Dr. Soliman Abdel Kader Fakeeh Hospital

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on Dr. Soliman Abdel Kader Fakeeh Hospital Co. (Fakeeh) with a target price of SR68/share and an Overweight rating. The company's dominant position in Jeddah and plans to nearly triple its capacity with entry into multiple key regions through its unique hub and spoke business model makes it an attractive proposition in the healthcare space. Post expansions, the company's capacity is expected to reach 1,625 beds (excluding O&M contracts), an increase of 2.8x from 2023 levels. The company has seen success with its hub and spoke model in Jeddah and plans to implement it in other cities as well. Earnings are set to grow at a CAGR of 23% over 2023-2028 driven by the country's favorable macro dynamics. We flag pressure on gross margins due to expansion-related costs and rising competition as some of the key risks to our investment thesis. Our price target is based on a DCF (WACC: 8.9% and terminal growth: 3.5%).

Capacity to expand 2.8x Fakeeh stands as the most dominant healthcare operator in Jeddah. The company has already entered Riyadh's healthcare market with the addition of 185 beds and will soon be entering Madinah as well as Makkah with the addition of 200 beds each. The company also plans to expand its existing capacity in Jeddah with an addition of 640 beds in the upcoming years. Post the additions, capacity is expected to increase 2.8x to 1,625 from 2023 levels of 585 beds (excluding NEOM). This is expected to drive revenue CAGR of 20% over 2023-2028, higher than its past 3-year CAGR of 11%.

Replicating hub and spoke model in Riyadh and other cities: The company's unique hub and spoke business model has yielded success in Jeddah with the company having industry leading hospital inpatient to outpatient conversion rate of 5.3%. The model would also yield capital efficiency in terms of expanding reach and allows for the 'hub' hospital to focus more on specialized and complex services. The company plans to implement the same model in Riyadh as well as other cities and its successful implementation could serve as a key competitive edge for the company.

Highest earnings growth in the healthcare space over the next 5 years: With the addition of 10 new assets, we expect an impressive revenue CAGR of 20% over the next 5 years. This will primarily be driven by 16% CAGR in inpatients admissions and 15% CAGR in outpatient admissions over this period. The new assets (including Riyadh) are expected to account for 31% of Fakeeh total revenues by 2028. We expect the aggressive expansion plans to take a toll on the company's margins. However, despite this fact we expect the expanding scale of business to outweigh the concerns from margin compression translating into a CAGR of 23% for net income over 2023-2028.

Valuation: Our target price of SR68/share is based on a DCF model where we have assumed a WACC of 8.94% and a terminal growth of 3.5%. This implies a 2025 PE of 46x, which is a premium to the sector, but the multiples come down as the new capacity comes online.

Risks: The key downside risks are prolonged losses in Riyadh, rising competition and higher than anticipated pressure on margins.

RATING SUMMARY	Overweight
Target Price (SR)	68
Upside/Downside	17%
Dividend Yield (%)	0.3%
Total Return (%)	17%

ISSUER INFORMATION	
Share Price (SR)	58.3*
Target Price (SR)	68
Bloomberg	FAKEEHCA AB
Market Cap (SR mn)	13,526
Free Float (%)	22.8

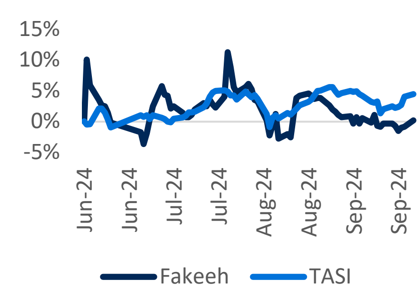
**as of 20th October 2024*

MULTIPLES	2024E	2025F
P/E (x)	47.0	39.1
P/B (x)	4.6	4.2
P/S (x)	4.6	3.9
EV/EBITDA (x)	21.6	18.3
RoA (%)	6	5
RoE (%)	14	11

Source: Bloomberg, anbc research

FINANCIALS (SR MN)	2023A	2024e	2025F	2026F
Revenue	2,327	2,933	3,479	4,079
Gross profit	617	722	832	966
EBITDA	526	681	801	962
Net income	280	287	343	441
EPS	1.21	1.24	1.48	1.90
DPS	-	0.18	0.21	0.27

PRICE PERFORMANCE – Fakeeh vs. TASI



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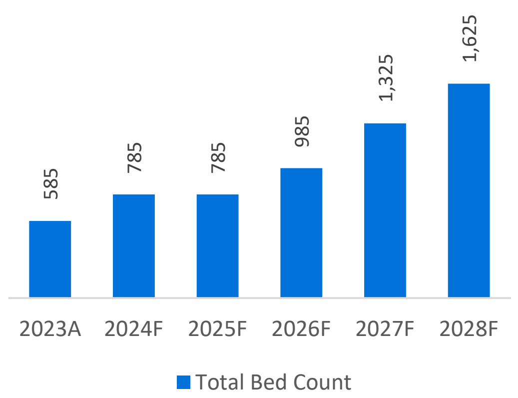
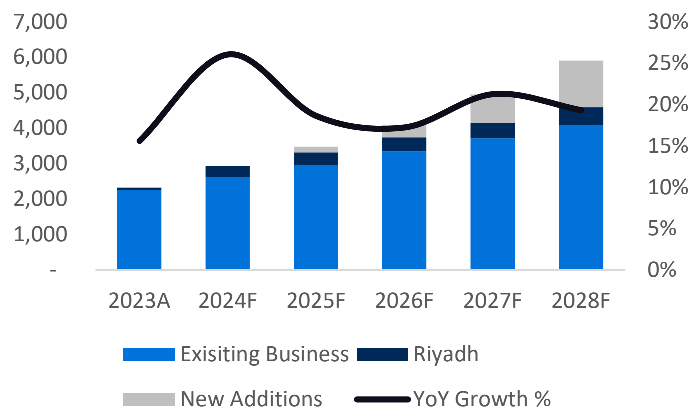
Investment Thesis in Charts

Chart 102: Capacity* to increase 2.8x by 2028-Beds



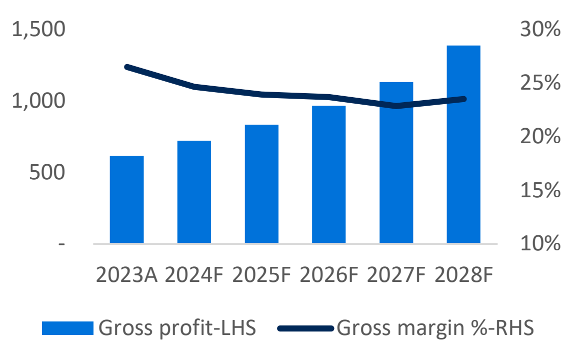
*Source: Company Financials, anbc research, *Excluding O&M operations in NEOM (50 beds and 5 clinics)*

Chart 103: Revenue to grow at a CAGR of 20% by 2028- SRmn



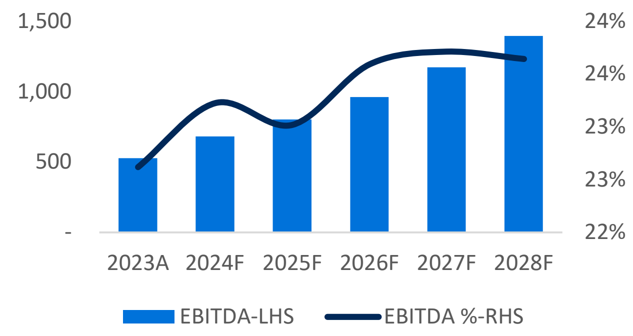
Source: Company Financials, anbc research

Chart 104: Gross margins to face pressure due to expansions



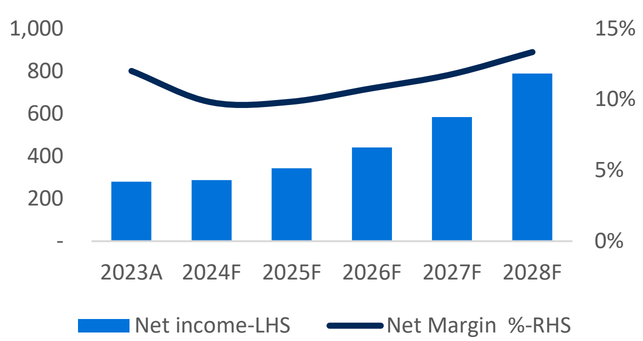
Source: Company Financials, anbc research

Chart 105: EBITDA to remain in the 23%-24% range- SR mn



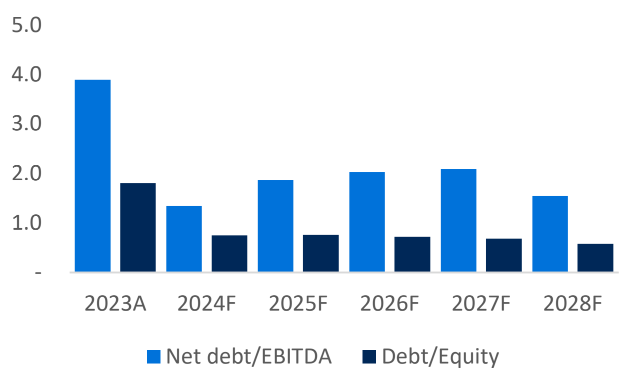
Source: Company Financials, anbc research

Chart 106: Net profit growth to gain momentum- SRmn



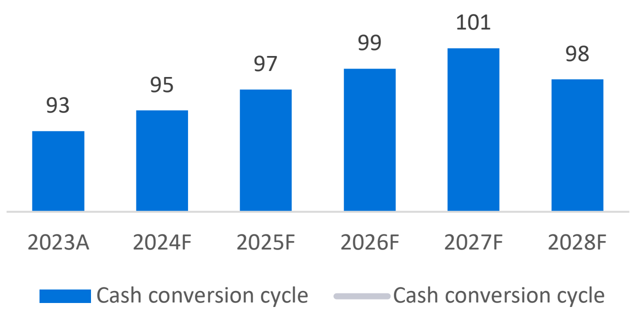
Source: Company data, anbc research

Chart 107: Debt levels to remain elevated in the near term- (x)



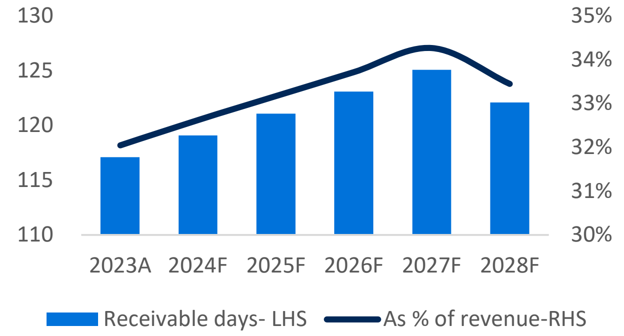
Source: Company Financials, anbc research

Chart 108: Cash conversion cycle- SRmn



Source: Company data, anbc research

Chart 109: Receivables as a % of revenue



Source: Company data, anbc research

Table 26: Financial Summary

Dr. Soliman Abdel Kader Fakeeh Hospital Co.						
Income Statement		**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Net Revenue	SR mn	2,012	2,327	2,933	3,479	4,079
Gross Profit	SR mn	612	617	722	832	966
EBITDA	SR mn	516	526	681	801	962
Net Profit	SR mn	326	280	288	345	443
Balance Sheet		**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Current Assets	SR mn	1,388	1,388	2,732	2,640	2,529
Non Current Assets	SR mn	3,683	2,844	3,239	3,922	4,490
Total Assets	SR mn	5,070	4,232	5,971	6,562	7,019
Current Liabilities	SR mn	1,165	1,065	1,246	1,520	1,632
Non-Current Liabilities	SR mn	1,748	1,911	1,736	1,776	1,811
Total Equity	SR mn	2,157	1,255	2,989	3,266	3,577
Cash Flow Statement		**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Net CFO	SR mn	231	304	331	466	610
CFI	SR mn	(630)	970	(625)	(987)	(942)
CFF	SR mn	524	(1,377)	1,399	193	(40)
Closing Balance	SR mn	317	214	1,319	992	620
YoY Growth		**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales growth	%	*2.4%*	*15.6%*	*26.0%*	*18.6%*	*17.2%*
EBITDA	%	*2.1%*	*1.9%*	*29.4%*	*17.6%*	*20.1%*
Net Income	%	*-15.7%*	*-14.3%*	*3.0%*	*19.8%*	*28.3%*
Ratios		**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
ROA	%	*7.6%*	*6.0%*	*5.6%*	*5.5%*	*6.5%*
ROE	%	*16.8%*	*16.4%*	*13.6%*	*11.0%*	*12.9%*
Gross Profit Margin	%	*30.4%*	*26.5%*	*24.6%*	*23.9%*	*23.7%*
EBITDA Margin	%	*25.7%*	*22.6%*	*23.2%*	*23.0%*	*23.6%*
Net Profit Margin	%	*16.2%*	*12.0%*	*9.8%*	*9.9%*	*10.9%*

Source: Company data, anbc research

Investment Thesis

Capacity to expand almost threefold

Fakeeh has a dominant position and a strong track record in Jeddah. As of 2023, Jeddah Hospital accounted for 77% of total revenues. The company has embarked on an expansion stage through the acquisitions of hospitals in Riyadh and NEOM (O&M contract) and is opening up a new hospital in Madinah in 2H24. Besides these assets, there are multiple projects which are in the pipeline.

Over the next five years, Fakeeh has a strategy of i) strengthening and expanding its assets in Jeddah ii) new expansions in Riyadh, Madinah and Makkah and iii) participation in the bidding for O&M contracts under the privatization program. Most of the growth in revenues over the medium term will be driven by the ramping up of the new assets.

Table 27: Fakeeh's assets and expansion plans

	Existing Assets				Upcoming Projects			
	DFSH Jeddah	DFSH Riyadh	NEOM Hospital	DFSH Madinah	DSFH Jeddah Surgery Tower Extension	DFSH Masar Makkah	DFSH South Obhur, Jeddah	Al Hamra Mabar PAC, Jeddah
Number of Beds	400	185	50	200	140	200	300	200
Doctors/*Staff /Op Capacity ('000)	500	200	*216	NA	250	365	420	230
Ambulatory care centers	Medical Fakeeh	DFMC Basateen	DFMC Nuzha	DSFMC Executive Clinic	DSFMC Alawali, Makkah	DSFMC North Obhur, Jeddah	DSFMC Al Hamra, Riyadh	DSFMC Al Zahra, Jeddah
Doctors/Clinics	119	60	16	10	20	22	22	60
Education	Fakeeh College of Medical Sciences	Fakeeh Home Healthcare	Emergency Medical Services	Fakeeh Tech	FCMS expansion			

Doctors/*Staff   Op Capacity ('000)   Doctors   Clinics

Source: Company data & anbc research

Existing Assets

Medical Services:

DSFH Jeddah: Founded in 1978 by Dr. Soliman Fakeeh, this is the jewel in the crown of Fakeeh. It is the first private hospital to be JCI-accredited and was ranked as the number one private hospital in the Kingdom for 2022 and 2023 by Newsweek. It has also received multiple awards, including recognition by the Council of Cooperative Health Insurance. The hospital has over 83.5k square meters of built-up area. The Group owns the buildings, and the land is leased (current contract runs until the end of 2027). It has 400 beds, 108 ICU beds, 134 clinics and around 500 doctors. It treats around 1mn patients every year. It has the Kingdom's largest neonatal Unit and is the only private hospital in the Kingdom to offer radiation therapy.

As a part of Fakeeh's hub and spoke model, DSFH Jeddah acts as the hub for four other units: i) Medical Fakeeh, ii) DSFMC Basateen, iii) DSFMC Nuzha and iv) DSFMC Executive Clinic.

The Group plans to increase bed capacity at DSFH Jeddah by 35% (140 beds) by 2027.

Medical Fakeeh (Jeddah): This was the first private-public partnership healthcare project offered under Vision 2030's privatization program. In 2019, Fakeeh acquired a 75% stake in Saudia Medical Services and rebranded it as Fakeeh Care. Saudi Arabian Airline Corporation (Saudia) owns a 25% minority stake in this hospital.

It has a built-up area of 7.8k square meters. The land is leased until November 2049 (30-year lease starting from November 2019). Medical Fakeeh provides diagnostic, interventional and preventive services and has an urgent care center which provides multi-specialty support. Medical Fakeeh specializes in Aviation medicine and caters to the needs of c80,000 Saudia employees as well as other patients. It has 119 doctors, 114 nurses, more than 30 specialties and 69 medical examination rooms.

DSFMC Basateen (Jeddah): This ambulatory care center was launched in 2018 and is built over 13.5k sqm. It is 100% owned by Fakeeh (land is leased until end of December 2027). This center is linked with DSFH Jeddah as a part of the hub and spoke model. It offers day-care surgeries and renal dialysis. It has a radiology center with MRI, CT, Fluoroscopy, X-Ray, and Ultrasonography facilities. The center also has a large physiotherapy center. It has 60 doctors, 84 nurses, 27 medical examination rooms and offers over 40 specialties.

DSFMC Nuzha (Jeddah): This ambulatory center is built over 1.5k sqm and specializes in family medicine and providing educational awareness activities. It is 100% owned by Fakeeh (land and building leased until 14th May 2029). It also operates an urgent care center with a large lab and a 24-hour pharmacy. The center offers over 30 specialties, 16 medical examination rooms, 16 doctors and 32 nurses.

DSFMC Executive Clinic (Jeddah): Established in 2017, this center provides a 7-star luxurious healthcare service. Services include wellness programs, laboratories, radiology, patient education and executive check-ups. The center offers over 20 specialties. It has 12 medical examination rooms, 10 doctors and 19 nurses. It is 100% owned by Fakeeh.

DSFH Riyadh: Fakeeh acquired this smart hospital in October 2022 and relaunched it in March 2023. This was Fakeeh's first expansion into Riyadh. It is built up over 55k sqm and is 60.6% owned by Fakeeh. The hospital has 185 beds, 28 ICU beds, around 200 doctors, 10 OTs, 55 clinics. It also provides services in nuclear medicine and medical oncology. The hospital is currently undergoing a ramp-up after its relaunch.

DSFH Madinah: This is a new hospital (80% complete) which will become operational by 2H24. It is built up over 73.5 sqm and is 51% owned by Fakeeh. The hospital has 200 beds, 26 ICU beds, 7 Operation Theatres (OT), 49 clinics and a capacity for 18k inpatients (IP). Fakeeh plans to potentially open an ambulatory care center in the South of Madinah linked with this hospital.

NEOM Hospital (Tabuk): Fakeeh was awarded a 5-year O&M contract for this hospital in March 2023 and commenced operations in July 2023. It has 50 beds, but the number of beds can be increased to 200. It has 20 ICU beds, 5 operation theatres and 216 contracted staff.

NEOM Advanced Medical Center (NEOM): This is integrated with NEOM Hospital. The contract was signed in October 2023 with operations commencing in November 2023. Fakeeh has a 5-year contract with pricing based on manpower supplied alongside with other fees. It offers over 15 specialties, 12 examinations room, 25 nurses and 42 contracted staff. The center offers urgent care centers with a dedicated radiology department.

Others healthcare support services: Fakeeh Home Healthcare and MedE

- **Fakeeh Home Healthcare (FHHC)** was established in 2013 and provides coordinated care including nursing, physiotherapy, respiratory therapy, sleep tests and vaccination services. It has 47 caregivers who have provided healthcare service to 47k patients per annum (as of September 2023).
- **MedE** provides emergency and non-emergency services via a network of 400 paramedics and 85 ambulances. This service provides comprehensive pre-hospital medical care for serious injuries or illnesses.

Education Segment

Fakeeh College of Medical Sciences (FCMS): Established in 2003, Fakeeh College of Medical Sciences is among the nine universities/colleges in Jeddah that provide medical education. It stands out as one of the few located adjacent to a hospital.

FCMS offers 14 programs and courses, which include 1 PhD program, 9 MSc programs, and 4 undergraduate programs including MBBS. It also has 21 residencies and fellowship programs for doctors. FCMS has partnerships with the University of Dundee in the UK and the Royal College of Surgeons and also with multiple local universities (King Saud University, Al Maarefa University, Umm Al Qura University, University of Jeddah, Imam Abdul Rahman bin Faisal University, Sulaiman Al Rajhi University and King Saud bin Abdulaziz University for Health Sciences).

The college has over 1,500 graduates and an average student body of 1,435. Student enrolments have increased at a CAGR of 20% between 2020-2022. Student intake in the year 2023/2024 (as of 2Q24) was 1,840 (growth of 20.4% year over year) and there continues to be strong demand for enrolments. According to the management, one of the factors which make FCMS attractive to prospective students is that it offers programs in all medical disciplines. Most other medical colleges in Jeddah and Riyadh have limited program offerings with many colleges offering only nursing and applied medical sciences courses. We think the educational offering is highly synergistic to the core business as it helps Fakeeh attract talent (246 graduates from FCMS have been hired by Fakeeh) and it also helps the company in getting involved in medical research including clinical trials.

Fakeeh plans to expand FCMS by receiving university status and by establishing independent colleges for specialty areas such as Medicine, Nursing, Pharmacy, and Business Technology & Innovation.

The college is 80% owned by Fakeeh and 20% owned by Fakeeh family.

Khadija Attar Center (Jeddah): Established in 2011, this center provides medical, educational, rehabilitation and entertainment services to children with special needs.

Expansion plans

Projects in Jeddah:

DSFH Jeddah Surgery Tower Extension: Building an extension on the existing land of DSFH Jeddah. The construction will start in 2024 and is expected to be completed by 2H27. This will add 140 beds to the hospital. The estimated capex for the project is SR400mn.

DSFH South Obhur: Acquired land in March 2023 to build a 300-bed premium hospital with complex offering. Construction will start in 2024 and will be completed by 1H28. The projected capex is SR900mn of which SR120mn has already been spent to acquire the land.

DSFMC North Obhur: Building an ambulatory care center as a spoke for DSFH the hub at Jeddah. The land has been acquired and construction has begun in 2024 and is expected to be completed by 1H25. The estimated capex for the project is SR110mn (of which SR20mn has been spent to acquire the land).

DSFMC Al Zahra: This will be a large medical center in the Al Zahra district of Jeddah. The land and the building will be leased, and construction is expected to begin in 2H24. The estimated capex for the project is SR55mn and the project is expected to commence operations by 1H25.

Projects in Riyadh:

DSFMC Al Hamra: Building an ambulatory care center as a spoke for the DSFH hub in Riyadh. The land was acquired in September 2023 and construction will start in 4Q24 with completion expected by 2H26. The estimated capex for this project is SR140mn.

Projects in Makkah:

DSFH Makkah: Building a 200-bed hospital. The hospital will have 70 clinics and 7 operating theatres. Land has been leased in 2022 for 40 years and construction will start in 2024. The hospital is expected to start operations by 2H27. The estimated capex is SR600mn for building, construction and equipment.

DSFMC Alawali: This would be another ambulatory care center in Makkah in the Alawali region. It will have 20 clinics and a renal dialysis center. Land has been leased for this project and construction will be complete by 1H25. The estimated capex for this project is SR100mn of which SR10mn was spent in 2023.

Other expansion plans:

Expansion of the O&M business by replicating the success of NEOM Hospital through participation in PPP projects.

Education: Spending SR500mn in total for expansion of FCMS and launching a new college for non-medical programs (Business, Technology and Innovation) in Jeddah. The target is to grow student capacity to 6k by 2027 (from c1.4k currently).

FCMS will add two new buildings which are expected to be ready by 2027 (constructions will begin in 2025). C40% of the Education capex is for this expansion.

Construction for the new college for BTI courses will start in 1H25 and complete by 1H27. This college will offer 12 courses and will have capacity of 3k students, expected to launch by 2027. Around SR500mn capex will be allocated for this project.

Replicating hub and spoke model in Riyadh and other cities

A unique aspect of Fakeeh's operational strategy is its hub-and-spoke model, where the main hospital in Jeddah is supported by four smaller ambulatory care health centers in the city. According to the management, this model has helped them achieve sector leading hospital inpatient to outpatient conversion rate of 5.3%. The model also allows the company to expand its reach in a quick and capital efficient manner. Moreover, the business model also lowers the burden on the main hub facility allowing it to focus on more complex procedures. This is also visible from the company's highest share in complex procedures compared to peers increasing from 27% in 2020 to 37% in 1H24.

Chart 110: Hub and spoke model in Jeddah

Source: Company Financials, anbc research

The management plans to replicate the same model for its expansion strategy in Riyadh, Makkah and Madinah, where one centralized hospital will be supported by smaller healthcare centers. The company has already acquired land in Al Hamra district, Riyadh, which will be used to build the first spoke for DSFH Riyadh. Similarly, DSFMC North Obhur (Jeddah) is under construction as well and will be used as a spoke to the upcoming South Obhur Hospital while a similar model is in plans for

Makkah and Madinah. The model is a key value proposition of the company and its successful implementation in Riyadh and other cities could serve as a key competitive advantage in terms of capital efficiency.

Medium Term Guidance

On the back of the expansion plan, management's guidance for the medium term (c2028) is as follows:

- Bed Count: 1,675 beds, a 2.8x increase from 585 beds (excluding 50 beds in NEOM under an O&M contract) in 2023.
- Number of Hospitals and Medical Centers: 7 hospitals and 9 medical centers from the current network of 3 hospitals and 5 medical centers.
- Number of patients: 3.5mn outpatient visits in the medium term compared to 1.51m in 2023. Around 100k inpatient admissions versus the current level of 42.6k.
- Number of students: An increase to 3,000 from 1,442 (14-15% YoY growth) in the number of students in FCMS as well as 3,000 students in the new BTI college.
- EBITDA Margins: Blended margins to trend back to 25-26%. Current EBITDA Margins are around 22.6%. However, these will decline due to higher costs associated with new hospitals such as DSFH Madinah and DSFH Riyadh. Management expects the margins to stabilize at 25-26% level after all the projects have ramped up.
- Leverage: Less than 2x net debt to EBITDA from current level of 4x.

Table 28: Management Medium Term Guidance

Targets and Guidance | Overall Business

	2023	Medium-term*	Update / rationale
Bed count	**585+50 beds** (excl. DSFH Madinah)	**1,675** beds	▪ Introduction of new facilities
# of hospitals	3 hospitals (excl. DSFH Madinah)	**7** hospitals	
# of medical centers	**5** medical centers	**9** medical centers	
# of outpatient paid visits	**1.51m** visits	**c. 3.5m** visits	▪ Organic growth in existing mature hospitals and ramp up of existing hospitals. ▪ Introduction of multiple new hospitals and ambulatory centers to boost volume growth. ▪ Pipeline projects at initial ramp up phase by end of medium-term.
# of inpatient admissions	**42.6k** admissions	**c. 100k** admissions	
Average # of paid students	**1,442** students	**c. 3,000** students	▪ Expanding intake in existing and future courses
EBITDA margin	**22.6%**	*Blended margin (mature + pipeline) to trend back to* ***25-26%*** *towards the end of medium-term before achieving stable EBITDA margin profile*	▪ Margins to remain under pressure in the near term and gradually stabilize and improve towards the end of the medium-term as DSFH Madinah and Riyadh ramp-up offsets start-up losses from other pipeline projects. ▪ We expect margins to improve and align to existing assets once all projects in our pipeline ramp up.
Leverage (post-IFRS net debt incl. leases / EBITDA)	**c. 4x (LTM Sep-23: c. 3x)**	**< 2x**	▪ SR 0.3bn increase in debt between Sep-23 and Dec-23 due to payment of dividends (SR 0.2bn), capex, and working capital (SR 0.1bn) ▪ With the primary proceeds, cash generated from existing assets and ramp up of DSFH Riyadh and Madinah, we expect our medium-term leverage to be below 2x.

*c. 5 years

Source: Company Financials, anbc research

Financial Analysis and Forecasts; Highest earnings growth over next 5 years

Revenue Analysis:

2020-2023: Revenue Analysis

Over the last three years, revenues increased at a CAGR of 10.8% from SR1.72bn in 2020 to SR2.3bn in 2023. Revenues for 2023 were up 15.9% YoY to SR2.3bn driven by growth from the core business as well as contributions from NEOM Hospital and DSFH Riyadh.

Medical services revenues increased 9% YoY from SR1.9bn to SR2.1bn (net revenues adjusted for discounts and rejections). Revenue growth stemmed from an enhanced service mix and higher-value offerings in Jeddah, alongside the ramp-up of operations in Riyadh, currently utilizing 70 beds, and revenue from NEOM's O&M. Revenues were also driven by a 59% increase in the number of beds from 400 in 2020 to 635 in 2023, which drove a 9.8% CAGR growth in the number of outpatients (from 1.14mn in 2020 to 1.51mn in 2023) and 4.9% annualized increase in the number of inpatients (from 36.9mn in 2020 to 42.6k in 2023). Revenue per patient has also increased (inpatient revenue has increased at a CAGR of 4.6% from SR18.7k in 2020 to SR21.4k in 2023 and outpatient revenue remained flat at SR840 over the period 2020-2023).

Educational revenues increased at a CAGR of 15% from SR61mn to c.SR94mn during this period and Medical Related Services revenue increased from SR73mn in 2020 to SR99mn 2023.

2024-2028: Revenue Forecasts

For our forecasts, we have modelled Fakeeh's existing assets as well as individually modelled the new projects which are in the pipeline. These are:

- **Existing assets:** This includes the businesses in Jeddah and the hospital in Madinah.
- **10 new assets:** DSFH Riyadh, DSFH Jeddah Surgery Tower Extension, DSFMC Alawali Makkah, SAFMC Al Zahra Jeddah, DSFMC North Obhur Jeddah, BTI College in Jeddah, DSFH Makkah, DSFH South Obhur, Jeddah, Al Hamra Mabar PAC Jeddah, and DSFMC Al Hamra Riyadh. Our detailed assumptions and forecasts for each of these businesses are in the tables in the Appendix.

On a consolidated basis, we are modelling revenues to increase at CAGR of 20% from SR2.3bn in 2023 to SR5.90bn by 2028. The primary growth drivers will be the new assets that will come online up to 2028. We expect the new assets (including Riyadh) to account for 31% of Fakeeh's total revenues by 2028.

The capacity at Fakeeh will nearly triple over 2023-2028. We project the number of beds to increase from 585 in 2023 to 1,625 by 2028 (178% increase). We expect an addition of 200 beds in 2024 and then another 200 beds in 2026. The biggest increase is coming in 2027 (340 new beds) and finally, 300 beds will become operational in 2028. These capacity increases will be the main driver for the increase in the number of patients (both Inpatient and Outpatient customers). We expect pricing per patient to also increase. We are modelling 3.1% growth per annum in Revenue per Inpatient and a 2.9% per annum increase in Revenue per Outpatient. We believe that pricing per patient will increase as the proportion of complex cases treated by the company increases as the new assets will come online. Of course, pricing changes will also be driven by inflation.

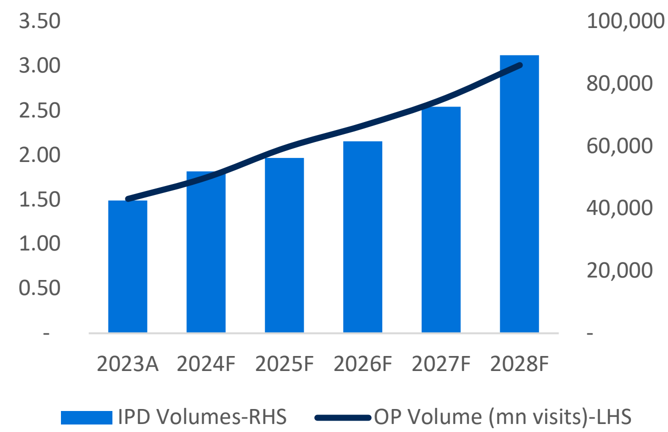
Table 29: Revenue Model

	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Hospital beds	**400**	**585**	**785**	**785**	**985**	**1,325**	**1,625**
Additions	**185**	**-**	**200**	**-**	**200**	**340**	**300**
growth (YoY)	*0%*		*34%*		*25%*	*35%*	*23%*
Number of Inpatients (000)	**39**	**43**	**52**	**56**	**62**	**73**	**89**
growth (YoY)	*0%*	*9%*	*22%*	*8%*	*9%*	*18%*	*23%*
Number of Outpatients (mn)	**1.39**	**1.51**	**1.75**	**2.08**	**2.33**	**2.62**	**3.01**
growth (YoY)	*4%*	*8%*	*16%*	*19%*	*12%*	*12%*	*15%*
Revenue/inpatient (SR 000)	**19**	**21**	**21.6**	**21.8**	**23.2**	**24.4**	**24.5**
growth (YoY)	*2%*	*11%*	*3%*	*1%*	*6%*	*5%*	*0%*
Revenue/outpatient (SR)	**822**	**840**	**853**	**862**	**891**	**928**	**966**
growth (YoY)	*2%*	*2%*	*1%*	*1%*	*3%*	*4%*	*4%*
Revenue IP (SR mn)	**741**	**894**	**1,122**	**1,227**	**1,426**	**1,774**	**2,184**
growth (YoY)	*2%*	*21%*	*25%*	*9%*	*16%*	*24%*	*23%*
Revenue OP (SR mn)	**1,143**	**1,266**	**1,491**	**1,792**	**2,078**	**2,431**	**2,907**
growth (YoY)	*6%*	*11%*	*18%*	*20%*	*16%*	*17%*	*20%*
O&M (Hospital + Medical Center) - Revenue (SR mn)	84	188	282	395	494	568	624
Growth YoY (%)	*-27%*	*124%*	*50%*	*40%*	*25%*	*15%*	*10%*
Others (Incl. Covid services, Excl. O&M) - Revenue (SR mn)	**190**						
Growth YoY (%)	*-22%*						
HHC + MedE - Revenue (SR mn)	-	41	81	122	152	167	184
Growth YoY (%)			*100%*	*50%*	*25%*	*10%*	*10%*
Medical Related Services	***274***	***229***	***363***	***516***	***645***	***735***	***808***
Discounts and rejection	244	288	317	365	417	508	606
Net Revenue from Medical Services - SR mn	***1,913***	***2,100***	***2,659***	***3,171***	***3,732***	***4,432***	***5,293***
Education Revenues (SR mn)	88	94	120	140	161	309	384
Growth YoY (%)	*12%*	*7%*	*27%*	*16%*	*15%*	*92%*	*24%*
Other services as % of gross revenues - SR mn	10	140	154	169	186	205	225
Growth YoY (%)	*11%*	*1345%*	*10%*	*10%*	*10%*	*10%*	*10%*
Consolidated Net Revenue - SR mn	**2,012**	**2,327**	**2,933**	**3,479**	**4,079**	**4,946**	**5,903**

Source: Company Financials, anbc research

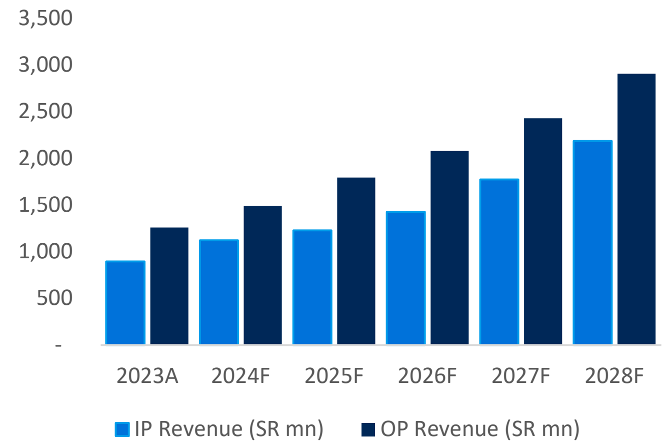
Outpatient Revenues: Based on our assumptions about the capacity expansion pipeline for the new clinics and additional beds, we are modelling Outpatient (OP) revenue to grow at a 5-year CAGR of 18.2% between 2023-28, from SR1.3bn in 2023 to SR2.9bn by 2028. This growth is driven by increases in both the number of Outpatients and revenue per patient. We think the addition of new assets will allow Fakeeh to service 3.0mn Outpatients by 2028 from an estimated 1.51mn in 2023 (+14.8% CAGR). We are modelling 2.9% annualized increase in the Revenue per Outpatient during this period (positive mix shift towards complex cases and inflation).

Chart 111: Inpatient and outpatient volume



Source: Company Financials, anbc research

Chart 112: Inpatient and outpatient revenue- (SR mn)



Source: Company Financials, anbc research

Inpatient Revenues: We anticipate that Inpatient (IP) revenue will increase at a CAGR of 19.6% from SR894mn in 2023 to SR2.2bn in 2028. This growth is driven by a 16.0% CAGR in the number of Inpatient cases and a 3.1% yearly rise in revenue per patient. The growth in IP volume is supported by the commencement of operations in Riyadh and Madinah Hospitals.

Table 30: Other Medical Revenues

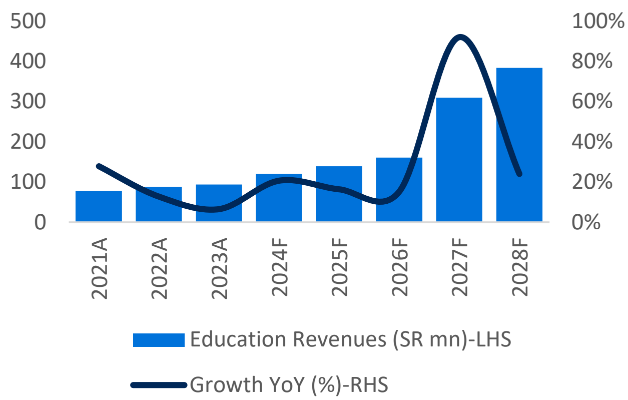
Other Medical Services	2023A	2024F	2025F	2026F	2027F	2028F	CAGR (%)
O&M - Revenue (SR mn)	188	282	395	494	568	624	27%
Growth YoY (%)	0%	50%	40%	25%	15%	10%	
HHC/MedE - Revenue (SR mn)	41	81	122	152	167	184	35%
Growth YoY (%)	0%	100%	50%	25%	10%	10%	
Other Services							
Other services - (SR mn)	140	154	169	186	205	225	10%
Growth YoY (%)	0%	10%	10%	10%	10%	10%	

Source: Company data (historical financials), anbc research

We expect Fakeeh's O&M business (NEOM Hospital) revenues to grow at a 27% CAGR from SR188mn in 2023 to SR624mn in 2028. This is driven by the additions to the bed capacity at NEOM (we assume 200 beds by 2028) and the opening of NEOM Advanced Medical Center. There could be further upside here as the management intends to bid for further privatization contracts. We estimate 35% CAGR in revenues for HHC and MedE as we expect the Group to grow its fleet of ambulances in the cities where it is expanding.

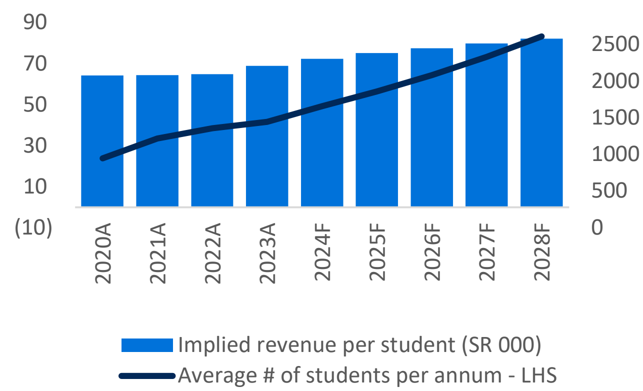
Education Revenues:

Chart 113: Education Services revenues



Source: Company Financials, anbc research

Chart 114: Education Revenue per Student

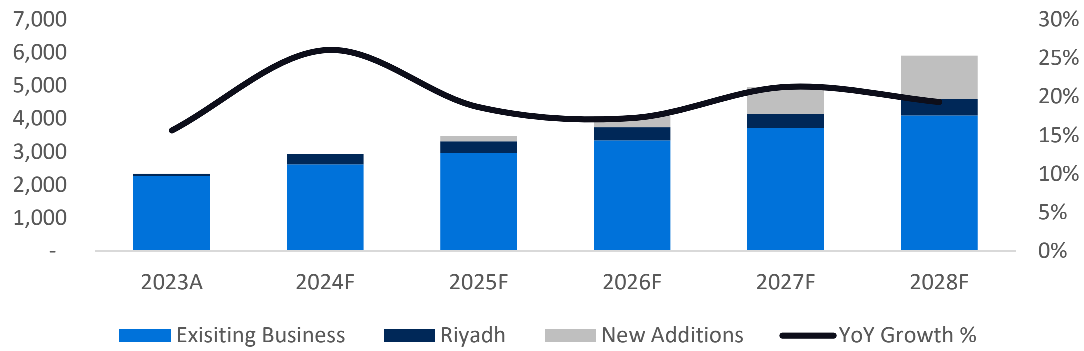


Source: Company Financials, anbc research

We are modelling the revenue from Education services to grow at a CAGR of 33% between 2023-2028 to SR384mn. This growth is driven by an 11% per annum increase in the average number of students (new courses, higher enrolments in short courses and additional capacity coming online in 2025 and then in 2027). We also think that Fakeeh can raise its prices by 4% per annum, driven by its new university status and inflation.

Other Revenues: In this segment, we anticipate a 10% CAGR in revenues from SR140mn in 2023 to SR225mn in 2028. This is driven by the opening of 7 new stores by Vision and new client acquisition for Yasasii by Fakeeh Tech.

Chart 115: Total Revenue 2023F-2028F (SR mn)



Source: Company data (historical financials), anbc research

Cost and Profitability Analysis:

2020-2023 Analysis:

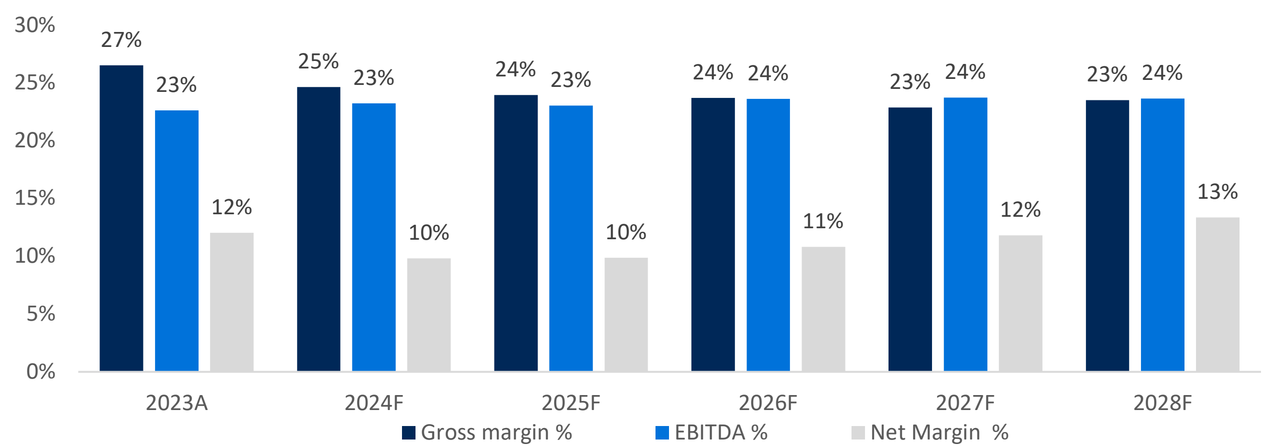
Over 2020-2023 Fakeeh's Net Income (before deducting NCI) remained relatively flat from SR225mn in 2020 to SR232mn in 2023. The acquisition of the new hospital in Riyadh led to higher ramp-up costs. Due to this, Net Income declined by 30% YoY in 2023. Adjusting for the losses from DSFH Riyadh, Net Income increased by 15.3% in 2023. For CY23, reported Net Profit declined from SR331mn in 2022 to SR232mn in 2023. This was due to ramp up losses of SR181mn associated with Riyadh.

Fakeeh's key profitability metrics over this period were:

- Gross Margin: Gross Profit increased from SR443mn in 2020 to SR617mn in 2023. The gross margin improved from 25.8% in 2020 to 26.5% in 2023. Within the costs, Salaries account for c38% of sales and are c51% of the total Cost of Goods Sold. The other big cost item is Material and Consumables used in treatments which accounted for c26% of sales and 35% of the total Cost of Goods Sold.
- EBITDA: EBITDA increased at CAGR of 9% over the past three years from SR402mn in 2020 to SR526mn in 2023. EBITDA margin improved from 23.4% in 2020 to 25.7% in 2023.

The business generated Return on Invested Capital (RoIC) of 15% in 2020, 19.7% in 2021 and 15.4% in 2022 (adjusted for losses from DSFH and special dividend). For CY23, the RoIC was c13.8%. The ROE was 18.1% in 2020, 20.9% in 2021 and 17.4% in 2022 (adjusted). Fakeeh generated c15.4% ROE in CY23.

Chart 116: Profitability analysis



Source: Company data (historical financials), anbc research

2024 -2028: Profitability Forecasts

We are modelling gross profit to increase at a CAGR of 18% from SR617mn (26.5% margin) in 2023 to SR1.4bn (23.5% margin) by 2028. We expect gross margin to decline slightly as new projects are launched but improve as they ramp up. We forecast a CAGR of 22% in EBITDA from SR526mn in 2023 to SR1.4bn by 2028. We are forecasting EBITDA margins to improve from 22.6% in 2023 to 23.6% in 2028 due to the impact of new builds. However, we think once all the projects fully ramp up, the Group's margins will climb back to around the 25-27% range. We expect Net Profit to increase at a CAGR of 23% from SR280mn in 2023 to SR789mn in 2028.

Valuation

We have used a Discounted Cash Flow (DCF) model to value Fakeeh, with a cost of equity of 10.9% and a weighted average cost of capital of 8.9%. Our target price of SR68/share values the company at a 2025e PE of 46x. We have an Overweight rating on the stock. Earnings are estimated to grow at a CAGR of 23% over the next five years with some pressure on ROE.

Table 31: DCF Model

Dr. Soliman Abdel Kader Fakeeh Hospital Co. DCF Valuation- SRmn	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Net Profit	277	332	426	563	761	964	1,189	1,389
Depr & Amort	230	303	374	454	486	519	556	595
Working Capital	(176)	(168)	(190)	(273)	(232)	(255)	(152)	(33)
Operating Cash Flows	331	466	610	744	1,014	1,229	1,592	1,950
Capex	625	987	942	1,080	454	486	519	556
Add: Interest expense	134	122	110	91	68	69	65	62
Cash Flow to Firm	**(160)**	**(398)**	**(223)**	**(245)**	**627**	**812**	**1,138**	**1,456**
PV of Free cash flow	**(160)**	**(366)**	**(188)**	**(189)**	**445**	**529**	**681**	**800**
WACC	*8.94%*							
PGR	*3.50%*							
Cost of Equity	*10.90%*							
PV FCFF	1,713							
PV of Terminal Value	15,229							
Enterprise Value (SR mn)	**16,942**							
Net Debt	1,165							
Equity Value (SR mn)	**15,777**							
TP	**68**							
Current price	59							
Upside	***15.3%***							

Source: Company data, anbc research

Table 32: Valuation Sensitivity

		WACC				
		7.94%	*8.44%*	*8.88%*	*9.44%*	*9.94%*
Terminal growth rate	*3.00%*	78	69	62	54	49
	3.50%	87	76	**68**	59	53
	4.00%	98	84	75	65	57
	4.50%	113	95	83	71	63

Source: Company data, anbc research

Company Overview

Established in 1978, Fakeeh is based in Jeddah primarily focusing on providing healthcare services to premium-class patients. Additionally, the company also runs a medical science college. The company runs a 400-bed hospital in Jeddah, a 185-bed hospital in Riyadh, and manages the 50-bed NEOM hospital under the O&M model. The company also has five ambulatory care centers in Jeddah, part of its hub-and-spoke business model.

Major Shareholders

Dr. Mazen Soliman Abdel Kader Fakeeh and Mr. Ammar Soliman Abdel Kader Fakeeh are the primary shareholders of the company with a pre-IPO stake of ~40.0% each (~30.8% each post-IPO) followed by Dr Manal Fakeeh with a 20.0% stake (15.4% post-IPO).

Geographic Focus

Fakeeh is the dominant healthcare operator in Jeddah from the listed space. The company operates a 400-bed hospital with multiple ambulatory centers in the city. The company plans to expand is network across multiple cities having already entered the Riyadh market in recent years and soon to enter Madinah's market in 2024.

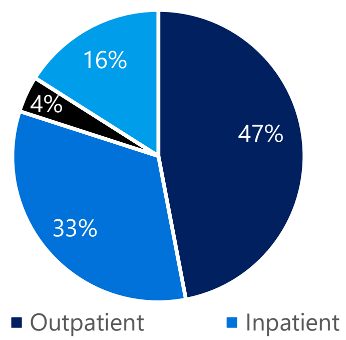
Income Composition

Fakeeh classifies its revenues into the following main business segments and activities in CY23:

- Medical Services (93% of Company's revenues):
    - Outpatient services (c47% of total revenues)
    - Inpatient services (c33% of total revenues)
    - Other medical services (13% of total revenues)
- Education services (4% of Company revenues)
- Trading, Retail and Others (3% of Company revenues)

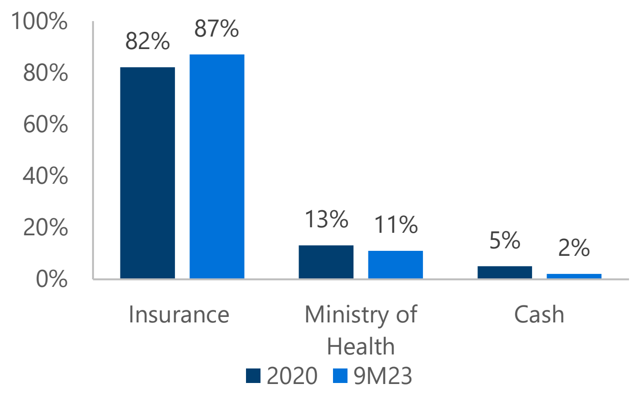
Payments from insurance companies are the largest revenue contributor (87% of the Company revenues) followed by Referrals from the Ministry of Health, at 11% while 2% of the revenue comes from cash patients.

Chart 117: Revenue composition (2023)



Source: Company Financials, anbc research

Chart 118: Revenue by customer type (9M23)



Source: Company Financials, anbc research

Table 33: Financial Statements

Dr. Soliman Abdel Kader Fakeeh Hospital Co. Consoliated P&L		2023A	2024E	2025F	2026F	2027F	2028F
Revenue	SR mn	2,327	2,933	3,479	4,079	4,946	5,903
Gross profit	SR mn	**617**	**722**	**832**	**966**	**1,131**	**1,386**
Pre-EBITDA Costs	SR mn	1,864	2,321	2,749	3,172	3,812	4,532
EBITDA	SR mn	**526**	**681**	**801**	**962**	**1,173**	**1,395**
Depreciation	SR mn	149	230	303	374	454	486
Finance costs	SR mn	122	147	134	121	100	74
Profit before zakat	SR mn	255	304	364	467	618	835
Zakat	SR mn	23	27	32	42	55	74
Profit for the Company	SR mn	**232**	**277**	**332**	**426**	**563**	**761**
Non Controlling Interest	SR mn	(48)	(11)	(13)	(17)	(23)	(30)
Profit for the Owner	SR mn	**280**	**288**	**345**	**443**	**586**	**791**
EPS	SR/share	**1.21**	**1.24**	**1.49**	**1.91**	**2.52**	**3.41**
No of shares	Mn shares	232	232	232	232	232	232
Balance Sheet		**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Property and equipment	SR mn	1,635	2,037	2,723	3,294	3,923	3,894
Right-of-use assets	SR mn	521	512	509	507	504	501
Intangible assets and goodwill	SR mn	544	547	547	547	547	547
Non-current assets	SR mn	**2,844**	**3,239**	**3,922**	**4,490**	**5,117**	**5,085**
Inventories	SR mn	163	190	228	268	329	389
Accounts and other receivables	SR mn	746	957	1,154	1,375	1,695	1,974
Cash and cash equivalents	SR mn	214	1,319	992	620	221	343
Current assets	SR mn	**1,388**	**2,732**	**2,640**	**2,529**	**2,510**	**2,972**
Total assets	SR mn	**4,232**	**5,971**	**6,562**	**7,019**	**7,626**	**8,057**
Share capital	SR mn	200	200	200	200	200	200
Equity issued - IPO Proceed	SR mn	-	-	1,500	1,500	1,500	1,500
Retained earnings	SR mn	820	1,011	1,238	1,506	1,847	2,296
Total equity	SR mn	**1,255**	**2,989**	**3,266**	**3,577**	**3,971**	**4,475**
Loans and borrowings	SR mn	1,196	1,016	1,041	1,056	973	710
Lease liabilities	SR mn	496	501	517	536	563	606
Employees' end of service benefits	SR mn	219	219	219	219	219	219
Non-current liabilities	SR mn	**1,911**	**1,736**	**1,776**	**1,811**	**1,755**	**1,536**
Short-term bank loans	SR mn	494	430	631	681	880	1,006
Current portion of long term loans	SR mn	30	187	191	184	158	95
Current portion of lease liabilities	SR mn	47	73	74	72	61	37
Accounts payables	SR mn	275	338	405	476	583	690
Current liabilities	SR mn	**1,065**	**1,246**	**1,520**	**1,632**	**1,901**	**2,047**
Total liabilities	SR mn	**2,977**	**2,982**	**3,296**	**3,443**	**3,656**	**3,582**
Total equity and liabilities	SR mn	**4,232**	**5,971**	**6,562**	**7,020**	**7,627**	**8,057**
Cash Flow Statement		**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Profit before tax	SR mn	255	304	364	467	618	835
Depreciation of PPE	SR mn	89	181	252	320	397	425
Adjusted income	SR mn	581	507	635	800	1017	1246
Inventories	SR mn	-32	-27	-38	-40	-61	-60
Accounts & other receivables	SR mn	-85	-211	-197	-221	-320	-279
Accounts payables	SR mn	44	62	67	71	107	107
Net CFO	SR mn	**304**	**331**	**466**	**610**	**744**	**1014**
Additions to PPE	SR mn	-372	-616	-981	-936	-1074	-448
CFI	SR mn	**970**	**-625**	**-987**	**-942**	**-1080**	**-454**
Dividends paid	SR mn	-1150	-42	-50	-64	-84	-114
Repayment of lease liabilities	SR mn	-123	31	17	16	17	19
Repayment of long term loans	SR mn	-1308	-24	29	9	-110	-326
Net movement in short term loans	SR mn	-60	-64	201	50	198	126
CFF	SR mn	**-1377**	**1399**	**193**	**-40**	**-63**	**-438**
Net change in cash	SR mn	-102	1105	-327	-372	-399	122
Closing Balance	SR mn	**214**	**1319**	**992**	**620**	**221**	**343**

Source: Company Financials, anbc research

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