

Capacity additions are expected to drive revenue growth; margins would remain under pressure in the ST

Recent acquisitions drove Dallah's revenue growth. The company managed to sustain its margins despite acquisitions. We are positive about the long-term prospects of Dallah owing to recent acquisitions and expansion to capitalize on the demand for the healthcare sector. As a result, we have an **"Overweight"** rating on the stock with a TP of SAR 79.0/share.

• **Earnings growth is driven by revenue growth, stable margins, and economic recovery:** Dallah's earnings growth continued to be driven by robust growth in revenue, aided by recent acquisitions. As a result, earnings and revenue for the quarter were above expectations. Dallah reported Q3-21 revenue of SAR 544.1mn (55.1% Y/Y) and net income of SAR 84.7mn (57.5% Y/Y). These were above the consensus estimate of SAR 50.6mn and our estimation of SAR 58.1mn and driven by a one-time gain from the acquisition of a subsidiary for SAR 34.9mn. As a result, earnings excluding one-time gain stood at SAR 49.9mn. We expect earnings to be under pressure in FY22 due to capacity expansion at several hospitals during the next 18 months.

• **GP Margin back to pre-COVID-19 levels; would be under pressure in the short term:** Dallah's GP Margin recovered to pre-pandemic levels, as the economic situation is normalizing. The Margin declined by 240 bps Y/Y to 35.4% in Q3-21m as it benefited from the pandemic in FY20. However, GP Margin declined by only 40 bps compared with 35.8% in Q3-19. In addition, the company plans to add additional capacity (>500 beds) in the next eighteen months, which we think will pressurize the margins in the short term. As a result, we forecast a GP Margin of 35.1% and 34.7% in FY22 and FY23, respectively. However, we expect the GP Margins to improve after that as operations normalize.

• **Expansion plans would benefit the company as demand for healthcare continues to grow:** The company is focused on increasing its capacity to capitalize on the growth prospects for the sector. Dallah plans to add more than 500 beds and 180 clinics in the next 18 months. Some key additions are Namar (150 to 400 beds) and West Nakheel (60 to 147 beds). As most of the developments involve brownfield expansion, we estimate the CAPEX for these to be about SAR 300mn. We believe the expansion would adversely impact the GP Margins and profitability in the medium term but will be beneficial in the long term.

• **Acquisitions plans complement upcoming capacity additions:** Dallah has pursued multiple acquisitions in the past, which include Care Shield Holding Company, Makkah Medical Center, and most recently, an 8.2% stake in International Medical Center Co. (IMC) for SAR 289mn. IMC (capacity: 300 beds) reported revenue of SAR 1.2bn annually for the past three years. Along with capacity expansions, the company is actively exploring potential acquisitions to increase its market presence. This strategy bodes well for the company to strengthen its market position in the healthcare industry

AJC view and valuation: We expect Dallah's margins to remain pressured in the near term due to multiple capacity additions in the next 18 months. In the long term, margin sustainability post expansion will represent key growth drivers, in our view.

We value Dallah on 50% weight for DCF (3.0% terminal growth and 5.1% average WACC) and 25% weightage each for EV/EBITDA (17.1x FY23 EBITDA) and P/E (26.1x FY23 EPS) based on relative valuation. These yield a TP of SAR 79.0/share, implying a 10.5% upside from the current levels. In addition, the stock is currently trading at a P/E of 32.1x based on our FY22E EPS estimate. As a result, we have an **"Overweight"** rating on this stock and recommend investing with a long-term perspective.

Overweight

| | |
|---------------------|-------|
| Target Price (SAR) | 79.0 |
| Upside / (Downside) | 10.5% |

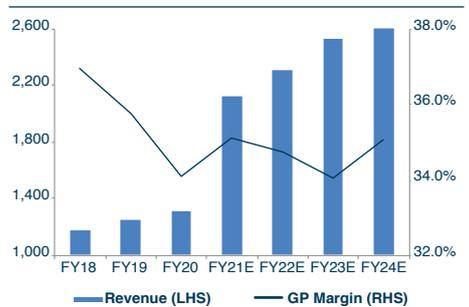
Source: Tadawul *prices as of 21st of November 2021

Key Financials

| SARmn (unless specified) | FY20 | FY21E | FY22E |
|--------------------------|---------|---------|---------|
| Net financing & | 1,318.3 | 2,120.8 | 2,306.3 |
| Growth % | 5.3% | 60.9% | 8.7% |
| Gross Profit | 449.7 | 745.1 | 801.2 |
| Net Profit | 97.1 | 205.6 | 203.3 |
| Growth % | -33.9% | 111.7% | -1.1% |
| EPS | 1.13 | 2.28 | 2.26 |

Source: Company reports, Aljazira Capital

Revenue (SAR mn) and GP Margin



Source: Aljazira Capital, Company reports

Key Ratios

| | FY20 | FY21E | FY22E |
|----------------|-------|-------|-------|
| GP Margin | 34.1% | 35.1% | 34.7% |
| Net Margin | 7.6% | 10.1% | 9.2% |
| P/E (x) | 42.8 | 31.7 | 32.1 |
| P/B (x) | 2.5 | 3.5 | 3.4 |
| EV/EBITDA (x) | 27.3 | 21.0 | 20.4 |
| Dividend Yield | 2.3% | 1.4% | 2.1% |
| ROA | 5.2% | 2.8% | 4.5% |
| ROE | 9.4% | 5.8% | 10.8% |

Source: Company reports, Aljazira Capital

Key Market Data

| | |
|------------------------|-----------|
| Market Cap (SAR bn) | 6.5 |
| YTD% | 50.1% |
| 52-week (High)/(Low) | 84.9/47.1 |
| Share Outstanding (mn) | 90.0 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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| Amount in SAR mn , unless otherwise specified | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E | FY24E |
|---|--------------|--------------|---------------|--------------|---------------|---------------|--------------|--------------|--------------|
| Income Statement | | | | | | | | | |
| Revenues | 1,162.8 | 1,212.1 | 1,180.9 | 1,252.1 | 1,318.3 | 2,120.8 | 2,306.3 | 2,527.9 | 2,603.7 |
| Y/Y | 18.0% | 4.2% | -2.6% | 6.0% | 5.3% | 60.9% | 8.7% | 9.6% | 3.0% |
| Cost | (627.1) | (654.1) | (744.6) | (804.2) | (868.5) | (1,375.7) | (1,505.1) | (1,667.1) | (1,691.1) |
| Gross profit | 535.7 | 558.0 | 436.3 | 447.8 | 449.7 | 745.1 | 801.2 | 860.8 | 912.6 |
| Selling & distribution expense | (24.7) | (11.6) | (25.3) | (23.6) | (25.5) | (39.2) | (45.1) | (50.6) | (52.1) |
| General & administration expense | (280.0) | (238.4) | (265.4) | (262.0) | (281.4) | (402.9) | (438.3) | (484.9) | (502.0) |
| Expected credit loss provision | - | - | 0.6 | (7.9) | (17.6) | (11.4) | (20.0) | (20.0) | (20.0) |
| Operating profit | 231.0 | 308.0 | 146.2 | 154.4 | 125.2 | 291.6 | 297.8 | 305.4 | 338.5 |
| Y/Y | 35.6% | 33.3% | -52.5% | 5.6% | -18.9% | 133.0% | 2.1% | 2.5% | 10.9% |
| Other income | 19.2 | 0.9 | 12.5 | 26.4 | 35.1 | 24.1 | 27.7 | 30.3 | 31.2 |
| Financial charges | (1.8) | (1.9) | (11.5) | (25.1) | (25.4) | (44.9) | (68.8) | (64.0) | (63.5) |
| Other adjustments | (9.7) | (1.8) | (1.8) | (4.1) | (21.3) | (38.5) | (32.0) | (32.0) | (32.0) |
| Income before zakat | 238.7 | 305.2 | 145.3 | 151.6 | 113.5 | 232.3 | 224.7 | 239.7 | 274.2 |
| Zakat | (14.0) | (10.2) | (3.5) | (4.7) | (13.4) | (18.1) | (13.5) | (14.4) | (16.5) |
| Net income | 224.7 | 295.0 | 141.8 | 146.9 | 100.1 | 214.2 | 211.3 | 225.3 | 257.8 |
| Y/Y | 36.1% | 31.3% | -51.9% | 3.6% | -31.9% | 114.0% | -1.4% | 6.7% | 14.4% |
| Balance sheet | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash & equivalent | 187 | 90 | 46 | 88 | 131 | 682 | 445 | 290 | 293 |
| Other current assets | 438 | 501 | 536 | 526 | 850 | 1,039 | 973 | 1,036 | 1,060 |
| Property plant & equipment | 1,400 | 1,772 | 1,953 | 2,103 | 2,417 | 2,837 | 3,022 | 3,155 | 3,276 |
| Other non-current assets | 222 | 165 | 169 | 199 | 589 | 589 | 589 | 588 | 588 |
| Total assets | 2,246 | 2,528 | 2,705 | 2,916 | 3,987 | 5,147 | 5,029 | 5,069 | 5,217 |
| Liabilities & owners' equity | | | | | | | | | |
| Total current liabilities | 311 | 271 | 420 | 421 | 728 | 938 | 878 | 906 | 908 |
| Long-term loans | 323 | 458 | 563 | 839 | 1,198 | 1,981 | 1,825 | 1,769 | 1,833 |
| Total other non-current liabilities | 96 | 107 | 121 | 134 | 212 | 254 | 275 | 299 | 302 |
| Paid-up capital | 590 | 590 | 590 | 750 | 900 | 900 | 900 | 900 | 900 |
| Statutory reserves | 398 | 398 | 398 | 238 | 98 | 98 | 98 | 98 | 98 |
| Fair value adjustment | (5) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) |
| Retained earnings | 533 | 704 | 613 | 725 | 762 | 878 | 946 | 983 | 1,053 |
| Treasury shares | - | - | - | (190) | - | - | - | - | - |
| Non-controlling interest | - | - | - | - | 90 | 99 | 107 | 115 | 123 |
| Total owners' equity | 1,516 | 1,692 | 1,601 | 1,522 | 1,850 | 1,974 | 2,050 | 2,096 | 2,173 |
| Total equity & liabilities | 2,246 | 2,528 | 2,705 | 2,916 | 3,987 | 5,147 | 5,029 | 5,069 | 5,217 |
| Cashflow statement | | | | | | | | | |
| Operating activities | 343 | 353 | 205 | 307 | 183 | 220 | 443 | 349 | 369 |
| Investing activities | (248) | (412) | (234) | (221) | (428) | (524) | (293) | (245) | (240) |
| Financing activities | (2) | (37) | (14) | (44) | 287 | 855 | (387) | (259) | (127) |
| Change in cash | 93 | (96) | (44) | 42 | 42 | 551 | (237) | (155) | 3 |
| Ending cash balance | 187 | 90 | 46 | 88 | 131 | 682 | 445 | 290 | 293 |
| Key fundamental ratios | | | | | | | | | |
| Liquidity ratios | | | | | | | | | |
| Current ratio (x) | 2.0 | 2.0 | 2.2 | 1.4 | 1.5 | 1.3 | 1.8 | 1.6 | 1.5 |
| Quick ratio (x) | 1.8 | 1.9 | 1.2 | 1.2 | 1.1 | 1.6 | 1.3 | 1.1 | 1.2 |
| Profitability ratios | | | | | | | | | |
| Gross profit margin | 46.1% | 46.0% | 36.9% | 35.8% | 34.1% | 35.1% | 34.7% | 34.1% | 35.1% |
| Operating margin | 19.9% | 25.4% | 12.4% | 12.3% | 9.5% | 13.7% | 12.9% | 12.1% | 13.0% |
| EBITDA margin | 24.9% | 30.3% | 18.7% | 18.4% | 15.4% | 18.7% | 17.6% | 16.5% | 17.6% |
| Net profit margin | 19.3% | 24.3% | 12.0% | 11.7% | 7.6% | 10.1% | 9.2% | 8.9% | 9.9% |
| Return on assets | 9.0% | 10.6% | 12.4% | 5.4% | 5.2% | 2.8% | 4.5% | 4.0% | 4.3% |
| Return on equity | 12.4% | 15.4% | 18.4% | 8.6% | 9.4% | 5.8% | 10.8% | 10.1% | 10.5% |
| Leverage ratio | | | | | | | | | |
| Debt / equity (x) | 0.32 | 0.33 | 0.44 | 0.68 | 0.87 | 1.32 | 1.14 | 1.08 | 1.07 |
| Market/valuation ratios | | | | | | | | | |
| EV/sales (x) | 5.1 | 5.3 | 3.4 | 4.0 | 4.2 | 3.9 | 3.6 | 3.3 | 3.2 |
| EV/EBITDA (x) | 20.3 | 17.5 | 18.0 | 21.9 | 27.3 | 21.0 | 20.4 | 20.1 | 18.4 |
| EPS (SAR) | 2.8 | 3.8 | 5.0 | 1.9 | 1.7 | 1.1 | 2.3 | 2.3 | 2.4 |
| BVPS (SAR) - Adjusted | 25.70 | 28.68 | 27.14 | 20.30 | 19.55 | 20.84 | 21.60 | 22.01 | 22.79 |
| Market price (SAR)* | 94.92 | 101.03 | 44.21 | 46.80 | 48.25 | 72.40 | 72.40 | 72.40 | 72.40 |
| Market-Cap (SAR mn) | 5,600 | 5,961 | 3,316 | 4,099 | 4,153 | 6,516 | 6,516 | 6,516 | 6,516 |
| Dividend yield | 1.6% | 2.0% | 7.1% | 0.9% | 2.3% | 1.4% | 2.1% | 2.8% | 2.8% |
| P/E ratio (x) | 24.9 | 20.2 | 23.4 | 27.9 | 42.8 | 31.7 | 32.1 | 30.0 | 26.1 |
| P/BV ratio (x) | 3.7 | 3.5 | 1.6 | 2.3 | 2.5 | 3.5 | 3.4 | 3.3 | 3.2 |

Source: Company financials, AlJazira research

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