August 2020

Al Hammadi Company

Result Flash Note Q2-2020

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Al Hammadi posted a net income of SAR 39.1mn (SAR 0.33 EPS), above our estimate of SAR 16.4mn. Growth was mainly driven by 920 bps expansion in GP Margin. Revenue decreased slightly as the increase in inpatient revenue partially offset the decline in outpatients. GP Margin improved due to lower staff costs, benefiting from government initiatives. We maintain our "**Neutral**" rating on the stock with a revised TP of **SAR 26.0/share**.

- Al Hammadi recorded a net income of SAR 39.1mn in Q2-20 (EPS of SAR 0.33), up 95.4% Y/Y. Net profit for Q2-20 was above our estimate of SAR 16.4mn and market expectation of SAR 15.3mn respectively. The Y/Y increase was mainly due to 920 bps expansion in GP Margin. The decrease in finance costs due to a lower loan balance and decline in lending cost also contributed to net profit growth.
- The company's revenue totaled SAR 244.3mn in Q2-20, down 3.8% Y/Y and up 18.2% Q/Q; it was above our estimate of SAR 204.3mn. The increase in inpatient revenue, driven by more patient transfers from MoH, spurred the revenue growth, partially offset by lower outpatient revenue.
- Gross profit stood at SAR 90.8mn, up 27.8% Y/Y; and it was above our estimate of SAR 58.2mn. GP Margin widened to 37.2% in Q2-20 from 28.0% in Q2-19, reaching above our estimate of 28.5%. Operations at Al Nuzha Hospital, which commenced in Q1-18, showed improvement in performance during the quarter. We believe the GP margin expansion is not sustainable, as it was driven by government support and a change in the patient mix, which seems to be a short-term phenomenon.
- Operating profit was recorded at SAR 50.7mn, up 51.0% Y/Y and 36.7% Q/Q. Net OPEX rose 7.0% Y/Y to SAR 40.2mn from SAR 37.5mn in Q2-19, above our estimate of SAR 31.2mn.

AJC view: Al Hammadi's overall results exceeded our expectations. The expansion in GP Margin was the main reason for the positive results. With the situation returning close to pre-COVID levels, we expect margins to fall in line with historical trends. We increase our EPS estimate for FY-20E to SAR 0.92 to account for the strong earnings performance in Q2-20.

The improvement in capacity utilization at Al-Nuzha Hospital is the key revenue driver for the company. Margins should improve gradually with stabilization of operations at Al-Nuzha. High exposure to receivables from MoH puts pressure on working capital requirement, leading to high debt. We value Hammadi on 50% weight for DCF (3.0% terminal growth and 8.2% average WACC), and 25% weight each for relative valuation based on P/E (23.3x FY21 EPS) and EV/EBITDA (15.2x FY21 EBITDA). These yield a TP of SAR 26.0/share, implying a 3.1% downside from the current level. The stock is currently trading at a P/E of 27.4x based on our FY21 EPS estimate. We maintain our "**Neutral**" rating on Al Hammadi with a revised TP of **SAR 26.0/share**.

Results Summary

SARmn	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	253.8	206.7	244.3	-3.8%	18.2%	19.6%
Gross Profit	71.1	66.5	90.8	27.8%	36.6%	56.0%
Gross Margin	*28.0%*	*32.2%*	*37.2%*	-	-	-
EBIT	33.5	37.1	50.7	51.0%	36.7%	87.7%
Net Profit	**20.0**	**24.9**	**39.1**	95.4%	56.8%	138.0%
EPS	0.17	0.21	0.33	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	**26.0**
Upside / (Downside)*	**-3.1%**

Source: Tadawul *prices as of 24th of August 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenues	974.1	944.7	1,036.1
Growth %	9.0%	-3.0%	9.7%
Net Income	93.0	110.8	117.7
Growth %	3.5%	19.1%	6.3%
EPS	0.77	0.92	0.98

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	29.0%	32.1%	30.2%
Net Margin	9.5%	11.7%	11.4%
P/E	27.1x	29.1x	27.4x
P/B	1.6x	1.9x	1.8x
EV/EBITDA (x)	14.9x	13.5x	12.9x
Dividend Yield	0.0%	0.0%	0.0%

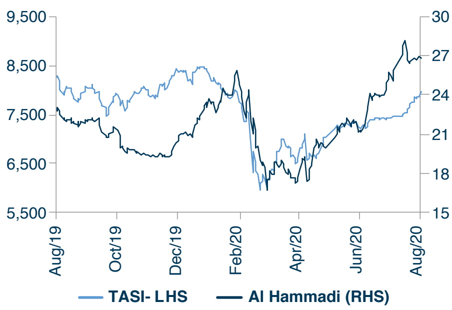
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.2
YTD %	**27.6%**
52 Week High/ Low	28.30/16.66
Shares Outstanding (mn)	120.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated “Overweight” will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated “Underweight” would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated “Neutral” is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.