Al Hammadi Holding
Investment Update

Changing dynamics pressuring AlHammadi in short run with risks on patient attraction and cost; we revise our TP down to SAR 52.0 per share

AlHammadi, in Q2-24, posted its third consecutive set of quarterly results displaying negative Y/Y top line growth, reaching SAR 263.5mn (down 4.8% Y/Y and 4.9% Q/Q), while recording a bottom line of SAR 117.9mn (up 44.0% and 84.1% Q/Q) supported by a non-recurring income of SAR 55.3mn from the sale of its Al Riyan land. One off aside, AlHammadi would have posted a 23.5% decrease in NI Y/Y. Its pressures are seen at the top line due to the seasonality at play, as well as the effect its pricing strategy had on its insurance customers, which management expects to gradually normalize by the end of the year. Furthermore, its GP margin, reaching 32.5% (down 80bps Y/Y and 40bps Q/Q) reflected the ongoing changes at AlHammadi, which management expects to carry on for the remainder of the year as it faces changes in MoH agreements as well as well as investments into new services and hirings. Its targeted price hikes, and expansion campaign to increase its available capacity by c. 70% through its Olaya and Narjis expansions (400 rooms) drive our long term performance estimates for the stock; summarized by an FY23-28E revenue CAGR of 9.8% and a NI CAGR of 6.0% for the same period. At current valuations, we maintain our recommendation at "Neutral" while revising down our TP to SAR 52.0 per share.

Q4-24 results displayed a continued change in the dynamics at AlHammadi, summarized by 6.0% Y/Y revenue decline in H1-24 and a 4.4 pcp GPM retraction Y/Y during the same period: AlHammadi recorded a bottom line of SAR 117.9mn during Q2-24 (up 44.0% Y/Y, and 81.1% Q/Q); the result however was supported by a non-recurring gain of SAR 55.3mn from the sale of its plot of land in Al Riyan district. One-off aside, the firm would have recorded a 23.5% decrease in net income Y/Y (and down 2.2% Q/Q). Revenues declined 4.8% Y/Y due to declines in patient volumes during the seasonally burdened Q2, as well as lackluster performance from the pharmaceutical segment which declined 21.0% Y/Y and 6.4% Q/Q. GP margins continued to contract, reaching 32.5% (down 80bps Y/Y, and 40bps Q/Q), as Hammadi invests in new services and amid an operational capacity increases in their Suwaidi branch. Furthermore, SG&A to revenues increased by 30bps Y/Y while declining 70bps Q/Q. Operating income, however was supported by a minor impairment reversal of SAR 2mn.

Recovery in patient volumes depend on demand on new prices amid growing competition and new insurance classification to A+/VIP. GP pressures expected to be in play till next year: AlHammadi's H1-24 revenues were weighed down by declines in patient volumes on both the inpatient and outpatient fronts. The decline was partially due to AlHammadi being classified upwardly at the 'A+/VIP' insurance segment by insurers due to Hammadi increasing its prices as a part of its first phase of its strategy. AlHammadi intends to increase its prices further during FY24-27, with a targeted 10%-12% Y/Y price increase on insurance patients for FY25E. While patient volumes are likely to improve in the seasonably favorable H2-24, we see there lies a risk on patient volumes in AlHammadi's pricing focused strategy as insurance clients adjust to new prices, amid the increasing competition in Riyadh, and as they are now classified by insurance patients as other premium providers. Pricing initiatives favorably drive our short term forecasts on revenue growth, while the two-facility expansions extend our longer term estimates to a FY23-28 ECAGR of 9.8%. GP margins are also under pressure in the imitate term as new agreements with the MoH have MoH patients access more services at no additional compensation to AlHammadi. Adding onto the GP margin pressures are investments into new services, and hiring, which Hammadi expects the effect of to linger on till the end of the year. We expect margins to end the year at 32.0% (down 480bps Y/Y), and remaining at similar levels till FY28 while it undergoes its scheduled expansions. Our forecasts translate to a FY23-28 NI CAGR of 6.0%.

400 room expansions on the horizon extends Hammadi's foothold in the central region: AlHammadi's expansion campaign seeks to revive its Olaya facility (200 rooms) expected to be completed H2-26; while also on the longer term, kicking off its Narjis expansion (200 rooms) by FY28. These long term drivers will be preceded by a gradual increase in operational capacity at the Suwaidi facility (120 beds & 20 clinics). All-in-all, we estimate that AlHammadi seeks to expand its available capacity by c. 70% by FY28's end. We see that the significant expansions, at Hammadi's scale, to come at the cost of its GP margins as it dips 530bps by FY28E from FY23, while increasing it's SG&A's by an estimated 77% throughout the same period.

AJC view and valuation: We see the changing dynamics at AlHammadi to weigh down on its bottom line for the near periods as it wrestles with sluggish patient volumes and GP margin pressures expected to carry onto for quarters to come. A nearly 70% capacity expansion drives our long term estimates to punctuate at an FY23-28E Revenue and NI CAGR of 9.8% & 6.0%, respectively. We expect Hammadi's D/E profile to remain stable in the long run as we expect its future CAPEX obligations (est at c. 1.bn till FY28E) to be able to be financed via its operating cashflow generation which amounted to 120% of net income in FY23. Notably, however, the stock could benefit from the potential listing of one of its subsidiaries, Sudair Pharma, which is expanding its operations into insulin production and respiratory medicine, and is 35% owned by AlHammadi. Potential upside risks to the valuation are present from a quicker than expected recovery in margins, or patient volumes present further upside risks to the stock. Similarly, downside risk stem from longer than expected continuation of volume setbacks in the near term as a result of pricing, more significant margin declines, as well as achieving a lower-than-intended price hike. We value the stock at 50% DCF (WACC=9.2 and terminal growth rate = 2.5%) and 50% PE (28x at FY25E earnings) to revise down our TP to **SAR 52.0 per share**, at a "**Neutral**" recommendation.

Recommendation	**Neutral**
Target Price (SAR)	**52.0**
Upside / (Downside)*	**13.3%**

Source: Tadawul *prices as of 2nd September 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	1,122	1,177	1,151	1,267
Growth %	17.9%	4.8%	-2.2%	10.1%
Net Income	257.3	303.3	300.1	287.7
Growth %	160.3%	17.9%	-1.1%	-4.1%
EPS	1.61	1.90	1.88	1.80
DPS	1.25	1.40	1.30	1.20

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	37.1%	36.8%	32.0%	32.7%
OP Margin	26.0%	29.1%	29.6%	25.5%
Net Margin	22.9%	25.8%	26.1%	22.7%
EBITDA Margin	35.6%	37.4%	42.6%	39.3%%
RoE	15.3%	17.1%	15.9%	14.5%
P/E (x)	24.9	31.3	24.5	25.5
P/B (x)	3.8	5.2	3.8	3.6
EV/EBITDA (x)	18.3	16.4	14.8	14.9
Dividend Yield	3.1%	2.4%	2.9%	2.7%

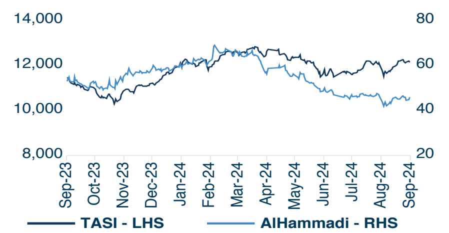
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	7.3
YTD%	-22.6%
52 weeks (High)/(Low)	71.8/41.4
Share Outstanding (mn)	160.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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Key Financials

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	952	1,122	1,177	1,151	1,267	1,437	1,576	1,875
Y/Y	**24.6%**	**17.9%**	**4.8%**	**-2.2%**	**10.1%**	**13.4%**	**9.7%**	**18.9%**
Cost	(587.8)	(706.4)	(743.6)	(782.7)	(853.5)	(982.2)	(1,072.4)	(1,284.1)
Gross profit	**364.0**	**416.0**	**433.1**	**368.5**	**413.9**	**454.7**	**503.6**	**590.5**
Operating Expenses	(238.8)	(153.2)	(116.9)	(114.8)	(123.6)	(151.5)	(161.6)	(192.3)
SG&A Expenses	(84.3)	(98.9)	(97.9)	(100.7)	(110.9)	(137.1)	(145.9)	(173.6)
Impairment losses on trade receivable	(154.5)	(54.3)	(19.0)	(14.1)	(12.7)	(14.4)	(15.8)	(18.7)
Other operating Income/(expense)	6.0	29.0	29.4	32.2	33.4	34.4	35.9	37.2
Gain/loss from disposal of property				55.3				
Operating profit	**131.2**	**291.8**	**345.6**	**341.1**	**323.6**	**337.7**	**377.9**	**435.4**
Y/Y	**20.1%**	**122.3%**	**18.5%**	**-1.3%**	**-5.1%**	**4.3%**	**11.9%**	**15.2%**
Financing Expense	(15.7)	(21.7)	(25.8)	(24.6)	(23.5)	(20.8)	(15.5)	(10.3)
Income before zakat	**117.6**	**274.2**	**321.0**	**317.1**	**302.3**	**319.1**	**364.6**	**427.5**
Zakat	(18.7)	(16.8)	(17.6)	(17.0)	(14.6)	(15.5)	(17.7)	(20.7)
Net income	**90.1**	**257.3**	**303.3**	**300.1**	**287.7**	**303.7**	**347.0**	**406.7**
Y/Y	**-31.1%**	**185.7%**	**17.9%**	**-1.1%**	**-4.1%**	**5.5%**	**14.3%**	**17.2%**
EPS (SAR)	**0.62**	**1.61**	**1.90**	**1.88**	**1.80**	**1.90**	**2.17**	**2.54**
DPS (SAR)	**0.83**	**1.25**	**1.40**	**1.30**	**1.20**	**1.30**	**1.40**	**1.45**
Balance sheet								
Assets								
Cash & equivalent	121	61	125	276	176	133	82	341
Other current assets	442	559	649	567	589	631	650	724
Non-current assets	1,711	1,895	1,936	2,007	2,240	2,366	2,401	2,276
Property plant & equipment	1,535	1,470	1,533	1,623	1,856	1,984	2,025	1,905
Other non-current assets	164	289	277	268	268	267	264	262
Total assets	**2,262**	**2,379**	**2,585**	**2,734**	**2,889**	**3,015**	**3,022**	**3,232**
Liabilities & owners' equity								
Total current liabilities	227	260	284	299	339	365	333	380
Long-term loans	179	203	164	174	199	199	129	99
Total other non-current liabilities	196	308	302	326	328	337	341	360
Paid -up capital	1,200	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Statutory reserves	73	37	67	97	126	156	191	232
Retained earnings	386	74	178	238	297	357	427	560
Total owners' equity	1,659	1,711	1,845	1,935	2,023	2,114	2,219	2,392
Total equity & liabilities	**2,262**	**2,482**	**2,594**	**2,734**	**2,889**	**3,015**	**3,022**	**3,231**
Cashflow statement								
Operating activities	435	253	351	554	469	511	576	635
Investing activities	(133)	(113)	(55)	(220)	(408)	(334)	(256)	(107)
Financing activities	(194)	(201)	(232)	(183)	(160)	(221)	(371)	(269)
Change in cash	107	(60)	65	151	(100)	(43)	(51)	259
Ending cash balance	**121**	**61**	**125**	**276**	**176**	**133**	**82**	**341**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.5	2.4	2.8	2.8	2.3	2.1	2.2	2.8
Quick ratio (x)	2.2	2.2	2.6	2.6	2.1	1.9	2.0	2.6
Profitability ratios								
Gross profit margin	38.2%	37.1%	36.8%	32.0%	32.7%	31.6%	32.0%	31.5%
Operating margin	13.8%	26.0%	29.4%	29.6%	25.5%	23.5%	24.0%	23.2%
EBITDA margin	26.2%	35.6%	37.4%	42.6%	39.3%	38.0%	38.0%	35.6%
Net profit margin	9.5%	22.9%	25.8%	26.1%	22.7%	21.1%	22.0%	21.7%
Return on assets	3.8%	10.8%	12.0%	11.3%	10.2%	10.3%	11.5%	13.0%
Return on equity	5.4%	15.3%	17.1%	15.9%	14.5%	14.7%	16.0%	17.6%
Leverage ratio								
Debt / equity (x)	0.13	0.14	0.10	0.11	0.12	0.12	0.06	0.04
Market/valuation ratios								
EV/sales (x)	5.2	5.9	8.1	6.3	5.9	5.2	4.7	3.8
EV/EBITDA (x)	19.7	16.5	21.8	14.8	14.9	13.7	12.3	10.6
EPS (SAR)	0.6	1.6	1.9	1.9	1.8	1.9	2.2	2.5
BVPS (SAR) - Adjusted	13.8	10.7	11.5	12.1	12.6	13.2	13.9	15.0
Market price (SAR)	30.23	40.10	59.40	45.90	45.90	45.90	45.90	45.90
Market-Cap (SAR mn)	4,836.0	6,416.0	9,504.0	7,344.0	7,344.0	7,344.0	7,344.0	7,344.0
Dividend yield	2.7%	3.1%	2.4%	2.9%	2.7%	2.9%	3.3%	3.2%
P/E ratio (x)	48.9	24.9	31.3	24.5	25.5	24.2	21.2	18.1
P/BV ratio (x)	2.2	3.8	5.2	3.8	3.6	3.5	3.3	3.1

Sources: AlJazira Capital, Company Financials

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RESEARCH DIVISION

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RATING 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.

Disclaimer