Dallah Healthcare Co.
Investment Update

Clearer guidance on upcoming acquisition lifts future performance estimates; we upwardly revise our TP to SAR 183.0 at an "Overweight" recommendation

Dallah recorded its highest quarterly net income during Q3-24, reported at SAR 126.2mn (up 27.6% Y/Y, and 12.8% Q/Q), and in line with our estimated SAR 125.9mn (0.2% deviation). Results were supported by its highest revenue to date reaching SAR 847.7mn (growing 13.1% Y/Y, and 10.8% Q/Q). Case mixes and cost efficiencies further enhanced a gross profit margin growth of 60bps Y/Y to reach 38.1% during Q3-24. Furthermore, we revise our outlook to reflect managements' latest guidance on its upcoming AlAhsa and AlSalam acquisition (at capacities of 274 beds, and 475 beds, respectively) which shed a clearer light on the acquirees' developments; from strong double digit price increases at AlAhsa, and healthy patient growth at AlSalam to potentially have the facility to break even during Q2-26 or earlier, as well as a guided GPM decline of up to 200bps during FY25E for the group as a result of the acquisition; which supported a better than expected estimate from our previous forecast. Later down the horizon, the AlArid expansion expected to be open by Q1-27 was also guided to have a negative effect on the group's GPM by 100bps. Driving our outlook on the stock is Dallah's scheduled c. 80% capacity increase over its current capacity at majority stake facilities. We revise our outlooks to reflect latest guidances, summarized by an FY23-28E revenue and net income CAGR of 13.3% and 23.1% respectively, while revising our TP to SAR 183.0 at an "Overweight" recommendation.

Strong set of results displayed in Dallah's Q3-24 performance, in line with estimates, sets the firm up for its upcoming short term growth drivers ahead: Dallah ended Q3-24 at a net income of SAR 126.2mn (up 27.6% Y/Y and 12.8%), in line with our estimate of SAR 125.9mn (0.2% deviation). Q3-24 results were supported by increased patient volumes (5% outpatient growth Y/Y, and 4% inpatient growth Y/Y), as well as price increases across facilities- resulting in record high quarterly revenues reported at SAR 847.7mn (up 13.1% Y/Y and 10.8% Q/Q), and in line with our estimate of SAR 819.3mn (3.5% deviation). Gross profit at SAR 314.6mn (up 15.0% Y/Y and 8.5% Q/Q) was supported by continued heightened GP Margins at 38.1% (up 60bps Y/Y and down 80bps Q/Q), as a result of revenue profile, case mixes, and cost efficiencies. Operational profit also recorded its highest for Dallah at SAR 161.4mn (up 23.3% Y/Y and 14.4% Q/Q). Dallah's performance on the 9M-24 scale displayed similar strengths, summarized by record high 9M net income at SAR 357.3mn (up 45% Y/Y) and revenue reaching 2,397.0mn (up 12.2%). Bottom line was supported by improvement in income from associates at SAR 28.1mn in the 9M-24 vs. a loss of SAR 1.9mn in all of FY23; notably, Faqih (31.21% owned) is nearing break even after recording a loss of SAR 23.0mn in FY23. 9M-24 for Dallah also saw a GPM for the period reaching 38.1% (up 150bps Y/Y from 36.6%) driven by pricing, case mixes, and efficiency.

Future results in the immediate term will be defined by the consolidation of AlSalam and AlAhsa, as well as a gradual operational roll out of a 100 beds at the Namar facility. While the consolidation of the acquirees, along with the Namar roll out, are expected to negatively affect margins in FY25, we estimate a net income of SAR 497.4mn during FY25E (at a growth of 3.7%), with an upside risk present on our estimates from Dallah recording better than expected gross margins. The AlArid expansion is expected to extend Dallah's growth drivers on the longer run, to drive our revenue and net income FY23-28E CAGR by 13.3%, and 23.1%, respectively.

Latest guidance on AlSalam and AlAhsa Hospitals affirm a higher forecast driven by capacity and initiatives on ramping up acquirees: Latest announcement by management sets the expected building capacity of the to-be-acquired hospitals at 475 beds for AlSalam, and 274 beds for AlAhsa- raising Dallah's total capacity by c. 60% over its current majority-owned hospital capacity, estimated at 1,254 beds (including Namar's 100 bed expansion that is yet to be rolled out). The two Eastern Region hospitals, acquired at an estimated EV of SAR 1.4bn, are forecasted to enhance Dallah's revenue at consolidation by contributing c. 11% of total revenues in FY25E, though at a cost of up to 200bps dip in GP margins, as guided by management. As for AlAhsa, management indicated that the facility secured a double-digit price increase from an insurance provider on AlAhsa's services, in a sign of a quick turnaround for the facility; which they expect to punctuate AlAhsa's net income in FY25 to be above its historic levels. As for AlSalam, management further indicated that the hospital is expected to break even at Q2-26, yet the healthy growth in patient volumes M/M could spur an earlier break even. The hospital currently runs 150 beds of its total building capacity of 475 beds. We expect AlSalam to ramp up its revenue profile quicker in relative to the more mature AlAhsa hospital, established over 25 years ago. We expect the two hospitals to record a five year revenue CAGR of 23.1% from FY25-30E.

Recommendation	Overweight
Target Price (SAR)	183.0
Upside / (Downside)*	18.8%

Source: Tadawul *prices as of 5th of December 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	2,488	2,943	3,299	4,082
Growth %	18.2%	18.3%	12.1%	23.7%
Net Income	274.5	360.1	479.7	497.4
Growth %	6.1%	31.2%	33.2%	3.7%
EPS	2.70	3.70	4.72	4.90
DPS	2.00	2.00	2.00	2.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	36.0%	36.7%	37.8%	35.5%
OP Margin	17.0%	17.2%	18.4%	16.8%
Net Margin	11.0%	12.2%	14.4%	12.2%
EBITDA Margin	21.6%	21.5%	23.3%	21.9%
RoE	14.2%	13.9%	13.1%	11.7%
P/E (x)	54.8	46.4	32.6	31.4
P/B (x)	6.7	5.2	3.8	3.6
EV/EBITDA (x)	31.2	30.4	23.7	20.4
Dividend Yield	1.4%	1.2%	1.3%	1.6%

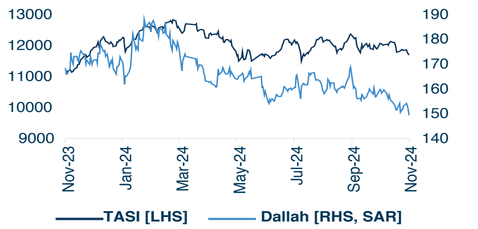
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	15.65
YTD%	-9.8%
52 weeks (High)/(Low)	194.0/149.4
Share Outstanding (mn)*	101.6

Source: Company reports, Aljazira Capital Research *Post Acquisition

Price Performance



Source: Tadawul, Aljazira Capital Research

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Dallah Healthcare Co.

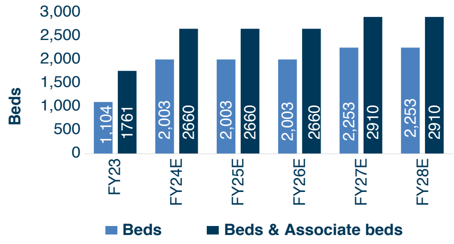
Investment Update

AlArid hospital expansion, along with acquisitions, to stretch long term capacity growth to 80% over current estimated beds count: Management indicated that the hospital is expected to come in live during Q1-27 with an initial roll out of c. 20% of its capacity of 250 beds. The hospital's ramp up is expected to be supported by the AlArid clinic, which can funnel patient volumes towards the new facility (the clinic's capacity has been increased from 15 clinics to 30 by the next 12 months, and currently running 20). We estimate a contribution of c. SAR 170.0mn to the top line in its first year of operation before ramping up by a 3 year revenue CAGR of 28.9% afterward. We consider the hospital to be in an up-an-coming neighborhood in Riyadh, and should face lesser attrition from completion relative to the central districts. Management's guidance on the GPM effect of the expansion to be up to a 100bps decline on the group, exclusive of ramp ups of the acquisition. We expect GPMs to normalize post the acquisition and expansion, to reach 37.1% by FY28E (as compared to FY24E's 37.8%).

Strong presence in Riyadh, scale, and potential acquisitions in the future justify premium on Dallah's valuation: Dallah's long standing presence in Riyadh at a reported 20% market share, brand equity, and being the first hospital outside the USA to receive 12 Centers of Excellence accreditations, and among other accolades, grants Dallah the brand equity towards future successes in competition in Riyadh and the Kingdom. Furthermore, Dallah's planned capacity additions to reach c. 2,250 beds (80% increase from current levels) is expected to place the healthcare provider as the second largest listed healthcare firm- supporting the firm in scale efficiency, diversification, and revenue generation. Management has also indicated the potential for further acquisitions in the future to expand its portfolio of investments; which future transactions be supported by its announced buy-back program of almost 3.8mn shares which can be used in a swap deal.

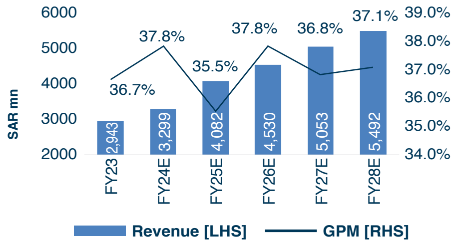
AJC view and valuation: Management's recent clarification on the upcoming two hospital acquisition shed light on more upside ahead of the stock- considering the capacity size of the two hospitals (475 and 274 beds), and their confidence on the potentials for their revenue generation enhancements. Our revised view builds on our previous outlook that Dallah has the capabilities to refinance the estimated SAR 761.3mn in acquired debt from the acquirees at better terms. While the previous owner paid an estimated annualized c. 8% EIR on the debt, we consider Dallah's scale and credibility able to mitigate some of those finance costs. Along with the AlArid expansion set to be live during Q1-27, the planned capacity additions of nearly 80% of today's current is a long term driver for our outlook on Dallah- summarized by a FY23-28E revenue and net income CAGR of 13.3%, and 23.1% respectively. Dallah's commitment to a minimum SAR 2.0 annual dividend, and potential bonus share next year, adds another layer of foreseeable return to shareholders. Furthermore, the stock currently trades at a forward PE of 31.4x for FY25E, and 21.0x at FY26E estimates (as compared to a current sector average of 37.3x). We value the stock at 50% DCF (WACC=7.5 and terminal growth rate = 2.5%) and 50% PE (38x over FY25E earnings) to revise our TP to **SAR 183.0 per share**, at an "**Overweight**" recommendation.

Fig 1: Expansion plan at c. 80% over current capacity to place Dallah at second largest listed provider



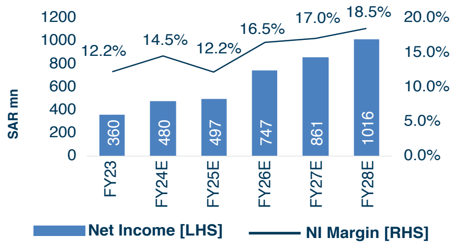
Source: Company presentations, Aljazira Capital Research
*Reflecting built up capacity. Namar, AlSalam, and AlArid expected to roll out operational capacity gradually

Fig 2: GPM expansion to face friction from scheduled expansions



Sources: Company Financials, AlJazira Capital Research

Fig 3: Consolidation of the Eastern District hospitals, and Dallah's scalability, to drive 23.1% growth in net income



Sources: Company Financials, AlJazira Capital Research

Valuation Summary:

DCF	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Operating Profit	607.9	685.3	923.5	1,026.5	1,172.9	1,273.7	1,334.0
Depreciation & Amortization	132.2	175.3	189.5	192.3	222.2	226.0	229.3
Working capital chg	-142.8	-67.5	-55.7	-65.2	-68.2	-46.2	-29.1
CFO	**597.3**	**793.0**	**1,057.2**	**1,153.6**	**1,326.9**	**1,453.5**	**1,534.2**
Capex	(354.5)	(484.0)	(505.1)	(237.5)	(258.1)	(260.5)	(253.2)
FCFF	242.8	309.0	552.1	916.0	1,068.8	1,193.0	1,281.1
Present value of FCFF	**241.2**	**286.5**	**477.2**	**738.3**	**802.2**	**828.6**	**822.5**
Sum of the PV							4,196.5
PV of terminal value							16,706.9
Enterprise Value							**20,903.4**
Cash							208.2
Debt							2,577.6
Non-Controlling Interest							288.5
FV							18,245.5
Fair value per share							**SAR 179.6**

Source: Company reports, AlJazira capital

Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	179.6	**50%**	89.8
Relative Valuation - P/E (38x)	186.1	**50%**	93.0
Weighted average TP			**183.0**
Current Price (SAR/share)			154.0
Current Price (SAR/share)			**18.8%**

Source: AlJazira Capital Research *prices as of 5th of December 2024

Fig 4. Key Financials

Amount in SAR mn, unless otherwise specified	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement							
Revenues	2,488	2,943	3,299	4,082	4,530	5,053	5,492
Y/Y	**18.2%**	**18.3%**	**12.1%**	**23.7%**	**11.0%**	**11.5%**	**8.7%**
Cost	(1,592.9)	(1,864.2)	(2,051.4)	(2,631.4)	(2,816.5)	(3,192.3)	(3,455.3)
Gross profit	**895.1**	**1,078.7**	**1,247.7**	**1,450.6**	**1,713.9**	**1,861.2**	**2,036.4**
Selling & distribution expense	(45.0)	(59.8)	(64.0)	(76.3)	(88.2)	(97.5)	(105.5)
General & administration expense	(429.8)	(517.1)	(572.7)	(685.5)	(697.4)	(731.5)	(750.6)
Expected credit loss provision	(27.8)	(30.2)	(31.6)	(36.3)	(41.1)	(46.2)	(51.4)
Operating profit	**392.5**	**471.6**	**579.5**	**652.6**	**887.2**	**986.1**	**1,128.9**
Y/Y	**19.7%**	**20.2%**	**22.9%**	**12.6%**	**36.0%**	**11.1%**	**14.5%**
Other income	30.0	34.7	28.5	32.7	36.2	40.4	43.9
Financial charges	(70.5)	(104.1)	(110.3)	(160.6)	(138.8)	(127.8)	(107.4)
Other adjustments	(22.8)	(1.9)	38.6	38.3	41.2	43.6	45.5
Income before zakat	**329.1**	**400.3**	**536.2**	**563.0**	**825.9**	**942.4**	**1,110.9**
Zakat	(33.7)	(14.9)	(21.8)	(28.2)	(41.3)	(42.9)	(55.5)
Non-controlling interest	(21.0)	(25.3)	(34.7)	(37.5)	(38.1)	(38.5)	(39.0)
Net income	**274.5**	**360.1**	**479.7**	**497.4**	**746.5**	**861.0**	**1,016.4**
Y/Y	**6.1%**	**31.2%**	**33.2%**	**3.7%**	**50.1%**	**15.3%**	**18.0%**
EPS	**2.70**	**3.70**	**4.72**	**4.90**	**7.35**	**8.48**	**10.01**
DPS	**2.00**	**2.00**	**2.00**	**2.50**	**3.75**	**4.25**	**5.50**
Balance sheet							
Assets							
Cash & equivalent	238	235	84	175	280	271	376
Other current assets	1,066	1,110	1,307	1,516	1,629	1,790	1,929
Property plant & equipment	2,847	3,040	4,172	4,454	4,739	4,750	4,748
Other non-current assets	769	1,858	2,480	2,489	2,497	2,503	2,507
Total assets	**4,920**	**6,243**	**8,043**	**8,633**	**9,145**	**9,313**	**9,560**
Liabilities & owners' equity							
Total current liabilities	885	1,163	1,327	1,248	1,302	1,333	1,356
Long-term loans	1,529	1,288	1,767	2,128	2,202	1,866	1,580
Total other non-current liabilities	274	319	505	533	511	518	530
Paid -up capital	900	977	1,016	1,016	1,016	1,016	1,016
Statutory reserves	155	1,121	1,742	1,742	1,742	1,742	1,742
Fair value adjustment	921	1,108	1,385	1,628	1,994	2,423	2,881
Retained earnings	242	269	304	341	380	418	457
Treasury shares	2,232	3,473	4,444	4,725	5,129	5,596	6,093
Non-controlling interest	4,920	6,243	8,043	8,633	9,145	9,313	9,560
Total owners' equity	2,232	3,473	4,444	4,725	5,129	5,596	6,093
Total equity & liabilities	**4,920**	**6,243**	**8,043**	**8,633**	**9,145**	**9,313**	**9,560**
Cashflow statement							
Operating activities	442	626	613	713	1,008	1,127	1,308
Investing activities	(226)	(294)	(1,916)	(500)	(521)	(254)	(274)
Financing activities	(186)	(335)	1,151	(122)	(381)	(884)	(929)
Change in cash	30	(3)	(152)	91	106	(10)	105
Ending cash balance	**238**	**235**	**84**	**175**	**280**	**271**	**376**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.3	1.5	1.2	1.0	1.4	1.5	1.5
Quick ratio (x)	1.2	1.0	0.8	1.1	1.2	1.3	1.4
Profitability ratios							
Gross profit margin	36.0%	36.7%	37.8%	35.5%	37.8%	36.8%	37.1%
Operating margin	15.8%	16.0%	17.6%	16.0%	19.6%	19.5%	20.6%
EBITDA margin	21.6%	21.5%	23.3%	21.9%	25.4%	25.0%	26.3%
Net profit margin	11.0%	12.2%	14.5%	12.2%	16.5%	17.0%	18.5%
Return on assets	5.7%	6.5%	6.7%	6.0%	8.4%	9.3%	10.8%
Return on equity	14.2%	13.9%	13.1%	11.7%	16.3%	17.3%	18.8%
Leverage ratio							
Debt / equity (x)	0.99	0.62	0.64	0.64	0.59	0.45	0.35
Market/valuation ratios							
EV/sales (x)	6.7	6.5	5.5	4.5	4.0	3.5	3.1
EV/EBITDA (x)	31.2	30.4	23.7	20.4	15.8	14.0	11.9
EPS (SAR)	2.7	3.7	4.7	4.9	7.3	8.5	10.0
BVPS (SAR) - Adjusted	22.11	32.79	40.76	43.15	46.75	50.98	55.49
Market price (SAR)*	148.00	171.80	154.00	154.00	154.00	154.00	154.00
Market-Cap (SAR mn)	15,032	17,450	15,642	15,642	15,642	15,642	15,642
Dividend yield	1.4%	1.2%	1.3%	1.6%	2.4%	2.8%	3.6%
P/E ratio (x)	54.8	46.4	32.6	31.4	21.0	18.2	15.4
P/BV ratio (x)	6.7	5.2	3.8	3.6	3.3	3.0	2.8

Sources: AlJazira Capital, Company Financials

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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