

Healthcare

Strong BUY: 12M TP @ 75

Upside of +30.4%

Valuation Summary (TTM)

Price (SAR)	57.5
PER TTM (x)	13.3
P/Book (x)	3.0
P/Sales (x)	1.8
EV/Sales (x)	2.5
EV/EBITDA (x)	11.5
Dividend Yield (%)	0.9
Free Float (%)	43%
Shares O/S (mn)	92
YTD Return (%)	-16%
Beta	1.0

(mn)	SAR	USD	
Market Cap	5,292	1,411	
Enterprise Value	7,452	1,987	
Price performance (%)	1M	3M	12M
Middle East Healthcare Co	-17%	-22%	-27%
Tadawul All Share Index	-6%	-11%	-8%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	18,924	22,819	23,047
Avg Daily Volume (,000)	323	344	325
52 week	High	Low	CTL*
Price (SAR)	91.60	54.50	5.5

* CTL is % change in CMP to 52wk low

Major shareholders

Bait Al-Batterjee	54.7%
Vanguard Group Inc	1.8%
Batterjee Sobhi	1.0%
Others	42.5%

Other details

Exchange	Saudi Arabia
Sector	Healthcare-Services
Index weight (%)	0.1%

Key ratios	2022	2023	2024
EPS (SAR)	0.82	0.19	3.06
BVPS (SAR)	14.83	14.34	17.67
DPS (SAR)	0.00	0.00	0.50
Payout ratio (%)	0%	0%	16%



Middle East Healthcare Co: Earnings beat on one-off

Middle East Healthcare Co. (MEHC) reported inline revenue at SAR734mn, higher by 6.5% YoY, and this was at the back of an improved case mix. Topline performance was aided by an increase across business segments. Inpatient revenue witnessed a growth of 8.9% YoY, while outpatient revenue grew by a more modest 2.1% YoY. On the back of improvement in hospital revenue, pharmacy sale improved 5.8% YoY. Gross profit increased by 9.2% YoY to SAR284mn, on the back of an improvement in revenue and gross margins (38.7% in 1Q25 vs 37.7% in 1Q24). This increase was on account of higher margins from inpatient (42.1% in 1Q25 vs 40.8% in 1Q24) and pharma operations (24.4% in 1Q25 vs 22.0% in 1Q24). Outpatient segment margin on the other hand declined to 38.1% for 1Q25 compared to 38.8% in 1Q24. SG&A expenses grew substantially by 28.0% YoY on higher administrative expenses and lower reversal of credit loss. Finance expenses decreased by 19.5% YoY to SAR53mn on the lower cost of funds, while it reported a gain on disposal of property and equipment of SAR114mn. Overall, net income increased substantially to SAR160mn for 1Q25, compared to SAR44mn in 1Q24, and was also better than our expectation of SAR52mn. This beat has come primarily on the back of the one-off gain, while the operating performance has been largely weak. Net income excluding these gains was lower than our estimates by over 10%. Despite revenue and gross profit coming in line, the miss came on the back of higher-than-expected operating expenses.

Investment thesis and valuations: MEHC benefits from its diversified operation, with its presence spread across the Kingdom. Its 1Q25 financial performance has been weak, though a part of this could be attributed to the off days on account of Ramadan. Going forward, we expect the topline growth to remain steady, aided by improved utilization of facilities. Further, MEHC is currently undertaking a renovation and tower expansion of its facility in Jeddah, at a capex of SAR399mn, which will add 194 beds and 22 clinics to its current capacity. This facility is expected to come on stream by 1H26. The optimism is however tempered by the current tough industry scenario, on account of increased competition. Given these challenges and the recent quarterly performance we have moderated our medium-term estimates for the company and have revised our target price to **SAR75/share**. Despite the reduction in target price, the current decline in stock price provides substantial upside, hence we provide a **STRONG BUY** rating to MEHC.

Income Statement (SAR mn)	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Revenue	1,497	1,751	1,873	2,152	2,653	2,883	3,111	3,415	3,644	3,770
Cost of sales	(1,024)	(1,172)	(1,264)	(1,472)	(1,639)	(1,769)	(1,910)	(2,135)	(2,278)	(2,346)
Gross profit	473	578	608	680	1,014	1,114	1,201	1,280	1,366	1,424
Operating expenses	(370)	(471)	(554)	(540)	(690)	(673)	(736)	(757)	(776)	(793)
Operating profit	103	107	54	140	324	441	466	523	590	631
Other income	17	7	12	10	23	91	140	23	23	24
Finance expenses	(25)	(34)	(47)	(69)	(156)	(222)	(217)	(212)	(194)	(162)
Earnings before tax	95	81	19	81	191	310	389	334	420	493
Tax	(5)	(6)	(8)	(10)	(170)	(26)	(33)	(28)	(36)	(42)
Earnings before MI	90	75	12	72	20	284	356	306	384	452
Minority interest	7	7	5	4	(3)	(2)	(2)	(2)	(3)	(3)
Net income	98	82	17	75	17	282	354	304	382	449

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property and equipment	1,909	2,074	2,357	2,471	2,502	2,767	2,882	2,938	2,922	2,913
Other non-current assets	35	33	40	71	96	185	200	214	229	244
Total non-current assets	1,945	2,106	2,397	2,542	2,598	2,952	3,082	3,153	3,151	3,156
Trade receivables	1,109	1,236	1,282	1,635	2,301	1,946	2,100	2,306	2,461	2,507
Inventories	125	156	156	149	75	66	72	80	85	88
Cash and cash equivalents	54	17	28	16	44	52	48	33	37	36
Other current assets	74	85	112	157	116	108	117	128	137	142
Total current assets	1,361	1,493	1,578	1,957	2,536	2,173	2,337	2,547	2,719	2,773
Total assets	3,305	3,599	3,975	4,499	5,135	5,125	5,419	5,700	5,870	5,929
Share Capital	920	920	920	920	920	920	920	920	920	920
Total reserves	602	311	337	445	399	706	1,013	1,271	1,607	2,009
Minority interest	39	43	38	43	46	48	50	52	55	58
Total equity	1,562	1,275	1,295	1,408	1,365	1,674	1,984	2,244	2,582	2,987
Lease liabilities current portion	4	4	7	12	13	12	12	12	12	12
Short-term loans	357	675	904	991	1,116	640	739	794	666	383
Trade payables	337	359	302	426	559	322	347	388	414	427
Other current liabilities	123	149	157	202	447	288	308	341	361	371
Total current liabilities	821	1,188	1,370	1,631	2,135	1,262	1,407	1,535	1,454	1,193
Non-current lease liabilities	27	23	27	57	46	71	114	158	201	245
Loans and borrowings	643	847	1,028	1,181	1,310	1,743	1,538	1,388	1,258	1,128
Other non-current liabilities	252	267	254	223	278	376	376	376	376	376
Total non-current liabilities	923	1,137	1,310	1,460	1,634	2,189	2,028	1,921	1,835	1,748
Total Liabilities	1,744	2,325	2,680	3,091	3,769	3,451	3,434	3,456	3,289	2,941
Equity and liabilities	3,305	3,599	3,975	4,499	5,135	5,125	5,419	5,700	5,870	5,929

Cash Flows (SAR mn)	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	99	(229)	77	76	191	766	459	383	490	646
Cash from investments	(469)	(294)	(417)	(249)	(242)	(509)	(311)	(256)	(182)	(189)
Cash from financing	380	486	352	161	78	(256)	(152)	(142)	(304)	(459)
Net changes in cash	10	(37)	11	(13)	27	1	(4)	(15)	4	(1)
Closing balance (C/b)	54	17	28	16	44	52	48	33	37	36







Ratios	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Per Share (SAR)										
EPS	1.1	0.9	0.2	0.8	0.2	3.1	3.8	3.3	4.1	4.9
BVPS	16.5	13.4	13.7	14.8	14.3	17.7	21.0	23.8	27.5	31.8
DPS	-	-	-	-	-	0.5	0.5	0.5	0.5	0.5
FCF/share	(4.0)	(5.7)	(3.7)	(1.9)	(0.6)	2.8	1.6	1.4	3.3	5.0
Revenue/share	16.3	19.0	20.3	23.4	28.8	31.3	33.8	37.1	39.6	41.0
Valuations										
M.Cap (SAR mn)	2,632	2,924	3,336	2,961	5,292	5,292	5,292	5,292	5,292	5,292
EV (SAR mn)	3,649	4,500	5,312	5,229	7,779	7,754	7,698	7,663	7,448	7,082
P/E	27.0	35.7	193.9	39.4	310.6	18.8	15.0	17.4	13.9	11.8
EV/EBITDA	18.1	19.2	27.1	18.3	15.1	11.8	11.1	10.2	9.1	8.3
EV/Sales	2.4	2.6	2.8	2.4	2.9	2.7	2.5	2.2	2.0	1.9
P/BV	1.7	2.4	2.7	2.2	4.0	3.3	2.7	2.4	2.1	1.8
P/S	1.8	1.7	1.8	1.4	2.0	1.8	1.7	1.5	1.5	1.4
Div. yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	0.9%	0.9%	0.9%	0.9%
FCF yield	-14.1%	-17.9%	-10.2%	-5.9%	-1.0%	4.9%	2.8%	2.4%	5.8%	8.7%
Liquidity										
Cash Ratio	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	1.7	1.3	1.2	1.2	1.2	1.7	1.7	1.7	1.9	2.3
Quick ratio	1.5	1.1	1.0	1.1	1.2	1.7	1.6	1.6	1.8	2.3
Return ratio										
ROA	3.0%	2.3%	0.4%	1.7%	0.3%	5.5%	6.5%	5.3%	6.5%	7.6%
ROE	6.4%	6.7%	1.4%	5.5%	1.3%	17.3%	18.3%	13.9%	15.1%	15.3%
ROCE	4.0%	3.8%	1.7%	3.8%	8.4%	10.7%	10.6%	11.4%	12.5%	13.3%
Cash cycle										
Trade receivables	1.4	1.4	1.5	1.3	1.2	1.5	1.5	1.5	1.5	1.5
Inventory	8.2	7.5	8.1	9.9	21.8	26.7	26.7	26.7	26.7	26.7
Payable turnover	3.0	3.3	4.2	3.5	2.9	5.5	5.5	5.5	5.5	5.5
Receivables days	267	254	247	274	312	243	243	243	243	239
Inventory days	44	48	44	37	17	13	13	13	13	13
Payable days	119	110	86	104	123	65	65	65	65	65
Cash Cycle	192	192	205	206	206	191	191	191	191	187
Profitability ratio										
Gross margins	31.6%	33.0%	32.5%	31.6%	38.2%	38.6%	38.6%	37.5%	37.5%	37.8%
EBITDA margins	13.5%	13.4%	10.4%	13.3%	19.4%	22.8%	22.2%	22.0%	22.4%	22.8%
Operating margins	6.9%	6.1%	2.9%	6.5%	12.2%	15.3%	15.0%	15.3%	16.2%	16.7%
PBT margins	6.4%	4.6%	1.0%	3.8%	7.2%	10.8%	12.5%	9.8%	11.5%	13.1%
Net margins	6.5%	4.7%	0.9%	3.5%	0.6%	9.8%	11.4%	8.9%	10.5%	11.9%
Effective tax rate	5.4%	6.8%	39.0%	11.8%	89.3%	8.5%	8.5%	8.5%	8.5%	8.5%
Leverage										
Total debt (SAR mn)	1,031	1,550	1,967	2,240	2,485	2,466	2,403	2,351	2,137	1,768
Net debt (SAR mn)	978	1,533	1,939	2,225	2,441	2,414	2,355	2,318	2,100	1,732
Debt/Capital	39.8%	54.9%	60.3%	61.4%	64.5%	59.6%	54.8%	51.2%	45.3%	37.2%
Debt/Total assets	31.2%	43.1%	49.5%	49.8%	48.4%	48.1%	44.4%	41.2%	36.4%	29.8%
Debt/Equity	66.0%	121.6%	151.8%	159.1%	182.0%	147.3%	121.1%	104.8%	82.8%	59.2%
Debt/EBITDA	5.1	6.6	10.1	7.8	4.8	3.7	3.5	3.1	2.6	2.1
Net debt/EBITDA	4.8	6.5	9.9	7.8	4.8	3.7	3.4	3.1	2.6	2.0

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Rating Criteria and Definitions

Rating	Rating Definitions
 Strong Buy	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
 Buy	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
 Hold	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
 Neutral	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
 Sell	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
 Strong Sell	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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