



US\$1.241bn Market cap
44% Free float

Target price **25.00** 0.1% below current
Current price **25.10** as at 20/3/2019

Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	2017A	2018A	2019E
Revenue (mn)	709	894	959
Revenue Growth	17%	26%	7%
EBITDA	200	209	248
EBITDA Margin	28%	23%	26%
EPS	1.02	0.75	0.97
EPS growth	64%	-27%	30%

Source: Company data, Al Rajhi Capital

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Al Hammadi Hospitals

Q4: Earnings miss; TP revise to SAR25/sh

Al Hammadi announced Q4 2018 net profit at SAR17.7mn (-41% y-o-y, -17% q-o-q), lower than our estimate (SAR26mn). The miss was mainly due to lower-than-expected pharmaceutical revenue (-33% q-o-q). Revenue from hospital operation improved due to increased utilization rate of Nuzha Hospital. Going forward, we expect the gradual improvement of Nuzha Hospital utilization and pharmaceutical segment to continue driving the revenue growth, besides exodus of expat will not have further effects on number of patient. However, our primary concern remain the government receivables and the liquidity position. Post weak Q4 earnings, we lower our TP to SAR25/sh. but remain Neutral on the stock.

Revenue & Profitability: Implementation of IFRS new standards has resulted into decline in revenue by ~SAR63.6mn in 2018 as the provision for medical claims objections, which used to be recognized under administrative expenses, is now recognized at the top. Revenue for the full year 2018 came in at SAR893.5mn (+26% y-o-y) with pharmaceutical revenues accounting ~35% of total revenues (17% in 2017). Revenues from hospital operations increased to SAR580mn (SAR 644mn without the IFRS; ~9% growth y-o-y), despite the exodus of expat amid higher levy, and decrease in disposable income.

Gross and operating margin for the year narrowed to 27% (37% in 2017) and 15.5% (22% in 2017), respectively, primarily due to increased cost at Nuzha Hospital on account of higher depreciation and employee costs. In addition, higher financial charges dragged the net margin to 10% in 2018 from 17% in 2017.

Figure 1 Al Hammadi: Summary of Q4 2018 results

	Q4 2018	Q4 2017	Q3 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	228	188	250	21%	-9%	271
Gross Profit	59.6	69.1	64.9	-14%	-8%	73
Gross Margin	26%	37%	26%	NA	NA	27%
Operating Profit	31.6	39.0	35.5	-19%	-11%	41
Net Profit	17.7	30.0	21.3	-41%	-17%	26.1

Source: Company data, Al Rajhi Capital

Outlook: Al Hammadi's exposure towards the government contracts remains high, which has kept receivables (represents 97% of receivables) at the elevated level at the end 2018, prompting the company to raise an additional debt for its liquidity needs during the year. As of Dec 2018, total receivable stood at SAR499mn (56% of sales), down by only 10% q-o-q, raising the concerns about the efficiency of its shift towards government contracts. Given the limited cash and cash equivalents, the company might have to issue more debt to fund its working capital requirements in future.

Al Hammadi Company For Development and Investment

Healthcare – Industrial

ALHAMMAD AB: Saudi Arabia

21 March 2019

الراجحي المالية
Al Rajhi Capital



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Valuation and Conclusion: We believe the acquisition of Medical Support Services, and improvement in the pharmaceutical business should continue drive top-line growth in the coming period. Further, we expect the utilization rate of Nuzha Hospital to pick up gradually. However, our primary concerns remain the government receivables and the liquidity position. Consequently, we lower our TP to SAR25/sh but remain Neutral on the stock.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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