Dallah Healthcare Holding

Healthcare – Industrial
DALLAH AB: Saudi Arabia
10 November 2019

الراجحي المالية
Al Rajhi Capital

US$0.862bn	44%	US$1.685mn
Market cap	Free float	Avg. daily volume

Target price	52.00	+20.8% over current
Current price	43.05	as at 07/11/2019

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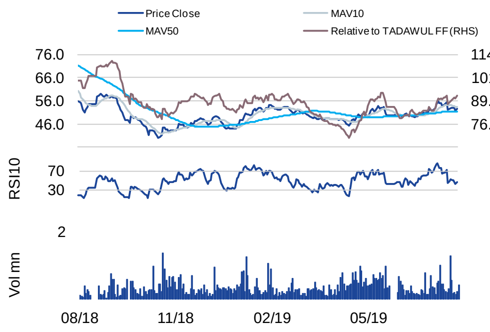
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2018	2019e	2020e
Revenue	1,181	1,251	1,369
Revenue growth	-2.6%	5.9%	9.4%
Gross profit	436	450	526
Gross margin	36.9%	36.0%	38.4%
EBITDA	221	231	290
EBITDA margin	18.7%	18.5%	21.2%
Net profit	142	110	155
Net margin	12.0%	8.8%	11.3%
EPS	1.9	1.5	2.2
P/E	23.3x	28.4x	19.9x
EV/EBITDA	18.0x	17.2x	13.5x
RoE	8.9%	7.9%	10.9%

Source: Company data, Al Rajhi Capital

Dallah Healthcare Holding

Q3: Earnings beat; Key performance metrics on track

Dallah's Q3 net profit came in higher by 74% q-o-q to SAR26.6mn (-18% y-o-y), above our and consensus estimates of SAR21.9mn. Top line came in line with our estimate at SAR301mn, a healthy growth of 7% y-o-y, owing to better utilization at Namar Hospital and slight improvement in Nakheel hospital's operating rate. Higher operating costs and lower pricing at Namar Hospital dragged down gross margin and operating margin, but not as much as expected which could indicate that the company's operating metrics are better than our expectations. Going forward, we expect Namar Hospital to ramp up faster, limiting losses and achieving break even by next year. Also, we expect improvement in Nakheel hospital to support top line and earnings, offsetting the negative effect due to Dr.Mohammed Fagih hospital which is likely to begin operations from this year. After factoring for the faster ramp up of Namar hospital and the better than expected cost control, we revise our target price upward to SAR52/sh (previous TP: SAR51/sh) and change our rating to "Overweight".

Revenue and margins: Q3 revenue stood at SAR301mn (+7% y-o-y), in line with our estimate of SAR298mn. Operating margin contracted 160bps y-o-y to 10.3% (our estimate: 9.0%, Q2 2019: 6.3%) owing to increase in operating cost at Namar Hospital, reflecting higher operating levels. This coupled with higher financing cost (due to increasing operating leverage for Dallah-Namar Hospital and higher losses from associates "Dr. Mohammed Fagih hospital") dragged net profit down to SAR26.6mn (-18% y-o-y, +74% q-o-q).

Figure 1 Dallah: Summary of Q3 2019 results

(SAR mn)	Q3 2018	Q2 2019	Q3 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	281	286	301	7.2%	5.3%	298
Gross Profit	101	93	108	6.3%	17%	100
Gross Margin	36.1%	32.3%	35.8%	NA	NA	33.7%
Operating profit	33	18	31	-7.3%	71%	27
Net Profit	32	15	27	-18%	74%	22

Source: Company data, Al Rajhi Capital

Outlook: Going forward, in the medium term we expect both revenue and net income to improve, reflecting the ongoing improvement in utilization at Namar hospital and commencement of Dr. Mohammed Fagih hospital at the end of 2019 in which Dallah owns 31% stake. In addition, Jeddah Dallah Hospital, North of Riyadh Hospital and memorandum of understanding with Kingdom Holding group to acquire Kingdom hospital, are future growth opportunities.

Valuation: Higher utilisation of Namar hospital and the improvement in Al-Nakheel hospital should boost revenue. Also operating costs have started to stabilize at current level, which should aid bottom line growth. However, we expect operating margins to be tight until Namar hospital utilization reaches efficient levels, which we expect it to materialize by H2 2020 based on the current healthy operating rate. In term of cash flows we expect the company to have healthier cash flows as most of the capital expenditures has already been paid providing space and capacity to increase dividends in the future and reduce leverage. Based on our weighted average valuation methodology of DCF (8.6% WACC, and 2.5% terminal growth) and relative valuation (Forward PE of 22.7x), our new TP is SAR52 per/sh (previous TP: SAR51/sh) and hence we change our rating on the stock to "Overweight".

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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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