AL HAMMADI

الأهلي كابيتال
NCB Capital

INITATING COVERAGE

Positive growth outlook despite no expansion plans

We initiate coverage on Al Hammadi Company for Development and Investment (Al Hammadi) with a Neutral rating and a PT of SR40.4. Although the start of Al Nuzha Hospital's operations is a positive catalyst, we believe it is already reflected in the current share price. Al Hammadi currently trades at 2017E P/E of 38.0x, substantially higher than the Saudi peer group average of 24.3x.

- **Defensive sector that benefit from the rise in demand-supply gap:** Saudi demand for healthcare is projected to grow further, supported by the growing population and the prevalence of NCDs. The projected growth in demand will increase the supply and demand gap even further over the medium-term. All these factors support listed stocks' future outlook. Also, Al Hammadi is positioned to benefit from government's plans to further enforce and expand healthcare insurance coverage.
- **The start of commercial operation at Al Nuzha Hospital is a key catalyst:** In March 2017, the company commenced the trial operations at Al Nuzha Hospital with the commercial operation due to start in 2H17. The hospital will increase the company's overall bed capacity from 728 beds to 1,378 beds. This, along with one-full year of Al Olaya hospital operation (vs a 6 months of shutdown in 2016), should support 2017E revenues to increase to SR761mn, (+25.6% YoY). However, the ramp-up of Al Nuzha Hospital's operations depends on the company's ability to reach agreements with insurance companies, a key driver for patient volume. As of April 2017, the company had not signed any agreements with insurance companies. Any delay in reaching such agreements will negatively impact the utilization rate and hence the valuation.
- **Account receivable days a key risk:** The company's days receivables outstanding increased from 100 days in 2014 to 259 days in 2016. The company attributed the increase in the average receivables period to the delay in receiving MoH payments. Delays in receivables collection is a risk as it will negatively impact the company's valuation and its ability to distribute dividends.
- **Neutral on Al Hammadi, with a PT of SR40.4:** We are initiating coverage on Al Hammadi with a Neutral and a PT of SR40.4. Despite the company's positive earnings outlook (a CAGR of 37.8% between 2016-2021E), we believe it is already reflected in the current share price. The stock is trading at a 2017E P/E of 38.0x vs. the Saudi peer group average of 24.3x.

Summary Financials

SR mn	2016	2017E	2018E	2019E	2020E
Revenues	606	761	974	1,161	1,305
Gross profit	242	295	412	509	572
Gross margin (%)	*39.8%*	*38.8%*	*42.3%*	*43.8%*	*43.9%*
EBIT	99	143	244	319	365
EBIT margin (%)	*16.4%*	*18.8%*	*25.0%*	*27.5%*	*28.0%*
Net Income	75	120	216	288	333
Net margin (%)	*12.3%*	*15.8%*	*22.2%*	*24.8%*	*25.5%*
EPS (SR)	0.6	1.0	1.8	2.4	2.8

Source: Company, NCBC Research estimates

NEUTRAL

Target price (SR)	**40.4**
Current price (SR)	**38.1**
Upside/ Downside (%)	**6.1%**

STOCK DETAILS

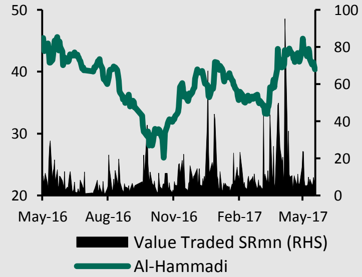
M52-week range H/L (SR)			46/25
Market cap ($ mn)			1,220
Shares outstanding (mn)			120
Listed on exchanges			TADAWUL
Price perform (%)	**1M**	**3M**	**12M**
Absolute	(4.5)	10.4	(12.9)
Rel. to market	(5.6)	11.6	(18.2)
Avg daily turnover (mn)		**SR**	**US$**
3M		14.8	4.0
12M		10.2	2.7
Reuters code			4007.SE
Bloomberg code			ALHAMMADI AB
			www.alhammadihospital.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	61.3	38.0	21.2
P/B (x)	3.3	3.1	2.8
EV/EBITDA (x)	37.7	27.1	18.0
Div Yield (%)	0.0	1.3	2.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Maha Almalki +966 12 690 7609
ma.almalki@ncbc.com

Investment Summary

Investment View

- Exposure to favourable demand fundamentals such as a growing population, high incidents of lifestyle-related diseases and increasing life expectancy.
- Al Hammadi plays a key role in meeting the demand in Riyadh city, a home of 6.4 million people. Riyadh province has a shortage in healthcare facilities (1.6 beds per 1,000 people in 2015 vs. Saudi's overall average of 2.2 beds). This, with growing population will drive the demand for healthcare services. Al Hammadi plays a key role in meeting the demand.
- The company's new hospital in Al Nuzha district is expected to commence commercial operations in 2H17, a key catalyst moving forward. This, together with the ramp-up of Al Olaya hospital operations, is expected to support growth of net income by a 37.9% CAGR (2016-2021) to SR373mn in 2021E.
- Positioned to benefit from NTP2020 initiatives. The privatization of various government's roles will increase in the number of policyholders as the newly privatised entities will purchase health insurance for their employees. These initiatives will benefit private providers. Since the majority of government bodies are based in Riyadh, Riyadh-based private providers, including Al Hammadi Company, are set to benefit the most.

Investment Risk

- The recently implemented expat levy on family members could have an adverse impact on private healthcare providers. A potential outcome is that many expatriates' family members may decide to leave the country. As a result, the number of outpatient visits to private providers could decline in the short to medium term, since a majority of the healthcare policyholders are non-Saudi.
- MoH and other government entities have included several of their hospitals in accredited networks, as they plan to accept insured patients. In fact, National Guard Hospitals started to accept Tawuniya patients in 2017. Previously, the MoH and other government hospitals provided care mainly to government-sponsored patients. The new decision will increase overall competitiveness. However, the impact could be minimal given state-run hospital's long waiting lists.
- Al Hammadi Company's days receivables outstanding increased from 100 days in 2014 to 259 days in 2016. As of 1Q17, the days receivables stood at 274 days. The company attributed the increase in average collection period to the delay in receiving MoH payments. According to management, MoH accounted for c.70% of account receivables as of November 2016. Further delays in receivables collection is a risk as it will negatively impact the company's earnings and its ability to distribute dividends. However, we believe the company will receive its dues from the government. This is supported by MoF commitment in December 2016 to settle its dues to the private sector within 60 days from the due date.

  The company's ability to sign on healthcare insurance companies to provide healthcare services in Al Nuzha Hospital is key for increasing utilization. Any delays in signing such agreements will negatively impact future earnings since outpatient visits are driven by insured patients.

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company