# Al Hammadi Company For Development and Investment

**Healthcare – Industrial**
ALHAMMAD AB: Saudi Arabia
5 Nov 2018

الراجحي المالية
Al Rajhi Capital

| US$0.764bn | 44% | US$1.039mn |
|---|---|---|
| Market cap | Free float | Avg. daily volume |

| | | |
|---|---|---|
| Target price | 27.00 | +13.1% over current |
| Current price | **23.88** | **as at 4/11/2018** |

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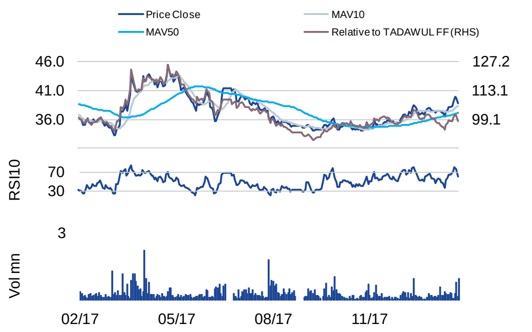
**Recommendation**

| Underweight | Neutral | Overweight |
|---|---|---|

### Performance




Source: Bloomberg

### Earnings

| Period End (SAR) | 2017A | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| Revenue (mn) | 709 | 937 | 1,045 | 1,157 |
| Revenue Growth | 17% | 32% | 12% | 11% |
| EBITDA | 185 | 260 | 290 | 333 |
| EBITDA Margin | 26% | 28% | 28% | 29% |
| EPS | 0.9 | 1.0 | 1.3 | 1.6 |
| EPS growth | 45% | 16% | 20% | 24% |

**Source:** Company data, Al Rajhi Capital

# Al Hammadi Hospitals

## Higher receivables not a concern; TP stands at SAR27/sh

*Al Hammadi reported a net income of SAR72.1mn (-6.6% y-o-y) in 9M 2018. Top-line surged 28% y-o-y to SAR665.6mn, driven by increased pharmaceutical products sales; led by the acquisition of Medical Support Services Company and launch of commercial operations of Nuzha hospital in Q1 2018, offsetting a decline in overall number of patients on the back of macro-economic concerns (including expat levy and reduction in disposable income). We note that Hammadi has enlarged its exposure to Government to boost the top-line, however, this has resulted into higher levels of receivables, thereby raising debt to meet its working capital requirements. Further, increased direct and indirect operating expenses, mainly related to recently opened Nuzha Hospital, pressurized the margins, which translated to lower bottom-line during the period. Going forward, we expect the pharmaceutical revenue and healthy improvement in utilization of Nuzha (specially after the company have signed with major insurance players) continue to accelerate the top-line growth, while expenses related to Nuzha hospital are likely to be normalized. Consequently, we arrive at a target price of SAR27/sh with an Overweight rating on the stock.*

**Working capital:** Al-Hammadi's exposure towards the government remains high, resulting into higher receivables and thereby pushing the company to raise debt to meet its working capital requirements. We note that total receivables kept increasing throughout 2018 and reached at SAR531.4mn (~80% of 9m sales), translating into the negative working capital during the period. We believe that most of these receivables are accrued from the government, particularly after the company increased its dealings with the government through the pharmaceutical division. Accordingly, higher leverage position lifted the financial expenses significantly (+67% y-o-y rise) in 9M 2018. However, we expect most of the government payment to be received in Q4, given that the government is likely to spend ~SAR26bn on the Health and Social development in Q4, as reflected from its Q3 budget announcement.

**Conclusion and valuation:** Al Hammadi was able to diversify its revenue, which we believe is a positive move by the management. Further, the elevated level of receivables is not a concern for the company as most of the government receivables is likely to be realized in Q4. Post Q3 results, we revise our forward looking estimates. Based on equal mix of DCF valuation (11.1% WACC , 3% terminal growth) and relative valuation (21x forward PE), our target price stands at SAR27/share, implying an upside of 13.1%. We also revise our rating to Overweight rating (Under Review earlier) on the stock.

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