Al Hammadi Company for Development and Investment

Investment Update

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Raising TP to SAR 29.0 on improved performance of Al Nuzha Hospital

We raise our TP for Al Hammadi Company for Development and Investment (Al Hammadi) to **SAR 29.0/share** from SAR 26.0, as the company benefits from an improved performance of Al Nuzha Hospital. The strong Q3-20 results can be attributed to the higher number of patients admitted during the period due to transfers from MoH, improvement in performance of Al Nuzha Hospital, and higher operating efficiency. We update our EPS estimate for FY20 to SAR 1.08 from SAR 1.01 to factor in the improved performance in Q3-20, along with the above factors. We maintain our "**Neutral**" rating on the stock.

- **FY20 EPS raised to reflect better-than-expected results in Q3-20 and enhanced performance of Al Nuzha Hospital:** Based on Q3-20 results that exceeded expectations, we raise our EPS estimates for FY20 to SAR 1.08 from SAR 1.01. Al Hammadi reported a Q3-20 revenue of SAR 249.0mn (13.2% Y/Y) and EPS of SAR 0.30 (72.7% Y/Y). EPS exceeded the consensus estimate of SAR 0.25 and our estimate of SAR 0.22, driven mainly by a 160 bps beat on operating margin. Patient traffic increased as most people opted to stay in the country to avoid contracting the virus while travelling. This lead to significant growth in revenue, that was further aided by an increase in referrals from the MoH which improved performance from Al Nuzha Hospital. However, we believe the current rate of earnings growth would not be sustainable.
- **Positive contribution from Al Nuzha Hospital likely to reflect onto margins:** Al Hammadi commenced operations at Al Nuzha Hospital (120 beds) in Q1-18. The hospital generated an improved performance in Q3-20, which would positively affect its margins. The hospital has a capacity of 600 beds and 64 clinics. As hospital operations have returned to pre-COVID levels with the lifting of lockdown restrictions, we expect the company to gradually ramp up operations with the increase in demand. We modelled a GP Margin of 31.1% and 32.4% for FY21 and FY22, respectively.
- **Government initiatives to support the private sector drove a margin increase in Q3-20:** The government extended support to the private sector through the SANED program, wherein it covered a part of employee costs. This favorably impacted the company's operating margin in Q3-20. Once the program ends, we expect margins to decline from current levels.

AJC view and valuation: Al Hammadi's revenue growth and margins will likely moderate from current levels in our view. As FY20 had few one-time benefits such as high inpatient admissions due to COVID-19 and most people abandoning vacation plans to stay in country to avoid infection, Al Hammadi's earnings growth would decrease in FY21. The improvement in capacity utilization at Al-Nuzha Hospital is the key revenue driver for the company. Margins should improve gradually with the stabilization of operations at Al-Nuzha Hospital. High exposure to receivables from MoH would put pressure on working capital requirement, likely leading to high debt. We raise our estimates and TP to reflect the benefits the company accrued during 9M-20. However, we believe most of the positives are factored in at the current levels, and buying opportunities would be available once the stock corrects from the current levels.

We value Al Hammadi on 50% weightage for DCF (3.0% terminal growth and 8.2% average WACC) and 25% weightage each for EV/EBITDA (15.1x FY21 EBITDA) and P/E (22.9x FY21 EPS) based on relative valuation. These yield a TP of **SAR 29.0/share**, implying a 1.5% downside from the current levels. The stock is currently trading at P/E of 24.7x based on our FY21 EPS estimate. We maintain our "**Neutral**" rating on this stock.

Neutral

Target Price (SAR)	**29.0**
Upside / (Downside)*	**-1.5%**

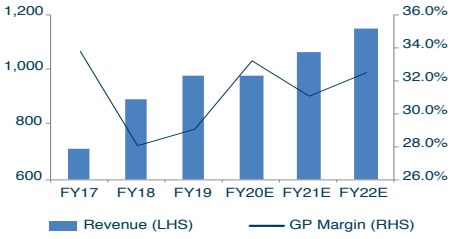
Source: Tadawul *prices as of 3rd of December 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	974.1	979.3	1,061.7
Growth %	9.0%	0.5%	8.4%
Gross Profit	282.6	324.9	329.8
Net Profit	93.0	129.6	142.9
Growth %	3.5%	39.3%	10.3%
EPS	0.77	1.08	1.19

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital, Bloomberg

Key Ratios

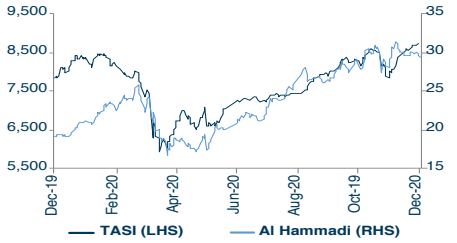
	FY19	FY20E	FY21E
GP Margin	29.0%	33.2%	31.1%
Net Margin	9.5%	13.2%	13.5%
P/E (x)	27.1	27.3	24.7
P/B (x)	1.6	2.1	1.9
EV/EBITDA (x)	16.2	13.9	12.8

Key Market Data

Market Cap(SAR bn)	3.5
YTD%	40.0%
52 week (High)/(Low)	31.8/16.7
Share Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital, Bloomberg

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Al Hammadi Company for Development and Investment

Investment Update

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Income statement							
Revenues	606.2	708.6	893.6	974.1	979.3	1,061.7	1,150.4
Y/Y	**8.0%**	**16.9%**	**26.1%**	**9.0%**	**0.5%**	**8.4%**	**8.4%**
Cost	(364.1)	(469.5)	(643.2)	(691.4)	(654.4)	(731.9)	(777.4)
Gross profit	**242.1**	**239.2**	**250.4**	**282.6**	**324.9**	**329.8**	**373.0**
Operating Expenses	(143.3)	(112.3)	(123.1)	(153.0)	(157.2)	(155.6)	(163.5)
SG&A Expenses	(143.3)	(112.3)	(123.1)	(153.0)	(123.2)	(135.6)	(143.5)
Impairment losses on trade receivable	-	-	-	-	(34.0)	(20.0)	(20.0)
Other operating Income/(expense)	**4.2**	**15.7**	**10.9**	**17.0**	**11.1**	**12.0**	**12.0**
Operating profit	**103.0**	**142.6**	**138.1**	**146.5**	**178.8**	**186.2**	**221.6**
Y/Y	**-32.8%**	**38.4%**	**-3.1%**	**6.1%**	**22.0%**	**4.2%**	**19.0%**
Financing Expense	(19.0)	(19.6)	(33.4)	(37.1)	(30.6)	(24.3)	(17.1)
Income before zakat	**84.0**	**123.0**	**104.7**	**109.5**	**148.2**	**161.9**	**204.4**
Zakat	(11.0)	(15.1)	(14.9)	(16.5)	(18.6)	(19.0)	(23.9)
Net income	**73.0**	**108.0**	**89.8**	**93.0**	**129.6**	**142.9**	**180.5**
Y/Y	**-44.5%**	**48.0%**	**-16.8%**	**3.5%**	**39.3%**	**10.3%**	**26.3%**
Balance sheet							
Assets							
Cash & equivalent	13	178	44	76	206	184	256
Other current assets	479	327	622	668	589	582	596
Non-current assets	1,651	1,798	1,819	1,817	1,814	1,842	1,865
Property plant & equipment	1,651	1,798	1,787	1,739	1,729	1,756	1,777
Other non-current assets	-	-	31	55	58	59	60
Total assets	**2,142**	**2,303**	**2,484**	**2,538**	**2,582**	**2,581**	**2,688**
Liabilities & owners' equity							
Total current liabilities	213	230	235	325	297	275	289
Long-term loans	371	483	563	430	385	259	169
Total other non-current liabilities	189	203	208	217	204	208	211
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	22	33	42	51	64	78	96
Retained earnings	148	154	237	315	432	560	723
Total owners' equity	1,370	1,387	1,479	1,566	1,696	1,839	2,019
Total equity & liabilities	**2,142**	**2,303**	**2,484**	**2,538**	**2,582**	**2,581**	**2,688**
Cashflow statement	-	-	-	-	-	-	-
Operating activities	(42)	310	(52)	183	300	275	287
Investing activities	(145)	(197)	(118)	(45)	(91)	(130)	(124)
Financing activities	111	52	35	(106)	(78)	(166)	(91)
Change in cash	(76)	166	(134)	32	130	(22)	72
Ending cash balance	**13**	**178**	**44**	**76**	**206**	**184**	**256**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.3	2.2	2.8	2.3	2.7	2.8	2.9
Quick ratio (x)	2.2	2.1	2.6	2.1	2.5	2.6	2.8
Profitability ratios							
Gross profit margin	39.9%	33.7%	28.0%	29.0%	33.2%	31.1%	32.4%
Operating margin	17.0%	20.1%	15.5%	15.0%	18.3%	17.5%	19.3%
EBITDA margin	25.8%	27.6%	25.4%	25.6%	28.3%	27.2%	28.1%
Net profit margin	12.0%	15.2%	10.1%	9.5%	13.2%	13.5%	15.7%
Return on assets	3.6%	4.9%	3.8%	3.7%	5.1%	5.5%	6.9%
Return on equity	5.3%	7.8%	6.3%	6.1%	7.9%	8.1%	9.4%
Leverage ratio							
Debt / equity (x)	0.35	0.38	0.45	0.37	0.30	0.19	0.13
Market/valuation ratios							
EV/sales (x)	9.0	6.8	4.1	4.1	3.9	3.5	3.1
EV/EBITDA (x)	34.9	24.6	16.0	16.2	13.9	12.8	10.9
EPS (SAR)	0.6	0.9	0.7	0.8	1.1	1.2	1.5
BVPS (SAR) - Adjusted	11.4	11.6	12.3	13.1	14.1	15.3	16.8
Market price (SAR)*	41.53	37.10	25.10	21.00	29.45	29.45	29.45
Market-Cap (SAR mn)	4,983.6	4,452.0	3,012.0	2,520.0	3,534.0	3,534.0	3,534.0
Dividend yield	1.8%	0.0%	3.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	68.3	41.2	33.5	27.1	27.3	24.7	19.6
P/BV ratio (x)	3.6	3.2	2.0	1.6	2.1	1.9	1.8

Source: Company financials, AlJazira research

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer