November 2022

Al Hammadi Company

Results Flash Note Q3-22

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Al Hammadi's latest Q3-22 results came to positively surprise the market consensus by recording a net profit for the quarter at SAR 57.1mn (almost 17.6% above market expectations of SAR 48.6mn, yet in line with our anticipated SAR 54.4mn at a deviation of 5%). Al Hammadi posted a declined net income by 7.8% on the Q/Q scale, yet its bottom line grew from the same quarter in FY21 (from a modest SAR 3.6mn, due to the one off losses recorded in Q3-21 from the disposal of Al Olaya's Hospital). Adjusting for the one off loss in Q3-21, Al Hammadi's Y/Y bottom line growth stood at a 41.6% increase. While the seasonal nature of Q3 on the sector pressured Al Hammadi's medical and pharmaceutical operations, the firm's bottom line on the Y/Y scale was supported by higher patient volumes as sales have grown by almost 12.3% Y/Y. We maintain our "Neutral" recommendation on the firm while revising our TP higher to SAR 44.5/share.

- Al Hammadi posted a net profit of SAR 57.1mn (up by over 1,000% Y/Y, or 41.6% when adjusting for the one off loss in Q3-21, and down 7.8% Q/Q). Results stood above the market estimated SAR 44.8mn by 17.6%, yet in line with our expected of SAR 54.4mn at a 5.0% deviation). Higher revenues from increased patient volumes supported the Y/Y growth, while the seasonal effect on Q3 along with the holidays during then took a toll on the firm's Q/Q bottom line change. The release of a government grant totalling to over SAR 15mn also propelled the quarter's bottom line higher. The slight deviation from our estimates were driven by the worse than expected GP margins reported.
- The revenues seen by Al Hammadi in Q3-22 reached SAR 246.9mn at a 12.3% Y/Y increase (down 12.4% Q/Q from SAR 281.9mn as a result of the holiday season's effect on the sector). This came in in-line with our expectations of SAR 260.3mn with a deviation of 5.1%. Driving the increase in revenues is the higher inpatient and outpatient volumes across both operating hospitals.
- Gross profits stood at SAR 83.5mn (down 5.3% Y/Y, and 23.5% Q/Q), deviating from our expectations of SAR 100.6mn by 17.0%. GP margins significantly missed our expectations of 38.7% and contracted by 630bps Y/Y and 450bps Q/Q to reach 33.8%. The contracted GP margins for Q3 represent an almost 30th percentile result for the company's historical GP margins.
- Operating income stood, when deducting the government grant released, reached SAR 52.3mn (almost flat on a Y/Y scale, yet down 29.2% Q/Q). Operating income met our estimates of exactly SAR 66.20mn when recording the grant, yet effectively is deviated from the SAR 52.3mn in operating income by 21.0%. We have overestimated the OPEX for the firm at 13.2% of revenues, expecting it to edge a little higher than the previous quarter yet less than Q3-21. Al Hammadi's OPEX however came at 12.6% of revenues, down 370bps Y/Y and up 10bps Q/Q.

AJC view and valuation: Al Hammadi posted a growing top line figure on a Y/Y arising from improved utilization rates at the firm's Al Suwaidi and Al Nuzha hospitals. With more headroom in utilization rates, we are monitoring the growth in volumes for Al Hammadi for the coming periods. Among the growing top line, we are also monitoring for any changes in the firm's receivables to revenues. Al Hammadi's three-year average of receivables as a percentage of revenues sits above the sector figure of 45.8% of revenues. Yet we do however anticipate an improvement in the receivables recorded per revenues in the coming three years, as the firm migrated its collection process onto the Nafees program which management indicates is paying in time. We reiterate our view that cost optimization, and reduction in provisions are expected to drive margins in the medium term. The firm's limited geographic diversification, a delay in construction of the new Al Olaya facility, and competition from sector peers such as Dallah, HMG, Mouwasat and MEH pose major risks. We do favor the firm's commitment to steadily increasing the dividend payout in the coming periods as well, as we see it as a positive signal from the firm for the coming years. We remain "**Neutral**" on the Al Hammadi while raising our TP to **SAR 44.5/share**, while we maintain monitoring our key gauges for the firm.

Results Summary

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**219.9**	**281.9**	**246.9**	12.3%	-12.4%	-5.1%
Gross Profit	88.2	109.1	83.5	-5.3%	-23.5%	-17.0%
Gross Margin	40.1%	38.3%	33.8%	-	-	-
Operating Income	52.2	73.9	52.3	0.1%	-29.2%	-21.0%
Net Profit	**3.6**	**62.0**	**57.1**	1495.3%	-7.8%	5.0%
EPS	0.02	0.39	0.41	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	44.5
Upside / (Downside)*	5.5%

Source: Tadawul *prices as of 21th of Nov 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	764.1	951.9	1,062.1	1,121.1
Growth %	-21.6%	24.6%	11.6%	5.6%
Net Income	130.8	90.1	247.7	249.1
Growth %	40.7%	-31.1%	174.9%	0.6%
EPS	0.82	0.56	1.55	1.56

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	33.1%	38.2%	36.7%	36.6%
Net Margin	17.1%	9.5%	23.3%	22.2%
P/E (x)	71.9	48.9	27.3	27.1
P/B (x)	2.0	2.2	3.7	3.5
EV/EBITDA (x)	21.9	27.3	17.8	16.3

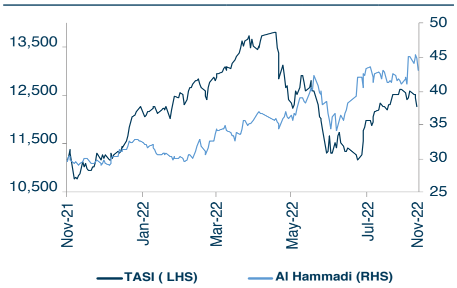
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.65
YTD %	38.9%
52 Week (High)/(Low)	50.0/26.82
Shares Outstanding (mn)	160.0

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

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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