

Al Hammadi posted a net income of SAR 21.2mn (SAR 0.18 EPS), in-line with our estimate of SAR 21.9mn. Revenue decline was attributable to lower pharmaceutical sales of the subsidiary company. GP Margin improved due to lower cost of goods sold. We expect margins to improve further in Q4-19 as operations at Al Nuzha stabilize. We maintain our **"Neutral"** rating on the stock with a TP of **SAR 23.91/share**.

- Al Hammadi recorded a net income of SAR 21.2mn in Q3-19 (EPS of SAR 0.18), down 0.6% Y/Y. Net profit for Q3-19 was in-line with our estimate of SAR 21.9mn and below market expectation of SAR 25.2mn respectively. The Y/Y decrease was mainly due to decline in sales driven by lower pharmaceutical sales, offset by higher GP Margin. Credit loss provision for accounts receivable rose SAR 6.8mn Y/Y also negatively impacted the net income.
- The company's revenue totaled SAR 220.0mn in Q3-19, down 12.1% Y/Y and 13.3% Q/Q; it was significantly below our estimate of SAR 284.0mn due to decline in the pharmaceutical sales of the subsidiary company due to the nature of government contracts. Lower other operating revenues also contributed to the decline. However, medical care revenues increased due to higher number of patients.
- Gross profit stood at SAR 62.2mn, down 4.2% Y/Y; it was below our estimate of SAR 80.9mn. However, the GP Margin increased to 28.3% in Q3-19 from 25.9% in Q3-18, coming in-line with our estimate of 28.5%. Operations at Al Nuzha Hospital, which commenced in Q1-18, seem to be stabilizing, which is having a positive impact on the margins.
- Operating profit stood at SAR 34.4mn, down 3.3% Y/Y and up 2.5% Q/Q. Net OPEX fell 5.3% Y/Y to SAR 27.8mn from SAR 29.4mn in Q3-18, significantly below our estimate of SAR 48.3mn.

AJC view: Al Hammadi's gross margin and net income were in-line with our expectations. However, revenue was significantly below our expectations. We retain our EPS estimate for FY-19E at SAR 0.78, but lower our revenue estimate to SAR 925.8mn as compared to SAR 1,028.5mn earlier. Improvement in capacity utilization at Al-Nuzha Hospital represents the key revenue driver for the company. 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. 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 23.9/share, implying an upside of 14.7% from current levels. The stock is currently trading at a P/E of 22.7x based on our FY20 EPS estimate. We maintain our **"Neutral"** rating on Al Hammadi with a TP of **SAR 23.91/share**.

Results Summary

SARmn	Q3-2018	Q2-2019	Q3-2019	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	250.4	253.8	220.0	-12.1%	-13.3%	-22.5%
Gross Profit	64.9	71.1	62.2	-4.2%	-12.5%	-23.1%
Gross Margin	25.9%	28.0%	28.3%	-	-	-
EBIT	35.5	33.5	34.4	-3.3%	2.5%	5.2%
Net Profit	21.3	20.0	21.2	-0.6%	5.9%	-3.1%
EPS	0.18	0.17	0.18	-	-	-

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR) **23.9**

Upside / (Downside)* **14.7%**

*Prices as of 28th of October 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenues	708.6	893.6	925.8
Growth %	16.9%	26.1%	3.6%
Net Income	108.0	89.8	93.5
Growth %	48.0%	-16.8%	4.1%
EPS	0.90	0.75	0.78

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E
Gross Margin	33.7%	27.4%	28.6%
Net Margin	15.2%	10.1%	10.1%
P/E	41.2x	33.5x	26.8x
P/B	3.2x	2.0x	1.6x
EV/EBITDA (x)	24.6x	16.0x	12.0x
Dividend Yield	0.0%	3.0%	0.0%

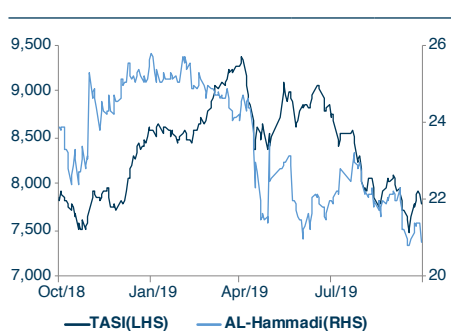
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.50
YTD %	-17.0%
52 Week (High / Low)	26.60/20.66
Shares Outstanding (mn)	120.00

Source: Company reports, Aljazira Capital

Price Performance



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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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