 percent through the period 2011 – 2015. Over the same period, most contribution came from the government sector (comprising of both MoH and other government entities) which added 7,348 beds at a CAGR of 3.8 percent, whereas private sector added 3,350 beds at a CAGR of 5.8 percent, thus swift increase in number of private hospital beds was witnessed.

- We expect more contribution (new capacity addition and merger and acquisition) from the private sector in the future especially from the existing healthcare private players. However, it is subject to the capability to meet the future CAPEX requirements.

Saudi Health Resources (per 1,000 persons)	
Hospital Beds	2.2
Dentists	0.4
Pharmacists	0.8
Nurses (including midwives)	5.5
Physicians (including dentists)	2.8

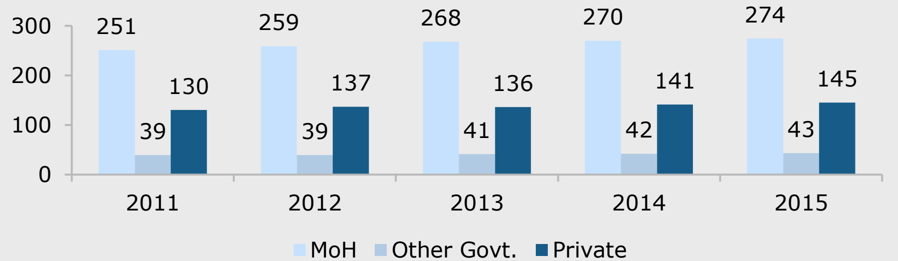


Source(s): WHO, MoH, OECD

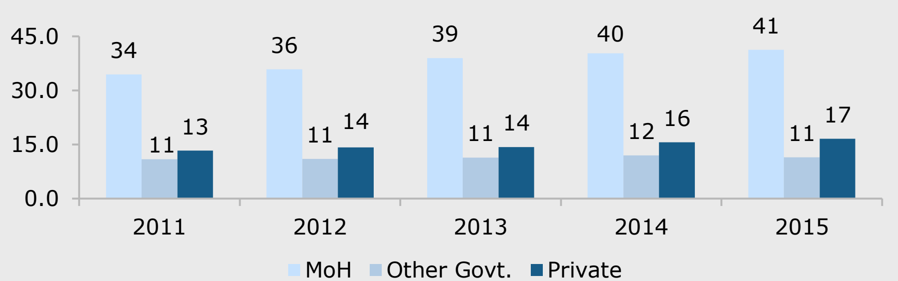
1.3 Supply – Demand Gap

- In comparison with the world, Kingdom is in a better position, in term of number of physicians and nurses per 1,000 persons. However, still there is a vast room for improvement.
- Government hospitals increased at a CAGR of 2.3 percent over the period 2011 – 2015 whereas private hospitals increased at a CAGR of 2.8 percent over the same period.

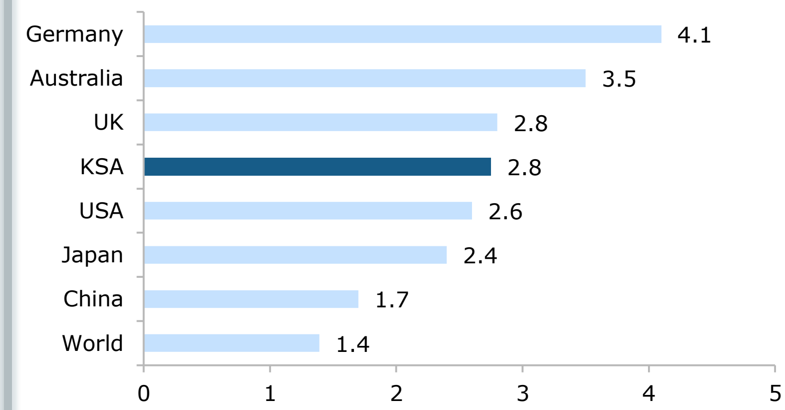
Hospitals in KSA



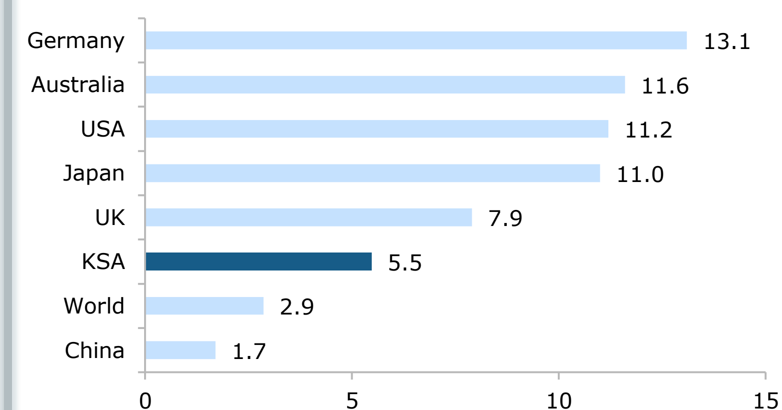
Hospital Beds in KSA ('000)



Physicians per 1,000 Persons



Nurses per 1,000 Persons



Source(s): WHO, MoH, OECD

1.3 Supply – Demand Gap

- In Hijri year 1435/1436 (corresponding 2015G), Ministry of Health announced approved healthcare projects. Total cost of the projects amounts to SAR ~12 billion (inclusive of proposed expenditure on IT infrastructure, laboratories etc.). Further, around 8,000 (6,000c MoH beds) hospitals beds will be added across the Kingdom. Summary of projects is as under:

وزارة الصحة
Ministry of Health

Govt. Hospitals

Medical Centers and Dentistry

Location	Beds	Cost (SAR bn)
Riyadh	1200	2.15
Jeddah	1200	2.15
Aseer	500	0.85
Hail	500	0.55
Qassem	500	0.55
Khamis Mushait	500	1.00
Hafr	500	0.55
Al Kharj	500	0.55
Madinah	200	0.35
Taif	100	0.3
Tabuk	100	0.10
Bakayriyah	100	0.17
Aflaj	100	0.17
Facility	**No.**	**Cost (SAR bn)**
Medical Centers	na	1.33
Dental Units	125	0.12

Source(s): MoH

1.4 Healthcare Reforms

- Historically, healthcare sector has witnessed regulatory changes from time to time. In 2005, health insurance was made mandatory for all non-Saudi residents under the Co-operative Health Insurance Act. Later in 2008, the bracket of mandatory health insurance was extended to accommodate Saudis working in the private sector. Now we expect this bracket to extend further and accommodate all Saudi residents.

- According to the vision 2030, the government is looking forward to induct more Saudi citizens in the sector and targeting to reach a total of 100,000 Saudi citizens employed in the sector by 2030. As per healthcare statistics of MoH 2015, the sector has the following workforce composition:

Workforce type	MoH		Other Govt.		Private	
	Saudis	Non-Saudis	Saudis	Non-Saudis	Saudis	Non-Saudis
Physicians	33%	67%	3%	97%	50%	50%
Nurses	60%	40%	5%	95%	18%	82%
Pharmacists	92%	8%	4%	96%	64%	36%
Allied health personnel	94%	6%	27%	73%	69%	31%

Source(s): MoH

- Saudis working in government and private healthcare sectors have increased during the period 2011 – 2015. Total number of Saudi physicians reached 86,756 by 2015, growing at a CAGR of 5.7 percent through the same period.

- Healthcare workforce is not easily available; hospitals are finding difficulty in hiring physicians and paramedical staff. We expect more healthcare workforce will be needed in the near-term, which will make even difficult for the hospitals to find sufficient workforce.

1.4 Healthcare Reforms

- Earlier this year the government announced the famed road map for the economy called "Vision 2030", spelling out economic diversification with an aim to generate SAR 1 trillion non-oil revenue by 2030 from SAR 164 billion. Further, the vision aims to bring the following summarized reforms which we believe will have considerable impact on the healthcare sector.

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Foreign Direct Investment (FDI)

The vision aims to increase FDI in the Kingdom from 3.8 percent of GDP to 5.7 percent by 2030. We believe increase in FDI will bring more foreign investment for the healthcare sector.

Life expectancy and living healthy

Kingdom envisages to increase the average life expectancy from 74.5 years to 80 years, raising life expectancy by 6 years needs extraordinary effort and provision of sufficient amount of tertiary level of healthcare facilities.

Moreover, the government's aim to focus on healthy living standard of the people which will again require more healthcare investment.

Private sector's contribution to GDP

The government aims to increase the private sector's GDP contribution from 40% to 65% which will further open doors for the private hospital participation.

Encouraging pilgrimage

Every year large number of hospitals and medical centers are assigned to cater the medical needs of pilgrims, for Hajj season of 2016 more than 180 hospitals and healthcare centers were assigned to provide necessary medical treatment. The government is aiming to increase pilgrims to 30 million per annum from 8 million per annum, thus substantially greater amount of well equipped facilities will be needed.

Source(s): Vision 2030 Web

1.4 Healthcare Reforms

- As guideline to achieve the objectives laid down in Saudi Arabia's Vision 2030, National Transformation Program 2020 was put forward. It provides specific directions to 24 distinct government bodies to improve their efficiency and effectiveness matching the standard of leading countries. Targets for healthcare sector with the main objective to improve the quality of healthcare services are summarized as follows:

National Transformation Program 2020

Private sector contribution	Increase the contribution of private sector from a total healthcare spend of 25% to 35%.
Use of IT and digital transformation	Use of IT and digital transformation to maintain medical record of 70% Saudi citizens.
Healthcare manpower	Increase the number of resident Saudi physicians under training from 2,200 to 4,000. Moreover, for every 100,000 people increase the number of paramedical staff from 70.2 to 150.
Efficiency in medical decision and use of govt. health resources	In key hospitals improve the cases of patients receiving intensive care efficiently (medical decision taken in <4 hours) to 75% from 40%. Target set for private sector utilizing govt. health resources to generate total revenue of SAR 4 bn from SAR 0.3 bn.
Healthcare visits per capita	Increase the number of healthcare visits per capita from 2 to 4.
Authorization and quality assurance	From 40% to 100% medical facilities to operate under proper authorization. Reporting by all healthcare facilities on performance and quality measures .
Smoking and obesity	Reduce incidences of smoking and obesity by 2% and 1%, respectively.

Source(s): Vision 2030 Web

1.5 Sector Pitfalls

Although healthcare sector has enough white blood cells essential for its nourishment, we believe following are the pitfalls which may hamper growth of the sector:

- Change in demographic structure and economy’s dependence on oil may not provide the expected growth stimuli.
- Coming online of projects in the pipeline and interest free loan to new entrants may create competitive environment and shift focus of the healthcare players towards quality of the service, which may in turn compel them to incur additional cost vis a vis sophisticated quality.
- Healthcare sector heavily depends on corporate clients linked through health insurers, thus smooth running of health insurance segment is essential for healthcare sector.
- Saudisation may make it difficult for the sector to find sufficient healthcare workforce. Consequently, hiring and remuneration costs may put burden on the cost structure of the sector.
- Piling of unpaid bills may result in shortage of funds required for timely capacity expansion and smooth running of the operations.
- Upward revision in borrowing cost (due to increase in SAIBOR) may make it costlier for the sector to incur necessary CAPEX.
- Implementation of new frameworks (such as IFRS) and IT infrastructure (for compilation and maintenance of electronic data) may increase employee training and development costs.

أرباح المالية
Arbah Capital

2.0 Financial Analysis on Sector Nourishment

2.1 Saudi Healthcare Listed Players

- In this segment of the report we have made a financial analysis of all five listed healthcare players on Tadawul. Five listed healthcare players on Tadawul are:

National Medical Care Company (Care)
CARE AB | 4005.SE
Listing date: March 03, 2013
IPO price (SAR): 27.00

Mouwasat Medical Services Company (Mouwasat)
MOUWASAT AB | 4002.SE
Listing date: September 02, 2009
IPO price (SAR): 44.00

Dallah Healthcare Holding Company (Dallah)
DALLAH AB | 4004.SE
Listing date: November 17, 2012
IPO price (SAR): 38.00

Al Hammadi Co. for Development and Investment (Hammadi)
ALHAMMAD AB | 4007.SE
Listing date: July 15, 2014
IPO price (SAR): 28.00

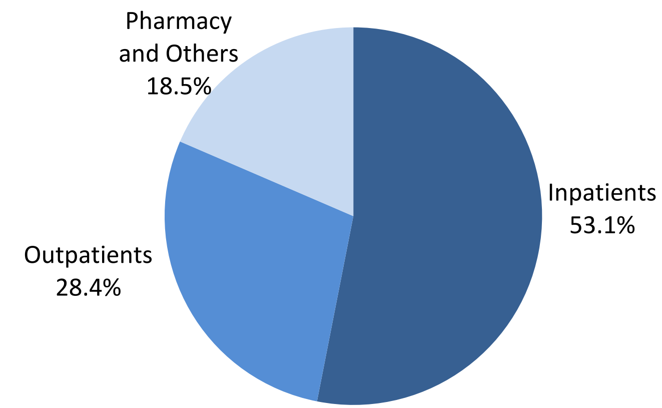
Middle East Healthcare Company (MEAHCO)
MEH AB | 4009.SE
Listing date: March 29, 2016
IPO price (SAR): 64.00

Source(s): Tadawul, Bloomberg

2.2 Solid Historical Performance

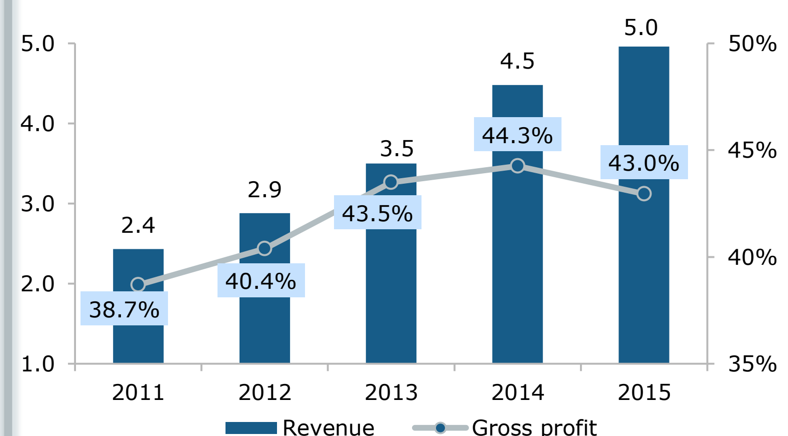
- Healthcare players earn revenue mainly through three segments, such as:
  - Inpatients (IP)
  - Outpatients (OP)
  - Pharmacies and/or letting out shop on rent
- Patients are broadly categorized as either inpatients or outpatients. Inpatients are admitted to the hospitals and their stay at the hospitals is longer than the period of 24 hours whereas outpatients are not admitted to the hospitals and their stay at the hospitals or medical centers is shorter than 24 hours.
- Revenue of pharmacies comprise of sale of medicines/ drugs and other hospital supplies.
- Consolidated revenue of Saudi listed healthcare players reached SAR 5.0 bn by 2015, growing at a CAGR of 19.5 percent through 2011 – 2015.
- Consolidated gross profit reached SAR 2.1 bn over the period 2011 – 2015. Gross profit margin remained impressive within the range of 38.7% and 44.3% over the same period.

Revenue Dissection



Note: Hammadi and Dallah are not included in this graphical representation

Consolidated Group Revenue (SAR bn)

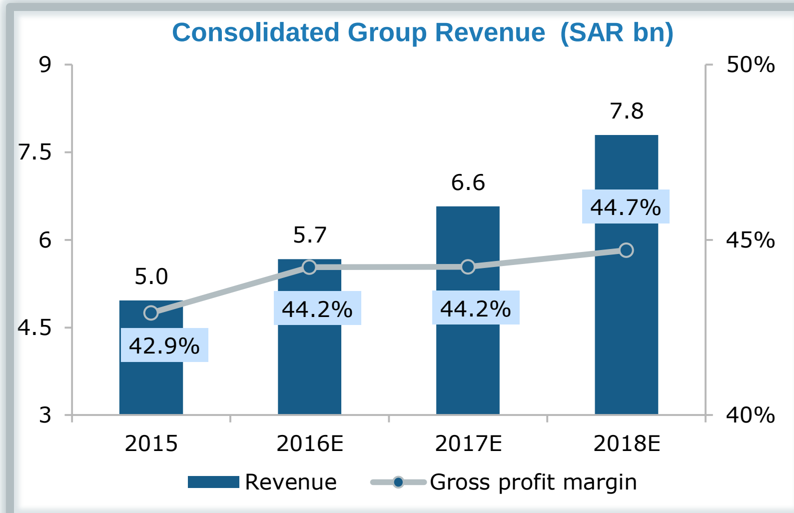


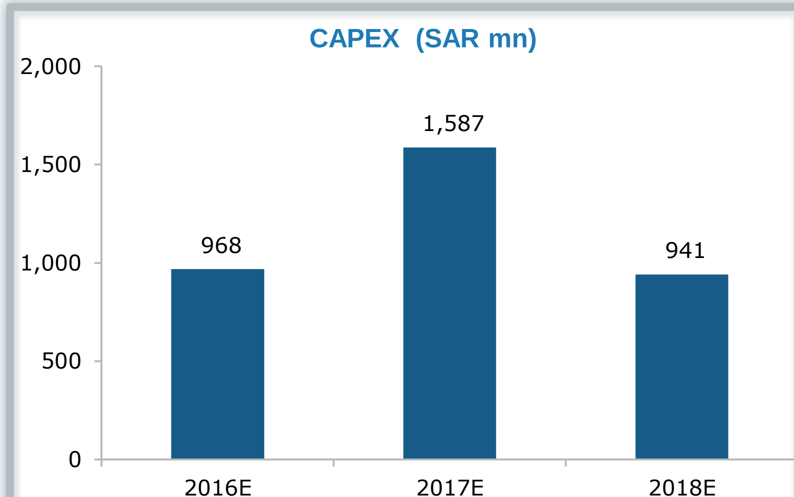
Source(s): Company Reports, Arbah Capital

2.3 Healthy Nourishment to Continue

- We expect healthy nourishment of the sector to continue in the future. We expect consolidated revenue of Saudi healthcare listed players to reach SAR 7.8 billion by 2018, growing at a CAGR of 16.1 percent through the period 2015 – 2018.
- Gross profit margin is expected to remain impressive at around 44 to 45 percent through the period 2016 – 2018.
- All listed Saudi healthcare players have expansion plans. We expect total of SAR 3.5 bn CAPEX through the period 2016 – 2018. Detail of expansion plan is as under:

Company	Project	Capacity (Beds)	Est. Completion Year
Mouwasat	Dammam Hospital	214	2018
	Khobar Hospital	na	2019
Care	National Hospital ext.	200	2016/17
Dallah	Namar Hospital	400	2019
	Riyadh Complex ext.	250	2018
	Dr. Alfaqih Hospital	308	na
MEAHCO	Hail Hospital	150	2016/17
	Dammam Hospital	150	2019
Hammadi	Nuzha Hospital	600	2017

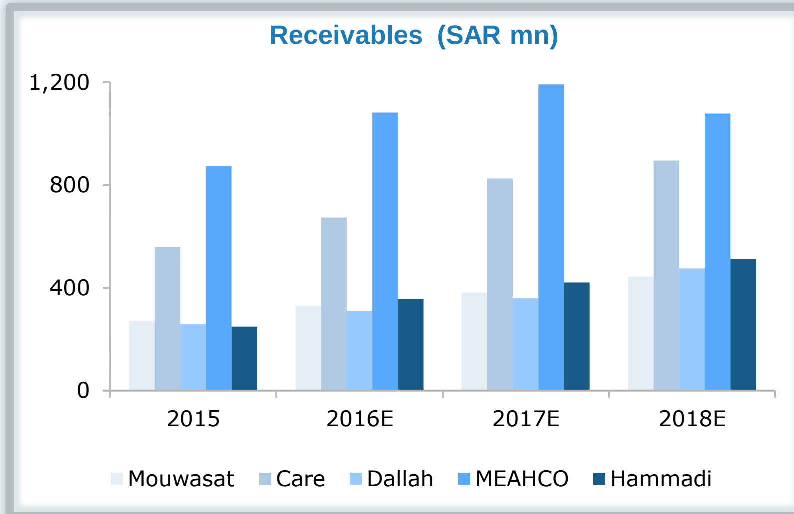


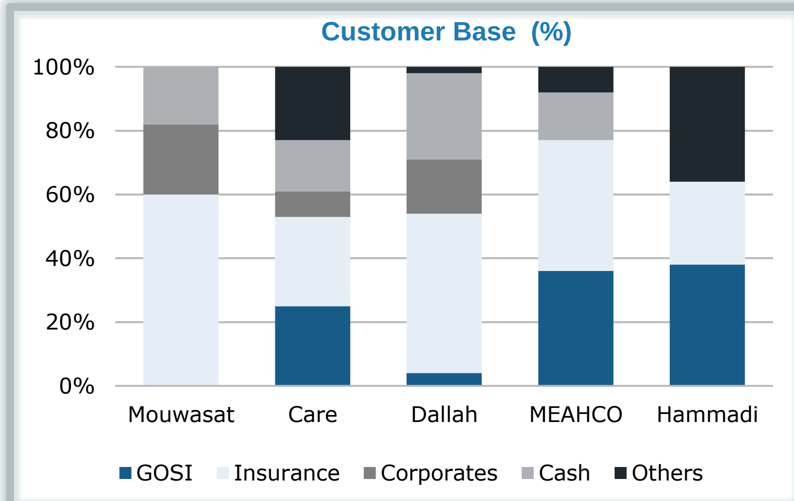


Source(s): Company Reports, Arbah Capital

2.4 A Few Hiccups

- Receivables of Saudi healthcare listed players are ramping up. Rising receivables can adversely impact the smooth running of the operations and hurdle in the way of carrying out capital expenditure.
- Total receivables of healthcare players reached SAR 2,211 million by 2015 showing a YoY growth of 32.4 percent. We expect total receivables to reach SAR 3,405 billion by 2018, growing at a CAGR of 15.3 percent.
- In the current environment of piling receivables, a company with cash base customers has an edge over his peers. Amongst the Saudi listed healthcare players Dallah has an edge over its peers as its customer mix is favorable i.e. 27 percent cash base customers. Mouwasat is also relatively well placed as, it relies heavily on health insurance sector.
- On the other hand, MEAHCO, Care and Hammadi have to rely on GOSI as their major customer.
- Total debt of Saudi listed healthcare players reached SAR 1.7 billion by 2015. We expect total debt to reach SAR 3.2 billion by 2018, growing at a CAGR of 24 percent through 2015 - 2018.





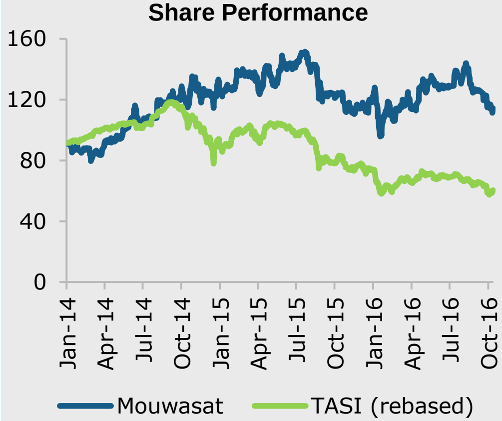
Source(s): Company Reports, Arbah Capital

3.0 Saudi Healthcare Listed Players

3.1 Mouwasat Medical Services Co.

MOUWASAT AB

Recommendation	Neutral
Fair value	**145.0**
Last closing price (SAR)	143.5
Dividend yield (%)	1.7
Upside potential (%)	2.7
Outstanding shares (mn)	50.0
52-week range (SAR)	147.7/94
Market cap (SAR mn)	7,175
Free float to TASI (%)	0.5
YTD performance (%)	17.8
Beta	0.81



Note: Closing prices as of 10-11-16

Investment Thesis

- Mouwasat starts operations at its Jubail hospital extension, the hospital extension comprising of 100 beds and 30 outpatient clinics increases the total capacity of Mouwasat by 13 percent. The revenue of the company is expected to increase by 4 percent as result of this extension.
- Going forward the company's expansion spree continues i.e. a 220-bed hospital with 60 clinics in Khobar and 120-bed capacity addition in Dammam are expected to become operational by 2019.
- Mouwasat has strong margins, in comparison with its peers it has the second highest gross profit margin.
- In the prevailing situation of escalating receivables, Mouwasat has favorable customer mix.
- The company has long term contracts with major corporate clients.

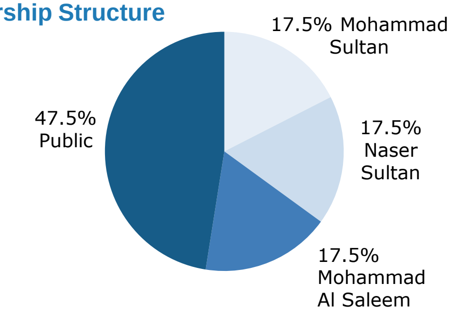
Risks

- Riyadh hospital which started operations earlier this year is still operating in losses.
- Unlike its peers, operations of the company are concentrated to eastern province (constitutes almost 80 percent revenue), thus leaving the populous cities uncovered.
- Mouwasat is currently trading at high multiples, thus leaving the less margin for upside potential.

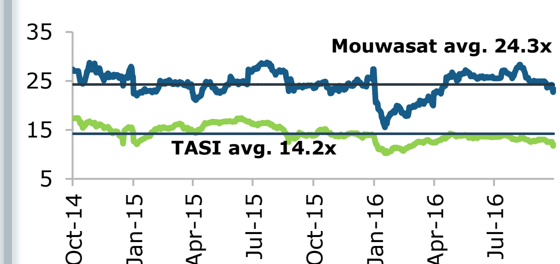
Company Overview

In 1975 Mouwasat started its operations from only one dispensary in Dammam, later in 1988 it launched a hospital there. As of now, the company carries out its operations through five hospitals located in the cities of Dammam, Jubail, Madinah, Qatif and Riyadh with total bed capacity of 769 and 269 outpatient clinics.

Ownership Structure



Mouwasat vs TASI 2 year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.1 Mouwasat Medical Services Co.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	81	110	380	634
Inventories	108	113	128	147
Trade and other receivables	271	330	381	443
Other current assets	150	150	150	150
Total Current assets	610	703	1,039	1,474
Property, plant and equipment	1,212	1,337	1,357	1,360
Other non-current assets	49	49	49	49
Total non-current assets	1,262	1,387	1,409	1,415
Total assets	**1,871**	**2,089**	**2,466**	**2,884**
Accounts payable	147	170	193	221
Short term debt	121	104	61	31
Other current liabilities	22	25	28	32
Total current liabilities	290	299	282	284
Long term debt	326	371	543	622
Other non-current liabilities	51	52	61	76
Total non-current liabilities	377	423	605	699
Share capital	500	500	500	500
Retained earnings, reserves and others	704	867	1,059	1,201
Total equity and liabilities	**1,871**	**2,089**	**2,466**	**2,884**

3.1 Mouwasat Medical Services Co.

Financial Statements (year end December)				*All figures are in SAR million unless otherwise stated*
Income Statement	**2015**	**2016**	**2017**	**2018**
Revenue	**1,000**	**1,222**	**1,411**	**1,640**
COGS	(533)	(656)	(743)	(851)
Gross profit	**447**	**566**	**667**	**789**
SG&A expenses	(211)	(249)	(286)	(325)
EBITDA	290	376	443	527
EBIT	235	317	382	464
Others income/ (expenses)	4	(28)	(40)	(35)
Zakat	(30)	(18)	(21)	(27)
Net income	**209**	**271**	**321**	**403**
Outstanding shares (million)	50	50	50	50
Earnings per share (SAR)	4.18	5.42	6.42	8.06
Dividend per share (SAR)	2.00	2.00	2.00	2.00
Cash Flow Statement	**2015**	**2016**	**2017**	**2018**
Cash from operations	207	292	341	417
Cash from investing activities	(239)	(184)	(82)	(66)
Cash from financing activities	(69)	(79)	10	(97)
Opening cash balance	182	81	110	380
Increase/ (decrease) in cash	(101)	29	270	254
Closing cash balance	**81**	**110**	**380**	**634**

3.1 Mouwasat Medical Services Co.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	10.6%	22.2%	15.5%	16.3%
EBITDA	5.0%	29.7%	17.8%	18.9%
Profitability				
Gross profit margin	44.7%	46.3%	47.3%	48.1%
EBITDA	28.9%	30.8%	31.4%	32.1%
EBIT	24.7%	25.9%	27.0%	28.3%
Net profit margin	20.9%	22.2%	22.7%	24.6%
ROA	11.2%	13.0%	13.1%	14.0%
ROE	17.3%	19.8%	20.6%	22.4%
Leverage				
Debt to equity	37.1%	34.7%	38.7%	36.2%
Debt to asset	23.9%	22.7%	24.7%	22.6%
Valuation				
Price to book value	5.2x	2.9x	2.4x	2.1x
Price to earnings	30.2x	22.4x	18.9x	15.1x
Price to sales	6.3x	4.9x	4.3x	3.7x
Dividend yield	1.5%	1.8%	1.8%	1.8%
EV/ Sales	6.7x	5.1x	4.4x	3.8x
EV/ EBITDA	23.2x	16.6x	14.1x	11.8x

3.1 Mouwasat Medical Services Co.

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 10.7 percent. Based on our valuation model Fair Value of Mouwasat is SAR 145.0.

DCF Summary

FCFE (2016- 2021)	SAR 2,017
Discounted FCFE	SAR 1,576
Terminal growth rate	3.0%
Terminal value	SAR 9,433
Discounted terminal value	SAR 5,675
EV	SAR 7,250
Cost of equity	10.7%
No. of outstanding shares	50.0 mn
Fair value	**SAR 145.0**

Sensitivity analysis

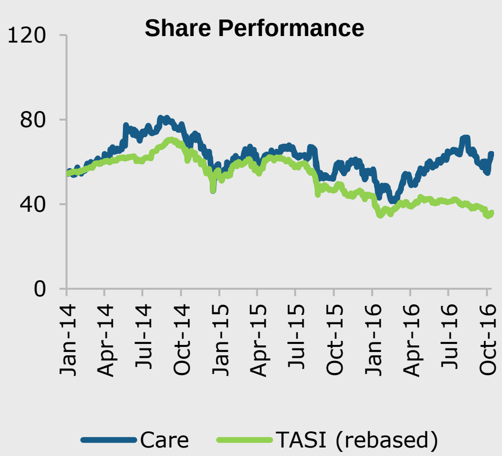
		Cost of equity				
		9.5%	10.0%	10.7%	11.0%	11.5%
Terminal growth rate	2.0%	154.2	143.6	131.0	126.2	118.9
	2.5%	163.5	151.7	137.6	132.3	124.2
	3.0%	174.3	160.8	**145.0**	139.1	130.2
	3.5%	186.9	171.4	153.5	146.8	136.9
	4.0%	201.7	183.8	163.2	155.7	144.5

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
GCC peers' weighted average	3,382	22.5x	5.9	2.8%	17.7%
Global peers' weighted average	4,222	25.6x	10.7	2.6%	16.6%
Mouwasat	7,175	30.2x	(12.9%)	1.7%	20.9%

3.2 National Medical Care Co. CARE AB

Recommendation	Neutral
Fair value	**74.0**
Last closing price (SAR)	72.6
Dividend yield (%)	2.5
Upside potential (%)	4.4
Outstanding shares (mn)	44.85
52-week range (SAR)	73/40.7
Market cap (SAR mn)	3,256
Free float to TASI (%)	0.3
YTD performance (%)	16.9
Beta	0.9



Note: Closing prices as of 10-11-16

Investment Thesis

- Care expects that recent renewed contract with GOSI on favorable term will result in 20 percent increase in revenue.
- As per the five-year expansion strategy, Care is looking forward to extend operations to the regions of Makkah and Madinah. Further, Care has announced plans to add 200 beds and 40 clinics to Riyadh national hospital by the end of 2017, representing 30 percent capacity addition.
- Care showed highest revenue growth amongst its peers in 2015, 20 percent YoY increase.
- Care has well established name and strong association with the government entities, thus arguably it will be in a better position as an acquirer in case of privatization of govt. hospitals.

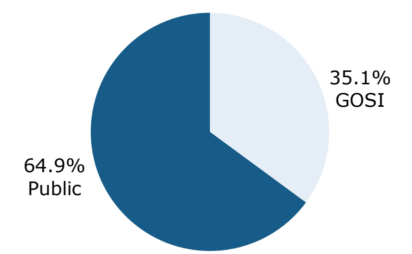
Risks

- Pilling up of receivables may hamper the expansion plans.
- Care has the lowest gross profit margin amongst its peers
- Care's revenue base is not much diversified it has to depend on GOSI, which accounts for almost 29 percent of the total revenue.
- We believe that current PE of 20.9x is on the high side, limiting the total upside potential to 4.4 percent.

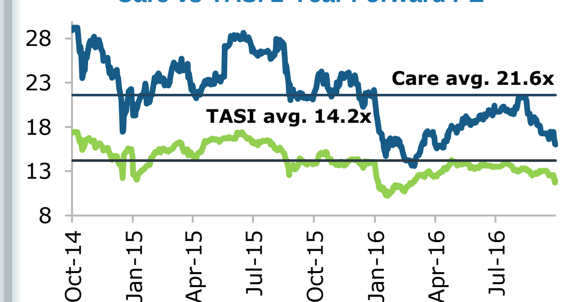
Company Overview

National Medical Care Co. has strong historical presence in Riyadh dating back to 1965. Located in Riyadh, National Hospital and Riyadh Care Hospital are the two hospitals currently run by Care together with a family medical center. As of now, total bed capacity of Care is 570 beds with 22 clinics.

Ownership Structure



Care vs TASI 2-Year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.2 National Medical Care Co.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	93	86	167	330
Inventories	72	84	97	106
Trade and other receivables	558	684	835	904
Other current assets	34	40	48	52
Total Current assets	757	894	1,147	1,393
Property, plant and equipment	651	691	735	781
Other non-current assets	6	5	3	4
Total non-current assets	657	695	738	785
Total assets	**1,414**	**1,589**	**1,885**	**2,178**
Accounts payable	176	189	218	239
Short term debt	--	--	--	--
Other current liabilities	54	88	118	146
Total current liabilities	230	277	336	386
Long term debt	219	242	286	332
Other non-current liabilities	67	78	89	98
Total non-current liabilities	286	320	375	430
Share capital	449	449	449	449
Retained earnings, reserves and others	449	544	725	913
Total equity and liabilities	**1,414**	**1,589**	**1,885**	**2,178**

3.2 National Medical Care Co.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Income Statement	2015	2016	2017	2018
Revenue	**879**	**1,025**	**1,253**	**1,356**
COGS	(658)	(757)	(871)	(958)
Gross profit	**220**	**268**	**382**	**398**
SG&A expenses	(92)	(107)	(130)	(141)
EBITDA	186	216	276	307
EBIT	129	161	252	231
Others income/ (expenses)	13	17	21	22
Zakat	(11)	(14)	(21)	(22)
Net income	**131**	**164**	**252**	**231**
Outstanding shares (million)	44.85	44.85	44.85	44.85
Earnings per share (SAR)	2.92	3.65	5.61	5.15
Dividend per share (SAR)	1.55	1.55	1.55	1.55
Cash Flow Statement	**2015**	**2016**	**2017**	**2018**
Cash from operations	50	79	148	234
Cash from investing activities	(89)	(40)	(42)	(47)
Cash from financing activities	(20)	(45)	(25)	(25)
Opening cash balance	151	93	86	167
Increase/ (decrease) in cash	(59)	(6)	81	163
Closing cash balance	**93**	**86**	**167**	**330**

3.2 National Medical Care Co.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	19.7%	16.6%	22.2%	8.2%
EBITDA	31.5%	16.1%	27.8%	11.2%
Profitability				
Gross profit margin	25.0%	26.1%	30.5%	29.4%
EBITDA	21.1%	21.1%	22.0%	22.6%
EBIT	14.7%	15.7%	20.1%	17.0%
Net profit margin	15.0%	16.0%	20.1%	17.0%
ROA	9.3%	10.3%	13.4%	10.6%
ROE	14.6%	16.5%	21.5%	17.0%
Leverage				
Debt to equity	24.4%	24.4%	24.4%	24.4%%
Debt to asset	21.1%	15.2%	15.2%	15.2%
Valuation				
Price to book value	3.0x	1.8x	1.5x	1.3x
Price to earnings	20.5x	17.7x	11.6x	11.3x
Price to sales	3.0x	2.8x	2.3x	2.1x
Dividend yield	1.2%	2.5%	2.5%	2.5%
EV/ Sales	3.2x	3.1x	2.5x	2.3x
EV/ EBITDA	15.3x	14.5x	11.3x	10.2x

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3.2 National Medical Care Co.

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 11.5 percent. Based on our valuation model Fair Value of Care is SAR 74.0.

DCF Summary

FCFE (2016- 2021)	SAR 1,532
Discounted FCFE	SAR 1,146
Terminal growth rate	3.0%
Terminal value	SAR 3,745
Discounted terminal value	SAR 2,173
EV	SAR 3,320
Cost of equity	11.5%
No. of outstanding shares	44.8 mn
Fair value	**SAR 74.0**

Sensitivity analysis

		Cost of equity				
		10.5%	11.0%	11.5%	12.0%	12.5%
Terminal growth rate	2.0%	76.3	72.2	68.5	65.2	62.1
	2.5%	79.7	75.2	71.1	67.5	64.2
	3.0%	73.6	78.5	**74.0**	70.0	66.5
	3.5%	88.0	82.3	77.3	72.9	69.0
	4.0%	93.1	86.6	81.0	76.1	71.8

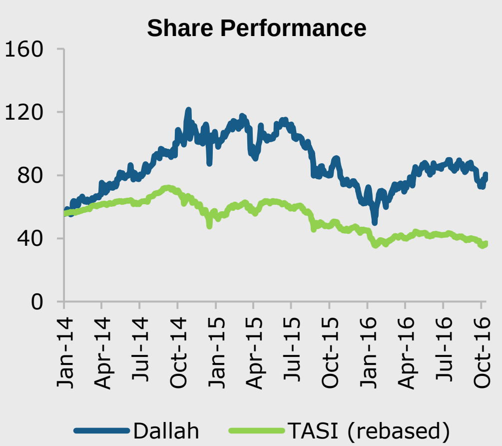
Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
GCC peers' weighted average	3,382	22.5x	5.9%	2.8%	17.7%
Global peers' weighted average	4,222	25.6x	10.7%	2.6%	16.6%
Care	3,256	20.9x	39.2%	1.2%	16.9%

3.3 Dallah Healthcare Holding Co.

DALLAH AB

Recommendation	Neutral
Fair value	**98.0**
Last closing price (SAR)	94.2
Dividend yield (%)	1.9
Upside potential (%)	5.9
Outstanding shares (mn)	59.0
52-week range (SAR)	94.2/49.5
Market cap (SAR mn)	5,555
Free float to TASI (%)	0.4
YTD performance (%)	34.0
Beta	0.9



Note: Closing prices as of 10-11-16

Investment Thesis

- Dallah has an aggressive expansion plan, by 2018 total beds and clinics are expected to reach ~1406 and ~708, respectively. This capacity expansion includes extension of Riyadh complex, and building of Namar and Dr. Al Faqih hospitals.
- Margins improve after the last capacity addition representing better planning and efficiency.
- Dallah has posted steady growth over the years. We expect same pattern of growth to continue in the future on the back of better contract terms.
- In the prevailing situation of escalating receivables, Dallah has also favorable customer mix.
- In order to meet the future CAPEX requirements, the company may not need to explore other resources other than recently secured facilities.

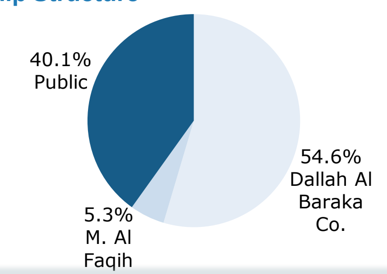
Risks

- Although Dallah has an aggressive expansion plan, it is delayed since there is no addition till Q3 2017.
- Dallah is current trading at a relatively high PE, any contraction in earnings may put pressure on the share price.
- We expect dividend payout ratio to decline going forward due to high CAPEX till the end of 2018.

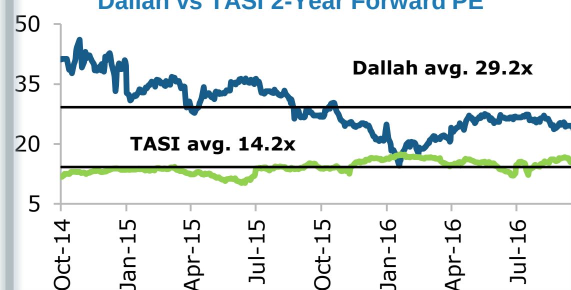
Company Overview

Dallah Healthcare Holding Co. was established in 1987 and it own one of the largest private hospitals comprising of 448 beds, 220 clinics and workforce of around 4,000 personnel. The company is also engaged in the distribution of drugs/ medicines through Dallah Pharma. Dallah is looking forward to extend bed-capacity by 214 percent.

Ownership Structure



Dallah vs TASI 2-Year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.3 Dallah Healthcare Holding Co.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	93	292	88	409
Inventories	88	112	134	191
Trade and other receivables	259	308	360	476
Other current assets	105	61	73	99
Total Current assets	546	773	655	1,175
Property, plant and equipment	1,145	1,528	2,145	2,228
Other non-current assets	310	318	326	334
Total non-current assets	1,455	1,846	2,471	2,562
Total assets	**2,001**	**2,619**	**3,126**	**3,737**
Accounts payable	65	76	91	124
Short term debt	148	387	405	610
Other current liabilities	60	68	80	65
Total current liabilities	273	531	576	799
Long term debt	245	355	542	618
Other non-current liabilities	89	94	99	103
Total non-current liabilities	335	449	641	721
Share capital	590	590	590	590
Retained earnings, reserves and others	803	1,048	1,319	1,627
Total equity and liabilities	**2,001**	**2,619**	**3,126**	**3,737**

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3.3 Dallah Healthcare Holding Co.

Financial Statements (year end December)				*All figures are in SAR million unless otherwise stated*
Income Statement	**2015**	**2016**	**2017**	**2018**
Revenue	**986**	**1,215**	**1,422**	**1,880**
COGS	(578)	(672)	(757)	(1,090)
Gross profit	**408**	**543**	**621**	**790**
SG&A expenses	(239)	(298)	(349)	(482)
EBITDA	222	304	350	461
EBIT	168	245	272	308
Others income/ (expenses)	6	6	7	9
Zakat	(10)	(14)	(15)	(18)
Net income	**165**	**237**	**264**	**299**
Outstanding shares (million)	59.0	59.0	59.0	59.0
Earnings per share (SAR)	2.8	3.4	3.6	3.7
Dividend per share (SAR)	1.0	1.5	1.5	1.5
Cash Flow Statement	**2015**	**2016**	**2017**	**2018**
Cash from operations	206	287	282	271
Cash from investing activities	(327)	(442)	(695)	(237)
Cash from financing activities	150	354	209	286
Opening cash balance	65	93	292	88
Increase/ (decrease) in cash	28	199	(204)	321
Closing cash balance	**93**	**292**	**88**	**409**

3.3 Dallah Healthcare Holding Co.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	14.7%	23.2%	17.1%	32.1%
EBITDA	16.6%	36.9%	15.1%	31.7%
Profitability				
Gross profit margin	41.4%	44.7%	43.7%	42.0%
EBITDA	22.5%	25.0%	24.6%	24.5%
EBIT	17.0%	20.2%	19.1%	16.4%
Net profit margin	16.7%	19.5%	18.6%	15.9%
ROA	8.2%	9.0%	8.4%	8.0%
ROE	11.8%	14.5%	13.8%	13.5%
Leverage				
Debt to equity	28.2%	45.3%	49.6%	55.4%
Debt to asset	19.6%	28.3%	30.3%	32.9%
Valuation				
Price to book value	3.4x	1.9x	1.6x	1.3x
Price to earnings	28.8x	21.2x	19.0x	16.7x
Price to sales	4.8x	4.1x	3.5x	2.7x
Dividend yield	1.9%	1.9%	1.9%	1.9%
EV/ Sales	5.4x	4.7x	4.1x	3.1x
EV/ EBITDA	24.3x	19.0x	16.5x	12.5x

3.3 Dallah Healthcare Holding Co.

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 13 percent. Based on our valuation model Fair Value of Dallah is SAR 98.0.

DCF Summary

FCFE (2016- 2021)	SAR 1,910
Discounted FCFE	SAR 1,092
Terminal growth rate	3.0%
Terminal value	SAR 7,782
Discounted terminal value	SAR 4,224
EV	SAR 5,780
Cost of equity	13.0%
No. of outstanding shares	59.0 mn
Fair value	**SAR 98.0**

Sensitivity analysis

		Cost of equity				
		12.0%	12.5%	13.0%	13.5%	14.0%
Terminal growth rate	2.0%	101.9	95.8	90.3	85.2	80.6
	2.5%	106.6	99.9	93.9	88.5	83.5
	3.0%	111.7	104.5	**98.0**	92.1	86.8
	3.5%	117.4	109.5	102.4	96.1	90.3
	4.0%	123.9	115.2	107.4	100.5	94.2

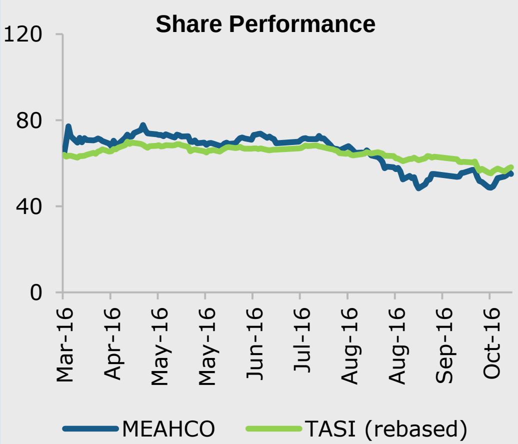
Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
GCC peers' weighted average	3,382	22.5x	5.9%	2.8%	17.7%
Global peers' weighted average	4,222	25.6x	10.7%	2.6%	16.6%
Dallah	5,555	24.3x	10.1%	1.9%	14.2%

3.4 Middle East Healthcare Co.

MEH AB

Recommendation	Overweight
Fair value	**69.1**
Last closing price (SAR)	61.3
Dividend yield (%)	3.8
Upside potential (%)	16.6
Outstanding shares (mn)	92.0
52-week range (SAR)	78.5/47
Market cap (SAR mn)	5,646
Free float to TASI (%)	0.3
Performance since IPO (%)	(4.2)
Beta	1.1



Note: Closing prices as of 10-11-16

Investment Thesis

- MEAHCO has recently approved a 10-year agreement for the management and supervision of Batterjee Medical City in Alexandria, Egypt. The project is expected to come online by 2019, it will entertain patients from Egypt and Libya through providing tertiary level of healthcare services.
- MEAHCO has recently announced that its Hail hospital (comprising of 150 beds) is ready to start operations, in addition to that, MEAHCO has a hospital in pipeline in Dammam, which is expected to be operational by Q1 2018.
- MEAHCO is trading at a PE of 15x, representing a discount of 16 percent to the retail sector.
- In terms of gross profit margin MEAHCO outperforms its peers. Over the last three years its average gross profit margin stood at 52.8 percent.
- Going, forward we expect improvement in the bed utilization rate i.e. >70 percent from the estimated current level of ~68 percent.

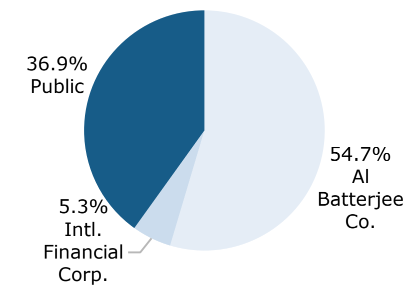
Risks

- Receivables of MEAHCO are persistently increasing and have reached SAR ~1 bn .
- We expect dividend yield to come down due to escalating receivables.
- Delayed coming online of new projects may hamper growth.

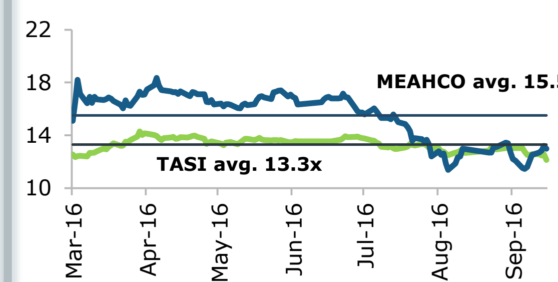
Company Overview

MEAHCO runs popularly known Saudi German Hospitals. MEAHCO was listed earlier this year. It has chain of four hospitals located in the cities of Jeddah, Riyadh, Madinah and Aseer with total bed capacity of 788 beds and 281 clinics. Moreover, Dammam hospital is in the pipeline with 150-bed capacity.

Ownership Structure



MEAHCO vs TASI 2-Year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.4 Middle East Healthcare Co.

Financial Statements (year end December)				*All figures are in SAR million unless otherwise stated*
Balance Sheet	**2015**	**2016**	**2017**	**2018**
Cash and cash equivalents	56	45	399	532
Inventories	77	79	82	85
Trade and other receivables	874	1,082	1,192	1,079
Other current assets	55	67	74	89
Total Current assets	1,062	1,273	1,746	1,785
Property, plant and equipment	839	936	985	1,361
Other non-current assets	156	224	--	--
Total non-current assets	995	1,160	2,762	1,361
Total assets	**2,057**	**2,433**	**2,731**	**3,146**
Accounts payable	188	194	216	240
Short term debt	105	171	177	180
Other current liabilities	96	127	143	159
Total current liabilities	389	492	536	579
Long term debt	73	119	123	130
Other non-current liabilities	181	189	204	214
Total non-current liabilities	254	308	327	344
Share capital	920	920	920	920
Retained earnings, reserves and others	493	712	948	1,302
Total equity and liabilities	**2,057**	**2,433**	**2,731**	**3,146**

3.4 Middle East Healthcare Co.

Financial Statements (year end December)				*All figures are in SAR million unless otherwise stated*
Income Statement	**2015**	**2016**	**2017**	**2018**
Revenue	**1,535**	**1,623**	**1,787**	**2,157**
COGS	(724)	(757)	(842)	(937)
Gross profit	**810**	**866**	**945**	**1,220**
SG&A expenses	(424)	(501)	(547)	(617)
EBITDA	438	420	457	729
EBIT	386	365	398	603
Others income/ (expenses)	4	20	20	17
Zakat	--	6	6	6
Net income	**390**	**379**	**412**	**614**
Outstanding shares (million)	92.04	92.04	92.04	92.04
Earnings per share (SAR)	4.24	4.12	4.48	6.67
Dividend per share (SAR)	2.00	1.93	2.14	2.76
Cash Flow Statement	**2015**	**2016**	**2017**	**2018**
Cash from operations	194	257	401	821
Cash from investing activities	(115)	(221)	116	(439)
Cash from financing activities	(159)	(47)	(163)	(250)
Opening cash balance	136	56	45	399
Increase/ (decrease) in cash	(80)	(11)	354	132
Closing cash balance	**56**	**45**	**399**	**531**

3.4 Middle East Healthcare Co.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	9.7%	5.7%	10.1%	20.7%
EBITDA	20.3%	(4.1%)	8.8%	59.5%
Profitability				
Gross profit margin	52.8%	53.4%	52.9%	56.6%
EBITDA	28.1%	25.9%	25.6%	33.8%
EBIT	24.7%	22.5%	22.3%	28.0%
Net profit margin	25.4%	23.4%	23.1%	28.8%
ROA	20.3%	15.6%	15.1%	19.5%
ROE	31.3%	23.2%	22.1%	27.6%
Leverage				
Debt to equity	12.0%	17.8%	16.1%	14.0%
Debt to assets	8.2%	11.9%	11.0%	9.9%
Valuation				
Price to book value	3.7x	2.1x	1.9x	1.7x
Price to earnings	13.0x	13.9x	12.8x	8.5x
Price to sales	3.3x	3.2x	2.9x	2.4x
Dividend yield	3.9%	3.8%	4.2%	5.4%
EV/ Sales	3.4x	3.8x	3.5x	2.9x
EV/ EBITDA	11.9x	14.9x	13.7x	8.6x

3.4 Middle East Healthcare Co.

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 12.0 percent. Based on our valuation model Fair Value of MEAHCO is SAR 69.1.

DCF Summary

FCFE (2016- 2021)	SAR 2,970
Discounted FCFE	SAR 2,032
Terminal growth rate	3.0%
Terminal value	SAR 8,358
Discounted terminal value	SAR 4,742
EV	SAR 6,360
Cost of equity	12.0%
No. of outstanding shares	92.0 mn
Fair value	**SAR 69.1**

Sensitivity analysis

	Cost of equity					
Terminal growth rate		11.0%	11.5%	12.0%	12.5%	13.0%
	2.0%	71.4	67.2	63.5	60.1	57.1
	2.5%	74.8	70.2	66.2	62.5	59.2
	3.0%	78.7	73.6	**69.1**	65.1	61.5
	3.5%	83.0	77.4	72.4	68.0	64.1
	4.0%	88.0	81.6	76.1	71.2	66.9

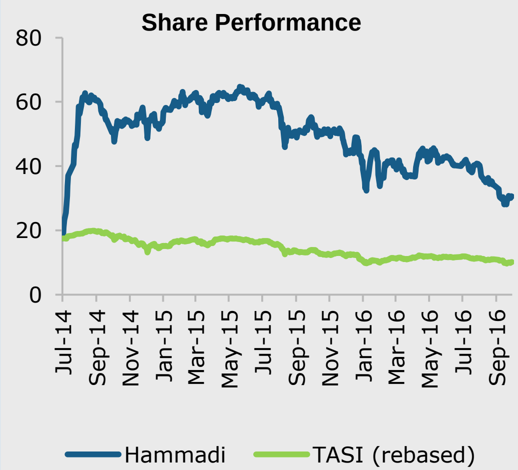
Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
GCC peers' weighted average	3,382	22.5x	5.9%	2.8%	17.7%
Global peers' weighted average	4,222	25.6x	10.7%	2.6%	16.6%
MEAHCO	5,646	15.0x	(2.0%)	3.6%	29.9%

3.5 AlHammadi Co. for Dev. and Invest.

ALHAMMAD AB

Recommendation	Neutral
Fair value	**36.0**
Last closing price (SAR)	37.5
Dividend yield (%)	1.9
Upside potential (%)	(2.1)
Outstanding shares (mn)	120.0
52-week range (SAR)	55.5/27
Market cap (SAR mn)	4,505
Free float to TASI (%)	0.2
YTD performance (%)	4.9
Beta	1.0



Note: Closing prices as of 10-11-16

Investment Thesis

- Hammadi has two hospitals, both are located in Riyadh. In addition to these two hospitals, Hammadi plans to add 600 beds to its existing capacity by launching Nuzha hospital in Q1 2017.
- Olaya hospital, where fire incident took place in February, 2016, has resumed its operations. Further, patient traffic was diverted to Suwaidi hospital.
- Hammadi has reported sustained gross profit margin of c43 percent over the last five years.
- Hammadi conducting operations in Olaya and its suburbs is expected to get benefit from high income groups and patients with health insurance residing there.

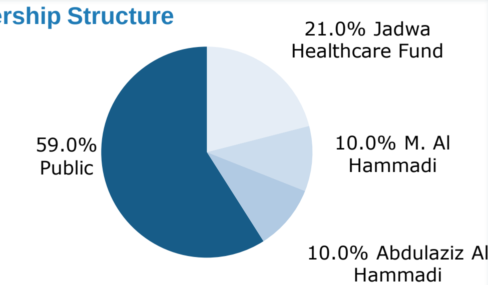
Risks

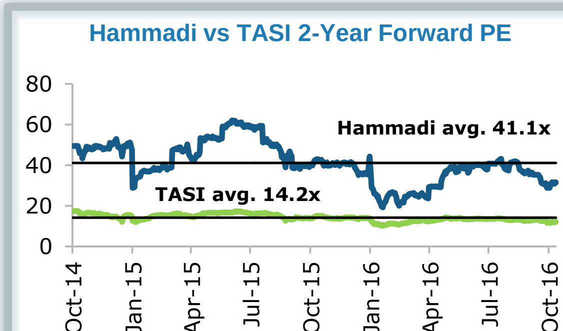
- Receivable days of Hammadi are high.
- Fire occurred at Hammadi hospital in Olaya, Riyadh, which we believe adversely impacted the group's performance and resulted in a loss of SAR 20 million.
- Historically, Hammadi has traded at a significant premium as compare to its peers, but we believe current premium is not sustainable due to ramping receivables and debt.
- Coming online of Nuzha hospital may take longer than expected time.

Company Overview

Incorporated in 2004, Al Hammadi Development and Investment Co. was listed on Tadawul in 2014. As of now, the company runs two hospitals namely, Olaya hospital and Suwaidi hospital, both hospitals are located in Riyadh with total bed capacity of 728 and 138 clinics. With more than one year delay Hammadi is expected to launch new hospital, Nuzha, in Q1 2017.

Ownership Structure





Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.5 AlHammadi Co. for Dev. and Invest.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	89	75	212	231
Inventories	27	31	43	58
Trade and other receivables	249	357	421	512
Other current assets	14	16	17	19
Total Current assets	380	479	693	820
Property, plant and equipment	1,086	1,121	1,634	1,595
Other non-current assets	470	545	--	--
Total non-current assets	995	1,666	1,634	1,595
Total assets	**1,936**	**2,145**	**2,327**	**2,415**
Accounts payable	57	63	68	77
Short term debt	150	241	202	148
Other current liabilities	34	55	82	96
Total current liabilities	241	359	352	321
Long term debt	276	354	497	535
Other non-current liabilities	33	40	38	45
Total non-current liabilities	309	394	535	580
Share capital	1,200	1,200	1,200	1,200
Retained earnings, reserves and others	186	192	240	314
Total equity and liabilities	**1,936**	**2,145**	**2,327**	**2,415**

3.5 AlHammadi Co. for Dev. and Invest.

Financial Statements (year end December) *All figures are in SAR million unless otherwise stated*

Income Statement	2015	2016	2017	2018
Revenue	**561**	**602**	**717**	**794**
COGS	317	371	425	452
Gross profit	**244**	**231**	**292**	**342**
SG&A expenses	91	122	141	162
EBITDA	184	167	216	252
EBIT	153	109	151	180
Others income/ (expenses)	(3)	(5)	(4)	(5)
Zakat	(9)	(8)	(9)	(11)
Net income	**141**	**96**	**138**	**164**
Outstanding shares (million)	120	120	120	120
Earnings per share (SAR)	1.18	0.80	1.15	1.37
Dividend per share (SAR)	1.00	0.75	0.75	0.75
Cash Flow Statement	**2015**	**2016**	**2017**	**2018**
Cash from operations	88	16	91	86
Cash from investing activities	(197)	(110)	32	39
Cash from financing activities	(346)	79	14	(106)
Opening cash balance	544	89	75	212
Increase/ (decrease) in cash	(455)	(15)	137	19
Closing cash balance	**89**	**75**	**212**	**231**

3.5 AlHammadi Co. for Dev. and Invest.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	16.5%	7.3%	19.1%	10.7%
EBITDA	27.1%	(9.2%)	29.3%	16.7%
Profitability				
Gross profit margin	43.5%	38.4%	40.7%	43.1%
EBITDA	32.8%	27.7%	30.1%	31.7%
EBIT	27.3%	18.1%	21.1%	22.7%
Net profit margin	25.2%	15.9%	19.2%	20.7%
ROA	7.0%	4.5%	5.9%	6.8%
ROE	10.4%	6.9%	9.6%	10.8%
Leverage				
Debt to equity	30.7%	42.7%	48.5%	45.1%
Debt to asset	22.0%	27.7%	30.0%	28.2%
Valuation				
Price to book value	3.0x	1.8x	1.6x	1.5x
Price to earnings	29.0x	39.8x	27.7x	23.2x
Price to sales	7.3x	6.3x	5.3x	4.8x
Dividend yield	2.7%	2.7%	2.7%	2.7%
EV/ Sales	8.2x	6.3x	5.3x	4.8x
EV/ EBITDA	24.9x	23.0x	17.8x	15.2x

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3.5 AlHammadi Co. for Dev. and Invest.

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 10 percent. Based on our valuation model Fair Value of Hammadi is SAR 36.0.

DCF Summary

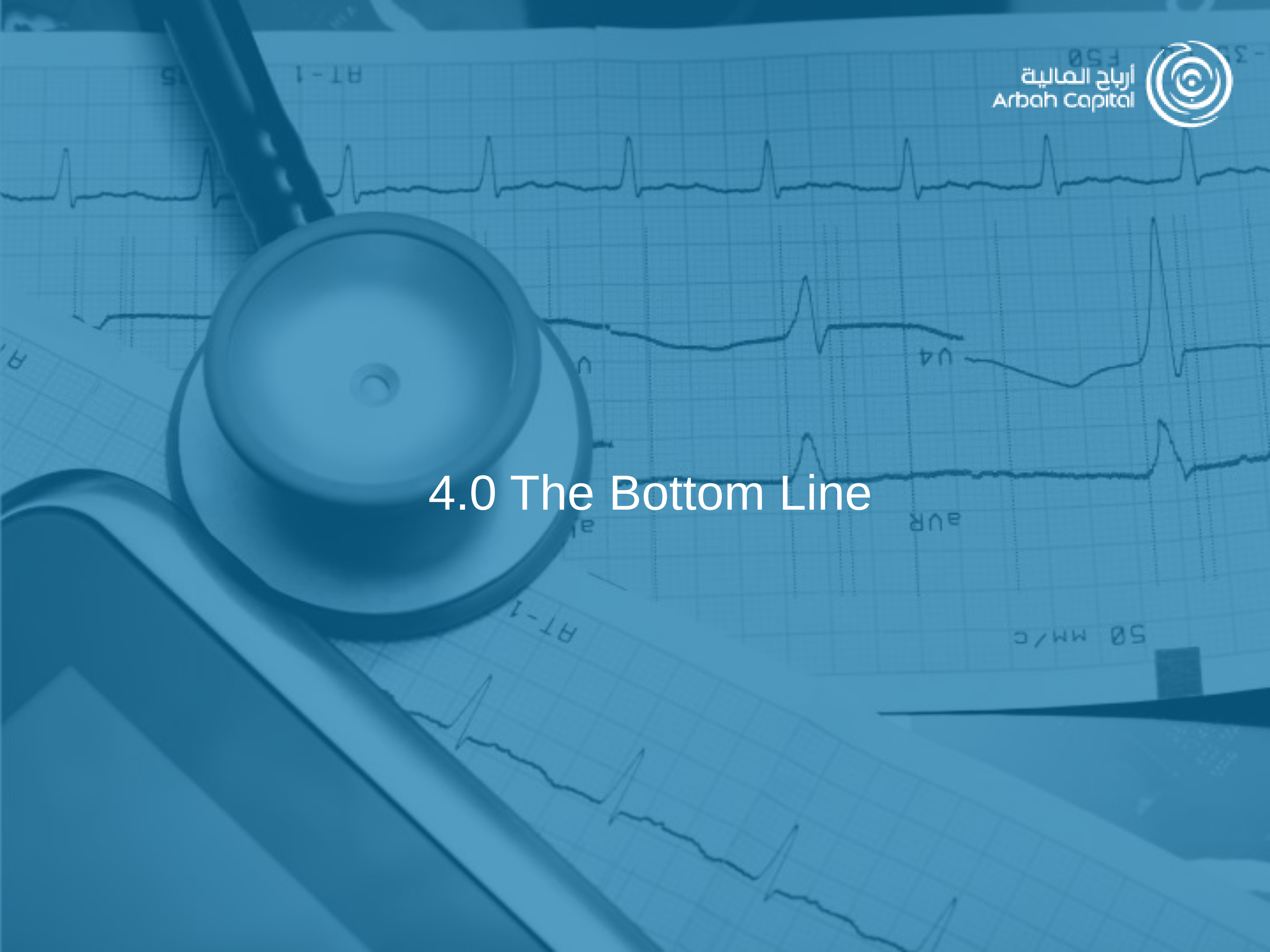
FCFE (2016- 2021)	SAR 1,234
Discounted FCFE	SAR 955
Terminal growth rate	3.0%
Terminal value	SAR 5,421
Discounted terminal value	SAR 3,366
EV	SAR 4,321
Cost of equity	10.0%
No. of outstanding shares	120.0 mn
Fair value	**SAR 36.0**

Sensitivity analysis

		Cost of equity				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	2.0%	37.2	34.6	32.2	30.2	28.4
	2.5%	39.6	36.6	34.0	31.7	29.7
	3.0%	42.4	38.9	**36.0**	33.4	31.2
	3.5%	40.4	41.7	38.3	35.4	32.9
	4.0%	45.7	44.9	41.0	37.7	34.8

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth SAR	Div. Yield TTM	ROE
GCC peers' weighted average	3,382	22.5x	5.9	2.8%	17.7%
Global peers' weighted average	4,222	25.6x	10.7	2.6%	16.6%
Hammadi	4,505	45.2x	(4.7)	2.4%	7.9%



4.0 The Bottom Line

4.0 The Bottom Line

- ❑ Saudi healthcare sector has nourished well over the years. We expect healthy nourishment of the sector to continue going forward. Demographic structure, lifestyle related diseases, mandatory health insurance and ample supply-demand gap provide essential nutrients for the future nourishment of the sector.

- ❑ Currently, TASI is trading near six-year low level which we believe makes it attractive. Moreover, historically healthcare sector trades at premium to TASI.

- ❑ Total revenue of Saudi listed healthcare players reached SAR 5.0 bn by 2015, growing at a CAGR of 19.5 percent through 2011 – 2015. Total gross profit reached SAR 2.1 bn over the period 2011 – 2015. Gross profit margin remained impressive within the range of 38.7% and 44.3% over the same period.

- ❑ As noted earlier, we expect total revenue of Saudi healthcare listed players to reach SAR 7.8 billion by 2018, growing at a CAGR of 16.1 percent through the period 2015 – 2018 whereas gross profit margin is expected to remain around 44 to 45 percent through the period 2016 – 2018.

- ❑ All the listed healthcare players have expansion plans, we expect more than 2,000 hospital-bed addition in the next three years. In relation to expansion, Dallah has Lion’s share with more than double bed-capacity addition.

- ❑ However, there are a few hiccups in the way, for example, piling up of receivables and debt, which may adversely impact the growth potential by limiting or delaying the expansion plans and hamper the smooth running of the operations.

- ❑ Current rally of Tadawul has left healthcare players with limited upside potential, based on our rating methodology, our recommendation is neutral for: Dallah (Fair Value: SAR 98.0, Upside Potential: 5.9%), Care (Fair Value: SAR 74.0, Upside Potential: 4.4%), Hammadi (Fair Value: SAR 36.0, Downside Potential: -2.1%) and Mouwasat (Fair Value: SAR 145.0, Upside Potential: 2.7%) whereas our recommendation is overweight for: MEAHCO (Fair Value: SAR 69.1, Upside Potential: 16.6%).

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Recommendation Methodology

Upside/ Downside Potential	Recommendation
Greater than or equal to +15%	Overweight
Between +15% and -14%	Neutral
Less than or equal to -15%	Underweight

The above mentioned recommendation methodology may not be followed in exceptional circumstances or an analyst at discretion may deviate from the above mentioned recommendation methodology in exceptional circumstances.

Arriving at Fair Value involves use of assumptions and estimates. The computed Fair Values are for 12 months horizon.

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