



Dr. Sulaiman Al Habib Medical Services Group (HMG) posted net income of SAR 317.9mn (SAR 0.91 EPS), above our and the consensus estimate of SAR 285.0mn and SAR 301.8mn, respectively. Revenue growth was above our estimates, driven by improved performance across segment. We maintain our recommendation of “Neutral” on the stock, with revised TP at **SAR 108/share** to account for better-than-expected results and positive LT growth prospects.

- HMG posted net income of SAR 317.9mn in Q4-20 (EPS of SAR 0.91), surpassing AJC's and the consensus estimate of SAR 285.0mn and SAR 301.8mn, respectively. The deviation of Q4-20 net income from our estimate is mainly ascribed to a higher-than-expected revenue growth and GP margin. The revenue growth was driven by strong growth in all the segments. We attribute the GP Margin expansion to higher occupancy rate and cost optimization initiatives.
- HMG's sales in Q4-20 stood at SAR 1,691.3mn, reflecting an increase of 21.4% Y/Y, above our estimate of SAR 1,511.8mn. Revenue growth was driven by strong growth across segments. Higher inpatient numbers drove growth in the Hospital segment. The company adopted e-pharmacy services to cater to patients remotely, which aided growth in the pharmacy segment. The contracts awarded to the group in FY19 and FY20 boosted revenue in HMG Solutions segment.
- Gross profit stood at SAR 545.8mn, depicting a surge of 35.6% Y/Y. GP margin increased to 32.3% in Q4-20 from 28.9% in Q4-19, against our estimate of 30.2%. We attribute the expansion in margins to higher inpatient occupancy rate and cost optimization initiatives.
- Operating profit stood at SAR 329.1mn, indicating a rise of 24.9% Y/Y. The operating margin rose 550 bps Y/Y to 19.5% in Q4-20, in line with our expectations. A Y/Y increase of 26.0% in OPEX to SAR 216.7mn partially offset the gain from higher GP Margin.

**AJC view:** HMG's results exceeded our expectations. Even though we expect the company to deliver positive net income growth, the extent of growth posted in Q4-20 might not be sustainable in the LT, as margins could come under pressure due to capacity additions plans and competition from other players.

Even though the company has strong fundamentals, supported by ambitious growth plans, most of the positives seem to be factored in the current price. Delay in the expansion plans and any adverse development on the macro-economic front pose a downside risk to our valuation. The key challenge for HMG would be to improve its utilization rate and maintain its GP margin, as other private companies also have expansion plans. We value HMG on 50% weight for DCF (3.0% terminal growth and 4.7% average WACC), and 25% weight each for relative valuation based on P/E (34.4x FY21 EPS) and EV/EBITDA (26.7x FY21 EBITDA). These yield a TP of SAR 108/share, implying a 9.2% downside from the current level. The stock is currently trading at a P/E of 37.9x based on our FY21 EPS estimate. We remain positive on the stock from a LT perspective; however, an upside from current levels seems limited. We maintain our “Neutral” recommendation on HMG with a revised TP at **SAR 108.0/share**.

## Results Summary

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,393.6	1,623.9	1,691.3	21.4%	4.2%	11.9%
Gross Profit	402.5	558.9	545.8	35.6%	-2.3%	19.5%
<i>Gross Margin</i>	<i>28.9%</i>	<i>34.4%</i>	<i>32.3%</i>	-	-	-
EBIT	263.5	323.9	329.1	24.9%	1.6%	11.8%
<b>Net Profit</b>	<b>270.2</b>	<b>298.8</b>	<b>317.9</b>	<b>17.6%</b>	<b>6.4%</b>	<b>11.5%</b>
EPS	0.77	0.85	0.91	-	-	-

Source: Company Reports, Aljazira Capital

## Neutral

**Target Price (SAR)** 108.0

**Upside / (Downside)\*** -9.2%

Source: Tadawul \*prices as of 18<sup>th</sup> of February 2021

## Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenues	5,016.3	5,861.6	5,918.1
Growth %	9.3%	16.9%	1.0%
Net Income	870.3	1,055.5	1,098.1
Growth %	8.6%	21.3%	4.0%
EPS	2.49	3.02	3.14

Source: Company reports, Aljazira Capital

## Key Ratios

	FY19	FY20	FY21E
Gross Margin	30.4%	31.8%	31.9%
Net Margin	17.3%	18.0%	18.6%
P/E (x)	NA	39.5	37.9
P/B (x)	NA	8.3	7.9
EV/EBITDA (x)	NA	29.9	29.5

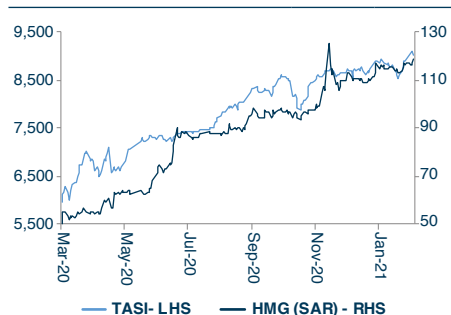
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	41.7
YTD %	9.2%
52 week (High)/(Low)	127.0/51.9
Share Outstanding (mn)	350.0

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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