

Dallah Healthcare Co. (Dallah)'s Q2-22 set of results came to post a net income of SAR 69.5mn (up 46.2% Y/Y, yet down 15.9% Q/Q), above our estimated SAR 63.4mn yet in-line with the market consensus of SAR 70.2mn. The deviation from our estimates stemmed from a wider GP margin, and less OPEX than anticipated which is attributable to operational cost control initiatives cited by Dallah. Revenues at SAR 583.8mn came in-line with our estimates of SAR 596.7mn yet is however down on a Q/Q basis as the seasonality effect of Ramadan and Eid holidays took a toll on patient activity. Patient volumes did however increase on a Y/Y basis, resulting in a top line growth of 18.9% from Q2-21. We maintain our TP of SAR 117.0/share and "Neutral" recommendation.

- Dallah posted a net profit of SAR 69.5mn (up 46.2% Y/Y, yet down 15.9% Q/Q). This came in above our estimated SAR 63.4mn, yet in line with the wide market consensus that averaged at SAR 70.2mn. The declined Q/Q results were a result of lower patient volumes due to the seasonality effect of Ramadan and Eid holidays. On a Y/Y basis however, Dallah's top line increased by 18.9% as a result of the growth in patient volumes and utilization rates over the year. Also on a Y/Y basis, Dallah experienced a 200bps expansion in its GP margins, which we believe supported the Q2-22 EPS of SAR 0.77. The deviation from our expectations was driven by the GP margin expansion as well as less OPEX than anticipated which came in at SAR 115mn, compared to our estimate of SAR 120.8mn.
- The revenues seen by Dallah at SAR 583.8mn came at a 19.0%Y/Y increase (down 4.2%Q/Q from SAR 609.4mn), and below our expectations of SAR 596.7mn. Although revenues were affected by the seasonality of Ramadan and the holidays, volume and utilization is still steeper on a Y/Y basis.
- Gross profits came in broadly in line with our estimates at SAR 212.1mn (5.6% higher than our SAR 200.9mn estimate). The deviation rose from an expanded GP margin at 36.3% (up 200bps Y/Y), which faced pressure on a Q/Q basis as the firm services several overlapping expansions underway.
- Operating income stood at SAR 96.7mn (up 31.1% Y/Y, but down 16.0% Q/Q), surpassing our estimates of SAR 80.1mn by 20.7%. Despite Dallah citing management's efforts in decreasing operational costs, Dallah's OPEX-to-revenue ratio increased to 19.76% (up 53bps Y/Y, and 63bps Q/Q). OPEX appears to be sticky regardless of revenues as the firm is undergoing the several overlapping expansions.

AJC view: Dallah posted a growing top line figure (Y/Y), at a reasonable quarterly decline due to the seasonal nature of the sector. The weaker quarterly top line growth, coupled with a constricted GP margin, was the main catalyst for Dallah's decreased Q/Q net results. The quarterly performance was further constricted due to an increase in Murabaha financing costs- a concerning signal for the company running at a high net debt/EBITDA which stands as 3.3x as of Q1-22. The second highest in the sector after Middle East Healthcare Co, and above the sector average of 2.2x. We expect Dallah's ability to leverage strong momentum and patient mix to limit the impact of capacity additions on its margins. However we do remain vigilant about the company's ability to secure more debt, as well as longer than expected ramp-ups, and further debt pressures on the net income margin. We are at a "Neutral" weighting recommendation on Dallah Healthcare with a TP of SAR 117.0/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	490.8	609.4	583.8	18.9%	-4.2%	-2.2%
Gross Profit	168.2	231.7	212.1	26.1%	-8.4%	5.6%
<i>Gross Margin</i>	<i>34.3%</i>	<i>38.0%</i>	<i>36.3%</i>	-	-	-
EBIT	73.8	115.1	96.7	31.1%	-16.0%	20.7%
Net Profit	47.5	82.6	69.5	46.2%	-15.9%	9.7%
EPS	0.53	0.92	0.77	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) 117.0

Upside / (Downside)* 0%

Source: Tadawul *prices as of 15th of August 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	1,318	2,105	2,608	2,942
Growth %	5.3%	59.7%	23.9%	12.8%
Gross Profit	449.7	760.4	932.7	1,033.3
Net Income	132.0	258.6	311.5	354.2
Growth %	-10.2%	95.9%	20.4%	13.7%
EPS	1.53	2.87	3.46	3.94

Source: Company reports, Aljazira Capital

Key Ratios

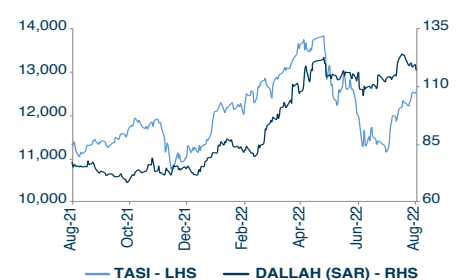
	FY20	FY21	FY22E	FY23E
Gross Margin	34.1%	36.1%	35.8%	35.1%
Net Margin	10.0%	12.3%	11.9%	12.0%
P/E (x)	31.5	26.1	32.9	29.0
P/B (x)	2.4	3.6	5.0	4.6
EV/EBITDA (x)	25.2	19.1	22.8	21.3
Dividend Yield	2.3%	2.3%	1.3%	1.8%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	10.3bn
YTD %	55.8%
52 Week (High)/(Low)	125.4/65.5
Shares Outstanding (mn)	90.0

Source: Company reports, Aljazira Capital



Source: Tadawul, Aljazira Capital

Equity Analyst

Ibrahim Elaiwat

+966 11 225 6115

i.elaiwat@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH
DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068