Dallah Healthcare Holding

Healthcare – Industrial
DALLAH AB: Saudi Arabia
25 April 2019

الراجحي المالية
Al Rajhi Capital

Target price	**54.00**	**(Upside: 15.8%)**
Current price	**46.60**	**as at 25/4/2019**

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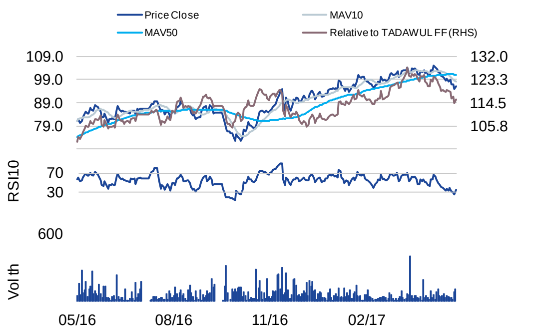
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	2018E	2019E	2020E
Revenue (mn)	1,181	1,354	1,574
Revenue Growth	-2.6%	15%	16%
EBITDA (mn)	221	303	369
EBITDA Growth	-40%	37%	22%
EPS	1.89	2.94	3.88
EPS Growth	-62%	55%	32%

Source: Company data, Al Rajhi Capital * 2018EPS is based on current 75mn shares.

Dallah Healthcare Holding

Q1 2019: In-line results, remain overweight

Dallah's net profit of SAR35.2mn (-39% y-o-y) came in line with our estimate of SAR32mn and the consensus estimate of SAR38.3mn. Top-line increased slightly by 1% q-o-q, due to improvement of Namar hospital utilization which offset the reduction of pharma revenue which was high in Q4. Going forward, we expect the utilization of Namar to continue to improve which will ease pressure on margins. Further, we think that the expat exodus is already behind us that is unlikely to have any negative impact on the patient inflows in 2019, compared to the previous year when inflows were adversely affected by expats leaving the country due to levy. For now, we are keeping our Overweight rating on Dallah with lower target price of SAR54.

Revenue and margins: Revenue for the quarter stood at SAR321mn (+4% y-o-y), in line with our estimate of SAR308mn. While revenue was largely flat on y-o-y basis, margins have fallen because of the high cost related to Namar Hospital operation and higher pharma requirement. However, on a quarterly basis gross margin improved to 37.5% (35% in Q4 2018), while operating margin increased to 12.8% (10.6% in Q4 2018), reflecting improvement in operational efficiency.

Figure 1 Dallah: Summary of Q1 2019 results

	Q1 2019	Q1 2018	Q4 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue (SARmn)	321	309	318	4%	1%	308
Gross Profit (SARmn)	120	132	111	-9%	9%	109
Gross Margin	37%	43%	35%	NA	NA	35%
Operating Profit	34	59	34	-43%	0%	35
Net Profit (SARmn)	35	58	32	-39%	8%	32

Source: Company data, Al Rajhi Capital

Outlook : We think 2018 was a tough year for both top line as well as bottom line. Going forward in 2019, we expect both revenue and net income, likely to improve by 15% and 55% respectively, due to improved utilization of Namar (we forecast 35% utilization rate of opened capacity by end of 2019) and opening of Dr. Mohammed Fagih hospital in Q3 2019 in which Dallah owns 31% stake. Thereafter in 2020, we could witness a jump in both revenues as well as profits as the West tower in Nakheel and the full capacity of Namar (250 beds/160 clinics) will start to operate. In addition, Jeddah Dallah hospital, north of Riyadh hospital and 2 acquisitions are under study. We believe that these expansion plans will ensure strong earnings growth for the company over the medium and long term.

Valuation and conclusion: We continue to have a positive outlook the company, driven by improving Namar utilization and no further decline in number of patients as the expat exodus issue is largely behind us. Our TP of SAR54 per share is based on the weighted average valuation methodology of DCF (9% WACC, and 3.5% terminal growth) and relative valuation (Forward PE of 20x). Further, we have factored in a delay in the projects for the company and the lower than expected ramp up of Namar to reflect a reduction in TP to SAR54 per share yet maintaining our Overweight rating on the stock.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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