Saudi Healthcare Sector

21 October 2024

Bridging the gap via capacity ramp ups

We are initiating coverage on the Saudi healthcare sector with a positive outlook as we think the sector will continue to benefit from the demand-supply gap for healthcare services, favorable government policy, and capacity expansions by the private sector hospitals. We are Overweight on National Medical Care (Care), Dr. Sulaiman Al Habib Medical Services Group (HMG) and Fakeeh Care Group (Fakeeh) and are Neutral on Al Hammadi Holding (Hammadi), Mouwasat Medical Services Co. (Mouwasat) and Dallah Healthcare (Dallah).

INITIATION OF COVERAGE

The Saudi healthcare sector is one of the focus areas of Vision 2030 and is benefiting from the National Transformation Program. The reforms aim to improve the healthcare system's operational efficiency and increase private healthcare operators' participation. The demand for healthcare services is likely to remain robust due to 1) population growth, 2) a demographic shift to a higher ageing population cohort, 3) an increase in inbound tourism and 4) greater coverage of medical insurance mandated by new regulations. Private sector operators are also poised to benefit from the privatization of state-owned healthcare facilities, which currently account for around 77% of the sector's capacity by beds. Vision 2030 targets the private sector's share of bed capacity to be 68% by 2030 from 23% in 2023. Saudi Arabia needs more than 84,000 beds to reach capacity levels similar to those of OECD countries. The market acknowledges this structural growth potential as the Saudi Healthcare Index is up 63% over the last 3 years and 25% over the past 12 months.

Capacity expansion by the listed companies is the primary driver for earnings growth over the next 5 years. The seven listed healthcare companies, which collectively accounted for around 47% of the private sector capacity as of 2023, are expanding their aggregate bed capacity by 5,439 beds over 2023-2028. The highest addition is by HMG, followed by Fakeeh and Dallah. We are modelling a 19% CAGR in earnings for the six listed companies under our coverage over 2023-28E, driven by 81% increase in bed capacity.

The main risks are expansion delays, ramp-up costs and increased competition. We prefer companies with a strong brand and dominance in their core market/region. We think there could be competition for medical talent, leading to cost pressures. Over the medium term, we are concerned about competition in the premium segment in areas such as North Riyadh. We think patients would prefer hospitals with a stronger brand as well as those who offer specialized services. This implies that HMG in Riyadh, Fakeeh in Jeddah and Mouwasat in the Eastern Province could maintain superior returns in their core markets. Care's strategy of focusing on the B/B+ segment (middle income group, as defined by insurance categorization) and specializations such as mental health also seems like an attractive differentiation compared to peers.

Themes to look out in 2025 and beyond: DRG is a new performance-based billing system due to be implemented across the sector. Although no details have been shared but our understanding is that it is likely to impact healthcare entities with a higher proportion of inpatient revenues and those undertaking complex procedures. One potential upside for the sector are plans by the MoH to privatize existing government medical facilities as it seeks to transition more towards the role of a regulator for the health care sector.

Stock Recommendations: We have used 3-stage DCF models as the valuation methodology for the stocks under coverage. We have Overweight recommendations on 1) Care, price target of SR231 (upside of 22%), 2) HMG, price target of SR341 (upside of 17%) and 3) Fakeeh, price target of SR68 (upside of 17%). We are Neutral on 3) Hammadi (Price target SR45, 11% upside), 5) Dallah (Price target: SR174, 10% upside) and 6) Mouwasat (Price target: SR104, 6% upside).

SECTOR COVERAGE

	Bloomberg Code	Rating	Target Price (SR)
Care	CARE AB	Overweight	231
HMG	SULAIMAN AB	Overweight	341
Fakeeh	FAKEEHCA AB	Overweight	68
Mouwasat	MOUWASAT AB	Neutral	104
Hammadi	ALHAMMADI AB	Neutral	45
Dallah	DALLAH AB	Neutral	174

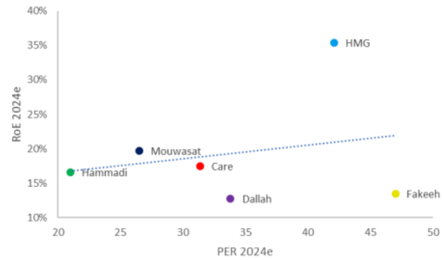
Source: Company financials and anbc research,

VALUATIONS (2024e)

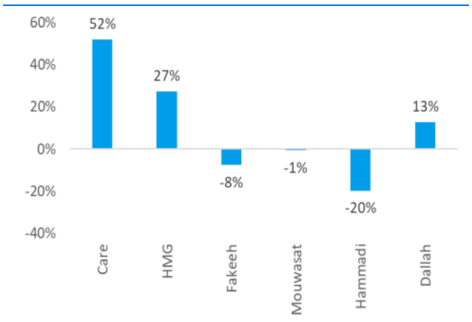
	Price* SR	PER (x)	PBV (x)	RoE (%)
Care	190	31.4	5.1	17.5
HMG	291	42.1	14.2	35.4
Fakeeh	58	47.0	4.6	13.5
Mouwasat	98	26.5	4.8	19.7
Hammadi	40	21.0	3.4	16.6
Dallah	158	33.8	4.2	12.8

Source: Company financials and anbc research
** last price as of 20th October 2024*

VALUATIONS P/E vs ROE- 2024e



12M PRICE PERFORMANCE



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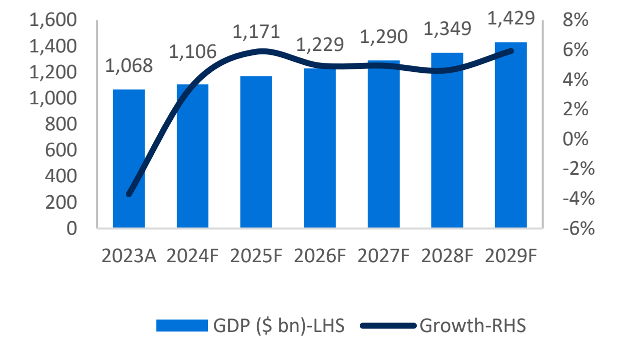
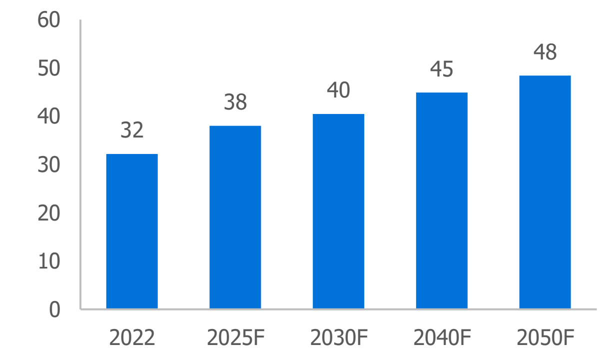


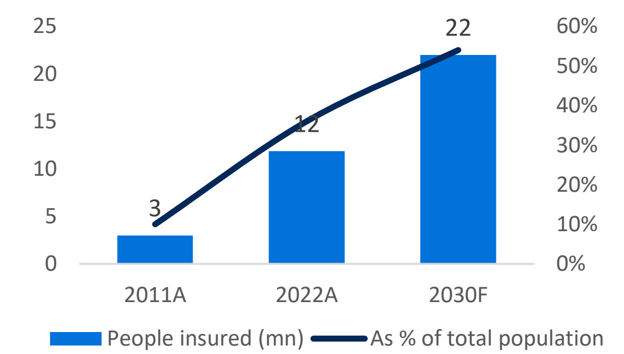
Source: IMF

Chart 2: Growth in KSA population (mn) will create demand for healthcare services



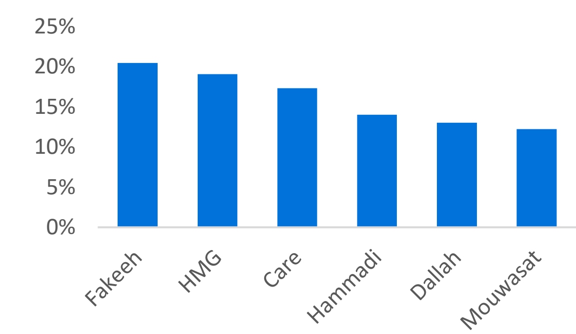
Source: World Bank

Chart 3: Favorable regulatory changes are supporting healthcare demand



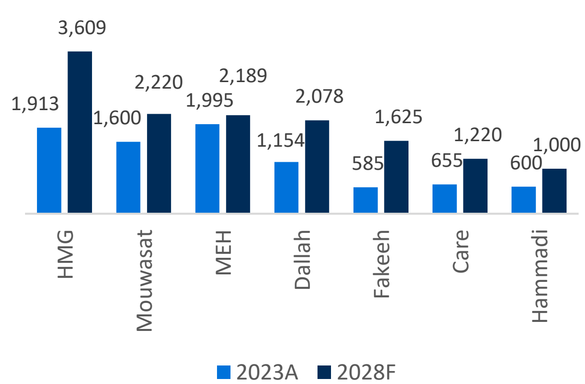
Source: MoH

Chart 4: Revenue growth for the healthcare operators (2023-28E) CAGR



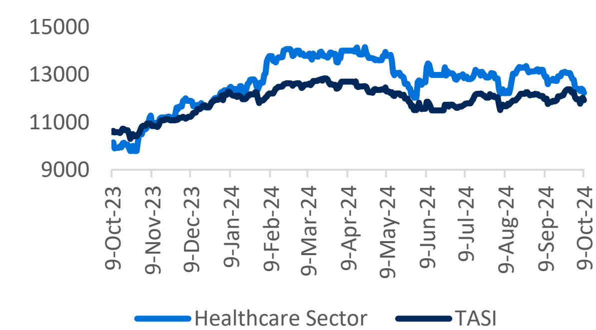
Source: Company data (historical only), anbc research estimates

Chart 5: Capacity* ramp ups in process to cater to growing demand



Source: Company data (historical only), anbc research estimates,
**excluding beds under O&M contracts*

Chart 6: Saudi healthcare sector stocks outperformed TASI by 9% over the past 12 months



Source: Bloomberg

Executive Summary

- **The Saudi Healthcare sector has outperformed TASI over the past three years.** The Saudi Healthcare Index on Tadawul, is up 60% over the past three years as the market has acknowledged the structural growth trends in and supportive regulatory tailwinds for the industry. There are multiple factors driving demand growth. Firstly, as the IMF wrote in its September 2024 KSA review statement, "Saudi Arabia's unprecedented economic transformation is progressing well, led by modernization and diversification efforts under Vision 2030". IMF in its most recent assessment, expects the Saudi non-oil economy to grow by 4.4% over the medium term. This growth in household income will support higher spending on wellness and healthcare. Secondly, the Saudi population is targeted to grow from around 32m in 2022 to over 40m by 2030 (+2.8% CAGR) driven by economic migration and longer life spans (Health Sector Transformation Program is targeting life expectancy to increase to over 80 years by 2025 from 78 years in 2023). Thirdly, the demographic profile is favorable as the number of people above 45 is expected to increase from 6m in 2022 to 14m by 2030. Fourthly, the government has launched initiatives to attract more tourists to the Kingdom (including visitors for religious tourism). The government is on track with its target of welcoming 150mn tourists annually by 2030 having already crossed the 100mn mark in 2023. Lastly, the government is targeting 100% coverage of the Saudi population by medical insurance. These factors are creating a demand-supply shortage for health facilities. Healthcare is a key focus area under Vision 2030, and the National Transformation Program for Healthcare aims to increase private sector participation in the sector (in terms of bed capacity) from its current level of 23% to 68% by 2030. To achieve this, an active privatization and public private partnership program is underway, with more than 14 projects by MoH in the pipeline. At present, the Kingdom has around 24.9 hospital beds per 10,000 people. If the Kingdom were to reach levels similar to the OECD average of 51, it would need more than 84,000 additional beds over the medium to long term. Consequently, healthcare sector operators have initiated a capex cycle to benefit from the very obvious demand drivers.
- **Capacity expansion provides good visibility for earnings growth over the medium term.** All the seven listed healthcare companies, which collectively account for 47% of the total private sector bed capacity, have announced expansion plans. Over 2023-28, the seven listed operators are expected to add more than 5,439 beds, an increase of 64% (81% excluding MEH). The highest addition is by HMG (+1,696 new beds over 2023-28), which will maintain its position as the largest private-sector healthcare operator. By 2028, HMG would account for 26% of the total private bed capacity provided by the listed companies. This will be followed by Fakeeh (+ 1,040 beds), and Dallah Healthcare (+924 beds). There has also been a pickup in M&A activity in the sector (Care's acquisition of Al Salam Medical Hospital, and Dallah's acquisition of Al Ahsa and Al Salam are pending). Besides organic expansion and acquisitions, the listed operators also participate in privatization and public-private partnership programs. Capacity expansion is the primary driver of earnings for the stocks under our coverage. We are modelling 17% CAGR in revenues over 2023-28 for our coverage universe and 19% CAGR in earnings.
- **Increased competition and ramp-up costs could lead to margin pressure.** While the upcoming capacity expansion is expected to be absorbed by the growth in demand, we are concerned about the competition for medical talent, which could lead to higher inflationary pressure on the costs. Also, ramp-up delays could lead to margin pressures, a key risk to near-term earnings estimates. Over the long term, there is also the risk of higher competitive intensity in the premium segment in regions such as North Riyadh, where a lot of new capacity is coming online such as HMG's recent 500-bed hospital and Dallah's hospital in Al Arid expected to come online in 2027. Due to this, we prefer operators with a stronger brand in their core markets. We think patients tend to be highly sticky and loyal, preferring hospitals with good past experiences. This puts HMG in Riyadh, Fakeeh in Jeddah and Mouwasat in the Eastern Province at a competitive advantage. We also like Care's strategic position as it specializes in areas such as mental health and occupational hazards and focuses on the B/B+ customer segment (middle income group, as per insurance pricing categorization).

- **Themes to look out in 2025 & Beyond: Diagnosis Related Group (DRG):** DRG is a patient classification system used for the purpose of streamlining inpatient billing. It can be defined as groups of patients categorized under DRG codes with similar clinical traits, such as age, gender, severity of treatment, medical complications among others, which incur similar expenses. The system is expected to be implemented in the sector in 2027 while shadow billing is to take place in 2025. Although no details have been shared but our understanding is that it is likely to impact healthcare entities with a higher proportion of inpatient revenues and those undertaking complex procedures. **MoH led Privatization and PPP:** One of the key goals of the Healthcare Sector Transformation Program (HSTP) is to enhance the participation of the private sector in healthcare expenditure from 20% to 60% by 2030. The government has launched a public-private partnership framework to facilitate this, with plans to privatize 290 hospitals and 2,300 primary health centers.
- **Key Risks:** The main risk to our estimates is from 1) expansion delays which could lead to lower capacity utilization levels 2) smaller operators could face stronger competitive headwinds from the likes of regional heavyweights such as HMG & Fakeeh. On the positive side, there could be further upside to the private sector from winning new privatization and PPP deals with more than 14 projects already in the pipeline, while as per the US International Trade Administration, more than 100 PPP projects are expected over the next 5 years in the sector with $12.8bn in private investment.
- **National Medical Care (Neutral, Price target: SR231, 22% upside from 20th Oct '24 market close):** Care has been the best-performing healthcare stock this year (+5% YTD), and we think there is still additional upside potential. Firstly, the Mental Health Clinic opening in 3Q24 and the completion of Al Salam Hospital acquisition are near-term catalysts that can drive earnings upgrades. Secondly, CARE's balance sheet strength (no net debt), provides dry powder for M&A, which could drive up to 25%-50% upside to 2024 EBITDA estimates. We also like Care's exposure to the mid-market in Riyadh, as most new capacity additions by the peers are in the premium segment. We estimate a 17% CAGR in revenues and a 21% CAGR in Net Profits over 2023-28
- **Dr. Sulaiman Al Habib Medical Services Group (Overweight, Price target: SR341, 17% upside from 20th Oct '24 market close):** HMG stands out in the sector due to its largest capacity, growth outlook, superior margins, and highest ROE. It is the closest to being a national champion in the industry, which is also reflected in the valuation premium (+12%). The company beat consensus expectations in 1H24, and our earnings estimates for 2024-26 are higher than consensus. We think its quality brand, technology platform, processes, and expansion experience have created a strong moat against the competition. Despite higher valuation, we believe the stock has further upside. We are modelling 19% CAGR in revenues and 21% CAGR in Net Profits over 2023-28.
- **Fakeeh Care Group (Overweight, Price target: SR68, 17% upside from 20th Oct '24 market close):** We like Fakeeh due to its strong brand and track record in Jeddah. Expansion in Riyadh and in Madinah will add 1040 additional beds (178% increase) over the next five years. We expect this to drive 20% CAGR in revenues and 23% CAGR in earnings over 2023-28. While near-term valuation looks expensive due to ramp-up costs, earlier than expected ramp-up of the Riyadh hospital could lead to further upside.
- **Al Hammadi Holding (Neutral, Price target: SR45, 11% upside from 20th Oct '24 market close):** Riyadh based Hammadi is adding 67% more capacity (400 beds) in Riyadh by opening two hospitals (Olaya and Narjis) and expanding at existing locations. We estimate this will drive a 14% CAGR in revenues and 12% in Net Profits over 2023-2028. We fear the premiumization strategy (moving from B/B+ patients to A/VIP) would create more direct competition over the medium term with the likes of HMG, Dallah and now Fakeeh who are also expanding capacity targetting the premium segment in the Riyadh market. While the stock looks cheap at 22x 2025 PE on consensus estimates, we think there are further risks of downgrades to consensus estimates.
- **Dallah Healthcare (Neutral, Price target: SR174, 10% upside from 20th Oct ’24 market close):** Dallah is increasing its operational bed capacity by 80% to 2,000+ beds by 2027 through a) opening of a new 250 bed hospital in Al Arid district of Riyadh and 100 bed expansion at Namar hospital, and b) acquiring two hospitals (Al Ahsa & Al Salam) in

the Eastern province with combined estimated capacity of 749 beds and operational capacity of 424 beds. We estimate this expansion would drive 13% CAGR in revenues and 18% in Net Profits over 2023-28. Gross margins are expected to face pressure in 2025 due to expansion related costs while net margins are expected to improve as Dallah's investment portfolio becomes profitable and drag from financial costs decreases with decline in interest rates. We are concerned about the increase in competition for the premium segment in Riyadh over the medium term. Dallah trades at a premium to the sector and we think the stock looks fairly valued at current multiples (30x 2025 PE). We expect earlier than expected ramp up in Al Salam and higher than expected profits from Al Ahsa to remain a key upside trigger to our investment thesis while higher than anticipated gross margin compression remains a key risk

- **Mouwasat Medical Services Co. (Neutral, Price target: SR104, 6% upside from 20th Oct '24 market close):** Mouwasat is the market leader in the Eastern Province and has the highest gross and EBITDA margins amongst the peers (from our coverage companies) and generates an attractive ROE of 22% (in 2023). Over the next five years, Mouwasat will increase its bed capacity by 39%, which we estimate will lead to a 12% CAGR in revenues. We are cautious about margins, as we think operating costs would be higher outside the Eastern region. Riyadh is a more expensive region in terms of cost of living and salaries compared to the Eastern region. We estimate an 13% CAGR in Net Profit over 2023-28. Our earnings estimates are lower than the consensus as we are more conservative regarding competitive intensity in Madinah and Riyadh

Table 1: Key Statistics

Company	Rating	PE		EV/EBITDA		Revenue growth	ROE
		2024E	2025E	2024E	2025E	2023-2028E	2024E
Care	Overweight	31.4	22.8	23.1	14.4	17%	18%
HMG	Overweight	42.1	33.7	37.1	29.0	19%	35%
Fakeeh	Overweight	47.0	39.1	24.4	18.1	20%	14%
Hammadi	Neutral	21.0	21.5	16.0	14.2	14%	17%
Mouwasat	Neutral	26.5	24.8	18.4	16.7	12%	20%
Dallah	Neutral	33.8	28.9	22.0	18.2	13%	13%

Source: anbc estimates

Table 2: Healthcare Providers Comparative Analysis

Company	PE			PS			PB			EV/EBITDA			EV/Sales		
	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F
Saudi Arabia															
Dallah	44.2	32.8	31.5	5.4	4.8	4.1	5.4	4.2	3.7	30.8	23.5	21.5	6.7	5.4	4.6
MEH	31.5	28.7	23.2	2.5	2.3	2.1	4.3	3.8	3.3	23.0	12.1	11.4	4.6	2.8	2.5
Mouwasat	28.0	26.6	22.9	7.4	6.6	5.8	5.9	5.3	4.8	25.1	19.0	16.6	9.6	6.9	6.0
Al Hammadi	20.3	22.4	21.7	5.3	5.6	5.1	3.6	3.3	3.2	23.9	17.4	17.6	8.9	6.5	6.1
HMG	48.4	45.8	39.9	10.7	9.4	7.8	15.5	14.1	12.5	42.6	40.5	32.8	10.8	10.3	8.7
CARE	34.9	25.8	23.8	7.5	6.0	5.1	5.6	4.8	4.2	29.0	21.7	18.4	8.3	6.3	5.3
FAKEEHCA	N/A	48.1	37.3	N/A	4.9	4.1	N/A	5.2	4.6	N/A	24.9	21.2	N/A	5.0	4.4
Average	**34.6**	**32.9**	**28.6**	**6.5**	**5.7**	**4.9**	**6.7**	**5.8**	**5.2**	**29.1**	**22.7**	**19.9**	**8.2**	**6.2**	**5.3**
Asia & Africa															
ASTER DM Healthcare Ltd	49.4	47.6	60.1	1.8	1.5	4.9	4.8	4.5	5.0	8.5	10.4	27.1	1.1	1.4	4.7
China Resources Medical Holdings Co Ltd	6.7	6.3	5.5	0.4	0.4	0.4	0.6	0.7	0.6	N/A	2.4	2.8	N/A	0.4	0.5
Raffles Medical Group Ltd	18.8	24.8	23.1	2.4	2.3	2.2	1.6	1.6	1.6	10.9	11.8	10.6	2.5	2.0	1.8
Apollo Hospitals Enterprise	118.9	108.3	68.6	6.0	5.3	4.5	15.6	14.4	12.2	32.0	36.1	33.4	N/A	4.5	4.7
Netcare Ltd	14.9	12.8	10.9	0.9	0.8	0.8	1.8	1.8	1.7	6.9	6.1	5.6	1.2	1.1	1.1
Life Healthcare Group Holdings Ltd	16.4	15.6	13.7	0.8	1.0	0.9	1.2	2.0	1.9	7.5	7.5	6.5	1.4	1.2	1.0
Bangkok Dusit Medical Services PCL	34.2	29.6	27.1	4.7	4.3	4.0	5.0	4.7	4.5	18.9	17.9	16.6	4.6	4.3	4.0
Bumrungrad Hospital PCL	31.2	28.7	27.0	8.6	8.0	7.5	9.3	7.9	6.9	19.9	19.4	18.1	7.5	7.6	7.0
Bangkok Chain Hospital PCL	31.7	31.1	26.8	3.9	3.8	3.5	3.6	3.5	3.3	19.5	15.7	13.9	4.8	3.8	3.5
Average	**35.8**	**33.9**	**29.2**	**3.3**	**3.1**	**3.2**	**4.9**	**4.6**	**4.2**	**15.5**	**14.1**	**15.0**	**3.3**	**2.9**	**3.1**
USA & Europe															
ACADIA Healthcare Co Inc	16.0	14.8	13.2	1.7	1.5	1.4	1.7	1.5	1.3	13.8	11.7	10.6	3.2	2.7	2.4
Universal Health Services Inc	20.7	14.8	13.3	1.1	1.0	1.0	2.7	2.4	2.1	8.8	9.2	8.5	1.1	1.3	1.2
HCA Healthcare Inc	21.3	18.5	16.7	1.7	1.5	1.4	N/A	N/A	78.5	9.5	10.4	9.9	1.8	2.1	2.0
Rhoen Klinikum AG	32.7	25.9	N/A	0.6	0.6	N/A	0.7	N/A	N/A	7.4	N/A	N/A	0.5	N/A	N/A
Average	**22.7**	**18.5**	**14.4**	**1.3**	**1.1**	**1.3**	**1.7**	**1.9**	**27.3**	**9.9**	**10.4**	**9.7**	**1.6**	**2.0**	**1.9**

Source: Bloomberg as of 20th October 2024

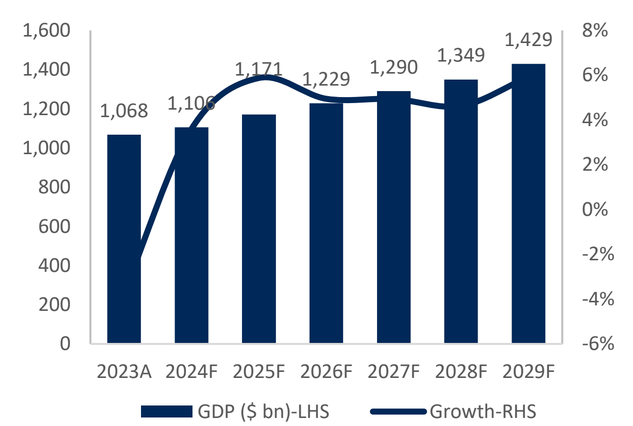
Saudi Healthcare Sector

Favorable macro setting

The Saudi economy is undergoing a remarkable transformation led by Saudi Vision 2030. There is growth momentum driven by stable oil revenues and the implementation of structural reforms aimed at diversification away from oil-based growth, fiscal discipline, increased investments and enhanced competitiveness.

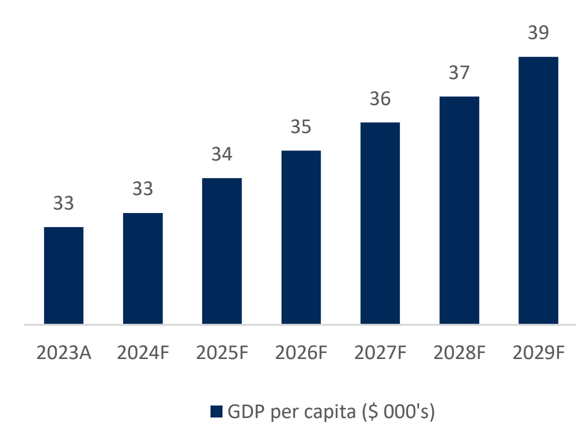
In 2022, Saudi Arabia was the fastest-growing economy among the G20 countries. GDP grew by 8.7% and crossed the $1 trillion level (SR4.16trn), driven by strong oil production and a robust 5.5% growth in non-oil GDP. In 2023, the Saudi GDP decreased by 0.8% due to a 9.0% decline in the oil sector driven primarily by production cuts under the OPEC+ production policy. Non-oil GDP (c50% of total GDP) increased by 4.4%, according to data published by GASTAT. The IMF expects the Saudi economy to grow by 1.7% in 2024 and 4.7% in 2025, driven by growth in both the oil and non-oil sectors.

Chart 7: KSA's Real GDP Growth



Source: IMF

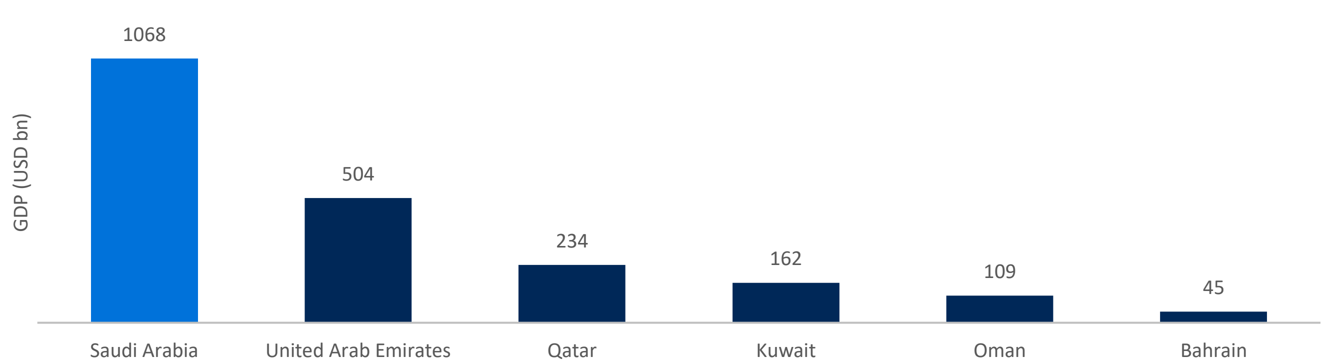
Chart 8: KSA's GDP Per Capita in $ "000"



Source: IMF

Saudi Arabia is the largest economy in the GCC, with a GDP per capita of around $33,000 (SAR123,920). According to the IMF, it accounts for 1.3% of the world's GDP based on purchasing power parity. The IMF expects the Saudi non-oil economy to grow by 3.5% in 2024, 4.4% in 2025 and maintain this growth rate of 4.4% over the medium term.

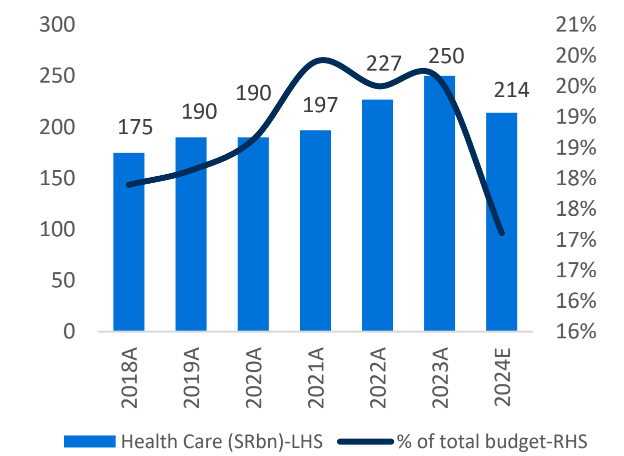
Chart 9: GDP of Gulf Countries – 2023



Source: IMF

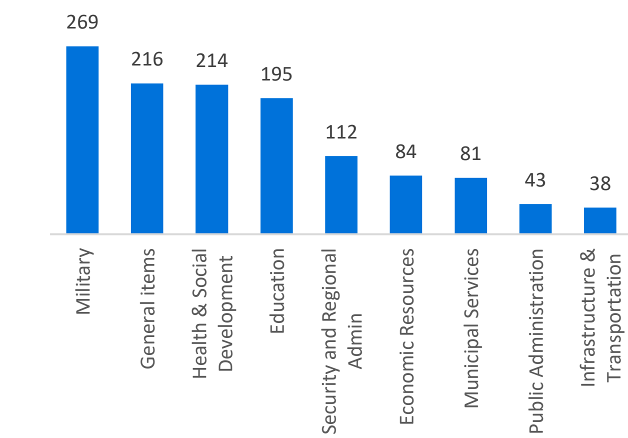
Healthcare is a priority sector for the government. The healthcare budget for 2024 was SR214bn ($57.1bn), or around 17% of the government's total expenditure in 2024. It has the third highest allocation after the Military (SR269bn) and General items (SR216bn). Public sector spending on healthcare is expected to increase at a CAGR of 4% over the 2020-2030 period, according to a report by JLL. The government is encouraging private sector investment in healthcare under its healthcare reform agenda. Private sector spending is expected to grow at a CAGR of 7% from SR68bn in 2022 to SR113bn in 2030, according to JLL's estimate.

Chart 10: Healthcare Expenditure as a % of Total Budget



Source: Budget Documents

Chart 10: 3rd Highest Budget spend-2024E



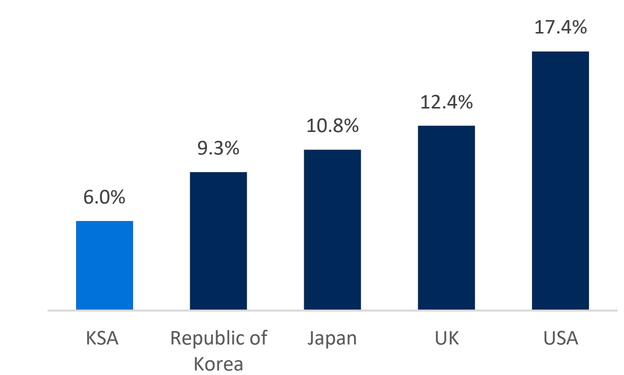
Source: Ministry of Finance, Saudi Budget 2024

Saudi healthcare spending accounts for 60% of total healthcare spending in the GCC region. In 2021, the per capita spending on healthcare in Saudi Arabia was around $3,030. We expect it to rise steadily to near the levels in developed countries approximating $4,000+.

Chart 11: Current Health Expenditure Per Capita in USD-2021

Source: World Bank

Chart 12: Healthcare Expenditure as % of GDP in 2021



Source: World Bank

Sector overview

The Saudi healthcare sector has three primary stakeholders:

1. The Ministry of Health (MoH): The MoH has the dual roles of (i) acting as regulator for healthcare activities and services in the Kingdom, and (ii) being the provider of healthcare services to the Saudi population through public hospitals.
2. Hospitals operated by quasi-government bodies such as the Military.
3. Private sector-operated hospitals, healthcare facilities and pharmacies.

As of 2023, Saudi Arabia had 499 hospitals and 80,072 hospital beds with the government being the largest operator in the healthcare sector. The MoH accounted for 59% of total hospital bed capacity while, quasi-government bodies, such as the Military, accounted for 18% of total bed capacity, and the private sector accounted for 23% of the total bed capacity. The MoH plays an outsized role because Saudi Arabia provides free healthcare for all its citizens. Under the Vision 2030 Health Sector Transformation Program (HSTP), the government is targeting to increase private sector participation in the healthcare sector. Privatization and public-private partnership programs have been launched to encourage greater private-sector investment.

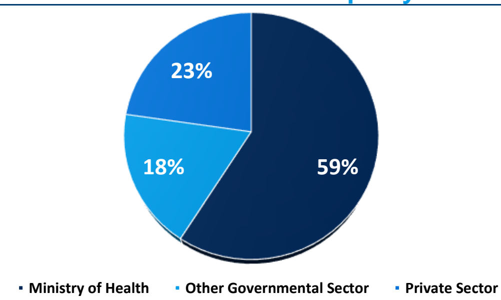
In line with the population concentration, Riyadh has the highest number of hospitals in the Kingdom, followed by Jeddah. The two cities accounted for 22% and 9% of the total hospital capacity in KSA, respectively, as of 2023.

Table 3: Total No. of Hospitals in KSA in 2023

Region	No. of Hospitals
Riyadh	109
Jeddah	46
Madinah	32
Makkah	18
Others	294
Total	**499**

Source: MoH

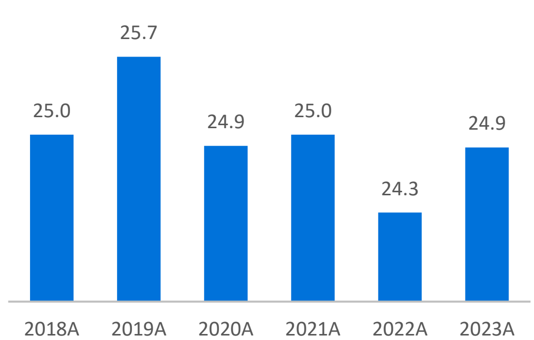
Chart 14: Healthcare sector bed capacity-2023



Source: MoH

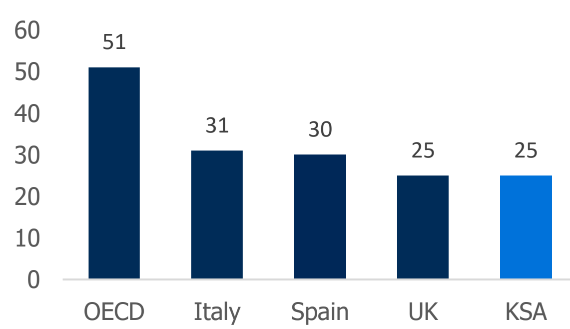
The total number of hospital beds in KSA increased at a CAGR of 1.3% from 2018 to 2023, while bed density remained stable at ~25 per ten thousand in 2023. Saudi Arabia still lags behind compared to other developed areas such as the OECD which averages at 51 beds per ten thousand. In order to reach the OECD average, it would need more than 84,000 additional beds over the medium to long term.

Chart 15: Beds/10,000 people in KSA



Source: MoH

Chart 16: Bed Density comparison - 2018



Source: World Bank

Table 4: Bed Density differs between regions– 2023

Regions	Total Population (mn)	MOH Beds	Other Governmental Sector Beds	Private Sector Beds	Total Beds	Rate/10,000 Population
Riyadh	8.59	9,107	6,040	6,345	21,492	25.0
Madinah	2.14	3,118	788	1,025	4,931	23.1
Jeddah	3.97	3,491	2,017	2,830	8,338	21.0
Makkah	2.68	2,694	187	703	3,584	13.4
Others	14.8	28,895	5,538	7,294	41,727	28.2
KSA	**32.2**	**47,305**	**14,570**	**18,197**	**80,072**	**24.9**

Source: MoH

We expect bed density to increase further as both the public and private sectors have announced new investments and capacity expansions. In the latest budget, the government has announced plans to build new hospitals across the Kingdom with 1,100 new hospital beds in 2024.

Under the HSTP, the government targets a bed density of 27 per 10,000 people by 2030. Within Saudi Arabia, Riyadh has a bed density of 25.0 per 10,000, while Jeddah has 21.0 beds per 10,000 people and Makkah has the lowest bed density at 13.4 per 10,000 people, implying ample room for capacity expansion and growth in Western Province.

Demand drivers for the healthcare sector

In our opinion, the demand for the healthcare sector will remain robust and driven by multiple structural drivers which include:

1. Population growth and changing demographic profile.
2. Regulatory catalysts such as the requirement for healthcare insurance.
3. Increased private sector contribution and PPP led growth driven by the HSTP under Vision 2030.

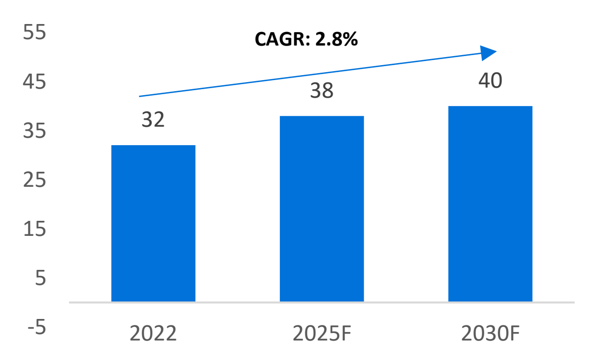
Demand driver # 1: Population growth and changing demographic profile

According to the 2022 census, Saudi Arabia had a population of around 32.2m, with a median age of 29, 60% under 30, and 58% being Saudi nationals. The population of Saudi Arabia grew at a CAGR of 2.5% over 2010-22.

As per the Vision 2030 targets, the population in the Kingdom is expected to exceed 40mn by 2030 (+2.8% CAGR over 2022-2030), with Riyadh central to this growth plan. Riyadh's population is targeted to increase from around 8mn in 2022 to 10mn by 2030, implying a CAGR of 3.6%. According to the 2023 annual report for Saudi Vision 2030, more than 200 international companies were licensed to establish their regional headquarters in Riyadh in 2023.

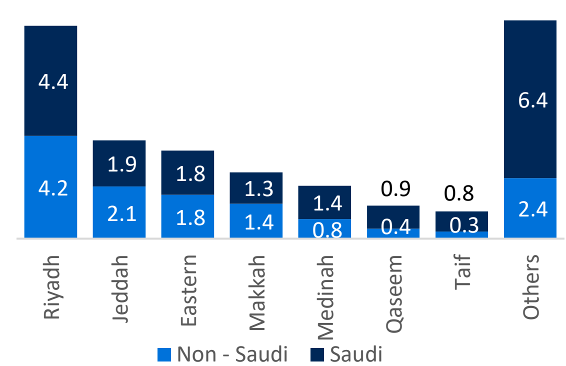
In our view, apart from the increase in domestic population, the influx of new expatriates as economic activity picks up further, improvements in life expectancy and declines in mortality rate will be key drivers for healthcare demand. Non-Saudis are not covered by public hospitals, and the increase in the expatriate population would be a key demand driver for private-sector healthcare.

Chart 13: KSA's Population Forecast in mn



Source: World Bank

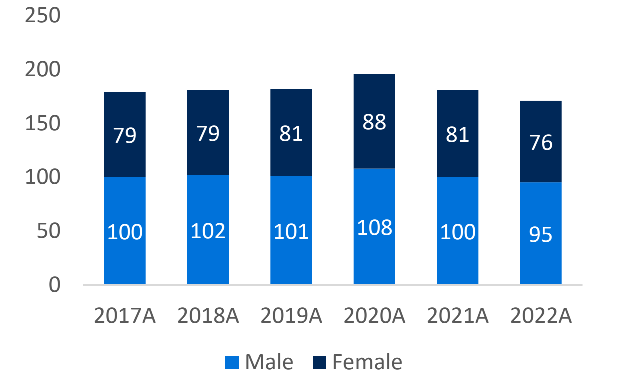
Chart 18: Region wise Population in mn - 2022



Source: MoH

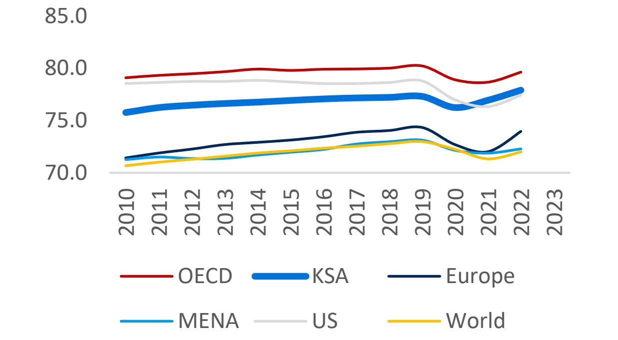
Over the last twenty years there have been steady declines in birth and mortality rates accompanied by improvements in life expectancy. This has been driven by better lifestyle choices and advancements in healthcare facilities.

Chart 19: KSA's Mortality Rate (per 1,000 Adult)



Source: World Bank

Chart 20: Life expectancy at birth- (years)



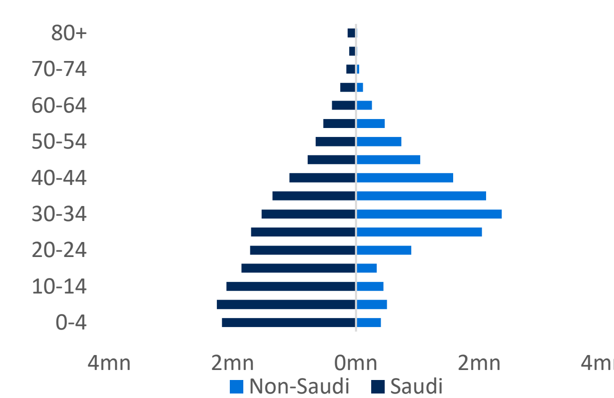
Source: World Bank

Some key statistics show that:

- Life expectancy rose from 75.8 years in 2010 to 77.3 in 2019 before dropping to 76.2 years in 2020 due to the Covid-19 pandemic. Subsequently, life expectancy improved to 77.9 years in 2022.
- According to the targets of the Health Sector Transformation Program, life expectancy at birth for both genders is targeted to reach 80 years by 2030. Consequently, the median age is also gradually increasing.

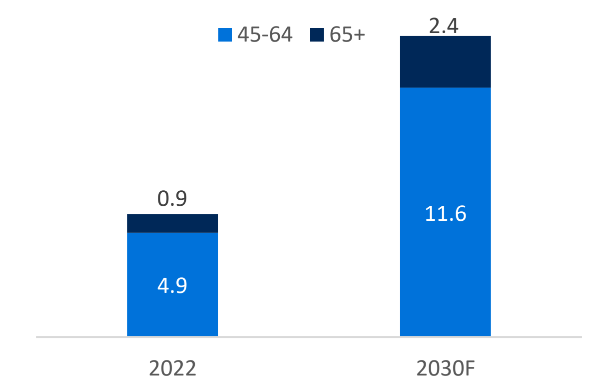
Saudi Arabia is projected to have 14mn people over 45 by 2030 compared to around 6m in 2022 while 2.4mn people will be over 65. Consequently, an ageing population would create additional demand for healthcare services, especially for dealing with chronic diseases such as cancer, diabetes and heart diseases.

Chart 21: Population by age groups (mn)- 2022



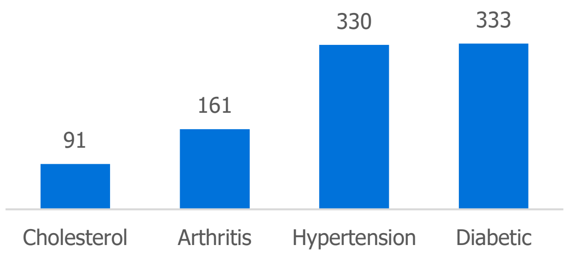
Source: GASTAT

Chart 22: 45+ population to grow 2.4x by 2030 while 65+ population to grow 2.8x



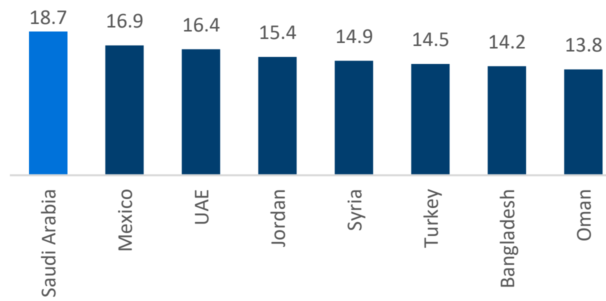
Source: GASTAT

Chart 23: Major diseases in KSA (65 Years and over/ "000")



Source: World Bank

Chart 24: Diabetes prevalence (% ages 20 to 79) – 2021



Source: World Bank

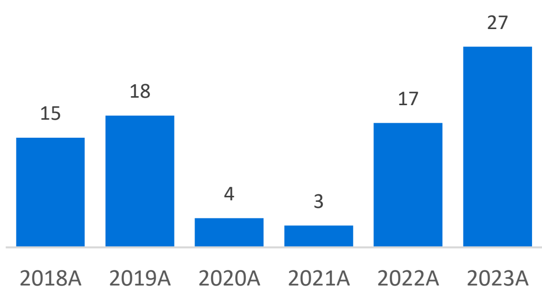
Diabetes and Hypertension are the two most common diseases in the Kingdom, especially for those over the age of 65. Saudi Arabia has one of the highest prevalence of diabetes in the world, as more than 18% of the population between the ages of 20-79 is diabetic. The Kingdom also has high obesity rates (c30%), which is a leading cause of the high diabetes rate in the population. We think there will be an improvement in these statistics driven by the government's encouragement of better lifestyle choices and related investments in sports.

Growing number of inbound visitors: Incremental demand driver for healthcare

Besides domestic population growth, another demand driver is the increase in visitors to Saudi Arabia. Under Vision 2030, the Kingdom is targeting 150mn annual tourists (Domestic & International) by 2030. The target was revised upwards from an initial target of 100mn as over 109m tourists were recorded in 2023.

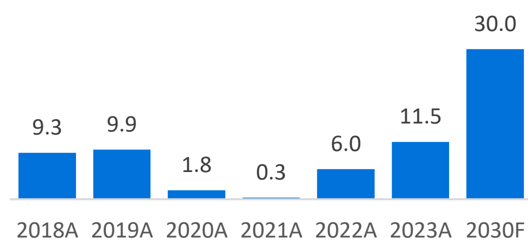
According to statistics from Ministry of Tourism, inbound visitors totaled 27.4m equating to over 25% of the total tourists recorded in 2023. The largest category of inbound tourists were religious visitors totaling 11.5mn, followed by leisure and VFR (visiting friends and family) both at 6m visitors.

Chart 25: Number of annual visitors (inbound tourists) in KSA- (mn)



*Source: Ministry of Tourism, * Drop in 2020-2021 because of travel restrictions during Covid pandemic.*

Chart 26: Number of inbound religious visitors in KSA- (mn)



Source: Ministry of Tourism

Religious tourism remains a cornerstone of Vision 2030 with a stated annual goal of 30mn inbound Umrah visitors alone by 2030. We note that the total number of religious visitors for 2023 stood at 21.4m with inbound visitors accounting for 54% of all Hajj and Umrah visitors.

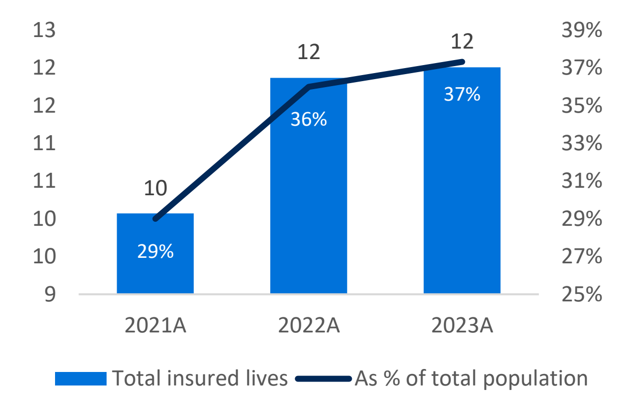
Saudi Arabia is also focusing on leisure travelers through the development of tourist centers and resorts such as NEOM, Red Sea, Al Ula, Qiddiyah and Diriyah. Separately, the country will be hosting the World Expo 2030 in Riyadh with 40m visitors expected for the exhibition and preparing to host the 2034 FIFA World Cup, which will further attract tourists to Saudi Arabia. In Riyadh, events such as Riyadh Seasons remain a popular draw for domestic and regional tourists.

Demand driver #2: Regulatory push for mandatory health insurance coverage

In October 2023, the Saudi Health Minister announced the new National Healthcare Insurance (NHI) program, which will target state-funded health insurance for all Saudi citizens by 2026. In addition, insurance coverage is now mandatory for all private-sector employees. Currently, only 37% of the population or around 12m people, are covered by health insurance, implying significant market opportunity for healthcare service providers.

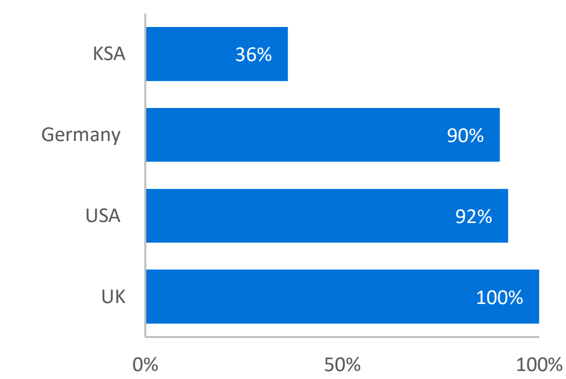
Under the Saudi healthcare system, Saudi citizens are provided free healthcare in government hospitals, while quasi-government hospitals such as military hospitals also provide free healthcare to their members. Private hospitals cater to both expatriates and Saudi citizens. The MoH also funds the treatment of Saudi citizens in private hospitals. Under the new rules, all expatriates and their families must be covered by private health insurance. Also, all visitors to the country must purchase insurance as a part of their visa process. These initiatives have been driving growth in the private medical insurance sector.

Chart 27: Total insured lives – KSA (in '000)



Source: MoH, BUPA investor presentation (Based on 2022 population estimates)*

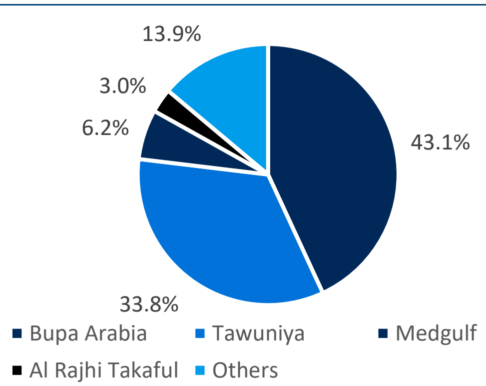
Chart 28: KSA Insurance coverage comparison- 2022



Source: MoH, US govt stats, eurohealthobservatory, OECD

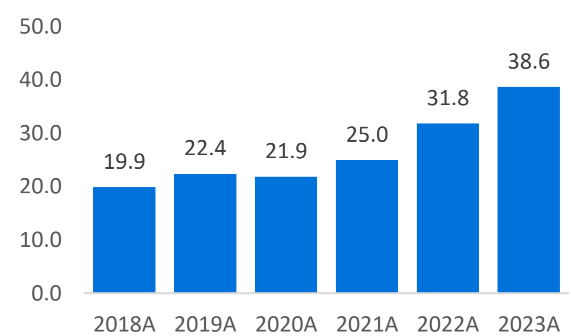
Gross Written Premium (GWP) for the medical sector has increased at a CAGR of 14% over the past five years. The market is dominated by two players: BUPA which has a 43.1% market share, followed by Tawuniya which has a 33.8% market share.

Chart 29: Health Insurance Market Share – 2023



Source: MoH, Bupa investor presentation

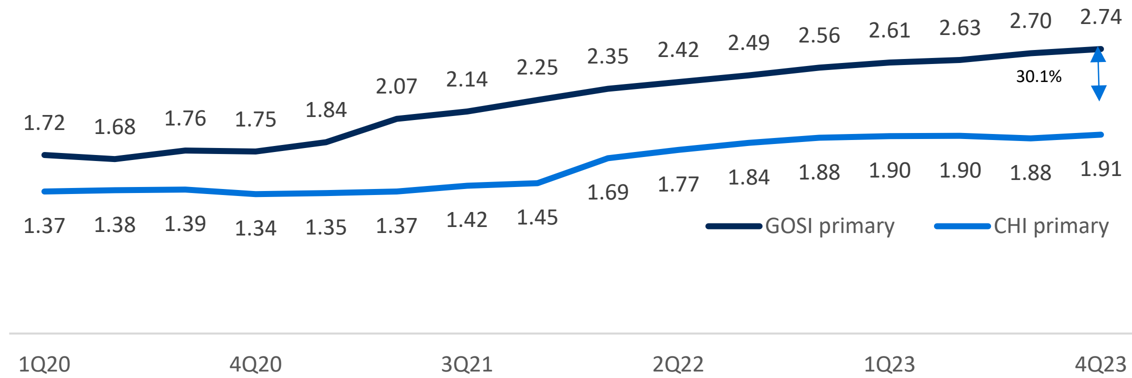
Chart 30: GWP of Health Insurance- SR bn



Source: MoH, SAMA

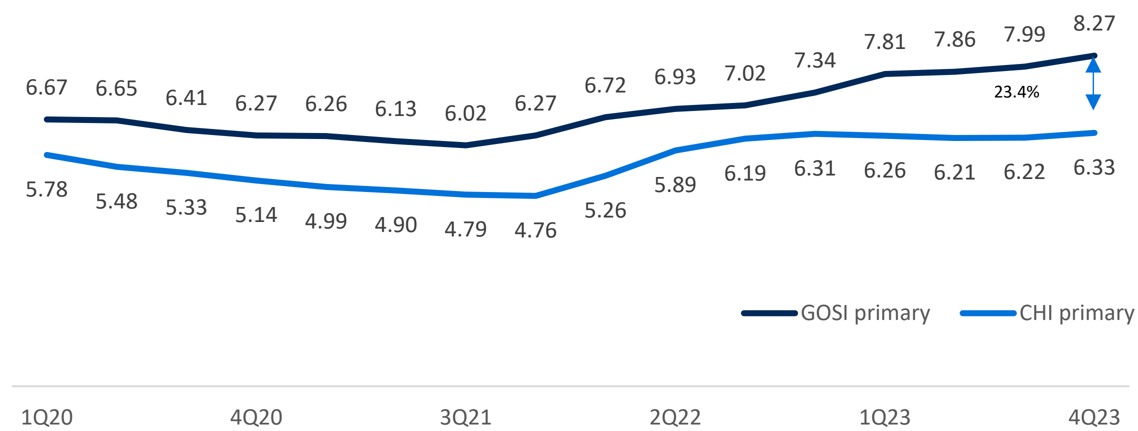
Subscribed health insurance premiums as a percentage of non-oil GDP increased from 1.82% in 2018 to 2.09% in 2023 at a CAGR of 3.5%. Under Vision 2030, the government plans to raise the contribution of insurance sector to 4% of non-oil GDP by 2030. Written premiums are expected to grow at a CAGR of 14% over 2021-2030 to SR61bn, which is to be achieved by increasing the number of beneficiaries of Cooperative Health Insurance (CHI) from 9.8mn in 2020 to 21.7mn by 2030, at a CAGR of 8%. On the other hand, the number of beneficiaries of government coverage is expected to decline from 23mn to 17mn during the same period. Additionally, enforcement gap (gap between GOSI and CHI) within the private sector remains with 1.9mn Non-Saudis and 824k Saudis still without medical insurance.

Chart 31: Enforcement gap- Saudis



Source: Bupa Arabia for Cooperative Insurance Co. Investor Presentation

Chart 32: Enforcement gap- Non-Saudis



Source: Bupa Arabia for Cooperative Insurance Co. Investor Presentation

Demand driver #3: HSTP under Vision 2030

Healthcare is a high-priority objective of Vision 2030 under the pillar of creating a vibrant society. The National Transformation Program (NTP) was launched in 2020 with the objectives of i) easing access to healthcare, ii) improving the quality and efficiency of healthcare services, iii) strengthening prevention measures against health risks and iv) enhancing traffic safety.

Under the program the government plans to invest SR65bn to overhaul the healthcare infrastructure in the Kingdom. The key objectives and targets of the program are presented in the following table:

Table 5: NTP Plan Objectives

Key Objectives	Targets
Ease the access to healthcare services	**88%** of the population to be covered by inclusive health services
Improving the quality and efficiency of health services	**100%** of the population to be covered by the unified digital medical records system
Strengthen prevention measures against health risks	Raising the average life expectancy in the Kingdom from **75 to 80 years**
Enhance traffic safety	Improve traffic culture among school students via teacher-led training utilizing tools such as virtual traffic environments and driving simulators

Source: NTP Plan

As the following table indicators, there has been strong progress in meeting the above objectives.

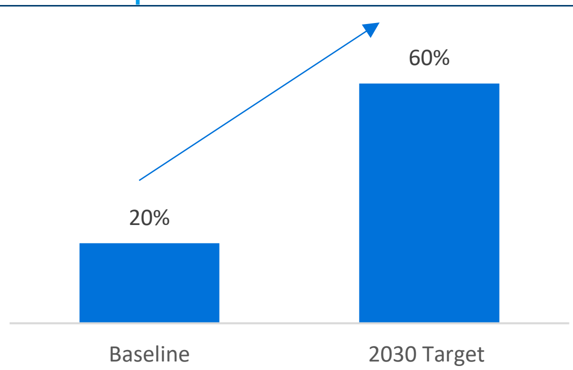
Table 6: Vision 2030: Actuals and Targets (2025)

Economic Goals	Macro Targets	Baseline (2016)	Present (2023)	Target (2025)
Enhancing healthcare services and accessibility	Life expectancy (years)	77	78	80
	Inclusive healthcare coverage including rural areas	78%	94%	100%
Developing healthcare infrastructure and technologies	Number of ICU beds per 100k population	12.5	15	14 [2]
Improving healthcare quality and patient outcomes	Percentage of the population covered by the unified digital medical records system	13% [3]	89.6%	100% [2]

Source: IMF Click here

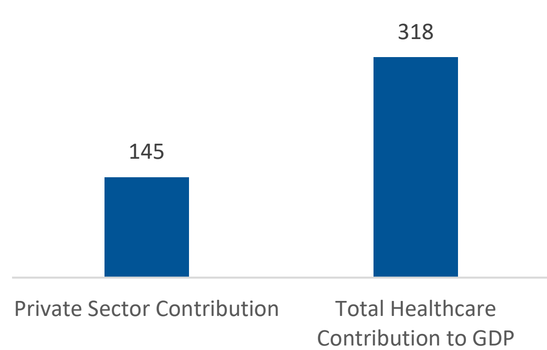
One of the key goals of HSTP is to enhance the participation of the private sector in healthcare expenditure from 20% to 60% by 2030. To facilitate this, the government has launched a public-private partnership framework and is planning to privatize 290 hospitals and 2,300 primary health centers by 2030.

Chart 33: Private Sector Contribution to overall Healthcare Expenditure



Source: US International Trade Administration Click here

Chart 34: Healthcare Contribution to Saudi GDP – Target (2030) (SR bn)

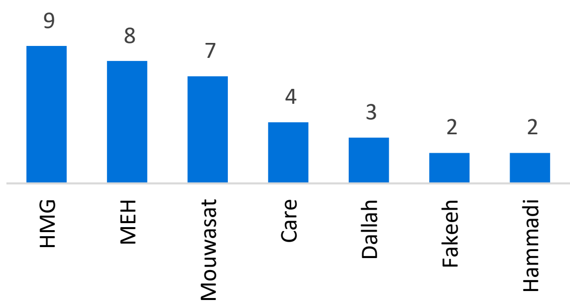


Source: Ministry of Health

Capacity expansion plans by the major healthcare players

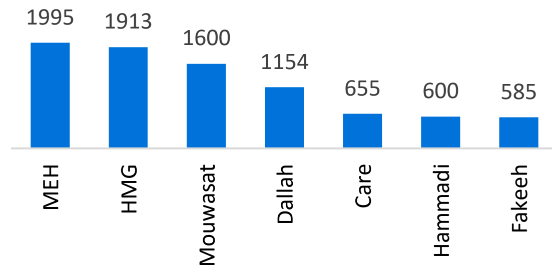
The listed Saudi healthcare companies, which account for around 47% of total private sector bed capacity, have announced capex plans of over SR11bn. According to our estimates, these companies will add more than 5,439 beds between 2023 and 2028.

Chart 35: Hospitals operated by listed healthcare companies



Source: Companies data, anbc research

Chart 36: Number of beds* operated by listed healthcare companies – 2023



*Source: Companies data, anbc research, *excluding O&M contracts*

Table 7: Upcoming Projects

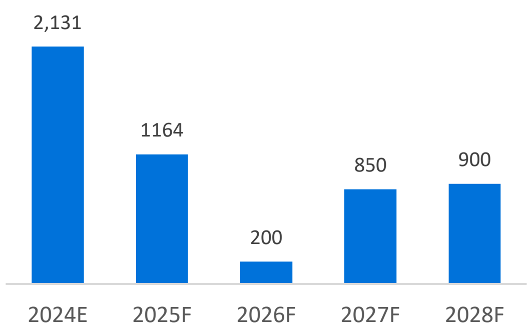
Upcoming expansions in our coverage space				
	Name	Location	Capacity	Completion
HMG	South-West Jeddah	Jeddah	330	2024
	North Riyadh	Riyadh	500	2024
	North Jeddah	Jeddah	350	2024
	Women's Health Hospital	Riyadh	145	2024
	Sehat Al Kharj Hospital	Al Kharj Governorate	141	2024
	Sehat Al Hamra	Riyadh	90	2025
	Tabuk Hospital	Tabuk	140	2027
Care	Expansion (Al Malaz Branch)	Riyadh	124	2024
	Haram branch	Makkah	66	2024
	Al Balad branch	Jeddah	175	2024
	Narjis Hospital	Riyadh	200	2028
Mouwasat	Mouwasat Hospital Jeddah	Jeddah	300	2025
	Mouwasat Hospital Jeddah	Yanbu	200	2025
	Mouwasat Hospital Jeddah	Riyadh	120	2027
Dallah	Expansion at Namar	Riyadh	100	2024
	Al Arid Hospital	Riyadh	250	2027
	Al Salam Hospital	Khobar	300	2025
	Al Ahsa Hospital	Hofuf	274	2025
Hammadi	Reopening of Olaya Hospital	Riyadh	200	2026
	Narjis Hospital	Riyadh	200	2028
Fakeeh	DFSH Madina	Madina	200	2024
	DSFH Surgery Tower Extension	Jeddah	140	2027
	DSFH Makkah	Makkah	200	2027
	DSFH South Obhur	Jeddah	300	2028
	Al Hamra Mabar PAC	Jeddah	200	2028
Total			**5245**	

*Source: Company Data, anbc research, *excluding 1) recently announced acquisition by Care, 2) MEH and 3) HMG's Al Madinah Al Munawarah project (completion date not disclosed).*

We expect bed capacity in our coverage companies to expand by 81% with HMG accounting for 32% of the additional beds followed by Fakeeh, Dallah, Mouwasat, Care and Hammadi with contributions to growth of 20%, 18%, 12%, 11% and 8%, respectively.

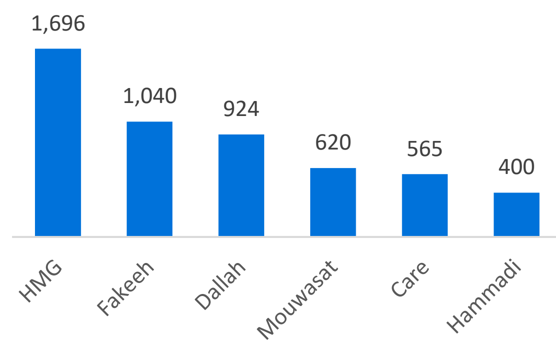
The majority of the projects are expected to be completed in 2024 accounting for 41% of total additional beds followed by 22% in 2025, 4% in 2026, 16% in 2027 and 17% in 2028.

Chart 37: Capacity addition by year



Source: MoH, companies accounts and investor presentation

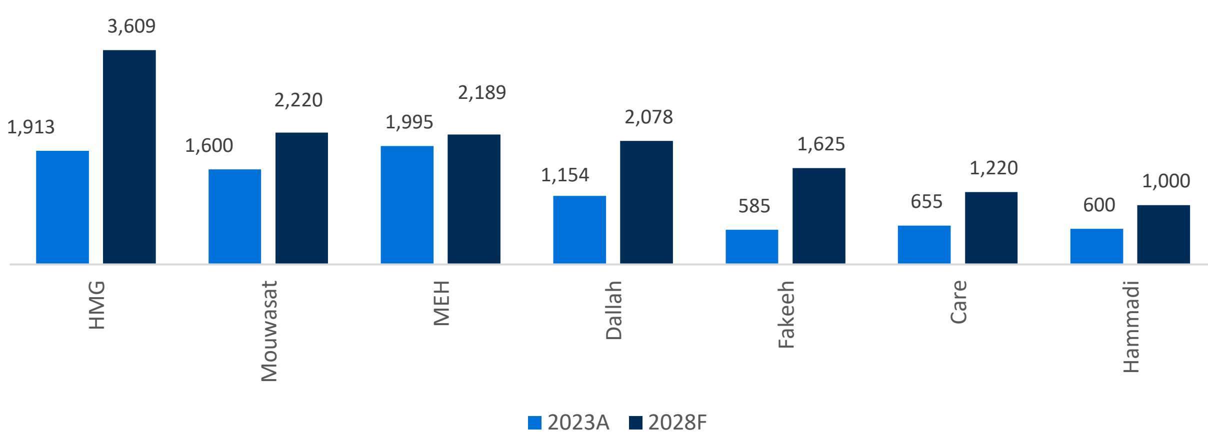
Chart 38: Capacity addition by company- 2024-2028



Source: MoH, companies accounts and investor presentation

Along with expansion in core capacity, Dallah and Care have been relatively more aggressive on expanding inorganically through multiple acquisitions. Dallah acquired Kingdom Hospital and Makkah Medical Center and has recently announced the acquisitions of Al Salam Hospital and Al Ahsa Hospital. Dallah also has an active investment portfolio. Care, on the other hand, has completed back-to-back acquisitions of Jeddah based Chronic Care Specialized Medical Hospital Co. and Jiwar Medical Center located in Makkah in 2023 followed by the recent announcement to acquire Al Salam hospital. We highlight the successful implementation of this strategy which comes at a lower capex/bed (SR2.5mn per bed for Dallah's Al Salam Hospital and Al Ahsa Hospital vs SR3.2mn-SR3.7mn per bed in Riyadh) as a key trigger for these companies.

Chart 39: Number of Beds* in Major Listed Companies (2023 vs 2028)



*Source: Companies data and investor presentations * excluding O&M contracts and HMG's Al Madinah Al Munawwarah*

Performance of the listed healthcare sector

In 2023, the listed healthcare sector companies reported strong growth, with revenues increasing by 16% YoY to SR22.4bn, translating into 20% YoY growth in net profits to SR4.0bn.

MEH reported the highest revenue growth, up 23% YoY, followed by Care and Dallah with growth of ~18%. In terms of net profit, MEH reported an increase of 140% YoY. This was followed by 42% YoY for Care and 31% YoY for Dallah.

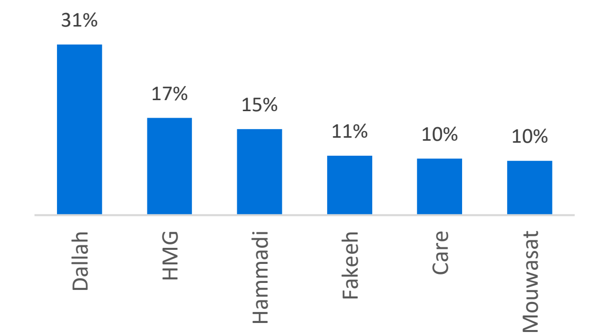
In 2Q24, Care reported the highest revenue growth, up 21% YoY, followed by Fakeeh, up 20% YoY, while Dallah and MEH grew around 14% YoY. In terms of net profit, Dallah reported growth of 111% YoY, followed by MEH, which was up 52% and Care, which was up 45% YoY.

Table 8: 2023 and 1H24 Results Review

	2023	2023	2Q24	2Q24
Company	**Revenue (SRmn)**	**Net Profit (SRmn)**	**Revenue (SRmn)**	**Net Profit (SRmn)**
HMG	**9,508**	**2,046**	**2574**	**555**
Growth	14%	24%	13%	14%
Mouwasat	**2,706**	**658**	**690**	**153**
Growth	16%	10%	10%	1%
Dallah	**2,943**	**360**	**765**	**112**
Growth	18%	31%	14%	111%
Hammadi	**1,177**	**303**	**263**	**66**
Growth	4.9%	18%	-5%	-20%
MEH	**2,653**	**180**	**713**	**61**
Growth	23%	140%	14%	52%
Fakeeh	**2,326**	**232**	**654**	**43**
Growth	16%	-30%	20%	11%
Care	**1,082**	**241**	**297**	**69**
Growth	18%	42%	21%	45%
Sector	**22,395**	**4,020**	**5,956**	**1,059**
Growth	16%	20%	13%	18%

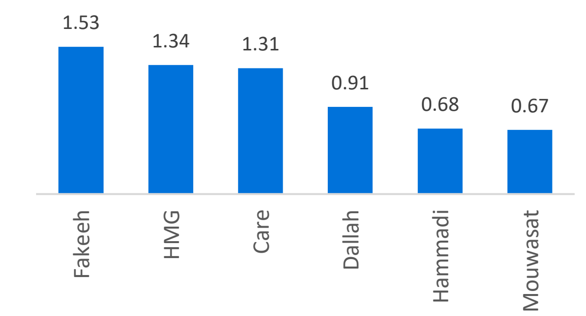
Source: Company data and Bloomberg

Chart 40: Revenue growth: 3-year CAGR (20-23)



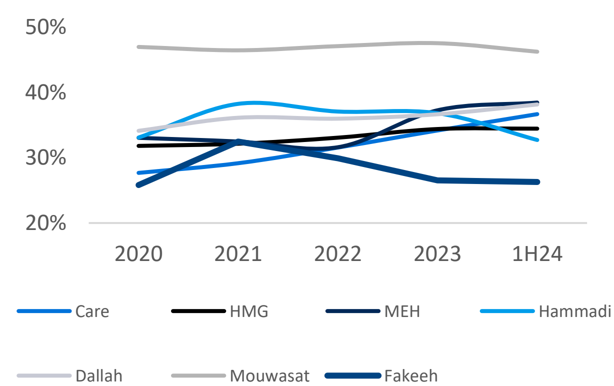
Source: Company financials and anbc research

Chart 41: Listed companies Revenue/Bed- 2023



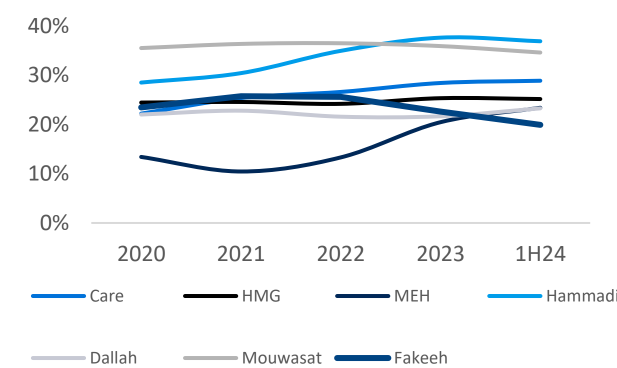
Source: Company financials and anbc research

Chart 42: Gross Margin of the listed companies



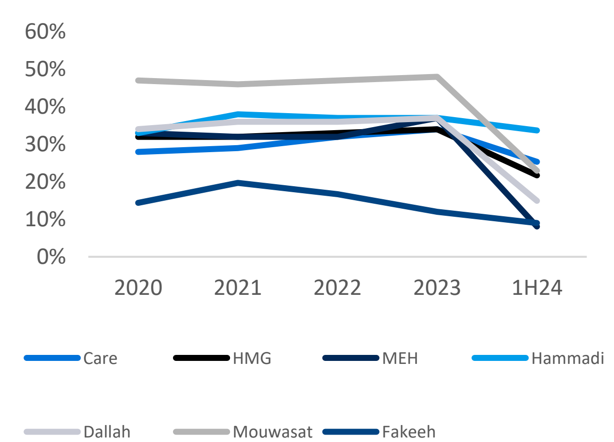
Source: Bloomberg

Chart 43: EBITDA Margin of the listed companies



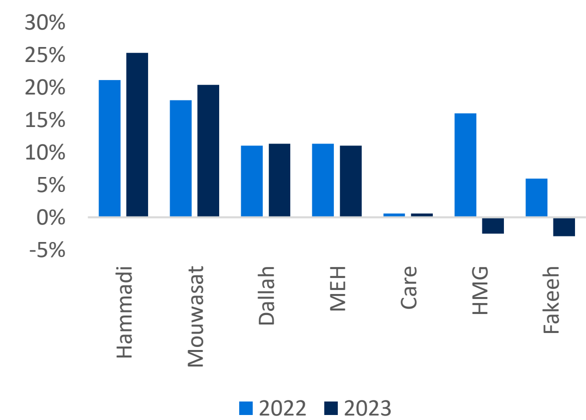
Source: Bloomberg

Chart 44: Net Profit Margin of the listed companies



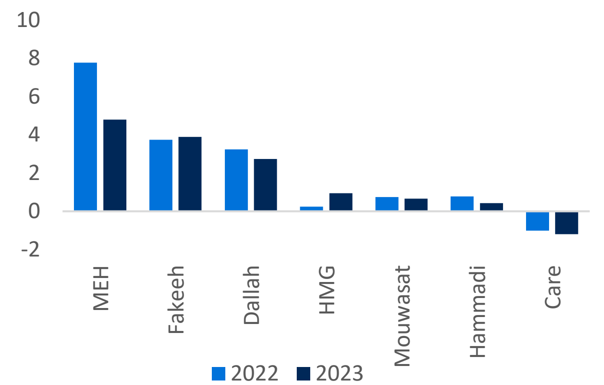
Source: Bloomberg

Chart 45: FCF Margin of the listed companies



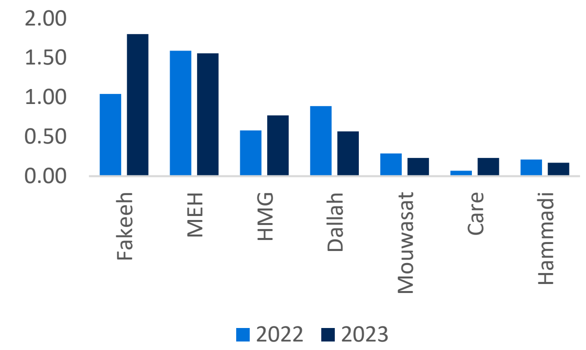
Source: Bloomberg

Chart 46: Listed companies: Debt/EBITDA



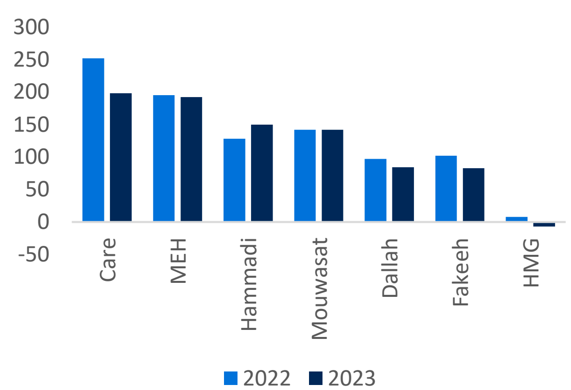
Source: Bloomberg

Chart 47: Listed companies: Debt/Equity



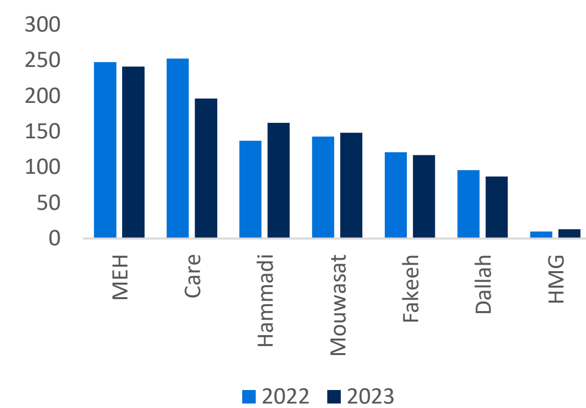
Source: Bloomberg

Chart 48: Listed Companies: Cash Conversion Cycle in Days



Source: Bloomberg

Chart 49: Listed Companies: AR Turnover in Days



Source: Bloomberg

Valuation

We have used three-stage DCF models to value all six healthcare companies under our coverage. We have used our forecasts until 2028 for stage one. These are primarily based on the guidance provided by management on their expansion plans. We used a waterfall decay on free cash flow growth for stage two and a terminal growth rate for stage three. Our terminal growth rate assumptions are based on our estimates of each company's long-term growth potential, underpinned by its return on equity, free cash flow generation and balance sheet strength. We have discussed our assumptions for each stock in their respective stock section.

In our opinion, the three key factors which impact valuations for the healthcare stocks are:

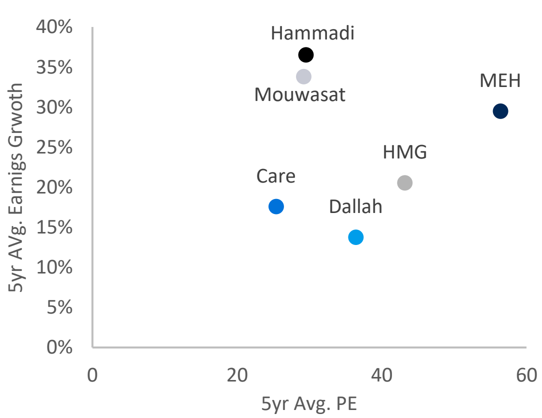
1) **Growth:** We think the market values the Saudi healthcare sector as a structural growth story, as a part of the broader Vision 2030 theme. This differentiates the Saudi healthcare sector from its global peers, primarily seen as a defensive, stable, and sometimes even a counter-cyclical asset class. Given the growth bias, we favor stocks with a higher growth outlook over the medium term.
2) **ROE:** We think companies generating higher returns are likely to trade on higher multiples. This explains why stocks like Hammadi have traded at lower multiples despite reporting strong earnings growth.
3) **Earnings momentum:** We measure earnings momentum as the ability of the companies to beat consensus earnings expectations. Since the broader valuation of the sector is already high, we think earnings growth and positive earnings surprises would be necessary to drive additional upside in the share prices.

Table 9: Valuation Summary

Company	Beta	Terminal Growth	Revenue CAGR 23-28	RoE
Care	0.8	3.25%	17%	20%
HMG	0.8	3.50%	19%	35%
Fakeeh	1.0	3.50%	20%	14%
Hammadi	1.0	3.00%	14%	17%
Mouwasat	0.7	3.00%	12%	20%
Dallah	0.9	3.25%	13%	13%

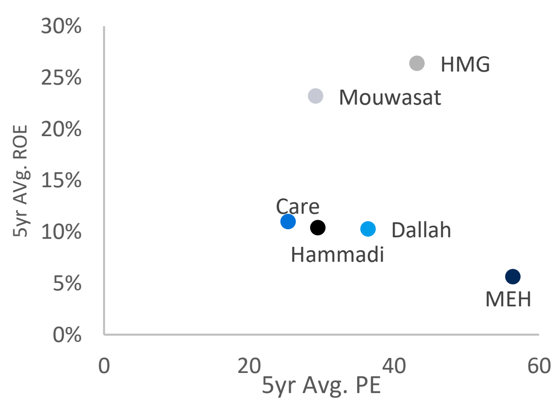
Source: anbc research

Chart 50: Sector Valuation (P/E and Growth)



Source: Bloomberg

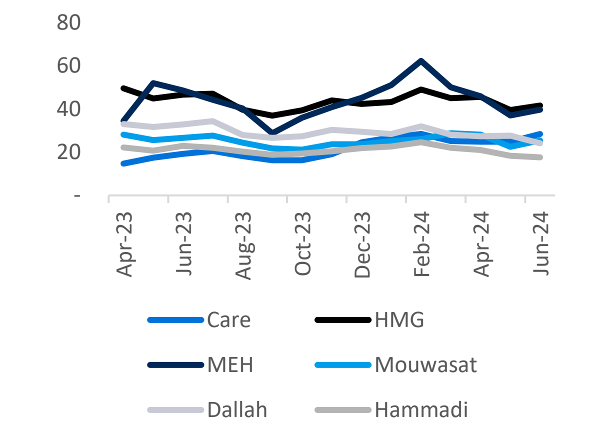
Chart 51: Sector Valuation (P/E and ROE)



Source: Bloomberg

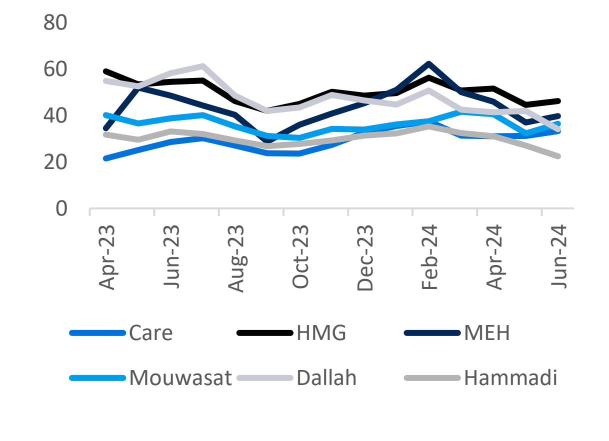
The Saudi healthcare sector is trading at an average EV to 2025e EBITDA of 23x and a Price to 2025e Earnings of 29x. This is a premium to the average of Asian peers (24x 2025e PE) and developed market peers (15x 2025e PE). As we discussed earlier, the difference is due to higher growth in the Saudi market. HMG and the recently listed Fakeeh trade at a premium to segment at around 40-41x 2025e PE. Care (covered) and Middle East Hospitals (not covered) are the cheapest stocks in the Saudi healthcare universe.

Chart 52: Saudi healthcare sector: Valuation EV/EBITDA



Source: Bloomberg

Chart 53: Saudi healthcare sector: Valuation PE (2023)



Source: Bloomberg

As discussed earlier, we think the Saudi healthcare sector has already re-rated at an industry level, and now, stock "alpha" rather than market "beta" is the leading stock price driver. We think HMG and Care still have the potential to beat consensus estimates. We also expect multiple re-ratings in Care as, historically, it has traded at a discount to the sector due to lower ROE and weaker cash generation. Our estimates are below the consensus on Hammadi and Mouwasat as we are more conservative about the impact of competition as they expand capacity.

Table 10: Healthcare Providers Comparative Analysis

Company	PE			PS			PB			EV/EBITDA			EV/Sales		
	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F
Saudi Arabia															
Dallah	44.2	32.8	31.5	5.4	4.8	4.1	5.4	4.2	3.7	30.8	23.5	21.5	6.7	5.4	4.6
MEH	31.5	28.7	23.2	2.5	2.3	2.1	4.3	3.8	3.3	23.0	12.1	11.4	4.6	2.8	2.5
Mouwasat	28.0	26.6	22.9	7.4	6.6	5.8	5.9	5.3	4.8	25.1	19.0	16.6	9.6	6.9	6.0
Al Hammadi	20.3	22.4	21.7	5.3	5.6	5.1	3.6	3.3	3.2	23.9	17.4	17.6	8.9	6.5	6.1
HMG	48.4	45.8	39.9	10.7	9.4	7.8	15.5	14.1	12.5	42.6	40.5	32.8	10.8	10.3	8.7
CARE	34.9	25.8	23.8	7.5	6.0	5.1	5.6	4.8	4.2	29.0	21.7	18.4	8.3	6.3	5.3
FAKEEHCA	N/A	48.1	37.3	N/A	4.9	4.1	N/A	5.2	4.6	N/A	24.9	21.2	N/A	5.0	4.4
Average	**34.6**	**32.9**	**28.6**	**6.5**	**5.7**	**4.9**	**6.7**	**5.8**	**5.2**	**29.1**	**22.7**	**19.9**	**8.2**	**6.2**	**5.3**
Asia & Africa															
ASTER DM Healthcare Ltd	49.4	47.6	60.1	1.8	1.5	4.9	4.8	4.5	5.0	8.5	10.4	27.1	1.1	1.4	4.7
China Resources Medical Holdings Co Ltd	6.7	6.3	5.5	0.4	0.4	0.4	0.6	0.7	0.6	N/A	2.4	2.8	N/A	0.4	0.5
Raffles Medical Group Ltd	18.8	24.8	23.1	2.4	2.3	2.2	1.6	1.6	1.6	10.9	11.8	10.6	2.5	2.0	1.8
Apollo Hospitals Enterprise	118.9	108.3	68.6	6.0	5.3	4.5	15.6	14.4	12.2	32.0	36.1	33.4	N/A	4.5	4.7
Netcare Ltd	14.9	12.8	10.9	0.9	0.8	0.8	1.8	1.8	1.7	6.9	6.1	5.6	1.2	1.1	1.1
Life Healthcare Group Holdings Ltd	16.4	15.6	13.7	0.8	1.0	0.9	1.2	2.0	1.9	7.5	7.5	6.5	1.4	1.2	1.0
Bangkok Dusit Medical Services PCL	34.2	29.6	27.1	4.7	4.3	4.0	5.0	4.7	4.5	18.9	17.9	16.6	4.6	4.3	4.0
Bumrungrad Hospital PCL	31.2	28.7	27.0	8.6	8.0	7.5	9.3	7.9	6.9	19.9	19.4	18.1	7.5	7.6	7.0
Bangkok Chain Hospital PCL	31.7	31.1	26.8	3.9	3.8	3.5	3.6	3.5	3.3	19.5	15.7	13.9	4.8	3.8	3.5
Average	**35.8**	**33.9**	**29.2**	**3.3**	**3.1**	**3.2**	**4.9**	**4.6**	**4.2**	**15.5**	**14.1**	**15.0**	**3.3**	**2.9**	**3.1**
USA & Europe															
ACADIA Healthcare Co Inc	16.0	14.8	13.2	1.7	1.5	1.4	1.7	1.5	1.3	13.8	11.7	10.6	3.2	2.7	2.4
Universal Health Services Inc	20.7	14.8	13.3	1.1	1.0	1.0	2.7	2.4	2.1	8.8	9.2	8.5	1.1	1.3	1.2
HCA Healthcare Inc	21.3	18.5	16.7	1.7	1.5	1.4	N/A	N/A	78.5	9.5	10.4	9.9	1.8	2.1	2.0
Rhoen Klinikum AG	32.7	25.9	N/A	0.6	0.6	N/A	0.7	N/A	N/A	7.4	N/A	N/A	0.5	N/A	N/A
Average	**22.7**	**18.5**	**14.4**	**1.3**	**1.1**	**1.3**	**1.7**	**1.9**	**27.3**	**9.9**	**10.4**	**9.7**	**1.6**	**2.0**	**1.9**

Source: Bloomberg as of 20th October 2024

National Medical Care Co.

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on National Medical Care Co. (Care) with a target price of SR231 and an Overweight rating. Care has been the best performing healthcare stock in the Kingdom over the past 12 months as the stock is up 52%. This performance has been fueled by momentum in the execution of an aggressive acquisition led growth strategy as part of a five-year plan. We are modelling a CAGR of 21% in earnings over 2023-2028, which is the fastest in the sector after Fakeeh. The balance sheet strength (net cash of SR41m) provides firepower for additional acquisitions. The recent acquisition of Al Salam Hospital in Riyadh (announced in June) is a near term catalyst and will drive upgrade to consensus estimates. The stock is trading at 23x PE on 2025 estimates. We see room for further upside in the stock driven by both earnings upgrade and multiple re-rating.

Strong execution on five-year strategic plan has led a business transformation: Care has been the best performing healthcare stock in the Kingdom over the past 24 months as the stock is up over 150%. We think this investor interest is driven by the recognition of Care's impressive execution of its 5-year plan, which has been driving the growth in earnings. We think this momentum will continue and we are modelling 21% CAGR in earnings over 2023-2026. The company has already increased its bed capacity by 54% to 1,008 beds in 2024 vs 2023 and is expected to increase it another 21% by 2027 (excluding recently announced acquisitions). The company expanded its capacity in its Malaz hospital and plans to add another hospital in Narjis district of Riyadh by 2027. Additionally, the company has entered the Western region via the completion of two acquisitions. We expect the capacity additions to drive revenue CAGR of 17% over 2023-2028, higher than its past 4-year performance (11% CAGR). Despite seasonality during 1H24, the company managed 18% YoY growth in revenue, we expect the company to further gain momentum during 2H24 as the added capacity drives revenue growth.

M&A could lead to further upside in numbers: Since the launch of its 5-year plan, Care has been aggressive in acquisitions and expansions. It acquired Jiwar Medical and Chronic Care, and land for new hospitals in Jeddah and Riyadh in 2023 and in June announced the acquisition of Al Salam Hospital. We think it has the dry powder to lift EBITDA by 25-50% if it leverages its balance sheet.

Improvement in cash collection cycle: Care has shown promising signs of improvements in its indicators such as its receivable days and average length of stay per inpatient. The company has also consistently improved its ROE over the years moving from single digits to double digits approaching 20% (2024E). Gross margins have shown marked improvement in 1H24 as well following recent acquisitions, this comes despite the expansion in Malaz branch. The re-negotiation of the contract with GOSI and growth in insurance-based contracts could further improve cash collection. The company has also signed an SR381mn contract with Prince Sultan Military Medical City which is expected to partially offset impact from the recently expired National Guard contract.

Valuation: Our target price of SR231/share for Care is based on a DCF (Cost of equity: 9.5%, terminal growth 3.25%). This values the company at 2025e P/E of 28x. We think there is room for further earnings upgrades, as the estimates do not incorporate the impact from Al Salam and the expansion on the land acquired in Jeddah and Riyadh.

Risks: The key downside risk are delay in expansion projects, build up in receivables from GOSI, rising competition and higher than anticipated pressure on margins.

RATING SUMMARY	Overweight
Target Price (SR)	231
Upside/Downside	22%
Dividend Yield	1%
Total Return	23%

ISSUER INFORMATION	
Share Price (SR)	190*
Target Price (SR)	231
Bloomberg	CARE AB
Market Cap (SR mn)	8,521
Free Float (%)	50.8

As of 20th October 2024

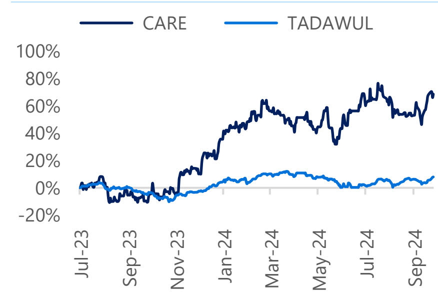
MULTIPLES	2024E	2025F
P/E (x)	31.4	22.8
P/B (x)	5.1	4.6
P/S (x)	6.4	5.2
EV/EBITDA (x)	24.4	18.1
RoA (%)	12	16
RoE (%)	18	21

Source: anbc research & Company Data

FINANCIALS (SR MN)

	2023A	2024e	2025F	2026F
Revenue	1,082	1,324	1,628	1,878
Gross profit	370	467	586	712
EBITDA	302	364	482	607
Net Income	241	273	374	480
EPS	5.37	6.06	8.23	10.58
DPS	2.00	1.5	4.3	5.3

PRICE PERFORMANCE – Care vs. TASI



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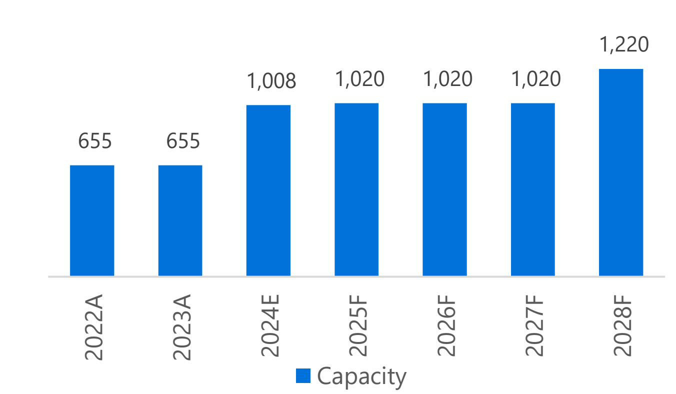
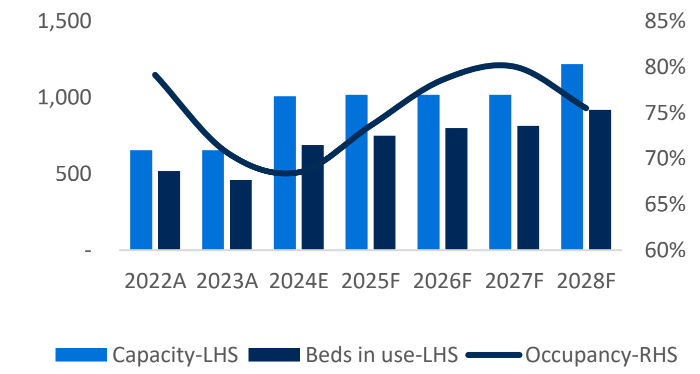
Investment Thesis in Charts

Chart 54: Capacity up 54% in 2024



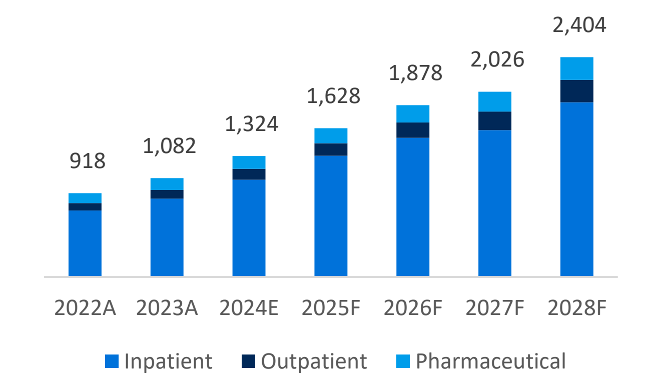
Source: anbc research & Company Data

Chart 55: Bed occupancy to recover by 2025



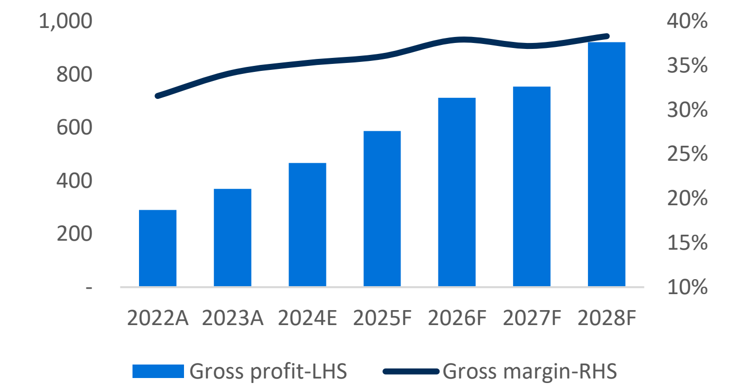
Source: anbc research & Company Data

Chart 56: Revenue to grow at a CAGR of 17% by 2028



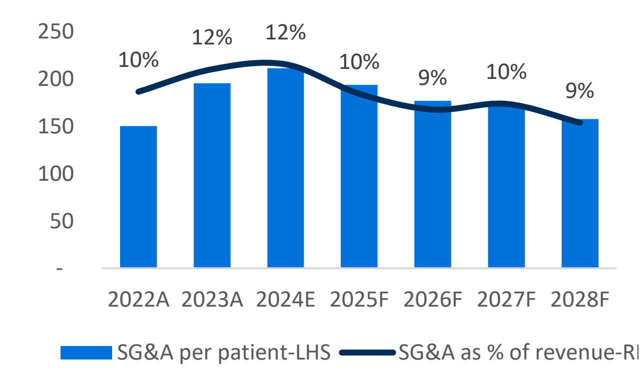
Source: anbc research & Company Data

Chart 57: Gross margins to reach 37% by 2028



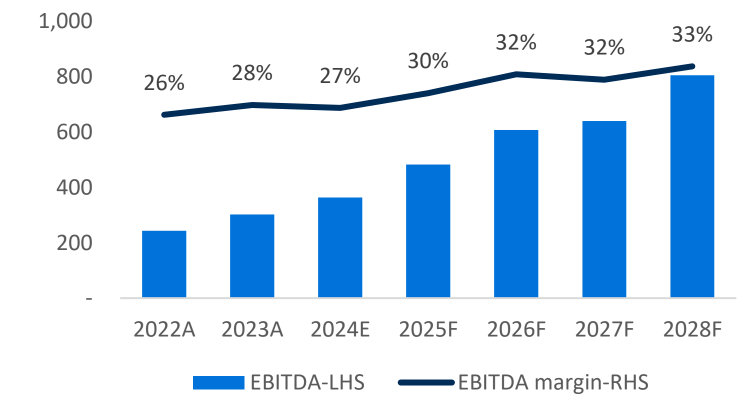
Source: anbc research & Company Data

Chart 58: Increasing scale of operations to enhance efficiencies



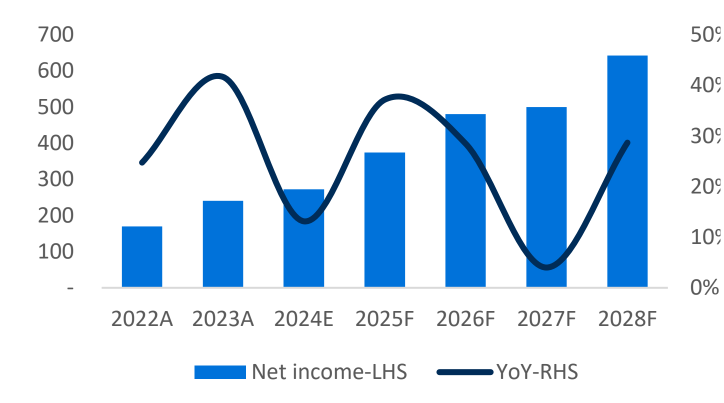
Source: anbc research & Company Data

Chart 59: EBITDA margin to reach 33% by 2028



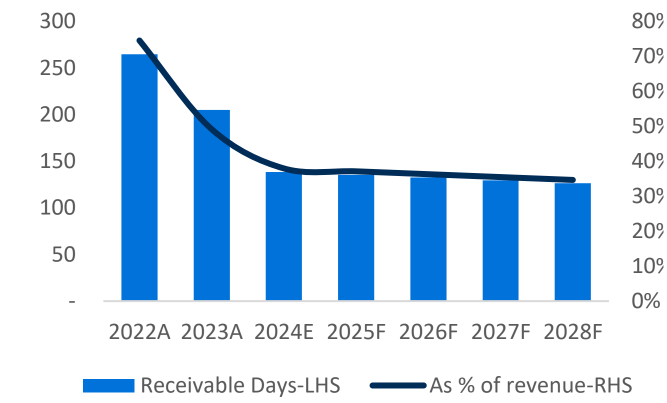
Source: anbc research & Company Data

Chart 60: Expansion related costs to weigh in on 2027 growth



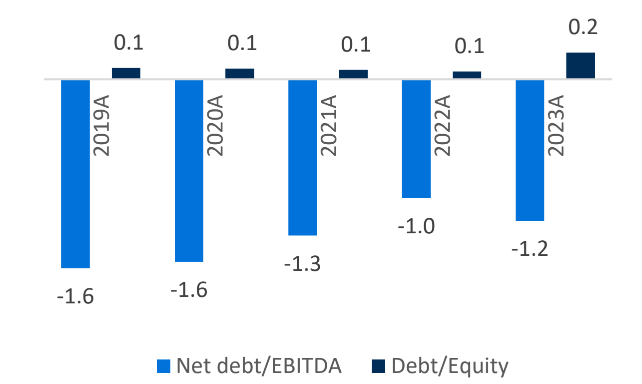
Source: anbc research & Company Data

Chart 61: Receivable days to improve to 126 days by 2028



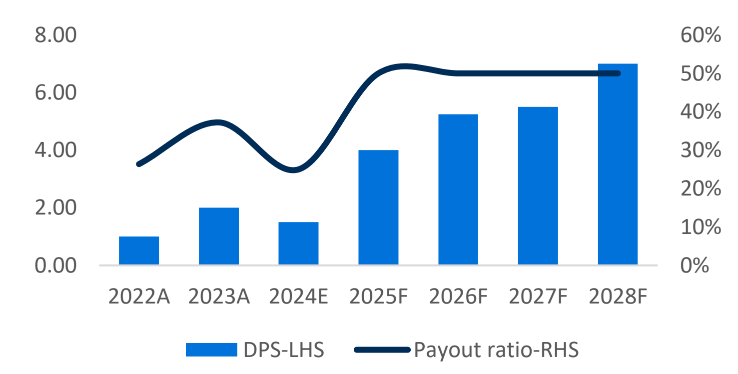
Source: anbc research & Company Data

Chart 62: Strong balance sheet with a net cash position



Source: anbc research & Company Data

Chart 63: Dividend payout capacity to increase



Source: anbc research & Company Data

Table 11: Financial Summary

National Medical Care (CARE)						
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	SR mn	918	1,082	1,324	1,628	1,878
Gross profit	SR mn	290	370	467	586	712
General &admin	SR mn	91	119	149	155	161
Operating profit	SR mn	197	247	303	415	531
EBITDA	SR mn	243	302	364	482	607
PAZ	SR mn	170	241	273	374	480
Balance Sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Current assets	SR mn	1,056	1,278	1,329	1,381	1,480
Non-current assets	SR mn	657	936	1,081	1,244	1,407
Total assets	SR mn	1,713	2,214	2,410	2,625	2,887
Current liabilities	SR mn	286	348	361	413	448
Non-current liabilities	SR mn	163	413	382	354	328
Total shareholder equity	SR mn	1,264	1,453	1,659	1,842	2,087
Cash Flow Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net CFO	SR mn	217	467	382	387	513
CFI	SR mn	(212)	(625)	(205)	(230)	(238)
CFF	SR mn	(51)	138	(98)	(219)	(261)
Ending balance	SR mn	329	309	388	326	340
YoY Growth		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	%	*8.6%*	*17.8%*	*22.3%*	*23.0%*	*15.4%*
EBITDA	%	*13.2%*	*24.2%*	*20.6%*	*32.5%*	*25.9%*
Operating profit	%	*20.0%*	*25.1%*	*22.9%*	*36.7%*	*28.2%*
Net income	%	*24.7%*	*41.7%*	*13.1%*	*37.2%*	*28.5%*
Ratios		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Return on assets (ROA)	%	*10.4%*	*12.3%*	*11.8%*	*14.9%*	*17.4%*
Return on equity (ROE)	%	*14.2%*	*17.7%*	*17.5%*	*21.4%*	*24.4%*
Gross margin	%	*31.6%*	*34.2%*	*35.3%*	*36.0%*	*37.9%*
Operating margin	%	*21.5%*	*22.8%*	*22.9%*	*25.5%*	*28.3%*
EBITDA margin	%	*26.5%*	*27.9%*	*27.5%*	*29.6%*	*32.3%*
Net margin	%	*18.5%*	*22.3%*	*20.6%*	*23.0%*	*25.6%*
Effective zakat rate	%	*14.3%*	*8.9%*	*8.9%*	*8.9%*	*8.9%*
Dividend payout	%	*26.4%*	*37.2%*	*25.0%*	*50.0%*	*50.0%*
Per Share Analysis		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Earnings per share (EPS)	SAR/sh	3.8	5.4	6.1	8.3	10.7
Dividends per share (DPS)	SAR/sh	1.0	2.0	1.5	4.3	5.3
Book value per share (BVPS)	SAR/sh	28.2	32.4	37.0	41.1	46.5

Source: anbc research & company data

Investment Thesis

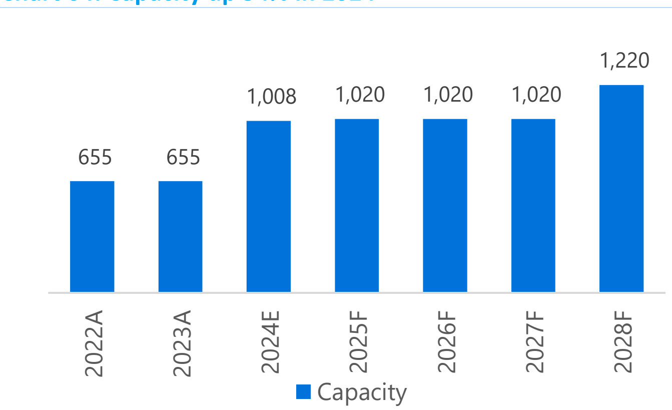
Capacity expansion supported by acquisition-led growth:

Over the past three years, since the launch of its 5-year strategic plan, the company has entered an expansion phase. These initiatives have not only accelerated growth but also uplifted margins and improved working capital. Historically, the company has been operating two hospitals located in Riyadh (3rd largest private healthcare provider in Riyadh from our coverage companies). Since 2023, they have acquired two new hospitals; Chronic Care Specialized Medical Hospital Co. (AlBalad branch) in Jeddah and Jiwar Medical Services Co. (Haram branch) in Makkah. The Jeddah hospital specializes in long-term care and the Makkah expansion gives exposure to the growth in religious pilgrims. The location in Makkah is ideal to capture this demand. Besides this, Care has also converted a dental clinic into a mental health hospital, purchased land for building new hospitals in Jeddah and Riyadh, and has also started adding beds to its existing hospital in Malaz.

As of 2023, the company's total bed capacity stood at 655 beds with 320 beds at the Rawabi branch and 335 beds at its Malaz branch, both located in Riyadh. Capacity in 2024 has increased 54% to 1,008 beds post the completion of expansion at Malaz branch adding 124 beds (459 beds post expansion) along with 175 beds at AlBalad branch and 54 operational beds at Haram branch. Capacity is expected to grow by at least another 21% from here on up until 2028 with the company's plans to add a third hospital in Narjis, Riyadh as well as the recently closed acquisition of Al Salam Health Medical Hospital. Al Salam has 100 beds, and the acquisition got shareholder approval in September 2024. Al Salam will have synergies with Care's existing hospital in North Riyadh. The financial numbers for Al Salam are not yet in our as well as consensus estimates and could drive additional upside.

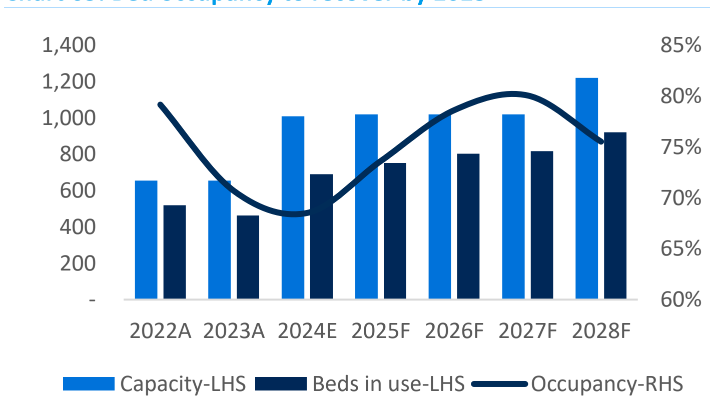
The Narjis hospital will have a total capacity of 400 beds. However, this will be carried out in two phases. Phase 1 of the project is expected to add 200 beds by the start of 2028 while the timeline for the remaining 200 beds in phase 2 will be determined based on the demand dynamics post completion of phase 1. Capex is expected to be between SR3.2mn-SR3.7mn per bed out of which 65% is to be completed in phase 1. Land for the hospital has been purchased. Construction is expected to start by 1Q25, and operations are expected to commence in 2028.

Chart 64: Capacity up 54% in 2024



Source: anbc research & Company Data

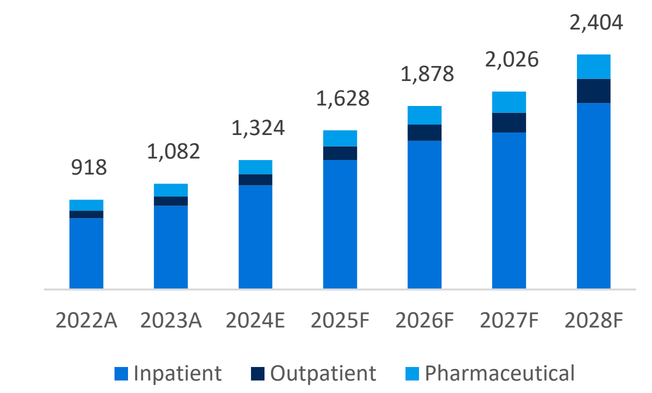
Chart 65: Bed occupancy to recover by 2025



Source: anbc research & Company Data

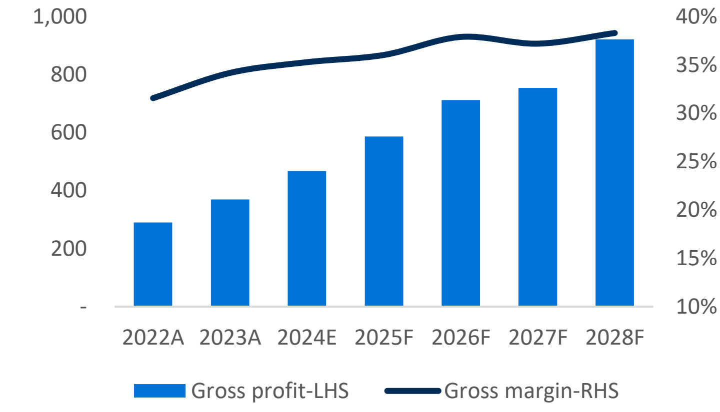
We expect the added capacity to drive revenue CAGR of 17% during 2023-2028, which is faster than its historical performance. We expect the highest growth in the outpatient segment given its low base (5-year CAGR: 21%) followed by growth in the inpatient segment (5-year CAGR: 17%) and the Pharmaceutical segment (5-year CAGR: 14%). Care focuses on Class B patients and the new acquisition of Al Salam deals mainly with class C (insurance categories) patients. This means that it is not competing directly with the likes of HMG and Fakeeh.

Chart 66: Revenue to grow at a CAGR of 17% by 2028



Source: anbc research & Company Data

Chart 67: Gross margins to reach 37% by 2028



Source: anbc research & Company Data

We also like the fact that the company is building a specialization in long term care and in mental health. Given the increase in the proportion of older population, we think there would be an increase in demand for such services. Care also won a SR381m contract from Prince Sultan Military Medical City which starts from 3Q24 which is expected to partially offset the loss of revenue from the National Guard contract.

Care acquired Chronic Care Specialized Medical Hospital Co. for SR193mn in 3Q23. The hospital is a 175-bed facility providing comprehensive medical care, long term nursing care and palliative care among other medical services in Jeddah. Annual revenues for the hospital were in the range of SR97mn-SR102mn during 2020-2022 with the higher end achieved in 2021. We expect the acquisitions to lay the groundwork for the company to expand its presence in new markets.

The company has also recently purchased land in Jeddah, although management is yet to decide on the use of this land, the option to build a new hospital remains on the table.

M&A gives additional options for growth and earnings upgrades

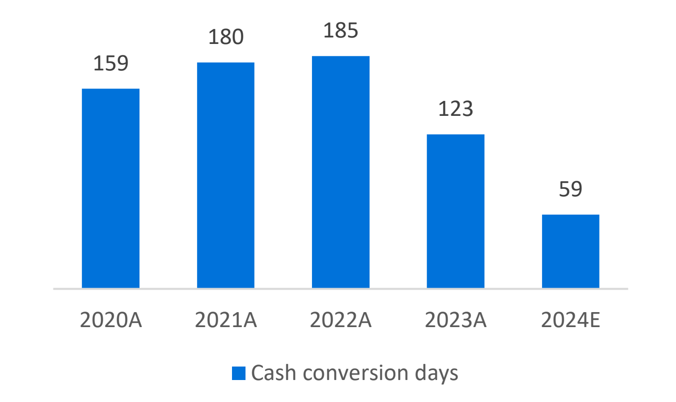
Care has the strongest balance sheet in the listed healthcare sector. At the end of 2Q24, it had net cash of SR41m. Most of it will be used for the acquisition of Al Salam but the company still has the ability to raise substantial capital to fund additional acquisitions. Assuming it levers up-to 5x EBITDA and uses that to make acquisitions at 10x -20x EBITDA, it could add 25-50% upside to EBITDA. We think this potential for momentum in earnings upgrades is the key reason behind the share price performance and also the key reason why we think near term valuation is not a reason to sell the stock. We find sufficient positive catalysts on the horizon which could help drive share price performance.

Improving efficiencies to unlock valuation gains

Care has consistently improved on various indicators including days of stay per inpatient and receivable days. The former has come down from 13.4 days in 2019 to 7.9 days in 2023, a reduction of 41%. During the same period, the Rawabi branch witnessed a decline from 9.6 days to 6.0 days while the Malaz branch declined from 19.1 days to 10.8 days. Although differences among hospitals stem from differences in services provided, nevertheless a declining trend within one hospital indicates improving efficiency given there is no change in the nature of services provided.

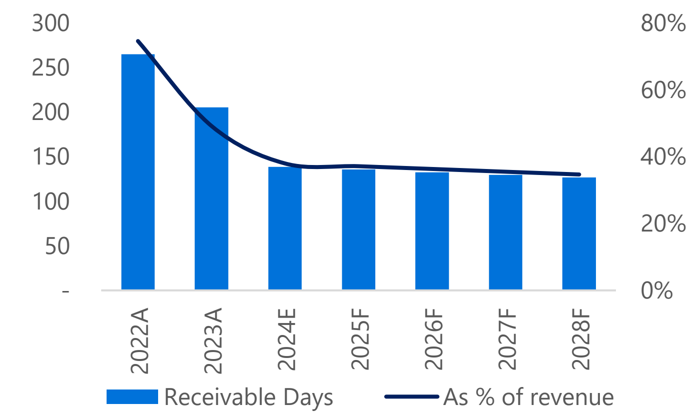
Similarly, receivable days for the company have averaged 225 days over the past 5 years. However, the company has managed to reduce this number down to 177 days as of 2Q24. The company still has the highest receivable days amongst the listed peers due to its high exposure to government contracts. The company is targeting to bring down receivable days from GOSI to 5-6 months, in-line with MoH. Despite this, the company has managed to maintain a positive net cash position over the years with minimal debt on its balance sheet.

Chart 68: Cash conversion cycle



Source: anbc research & Company Data

Chart 69: Receivable days to reach 126 days by 2028

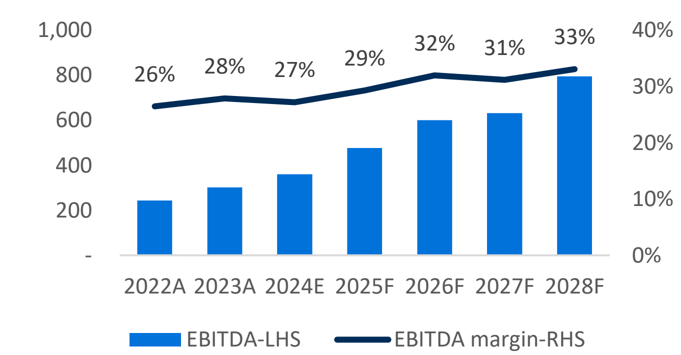


Source: anbc research & Company Data

In addition to this, the company has also recorded significant improvement in its ROE over the years. The company has now jumped ahead of Hammadi, Dallah and Fakeeh in terms of ROE generation, ranking third behind HMG and Mouwasat. ROE has constantly improved year after year from 7.9% in 2019 to 17.7% in 2023. We expect the trend to continue in the coming years reaching 20% in 2024 and 23% in 2025.

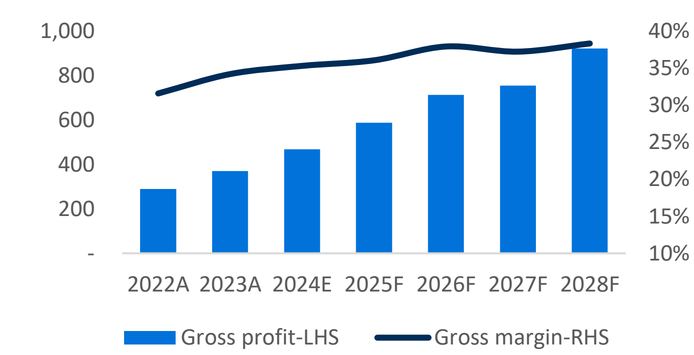
Gross margins have recorded similar improvements increasing every year from 23% in 2019 to 34% in 2023. This along with 11% CAGR in revenue has translated into improvements in operating and net margins as well, increasing from 15% to 23% and from 11% to 22%, respectively. Although we expect gross margins to face pressure during 2H24 due to ramp up costs associated with the recent expansion at Malaz, we expect the same to settle higher compared to 2023 at ~36% vs ~34%.

Chart 70: EBITDA to reach 33% by 2028



Source: anbc research & Company Data

Chart 71: Gross margins to reach 37% by 2028



Source: anbc research & Company Data

Based on these trends and assumptions, we estimate that Care can achieve 21% CAGR in earnings over 2023-2028. As stated earlier, our estimates are conservative and additional M&A could lead to substantial revisions.

Valuation

We have used a Discounted Cash Flow (DCF) model to value Care, with a cost of equity of 9.5% and terminal growth of 3.25%. Our target price of SR231/share values the company at a 2025 P/E of 26x. We have an Overweight rating on the stock due to its high earnings growth, improving margins and potential for further upside. Earnings are estimated to grow at a CAGR of 21% over the next five years with further ROE expansion to 20% in 2024e. Our financial estimates for 2025 and 2026 are ahead of the consensus. Consensus estimates for 2024 are not yet updated for 3Q24 results.

Table 12: Our estimates versus consensus

	ANB Est 2024E	Consensus 2024E	Delta	ANB Est 2025E	Consensus 2025E	Delta	ANB Est 2026E	Consensus 2026E	Delta
Revenues	1,324	1,323	0%	1,628	1,551	5%	1,878	1,737	8%
Gross Margin	35.3%	35.5%	-0.2%	36.0%	35.5%	0.5%	37.9%	35.5%	2.4%
EBITDA	364	379	-4%	482	450	7%	607	502	21%
EBITDA Margins	27.5%	28.6%	-1.1%	29.6%	29.0%	0.6%	32.3%	28.9%	3.4%
Net Income	273	302	-10%	374	359	4%	480	383	25%
EPS	6.08	6.61	-8%	8.34	7.66	9%	10.71	8.35	28%

Source: Bloomberg, anbc research

Table 13: DCF Model

National Medical Care Discounted Cash Flow (DCF)		2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBITDA		364	482	607	639	804	966	1,033	1,114
less: interest		(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
less: taxes		(27)	(37)	(47)	(49)	(63)	(77)	(83)	(90)
less: WC change		41	(62)	(50)	(14)	(69)	(57)	(29)	(17)
less: CAPEX		(205)	(230)	(238)	(421)	(85)	(88)	(92)	(96)
Add: net borrowing		(31)	(28)	(26)	(24)	(22)	(20)	(19)	(17)
FCFE		**138**	**121**	**241**	**127**	**562**	**719**	**806**	**890**
Terminal value							**-**	**-**	**14,704**
PV of FCFE		**138**	**110**	**201**	**97**	**391**	**457**	**468**	**8,261**
Cost of Equity	*9.50%*								
Terminal growth	*3.25%*								
Enterprise value	**10,123**								
No. of shares	45								
TP	**231**								
Current price	190								
Upside	***21.7%***								
D/Y	***1.1%***								
Total return	***22.8%***								

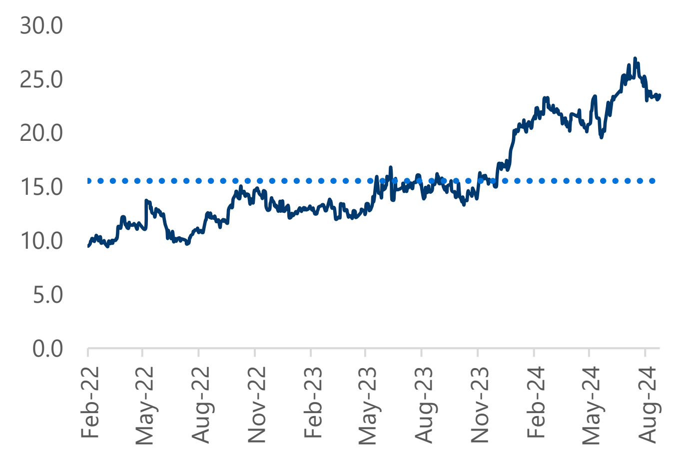
Source: anbc research & Company Data

Table 14: Valuation sensitivity

		Cost of equity				
Terminal growth rate		8.50%	9.00%	9.5%	10.0%	10.5%
	2.75%	260	237	217	201	186
	3.25%	280	253	**231**	212	196
	3.75%	304	273	247	225	207
	4.25%	335	297	266	241	220

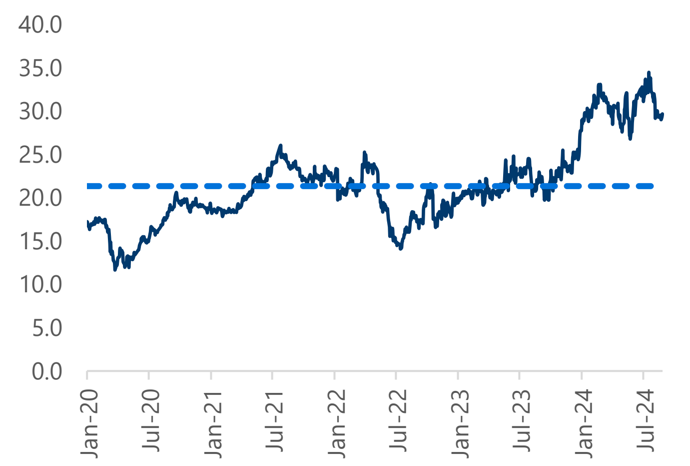
Source: anbc research & Company Data

Chart 72: EV/EBITDA (x)



Source: Bloomberg, anbc research

Chart 73: Price to Earnings (x)



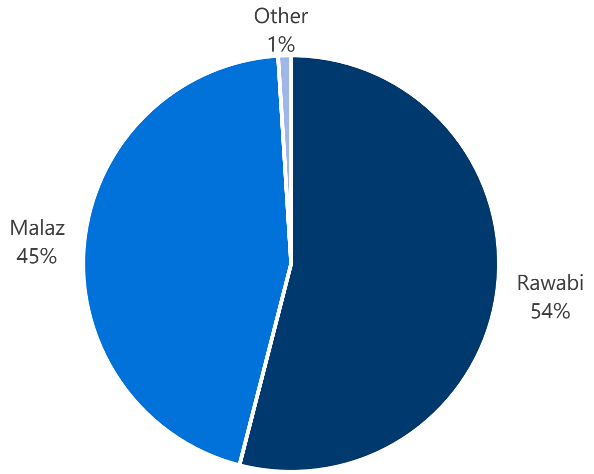
Source: Bloomberg, anbc research

Company Overview

National Medical Care was formed in 2003 as a partnership between GOSI and a group of shareholders from the private sector. The company traces its origins to 1966 when the National Hospital was set up by GOSI in Riyadh. Care listed on Tadawul in 2013. GOSI is still the largest shareholder through its investment arm, Hassana, which owns a 49.2% stake in the company. It is the third largest private sector hospital in Riyadh (from our coverage companies) and operates two hospitals, Riyadh Care Hospital in Rawabi (Rawabi Branch) and Care National Hospital in Malaz (Malaz Branch). As of end 2023, Care operated 655 beds and 224 clinics. In 2023, it served 651,000 patients out of which 21,300 were in-patient admissions.

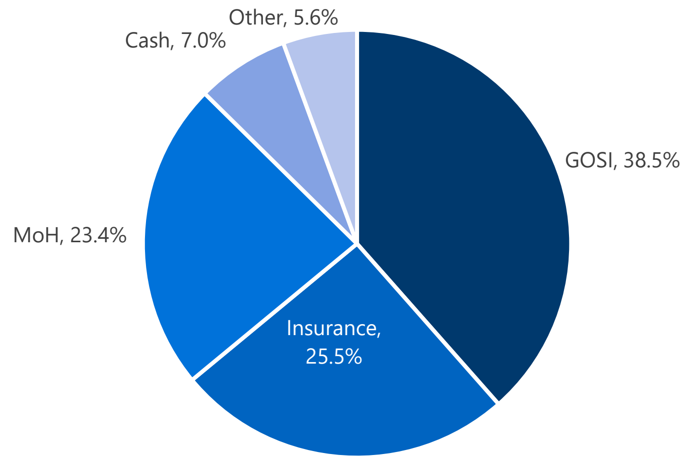
GOSI is the largest customer accounting for 38.5% of revenues. Care has an exclusive contract to provide healthcare services related to treating injuries from occupational hazards with GOSI. The contract is currently in the process of renewal and the management is working on converting it into a packaged deal with a pricing list for certain treatments and additional billing for other services. We think the contract would be renewed as GOSI is also the largest shareholder and over the years Care has built a specialization in dealing with such treatments.

Chart 74: Revenue split by hospitals (2023)



Source: anbc research & Company Data

Chart 75: Revenue split by customers (2023)



Source: anbc research & Company Data

Five-year Strategic Plan:

In April 2022, Care's management announced a five-year strategic plan, which is currently in implementation phase. The strategic plan has four pivots:

1. Extending health service offering in Riyadh.
2. Serving new population segments and geographies
3. Deliver exceptional value to patients and partners
4. Realizing the potential of value networks across the business units.

The goal of the plan is to have strategic impact on:

1) Financial performance by achieving i) sustainable growth in the healthcare sector, ii) Improving profit margins and iii) diversifying sources of revenues.
2) Patients and partners by achieving i) better healthcare outcomes, highly satisfied patients and being a partner of choice for different categories.
3) Company and staff by achieving i) increasing employee satisfaction ii) enhanced market positioning iii) integrated organization structure.

Since the launch of the program the company has achieved the following milestones:

- Acquired Jiwar Medical in Mecca in 2Q23 (66 beds) for SR22mn.
- Acquired Chronic Care in Jeddah in 4Q23 for SR163mn.
- Purchased land in Riyadh to construct a 400-bed hospital (first phase operational from 2028).
- Converted its existing dental clinic into a mental health facility (operational from 3Q24), which has around 46 beds.
- Purchased land in Jeddah for a hospital for SR132mn.
- Started the plan to add 124 additional beds at Malaz from 1Q24.
- Announced the acquisition of Al Salam Hospital in Riyadh for SR44m. The hospital has 100 beds.

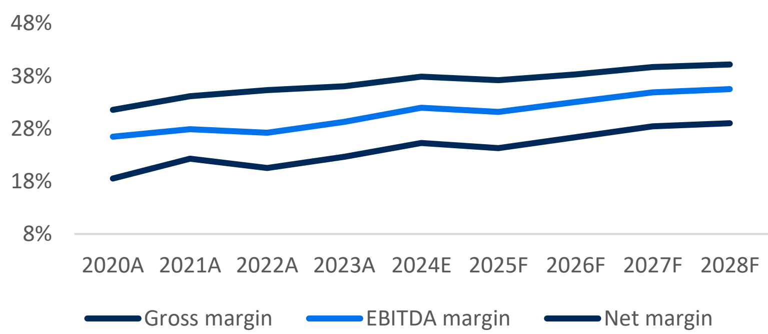
Financial Analysis:

Table 15: Revenue Model

	2022A	2023A	2024E	2025F	2026F	2027F	2028F
Beds	655	655	655	655	655	1,008	1,020
growth		*0%*	*0%*	*0%*	*0%*	*54%*	*1%*
Inpatients	14,000	16,000	19,000	21,000	21,280	30,734	34,537
growth		*14%*	*19%*	*11%*	*1%*	*44%*	*12%*
Outpatients	382,000	347,000	513,000	617,000	629,930	724,420	833,082
growth		*-9%*	*48%*	*20%*	*2%*	*15%*	*15%*
Total Patients	396,000	363,000	532,000	638,000	651,210	755,153	867,619
growth		*-8%*	*47%*	*20%*	*2%*	*16%*	*15%*
Revenue/Inpatient (SR)	33,845	34,606	29,315	34,667	40,242	34,659	38,344
growth		2%	-15%	18%	16%	-14%	11%
Revenue/Outpatient (SR)	*393*	*466*	*363*	*129*	*152*	*160*	*168*
growth		18%	-22%	-65%	18%	5%	5%
Inpatient Revenues (SR mn)	474	554	557	728	856	1,065	1,324
growth		*17%*	*1%*	*31%*	*18%*	*24%*	*24%*
Outpatient Revenues (SR mn)	150	162	186	79	96	116	140
growth		*8%*	*15%*	*-57%*	*21%*	*21%*	*21%*
Hospital Revenue (SR mn)	**624**	**715**	**743**	**807**	**952**	**1,181**	**1,464**
growth		*15%*	*4%*	*9%*	*18%*	*24%*	*24%*
Pharma Revenue (SR mn)	84	93	102	111	130	143	164
Growth		*11%*	*10%*	*8%*	*17%*	*10%*	*15%*
Total Revenue (SR mn)	708	809	845	918	1,082	1,324	1,628
Growth		*14%*	*5%*	*9%*	*18%*	*22%*	*23%*

Source: Company Data & anbc research

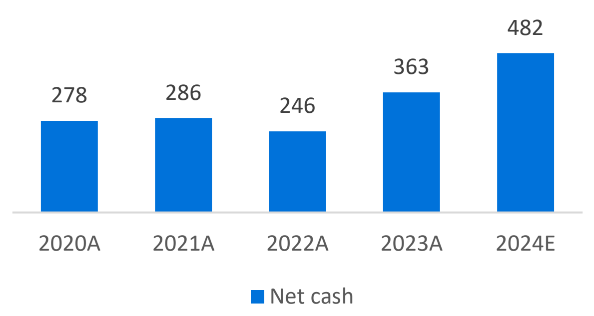
Chart 76: Trend in profitability margins



Source: anbc research & Company Data

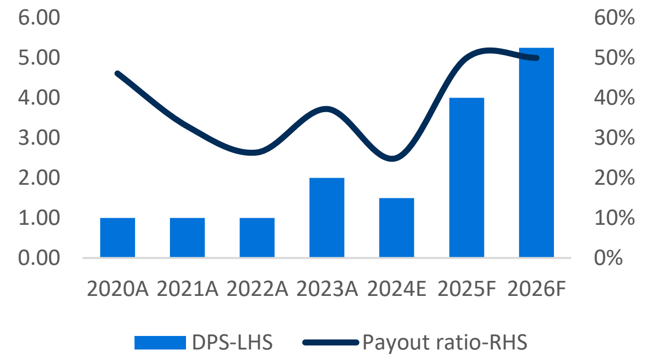
Strong Balance Sheet:

Chart 77: Net cash position*



Source: anbc research & Company Data. *Pre Al Salam-Hospital deal close

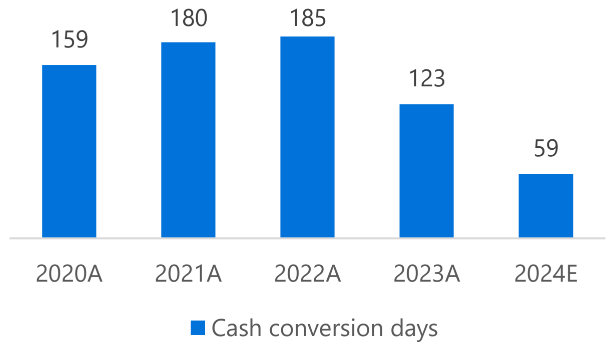
Chart 78: Dividend payout



Source: anbc research & Company Data

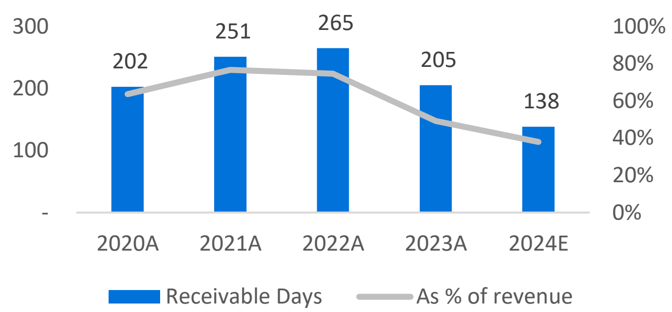
Improving cash flow generation:

Chart 79: Cash flow conversion cycle



Source: anbc research & Company Data

Chart 80: Accounts receivable days



Source: anbc research & Company Data

Major Shareholders

The company's majority shareholder is SMG, incorporated in the Kingdom of Saudi Arabia, which has 49.2% shareholding. SMG is ultimately owned by General Organization for Social Insurance (GOSI), Saudi Arabia.

Table 16: Financial Statements

National Medical Care									
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
Revenue	SR mn	918	1,082	1,324	1,628	1,878	2,026	2,404	2,742
Gross profit	SR mn	**290**	**370**	**467**	**586**	**712**	**753**	**921**	**1,088**
Selling & distribution expenses	SR mn	4	9	10	13	15	16	19	22
General &admin	SR mn	91	119	149	155	161	181	188	194
Expected credit loss allowance	SR mn	5	(0)	8	8	8	8	8	8
Operating profit	SR mn	**197**	**247**	**303**	**415**	**531**	**553**	**710**	**868**
Depreciation & Amortization	SR mn	46	55	60	67	75	86	95	98
EBITDA	SR mn	**243**	**302**	**364**	**482**	**607**	**639**	**804**	**966**
Finance cost	SR mn	(1)	(18)	4	4	4	4	4	4
Profit before zakat	SR mn	**199**	**265**	**299**	**411**	**527**	**549**	**706**	**864**
Zakat	SR mn	28	24	27	37	47	49	63	77
Profit after zakat	SR mn	**170**	**241**	**273**	**374**	**480**	**499**	**643**	**787**
EPS	SR/share	**3.79**	**5.37**	**6.08**	**8.34**	**10.71**	**11.14**	**14.33**	**17.55**
DPS, net	SR/share	1.00	2.00	1.50	4.25	5.25	5.50	7.25	8.75
Balance sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
PPE	SR mn	652	726	884	1,060	1,236	1,584	1,587	1,591
Right of use assets	SR mn	-	91	78	65	52	39	26	13
Intangible assets	SR mn	4	119	119	119	119	119	119	119
Non-current assets	SR mn	**657**	**936**	**1,081**	**1,244**	**1,407**	**1,742**	**1,732**	**1,723**
Inventories	SR mn	43	53	54	66	74	81	94	105
Trade and other receivables	SR mn	684	532	502	604	682	718	833	927
Term deposits	SR mn	-	385	385	385	385	385	385	385
Cash&equivalents	SR mn	329	309	388	326	340	228	473	807
Current assets	SR mn	**1,056**	**1,278**	**1,329**	**1,381**	**1,480**	**1,412**	**1,785**	**2,225**
Total assets	SR mn	**1,713**	**2,214**	**2,410**	**2,625**	**2,887**	**3,154**	**3,517**	**3,947**
Share capital	SR mn	449	449	449	449	449	449	449	449
Statutory reserve	SR mn	186	186	186	186	186	186	186	186
Treasury shares	SR mn	-	-	-	-	-	-	-	-
Retained earning	SR mn	629	819	1,024	1,207	1,452	1,705	2,022	2,417
Total shareholder equity	SR mn	**1,264**	**1,453**	**1,659**	**1,842**	**2,087**	**2,340**	**2,657**	**3,052**
Long term borrowings	SR mn	77	262	236	212	191	172	155	139
Lease liability	SR mn	-	53	49	44	39	35	30	26
Employee benefit obligations	SR mn	86	98	98	98	98	98	98	98
Non-current liabilities	SR mn	**163**	**413**	**382**	**354**	**328**	**305**	**283**	**263**
Trade and other payables	SR mn	190	228	241	293	328	358	417	465
Current portion of long term borro	SR mn	6	8	8	8	8	8	8	8
Current portion of lease liability	SR mn	-	7	7	7	7	7	7	7
Current liabilities	SR mn	**286**	**348**	**361**	**413**	**448**	**477**	**537**	**585**
Total liablities	SR mn	**449**	**761**	**743**	**767**	**776**	**782**	**820**	**848**
Total liabilities and equity	SR mn	**1,713**	**2,214**	**2,402**	**2,609**	**2,863**	**3,122**	**3,477**	**3,899**
Cash flow statement		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
Profit before zakat	SR mn	199	265	299	411	527	549	706	864
Depreciation on PPE	SR mn	42	44	50	57	64	76	84	87
Adjusted net income	SR mn	265	319	341	449	563	594	745	893
Trade receivables	SR mn	(41)	193	30	(102)	(77)	(37)	(115)	(94)
Inventories	SR mn	3	(8)	(1)	(12)	(8)	(7)	(13)	(11)
Trade payables	SR mn	14	(28)	13	52	35	30	60	48
Net CFO	**SR mn**	**217**	**467**	**382**	**387**	**513**	**580**	**677**	**835**
Purchase of PPE	SR mn	(211)	(54)	(202)	(227)	(235)	(418)	(82)	(85)
CFI	**SR mn**	**(212)**	**(625)**	**(205)**	**(230)**	**(238)**	**(421)**	**(85)**	**(88)**
Dividend paid	SR mn	(45)	(45)	(67)	(191)	(235)	(247)	(325)	(392)
Proceeds from term loans	SR mn	-	191	-	-	-	-	-	-
Repayment of term loans	SR mn	(6)	(6)	(26)	(24)	(21)	(19)	(17)	(15)
Payment of lease liabilities	SR mn	-	(2)	(5)	(5)	(5)	(5)	(5)	(5)
CFF	**SR mn**	**(51)**	**138**	**(98)**	**(219)**	**(261)**	**(270)**	**(347)**	**(413)**
Net cash flows	SR mn	(46)	(21)	79	(62)	14	(112)	245	334
Ending balance	**SR mn**	**329**	**309**	**388**	**326**	**340**	**228**	**473**	**807**

Source: anbc research & Company Data

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

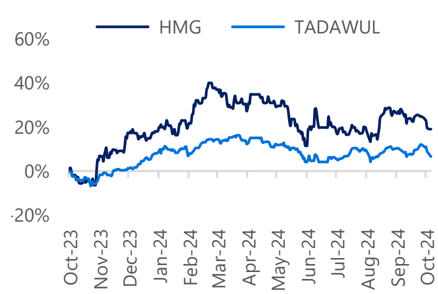
** as of 20th October 2024*

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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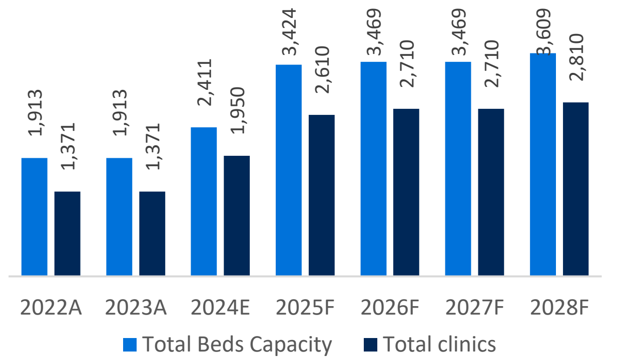
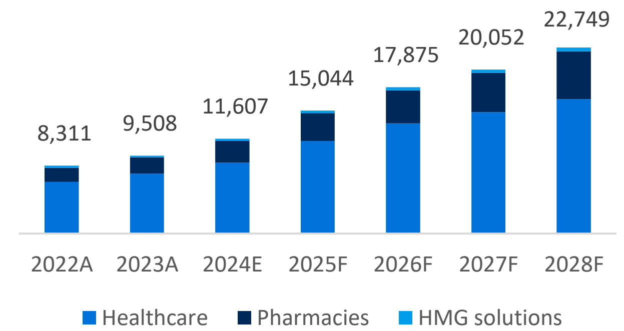
Investment Thesis in Charts

Chart 81: Geographical footprint- Beds



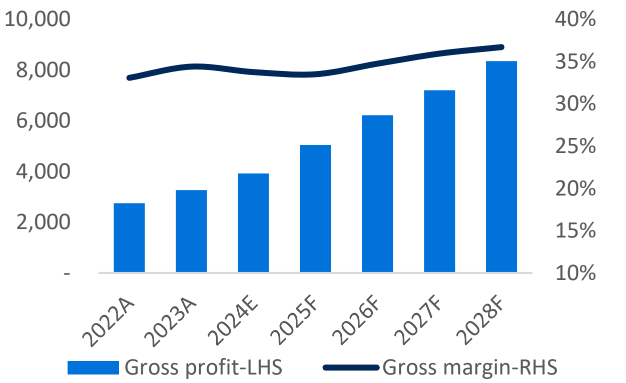
Source: Company Financials and anbc research

Chart 82: Revenue growth- SRmn



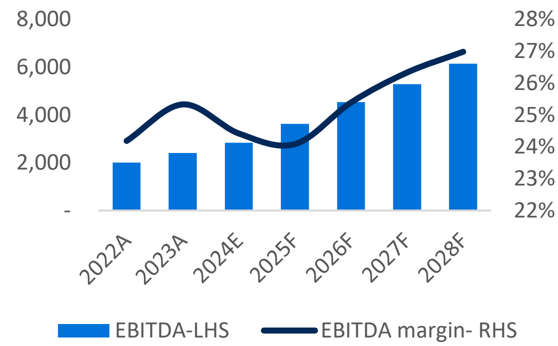
Source: Company Financials and anbc research

Chart 83: Gross Margin



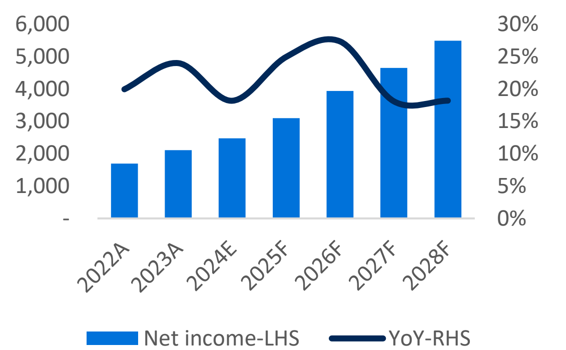
Source: Company Financials and anbc research

Chart 84: EBITDA Margin



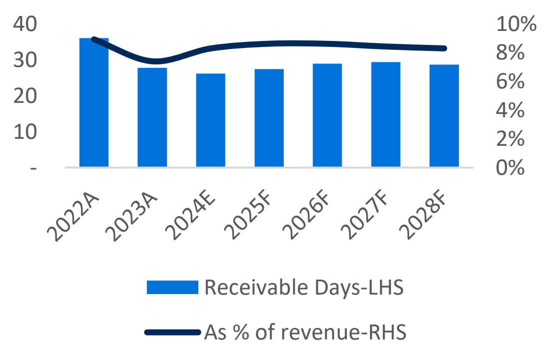
Source: Company Financials and anbc research

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

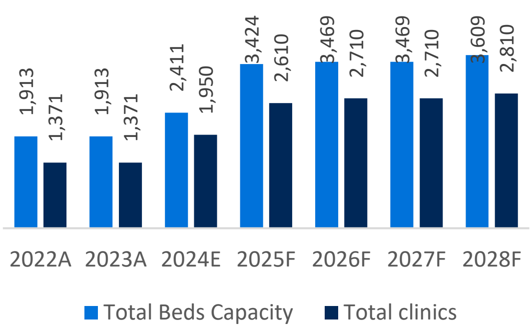
Name	Exp. Completion Date	City	Ownership	Beds
Women's Health Hospital	2024	Riyadh	100%	145
Sehat Al Kharj Hospital	2024	Kharj	100%	141
Al Muhammadiyah Hospital (North Jeddah Hospital)	2024	Jeddah	100%	350
Qassim Medical Center	2024	Buraidah	100%	N/A
KAEC Medical Center	2024	Rabigh	100%	N/A
Qassim Hospital – 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.

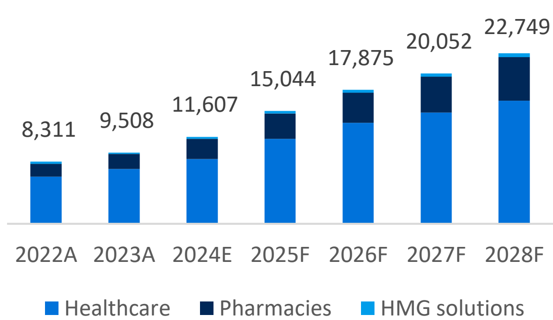
We think there could be further upside in our numbers from winning privatization and PPP deals from the government with more than 14 projects already in the pipeline while more than 100 PPP projects are expected over the next 5 years in the sector with $12.8bn in private investment. The Saudi government 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%**

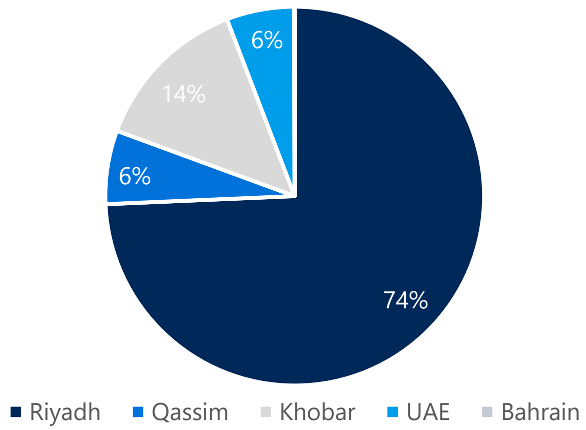
Source: Company Financials and anbc research

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.

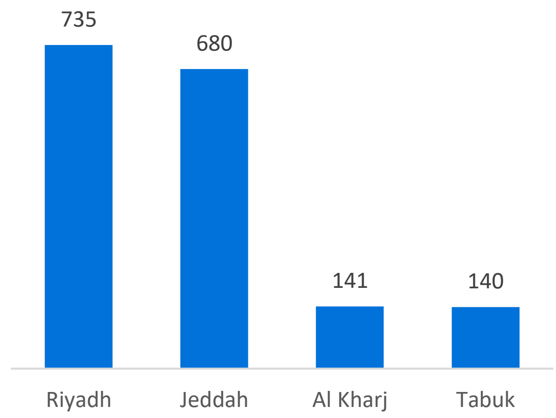
The company plans to further solidify its position in Riyadh with the addition of 735 beds post 2023 followed by the addition of 680 beds in Jeddah, a growing market where the company did not have a presence prior to 2024.

Chart 89: Revenue breakdown by geography



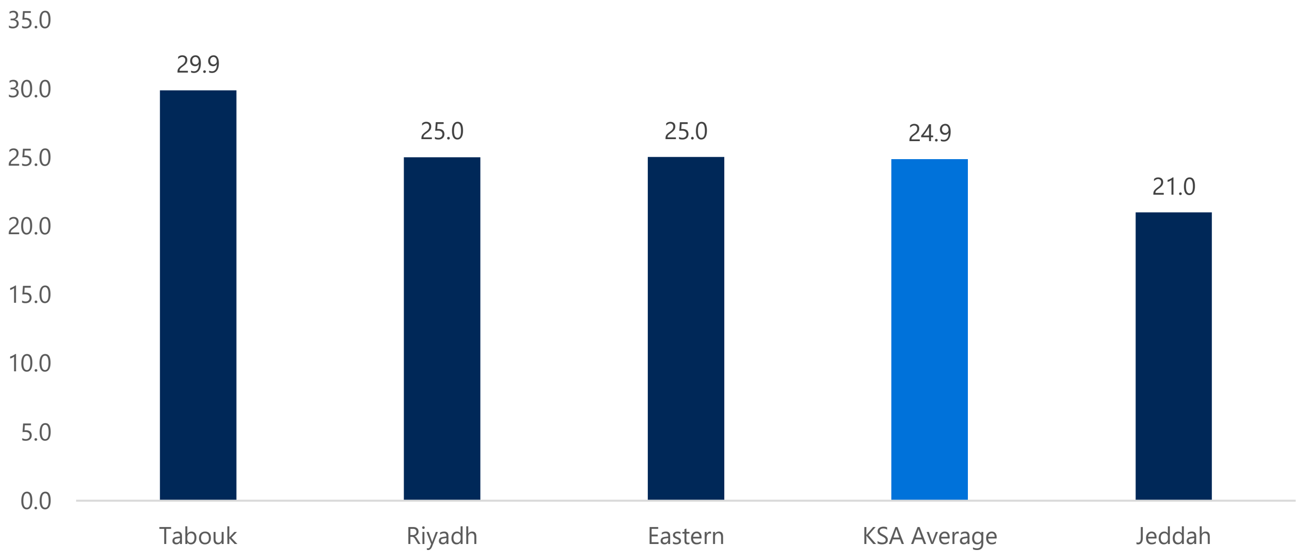
Source: Company Financials and ANB Calculations

Chart 90: Capacity addition by geography- Beds



Source: Company Financials and ANB Calculations

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



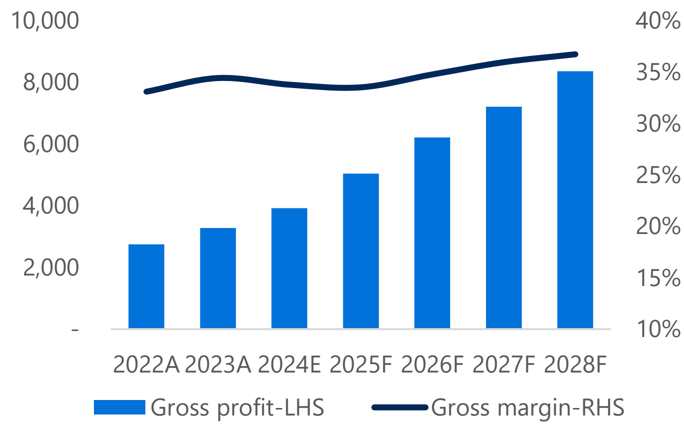
Source: Company Financials and ANB Calculations

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.

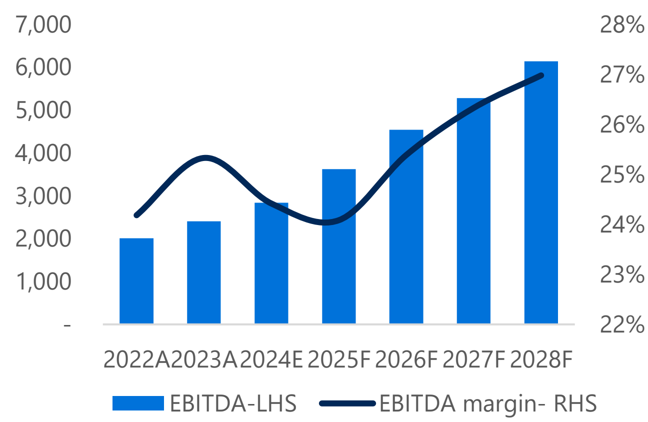
We think favorable demand-supply gap means that there would stable pricing and also room to increase pricing by focusing on more complex treatments. We think the goodwill of HMG's brand will help it attract A/Premium customers in the new markets as well. We think this would help HMG enhance its profitability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

Chart 92: Gross Margin



Source: Company Financials and anbc research

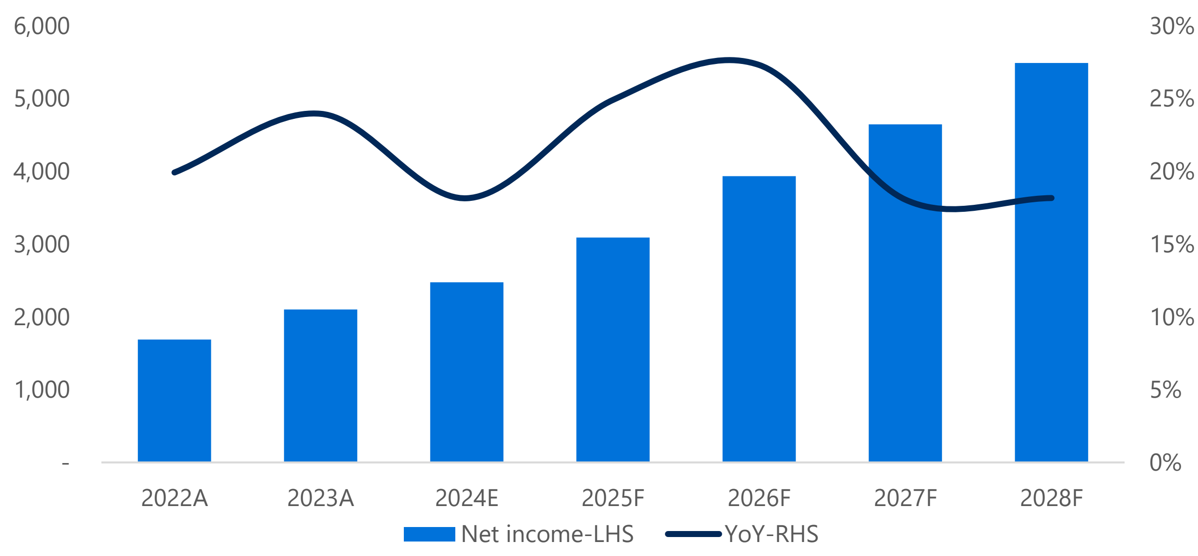
Chart 93: EBITDA Margin



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.

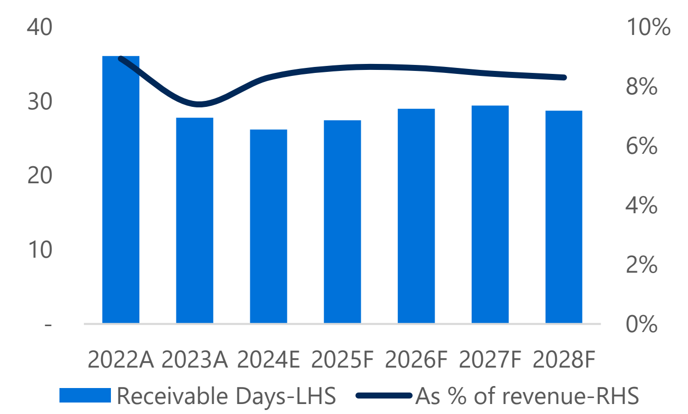
HMG has managed to position itself as the largest private healthcare operator in the listed space without compromising on its return metrics. The company standards out on most key performance indicators and financial ratios, which is reflective of its strong quality, which we think is the key reason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

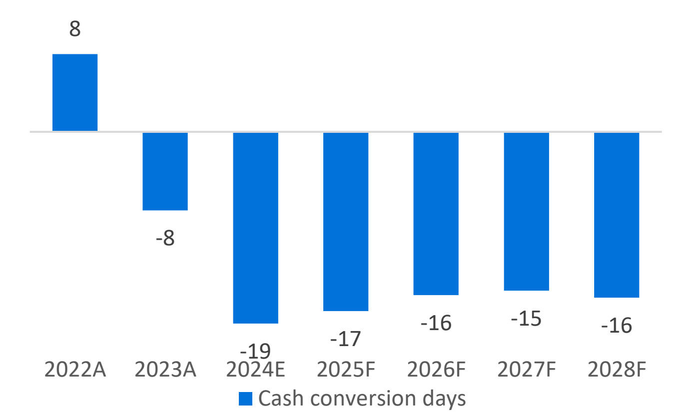
Cash flow conversion cycle: Higher exposure to insurance clients and more efficient revenue cycle management has helped the company in maintaining an efficient cash conversion cycle with the lowest receivable days vs its peers in the listed space. The company's cash conversion cycle turned negative in 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.

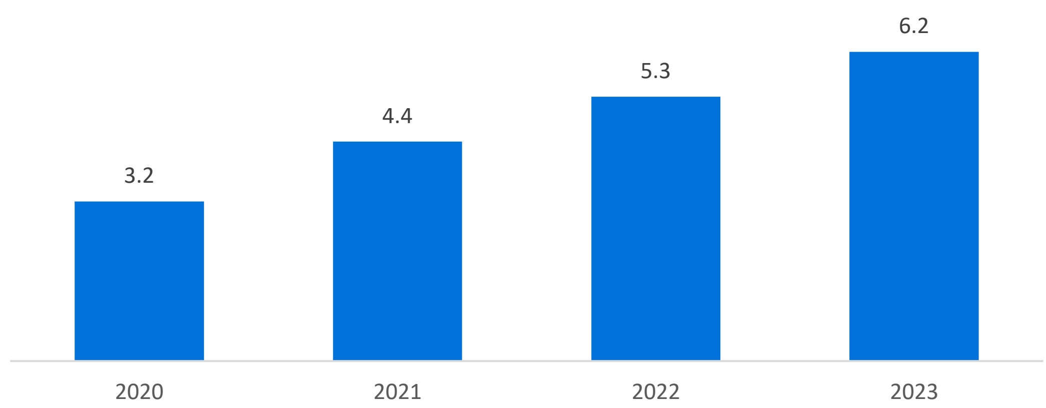
Table 24: HMG in a snapshot (as of end 2023)

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)

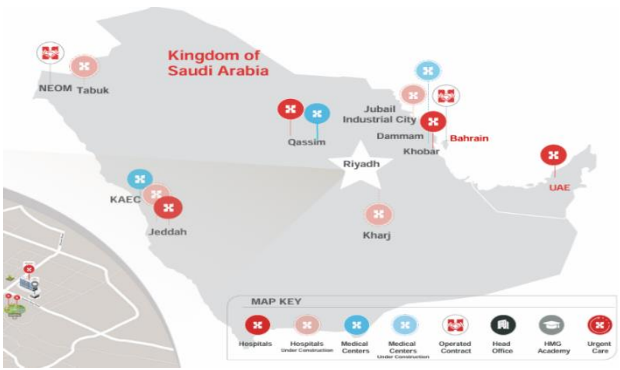


Source: Company Financials and anbc research

Chart 98: Geographical footprint in Riyadh

Source: Company Financials and anbc research

Chart 99: Geographical footprint

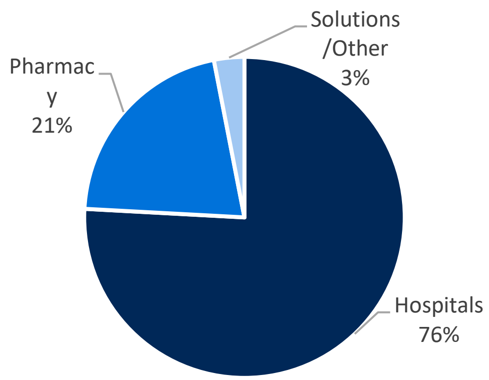


Source: Company Financials and anbc research

6.4.1. Financial Overview:

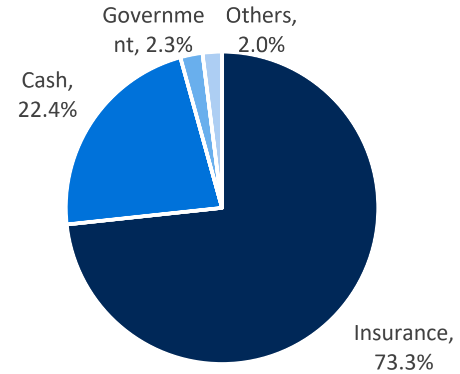
HMG has three business segments; Healthcare segment accounts for the majority of the revenue (76% of total, 35.9% gross margins in 2Q24) followed by the Pharmacy segment (24 pharmacies, 21% of total revenues, 29.5% gross margins in 2Q24) and HMG Solutions (c3% of total revenues, 22.5% gross margins in 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

Dr. Soliman Abdel Kader Fakeeh Hospital

21 October, 2024

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

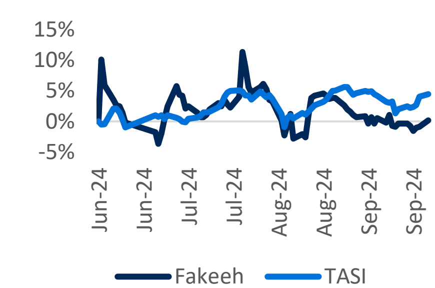
**as of 20th October 2024*

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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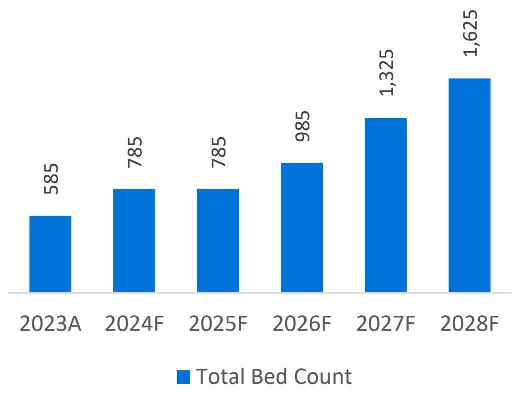
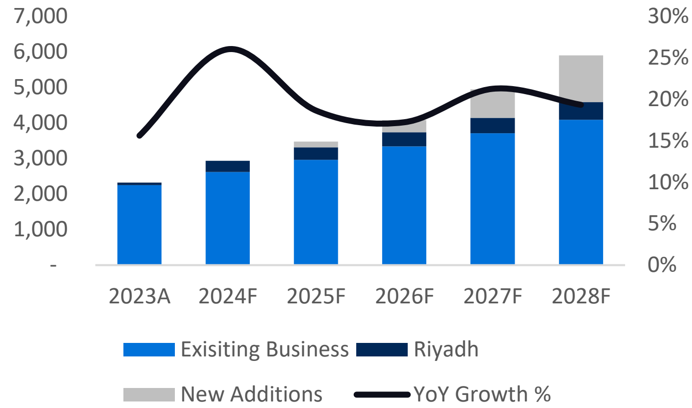
Investment Thesis in Charts

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



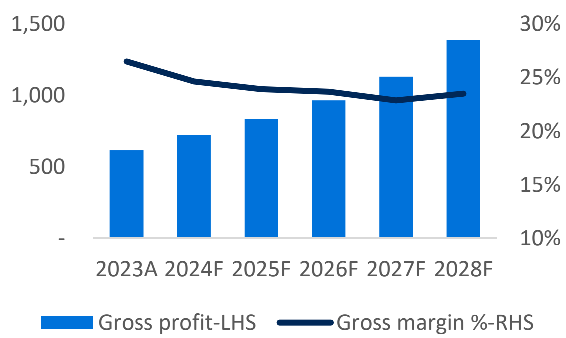
*Source: Company Financials, anbc research, *Excluding O&M operations in NEOM (50 beds and 5 clinics)*

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



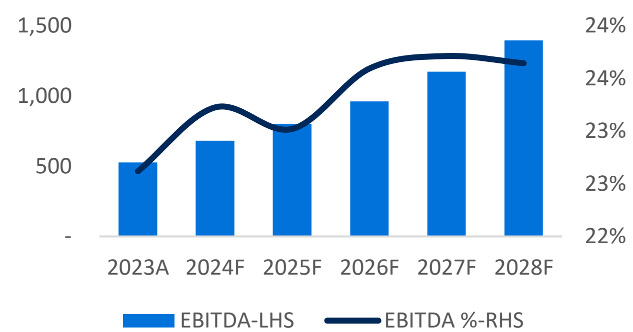
Source: Company Financials, anbc research

Chart 104: Gross margins to face pressure due to expansions



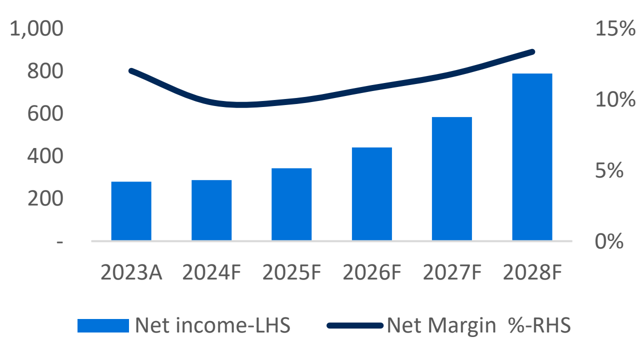
Source: Company Financials, anbc research

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



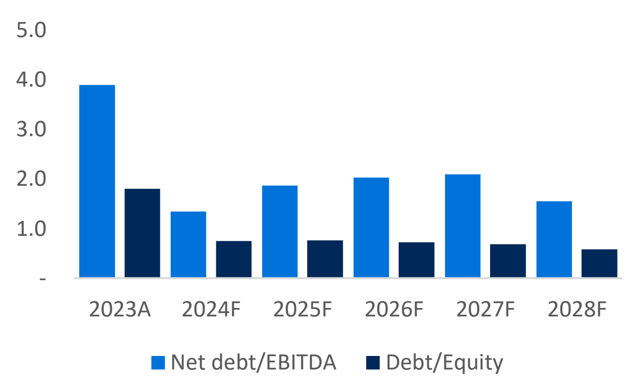
Source: Company Financials, anbc research

Chart 106: Net profit growth to gain momentum- SRmn



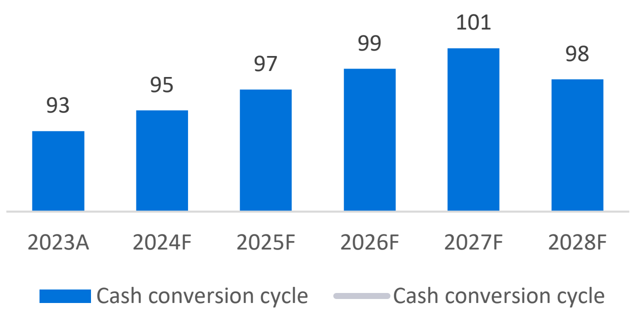
Source: Company data, anbc research

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



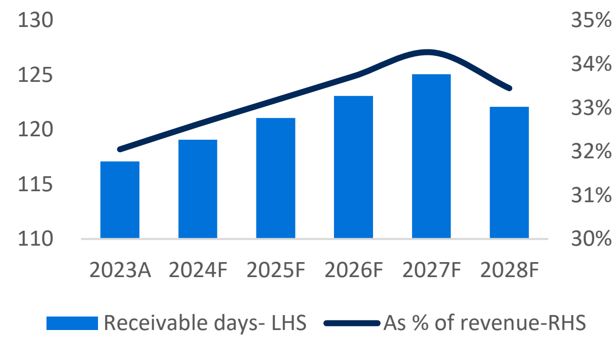
Source: Company Financials, anbc research

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).

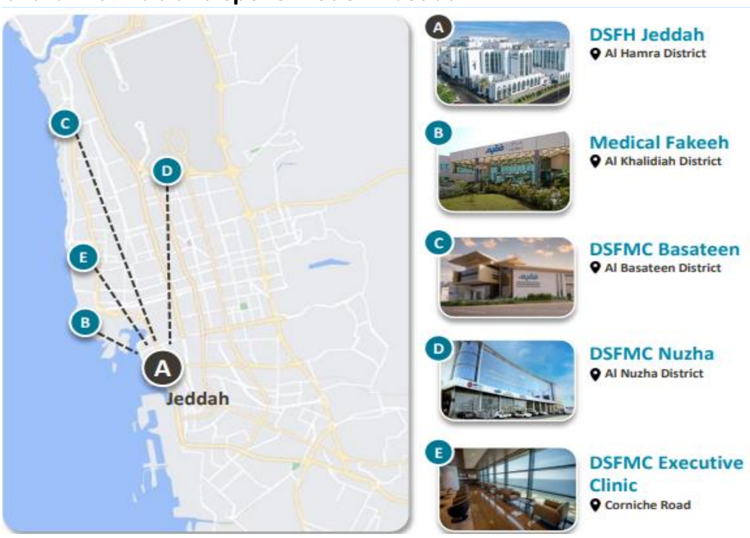
FCMS will add two new buildings which are expected to be ready by 2027 (constructions will begin in 2025). C40% of the Education capex is for this expansion.

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.

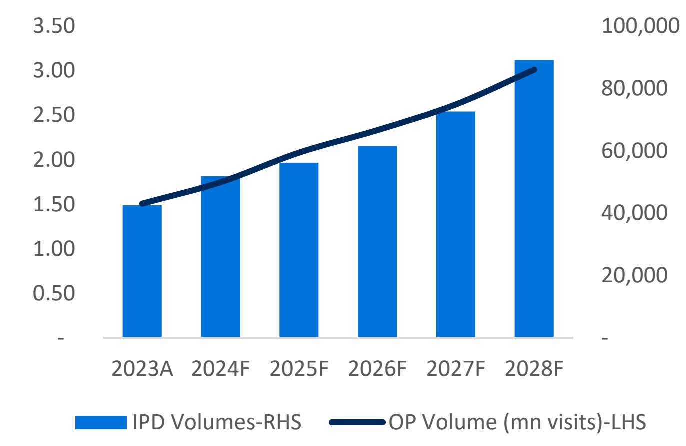
Table 29: Revenue Model

	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

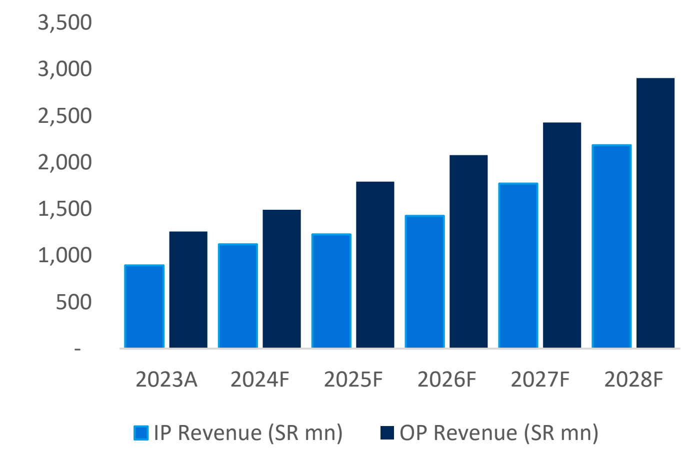
Outpatient Revenues: Based on our assumptions about the capacity expansion pipeline for the new clinics and additional beds, we are modelling Outpatient (OP) revenue to grow at a 5-year CAGR of 18.2% between 2023-28, from SR1.3bn in 2023 to SR2.9bn by 2028. This growth is driven by increases in both 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

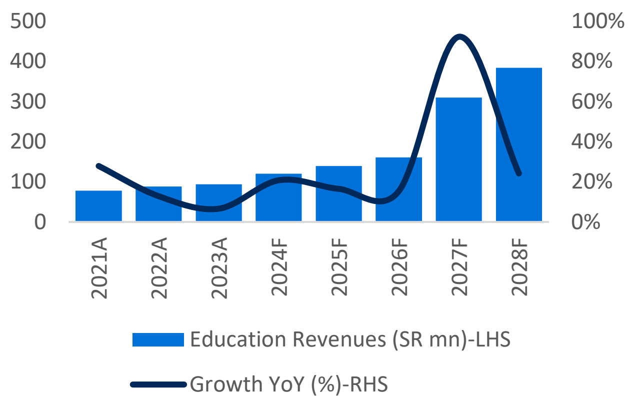
Other Medical Services	2023A	2024F	2025F	2026F	2027F	2028F	CAGR (%)
O&M - Revenue (SR mn)	188	282	395	494	568	624	27%
Growth YoY (%)	0%	50%	40%	25%	15%	10%	
HHC/MedE - Revenue (SR mn)	41	81	122	152	167	184	35%
Growth YoY (%)	0%	100%	50%	25%	10%	10%	
Other Services							
Other services - (SR mn)	140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

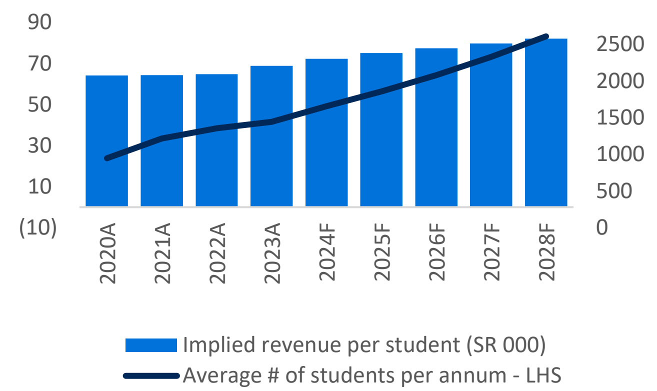
Education Revenues:

Chart 113: Education Services revenues



Source: Company Financials, anbc research

Chart 114: Education Revenue per Student

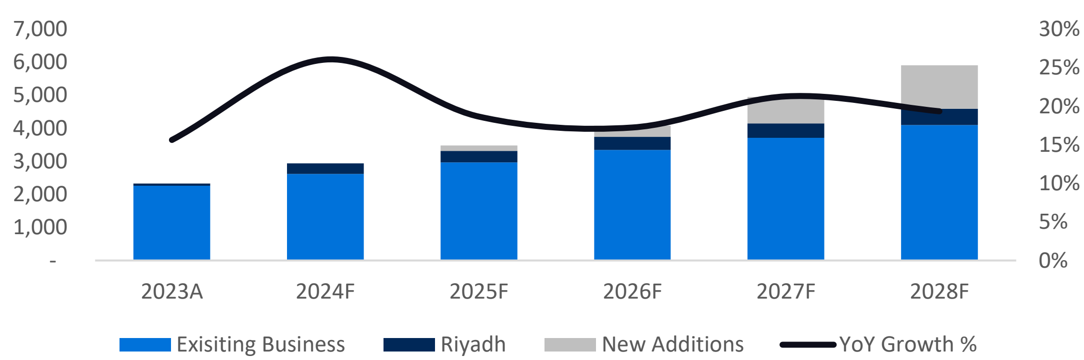


Source: Company Financials, anbc research

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:

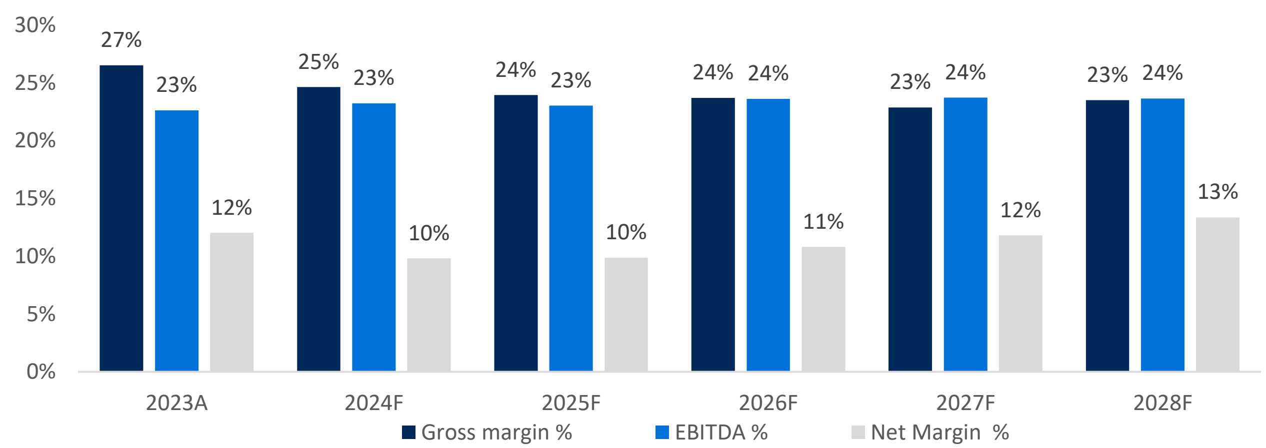
Over 2020-2023 Fakeeh's Net Income (before deducting NCI) remained relatively flat from SR225mn in 2020 to SR232mn in 2023. The acquisition of the new hospital in Riyadh led to higher ramp-up costs. Due to this, Net Income declined by 30% YoY in 2023. Adjusting for the losses from DSFH Riyadh, Net Income 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				
Terminal growth rate		*7.94%*	*8.44%*	*8.88%*	*9.44%*	*9.94%*
	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.

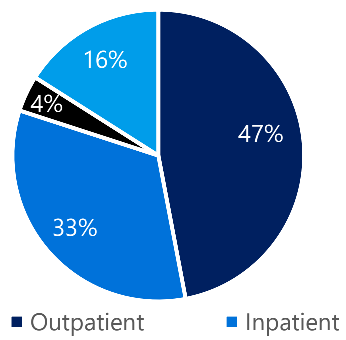
Income Composition

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)

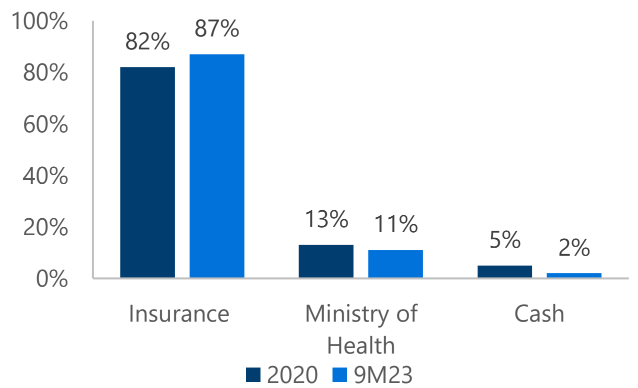
Payments from insurance companies are the largest revenue contributor (87% of the Company revenues) followed by Referrals from the Ministry of Health, at 11% while 2% of the revenue comes from cash patients.

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

Al Hammadi Holding

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on Al Hammadi Holding (Hammadi) with a target price of SR45 and a Neutral recommendation. The company has two hospitals in Riyadh and over the next four years has plans to bring two more hospitals online adding more capacity to its network. The plan is to add 400 beds by 2028, an increase of around 67%. This will be done through the reopening of its Olaya hospital followed by the addition of a fourth hospital in Narjis in Riyadh. As part of its premiumization strategy, the company is also working towards expanding its share of A+/VIP patients, positively impacting pricing power. The company is also reviewing its pricing strategy to maximize benefits from the implementation of its Diagnosis Related Group (DRG), a patient classification system used to streamline inpatient billing. On the back of this, we estimate 10% CAGR in revenues over 2023-26. This is lower than its listed peers under our coverage. The stock has underperformed despite low valuations. Consensus earnings estimates for 2024 have been revised down by 10% and we think there is further risk of downgrades. Our price target of SR45 is based on a DCF (WACC: 9.9% and terminal growth of 3.0%) and implies a PE of 24x for 2025e.

Expanding coverage in Riyadh: Hammadi is a prominent player in the Riyadh healthcare market operating two prime hospitals in key locations of the city. Unlike its Riyadh peer HMG, Hammadi has been more conservative in expansions so far, and instead has focused on optimizing customer mix and cost controls. Over 2019-2023, revenues have only increased at a CAGR of 4.8% but there has been 778 bpts increase in gross margins and ROE has expanded by 1,095bps. Going forward, the company is starting to add additional capacity (will increase the number of beds to 1,000 by 2028 from 600 in 2023). We expect this to drive CAGR of 14% in revenues over 2023-2028. While this is faster than the historical trend, the growth is mainly coming in 2026 and 2028 and until then the process of premiumization is ongoing. The company is aiming to attract more high-end patients and negotiating price increases with the insurance companies.

Revamping its pricing strategy: Hammadi has moved towards strategic repricing of its services as part of its strategy which is expected to be implemented from 2024-2026. This is expected to take a toll on the company's gross level performance in the near term. However, the strategy is also expected to place the company in a better position to maximize gains from the implementation of DRG. Post 2027, the company plans to shift its focus back to volume growth as its new capacities come online.

Still risks to consensus earnings estimates: Since the start of the year, consensus earnings estimates for 2024 have been revised down by around 10%. The cuts have come mainly due to weaker patient volumes. Our estimates are below consensus.

Valuation: Our target price of SR45/share for Hammadi values the company at a 2025e P/E of 24x. Relative to the sector, the stock looks cheap. However, with ROE expected to take a hit amid pressure on margins and relatively less aggressive expansion plans (capacity increase 2026 onwards) we think there is no positive catalyst in the near term which could drive a multiple re-rating.

Risks: The key downside risks are pressure on gross margins in the near term, rising competition, delays in expansions and build-up in trade receivables (48% of revenue in 2023).

RATING SUMMARY	Neutral
Target Price (SR)	45
Upside/Downside	12%
Dividend Yield	3%
Total Return	15%

ISSUER INFORMATION	
Share Price (SR/sh)	40.4*
Target Price (SR/sh)	45
Bloomberg (Equity)	ALHAMMADI AB
Market Cap (SRmn)	6,448
Free Float (%)	66.2

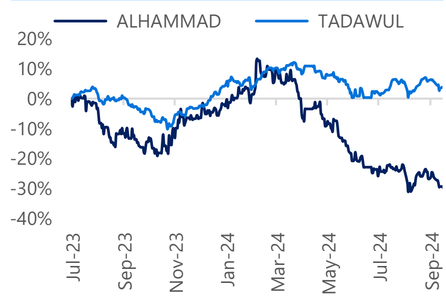
As of 20th October 2024

MULTIPLES	2024E	2025F
P/E (x)	21.0	21.5
P/B (x)	3.4	3.0
P/S (x)	5.4	4.9
EV/EBITDA (x)	16.0	14.2
RoA (%)	12	11
RoE (%)	17	15

Source: Bloomberg, anbc research

FINANCIALS (SR MN)	2023A	2024e	2025F	2026F
Revenue	1,177	1,219	1,346	1,587
Gross Profit	433	402	456	525
EBITDA	443	401	451	496
Net Income	303	312	305	341
EPS	1.9	1.9	1.9	2.1
DPS	1.4	1.5	0.3	0.3

PRICE PERFORMANCE –Hammadi vs. TASI



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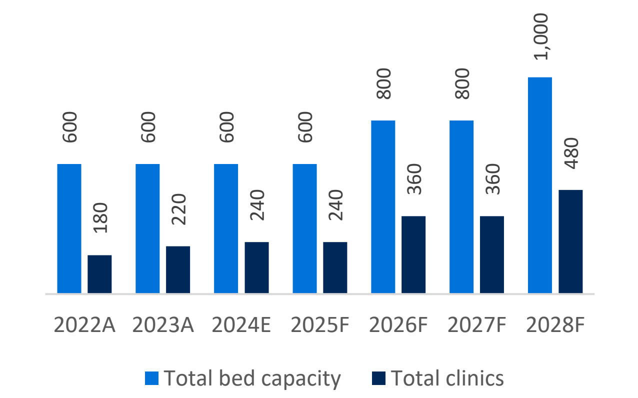
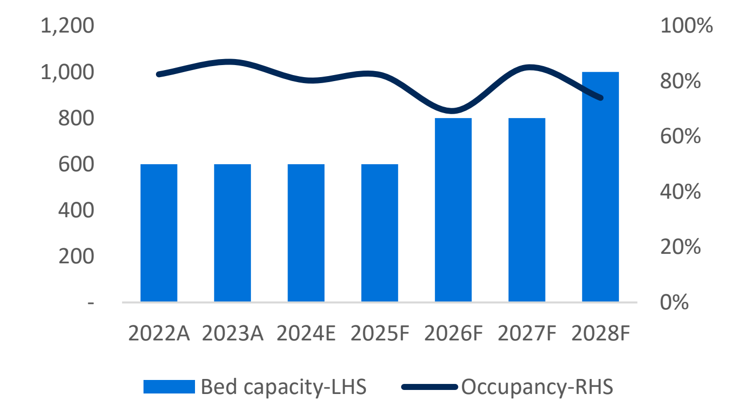
Investment Thesis in Charts

Chart 119: Capacity to increase ~67% by 2028



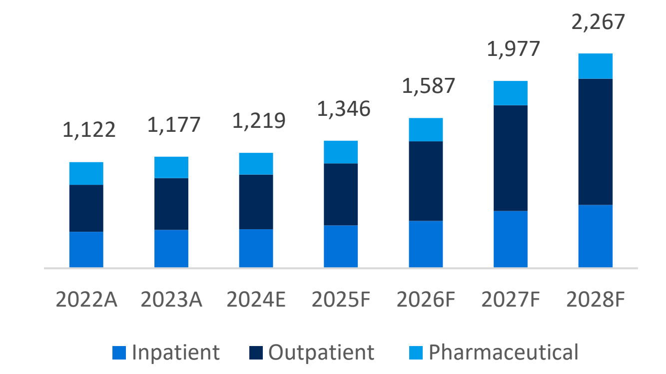
Source: Company Financials and anbc research

Chart 120: Occupancy to dip in expansion years



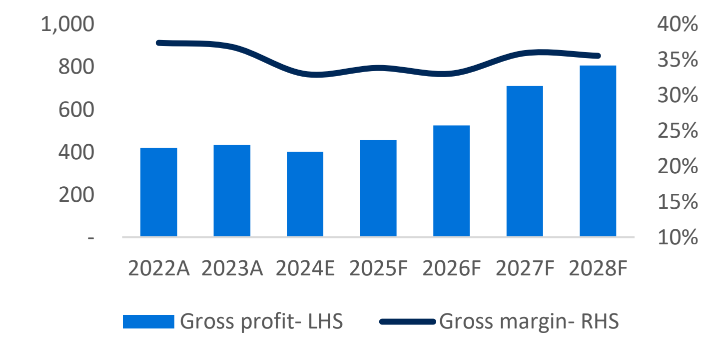
Source: Company Financials and anbc research

Chart 121: Revenue to grow at a CAGR of 14% by 2028



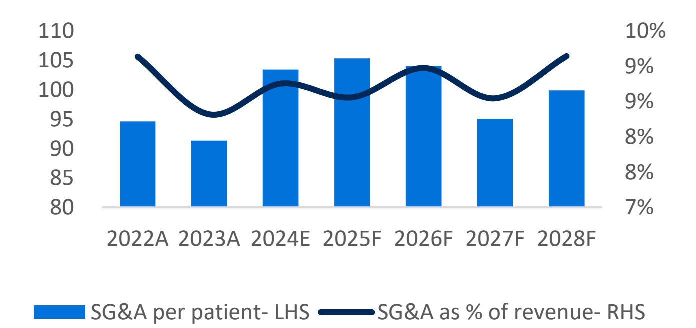
Source: Company Financials and anbc research

Chart 122: Gross margins to face pressure in the near term



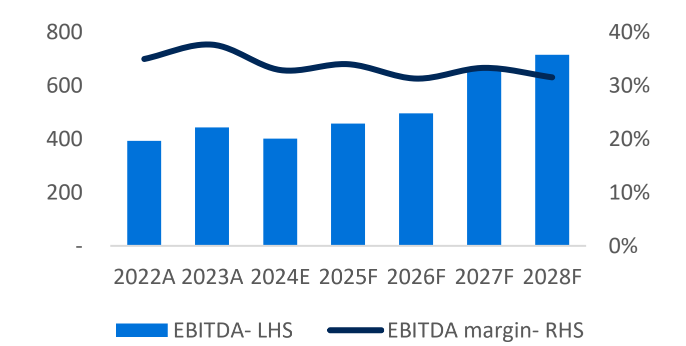
Source: Company Financials and anbc research

Chart 123: SG&A to remain around 9% of revenue



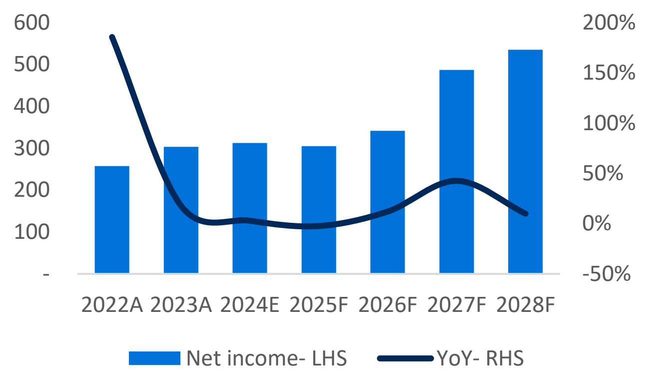
Source: Company Financials and anbc research

Chart 124: EBITDA to face pressure



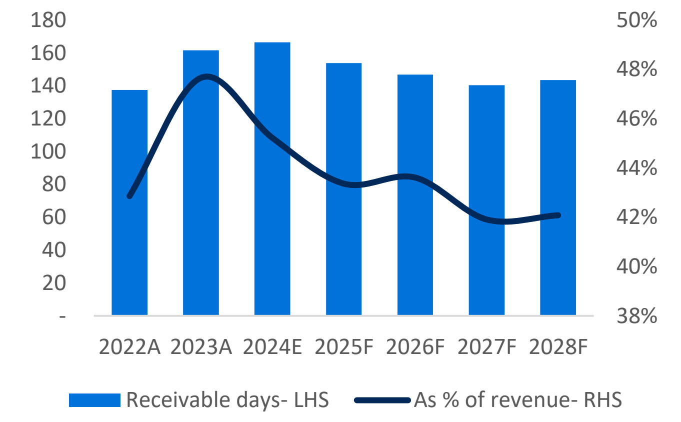
Source: Company Financials and anbc research

Chart 125: Net profit growth to peak in 2027 as operations at Olaya gather pace



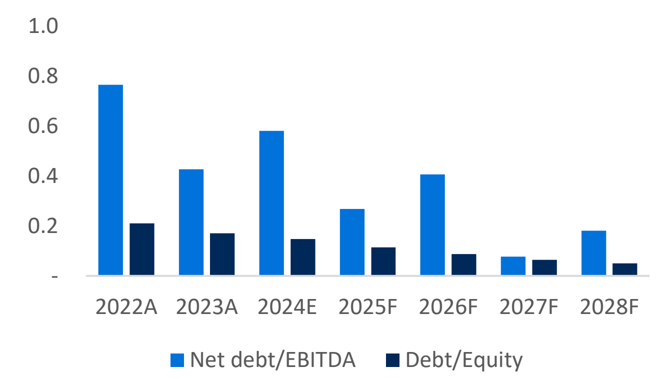
Source: Company Financials and anbc research

Chart 126: Receivable days to improve to 144 days by 2028



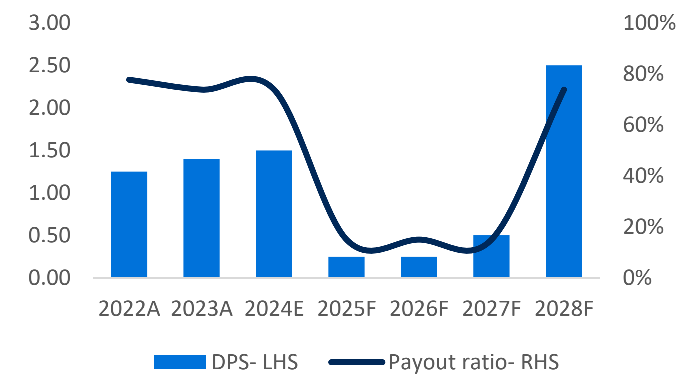
Source: Company Financials and anbc research

Chart 127: Net debt/EBITDA levels to reach 0.6x in 2024



Source: Company Financials and anbc research

Chart 128: Dividend cut during 2025-2027 to meet Capex needs



Source: Company Financials and anbc research

Table 34: Financial Summary

Al Hammadi Holding						
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	SR mn	1,122	1,177	1,219	1,346	1,587
Gross profit	SR mn	420	433	402	456	525
General &admin	SR mn	92	89	96	103	128
Operating profit	SR mn	292	343	347	333	367
EBITDA	SR mn	392	443	401	451	496
PAZ-holding company	SR mn	257	303	312	305	341
Balance Sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Current assets	SR mn	627	784	703	813	823
Non current assets	SR mn	1,855	1,811	1,945	2,076	2,354
Total assets	SR mn	2,482	2,594	2,648	2,889	3,177
Current liabilities	SR mn	260	284	288	296	314
Non-current liabilities	SR mn	511	466	444	411	379
Total equity	SR mn	1,711	1,845	1,917	2,182	2,483
Cash Flow Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net CFO	SR mn	253	351	439	392	368
CFI	SR mn	(113)	(55)	(243)	(248)	(407)
CFF	SR mn	(201)	(232)	(272)	(72)	(72)
Ending balance	SR mn	61	125	49	121	9
YoY Growth		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	%	*17.9%*	*4.8%*	*3.6%*	*10.4%*	*17.9%*
EBITDA	%	*63.0%*	*12.9%*	*-9.5%*	*12.4%*	*10.1%*
Operating profit	%	*122.3%*	*17.4%*	*1.2%*	*-3.9%*	*10.2%*
Net income	%	*185.7%*	*17.9%*	*2.9%*	*-2.4%*	*12.0%*
Ratios		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Return on assets (ROA)	%	*10.8%*	*12.0%*	*11.9%*	*11.0%*	*11.3%*
Return on equity (ROE)	%	*15.3%*	*17.1%*	*16.6%*	*14.9%*	*14.6%*
Gross margin	%	*37.4%*	*36.8%*	*33.0%*	*33.9%*	*33.1%*
Operating margin	%	*26.0%*	*29.1%*	*28.5%*	*24.8%*	*23.2%*
EBITDA margin	%	*34.9%*	*37.6%*	*32.9%*	*33.5%*	*31.3%*
Net margin	%	*22.9%*	*25.8%*	*25.6%*	*22.6%*	*21.5%*
Dividend payout	%	*77.7%*	*73.8%*	*73.8%*	*15.0%*	*15.0%*
Effective zakat rate	%	*6.1%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Per Share Analysis		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Earnings per share (EPS)	SR/sh	1.6	1.9	2.0	1.9	2.1
Dividends per share (DPS)	SR/sh	1.3	1.4	1.5	0.3	0.3
Book value per share (BVPS)	SR/sh	10.7	11.5	12.0	13.6	15.5

Source: Company Financials and anbc research

Investment Thesis

Riyadh based healthcare provider entering an expansion phase:

Hammadi operates two hospitals in Riyadh. Al Nuzha hospital, the first of the two, is located in the northeast neighborhood of the city. This hospital has a bed capacity of 300 beds along with 120 outpatient clinics. The hospital also has 13 operating rooms. The hospital specializes in cardiology, orthopedics, endocrinology and bariatric surgeries. Al Nuzha is also the higher revenue generating hospital of the two accounting for 58% of total revenue (excluding pharmaceutical sales). The second, Al Suwaidi Hospital, is located in the southwest of Riyadh. This hospital has a capacity of 300 beds (200 operational) with 100 outpatient clinics and 13 operating rooms. The hospital's specialty lies in cardiology, dermatology, pediatrics and obstetrics & gynecology. Unlike its listed peers, over the past five years, Hammadi has been more conservative on growth, and instead has focused on i) cost optimization and ii) enhancing the patient mix. Consequently, while historical revenue growth rate of 4.8% annualized over 2019-2023 is lower than listed peers, the company achieved substantial improvement in its margins and profitability. Earnings increased at 25% CAGR.

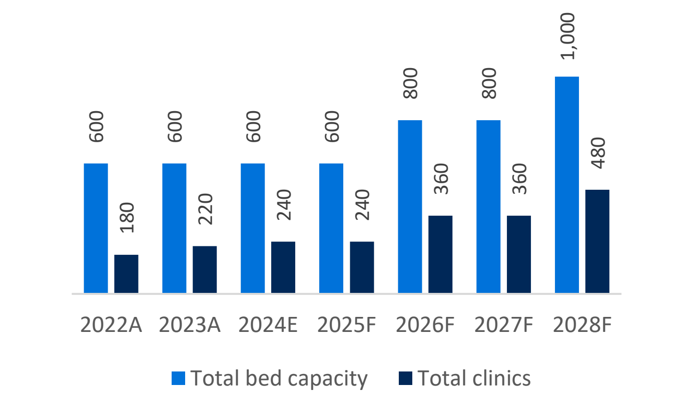
Table 35: Existing and upcoming capacity until 2028

	Beds	Clinics	City	Completion
Al Suwaidi*	300	100	Riyadh	2015
Al Nuzha	300	120	Riyadh	2018
Existing capacity	**600**	**220**		
Olaya (re-opening)	200	120	Riyadh	2026
Al Narjis	200	120	Riyadh	2028
Upcoming capacity	**400**	**220**		

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

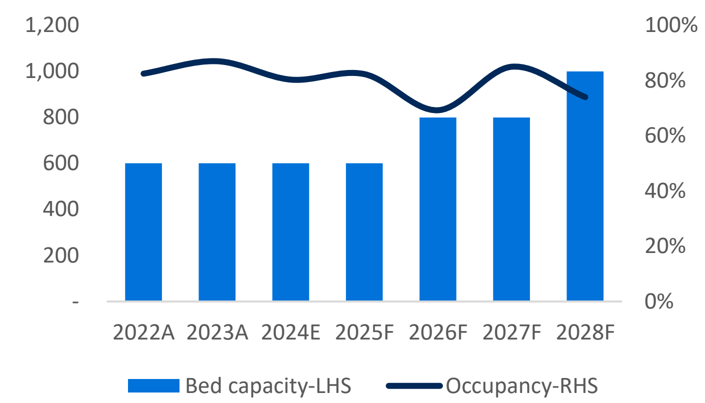
The company plans to enhance its capacity to 1,000 beds by 2028, an increase of 67% from current levels through the addition of two hospitals. The first of the two will be the reopening of Olaya Hospital which was the company's first hospital. The hospital was temporarily closed in 2021 for renovations. Post completion, the hospital will house two new centers of excellence which will specialize in sports medicine and oncology. The hospital is expected to be reopened in 2026 with 200 beds and 120 clinics. Similarly, the company also has plans to add a fourth hospital in 2028 which will be located in Al Narjis district in Riyadh. The hospital will have a bed capacity of 200 beds with 120 clinics and 2 centers of excellence. The centers of excellence will be focused on rehabilitation and plastic surgery. In addition to the new projects, the company also has 120 non-operating beds in Al Suwaidi which will be utilized to address rising demand.

Chart 129: Capacity to increase ~67% by 2028



Source: Company Financials and anbc research

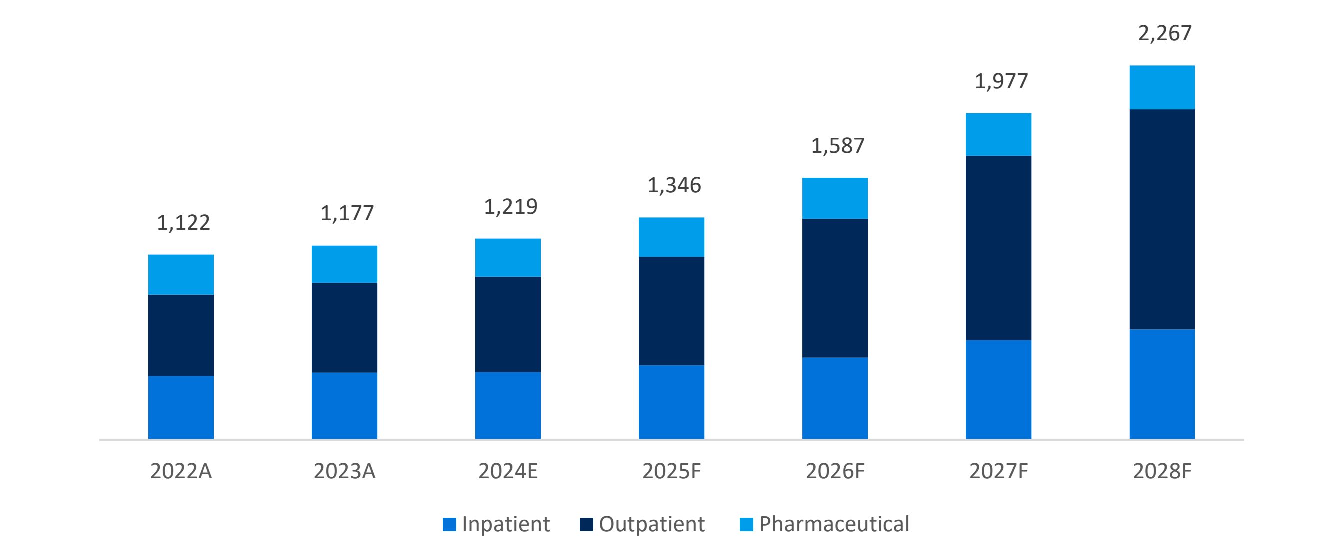
Chart 130: Occupancy to dip in expansion years



Source: Company Financials and anbc research

We expect the added capacity to drive revenue CAGR of 14% over 2023-2028, which is almost 3x its past 4-year performance (4.8% CAGR). Part of the reason for the company's mid-single digit growth was the closure of Olaya Hospital in 2021, which is now expected to come back online in 2026. We expect the highest growth in the outpatient segment (5-year CAGR: 20%) followed by growth in the inpatient segment (5-year CAGR: 10%) and the Pharmaceutical segment (5-year CAGR: 3%). We expect the company to grow its footprint across the city, capitalizing on the excess demand in the sector amid favorable regulation and population dynamics. We expect low single digit revenue growth of 4% in 2024 with slowdown in patient volume during 1H24 amid seasonality and strategic prices hikes. Thereon we expect the company to gain momentum reaching double digit growth averaging 17% growth during 2025-2028 as the company nears completion of its expansion projects.

Chart 131: Revenue to grow at a CAGR of 14% by 2028



Source: Company Financials and anbc research

Table 36: Revenue Model

	2022A	2023A	2024E	2025F	2026F	2027E	2028E
Number of Beds	600	600	600	600	800	800	1000
growth	-33%	0%	0%	0%	33%	0%	25%
Bed Utilization	82.5%	87.0%	80.3%	82.3%	69.3%	85.0%	74.0%
Number of Clinics	180	220	240	240	360	360	480
growth	-29%	22%	9%	0%	50%	0%	33%
Number of Inpatients	44,900	40,600	37,330	38,306	41,435	49,214	53,455
growth	11%	-10%	-8%	3%	8%	19%	9%
Number of Outpatients	1,038,500	1,030,700	994,128	1,055,653	1,327,224	1,728,103	2,020,772
growth	7%	-1%	-4%	6%	26%	30%	17%
Total Patients	1,083,400	1,071,300	1,031,458	1,093,959	1,368,659	1,777,317	2,074,227
growth	7%	-1%	-4%	6%	25%	30%	17%
Revenue per Inpatient	8,619	10,025	11,027	11,799	12,035	12,276	12,521
growth	-10%	16%	10%	7%	2%	2%	2%
Revenue per Outpatient	475	528	581	621	634	646	659
growth	31%	11%	10%	7%	2%	2%	2%
Inpatient Revenues	387	407	412	452	499	604	669
growth	1%	5%	1%	10%	10%	21%	11%
Outpatient Revenues	493	544	577	656	841	1,117	1,332
growth	39%	10%	6%	14%	28%	33%	19%
Hospital Revenues	880	951	989	1,108	1,340	1,721	2,001
growth	19%	8%	4%	12%	21%	28%	16%
Pharmacy Revenues	242	226	230	238	247	256	265
growth	14%	-7%	2%	4%	4%	4%	4%
Total Revenues	**1,122**	**1,177**	**1,219**	**1,346**	**1,587**	**1,977**	**2,267**
growth	**18%**	**5%**	**4%**	**10%**	**18%**	**25%**	**15%**

Source: Company Financials, anbc research

Revamping its pricing strategy and premiumization of customer base

Hammadi is working towards expanding its presence in the A/VIP class patients' segment. In terms of its patient mix, A/VIP class patients together accounted for 42% of the hospital's revenue at Al Nuzha and for 44% at Al Suwaidi in 2023. The latter hospital also has a higher share of VIP patients compared to Al Nuzha (17% vs 12%). Al Nuzha was originally established to cater to the B+ class patients and had double the bed capacity it has now (600 beds vs 300 beds now). In 2022, as part of the company's premiumization policy, the hospital was converted into a 300-bed facility targeting the A/VIP class patients.

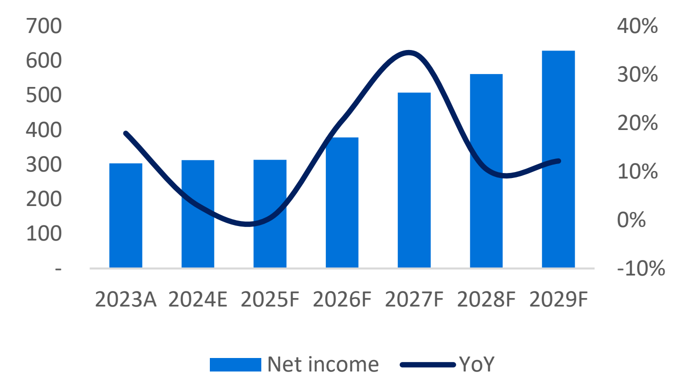
From the start of the year, the company has implemented a revamp of its pricing. The revised pricing strategy is also aimed at improving the company's sales mix in a way which maximizes gains from the implementation of the DRG system. The system is expected to be implemented in 2027 with shadow billing expected in 2025 and will be essential in healthcare funding and reimbursement systems. The system will assign price multipliers to hospitals based on services provided and price levels. To maximize this multiplier, the company is working towards improving the number of complex cases and the volume of day surgeries. The company has also revised its 2025 guidance on price increases for insurance patients to 10%-12% from 5%-7% earlier.

However, on the downside, we are concerned that in the premium market Hammadi faces tougher competition from the likes of HMG and Fakeeh.

Top tier margins; expected to take a hit

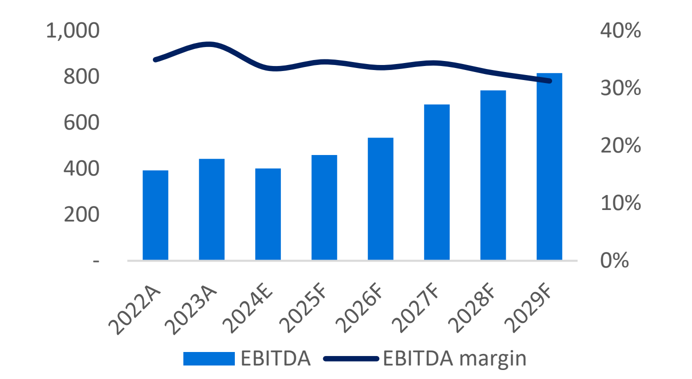
Hammadi has an impressive track record in terms of its margins. The company outranked its peers (within our coverage) with the highest EBITDA margins as well as net margins during 2023.

Chart 132: Net profit growth to spike in 2027 as Olaya gathers pace



Source: Company Financials and anbc research

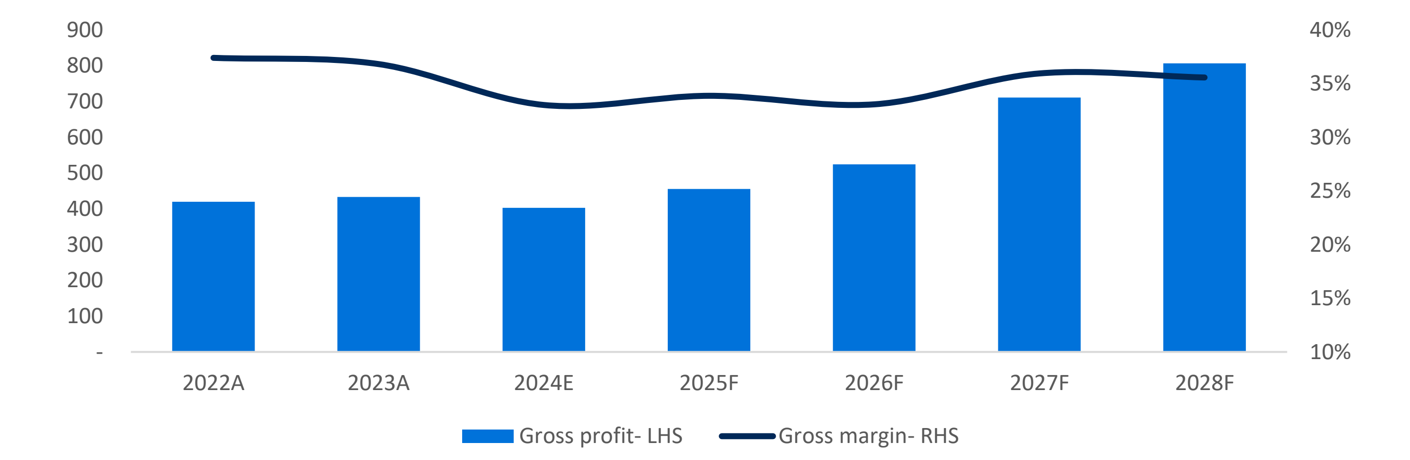
Chart 133: EBITDA to face pressure amid weakness in gross margins



Source: Company Financials and anbc research

The company also ranked second among its peers (within our coverage) in 2023 with gross margins of 37% behind Mouwasat's 49% and slightly above Dallah at 37%. However, since the start of 2024, gross margins have taken a hit on the back of revisions in the company's pricing strategy as highlighted above. The company is yet to generate sufficient demand from the more premium segment and consequently bed utilization has declined. This has hurt gross margins. Gross margins during 1H24 dropped to 33% and are expected to remain range bound in the near term as customers adjust to changes in pricing. We are modelling bed utilization at Al Nuzha Hospital to decline to 86% in 2024 and only reach back to 100% by 2027. The company might also need to offer discounts to attract patients during this period. With added pressure from expansion projects in the coming years, we think gross margins will remain depressed compared to historical levels.

Chart 134: Gross margins to face pressure



Source: Company Financials and anbc research

1H24 results have been lower than consensus expectations due to weaker volumes. Hammadi aims to replace 65% of its insurance patients (class B/B+) with more premium customers (A and VIP categories). There has been a 10% downgrade to 2024 EPS estimates since the start of the year.

Valuations

We have used a Discounted Cash Flow (DCF) model to value Hammadi with a cost of equity of 10.6% and a weighted average cost of capital (WACC) of 9.9%. Our target price of SR45/share values the company at a 2025e P/E of 24x. We have a Neutral rating on the stock as we think the current valuations reflect the earnings growth prospects as well as the risks involved. Earnings are estimated to grow at a CAGR of 12% over the next five years with much of the growth coming post 2026 as expansion projects come online. We expect flattish earnings over the next two years (unadjusted 2024 earnings for one off gain on the sale of land) before pick up in momentum.

Table 37: Our estimates versus consensus

	ANB Est	Consensus		ANB Est	Consensus		ANB Est	Consensus	
	2024E	2024E	Delta	2025E	2025E	Delta	2026E	2026E	Delta
Revenues	1,219	1,192	2%	1,346	1,329	1%	1,587	1,535	3%
Gross Margin	33.0%	33.6%	-0.6%	33.9%	35.1%	-1.2%	33.1%	34.6%	-1.5%
EBITDA	401	415	-3%	451	457	-1%	496	509	-3%
EBITDA Margins	32.9%	34.8%	-1.9%	33.5%	34.3%	-0.9%	31.3%	33.2%	-1.9%
Net Income	312	322	-3%	305	351	-13%	341	391	-13%
EPS	1.95	1.95	0%	1.90	2.03	-6%	2.13	2.28	-6%

Source: Bloomberg, anbc research

Table 38: DCF Model

Al Hammadi Holding Discounted Cash Flow (DCF)		2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBITDA		401	451	496	658	714	805	831	844
Zakat		(18)	(18)	(20)	(28)	(31)	(36)	(37)	(38)
WC change		18	(30)	(103)	(130)	(119)	(79)	23	23
CAPEX		(239)	(247)	(404)	(264)	(257)	(115)	(121)	(127)
FCF		161	156	(30)	235	307	575	695	702
Terminal value		-	-	-	-	-	-	-	10,518
PV of FCF	**-**	**161**	**142**	**(25)**	**177**	**211**	**359**	**395**	**5,804**
Terminal growth	*3.0%*								
WACC	*9.9%*								
Enterprise value	**7,225**								
Debt	301								
Cash	350								
Equity value	**7,275**								
No. of shares	160								
TP	**45**								
Current price	41								
Upside	***10.9%***								
D/Y	***3.4%***								
Total return	***14.3%***								

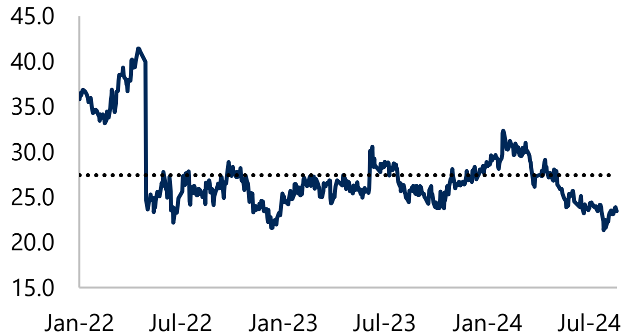
Source: Company Financials and anbc research

Table 39: Valuation sensitivity

		WACC				
		8.9%	*9.4%*	*9.9%*	*10.4%*	*10.9%*
Terminal growth rate	*2.50%*	51	47	43	40	37
	3.00%	54	50	**45**	42	39
	3.50%	59	53	48	44	41
	4.00%	64	57	52	47	43

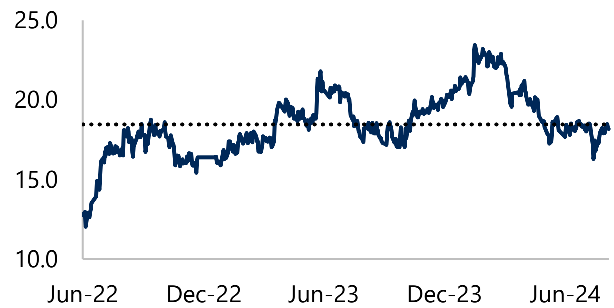
Source: Company Financials and anbc research

Chart 135: Hammadi PE (current year)



Source: Bloomberg

Chart 136: Hammadi EV to EBITDA (current year)



Source: Bloomberg

Company Overview:

Hammadi is an integrated healthcare company and premier hospital operator based in Riyadh, providing healthcare services through two hospitals; Al-Nuzha Hospital and Al-Suwaidi Hospital. The company was formed 35 years ago with the launch of Olaya Hospital (now closed with a planned re-opening in 2026). Al Suwaidi Hospital was opened up in 2015 and is based in Southwest Riyadh. It has around 300 rooms and 100 outpatient clinics. Al Nuzha Hospital was opened in 2018 and is in the Northeast neighbourhood of Riyadh. It now has 300 beds and 120 outpatient clinics. Total combined capacity of the two hospitals is 600 beds with 220 outpatient clinics. In 2023, Hammadi treated 1.03mn outpatients and 41,000 inpatients maintaining a high utilization of 87% for inpatients and 92% for outpatients. The company has two pharmacies, one at each of its hospitals.

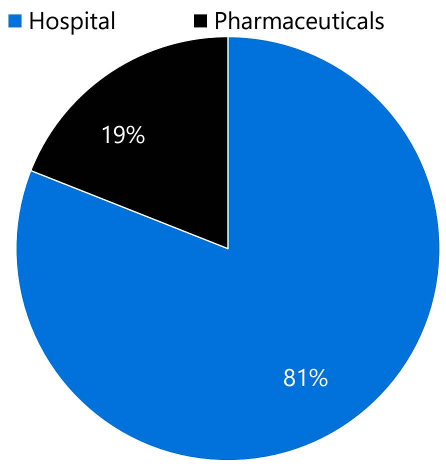
Hammadi also has a 35% stake in Sudair Pharmaceutical Company (total capital of SR57mn).

Table 40: Hammadi in a snapshot

Hospital	Al Nuzha	Al Suwaidi
Location	Northeast Riyadh	Southwest Riyadh
Date Established	2018	2015
Inpatient rooms	300	300
Clinics	120	100
Operating Rooms	13	13
Specializations	Cardiology, Endocrinology, Bariatic Surgery, Orthopaedics	Cardiology, Dermatology, Paediatrics, Obstetrics & Gynaecology
Pharmaceutical	1	1
Percentage of hospital revenues	58%	42%

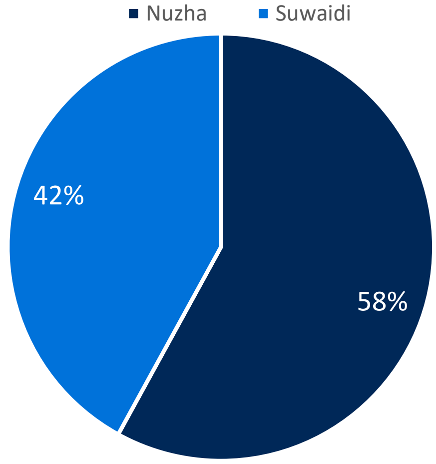
Source: Company data

Chart 137: Revenue split (2023)



Source: Company Financials and anbc research

Chart 138: Hospital revenue split (2023)



Source: Company Financials and anbc research

Growth Strategy:

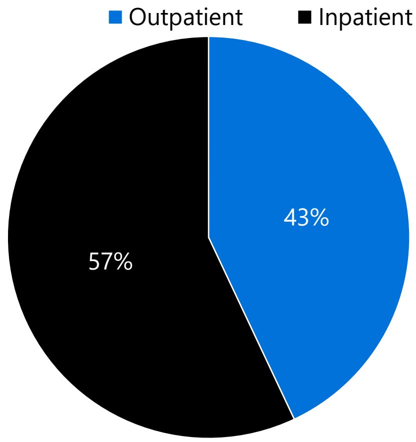
The key goals of growth strategy which the management has disclosed are:

- Capacity expansion with continued focus on Riyadh. Adding two hospitals in Riyadh (one of which is new while the other is being re-opened). The two hospitals will add 400 rooms, 240 clinics.
- Launch of new specialization to drive growth and gain market share. Some of these areas are rehabilitation, plastic surgery, sports medicine and oncology.
- Adherence to prudent financial policies to hedge against volatility.
- Development of the pharmacy business. Looking to open a network of retail pharmacy shops and online stores to complement the existing pharmacies. The product mix will include a higher mix of over-the-counter products such as cosmetics and skin care.
- Diversification of patient mix. The company has recently completed the premiumization of Al Nuzha hospital by converting 300 inpatient rooms from double rooms to single rooms (reducing the number of beds from 600 to 300) and adding premium and specialized services.
- Maintenance of world-class service quality and international accreditations.

Financial Analysis:

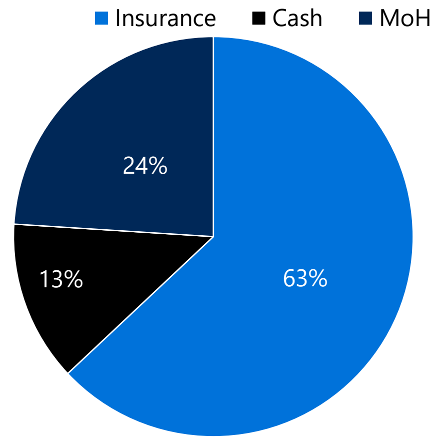
In terms of business segments, Hospital services account for the majority of the revenue (81% of total) followed by the Pharmaceutical segment (19% of total). Within the Hospital segment, outpatients accounted for the majority of the revenue (46% of total) followed by inpatients (35% of total) and pharmaceutical sales (19% of total). The biggest client segment is Insurance, which accounted for 63% of total revenues followed by Ministry of Health, which accounted for 24% share of revenues as of 2023. Cash customers account for 13% of revenues as of 2023.

Chart 139: Revenue split by patients (2023)



Source: Company Financials and anbc research

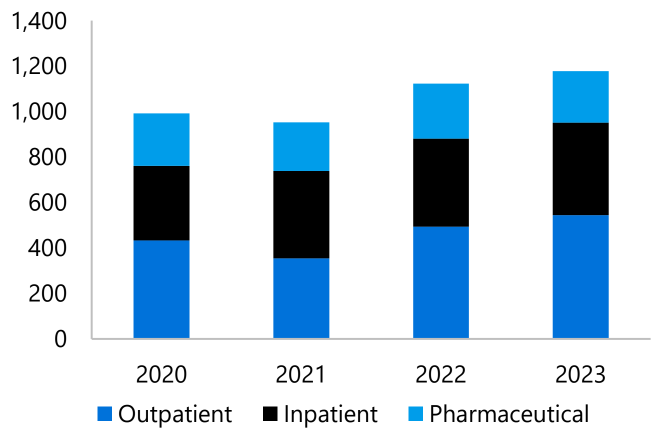
Chart 140: Revenue split by customer (2023)



Source: Company Financials and anbc research

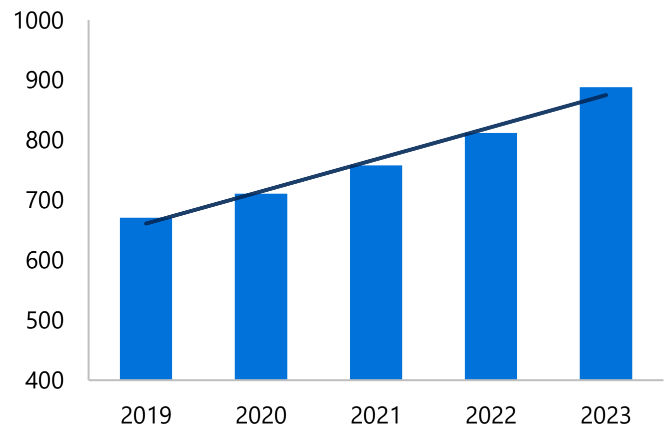
Revenues: Over 2019-2023 Hammadi's revenues increased at a CAGR of 4.8% which is the slowest growth amongst the listed peers in our coverage. This was primarily due to a decline in bed capacity to 600, as the company temporarily closed its 300-bed Olaya Hospital in 2022 (re-launch with 200 beds in 2026) and converted the rooms at Al Nuzha to more premium rooms. Similarly, number of clinics declined from 254 in 2019 to 220 by 2023. Despite the closure of Olaya, the company managed to increase inpatients volumes at a CAGR of 4.6% over 2019-2023 while outpatients' volumes grew by 2.6%, both driving revenue growth

Chart 141: Revenue CAGR of 4.8% over 2019-2023



Source: Company Financials and anbc research

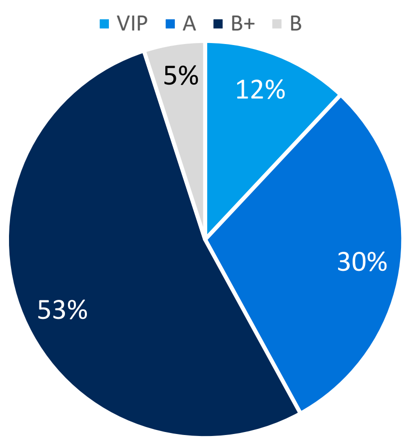
Chart 142: Revenue per patient- SR



Source: Company Financials and anbc research

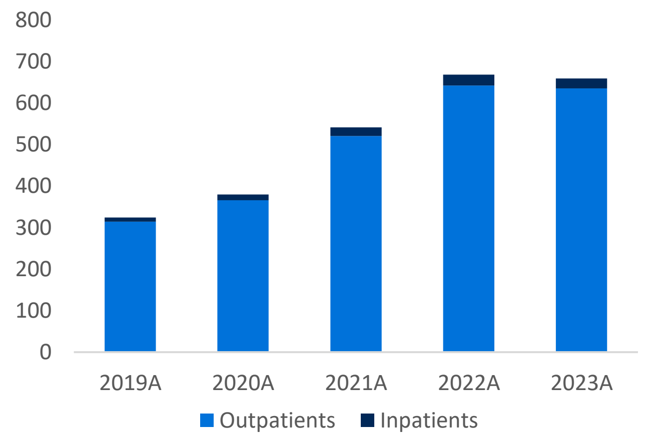
Al Nuzha (47% of revenues in 2023): This hospital was established in 2018 and caters to VIP/ A/ B+/ B class patients. In 2023, A and VIP patient class (as per insurance companies) accounted for 30% and 12% of overall revenues, respectively. 53% came from B+ and 5% from B class customers. The hospital has specializations in cardiology, endocrinology, orthopaedics, and bariatric surgery. It has 300 beds, 120 clinics and 13 operating rooms. Since 2022, the company has been implementing a premiumization strategy, under which they converted the 600 rooms in the hospital to 300 premium rooms.

Chart 143: Patient mix in Al Nuzha (2023)



Source: Company Financials and anbc research

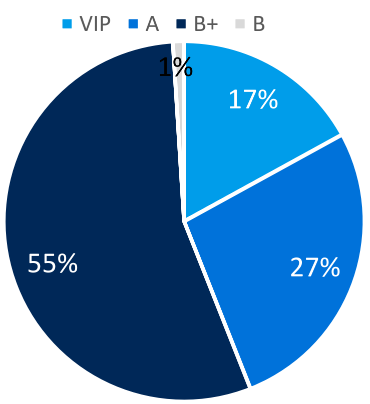
Chart 144: Inpatient & outpatient mix- 2023 (in 000's)



Source: Company Financials and anbc research

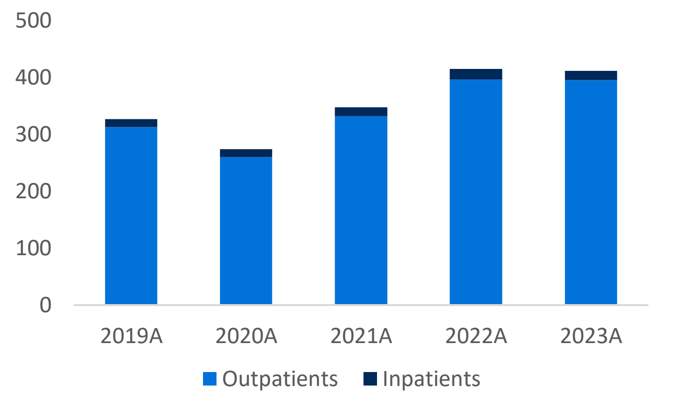
Al Suwaidi (34% of revenues in 2023): This hospital was launched in 2015. It has 300 inpatient rooms but only 200 are currently operational. The management aims to leverage this capacity to target more middle-upper-class patients by offering attractive pricing. The hospital has specializations in cardiology, dermatology, pediatrics, obstetrics and gynecology. It also has 100 clinics and 13 operating rooms. In 2023, 55% of the customers were from B+ category. The company plans to add 20 additional clinics in 2024, add an additional 20 beds and utilize the hospital's 100 beds non-operational capacity in the coming years.

Chart 145: Patient mix in Al Suwaidi (2023)



Source: Company data

Chart 146: Inpatient & outpatient mix- 2023 (in 000's)



Source: Company data

Profitability: Hammadi's strategy of focusing on optimizing its existing hospitals has helped it achieve higher profitability margins over the past five years. Gross Margins increased from 29.0% in 2019 to 36.8% in 2023 and Net Margin has risen from 9.6% in 2019 to 25.8% in 2023. Similarly, ROE during the same period has improved from 6% in 2019 to a healthy 17% in 2023. The cash conversion cycle has also improved from 202 days in 2019 to 164 days, through a reduction in receivable days (down from 194 days to 162 days).

Major Shareholders

Al Hammadi family owns 45.4% of the company.

Table 41: Financial Statements:

Al Hammadi Holding							
Income statement:		**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
Revenue	SR mn	1,219	1,346	1,587	1,977	2,267	2,612
Gross profit	SR mn	**402**	**456**	**525**	**710**	**806**	**938**
Selling & distribution expenses	SR mn	11	12	14	18	21	24
General &admin	SR mn	96	103	128	151	187	221
Operating profit	SR mn	**347**	**333**	**367**	**517**	**565**	**651**
Depreciation	SR mn	109	117	129	141	149	154
EBITDA	SR mn	**401**	**451**	**496**	**658**	**714**	**805**
Other income	SR mn	84	29	29	29	29	29
Finance costs	SR mn	22	17	13	9	5	4
PBZ	SR mn	**330**	**323**	**361**	**515**	**567**	**654**
Zakat	SR mn	18	18	20	28	31	36
PAZ-total	SR mn	**312**	**305**	**341**	**487**	**535**	**618**
EPS	SR/share	**1.95**	**1.90**	**2.13**	**3.04**	**3.35**	**3.86**
DPS, net	SR/share	1.50	0.25	0.25	0.50	2.50	2.75
Balance sheet:		**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
PPE	SR mn	1,789	1,919	2,194	2,318	2,425	2,386
Intagible assets & goodwill	SR mn	22	17	13	9	5	0
Non current assets	SR mn	**1,945**	**2,076**	**2,354**	**2,480**	**2,591**	**2,555**
Inventories	SR mn	62	68	81	96	111	127
Trade recievables	SR mn	551	584	692	829	954	1,040
Cash & equivalents	SR mn	49	121	9	128	1	105
Current assets	SR mn	**703**	**813**	**823**	**1,094**	**1,107**	**1,313**
Total assets	SR mn	**2,648**	**2,889**	**3,177**	**3,574**	**3,698**	**3,867**
Share capital	SR mn	1,600	1,600	1,600	1,600	1,600	1,600
Statutory reserve	SR mn	67	67	67	67	67	67
Retained earnings	SR mn	250	515	816	1,223	1,359	1,536
Total equity	SR mn	**1,917**	**2,182**	**2,483**	**2,890**	**3,026**	**3,204**
Loans	SR mn	155	136	118	99	80	62
Lease liabilities	SR mn	95	81	67	54	40	27
Employees terminal benefits	SR mn	88	88	88	88	88	88
Non-current liabilities	SR mn	**444**	**411**	**379**	**347**	**315**	**282**
Loans	SR mn	19	19	19	19	19	19
Govt grants	SR mn	9	9	9	9	9	9
Lease liabilities	SR mn	14	14	14	14	14	14
Trade payables	SR mn	89	97	116	138	159	182
Current liabilities	SR mn	**288**	**296**	**314**	**337**	**358**	**381**
Total liabilities	**SR mn**	**731**	**707**	**694**	**684**	**672**	**663**
Total liabilities and equity	SR mn	**2,648**	**2,889**	**3,177**	**3,574**	**3,698**	**3,867**
Cash flow statement		**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
PAZ-holding company	SR mn	312	305	341	487	535	618
Depreciation and amortization	SR mn	109	117	129	141	149	154
Adjusted net profit	SR mn	421	422	470	628	685	772
Inventories	SR mn	(5)	(6)	(13)	(16)	(15)	(16)
Trade receivables	SR mn	10	(33)	(108)	(137)	(125)	(86)
Trade payables	SR mn	19	8	19	22	21	23
Net CFO	**SR mn**	**439**	**392**	**368**	**498**	**566**	**693**
Purchase of PPE	SR mn	(239)	(247)	(404)	(264)	(257)	(115)
Purchase of intangible assets	SR mn	2	5	4	4	4	5
CFI	**SR mn**	**(243)**	**(248)**	**(407)**	**(267)**	**(260)**	**(117)**
Repayment of bank and govt loans	SR mn	(19)	(19)	(19)	(19)	(19)	(19)
Lease liabilities paid	SR mn	(14)	(14)	(14)	(14)	(14)	(14)
Dividends paid	SR mn	(240)	(40)	(40)	(80)	(400)	(440)
CFF	**SR mn**	**(272)**	**(72)**	**(72)**	**(112)**	**(432)**	**(472)**
Net changes in cash	SR mn	(76)	72	(112)	119	(127)	103
Ending balance	**SR mn**	**49**	**121**	**9**	**128**	**1**	**105**

Source: Company data, anbc research

Mouwasat Medical Services Co.

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on Mouwasat Medical Services Co. (Mouwasat) with a target price of SR104/share and a Neutral rating. While we like the company due to its dominant market share in Eastern Province, expansion plans and healthy ROE and margins, we are neutral due to near-term risks related to expansions and increase in competition. 2Q24 results were not in line with expectations and have triggered an earnings downgrade cycle. We are modelling a 11bps compression in EBITDA margins and 128bpts reduction in ROE over the next 2 years due to ramp-up cost and higher competition in new markets. The stock trades at a 10% discount to the sector and while the valuation looks attractive at 24x 2025e PE on consensus numbers, we think there would be further downgrades to sell side consensus. Our 2025 earnings estimates are 4% lower than consensus.

Third largest listed private hospital by bed capacity to expand by 39% over 2023-2026: Mouwasat is the third largest private healthcare operator in terms of bed capacity after HMG in the listed space (2^{nd} largest in our coverage) with robust expansion plans. It is the market leader in the Eastern Province with around 31% share of private beds. Its flagship hospital in Dammam has been ranked as one of the best hospitals in the world by Newsweek Magazine for the past three consecutive years. This strength is reflected in its best in class gross and EBITDA margins and the 2^{nd} highest ROEs (second to HMG). Over the next three years, the company will add more than 620 beds (39% increase) by opening new hospitals in Jeddah, Yanbu and Riyadh. It also has plans to open four polyclinics in Riyadh, Khobar and Jubail. We think the capacity expansion can drive around 15% CAGR in revenues over 2023-26.

Expansion-related costs and competition outside of core market could be dilutive to margins: Mouwasat's operations are concentrated in the Eastern region accounting for 66% of its total capacity. This is expected to dilute to 48% by end of 2026 as the company enters new markets in the Western region and expands capacity in the Central region. We think the new hospitals, in Riyadh, Jeddah and Madina will face greater competition as other listed peers are also adding capacity in those regions. We think HMG in Riyadh and Fakeeh in Jeddah have a stronger brand strength in their respective core markets. Higher competition and ramp-up related costs could put pressure on margins. We are modelling EBITDA margins to decline 11bps from 2023 to 35.8% in 2025. We are also modelling ROE to decline by 128bps to 18.9% by 2025. We estimate 17% CAGR in earnings over 2023-26.

2Q24 earnings miss has triggered earnings downgrade cycle. In 1H24, revenues increased by 9% YoY, which was driven by a 6-7% pricing increase (Aramco contract was re-priced). Volume growth was only 3-4%. The management has revised down its patient growth target for 2024 to 10% from an earlier target of 12%. Gross margins declined due to higher costs associated with opening of the new hospital in Madina, and addition of new staff for expansion and launching new sub-specialties, while higher provisioning limited growth on the operating level.

Valuation: Our target price of SR104 is based on a DCF (WACC: 8.4%, terminal growth: 3%). The stock is currently trading at a PE of 24x on 20205e EPS. While on a relative basis the stock looks cheap, we think it lacks a catalyst which could drive a re-rating.

Risks: The key downside risks are i) losing a portion of the Aramco contract to any other competitor (accounted for 14% of total revenues during 1H24) ii) delays in expansion projects, iii) higher costs in attracting talent due to stiffer competition from peers who are stronger in other markets.

RATING SUMMARY	Neutral
Target Price (SR)	104
Upside/Downside	6%
Dividend Yield	2%
Total Return	8%

ISSUER INFORMATION	
Share Price (SR)	98*
Target Price (SR)	104
Bloomberg	MOUWASAT AB
Market Cap (SR mn)	19,600
Free Float (%)	47.5

**As of 20th October 2024*

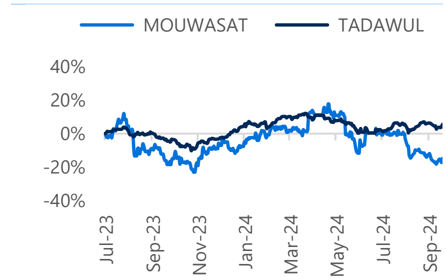
MULTIPLES	2024E	2025F
P/E (x)	26.5	24.8
P/B (x)	4.8	4.5
P/S (x)	8.2	7.1
EV/EBITDA (x)	18.4	16.7
RoA (%)	13	13
RoE (%)	20	19

Source: Company financials and anbc research

FINANCIALS (SR MN)

	2023A	2024e	2025F	2026F
Revenue	2,706	2,968	3,399	4,140
Gross Profit	1,313	1,413	1,590	1,947
EBITDA	972	1,106	1,217	1,502
Net Income	658	731	790	1,054
EPS	3.3	3.7	3.9	5.3
DPS	1.8	0.9	2.0	2.7

PRICE PERFORMANCE – MOUWASAT vs. TASI



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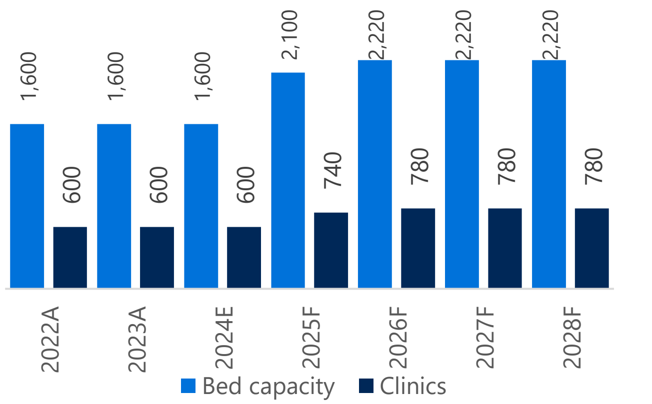
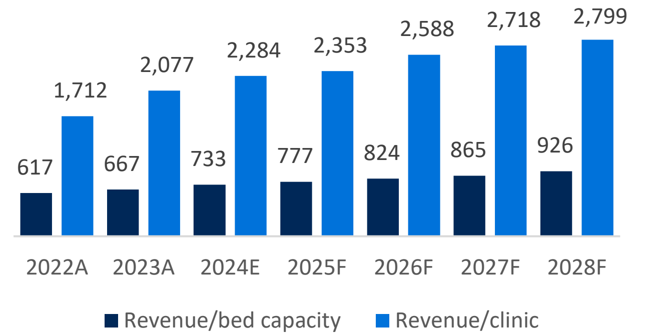
Investment Thesis in Charts

Chart 147: Capacity to increase 39% by 2026



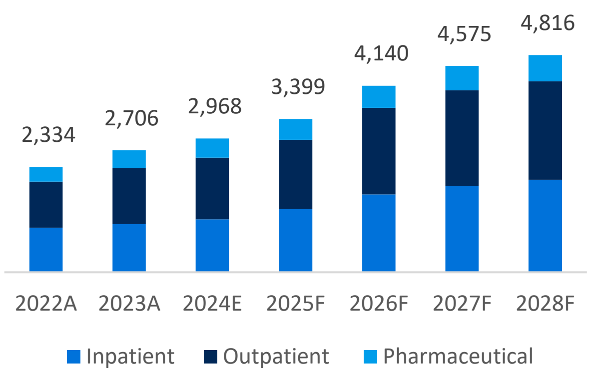
Source: Company Financials and anbc research

Chart 148: Revenue/bed (SR 000's) to reach SR2.7mn by 2028



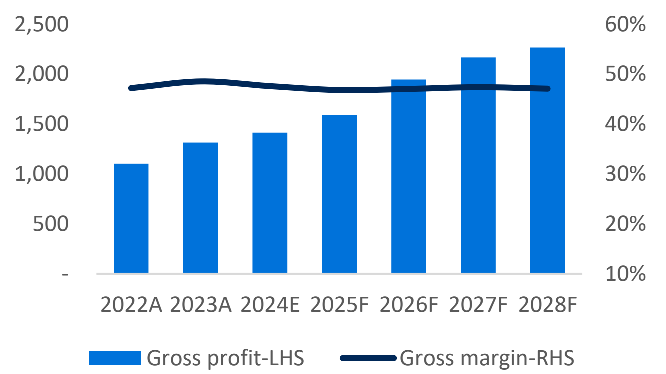
Source: Company Financials and anbc research

Chart 149: Revenue to grow at a CAGR of 15% by 2026- SRmn



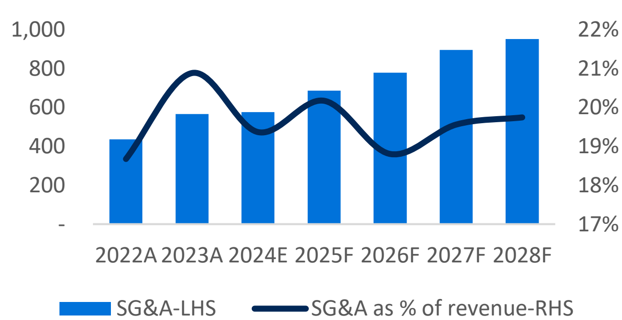
Source: Company Financials and anbc research

Chart 150: Gross margins to face pressure- SRmn



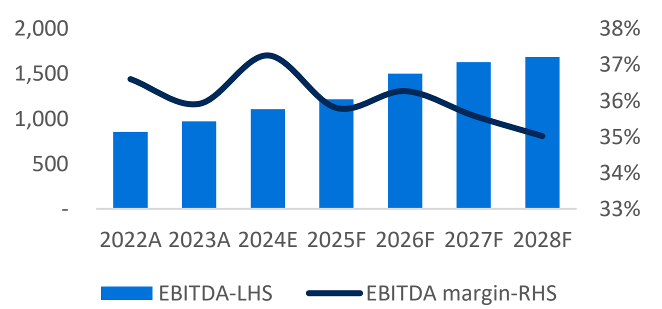
Source: Company Financials and anbc research

Chart 151: Increasing scale of operations to enhance efficiencies- SRmn



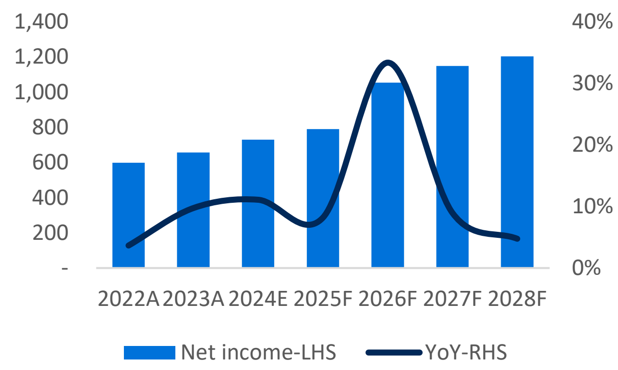
Source: Company Financials and anbc research

Chart 152: EBITDA to face pressure- SRmn



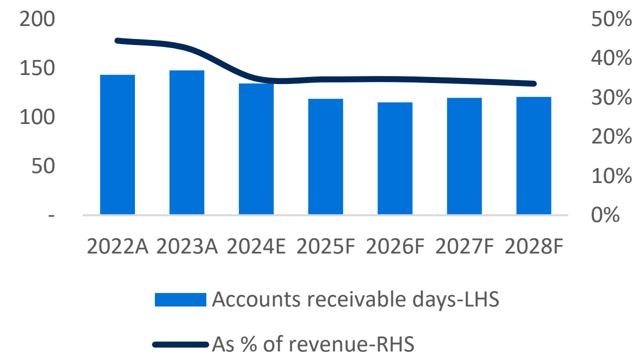
Source: Company Financials and anbc research

Chart 153: Net profit growth to grow at CAGR of 15% over 2023-2026- SRmn



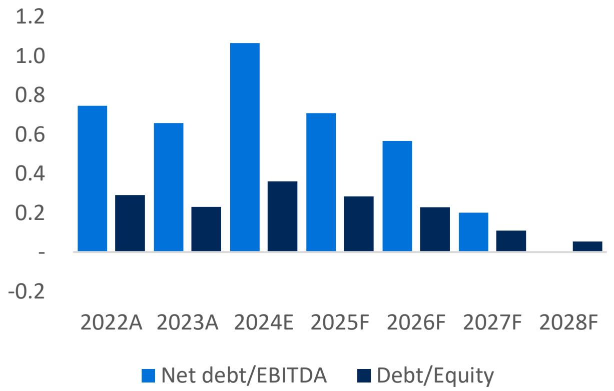
Source: Company Financials and anbc research

Chart 154: Receivable days to reach 34% of revenue by 2028



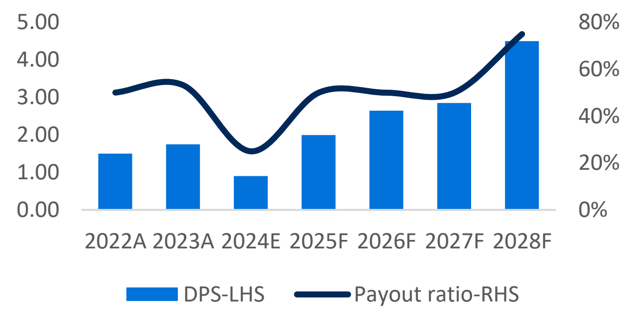
Source: Company Financials and anbc research

Chart 155: Debt levels to peak in 2024 due to expansion pipeline- Times (x)



Source: Company Financials and anbc research

Chart 156: Dividend cut in 2024 to meet Capex needs



Source: Company Financials and anbc research

Table 42: Financial Summary

Mouwasat Medical Services Co.						
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	SR mn	2,334	2,706	2,968	3,399	4,140
Gross profit	SR mn	1,102	1,313	1,413	1,590	1,947
General &admin	SR mn	319	337	361	396	449
Operating profit	SR mn	666	748	838	905	1,169
EBITDA	SR mn	854	972	1,106	1,217	1,502
Net income	SR mn	599	658	731	790	1,054
Balance Sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Current assets	SR mn	1,574	1,618	1,638	1,940	2,140
Non current assets	SR mn	3,088	3,347	4,560	4,498	4,762
Total assets	SR mn	4,662	4,965	6,198	6,438	6,902
Current liabilities	SR mn	795	831	1,654	1,648	1,658
Non-current liabilities	SR mn	790	707	566	422	352
Total equity	SR mn	3,076	3,427	3,978	4,368	4,892
Cash Flow Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net CFO	SR mn	707	814	1,123	966	1,139
CFI	SR mn	(473)	(475)	(1,482)	(250)	(597)
CFF	SR mn	(247)	(434)	470	(594)	(657)
Ending balance	SR mn	144	49	160	283	168
YoY Growth		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	%	*8.9%*	*15.9%*	*9.7%*	*14.5%*	*21.8%*
EBITDA	%	*9.6%*	*13.7%*	*13.8%*	*10.0%*	*23.4%*
Operating profit	%	*7.0%*	*12.4%*	*12.0%*	*8.0%*	*29.1%*
Net income	%	*3.7%*	*9.7%*	*11.1%*	*8.2%*	*33.4%*
Ratios		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Return on assets (ROA)	%	*13.7%*	*13.7%*	*13.1%*	*12.5%*	*15.8%*
Return on equity (ROE)	%	*20.7%*	*20.2%*	*19.7%*	*18.9%*	*22.8%*
Gross margin	%	*47.2%*	*48.5%*	*47.6%*	*46.8%*	*47.0%*
Operating margin	%	*28.5%*	*27.7%*	*28.2%*	*26.6%*	*28.2%*
EBITDA margin	%	*36.6%*	*35.9%*	*37.3%*	*35.8%*	*36.3%*
Net margin	%	*25.7%*	*24.3%*	*24.6%*	*23.3%*	*25.5%*
Dividend payout	%	*50.1%*	*53.2%*	*25.0%*	*50.0%*	*50.0%*
Effective zakat rate	%	*4.2%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*
Per Share Analysis		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Earnings per share (EPS)	SR/sh	3.0	3.3	3.7	4.0	5.3
Dividends per share (DPS)	SR/sh	1.5	1.8	0.9	2.0	2.7
Book value per share (BVPS)	SR/sh	15.4	17.1	19.9	21.8	24.5

Source: Company data and anbc research

Investment Thesis

Market leader in the Eastern Province, adding 39% more capacity over the next three years

Mouwasat is the third largest (in terms of bed capacity) private healthcare operator in the listed space (2nd largest in our coverage companies) behind HMG, in terms of bed capacity. It is a well-established and dominant healthcare provider in the Eastern Province. Over the next three years it is opening new hospitals in the Western and Central regions, achieving a more balanced regional footprint. The company plans to add 2 new hospitals in the Western region (Jeddah and Yanbu) and expand capacity in the Central region (in Riyadh).

Table 43: Mouwasat Existing Assets and Expansion Plans

City	Year Est	Beds	Clinics
Existing Assets			
Dammam	1987	280	140
Dammam	2022	200	20
Madina	2000	120	45
New Madina	2022	220	80
Jubail	2004	200	80
Qatif	2006	120	35
Riyadh	2014	200	100
Khobar	2018	260	100
Total		**1,600**	**600**
Expansion Plans			
Jeddah	2Q25	300	80
Yanbu	3Q25	200	60
Riyadh	2026	120	40
Total		**620**	**180**
Future Plans for Polyclinics			
Riyadh	2 Polyclinics		
Khobar	Polyclinics		
Jubail	Polyclinics		

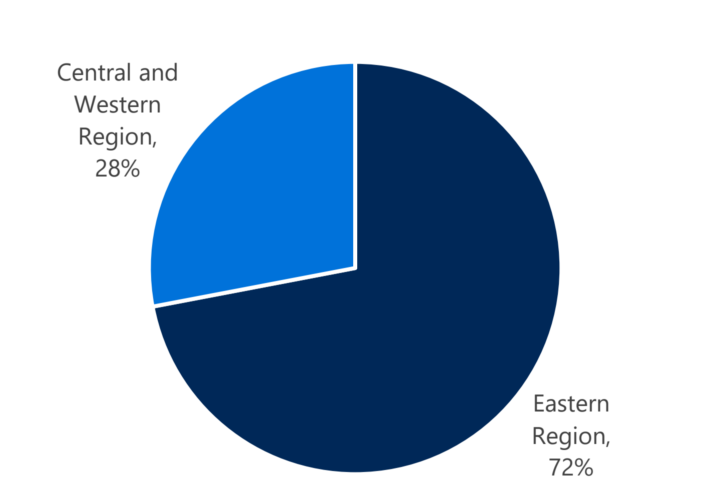
Source: Company data

Currently, Mouwasat operates 1,600 beds with 600 clinics within its network of seven hospitals. In 2023, it treated 2.36mn outpatients and 76,900 inpatients. In the eastern region, the company's largest hospital is in Dammam with a capacity of 480 beds and 160 clinics. This is followed by the hospital in Khobar with a capacity of 260 beds and 100 clinics. Then comes the hospital in Jubail with 200 beds and 80 clinics followed by the hospital in Qatif with 120 beds and 35 clinics. The region accounts for 66% of the company's total capacity. In the Western region, the company is present through two hospitals in Madina with a combined capacity of 340 beds and 125 clinics. The region accounts for 21% of total capacity. In the Central region, the company has a presence through its hospital in Riyadh. This hospital has a capacity of 200 beds with 100 clinics accounting for around 13% of total capacity.

In 2024, the company initiated Long Term Care and Rehabilitation Services (LTC services) at its Madina Hospital. The facility has been allocated 100 beds including 30 ICU beds. The facility will provide services such as rehabilitation, geriatrics consultancy, physiotherapy, radiology services, laboratory services, diagnostic and therapeutic services. The facility has been contributing financially during 1H24, we expect it to gain momentum during 2H24. This is the second LTC facility for the company with the first being in Dammam Hospital, having started operations in Jan-2022.

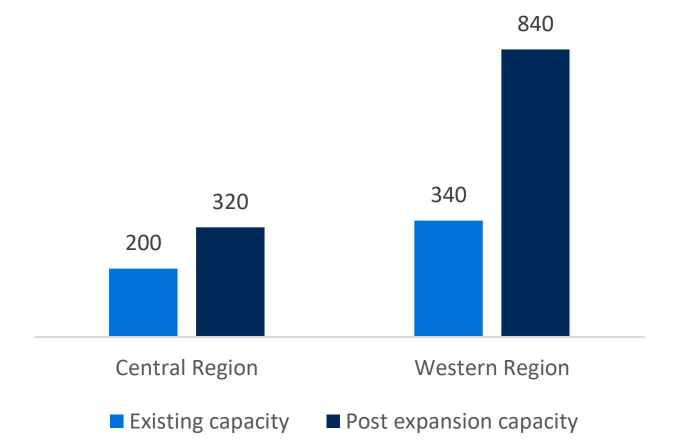
The company's expansion pipeline includes the addition of 620 beds by 2026 through the addition of three new hospitals. First of the three will be Mouwasat Hospital Jeddah. The hospital will be a 300-bed facility with 70 ICU beds and 80 clinics. Building structure for the hospital has been completed with on-going work on interior re-designing. Operations are expected to commence in 2Q25. Following this, the company plans to add another hospital in Yanbu. This will be a 200-bed facility with 60 ICU beds and 60 clinics. The hospital is currently under construction and is expected to be completed in 3Q25. The last of the three will be the new Mouwasat Hospital Qadisiyah-Riyadh. This will be a 120-bed facility with 35 ICU beds and 40 clinics. Currently the hospital is in design phase and is expected to come online by the end of 2026. Post the additions, the company is expected to have a total beds/clinics capacity of 2,220 beds/800 clinics by 2026, an increase of around 39% from current levels. In addition to this, the company also plans to add 4 polyclinics. Out of the 4, 2 have already been approved (one in Khobar and one in Jubail) while two will be added in Riyadh.

Chart 157: Dominant operator in Eastern Province- Revenue %



Source: Company Financials and anbc research

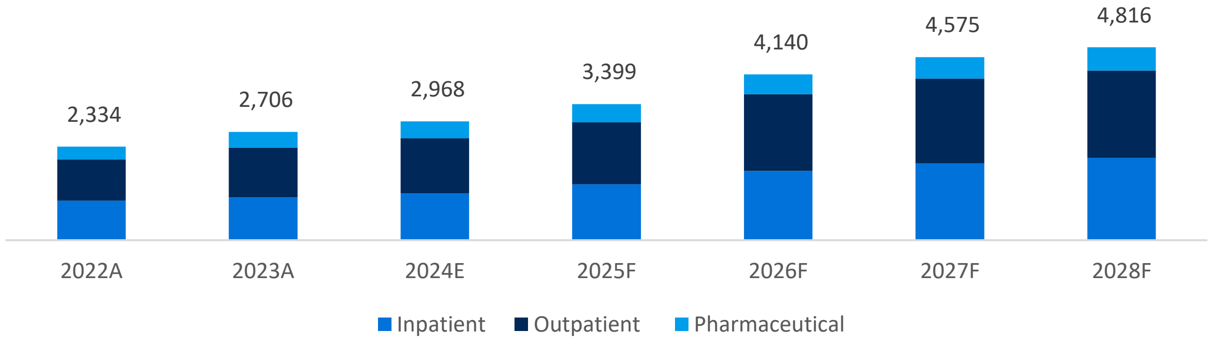
Chart 158: Region wise capacity addition- Beds



Source: Company Financials and anbc research

We expect the added capacity to drive revenue CAGR of 15% over 2023-2026. We expect the highest growth in inpatient segment (3-year CAGR: 17%) followed by growth in outpatient segment (3-year CAGR: 15%) and Pharmaceutical segment (3-year CAGR: 8%). The company has a network of 13 pharmacies in its hospitals. We think this will grow as the number of hospitals increase.

Chart 159: Revenue growth driven by 39% expansion in bed capacity between 2023-2026



Source: Company Financials and anbc research

Expansion could create competitive headwinds which could lead to margin compression over the medium term

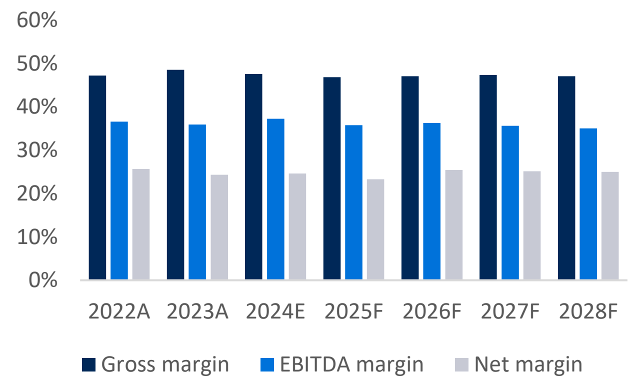
While we are positive on the outlook for expansion we think the capacity expansion outside of the Eastern Province would be at lower operating margins. Over the next three years, the capacity share of Eastern Province will decline from 66% in 2023 to 48% in 2026 as the new hospitals come online.

We expect that expansion will have a dilutive impact on the profitability margins. Firstly, we believe that hospitals in Jeddah and Riyadh will face tough competition from HMG and Fakeeh. HMG has a much stronger footprint and brand in Riyadh and Fakeeh is similarly strong in Jeddah. While Mouwasat will benefit from the overall demand shortages in both these markets, we expect the competition in a new market would lead to higher cost escalations, especially for attracting talent. The salaries are likely to be lower in Eastern Province than the levels in Riyadh and Jeddah. Secondly, we are concerned about ramp up costs and capacity utilization levels in markets such as Madina, which could hurt the margins over the next three years. The facility is currently operating close to breakeven.

Mouwasat has maintained the highest gross and EBITDA margins in the industry (among our coverage companies). We believe this is also due to its dominant position in the Eastern Province and a long track record of delivering high quality service. We are modelling EBITDA margins to decline 11bps from 2023 levels to 35.8% by 2025, due to ramp up costs and higher costs in the buildup phase.

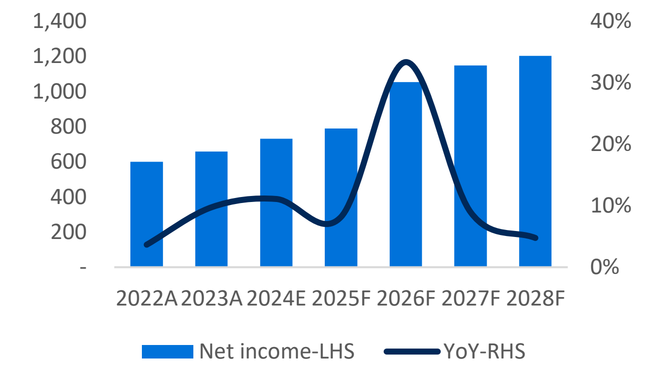
2Q24 results highlighted these risks. The management has downgraded its target for patient growth to 10% year over year growth in 2024, versus their earlier expectations of 12% growth.

Chart 160: Trend in profitability margins



Source: Company Financials and anbc research

Chart 161: We are modelling 17% CAGR in Net Profits over 2023-2026



Source: Company Financials and anbc research

Valuation

We have used a Discounted Cash Flow (DCF) model to value Mouwasat, with a cost of equity of 9.2% and a weighted average cost of capital of 8.4%. Our target price of SR104/share implies a PE multiple of 26x on our 2025e numbers. Our 2025 estimates are 4% lower than consensus. We think consensus numbers are still in the process of downward revision post 2Q24 results. We have a Neutral rating on the stock. Although we like the company, we fear that there is no catalyst in the short term which could lead to a positive surprise and a change in sentiment.

Table 44: Our estimates versus consensus

	ANB Est 2024E	Consensus 2024E	Delta	ANB Est 2025E	Consensus 2025E	Delta	ANB Est 2026E	Consensus 2026E	Delta
Revenues	2,968	3,033	-2%	3,399	3,509	-3%	4,140	4,114	1%
Gross Margin	47.6%	47.3%	0.3%	46.8%	46.5%	0.3%	47.0%	46.9%	0.1%
EBITDA	1,106	1,121	-1%	1,217	1,267	-4%	1,502	1,522	-1%
EBITDA Margins	37.3%	37.0%	0.3%	35.8%	36.1%	-0.3%	36.3%	37.0%	-0.7%
Net Income	731	742	-2%	790	832	-5%	1,054	981	7%
EPS	3.65	3.7	-1%	3.95	4.10	-4%	5.27	4.9	8%

Source: Bloomberg, anbc research

Table 45: DCF Model

Mouwasat Medical Services Co. Discounted Cash Flow (DCF)		2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBITDA		1,106	1,217	1,502	1,628	1,686	1,807	1,868	1,942
Zakat		(43)	(46)	(61)	(68)	(71)	(77)	(80)	(83)
WC change		124	(136)	(248)	(123)	(45)	(73)	(19)	(19)
Capex		(1,481)	(250)	(597)	(287)	(300)	(313)	(327)	(342)
FCF		(294)	785	595	1,150	1,270	1,344	1,442	1,498
Terminal value							-	-	28,338
PV of FCF		**(294)**	**724**	**506**	**901**	**918**	**896**	**887**	**16,916**
Terminal growth	*3.0%*								
WACC	*8.4%*								
Enterprise value	**21,455**								
Debt	881								
Cash	171								
Equity value	**20,745**								
No. of shares	200								
TP	**104**								
Current price	98								
Upside	***5.8%***								
D/Y	***1.8%***								
Total return	***7.6%***								

Source: anbc research

Table 46: Valuation Sensitivity

		WACC				
Terninal growth rate		***7.4%***	***7.9%***	***8.3%***	***8.9%***	***9.4%***
	2.5%	114	103	97	85	78
	3.0%	125	111	**104**	91	83
	3.5%	138	122	113	98	89
	4.0%	156	135	124	106	95

Source: anbc research

Company Overview:

Mouwasat is the third largest, listed private beds operator in KSA after HMG and MEH (2nd largest in our coverage companies). It operates seven hospitals located in Dammam, Jubail, Qatif, Riyadh, Khobar and 2 in Madina. Total combined bed capacity for the company stands at 1,600 beds along with 600 clinics.

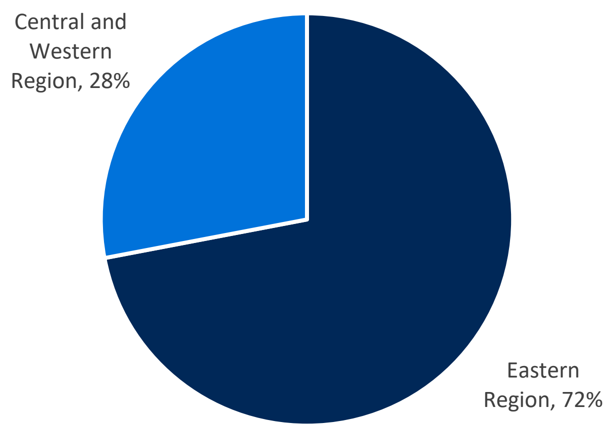
The company was founded in 1974 in Dammam as a Polyclinic and the first hospital opened in 1987. In 2000, Mouwasat opened a hospital in Madina, and in 2004 it opened its hospital in Jubail. In 2006 it acquired Mouwasat Hospital in Qatif. In 2014, the company expanded to Riyadh and in 2018 it opened a hospital in Khobar. In 2022, it set up Mouwasat Long Term Care & Rehabilitation Center in Dammam and the New Mouwasat Hospital in Madina Economic City. The company was the first healthcare business to list on the Saudi Stock Exchange in 2009.

Mouwasat also owns a 51% stake in Eastern Medical Services Company, a subsidiary which is engaged in the construction and operations of hospitals, dispensaries and special clinics and a 51% stake in Jeddah Doctor Company, which is engaged in the construction of non-residential building and other real estate related activities. It has a 50% stake in Khobar-based Advanced Medical Projects Company (capital of SR10mn) which deals in the wholesale and retail trade of medical and surgical equipment.

Geographic Focus:

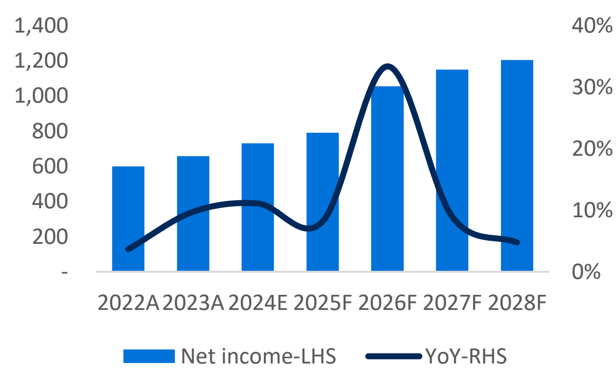
The company's operations are focused in the Eastern region accounting for 72% of 2023 revenue and 66% capacity. With its expansion pipeline the company plans to expand its footprint in the Western and Central regions which together accounted for 28% of 2023 revenue and 34% of total capacity as of 2023.

Chart 162: Dominant operator in Eastern Province- Revenue %



Source: Company data, anbc research

Chart 163: We are modelling 17% CAGR in Net Profits over 2023-2026

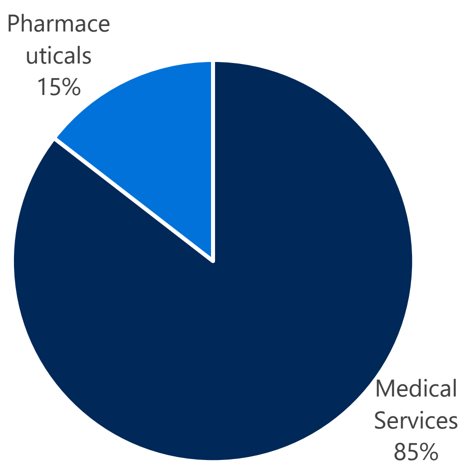


Source: Company data, anbc research

Revenue Analysis:

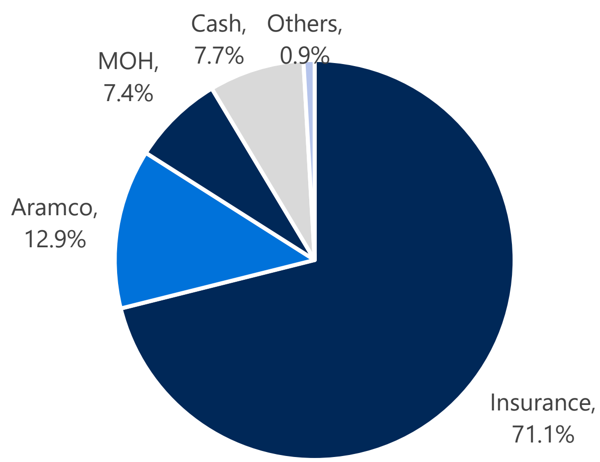
Revenue has grown at a CAGR of 10% during 2019-2023 driven by 4% growth in outpatients and 2% growth in inpatients during the same period. Outpatients accounted for majority of the revenue (46% of total) during 2023 followed by inpatients (39% of total) and pharmaceutical sales (15% of total). In terms of customers, 71% of total revenue comes from the insurance segment as of 2023 followed by 13% share of Aramco customers, 8% share of cash customers and 7% from MoH.

Chart 164: Revenue split by segments- 2023



Source: Company data, anbc research

Chart 165: Revenues by clients- 2023



Source: Company data, anbc research

Major Shareholders

Mr. Mohammed Sultan Alsubaie, Mr. Nasser Sultan Al-Subaie and Mr. Mohammed Suleiman Al-Saleem are the three major shareholders of the company holding 17.5% stake each while individuals cumulatively account for ~97% of total share capital.

Table 47: Financial Statements

Mouwasat Medical Services Co.						
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	**SR mn**	**2,334**	**2,706**	**2,968**	**3,399**	**4,140**
Gross profit	SR mn	**1,102**	**1,313**	**1,413**	**1,590**	**1,947**
Selling & distribution expenses	SR mn	117	227	214	289	329
General &admin	SR mn	319	337	361	396	449
Operating profit	SR mn	**666**	**748**	**838**	**905**	**1,169**
Depreciation & amortization	SR mn	189	223	268	312	333
EBITDA	SR mn	**854**	**972**	**1,106**	**1,217**	**1,502**
Share of results	SR mn	10	10	15	18	20
Other income	SR mn	7	9	15	15	15
Finance costs	SR mn	22	40	63	66	48
Profit before zakat	SR mn	**660**	**727**	**804**	**872**	**1,156**
Zakat	SR mn	28	39	43	46	61
Profit after zakat	SR mn	**633**	**688**	**762**	**825**	**1,094**
NCI	SR mn	33	31	31	35	40
PAZ-holding company	SR mn	**599**	**658**	**731**	**790**	**1,054**
EPS	SR/share	**3.00**	**3.29**	**3.65**	**3.95**	**5.27**
DPS, net	SR/share	1.50	1.75	0.90	2.00	2.65
Balance sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
PPE	SR mn	2,765	3,046	4,256	4,193	4,454
RoU assets	SR mn	28	20	20	20	20
Non current assets	SR mn	**3,088**	**3,347**	**4,560**	**4,498**	**4,762**
Inventories	SR mn	203	197	224	260	315
Account receivables	SR mn	1,039	1,153	1,034	1,177	1,436
Term deposits	SR mn	111	100	100	100	100
Cash & equivalents	SR mn	144	49	160	283	168
Current assets	SR mn	**1,574**	**1,618**	**1,638**	**1,940**	**2,140**
Total assets	SR mn	**4,662**	**4,965**	**6,198**	**6,438**	**6,902**
Share capital	SR mn	1,000	2,000	2,000	2,000	2,000
Statutory reserve	SR mn	300	366	366	366	366
Retained earnings	SR mn	1,623	911	1,462	1,852	2,376
Total equity	SR mn	**3,076**	**3,427**	**3,978**	**4,368**	**4,892**
Loans	SR mn	628	500	363	223	156
Lease liabilities	SR mn	25	19	15	12	8
Non-current liabilities	SR mn	**790**	**707**	**566**	**422**	**352**
Accounts payable	SR mn	250	232	269	313	379
Accruals & other payables	SR mn	175	184	184	184	184
Lease liabilities	SR mn	4	4	4	4	4
Current portion of term loans	SR mn	235	266	157	107	50
Short term loan	SR mn	-	-	900	900	900
Current liabilities	SR mn	**795**	**831**	**1,654**	**1,648**	**1,658**
Total liabilities	**SR mn**	**1,585**	**1,538**	**2,220**	**2,070**	**2,010**
Total liabilities and equity	SR mn	**4,662**	**4,965**	**6,198**	**6,438**	**6,902**
Cash flow statement		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net profit	SR mn	633	688	762	825	1,094
Depreciation on PPE	SR mn	180	215	259	302	322
Adjusted net income	SR mn	903	1,128	999	1,102	1,387
Inventories	SR mn	(16)	6	(27)	(36)	(55)
Accounts receivables	SR mn	(264)	(233)	119	(143)	(259)
Accounts payable	SR mn	29	16	37	44	67
Net CFO	**SR mn**	**707**	**814**	**1,123**	**966**	**1,139**
Purchase of PPE	SR mn	(293)	(277)	(1,469)	(238)	(583)
CFI	**SR mn**	**(473)**	**(475)**	**(1,482)**	**(250)**	**(597)**
Dividend paid	SR mn	(275)	(300)	(180)	(400)	(530)
Proceeds from term loans	SR mn	300	180	900	0	0
Repayment of term loans	SR mn	(234)	(276)	(246)	(190)	(123)
CFF	**SR mn**	**(247)**	**(434)**	**470**	**(594)**	**(657)**
Net cash flows	SR mn	(13)	(95)	111	123	(115)
Ending balance	**SR mn**	**144**	**49**	**160**	**283**	**168**

Source: Company Financials, anbc research

Dallah Healthcare Co.

21 October, 2024

INITIATION OF COVERAGE

We initiate coverage on Dallah Healthcare Co. (Dallah) with a target price of SR174 and a Neutral rating. Like its peers, Dallah is adding capacity by opening new hospitals, and also pursuing acquisition led growth. The company's operational capacity is expected to increase by 80% to 2,000+beds by 2027 through a) the opening of a new 250 bed hospital in Al Arid district of Riyadh and 100 bed expansion at Namar hospital, and b) acquiring two hospitals (Al Ahsa & Al Salam) in the Eastern province with combined estimated capacity of 749 beds and operational capacity of 424 beds. Earnings are set to grow at a CAGR of 18% over 2023-2028 driven by 13% CAGR in revenues. The stock is trading at 29x 2025 PE, which is on the higher side, given its return profile compared to the sector average and Dallah's 5-year historical average. We are neutral on the stock on valuation basis.

Bed capacity to increase 80% from 2023 levels: Dallah operates three healthcare centers; two in Riyadh and one in Makkah along with a 58.6% stake in Kingdom Hospital in Riyadh (through ownership in Care Shield). Over the next five years, the company will expand its capacity by around 80%. This will be achieved through a 100 bed expansion at Namar along with the addition of a new hospital in Al-Arid district, Riyadh. In addition to this, the company is in the process of completing the acquisition of two hospitals (475 bed Al Salam Hospital in Khobar and 274 bed Al Ahsa Hospital in Hofuf) which we expect will be completed by the end of this year. We expect Al Ahsa to breakeven this year while we expect Al Salam to breakeven by 1H26. We expect revenue to grow at a CAGR of 13% over 2023-2028. We expect pick up in momentum during 2H24 due to absence of seasonality and higher contribution from Namar hospital following the commencement of outpatient operations in 3Q24 post expansion.

Growing investment portfolio to expedite capacity increase: We expect Dallah's investment portfolio to generate positive returns starting this year after returning losses in 2023 and prior years. The company's 31.2% stake in Dr. Mohammad Rashid Al Faqih Co. has been a major drag on returns from the investment portfolio with losses of SR23mn during 2023. This figure came down significantly to a SR1mn loss during 1H24. With improvement on this front and growing contribution from International Medical Centre Co (IMC) we expect the investment portfolio's share of profit to reach SR35mn during 2024 and grow at a CAGR of 18% until 2028.

Valuation: Our target price of SR174/share is based on DCF (WACC: 9.0%, terminal growth: 3.25%). This implies a PE of 32x on 2025e earnings, which lies close to where the stock is currently trading. We think that the current valuation is fair as it reflects the high growth profile but lower ROE generation of the company compared to HMG and Fakeeh.

Risks: Rising competition in Riyadh as regional sector heavyweights such as HMG and DSFH expand their presence, delays in ramping up bed capacity in Al Salam hospital and higher level of debt are noted as key concerns.

RATING SUMMARY	Neutral
Target Price (SR)	174
Upside/Downside	9%
Dividend Yield	1%
Total Return	10%

ISSUER INFORMATION	
Share Price (SR)	158*
Target Price (SR)	174
Bloomberg	DALLAH AB
Market Cap (SR mn)	15,375
Free Float (%)	41.8

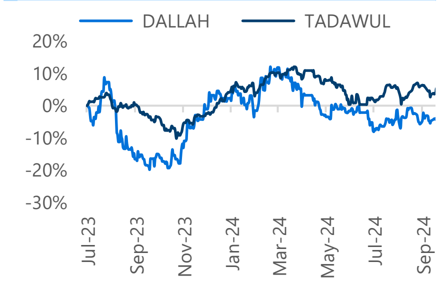
**as of 20th October 2024*

MULTIPLES	2024E	2025F
P/E (x)	33.8	28.9
P/B (x)	4.2	3.4
P/S (x)	4.6	3.8
EV/EBITDA (x)	22.0	18.2
RoA (%)	7	7
RoE (%)	13	13

Source: Company financials, anbc research

FINANCIALS (SR MN)	2023A	2024e	2025F	2026F
Revenue	2,943	3,373	4,088	4,525
Gross profit	1,079	1,241	1,525	1,677
EBITDA	632	784	945	1,048
Net income	360	457	534	631
EPS	4.00	4.68	5.46	6.46
DPS	2.00	2.50	3.00	3.50

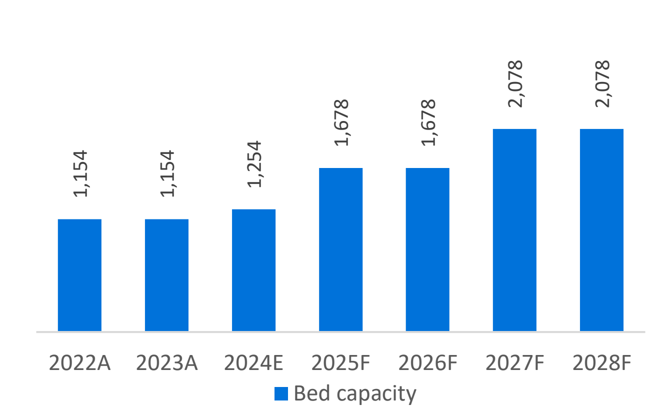
PRICE PERFORMANCE –Dallah vs. TASI



Muhammad Adnan Afzal
Head of Sell Side Research
Muhammad.afzal@anbcapital.com.sa
+966 11 4062500 ext:4364

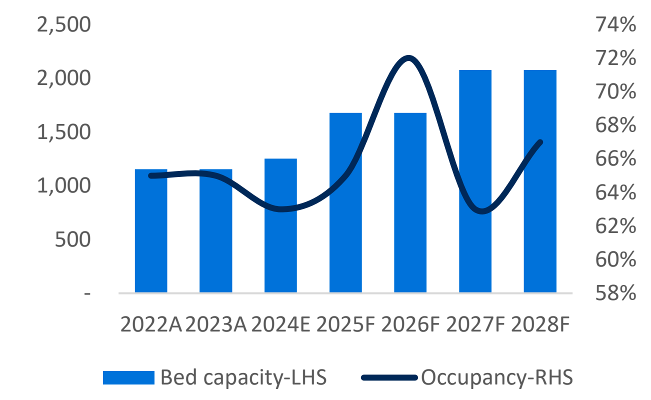
Investment Thesis in Charts:

Chart 166: Operational capacity* to increase 80% by 2027



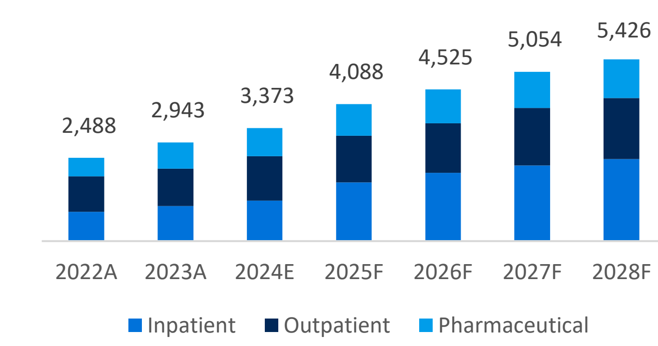
Source: anbc research & Company Data, * excluding associates

Chart 167: Occupancy to peak in 2026



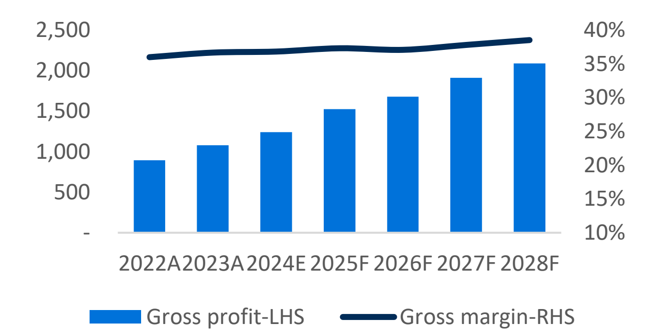
Source: anbc research & Company Data

Chart 168: Revenue to grow at a CAGR of 13% by 2028



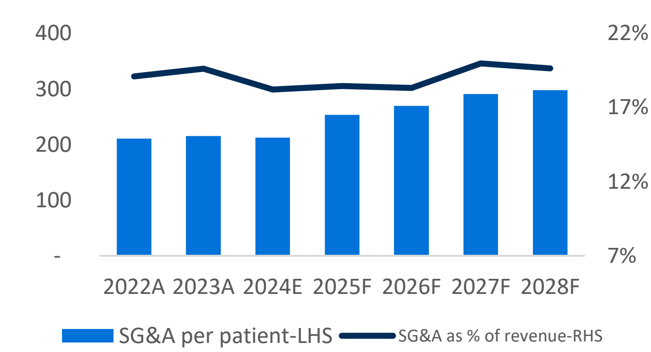
Source: anbc research & Company Data

Chart 169: Gross margins to sustain around 37%-39% level



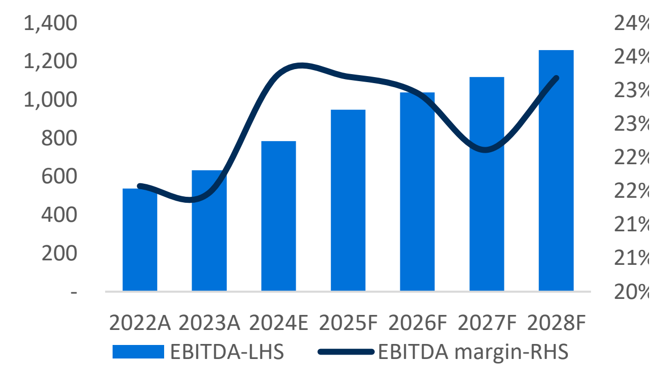
Source: anbc research & Company Data

Chart 170: SG&A to remain between 18%-20% of revenue



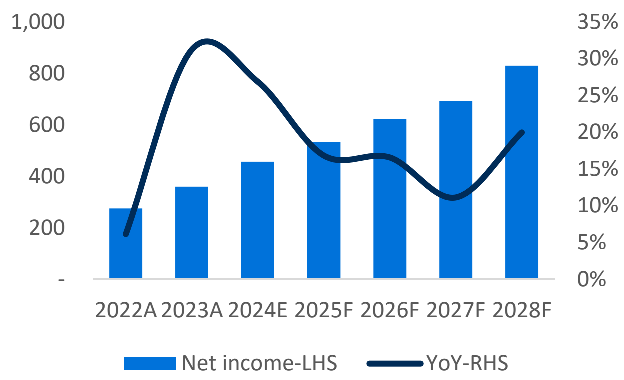
Source: anbc research & Company Data

Chart 171: EBITDA to grow at a 5-year CAGR of 15%



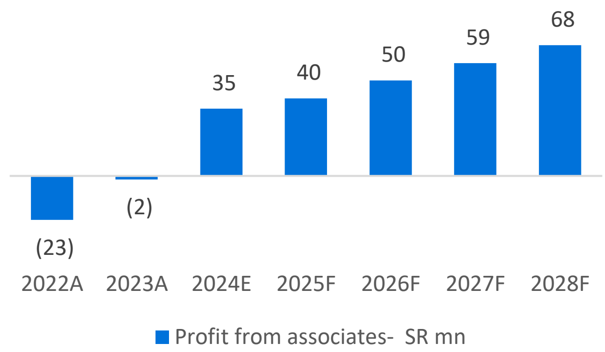
Source: anbc research & Company Data

Chart 172: Net income to grow at a 5-year CAGR of 18%



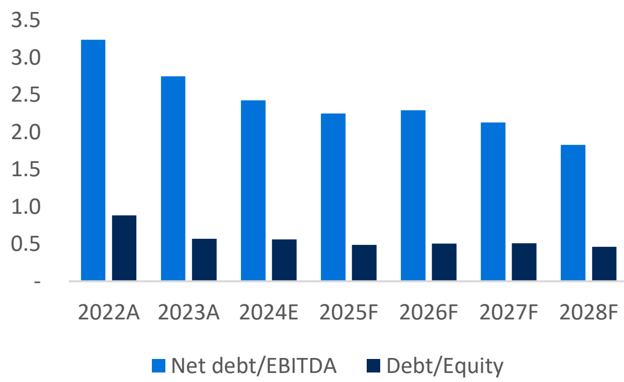
Source: anbc research & Company Data

Chart 173: Investment portfolio to return profits in 2024 and onwards



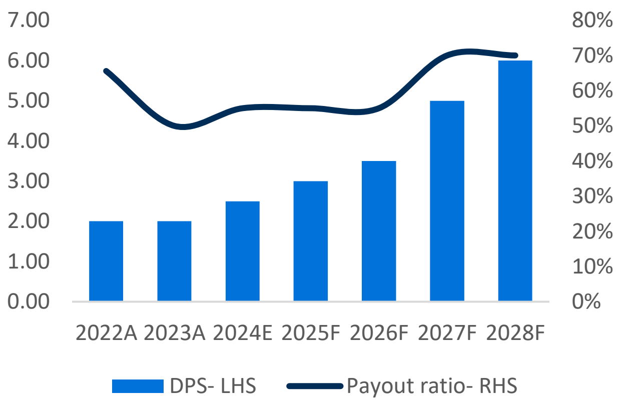
Source: anbc research & Company Data

Chart 174: Net Debt/EBITDA to reach 2.3x in 2024



Source: anbc research & Company Data

Chart 175: Dividend paying capacity to increase post completion of new hospital in 2026



Source: anbc research & Company Data

Table 48: Financial Summary

Dallah Healthcare Co.						
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	SR mn	2,488	2,943	3,373	4,088	4,525
Gross profit	SR mn	895	1,079	1,241	1,525	1,677
General &admin	SR mn	430	517	546	671	736
Operating profit	SR mn	422	506	627	771	849
EBITDA	SR mn	537	632	784	945	1,048
Net Income	SR mn	274	360	457	534	631
Balance Sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Current assets	SR mn	1,304	1,345	1,497	1,568	1,588
Non current assets	SR mn	3,616	4,898	5,085	6,909	7,442
Total assets	SR mn	4,920	6,243	6,582	8,477	9,030
Current liabilities	SR mn	885	1,163	1,435	1,793	2,181
Non-current liabilities	SR mn	1,804	1,607	1,461	2,098	1,973
Total equity	SR mn	2,232	3,473	3,685	4,586	4,875
Cash Flow Statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Net CFO	SR mn	442	626	550	563	773
CFI	SR mn	(179)	(294)	(344)	(568)	(731)
CFF	SR mn	(233)	(335)	(151)	(126)	(117)
Ending balance	SR mn	238	235	291	159	84
YoY Growth		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	%	*18.18%*	*18.28%*	*14.61%*	*21.19%*	*10.69%*
EBITDA	%	*11.85%*	*17.74%*	*24.03%*	*20.54%*	*10.88%*
Operating profit	%	*15.82%*	*19.85%*	*23.91%*	*22.88%*	*10.12%*
Net income	%	*6.13%*	*31.21%*	*26.85%*	*16.85%*	*18.25%*
Ratios		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Return on assets (ROA)	%	*5.74%*	*6.45%*	*7.12%*	*7.09%*	*7.21%*
Return on equity (ROE)	%	*12.68%*	*12.63%*	*12.76%*	*12.91%*	*13.34%*
Gross margin	%	*35.98%*	*36.65%*	*36.81%*	*37.30%*	*37.07%*
Operating margin	%	*16.98%*	*17.20%*	*18.60%*	*18.86%*	*18.76%*
EBITDA margin	%	*21.57%*	*21.47%*	*23.24%*	*23.11%*	*23.15%*
Net margin	%	*11.03%*	*12.24%*	*13.54%*	*13.06%*	*13.95%*
Dividend payout	%	*65.58%*	*49.98%*	*55.00%*	*55.00%*	*55.00%*
Effective zakat rate	%	*10.24%*	*3.72%*	*8.00%*	*8.00%*	*8.00%*
Per Share Analysis		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Earnings per share (EPS)	SR/sh	3.05	4.00	4.68	5.46	6.46
Dividends per share (DPS)	SR/sh	2.00	2.00	2.50	3.00	3.50
Book value per share (BVPS)	SR/sh	24.80	38.59	37.73	46.95	49.91

Source: Company Financials, anbc research

Investment Thesis

Operational capacity set to increase by 80%, including acquisitions in Eastern Province

Dallah is a premier healthcare operator with its primary operations based in Riyadh. The company operates 3 facilities in total, two hospitals in Riyadh and one in Makkah and holds indirect ownership in Kingdom Hospital in Riyadh as detailed below.

Table 49: Existing Capacity

Name	Start year	City	Ownership	Beds
Al Nakheel Hospital	1987	Riyadh	100%	540
Namar Hospital	2018	Riyadh	100%	300
Kingdom Hospital*	2019	Riyadh	58.6%	180
Makkah Medical Centre	2022	Makkah	91%	134
Dallah Clinics			100%	-
Total (end 2023)				**1,154**

*Indirectly owned via 58.6% stake in Care Shield Holding Company

Source: anbc research and Company data

Over the next five years, Dallah will add 80% more bed capacity compared to the 2023 levels (1,154 beds) through a 350-bed capacity expansion out of which 100 beds are planned to be added in Namar hospital in 2024 (based on demand) as well as through the construction of a new 250-bed hospital in Riyadh. The hospital will have a built-up area of 87.3k square meters at a total cost of SR690mn while operations are expected to commence in 1Q27. Additionally, we expect 424 operational beds (total 749 beds) to be added in 2025 through Al Salam and Al Ahsa acquisitions with further expansion of 150 beds in Al Salam during 2027. This will increase operational capacity to 2,078 beds by 2027, equating to an increase of 80%.

Table 50: Dallah Expansion Pipeline

Name	Exp. Start Date	City	Ownership	Beds
Namar Capacity Expansion	2024	Riyadh	100%	100
Al Salam Hospital*	2025	Khobar	100%	475
Al Ahsa Hospital**	2025	Hofuf	97.4%	274
Al Arid Hospital	2027	Riyadh	100%	250
Total				**1,099**

*100% stake valued at SR 250.88mn via Al Salam Medical Services Co., (150 operational beds), ** 97.41% stake valued at SR 409.1mn

Source: anbc research and Company data

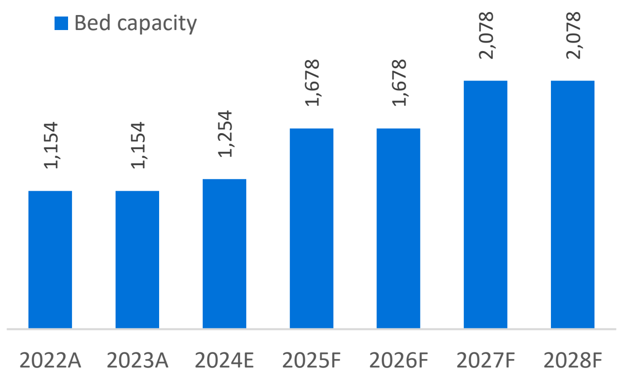
Al Ahsa to breakeven this year Al Salam to follow in 1H26

Alongside organic growth, the company is also focusing on expanding via an inorganic growth strategy. It has announced the acquisition of two hospitals from Ayyan Medical Services via share swap funded through the issuance of 3.89mn shares. The two assets are Al Salam Hospital in Khobar and Al-Ahsa Hospital in Hofuf in the Eastern region. Post the acquisitions, the company will have 100% ownership of Al Salam Hospital and 97.4% ownership of Al-Ahsa Hospital. Total cost of the two acquisitions is SR660mn out of which Al Salam hospital will be SR251mn and Al-Ahsa Hospital will be SR409mn. The two acquisitions also include around SR770mn debt. Based on the adjusted cost of the two acquisitions (including debt and additional capex for ramp up), capex/bed translates into SR2.5mn which remains relatively cheaper to an average of SR3.2mn-SR3.5mn for new hospitals in Riyadh.

Although Al Ahsa Hospital recorded a loss in 1Q24 due to re-negotiation over an insurance contract, this was a one-off loss. The hospital recorded profits of SR10mn in 2023 and is expected to breakeven in 2024 and return to profitability in

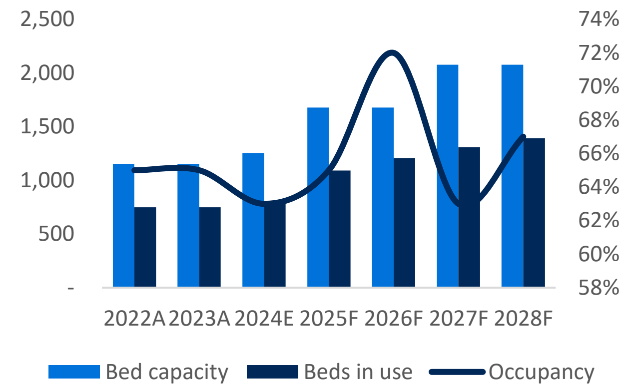
2025 and onwards to historical levels. Al Salam Hospital on the other hand is a recently established hospital and currently is loss making as it is in the early stages of ramp up. The hospital is expected to breakeven by 1H26. Currently, the hospital has 150 operating beds out of total capacity of 475. We expect it to reach 300 by 2027 with additional capex of SR120mn. The two acquisitions are currently in process, awaiting regulatory and shareholder approvals and are incorporated in our base case. Based on the new number of shares post completion of acquisitions, our Target Price translates into SR168/share.

Chart 176: Operational Capacity* to increase 80% by 2027



Source: anbc research and Company data, * excluding associates

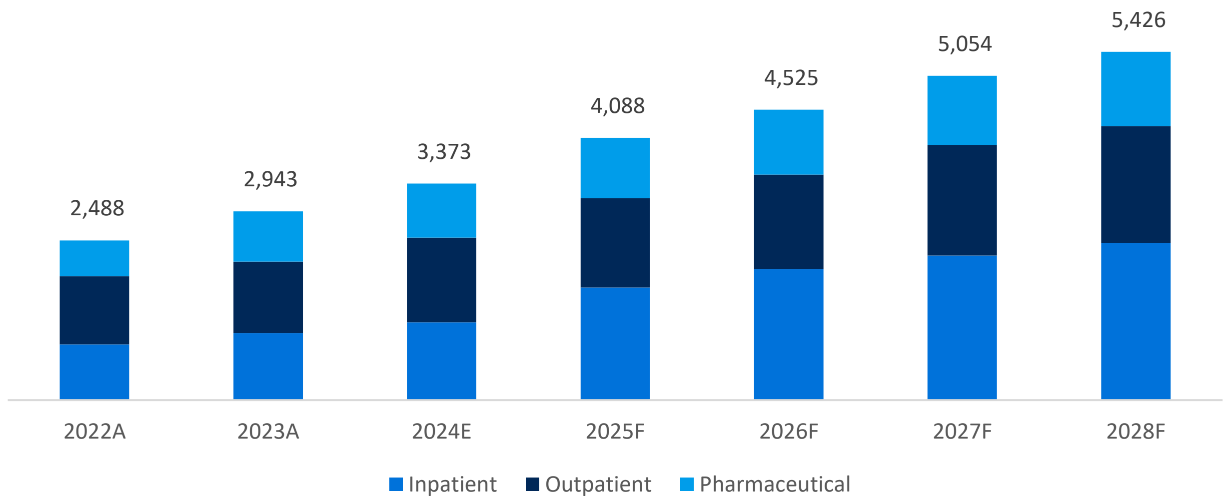
Chart 177: Occupancy to peak in 2026



Source: anbc research and Company data

We expect the upcoming capacity to drive revenue CAGR of 13% during 2023-2028. We expect the highest percentage of growth in the inpatient segment (5-year CAGR: 18%) followed by growth in the outpatient segment (5-year CAGR: 10%) and Pharmaceutical segment (5-year CAGR: 8%).

Chart 178: Revenue to grow at a CAGR of 13% by 2028



Source: anbc research & Company Data

Table 51: Revenue Model

	2022A	2023A	2024E	2025F	2026F	2027F	2028F
Beds	1,154	1,154	1,254	1,678	1,678	2,078	2,078
growth	28%	0%	9%	34%	0%	24%	0%
Clinics	550	550	600	600	600	700	700
growth	10%	0%	9%	0%	0%	17%	0%
Number of patients	2,471,000	2,679,000	2,891,317	2,977,553	3,075,330	3,474,455	3,583,062
growth	37%	8%	8%	3%	3%	13%	3%
Revenue per patient	782	806	877	1,056	1,143	1,144	1,192
growth	-14%	3%	9%	21%	8%	0%	4%
Hospital Revenues (SR mn)	1,932	2,159	2,534	3,146	3,517	3,976	4,272
growth	18%	12%	17%	24%	12%	13%	7%
Medicine Revenues	556	784	838	942	1,008	1,079	1,154
growth	19%	41%	7%	12%	7%	7%	7%
Total Revenues	2,488	2,943	3,373	4,088	4,525	5,054	5,426
growth	18%	18%	15%	21%	11%	12%	7%

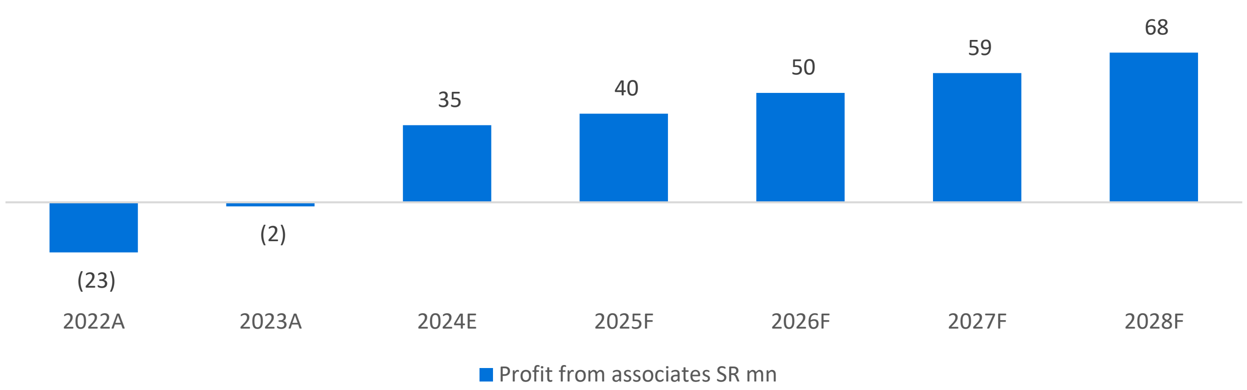
Source: Company data

10.1.1 Growing investment portfolio to expedite capacity increase

Dallah has a sizable investment portfolio comprising Dr. Mohammad Rashid Al Faqih Company (31.21% stake), Meraas Arabia Medical Holding Company (17% stake), MEFIC Pvt Equity Opportunities Fund 3 (41.6% stake) and International Medical Center Company (27.18% stake).

The most recent and largest investment came in 2022 which was that of International Medical Center Co (IMC). IMC has a 307-bed hospital located in Jeddah with annual revenue of SR1.2bn in 2023. In Feb-24, the company also announced the launch of its hospital complex project located in Obhur, Jeddah. This gives Dallah indirect exposure through its 27.17% stake in IMC to the potentially faster growing market (bed density of 21.0 beds per 10,000 vs 24.9 beds per 10,000 for KSA). The new branch in Obhur is part of a series of planned expansion projects expected to be unveiled in the coming years. The first in line from the upcoming pipeline will be a hospital complex in Makkah expected to start operations by end of 2024.

Chart 179: Investment portfolio to turn to profits 2024 onwards



Source: Company Financials and ANB Calculations

The company's investment portfolio has historically been a drag on profits, returning losses over the past five years. With improvement in Dr. Mohammad Rashid Al Faqih Company where losses came down from SR23mn in 2023 to SR1mn in 1H24, along with growing contribution from IMC we expect the portfolio returns to grow at a CAGR of 18% over 2024-2028.

Investment portfolio to support net margins

Dallah has the second highest gross margins in the industry (from our coverage companies). However, the company has been less effective in maintaining superiority in other metrics such as EBITDA, operating and net margins Revenue over the past 5 years has grown at a CAGR of 24% but was weighed down by 19% CAGR in General & Administrative expenses (18% of revenue in 2023), 43% CAGR in finance costs and losses from its investment portfolio. The company also has the lowest ROE amongst its listed peers in our coverage and has been unable to generate consistent improvement in the ROE. In the coming years we expect the improvement in the company's investment portfolio returns as well as less pressure on finance costs with decreasing SAIBOR rates to support net margins. As highlighted above, we expect the portfolio to turn to profits in 2024 and record a CAGR of 18% thereon. We expect this growth to support net margins improving from 12% in 2023 to 15% in 2028.

Valuation

We have used a Discounted Cash Flow (DCF) model to value Dallah, with a cost of equity of 10.3% and a weighted average cost of capital of 9.0%. We have assumed a 3.25% terminal growth rate. Our target price of SR174/share implies a target PE multiple of 32x 2025 PE, in line with where the stock is trading currently. We have a Neutral recommendation. We like the growth profile of the business, but we think the valuation is fairly priced.

Table 51: Our estimates versus consensus

	ANB 2024E	Consensus 2024E	Delta	ANB 2025F	Consensus 2025F	Delta	ANB 2026F	Consensus 2026F	Delta
Revenue	3,373	3,268	3%	4,088	3,618	13%	4,525	3,960	14%
Gross Margins	36.81%	37.28%	-0.47%	37.30%	37.26%	0.04%	37.07%	36.88%	0.19%
EBITDA	784	727	8%	945	798	18%	1,048	878	19%
EBITDA margins	23.2%	22.2%	1.04%	23.1%	22.1%	1.06%	23.2%	22.2%	0.98%
Net Profits	457	460	-1%	534	540	-1%	631	633	0%
EPS	4.68	4.86	-4%	5.46	5.56	-2%	6.46	6.28	3%

Source: Bloomberg, anbc research

Table 52: DCF Model

Dallah Healthcare Co. Discounted Cash Flow (DCF)		2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Adjusted EBITDA		856	1,026	1,126	1,214	1,364	1,495	1,593	1,689
Taxes		(43)	(50)	(58)	(65)	(78)	(87)	(94)	(101)
WC change		(63)	(145)	(57)	(74)	(23)	(3)	21	23
CAPEX		(436)	(464)	(623)	(299)	(316)	(325)	(324)	(311)
FCF		**315**	**367**	**388**	**777**	**947**	**1,080**	**1,197**	**1,299**
Ternminal value						-	-	-	**23,503**
PV of FCF		**315**	**337**	**327**	**601**	**672**	**703**	**715**	**13,605**
Terminal growth	*3.25%*								
WACC	*8.96%*								
Enterprise value	**17,275**								
Debt	1,900								
Cash	143								
NCI	280								
Investments	1,585								
Equity value	**16,822**								
No. of shares	98								
TP	**172**								
Current price	158								
Upside	***9.0%***								
D/Y	*1.3%*								
Total return	***10.3%***								

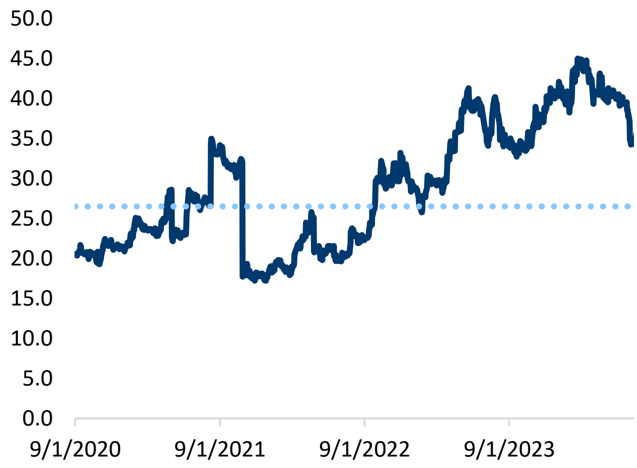
Source: Company Financials, anbc research

Table 53: Valuation Sensitivity

		WACC				
		8.0%	***8.5%***	***9.0%***	***9.5%***	***10.0%***
Terminal growth rate	*2.75%*	198	179	163	149	138
	3.25%	215	193	**174**	159	146
	3.75%	237	210	188	170	155
	4.25%	264	230	204	183	166

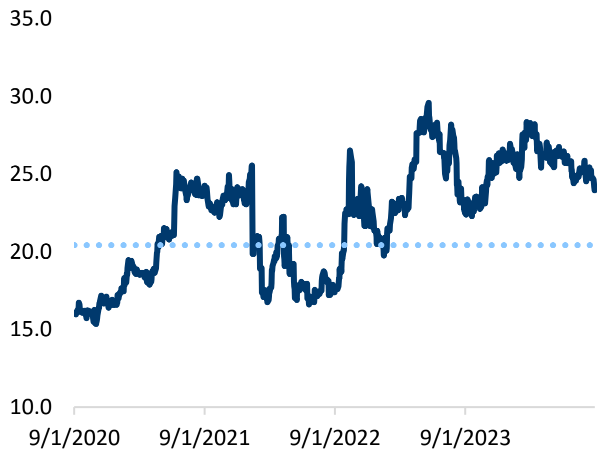
Source: Company Financials, anbc research

Chart 180: PE (current year)



Source: Bloomberg, anbc research

Chart 181: EV to EBITDA (current year)



Source: Bloomberg, anbc research

Company Overview

The company was established in 1995 as Dallah Health Company with the opening of Dallah Al Nakheel Hospital in Riyadh with a bed capacity of 273. It listed on the Saudi Stock Exchange in 2012. Today, the company owns six healthcare facilities, which include Dallah Al Nakheel and Namar Hospitals, Dallah Clinics and Dallah Homecare. In 2023, the company treated more than 2.5mn patients. It operates 1,300 beds, 500 outpatient clinics and has more than 5,000 employees, which include around 1,000 doctors.

Table 54: Timeline

Dallah Healthcare: Historical milestones	
1987	Work begins on Dallah Nakheel Hospital in Riyadh
1995	Opening of Dallah Health Company
2002	Opening of Dallah Pharma factory
2007	Opening of Obstetrics and Gynaecology Hospital with 78 beds
2009	Opening of Dallah Children's Hospital with 85 bed capacity.
2012	Listing of Dallah Healthcare Company on Saudi Stock Exchange.
2014	Opening of Afyaa Al Nakheel Company. Acquisition of 31.2% stake in Dr. Mohammad Rashid Al Faqih Company and 0.4% stake of Jordanian Pharmaceutical Company.
2015	Opening of northern clinics
2018	Opening of Dallah Namar Hospital
2019	Acquisition of 35.3% stake in Meras Medical Holding Company
2020	Increasing ownership of Makkah Medical Center to 90.9%. Acquisition of 58.6% stake in Care Shield Holding Company (Kingdom Hospital) and Opening of the western expansion building of Dallah Al Nakheel
2022	Opening of Dallah clinics and launch of work on Dallah Home Care
2023	Acquisition of 27.2% stake in International Medical Center Company in Jeddah. Opening of Riaya Dallah (Pharmacy)

Source: Company data

Business activities

Hospitals:

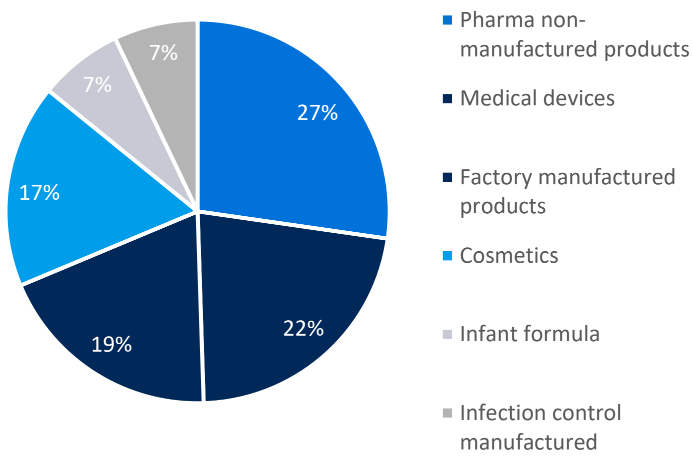
- **Dallah Al Nakheel Hospital:** This is the flagship hospital of the group with a prime focus on specialties. The hospital was established in 1987 and has since expanded in its outpatient, emergency rooms as well as inpatient capacity to become one of the biggest single private hospitals in Riyadh. The hospital has 585 licensed beds out of which 540 are operational beds along with 12 centers of excellence in different specialties.
- **Dallah Namar Hospital:** The hospital was opened in 2018 and is in the Southwestern neighborhood of Riyadh. The hospital also offers mental health and addiction services and renal dialysis. It has a capacity of 300 beds with 150 clinics with a maximum achievable capacity of 400 beds and 200 clinics.
- **Care Shield Holding Company:** The company owns Kingdom Hospital and Consulting Clinics in Riyadh which has a bed capacity of 180 beds. The hospital consists of a number of specialized medical departments including pediatrics, internal medicine, obstetrics and gynecology. The hospital also has a pain center, and a rehabilitation and physiotherapy unit.
- **Makkah Medical Center.** The hospital has a key private sector hospital in the holy city of Makkah with a bed capacity of 134 beds and 40 clinics.

Dallah Pharma

Dallah Pharma Company & Factory was set up in 2002. It has exclusive distribution rights in the Kingdom for 40 pharmaceutical products, 15 nutritional products and 70 medical devices.

Chart 182: Revenue by segments (2023)

Product Portfolio-Dallah Pharma



Source: Company Data

Dallah Home Care

Dallah Home Care provides various services such as doctor visits for home examination, home nursing services, laboratory services, physical therapy, dialysis, X-rays, vaccines and mother and child services.

Dallah's Investments

- International Medical Center (27.17% shareholding): Main activity is the operation of hospitals.
- Dr. Mohammad Alfagih Hospital (31.21% shareholding): Main activity is managing its affiliated hospitals.
- Meras Medical Hospital Company (17% shareholding): Main activity is managing companies in which it invests.
- Jordanian Pharmaceutical Manufacturing Company (0.4% shareholding): Manufacturing pharmaceutical products, cosmetics and medical supplies.
- MEFIC Private Equity Opportunities Fund (41.55% shareholding): GCC and Saudi investments in the healthcare sector.

Financial Analysis:

Financial performance: Revenues for Dallah have increased 2.4x during 2019-2023 to SR2.9bn (CAGR 24%) driven by capacity additions in its network to cater to the growing demand in Riyadh. Total patient volumes during the same period have more than doubled (up 2.3x) at a CAGR of 23.1% to 2.68mn patients. Out of these roughly 3% are inpatients with average days of stay per inpatient ranging from 2.6-6.0 days. The company reported its highest growth in 2021 (revenue up 60% YoY) following the acquisition of 92% stake in Makkah Medical Center and 58.64% stake in Care Shield.

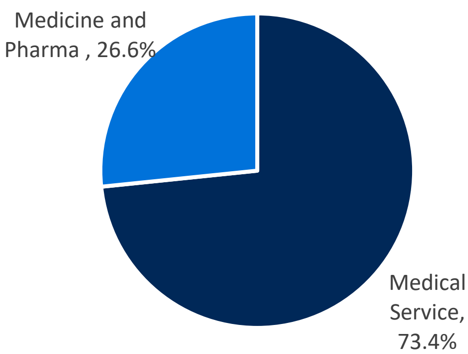
Gross margins during 2019-2023 have remained largely stable within a narrow range of 34.1%-36.7%. General & Administrative expenses have increased a CAGR of 19% during the same period while the same as a percentage of revenue declined from 21% in 2019 to 18% in 2023 which remains on the higher side when compared to peers. Investment in associates has yielded losses during the same period while finance cost has increase at a CAGR of 43% due to rise in SAIBOR rates and rising capital requirements.

Consequently, net profits have increased at a CAGR of 26% from SR144m in 2019 to SR360mn in 2023 with Dallah's net margin between 10%-12%.

Geographical split: The company's operations are primarily in Riyadh in the Central Region. It has some indirect exposure to other regions through its subsidiaries and associates.

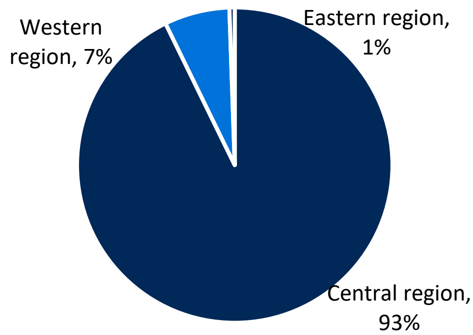
Revenue by customers: Outpatients account for the majority of the revenue (38% of total) followed by inpatients (36% of total). The remaining is generated through sales of medicines. In terms of customers, insurance accounts for ~70% of the total revenues while remaining comes from cash and government customers.

Chart 183: Revenue by segments (2023)



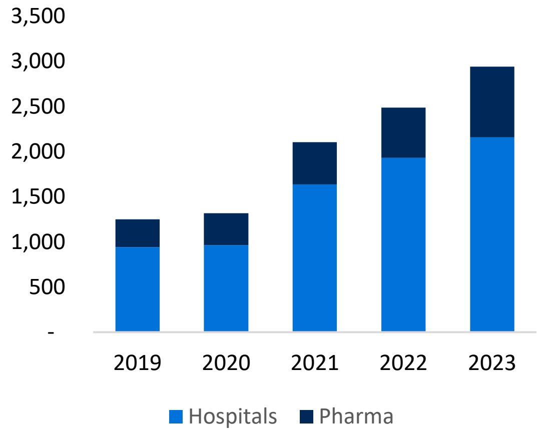
Source: Company data

Chart 184: Revenues by region (2023)



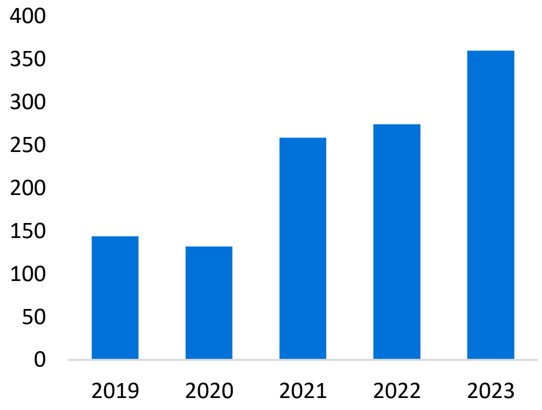
Source: Company data

Chart 185: Revenue growth (2019-2023)



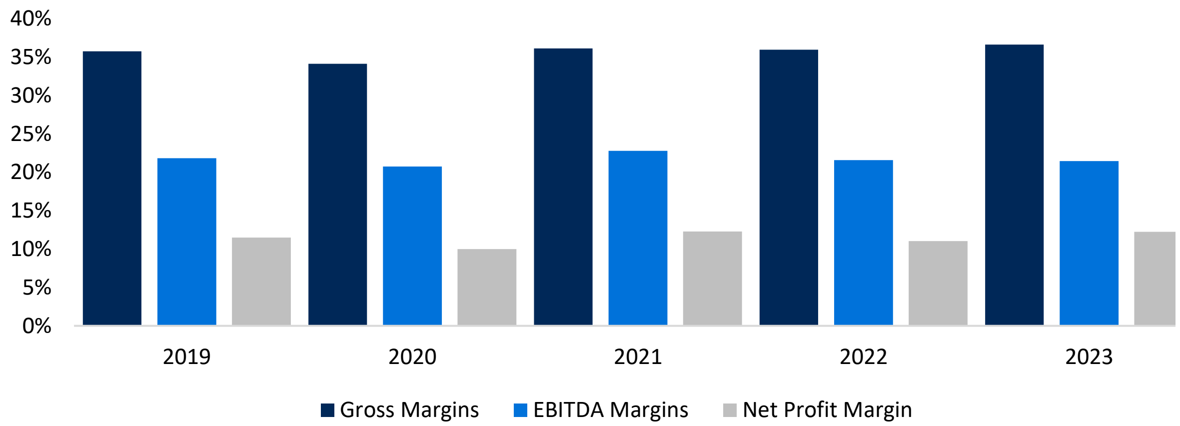
Source: Company data

Chart 186: Net Profit growth (2019-2023)



Source: Company data

Chart 187: Profit Margins (2019-2023)



Source: Company data

Table 55: Financial Statements

Dallah Healthcare Co.								
Income statement:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Revenue	SR mn	2,488	2,943	3,373	4,088	4,525	5,054	5,426
Gross profit	SR mn	**895**	**1,079**	**1,241**	**1,525**	**1,677**	**1,910**	**2,089**
Selling & distribution expenses	SR mn	45	60	69	83	92	103	110
General &admin	SR mn	430	517	546	671	736	906	955
Operating profit	SR mn	**422**	**506**	**627**	**771**	**849**	**901**	**1,024**
Depreciation & amortization	SR mn	114	126	156	174	199	229	247
EBITDA	SR mn	**537**	**632**	**784**	**945**	**1,048**	**1,129**	**1,270**
Expected credit loss	SR mn	28	30	28	33	35	37	39
Other income	SR mn	30	35	37	38	38	38	39
Finance costs	SR mn	70	104	131	187	160	139	109
Share of results	SR mn	(23)	(2)	35	40	50	59	68
PBZ	SR mn	**329**	**400**	**531**	**625**	**739**	**821**	**983**
Zakat	SR mn	34	15	43	50	59	66	79
PAZ-total	SR mn	**295**	**385**	**489**	**575**	**679**	**755**	**904**
NCI	SR mn	21	25	32	41	48	54	64
PAZ-holding company	SR mn	**274**	**360**	**457**	**534**	**631**	**701**	**840**
Number of shares in issue	Mn shares	90	90	98	98	98	98	98
EPS	SR/share	**3.05**	**4.00**	**4.68**	**5.46**	**6.46**	**7.18**	**8.60**
DPS, net	SR/share	2.00	2.00	2.50	3.00	3.50	5.00	6.00
Balance sheet:		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
PPE	SR mn	2,847	3,040	3,140	3,435	3,851	3,852	3,854
Right of use assets	SR mn	49	86	138	196	263	332	400
Intagible assets & goodwill	SR mn	204	201	201	201	201	201	201
Equity accounted investees	SR mn	210	1,571	1,606	1,646	1,696	1,755	1,823
Non current assets	SR mn	**3,616**	**4,898**	**5,085**	**6,909**	**7,442**	**7,570**	**7,707**
Inventories	SR mn	255	224	274	330	366	404	429
Prepayments & other current assets	SR mn	114	138	148	160	165	172	174
Trade recievables	SR mn	677	721	758	893	947	1,015	1,038
Cash & equivalents	SR mn	238	235	291	159	84	222	191
Current assets	SR mn	**1,304**	**1,345**	**1,497**	**1,568**	**1,588**	**1,840**	**1,858**
Total assets	SR mn	**4,920**	**6,243**	**6,582**	**8,477**	**9,030**	**9,410**	**9,566**
Share capital	SR mn	900	977	977	977	977	977	977
Statutory reserve- share premium	SR mn	61	1,027	1,027	1,027	1,027	1,027	1,027
Retained earnings	SR mn	921	1,108	1,321	1,561	1,851	2,064	2,318
Total equity	SR mn	**2,232**	**3,473**	**3,685**	**4,586**	**4,875**	**5,088**	**5,342**
Long term mrabaha financing	SR mn	1,529	1,288	1,083	891	699	507	328
Long term lease liabilities	SR mn	26	59	118	176	243	313	380
Employee benefit obligations	SR mn	244	258	258	258	258	258	258
Long term payables	SR mn	3	3	3	3	3	3	3
Non-current liabilities	SR mn	**1,804**	**1,607**	**1,461**	**2,098**	**1,973**	**1,850**	**1,739**
Current portion of long term financing	SR mn	226	253	192	192	192	192	179
Short term murabaha financing	SR mn	179	354	654	954	1,304	1,554	1,554
Short term lease liabilities	SR mn	16	20	20	20	20	20	20
Trade payables	SR mn	248	255	288	346	384	424	450
Current liabilities	SR mn	**885**	**1,163**	**1,435**	**1,793**	**2,181**	**2,472**	**2,485**
Total liabilities	**SR mn**	**2,688**	**2,770**	**2,896**	**3,891**	**4,155**	**4,322**	**4,223**
Total liabilities and equity	SR mn	**4,920**	**6,243**	**6,582**	**8,477**	**9,030**	**9,410**	**9,566**
Cash flow statement		**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit before zakat	SR mn	329	400	531	625	739	821	983
Depreciation on PPE	SR mn	93	101	123	129	141	158	162
Adjusted income	SR mn	**597**	**703**	**613**	**708**	**830**	**930**	**1,087**
Accounts receivables	SR mn	(58)	(74)	(36)	(135)	(55)	(68)	(23)
Inventories	SR mn	(39)	30	(50)	(56)	(37)	(38)	(25)
Accounts payable	SR mn	26	7	33	58	38	40	26
Net CFO	**SR mn**	**442**	**626**	**550**	**563**	**773**	**856**	**1,064**
Purchase of PPE	SR mn	(173)	(295)	(257)	(470)	(614)	(229)	(248)
CFI	**SR mn**	**(179)**	**(294)**	**(344)**	**(568)**	**(731)**	**(357)**	**(384)**
Proceeds from murabaha financing	SR mn	725	233	300	300	350	250	-
Repayment of murabaha financing	SR mn	(657)	(274)	(265)	(192)	(192)	(192)	(192)
Dividend paid	SR mn	(180)	(154)	(244)	(293)	(342)	(488)	(586)
CFF	**SR mn**	**(233)**	**(335)**	**(151)**	**(126)**	**(117)**	**(361)**	**(711)**
Net cash flows	SR mn	30	(3)	56	(132)	(75)	138	(31)
Ending balance	SR mn	238	235	291	159	84	222	191

Source: Company Financials, anbc research

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