



AlKhobar and AlAhsa hospitals display potentials of contributions to come; early signs of competitive pressures sector-wide, and on Dallah, prompt forecast revisions

Dallah reported a Q2-25 net income of SAR 124mn (up 11.1% Y/Y and down 20.1% Q/Q). Adjusting for a SAR 12.5mn one off zakat reversal, net income would be almost flat Y/Y as a result of initial pressures from the consolidation. The acquisition, however, drove Dallah's quarterly revenues to their highest recorded at SAR 1.06bn at a growth of 38.8% Y/Y and 27.6% Q/Q. In a promising sign for what could come, the acquirees grew their top line by 72% Y/Y in Q2-25, while AlKhobar made significant ramp up progress to reduce its net losses by 59% Y/Y to SAR -18mn during the quarter. We take these indicators as positive signs of what Dallah could be able to do to enhance the performance of those hospitals. However, more apparent competitive pressures across the sector, and on Dallah's Kingdom Hospital have been early signs of intensifying competitive dynamics in the market on patient and staff attraction. We expect these pressures to linger on amid an expected inflow of c. 5,000 beds into Riyadh by FY35 in the sector. While the AlKhobar and AlAhsa story still stands, along with the AlArid expansion, we revise our FY24-28E revenue & net income CAGR forecasts down to 13.1%/13.8% from 13.6%/20.6%, respectively, reflecting increasing competitive dynamics now more apparent across the sector. We revise our TP down to **SAR 147.0/share** on the stock, and recommendation to "Neutral" on the premium provider trading at an adjusted FY25E forward PE of 29.6x.

Q2-25 results deliver first quarterly revenue past SAR 1bn, and hint at what the two acquirees can contribute to the group as they ramp up to their potentials: Dallah posted a Q2-25 displaying the full effects of the AlKhobar & AlAhsa hospital acquisition, with promising signs on what the two hospitals can deliver to the group as they ramp up. Till then, net income at SAR 124.3mn posted an 11.1% Y/Y growth (down 20.1% Q/Q); yet adjusting for a SAR 12.5mn zakat reversal booked, net income would have been estimated to be flat Y/Y. Sequential net income growth, adjusting for a SAR 51mn in one off gain in Q1-25, would have posted a 19% Q/Q growth. Revenues for the quarter were particularly notable as they crossed the SAR 1bn line to reach SAR 1.06bn, at a growth of 38.8% Y/Y and 27.6% Q/Q. Contributing to that growth was the consolidation of the acquirees, which are credited for almost 59% of the revenue increase seen during the quarter. In a sign of potentials to come, the acquirees' revenues grew 72% Y/Y in Q2-25, while AlKhobar hospital reduced its net losses by 61% Y/Y to reach SAR -18mn. GPMs as a result of the consolidation contracted to 35.4% (down 350bps Y/Y and 30bps Q/Q), surprising our initial estimate of 34.1%; though we expect that continuous ramp up of AlKhobar and enhancement of AlAhsa's performance should gradually improve margins at the group level.

Volatility in some of Dallah's Kingdom Hospital's performance displays early signs of competitive risks in the sector; We tone down our FY24-28E Revenue & Net Income CAGR forecasts to 13.1%/13.8%, down from 13.6%/20.6%: Recent quarters have displayed signs of competitive pressures across the sector as a result of new facility openings and ramp ups in the Kingdom's urban regions. As for Dallah, Q4-24, which is conventionally the star quarter for the sector, competitive pressures were apparent from Kingdom Hospital; with similar effects seen in Q1-25, while considering seasonality. Management expects some of those competition effects to remain looming for some quarters as patients try newer providers in the area. We consider the volatility displayed in some of its subsidiaries' core performance as a result of competitive pressures an early sign of concern- as more of the listed sector increases its presence in all of Dallah's regions- namely in Riyadh where over 5,000 beds are expected to be rolled out till FY35 (as per a JLL market study). We tone down our FY24-28E Revenue & Net Income CAGR forecasts to 13.1% & 13.8%, down from 13.6% & 20.6%, respectively, reflecting sector wide competitive dynamics on patient attraction and staff cost inflation. This decline reflects the increasingly more apparent effects of intensifying competition among premium providers that have been in display over the past quarters, as well as competitive pulls on staffing cost inflation.

AlKhobar and AlAhsa hospitals acquisition consolidated by Q1-25's end to kick off Dallah's medium term growth trajectory by adding 60% beds to its capacity: Both hospitals were consolidated by around the final week of Q1-25 to add almost 60% to Dallah's beds portfolio, which now stands at almost 2,000 beds, and extended its presence to the Eastern Region. AlKhobar hospital, is still a ramping up facility, and management expects the hospital to break even by Q2-26. It made significant progress by Q2-25, reducing its net losses by 61% Y/Y. AlAhsa is a mature hospital that can benefit from the efficiency, economies of scale, and growth plans offered by Dallah, as management also redesigns and replans the facility. Both hospitals saw an increase of 52% Y/Y in revenues during H1-25, contributing SAR 176mn to the top line in Q2-25, with management expecting the two hospitals to contribute almost SAR 500mn to Dallah's FY25 revenues. Though we expect that to be on the conservative end. Debt as a result of the acquisition reached SAR 3.1bn by Q2-25; driven by acquiring c. SAR 700mn of debt from acquirees, and SAR 300mn in debt raised for the cash portion of the transaction. While debt to EBITDA (TTM) reached c. 4.0x by Q2-25, we expect debt to EBITDA to come down to 2.6x by FY27E as a result of planned deleveraging, and improved contribution from acquisitions.

Recommendation	Neutral
Target Price (SAR)	147.0
Upside / (Downside)*	-1.0%

Source: Tadawul *prices as of 28th of September 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	3,206	4,098	4,566	4,948
Growth %	8.9%	27.8%	11.4%	8.4%
Gross Profit	1,207	1,465	1,678	1,769
EBIT	567	700	820	858
Net Income*	471.2	559.6**	643.1	680.1
Growth %	30.8%	18.8%	14.9%	5.7%
EPS*	4.64	5.51	6.33	6.70
DPS	2.00	2.00	2.50	3.00

Source: Company reports, Aljazira Capital *Post share capital increase
 **Includes SAR 51.44mn in non-recurring gains

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	37.6%	35.7%	36.7%	35.8%
OP Margin	17.7%	17.1%	17.9%	17.3%
Net Margin	14.7%	13.7%	14.1%	13.7%
EBITDA Margin	22.1%	22.4%	23.2%	22.4%
RoE	14.1%	14.3%	14.1%	13.7%
RoA	7.3%	7.1%	6.8%	6.9%
P/E (x)	32.3	27.0	23.4	22.2
P/B (x)	4.2	3.4	3.1	2.9
EV/EBITDA	24.2	19.9	17.2	16.1
Dividend Yield	1.0%	1.3%	1.7%	2.0%

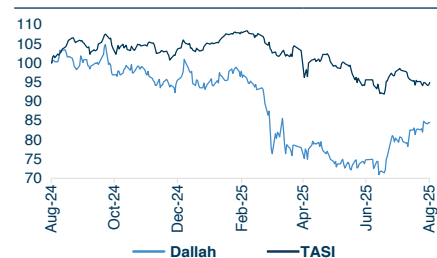
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	14.9
YTD%	-5.0%
52 weeks (High)/(Low)	168.4/109.0
Share Outstanding (mn)	101.6

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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AlArid expansion to extend beds capacity by 12% by FY27E, extending Dallah's medium term performance: AlArid expansion in North Riyadh (250 beds) is expected to come online by FY27E to expand the group's presence in the Central Region. While the area is an up-and-coming area in Riyadh, some competition exists there, and with more providers seeking to set a position near the area. However, Dallah can benefit from its already existing AlArid clinic which can funnel traffic into the new facility. As a result of the expansion campaign underway, we forecast GPM trajectories for FY25E to drop by 190bps to reach 35.7% as AlKhobar ramps up and as AlAhsa enhancements are in progress to take place- before improving by 100 bps Y/Y by FY26E to reach 36.7%. We estimate GPMs to dip towards 35.8% by FY27E at a 90bps decline Y/Y, as a result of AlArid's initial year of operation, before improving gradually thereafter. Our FY28E GPM forecasts were revised down by 90bps (from 37.1% to 36.2%), reflecting more apparent competition over patients, as well as hiring inflation now present amid more competition from providers over talent.

An estimated expansion-driven SAR 1.6bn CAPEX bill ahead for FY25-27E to be required for AlArid expansion, and some costs for digitalization initiatives, and AlAhsa & AlKhobar reworks: AlArid expansion is estimated to require almost SAR 840mn for the project (c. SAR 690mn for construction and finishing works, and another SAR 150mn for equipment and furnishing), of which almost SAR140mn was incurred by Q1-25. AlKhobar to require c. SAR 120mn for refurbishing and finishing along with new equipment, as well as rework to unlock more beds out of its capacity potential in the coming years; currently standing at 150 beds out of its total potential capacity. Management assessed that AlAhsa will require a some more CAPEX (c. SAR 60mn) than initially expected to unlock some of its efficiency potentials as well. As a result of the CAPEX ahead, and in a need for debt, we expect Dallah's D/E to gradually delever from its current D/E of 0.7x, to 0.5x by FY27E, as it approaches the AlArid expansion before delevering more rapidly. We estimate that Dallah would be able to maintain its payout ratio of c. 40% till FY27 before having more headroom for increased payouts.

AJC view and valuation: Dallah remains a staple provider in the healthcare sector, with a reputable brand equity and long standing facilities in the Central Region. Its recent venture into the Eastern District possesses quick potentials for enhancements and turnarounds for the acquired facilities, as Dallah is able to leverage its brand, client relationships, and efficiencies to meet its turnaround targets. The group, however, and among others, began to display increasing early signs of heightened competition as new facilities in its area open up its doors, with more pending for kick off across KSA. Along with the competition over finite patient attraction potentials, the sector is displaying increased hiring inflation, and we expect the effect to further intensify as providers still stand at a backlog of expansions ahead. Our downwardly revised revenue and net income forecasts reaching a FY24-28E CAGR of 13.1% & 13.8%, reflect the sector competitive dynamics at play. Our FY25E revenues for Dallah are expected to grow at 27.8% to reach SAR 4.1bn, delivering a bottom line of SAR 560mn at a growth of 18.8%, or 7.9% normalized for the one off gain. We value the stock via 50% PE of 27x on FY26E discounted earnings, and 50% on DCF (WACC=7.9 and terminal growth rate = 2.5%) to revise down our TP to **SAR 147.0 per share**, and recommendation to **"Neutral"**, for the stock trading at an adjusted FY25E PE of 29.6x valuation.

Valuation Summary (SAR /share):

	Target Price	Weight	Weighted TP
PE (27x on FY26E, discounted)	154.4	50%	77.2
DCF	139.7	50%	69.8
Target Price (SAR/Share):			147.0
Upside/Downside:			-1.0%

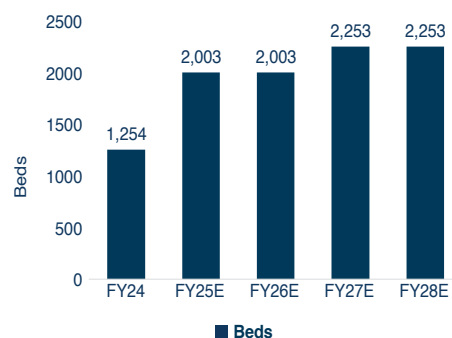
Source: AlJazira Capital Research *Prices as of 28th of September 2025
Upside risks to valuation:

- Quicker than expected turnaround & ramp up on AlKhobar hospital
- Recovery in patient attraction and stability at Kingdom Hospital

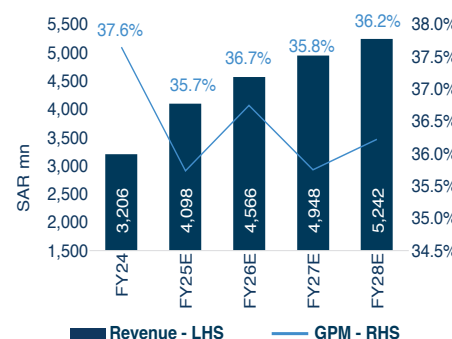
Downside risks to valuation:

- More competitive pressures on legacy facilities, and ramp up of AlKhobar, AlAhsa, and AlArid hospitals
- More significant CAPEX needs for AlAhsa and AlKhobar reworks
- Higher than expected talent retention and attraction cost

Source: AlJazira Capital Research

Fig 1: FY27E's AlArid expansion to extend Dallah's expansion campaign by 250 beds


Source: Company presentations, AlJazira Capital Research

Fig 2: GPMs to be challenged by expansions and cost inflations


Source: Company Financials, AlJazira Capital Research



Key Financial Data

Amount in SARmn, unless otherwise specified	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement								
Revenues	2,943	3,206	4,098	4,566	4,948	5,242	5,466	5,672
Y/Y	18.3%	8.9%	27.8%	11.4%	8.4%	5.9%	4.3%	3.8%
Cost	(1,864.2)	(1,998.9)	(2,633.8)	(2,887.8)	(3,178.8)	(3,343.0)	(3,455.3)	(3,563.0)
Gross profit	1,078.7	1,206.8	1,464.5	1,677.7	1,768.9	1,898.6	2,010.7	2,109.4
GPM	36.7%	37.6%	35.7%	36.7%	35.8%	36.2%	36.8%	37.2%
Selling & distribution expense	(59.8)	(68.6)	(105.4)	(110.2)	(122.0)	(131.2)	(134.4)	(137.2)
General & administration expense	(517.1)	(562.4)	(693.6)	(729.7)	(768.7)	(791.3)	(818.7)	(833.8)
Expected credit loss provision	(30.2)	(33.8)	(49.7)	(54.8)	(60.1)	(65.6)	(71.3)	(77.2)
Other income	34.7	25.1	84.1	36.5	39.6	41.9	41.0	42.5
Operating profit	506.3	567.1	699.8	819.5	857.7	952.4	1,027.2	1,103.8
Y/Y	29.0%	12.0%	23.4%	17.1%	4.7%	11.0%	7.9%	7.5%
OP Margin	17.2%	17.7%	17.1%	17.9%	17.3%	18.2%	18.8%	19.5%
Financial charges	(104.1)	(106.7)	(162.8)	(178.7)	(167.2)	(139.1)	(114.9)	(86.6)
Share from associates	(1.9)	43.0	43.3	45.5	41.0	42.8	44.8	46.7
Income before zakat	400.3	503.4	580.4	686.2	731.5	856.1	957.1	1,063.8
Zakat	(14.9)	(18.2)	(10.0)	(26.1)	(26.5)	(32.5)	(36.4)	(40.4)
Non-controlling interest	(25.3)	(14.0)	(10.7)	(17.0)	(24.9)	(32.4)	(36.8)	(37.5)
Net income	360.1	471.2	559.6	643.1	680.1	791.2	884.0	985.9
Y/Y	31.2%	30.8%	18.8%	14.9%	5.7%	16.3%	11.7%	11.5%
EPS	3.55	4.64	5.51	6.33	6.70	7.79	8.70	9.71
DPS	2.00	2.00	2.00	2.50	3.00	4.00	5.00	5.50
Balance sheet								
Assets								
Cash & equivalent	235	166	130	194	218	174	154	203
Receivables	721	775	879	948	1,000	1,052	1,090	1,123
Other current assets	388	563	557	603	656	685	704	721
Property plant & equipment	3,040	3,173	4,817	5,222	5,349	5,318	5,282	5,235
Other non-current assets	1,858	1,937	2,736	2,752	2,760	2,765	2,765	2,762
Total assets	6,243	6,615	9,119	9,719	9,983	9,994	9,995	10,044
Liabilities & owners' equity								
Payables	255	318	528	594	663	706	740	772
Other current liabilities	908	989	1,241	1,216	1,175	1,068	959	692
Long-term loans	1,288	1,188	2,188	2,331	2,153	1,803	1,453	1,253
Total other non-current liabilities	319	372	500	510	523	531	545	562
Paid-up capital	977	977	1,016	1,016	1,016	1,016	1,016	1,016
Statutory reserves	1,121	1,121	1,570	1,570	1,570	1,570	1,570	1,570
Fair value adjustment	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Retained earnings	1,108	1,434	1,791	2,180	2,555	2,940	3,316	3,744
Treasury shares	-	(60)	-	-	-	-	-	-
Non-controlling interest	269	278	289	306	331	364	400	438
Total owners' equity	3,473	3,747	4,662	5,068	5,469	5,886	6,299	6,764
Total equity & liabilities	6,243	6,615	9,119	9,719	9,983	9,994	9,995	10,044
Cashflow statement								
Operating activities	626	678	935	914	987	1,120	1,229	1,343
Financing activities	(335)	(390)	1,571	(189)	(576)	(900)	(987)	(1,038)
Change in cash	(3)	(69)	(36)	64	24	(44)	(21)	50
CAPEX	(357)	(442)	(640)	(640)	(371)	(246)	(246)	(238)
Ending cash balance	235	166	130	194	218	174	154	203
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.5	1.2	1.2	0.9	1.0	1.0	1.1	1.1
Quick ratio (x)	1.0	1.0	0.7	0.8	0.8	0.9	0.9	1.1
Profitability ratios								
Gross profit margin	36.7%	37.6%	35.7%	36.7%	35.8%	36.2%	36.8%	37.2%
Operating margin	17.2%	17.7%	17.1%	17.9%	17.3%	18.2%	18.8%	19.5%
EBITDA margin	21.5%	22.1%	22.4%	23.2%	22.4%	23.7%	24.2%	24.9%
Net profit margin	12.2%	14.7%	13.7%	14.1%	13.7%	15.1%	16.2%	17.4%
Return on assets	6.5%	7.3%	7.1%	6.8%	6.9%	7.9%	8.8%	9.8%
Return on equity	13.9%	14.1%	14.3%	14.1%	13.7%	14.8%	15.5%	16.1%
Leverage ratio								
Debt / equity (x)	0.62	0.58	0.74	0.70	0.59	0.46	0.35	0.25
Market/valuation ratios								
EV/sales (x)	6.5	5.3	4.4	4.0	3.6	3.3	3.1	2.9
EV/EBITDA (x)	30.4	24.2	19.9	17.2	16.1	14.1	12.8	11.7
EPS (SAR)**	3.5	4.6	5.5	6.3	6.7	7.8	8.7	9.7
BVPS (SAR) - Adjusted	32.79	35.51	43.05	46.88	50.58	54.37	58.07	62.28
Market price (SAR)*	171.80	150.00	148.50	148.50	148.50	148.50	148.50	148.50
Market-Cap (SAR mn)	17,450	15,236	15,083	15,083	15,083	15,083	15,083	15,083
Dividend yield	1.1%	1.0%	1.3%	1.7%	2.0%	2.7%	3.4%	3.7%
P/E ratio (x)	48.5	32.3	27.0	23.4	22.2	19.1	17.1	15.3
P/BV ratio (x)	5.2	4.2	3.4	3.2	2.9	2.7	2.6	2.4

Sources: AlJazira Capital, Company Financials *Prices as of 28th September 2025 **Post share capital increase number of shares



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TERMINOLOGY

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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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