Dr Sulaiman Al Habib Medical Services Group

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on Dr. Sulaiman Al Habib Medical Services Group (HMG) with a target price of SR341 and an Overweight rating. The share price is up 5.2x since the IPO in March 2020. This share price performance has been driven by a 93% growth in net profits (at a CAGR of 25%) and a multiple re-rating from 18.2x PE (same year) in 2020 to 2024e PE of 42x on consensus estimates. Despite the relatively rich valuation, we are keeping an overweight recommendation on the stock as we think it deserves a premium due to high visibility on its medium-term growth, solid track record of execution, healthy cash flows, and brand recognition as a leading provider of high-quality service.

Capacity expansion provides strong visibility over medium term growth: HMG's new projects underway will increase its bed capacity by 89% from 1,913 beds (as of end 2023) to 3,609 beds by 2028. We think that capacity utilization will remain tight at around 80% due to the demand-supply shortage in the industry. We estimate that the expansion would drive revenue CAGR of 19% over 2023-2028. The company plans to add eight new hospitals (excluding Madinah Hospital) post 2023 and three new medical centers during this period. Two out of the eight hospitals have already come online during 2024, while more are expected to come online by year end.

New capacity is coming online in areas with more favorable demand-supply shortage: With 59% of its total bed capacity based in Riyadh, HMG is one of the largest listed operators in the city along with Hammadi and Dallah operating in the A+/VIP segments. The company added a 500-bed hospital in North Riyadh (the company's largest expansion). The other two biggest projects are located in Jeddah, one of which has already come online while the second one is expected to be completed by the end of the year. Jeddah is a relatively faster growth market with currently lower levels of bed density and increasing population.

Cost pressures to impact gross margins as new capacity starts ramping up: With the bulk of the planned expansion falling in late 2024 and 2025, we forecast gross margins to decline by 90bps between 2023 and 2025 as the capacity starts ramping up.

Quality premium deserved: HMG has emerged as a national champion in the healthcare sector. Over the past 25 years, the management has demonstrated a strong track record in delivering high quality of service and excellent execution in expansion. It was able to maintain high gross margins despite adding new capacity in Khobar (458 beds) in 2019. This shows its strong brand value. Another key reason for the quality premium is its efficient cash conversion cycle. HMG has the lowest account receivable days in the industry due to higher contribution of revenues from insurance. We think the company's best-in-class ROE can further improve to above 40% supported by operating leverage.

Valuation: Our target price of SR341/share for HMG is based on a DCF (WACC: 7.9% terminal growth: 3.5%). Our price target values the company at a 2025e P/E of 40x.

Risks: The key downside risk is slower ramp up in newly established hospitals in Riyadh and Jeddah as well as more than anticipated pressure on margins.

RATING SUMMARY	Overweight
Target Price (SR)	341
Upside/Downside	17%
Dividend Yield	2%
Total Return	19%

ISSUER INFORMATION	
Share Price (SR)	291*
Target Price (SR)	341
Bloomberg	SULAIMAN AB
Market Cap (SR mn)	101,850
Free Float (%)	29.2

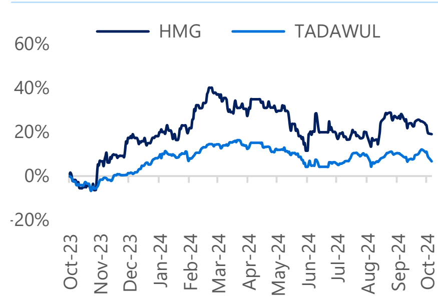
** as of 20th October 2024*

MULTIPLES	2024E	2025F
P/E (x)	42.1	33.7
P/B (x)	14.2	12.8
P/S (x)	8.8	6.8
EV/EBITDA (x)	37.1	29.0
RoA (%)	14	16
RoE (%)	35	40

Source: Company financials and anbc research

FINANCIALS (SR MN)	2023A	2024e	2025F	2026F
Revenue	9,508	11,607	15,044	17,875
Gross profit	3,270	3,917	5,039	6,210
EBITDA	2,408	2,834	3,623	4,538
Net profit	2,046	2,417	3,019	3,843
EPS	5.85	6.91	8.63	10.98
DPS	4.32	5.00	6.25	8.00

PRICE PERFORMANCE – HMG vs. TASI



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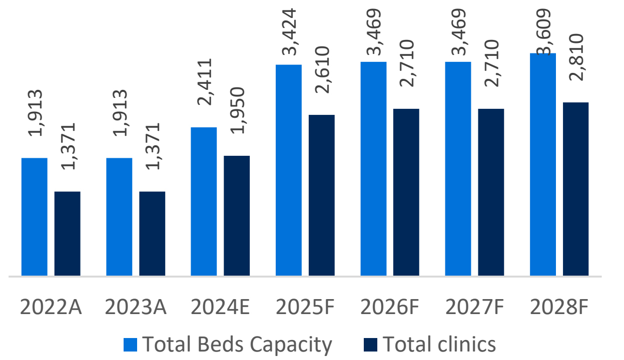
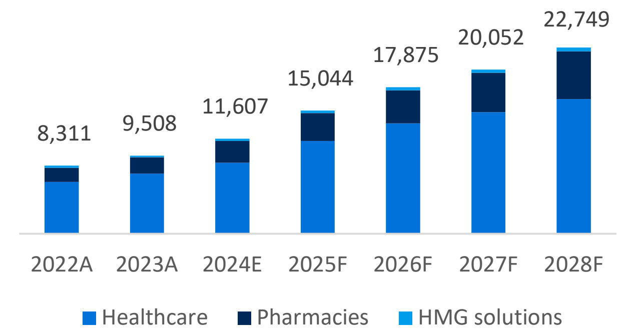
Investment Thesis in Charts

Chart 81: Geographical footprint- Beds



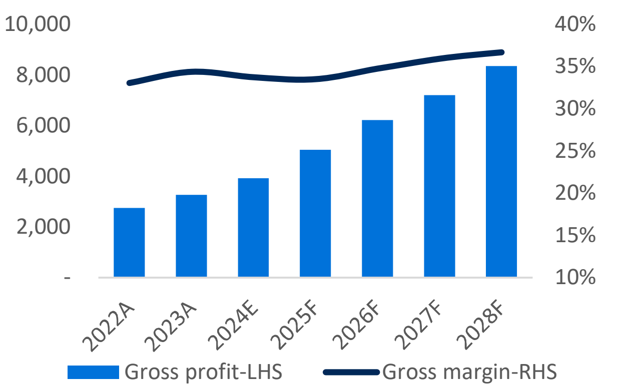
Source: Company Financials and anbc research

Chart 82: Revenue growth- SRmn



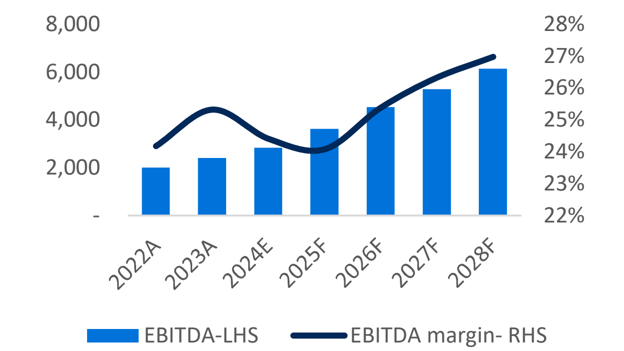
Source: Company Financials and anbc research

Chart 83: Gross Margin



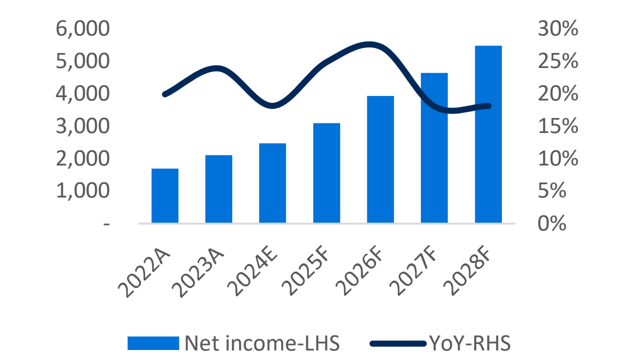
Source: Company Financials and anbc research

Chart 84: EBITDA Margin



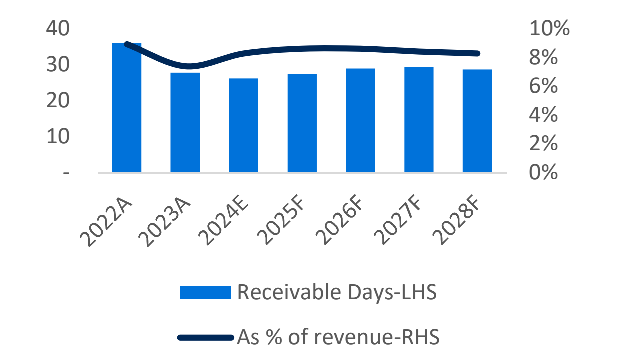
Source: Company Financials and anbc research

Chart 85: Net profit growth



Source: Company Financials and anbc research

Chart 86: Receivable days



Source: Company Financials and anbc research

Table 17: Financial Summary

Dr. Sulaiman Al Habib Medical Services Group						
Income Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	SR mn	8,311	9,508	11,607	15,044	17,875
Gross profit	SR mn	2,748	3,270	3,917	5,039	6,210
General &admin	SR mn	723	772	912	1,219	1,405
Operating profit	SR mn	1,700	2,096	2,486	3,202	4,071
EBITDA	SR mn	2,010	2,408	2,834	3,623	4,538
Net income	SR mn	1,651	2,046	2,417	3,019	3,843
Balance Sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Current assets	SR mn	4,160	4,138	2,514	2,927	3,087
Non-current assets	SR mn	8,424	11,660	15,494	17,579	18,804
Total assets	SR mn	12,584	15,798	18,009	20,506	21,891
Current liabilities	SR mn	2,590	3,299	3,980	5,190	5,548
Non-current liabilities	SR mn	3,888	5,733	6,539	6,925	6,820
Total equity	SR mn	6,106	6,766	7,489	8,391	9,523
Cash Flow Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net CFO	SR mn	2,844	3,244	2,768	3,460	4,359
CFI	SR mn	(1,939)	(3,487)	(4,182)	(2,506)	(1,692)
CFF	SR mn	(801)	116	(662)	(1,097)	(2,910)
Ending balance	SR mn	2,747	2,620	544	400	158
YoY Growth		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	%	*14.6%*	*14.4%*	*22.1%*	*29.6%*	*18.8%*
EBITDA	%	*12.8%*	*19.8%*	*17.7%*	*27.8%*	*25.2%*
Operating profit	%	*16.0%*	*23.2%*	*18.6%*	*28.8%*	*27.2%*
Net income	%	*19.9%*	*23.9%*	*18.1%*	*24.9%*	*27.3%*
Ratios		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Return on assets (ROA)	%	*14.1%*	*14.4%*	*14.3%*	*15.7%*	*18.1%*
Return on equity (ROE)	%	*29.4%*	*33.1%*	*35.4%*	*39.9%*	*45.2%*
Gross margin	%	*33.1%*	*34.4%*	*33.7%*	*33.5%*	*34.7%*
Operating margin	%	*20.5%*	*22.0%*	*21.4%*	*21.3%*	*22.8%*
EBITDA margin	%	*24.2%*	*25.3%*	*24.4%*	*24.1%*	*25.4%*
Net margin	%	*19.9%*	*21.5%*	*20.8%*	*20.1%*	*21.5%*
Effective zakat rate	%	*6.0%*	*3.2%*	*3.2%*	*3.2%*	*3.2%*
Dividend payout	%	*73.8%*	*73.9%*	*73.5%*	*73.5%*	*73.5%*
Per Share Analysis		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
EPS	SR/share	4.7	5.8	6.9	8.6	11.0
DPS, net	SR/share	3.5	4.3	5.0	6.3	8.0
Book value per share (BVPS)	SR/share	16.8	18.5	20.4	22.8	25.8

Source: Company Financials and anbc research

Investment Thesis

Capacity expansion gives visibility on revenue growth

HMG is the largest private healthcare operator in Saudi Arabia (with a ~11% market share[1]) and is on track to increase its bed capacity to 3,609 beds within the next five years. The significant capacity expansion underway is enabling HMG to further strengthen its presence in the Riyadh region while extending its footprint to Jeddah, Tabuk and Madinah through the planned construction of new hospitals. Separately, HMG is also expanding its medical centers network to cover, Dammam, Buraidah and King Abdullah Economic City (KAEC) in Rabigh. Reportedly, HMG will account for almost 32% of the total expansion in the Saudi private healthcare sector under our coverage. We think this expansion gives the company good visibility on revenue growth over the medium term.

Table 18: Existing Facilities

Name	Start year	City	Ownership	Clinics	Beds
Olaya Medical Complex	1995	Riyadh	100%	203	260
Dubai Hospital & Medical Centre*	2007	Dubai	100%	119	151
Qassim Hospital	2009	Buraidah	100%	85	172
Rayan Hospital	2010	Riyadh	100%	235	349
Universal Medical Centre**	2011	Bahrain	na	na	na
Al Gharb Takhassusi Hospital	2012	Riyadh	100%	179	218
Suwaidi Hospital	2016	Riyadh	100%	243	305
Khobar Hospital	2019	Al Khobar	100%	307	458
Medical Centre - Diplomatic Quarter (Al Safarat)	2021	Riyadh	100%		na
Medical Centres in Digital City, Al Narjis & Ghadeer District.	2023	Riyadh	100%		na
Total (end 2023)					**1,913**
Southwest Jeddah Hospital	Mar-24	Jeddah	50%	245	330
Qassim Hospital (clinics expansion)	Mar-24	Buraidah	100%	34	
Shamal Al Riyadh (North Riyadh) Hospital	Jun-24	Riyadh	100%	300	500
Total (end 1H24)				**1,950**	**2,743**

*Upgraded to include hospital facilities in 2015 ** (O&M with Arabian Gulf University)

Riyadh remains the core market for HMG with 59% of its bed capacity located in the city, as of end 2023. Given its dominant presence, HMG accounted for 18% market share (by beds) in Riyadh amongst all private sector hospitals. In June 2024, HMG further strengthened its footprint in Riyadh as it completed the North Riyadh Hospital, a 500-bed facility with 300 clinics.

Concurrently, 2024 marked HMG's entry in Jeddah by opening of the Southwest Jeddah Hospital in Mar-2024, a 330-bed facility with 245 clinics. Following the addition of the two hospitals in 1H24, bed capacity for HMG has increased by 43% (to 2,743 beds) and by 42% to 1,950 clinics. We expect the two new hospitals (Northwest Riyadh Hospital and Southwest Jeddah Hospital) to achieve 30% occupancy during their first year of operations before reaching optimal levels in the coming years. As a result, HMG's overall bed occupancy for the year is expected to decline to 70% (80% in 2023) as the new hospitals ramp up gradually.

HMG is also constructing its second hospital (Al Muhammadiyah Hospital) in North Jeddah which has a capacity of 350 beds and 270 clinics and is expected to be operational within 2024, bringing HMG's total bed capacity in Jeddah to 680. We expect the new hospital to contribute to profits from 2025 onwards, although as in other projects, we expect the hospital to achieve 30% occupancy in its first year of operations. We think there would be additional synergies between the two hospitals in Jeddah which means that the ramp up costs would potentially be lower with the second hospital.

[1]Share of total bed capacity in private hospitals in KSA

HMG has a significant pipeline of new healthcare facilities as detailed in the table below:

Table 19: HMG Expansion Pipeline

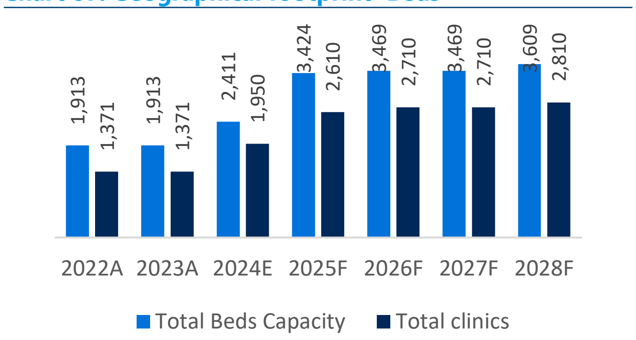
Name	Exp. Completion Date	City	Ownership	Beds
Women's Health Hospital	2024	Riyadh	100%	145
Sehat Al Kharj Hospital	2024	Kharj	100%	141
Al Muhammadiyah Hospital (North Jeddah Hospital)	2024	Jeddah	100%	350
Qassim Medical Center	2024	Buraidah	100%	N/A
KAEC Medical Center	2024	Rabigh	100%	N/A
Qassim Hospital – Expansion of Outpatient clinics	2024	Buraidah	100%	N/A
Al Hamra Hospital	2025	Riyadh	100%	90
Tabuk Hospital	2027	Tabuk	100%	140
Dammam Medical Centre	n/a	Dammam	100%	n/a
Jubail Industrial City Hospital (50 year land lease)	n/a	Jubail	n/a	n/a
Total				**866**

*Source: Company data, *200 beds operational beds*

We expect the added capacity to ideally place the company to benefit from the expected demand gap in the country. This comes based on demand generated from MoH transitioning towards a regulator's role, goals under Vision 2030 aiming towards increased private sector participation and increased insurance coverage together with the country's growing population and supportive population demographics. Consequently, we expect the almost doubling of its capacity to enable the company to achieve a revenue CAGR of 19% over 2023-2028. This is primarily driven by growth in patient volumes with conservative price increase estimates. We expect the highest YoY growth in 2025 as North Riyadh and Southwest Jeddah hospitals achieve higher ramp up along with contribution from the first year of operations from North Jeddah. The three hospitals together will add 1,180 beds along with 815 clinics for outpatients. Revenue is expected to grow 22% YoY in 2024 followed by 30% YoY in 2025 driving net income growth of 18% YoY and 25% YoY for 2024 and 2025, respectively.

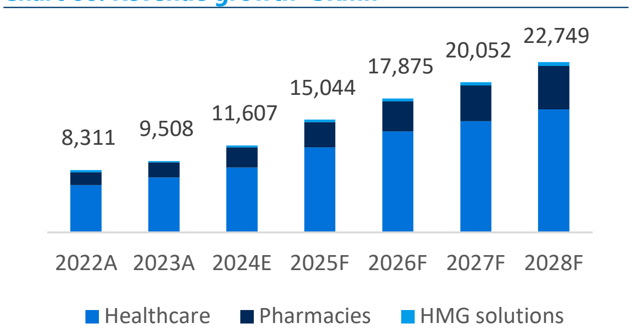
We think there could be further upside in our numbers from winning privatization and PPP deals from the government with more than 14 projects already in the pipeline while more than 100 PPP projects are expected over the next 5 years in the sector with $12.8bn in private investment. The Saudi government is placing more priority on mega sports and industry events such as the World Expo 2030 and Football World Cup bid. This could create demand tailwinds from additional tourists as well as acceleration on development works in new neighborhoods.

Chart 87: Geographical footprint- Beds



Source: Company Financials and anbc research

Chart 88: Revenue growth- SRmn



Source: Company Financials and anbc research

Table 20: Revenue Model

	2022A	2023A	2024E	2025F	2026F	2027F	2028F
Beds	1,913	1,913	3,379	3,469	3,469	3,609	3,609
Growth	0%	0%	77%	3%	0%	4%	0%
Clinics	1,371	1,371	1,950	2,610	2,710	2,710	2,810
Growth	0%	0%	42%	34%	4%	0%	4%
Patients	5,300,000	6,200,000	6,977,989	8,735,850	9,815,914	10,961,488	12,243,371
Growth	20%	17%	13%	25%	12%	12%	12%
Revenue/Patient	1,188	1,180	1,241	1,296	1,372	1,354	1,341
Growth	-6%	-1%	5%	4%	6%	-1%	-1%
Healthcare Revenues (SR mn)	6,298	7,318	8,658	11,323	13,469	14,840	16,422
Growth	13%	16%	18%	31%	19%	10%	11%
Number of Pharmacies	19	24	28	31	32	33	35
Growth	12%	26%	17%	11%	3%	3%	6%
Revenue Per Pharmacy (SR mn)	91	83	95	110	126	145	167
Growth	14%	-9%	15%	15%	15%	15%	15%
Pharmacy Revenues (SR mn)	1,724	1,991	2,671	3,401	4,037	4,788	5,840
Growth	27%	15%	34%	27%	19%	19%	22%
HMG Solutions (SR mn)	289	199	279	320	368	424	487
Growth	-6%	-31%	40%	15%	15%	15%	15%
Total Revenues (SR mn)	**8,311**	**9,508**	**11,607**	**15,044**	**17,875**	**20,052**	**22,749**
Growth	**15%**	**14%**	**22%**	**30%**	**19%**	**12%**	**13%**

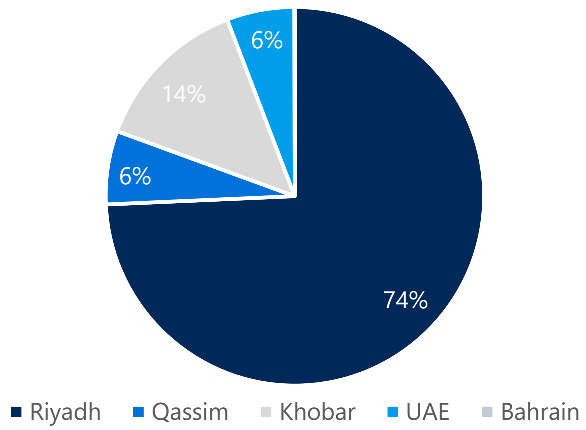
Source: Company Financials and anbc research

Strong foothold in Riyadh, expanding into underpenetrated markets

The second key reason for our preference for HMG is that its geographical exposure and also the expansion plans are in areas which have the most favorable demand-supply gap. Firstly, perhaps one of the key enablers of HMG's success was that it had focused on Riyadh, which has been the fastest growing city in the Kingdom. As of end 2023, the city accounted for 59% of the company's current bed capacity and 74% of its 2023 revenue was derived from the Central Geographic region (Riyadh). Although, the overall hospital bed capacity in Riyadh is high (25.0 per 10,000 people, slightly higher than the national average of 24.9) the company's recent addition in North Riyadh (Sahafa District) is in a relatively under penetrated neighborhood. However, MEH, Fakeeh and Hammadi all have medical facilities in close proximity.

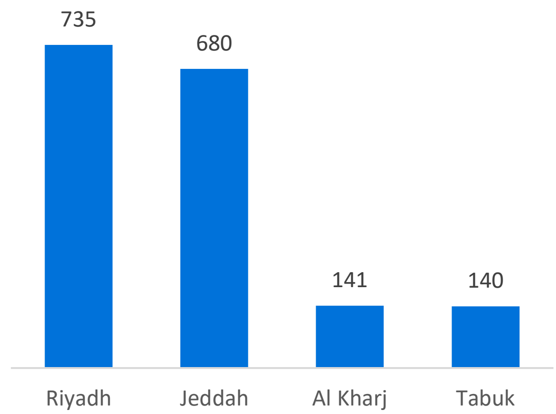
The company plans to further solidify its position in Riyadh with the addition of 735 beds post 2023 followed by the addition of 680 beds in Jeddah, a growing market where the company did not have a presence prior to 2024.

Chart 89: Revenue breakdown by geography



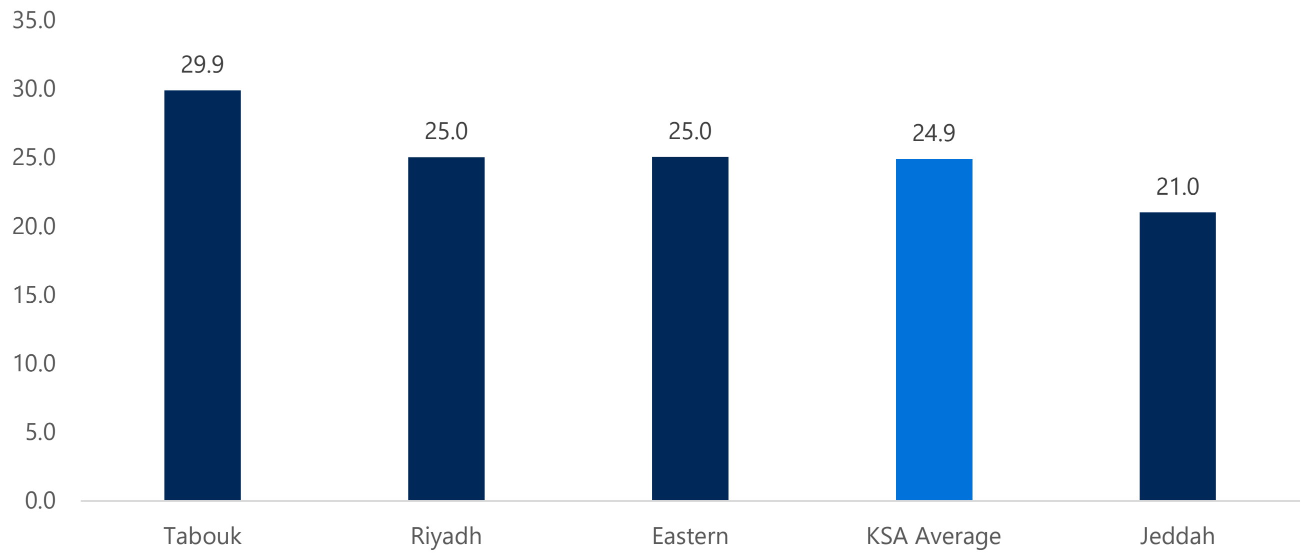
Source: Company Financials and ANB Calculations

Chart 90: Capacity addition by geography- Beds



Source: Company Financials and ANB Calculations

Chart 91: Regional hospital bed density (Beds per 10,000 people)



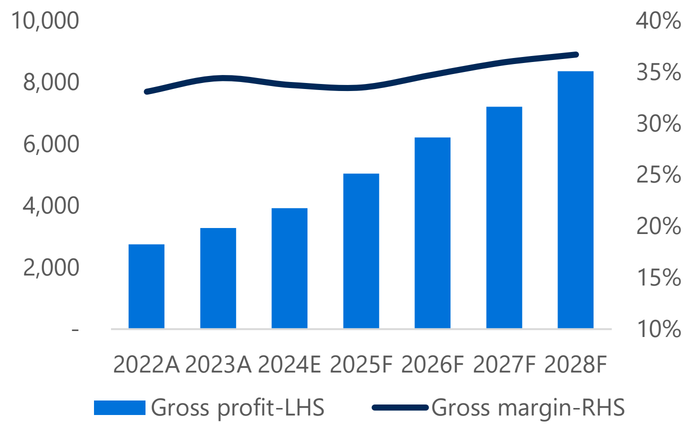
Source: Company Financials and ANB Calculations

Secondly, the additional expansion in Jeddah should provide exposure to an underpenetrated market. The city has a lower bed concentration (21.0 beds per 10,000 people) compared to Riyadh (25.0 beds/10,000) as well as country average (24.9 beds/10,000). Jeddah would further benefit from growth in religious tourists as well as due to attractions such as the Downtown development program.

Until 2023, the company did not have a presence in Jeddah. We expect inpatient revenue contribution from the city to climb up to 18% by 2028 as new capacity comes online. On the supply side, the competition still is relatively less intense. The key competitors in this market are Fakeeh, MEH, IMC, and Kings College.

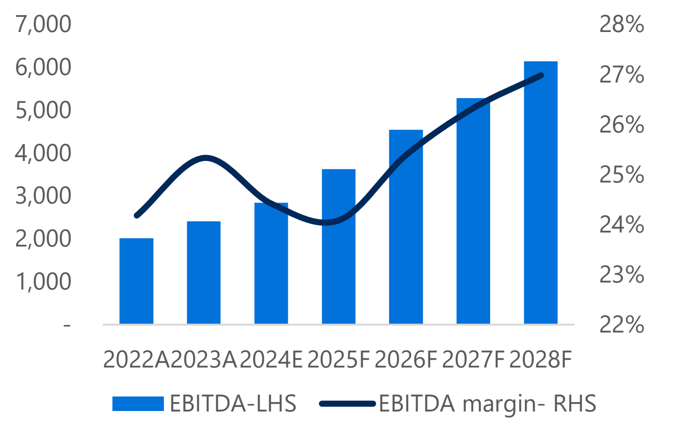
We think favorable demand-supply gap means that there would stable pricing and also room to increase pricing by focusing on more complex treatments. We think the goodwill of HMG's brand will help it attract A/Premium customers in the new markets as well. We think this would help HMG enhance its profitability margins and drive faster growth in earnings.

Chart 92: Gross Margin



Source: Company Financials and anbc research

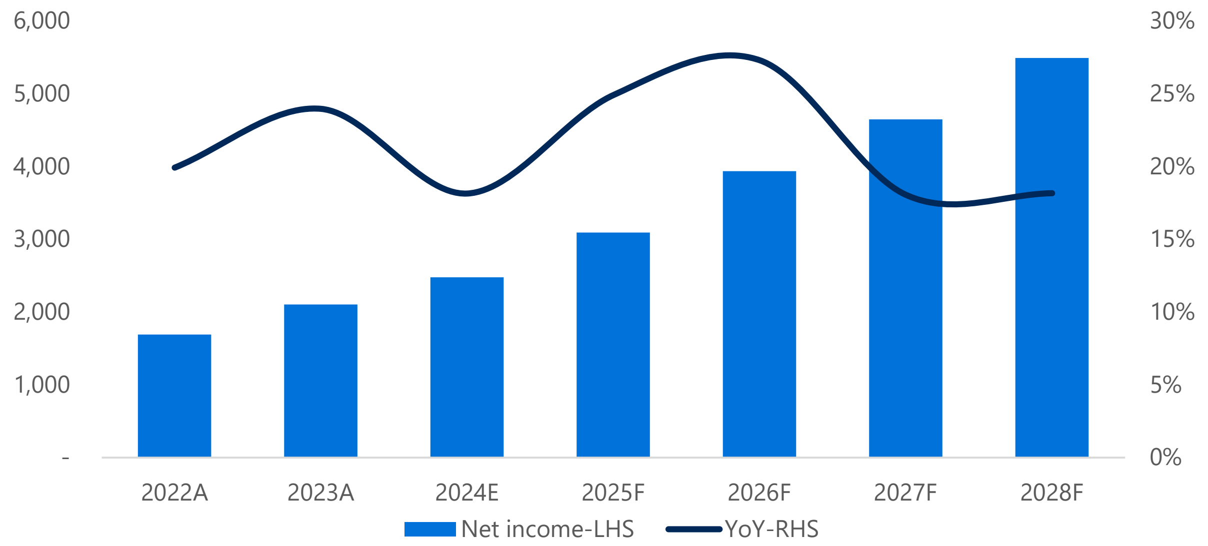
Chart 93: EBITDA Margin



Source: Company Financials and anbc research

We estimate 21% annualized growth in earnings over 2023-2028.

Chart 94: Net profit growth



Source: Company Financials and anbc research

HMG Solutions can benefit from sector wide digitization efforts.

HMG operates an award-winning health information system called VIDA, which had been implemented in 57 healthcare facilities in Saudi Arabia by end 2023, including 45 Ministry of Health (MoH) facilities. VIDA maintains electronic records of patients and helps in managing medical procedures, diagnostics and analysis. This is a cloud-based system which has achieved HIMSS (Healthcare Information and Management System Society) stage 7 accreditation. HMG's management has also developed a strong tele-medicine product portfolio, which includes solutions for treating heart attacks remotely, real time monitoring of ICU cases and providing remote patient care services.

While HMG Solutions accounts for only c2% of 2023 total revenue, HMG Solutions provides HMG a platform to benefit from any government initiatives to bring efficiencies in the healthcare through digitization and technology.

An industry leader on most financial metrics.

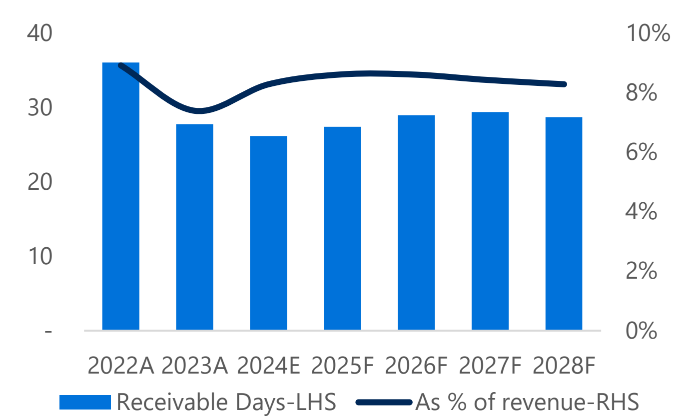
HMG has managed to position itself as the largest private healthcare operator in the listed space without compromising on its return metrics. The company standards out on most key performance indicators and financial ratios, which is reflective of its strong quality, which we think is the key reason why the market is willing to give a premium valuation to the stock.

ROE: Although the company has a relatively higher Debt-Equity ratio due to ongoing expansion projects, the company stands out as best-in-class in terms of ROE and second best in terms of ROA following Mouwasat (average ROE and ROA for past 5 years). ROE over the past 5 years has averaged around 26% which is much superior to the average of around 14% for its peers during the same period. Similarly, ROA over the past 5 years has averaged around 13% vs an average of 8% for its peers during the same period, only second to Mouwasat at 14%.

The company has continued to build on its leading position over the years where in 2023 the company posted an impressive ROE of ~33% and ROA of ~14%. This is significantly higher than the 2023 average ROE and ROA of ~16% (more than double) and ~10%, respectively. We expect the company to continue to deliver a solid ROE of ~35% and ~40% in 2024 and 2025, respectively, eventually crossing the 45% mark by 2026.

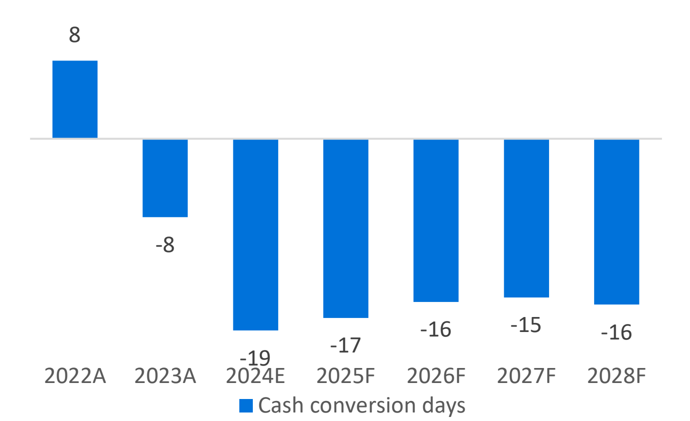
Cash flow conversion cycle: Higher exposure to insurance clients and more efficient revenue cycle management has helped the company in maintaining an efficient cash conversion cycle with the lowest receivable days vs its peers in the listed space. The company's cash conversion cycle turned negative in 2023 at -8 days. Insurance clients make up for 73% of the company revenue while government clients account for a minimal 2%. Average net receivable days over the past 5 years stands at 57 days vs peer average of 153 days for the same period. The company has managed to reduce the same year after year from 103 days in 2019 to 28 days in 2023.

Chart 95: Accounts Receivables



Source: Company Financials and anbc research

Chart 96: Cash Flow Conversion Days



Source: Company Financials and anbc research

Valuation

We have used a Discounted Cash Flow (DCF) model to value HMG, with a cost of equity of 9.7% and a weighted average cost of capital of 7.9%. Our target price of SR341/share values the company at a 2025e P/E of 40x. We have an Overweight rating on the stock as we think the current valuations of 2025e P/E of 40x don't fully reflect the potential valuation gains coming from the expansion driven earnings growth. Earnings are estimated to grow at a CAGR of 21% over the next five years with further ROE expansion. HMG premium valuation reflects its aggressive, strategic and timely expansion plans backed by its solid track record in Riyadh along with superior ROE delivery and low liquidity risks.

Table 21: ANB estimates vs consensus

	ANB Est 2024E	Consensus 2024E	Delta	ANB Est 2025E	Consensus 2025E	Delta	ANB Est 2026E	Consensus 2026E	Delta
Revenue	11,607	10,969	6%	15,044	13,253	14%	17,875	15,504	15%
Gross Margin	33.7%	33.8%	-0.1%	33.5%	33.8%	-0.3%	34.7%	34.5%	0.2%
EBITDA	2,834	2790	2%	3,623	3429	6%	4,538	4222	7%
EBITDA Margin	24.4%	25.4%	-1.0%	24.1%	25.9%	-1.8%	25.4%	27.2%	-1.8%
Net Income	2,417	2,262	7%	3,019	2,740	10%	3,843	3,348	15%
EPS	6.91	6.31	9%	8.63	7.4	17%	10.98	9.38	17%

Source: Bloomberg and anbc research

Table 22: Valuation Table

HMG Discounted Cash Flow (DCF)		2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBITDA		2,834	3,623	4,538	5,279	6,138	6,909	7,435	8,009
Zakat		(81)	(101)	(128)	(151)	(179)	(203)	(220)	(238)
Change in working capital		(53)	(51)	(39)	(4)	(7)	23	64	70
CAPEX		(4,172)	(2,495)	(1,681)	(478)	(491)	(504)	(517)	(531)
Free cash flow (FCF)		**(1,472)**	**977**	**2,689**	**4,645**	**5,461**	**6,225**	**6,762**	**7,310**
Terminal value						-	-	-	171,061
PV of FCF		(1,472)	905	2,309	3,696	4,025	4,252	4,280	4,287
PV of terminal value		-	-	-	-	-	-	-	100,314
WACC	*7.9%*								
Terminal growth	*3.5%*								
Enterprise value	**122,594**								
Debt	5,943								
Cash	2,620								
NCI	309								
Investments	498								
Equity value	**119,461**								
No. of shares	350								
TP	**341**								
Current price	291								
Upside	***17.3%***								
D/Y	*1.7%*								
Total return	***19.0%***								

Source: Company Financials and anbc research

Table 23: Valuation Sensitivity

		WACC				
		6.9%	7.4%	7.9%	8.4%	8.9%
Terminal growth rate	3.00%	401	351	311	278	252
	3.50%	453	390	**341**	303	271
	4.00%	523	441	379	332	294
	4.50%	622	509	429	369	323

Source: Company Financials and anbc research

Company Overview

Dr. Sulaiman Al Habib Medical Services Group (HMG) is a diversified healthcare provider with 25 medical facilities, 24 pharmacies with more than 60+ subspecialties, 3,500+ physicians and a staff of over 17k catering to more than 6mn patients per annum. The company was formed in 1995 as Olaya Medical Complex in Riyadh. It expanded to Dubai in 2007 and opened Dubai Medical Center with 80 clinics. Since then, it has opened additional hospitals such as Mustaqbal Hospital Riyadh (2008), Qassim Hospital (2009), Rayyan Hospital in 2010, Takhasussi Hospital in Riyadh 2012, Suweidi Hospital in 2016 and Khobar Hospital in 2019. In 2011 it took over operations and management of a hospital in Bahrain. Moreover, the company also has an O&M contract for the NEOM Community Clinics from 2020. The company was listed on Tadawul in Mar-2020. It operates in 3 main segments namely Healthcare, Pharmacies and HMG Solutions. The company is the Kingdom's largest private healthcare operator with a total bed capacity of 1,913 as of 2023 which the company plans to expand aggressively with 8 new hospitals and 2 new medical centers. This translates into a 2.4% market share of KSA's healthcare sector by number of bed capacity and 11% share of the private sector.

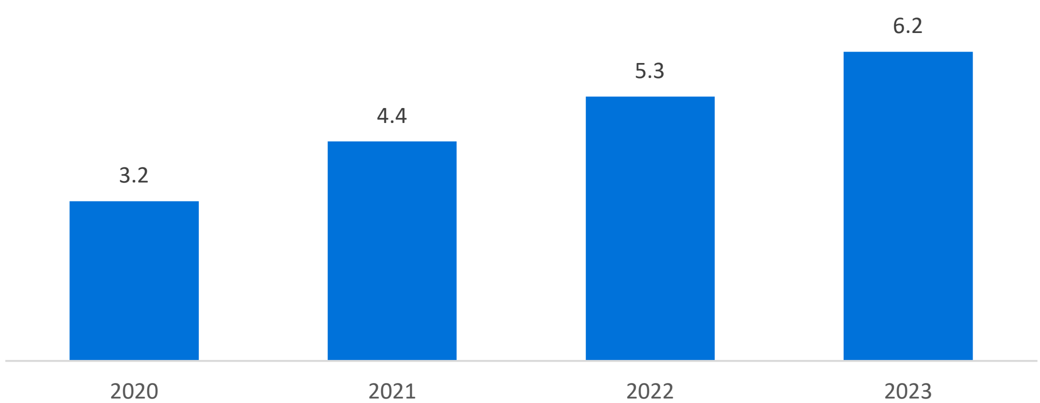
Table 24: HMG in a snapshot (as of end 2023)

Medical Facilities	25
Hospitals	7
Medical centres	4
Pharmacies	24
Physicians	3,500+
Beds	1,913
Staff	17,000+
Upcoming Projects	
Hospitals	9
Medical Centres	3

Source: Company Data

The company's current network spreads across Riyadh, Khobar, Buraydah (Qassim) and Dubai. The hospital in Khobar had the highest capacity up until the recent addition of North Riyadh Hospital in Riyadh. Operations are concentrated in Riyadh with 4 out of the 8 hospitals located in the city, accounting for 59% of total capacity. However, entry into new markets post 2023, especially in Jeddah, is expected to dilute the share of beds in Riyadh down to 52% of total capacity by 2028.

Chart 97: Growth in number of patients (mn)

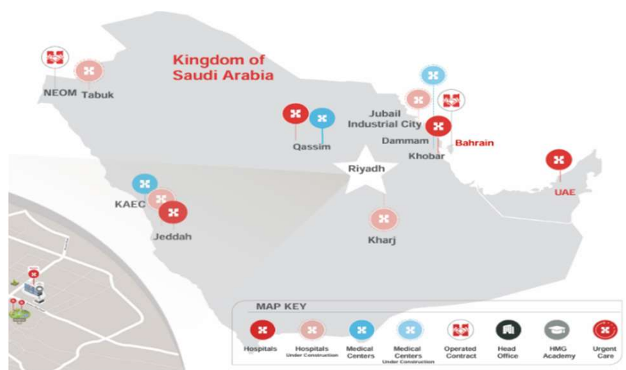


Source: Company Financials and anbc research

Chart 98: Geographical footprint in Riyadh

Source: Company Financials and anbc research

Chart 99: Geographical footprint

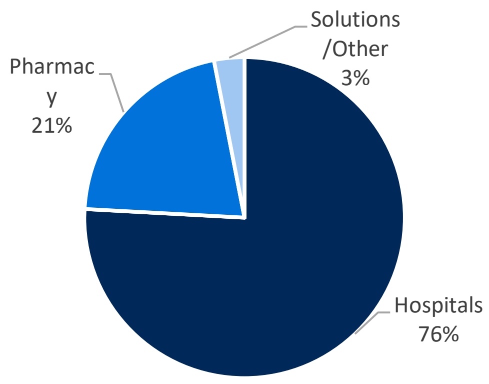


Source: Company Financials and anbc research

6.4.1. Financial Overview:

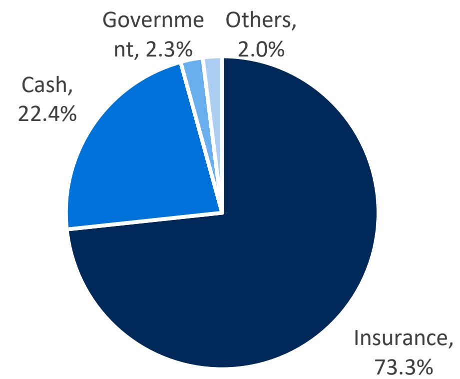
HMG has three business segments; Healthcare segment accounts for the majority of the revenue (76% of total, 35.9% gross margins in 2Q24) followed by the Pharmacy segment (24 pharmacies, 21% of total revenues, 29.5% gross margins in 2Q24) and HMG Solutions (c3% of total revenues, 22.5% gross margins in 2Q24). Over the last three years (2021-2023), revenues of the Healthcare segment have increased at a CAGR of 14.5%, Pharmacy revenues have grown at a CAGR of 21.2% while HMG Solutions revenues have declined (CAGR of -19.7%).

Chart 100: Revenue by segments (2Q24)



Source: Company Financials and anbc research

Chart 101: Revenue by clients (2023)



Source: Company Financials and anbc research

In terms of customers, insurance customers account for 73% of total revenue followed by 22% cash customers and 2% government customers. Insurance's share of total revenues has been consistently increasing, while the contribution from government customers has declined. In 2018, 5% of the revenues came from the government. An important strength of HMG is that while most patients use insurance channels to pay, they have direct loyalty to HMG and are repeat customers.

HMG Solutions includes Cloud Solutions (one of the top health tech companies in the Kingdom which provides network infrastructure and solutions for digital transformation in the healthcare sector), MD Labs (network of 19 medical diagnostics laboratories), Home Healthcare Company, Flow Medical Company (IT management services company which provides integrated medical technology management and turnkey solutions), and Taswyat Management Company (manages tasks such as insurance contracting, setting prices, mapping services, appointment scheduling, billing management etc.). We think HMG's technology product portfolio and skillset has helped it in achieving superior efficiency and aided in its expansion execution.

Table 25: Financial Statements

Dr. Sulaiman Al Habib Medical Services Group (HMG)								
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Revenue	SR mn	8,311	9,508	11,607	15,044	17,875	20,052	22,749
Gross profit	SR mn	**2,748**	**3,270**	**3,917**	**5,039**	**6,210**	**7,205**	**8,349**
Selling & distribution expenses	SR mn	325	403	519	617	733	863	1,011
General &admin	SR mn	723	772	912	1,219	1,405	1,552	1,701
Operating profit	SR mn	**1,700**	**2,096**	**2,486**	**3,202**	**4,071**	**4,790**	**5,638**
Depreciation	SR mn	309	313	348	421	466	490	500
EBITDA	SR mn	**2,010**	**2,408**	**2,834**	**3,623**	**4,538**	**5,279**	**6,138**
Share in income of associates	SR mn	20	22	23	24	26	27	28
Finance cost	SR mn	49	70	95	104	98	78	56
Other income	SR mn	126	122	140	67	61	55	54
Profit before zakat	SR mn	**1,797**	**2,170**	**2,554**	**3,190**	**4,060**	**4,793**	**5,664**
Profit after zakat	SR mn	**1,689**	**2,101**	**2,473**	**3,089**	**3,932**	**4,642**	**5,485**
NCI	SR mn	38	55	56	70	89	105	124
Profit after tax-holding company	SR mn	**1,651**	**2,046**	**2,417**	**3,019**	**3,843**	**4,537**	**5,361**
EPS	SR/share	**4.72**	**5.85**	**6.91**	**8.63**	**10.98**	**12.96**	**15.32**
DPS, net	SR/share	3.48	4.32	5.00	6.25	8.00	9.50	11.25
Balance sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Cash&equivalents	SR mn	2,747	2,620	544	400	158	369	811
Accounts receivable	SR mn	742	703	962	1,296	1,539	1,689	1,886
Prepayments and other assets	SR mn	181	271	271	271	271	271	271
Inventories	SR mn	490	543	737	959	1,119	1,232	1,381
Current assets	SR mn	**4,160**	**4,138**	**2,514**	**2,927**	**3,087**	**3,561**	**4,350**
Investment in associates	SR mn	187	198	207	218	229	240	252
Investments in equity instruments-	SR mn	300	300	300	300	300	300	300
PPE	SR mn	7,937	11,163	14,987	17,061	18,276	18,264	18,256
Non-current assets	SR mn	**8,424**	**11,660**	**15,494**	**17,579**	**18,804**	**18,804**	**18,808**
Total assets	SR mn	**12,584**	**15,798**	**18,009**	**20,506**	**21,891**	**22,365**	**23,157**
Current portion of long term loans	SR mn	168	96	377	1,081	1,077	1,074	1,065
Accounts payable	SR mn	961	1,280	1,680	2,186	2,549	2,807	3,146
Accruals and other liabilities	SR mn	1,247	1,703	1,703	1,703	1,703	1,703	1,703
Current portion of lease liabilities	SR mn	44	42	42	42	42	42	42
Current liabilities	SR mn	**2,590**	**3,299**	**3,980**	**5,190**	**5,548**	**5,803**	**6,134**
Long term loans	SR mn	3,033	4,810	5,655	6,074	5,997	4,923	3,858
Lease liabilities	SR mn	277	235	197	164	136	112	91
Employee benefit obligations	SR mn	518	633	633	633	633	633	633
Non-current liabilities	SR mn	**3,888**	**5,733**	**6,539**	**6,925**	**6,820**	**5,722**	**4,636**
Total liabilities	SR mn	**6,478**	**9,032**	**10,519**	**12,115**	**12,368**	**11,525**	**10,770**
Issued and paid-up capital	SR mn	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Statutory reserve	SR mn	876	1,050	1,050	1,050	1,050	1,050	1,050
Retained earnings	SR mn	1,503	1,935	2,603	3,434	4,478	5,689	7,113
Equity attributable to equity holde	SR mn	**5,879**	**6,485**	**7,153**	**7,984**	**9,028**	**10,239**	**11,663**
NCI	SR mn	227	281	337	407	495	600	725
Total equity	SR mn	**6,106**	**6,766**	**7,489**	**8,391**	**9,523**	**10,840**	**12,387**
Total liabilities and equity	SR mn	**12,584**	**15,798**	**18,009**	**20,506**	**21,891**	**22,365**	**23,157**
Cash flow statement		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Adjusted net income	SR mn	2,469	2,923	2,821	3,510	4,399	5,131	5,984
Accounts receivables	SR mn	(40)	(202)	(259)	(334)	(243)	(149)	(197)
Accounts payable	SR mn	156	326	400	506	363	258	339
Net CFO	**SR mn**	**2,844**	**3,244**	**2,768**	**3,460**	**4,359**	**5,127**	**5,977**
Purchase of PPE	SR mn	(1,513)	(3,497)	(4,172)	(2,495)	(1,681)	(478)	(491)
Inestment in associate	SR mn	(126)	(3)	(10)	(10)	(11)	(11)	(12)
CFI	**SR mn**	**(1,939)**	**(3,487)**	**(4,182)**	**(2,506)**	**(1,692)**	**(490)**	**(503)**
Proceeds from term loans	SR mn	432	1,701	1,088	1,090	(110)	(1,101)	(1,095)
Dividend paid	SR mn	(1,138)	(1,435)	(1,750)	(2,188)	(2,800)	(3,325)	(3,938)
CFF	**SR mn**	**(801)**	**116**	**(662)**	**(1,097)**	**(2,910)**	**(4,426)**	**(5,032)**
Net cash flows	SR mn	103	(127)	(2,077)	(144)	(242)	211	442
Ending balance	**SR mn**	**2,747**	**2,620**	**544**	**400**	**158**	**369**	**811**

Source: Company Financials and anbc research