

Sulaiman Al Habib Medical Services Group (HMG)

16 May 2022

Improved Performance by HMG in Q1 2022, Yet Anticipated Margin Pressures Due to Ambitious Pipeline.

Sulaiman Al Habib Medical Services Group's (HMG) revenue grew by 17.5% in Q1 2022, thanks to significant pick-up in demand in 2022. The company's ambitious plans will certainly support the company's long-term prospect; however we expect some pressure on HMG's margins in the medium term.

HMG reported a 17.5% Y-o-Y growth in revenues, from SAR1,695mn in Q1 2021 to SAR1,991mn in Q1 2022. The growth was across all segments, where "Hospitals" reported growth of ~14.0% thanks to the increase in number of patients/ referrals, coupled with a material improvement of occupancy rated in Inpatient departments and Outpatient clinics. Consequently, the "Pharmacies" segment grew by ~33% Y-o-Y, supported by the growth in the "Hospital" segment. Furthermore, the company's "HMG Solutions" - the segment that includes operations related to supplies and technology solutions - grew by 10% compared to the same quarter last year, thanks to service contracts for government and private institutions.

On the other hand, COGS grew by 16.3% Y-o-Y, mainly due the direct impact of revenue growth on COGS. However, HMG's gross margin still saw a slight improvement in Q1 2022, reaching 33.1% (32.4% Q1 2021).

Despite the increase in SG&A expenses during the quarter by 18.4% Y-o-Y (which included SAR54mn in provisions for credit loss compared to only SAR5.3mn in Q1 2021), the company's EBIT margin improved slightly from 20.6% in Q1 2021 to 21.2% in Q1 2022.

During Q1 2022, the company's finance expenses dropped noticeably by 24.3% Y-o-Y, in addition to other income of SAR21.1mn (SAR17.7mn other income reported in Q1 2021), leading to a growth in net income of 29.6% Y-o-Y. Net income for Q1 2022 stood at 19.6%, an improvement compared to 17.8% in Q1 2021. The improved net income came as a combination of growth in revenues for the quarter, drop in financing burdens and the increase in other income.

On April 23, HMG's board of directors recommended the distribution of an 8.3% cash dividend, or SAR 0.83 per share, for Q1 2022.

HMG stated that it will expand the scope of its "HMG solutions" services in the sector during 2022 through the implementation of the "VIDA" system, in addition to providing Abha -a hospital affiliated to the Ministry of Health- with integrated solutions for the hospital, including 12 products. Moreover, the company also plans to implement other upcoming projects and partnerships in cooperation with the Security Forces Hospital, Al-Murjan Hospital, and the Food and Drug General Authority.

Furthermore, HMG plans to add a total of 1466 bed and 915 clinics within the coming 3 years through 5 projects located in Riyadh & Jeddah. The projects are estimated to cost around SAR7,162mn.

Towards the end of 2021 and going into 2022, Saudi Arabia saw a significant improvement in healthcare demand and an overall improvement in hospital occupancy rates across the healthcare sector due to the normalization of the economic conditions following the COVID-19 ear in 2020. The improved market conditions were evident in HMG's top-line performance as well as other healthcare players in the sector.

Going forward, we believe the company's revenues will continue to grow as demand increases, however, the project pipeline is expected to significantly pressure margins at least in the upcoming 3 years.

We update our 52 weeks target price SAR181.2/share with a Underweight recommendation.

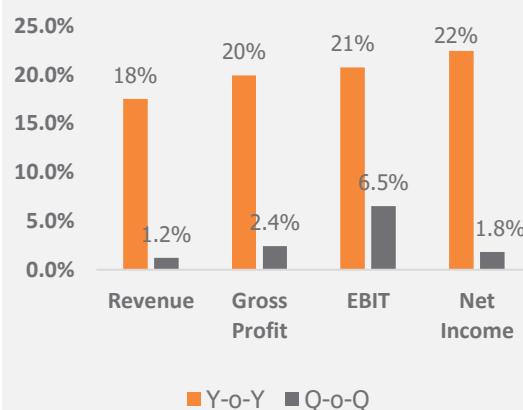
Recommendation Underweight

Previous Recommendation	Sell
Current Price (16-05-2022)	SAR213.0
Target Price (52 Weeks)	SAR181.2
Upside/ (Downside)	14.9%
Shariah Compliance	Pass

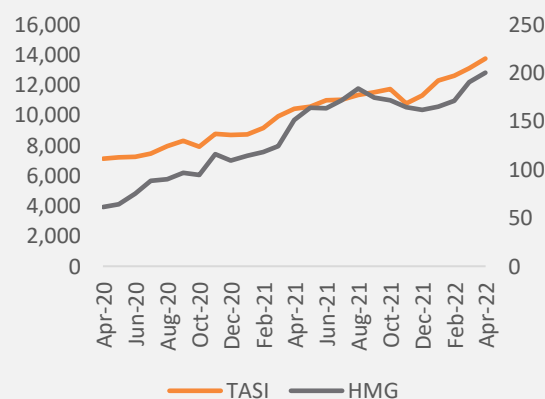
Key Financial Ratios

Ratio	Q1 2022	Q4 2021	Q1 2021
Revenue Growth	17.5%	16.4%	26.2%
Gross Margin	33.1%	32.7%	32.4%
EBIT Margin	21.2%	20.1%	20.6%
Net Margin	19.6%	19.5%	0.4%

Key Financial Results (Q1 2022)



Share Price Performance



Valuation Rational

DCF Valuation

	2022 E	2023 F	2024 F	2025 F	2026F	2027 F	2028 F	2029F
EBITDA	1,918	2,057	2,128	2,362	2,633	2,908	3,200	3,426
Operating CF	1,798	1,880	2,023	2,245	2,463	2,717	2,984	3,209
Capex	(1,395)	(1,450)	(1,391)	(682)	(505)	(424)	(455)	(486)
FCFF	403	430	632	1,563	1,959	2,293	2,529	2,723
Stub Period (FCF to be discounted)	303	430	632	1,563	1,959	2,293	2,529	2,723
PV (FCFF)	290	387	536	1,240	1,453	1,585	1,625	1,623
WACC	6.1%							
Perpetuity Growth	3.0%							
PV-FCFF	8,739							
PV-TV	50,563							
Net Debt	(298)							
Less: End of services benefits	(509)							
Add: JV and associates	193							
Less: Minority Interest	0							
Intrinsic Values	58,688							
Shares Outstanding	350							
Equity value per share	167.7							
CMP (16-05-2022)	213.0							
Upside / (Downside%)	-21.3%							

We have valued Dr. Sulaiman Al Habib Medical Services Group (HMG) using Discounted Cash Flow (DCF) approach considering a Weighted Average Cost of Capital (WACC) of 6.1%. This was based on a blended cost of equity of 7.6% and a cost of debt of 3.4% The terminal growth rate is 3.0%.

Based on the DCF valuation, the 52 weeks target price of HMG is SAR213.0/share, which is lower than the traded value by 21.3%

Name	Country		P/E
Sulaiman Al Habib	KSA	4013	51.5x
Mouwasat	KSA	4002	38.7x
National Medical Care	KSA	4005	23.4x
Hammadi	KSA	4007	52.8x
Dallah	KSA	4004	50.5x
Middle East (Saudi German Hospital)	KSA	4009	46.7x
Median			48.6x
Value Per Share			201.5

Weighted Valuation

Based on a weighted valuation approach, where the DCF is weighed 60%, and multiple valuations is weighed 40%, we value Dr. Sulaiman Al Habib Medical Services Group (HMG) share price at SAR181.2, 14.9% lower than the current market price of SAR213.0.

Valuation Approach	Weight	Value
DCF	60%	167.7
P/E	40%	201.5
Valuation	100%	181.2

Financial Projections

Financial Ratios

	2020A	2021 A	2022 F	2023F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F
Return on Average Assets (%)	11.8%	13.6%	12.9%	12.4%	11.4%	11.8%	12.8%	14.1%	15.5%	16.5%
Return on Average Equity (%)	22.7%	26.9%	25.2%	23.3%	21.1%	21.1%	22.0%	23.4%	24.8%	25.6%
Income Before Zakat Margin (%)	19.2%	20.7%	20.2%	20.4%	18.9%	18.2%	19.2%	20.2%	21.0%	21.2%
Net Income Margin (%)	18.0%	19.0%	18.7%	18.8%	17.4%	16.8%	17.7%	18.6%	19.4%	19.6%
Revenue Growth (%)	16.9%	23.7%	6.9%	4.5%	8.7%	15.7%	7.7%	7.4%	7.2%	6.8%
DPS	2.29	2.29	2.21	2.32	2.34	3.91	4.71	5.63	6.27	6.74
Payout Ratio	75.8%	58.1%	53.4%	53.4%	53.4%	80.0%	85.0%	90.0%	90.0%	90.0%

Income Statement

	2020A	2021 A	2022 F	2023F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F
Revenues	5,862	7,250	7,752	8,099	8,801	10,184	10,969	11,782	12,625	13,485
Cost of revenues	(3,997)	(4,920)	(5,250)	(5,474)	(6,079)	(7,117)	(7,575)	(8,042)	(8,516)	(9,073)
Gross Profit	1,864	2,330	2,502	2,626	2,722	3,067	3,394	3,741	4,109	4,412
SG&A	(750)	(864)	(950)	(991)	(1,071)	(1,223)	(1,305)	(1,399)	(1,496)	(1,595)
Other income, net	61	73	71	71	71	72	72	72	73	73
Finance Costs	(48)	(38)	(53)	(58)	(63)	(63)	(60)	(39)	(34)	(28)
Zakat	(93)	(114)	(119)	(125)	(126)	(141)	(160)	(180)	(202)	(218)
Net Income	1,035	1,387	1,450	1,523	1,534	1,711	1,941	2,194	2,451	2,645

Balance Sheet

	2020A	2021 A	2022 F	2023F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F
Current Assets	3,793	4,133	3,815	3,954	4,181	5,039	5,465	5,908	6,274	6,619
Non-Current Assets	5,688	6,694	7,874	8,904	9,819	9,985	9,947	9,807	9,677	9,557
Total Assets	9,481	10,827	11,690	12,858	14,000	15,024	15,411	15,715	15,951	16,176
Current Liabilities	1,694	2,048	2,178	2,326	2,593	2,963	3,132	3,304	3,477	3,579
Non-Current Liabilities	2,699	3,253	3,335	3,606	3,761	3,522	3,167	2,755	2,342	2,025
Total Equity	5,089	5,527	6,177	6,926	7,647	8,539	9,111	9,656	10,132	10,571
Total Liabilities and Equity	9,481	10,827	11,690	12,858	14,000	15,024	15,411	15,715	15,951	16,176

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

Itqan Capital

Al Zahraa District, Al Zahraa Commercial Center,

PO Box 8021, Jeddah 21482,

Kingdom of Saudi Arabia

Tel: 966 12 263 8787

Fax: 966 12 263 8789

info@itqancapital.com

www.itqancapital.com

Disclaimer

This research document has been prepared by Itqan Capital Company ("Itqan Capital"), Saudi Arabia. It has been prepared for the general use of Itqan Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Itqan Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Itqan Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. Itqan Capital makes no representations or warranties (express or implied) regarding the data and information provided and Itqan Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document, and should understand that future prospects' statements may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Itqan Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Itqan Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Itqan Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. This research document and any recommendations contained are subject to change without prior notice. Itqan Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Itqan Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Itqan Capital is licensed by the Saudi Arabian Capital Market Authority, License No.07058-37 and CR No.4030167335