

Al Hammadi Company For Development and Investment

Healthcare – Industrial

ALHAMMAD AB: Saudi Arabia

19 November 2020

الراجحي المالية
Al Rajhi Capital



US\$0.952bn Market cap
44% Free float
US\$8.952mn Avg. daily volume

Target price **32.00** 7.6% over current
Current price **29.75** as at 18/11/2020

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Existing rating

Underweight **Neutral** **Overweight**

Performance



Source: Bloomberg

Earnings

(SARmn)	2019	2020E	2021E
Revenue	974	952	1074
Revenue growth	9%	-2%	13%
Gross profit	283	322	353
Gross margin	29%	34%	33%
EBITDA	249	264	291
EBITDA margin	26%	28%	27%
Net profit	93	138	160
Net margin	10%	15%	15%
EPS	0.8	1.2	1.3
DPS	0.0	0.0	0.4
Payout ratio	0%	0%	30%
EV/EBITDA	16.3x	14.9x	13.4x
P/E	38.4x	25.8x	22.3x
RoE	6%	8%	9%

Source: Company data, Al Rajhi Capital

Al Hammadi Hospitals Strong operating performance boost profitability; TP at SAR32/sh

Al Hammadi Company for Development and Investment (Hammadi) reported its Q3 2020 financial results, with revenue increasing by 13.2% y-o-y to SAR249 mn and was 3.2% higher than our estimates. Improvement in the performance of the company's Nuzha branch and higher referrals from MoH aided patient growth, resulting in higher revenue. Gross profit increased by 32.6% y-o-y while operating profits improved by 37.4% y-o-y and were aided by higher revenue and higher scale of operations. Added to this, the company also reported a fall in staff cost, aided by government initiatives to support the private sector. This along with lower finance costs, due to a fall in interest rates aided the overall profitability of the company. The net income of Hammadi increased by 72.7% y-o-y and was better than our estimates by 18.6%. Higher than expected patient volume and the resultant improvement in the operating leverage were the main reason for this. Post Q3 result, we have revised the target price to SAR32/sh from SAR25/sh and have maintained our rating at "Neutral".

Q3 results: Q3 revenue came in at SAR249mn (13.2% y-o-y; 1.9% q-o-q). Aided by improvement in revenue and the resulting improvement in operating leverage, gross margins increased to 33.1% in Q3 2020, compared to 28.3% a year back. However, it was lower than 37.2% in Q2 2020. Reflecting the improvement in gross margins, net margins too improved to 14.7% for Q3 2020, compared to 9.6% a year back. However, the same was lower than 16.0% in Q2 2020. Overall, the financial performance of Hammadi has been strong and better than expected. Better than expected improvement in patient flow and the resultant improvement in operating leverage were the main reason for this.

Figure 1 Al Hammadi: Summary of Q3 2020 results

(SAR mn)	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	249	220	244	13%	2%	241
Gross Profit	83	62	91	33%	-9%	77
Gross Margin	33%	28%	37%	NA	NA	32%
Operating Profit	47	34	51	37%	-7%	44
Net Profit	37	21	39	73%	-7%	31

Source: Company data, Al Rajhi Capital

Valuation and risks: We value the company based on an equal mix of DCF and relative valuation. The DCF based target price based on 2% terminal growth and 7.7% WACC comes to SAR30/sh and P/E based relative valuation based on 25x multiple gives a target price of SAR33/sh. Thus, we have revised our target price for the company to SAR32/sh, an upside of 7.6%, which implies a "Neutral" rating. The key downside risks are a decline in occupancy, lower revenue per bed, and a rise in the cost of sales along with high receivables. The key upside risks are higher than expected patient flow and a rise in revenue per bed.



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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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