

## AL HAMMADI



## EVENT FLASH

## Revenue growth on higher utilization rates

Al Hammadi reported broadly in-line 2Q17 results with a net income of SR25.7mn, growing +24.4% YoY (-8.3% QoQ). This is in-line with the NCBC and consensus estimates of SR26.7mn and SR25.8mn, respectively. The growth is attributed mainly to strong revenue growth (+28.0% YoY) driven by an improvement in the overall utilization rates. We are Neutral on Al Hammadi with a PT of SR40.4. The stock is currently trading at 2018E P/E of 19.5x in-line with Saudi peers group average of 19.3x.

- Al Hammadi reported a broadly in-line 2Q17 net income of SR25.7mn, growing +24.4% YoY (-8.3% QoQ). This compares to the NCBC and consensus estimates of SR26.7mn and SR25.8mn, respectively. The results are supported by the +28.0% YoY growth in revenue.
- The company reported a revenue of SR176.7mn, a growth of +28.0% YoY (-2.0% QoQ). This is in-line with our estimate of SR178.9mn. The growth in revenue is due to 1) full quarter contribution of Al Olaya hospital operation as the hospital was closed in 2Q16 after a fire incident and 2) the ramp-up of Al Suweidi hospital operation. The company has also attributed the growth to the improvement in contract terms with insurance companies. The QoQ decline in revenue is due to seasonality (i.e. Ramadan and summer break).
- Gross profit came-in 13.3% lower than our estimate at SR58.2mn (flat YoY but a decline of -6.2% QoQ) with a gross margin of 32.9%. This is less than 41.7% in 2Q16 and 34.4% in 1Q17 and our estimate of 37.5%. We believe the variance in gross margin is due to higher employees cost from hiring new medical staff for Al Nuzha hospital, which is expected to commence commercial operation in 4Q17.
- Operating income stood at SR33.8mn, increasing 16.2% YoY and 5.1% higher than our estimates. Opex came in at SR24.3mn, less than 2Q16 Opex of SR28.4mn and our estimate of SR34.8mn. We believe that lower (or reversal of) doubtful debt provision explains the decline in Opex.
- The variance on the net income line has contracted to -3.8% due to higher than expected financial charges. We believe financial charges stood at SR5.2mn vs. our estimates of SR2.5mn
- We are Neutral on Al Hammadi with PT SR40.4. Although the opening of Al Nuzha hospital is a key catalyst, we believe it is already priced-in. The stock trades at 2018E P/E of 19.5x vs. Saudi peer group average of 19.3x.

## 2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var <sup>^</sup>	% QoQ
Revenues	177	138	28.0%	179	(1.2)%	(2.0)%
Gross income	58	58	1.0%	67	(13.3)%	(6.2)%
Gross margin (%)	32.9%	41.7%	(8.77) bps	37.5%	(4.56) bps	(1.50) bps
Operating income	34	29	16.2%	32	5.1%	(2.3)%
Operating Margin (%)	19.2%	21.1%	(1.94) bps	18.0%	1.15 bps	(0.07) bps
Net income	26	74	24.4%	27	(3.8)%	(8.3)%
Net Margin (%)	14.5%	14.9%	(0.42) bps	14.9%	(0.39) bps	(1.00) bps
EPS (SR)	0.21	0.17	24.4%	0.22	(3.8)%	(8.3)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

## NEUTRAL

Target price (SR)	40.4
Current price (SR)	35.2
Upside/Downside (%)	14.8

## STOCK DETAILS

M52-week range H/L (SR)	46/25
Market cap (\$mn)	1,126
Shares outstanding (mn)	120.0
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(9.4)	(12.6)	(3.5)
Rel. to market	(7.6)	(15.6)	(18.5)

Avg. daily turnover (mn)	SR	US\$
3M	12.7	3.4
12M	10.2	2.7

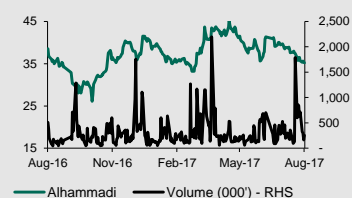
Reuters code	4007.SE
Bloomberg code	ALHAMMADI AB
	<a href="http://www.alhammadihospital.com">www.alhammadihospital.com</a>

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	57.9	35.1	19.5
P/B (x)	3.1	2.8	2.6
EV/EBITDA (x)	38.5	27.8	18.5
Div Yield (%)	0.0	1.4	2.6

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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