

Q3-22 results for Dr. Sulaiman AlHabib Medical Services Group (HMG) marks the group's highest net income recorded to date to reach SAR 420.6mn. The quarterly results etched the group's earnings above our estimates of SAR 389.9mn (a deviation of 7.9% from our expected SAR 1.1 EPS, against the recorded SAR 1.2 EPS), as well as the market consensus estimate of SAR 402.96mn (a deviation of 4.4%). HMG's positively surprising results were supported by the increase in patient volumes and inpatient occupancy rates. Aside from its hospital segment, the activity in that revenue stream positively spilled over to their pharmacy segment which made up 20.3% of their revenues (YTQ). We maintain our TP of SAR 193.0/share at a "Neutral" recommendation.

- HMG cemented its Q3 performance with record high revenues and net income, and complimented its results with another consistent payout ratio over 70%. Net income reached SAR 420.6 mn (up 5.6%Q/Q and 20.7%Y/Y), positively surprising our anticipated SAR 389.9mn by nearly 7.9%, as well as the market consensus estimate of SAR 402.96mn by 4.4%. The growth was driven by a top line fed with increased patient volumes as well as occupancy rates, which in turn supported their pharmaceutical segment. All segments reached record highs as for the three quarter period ending on 30th of September. Gross margins remained consistent, yet OPEX came down from the previous quarter to support HMG's bottom line by making up 11.96% of revenues (down 76bps from Q2-22, yet up by roughly the same degree on a Y/Y basis). The deviation from our estimates were largely due to the lower-than-expected OPEX costs.
- The revenues reached by HMG ended the quarter at record highs on several measures to stand at SAR 2,052.2mn (up 1.9%Q/Q, and 11.8%Y/Y), while also weathering any unfavorable seasonal effects Q3 historically presents for the sector. This came in in congruence with our anticipated revenue of SAR 2,024.2mn for the group with a 1.4% deviation. The increase in patient volumes and occupancy rates brings the three quarter period to sit at a record of SAR 6,057mn, recording the highest three quarter period (ending in Q3) results for all segments. By Q3-22, the 9 month revenues ending in Q3-22 for Hospitals, Pharmaceuticals, and Solutions are up 12.0%Y/Y, 27.5%Y/Y, and 7.4%Y/Y respectively. Solutions' shares of HMG's revenues are down as it is outpaced by other segments, yet is consistently growing with management's plans in place to grow the segment's contribution significantly in five to six years.
- Gross profits stood at SAR 681.6mn (up 1.6%Q/Q, and 16.2%Y/Y), just 0.6% above our expectations which was placed in line at SAR 677.6mn. The GP margin at 33.2% remained consistent on a Q/Q basis (down 10bps) yet increased significantly from Q3-21's GP margin of 31.9% by 130bps. Our expected GP margin stood 60bps below the reported results at 32.6%. Cost of revenues are likely to have been unburdened as expansions are not yet set to kick off until H2-23.
- HMG recorded an operating income of SAR 436.1mn (up 5.1%Q/Q, and 14.6%Y/Y), positively surprising our anticipated SAR 417.0mn (broadly in line by 4.6%). Supporting the group's operating income is a decrease in OPEX costs from the previous quarter. OPEX for group came down to 11.96% of revenues (at SAR 245.5mn), down 76bps Q/Q and up 75bps Y/Y, and against our estimates of SAR 260.6mn.

AJC view and valuation: Record high net income and revenues, stable GP margins, and lower OPEX costs earmark a successful quarter for HMG. Positive consistency is a reoccurring theme in HMG as the group maintains its top leaderboard position in the sector throughout various specifications. With a net long-term debt to equity ratio of almost 10.6%, HMG's YTQ ROE alone is higher than a whole year's ROE collected by any of the group's peers in FY21 (at a YTQ ROE of 29.5%, HMG's profitability more stands more doubly more attractive than the sector's FY21 full year ROE average of 11.44%). The company is in a favorable position to raise additional debt for expansion plans given its strong cash flows (5-year average FCF margin at 14.5%) and solid balance sheet with low leverage. Favorable receivables position, increasing revenue share from insurance clientele, and strategic market expansion plans, if implemented successfully, are expected to help HMG unlock value in the long term as it scales its successful operations. We remain **"Neutral"** on the stock with a TP of **SAR 193.0/share**.

Results Summary

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1836.4	2014.0	2052.2	11.8%	1.9%	1.4%
Gross Profit	586.4	670.9	681.6	16.2%	1.6%	0.6%
<i>Gross Margin</i>	<i>31.9%</i>	<i>33.3%</i>	<i>33.2%</i>	-	-	-
EBIT	380.5	414.7	436.1	14.6%	5.1%	4.6%
Net Profit	348.6	398.1	420.6	20.7%	5.6%	7.9%
EPS	1.00	1.14	1.2	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	193.0
Upside / (Downside)*	-18.8%

Source: Tadawul *prices as of 20th of October 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	5,861.6	7,250.5	8,088.7	8,532.2
Growth %	16.9%	23.7%	11.6%	5.5%
Net Income	1,055.5	1,376.6	1,567.9	1,543.2
Growth %	21.3%	30.4%	13.9%	-1.6%
EPS	3.02	3.93	4.48	4.41

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	31.8%	32.1%	33.2%	32.5%
Net Margin	18.0%	19.0%	19.4%	18.1%
P/E (x)	36.1	41.0	44.1	44.8
P/B (x)	7.8	10.6	12.2	11.6
EV/EBITDA (x)	26.8	31.9	32.1	31.1

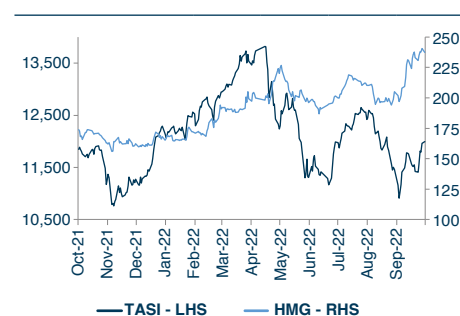
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	83.23bn
YTD %	49.1%
52 Week (High)/(Low)	240.6/148.0
Shares Outstanding (mn)	350.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

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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.

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