



KSA Healthcare Sector Outlook Report:

Navigating the Uninterrupted Growth in the Healthcare Sector



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Executive Summary

Ramp-ups from previous years' aggressive expansions to support income growth for the sector, as providers brace for their next rounds of expansions to fulfil the transformations in the industry. Continuous regulatory developments from wider insurance coverages, as well as favorable demographics are in effect to transform the sector in the long, and immediate term. Reported expected doubling of class A, B and VIP patients as a result of privatizing insurance coverages for the public population is driving a race among the private sector to reap the expected growth in patients, which only a third, today, are insured by private providers. Different healthcare providers are positioning themselves for the transformation via their unique expansion campaigns; with nuances in geography, services, pricing and targeted patients. We look towards each firms' position and expansion strategies to forecast a positive outlook for the sector with no signs of slowing in growth. We consider that market valuations, however, well reflect the anticipated growth in the foreseen horizon to have us set our recommendation as "Neutral" on the sectors' valuations.

We forecast the combined bed capacity of healthcare providers in our coverage to increase by more than 50% in the next five years: Underpenetrated regions, regulatory focus on increasing insurance coverage, favourable demographic landscape, efforts for privatization by the government and demand for high quality services are overarching drivers that support our revenue estimates for companies under our coverage. Untapped cities such as Jeddah which hosts 2.2 beds per 1,000 people, versus Riyadh's concentration of 2.9 beds per 1,000 persons¹ provide opportunities for healthcare operators to compete for higher market share. We expect a slight pressure on margins for companies with aggressive expansions in FY23E but also take into consideration the gradual improvement thereafter as capacities ramp-up and trickle into the P&L. We anticipate that the combined revenue of all companies under our coverage to increase by c.14% Y/Y in FY23E and are optimistic about the prospects in the sector.

We believe that valuations reflect the medium term growth as the sector is expected to witness continuous growth given the initiatives to privatize the industry, and directing all public and private sector employees under insurance coverage: Privatization projects opened for bidding, as well as increased insurance coverages are among some of the near term developments edging towards the expected doubling of class A, B, and VIP patients in the Kingdom, warranting the expansion plans underway by healthcare providers. Coupling the regulatory developments is the support of the demographic make-up, with an increased reported population at an annual 2.5% (on average) since 2010 as per the latest census reported GaStat. The inflow of expatriates grew by almost 7.8% from 12.4mn in 2021 to 13.4mn in 2022, with no expectations of that to slow as the Kingdom continues to attract foreign professional workers and international entities through various initiatives.

Based on the government's support and strategy to privatize, most healthcare operators are expanding into untapped regions, whether in central, western, or eastern regions over and above their area of dominance: Apart from adding new capacities and expanding existing capabilities to address higher patient volumes, some of the firms under our coverage and in the sector consider growing inorganically such as the acquisitions undertaken by Dallah, and Care. Under-penetration of private beds will allow healthcare operators to attract patient volumes. Furthermore, we believe that companies whose client base is skewed towards insurance are more likely to witness growth on the back of an increase in insured lives. These developments and the private healthcare providers' intention to capitalize on market opportunities will bode well for the sector's expansion. We consider and are vigilant about the strained leverage profile of specific companies.

¹ As of MoH's September 2022 release on 2021 Healthcare Sector Statistics, and as of most recent population census.

Overall, we are optimistic about the sector growth prospects and most companies' ability to avert challenges with regards to high receivables and leverage position: As we advance, we expect the receivables situation for most companies in the sector to improve, given their increasing focus on tilting the client base towards insurance clientele and initiatives to grant discounts for cash patients. That said we pencil in the average receivable days of the sector to reduce from 111 days in FY22 to 85 days in FY23E. We believe companies like Sulaiman Al Habib (HMG) and Mouwasat are capitalizing on their high quality and sub-specialty services offering, enabling them to strengthen their profitability and returns profile further. Mouwasat's return on assets and return on equity is expected to improve to 14.3% (13.7% in FY22) and 21.8% (21.7% in FY22E), respectively. MEH has paused their expansion campaign currently and is focusing on upcoming ramp-ups. We expect MEH's revenue per bed to improve to SAR 1.5mn and SAR 1.7mn in FY23E and FY24E from SAR 1.4mn in FY22. Care continues to enhance its engagements with Government clientele (GOSI and MOH) and is working towards increasing its pricing, a direct catalyst for the expected revenue growth in the coming periods. Our assumptions for Care translate into a 5Y CAGR of 7.8% during FY22-FY27E. Dallah's patient attraction, strategic expansion plans, and incremental improvement in income from equity in associates will act as key catalysts for growth. As per our estimates, Dallah's Net debt/EBITDA is slated to improve from 3.4x in FY22 to 1.1x in FY27E. Hammadi on the other hand is expected to continue reaping benefits of high occupancy rates in its facilities. Our assumptions translate into We generate an optimistic view of the sector but acknowledge that most announced expansions are already priced in at the current valuation. Hence, overall, we have a **Neutral** stance on the sector.

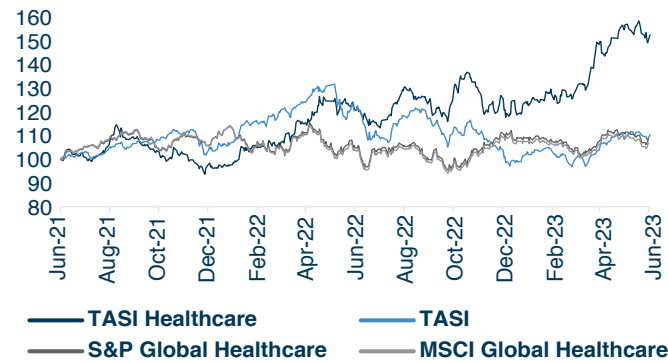
T1: Price Target and Recommendation

Ticker	Company	TP (SAR/ share)	Upside / Downside	Recommendation	P/E (FY23)	EV/EBITDA (FY23)	EPS (FY23E)	EPS (FY24E)	DPS (FY23E)
4013	HMG	243.0	-9.5%	Neutral	52.4x	38.0x	5.2	5.74	3.9
4005	Care	117.0	0.9%	Neutral	25.5x	17.7x	4.44	5.31	1.0
4007	Hammadi	52.0	-2.8%	Neutral	27.5x	17.9x	1.92	2.13	1.3
4009	MEH	56.1	-18.1%	Neutral	38.8x	23.2x	1.62	2.40	0.0
4004	Dallah	144.0	-13.7%	Neutral	42.4x	30.8x	4.01	4.81	2.0
4002	Mouwasat	229.0	-6.5%	Neutral	34.5x	33.3x	6.82	8.07	2.75

Source: Company Filings, AlJazira Capital Research

KSA Healthcare Broad market Review

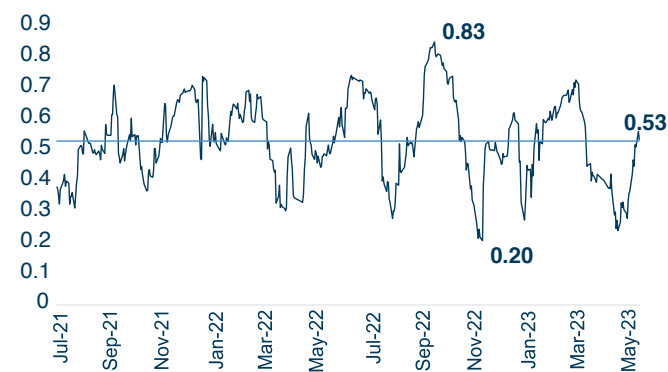
C1: KSA & Global Healthcare Indices (Total Return) Outperformed Broader Sector



On a total return basis, the Saudi Healthcare Index yielded a 51.3% return in the past two years, compared with TASI's 5.9% during the same period at a time of market and economic uncertainties. HMG (which grew 66.2%) drove 50.2% of the movement of the index, with the second largest mover at 21.0% being **Dallah**. Other global healthcare indices displayed average returns relative to TASI. Yet, the driver behind the Saudi Arabian healthcare sector is idiosyncratic to the rest of the broader drivers in the period observed.

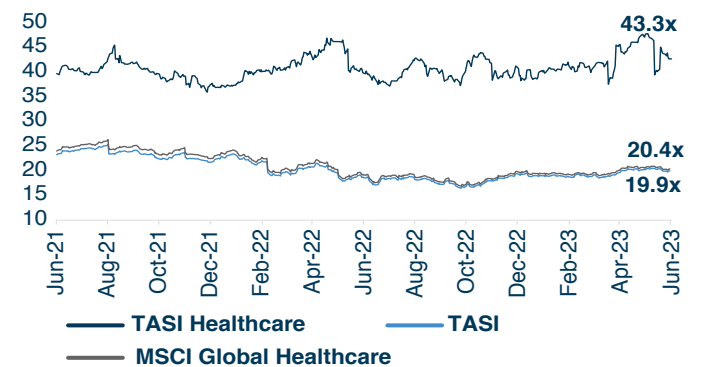
On a one-month rolling correlation basis, the sector was often nearer to a 0 to the broader market in the past two years, with a correlation for the period at 0.53 across 486 observations. Almost 38% of the time, the sector closed positively when the broader Saudi market was down during the last two years. That same figure stands true YTD.

C2: TASI & TASI Healthcare 1M Rolling Correlation



For analysts unfamiliar with the Saudi Healthcare sector, the catalyst behind the sector's market performance in recent years can be summarized in two points, both two sides of the same coin- regulatory changes and demographic developments. With specifications on their own, both of which continue to develop the sector into valuations reflecting significant growth and prospective developments underway.

C3: Saudi Healthcare Sector's P/E Valuations in a Realm of its Own



Regulatory Developments

Regulation changes continue to shape the growth prospects for the sector directly. Managements expect that VIP, A and B class insurance patients will double in the long term due to regulation nationalizing private healthcare coverage for public sector employees, justifying much of the growth-like valuations seen in the sector. As for the nearer term, however, gradual developments are constantly in effect, driving some of the changes seen in patient behavior today, such as the reported increase in visits-per-patient during a year referenced by **HMG**, as well as a decrease in cash clients which **Care** hypothesizes to be attributed to the broader insurance coverages from providers.

Changes in Council of Health Insurance (CHI) Coverages:

The regulating body which oversees insurance providers and their beneficiaries (previously known as the 'CCHI') updated the standard Essential Benefits Package for insurance beneficiaries in KSA. As of **Q4-22**, the package was expanded to add **18 new benefits**, atop the **10 amended** to cover almost a third of the Saudi population. Some of the key developments that we believe will continue to translate well for the sector are the high-value coverages, as well as the ranges that are not necessarily high in value but are high in the frequency of needs, and their possibility of leading to more services required:



Three-sixty degree coverage for diabetes care including specialist and surgical care if needed.



The addition of covering periodic examinations for 9 diseases including breast cancer, colon cancer and others.



Kidney transplants and related surgical procedures for up to SAR 250,000.



Vaccinations against common bacteria and chest infections.



Psychiatric treatment and mental health therapy for up to SAR 50,000.



Expansion in the eligibility criteria for weight loss treatments for up to SAR 15,000.



Increase policy limit for large enterprises to reach SAR 1mn.

KSA's NCP and MoH Open up Bidding for Projects to Kick off KSA's Healthcare Privatization Initiative:

All the firms under our healthcare coverage have submitted their expression of interest (EOIs) towards healthcare projects in the Central and Eastern regions in cooperation with the MoH and National Center for Privatization and PPP (NCP). AlHammadi, Dallah, HMG, Mouwasat, and MEH submitted EOIs towards the first of three projects regarding inpatient facilities in both regions. All firms mentioned, excluding Dallah, also submitted EOIs for another outpatient and rehabilitation hospital facility. For the third project, all firms in the exclusion of Hammadi under our coverage (including Care) raised EOIs towards an initiative towards home healthcare to cater for a rise in an ageing population.

The projects include medical and non-medical roles (such as accommodation management and operational roles) for the companies to fulfil and are likely to be passively managed by the firms at an agreed share of the margin of the business. If granted the bids, we await announcements on the finer details for our covered firms' roles in the projects above.

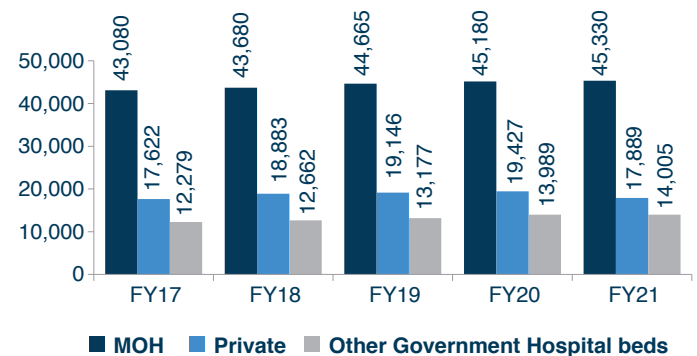
NPHIES Platform:

Management from the firms covered different express experiences with the platform- while some firms, such as Dallah and HMG, express no significant issues with the platform, other firms, notably Hammadi, are awaiting further fixes to the platform which connects healthcare and insurance providers for receivable collections (managed by CHI and NHCI). We are closely monitoring developments in this initiative as significant results could aid in firms' collection days that are hindered by platform disruptions.

Demographic Trends

The CHI reports that only 28% percent of the population is currently insured, with the headroom present for the expected doubling in A, B, and VIP patients through the privatization of insurance coverages for public sector employees. Saudi Arabia's population increased from 23.9mn in 2010 to 32.2mn in 2022, with Saudis making up 14.1mn of the increase and expatriates representing 13.4mn. UNDESA forecasts growth to maintain at a CAGR of 1% till 2025. We believe there is a growing need for chronic healthcare among the ageing population (3.4% of people are 65 years or older in 2019 compared to an estimated 17% in 2050). Moreover, there is also a rise in care-intensive lifestyle diseases in the Kingdom (7.1mn projection vs 9.5mn projected in 2030). With the growing elderly population (19% in the age group of 45-64), the demand for post-acute rehabilitation is expected to increase. The Kingdom of Saudi Arabia currently has 497 hospitals with c.77K beds, translating into 2.27 beds per 1000 persons. Private sector beds represent 23% of the total bed capacity, which denotes a highly underpenetrated market for private players.

C4: Number of beds evolution in KSA

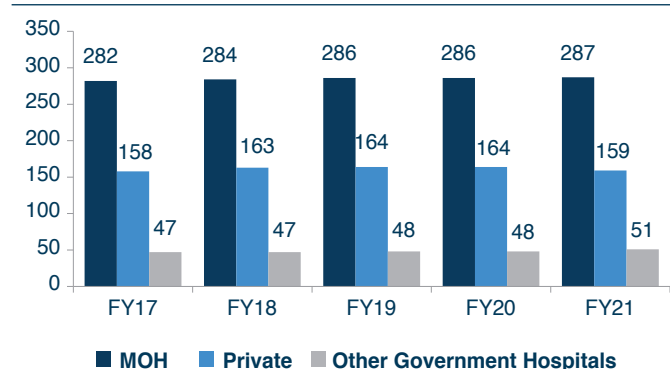


Source: Ministry of Health, AlJazira Capital



The demand for private healthcare services will be boosted by an increasing number of people joining the private workforce, Giga projects attracting expatriates, specialty medical services and a further increase in domestic population (the total population increased at a 10Y CAGR of 2.1% from 2012-2022). Health awareness and increased personal disposable income are providing profitable chances for Saudi Arabia's modern hospitals, which is contributing to the expansion of the hospital market.

C5: Number of Hospitals in KSA

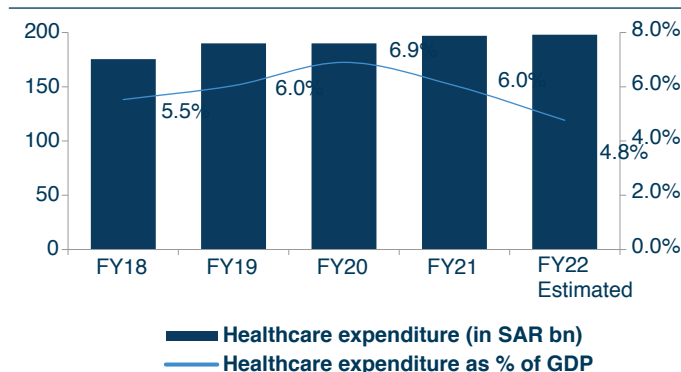


Source: Ministry of Health, AlJazira Capital

Insurance penetration and Healthcare expenditure

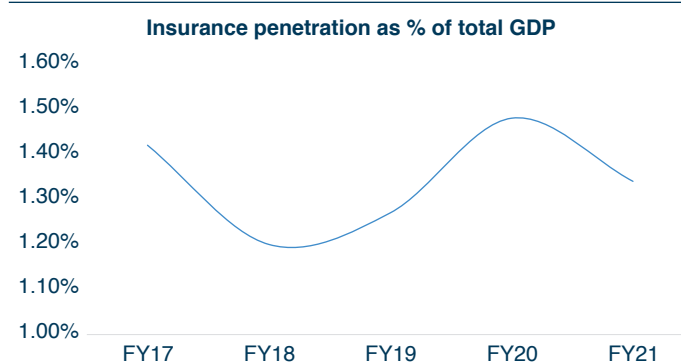
As part of Vision 2030 objectives, the government aims at privatizing 290 hospitals and 2,300 primary healthcare centers. The Ministry of Health also plans to launch health clusters across the Kingdom to promote preventive care and improve access to healthcare services. The government allocated c.17.0% of its total budget to healthcare expenditure for FY23E worth SAR 189bn. Moreover, the Saudization initiative by the government is expected to boost the Saudi employment rate in the private sector, which would see an increase in insurance policies (the number of insured persons rose from 9mn in 2011 to 11.5mn in 2022). Additionally, a growing number of patients are opting for private healthcare services that offer higher-quality offering and turn in cash or insured patients.

C6: Healthcare expenditure in KSA as a % of GDP



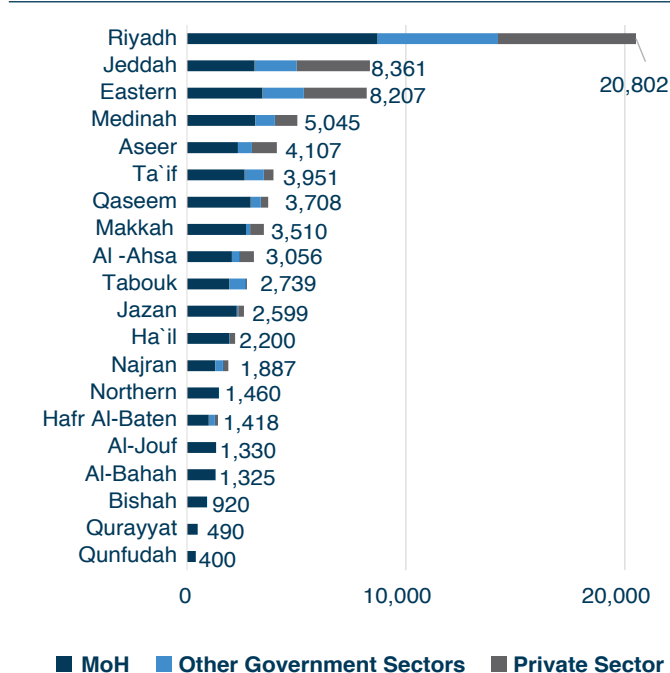
Source: Ministry of Finance, Argaam, AlJazira Capital

C7: Insurance penetration as a % of GDP



Source: Argaam, AlJazira Capital

C8: Beds per region (000's) (2021)



Source: MoH, AlJazira Capital

Sector and Financial Analysis

T2: Peer Analysis (TTM):

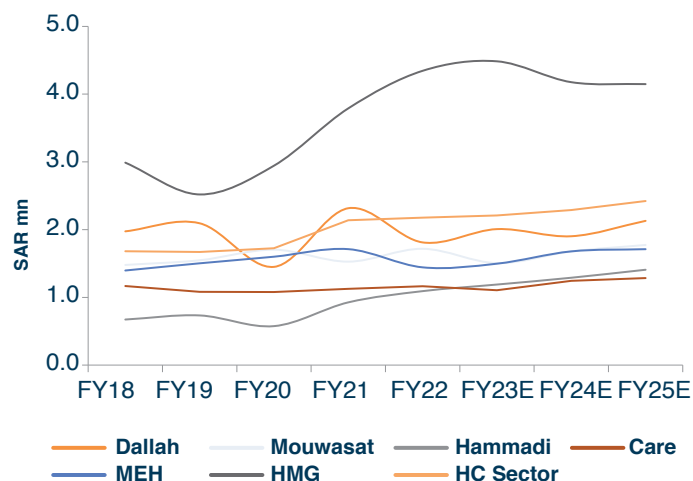
	Market Cap (bn)	ROAA	ROAE	GP Margin	NI Margin	Receivable days	EBITDA-to-Interest Coverage	Debt-to-Equity
HMG	98.0	13.66%	30.31%	33.3%	20.3%	37	123.0x	0.60x
Mouwasat	24.0	13.24%	20.88%	47.4%	25.0%	157	83.4x	0.26x
Dallah	16.8	5.93%	11.28%	35.8%	11.0%	109	20.5x	0.61x
AlHammadi	8.8	11.51%	16.23%	37.6%	23.7%	162	47.5x	0.15x
MEH	5.5	2.43%	7.54%	32.5%	4.6%	256	9.0x	1.53x
Care	5.1	11.60%	11.60%	32.9%	20.3%	263	NM	Nil
Sector Median	12.8	11.56%	13.92%	37.13%	19.28%	159.5	47.5x	0.6x

Source: Bloomberg, AlJazira Capital * GP Margin and NI Margins are represented at sector level and not medians

As specifications stand, on a last reporting basis, **HMG** posts favourable positions across most comparables, falling short only to **Mouwasat's** notably efficient margins, outperforming the median sector GP and NI Margin by a steep 1,290bps and 470bps, respectively. **Care** stands out as virtually debt free, with minor debt-to-equity that rounds to zero at interest-free conditions secured from the MoF. At the median receivable days for the sector, standing at 159.5 days, only the three largest healthcare providers outperform in collection efficiency; of the least efficient receivable collectors, **ALHammadi** is notably still facing issues with the NAPHIS program. While **MEH's** comparables, particularly the provider's profitability, stands dampened on a TTM basis; our outlook on MEH, based on recent developments of the firm, will offer a significantly different TTM snapshot of the same comparables by next year.

Key Performance Metrics

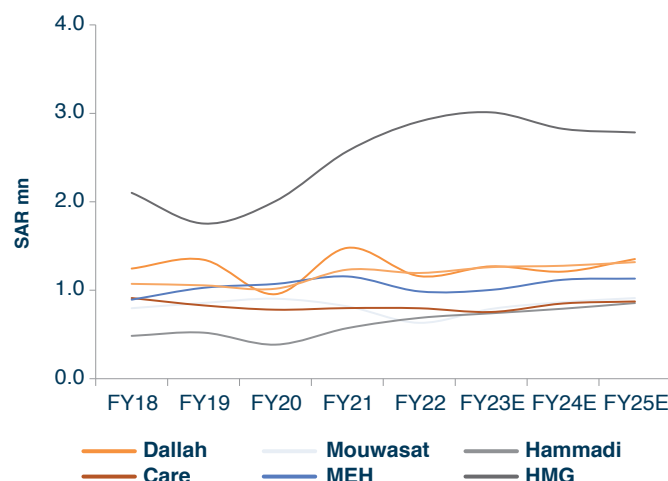
C9: Revenue per bed



Source: Company filings, AlJazira Capital

HMG has the highest revenue/bed among its peer set, at SAR4.5mn. Dallah and MEH are the next best, with SAR1.9mn and SAR1.5mn, respectively. The sector's revenue/bed is expected to slightly moderate into FY24E and most expansions will be rolled out in FY23E and FY24E.

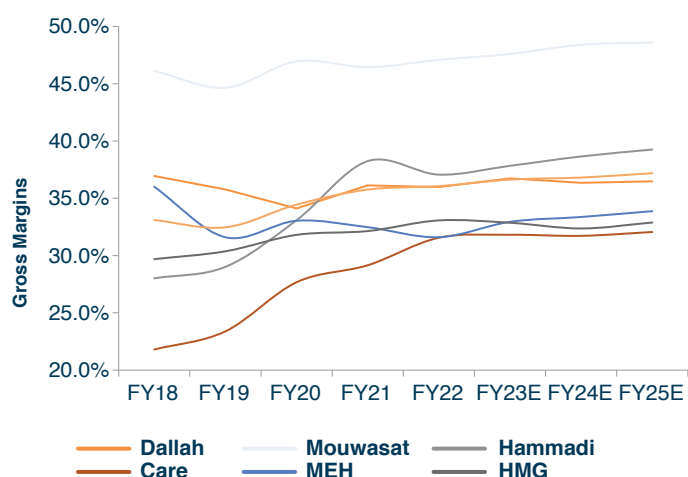
C10: Cost per bed



Source: Company filings, AlJazira Capital

Mouwasat has the lowest cost/bed of SAR0.6mn. Although HMG has the highest revenue/bed, its cost/bed is the highest at SAR 3.0mn. Dallah and MEH are close to the sector average of SAR 1.2mn. Sector's cost/bed is expected to rationalize post FY23E as most capacities ramp-up.

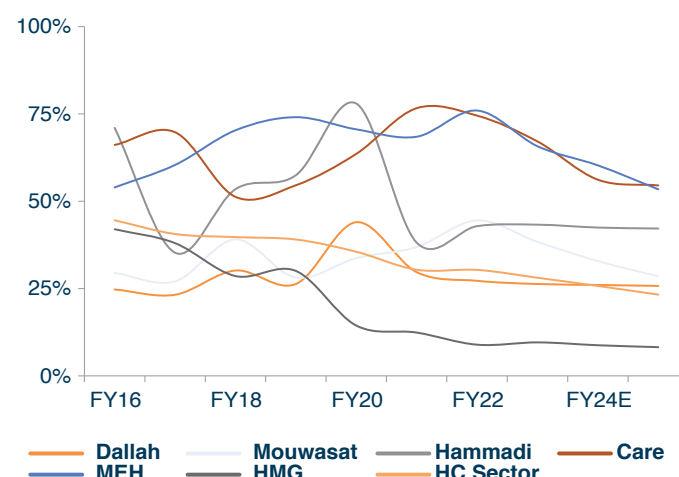
C11: GP margin trend



Source: Company filings, AlJazira Capital

Mouwasat leads the sector with an attractive margin profile, while those of HMG, MEH and Care continue to lag behind the sector average. However, GPM expansion can be witnessed in Care and HMG. Overall, we expect margins of all companies to gradually expand in the medium term

C12: Receivables as % of sales

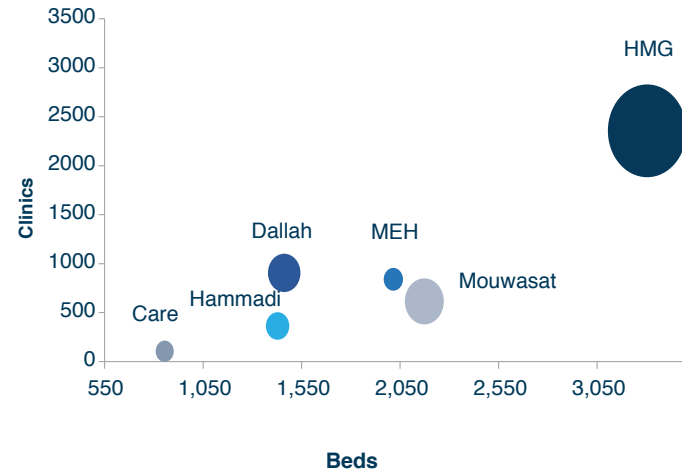


Source: Company filings, AlJazira Capital

High receivables as a % of sales are of concern, such as that of MEH and Care as their TTM Q1-23 sales figures at 81.2% and 71.9%. This is primarily due to high revenue exposure to government and government-related entities. Companies with lower government exposure, like Dallah and HMG, have been in a favourable position, with receivables at 30.1% and 9.8% as a percentage of sales, respectively.

Key Performance Metrics

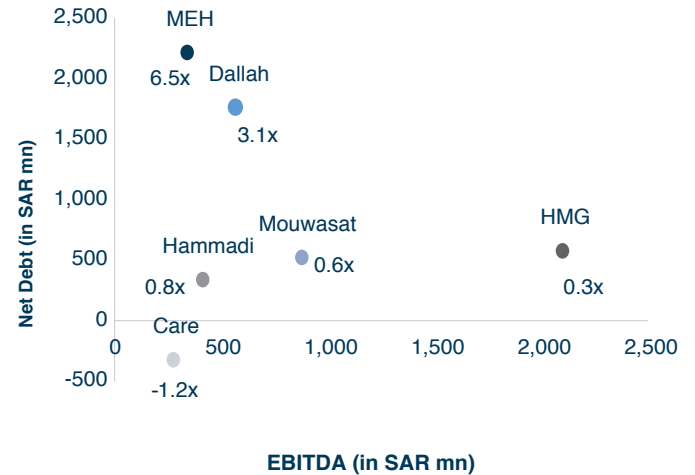
C13: EV(Current) and Forward capacity (FY27E)



Source: Company filings, AlJazira Capital

HMG's vast expansion pipeline ranks the highest in the sector compared to other healthcare players—Mouwasat plans to increase its bed capacity by c.60% after HMG. While MEH and Dallah's expansion momentum is lower, the companies are considering expanding existing capabilities or inorganic expansions.

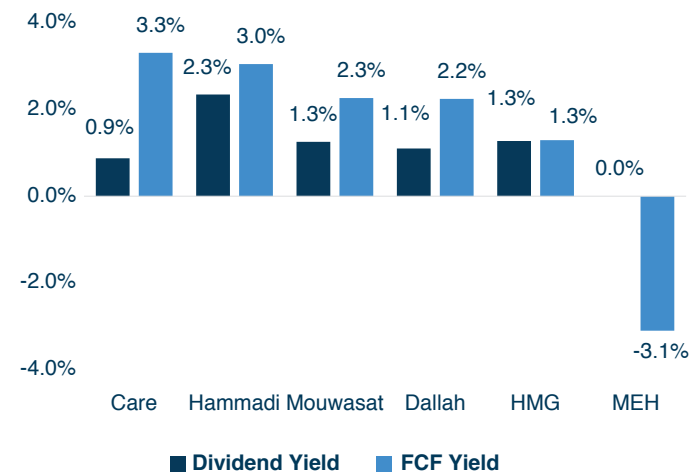
C14: Net Debt/ EBITDA (TTM)



Source: Company filings, AlJazira Capital

MEH's TTM Net Debt/ EBITDA stands at 6.5x, the highest in the sector, due to the company's low cash generation and high debt (SAR 2.2bn as of Q1-23). We believe that companies with high debt would face the challenge of refinancing alongside high-interest-rate expenses, impacting their profitability. HMG has a favourable solvency and liquidity position with the sector's lowest Net Debt/ EBITDA.

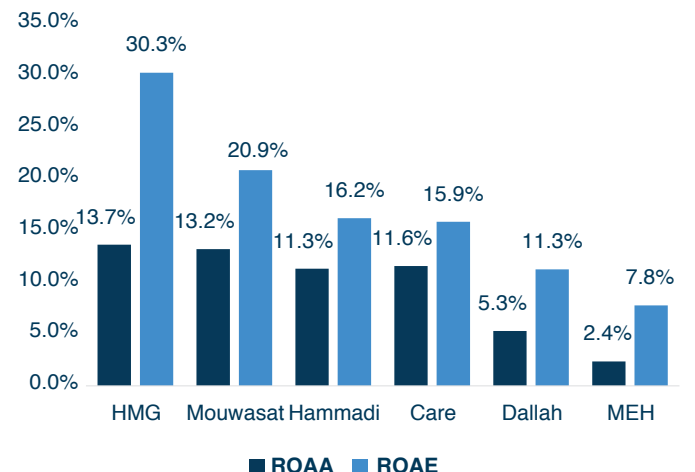
C15: Dividend Yield and FCF Yield



Source: Argam, Bloomberg, AlJazira Capital * Dividend yields are as of FY22; FCF yields are on a TTM basis

Care, Dallah, HMG and Mouwasat have been paying dividends consistently with average dividend yields of 2.6%, 2.1%, 1.8% and 1.7%, respectively. Care's FCF yield is healthier in the sector than its peers (3.3%), closely matched by Hammadi as these two companies also have lower leverage and hence free cash at hand. At the same time, MEH's negative FCF yield at -3.1% is concerning, given its stretched leverage profile.

C16: ROE and ROA (TTM)



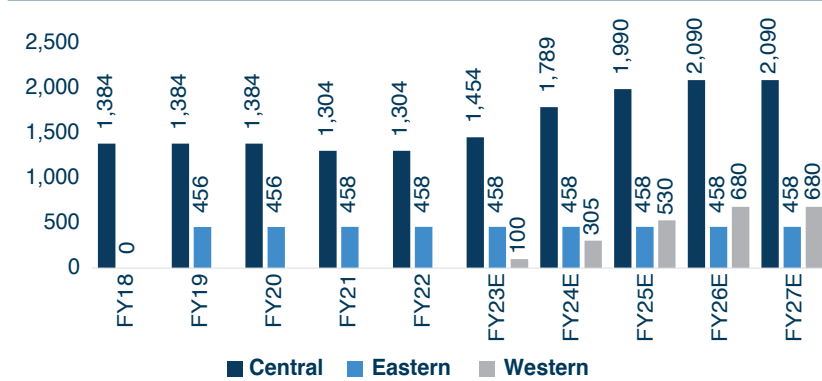
Source: Company filings, AlJazira Capital

HMG and Mouwasat have demonstrated a favourable profitability profile. The companies' high-quality operations, attractive capacity additions and swift ramp-up warrant a healthy profitability print. In the future, as more capacities ramp up, it will further boost profitability. While MEH attributes a weak returns profile.

Region-wise bed expansion plans for listed healthcare companies

Sulaiman Al Habib (HMG)

C17: HMG dominates the central region

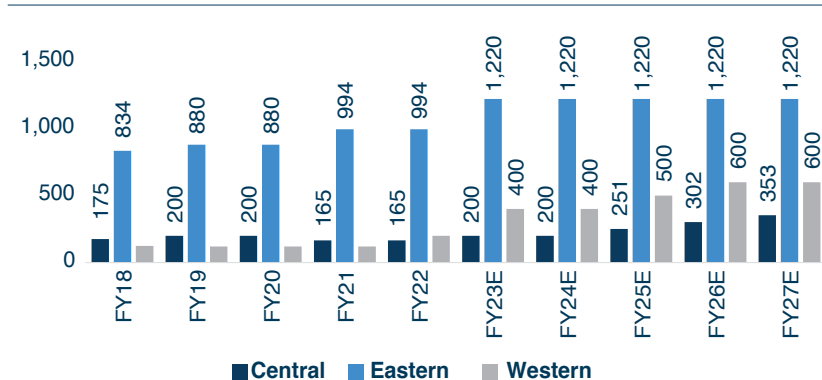


Source: Company financials, AlJazira Capital

Dr Sulaiman AL Habib (HMG) will have 1,913 beds by the end of FY22. Of the total beds, 1,304 (c.68%) are in hospitals in the central region. This represents close to 26% capacity of the total beds of listed companies in the central area. The healthcare provider plans to add 786 beds in the central region, while 680 more will be added in the western region with new facilities in Jeddah.

Mouwasat

C18: Solid presence in the Eastern region

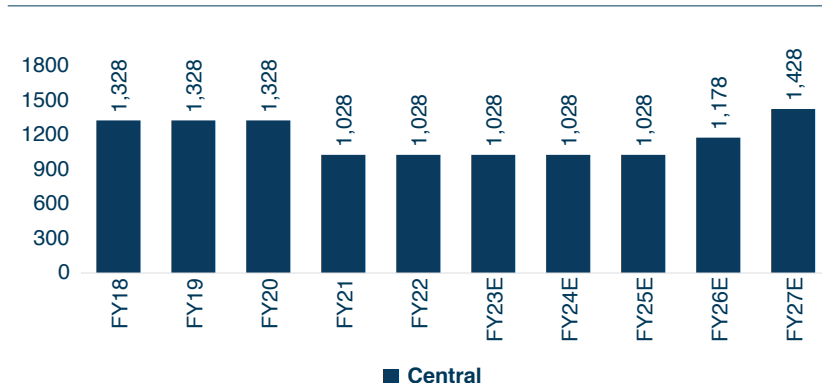


Source: Company financials, AlJazira Capital

Mouwasat has a lean presence in the central region, with only 165 beds at the end of FY22. The company aims add capacity through the Jeddah facility, and in Riyadh; however, it is worth noting that the company has a solid presence in the eastern region and dominates the bed market share at c.50% as a total of all listed companies' private beds. The healthcare player plans to expand its western region through its Madina and Yanbu facilities.

Al Hammadi

C19: Concentrated operations in the central region

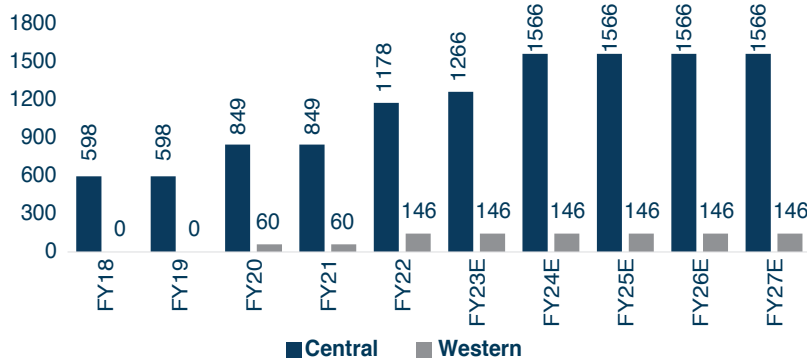


Source: Company financials, AlJazira Capital

With more than 1,300 beds, Al Hammadi had the most beds in Riyadh. However, the Olaya branch's closure resulted in a reduction in bed capacity to 1,028 (the present combined capacity of the facilities at Nuzha and Suweidi), which influenced the market-leading position in Riyadh. The company is expected to begin operations in the new Olaya facility in FY26E.

Dallah Healthcare

C20: Reasonable market share in the central region

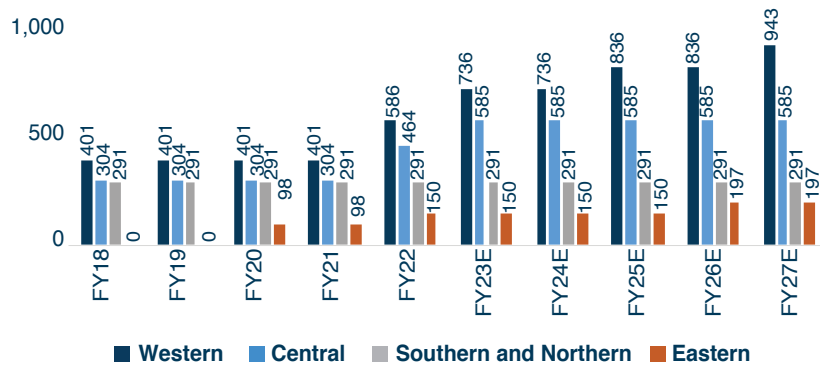


Source: Company financials, AlJazira Capital

Dallah's operations are concentrated (c.90% of its total beds capacity) in the central region. Compared to its peers, Dallah has a moderate expansion pipeline in the central region yet again. The company plans to add 100 beds in its Namar facility in FY24E.

Saudi German Health

C21: Reasonable bed market share across every region

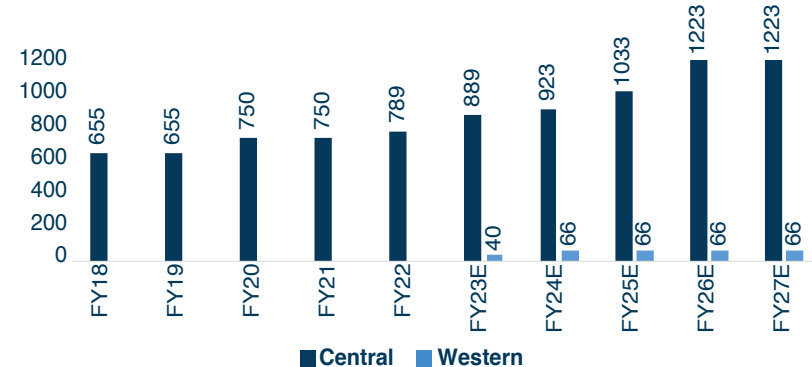


Source: Company financials, AlJazira Capital

Saudi German Health is the only listed healthcare player with operations across all the regions. It is one of the healthcare companies with aggressive expansion plans in the eastern and western areas. The company plans to add more than 350 beds in its Makkah, Madina and One-day surgical hospital facility, while more than 150 beds are expected to be added in Riyadh Hospital, Riyadh.

National Medical Care (Care)

C22: Majority of operations in Central region with entry in Western



Source: Company financials, AlJazira Capital

While Care is preparing for a 134 bed expansion in their Care National Health facility, and a 66 bed facility in Jiwar Makkah, in parallel; the expansions are contingent on sufficient hiring of staff to be granted an approval from the MoH. Management has indicated a prioritization on the Makkah hospital for the time being.

Dr. Sulaiman Al Habib Medical Services Group Co. (HMG)

HMG's attractive expansion plans and ability to ramp up its operations efficiently make it a compelling profile

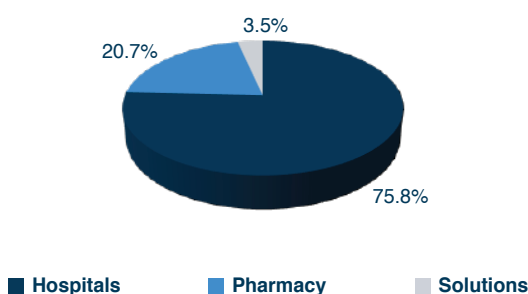
HMG plans to increase its bed capacity by more than 70%, from 1,913 beds to 3,300 beds in the next five years till FY27E. The healthcare operator dominates the central region with more than 25% of the market share among the listed players. The company also focuses on expanding in Jeddah, adding close to 680 beds in North and South Jeddah facilities combined. We believe Jeddah is a prospective growth market for the company and will reinforce its market-leading position. We believe the capacity additions for Southwest Jeddah and North Riyadh will materialize by Q4-23. Moreover, we believe that lower reliance on the government for revenue and increasing contribution from insurance should translate should further boost profitability.

Medical centres' strategy to enable the company to tap into new Class B segment

We believe the company's focus on tapping into more customer segments with minimal investments, such as medical centers with lower capital expenditure, lesser operational costs, and shorter ramp up period, will enable the company to expand its market share.

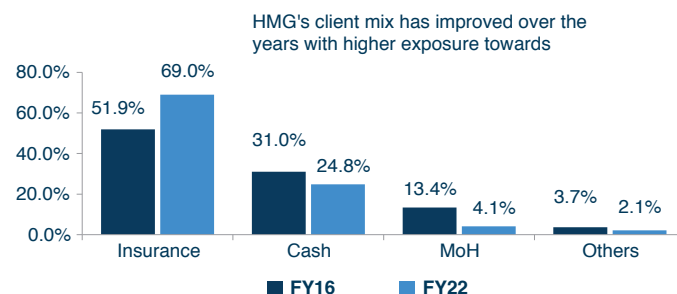
AJC view and Valuation: HMG's massive strategic expansions lined up in the central region and renewed focus on the western region are expected to boost the company's revenues in the coming years. Given the robust expansion, we expect the margins to be under slight pressure given the ramp-up of assets; Jeddah, however ramping up faster than Riyadh. We consider the improving utilization in the Khobar facility (reaching 70%), positive inpatient growth across facilities, lower dependence on MoH, increase in insured lives and specialized and quality offerings by the company. Our assumptions translate into a revenue CAGR of 12.9% during FY22-FY27E. GP margin is expected to remain muted in the MT owing to ramp-up costs, however, with improvement in utilization rates margin are expected to expand gradually. The company has a favorable debt position (Net debt/EBITDA at 0.38x as of Q1-23) and strong cash flow generation (5Y Avg. FCF margin at 15.1%). We value HMG at 100.0% weight for DCF (2.75% terminal growth and 5.1% average WACC) owing to massive expansion plans relative to its regional peers. This yields a target price of **SAR 243.0/share**, implying a downside of 9.5% as most positives are already priced in. We remain **Neutral** on HMG.

C26: Revenue composition (FY22)



Source: Company filings, ALJazira Capital

C27: Client mix

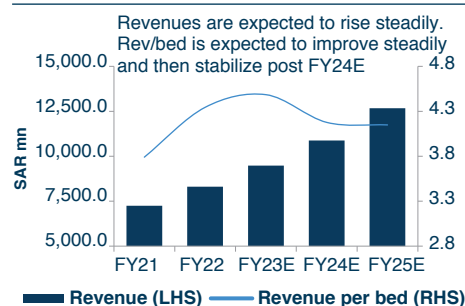


Source: Company filings, ALJazira Capital

Recommendation	Neutral
Price Target	243.0
Upside/(Downside)	-9.5%

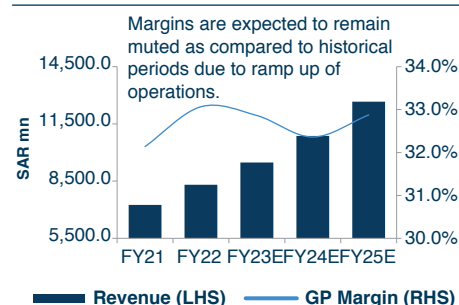
Source: Tadawul Prices as of 8th June 2023

C23: Revenue and Revenue/bed



Source: Company Reports, ALJazira Capital

C24: Revenue and GP margin



Source: Company Reports, ALJazira Capital

C25: Price performance



Source: Company Reports, ALJazira Capital



T3: Key Financial Table

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	5,861.6	7,250.5	8,310.7	9,476.7	10,872.5	12,669.3	13,940.8	15,269.1
Y/Y	16.9%	23.7%	14.6%	14.0%	14.7%	16.5%	10.0%	9.5%
Gross profit	1,864.4	2,330.2	2,748.1	3,114.4	3,519.0	4,166.0	4,636.1	5,154.4
OPEX	(320.2)	(379.4)	(398.1)	(438.8)	(494.5)	(617.7)	(677.3)	(741.0)
Operating profit	1,114.9	1,466.2	1,700.5	1,945.5	2,175.3	2,611.6	2,980.8	3,402.4
Y/Y	28.5%	31.5%	16.0%	14.4%	11.8%	20.1%	14.1%	14.1%
Financial charges	(48.5)	(37.9)	(49.4)	(78.6)	(75.1)	(66.4)	(59.2)	(53.4)
Other income/income from associates	61.4	73.1	145.5	114.8	130.7	148.7	164.4	182.7
Profit before zakat & minority interest	1,127.8	1,501.3	1,796.7	1,981.6	2,230.9	2,693.9	3,086.0	3,531.8
Zakat and minority interest	(92.8)	(114.1)	(107.7)	(120.4)	(178.5)	(215.5)	(246.9)	(282.5)
Net income	1,055.5	1,376.6	1,650.8	1,820.3	2,007.3	2,423.9	2,776.7	3,177.7
Y/Y	21.3%	30.4%	19.9%	10.3%	10.3%	20.8%	14.6%	14.4%
Balance sheet								
Assets								
Cash & bank balance	2,339	2,644	2,747	3,961	3,902	3,549	3,486	3,557
Other current assets	1,454	1,490	1,413	1,654	1,780	1,951	2,039	2,156
Property & Equipment	5,648	6,653	7,937	9,316	10,254	10,765	11,069	11,418
Other non-current assets	40	41	487	487	487	487	487	487
Total assets	9,481	10,827	12,584	15,418	16,424	16,752	17,081	17,618
Liabilities & owners' equity								
Total current liabilities	1,694	2,048	2,590	3,054	3,424	3,819	4,061	4,712
Long-term loans	2,030	2,445	3,033	4,865	4,965	4,249	3,639	3,119
Total other non-current liabilities	669	808	856	898	987	1,098	1,178	878
Non-controlling interest	177	188	227	267	312	366	428	499
Total owners' equity	4,912	5,339	5,879	6,334	6,735	7,220	7,775	8,411
Total equity & liabilities	9,481	10,827	12,584	15,418	16,424	16,752	17,081	17,618
Cashflow statement								
Operating activities	2,178	2,183	2,844	2,205	3,059	3,665	3,959	4,413
Investing activities	(756)	(1,248)	(1,939)	(1,990)	(1,631)	(1,267)	(1,115)	(1,222)
Financing activities	(280)	(631)	(801)	999	(1,487)	(2,751)	(2,907)	(3,121)
Change in cash	1,143	305	103	1,214	(58)	(353)	(64)	71
Ending cash balance	2,339	2,644	2,747	3,961	3,902	3,549	3,486	3,557
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.2	2.0	1.6	1.8	1.7	1.4	1.4	1.2
Quick ratio (x)	2.0	1.8	1.4	1.7	1.5	1.3	1.2	1.1
Profitability ratios								
Gross profit margin	31.8%	32.1%	33.1%	32.9%	32.4%	32.9%	33.3%	33.8%
Operating margin	19.0%	20.2%	20.5%	20.5%	20.0%	20.6%	21.4%	22.3%
EBITDA margin	24.4%	24.6%	24.2%	27.0%	26.4%	26.6%	27.2%	28.0%
Net profit margin	18.0%	19.0%	19.9%	19.2%	18.5%	19.1%	19.9%	20.8%
Return on assets	11.8%	13.6%	14.1%	13.0%	12.6%	14.6%	16.4%	18.3%
Return on equity	22.7%	26.9%	29.4%	29.8%	30.7%	34.7%	37.0%	39.3%
Leverage ratio								
Debt / equity (x)	0.5	0.6	0.6	0.9	0.9	0.7	0.6	0.5
Market/valuation ratios								
EV/sales (x)	6.6	7.8	9.4	10.3	9.0	7.7	6.9	6.3
EV/EBITDA (x)	26.8	31.9	38.8	38.0	34.0	28.8	25.4	22.4
EPS (SAR)	3.02	3.93	4.72	5.20	5.74	6.93	7.93	9.08
Market price (SAR)*	109.00	161.4	220.6	272.4	272.4	272.4	272.4	272.4
Market-Cap (SAR mn)	38,150	56,490	77,210	95,340	95,340	95,340	95,340	95,340
Dividend yield	0	1.7%	1.3%	1.4%	1.7%	2.0%	2.3%	2.7%
P/E ratio (x)	36.1	41.0	46.8	52.4	47.5	39.3	34.3	30.0
P/B ratio (x)	7.8	10.6	13.1	15.1	14.2	13.2	12.3	11.3

Source: Company filings, AlJazira Capital



Mouwasat Medical Services Company (Mouwasat)

Plan to extend bed network in the western region, long-term agreement with Aramco, and solid brand equity are some key positives

Mouwasat has been a dominant player in the eastern region, with the bed market share at c.50% of all listed companies' private beds. Competition from other providers, however, could result in a slower momentum in the eastern region. The company plans to add approximately 200 beds in the Yanbu facility, 300 beds in the Jeddah facility and 120 beds in Qadisiyya, Riyadh. We have penciled in a gradual rollout of beds in the Yanbu facility towards the beginning of FY25E and the Jeddah facility towards FY25E as well. Riyadh's project is expected to be operational by FY26E as per management's guidance. We believe the expansions put Mouwasat on track to retain its position as the second largest private beds operator after HMG. Moreover, as the western region is a fragmented market with no clear dominance of a single player and based on the beds available per capita, we believe this region is under-penetrated and has high growth potential.

Madinah's replacement offers a growth potential; however, margins growth is expected to be slower in the near term; receivables to improve in the near term

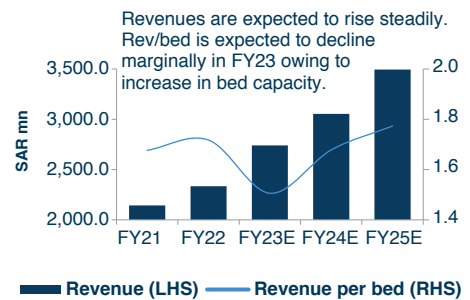
New beds (200 beds facility) are expected to be operational in H2-23 and mitigate the impact on beds under renovation. We expect margin growth to be conservative in FY25E given the ramp-up process of new beds, but a gradual increase after that as we acknowledge the company's ability to ramp up operations efficiently. The company witnessed high receivables balances in past quarters due to the high volume of business; as we advance, management expect the receivables to rationalize by the end of the year as reconciliations in credit materializes.

AJC view and Valuation: We consider the healthy expansion pipeline, efforts to penetrate under-supplied regions, ability to monetize on volume growth (c.60% utilization), faster ramp-up demonstrated in the past and lucrative services offering to translate into a revenue CAGR of 14.0% during FY22-FY27E. Moreover, we expect the company to materialize its key partnership with Aramco (which is subject to renegotiation towards more favorable terms once the contract is renewed every three years) and strong positioning across the Class B segment. Despite the ramp-up in costs, we expect the company's margins to be higher than peers. We expect the GP margin to be between 47.6% and 49.6% in the next five years. As of Q1-23, Net debt/Equity stood at 0.2x, and we project the FCF yield to be in the range of 4.3% during FY22- FY27E. We value Mouwasat at 60.0% weight for DCF (2.5% terminal growth and 8.0% average WACC) and 20% each for PE (FY23E 33.3x) and EV/EBITDA (FY23E 22.5x) as per relative valuation. This yields a target price of **SAR 229.0/share**, implying a downside of 6.5% from current levels. We remain **Neutral** on Mouwasat.

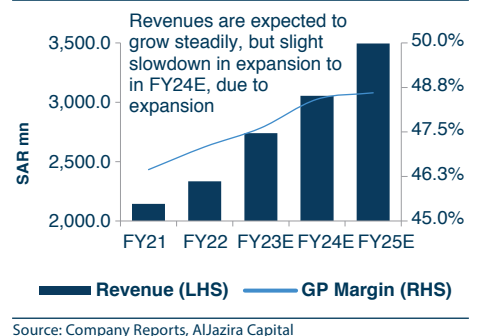
Recommendation	Neutral
Price Target	229.0
Upside/(Downside)	-6.5

Source: Tadawul Prices as of 8th June 2023

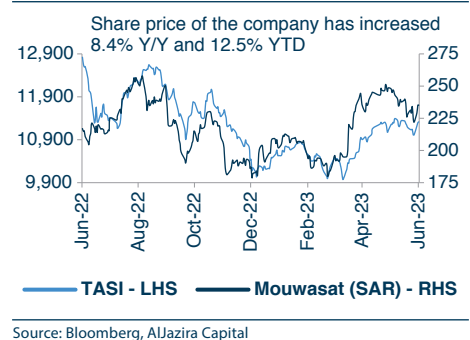
C28: Revenue and Revenue/bed



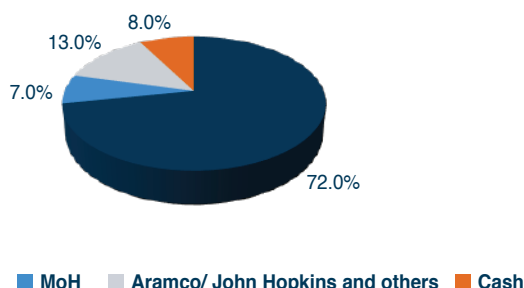
C29: Revenue and GP margin



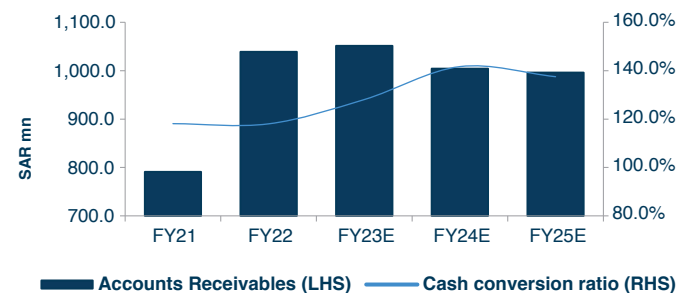
C30: Price-performance



C31: Client mix



C32: Accounts receivable and cash conversion



KSA Healthcare Sector Report

June 2023

الجزيرة كابيتال

ALJAZIRA CAPITAL الجزيرة للأسواق المالية



T4: Key Financial Table

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	2,045.0	2,144.1	2,334.1	2,740.4	3,054.1	3,495.1	4,013.0	4,494.8
Y/Y	10.1%	4.8%	8.9%	17.4%	11.4%	14.4%	14.8%	12.0%
Gross profit	960.3	995.8	1,098.9	1,304.8	1,478.8	1,698.6	1,961.2	2,231.0
Selling & distribution expense	(124.2)	(98.9)	(117.3)	(158.4)	(173.7)	(202.2)	(236.3)	(269.2)
General & administration expense	(258.2)	(275.0)	(318.5)	(383.8)	(431.0)	(482.9)	(534.0)	(593.7)
Amortization of intangible assets	-	-	-	-	-	-	-	-
Operating profit	577.8	621.9	663.1	762.5	874.1	1,013.5	1,190.8	1,368.1
Y/Y	22.8%	7.6%	6.6%	15.0%	14.6%	16.0%	17.5%	14.9%
Other income	13.1	18.5	20.1	24.3	30.9	32.5	34.4	36.1
Financial charges	(14.0)	(8.2)	(22.9)	(31.0)	(26.6)	(21.7)	(21.7)	(21.7)
Profit before zakat & minority interest	576.9	632.2	660.3	755.8	878.4	1,024.3	1,203.5	1,382.5
Non-controlling interest	(33.5)	(32.3)	(33.4)	(37.7)	(35.1)	(41.0)	(60.2)	(69.1)
Profit before zakat	543.4	599.9	626.9	718.1	843.2	983.3	1,143.3	1,313.3
Zakat	(15.2)	(21.7)	(27.6)	(36.3)	(35.9)	(41.8)	(48.6)	(55.9)
Net income	528.2	578.2	599.3	681.8	807.4	941.5	1,094.7	1,257.5
Y/Y	25.4%	9.5%	3.7%	13.8%	18.4%	16.6%	16.3%	14.9%
Balance sheet								
Assets								
Cash & bank balance	160	157	144	149	548	1,078	1,709	2,732
Other current assets	1,035	1,158	1,430	1,482	1,468	1,559	1,787	1,823
Property & Equipment	2,203	2,419	2,765	2,910	2,983	2,944	2,832	2,666
Other non-current assets	250	325	323	336	364	402	479	525
Total assets	3,649	4,059	4,662	4,877	5,363	5,983	6,807	7,746
Liabilities & owners' equity								
Total current liabilities	551	640	795	752	777	836	924	1,006
Long-term loans	575	564	628	506	450	398	368	322
Total other non-current liabilities	143	153	162	131	137	129	141	129
Non-controlling interest	101	98	153	158	162	167	174	183
Paid -up capital	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Statutory reserves	300	300	300	368	449	543	653	778
Other reserve	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Retained earnings	979	1,304	1,623	1,961	2,388	2,910	3,546	4,327
Total owners' equity	2,279	2,604	2,923	3,330	3,837	4,454	5,198	6,106
Total equity & liabilities	3,649	4,059	4,662	4,877	5,363	5,983	6,807	7,746
Cashflow statement								
Operating activities	483	683	707	873	1,144	1,295	1,379	1,700
Investing activities	(319)	(446)	(371)	(382)	(342)	(303)	(283)	(208)
Financing activities	(208)	(240)	(349)	(486)	(403)	(461)	(465)	(469)
Change in cash	(44)	(3)	(13)	5	399	531	631	1,023
Ending cash balance	160	157	144	149	548	1,078	1,709	2,732
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.2	2.1	2.0	2.2	2.6	3.2	3.8	4.5
Quick ratio (x)	1.8	1.8	1.7	1.9	2.3	2.9	3.5	4.2
Profitability ratios								
Gross profit margin	47.0%	46.4%	47.1%	47.6%	48.4%	48.6%	48.9%	49.6%
Operating margin	28.3%	29.0%	28.4%	27.8%	28.6%	29.0%	29.7%	30.4%
EBITDA margin	35.3%	36.2%	36.3%	36.1%	36.6%	37.8%	37.7%	37.8%
Net profit margin	25.8%	27.0%	25.7%	24.9%	26.4%	26.9%	27.3%	28.0%
Return on assets	15.1%	15.0%	13.7%	14.3%	15.8%	16.6%	17.1%	17.3%
Return on equity	24.9%	23.7%	21.7%	21.8%	22.5%	22.7%	22.7%	22.2%
Leverage ratio								
Debt / equity (x)	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Market/valuation ratios								
EV/sales (x)	7.0	8.4	9.2	8.9	7.9	6.7	5.7	5.0
EV/EBITDA (x)	19.9	23.2	25.4	24.5	21.5	17.8	15.2	13.1
EPS (SAR)	5.28	5.78	5.99	6.82	8.07	9.42	10.95	12.57
BVPS (SAR)	22.79	26.0	29.2	33.3	38.4	44.5	52.0	61.1
Market price (SAR)*	138.0	173.8	209.0	235.2	235.2	235.2	235.2	235.2
Market-Cap (SAR mn)	13,800	17,380	20,900	23,520	23,520	23,520	23,520	23,520
Dividend yield	1.4%	1.4%	1.3%	1.2%	1.2%	1.3%	1.4%	1.5%
P/E ratio (x)	26.1	30.1	34.9	34.5	29.1	25.0	21.5	18.7
P/B ratio (x)	6.1	6.7	7.2	7.1	6.1	5.3	4.5	3.9

Source: Company filings, AJC Analysis



Al Hammadi Holding (Al Hammadi)

Increasing patient volumes and boost in insured lives to act as key drivers in the top-line increase

Al Hammadi's bed capacity after the closure of the Olaya branch stands at 1,028 beds (the present combined capacity of the facilities at Nuzha and Suweidi), which influenced the market-leading position in Riyadh. We expect the new Olaya facility to start operating in H2-26 with a gradual rollout of beds. Nuzha's high utilization rates are expected to put a cap on momentum from the facility. The healthcare operator also plans to roll out a 100-bed facility in Narjis by FY27. Al Hammadi will benefit due to an increase in insurance policies as it caters to Class B clientele. Hence, we believe increasing insured lives boosted by increasing private employment would warrant revenue growth.

Margin growth to maintain momentum supported by operational efficiencies

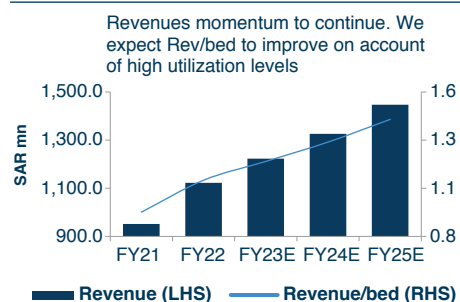
Despite the seasonality, Al Hammadi's margin print seems optimistic, with the last 12 months (Q2-22 to Q1-23) average GP margin at 37.5%. Going forward, we expect the operating margins to range from 28.0% to 30.0% during FY23E-FY27E, backed by operational efficiencies and rationalization in provisioning expenses.

AJC view and Valuation: Healthy capacity utilization, strong volume momentum, rise in insured lives, and leading position in the Class B segment is expected to materialize into strong profitability print going forward, and hence we pencil in a CAGR of 12.4% during FY22- FY27E. Efforts to rationalize costs and expected provision reductions will boost operating margins to reach 30.0% in FY27E. Our assumptions are directed towards a 3.5% average FCF yield in the next five years. However, limited geographic diversification, delay in ramping the new Olaya facility, and competition from other players such as Dallah, HMG, Mouwasat and MEH pose risks. We value Al Hammadi on 50% weight to DCF (2.5% terminal growth and 7.9% WACC) and 25% each to PE (FY23x 30.0x) and EV/EBITDA (FY23E 20.0x). This yields a TP of **SAR 52.0 per share**, implying a 2.8% downside from current levels. We reiterate our '**Neutral**' recommendation on Al Hammadi. Upside risks to our assumptions include better-than-expected cost efficiencies and better-than-expected ability to ramp up new capacity additions swiftly. In contrast, downside risks include any dip in the occupancy rates and competitive pressures from other players expanding their presence into Riyadh.

Recommendation	Neutral
Price Target	52.0
Upside/(Downside)	-2.8

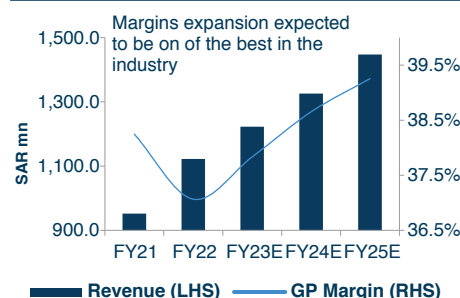
Source: Tadawul Prices as of 8th June 2023

C33: Revenue and Revenue/bed



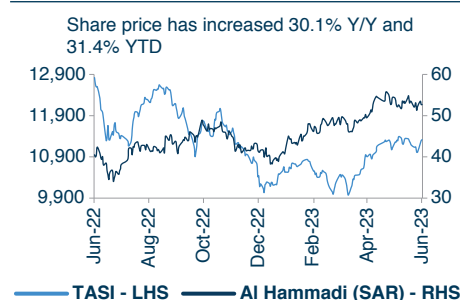
Source: Company Reports, AlJazira Capital

C34: Revenue and GP margin



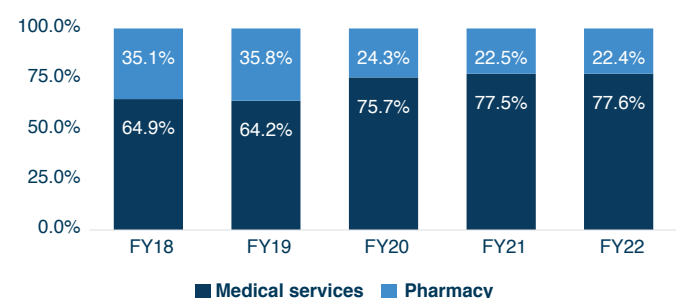
Source: Company Reports, AlJazira Capital

C35: Price-performance



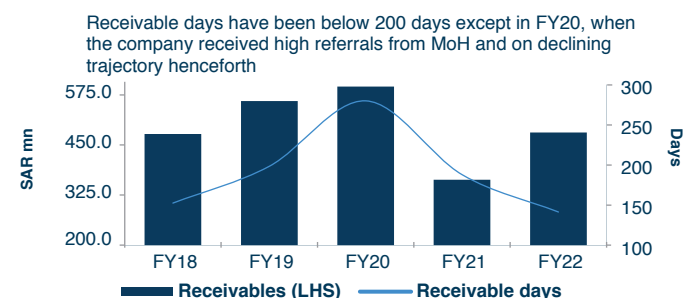
Source: Bloomberg, AlJazira Capital

C36: Revenue composition



Source: Company filings, AlJazira Capital

C37: Accounts receivable



Source: Company filings, AlJazira Capital



T5: Key Financial Table

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	764.1	951.9	1,122.4	1,222.9	1,325.9	1,447.3	1,613.8	1,791.6
Y/Y	-21.6%	24.6%	17.9%	9.0%	8.4%	9.1%	11.5%	11.0%
Gross profit	252.8	364.0	416.0	462.7	512.5	568.1	640.5	715.0
Operating Expenses	(148.9)	(238.8)	(153.2)	(141.4)	(158.1)	(166.0)	(186.2)	(204.4)
SG&A Expenses	(87.8)	(84.3)	(98.9)	(104.7)	(118.3)	(129.9)	(153.9)	(168.5)
Impairment losses on trade receivable	(61.1)	(154.5)	(54.3)	(36.7)	(39.8)	(36.2)	(32.3)	(35.8)
Other operating Income/(expense)	5.4	6.0	29.0	21.4	26.0	26.0	26.0	26.0
Operating profit	109.3	131.2	291.8	342.7	380.4	428.1	480.3	536.7
Y/Y	-25.4%	20.1%	122.3%	17.4%	11.0%	12.5%	12.2%	11.7%
Financing Expense	(25.1)	(15.7)	(21.7)	(35.1)	(33.9)	(27.6)	(27.6)	(27.6)
Income before zakat	84.2	117.6	274.2	325.6	364.5	418.5	470.7	527.1
Zakat	(19.9)	(18.7)	(16.8)	(18.5)	(23.0)	(26.4)	(29.7)	(30.9)
Net income	130.8	90.1	257.3	307.1	341.5	392.1	441.1	496.2
Y/Y	40.7%	-31.1%	185.7%	19.3%	11.2%	14.8%	12.5%	12.5%
Balance sheet								
Assets								
Cash & equivalent	14	121	61	176	129	56	69	142
Other current assets	703	442	566	624	659	717	722	725
Non-current assets	66	164	385	366	348	330	313	292
Property plant & equipment	1,652	1,535	1,470	1,568	1,676	1,771	1,853	1,931
Other non-current assets	-	-	-	-	-	-	-	-
Total assets	2,435	2,262	2,482	2,734	2,811	2,874	2,956	3,089
Liabilities & owners' equity								
Total current liabilities	326	227	260	262	304	318	329	341
Long-term loans	197	179	203	333	283	233	183	134
Total other non-current liabilities	213	196	308	329	312	293	282	278
Paid-up capital	1,200	1,200	1,600	1,600	1,600	1,600	1,600	1,600
Statutory reserves	64	73	37	68	102	141	185	235
Retained earnings	434	386	74	142	210	289	377	502
Total owners' equity	1,699	1,659	1,711	1,810	1,912	2,030	2,162	2,337
Total equity & liabilities	2,435	2,262	2,482	2,734	2,811	2,874	2,956	3,089
Cashflow statement								
Operating activities	329	435	253	397	471	523	651	726
Investing activities	(27)	(133)	(113)	(218)	(238)	(241)	(253)	(262)
Financing activities	(363)	(194)	(201)	(64)	(279)	(355)	(385)	(392)
Change in cash	(62)	107	(60)	115	(47)	(73)	13	73
Ending cash balance	14	121	61	176	129	56	69	142
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.2	2.5	2.4	3.0	2.6	2.4	2.4	2.5
Quick ratio (x)	2.0	2.2	2.2	2.8	2.4	2.2	2.2	2.3
Profitability ratios								
Gross profit margin	33.1%	38.2%	37.1%	37.8%	38.7%	39.3%	39.7%	39.9%
Operating margin	14.3%	13.8%	26.0%	28.0%	28.7%	29.6%	29.8%	30.0%
EBITDA margin	29.0%	26.2%	34.6%	39.3%	39.9%	40.9%	41.5%	41.4%
Net profit margin	17.1%	9.5%	22.9%	25.1%	25.8%	27.1%	27.3%	27.7%
Return on assets	5.3%	3.8%	10.8%	11.8%	12.3%	13.8%	15.1%	16.4%
Return on equity	8.0%	5.4%	15.3%	17.4%	18.4%	19.9%	21.0%	22.1%
Leverage ratio								
Debt / equity (x)	0.14	0.13	0.14	0.20	0.17	0.14	0.11	0.08
Market/valuation ratios								
EV/sales (x)	6.4	6.9	7.7	7.0	6.5	6.0	5.3	4.7
EV/EBITDA (x)	21.9	26.2	22.1	17.9	16.3	14.6	12.8	11.4
EPS (SAR)	0.4	0.6	1.6	1.9	2.1	2.5	2.8	3.1
BVPS (SAR) - Adjusted	14.2	13.8	10.7	11.3	12.0	12.7	13.5	14.6
Market price (SAR)	28.90	40.30	52.70	52.70	52.70	52.70	52.70	52.70
Market-Cap (SAR mn)	4,624.0	6,448.0	8,432.0	8,432.0	8,432.0	8,432.0	8,432.0	8,432.0
Dividend yield	1.3%	2.0%	2.4%	2.5%	2.8%	3.3%	3.7%	3.8%
P/E ratio (x)	71.9	65.2	32.8	27.5	24.7	21.5	19.1	17.0
P/BV ratio (x)	2.0	2.9	4.9	4.7	4.4	4.2	3.9	3.6

Source: Company filings, Aljazira Capital



Middle East Healthcare (MEH)

Hiatus in expansions gives MEH breathing room to focus on core business and revenue & patient attraction, to mark a new page for the firm

MEH reached a milestone in the bulk of their expansions after extending their bed capacity by around 23% in the last four quarters with the additions of the Riyadh expansion, Makkah and Dammam facilities. Similarly, clinics capacities rose by c.28% with the addition of the Riyadh Outpatient facility, Abha, Makkah, and Riyadh expansion- All to mark a milestone in the firm's expansion campaign as the facilities and management are now pivoted in their focus onto ramp-ups and medical and business operations. Guidances in the immediate term point towards profitability levels previously seen by 2018 as a sign of a new phase for MEH. We expect the focus on efficiency in operations, extension of duty hours, and optimizing materials to significantly expand operating margins by almost 320bps by FY24, from the 6.5% levels reached in FY22.

MEH is in an excellent position to cater for the expected doubling in class B, A, and VIP patients across the western region. Plans for patient attraction requires staffing and marketing campaigns

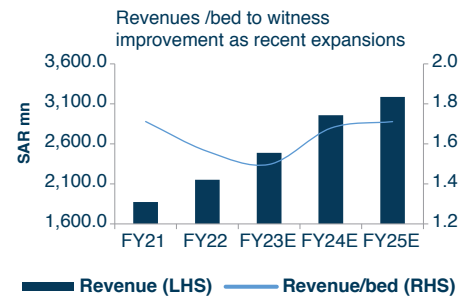
With a strong foothold in the Western region and now Makkah, MEH is expected to maintain its competitive presence there. In contrast, the Makkah facility is expected to break even in the next 12 to 17 months. Central Region ramp-up is expected to range longer due to the region's concentration of healthcare providers. With utilization rates at high levels, namely in Dammam and Riyadh, management awaits the workforce to service the Dammam expansion and begin marketing and sales initiatives to raise the consolidated utilization rates to about 80%.

AJC view and Valuation: MEH marked a new phase in its previously strenuous expansion initiatives as it aims towards more stable growth in its profitability. As the facilities ramp up and with indicated efforts towards higher utilizations, we forecast revenue growth to reach a four-year CAGR (from FY22) of 13.0%. Our assumptions translate to an ROCE to reach 10.56% as NOPAT grows by 25.0% from FY22. Figures are subject to change as the firm considers various options for raising capital. Yet with an expected ROE of 14.3% by FY27 (from 5.6% in FY22) at over MEH's 6.3% forecasted WACC for the same period, we believe that margin could warrant a strategic increase should the capital be used effectively. In the immediate term, net income is expected to double over the previous year, and expanding margins support our view of MEH's improving conditions. We value MEH at a 60% weight on DCF to reflect future expansions maturing (at a 2.5% terminal growth rate and an average WACC of 6.3% from FY23-FY27) and 20% weightage for both P/E (FY24 at 24x) and EV/EBITDA (FY24 at 24x) to imply a TP of **SAR 56.1/share** for the firm. We set our multiples at FY24 to reflect the improving conditions to stabilize at that horizon. At the same time, we maintain a **"Neutral"** recommendation. Upside risks consider faster ramp-ups in Riyadh and more significant patient flow than expected, while downside risks include the increased competition in the Western region by FY24.

Recommendation	Neutral
Price Target	56.1
Upside/(Downside)	-18.1%

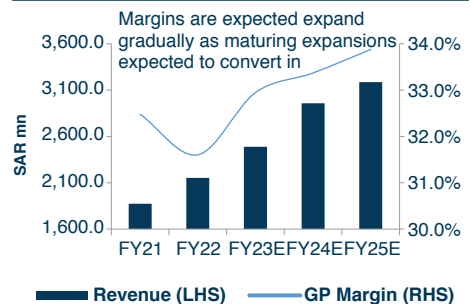
Source: Tadawul Prices as of 8th June 2023

C38: Revenue and Revenue/bed



Source: Company Reports, AlJazira Capital

C39: Revenue and GP margin



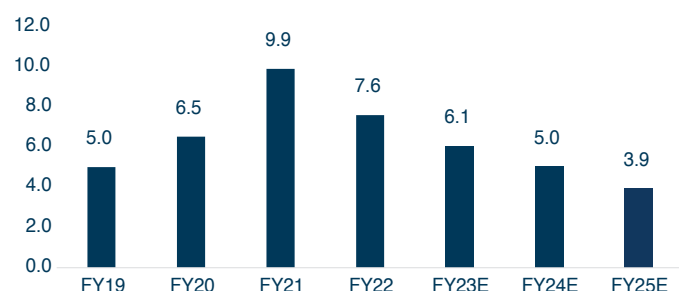
Source: Company Reports, AlJazira Capital

C40: Price performance



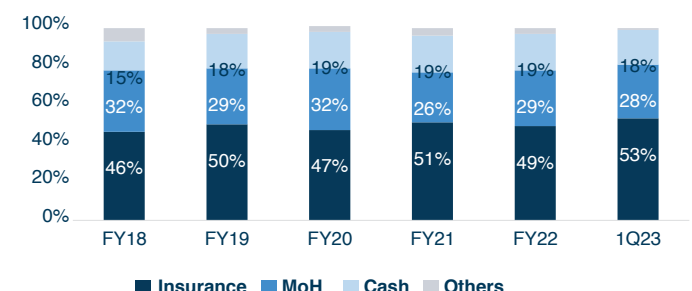
Source: Bloomberg, AlJazira Capital

C41: Net Debt/ EBITDA



Source: Company filings, AlJazira Capital

C42: Client mix



Source: Company filings, AlJazira Capital



T6: Key Financial Table

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	1,615.6	1,462.4	1,390.7	1,496.6	1,750.6	1,872.6	2,151.7	2,488.4
Y/Y	5.3%	-9.5%	-4.9%	7.6%	17.0%	7.0%	14.9%	15.6%
Gross profit	578.4	608.2	680.0	819.8	987.1	1,079.5	1,184.6	1,264.7
Selling & distribution expense	(31.1)	(46.0)	(30.4)	(39.2)	(41.4)	(38.2)	(38.2)	(40.6)
General & administration expense	(439.8)	(508.0)	(509.3)	(558.4)	(658.5)	(698.0)	(768.0)	(804.9)
Operating profit	107.4	54.2	140.3	222.2	287.2	343.2	378.4	419.2
Y/Y	4.0%	-49.5%	158.7%	58.3%	29.3%	19.5%	10.3%	10.8%
Other income	17.1	7.5	12.0	12.1	9.6	13.2	14.1	15.3
Financial charges	(25.1)	(34.2)	(47.0)	(49.5)	(42.7)	(47.4)	(49.3)	(47.7)
Profit before zakat & minority interest	95.3	80.7	19.2	103.1	119.6	163.2	203.4	245.3
Non-controlling interest	7.5	6.8	5.5	(1.8)	(2.2)	(3.0)	(3.7)	(3.9)
Profit before zakat	90.1	75.2	11.7	85.5	101.7	138.7	172.6	208.4
Zakat	(5.2)	(5.5)	(7.5)	(17.6)	(17.9)	(24.5)	(30.8)	(36.8)
Net income	97.6	82.0	17.2	83.7	99.5	135.8	168.9	204.6
Y/Y	-43.4%	-16.0%	-79.0%	386.8%	18.9%	36.4%	24.4%	21.1%
Balance sheet								
Assets								
Cash & bank balance	17	28	16	43	43	17	35	41
Other current assets	1,476	1,548	1,941	1,946	2,103	2,022	1,960	2,043
Property & Equipment	2,074	2,357	2,471	2,576	2,714	2,895	3,011	3,062
Other non-current assets	33	40	71	103	138	168	195	217
Total assets	3,599	3,972	4,499	4,668	4,998	5,102	5,200	5,363
Liabilities & owners' equity								
Total current liabilities	1,188	1,367	1,631	1,236	1,509	1,449	1,260	1,351
Long-term loans	847	1,028	1,181	1,599	1,434	1,317	1,273	973
Total other non-current liabilities	290	282	280	276	276	282	296	306
Non-controlling interest	43	38	43	43	43	43	43	43
Paid -up capital	920	920	920	920	920	920	920	920
Statutory reserves	192	194	201	216	238	266	297	334
Retained earnings	119	144	243	377	575	824	1,109	1,434
Total owners' equity	1,232	1,258	1,364	1,513	1,734	2,010	2,326	2,688
Total equity & liabilities	3,599	3,972	4,498	4,667	4,997	5,102	5,200	5,362
Cashflow statement								
Operating activities	(229)	77	76	291	297	569	594	547
Investing activities	(294)	(417)	(249)	(225)	(267)	(319)	(261)	(204)
Financing activities	486	352	161	(39)	(30)	(276)	(315)	(337)
Change in cash	(37)	11	(13)	27	0	(26)	18	6
Ending cash balance	17	28	16	43	43	17	35	41
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.3	1.2	1.2	1.6	1.4	1.4	1.6	1.5
Quick ratio (x)	1.1	1.0	1.1	1.5	1.3	1.3	1.5	1.4
Profitability ratios								
GP Margin	33.0%	32.5%	31.6%	32.9%	33.4%	33.9%	34.1%	34.3%
Operating Margins	6.1%	2.9%	6.5%	8.9%	9.7%	10.8%	10.9%	11.4%
EBITDA Margin	13.4%	10.4%	13.3%	14.6%	15.0%	16.3%	16.4%	17.0%
Net Margin	4.7%	0.9%	3.5%	6.0%	7.5%	8.7%	9.1%	9.8%
Return on assets	2.4%	0.5%	1.8%	3.3%	4.6%	5.5%	6.1%	6.9%
Return on equity	5.8%	1.3%	5.6%	10.0%	13.2%	14.4%	14.3%	14.2%
Leverage ratio								
Debt / equity (x)	1.2	1.5	1.5	1.4	1.3	1.0	0.8	0.6
Market/valuation ratios								
EV/sales (x)	2.7	2.6	2.1	3.2	2.7	2.5	2.2	2.0
EV/EBITDA (x)	20.8	26.1	16.8	23.2	19.2	16.3	14.5	12.8
EPS (SAR)	0.9	0.2	0.8	1.6	2.4	3.0	3.4	3.9
BVPS (SAR)	13.4	13.7	14.8	16.4	18.8	21.8	25.3	29.2
Market price (SAR)	35.1	31.7	25.5	62.8	62.8	62.8	62.8	62.8
Market-Cap (SAR mn)	3,226	2,913	2,342	5,780	5,780	5,780	5,780	5,780
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	39.3	169.4	31.2	38.8	26.2	20.9	18.3	16.0
P/BV ratio (x)	2.6	2.3	1.7	3.8	3.3	2.9	2.5	2.1

Source: Company filings, AJC Analysis



National Medical Care (Care)

More headroom for accreditations and renewal of GOSI's five-year contract with Care warrants possibilities of further pricing increases.

A retraction on referrals from GOSI defined Care's recent periods (FY22) as the government social insurance provider on-boarded new management. However, that has more than normalized from the same period last year (from Q1-22) as Care has seen growth in the GOSI business since then. As Care's contract with GOSI is ending, pricing changes in favor of Care are being discussed. Alongside the possible pricing change for GOSI, Care acquired the level 6 HIMSS accreditation, which the MoH granted an increase in its pricing by 16% from February that will carry forward. Care's Family HealthCare Center facility is also subject to be repurposed towards more profitable operations by the beginning of next year. We forecast a four-year CAGR of 9.16% in revenues and stable margins to punctuate a net income CAGR of 13.36% during the same period.

Immediate-term expansions (200 beds by the end of FY24) represent around 25% of current capacity, yet we expect they will not come along with the conventional challenges faced with expansions at that scale and timeline

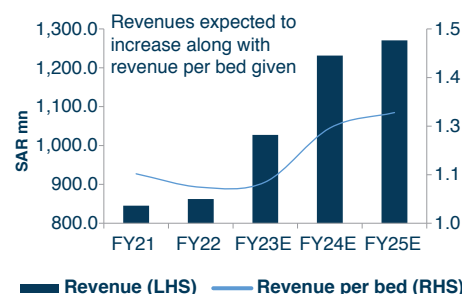
A brownfield expansion at Care's National Hospital and the recently acquired Jiwar facility in Makkah circumvent the challenges of expanding too thin too quickly. However, it is not immune to the labor market and the relevant regulatory requirements; MoH awaiting staff hiring confirmation before the final green light is a current theme across the sector (requiring confirming around 80% of the staff needed for planned capacities). This is a key challenge for the firm as it competes with larger providers to source nurses, possibly putting pressure on the expected timelines for the expansions. Care is currently prioritizing the Makkah expansion while sourcing new-hires. Another source of pressure Care faces is depreciation, which is set to increase once Jiwar becomes active and as the medical equipment being replaced is also involved. The firm will take on as it replaces its medical equipment and fits its new expansions. Care is focused on managing costs, however. As revenue generation improves, we forecast GP margins to be stable until FY26, when we are estimated to expand 100bps from FY22 levels, supported by recent hires of surgical talents that have been bringing in high-margin surgery patients.

AJC view and Valuation: We favour Care's improving engagements with GOSI and MoH clients and the firm's expansion plans in the Central and Western regions. We consider its location in the Central region to be relatively less rivalled as well, benefiting from the proximity of patients in the area. Virtually no debt on its balance sheet, offering a possibility to decrease its cost of capital, and a forecasted ROE of 15.7% by FY25 from FY22's 12.6% are some of the chief specifications that we earmark Care to. We value Care at a 60% weight on DCF (at 2.5% terminal growth rate and an average WACC of 6.8% from FY23-FY27) and 20% weightage for both P/E (FY23 at 24x) and EV/EBITDA (FY23 at 16x) to imply a TP of **SAR 117.0/share** for the firm while we maintain a **"Neutral"** recommendation on the firm.

Recommendation	Neutral
Price Target	117.0
Upside/(Downside)	0.9%

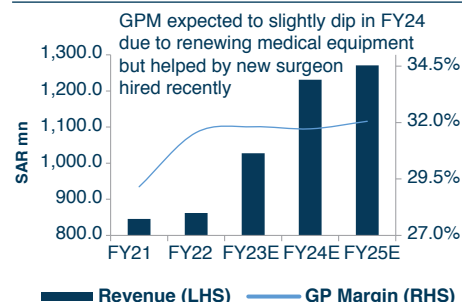
Source: Tadawul Prices as of 8th June 2023

C43: Revenue and Revenue/bed



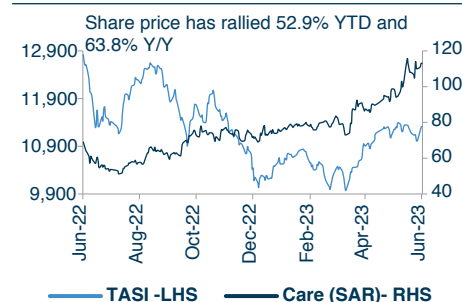
Source: Company Reports, AlJazira Capital

C44: Revenue and GP margin



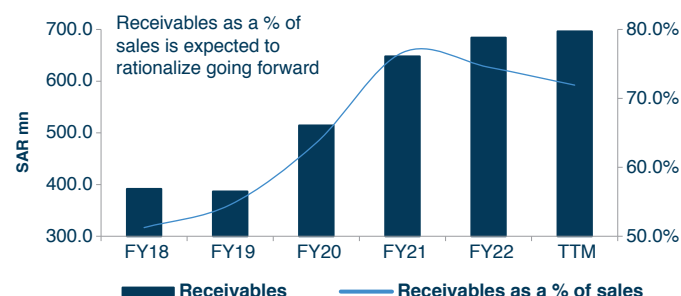
Source: Company Reports, AlJazira Capital

C45: Price performance



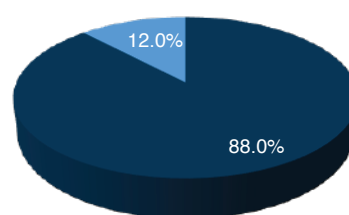
Source: Bloomberg, AlJazira Capital

C46: Receivables as a % of sales



Source: Company filings, AlJazira Capital

C47: Revenue by category (FY22)



■ Rendering of clinical services ■ Sale of medicines

Source: Company filings, AlJazira Capital



T7: Key Financial Data

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	809.0	845.4	917.9	1,027.5	1,231.4	1,270.7	1,303.4	1,336.4
Y/Y	14.2%	4.5%	8.6%	11.9%	19.8%	3.2%	2.6%	2.5%
Gross profit	223.9	246.5	289.7	326.9	390.6	407.3	424.4	437.8
Selling & distribution expense	(42.4)	(12.0)	(8.1)	(5.1)	(4.8)	(3.7)	(2.5)	(2.2)
General & administration expense	(67.4)	(79.2)	(91.3)	(104.7)	(122.9)	(124.7)	(125.3)	(124.4)
Other expenses/income	9.2	9.1	8.2	7.3	5.0	11.9	15.2	15.9
Operating profit	123.3	164.4	198.5	224.4	267.8	290.8	311.8	327.1
Y/Y	17.5%	33.3%	20.7%	13.0%	19.4%	8.6%	7.2%	4.9%
Finance and other cost	-	-	-	-	-	-	-	-
Income before zakat	123.3	164.4	198.5	224.4	267.8	290.8	311.8	327.1
Zakat	(26.0)	(28.0)	(28.4)	(25.3)	(29.7)	(29.1)	(31.2)	(32.7)
Net income	97.3	136.4	170.1	199.0	238.1	261.8	280.6	294.4
Y/Y	21.3%	40.2%	24.7%	17.0%	19.6%	9.9%	7.2%	4.9%
Balance sheet								
Assets								
Cash & bank balance	373	375	329	487	699	925	1,182	1,461
Other current assets	560	694	727	732	736	740	747	745
Property & Equipment	495	483	652	686	736	742	732	721
Other non-current assets	5	7	4	4	4	4	4	4
Total assets	1,433	1,559	1,713	1,909	2,176	2,412	2,665	2,932
Liabilities & owners' equity								
Total current liabilities	214	254	286	313	369	385	400	415
Long-term loans	89	83	77	82	82	82	82	82
Total other non-current liabilities	93	98	86	96	114	117	119	121
Paid-up capital	449	449	449	449	449	449	449	449
Statutory reserves	186	186	186	186	186	186	186	186
General reserves	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
Retained earnings	402	490	629	783	977	1,193	1,429	1,679
Total owners' equity	1,037	1,124	1,264	1,418	1,611	1,828	2,064	2,313
Total equity & liabilities	1,433	1,559	1,713	1,909	2,176	2,412	2,665	2,932
Cashflow statement								
Operating activities	107	94	217	276	347	334	352	375
Investing activities	(18)	(41)	(212)	(88)	(109)	(66)	(52)	(53)
Financing activities	(96)	(51)	(51)	(31)	(26)	(42)	(43)	(43)
Change in cash	(7)	2	(46)	158	213	226	257	279
Ending cash balance	373	375	329	487	699	925	1,182	1,461
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	6.7	6.1	6.0	6.1	5.9	6.3	6.7	7.1
Quick ratio (x)	4.1	4.0	3.5	3.8	3.8	4.2	4.7	5.2
Profitability ratios								
Gross profit margin	27.7%	29.2%	31.6%	31.8%	31.7%	32.1%	32.6%	32.8%
Operating margin	14.1%	18.4%	20.6%	20.4%	20.3%	20.9%	21.7%	22.3%
EBITDA margin	20.9%	23.9%	25.1%	25.7%	25.0%	25.6%	26.5%	27.1%
Net profit margin	12.0%	16.1%	18.5%	19.4%	19.3%	20.6%	21.5%	22.0%
Return on assets	5.8%	7.0%	9.1%	10.4%	11.0%	11.7%	11.4%	11.1%
Return on equity	7.9%	9.4%	12.6%	14.2%	14.8%	15.7%	15.2%	14.4%
Leverage ratio								
Debt / equity (x)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Market/valuation ratios								
EV/Sales (x)	3.13	2.96	3.43	4.54	3.62	3.33	3.05	3.79
EV/EBITDA (x)	14.93	12.38	13.64	17.68	14.49	12.98	11.50	14.01
EPS (SAR)	2.17	3.04	3.79	4.44	5.31	5.84	6.26	6.56
BVPS (SAR)	23.12	25.07	28.17	31.61	35.92	40.76	46.01	51.58
Market price (SAR)*	62.60	62.20	75.70	113.00	113.00	113.00	113.00	113.00
Market-Cap (SAR mn)	2,807.6	2,789.7	3,395.1	5,068.1	5,068.1	5,068.1	5,068.1	5,068.1
Dividend yield	1.6%	1.6%	1.3%	0.9%	0.9%	0.9%	0.9%	0.9%
P/E ratio (x)	28.86	20.46	19.96	25.46	21.28	19.36	18.06	17.21
P/BV ratio (x)	2.71	2.48	2.69	3.57	3.15	2.77	2.46	2.19

Source: Company filings, AJC Analysis



Dallah Healthcare Co. (Dallah)

Momentum in patient volume to persist while Dallah's utilization rates favourably possess some headroom for growth

Dallah's recent performance, growing at a four-year CAGR of 12.7% from FY18, could be mainly attributed to the provider's eye-catching growth in patient volume, which saw patients more than double during the same period from 1.15mn to 2.25mn by FY22's end. More volume granted from sector-wide drivers and more headroom for possible utilization in Dallah's established facilities, as well as FY24 expansions, offers a formula for revenue growth which we forecast at a four-year CAGR of 11.57% from FY22's SAR 2,448.0mn. Expected stable margins and improving income from minority interests support an anticipated net income four year CAGR of 22.21% from FY22.

Kingdom Hospital and AlNakheel Facilities' recent expansions are still ramping up towards higher utilization

The group's consolidated utilization rates of c.65% are weighed down by Kingdom Hospital and AlNakheel's FY22 expansions, which are 48% and 58% inpatient utilization rates, respectively. Given that Central region ramp-ups can take two years to reach positive EBITDA, we do not consider current utilization rates a concern but rather favour the possibilities in place. Management also expects further improvements to carry on in its income from associates in the immediate term. Al-Faqih, which Dallah owns 31.21%, slimmed down its losses significantly from 35.7mn to 7.73mn- management expects further improvements in the coming quarters as well. IMC (27.17% owned) recorded profits for the most recent quarter and is expected to continue its performance further into the year. Dallah's North Riyadh (250 beds) and Namar's expansion (100 beds) are expected to pressure GP Margins in FY24 by 30bps from expected FY23 levels before improving by 100bps by FY26 compared to FY22.

AJC view and Valuation: We favor Dallah for its track record of patient volume attraction and the expansion plans in place for FY24. While the Central region is heavily contested, Dallah's North Riyadh expansion is planned to be located in an emerging neighborhood, Al-Arid, where they can benefit from having an early presence in the area should their expansion materialize. While debted at a ratio of 1-to-1 with debt to equity, we observe that concerns could be mitigated as the expected ROA in the coming years to continue outperforming the average WACC of 5.2% by reaching 8.2% in FY27 from 5.9% in FY22. We value Dallah at a 60% weight on DCF (at 2.5% terminal growth rate and an average WACC of 5.2% from FY23-FY27) and 20% weightage for both P/E (FY23 at 33.2x) and EV/EBITDA (FY23 at 23.0x) to imply a TP of **SAR 144.0/share** for the firm while we maintain a **"Neutral"** recommendation on the firm.

C51: Central Region Presence*

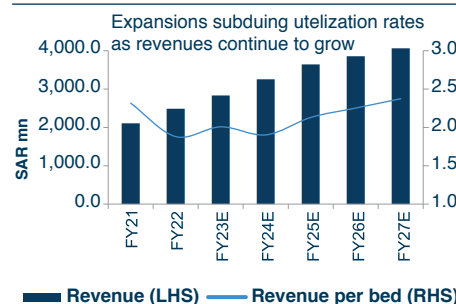


Source: Company presentations, AlJazira Capital

Recommendation	Neutral
Price Target	144.0
Upside/(Downside)	-13.7%

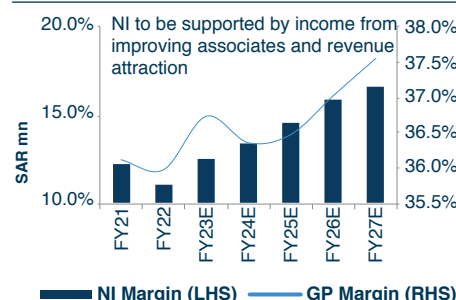
Source: Tadawul Prices as of 8th June 2023

C48: Revenue and Revenue/bed



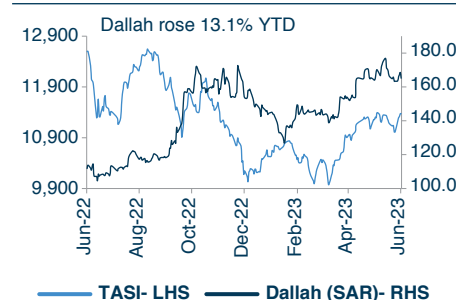
Source: Company Reports, AlJazira Capital

C49: Net income and GP margin



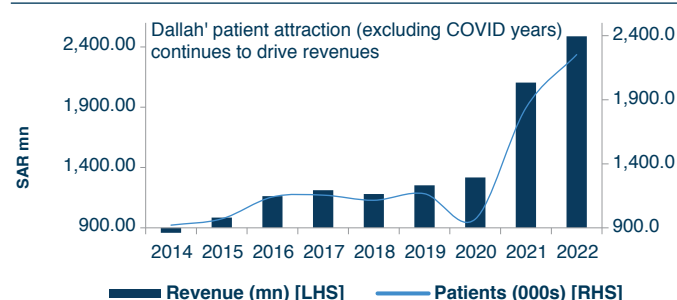
Source: Company Reports, AlJazira Capital

C50: Price performance



Source: Bloomberg, AlJazira Capital

C52: Patient Growth and Revenue Growth



Source: Company filings, AlJazira Capital



T8: Key Financial Data

Amount in SARmn, unless otherwise specified	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income statement								
Revenues	1,318.3	2,105.2	2,488.0	2,834.1	3,256.0	3,644.9	3,855.1	4,062.6
Y/Y	5.3%	59.7%	18.2%	13.9%	14.9%	11.9%	5.8%	5.4%
Cost	(868.5)	(1,344.8)	(1,592.9)	(1,793.0)	(2,072.1)	(2,315.4)	(2,427.6)	(2,536.9)
Gross profit	449.7	760.4	895.1	1,041.1	1,183.8	1,329.5	1,427.5	1,525.7
Selling & distribution expense	(25.5)	(40.6)	(45.0)	(53.0)	(58.6)	(67.6)	(68.4)	(77.2)
General & administration expense	(281.4)	(374.7)	(429.8)	(505.4)	(578.9)	(639.9)	(669.1)	(713.2)
Expected credit loss provision	(17.6)	(17.1)	(27.8)	(19.0)	(20.0)	(20.0)	(20.0)	(10.0)
Operating profit	125.2	327.9	392.5	463.6	526.3	602.1	670.0	725.4
Y/Y	-18.9%	162.0%	19.7%	18.1%	13.5%	14.4%	11.3%	8.3%
Other income	69.9	36.8	30.0	35.5	39.1	43.7	46.3	48.8
Financial charges	(25.4)	(41.8)	(70.5)	(78.9)	(66.1)	(55.4)	(49.6)	(48.9)
Other adjustments	(21.3)	(31.1)	(22.8)	(17.0)	(8.0)	(4.0)	8.0	16.0
Income before zakat	148.4	291.8	329.1	403.2	491.3	586.4	674.6	741.2
Zakat	(13.4)	(16.9)	(33.7)	(20.1)	(29.8)	(29.3)	(33.7)	(34.5)
Non-controlling interest	(3.0)	(16.3)	(21.0)	(26.6)	(27.2)	(28.3)	(28.5)	(28.6)
Net income	132.0	258.6	274.5	356.6	434.3	528.8	612.4	678.1
Y/Y	-10.2%	95.9%	6.1%	29.9%	21.8%	21.8%	15.8%	10.7%
Balance sheet								
Assets								
Cash & equivalent	131	208	238	142	308	447	725	1,110
Other current assets	835	966	1,066	1,181	1,348	1,495	1,554	1,610
Property plant & equipment	2,743	2,768	2,847	2,939	3,056	3,186	3,312	3,432
Other non-current assets	421	703	769	2,141	2,144	2,145	2,144	2,140
Total assets	4,130	4,645	4,920	6,404	6,855	7,273	7,735	8,291
Liabilities & owners' equity								
Total current liabilities	712	923	885	887	970	1,029	1,052	1,084
Long-term loans	1,198	1,364	1,529	1,723	1,796	1,773	1,754	1,738
Total other non-current liabilities	212	261	274	331	360	380	392	422
Paid-up capital	900	900	900	977	977	977	977	977
Statutory reserves	101	127	155	1,121	1,121	1,121	1,121	1,121
Fair value adjustment	(0)	(0)	14	14	14	14	14	14
Retained earnings	794	840	921	1,082	1,321	1,655	2,072	2,554
Treasury shares	-	-	-	-	-	-	-	-
Non-controlling interest	213	229	242	269	296	324	353	381
Total owners' equity	2,008	2,096	2,232	3,463	3,729	4,091	4,536	5,048
Total equity & liabilities	4,130	4,645	4,920	6,404	6,855	7,273	7,735	8,291
Cashflow statement								
Operating activities	183	362	442	502	567	680	811	893
Investing activities	(428)	(425)	(226)	(1,601)	(267)	(292)	(297)	(301)
Financing activities	287	141	(186)	1,004	(135)	(250)	(236)	(207)
Change in cash	42	77	30	(96)	165	139	278	385
Ending cash balance	131	208	238	142	308	447	725	1,110
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.5	1.4	1.3	1.5	1.5	1.7	1.9	2.2
Quick ratio (x)	1.1	1.0	1.2	1.2	1.4	1.5	1.8	2.1
Profitability ratios								
Gross profit margin	34.1%	36.1%	36.0%	36.7%	36.4%	36.5%	37.0%	37.6%
Operating margin	9.5%	15.6%	15.8%	16.4%	16.2%	16.5%	17.4%	17.9%
EBITDA margin	16.7%	21.0%	20.4%	21.2%	20.7%	20.9%	21.8%	22.4%
Net profit margin	10.0%	12.3%	11.0%	12.6%	13.3%	14.5%	15.9%	16.7%
Return on assets	5.2%	3.7%	5.9%	5.7%	6.3%	6.6%	7.5%	8.2%
Return on equity	9.4%	7.5%	12.6%	12.7%	12.5%	12.1%	13.5%	14.2%
Leverage ratio								
Debt / equity (x)	0.85	1.01	0.99	0.67	0.64	0.57	0.50	0.45
Market/valuation ratios								
EV/sales (x)	4.2	4.0	6.7	6.5	5.6	4.9	4.6	4.3
EV/EBITDA (x)	25.2	19.1	33.1	30.5	27.0	23.6	21.0	19.0
EPS (SAR)	1.7	1.5	2.9	3.0	3.7	4.4	5.4	6.3
BVPS (SAR) - Adjusted	19.94	20.74	22.11	32.70	35.15	38.56	42.83	47.77
Market price (SAR)	48.25	75.10	167.00	167.00	167.00	167.00	167.00	167.00
Market-Cap (SAR mn)	4,153	6,759	15,030	16,313	16,313	16,313	16,313	16,313
Dividend yield	2.3%	2.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
P/E ratio (x)	31.5	26.1	54.8	45.7	37.6	30.8	26.6	24.1
P/BV ratio (x)	2.4	3.6	7.6	5.1	4.8	4.3	3.9	3.5

Source: Company filings, AJC Analysis





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TERMINOLOGY

1. **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.
2. **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.
3. **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.
4. **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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