Dr. Sulaiman Al Habib Medical Services Group

Results Flash Note Q2-25

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Expansion-driven top line during Q2-25 deliver HMG's highest Q2 earnings reported, despite lowest quarterly GPMs since 2022

HMG reported a Q2-25 net income of SAR 591mn at an increase of 6.5% Y/Y and 6.1% Q/Q. Results were in line with our forecasted SAR 563.6mn at a +4.9% deviation. Record high revenues at SAR 3.38bn drove the results, as recent capacity expansions of 80% from FY24 to date ramp up, and some just kicked off. The expansion driven results came at the cost of softening GPMs and operating margins, though we see that this quarter is a sign of good things to come for HMG in Q4-25, as we see that it is near the peak of its expansionary cost pressures, as much of its major expansions are behind it. We maintain our "Neutral" recommendation at a TP of 296.0 /share on the stock trading at a FY25E PE of 34.3x.

- HMG reported a net income of SAR 591mn during Q2-25, up 6.5% Y/Y and 6.1 Q/Q. Results were in line with our estimate of SAR 563.6mn at a deviation of +4.9%. Results were top line driven as HMG expanded its beds capacity by an aggressive c. 80% through FY24 to date, bringing top line for the quarter at SAR 3.38bn, at the cost of GPMs reaching their lowest since FY22. Resilience on the OPEX-to-revenues level further supported net income to record HMG's best Q2 to date; as this Q2 also saw no Ramadan days yet, yet faced summer's seasonally down volumes.
- Recent expansion kick-offs and ramp-ups drove HMG's quarterly revenue to reach its highest to date in Q2-25 at SAR 3.38bn, up a staggering 31.5% Y/Y and 7.2% Q/Q. Revenues were in line with our estimates of SAR 3.27bn at a +3.6% deviation. Driving the Y/Y growth are the ramp ups of HMGs recent facilities: Southwest Jeddah (330 beds), Sahafa Dist. Riyadh (500 beds), Women's Health Facility (145 beds), Hamra Riyadh (90 beds), and most recently, North Jeddah (350 beds), and AlKharj (140 beds). All these expansions spanning from FY24-to-date increased capacities by c. 80% up to c. 3,500 beds. On a sequential basis, this year's Q2-25 enduring no Ramadan days likely further supported volumes. The openings of North Jeddah and AlKharj also took place through mid-to-late Q2-25, likely also in support of volumes. Hospital segment and Pharmaceuticals saw the highest recorded revenues at: SAR 2.65bn (up 35.5% Y/Y, and 8.7% Q/Q), and SAR 694mn (up 28.0% Y/Y, and 5.6% Q/Q), respectively.
- Gross profits reached SAR 1.07bn, up 21.4% Y/Y and 3.7% Q/Q; this came in line with our estimates of SAR 1.05bn at a +1.7% deviation. Two facility kick-offs, in Jeddah and AlKharj, likely exasperated quarterly GPMs to their lowest since 2022 to reach 31.5% (down 260bps Y/Y and 110bps Q/Q). GPMs came below our estimate of 32.1% by almost 60bps, as a result of more-than-expected COGS pressures from expansions.
- Operating profits reached SAR 645mn, up 16.9% Y/Y and 3.0% Q/Q. This came in line with our estimates of SAR 630.5mn at a +2.3% deviation. Operating margins consequently reached 19.1%, down 230bps Y/Y and 70bps Q/Q; in line with our estimate of 19.3%. Despite the heavy expansion campaign, OPEX-to-Revenue at 12.4% was down 30bps Y/Y and Q/Q, and 40bps below our estimate of 12.8%. Resilient OPEX normalization supported the bottom line, as well as operating margins. Non-operating items (income from associates, other income, finance costs etc.) at a net SAR 53.9mn were 19% lower than our estimate of SAR 66.8mn, driving our bottom-line deviation of 4.9%.

AJC view and valuation: HMG posted a strong set of results in Q2-25 as the fruits of its expansion campaign are at display with notable quarterly records. We expect this to be a sign of a strong Q4-25 to come as costs normalize takes place, and as the bulk of its planned expansions are behind it. HMG stands as a premium healthcare listing, offering the largest listed capacity at c. 3,500 beds, and leading financial indicators summarized by highest ROE in the sector (33.9% in FY24, compared to an average of 16.8% offered by its peers). We expect HMG to be on track to record a FY25E bottom line of SAR 2.67bn, at a FY25E forward PE of 34.3x, and an expected dividend of SAR 5.7 per share at a 2.2% dividend yield. We maintain our TP on the firm at **SAR 296.0 /Share** at a "**Neutral**" recommendation.

Results Summary

SAR mn	Q2-24	Q1-25	Q2-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,574	3,158	3,384	31.5%	7.2%	3.6%
Gross Profit	878	1,028	1,066	21.4%	3.7%	1.7%
Gross Margin	34.1%	32.6%	31.5%	-	-	-
EBIT	552	626	645	16.9%	3.0%	2.3%
Net Profit	555	557	591	6.5%	6.1%	4.9%
EPS	1.59	1.59	1.69	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	Neutral
Target Price (SAR)	296.0
Upside / (Downside)*	13.2%

Source: Tadawul *prices as of 27th of July 2025

Key Financials

SARmn (unless specified)	FY22	FY23	FY24	FY25E
Revenues	8,311	9,508	11,200	13,843
Growth %	14.6%	14.4%	17.8%	23.6%
Gross profit	2,748	3,270	3,744	4,520
Growth %	17.9%	19.0%	14.5%	32.7%
Oper. Income	1,700	2,096	2,356	2,917
Growth %	16.0%	23.2%	12.4%	23.8%
Net Income	1,651	2,046	2,315	2,669
Growth %	19.9%	23.9%	13.2%	15.3%
EPS	4.72	5.85	6.62	7.63
DPS	3.48	4.32	4.77	5.72

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24	FY25E
Gross Margin	33.07%	34.39%	33.43%	32.65%
Oper. Margin	20.46%	22.04%	21.04%	21.08%
Net Margin	19.9%	21.5%	20.7%	19.3%
ROA	14.1%	14.4%	12.7%	12.6%
ROE	29.4%	33.1%	33.9%	35.6%
P/E (x)	46.8	48.6	42.4	34.3
P/B (x)	13.1	15.3	13.7	11.7
Dividend Yield	1.6%	1.5%	1.7%	2.2%

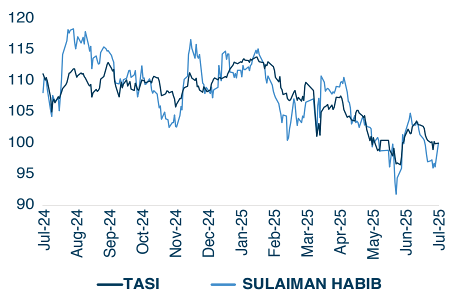
Source: Company reports, Aljazira Capita Research

Key Market Data

Market Cap(bn)	91.5
YTD%	-6.78%
52 week (High)/(Low)	313.4/240.0
Share Outstanding (mn)	350

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadwaul, Aljazira Capital Research

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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