Al Hammadi Company For Development and Investment

Healthcare – Industrial

ALHAMMAD AB: Saudi Arabia

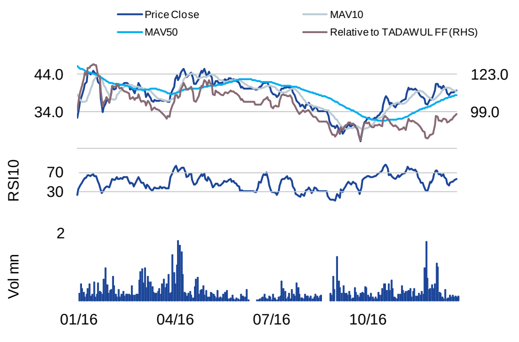
US$1.271bn	44%	US$2.217mn
Market cap	Free float	Avg. daily volume

Target price	40.00	0.7% over current
Current price	39.73	as at 18/1/2017

Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16A
Revenue (mn)	434	482	561	606
Revenue Growth	14.6%	11.0%	16.5%	8.0%
Operating profit (mn)	112	131	153	98
OPM	25.8%	27.2%	27.3%	16.2%
EPS	0.9	1.1	1.2	0.6
EPS Growth	18.2%	15.7%	9.7%	-47.2%

Source: Company data, Al Rajhi Capital

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Al Hammadi Hospitals

Utilization rates improving

Al Hammadi reported stronger than expected revenue and gross profit figures, but lower than expected net profit, impacted by a provision for doubtful debt. The strong top line growth (+15.8% y-o-y) indicates that the Olaya hospital continues to see increase in patients, improving utilization, after reopening in August. The company made a provision of SAR20-25mn for doubtful debts (as per our calculations) this quarter, resulting in net profit declining 70% y-o-y. As mentioned in our sector report, the rising receivables over the last couple of years has been a risk for the company and the sector. Going forward, gross margin is expected to improve gradually as the utilization of both hospitals increase to healthier levels. Meanwhile, outstanding receivables remains an overhang on the stock (and the sector). For now, we reiterate our Neutral rating with a TP of SAR40.

Key takeaways: We had mentioned in our sector report that the rising receivables is a risk for the sector, and Hammadi witnessed one of the sharpest increase in outstanding receivables. Hammadi saw its receivables increase 90% over the last twelve months (by Q3 2016 end), amounting to ~66% of its last 12-month revenues. Based on our calculations, we believe the company is likely to have made a provision of SAR20-25mn during the quarter (in excess of the average SAR4-6mn it makes on a quarterly basis), which comes to only ~5-6% of its outstanding receivables at the end of Q3 2016.

- **Revenues:** Hammadi reported a 15.8% y-o-y rise in revenue to SAR182.6mn, ahead of our SAR166mn estimate (consensus: SAR159.5mn), supported by an increase in number of patients. We believe the strong top line performance could be attributable to the improving utilization of the Olaya hospital, which restarted operations in the third quarter.
- **Gross profit:** The company's gross profit only grew 7.4% y-o-y to SAR73mn, as gross profit margin declined ~310bps y-o-y to 40%. This could have been because of increasing staff numbers at its hospitals and we view it as a positive sign for the coming quarters. Notably, the fourth quarter is a strong seasonal quarter for healthcare firms.

Figure 1 Al Hammadi: Summary of Q4 2016 results

(SAR mn)	Q4 2015	Q3 2016	Q4 2016	% chg y-o-y	% chg q-o-q	ARC est
Revenue	157.7	141.4	182.6	15.8%	29.1%	166.0
Gross profit	68.0	57.5	73.0	7.4%	26.9%	70.7
Gross profit margin	43.1%	40.7%	40.0%			42.6%
Operating profit	40.4	27.3	18.2	-55.0%	-33.3%	35.7
Net profit	35.8	21.5	10.7	-70.0%	-50.0%	30.0

Source: Company data, Al Rajhi Capital

- **Operating and net profit:** The company made a provision against doubtful debts which led to a 55% decline in operating profit to SAR18.2mn. As mentioned above, we believe the company made a provision of ~SAR20-25mn. Consequently net profit dropped 70% y-o-y to only SAR10.7mn, compared to our estimate of SAR30mn (consensus: SAR30.1mn).

Valuation: The performance of the Olaya hospital is improving quicker than expected, resulting in strong top line growth. We believe the trend will continue in H1 2017 due to the low base effect (Olaya hospital shutdown), and margins are also likely to expand on improving overall utilization. However, the historically high receivables remain a risk for the company. It is already costing the company higher financing charges (taken to fund the working capital requirements). We reiterate our Neutral rating with a TP of SAR40.

Update on use of IPO proceeds: Al Hammadi's Nuzha hospital is 95.5% complete. The company plans to commence test run of the facility in H1 2017. The company has utilized SAR585mn out of the net IPO proceeds of SAR605.3mn.

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

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

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