KSA Healthcare Sector Report

Executive Summary

Growing population, increase in "lifestyle-related diseases", and relatively low healthcare penetrations in the Kingdom have boosted demand for healthcare. The government has taken various initiatives to develop the sector: raising healthcare and social budget (SAR 172bn in FY19, up 8% from FY18) building hospitals, giving loans at preferential conditions, and encouraging privatization. These measures bode well for healthcare companies over the long term. Demand is expected to be met by a combination of government efforts (construction of new hospitals) and private sector initiatives (expansion). Most private players have expansion plans scheduled, which to take effect by FY-21.

Outlook on sector remains Neutral; Mouwasat is our top pick: We maintain our Neutral outlook on the Healthcare Sector as most of the announced expansion plans that have been priced in at current valuations. Mouwasat is expected to outperform the sector, considering the growth in its margins, favorable receivable position and strong balance sheet. Current valuations factor in different levels of execution and operational risks across sector companies. Increase in labor cost due to Saudization, regulatory reform, utilization and pricing pressure are the main broad downside risks in the sector; companies with a favourable client base, low leverage and revenue mix (in-Patient/out-Patient) would emerge as LT winners. We maintain our "Neutral" recommendation for Dallah (PT SAR54.2), Al-Hammadi (PT SAR 23.9), MEH (PT SAR 29.6), and Care (PT SAR 58.6). We upgrade Mouwasat to "Overweight" from "Neutral" with a PT of SAR 100.3—it is our top pick among peers.

Earnings for Q1-19 disappoint, as quarterly earnings for the sector declined 31.4% Y/Y, while combined quarterly revenues fell 0.7% Y/Y: The sector's topline declined due to lower revenues reported by Care and MEH, down 13.2% and 11.4%, respectively. Mouwasat posted 9.5% Y/Y growth in revenues, highest in the peer set. Dallah and Al-Hammadi recorded marginal Y/Y growth in revenue at 4.1% each. However, the bottom line took the biggest hit, adversely affected by MEH and Dallah. MEH registered an 83.3% Y/Y drop in net profit, mainly due to higher cost owing to increase in salary costs, and general and administrative expenses. Dallah's net profit fell 39.4% due to higher expenses attributed to operations of the newly opened Namar Hospital. Care and Mouwasat recorded 17.1% Y/Y and 1.1% Y/Y growth in net profit, respectively. Care's net profit increased due to cost saving initiatives, which resulted in higher GP Margin (rising to 26.8% in Q1-19 Vs. 25.0% in Q1-18), and control over general and administrative expenses, while Mouwasat's net profit grew due to increase in revenues.

	Recommendation	PT (SAR/share)	CMP (SAR/share)	Upside/(Downside)
Dallah	Overweight	54.17	49.25	10.0%
Care	Neutral	58.59	59.00	-0.7%
Al-Hammadi	Neutral	23.91	21.96	8.9%
MEH	Neutral	29.63	27.70	7.0%
Mouwasat	Overweight	100.33	90.30	11.1%

*Prices are as of 20th June 2019
Source: Bollommberg, AJC Research

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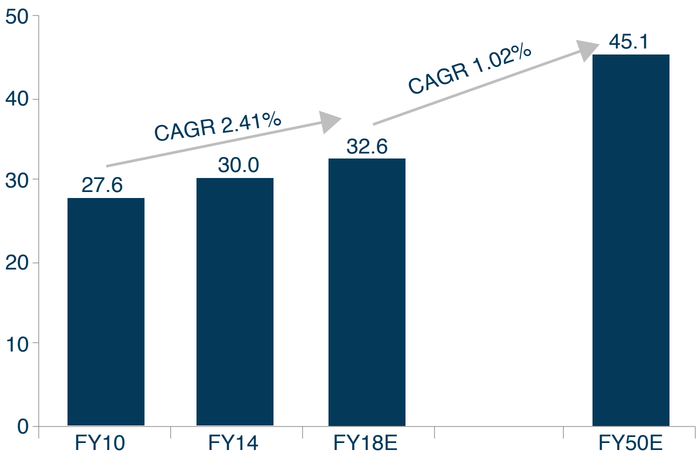
Favorable demographics aided by economic growth to drive demand for healthcare

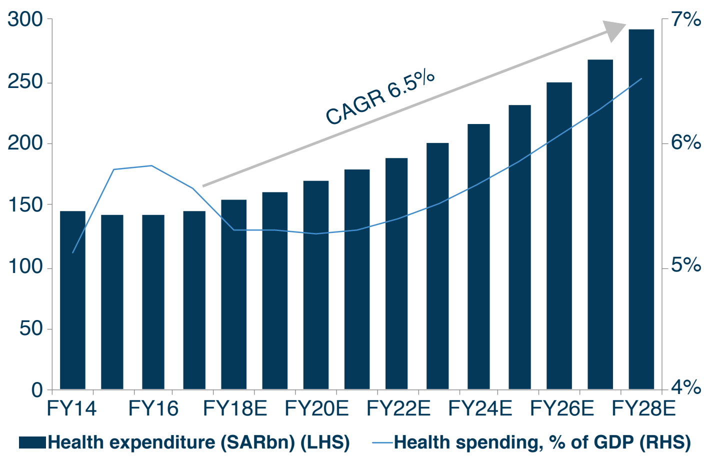
KSA's population increased from 27.6mn in FY10 to 32.6mn in FY18, representing a CAGR of 2.41%. The rise in population spurred the demand for healthcare services. Saudi population is estimated to further expand at a CAGR of 1.03% to 45.1mn by FY50, according to the World Bank. The increase in population is expected to boost the demand of healthcare services in the kingdom. Life expectancy rose from 73.6 years in FY10 to 74.7 years in FY17, indicating a gradually ageing society, attributed to improvements in the healthcare system.

Figure 1: Population Growth



Source: Bloomberg, World Bank

Figure 2: Increased Spending in Healthcare



Source: BMI Research, World Health Organization (WHO)

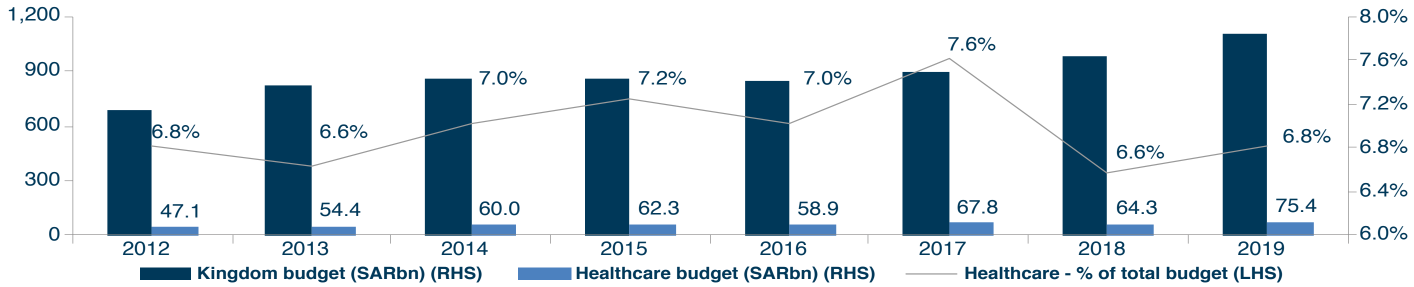
KSA's nominal GDP rose from SAR 1.56tn in FY07 to SAR 2.93tn in FY18. The IMF estimates the GDP to grow to SAR 3.45tn in FY24. Favorable economic growth enabled the government to increase its spending on healthcare to GDP (as a proportion of GDP) from 3.8% (SAR 54.8bn) in FY07 to 5.6% (SAR 144bn) in FY17. According to BMI Research, the Kingdom's spending on healthcare is expected to reach 6.5% (SAR 290.5bn) of GDP in FY28, indicating a CAGR of 6.5% over FY17–28.

Government support, privatization represent major boost to sector growth

The Saudi government aims to raise USD200mn through privatization by FY30. Key initiatives taken by the government include: loans at preferential conditions, guarantees on revenue, and tariff subsidies. The government has encouraged privatization in the healthcare sector by focusing on creating public-private partnerships (PPPs). It is gradually transitioning into its role as a regulator from being a healthcare service provider. The Saudi Arabian General Investment Authority (SAGIA) intends to permit 100% foreign ownership in KSA's healthcare sector. This could provide a huge fillip to the sector, once implemented.

The government has also been continuously increasing budget allocation towards the healthcare sector. In the most recent budget in FY19, it allocated SAR 172bn towards the healthcare and social development sector, representing an increase of 8.0% over the SAR 159bn allotted in FY18. The government is investing to create a strong healthcare infrastructure as it plans to build 35 hospitals with a capacity of 8,850 beds in FY19, after building 25 hospitals (5,150 beds) during FY16-18.

Figure 3: Budgetary Allocation to Ministry of Health



Source: Bloomberg, World Bank

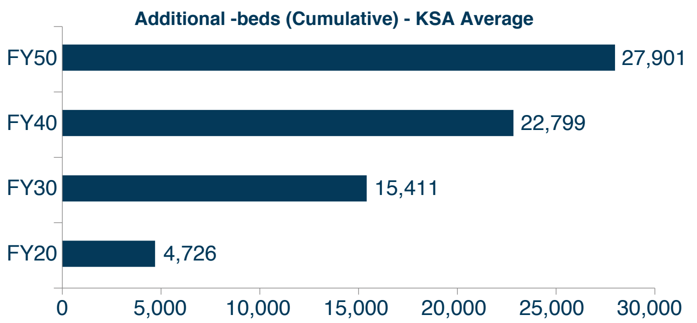
Supply-Demand Analysis

In FY17, KSA had 2.24 beds per 1,000 people, less than the world average of 2.7 beds per 1,000. The demand for beds can be projected based on two scenarios:

Scenario 1: Based on the current bed per population ratio (2.24 per 1,000) and the population as forecasted by the World Bank

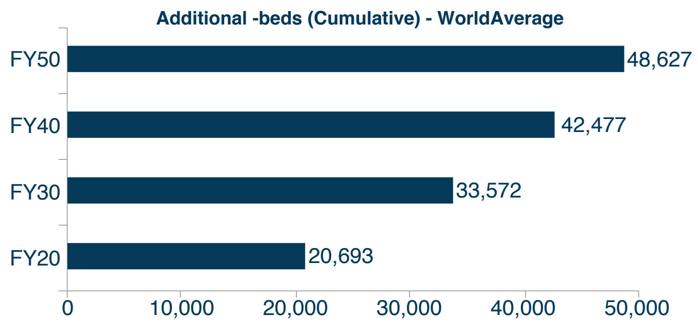
Scenario 2: Based on the world average of bed per population ratio (2.7 per 1,000) and the population as forecasted by the World Bank.

Figure 4: Additional Beds Req. (Demand) – KSA Avg.



Source: World Bank, AJC Research, Dallah Board report

Figure 5: Additional Beds Required – World Avg.



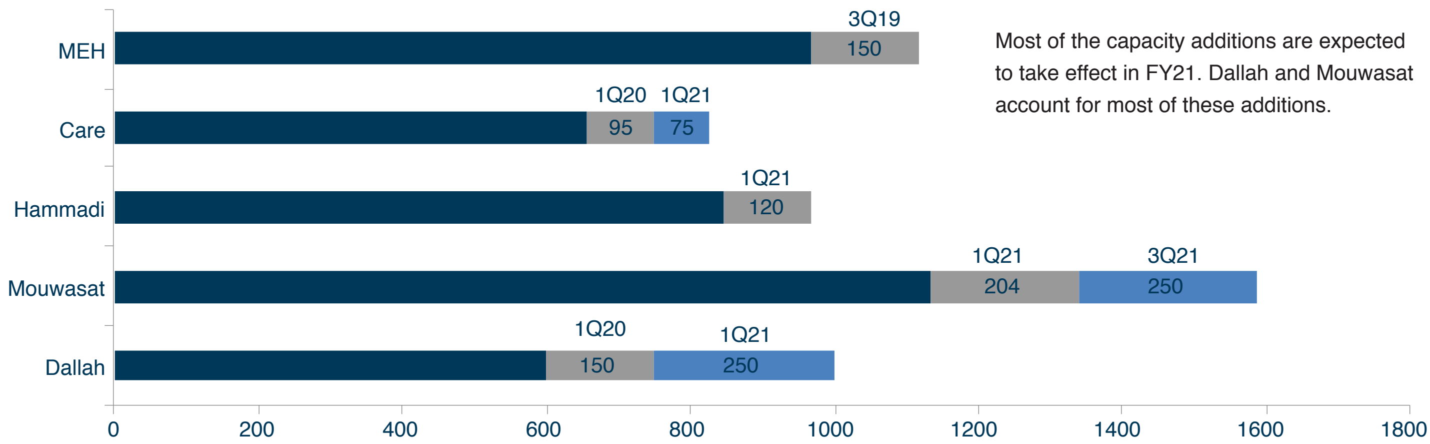
Source: World Bank, AJC Research, Dallah Board report

Based on the mentioned estimates, a minimum of 4,726 beds would be required by FY20 as per the current ratio of beds per 1,000 people. To match the world average ratio of beds per 1,000 people, an additional 20,693 beds would be required by FY20.

To meet the calculated requirement, the government plans to add 8,850 beds in FY19. Several private players are expanding capacity to match the demand for additional beds. We expect an addition of 1,294 beds and 306 clinics from private players until FY21.

- Al Hammadi: 120 additional beds in Q1-21 through expansion of its hospital in Al Nuzha.
- Middle East Healthcare Company: Additional 150 beds and 100 clinics to be added in Q3-19 through opening of Dammam Hospital; to further enhance capacity by opening hospital in Makkah (300 beds and 90 clinics in FY21).
- Dallah Healthcare: Expansion of operations at Namar Hospital (250 beds and 100 clinics) in Q1-21; operations expected to commence at Al-Nakheel (150 beds and 30 clinics) in Q1-20.
- National Medical Care Company: Expansion of bed capacity at National Care Hospital from 325 to 420 in Q1-20, and to 495 in Q1-21.
- Mouwasat Medical Services Company: Additional capacity to come in through expansion at hospital in Dammam (204 beds and 50 clinics) in Q1-21; new hospital in Madinah to replace its old one in rental facility, resulting in additional 125 beds and 26 clinics.

Figure 6: Healthcare Expansion Timeline (No. of Beds)



Most of the capacity additions are expected to take effect in FY21. Dallah and Mouwasat account for most of these additions.

Source: Company Reports, Argaam, AJC Research

Sector Composition and Key Concerns for KSA healthcare sector

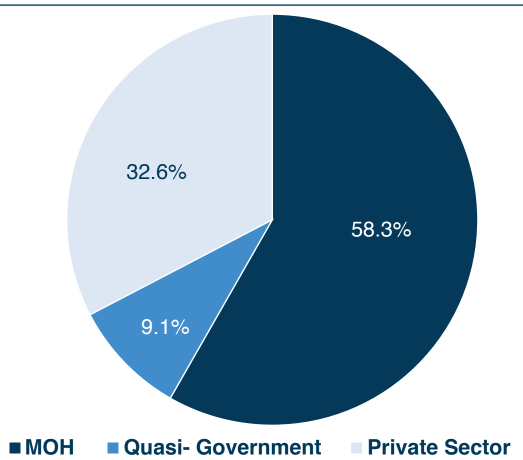
The healthcare sector in the Kingdom comprises of three main players:

(i) The Ministry of Health (MoH): Acts as regulator for healthcare activities and services in the Kingdom; plays a key role in providing healthcare services.

(ii) Quasi-government body: Represents hospitals and health centers operated by the MoH; primarily serves employees of government organizations.

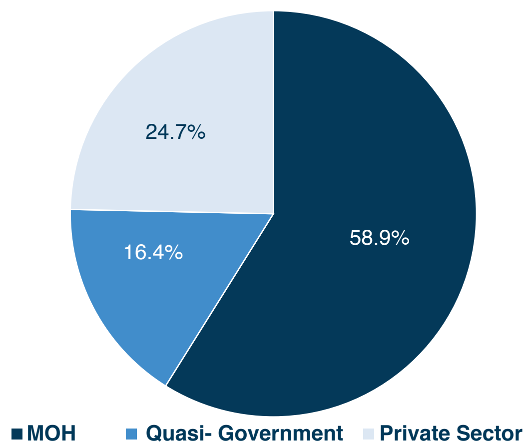
(iii) Private sector: Caters to expatriates and Saudi.

Figure 7: Hospitals in KSA – FY17



Source: Ministry of Health, Dallah Board Report- FY18

Figure 8: Beds in KSA – FY17



Source: Ministry of Health, Dallah Board Report- FY18

Government Dependency for healthcare financing remains high

According to the World Health Organization (WHO), government spending on healthcare accounted for 71.3% of the total healthcare expenditure in FY15, highlighting KSA's dependence on the government for healthcare. This is supported by the above facts, indicating that 58.3% and 58.9% of hospitals and beds, respectively in KSA are owned and operated by MoH. The Saudi government has taken various initiatives to encourage private player participation as mentioned in the privatization section. It has earmarked healthcare as one of the key target sectors in its wide-ranging privatization program. Increasing investment in healthcare infrastructure and public-private partnership in the healthcare sector is expected to drive demand for pharmaceuticals, thereby boosting pharmaceutical sales.

Scope for improvement in Medical Infrastructure

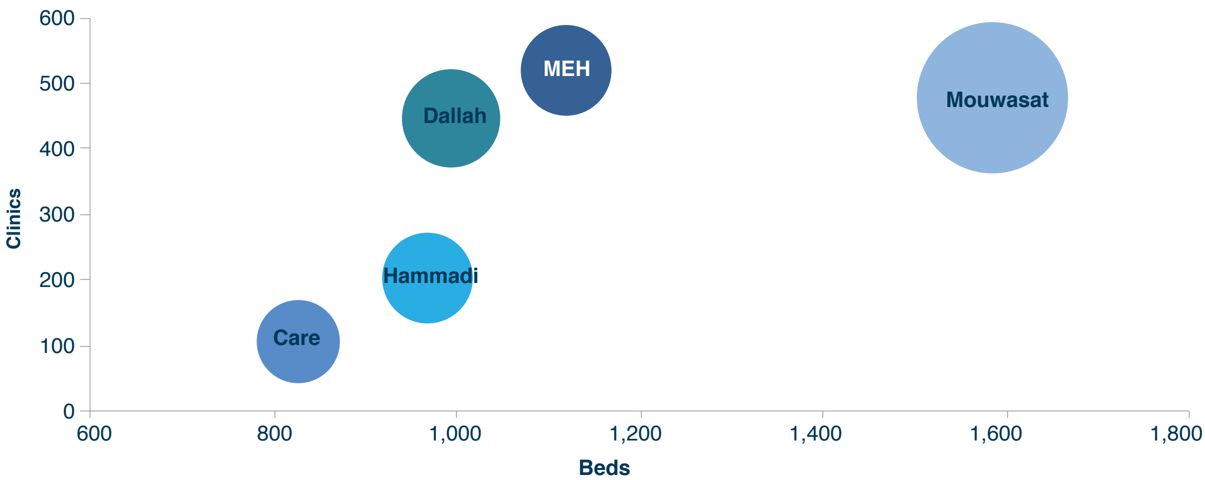
In spite of increased spending by the government on healthcare infrastructure, key metrics need improvement.

- 22.4 beds per 10,000 people
- 30.1 doctors (including dentists) per 10,000 people
- 56.9 nurses per 10,000 people

Increased allocation towards the healthcare sector is expected to address these issues.

Comparison of Major Private players in KSA healthcare sector

Figure 9: EV & Forward Capacity



Dallah and Mouwasat have the largest expansion pipeline, compared with other players.

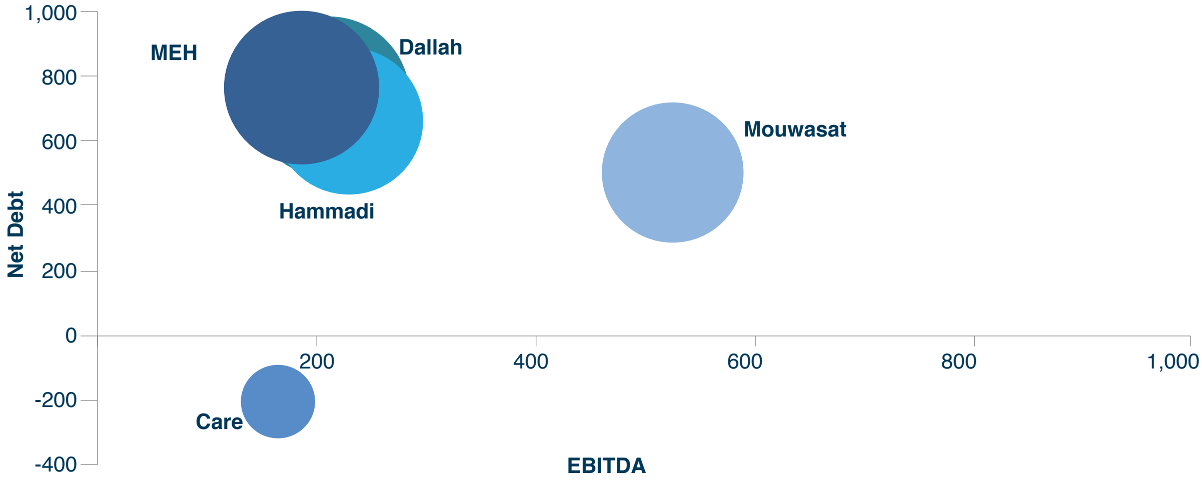
Al-Hammadi, Care and MEH have room for more expansion

Size Reflects Enterprise Value

Source: Company Reports, Bloomberg, Argaam, AJC Research

Most sector expansions in future would originate going from Dallah and Mouwasat; companies with significant debt. However, Mouwasat is in a better position, as it has a favourable Net Debt to EBITDA ratio of 0.96x, while Dallah has a Net Debt to EBITDA ratio of 3.48x.Other players also have expansion plans in place. However, they are not as significant as those of Dallah and Mouwasat. We expect the utilization rate to be low in initial expansion phases, which would gradually pick up once patients get accustomed to the visiting doctors and facilities.

Figure 10: Net Debt/EBITDA



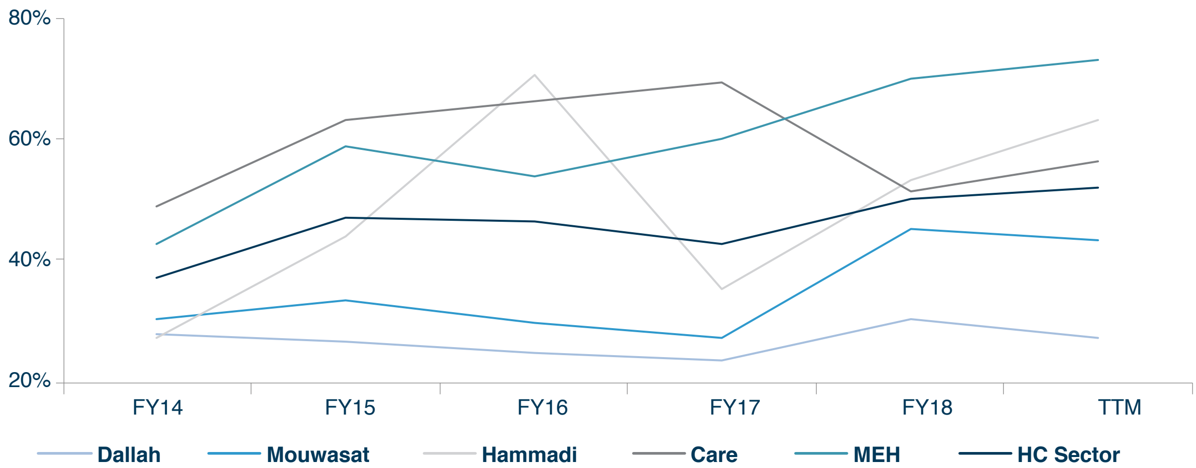
Sector Net debt / EBITDA stands at 1.86x. MEH stands at the upper range with a ratio of 4.13x. Care and Mouwasat appear in relatively favourable positions at -1.24x and 0.96x, respectively.

Size Reflects Debt

Source: Company Reports, Bloomberg, Argaam, AJC Research

The capacity to fund expansion plans through debt financing differs across companies. Mouwasat and Care appear to be placed in a relatively positive position. The Net Debt/EBITDA ratio of Dallah and MEH seems high at 3.5x and 4.1x respectively, compared with the sector average at 1.86x. Companies with high leverage levels would need to make prudent capital allocation decisions while executing their expansion plans.

C11:Receivables as a % of Sales



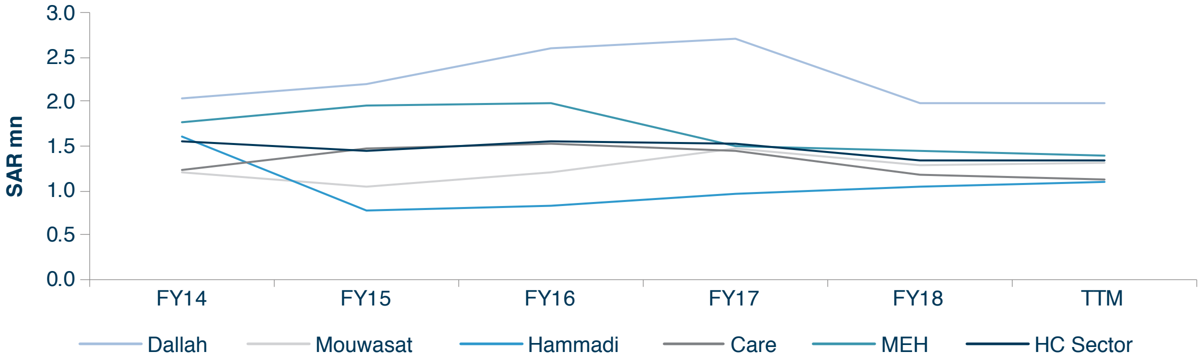
Dallah and Mouwasat are at 27% and 44%, respectively. MEH and Al-Hammadi are at around 74% and 64%, respectively. High levels of receivables are mainly due to MOH exposure. We believe companies with low ratios are at a favorable position.

Source: Company Reports, AJC Research

Receivables remain a concern for Al-Hammadi and MEH. This is mostly due to exposure to government and government related entities. The sector receivables as a percentage of T12 sales stood at 52.2% in Q1-19, marginally higher than 50.4% in FY18. In FY18, Al-Hammadi's exposure to governmental and insurance entities stood at 97%. Continued concentration of receivables would increase pressure on cash flow, leading to higher financing needs. We believe companies like Dallah which have a retail-based model would be in a comparatively better position over Al-Hammadi and MEH, whose receivables are more exposed to government entities.

Key Performance Metrics

C12:Revenue/Bed

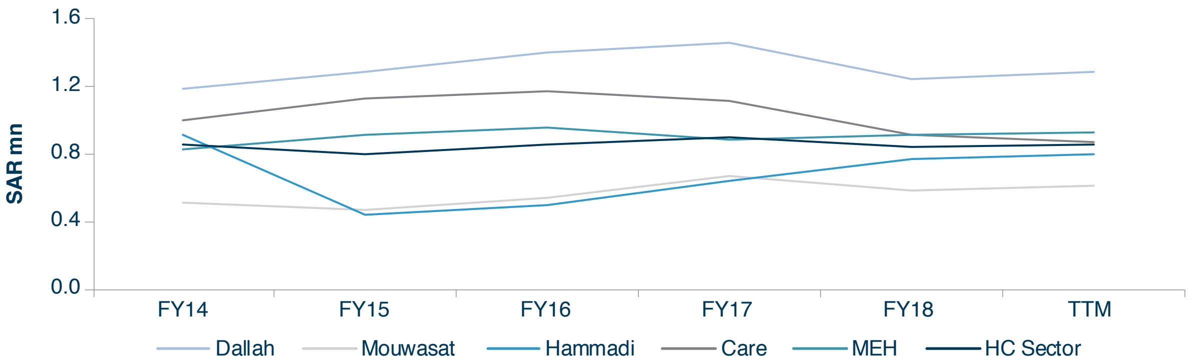


Dallah has the highest revenue/ bed among its peer set, at SAR 2.0mn. MEH and Mouwasat are the next best with SAR 1.4mn and SAR 1.3mn, respectively.

Source: Company Reports, AJC Research

Due to its retail business model, Dallah generates the highest Revenue/bed of SAR 2.0mn, followed by MEH and Mousawat, with SAR 1.4mn and SAR 1.3mn respectively, close to the sector average of SAR 1.4mn. Al Hammadi and Care have the lowest revenue/bed of SAR 1.1mn.

C13:Cost Optimization

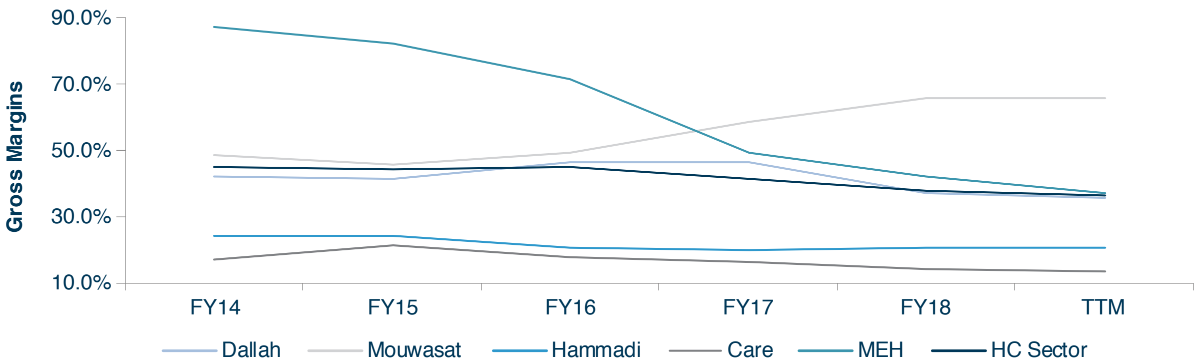


Mouwasat has the lowest cost/bed at SAR 0.6mn, while Dallah is the highest amongst its peer set, at SAR 1.3mn.

Source: Company Reports, AJC Research

Mouwasat has the lowest cost/bed of SAR0.6mn. Although Dallah has the highest revenue/bed, its cost/bed is the highest at SAR 1.3mn. Al Hammadi, Care and MEH are close to the sector average of SAR 0.9mn.

C14:GP Margin



Mouwasat's GP margin have increased over years, making it the best performer in terms of GP margin, while those of Al Hammadi and Care continue to lag behind the sector average.

Source: Company Reports, AJC Research

Mouwasat's GP margin has steadily increased to 65.8% in Q1-19(TTM) from 48.6% in FY14, thereby leading among its peer set of companies. Al Hammadi and Care have the lowest GP margin, 20.4% and 13.6% respectively, while Dallah and MEH are mid-range, at 35.6% and 37.0%, respectively.

Conclusion

Upside driven by expansion plans is already factored in the share price. Hence, we maintain a “Neutral” view on the overall healthcare sector.

Al-Hammadi is currently trading at a TTM 14.3x EV/EBITDA, and an estimated FY19 forward 12.7x EV/EBITDA, factoring in the expansion estimated to take place at Al Nuzha Hospital in Q1-21. High debt (TTM net debt/EBITDA of 2.9x) and receivables (232 days as of TTM Q1-19), with 97% of receivables from governmental and insurance entities, remain key concern areas for the company. Upside and downside risks to valuation hinge on the level of receivables concentration going forward along with the cost optimization of Al-Nuzha hospital. We remain “Neutral” on the company with a PT of SAR 23.9/share.

We maintain our “Neutral” recommendation on Care with a PT of SAR 58.6/share. The company is currently trading at a TTM 14.7x EV/EBITDA. The forward FY2019 EV/EBITDA is estimated at 12.6x. A 95-bed expansion plan is expected to take effect in Q1-20. The company undertook cost-saving initiatives in FY18, which resulted in an improvement in margins in Q1-19 (GP Margin of 26.8% in Q1-19 Vs. 25.0% in Q1-18). We expect the margins to remain steady going forward. The company has minimal debt, which would be beneficial in the medium term if it plans for further expansion.

Dallah is currently trading at a TTM 20.9x EV/EBITDA, and an estimated FY19 forward 18.9x EV/EBITDA. Estimates account for the opening of Al-Nakheel Hospital (150 beds and 30 clinics) in Q1-20, and expansion at Namar Hospital (250 beds and 100 clinics) in Q1-21. Dallah is well-placed in terms of receivables concentration, compared with sector companies. However, it has a high net-debt to EBITDA ratio of 3.5x which is a cause of concern, given its expansion plans. We are cautiously “Overweight” on the company with a PT of SAR 54.2/ share.

We maintain our “Neutral” recommendation on MEH with a PT of SAR 29.6/ share. The company is currently trading at a TTM 19.7x EV/EBITDA. Forward FY19 EV/EBITDA is estimated at 16.2x. The company completed the construction of its hospital at Dammam (150 beds and 100 clinics) on June 09,2019, and awaits MoH approval for commencing operations. We do not expect major expansion plans until FY21. Margin pressure due to the commencement of operations at Dammam, and a high level of debt (TTM Net Debt/EBITDA of 3.9x) and receivables (268 days as of TTM Q1-19) remain key concern areas.

We upgrade Mouwasat to “Overweight” from “Neutral” recommendation with a PT of SAR 100.3/share, and rate it as our “top” pick among the peer set of companies with a long-term perspective. The company is currently trading at a TTM 18.1x EV/EBITDA. Forward FY19 EV/EBITDA is estimated at 17.3x. The company has a favorable receivable/sales ratio (42.7% Vs. sector average of 52.2%), lower net-debt/EBITDA (1.0x Vs. sector average of 1.86x), and the best margins (GP Margin of 65.8% Vs. sector average of 36.3%) among its peer set of companies. The company commenced operations at Khobar Hospital in Q3-18 (280 beds and 100 clinics). We expect expansion at Dammam (204 beds and 50 clinics) in Q1-21, and new hospital at Madinah (net addition of 125 beds and 26 clinics) in Q3-21. The impact on margins through this expansion is expected to be a ST phenomenon, and the company stands to benefit from its current financial position and future plans. Hence, it is our “top” pick, compared with other companies in the healthcare sector.

Al-Hammadi Company for Development and Investment

Recommendation	**Neutral**
Price Target	SAR 23.91
CMP	SAR 21.96
Upside/(Downside)	8.9%

Capacity expansion at Al-Nuzha and Pharmaceutical business to drive revenue growth: Al-Hammadi began operations at Al-Nuzha Hospital in Q1-18 with 120 beds and 64 clinics, with a provision to expand up to 600 beds. We expect the company to gradually increase its capacity utilization. Pharmaceutical sales witnessed 38.4% Y/Y growth in Q1--19, spurred by the acquisition of Medical Support Services in Feb-18 and improvement in the Pharmaceutical business.

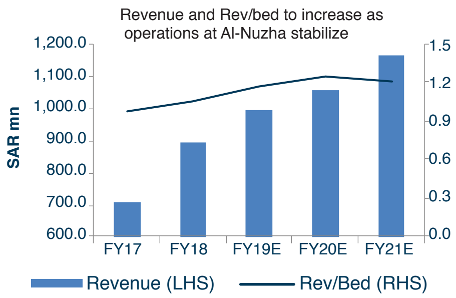
Receivable days remain key areas of concern: Almost all the receivables (~97%) are derived from government and insurance companies resulting in high receivable days. Refer page 7 for details.

Commencement of operations at Al-Nuzha Hospital has adversely impacted margins. However, we expect margins to improve as utilization increases.

AJC View and Valuation: Improvement in capacity utilization at Al-Nuzha Hospital, growth in the Pharmaceutical business are the key revenue growth drivers. Margins should improve gradually with stabilization of operations at Al-Nuzha. High exposure to receivables from the MoH puts pressure on working capital requirement, leading to high debt. Al-Hammadi discontinued the merger discussion with Care due to change in the ownership structure. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), where 60% weight is assigned to the DCF and 40% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the two-year weekly beta is 0.60 and average WACC is 6.1%. Based on the estimates, we arrived at a TP of SAR 23.91, implying an upside of 8.9% over a CMP of **SAR 21.96**.

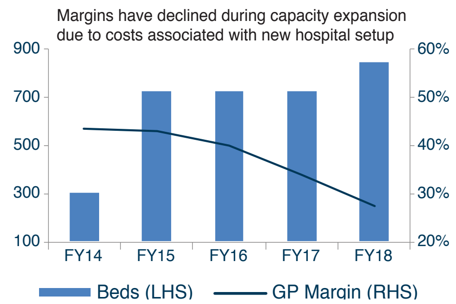
We maintain our "**Neutral**" recommendation for Al-Hammadi.

C15:Revenue and Revenue/Bed



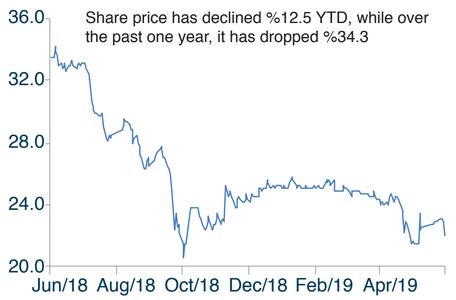
Source: Company Reports, AJC Research

C16:Impact of Capacity Expansion on Margins



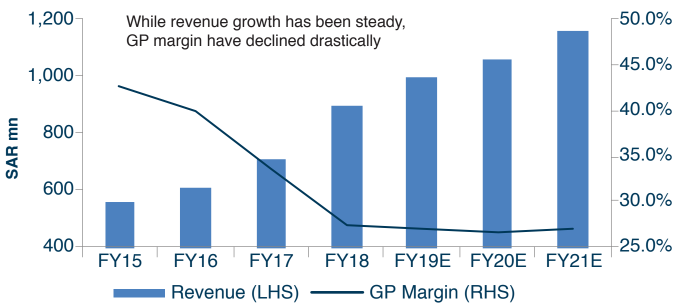
Source: Company Reports, AJC Research

C17:Price Chart



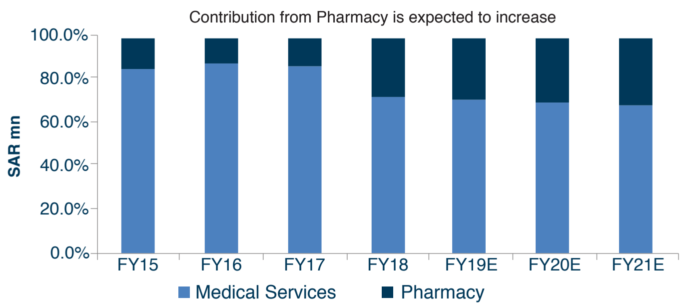
Source: TASI, Bloomberg

C18:Revenue and GP Margin



Source: Company Reports, AJC Research

C19:Segmental Mix (Revenue)



Source: Company Reports, AJC Research

T2:Key Financial Data

Amount in SARmn, unless otherwise specified	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Income statement							
Revenues	606.2	708.6	893.6	991.8	1,055.1	1,162.2	1,235.2
Y/Y	***8.0%***	***16.9%***	***26.1%***	***11.0%***	***6.4%***	***10.2%***	***6.3%***
Cost	(364.1)	(469.5)	(649.0)	(725.5)	(772.8)	(846.9)	(896.4)
Gross profit	**242.1**	**239.2**	**244.6**	**266.4**	**282.2**	**315.3**	**338.9**
Operating Expenses	(139.1)	(96.6)	(106.5)	(123.9)	(130.3)	(140.6)	(147.7)
Administrative Expenses	(143.3)	(112.3)	(117.3)	(142.5)	(142.3)	(152.6)	(159.7)
Other operating Income/(expense)	4.2	15.7	10.9	18.6	12.0	12.0	12.0
Operating profit	**103.0**	**142.6**	**138.1**	**142.4**	**151.9**	**174.7**	**191.1**
Y/Y	***-32.8%***	***38.4%***	***-3.1%***	***3.1%***	***6.7%***	***15.0%***	***9.4%***
Financing Expense	(19.0)	(19.6)	(33.4)	(28.6)	(16.1)	(8.9)	(4.6)
Income before zakat	**84.0**	**123.0**	**104.7**	**113.8**	**135.8**	**165.8**	**186.5**
Zakat	(11.0)	(15.1)	(14.9)	(15.1)	(18.3)	(22.4)	(25.2)
Net income	**73.0**	**108.0**	**89.8**	**98.7**	**117.5**	**143.4**	**161.4**
Y/Y	***-44.5%***	***48.0%***	***-16.8%***	***9.9%***	***19.0%***	***22.1%***	***12.5%***
Balance sheet							
Assets							
Cash & equivalent	13	178	44	125	40	52	85
Other current assets	479	327	622	502	534	587	623
Non-current assets	1,651	1,798	1,819	1,832	1,822	1,818	1,825
Property plant & equipment	1,651	1,798	1,787	1,801	1,791	1,787	1,794
Other non-current assets	-	-	31	31	31	31	31
Total assets	**2,142**	**2,303**	**2,484**	**2,459**	**2,397**	**2,457**	**2,533**
Liabilities & owners' equity							
Total current liabilities	213	230	235	314	278	291	254
Long-term loans	371	483	563	336	198	100	50
Total other non-current liabilities	189	203	208	232	226	228	230
Paid -up capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Statutory reserves	22	33	42	52	63	78	94
Retained earnings	148	154	237	326	431	560	706
Total owners' equity	1,370	1,387	1,479	1,577	1,695	1,838	2,000
Total equity & liabilities	**2,142**	**2,303**	**2,484**	**2,459**	**2,397**	**2,457**	**2,533**
Cashflow statement							
Operating activities	(42)	310	(52)	348	195	213	240
Investing activities	(145)	(197)	(118)	(110)	(88)	(95)	(106)
Financing activities	111	52	35	(156)	(192)	(106)	(100)
Change in cash	(76)	166	(134)	81	(85)	12	33
Ending cash balance	**13**	**178**	**44**	**125**	**40**	**52**	**85**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.3	2.2	2.8	2.0	2.1	2.2	2.8
Quick ratio (x)	2.2	2.1	2.6	1.8	1.9	2.0	2.5
Profitability ratios							
Gross profit margin	39.9%	33.7%	27.4%	26.9%	26.8%	27.1%	27.4%
Operating margin	17.0%	20.1%	15.5%	14.4%	14.4%	15.0%	15.5%
EBITDA margin	25.8%	27.6%	25.4%	23.7%	23.2%	23.1%	22.9%
Net profit margin	12.0%	15.2%	10.1%	10.0%	11.1%	12.3%	13.1%
Return on assets	3.6%	4.9%	3.8%	4.0%	4.8%	5.9%	6.5%
Return on equity	5.3%	7.8%	6.3%	6.5%	7.2%	8.1%	8.4%
Leverage ratio							
Debt / equity (x)	0.35	0.38	0.45	0.30	0.18	0.11	0.05
Market/valuation ratios							
EV/sales (x)	9.0	6.8	4.1	3.0	2.7	2.4	2.1
EV/EBITDA (x)	34.9	24.6	16.0	12.7	11.8	10.4	9.4
EPS (SAR)	0.6	0.9	0.7	0.8	1.0	1.2	1.3
BVPS (SAR) - Adjusted	11.4	11.6	12.3	13.1	14.1	15.3	16.7
Market price (SAR)*	41.53	37.10	25.10	21.96	21.96	21.96	21.96
Market-Cap (SAR mn)	4,983.6	4,452.0	3,012.0	2,635.2	2,635.2	2,635.2	2,635.2
Dividend yield	1.8%	0.0%	3.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	68.3	41.2	33.5	26.7	22.4	18.4	16.3
P/BV ratio (x)	3.6	3.2	2.0	1.7	1.6	1.4	1.3

Source: Company Reports, Bollommberg, AJC Research

Dallah Healthcare Company

Recommendation	**Overweight**
Price Target	SAR 54.17
CMP	SAR 49.25
Upside/(Downside)	10.0%

New hospital openings to boost revenue growth: Dallah commenced operations at Namar Hospital in Q2-18 with 150 beds and 100 clinics, with a provision to expand up to 400 beds and 200 clinics. We expect the company to ramp up its capacity at Namar in Q1-21. The new hospital at Al-Nakheel (150 beds and 30 clinics) is expected to commence operations from Q1-20.

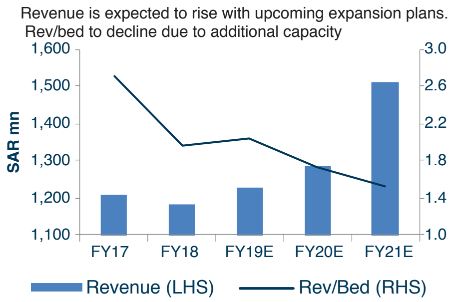
Adverse impact of commencement of operations at Namar Hospital on margins: We believe it would take a couple of years for margins to increase as further capacity expansion takes effect until FY-21.

Rise in income of Saudis could benefit Dallah: Dallah's revenue declined 2.6% in FY18. This can be attributed mainly to exodus of expats, which seems to have played out. We expect the income of Saudis to increase with Saudization. This could result in the locals gradually shifting towards a better standard of living, and transitioning towards availing premium healthcare facilities, which could benefit Dallah.

AJC View and Valuation: An increase in capacity utilization at Namar Hospital and the new hospital opening at Al-Nakheel constitute key revenue growth drivers in future. Margins should stabilize in the medium term. The company's retail-based model places it in a favorable position over its peer set with respect to receivables. However, Dallah needs to make prudent capital allocation decisions while executing its expansion plans due to high net debt/EBITDA ratio of 3.5x. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), wherein 60% weight is assigned to the DCF and 40% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the five-year monthly beta is 0.58 and average WACC is 4.2%. The estimates yield a TP of SAR 54.17, implying an upside of 10.0% over a CMP of **SAR 49.25**.

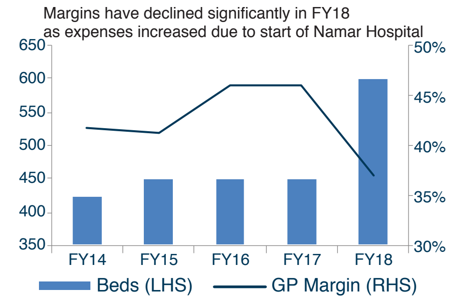
We update our recommendation to " **Overweight**" for Dallah Healthcare.

C20:Revenue and Revenue/Bed



Source: Company Reports, AJC Research

C21:Impact of Capacity Expansion on Margins

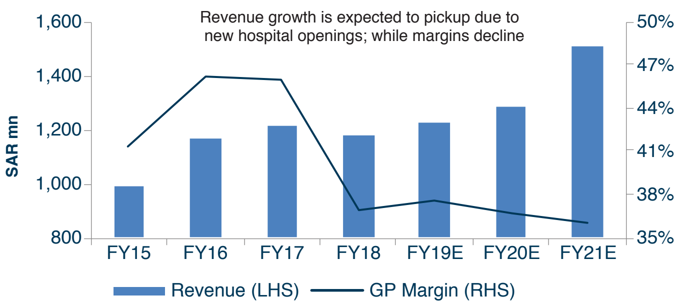


Source: Company Reports, AJC Research

C22:Price Chart

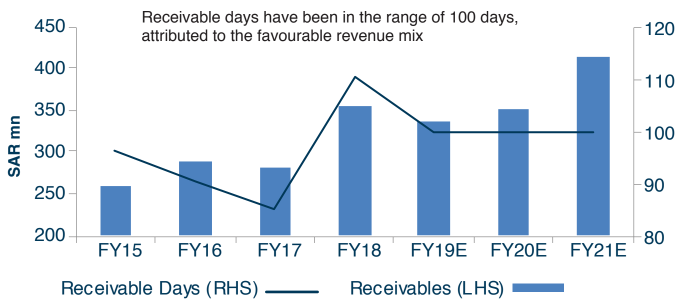
Source: TASI, Bloomberg

C23:Revenue and GP Margin



Source: Company Reports, AJC Research

C24:Receivable and Receivable/Days



Source: Company Reports, AJC Research

T3:Key Financial Data

Amount in SARmn, unless otherwise specified	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Income statement							
Revenues	1,162.8	1,212.1	1,180.9	1,227.1	1,287.5	1,512.3	1,566.4
Y/Y	***18.0%***	***4.2%***	***-2.6%***	***3.9%***	***4.9%***	***17.5%***	***3.6%***
Cost	(627.1)	(654.1)	(744.6)	(767.3)	(815.9)	(966.3)	(979.0)
Gross profit	**535.7**	**558.0**	**436.3**	**459.8**	**471.5**	**546.0**	**587.4**
Selling & distribution expense	(24.7)	(11.6)	(25.3)	(24.9)	(26.8)	(31.4)	(31.3)
General & administration expense	(280.0)	(238.4)	(264.9)	(276.3)	(291.5)	(342.3)	(352.4)
Operating profit	**231.0**	**308.0**	**146.2**	**158.7**	**153.3**	**172.3**	**203.6**
Y/Y	***35.6%***	***33.3%***	***-52.5%***	***8.6%***	***-3.4%***	***12.4%***	***18.2%***
Other income	19.2	0.9	12.5	12.0	12.9	15.1	15.7
Financial charges	(1.8)	(1.9)	(11.5)	(13.7)	(18.3)	(21.2)	(21.9)
Other adjustments	(9.7)	(1.8)	(1.8)	(2.0)	(2.0)	(2.0)	(2.0)
Income before zakat	**238.7**	**305.2**	**145.3**	**154.9**	**145.9**	**164.2**	**195.4**
Zakat	(14.0)	(10.2)	(3.5)	(6.8)	(6.5)	(7.3)	(8.6)
Net income	**224.7**	**295.0**	**141.8**	**148.1**	**139.4**	**156.9**	**186.7**
Y/Y	***36.1%***	***31.3%***	***-51.9%***	***4.5%***	***-5.9%***	***12.5%***	***19.0%***
Balance sheet							
Assets							
Cash & equivalent	187	90	46	46	303	114	136
Other current assets	438	501	522	527	555	652	649
Property plant & equipment	1,400	1,772	1,996	2,209	2,364	2,556	2,718
Other non-current assets	222	165	169	169	169	169	169
Total assets	**2,246**	**2,528**	**2,734**	**2,951**	**3,391**	**3,491**	**3,672**
Liabilities & owners' equity							
Total current liabilities	311	271	433	186	194	228	233
Long-term loans	323	458	563	1,008	1,408	1,408	1,508
Total other non-current liabilities	96	107	138	120	125	147	149
Paid -up capital	590	590	590	590	590	590	590
Statutory reserves	398	398	398	398	398	398	398
Fair value adjustment	(5)	(0)	(0)	(0)	(0)	(0)	(0)
Retained earnings	533	704	613	649	676	720	794
Total owners' equity	1,516	1,692	1,601	1,637	1,664	1,708	1,782
Total equity & liabilities	**2,246**	**2,528**	**2,734**	**2,951**	**3,391**	**3,491**	**3,672**
Cashflow statement							
Operating activities	343	353	205	237	231	227	317
Investing activities	(248)	(412)	(234)	(307)	(257)	(302)	(282)
Financing activities	(2)	(37)	(14)	69	284	(113)	(13)
Change in cash	93	(96)	(44)	(1)	257	(189)	23
Ending cash balance	**187**	**90**	**46**	**46**	**303**	**114**	**136**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.0	2.0	2.2	1.3	3.1	4.4	3.4
Quick ratio (x)	1.8	1.9	1.1	2.5	3.8	2.8	2.8
Profitability ratios							
Gross profit margin	46.1%	46.0%	36.9%	37.5%	36.6%	36.1%	37.5%
Operating margin	19.9%	25.4%	12.4%	12.9%	11.9%	11.4%	13.0%
EBITDA margin	24.9%	30.3%	18.7%	20.1%	19.3%	18.3%	20.2%
Net profit margin	19.3%	24.3%	12.0%	12.1%	10.8%	10.4%	11.9%
Return on assets	9.0%	10.6%	12.4%	5.4%	5.2%	4.4%	4.6%
Return on equity	12.4%	15.4%	18.4%	8.6%	9.1%	8.4%	9.3%
Leverage ratio							
Debt / equity (x)	0.32	0.33	0.47	0.62	0.85	0.83	0.85
Market/valuation ratios							
EV/sales (x)	5.1	5.3	3.4	3.8	3.7	3.3	3.2
EV/EBITDA (x)	20.3	17.5	18.2	18.9	19.3	18.0	16.0
EPS (SAR)	2.8	3.8	5.0	1.9	2.0	1.9	2.1
BVPS (SAR) - Adjusted	2.57	2.87	2.71	2.77	2.82	2.90	3.02
Market price (SAR)*	94.92	101.03	44.21	49.25	49.25	49.25	49.25
Market-Cap (SAR mn)	5,600	5,961	3,316	3,694	3,694	3,694	3,694
Dividend yield	1.6%	2.0%	7.1%	3.0%	3.0%	3.0%	3.0%
P/E ratio (x)	24.9	20.2	23.4	24.9	26.5	23.5	19.8
P/BV ratio (x)	36.9	35.2	16.3	17.8	17.5	17.0	16.3

Source: Company Reports, Bollommberg, AJC Research

Middle East Healthcare Company

Recommendation	Neutral
Price Target	SAR 29.63
CMP	SAR 27.70
Upside/(Downside)	7.0%

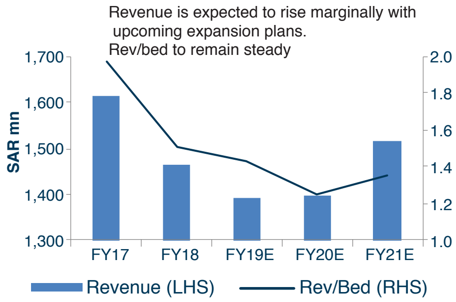
Dammam hospital expected to drive revenue growth: Middle East Healthcare Company (Saudi German) completed construction work for its hospital in Dammam in June-19. The hospital has a capacity of 150 beds and 100 clinics. The company is awaiting regulatory approvals to start operations. We expect the company to commence operations in Q3-19, and boost revenue growth going forward.

Higher employee costs coupled with new hospital openings impacting margins: The company's GP margin have declined drastically (36.0% in FY18 from 51.3% in FY16). This decline can be attributed mainly to rising employee costs, and expenses associated with opening new hospital (Hail in FY17) and clinics (SGH Aseer and Beverly in FY18). We expect the margins to remain low in the near term due opening new hospital in Dammam hospital in FY19.

AJC View and Valuation: The new hospital opening at Dammam and recently opened Beverly Hills Clinic in Jeddah and a clinic in Aseer are expected to drive revenue going forward. Margin growth should remain subdued in the near term and increase following FY20 as costs stabilizes and utilization in the newly opened clinics and hospitals increases. The company's decision to withhold dividends for FY18 for investment in expansion projects and the renovation of hospitals seems justified in our opinion and would bode well for the company in the medium term. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), wherein 60% weight is assigned to the DCF and 40% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the two-year weekly beta is 1.18 and average WACC is 6.9%. The estimates yield a TP of SAR 29.63, implying an upside of 7.0% over a CMP of **SAR 27.70**.

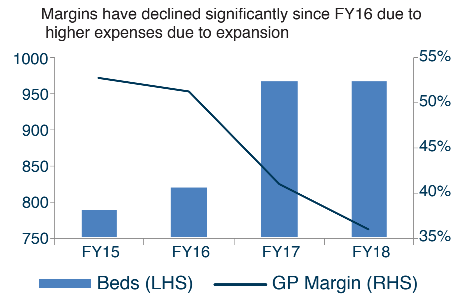
We maintain our "**Neutral**" recommendation for Middle East Healthcare Company.

C25:Revenue and Revenue/Bed



Source: Company Reports, AJC Research

C26:Impact of Capacity Expansion on Margins

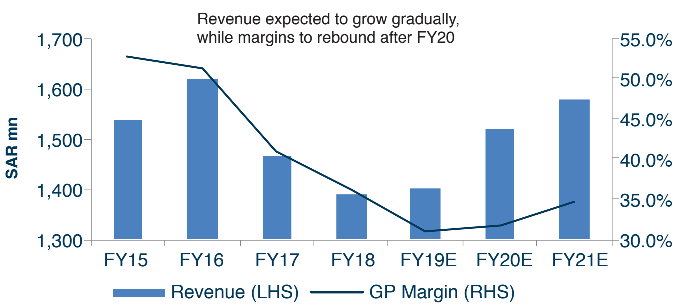


Source: Company Reports, AJC Research

C27:Price Chart

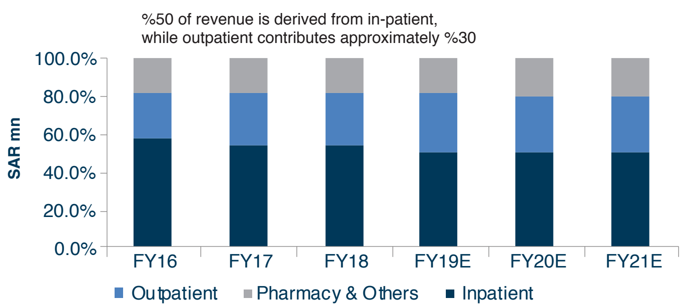
Source: TASI, Bloomberg

C28:Revenue and GP Margin



Source: Company Reports, AJC Research

C29:Revenue Composition



Source: Company Reports, AJC Research

T4:Key Financial Data

Amount in SARmn, unless otherwise specified	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Income statement							
Revenues	1,534.5	1,615.6	1,462.4	1,390.7	1,399.5	1,517.8	1,579.1
Y/Y	***9.7%***	***5.3%***	***-9.5%***	***-4.9%***	***0.6%***	***8.5%***	***4.0%***
Cost	(724.4)	(787.3)	(864.5)	(889.9)	(968.2)	(1,038.3)	(1,031.8)
Gross profit	**810.1**	**828.4**	**597.9**	**500.7**	**431.3**	**479.5**	**547.3**
Selling & distribution expense	(162.4)	(181.3)	(11.9)	(10.2)	(13.4)	(15.2)	(15.8)
General & administration expense	(269.6)	(288.7)	(291.2)	(327.8)	(322.0)	(348.7)	(367.5)
Operating profit	**378.2**	**358.4**	**294.8**	**162.7**	**95.9**	**115.6**	**164.0**
Y/Y	***20.8%***	***-5.2%***	***-17.7%***	***-44.8%***	***-41.1%***	***20.6%***	***41.8%***
Other income	16.2	18.3	15.1	19.0	13.9	18.2	18.9
Financial charges	(4.5)	(13.2)	(12.0)	(11.1)	(20.2)	(23.7)	(26.8)
Profit before zakat & minority interest	**390.0**	**363.5**	**297.8**	**170.7**	**89.5**	**110.1**	**156.1**
Non-controlling interest	0.3	3.2	27.1	7.7	7.8	9.1	12.9
Profit before zakat	**390.3**	**366.6**	**325.0**	**178.3**	**97.4**	**119.2**	**169.0**
Zakat	(0.0)	(4.0)	(5.5)	(6.1)	(3.8)	(3.3)	(4.7)
Net income	**390.2**	**362.6**	**319.5**	**172.2**	**93.6**	**115.9**	**164.3**
Y/Y	***17.6%***	***-7.1%***	***-11.9%***	***-46.1%***	***-45.7%***	***23.8%***	***41.8%***
Balance sheet							
Assets							
Cash & bank balance	56	155	111	44	48	122	45
Other current assets	1,025	1,007	1,041	1,144	1,048	1,052	1,043
Property & Equipment	878	1,111	1,267	1,534	1,783	1,975	2,137
Other non-current assets	160	4	6	5	4	3	3
Total assets	**2,118**	**2,276**	**2,425**	**2,727**	**2,884**	**3,153**	**3,227**
Liabilities & owners' equity							
Total current liabilities	407	570	546	676	417	446	446
Long-term loans	56	129	131	330	643	843	843
Total other non-current liabilities	189	199	246	231	240	256	258
Non-controlling interest	61	59	52	45	45	45	45
Paid -up capital	920	920	920	920	920	920	920
Statutory reserves	89	125	155	172	181	193	209
Retained earnings	396	275	374	353	438	450	506
Total owners' equity	1,405	1,320	1,449	1,446	1,539	1,563	1,635
Total equity & liabilities	**2,118**	**2,276**	**2,425**	**2,727**	**2,884**	**3,153**	**3,227**
Cashflow statement							
Operating activities	194	253	347	161	328	268	298
Investing activities	(115)	(141)	(235)	(355)	(350)	(304)	(284)
Financing activities	(159)	(13)	(156)	127	26	109	(91)
Change in cash	(80)	99	(44)	(67)	4	74	(78)
Ending cash balance	**56**	**155**	**111**	**44**	**48**	**122**	**45**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.7	2.0	2.1	1.8	2.6	2.6	2.4
Quick ratio (x)	2.5	1.9	1.9	1.6	2.4	2.4	2.2
Profitability ratios							
Gross profit margin	52.8%	51.3%	40.9%	36.0%	30.8%	31.6%	34.7%
Operating margin	24.6%	22.2%	20.2%	11.7%	6.9%	7.6%	10.4%
EBITDA margin	28.1%	26.1%	25.4%	18.1%	14.1%	15.0%	18.1%
Net profit margin	25.4%	22.4%	21.8%	12.4%	6.7%	7.6%	10.4%
Return on assets	20.0%	16.5%	13.6%	6.7%	3.3%	3.8%	5.2%
Return on equity	29.4%	25.5%	22.2%	11.5%	6.1%	7.3%	10.0%
Leverage ratio							
Debt / equity (x)	0.1	0.2	0.2	0.4	0.4	0.5	0.5
Market/valuation ratios							
EV/sales (x)	3.9	4.3	3.6	2.6	2.3	2.2	2.2
EV/EBITDA (x)	14.0	16.5	14.1	14.4	16.2	14.6	11.9
EPS (SAR)	4.2	3.9	3.5	1.9	1.0	1.3	1.8
BVPS (SAR) - Adjusted	1.5	1.4	1.6	1.6	1.7	1.7	1.8
Market price (SAR)*	64.0	73.4	53.9	32.5	27.7	27.7	27.7
Market-Cap (SAR mn)	5,891	6,752	4,957	2,987	2,550	2,550	2,550
Dividend yield	2.8%	2.7%	3.7%	6.2%	0.0%	3.6%	3.6%
P/E ratio (x)	15.1	18.6	15.5	17.3	27.2	22.0	15.5
P/BV ratio (x)	41.9	51.1	34.2	20.7	16.6	16.3	15.6

Source: Company Reports, Bollommberg, AJC Research

National Medical Care Company

Improvement in margins owing to cost control bode well in future: Care implemented cost saving initiatives towards end FY18 and renegotiated contracts which enabled it to lower general and administrative expenses in Q1-19. Considering these measures, we expect the GP Margin to increase 180 bps in FY19.

Benefit through experience of NMC Health: NMC Health and General Organization for Social Insurance (GOSI) formed a JV (NMC Saudi Arabia Healthcare), wherein NMC holds a 53% stake. The ownership of JV in Care stands at 49.2%. The JV has requested Care to vote on re-electing a board of directors and new audit committee so that it can utilize its expertise in the healthcare industry. We expect NMC Health's expertise in managing hospitals at an international level would be beneficial for Care in the long term.

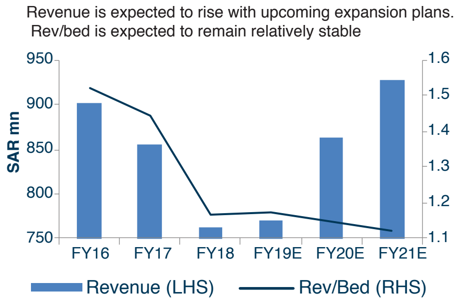
Revenue growth through expansion at Care National Hospital (CNH): We expect the revenue growth to be driven by an additional capacity of 170 beds at CNH in a phased manner.

AJC View and Valuation: Improvement in margins through cost-control measures, revenue growth through capacity addition at CNH and benefit through NMC Health's expertise are expected to constitute key drivers for the company's growth going forward. The key concern is the high percentage of receivables from government and semi-government entities (66% of receivables in FY18). Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), wherein 70% weight is assigned to the DCF and 30% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the two-year weekly beta is 0.80 and average WACC is 6.8%. The estimates yield a TP of SAR 58.59, implying a downside of 0.7% over a CMP of **SAR 59.00**.

We maintain our "**Neutral**" recommendation for National Medical Care Company.

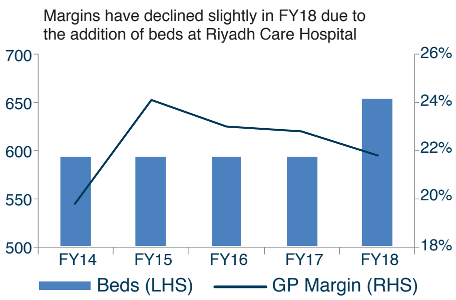
Recommendation	**Neutral**
Price Target	SAR 58.59
CMP	SAR 59.00
Upside/(Downside)	-0.7%

C30:Revenue and Revenue/Bed



Source: Company Reports, AJC Research

C31:Impact of Capacity Expansion on Margins

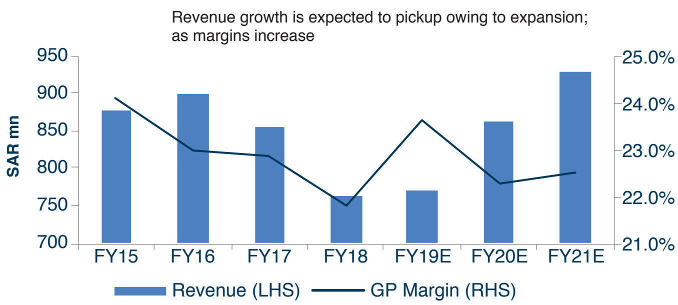


Source: Company Reports, AJC Research

C32:Price Chart

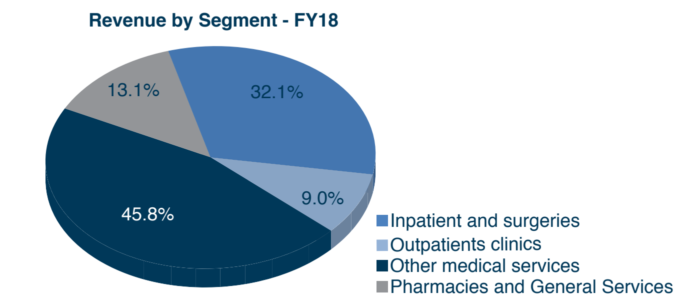
Source: TASI, Bloomberg

C33:Revenue and GP Margin



Source: Company Reports, AJC Research

C34:Revenue Composition



Source: Company Reports, AJC Research

T5:Key Financial Data

Amount in SARmn, unless otherwise specified	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Income statement							
Revenues	878.7	900.7	855.1	763.8	770.2	861.8	926.7
Y/Y	***19.7%***	***2.5%***	***-5.1%***	***-10.7%***	***0.8%***	***11.9%***	***7.5%***
Cost	(666.8)	(693.7)	(659.7)	(597.3)	(588.3)	(670.0)	(718.2)
Gross profit	**211.8**	**207.0**	**195.4**	**166.5**	**182.0**	**191.8**	**208.5**
Selling & distribution expense	(1.8)	(0.5)	(0.4)	(0.5)	(0.3)	(0.4)	(0.5)
General & administration expense	(82.0)	(126.8)	(105.0)	(72.8)	(72.9)	(83.4)	(89.3)
Other expenses/income	13.6	(8.2)	13.8	(4.8)	8.7	9.1	9.9
Operating profit	**141.6**	**71.5**	**103.8**	**88.4**	**117.4**	**117.0**	**128.7**
Y/Y	***39.1%***	***-49.6%***	***45.2%***	***-14.8%***	***32.7%***	***-0.3%***	***10.0%***
Finance and other cost	-	(4.4)	(3.6)	(4.8)	(6.0)	(3.8)	(3.8)
Income before zakat	**141.6**	**67.0**	**100.1**	**83.6**	**111.4**	**113.2**	**124.9**
Zakat	(10.9)	(16.8)	(14.8)	(21.4)	(21.4)	(21.5)	(21.2)
Net income	**130.7**	**50.3**	**85.3**	**62.2**	**90.0**	**91.7**	**103.7**
Y/Y	***39.7%***	***-61.5%***	***69.7%***	***-27.1%***	***44.8%***	***1.8%***	***13.0%***
Balance sheet							
Assets							
Cash & bank balance	93	104	117	345	387	421	491
Other current assets	664	652	655	451	520	559	575
Property & Equipment	651	647	652	596	587	577	566
Other non-current assets	6	2	1	0	0	0	0
Total assets	**1,413**	**1,406**	**1,425**	**1,392**	**1,494**	**1,558**	**1,633**
Liabilities & owners' equity							
Total current liabilities	230	226	187	168	264	271	282
Long-term loans	219	195	171	146	122	122	122
Total other non-current liabilities	67	79	82	82	66	75	81
Paid -up capital	449	449	449	449	449	449	449
Statutory reserves	181	186	186	186	186	186	186
General reserves	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-
Retained earnings	268	271	351	362	408	454	513
Total owners' equity	897	905	986	997	1,042	1,089	1,148
Total equity & liabilities	**1,413**	**1,406**	**1,425**	**1,392**	**1,494**	**1,558**	**1,633**
Cashflow statement							
Operating activities	51	90	113	318	212	135	177
Investing activities	(90)	(58)	(73)	(19)	(62)	(65)	(68)
Financing activities	(20)	(20)	(27)	(71)	(108)	(36)	(39)
Change in cash	(58)	11	13	227	42	35	70
Ending cash balance	**93**	**104**	**117**	**345**	**387**	**421**	**491**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	6.2	6.2	7.6	8.3	5.7	5.7	5.8
Quick ratio (x)	3.0	3.1	3.8	4.4	3.2	3.4	3.6
Profitability ratios							
Gross profit margin	24.1%	23.0%	22.9%	21.8%	23.6%	22.3%	22.5%
Operating margin	16.1%	7.9%	12.1%	11.6%	15.2%	13.6%	13.9%
EBITDA margin	22.8%	15.2%	20.0%	21.0%	24.5%	22.2%	22.3%
Net profit margin	14.9%	5.6%	10.0%	8.1%	11.7%	10.6%	11.2%
Return on assets	8.0%	9.8%	3.6%	6.0%	4.4%	6.2%	6.0%
Return on equity	11.4%	15.1%	5.6%	9.0%	6.3%	8.8%	8.6%
Leverage ratio							
Debt / equity (x)	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Market/valuation ratios							
EV/sales (x)	2.98	3.41	2.37	2.73	3.09	2.72	2.46
EV/EBITDA (x)	13.06	22.49	11.85	12.97	12.64	12.25	11.00
EPS (SAR)	2.91	1.12	1.90	1.39	2.01	2.04	2.31
BVPS (SAR)	20.01	20.18	21.98	22.23	23.23	24.28	25.59
Market price (SAR)*	55.50	65.92	43.55	50.30	59.00	59.00	59.00
Market-Cap (SAR mn)	2,489.2	2,956.5	1,953.2	2,256.0	2,646.2	2,646.2	2,646.2
Dividend yield	2.8%	1.1%	0.0%	2.0%	1.7%	1.7%	1.7%
P/E ratio (x)	19.04	58.81	22.90	36.28	29.39	28.85	25.53
P/BV ratio (x)	2.77	3.27	1.98	2.26	2.54	2.43	2.31

Source: Company Reports, Bollommberg, AJC Research

Mouwasat Medical Services Company

Recommendation	Overweight
Price Target	SAR 100.33
CMP	SAR 90.30
Upside/(Downside)	11.1%

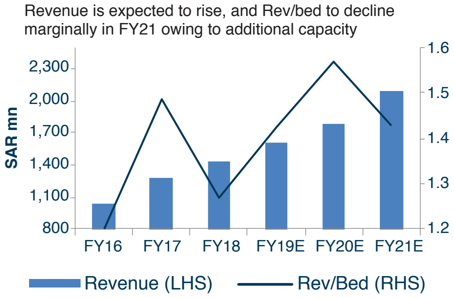
Capacity expansion across hospitals to drive revenue growth: Mouwasat commenced operations at Khobar Hospital in Q3-18 with 280 beds and 100 clinics. The company would be increasing its capacity at Dammam and Medina. Refer to the sector section for details. We expect these capacity additions to be key growth drivers for the revenue going forward.

Margins to remain subdued in near term: We believe it would take a couple of years for GP margin to increase as further capacity expansion takes place in FY21. The company has managed capacity additions efficiently in the past, as evident from the graphs alongside. We expect the company to utilize past experience to ensure the impact of capacity additions on GP margin is minimal.

AJC View and Valuation: We believe a gradual increase in capacity would enable Mouwasat to capitalize on demand for additional beds. The company has shown impressive growth in GP Margin (46.1% in FY18 from 44.7% in FY15) and is way ahead of its peer set (28.5% in FY18). The majority (>90 per cent) of the company's patients are Saudi nationals. Hence, the company faces minimal impact of the reduction of expats. Low net debt/EBITDA ratio (0.76x) places it in a favorable position to raise debt for future expansions. The key challenge for the company would be to increase its utilization rate and maintain its GP margin, as other private companies also have expansion plans. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), wherein 70% weight is assigned to the DCF and 30% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the two-year weekly beta is 0.82 and average WACC is 7.0%. The estimates yield a TP of SAR 100.33, implying an upside of 11.1% over a CMP of **SAR 90.30**.

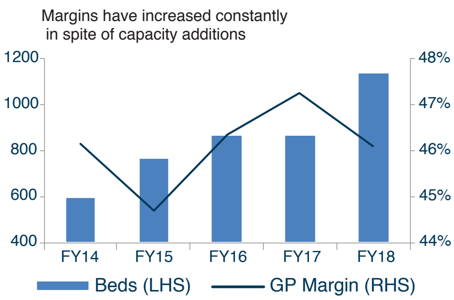
We upgrade Mouwasat Medical to "**Overweight**" from "**Neutral**" view and rate it as our top pick for the healthcare sector.

C35:Revenue and Revenue/Bed



Source: Company Reports, AJC Research

C36:Impact of Capacity Expansion on Margins

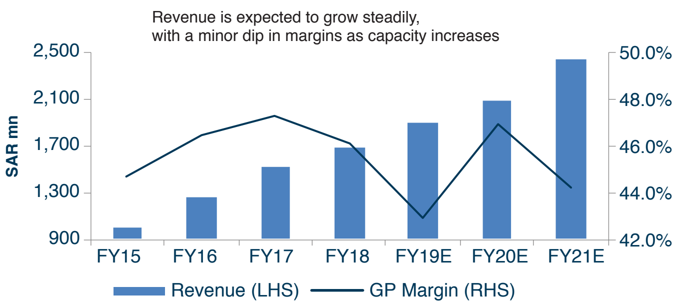


Source: Company Reports, AJC Research

C37:Price Chart

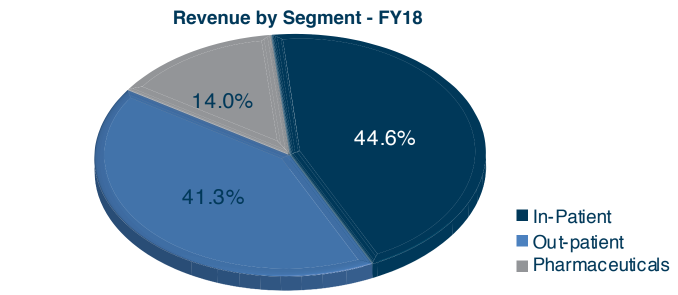
Source: TASI, Bloomberg

C38:Revenue and GP Margin



Source: Company Reports, AJC Research

C39:Revenue Composition



Source: Company Reports, AJC Research

T6:Key Financial Data

Amount in SARmn, unless otherwise specified	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Income statement							
Revenues	1,000.1	1,243.2	1,507.1	1,677.0	1,886.1	2,077.5	2,443.1
Y/Y	***10.7%***	***24.3%***	***21.2%***	***11.3%***	***12.5%***	***10.2%***	***17.6%***
Cost	(553.3)	(666.8)	(795.0)	(903.5)	(1,078.2)	(1,103.0)	(1,364.0)
Gross profit	**446.8**	**576.5**	**712.2**	**773.5**	**807.8**	**974.5**	**1,079.1**
Selling & distribution expense	(93.8)	(141.3)	(151.2)	(154.2)	(130.4)	(220.4)	(247.9)
General & administration expense	(117.5)	(146.4)	(188.3)	(213.6)	(247.4)	(239.4)	(257.0)
Amortization of intangible assets	(0.7)	(0.7)	(1.2)	(1.6)	(1.4)	(2.3)	(2.8)
Operating profit	**234.9**	**288.1**	**371.5**	**404.1**	**428.6**	**512.5**	**571.4**
Y/Y	***0.7%***	***22.6%***	***29.0%***	***8.8%***	***6.1%***	***19.6%***	***11.5%***
Other income	11.7	15.5	12.9	10.8	13.3	14.4	16.2
Financial charges	(7.4)	(6.5)	(4.9)	(6.1)	(21.7)	(18.2)	(13.4)
Profit before zakat & minority interest	**239.2**	**297.0**	**379.5**	**408.7**	**420.2**	**508.6**	**574.2**
Non-controlling interest	(14.3)	(18.0)	(19.5)	(24.1)	(25.7)	(30.5)	(34.5)
Profit before zakat	**224.9**	**279.0**	**360.1**	**384.6**	**394.6**	**478.1**	**539.8**
Zakat	(16.1)	(21.8)	(23.3)	(24.4)	(22.0)	(31.1)	(35.1)
Net income	**208.8**	**257.2**	**336.7**	**360.2**	**372.5**	**447.0**	**504.7**
Y/Y	***-13.0%***	***23.2%***	***30.9%***	***7.0%***	***3.4%***	***20.0%***	***12.9%***
Balance sheet							
Assets							
Cash & bank balance	81	125	202	130	158	136	110
Other current assets	529	505	572	911	990	983	1,057
Property & Equipment	1,212	1,361	1,634	1,911	2,186	2,416	2,672
Other non-current assets	49	109	71	102	101	109	122
Total assets	**1,871**	**2,099**	**2,479**	**3,053**	**3,435**	**3,643**	**3,962**
Liabilities & owners' equity							
Total current liabilities	290	356	378	565	666	709	804
Long-term loans	326	323	461	602	487	348	209
Total other non-current liabilities	51	66	67	79	89	103	117
Non-controlling interest	70	78	82	94	108	126	145
Paid -up capital	500	500	500	1,000	1,000	1,000	1,000
Statutory reserves	144	170	204	240	277	322	372
Other reserve	-	(3.3)	-	-	-	-	-
Dividend	100	-	-	-	175	175	175
Retained earnings	390	610	787	473	633	861	1,140
Total owners' equity	1,135	1,277	1,490	1,713	2,085	2,357	2,687
Total equity & liabilities	**1,871**	**2,099**	**2,479**	**3,053**	**3,435**	**3,643**	**3,962**
Cashflow statement							
Operating activities	207	306	452	386	495	638	690
Investing activities	(239)	(172)	(333)	(409)	(400)	(379)	(429)
Financing activities	(69)	(91)	(42)	(48)	(67)	(281)	(288)
Change in cash	(101)	44	77	(72)	28	(22)	(26)
Ending cash balance	**81**	**125**	**202**	**130**	**158**	**136**	**110**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.1	1.8	2.0	1.8	1.7	1.6	1.5
Quick ratio (x)	1.7	1.4	1.7	1.6	1.5	1.3	1.2
Profitability ratios							
Gross profit margin	44.7%	46.4%	47.3%	46.1%	42.8%	46.9%	44.2%
Operating margin	23.5%	23.2%	24.7%	24.1%	22.7%	24.7%	23.4%
EBITDA margin	28.9%	29.3%	30.7%	30.6%	29.4%	31.5%	29.9%
Net profit margin	20.9%	20.7%	22.3%	21.5%	19.8%	21.5%	20.7%
Return on assets	11.7%	13.0%	14.7%	13.0%	11.5%	12.6%	13.3%
Return on equity	19.3%	21.3%	24.3%	22.5%	19.6%	20.1%	20.0%
Leverage ratio							
Debt / equity (x)	0.4	0.4	0.4	0.4	0.3	0.2	0.1
Market/valuation ratios							
EV/sales (x)	6.32	6.24	5.25	5.02	5.08	4.56	3.84
EV/EBITDA (x)	21.85	21.32	17.08	16.37	17.29	14.49	12.85
EPS (SAR)	4.18	5.14	3.37	3.60	3.73	4.47	5.05
BVPS (SAR)	22.69	25.53	29.81	17.13	20.85	23.57	26.87
Market price (SAR)*	121.80	147.84	75.70	80.50	90.30	90.30	90.30
Market-Cap (SAR mn)	6,090.0	7,392.0	7,570.0	8,050.0	9,030.0	9,030.0	9,030.0
Dividend yield	1.6%	1.7%	4.0%	2.2%	1.9%	1.9%	1.9%
P/E ratio (x)	29.17	28.74	22.48	22.35	24.24	20.20	17.89
P/BV ratio (x)	5.37	5.79	2.54	4.70	4.33	3.83	3.36

Source: Company Reports, Bollommberg, AJC Research

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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.

Disclaimer