

Dr. Sulaiman Al Habib Medical Services Group (HOLD, TP: SAR 263, 4013.SE) 4Q25 Results Review

Higher patient numbers drive topline; benefits offset by margin attrition and finance costs due to new launches

HMG reported net income of SAR 651mn (EPS: SAR 1.86) in 4Q25, up 8% Q/Q and 6% Y/Y. Revenues grew 18% Y/Y, driven by higher inpatient and outpatient volumes. However, the ramp-up of six newly launched hospitals over the past two years continued to elevate fixed operating costs, resulting in a 315bps Y/Y decline in gross margin. Disciplined opex management partially offset this pressure, limiting the operating margin decline to 151bps Y/Y. Meanwhile, finance costs increased 24% Y/Y, reflecting debt raised to fund capacity expansion and weighing on bottom-line growth.

- Revenue increased 7% Q/Q and 18% Y/Y to SAR 3.7bn, driven by higher outpatient volumes and improved inpatient occupancy, supporting growth in both hospital and pharmacy segments. For FY25, revenue grew 22% Y/Y to SAR 13.7bn. The Hospital segment contributed SAR 10.6bn (77%), up 24% Y/Y, while the Pharmacy segment accounted for 21% at SAR 2.86bn, up 21% Y/Y. The Solutions/Other segment contributed 2% at SAR 251mn, down 13% Y/Y.
- Gross margin declined 160bps Q/Q and 315bps Y/Y, reflecting higher fixed costs from recently launched hospitals. Gross profit increased 1% Q/Q and 7% Y/Y to SAR 1.06bn.
- Administrative expenses rose 4% Q/Q and 37% Y/Y due to the launch of three hospitals in 2025, while selling and marketing expenses fell 15% Q/Q and 47% Y/Y to SAR 91mn, likely normalizing after hospital launches in 1H25. Overall, opex increased 2% Y/Y and declined 1% Q/Q, improving the opex-to-sales ratio by 82bps Q/Q and 164bps Y/Y.
- Operating margin declined 78bps Q/Q and 151bps Y/Y to 18%, while operating profit rose 1% Q/Q and 7% Y/Y to SAR 682mn.
- EBITDA increased 13% Y/Y to SAR 943mn, with EBITDA margin expanding 128bps Y/Y. Other income below the operating level rose 7% Y/Y to SAR 75mn.
- Finance costs increased 6% Q/Q and 24% Y/Y to SAR 91mn, reflecting higher debt to fund capex.
- Receivable days increased to 36 in FY25 vs 30 in FY24, while payable days declined to 74 vs 76. The cash cycle remained negative at -2 days vs -12 days in FY24. Debt/equity rose slightly to 1.11x vs 1.08x, while net debt/EBITDA increased to 2.02x vs 1.79x.
- HMG's topline continues to grow, supported by the ramp-up of newly launched hospitals. However, occupancy remains relatively low at 62% versus 81% in 2023, continuing to weigh on margins. As a result, margins are expected to remain under pressure through 2026, with normalization likely by 2027. The company's entry into Jeddah has been disruptive, offering services at competitive prices and gradually gaining market share from peers. Competitive intensity is expected to rise further over the medium term, particularly in Riyadh, HMG's core market. The city is expected to see the addition of approximately 2,700 beds by 2030 through 12 new hospitals planned by listed peers. This supply increase could pressure industry margins as operators compete for patient volumes amid slower-than-expected population growth. The Solutions segment is also expected to contribute less than earlier forecasts as the company shifts focus toward its core healthcare operations. HMG has announced a SAR 10bn capex plan against the currently disclosed addition of 713 beds through 2029. The four announced hospital expansions in Riyadh, Tabuk, Jubail, and Dammam account for only about 30% of this capex, suggesting further expansion announcements ahead. Finance costs are expected to trend higher as the company funds this expansion cycle. Additionally, the current geopolitical environment, potential inflationary pressures, and a higher interest rate backdrop could weigh on valuation. Given slower-than-expected growth in revenue per patient, lower expected contribution from the Solutions segment, and margin pressure persisting longer than previously anticipated, we downgrade the stock to HOLD.

Rating and Risks

We are HOLD rated on HMG and our 12-month price target is SAR 263. Upside risks include faster than expected facility ramp-up, faster than expected growth in population and demand for healthcare, and early execution of planned expansions. Downside risks include change of regulatory environment (DRG implementation), increase private sector competition in KSA, delay in project execution.

SAR mln	4Q25	3Q25	4Q24	Q/Q %	Y/Y %
Revenues	3,701	3,463	3,129	7%	18%
Cost of Sales	2,639	2,413	2,132	9%	24%
Gross Profit	1,063	1,050	997	1%	7%
Operating Expenses	380	384	373	-1%	2%
Operating Profit	682	666	624	3%	9%
Net Income	651	602	614	8%	6%
EPS	1.86	1.72	1.75	8%	6%

Margins (%)

Gross Margin	29	30	32	-160 bps	-315 bps
Operating Margin	18	19	20	-78 bps	-151 bps
Net Margin	18	17	20	20 bps	-202 bps

Rating Summary and Forecasts

Rating Summary

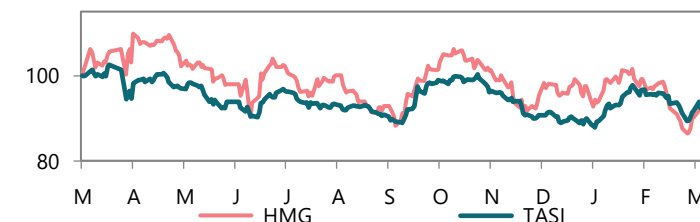
Rating	HOLD
Market Price	247.9
12-month Target Price	263.0
Upside / Downside	6%
Mkt Cap (SAR mn)	86,555
52 week High/Low	289.6/228

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	2401.5	2370.4	2839.2	3736.6
PER (x)	36.0	36.5	30.5	23.2
PBV (x)	11.0	10.0	9.3	8.4
EPS (SAR)	6.9	6.8	8.1	10.7
DPS (SAR)	4.8	4.7	6.1	8.0
RoE (%)	30.4	28.7	31.7	38.2
Dividend Yield (%)	2.0	1.9	2.5	3.2

Price Chart

● HMG ● TASI



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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