

## AL HAMMADI COMPANY

الأهلي كابيتال  
NCB Capital

## EVENT FLASH

## Higher than expected revenue supports earnings

Al Hammadi reported a net income of SR30.9mn, increasing 10.4% YoY (flat QoQ). This is higher than the NCBC and consensus estimate of SR28.6mn and SR25.6mn, respectively. We believe the variance is mainly due to higher than expected revenue which was 5.8% higher than our estimate.

- Al Hammadi's revenue grew 11.4% YoY (+6.4% QoQ) to SR201mn. This is higher than our estimates of SR190mn. The company attributed the growth in revenue to 1) improvement in utilization rates, 2) the start of Al Nuzha hospital's commercial operation and 3) higher pharma revenue following to the acquisition of Medical Support Services in February 2018. In January 2018, the company announced the start of Al Nuzha hospital's commercial operation, after a seven-month delay. The operation of Al Nuzha hospital, which has a total capacity of 650 beds, will start gradually with only 120 beds. This increases the total clinic and bed capacities by 46% and 16% to 202 clinics and 848 beds, respectively, in 2018.
- The company reported a gross profit of SR67mn, an increase of 7.8% YoY but a decline of 4.3% QoQ. Gross margin stood at 33.3%, contracting 111bps YoY. This compared to our estimates of 36.0% and 37.0% in 4Q17. We believe the contraction in gross margin is mainly due to the additional cost related to the commercial operations of Al Nuzha hospital.
- Operating Income grew by +15% YoY to SR40mn. This compares to our estimate of SR37.2mn. The variance in operating income vs. our estimate expanded to 7.4% which we believe was due to lower opex on improved efficiencies. Opex-to-revenue stood at 13.4%, compared to 4Q17 level of 15.9% and our estimate of 16.4%.
- In February 2018, Al Hammadi acquired Medical Support Services (MSS) for SR48mn. MSS's operation involves the sale of medicines and medical supplies and the offering of logistics services for hospitals. The company also plans to acquire a stake in Sudair Pharma Company (SPC), a Saudi-based company that manufacture oncology medicines. The target stake is not disclosed.
- We are Neutral on Al Hammadi with a PT of SR39.8. The gradual opening of Al Nuzha hospital is a key positive. Currently, the company trades at a 2018 P/E of 32.4x, a premium to the sector P/E of 23.9x, which we believe is justified. However, there is a limited upside potential.

## 1Q18 Results Summary

SR mn	1Q18A	1Q17A	% YoY	1Q18E	%Var^	% QoQ
Revenues	201	180	11.4%	190	5.8%	6.4%
Gross income	67	62	7.8%	68	(2.2)%	(4.3)%
Gross margin (%)	33.3%	34.4%	(111) bps	36.0%	(270) bps	(370) bps
EBIT	40	35	15.3%	37	7.4%	0.5%
EBIT Margin (%)	19.9%	19.2%	68 bps	19.6%	31 bps	(116) bps
Net income	31	28	10.4%	29	8.0%	0.4%
Net Margin (%)	15.4%	15.5%	13 bps	15.1%	32 bps	(91) bps
EPS (SR)	0.26	0.23	10.4%	0.24	8.0%	0.4%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts;

## NEUTRAL

Target price (SR)	39.8
Current price (SR)	37.6
Upside/Downside (%)	5.8

## STOCK DETAILS

M52-week range H/L (SR)	45/34
Market cap (\$mn)	1,204
Shares outstanding (mn)	120
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.0	(3.0)	(17.0)
Rel. to market	(0.5)	(9.5)	(33.5)

Avg. daily turnover (mn)	SR	US\$
3M	16.6	4.4
12M	11.7	3.1

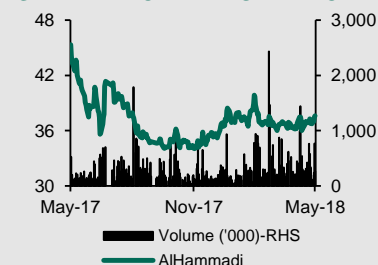
Reuters code	4007.SE
Bloomberg code	ALHAMMADI AB
	www.alhammadihospital.com

## VALUATION MULTIPLES

	17A	18E	19E
P/E (x)	41.8	32.4	23.9
P/B (x)	3.3	3.1	2.9
EV/EBITDA (x)	27.5	23.1	19.1
Div Yield (%)	2.0	1.6	2.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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