

Dallah posted net income of SAR 54.6mn, above our and the consensus estimate of SAR 30.9mn and SAR 38.1mn, respectively. The increase in net profit was mainly due to a strong increase in sales and slight improvement in GP margin, partially offset by sharp increase in OPEX. Increase in revenue could be attributed to increase in inpatients and outpatients at Dallah Hospital and revenue from recent acquisition of Cares Shield Holding and Makkah Medical Center. We maintain our recommendation of “**Neutral**” on the stock with a revised TP of **SAR 62.0/share** to account for better-than-expected results and positive impact of expansion plans and recent acquisitions.

- Dallah posted net income of SAR 54.6mn in Q1-21 (EPS of SAR 0.61), above AJC's and the market consensus estimate of SAR 30.9mn and SAR 38.1mn, respectively. The deviation in Q1-21 net income from our estimates could be mainly ascribed to a higher-than-expected revenue and GP Margin.
- Sales in Q1-21 stood at SAR 494.7mn, reflecting an increase of 57.2% Y/Y, above our estimate of SAR 369.3mn. The increase in revenue can be attributed to higher number of inpatient and outpatient and increase in operating level of Namar Hospital. Recent acquisitions of Cares Shield Holding and Makkah Medical Center also contributed to the increase. The expansion of Al Nakheel Hospital is expected to lead to additional capacity; this, in turn, is expected to result in revenue growth.
- Gross profit stood at SAR 176.8mn, up 67.1% Y/Y. The GP margin increased to 35.7% in Q1-21 from 35.4% in Q1-20 against our estimate of 34.3%. Increase in the GP margin could be attributed to increase in operating levels at Dallah Namar Hospital. The margins are expected to improve due to increase in patient volume and higher operating levels.
- Operating profit stood at SAR 72.9mn, up 176.1% Y/Y. Dallah's net OPEX surged 30.9% Y/Y to SAR 103.9mn compared to our estimates of SAR 92.8mn and SAR 79.4mn posted in Q1-20.

AJC view: Dallah's overall results were above our expectations. Revenue growth was driven by increase in inpatient and outpatient volumes, while improved operating levels drove increase in the GP Margin. Dallah's margins are expected to improve as compared to the last year due to increase in occupancy levels. In the long term, stability at the newly launched hospital at Al-Nakheel, expansion at Namar, and positive impact of recent acquisitions are expected to be key drivers of growth. We estimate the company to post net profit of SAR 151.4mn for FY21, representing an increase of 55.9%. We will revisit our estimates, once the company publishes its detailed results.

We value Dallah on 50% weight for DCF (3.0% terminal growth and 4.1% average WACC) and 25% weightage each for EV/EBITDA (21.7x FY21 EBITDA) and P/E (34.5x FY21 EPS) based on relative valuation. The valuation yields a TP of SAR 62.0/share, implying a 2.7% downside from the current levels. The stock is currently trading at a P/E of 37.9x based on our FY21 EPS estimate. We maintain our “**Neutral**” rating on this stock with a revised TP of **SAR 62/share**.

Results Summary

SARmn	Q1-20	Q4-20	Q1-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	314.6	405.3	494.7	57.2%	22.1%	34.0%
Gross Profit	105.8	143.6	176.8	67.1%	23.1%	39.5%
<i>Gross Margin</i>	<i>33.6%</i>	<i>35.4%</i>	<i>35.7%</i>	-	-	-
EBIT	26.4	40.3	72.9	176.1%	80.9%	115.1%
Net Profit	19.2	20.1	54.6	184.4%	171.7%	76.8%
EPS	0.23	0.22	0.61	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) 62.0
Upside / (Downside) -2.7%

Source: Tadawul *prices as of 29th of April 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenues	1,252.1	1,318.3	1,587.2
Growth %	6.0%	5.3%	20.4%
Net Income	146.9	97.1	151.4
Growth %	3.6%	-33.9%	55.9%
EPS	1.68	1.13	1.68

Source: Company reports, Aljazira Capital

Note: The EPS for FY20 is calculated based on the weighted average number of shares outstanding for the respective period as reported by the company

Key Ratios

	FY19	FY20	FY21E
Gross Margin	35.8%	34.1%	34.6%
Net Margin	11.7%	7.4%	9.5%
P/E (x)	27.9	42.7	37.9
P/B (x)	2.3	2.7	3.9
EV/EBITDA (x)	21.9	23.5	23.9

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	5.7
YTD%	32.0%
52 week (High)/(Low)	66.3/35.7
Share Outstanding (mn)	90.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul

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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.

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