



Target price 76.00 (Upside: 12%)
Current price 67.70 as at 25/2/2019

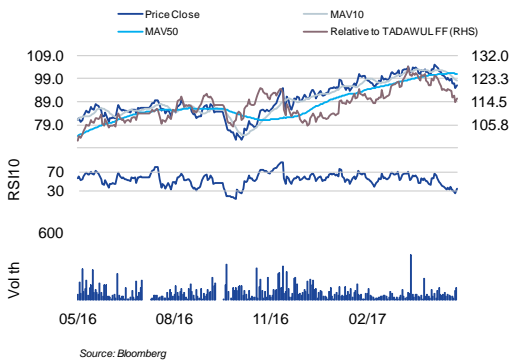
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Existing rating

Underweight Neutral Overweight

Performance



Earnings

Period End (SAR)	2017A	2018E	2019E
Revenue (mn)	1,212	1,181	1,319
Revenue Growth	4.2%	-2.6%	12%
EBITDA (mn)	368	216	299
EBITDA Growth	26%	-41%	39%
EPS	5.00	2.40	3.71
EPS Growth	31%	-52%	54%

Source: Company data, Al Rajhi Capital * EPS is based on current 59mn shares.

Dallah Healthcare Holding

Q4 2018: below estimates, remain overweight

Dallah reported lower than expected results with net profit dropping 49% y-o-y to SAR32.5mn, missing our estimate of SAR45.1mn and the consensus estimate of SAR43mn. The bottom-line miss was largely driven by higher cost of operations; however revenue came in-line with our estimate. 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 has already slowed down that will not have a major 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 the same target price of SAR76.

Revenue and margins: Revenue for the quarter stood at SAR318mn, in line with our estimate of SAR310mn. While revenue was largely flat on y-o-y basis, margins have fallen because of the high cost related to operation and pharma requirement and distribution activities. As such, gross margin declined to 35% (45% in Q4 2017), while operating margin dropped to 11% (23% in Q4 2017).

Figure 1 Dallah: Summary of Q4 2018 results

	Q4 2018	Q4 2017	Q3 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	318	326	281	-2%	13%	310
Gross Profit	110.8	148.2	101.4	-25%	9%	124
Gross Margin	35%	45%	36%	NA	NA	40%
Operating Profit	33.6	74.9	33	-55%	1%	48
Net Profit	32.5	63.1	32	-49%	0%	45.1

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, is likely to improve by 12% and 54% respectively, due to improved utilization of Namar (we forecast 60% utilization rate of opened capacity by end of 2019) and opening of Dr. Mohammed Fagih hospital in Q2 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 these expansion plans will ensure strong earnings growth for the company over the medium and long term. To this end, the board members approved several positive action which are 1) increase share capital from SAR590mn to SAR750mn, through issuance of one bonus share for every 3.69 existing shares already owned. 2) repurchase of 5% of shares as the company sees its stock price being undervalued, 3) a 15% cash dividend for the first half of 2018, at SAR1.50 per share, amounting to SAR88.5mn.

Valuation and conclusion: We keep our recommendation for the stock with a positive look, on the back of improving Namar utilization and no further decline in number of patients as the expat exodus issue is largely behind us. In addition, Nakheel expansion (+250 beds/+160 clinics) will operate partially (150 bed/160 clinics) in 2019 which will drive revenue.

Dallah Healthcare Holding

Healthcare – Industrial

DALLAH AB: Saudi Arabia

26 Feb 2019

الراجحي المالية
Al Rajhi Capital



Based on our weighted average valuation methodology of DCF (8.8% WACC, and 3.5% terminal growth) and relative valuation (Forward PE of 20x), our target price stands at SAR76 (*TP is based on the current 59mn shares, it will be SAR56 per share when the company increase capital and number of shares will be 75mn shares) with an upside of 12%. We maintain our rating to Overweight 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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