

Healthcare

Strong BUY: 12M TP @ 70

Upside of +22.6%

Valuation Summary (TTM)

Price (SAR)	57.1
PER TTM (x)	13.1
P/Book (x)	2.9
P/Sales (x)	1.7
EV/Sales (x)	2.6
EV/EBITDA (x)	11.6
Dividend Yield (%)	0.9
Free Float (%)	43%
Shares O/S (mn)	92
YTD Return (%)	-17%
Beta	1.0

(mn)	SAR	USD	
Market Cap	5,255	1,400	
Enterprise Value	7,696	2,051	
Price performance (%)	1M	3M	12M
Middle East Healthcare Co	-5%	-11%	-12%
Tadawul All Share Index	-4%	-6%	-8%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	10,083	17,297	20,869
Avg Daily Volume (,000)	253	301	328
52 week	High	Low	CTL*
Price (SAR)	84.80	49.70	14.9

* CTL is % change in CMP to 52wk low

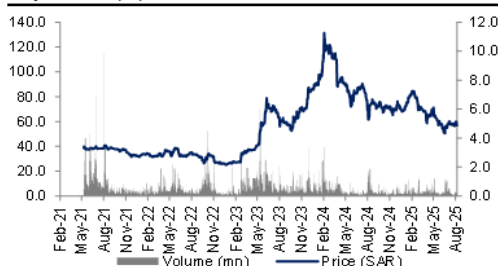
Major shareholders

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%



MEHC: Margins remain under pressure

Middle East Healthcare Co. (MEHC) reported 2Q25 revenue of SAR 791 mn, up 11.0% YoY and exceeding our forecast by 5.7%. This performance was driven by higher patient flow, capacity expansions at select facilities, and a contract from the Ministry of Health to operate the Mina II Emergency Hospital during the 2025 Hajj season. Revenue growth was broad-based across business segments. Outpatient revenue surged 28.5% YoY, while inpatient revenue rose by a more modest 3.3% YoY. Pharmacy sales increased 9.1% YoY, supported by improved hospital revenue. Gross profit rose 10.4% YoY to SAR 308 mn, primarily due to higher revenue, although gross margin declined slightly to 38.9% in 2Q25 from 39.2% in 2Q24. The margin contraction was mainly due to weaker inpatient performance, where margins fell to 40.1% in 2Q25 from 42.4% in 2Q24, driven by an unfavorable case mix. Conversely, profitability improved in both the outpatient segment (41.3% vs. 37.9%) and the pharmacy segment (28.4% vs. 25.2%), supported by operating leverage. SG&A expenses rose sharply by 13.5% YoY, reflecting increased administrative and selling costs. Finance expenses dropped 20.5% YoY to SAR 49 mn, benefiting from lower funding costs. Overall, net income increased 1.3% YoY to SAR 64 mn, supported by revenue growth. However, gains were limited by lower gross margins, higher operating expenses, and reduced other income. The bottom line nonetheless exceeded our estimate of SAR 51 mn, driven by stronger-than-expected revenue, other income, and lower than expected finance cost.

Investment thesis and valuations: Middle East Healthcare Co. (MEHC) is one of the most diversified healthcare providers in the Kingdom, with operations across multiple regions. The company currently operates over 1,500 beds and 400 clinics. Although topline performance in 1H25 was solid, operating profit growth lagged due to increased competition, which placed pressure on margins. We expect this margin pressure to persist in 2H25. MEHC is currently renovating and expanding its Jeddah facility with a tower addition, involving a capital expenditure of SAR 399 mn. This project will add 194 beds and 22 clinics to its capacity and is expected to be operational by 1H26. The expansion should support continued topline growth. The company's ability to mitigate margin erosion, through the stabilization of its newly developed facilities, will be a key determinant of future financial performance. We have moderated our medium-term forecast, leading to a lower target price. However, at 16x 2025e EPS, we still see upside potential. With a revised target price of **SAR 70 per share**, we reiterate our **Strong Buy** rating.

Income Statement (SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Revenue	1,873	2,152	2,653	2,883	3,111	3,415	3,644	3,770
Cost of sales	(1,264)	(1,472)	(1,639)	(1,769)	(1,910)	(2,135)	(2,278)	(2,346)
Gross profit	608	680	1,014	1,114	1,201	1,280	1,366	1,424
Operating expenses	(554)	(540)	(690)	(673)	(769)	(790)	(810)	(828)
Operating profit	54	140	324	441	433	490	556	596
Other income	12	10	23	91	140	23	23	24
Finance expenses	(47)	(69)	(156)	(222)	(205)	(207)	(193)	(165)
Earnings before tax	19	81	191	310	367	305	386	455
Tax	(8)	(10)	(170)	(26)	(31)	(26)	(33)	(39)
Earnings before MI	12	72	20	284	336	279	353	417
Minority interest	5	4	(3)	(2)	(2)	(2)	(2)	(3)
Net income	17	75	17	282	334	278	351	414

Balance Sheet (SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property and equipment	2,357	2,471	2,502	2,767	2,882	2,938	2,922	2,913
Other non-current assets	40	71	96	185	200	214	229	244
Total non-current assets	2,397	2,542	2,598	2,952	3,082	3,153	3,151	3,156
Trade receivables	1,282	1,635	2,301	1,946	2,100	2,306	2,461	2,507
Inventories	156	149	75	66	72	80	85	88
Cash and cash equivalents	28	16	44	52	28	60	74	60
Other current assets	112	157	116	108	117	128	137	142
Total current assets	1,578	1,957	2,536	2,173	2,317	2,574	2,757	2,797
Total assets	3,975	4,499	5,135	5,125	5,399	5,727	5,908	5,953
Share Capital	920	920	920	920	920	920	920	920
Total reserves	337	445	399	706	994	1,225	1,530	1,898
Minority interest	38	43	46	48	50	52	54	57
Total equity	1,295	1,408	1,365	1,674	1,964	2,198	2,505	2,875
Lease liabilities current portion	7	12	13	12	12	12	12	12
Short-term loans	904	991	1,116	640	739	867	781	519
Trade payables	302	426	559	322	347	388	414	427
Other current liabilities	157	202	447	288	308	341	361	371
Total current liabilities	1,370	1,631	2,135	1,262	1,407	1,608	1,568	1,329
Non-current lease liabilities	27	57	46	71	114	158	201	245
Loans and borrowings	1,028	1,181	1,310	1,743	1,538	1,388	1,258	1,128
Other non-current liabilities	254	223	278	376	376	376	376	376
Total non-current liabilities	1,310	1,460	1,634	2,189	2,028	1,921	1,835	1,748
Total Liabilities	2,680	3,091	3,769	3,451	3,434	3,529	3,403	3,078
Equity and liabilities	3,975	4,499	5,135	5,125	5,399	5,727	5,908	5,953

Cash Flows (SAR mn)	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	77	76	191	766	439	356	459	612
Cash from investments	(417)	(249)	(242)	(509)	(311)	(256)	(182)	(189)
Cash from financing	352	161	78	(256)	(152)	(69)	(262)	(437)
Net changes in cash	11	(13)	27	1	(24)	32	14	(14)
Closing balance (C/b)	28	16	44	52	28	60	74	60







Ratios	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<u>Per Share (SAR)</u>								
EPS	0.2	0.8	0.2	3.1	3.6	3.0	3.8	4.5
BVPS	13.7	14.8	14.3	17.7	20.8	23.3	26.6	30.6
DPS	-	-	-	0.5	0.5	0.5	0.5	0.5
FCF/share	(3.7)	(1.9)	(0.6)	2.8	1.4	1.1	3.0	4.6
Revenue/share	20.3	23.4	28.8	31.3	33.8	37.1	39.6	41.0
<u>Valuations</u>								
M.Cap (SAR mn)	3,336	2,961	5,023	7,849	5,255	5,255	5,255	5,255
EV (SAR mn)	5,312	5,229	7,510	10,310	7,681	7,672	7,488	7,157
P/E	193.9	39.4	294.8	27.8	15.7	18.9	15.0	12.7
EV/EBITDA	27.1	18.3	14.6	15.7	11.7	10.7	9.6	8.7
EV/Sales	2.8	2.4	2.8	3.6	2.5	2.2	2.1	1.9
P/BV	2.7	2.2	3.8	4.8	2.7	2.4	2.1	1.9
P/S	1.8	1.4	1.9	2.7	1.7	1.5	1.4	1.4
Div. yield	0.0%	0.0%	0.0%	0.6%	0.9%	0.9%	0.9%	0.9%
FCF yield	-10.2%	-5.9%	-1.0%	3.3%	2.4%	1.9%	5.3%	8.1%
<u>Liquidity</u>								
Cash Ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	1.2	1.2	1.2	1.7	1.6	1.6	1.8	2.1
Quick ratio	1.0	1.1	1.2	1.7	1.6	1.6	1.7	2.0
<u>Return ratio</u>								
ROA	0.4%	1.7%	0.3%	5.5%	6.2%	4.8%	5.9%	7.0%
ROE	1.4%	5.5%	1.3%	17.3%	17.4%	12.9%	14.3%	14.7%
ROCE	1.7%	3.8%	8.4%	10.7%	9.9%	10.6%	11.7%	12.5%
<u>Cash cycle</u>								
Trade receivables	1.5	1.3	1.2	1.5	1.5	1.5	1.5	1.5
Inventory	8.1	9.9	21.8	26.7	26.7	26.7	26.7	26.7
Payable turnover	4.2	3.5	2.9	5.5	5.5	5.5	5.5	5.5
Receivables days	247	274	312	243	243	243	243	239
Inventory days	44	37	17	13	13	13	13	13
Payable days	86	104	123	65	65	65	65	65
Cash Cycle	205	206	206	191	191	191	191	187
<u>Profitability ratio</u>								
Gross margins	32.5%	31.6%	38.2%	38.6%	38.6%	37.5%	37.5%	37.8%
EBITDA margins	10.4%	13.3%	19.4%	22.8%	21.1%	21.0%	21.5%	21.8%
Operating margins	2.9%	6.5%	12.2%	15.3%	13.9%	14.3%	15.3%	15.8%
PBT margins	1.0%	3.8%	7.2%	10.8%	11.8%	8.9%	10.6%	12.1%
Net margins	0.9%	3.5%	0.6%	9.8%	10.7%	8.1%	9.6%	11.0%
Effective tax rate	39.0%	11.8%	89.3%	8.5%	8.5%	8.5%	8.5%	8.5%
<u>Leverage</u>								
Total debt (SAR mn)	1,967	2,240	2,485	2,466	2,403	2,424	2,252	1,904
Net debt (SAR mn)	1,939	2,225	2,441	2,414	2,375	2,365	2,178	1,844
Debt/Capital	60.3%	61.4%	64.5%	59.6%	55.0%	52.5%	47.3%	39.8%
Debt/Total assets	49.5%	49.8%	48.4%	48.1%	44.5%	42.3%	38.1%	32.0%
Debt/Equity	151.8%	159.1%	182.0%	147.3%	122.4%	110.3%	89.9%	66.2%
Debt/EBITDA	10.1	7.8	4.8	3.7	3.7	3.4	2.9	2.3
Net debt/EBITDA	9.9	7.8	4.8	3.7	3.6	3.3	2.8	2.2

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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	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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