

# Al Hammadi Company

Healthcare – Industrial

ALHAMMAD AB: Saudi Arabia

21 January 2015

الراجحي المالية  
Al Rajhi Capital



**US\$1.859bn** Market cap  
**44%** Free float  
**US\$12.71mn** Avg. daily volume

Target price **86.00** -7.6% over current  
Consensus price **120.0** 28.9% over current  
Current price **93.08** as at 19/1/2015

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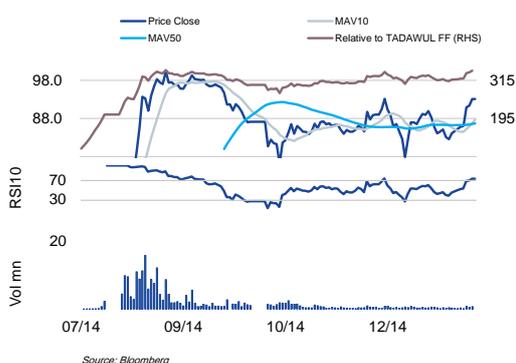
Existing rating

Underweight Neutral Overweight

## Flash view

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

## Performance



## Earnings

Period End (SAR)	12/14E	12/15E	12/16E	12/17E
Revenue (mn)	505	763	1,164	1,519
Revenue Growth	16.4%	50.9%	52.7%	30.5%
EBITDA (mn)	156	213	326	424
EBITDA Growth	24.0%	36.7%	52.9%	30.0%
EPS	2.26	2.66	4.13	5.46
EPS Growth	6.2%	18.0%	55.2%	32.0%

Source: Company data, Al Rajhi Capital

## Valuation



## Al Hammadi Hospitals Q4: Slightly below expectations

Al Hammadi's Q4 net profit grew by ~1% y-o-y to SAR34mn, below our expectation of SAR38mn. The company attributed the y-o-y increase in earnings due to operational efficiencies and increased patient traffic. Q4 Gross Profit grew by a much better 13% y-o-y to SAR62.2mn, slightly below our expectation of SAR65mn and overall for the year, by +16%. Revenue has not been reported yet. The company announced plans to increase the number of beds in its new hospital being constructed at Al-Nuzha from previously 428 to 600 at an additional cost of SAR20mn. Thereby the trial operations will start from Q1 2016 instead of Q3 2015. The company also plans to increase its capital through bonus shares. 3 bonus shares will be offered for every 5 shares held. Theoretically, this will decrease the fair price by 37.5%, as the number of shares will increase from 75mn to 120mn. We remain Neutral on Hammadi with a target price of SAR86 and will revise estimates once the detailed financials are published.

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

- **Revenues:** Revenue is not yet reported. Gross profit was reported at SAR62.2mn, which came in slightly below our expectation of SAR65mn. This implies a growth of 13% y-o-y in Q4 2014. For 2014, the gross profit increased by 16%.
- **Operating profit:** Operating profit came in at SAR35mn vs our expectation of SAR38mn. Operating profit for Q4 increased by ~1% only (compared to 13% y-o-y growth in gross profit).
- **Net profit:** Al Hammadi's Q4 net profit grew by ~1% y-o-y to SAR34mn, below our expectation of SAR38mn. Overall for 2014, the net income grew by 16% over 2013. The company attributed the y-o-y increase in earnings due to operational efficiencies and increased traffic.
- **Dividends:** The company maintained its dividends at SAR1/share while we had expected SAR1.2/share. At current price, the dividend yield is 1.1%.
- **Bonus shares:** The company plans to increase the capital through bonus shares. 3 shares would be offered for every 5 shares held. This will increase the share capital from SAR750mn to SAR1200mn and increase the number of shares to 120mn from 75mn. As a result technically the share price will decrease by 37.5% in value.



- **Increasing bed capacity at Al Nuzha Hospital:** The company had previously planned to open its Al-Nuzha hospital for trial operations by Q3 2015. However the company is increasing its bed capacity from 428 to 600 and therefore is expected to start trial operations from Q1 2016 instead of Q3 2015. This will be done at an additional cost of SAR20mn, which will be financed internally and from IPO proceeds.
- **New loan from Ministry of Finance:** Hammadi has signed a long-term loan contract with the Ministry of Finance for SAR27.5mn for 20 years. It aims to use the loan for financing the housing compound attached to Al Hammadi hospital in Suweidhi.
- **Valuation:** We continue to remain Neutral on Al Hammadi with a target price of SAR86. We will revise our estimates once the detailed financials are published.



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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

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

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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