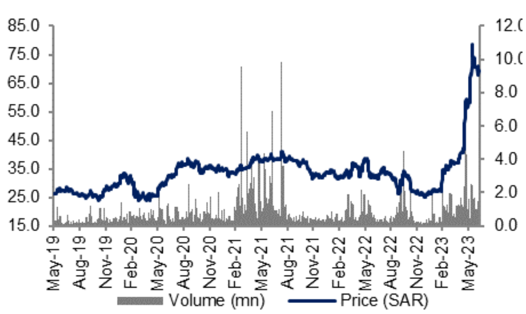
Healthcare

Middle East Healthcare Co.

HOLD: 12M TP @ 63

Valuation Summary (TTM)			
Price (SAR)			59.9
PER TTM (x)			40.5
P/Book (x)			3.7
P/Sales (x)			2.3
EV/Sales (x)			3.7
EV/EBITDA (x)			22
Dividend Yield (%)			NM
Free Float (%)			43%
Shares O/S (mn)			92
YTD Return (%)			135%
Beta			0.9
(bn)		**SAR**	**USD**
Market Cap		5.5	1.5
Enterprise Value		7.8	2.1
Price performance (%)	**1M**	**3M**	**12M**
Middle East Healthcare Co	-11%	5%	80%
Tadawul All Share Index	-3%	3%	-8%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000	37,683	54,192	50,316
Avg Daily Volume (,000)	573	813	949
52 week	**High**	**Low**	**CTL***
Price (SAR)	80	25	139.6
* CTL is % change in CMP to 52wk low			
Major shareholders			
Bait Al-Batterjee Me			55%
Vanguard Group Inc/T			1.7%
Batterjee Sobhi Abdu			1.0%
Others			42.6%
Other details			
Exchange			Saudi Arabia
Sector			Healthcare-Services
Index weight (%)			0.1%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	0.9	0.2	0.8
BVPS (SAR)	13.4	13.7	14.8
DPS (SAR)	0.00	0.00	0.00
Payout ratio (%)	0%	0%	0%



Middle East Healthcare Co. (MEHC) is one of the leading players in the healthcare market in Saudi Arabia and operated through 6 locations in 2022, with a capacity of c.1,100 beds and c.420 clinics in 2022. Among the major private listed players in the Kingdom, MEHC was the only company to have presence across all the regions in the country. Healthcare in Saudi is dominated by the government and related entities, which account for nearly 70% of the total hospitals. The government is looking to change this, through privatisation and by leasing the operation of some of its facility to the private players. This process is currently in nascent stages, and offers private players an opportunity to increase their presence without impacting the demand supply balance in a region. Insurance penetration in healthcare in the Kingdom has increased from 0.68% in 2018 to 0.77% in 2022, with the insurance density increasing from SAR595 in 2018 to SAR933 in 2022. This growth has been aided by the government making it mandatory for certain class of employees to get health insurance. This in line with objective of The Council of Cooperative Health Insurance (CCHI) to cover c.50% of the country's population by an insurance scheme by 2030. Despite the strong growth in health insurance, it is estimated that 20% of expat and 27% of Saudi employees are still left uncovered, offering the industry strong potential for further growth. The increase in the health insurance coverage will make healthcare more affordable to the population, limiting the outbound medical tourism that happens in the Kingdom. With more than 50% of MEHC's revenue coming from insurance, we see strong potential for growth. The company has planned to increase its bed capacity by c.55% by 2025 and of this, c.70% of the capex have been completed by 1H23, with the balance expected to be operational by 1H25. MEHC has one of the highest receivable days amongst its peers. This along with its aggressive capex has strained its leverage levels, which is one of the highest in the industry. Though we expect both the receivable days and the leverage to moderate slightly in the medium term, the same is likely to continue to be higher than the peer average. We initiate coverage on MEHC with a Hold rating at a target price of SAR63/share.

Strong capacity expansion plans: MEHC is looking to add 628 new beds in the next three years. Of this the work on its new hospital in Makkah, with a capacity of 300 beds, and its expansion in Riyadh, with a capacity of 134 beds, have been completed, and will come on stream this year. The company is also adding 194 beds in Jeddah and the work on the same is expected to be concluded by 1H25. The capex for this project is estimated at SAR400mn and is expected to be financed through debt. Post these, MEHC's capacity will increase to 1,757 beds in 2026e, from 1,129 beds in 2022.

Improving operating metrics and increase in capacity to drive growth: MEHC's effective revenue per bed (10.9% CAGR between 2018 and 2022) and revenue per clinic (5.8% CAGR between 2018 and 2022) have shown a consistent increase. Clinic utilization has recovered strongly from the Covid lows of 51% in 2020 to the levels of 63% in 2022. Utilisation of beds on the other hand came under pressure post-Covid, declining from 71% in 2019 and 2020, to c.65% for 2021 and 2022. Going forward, we expect the utilization levels of both the beds and clinics to fall to c.55% and c.50% respectively in 2023e, due to its new expansions, but will pick up steadily post that. Overall, we expect the revenue of MEHC to grow at a CAGR of c.12% between 2022-27e, while net income is forecasted to grow at a CAGR of c.38%.

High receivable days and leverage makes us cautious: MEHC's receivable days at 274 days in 2022 was substantially higher than the peer average of c.110 days. As a result of its high working capital requirement and its strong historical capex, its leverage was high, with a debt-to-equity ratio of 159% in 2022, compared to the peer average of 59%. Though we expect both to decline during our forecast period, it is likely to continue to be higher than its peers.

Valuations: MEHC's diversified presence across the Kingdom and its strong pipeline of capacity expansion is likely to keep the revenue growth strong. Its operating efficiency too is likely to improve during our forecast period, providing a strong momentum to the profitability. However, our optimism is tempered by the company's high receivable days and leverage. We initiate coverage on MEHC with a Hold rating at a target price of SAR63/share.

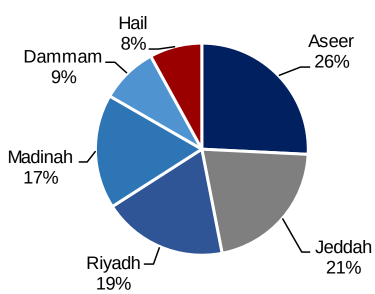
A Leading private player with coverage extending across the Kingdom

MEHC operated in 6 locations Saudi in 2022, with 1,100+ beds.

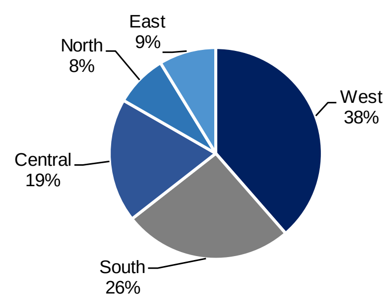
MEHC is one of the top healthcare players in the Kingdom, operating in 6 locations in Saudi in 2022, with a capacity of more than 1,100 beds and c.420 clinics in 2022. With the opening of a new hospital in Makkah, its presence has increased to 7 cities across the Kingdom, which offers the company one of the best coverages in the industry among its listed peers, with access to around 90% of the country's population.

MEHC's largest hospital was in Aseer with a capacity of 291 beds, which accounted for 26% of the company's total bed capacity in 2022. Its second-largest hospital is in Jeddah, with a capacity of 239 beds, accounting for 21% of its 2022 capacity. This is followed by Riyadh, 214 beds (19%), Madinah 197 beds (17%), Dammam 98 beds (9%), and Hail 90 beds (8%). Apart from this, the company also has 1 leased hospital in Jeddah and 5 hospitals under management control, with 1 each in Cairo, & Sana, and 3 in UAE (Dubai, Sharjah, and Ajman). It also has a pipeline of 7 more hospitals under management, 2 in Egypt, 4 in Pakistan, and 1 in Morocco.

Beds spread across cities in Saudi (2022)



Beds diversified across regions in Saudi (2022)



Source: Company filings and US Research

The only company among its peers to have exposure to all the regions in Saudi.

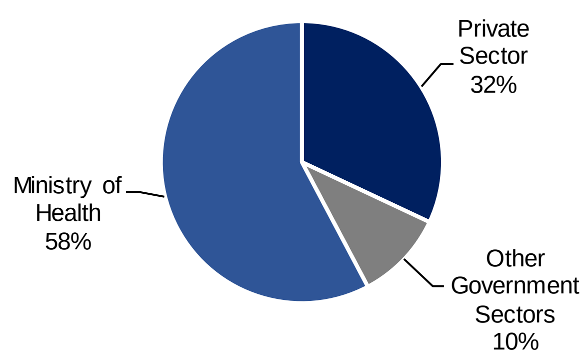
In terms of coverage, the company has a reasonable presence across all the regions, with the West accounting for nearly 38% of its total capacity in 2022. This is followed by South (26%), Central (19%), East (9%), and North (8%). This compares positively to its other listed peers, which are concentrated in one or two regions. This in turn offers the company exposure to the relatively untapped markets in the country, with limited competition and faster breakeven of new hospitals.

c.70% of the hospitals in Saudi under the control of MoH and other government entities.

Private participation in healthcare to increase

The healthcare segment in the Kingdom is dominated by the government, with nearly 70% of the hospitals in the country under the control of the MoH and other government entities. However, the administration is looking to reducing its presence in the sector, by privatizing some of the existing government facilities, and through PPPs, wherein the management of some of the government facilities could be handed over to other players. Though this process is in a very nascent stage, this offers growth opportunities for the existing listed players, without impacting the overall demand and supply situation in a region.

Government control the highest number of hospitals

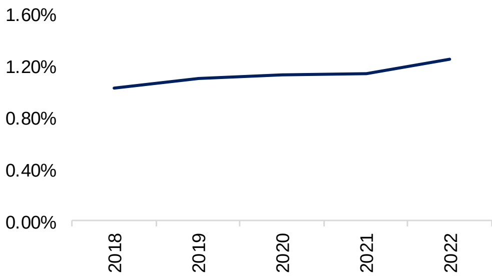


Source: Dallah filings and US Research

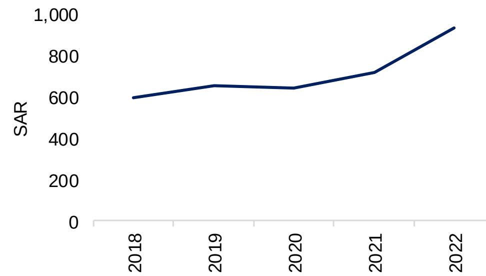
Changing industry dynamics post-Covid and aided by regulatory changes in insurance coverage

The Covid pandemic and the resultant restrictions on travel impacted Saudis looking at foreign countries for their medical needs (outbound medical tourism). This in turn encouraged local healthcare companies to invest more in specialty services. This, along with the positive changes in the insurance segment has made healthcare services offered within the Kingdom more affordable and attractive. Though outbound medical tourism in the Kingdom recovered from the post-pandemic travel restrictions, patient volumes have remained robust for most of the major companies. The aggregate revenue of the major healthcare companies in Saudi increased at a CAGR of 18% between 2020 and 2022, and most of the companies, excluding Hammadi, have reported consistent growth in their revenue during this period. Even for Hammadi, the drop in revenue, was at the back of the closure of its Olaya hospital in 2021.

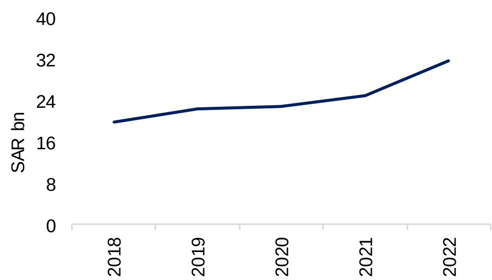
Healthcare insurance penetration has improved



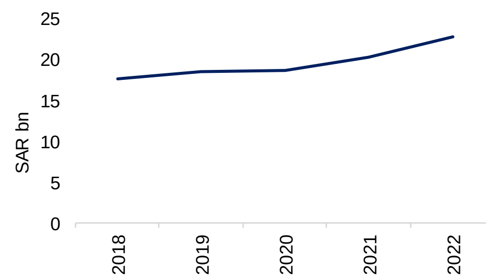
Healthcare insurance density improves consistently



Gross written premiums on healthcare increase



Claims on healthcare increase steadily



Source: SAMA and US Research

Increase in the services offered and improved insurance coverage makes private hospital more attractive.

The government of Saudi Arabia is looking to increase the insurance penetration in the country and The Council of Cooperative Health Insurance (CCHI) has set a target of covering c.50% of the country's population with insurance by 2030. Aided by this push, the total insured life among Saudis in the healthcare segment has grown at a CAGR of 8% between 2018 and 2022. Gross written premium for healthcare has grown at a CAGR of 12% for the same period. Insurance penetration (health insurance) on the other hand has improved from 0.68% in 2018 to 0.77% in 2022, while insurance density has improved from SAR595 in 2018 to SAR933 in 2022. However, despite this robust growth, there still appears to be a gap between the potential to the actual insured. Compared to GOSI's employment statistics with CHI's data of employees with insurance there is a gap of 709k employees among Saudis and 1.5mn employees among expats who are not covered with insurance. This means that 27% of employees among Saudis and 20% of employees among expats do not have insurance, which provides further potential for growth. On May-23, Saudi's Council of Ministers approved the application of health insurance rules for domestic workers in households, which employ four or more domestic helpers. This in turn is likely to bring into the folds a group of employees which were erstwhile not covered by insurance.

Saudi's population reached 32.2mn in 2022, growing at a CAGR of c.2.5% over the past 10 years. The demographics of the Kingdom are favorable, with 63% of the Saudis under the age of 30 and a median population age of 29. With c.73% of the population in working age, the demand for quality healthcare is expected to grow. Also, with this segment of the population likely to be covered by health insurance through their employer, it will make the consumption of healthcare more affordable. Further, it has been estimated that by 2035, the population over the age of 60, is expected to increase by 3x from the current levels, which will add to the demand for quality healthcare services. Overall, we see a strong potential for growth in healthcare in the country, powered by improving offerings of private players, increasing labor participation, and increasing insurance coverage, which makes quality healthcare more affordable.

A large portion of the industry capex concentrated in the West and Central regions, for the next three years

The capex planned by the major listed peers in the industry include:

- Al Habib has planned to set up c.1,600 new beds by 2025e, with a majority of it, 876 beds, concentrated in the Central region, and the balance in the Western region.
- MEHC's bed capacity is expected to increase by c.630 beds, of which 434 beds were already operational in 1H23. A majority of the capex, c.495 beds is located in the Western region, while the balance c.135 beds is expected to come up in the Central region.
- Mouwasat has lined up an expansion of 620 beds, of which 200 beds are likely to come on stream by 2H25 and will be in the Western region. Another 300 beds facility is planned in the West, while a 120 beds facility is planned in the Central region, though the timings of these are unknown.
- Dallah on the other hand has planned an expansion of 400 beds by 2025, in addition to some potential increases in its existing facilities. All these expansions are concentrated in the Central region.

- National Medical Care (Care) is looking to increase its capacity by 195 beds, with 66 beds coming from an acquisition in the West, while 129 beds will be increased in its existing hospitals in the Central region.
- Al Hammadi will increase its capacity by the reintroduction of its 200 beds hospital in Olaya by 2026, and an increase of 128 beds in one of its existing facilities, the timing of which is unknown. Both these facilities are in the Central region. Apart from this, it is also looking to set up two new hospitals with a capacity of 200 beds each. These too are in the Central region, though both these are expected to come on stream post-2028.

Capex is mostly concentrated between the Central and the Western regions.

We see a trend of healthcare companies, either diversifying their presence by investing in other regions, like Al Habib, given that its current capacities are concentrated mainly in the Central region, or consolidating their position in a particular region. Also, a majority of the planned capex is concentrated in the Central (58%) and the Western regions (42%). This we feel is in line with the importance of these two regions in the overall economic development of the Kingdom, given that a major portion of the ongoing infrastructure projects and other development are concentrated in these areas.

Strong capacity addition pipeline of MEHC in the medium-term

MEHC plans to add 600+ beds by 2025.

In the next three years, MEHC's operating beds are expected to increase by 600+. The company's foray into Makkah, with 300 beds was completed in 2022, with the operations expected to commence from the current year. Added to this, the company is increasing its capacity in Riyadh by 134 beds, and Jeddah by 194 beds. Its Riyadh capex has been completed and the beds were made operational in 1H23, while the Jeddah expansion is expected to be commissioned by 1H25. The capex for the Makkah facility and the capacity expansion in Riyadh totaled c.SAR600mn and the same has been incurred. The Jeddah capex is expected to be c.SAR400mn and is likely to be financed through debt.

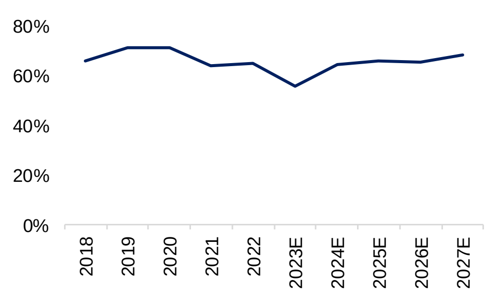
Through these investments, the company will be strengthening its position in the Western and Central regions. Post these capex, MEHC's operational beds are expected to increase by more than 35% YoY to c.1,500 beds in 2023e, and by 12% from 2023e levels to c.1,760 beds by 2027e. We expect both revenue and profitability will be favorably aided by these expansions.

We expect the utilization levels of the Makkah facility to reach breakeven levels by the mid of 2024e, while its capacity expansion in Riyadh will be aided by the knowledge of the market, given that it already has 214 beds operating in the city. However, relatively higher levels of competition in the region could delay the breakeven in this facility to c.2 years. The capacity expansion in the Jeddah facility too will be aided by the presence of its existing facility; however, MEHC's facility could witness some increase in the levels of competition and we expect a breakeven time of c.1 to 1.5 years for this facility.

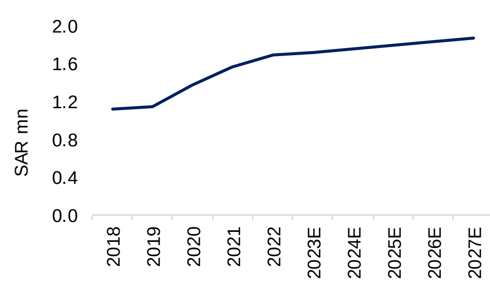
Utilization levels of hospitals fall from the highs of 2020, even as utilization of clinics and effective revenue per bed/clinic improve

Utilization levels of hospital beds of MEHC have fallen from c.71% in 2019 and 2020, to the levels of 64% in 2021 and 65% in 2022. The Covid pandemic had ensured higher patient flow to hospitals resulting in a strong improvement in utilization levels. However, these have reverted to pre-pandemic levels. Going forward, we expect the utilization of existing facilities of MEHC to improve steadily for the next five years, though we forecast the overall utilization to fall in 2023e and will be impacted by the new 300-bed facility in Makkah and the 134-bed capacity increase in Riyadh, which are likely to post lower utilization during their initial years of operation. We expect the utilization to start improving gradually post 2023e.

Overall utilization of beds to improve post 2023e



Effective revenue per bed to continue to increase



Source: Company filings and US Research

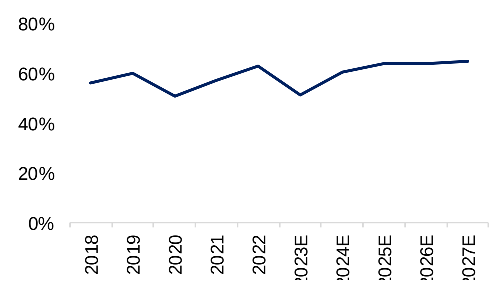
Utilization of beds fall post pandemic, though revenue per bed increases steadily.

Effective revenue per bed has increased consistently for the past four years, improving at a CAGR of c.11% between 2018 and 2022 to SAR1.7mn per bed. Improvement in the facilities offered, and an increase in the specialized services were the main reason for this improvement. Going forward, we expect the trend to be largely intact, as we forecast the effective revenue per bed to increase at a CAGR of c.2% for the next five years.

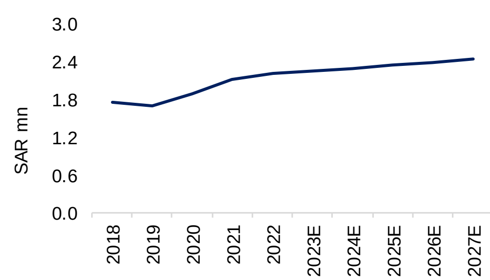
Utilization of clinics improve post pandemic.

The utilization levels of clinics have improved steadily from the 2020 levels of 51% to 63% in 2022. During the Covid pandemic, outpatient traffic across hospitals was impacted due to travel restrictions. Post this, however, the same has normalized, resulting in an improvement in the utilization. Going forward, we expect the overall utilization of MEHC to fall in 2023e, due to the expansion in the number of clinics. Post 2023e, we expect the levels to start recovering gradually, as the new facilities start attracting more patients.

Overall utilization of clinics to improve post 2023e



Effective revenue per clinic to continue to increase



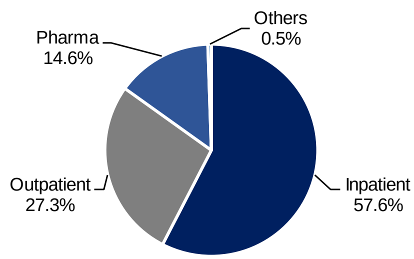
Source: Company filings and US Research

Effective revenue per clinic on the other hand has increased consistently for the past four years, at a CAGR of c.6% between 2018 and 2022 to SAR2.2mn per clinic. Additions to new specialties and consultancy in the clinic have aided this improvement. Going forward, we expect this trend to continue, as we forecast the effective revenue per clinic to increase at a CAGR of c.2% for the next five years.

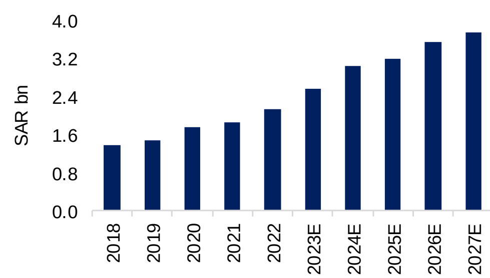
Revenue growth to be driven by capacity additions

Revenue of MEHC grew by a CAGR of 11.5% between 2018 and 2022 and was aided by a robust 14.0% CAGR in inpatient revenue and an 11.1% CAGR in outpatient revenue for the same period. Pharma revenue and others grew at a more modest 4.8% and 1.4% CAGR respectively between 2018 and 2022. The number of beds increased from 996 in 2018 to 1,129 in 2022, an addition of 133 beds, while utilization levels fell from 66% in 2019 to 65% in 2022. The driver of inpatient revenue was the improvement in the effective revenue per bed, which increased at a CAGR of 10.9%, from SAR1.1mn/bed in 2018 to SAR1.7mn/bed in 2022. The number of clinics on the other hand increased from 391 in 2018 to 423 in 2022, while utilization improved substantially from 56% in 2018 to 63% in 2022. Revenue per clinic on the other hand increased by a modest 5.8% CAGR between 2018 and 2022.

2022 revenue dominated by inpatient and outpatient



Revenue to improve consistently



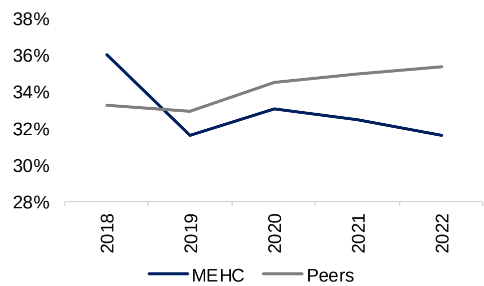
Source: Company filings and US Research

Going forward we expect revenue growth to remain robust, aided by an increase in the number of beds from 1,129 in 2022 to 1,757 in 2026e, an addition of 628 beds. Overall, we expect the revenue of MEHC to grow at a CAGR of c.12% between 2022-27e, aided by a 12-13% CAGR in inpatient revenue, and a 9-10% CAGR in outpatient revenue. Apart from the increase in capacity, revenue will also be aided by a steady improvement in the revenue per bed and revenue per clinic during our forecast period.

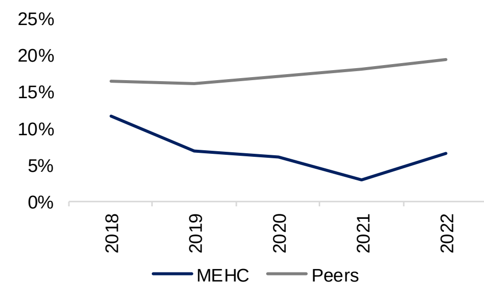
Profitability to grow in line with revenue, though margins likely to lag peers

The gross profit of MEHC increased at a CAGR of 8.0% between 2018-22 and was driven mainly by improved revenue, even as gross margins fell from the levels of 36.0% for 2018 to 31.6% in 2022. An increase in the number of beds and clinics during the period is likely to have impacted the margins, since it takes time for a new facility to break even, and during this period the overall profitability metrics come under pressure. The company's gross margins have consistently lagged behind its peers since 2019. Though we expect the gross margins to improve for the next five years, by c.60bps between 2022-27e, it is likely to continue to lag industry averages.

MEHC gross margins lower than its peer average



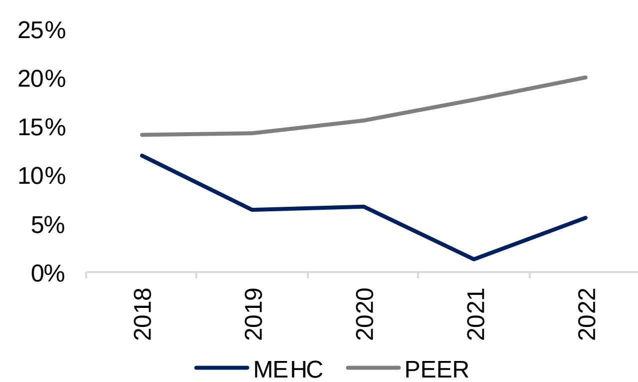
Op. margins improve in 2022, though lower than peer



Source: Company filings and US Research

Operating expenses between 2018-22 increased at a CAGR of c.12%, at the back of a 31.5% CAGR in selling and distribution expenses. Higher spending due to the introduction of new beds during the period was the main reason for this. Growing debt, at the back of new capex and enhanced working capital requirement, and rising interest rates resulted in financing expenses increasing at a CAGR of c.58% between 2018-22. Overall, the net income of MEHC fell by a CAGR of 18.7% between 2018-22 and was impacted by pressure on margins, higher operating costs, and higher finance expenses.

ROE of MEHC trails peer average



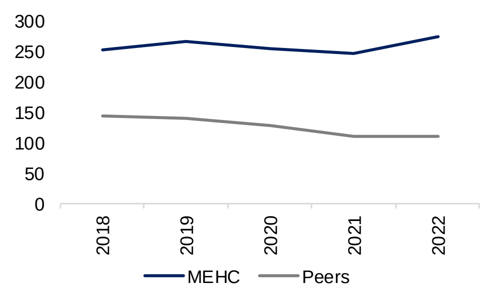
Source: Company filings and US Research

The operating margins of MEHC have consistently lagged the average of its peers in the past. Though we expect this trend to continue going forward, the gap is likely to reduce. We expect operating margins to improve from the levels of 6.5% in 2022 to c.12% in 2027e. While we expect the capacity increase to put short-term pressure on margins, the same is likely to be smoothened once the new facility's operation begins to streamline. Overall, we expect the net income of MEHC to increase at a CAGR of c.38% between 2022-27e.

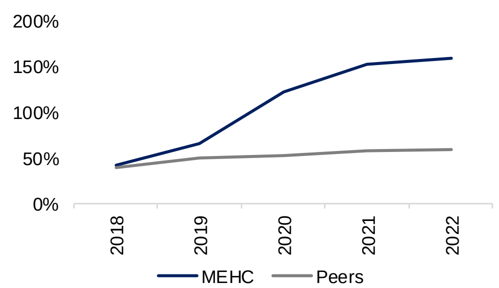
High working capital requirement puts pressure on the company's leverage

The receivable days of healthcare companies have been traditionally high due to their high exposure to government agencies and insurance companies. However, with a receivable day of c.275, MEHCs levels were substantially higher than the peer average of c.109 days. This along with the regular capex incurred by the company has resulted in a relatively high levels of leverage, vis-à-vis its peers. It's debt-to-equity ratio of 159% in 2022, was an increase from 41% in 2018, and was also higher than the peer average of c.60%.

Receivable days substantially higher than peers



Debt equity ratio consistently high for MEHC



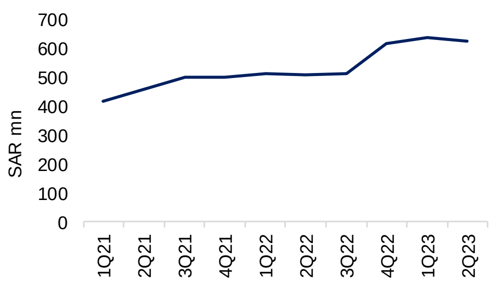
Source: Company filings and US Research

Of the total debt (excluding lease liabilities) of SAR 2.3 bn outstanding in Jun-23, short-term borrowings were SAR907mn, or c.40% of the outstanding. Though we expect the receivable days and the leverage to moderate in the medium term, the same is likely to lag the peer average.

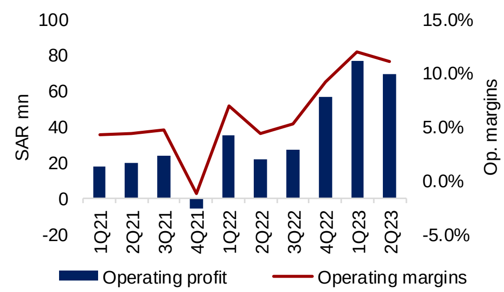
2Q23 performance was strong, aided by higher revenue and improved margins

2Q23 revenue of MEHC increased by 22.9% YoY and was aided by a robust 25.2% YoY growth in outpatient revenue and a 24.5% YoY improvement in inpatient revenue. Improved utilization of beds and clinics aided this growth.

Revenue growth strong in 2023



Operating profits in 2Q23 higher YoY



Source: Company filings and US Research

Gross profit increased by 44.0% YoY and was aided by an improvement in revenue and higher profitability in both inpatient and outpatient. Outpatient gross margins increased substantially from 29% in 2Q22 to 39% in 2Q23, while inpatient margins rose to 38% in 2Q23, compared to 35% for the same period the previous year. Overall gross margins improved by c.540bps YoY to 36.6% for 2Q23.

Operating costs increased by 16.5% YoY, at the back of a 17.5% YoY increase in administrative expenses. Finance expenses on the other hand increased by 37.4% YoY, at the back of new capacities commencing commercial operation during the period. Overall, net income increased by 286.0% YoY, as higher operating and finance costs were more than made up by improved revenue and gross margins.

Valuation:

Initiate coverage with a TP of SAR63/share and a Hold rating

MEHC's diversified presence across the Kingdom, along with its strong presence in the lucrative Western and Central region, and its robust capex pipeline, places the company in a strong position to tap the favorable market dynamics in the healthcare industry, driven by the favorable changes in the health insurance market. However, we take into account the higher-than-average receivable days and the relatively high leverage of the company, which moderates our positive outlook on the operating performance of the company.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
Net operating profit after tax	250	280	338	345	422
Add Depreciation	155	166	166	168	169
Working capital changes	(245)	(210)	(50)	(146)	(66)
Less: Capex	(308)	(365)	(160)	(178)	(188)
Free cash flow to equity	**(149)**	**(129)**	**295**	**189**	**337**
PV of free cash flow to equity	**(145)**	**(117)**	**249**	**149**	**247**
Sum of PV of free cash flow to equity					**383**
Add: Terminal value					8,296
EV					**8,679**
Less: Net debt					(2,635)
Less: Minority interest					(242)
Equity value					**5,802**
Fait value per share (SAR)					***63***

Cost of Capital	
Risk free rate	4.1%
Adjusted beta	0.9x
Equity risk premium	4.7%
Cost of equity	8.4%
Terminal growth rate	3.0%
After tax cost of debt	5.2%
Target debt proportion	29.5%
WACC	7.5%

We have valued the company using DCF, based on a WACC of 7.5% and terminal growth of 3%, and have arrived at a target price of SAR63/share. We initiate coverage on the stock with a Hold rating for the company.

About the Company

MEHC's footprint

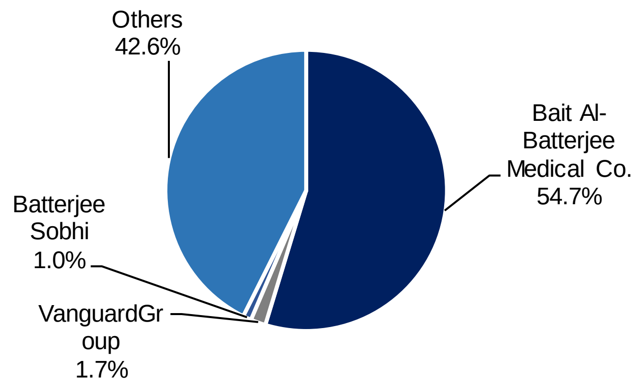
Source: Company filings

MEHC is one of the largest private healthcare companies in Saudi Arabia and operated across the country with a capacity of more than 1,100 beds and 400+ clinics in 2022. The company has lined up an aggressive capacity expansion plans to add 600+ beds in the next three to four years. Of this, the 300 beds in Makkah and 134 beds expansion in Riyadh are completed, with the balance 194-bed capacity expected to come on stream by 1H25. Apart from its operations in the Kingdom, the company also has 5 hospitals under management, 3 in UAE, 1 in Yemen, and 1 in Egypt. MEHC also has a pipeline of 7 hospitals under management, 2 in Egypt, 4 in Pakistan, and 1 in Morocco.

The company operated with a total staff of c.7,100, with c.1,200 doctors and c.2,400 nurses. Between 2015 and 2022, the company has served an aggregate of c.461k inpatients, c.10mn outpatients, and performed 255k surgeries.

In 2022, 58% of the company's revenue was from inpatient, 27% from outpatient, 15% from pharma, and the balance of 1% was from other sources. In terms of clientele, 51% of its revenue was from insurance, 26% from MoH, 19% were cash patients, and the balance 3% from others.

Shareholding pattern



Source: Bloomberg and US Research

Board of Directors		
S.no	Name	Position
1	Sobhi Abdul Jalil Ibrahim Batterjee	Chairman
2	Makarem Sobhi Abdul Jalil Batterjee	Vice President
3	Khaled Abdul Jalil Ibrahim Batterjee	Board Member
4	Sultan Sobhi Abdul Jalil Batterjee	Board Member
5	Mohammed Abdul Rahman Moemena	Board Member
6	Amr Muhammad Khalid Khashoshgy	Board Member
7	Mohammed Mostafa Mohammed Omar Bin Siddiq	Board Member

Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,497	1,751	1,873	2,152	2,564	3,041	3,194	3,557	3,759
Cost of sales	(1,024)	(1,172)	(1,264)	(1,472)	(1,662)	(2,089)	(2,168)	(2,443)	(2,549)
Gross profit	**473**	**578**	**608**	**680**	**902**	**952**	**1,026**	**1,114**	**1,210**
Operating expenses	(370)	(471)	(554)	(540)	(637)	(656)	(670)	(750)	(767)
Operating profit	**103**	**107**	**54**	**140**	**265**	**296**	**356**	**363**	**442**
Other income	17	7	12	10	10	10	10	10	11
Finance expenses	(25)	(34)	(47)	(69)	(90)	(84)	(65)	(50)	(47)
Earnings before tax	**95**	**81**	**19**	**81**	**185**	**222**	**301**	**324**	**406**
Tax	(5)	(6)	(8)	(10)	(11)	(12)	(15)	(17)	(18)
Earnings before MI	**90**	**75**	**12**	**72**	**174**	**210**	**287**	**307**	**387**
Minority interest	7	7	5	4	(7)	(8)	(11)	(12)	(15)
Net income	**98**	**82**	**17**	**75**	**167**	**202**	**275**	**295**	**372**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property and equipment	1,909	2,074	2,357	2,471	2,641	2,857	2,866	2,893	2,928
Other non-current assets	35	33	40	71	69	68	66	65	64
Total non-current assets	**1,945**	**2,106**	**2,397**	**2,542**	**2,710**	**2,924**	**2,933**	**2,958**	**2,991**
Trade receivables	1,109	1,236	1,282	1,635	1,910	2,219	2,283	2,489	2,574
Inventories	125	156	156	149	169	212	220	248	259
Cash and cash equivalents	54	17	28	16	17	20	18	33	188
Other current assets	74	85	112	157	188	222	234	260	275
Total current assets	**1,361**	**1,493**	**1,578**	**1,957**	**2,283**	**2,674**	**2,755**	**3,030**	**3,295**
Total assets	**3,305**	**3,599**	**3,975**	**4,499**	**4,993**	**5,598**	**5,687**	**5,987**	**6,286**
Share Capital	920	920	920	920	920	920	920	920	920
Total reserves	602	311	337	445	612	814	1,089	1,384	1,755
Minority interest	39	43	38	43	50	59	70	82	98
Total equity	**1,562**	**1,275**	**1,295**	**1,408**	**1,583**	**1,793**	**2,079**	**2,386**	**2,774**
Lease liabilities current portion	4	4	7	12	12	12	12	12	12
Short-term loans	357	675	904	991	1,204	1,394	1,336	1,387	1,428
Trade payables	337	359	302	426	481	604	627	707	737
Other current liabilities	123	149	157	202	226	281	291	326	339
Total current liabilities	**821**	**1,188**	**1,370**	**1,631**	**1,923**	**2,291**	**2,266**	**2,432**	**2,516**
Non-current lease liabilities	27	23	27	57	72	87	102	117	132
Loans and borrowings	643	847	1,028	1,181	1,193	1,205	1,017	830	642
Other non-current liabilities	252	267	254	223	223	223	223	223	223
Total non-current liabilities	**923**	**1,137**	**1,310**	**1,460**	**1,488**	**1,515**	**1,342**	**1,169**	**997**
Total Liabilities	**1,744**	**2,325**	**2,680**	**3,091**	**3,411**	**3,805**	**3,608**	**3,601**	**3,513**
Equity and liabilities	**3,305**	**3,599**	**3,975**	**4,499**	**4,993**	**5,598**	**5,687**	**5,987**	**6,286**

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	99	(229)	77	76	84	166	403	329	490
Cash from investments	(469)	(294)	(417)	(249)	(308)	(365)	(160)	(178)	(188)
Cash from financing	380	486	352	161	225	202	(245)	(137)	(147)
Net changes in cash	10	(37)	11	(13)	2	3	(2)	15	155
Closing balance (C/b)	**54**	**17**	**28**	**16**	**17**	**20**	**18**	**33**	**188**

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Price (SAR)	29	32	36	32	60	60	60	60	60
Number of shares (mn)	92	92	92	92	92	92	92	92	92
EBITDA	202	235	196	286	420	462	522	531	612
Per Share (SAR)									
EPS	1.1	0.9	0.2	0.8	1.8	2.2	3.0	3.2	4.0
BVPS	16.5	13.4	13.7	14.8	16.6	18.8	21.8	25.0	29.1
DPS	-	-	-	-	-	-	-	-	-
FCF/share	(4.0)	(5.7)	(3.7)	(1.9)	(2.4)	(2.2)	2.6	1.6	3.3
Revenue/share	16.3	19.0	20.3	23.4	27.9	33.0	34.7	38.6	40.8
Valuations									
M.Cap (SAR mn)	2,632	2,924	3,336	2,961	5,513	5,513	5,513	5,513	5,513
EV (SAR mn)	3,649	4,500	5,312	5,229	8,027	8,249	8,032	7,908	7,636
P/E	27.0x	35.7x	193.9x	39.4x	32.9x	27.3x	20.0x	18.7x	14.8x
EV/EBITDA	18.1x	19.2x	27.1x	18.3x	19.1x	17.9x	15.4x	14.9x	12.5x
EV/Sales	2.4x	2.6x	2.8x	2.4x	3.1x	2.7x	2.5x	2.2x	2.0x
P/BV	1.7x	2.4x	2.7x	2.2x	3.6x	3.2x	2.7x	2.4x	2.1x
P/S	1.8x	1.7x	1.8x	1.4x	2.1x	1.8x	1.7x	1.6x	1.5x
Div. yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-14.1%	-17.9%	-10.2%	-5.9%	-4.1%	-3.6%	4.4%	2.7%	5.5%
Liquidity									
Cash Ratio	0.1x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.1x
Current ratio	1.7x	1.3x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.3x
Quick ratio	1.5x	1.1x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x	1.2x
Return ratio									
ROA	3.0%	2.3%	0.4%	1.7%	3.4%	3.6%	4.8%	4.9%	5.9%
ROE	6.4%	6.7%	1.4%	5.5%	10.9%	11.6%	13.7%	12.8%	13.9%
ROCE	4.0%	3.8%	1.7%	3.8%	6.5%	6.6%	7.8%	7.7%	8.9%
Cash cycle									
Trade receivables	1.4x	1.4x	1.5x	1.3x	1.3x	1.4x	1.4x	1.4x	1.5x
Inventory	8.2x	7.5x	8.1x	9.9x	9.9x	9.9x	9.9x	9.9x	9.9x
Payable turnover	3.0x	3.3x	4.2x	3.5x	3.5x	3.5x	3.5x	3.5x	3.5x
Receivables days	267	254	247	274	268	263	257	252	247
Inventory days	44	48	44	37	37	37	37	37	37
Payable days	119	110	86	104	104	104	104	104	104
Cash Cycle	192	192	205	206	200	195	190	184	179
Profitability ratio									
Gross margins	31.6%	33.0%	32.5%	31.6%	35.2%	31.3%	32.1%	31.3%	32.2%
EBITDA margins	13.5%	13.4%	10.4%	13.3%	16.4%	15.2%	16.3%	14.9%	16.3%
Operating margins	6.9%	6.1%	2.9%	6.5%	10.3%	9.7%	11.1%	10.2%	11.8%
PBT margins	6.4%	4.6%	1.0%	3.8%	7.2%	7.3%	9.4%	9.1%	10.8%
Net margins	6.5%	4.7%	0.9%	3.5%	6.5%	6.6%	8.6%	8.3%	9.9%
Effective tax rate	5.4%	6.8%	39.0%	11.8%	5.8%	5.5%	4.8%	5.1%	4.6%
Leverage									
Total debt (SAR mn)	1,031	1,550	1,967	2,240	2,481	2,698	2,468	2,346	2,213
Net debt (SAR mn)	978	1,533	1,939	2,225	2,464	2,678	2,449	2,313	2,025
Debt/Capital	39.8%	54.9%	60.3%	61.4%	61.1%	60.1%	54.3%	49.6%	44.4%
Debt/Total assets	31.2%	43.1%	49.5%	49.8%	49.7%	48.2%	43.4%	39.2%	35.2%
Debt/Equity	0.7x	1.2x	1.5x	1.6x	1.6x	1.5x	1.2x	1.0x	0.8x
Debt/EBITDA	5.1x	6.6x	10.1x	7.8x	5.9x	5.8x	4.7x	4.4x	3.6x
Net debt/EBITDA	4.8x	6.5x	9.9x	7.8x	5.9x	5.8x	4.7x	4.4x	3.3x

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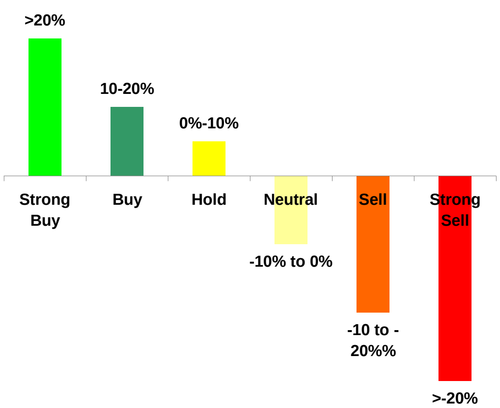
Rating Criteria and Definitions

Rating



Rating Definitions

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

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