

Dallah reported lower than expected Q4-18 earnings, below AJC estimates and consensus. Net income came at SAR32.5mn (SAR0.55 EPS) against our estimates of SAR44.8mn. The disappointing set of results is mainly due to higher operating expenses. We expect a higher utilization rate from Namar hospital to be visible in 2H-19, which should improve margins going forward. We update our recommendation to “**Neutral**” with TP of SAR 55.0 per share.

- Dallah reported a disappointing set of Q4-18 earnings, significantly below AJC estimates and consensus. Net income came at SAR32.5mn (EPS SAR0.55), compared to SAR63.1mn for the same quarter last year, a decline of 48.5% Y/Y. The deviation from estimates was mainly due to higher than expected cost of operations.
- Revenues for the quarter stood at SAR318.2mn compared to 325.9mn for the same quarter last year; posing 2.4%Y/Y. Decline attributed to lower in-patients and out-patients traffic along with the slow-ramp up of Namar hospital. Revised FY19 top-line estimated to stand at SAR 1233.2mn; posting a flat growth of 4.4%Y/Y backed by a higher utilization rate from Namar hospital.
- This quarter showed continued margin contraction on the gross level. Gross margin for the quarter stood at 34.8% compared to 45.5% for the same quarter last year and 36.1% for last quarter. Gross margins are expected to improve on the back of higher Namar hospital utilization, ending FY19 at 38.5%.

AJC view: We expect a higher utilization rate from Namar hospital to be visible in 2H-19, along with the opening of Dr.Mohamed Alfagih hospital in Q2-19 (in which Dallah owns 31% stake). This should improve margins over the medium and long terms. However, we have noted previously that the opening of Namar hospital might change Dallah patient profile exposure and expose the company to slightly higher provisions going forward. Upside and downside risks to valuation rest on Namar’s performance vs. our estimates. Initial revised FY19 EPS stands at SAR2.22 per share. The company currently trades at TTM PE multiple of 26.7x and an estimated forward PE multiple of 22.8x. We update our recommendation to “**Neutral**” with TP of **SAR 55.0 per share**.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	325.9	280.9	318.2	-2.4%	13.3%	-3.8%
Gross Profit	148.2	101.4	110.8	-25.2%	9.3%	-17.5%
<i>Gross Margin</i>	<i>45.5%</i>	<i>36.1%</i>	<i>34.8%</i>	-	-	-
EBIT	74.9	33.4	33.6	-55.1%	0.6%	-25.5%
Net Profit	63.1	32.5	32.5	-48.5%	0.0%	-27.4%
EPS	1.07	0.55	0.55	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **55.0**

Upside / (Downside)* **8.5%**

Source: Tadawul *prices as of 3rd of March 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	1,212.0	1,180.9	1233.2
Gross Profit	559.0	436.3	474.5
Net Profit	294.9	141.8	166.4
EPS (Diluted)*	4.21	1.97	2.22

Source: Company reports, AlJazira Capital

*EPS is based on current 75mn shares.

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	46.1%	36.9%	38.5%
Net Margin	24.3%	12.0%	13.5%
P/E	20.21x	23.4x	22.8x
P/B	3.5x	2.1x	2.3x
Dividend Yield	2.0%	2.7%	3.0%

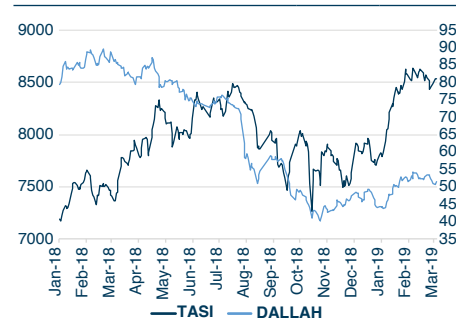
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (mn)	3,787.5
YTD %	15.33%
Shares Outstanding (mn)	75.0
52 Week High/ Low	88.1 / 39.4

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

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- 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.
- 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.
- 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.
- 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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