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KSA Healthcare Sector "Wellness in The Sector with Pulse Readings of Growth"

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Executive Summary

Regulatory restructuring of the sector- supported by favorable demographics, under penetration of healthcare services, the prevalence of lifestyle diseases and the need for a better quality of healthcare services are boosting the demand for healthcare. The COVID-19 pandemic has prompted the need to increase the availability of health infrastructure, provision of virtual health services, and encourage higher insurance penetration. The government's initiatives to boost privatization and improve access to healthcare services have encouraged private players to undertake expansions, build new hospitals or acquire existing facilities within and outside Saudi Arabia. We believe these factors will auger well for the sector's growth as the private players intend to take advantage of market opportunities. Hence, we are optimistic on the sector's growth and believe that most companies would be able to capitalize the emerging opportunities in the market. However, as for valuation terms- we are largely 'Neutral' on the sector as we observe that most announced expansions have been priced in at current valuations. In exception to our neutral recommendations, we are 'Overweight' on Care as we believe it is in an oversold territory amid high provisioning and lower referrals from MoH and GOSI.

We are positive about the sector's growth prospects given the fast-paced expansions and its favourable impact on the scale of operations. We believe that healthcare companies expanding in the untapped regions, managing MoH facilities, expanding existing facilities to meet higher demand, entering partnerships with other healthcare providers to build new hospitals and/or acquiring existing medical facilities are likely to monetize the demand. We believe that as most expansions are expected to roll out in the next five years, the total bed capacity of listed healthcare companies is likely to increase by c.46%. All in, companies which would fund a major portion of expansion through internal cash flows with relatively lower reliance on external debt would be able to maintain healthy Net debt/EBITDA levels. We expect receivables concentration in the sector to gradually settle as most companies focus on increasing exposure to insurance clientele.

The healthcare sector demonstrated a resilient performance in Q1-22, with the topline increasing 15.6% Y/Y. Increase in the sector's topline was majorly contributed by an increase in revenues of Dallah, MEH and HMG, which increased 23.2% Y/Y, 22.7% Y/Y and 17.5% Y/Y, respectively. HMG, Dallah and Al Hammadi's revenue increased due to the rise in patient volumes and occupancy rates, while Mouwasat increased due to enhanced utilization of specialized facilities. MEH's revenue improved due to a better ramp-up in the Dammam facility and recovery in business from a key insurance client. Overall, the rise in patient volumes led to higher occupancy rates and thus higher hospital revenue, which increased pharmacy revenue. The sector's net profit surged 22.5% Y/Y, supported by a favorable rise in revenue and most companies' initiatives to control costs. Mouwasat's GP margin was highest among peers at 47.2%, followed by Al Hammadi and Dallah at 38.3% and 38.0% and then HMG at 33.1%.

T1: Price target and recommendation

Company	Recommendation	TP (SAR per share)	Upside/ (Downside)	EPS FY22E	EPS FY23E	PE FY22E	D/Y FY22E
Care	Overweight	66.0	20.9%	3.1	3.3	17.5x	1.8%
Dallah	Neutral	117.0	2.6%	3.5	3.9	32.9x	1.3%
HMG	Neutral	193.0	-2.3%	4.3	4.3	45.5x	1.8%
MEH	Neutral	30.0	-10.6%	0.9	1.1	36.4x	-
Mouwasat	Neutral	209.0	-12.9%	6.0	6.4	40.0x	1.1%
Al Hammadi	Neutral	36.0	-15.2%	1.2	1.1	34.6x	1.9%

*Prices as on 19th July 2022 in SAR per share

Source: AJC Research





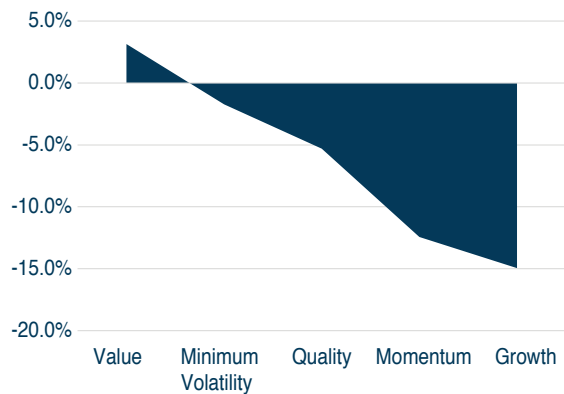
Macroeconomic view

Broad market shifts and what it means for the healthcare sector

With the previous economic chapter of cheap money and loose monetary policy behind us, the sands have shifted for the global equities landscape. During a defensive pivot to healthier earnings and more mature operations that can withstand cash-related pressures, the global market found the healthcare sector to be a reservoir of value.

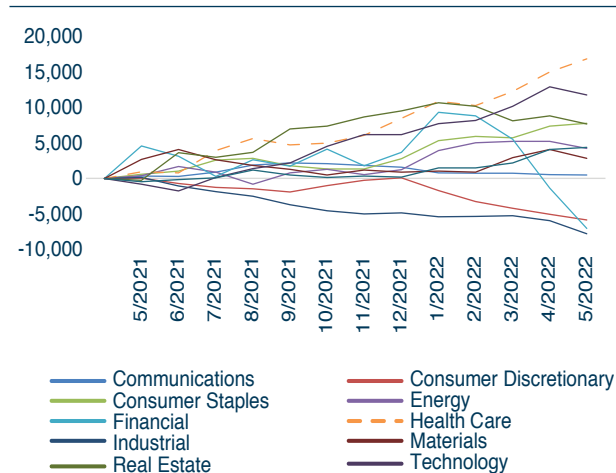
Favored for its non-cyclical nature, and an emphasized role in its essential services post COVID-19, investors flowed more into healthcare, globally- and the Saudi Arabian healthcare sector was no exception to that market direction as the sector has been outperforming the broad market over the past two years to date. At a time where PE multiples are contracting, the Saudi Healthcare sector (which traded at an average PE of 25.8 from 2018 to the end of 2020) has its PE multiple at approximately 55% greater than its previous averages at the time of this report. However, a change in investor sentiment is not the only factor acting on the sector- as the sector is driven by fundamental growths stemming from aggressive expansion plans to meet government healthcare policy restructuring, upcoming national insurance coverage, and a foreseeable increase in the volume of patients led by demand for services. In fact, at this juncture of the report- we are inclined to believe that the companies in the sector are well priced.

C1: MSCI World Style Indices Performance



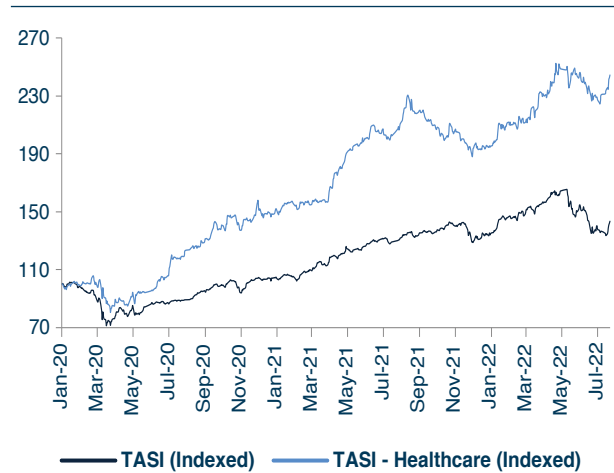
Source: MSCI World Indices Styles, Bloomberg

C2: Global Sectors' Fund Flows (Mn)



Source: Bloomberg

C3: TASI vs TASI Healthcare index



Source: Bloomberg

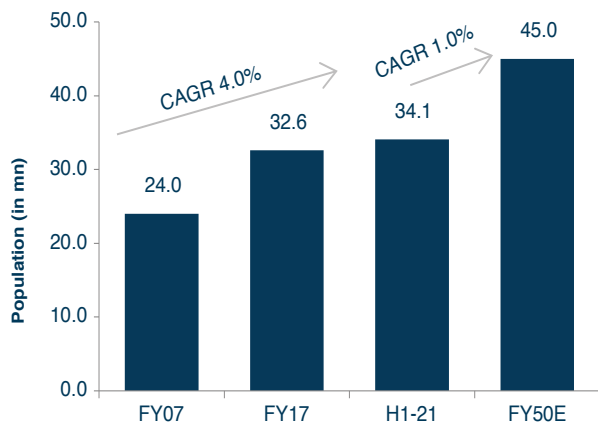
Demographics play a key role in the demand for healthcare facilities

The population's specifications are underlying drivers of the sector: Specifications such as age and life expectancy play a role in shaping demand for healthcare services. As for Saudi Arabia, and in favour of the omhealthcare sector, the population is expanding for the foreseeable future. Increase in population from 24.0 million in FY07 to 34.1 million in H1-21 broadened the available targets and demand for the sector. This growth is set to continue, with the Ministry of Health expecting the population to be 39.5 million people by mid-FY30. The population is expected to grow even further till FY50, albeit at a slower rate of 1.0% CAGR during H1-21- FY50.



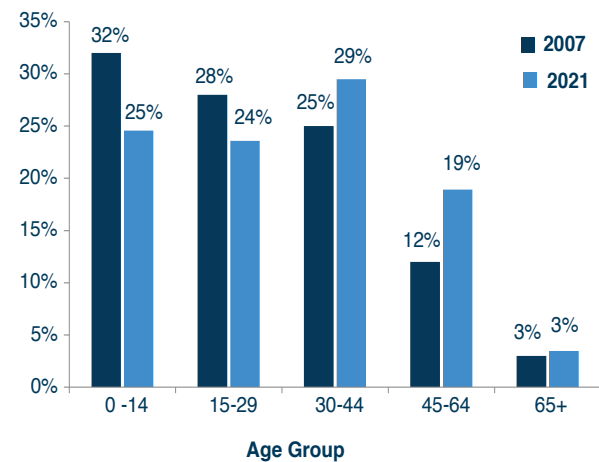


C4: Population Growth



Source: Gastat, World Bank

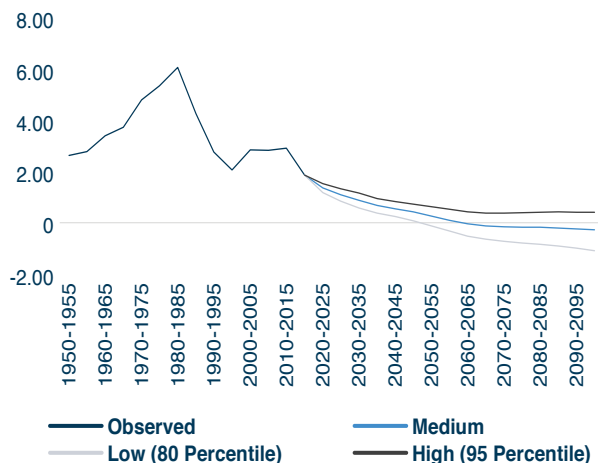
C5: Population Age Group



Source: KAPSARC, Gastat, Argaam

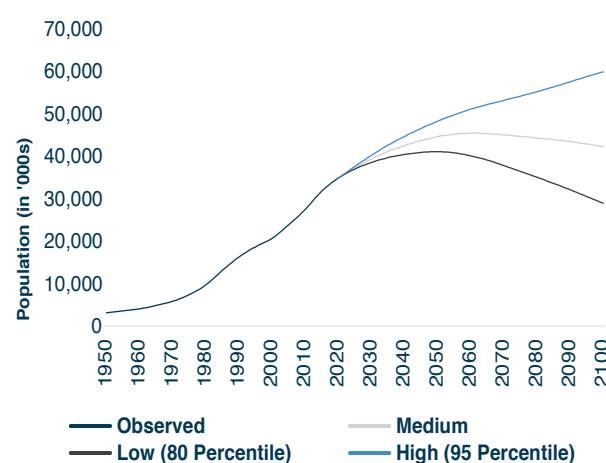
Life expectancy rose from 73.6 years in FY10 to 74.3 years in FY20, indicating a gradually ageing society attributed to improved healthcare. Life expectancy could increase even more as the reduction of avoidable accidents, such as traffic accidents and heart diseases, was cited as an action for the Healthcare Transformation Strategy by the Ministry of Health. With the average age of the Kingdom not topping 32 years old, the Kingdom currently hosts a young but gradually ageing population- healthcare requirements such as long-term care and rehabilitation are expected to increase as the volume of the young population move into the higher age bracket. However, the global population is expected to grow at slower rate which is a looming future concern for the sector. While the time frame of this phenomenon is outside the scope of this report, it is a trend worth reporting. The population growth rate in Saudi Arabia is expected to decline to near 0% in the 2050s, with the population plateauing around then at a slightly more rapid trend than the global direction. The demographic profile of the Kingdom presents opportunities for the sector to address the chronic health conditions of the population.

C6: KSA Population Growth Rate (%)



Source: UN Department of Economic and Social Affairs

C7: KSA Population Projection

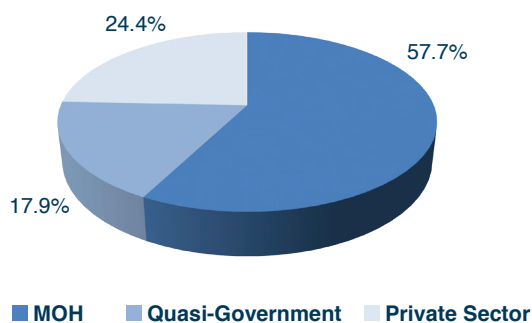


Sector Composition

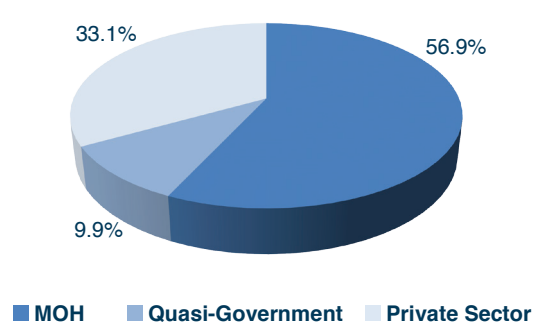
Currently, the healthcare sector in the Kingdom comprises three main participants:

- (i) **The Ministry of Health (MoH):** Acts as a regulator for healthcare activities and services in the Kingdom; plays a key role in providing healthcare services through public hospitals.
- (ii) **Quasi-government body:** Represents hospitals and health centres operated by the MoH; primarily serves employees of government organizations. These include military, special forces, and other government-specific hospital services.
- (iii) **Private sector:** Caters to expatriates as well as Saudi nationals.

C8: Hospital Bed Distribution by Sector (FY20)



C9: Hospital Distribution by Sector (FY20)



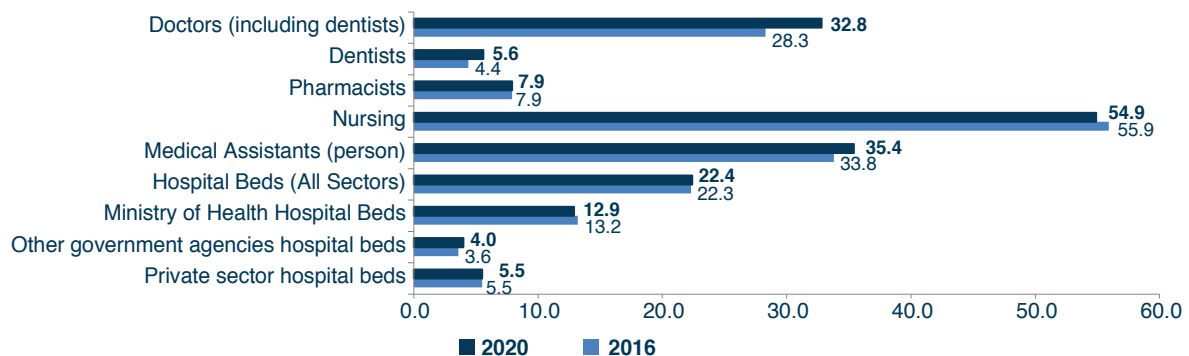
Source: Dallah Board Report 2021

The Saudi healthcare system relies mainly on services provided by the Ministry of Health (MoH). As of FY20, the number of beds in MoH hospitals was close to 59,000, dominating a share of 57.7%. For the Vision 2030 initiative, the government aims to reduce the reliance of healthcare services on public facilities while encouraging private sector entities to own and manage health services. This change is beginning to happen as we see some publicly listed healthcare companies managing some units within MoH hospitals. Through the healthcare transformation model, the government focuses on separating the roles and responsibilities of regulators and service providers, whereby the latter continue to provide high-quality services, and the ministry would act as a policymaker and regulator.

Healthcare Infrastructure: A scope for further penetration

Saudi Arabia's healthcare market remains inadequately penetrated, with 2.2 beds for every 1,000-population vs OECD's 4.4 beds per 1,000 people; KSA lags the developed countries by a considerable margin. This indicates high scope for existing players to expand their offerings to meet the increasing demand for high-quality healthcare services.

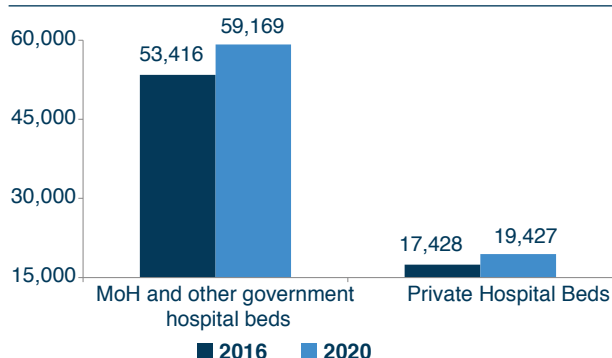
C10: Saudi's Healthcare Infrastructure (Indicates per 10,000 population)



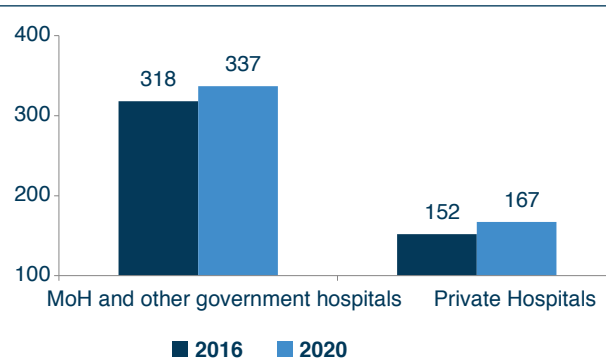
Source: Ministry of Health



C11: Hospital Bed Distribution by Sector (FY20)



C12: Hospital Distribution by Sector (FY20)



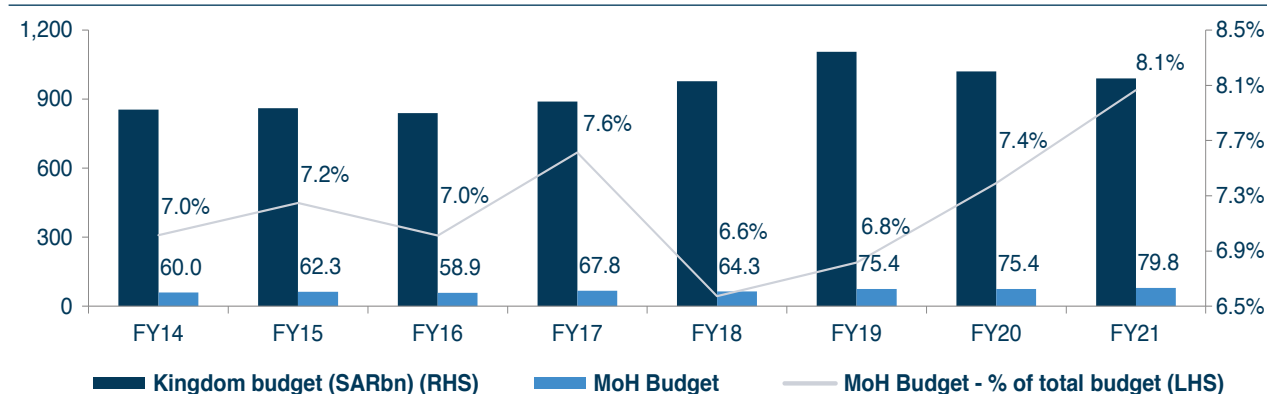
Source: Ministry of Health

The Public and private healthcare sectors have increased capacity over the years to meet the population's growing needs. Public sector hospitals have an average of 176 beds per hospital and have grown at a CAGR of 1.9% between FY16 and FY20. The number of private-sector beds has grown at a CAGR of 2.8% between FY16 and FY20, adding close to 2,000 beds. The private sector, on average, has 116 beds per hospital. We believe the capacity in the private sector will continue to increase in the medium to long term, driven by Vision 2030 initiatives, a public-private partnership with government agencies and consumer demand for services provided by private companies.

Increasing support to the healthcare sector through high budget allocation

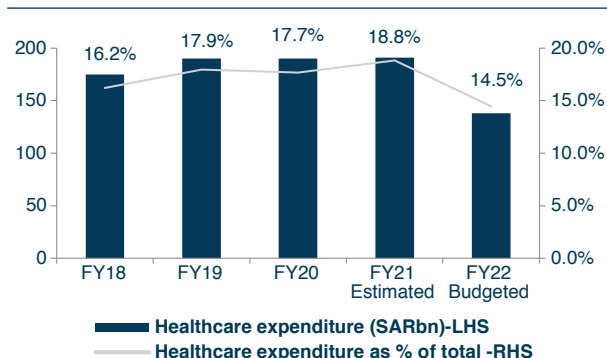
Saudi Arabia accounts for 60.0% of the GCC's healthcare expenditure: In FY21, the Saudi government allocated SAR 79.8bn to the Ministry of Health, equating to about 8.1% of the total government budget. It is the third-largest allocation after the education and military sectors, indicating the increasing efforts of the Saudi government to provide better quality health services to citizens.

C13: Budgetary Allocation to Ministry of Health

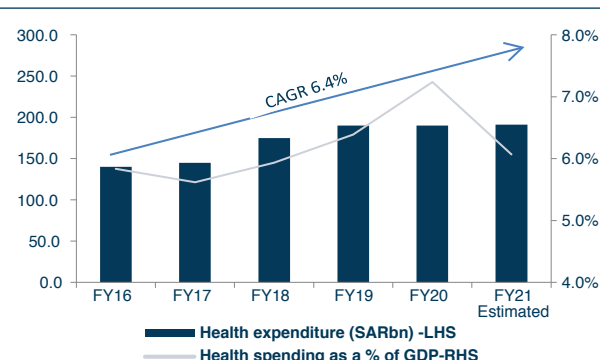


Source: Ministry of Health

C14: Healthcare expenditure as % of total expenditure



C15: Healthcare expenditure as % of GDP



Source: World Bank, IMF, Saudi Arabia Budget reports

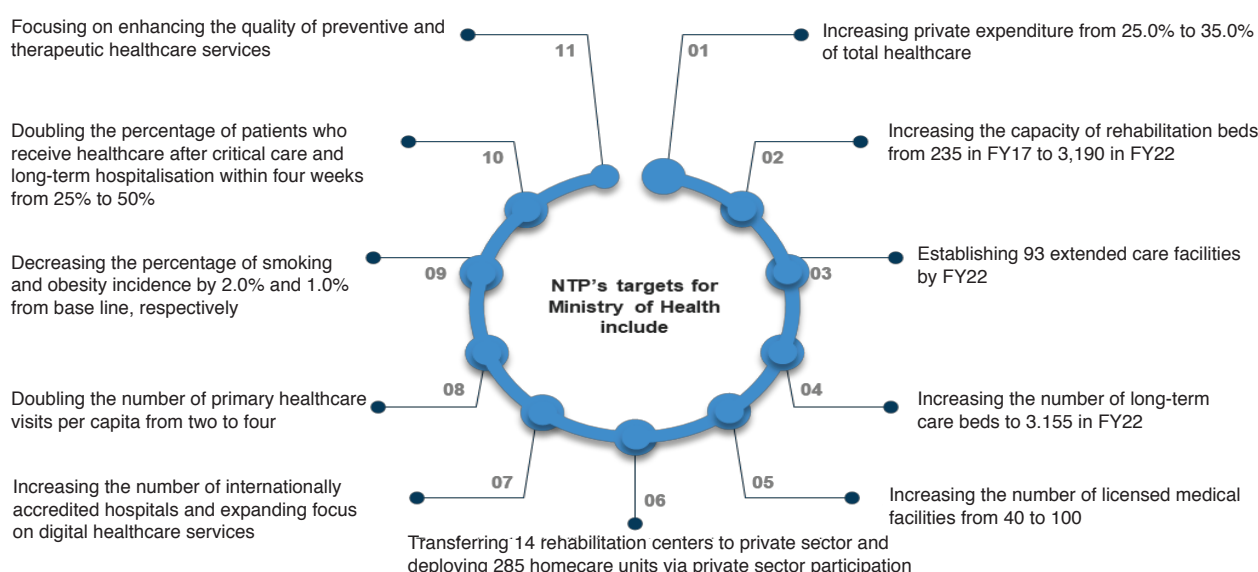




Key opportunities for the sector

Privatization expected to bring efficiency, improve quality and public satisfaction

Under Vision 2030, the government plans to invest nearly a quarter of a trillion Riyals (SAR 245.0bn) to develop the Kingdom's healthcare infrastructure. The government is encouraging public-private partnerships to separate providers of services and regulators and easing pressure on profligate government spending on inefficient healthcare services. The Public-Private Partnership program is one of the key cornerstones of Vision 2030, whereby the government aims to increase private sector contribution from 40.0% to 65.0% by FY30. It is targeting the privatization of 290 hospitals and 2,300 primary health centers. Atop these initiatives, a chief catalyst in the restructuring of the healthcare system is the establishment of the Center of National Health Insurance. Which aims to cover all citizens, free of charge, and funded by the Ministry of Finance; a crucial support for the sector as universal healthcare for a public-private-partnership structure creates a more accessible service for the companies covered in this report.

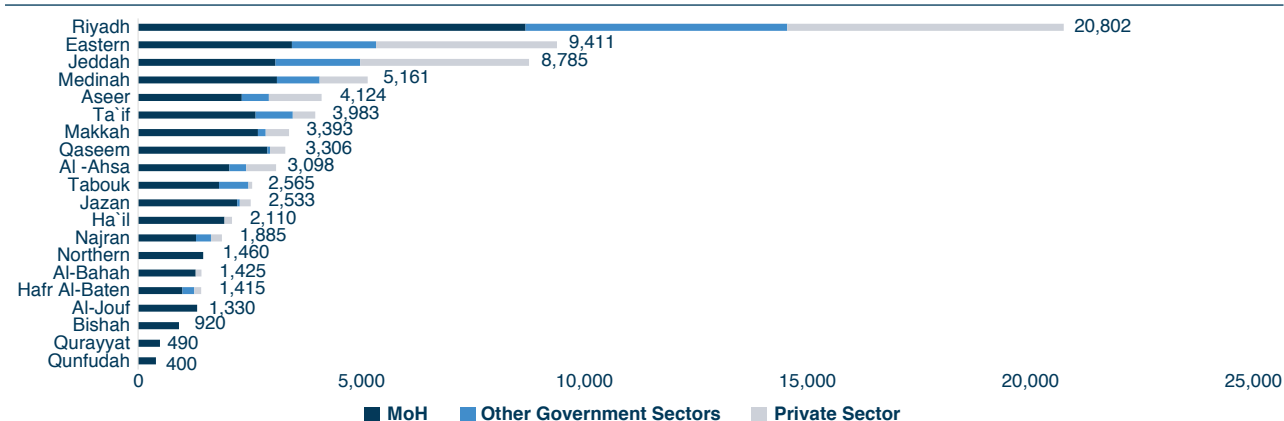


Source: Gov.sa, Global Health Saudi, Colliers International

Inequalities in hospital bed distribution present opportunities for market penetration

There is a disparity in the number of beds in the Kingdom's regions, with Riyadh being the host of the highest number of beds available at 20,802 (FY20). As per population estimates from the UN, Riyadh has almost 2.9 beds per 1,000 people. The next is in line with the number of beds available is the whole of the Eastern Region with 9,411 beds. Almost half of that available in Riyadh. Riyadh, Makkah and the Eastern region account for 65.0% of the population.

C16: Hospital beds distributed based on region (FY20)



Source: Ministry of Health





While Medinah is saturated with almost 3.4 beds per 1,000 people, the private sector accounts for just around 21.0% of the beds available, implying high reliance on public sector facilities. Currently, the Eastern Region and Jeddah have the highest number of private beds at 43.0% of the total. However, regardless of high private sector activity in Jeddah, the region is home to just 1.9 beds per 1,000 people, indicating a highly under-penetrated market and presenting good scope for companies to expand. It is evident that there is a geographic disparity in the number of beds present per capita in the Kingdom, as well as the availability of premium services offered in some regions. These gaps offer opportunities for strategic geographical expansions.

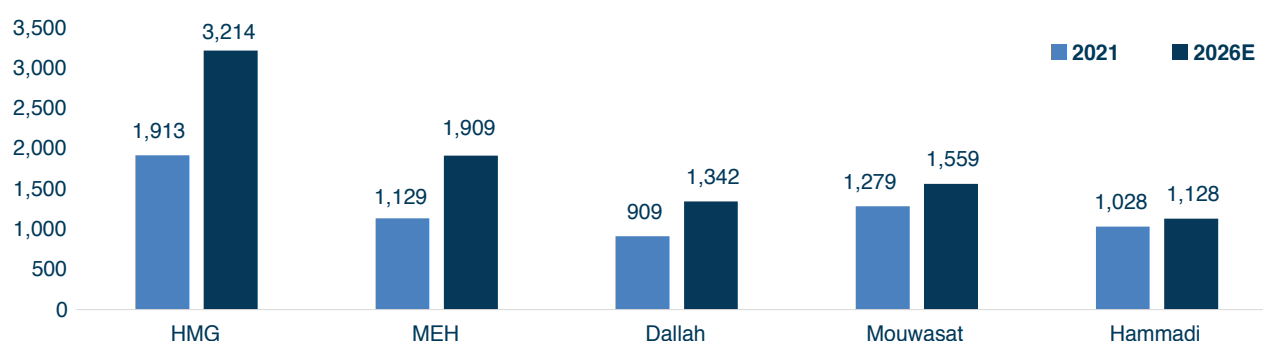
Healthcare companies plan expansion to meet increasing demand

In FY21, the operating segments of healthcare companies displayed positive performance, with hospitals (82.2% of total revenue) recording 19.9% Y/Y growth. This growth was supported by a 24.1% increase in the pharmaceutical segment. The rise in revenue can be ascribed to the increase in occupancy rates of inpatients and higher outpatients.

The growing need for healthcare facilities, along with the desire for geographic diversification and increased market share, has led companies to expand their facilities further. We expect private players to add close to 3,000 beds in the next five years.

- **Sulaiman Al Habib:** The company plans to add 330 beds and 245 clinics in South-West Jeddah and 500 beds and 300 clinics in North Riyadh. Furthermore, the company plans to add 350 beds and 270 clinics in North Jeddah and 141 beds and 100 clinics in Al Kharj.
- **Mouwasat:** The company plans to expand its facility in Medina to take the total bed count to 400. We note that Mouwasat has also announced plans to establish hospitals in Yanbu and Riyadh, its partnership to set up a new hospital with Jeddah Doctors Company, and potential investments in International Marasem Hospital. However, there is insufficient information on the number of beds or clinics' capacity.
- **Dallah Healthcare:** The company plans to add 150 beds in Namar and 50 beds in the Kingdom. The company plans to add 26 beds in Nakheel after the renovation.
- **Middle East Healthcare:** MEH plans to add 300 beds and 90 clinics in Makkah. Additionally, 147 beds and 76 clinics in Riyadh facility, 134 beds and 160 clinics capacity in Riyadh Outpatient Tower and 40 beds expansion in Dammam facility is planned. The company also plans to double Jeddah's capacity and set up Sobhi Batterjee hospital with around 450 beds.
- **Al Hammadi:** The company plans to build a new Olaya Hospital with 300 beds, which is expected to start operating in FY26.
- **Care:** Care is expected to expand Care National Hospital with a small addition of 39 beds. The company has recently bought a land plot to build a new hospital in Riyadh.

C17: Potential increase in bed capacity of listed companies in the next five years



Source: Company reports, AJC Research

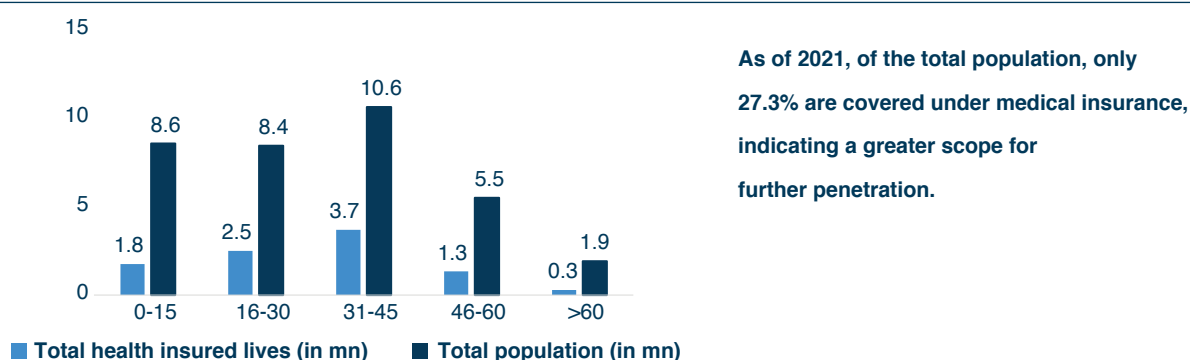


An increase in the health insurance penetration is expected to bode well

All working Saudi citizens, expatriates and their family members, pilgrims, and visitors to the Kingdom must obtain health insurance. Government enforcement measures to increase medical insurance coverage will be a key growth driver for the sector, especially companies with higher exposure to insurance. E.g. as of 1st June 2022, the Council of Cooperative Health Insurance (CCHI) updated the essential benefits package to include services such as adult vaccinations, services through telemedicine, homecare post-discharge for patients, and knee replacement surgery.

Most sector companies focus on increasing insurance clientele and reducing reliance on government revenues. Mandatory health insurance coverage for all private-sector employees, rising disposable income and the government's support for privatizing medical services would propel the growth of health insurance.

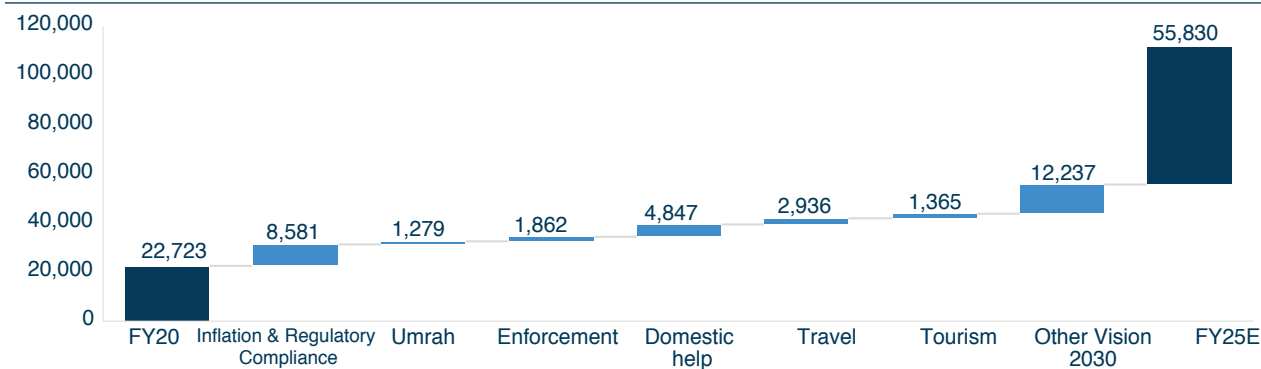
C18: Health insurance penetration in Saudi Arabia



Source: Data.gov.sa

The mandatory insurance rule for all private sector employees is a catalyst for growth in the insurance sector. As per Bupa Arabia, close to 1.2mn expats need to be covered by insurance, while more than 700,000 Saudi nationals in the private sector need to be included in the insurance coverage, indicating about 1.9mn potential insurance clients. This implies a growth potential of around 20.0% more versus the current c9.6mn of the insured population.

C19: Potential addition in health gross written premiums by FY25E



Source: Bupa Arabia, CCHI

Higher number of inbound visitors open an opportunity for medical tourism

The country expects a rebound in the number of visitors in FY22, supported by the gradual reopening of borders and relaxed COVID-19 restrictions. In FY22, the Ministry of Tourism expects 12mn tourist visits compared to 4mn in FY21. In Q1-22, tourist visits in KSA surged 130.0% compared to Q4-19, indicating a revival in tourism activity. On average, between FY15-FY20, c.52.0% of total visits were for religious purposes, which places the country as a prime holy location, especially in cities like Makkah and Medina, where pilgrims perform Hajj and Umrah activities.

We expect the increase in inbound visitors driven by the government's initiative to boost tourism, increase the number of pilgrims limit, ease COVID-19 curbs, and encourage citizens to seek medical treatment domestically to present opportunities for healthcare companies to extend their services and materialize the prospects for growth.

Government's response to COVID and implementation of digital health services

The Kingdom witnessed 764,249 confirmed COVID-19 cases and more than 9,000 deaths since the breakout of the pandemic in January 2020 till May 2022. The MoH undertook rapid measures such as following social distancing protocols, suspending gatherings, and imposing a curfew at commercial and service utilities to limit further virus spread. The pressure on the healthcare system during the pandemic urged a higher need to provide effective and quick services to the citizens. The emergence of the COVID-19 pandemic accelerated the government's initiatives to extend digital health services.

The MoH launched applications such as Mawid and Seha to enable the detection of disease through self-evaluation and provide medical consultation. Mawid registered c.67mn applications in 2020, and 8.6mn medical consultations were provided via Seha.

Digital health services comprise two sub-services: digital fitness and e-health services. The digital fitness market comprises various fitness apps, wearables and at-home-exercising equipment. E-health services consist mainly of digital health solutions such as online medical consultations or telemedicine.

One of the key developments of the Kingdom's Digital Health strategy is the implementation of electronic medical records (EMR), providing both patients and physicians access to medical records virtually. This helps provide vaccinations to vulnerable patients and critical follow-up care to chronic disease patients. On realizing the need to develop digital platforms to respond to critical situations like the COVID-19 pandemic, the government emphasized the virtual provision of healthcare services. The Saudi government has allocated SAR 5.6bn to healthcare IT and digital transformation programs. Saudi Arabia's telehealth adoption rate is approximately 70.0%, and almost 34.0% of the young physicians use AI to facilitate diagnoses.

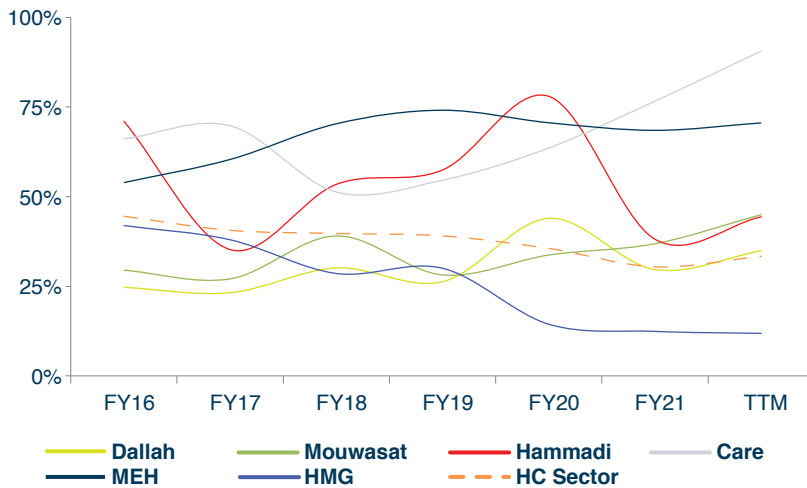
In Saudi Arabia, consumers consider digital health technology integral to effective health management. There is increasing demand for remote consultation, remote monitoring, and applications related to fitness and nutrition. The participation of the private sector through public-private partnership models is boosting the Kingdom's digital health sector.

Large healthcare companies are partnering with information and communication technology companies, MedTech and insurance companies to provide healthcare services virtually. The digital health sector will be a potential opportunity for companies to reach most consumers.

Key concerns in the sector

High receivables remain a key concern for few companies in the sector

C20: Receivables as a % of sales

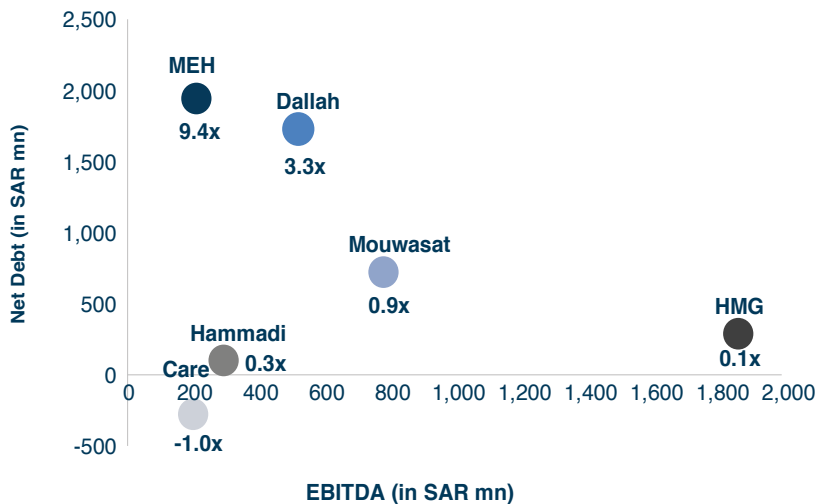


Receivables are of great concern for Care and MEH as their TTM Q1-22 receivables as a percentage of sales stands at 90.6% and 70.5%. This is primarily due to high revenue exposure to government and government-related entities. High concentration on receivables increases pressure on cash flow and leads to higher debt financing. Companies with lower government exposure like Dallah and HMG have been in a favorable position, with receivables at 35.0% and 11.8% as a percentage of sales, respectively.

Source: Company reporting, AJC Research

High leverage puts pressure on company's cash flows and ability to raise more debt

C21: Net debt/ EBITDA

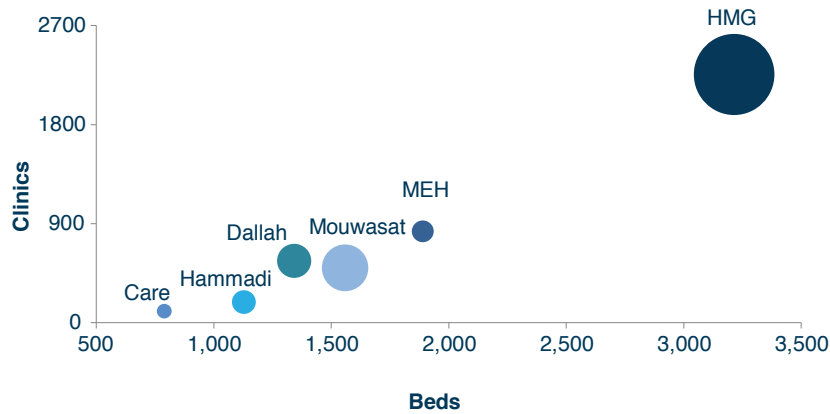


MEH's weak cash generation profile and a high leverage position with net debt to TTM EBITDA at 9.4x indicates a restrained ability to secure additional financing. Despite robust expansion plans, HMG has a favorable financial and liquidity position with a net debt to TTM EBITDA of just 0.1x, much lower than the sector average of 2.2x

Source: Company filings, AJC Research

Key Performance Metrics

C22: EV/ Forward Capacity

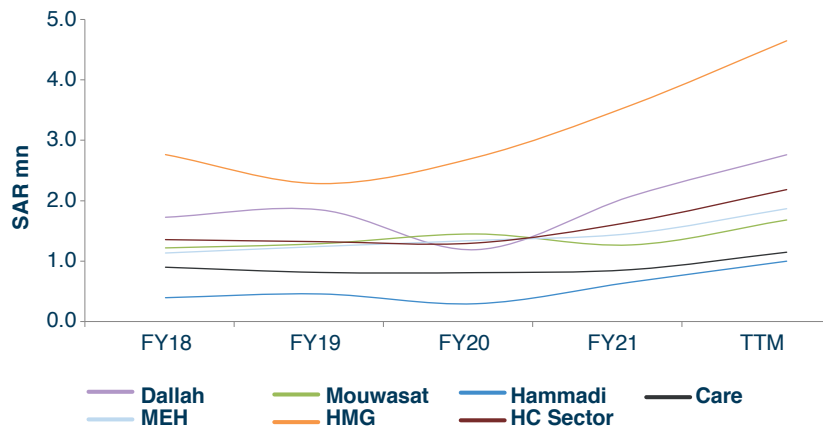


HMG has the largest expansion pipeline compared with other players. Mouwasat, MEH and Dallah are expanding either by increasing existing capacities or acquiring established facilities. Care and Hammadi have room for further expansion.

The size of the bubble indicates market capitalization

Source: Company filings, Bloomberg, AJC Research

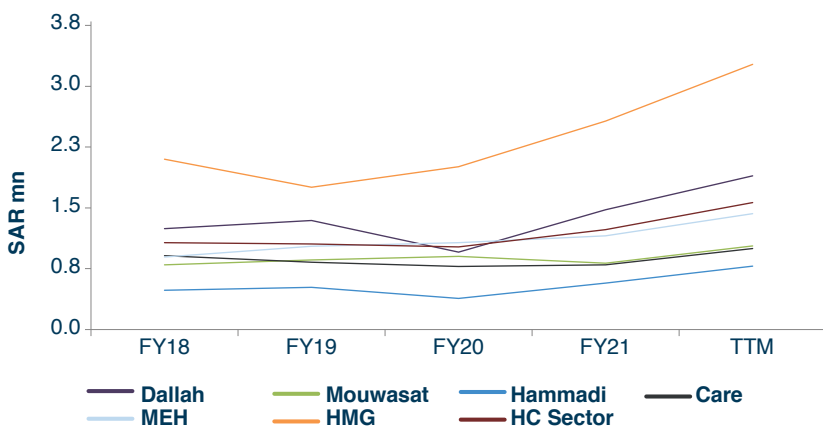
C23: Revenue/ Bed



HMG's robust expansion pipeline over the years has led to the highest revenue/bed among its peer set, at SAR 4.8mn. Dallah is the next best with SAR 3.0mn, while Mouwasat and MEH stand at SAR 2.1mn revenue per bed, respectively. Care and Al Hammadi have the lowest revenue per bed of SAR 1.4mn and SAR 1.3mn, respectively.

Source: Company Reports, AJC Research

C24: Cost/ Bed

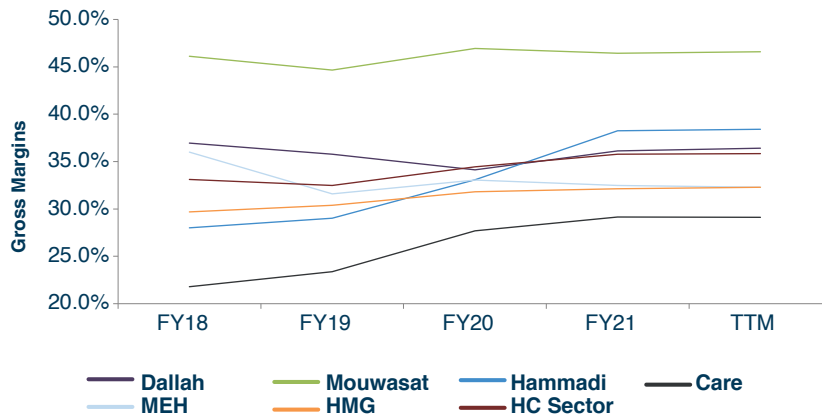


Al Hammadi has the lowest cost/bed of SAR0.8mn. Although HMG has the highest revenue/bed, its cost/bed is the highest at SAR 3.3mn. Dallah and MEH are close to the sector average of SAR 1.6mn.

Source: Company Reports, AJC Research



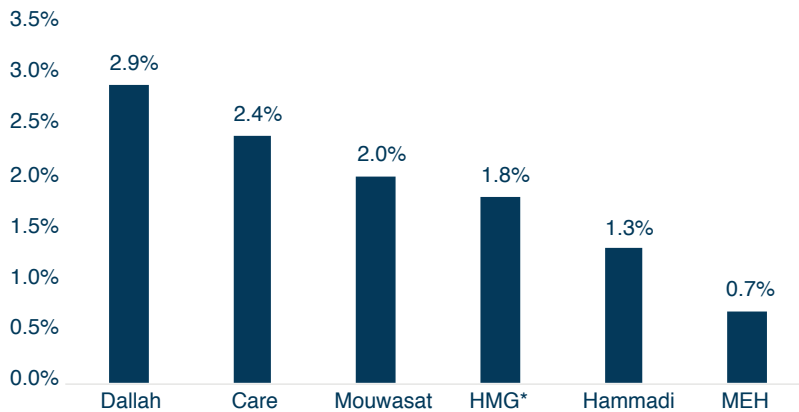
C25: Gross profit margin



Mouwasat leads the sector with highest historical GP margins (TTM- 46.6%); while those of HMG (TTM- 32.3%), MEH (TTM- 32.3%) and Care (TTM- 29.1%) continue to lag the sector average (TTM- 35.9%).

Source: Company Reports, AJC Research

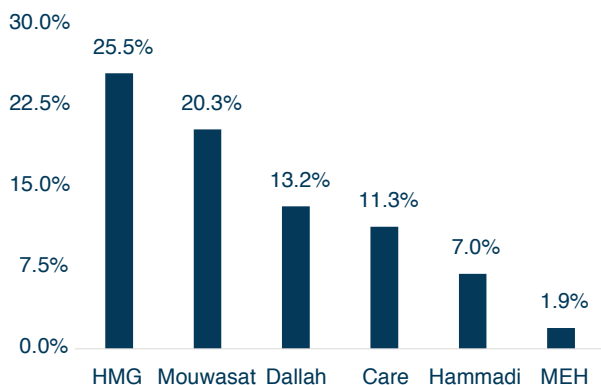
C26: Dividend yields (5-year average)



Dallah, Care, and Mouwasat have been consistent in dividend payments over the years, with 5-year average dividend yields at 2.9%, 2.4% and 2.0%, respectively. In comparison, Al Hammadi and MEH have skipped dividend payments in few years.

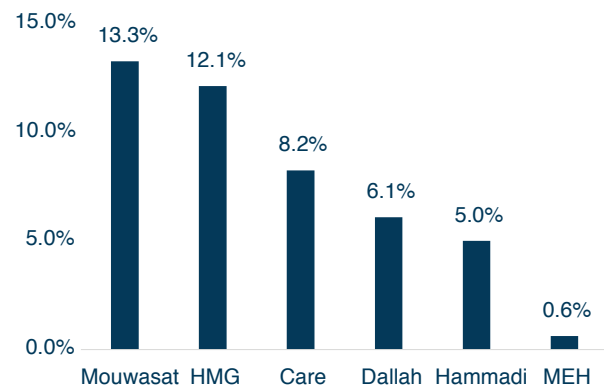
Source: Bloomberg, Company filings.*Note: HMG dividend yield based on 3-year average

C27: ROE (TTM)



Source: Bloomberg, Company filings

C28: ROA (TTM)



HMG and Mouwasat have demonstrated a strong track record and consistency in profitability across the Saudi healthcare sector. On the other hand, MEH delivered the lowest returns in the last twelve months among the sector, with 1.9% ROE (vs sector average of 13.2%) and 0.6% ROA (vs sector average of 7.6%)



Conclusion

Growth driven by capacity additions seems to be factored in at current share prices for most companies. Therefore, as we re-cover the sector, stand at a 'Neutral' view on the sector.

We are at a '**Neutral**' recommendation on **HMG** with a PT of **SAR 193.0/share**. The company is currently trading at a TTM 36.1x EV/EBITDA. The forward FY2023 EV/EBITDA is estimated at 31.5x. The company plans to add more than 1,300 beds in the next five years, which is the most attractive and robust expansion plan in the sector. We expect the margins to BE impacted due to capacity additions in the short term. However, we believe the company will yield better results once the expansions come through and the company starts to operate on a larger scale. HMG has a favourable receivable to sales ratio (11.8% vs sector average of 33.3%), lower net-debt/EBITDA (0.1x vs sector average of 2.2x), favourable client mix and healthy cash flows.

Al Hammadi is currently trading at a TTM 16.2x EV/EBITDA and an estimated FY23 forward 17.5x EV/EBITDA. In a market where private companies are expanding into under-served regions with demand for high-quality services, Al Hammadi is restricted to Riyadh with no expansion plans other than Olaya. Al Hammadi has room to push more expansions going forward. We are also '**Neutral**' on the company with a PT of **SAR 36.0/share**.

We are '**Neutral**' on **Mouwasat** with a PT of **SAR 209.0/share**. The company currently trades at a TTM of 28.0x EV/EBITDA, and forward FY23 EV/EBITDA is estimated at 28.0x. Mouwasat outperforms its peers in terms of best margins and healthy profitability. However, at this juncture, Medina is the only expansion wherein the company has provided details and plans to take the bed capacity from 120 to 400. We note that the company is planning expansions in Yanbu and Riyadh and acquiring a potential stake in Al Marasem and Jeddah Doctors Company.

Dallah is trading at TTM 21.2x EV/EBITDA and an estimated FY23 forward 21.3x EV/EBITDA. We believe a faster ramp-up in Namar, as well as improvement in Nakheel's operations and acquisitions in Makkah Medical Center and Care Shield, will benefit the company. However, a high net debt/EBITDA (3.3x vs sector average of 2.2x) remains a key concern. We are also '**Neutral**' on Dallah with a PT of **SAR 117.0 per share**.

As for **MEH**, we are '**Neutral**' with a PT of **SAR 30.0/share**. The company currently trades at a TTM of 23.7x EV/EBITDA and an estimated FY23 forward of 15.1x EV/EBITDA. The company's expansion plans are expected to increase its bed capacity by more than 60.0% in the next 5 years. Pressure on margins due to the opening of the Makkah facility and other planned expansions and a high level of debt (Net Debt/EBITDA of 9.4x vs sector average of 2.2x) and receivables (receivables to sales ratio at 70.5%) remain key concerns for the company.

We do express an '**Overweight**' recommendation on **Care** with a PT of SAR 66.0/share. The company is currently trading at a TTM 17.6x EV/EBITDA. The forward FY23 EV/EBITDA is estimated at 9.8x. Care's cost savings initiatives improved margins (GP margin at 29.2% in FY21 vs 23.4% in FY19). However, receivables as a percentage of sales remain a high concern for Care (90.6% vs sector average of 33.3%), given higher exposure to government and semi-government entities.

Dr. Sulaiman Al Habib Medical Services Group Co. (HMG)

Strategic expansions to further enhance market share and print healthy growth in LT; pressure on GP margins expected FY23 onwards owing to capacity additions

Ambitious expansion plans to capitalize on increasing demand and drive revenue growth: The company plans to invest over SAR 7.0bn to increase the total bed capacity 68.0% from 1,913 to 3,214 by FY26. Moreover, HMG plans to enter Jeddah, a prospective growth market in our opinion— it is the third most populated city in the country, with the bed per capita being just 1.9. The company plans to add close to 680 beds in the North and Southwest Jeddah branches. We believe HMG leads the sector in its capacity expansion plan, which would enable the company to solidify its market leading position further

A specialized and diversified offering, and the earmark of providing quality services will support HMG in meeting the increase in demand: HMG offers various sub-speciality services (covering IVF, obesity, gynaecology, obstetrics, orthopaedic) and a range of other specialities differentiates the company from its peers. The company is earmarked with providing quality services. We believe that by leveraging on its specialized and high-quality offerings, HMG would be able to enter new regions untapped for these offerings.

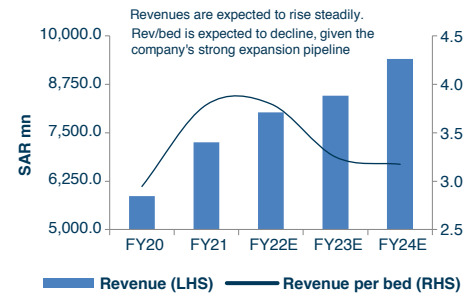
AJC view and valuation: HMG leads Saudi Arabia's private hospital segment in revenue per bed (SAR 4.8mn) and the number of beds (market share: 9.8%). The company is in a favorable position to raise additional debt for expansion plans given its strong cash flows (5-year average FCF margin at 14.5%) and solid balance sheet with low leverage. For the next five years, we expect net debt to EBITDA to remain below 1.0x. Favorable receivables position, increasing revenue share from insurance clientele (see C33. Client mix), and strategic market expansion plans, if implemented successfully, are expected to help HMG unlock value in the long term. We expect net income to increase at a CAGR of 6.7% during FY21–FY26E.

We value HMG with 100% weight for DCF (2.75% terminal growth and 4.9% average WACC) owing to massive expansion plans relative to its regional peers. This yields a TP of **SAR 193.0/share**, implying a 2.3% downside as most positives are priced in at the current levels. We recommend a “Neutral” weighting on Sulaiman Al Habib.

Recommendation	Neutral
Price Target	193.0
Upside/(Downside)	-2.3%

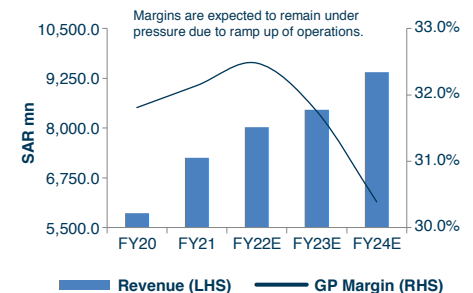
Source: Tadawul Prices as of 19th July 2022

C29: Revenue and Revenue/bed



Source: Company Reports, AJC Research

C30: Revenue and GP margin



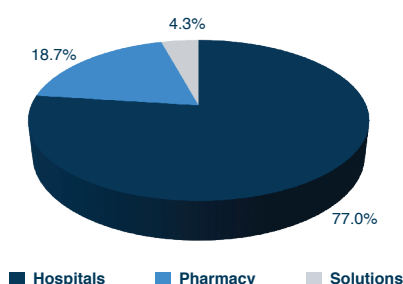
Source: Company Reports, AJC Research

C31: Price performance



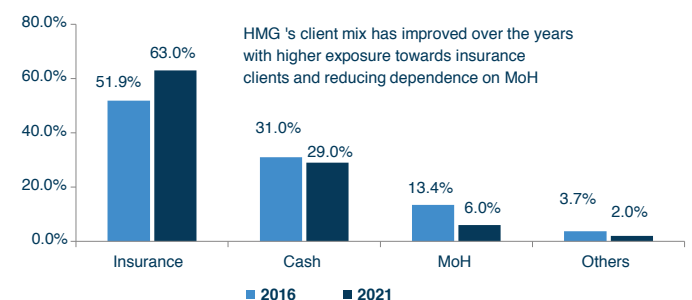
Source: TASI, Bloomberg

C32: Revenue composition



Source: Company filings

C33: Client mix



Source: Company filings



T2:Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	5,016.3	5,861.6	7,250.5	8,024.5	8,455.5	9,405.7	10,699.1	11,539.3
Y/Y	9.3%	16.9%	23.7%	10.7%	5.4%	11.2%	13.8%	7.9%
Gross profit	1,523.5	1,864.4	2,330.2	2,606.1	2,684.8	2,858.3	3,166.3	3,450.0
OPEX	(293.8)	(320.2)	(379.4)	(332.1)	(341.7)	(369.4)	(419.7)	(451.8)
Operating profit	867.7	1,114.9	1,466.2	1,641.9	1,643.7	1,694.0	1,815.4	2,038.4
Y/Y	8.3%	28.5%	31.5%	12.0%	0.1%	3.1%	7.2%	12.3%
Financial charges	(28.0)	(48.5)	(37.9)	(59.3)	(87.0)	(136.3)	(118.0)	(87.6)
Other income/income from associates	63.5	61.4	73.1	84.2	89.6	99.1	112.0	120.4
Profit before zakat & minority interest	903.3	1,127.8	1,501.3	1,666.9	1,646.2	1,656.7	1,809.4	2,071.2
Zakat and minority interest	(65.7)	(92.8)	(114.1)	(135.3)	(131.7)	(132.5)	(144.8)	(165.7)
Net income	870.2	1,055.5	1,376.6	1,519.8	1,511.5	1,521.1	1,661.3	1,901.7
Y/Y	8.6%	21.3%	30.4%	10.4%	-0.5%	0.6%	9.2%	14.5%
Balance sheet								
Assets								
Cash & bank balance	1,197	2,339	2,644	2,616	3,616	3,486	2,962	2,744
Other current assets	2,088	1,454	1,490	1,586	1,655	1,856	2,092	2,252
Property & Equipment	5,142	5,648	6,653	7,896	9,142	9,868	10,199	10,250
Other non-current assets	40	40	41	41	41	41	41	41
Total assets	8,467	9,481	10,827	12,139	14,454	15,252	15,295	15,287
Liabilities & owners' equity								
Total current liabilities	1,495	1,694	2,048	2,379	2,780	3,075	3,383	3,528
Long-term loans	1,780	2,030	2,445	3,127	4,708	4,836	4,143	3,552
Total other non-current liabilities	601	669	808	790	818	886	978	1,032
Non-controlling interest	197	177	188	200	203	206	209	213
Total owners' equity	4,394	4,912	5,339	5,643	5,945	6,250	6,582	6,962
Total equity & liabilities	8,467	9,481	10,827	12,139	14,454	15,252	15,295	15,287
Cashflow statement								
Operating activities	1,059	2,178	2,183	2,171	2,241	2,349	2,664	2,802
Investing activities	(731)	(756)	(1,248)	(1,765)	(1,860)	(1,411)	(1,070)	(831)
Financing activities	(501)	(280)	(631)	(434)	619	(1,068)	(2,118)	(2,190)
Change in cash	(172)	1,143	305	(28)	1,000	(129)	(524)	(219)
Ending cash balance	1,197	2,339	2,644	2,616	3,616	3,486	2,962	2,744
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.2	2.2	2.0	1.8	1.9	1.7	1.5	1.4
Quick ratio (x)	2.0	2.0	1.8	1.6	1.7	1.6	1.3	1.2
Profitability ratios								
Gross profit margin	30.4%	31.8%	32.1%	32.5%	31.8%	30.4%	29.6%	29.9%
Operating margin	17.3%	19.0%	20.2%	20.5%	19.4%	18.0%	17.0%	17.7%
EBITDA margin	22.4%	24.4%	24.6%	27.0%	26.7%	25.3%	23.9%	24.4%
Net profit margin	17.3%	18.0%	19.0%	18.9%	17.9%	16.2%	15.5%	16.5%
Return on assets	10.9%	11.8%	13.6%	13.2%	11.4%	10.2%	10.9%	12.4%
Return on equity	20.0%	22.7%	26.9%	27.7%	26.1%	24.9%	25.9%	28.1%
Leverage ratio								
Debt / equity (x)	0.5	0.5	0.6	0.7	1.0	0.9	0.8	0.6
Market/valuation ratios								
EV/sales (x)	NA	6.6x	7.8x	8.8x	8.4x	7.6x	6.7x	6.1x
EV/EBITDA (x)	NA	26.8x	31.9x	32.5x	31.5x	30.1x	27.9x	25.1x
EPS (SAR)	2.49	3.02	3.93	4.34	4.32	4.35	4.75	5.43
Market price (SAR)*	NA	109.0	161.4	197.6	197.6	197.6	197.6	197.6
Market-Cap (SAR mn)	NA	38,150	56,490	69,160	69,160	69,160	69,160	69,160
Dividend yield	NA	1.9%	1.7%	1.8%	1.7%	1.8%	1.9%	2.2%
P/E ratio (x)	NA	36.1x	41.0x	45.5x	45.8x	45.5x	41.6x	36.4x
P/B ratio (x)	NA	7.8x	10.6x	12.3x	11.6x	11.1x	10.5x	9.9x

Source: Company filings, AJC Analysis



Al Hammadi Holding (Al Hammadi)

Banking on Nuzha and Suweidi to continue attracting patient volumes; however limited expansion plans and moderate cash generation profile make us conservative on the stock

Nuzha and Suweidi expected to maintain momentum: Al Hammadi had the highest bed presence in Riyadh, with more than 1,300 beds. However, after the closure of the Olaya branch, bed capacity reduced to 1,028 (the current combined capacity of Nuzha and Suweidi facilities), impacting its market-leading position in the city of Riyadh (private beds market share in Riyadh reduced to 5.3% post closure of Olaya from 6.8% earlier). We expect improving inpatient and outpatient volumes in Nuzha and Suweidi, improved performance of the Nuzha facility and overall higher operational efficiency (average OP margin FY22E-FY26E - 24.1%) on lower expected provisions to print revenue CAGR of 5.2% during FY21-FY26E.

Lack of expansion plans over the medium term to restrict growth; in the context of the growing sector: Apart from the replacement of Olaya, which is expected to be completed in FY26E, Al Hammadi does not have any additional expansion plans in the medium term and plans to limit its offering in city of Riyadh. We believe Al Hammadi would lag peers due to its inability to capture growth opportunities in the market due to relatively low expansion plans over the medium term.

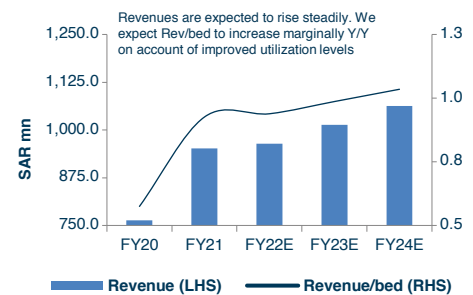
AJC view and valuation: We believe factors such as improvement in capacity utilization of the Nuzha facility and the company's ability to attract a better client mix would drive growth. Furthermore, cost optimization efforts and potential reduction in provisioning expenses are expected to drive margin expansion in MT. We model GP margin at 37.3% and 37.5% in FY22E and FY23E, respectively. We estimate the average FCF margin at 18.9% and an FCF yield of 3.0% over FY22E-FY26E. Limited geographic diversification, delay in construction of the new Olaya facility, and competition from other players such as Dallah, HMG, Mouwasat and MEH pose a major risk.

We value Al Hammadi on 60% weight for DCF (2.5% terminal growth and 7.1% average WACC) and 20% each for EV/EBITDA (18.0x) and P/E (30.0x) based on our FY23 estimates. These yield a TP of **SAR 36.0/share**, implying a 15.2% downside from the current levels. Our recommendation is 'Neutral' on Al Hammadi Company.

Recommendation	Neutral
Price Target	36.0
Upside/(Downside)	-15.2%

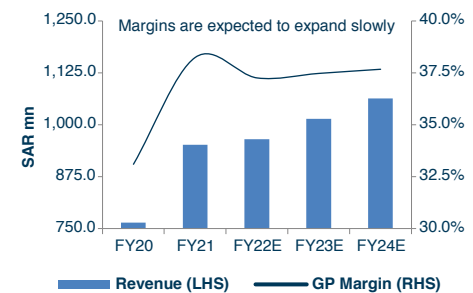
Source: Tadawul Prices as of 19th July 2022

C34: Revenue and Revenue/bed



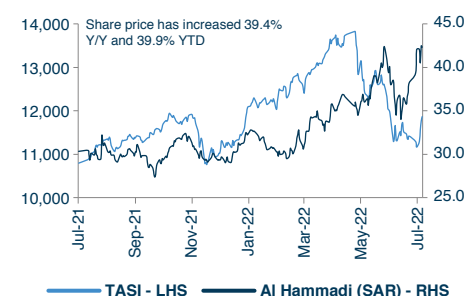
Source: Company Reports, AJC Research

C35: Revenue and GP margin



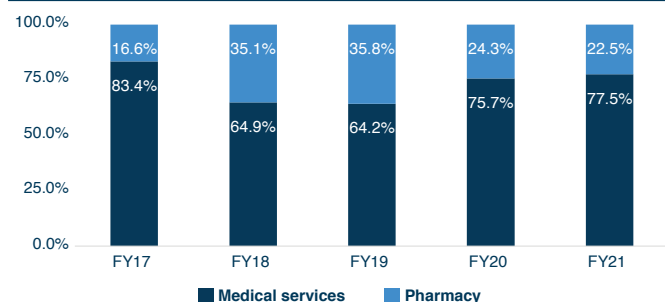
Source: Company Reports, AJC Research

C36: Price performance



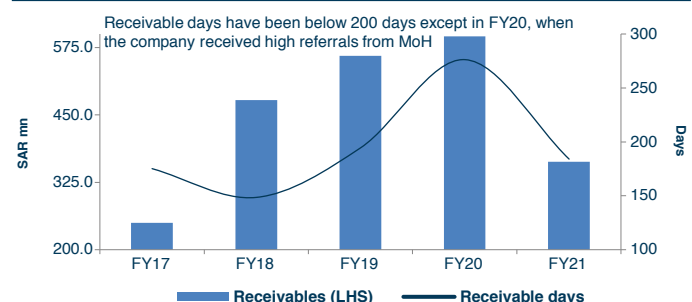
Source: TASI, Bloomberg

C37: Revenue composition



Source: Company filings

C38: Receivable and receivable days



Source: Company filings



T3:Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	974.1	764.1	951.9	964.9	1,014.2	1,063.7	1,103.2	1,167.1
Y/Y	9.0%	-21.6%	24.6%	1.4%	5.1%	4.9%	3.7%	5.8%
Gross profit	282.6	252.8	364.0	359.5	380.1	400.7	417.8	436.7
OPEX	(136.1)	(143.6)	(232.8)	(117.2)	(137.5)	(143.8)	(148.5)	(158.5)
Operating profit	146.5	109.3	131.2	242.3	242.6	256.9	269.3	278.3
Y/Y	6.1%	-25.4%	20.1%	84.6%	0.1%	5.9%	4.8%	3.3%
Financing Expense	(37.1)	(25.1)	(15.7)	(30.5)	(40.8)	(36.5)	(33.8)	(30.5)
Income before zakat	109.5	84.2	117.6	204.7	201.7	220.5	235.6	247.8
Zakat	(16.5)	(19.9)	(18.7)	(20.6)	(22.2)	(24.3)	(25.9)	(26.9)
Net income	93.0	130.8	90.1	184.1	179.5	196.2	209.7	220.9
Y/Y	3.5%	40.7%	-31.1%	104.3%	-2.5%	9.3%	6.8%	5.4%
Balance sheet								
Assets								
Cash & equivalent	76	14	121	499	708	949	1,162	1,377
Other current assets	668	703	442	496	520	544	563	596
Non-current assets	1,817	1,738	1,711	1,702	1,656	1,595	1,534	1,469
Property plant & equipment	1,739	1,652	1,535	1,522	1,478	1,421	1,364	1,305
Other non-current assets	55	66	164	166	165	163	161	158
Total assets	2,538	2,435	2,262	2,684	2,870	3,077	3,251	3,436
Liabilities & owners' equity								
Total current liabilities	325	326	227	215	219	276	288	297
Long-term loans	430	197	179	544	544	494	444	394
Total other non-current liabilities	217	213	196	201	205	208	210	216
Paid -up capital	1,200	1,200	1,200	1,600	1,600	1,600	1,600	1,600
Statutory reserves	51	64	73	30	48	67	88	110
Retained earnings	315	434	386	94	255	432	621	819
Total owners' equity	1,566	1,699	1,659	1,723	1,903	2,099	2,309	2,530
Total equity & liabilities	2,538	2,435	2,262	2,684	2,870	3,077	3,251	3,436
Cashflow statement								
Operating activities	183	329	435	266	276	310	339	341
Investing activities	(45)	(27)	(133)	(95)	(67)	(69)	(75)	(76)
Financing activities	(106)	(363)	(194)	207	0	0	(50)	(50)
Change in cash	32	(62)	107	379	208	241	214	215
Ending cash balance	76	14	121	499	708	949	1,162	1,377
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.3	2.2	2.5	4.6	5.6	5.4	6.0	6.6
Quick ratio (x)	2.1	2.0	2.2	4.4	5.4	5.2	5.8	6.4
Profitability ratios								
Gross profit margin	29.0%	33.1%	38.2%	37.3%	37.5%	37.7%	37.9%	37.4%
Operating margin	15.0%	14.3%	13.8%	25.1%	23.9%	24.2%	24.4%	23.8%
EBITDA margin	25.6%	29.0%	26.2%	35.4%	35.0%	36.1%	36.6%	35.7%
Net profit margin	9.5%	17.1%	9.5%	19.1%	17.7%	18.4%	19.0%	18.9%
Return on assets	3.7%	5.3%	3.8%	7.4%	6.5%	6.6%	6.6%	6.6%
Return on equity	6.1%	8.0%	5.4%	10.9%	9.9%	9.8%	9.5%	9.1%
Leverage ratio								
Debt / equity (x)	0.37	0.14	0.13	0.32	0.29	0.26	0.21	0.18
Market/valuation ratios								
EV/sales (x)	5.7	4.8	5.4	5.3	6.1	6.0	5.6	5.0
EV/EBITDA (x)	22.5	16.7	20.8	15.0	17.5	16.6	15.2	14.1
EPS (SAR)	0.8	0.5	0.8	1.2	1.1	1.2	1.3	1.4
BVPS (SAR) - Adjusted	13.1	14.2	13.8	10.8	11.9	13.1	14.4	15.8
Market price (SAR)	21.00	28.90	40.30	42.45	42.45	42.45	42.45	42.45
Market-Cap (SAR mn)	5,094.0	3,468.0	5,094.0	5,094.0	6,367.5	6,792.0	6,792.0	6,792.0
Dividend yield	0.0%	0.0%	3.6%	1.9%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	27.1	53.9	36.7	34.6	37.8	34.6	32.4	30.7
P/BV ratio (x)	1.6	2.0	2.2	3.9	3.6	3.2	2.9	2.7

Source: Company filings, AJC Analysis



Mouwasat Medical Services Company (Mouwasat)

Faster ramp-up in Medina with a focus on increasing patient volumes is expected to support revenue growth

Dammam and Medina expansions to boost revenue growth; we remain vigilant to future developments: The company completed the roll-out of 200 beds in Dammam LT care facility and planned further expansion of 280 beds in Medina hospital. Medina's under-served market with a lack of speciality service providers offers great scope for the company to expand services in the region. We believe Mouwasat's efforts to penetrate under-supplied regions would drive revenue based on the company's ability to monetize on volume growth. The company plans to set up a new branch in Yanbu and Riyadh, and we believe if executed as planned, it will unlock additional value, as new capacity addition will trickle in the earnings going forward. Mouwasat's partnerships with The Jeddah Doctors and International Marasem Hospital in Egypt are in progress; however, we shall await further details to incorporate relevant assumptions into our valuation.

Margins to remain under pressure in FY22 and FY23 increase steadily after that: The company has demonstrated efficiency in capacity additions in the past. We expect some impact of the ramp-up of additional capacity in FY22E and FY23E, followed by steady improvement in margins thereafter. We forecast a 50bps Y/Y compression in GP margin in FY22E and FY23E.

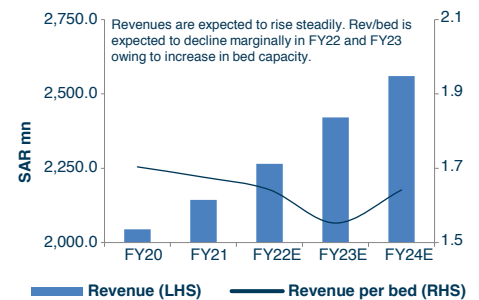
AJC view and valuation: Mouwasat accounts for c.23.0% of total private beds in the Eastern region. We expect revenue to increase at a CAGR of 7.4% during FY21–FY26E, driven by the company's lucrative service offering and solid presence in the Eastern region. We expect the company to leverage its key partnership with Aramco and strong positioning across the Class B segment. Mouwasat delivers consistent returns (ROE of 20.3% vs sector average of 13.2%), supported by a patient mix, sub-speciality service offering, and strong brand equity. We believe the healthcare operator has a healthy balance sheet and cash flow generation (average FCF margin of 29.6% and FCF yield of 3.3% during FY22E–FY26E) to finance additional projects.

We value Mouwasat on 60% weight for DCF (2.5% terminal growth and 6.3% WACC) and 20% each for EV/EBITDA (23.0x) and P/E (32.0x) based on our FY23 estimates. These yield a TP of **SAR 209/share**, implying a 12.9% downside from the current levels. We are at a **"Neutral"** recommendation on Mouwasat.

Recommendation	Neutral
Price Target	209.0
Upside/(Downside)	-12.9%

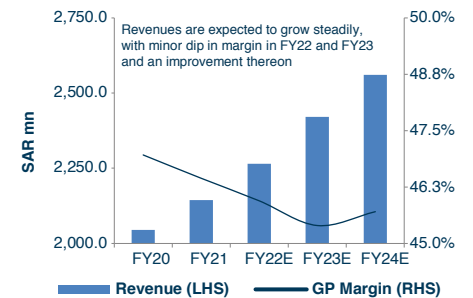
Source: Tadawul Prices as of 19th July 2022

C39: Revenue and Revenue/bed



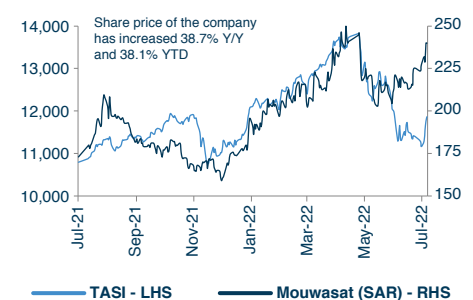
Source: Company Reports, AJC Research

C40: Revenue and GP margin



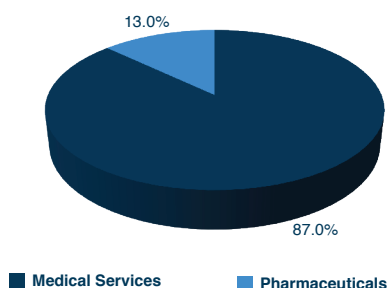
Source: Company Reports, AJC Research

C41: Price performance



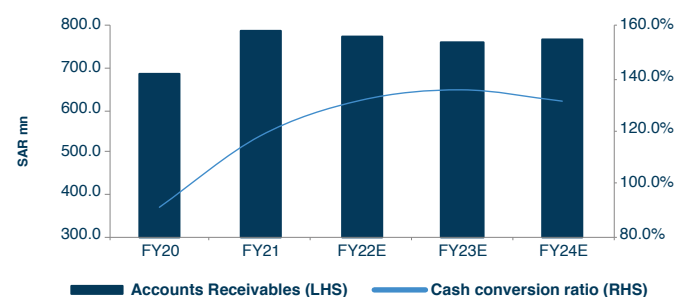
Source: TASI, Bloomberg

C42: Revenue composition



Source: Company filings

C43: Accounts receivable and cash conversion



Source: Company filings



T4: Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	1,857.2	2,045.0	2,144.1	2,265.1	2,421.0	2,560.1	2,775.2	3,058.6
Y/Y	10.7%	10.1%	4.8%	5.6%	6.9%	5.7%	8.4%	10.2%
Gross profit	829.3	960.3	995.8	1,040.6	1,099.1	1,170.0	1,283.3	1,437.1
OPEX	(358.8)	(382.5)	(373.8)	(401.4)	(426.5)	(440.9)	(466.9)	(505.3)
Operating profit	470.5	577.8	621.9	639.2	672.6	729.1	816.4	931.8
Y/Y	16.4%	22.8%	7.6%	2.8%	5.2%	8.4%	12.0%	14.1%
Financial charges	(20.2)	(14.0)	(8.2)	(9.9)	(10.9)	(9.6)	(9.4)	(9.4)
Other income/income from associates	11.9	13.1	18.5	29.6	35.4	40.5	42.2	44.5
Profit before zakat & minority interest	462.2	576.9	632.2	659.0	697.0	760.0	849.3	966.9
Zakat and minority interest	(41.2)	(48.7)	(54.0)	(58.6)	(61.3)	(66.9)	(74.7)	(85.1)
Net income	421.0	528.2	578.2	600.4	635.7	693.1	774.5	881.9
Y/Y	16.9%	25.4%	9.5%	3.8%	5.9%	9.0%	11.7%	13.9%
Balance sheet								
Assets								
Cash & bank balance	205	160	157	661	963	1,437	2,013	2,715
Other current assets	861	1,035	1,158	1,070	1,077	1,097	1,142	1,192
Property & Equipment	2,076	2,203	2,419	2,513	2,516	2,423	2,315	2,204
Other non-current assets	187	250	325	297	309	319	338	363
Total assets	3,328	3,649	4,059	4,541	4,864	5,276	5,808	6,474
Liabilities & owners' equity								
Total current liabilities	543	551	640	490	486	487	522	578
Long-term loans	602	575	564	869	828	816	804	792
Total other non-current liabilities	131	143	153	151	154	154	158	168
Non-controlling interest	97	101	98	102	106	111	116	122
Total owners' equity	1,956	2,279	2,604	2,930	3,290	3,708	4,208	4,815
Total equity & liabilities	3,328	3,649	4,059	4,541	4,864	5,276	5,808	6,474
Cashflow statement								
Operating activities	635	483	683	789	861	909	993	1,128
Investing activities	(398)	(319)	(446)	(245)	(211)	(119)	(130)	(141)
Financing activities	(162)	(208)	(240)	(40)	(348)	(316)	(286)	(286)
Change in cash	74	(44)	(3)	504	302	474	576	702
Ending cash balance	205	160	157	661	963	1,437	2,013	2,715
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.0	2.2	2.1	3.5	4.2	5.2	6.0	6.8
Quick ratio (x)	1.7	1.8	1.8	3.1	3.8	4.8	5.6	6.3
Profitability ratios								
Gross profit margin	44.7%	47.0%	46.4%	45.9%	45.4%	45.7%	46.2%	47.0%
Operating margin	25.3%	28.3%	29.0%	28.2%	27.8%	28.5%	29.4%	30.5%
EBITDA margin	33.0%	35.3%	36.2%	36.0%	35.8%	36.3%	37.3%	37.8%
Net profit margin	22.7%	25.8%	27.0%	26.5%	26.3%	27.1%	27.9%	28.8%
Return on assets	13.2%	15.1%	15.0%	14.0%	13.5%	13.7%	14.0%	14.4%
Return on equity	23.0%	24.9%	23.7%	21.7%	20.4%	19.8%	19.6%	19.5%
Leverage ratio								
Debt / equity (x)	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Market/valuation ratios								
EV/sales (x)	5.0x	7.0x	11.5x	10.9x	10.0x	9.3x	8.4x	7.5x
EV/EBITDA (x)	15.3x	19.9x	31.7x	30.2x	28.0x	25.8x	22.6x	19.7x
EPS (SAR)	4.21	5.28	5.78	6.00	6.36	6.93	7.75	8.82
BVPS (SAR)	19.56	22.79	26.04	29.30	32.90	37.08	42.08	48.15
Market price (SAR)*	88.00	138.0	173.8	240.0	240.0	240.0	240.0	240.0
Market-Cap (SAR mn)	8,800	13,800	24,000	24,000	24,000	24,000	24,000	24,000
Dividend yield	2.0%	1.4%	1.4%	1.1%	1.1%	1.1%	1.1%	1.1%
P/E ratio (x)	20.9x	26.1x	30.1x	40.0x	37.8x	34.6x	31.0x	27.2x
P/B ratio (x)	4.5x	6.1x	6.7x	8.2x	7.3x	6.5x	5.7x	5.0x

Source: Company filings, AJC Analysis



Middle East Healthcare Co. (MEH)

Capacity additions are expected to drive revenue growth; however, high receivables and debt levels pose concern for cash flows

Expansions in Makkah and Riyadh to drive revenue growth: Operations at the Makkah facility are expected to commence in Q3-22. In our opinion, Makkah is an important location lacking good quality operators, and this facility will be an essential addition to the company's portfolio. Moreover, the company plans to add more than 750 beds and 360 clinics across Riyadh hospital, Riyadh outpatient tower, Makkah, Dammam, Jeddah, and Sobhi Batterjee facilities. We model a 10.4% revenue CAGR between FY21-FY26E.

Higher costs and new capacity additions to put pressure on margins: We expect the high cost of hiring nurses, specialists, and Saudi physicians to raise the company's overall operating costs. Furthermore, opening new hospitals and capacity additions are expected to put pressure on the GP margins. Consequently, GP margins are expected to decline in FY22E and FY23E.

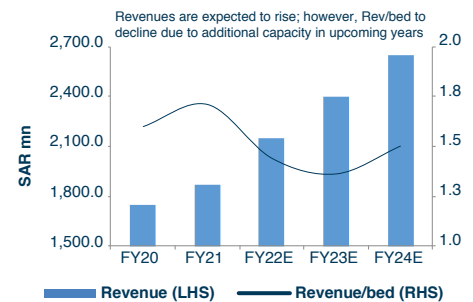
AJC view and valuation: The company's plans to set up new facilities, expand capacity, and enter a joint venture agreement highlights its intention to capture market opportunities. Moreover, we believe the recent price increases with insurance companies will bode well, given MEH's higher exposure to insurance clients (53.0%). However, expansion in regions where players such as HMG, Dallah, and Mouwasat hold higher market shares will add competitive pressures on the company's operations. MEH's weak cash generation profile and high leverage position with net debt to TTM EBITDA of 9.4x indicates its limited ability to secure debt further. Furthermore, the company's return profile has been the weakest in the sector, with ROE at 1.9% versus the sector average of 13.2% and ROA at 0.6% versus the sector average of 7.6%. MEH's receivable days have been highest after Care at 245 days (FY21). These factors, in our view, are the key concerns that could limit the company's growth. However, an improvement in the firm's operational efficiency once the expansions settle possesses an upside possibility for the stock in the longer term.

We value MEH on 70% weight for DCF (2.5% terminal growth and 4.3% WACC) and 30% for EV/EBITDA (16.0x) based on our FY23 estimates. These yield a TP of **SAR 30.0/share**, implying a 15.5% downside from the current levels. We are at a **"Neutral"** recommendation on Middle East Healthcare.

Recommendation	Neutral
Price Target	30.0
Upside/(Downside)	-10.6%

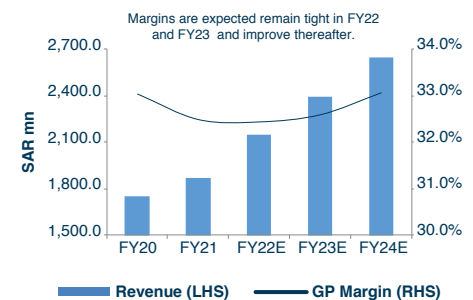
Source: Tadawul Prices as of 19th July 2022

C44: Revenue and Revenue/bed



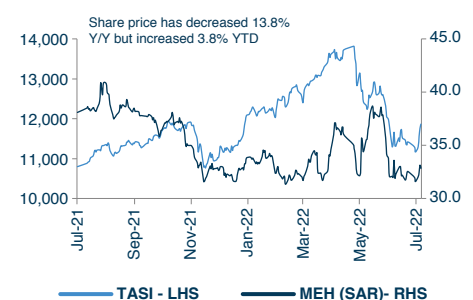
Source: Company Reports, AJC Research

C45: Revenue and GP margin



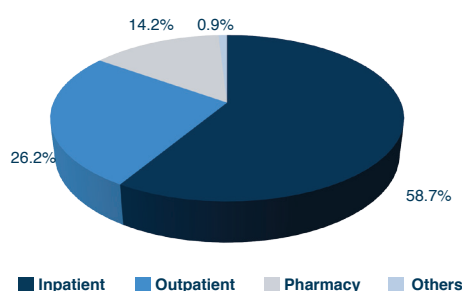
Source: Company Reports, AJC Research

C46: Price performance



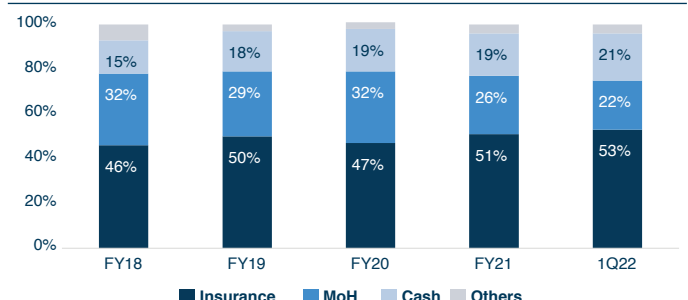
Source: TASI, Bloomberg

C47: Revenue composition



Source: Company filings

C48: Client mix



Source: Company filings



T5: Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	1,496.6	1,750.6	1,872.6	2,147.3	2,398.0	2,645.5	2,819.8	3,066.6
Y/Y	7.6%	17.0%	7.0%	14.7%	11.7%	10.3%	6.6%	8.8%
Gross profit	472.9	578.4	608.2	696.3	781.3	874.8	941.0	1,031.9
OPEX	(369.7)	(471.0)	(553.9)	(555.8)	(628.6)	(677.4)	(702.4)	(754.3)
Operating profit	103.3	107.4	54.2	140.5	152.8	197.3	238.6	277.6
Y/Y	-36.5%	4.0%	-49.5%	158.9%	8.8%	29.2%	20.9%	16.3%
Other income	17.1	7.5	12.0	12.1	9.6	13.2	14.1	15.3
Financial charges	(25.1)	(34.2)	(47.0)	(49.5)	(42.7)	(47.4)	(49.3)	(47.7)
Profit before zakat & minority interest	95.3	80.7	19.2	103.1	119.6	163.2	203.4	245.3
Non-controlling interest	7.5	6.8	5.5	(1.8)	(2.2)	(3.0)	(3.7)	(3.9)
Profit before zakat	90.1	75.2	11.7	85.5	101.7	138.7	172.6	208.4
Zakat	(5.2)	(5.5)	(7.5)	(17.6)	(17.9)	(24.5)	(30.8)	(36.8)
Net income	97.6	82.0	17.2	83.7	99.5	135.8	168.9	204.6
Y/Y	-43.4%	-16.0%	-79.0%	386.8%	18.9%	36.4%	24.4%	21.1%
Balance sheet								
Assets								
Cash & bank balance	54	17	28	60	73	64	109	142
Other current assets	1,307	1,476	1,548	1,431	1,596	1,686	1,719	1,834
Property & Equipment	1,909	2,074	2,357	2,626	2,802	2,922	2,991	3,026
Other non-current assets	35	33	40	50	59	67	74	79
Total assets	3,305	3,599	3,972	4,166	4,530	4,740	4,892	5,082
Liabilities & owners' equity								
Total current liabilities	821	1,188	1,367	995	1,093	1,135	1,206	1,269
Long-term loans	643	847	1,028	1,474	1,613	1,621	1,518	1,412
Total other non-current liabilities	280	290	282	317	345	370	386	413
Non-controlling interest	39	43	38	38	38	38	38	38
Paid-up capital	920	920	920	920	920	920	920	920
Statutory reserves	182	192	194	202	212	226	242	263
Retained earnings	421	119	144	219	308	431	583	767
Total owners' equity	1,523	1,232	1,258	1,341	1,441	1,577	1,745	1,950
Total equity & liabilities	3,305	3,599	3,972	4,166	4,530	4,740	4,892	5,082
Cashflow statement								
Operating activities	99	(229)	77	524	230	367	456	454
Investing activities	(469)	(294)	(417)	(430)	(360)	(318)	(283)	(261)
Financing activities	380	486	352	(63)	143	(58)	(129)	(159)
Change in cash	10	(37)	11	32	13	(9)	45	34
Ending cash balance	54	17	28	60	73	64	109	142
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.7	1.3	1.2	1.5	1.5	1.5	1.5	1.6
Quick ratio (x)	1.5	1.1	1.0	1.3	1.4	1.4	1.3	1.4
Profitability ratios								
GP Margin	31.6%	33.0%	32.5%	32.4%	32.6%	33.1%	33.4%	33.6%
Operating Margins	6.9%	6.1%	2.9%	6.5%	6.4%	7.5%	8.5%	9.1%
EBITDA Margin	13.5%	13.4%	10.4%	14.5%	14.6%	15.5%	16.7%	17.1%
Net Margin	6.5%	4.7%	0.9%	3.9%	4.2%	5.1%	6.0%	6.7%
Return on assets	3.2%	2.4%	0.5%	2.1%	2.3%	2.9%	3.5%	4.1%
Return on equity	6.4%	5.8%	1.3%	6.3%	7.0%	8.8%	9.9%	10.8%
Leverage ratio								
Debt / equity (x)	0.6	1.2	1.5	1.4	1.4	1.3	1.1	0.9
Market/valuation ratios								
EV/sales (x)	2.5	2.7	2.6	2.3	2.1	1.9	1.7	1.5
EV/EBITDA (x)	18.9	20.8	26.1	16.3	15.1	12.8	10.8	9.4
EPS (SAR)	1.1	0.9	0.2	0.9	1.1	1.5	1.8	2.2
BVPS (SAR)	16.5	13.4	13.7	14.6	15.7	17.1	19.0	21.2
Market price (SAR)	29.7	35.1	31.7	33.2	33.2	33.2	33.2	33.2
Market-Cap (SAR mn)	2,734	3,226	2,913	3,051	3,051	3,051	3,051	3,051
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	28.0	39.3	169.4	36.4	30.7	22.5	18.1	14.9
P/BV ratio (x)	1.8	2.6	2.3	2.3	2.1	1.9	1.7	1.6

Source: Company filings, AJC Analysis



National Medical Care Co. (Care)

Improved utilization and patient mix to drive growth; cost control initiatives to retain margin stability

Upgrading the quality of service in existing facilities is the prime focus: Riyadh Care Hospital is under renovation while the company is awaiting MoH approval on Care National Hospital expansion. However, unlike its peers, Care does not have any major expansion plans as the company focuses on enhancing the quality of service in existing facilities. We believe this could limit the company's ability to capitalize on growing market opportunities. Hence, we expect that optimal utilization and attracting a better patient mix are key factors in driving revenue. We forecast Care's revenue to grow at a CAGR of 3.5% between FY21-26E.

We see Care's stock being in an oversold territory after reduction in government referrals: Care received a higher number of GOSI and MoH referrals during the COVID-19 outbreak and the intermittent COVID waves in FY21. As the situation returned to normalcy, the company received lesser referrals from government institutions in the last few quarters. However, the company has been able to retain its margins well. We believe this can be ascribed to Care's cost rationalization initiatives. We expect the GP margin to remain relatively stable in the range of ~29% in the medium term. Additionally, Care is in the works on developing a new relationship with GOSI's new management that should reflect more positively on revenues, margins, and receivables if favorable negotiations are crystalised.

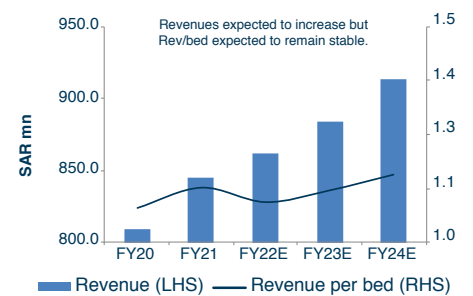
AJC view and valuation: We expect Care's revenue and earnings growth to remain moderate in the medium term. Due to the lack of major expansion plans, improvement in margins through cost-control measures and optimal capacity utilization is expected to support earnings. We are positive about Care's LT prospects, given its potential to retain healthy margin levels. We believe stiff competition from major regional players and high receivables from government institutions (gross receivables as of Q1-22 to MoH and GOSI stand at 75%) remain key concerns.

We value Care on 60% weight for DCF (2.5% terminal growth and 7.9% WACC) and 20% each for EV/EBITDA (13.0x) and P/E (24.0x) based on our FY23 estimates. These yield a TP of **SAR 66.0/share**, implying a 20.9% upside from the current levels. We recommend an '**Overweight**' weighting on National Medical Care.

Recommendation	Overweight
Price Target	66.0
Upside/(Downside)	20.9%

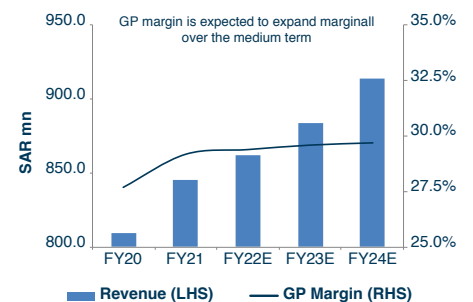
Source: Tadawul Prices as of 19th July 2022

C49: Revenue and Revenue/bed



Source: Company Reports, AJC Research

C50: Revenue and GP margin



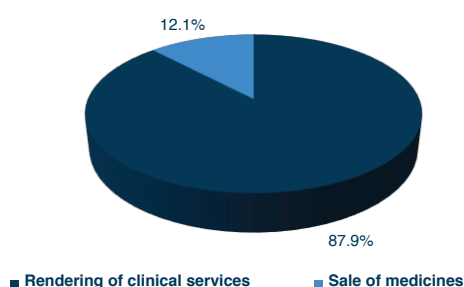
Source: Company Reports, AJC Research

C51: Price performance



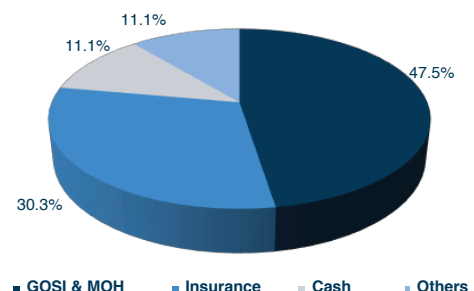
Source: TASI, Bloomberg

C52: Revenue



Source: Company filings

C53: Client mix



Source: Company filings



T6: Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	708.4	809.0	845.4	862.1	884.1	913.9	956.5	1,003.1
Y/Y	-7.3%	14.2%	4.5%	2.0%	2.6%	3.4%	4.7%	4.9%
Gross profit	165.7	223.9	246.5	253.2	261.4	271.1	284.7	299.6
OPEX	(60.7)	(100.6)	(82.1)	(86.6)	(88.7)	(89.8)	(92.1)	(94.6)
Operating profit	104.9	123.3	164.4	166.5	172.7	181.3	192.6	205.0
Y/Y	18.7%	17.5%	33.3%	1.3%	3.7%	5.0%	6.2%	6.4%
Finance and other cost	(2.1)	-	-	-	-	-	-	-
Income before zakat	102.8	123.3	164.4	166.5	172.7	181.3	192.6	205.0
Zakat	(22.6)	(26.0)	(28.0)	(26.4)	(25.9)	(27.2)	(28.9)	(30.7)
Net income	80.2	97.3	136.4	140.1	146.8	154.1	163.7	174.2
Y/Y	29.0%	21.3%	40.2%	2.7%	4.8%	5.0%	6.2%	6.4%
Balance sheet								
Assets								
Cash & bank balance	380	373	375	329	416	508	600	704
Other current assets	438	560	694	723	742	766	810	849
Property & Equipment	537	495	483	609	614	620	625	631
Other non-current assets	2	5	7	7	7	7	7	7
Total assets	1,356	1,433	1,559	1,668	1,779	1,901	2,042	2,192
Liabilities & owners' equity								
Total current liabilities	143	214	254	261	267	277	295	310
Long-term loans	95	89	83	89	89	89	89	89
Total other non-current liabilities	85	93	98	99	102	105	109	114
Paid-up capital	449	449	449	449	449	449	449	449
Statutory reserves	186	186	186	186	186	186	186	186
General reserves	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Retained earnings	398	402	490	585	687	796	915	1,044
Total owners' equity	1,033	1,037	1,124	1,220	1,321	1,431	1,550	1,679
Total equity & liabilities	1,356	1,433	1,559	1,668	1,779	1,901	2,042	2,192
Cashflow statement								
Operating activities	162	107	94	168	187	193	194	209
Investing activities	(10)	(18)	(41)	(176)	(57)	(60)	(62)	(65)
Financing activities	(117)	(96)	(51)	(38)	(43)	(42)	(40)	(40)
Change in cash	35	(7)	2	(46)	88	92	92	104
Ending cash balance	380	373	375	329	416	508	600	704
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	9.5	6.7	6.1	6.4	6.7	6.9	6.9	7.1
Quick ratio (x)	5.4	4.1	4.0	3.8	4.1	4.4	4.6	4.8
Profitability ratios								
Gross profit margin	23.4%	27.7%	29.2%	29.4%	29.6%	29.7%	29.8%	29.9%
Operating margin	12.5%	14.1%	18.4%	18.4%	18.5%	18.8%	19.1%	19.4%
EBITDA margin	22.1%	20.9%	23.9%	24.2%	24.4%	24.8%	25.0%	25.3%
Net profit margin	11.3%	12.0%	16.1%	16.3%	16.6%	16.9%	17.1%	17.4%
Return on assets	4.4%	5.8%	7.0%	9.1%	8.7%	8.5%	8.4%	8.3%
Return on equity	6.3%	7.9%	9.4%	12.6%	12.0%	11.6%	11.2%	11.0%
Leverage ratio								
Debt / equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Market/valuation ratios								
EV/Sales (x)	2.68	3.13	2.56	2.57	2.41	2.23	2.03	1.83
EV/EBITDA (x)	12.15	14.93	10.69	10.63	9.84	8.99	8.12	7.25
EPS (SAR)	1.79	2.17	3.04	3.12	3.27	3.44	3.65	3.88
BVPS (SAR)	23.03	23.12	25.07	27.19	29.46	31.90	34.55	37.43
Market price (SAR)*	48.60	62.60	54.60	54.60	54.60	54.60	54.60	54.60
Market-Cap (SAR mn)	2,179.7	2,807.6	2,448.8	2,448.8	2,448.8	2,448.8	2,448.8	2,448.8
Dividend yield	4.1%	1.6%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
P/E ratio (x)	27.18	28.86	17.96	17.48	16.68	15.89	14.96	14.05
P/BV ratio (x)	2.11	2.71	2.18	2.01	1.85	1.71	1.58	1.46

Source: Company filings, AJC Analysis



Dallah Healthcare Company (Dallah)

Faster ramp-ups, higher patient volumes and increasing contribution from subsidiaries and a healthy margin profile make Dallah a compelling choice

Volume momentum in Nakheel and Namar to drive revenues: Outpatients and inpatient volumes increased at a CAGR of 13.0% between FY17-FY21, indicating healthy momentum across Dallah's Namar and Nakheel facilities. In Q1-22, Namar and Nakheel contributed 95.0% to the company's total revenue. We expect Dallah to exhibit faster roll-out and ramp-up in Namar (addition of 150 beds in Q2-22) owing to the better patient mix as the company has begun to offer services to Class B patients along with Class A/ VIP patients. We expect Nakheel's contribution to improve over time due to its strong positioning in Riyadh and potential benefit from the closure of Al Hammadi's Olaya branch. Our assumptions print a revenue CAGR of 9.5% during FY21-FY26E.

Acquisitions to start adding value; however, competitive pressures sustain: We expect Care Shield and Makkah Medical Center to contribute positively to the company's revenues. We expect opportunities from the Jeddah market through IMC to benefit Dallah, as Jeddah is currently under-served with a lack of premium operators. However, we note that in the MT, the company will have to navigate the competitive pressures in Jeddah from HMG's upcoming facilities and MEH's hospital in Makkah. We also expect some competition in the Riyadh as Namar has started to cater the Class B patients, a relatively new target audience for Dallah.

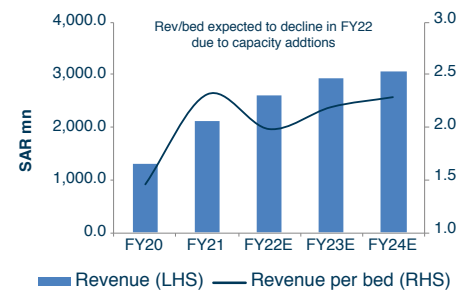
AJC view and valuation: We expect Dallah's ability to leverage strong momentum and patient mix to limit the impact of capacity additions on its margins. Hence, we model a slight compression to 35.1% in GP margin in FY23E and improve moderately, thereafter. However, Dallah's high Net debt/ EBITDA, which stands at 3.3x, the second highest after MEH and above the sector average of 2.2x, make us vigilant about the company's ability to secure additional debt. Longer than expected ramp-ups, higher debt inducing pressure on net profit margins and competitive pressures remain key risks for growth.

We value Dallah on 60% weight for DCF (2.5% terminal growth and 5.2% WACC) and 20% each for EV/EBITDA (20.0x) and P/E (30.0x) based on our FY23 estimates. These yield a TP of **SAR 117.0/share**, implying a 2.6% upside from the current levels. We are at a **"Neutral"** weighting recommendation on Dallah Healthcare.

Recommendation	Neutral
Price Target	117.0
Upside/(Downside)	2.6%

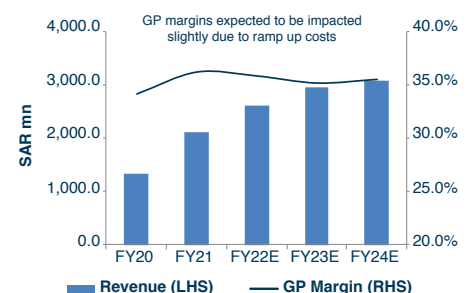
Source: Tadawul Prices as of 19th July 2022

C54: Revenue and Revenue/bed



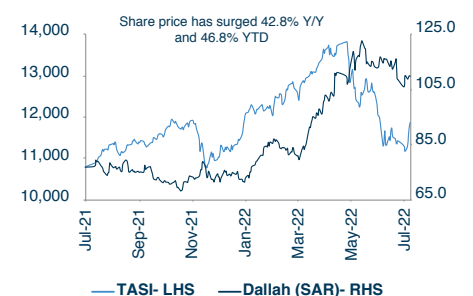
Source: Company Reports, AJC Research

C55: Revenue and GP margin



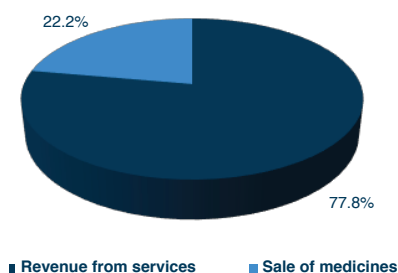
Source: Company Reports, AJC Research

C56: Price performance



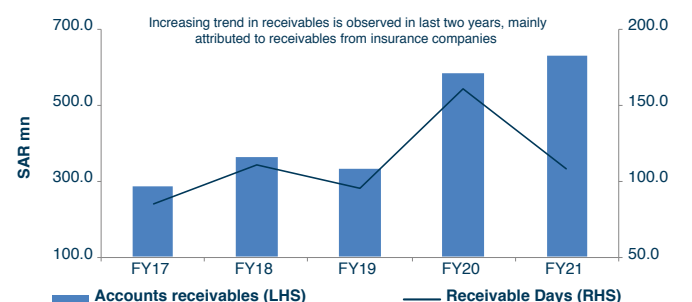
Source: TASI, Bloomberg

C57: Revenue composition



Source: Company filings

C58: Accounts receivables and days



Source: Company filings



T7: Key Financial Data

Amount in SARmn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	1,252.1	1,318.3	2,105.2	2,608.4	2,942.9	3,071.8	3,177.0	3,310.4
Y/Y	6.0%	5.3%	59.7%	23.9%	12.8%	4.4%	3.4%	4.2%
Gross profit	447.8	449.7	760.4	932.7	1,033.3	1,088.9	1,137.1	1,201.4
OPEX	(293.5)	(324.6)	(432.4)	(541.7)	(617.9)	(627.4)	(632.6)	(641.8)
Operating profit	154.4	125.2	327.9	391.1	415.4	461.5	504.5	559.6
Y/Y	5.6%	-18.9%	162.0%	19.3%	6.2%	11.1%	9.3%	10.9%
Other income	26.4	69.9	36.8	29.2	35.3	36.9	38.1	39.7
Financial charges	(25.1)	(25.4)	(41.8)	(46.9)	(45.9)	(47.7)	(47.7)	(47.7)
Other adjustments	(4.1)	(21.3)	(31.1)	(34.5)	(32.0)	(32.0)	(32.0)	(32.0)
Income before zakat	151.6	148.4	291.8	338.9	372.8	418.6	462.9	519.6
Zakat	(4.7)	(13.4)	(16.9)	(19.1)	(18.6)	(20.9)	(23.1)	(26.0)
Non-controlling interest		(3.0)	(16.3)	(8.3)	-	7.5	11.5	(8.0)
Net income	146.9	132.0	258.6	311.5	354.2	405.2	451.2	485.6
Y/Y	3.6%	-10.2%	95.9%	20.4%	13.7%	14.4%	11.4%	7.6%
Balance sheet								
Assets								
Cash & equivalent	88	131	208	137	207	416	573	796
Other current assets	526	835	966	1,140	1,257	1,309	1,350	1,402
Property plant & equipment	2,103	2,743	2,768	2,946	3,063	3,180	3,280	3,364
Other non-current assets	199	421	703	672	671	670	669	668
Total assets	2,916	4,130	4,645	4,896	5,198	5,575	5,872	6,230
Liabilities & owners' equity								
Total current liabilities	421	712	923	815	883	913	932	955
Long-term loans	839	1,198	1,364	1,461	1,476	1,596	1,609	1,619
Total other non-current liabilities	134	212	261	339	384	393	399	410
Paid-up capital	750	900	900	900	900	900	900	900
Statutory reserves	238	101	127	127	127	127	127	127
Fair value adjustment	0	0	0	0	0	0	0	0
Retained earnings	725	794	840	1,016	1,190	1,416	1,687	1,993
Treasury shares	(190)	-	-	-	-	-	-	-
Non-controlling interest	-	213	229	238	238	230	219	227
Total owners' equity	1,522	2,008	2,096	2,281	2,455	2,673	2,932	3,246
Total equity & liabilities	2,916	4,130	4,645	4,896	5,198	5,575	5,872	6,230
Cashflow statement								
Operating activities	307	183	362	441	490	532	587	648
Investing activities	(221)	(428)	(425)	(279)	(256)	(267)	(261)	(255)
Financing activities	(44)	287	141	(233)	(164)	(55)	(169)	(169)
Change in cash	42	42	77	(71)	70	209	157	223
Ending cash balance	88	131	208	137	207	416	573	796
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.4	1.5	1.4	1.3	1.6	1.7	1.9	2.1
Quick ratio (x)	1.2	1.1	1.0	1.2	1.3	1.5	1.7	1.9
Profitability ratios								
Gross profit margin	35.8%	34.1%	36.1%	35.8%	35.1%	35.4%	35.8%	36.3%
Operating margin	12.3%	9.5%	15.6%	15.0%	14.1%	15.0%	15.9%	16.9%
EBITDA margin	19.7%	16.7%	21.0%	20.0%	18.9%	19.9%	21.0%	22.1%
Net profit margin	11.7%	10.0%	12.3%	11.9%	12.0%	13.2%	14.2%	14.7%
Return on assets	5.4%	5.2%	3.7%	5.9%	6.5%	7.0%	7.5%	7.9%
Return on equity	8.6%	9.4%	7.5%	12.6%	14.2%	15.0%	15.8%	16.1%
Leverage ratio								
Debt / equity (x)	0.68	0.85	1.01	0.88	0.81	0.79	0.72	0.65
Market/valuation ratios								
EV/sales (x)	4.0	4.2	4.0	4.6	4.0	3.8	3.7	3.4
EV/EBITDA (x)	20.4	25.2	19.1	22.8	21.3	19.2	17.5	15.6
EPS (SAR)	1.9	1.7	1.5	2.9	3.5	3.9	4.5	5.0
BVPS (SAR) - Adjusted	20.30	19.94	20.74	22.70	24.64	27.14	30.15	33.55
Market price (SAR)	46.80	48.25	75.10	114.00	114.00	114.00	114.00	114.00
Market-Cap (SAR mn)	4,099	4,153	6,759	10,260	10,260	10,260	10,260	10,260
Dividend yield	0.9%	2.3%	2.3%	1.3%	1.8%	1.8%	1.8%	1.8%
P/E ratio (x)	27.9	31.5	26.1	32.9	29.0	25.3	22.7	21.1
P/BV ratio (x)	2.3	2.4	3.6	5.0	4.6	4.2	3.8	3.4

Source: Company filings, AJC Analysis





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RESEARCH
DIVISION

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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.

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