



Dallah posted net income of SAR 20.1mn, below our and the consensus estimate of SAR 50.4mn and SAR 45.4mn, respectively. The drop in net profit was mainly due to a slight decline in the GP margin and sharp increase in OPEX. Decline in GP margin could be partially attributed to start-up operations losses for Dr. Mohammed Al Faqeeh Hospital. OPEX surge could be attributed to provisional losses due to slow down of economic cycles for few customers. We maintain our recommendation of **"Neutral"** on the stock with a TP of **SAR 48.3/share**.

- Dallah posted net income of SAR 20.1mn in Q4-20 (EPS of SAR 0.22), below AJC's and the market consensus estimate of SAR 50.4mn and SAR 45.4mn, respectively. The deviation in Q4-20 net income from our estimates could be mainly ascribed to a lower-than-expected revenue and higher OPEX.
- Sales in Q4-20 stood at SAR 405.3mn, reflecting an increase of 18.0% Y/Y, below our estimate of SAR 441.3mn. Patient traffic increased due to economic recovery after lifting of lockdown restrictions. 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 143.5mn, up 12.7% Y/Y. The GP margin contracted to 35.4% in Q4-20 from 37.0% in Q4-19 against our estimate of 33.0%. Decline in the GP margin could be partially attributed to start-up operations losses for Dr. Mohammed Al Faqeeh Hospital. The margins are expected to be under pressure in the near-term due to the start of operations at the west extension of Al Nakheel hospital.
- Operating profit stood at SAR 40.3mn, down 37.1% Y/Y. Dallah's net OPEX increased 63.2% Y/Y to SAR 103.2mn compared to our estimates of SAR 89.4mn and SAR 63.3mn posted in Q4-19. The significant increase in OPEX could be ascribed to additional provisional credit losses due to slow-down of economic cycles of a few customers and results from compilation of subsidiaries after acquisitions.

AJC view: Dallah's overall results were below our expectations. Although revenue growth was strong, it was below our expectations. The GP Margin surpassed our estimates; however, the significant increase in OPEX due to provision for credit losses, offset the margin beat. Dallah's margins are expected to be adversely impacted in the near term due to the start of operations at the west extension of Al Nakheel hospital. 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 value Dallah on 50% weight for DCF (3.0% terminal growth and 4.6% average WACC) and 25% weightage each for EV/EBITDA (18.7x FY21 EBITDA) and P/E (21.7x FY21 EPS) based on relative valuation. The valuation yields a TP of SAR 48.3/share, implying a 10.6% downside from the current levels. The stock is currently trading at a P/E of 33.1x based on our FY21 EPS estimate. We maintain our **"Neutral"** rating on this stock with a TP of **SAR 48.3/share**, with a cautious view for the near term.

Results Summary

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	343.6	350.8	405.3	18.0%	15.5%	-8.1%
Gross Profit	127.3	132.6	143.5	12.8%	8.2%	-1.5%
<i>Gross Margin</i>	<i>37.0%</i>	<i>37.8%</i>	<i>35.4%</i>	-	-	-
EBIT	64.0	50.5	40.3	-37.1%	-20.2%	-28.5%
Net Profit	69.7	53.8	20.1	-71.2%	-62.6%	-60.2%
EPS	0.77	0.63	0.22	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **48.3**

Upside / (Downside) **-10.6%**

Source: Tadawul *prices as of 22nd of March 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenues	1,252.1	1,318.3	1,446.0
Growth %	6.0%	5.3%	9.7%
Net Income	146.9	100.1	144.4
Growth %	3.6%	-31.9%	44.3%
EPS	1.68	1.13	1.63

Source: Company reports, Aljazira Capital

Note: The EPS 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%	34.8%
Net Margin	11.7%	7.6%	10.0%
P/E (x)	27.9	42.7	33.1
P/B (x)	2.3	2.7	3.3
EV/EBITDA (x)	21.9	24.1	22.8

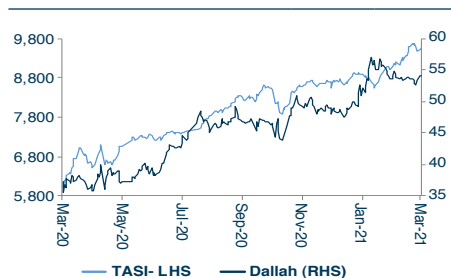
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	4.0
YTD%	11.9%
52 week (High)/(Low)	57.8/35.7
Share Outstanding (mn)	75.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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