

Al Hammadi Development and Investment Co.

Q1 2018

Recommendation **Overweight**

Fair Value (SAR) **39.00**

Price as of May 24, 2018 34.27
Expected Return 13.8%

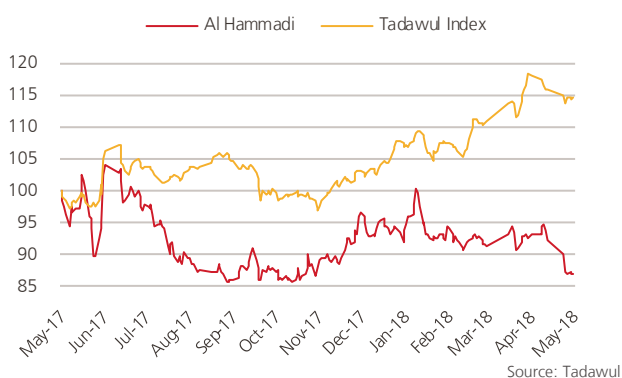
Company Data

Tadawul Symbol 4007.SE
52 Week High (SAR) 42.15
52 Week Low (SAR) 33.00
YTD Change -7.1%
3-Month Average Volume (Thousand Shares) 393
Market Cap. (SAR Million) 4,112
Market Cap. (USD Million) 1,097
Outstanding Shares (Million Shares) 120

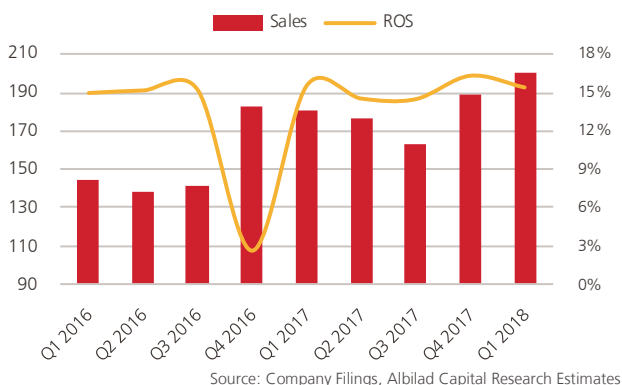
Major Shareholders (> 5%)

Jadwa Healthcare Opportunities Company 21.00%
Abdulaziz Mohammed Hamad Al Hammadi 10.00%
Saleh Mohammed Hamad Al Hammadi 10.00%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



Mohammed H. Atiyah
Financial Analyst
MH.Atiyah@albilad-capital.com

For more information, please contact:

Turki Fadaak
Research & Advisory Manager
TFadaak@albilad-capital.com



Al Hammadi disclosed its Q1 2018 interim results revealing a bottom line of SAR 30.9 million compared to SAR 28.0 million in Q1 2017 soaring 10% YoY, and improved marginally compared with the previous quarter of SAR 30.8 million. However, the net profit for the first quarter fell to 15.4% versus 16.3% for the previous quarter, while shrank slightly from 15.5% in Q1 2017. The first-quarter net profit missed our estimate of SAR 27 million and analysts' consensus of SAR 28 million.

Total revenues amounted to SAR 200.7 million in Q1 2018 compared to SAR 180.2 million in Q1 2017 surging 11.3% YoY and 6.4% QoQ from SAR 188.7 million in the last quarter of 2017.

The YoY and QoQ remarkable slump in bottom line during Q1 2018 was driven by several reasons, including:

- Higher revenues resulting from the increase in the number of outpatients and inpatients, in addition to the revenues generated from the operation of Al-Nuzha Hospital during the first quarter of 2018.
- Higher pharmaceutical revenues supported by the acquisition of Medical Support Services Company in early February 2018, with the consolidation of its financial statements with the company's financial statements in accordance with IFRS 15.

Gross profit concluded Q1 2018 at SAR 66.8 million versus SAR 62 million in Q1 2017 climbing 7.3% YoY, while sliding 4.3% QoQ driven by deducting additional provisions directly from revenues in the first quarter as a result of the application of IFRS 15, as well as direct operating expenses associated with the operation of Al-Nuzha Hospital.

The operating profit hit SAR 40 million during Q1 2018 compared with SAR 34.7 million in Q1 2017 soaring 15.3% YoY, in addition to a slight improve from SAR 39.8 million in the previous quarter. Therefore, the operating profit margin improved to 19.9% in Q1 2018 compared to 19.2% in Q1 2017, while shrinking from 21.1% for the last quarter of 2017.

Al Hammadi announced the launch of the commercial operations of Al-Nuzha hospital and will start receiving patients on February 13, 2018. The company has initially operated 120 beds and will gradually increase the utilized beds. Moreover, the company expects to achieve an operating losses of SAR 18 million, with breakeven expected during Q4 2019. It is worth mentioning that Al Nuzha Hospital has a of 650 beds, including 75 critical care beds and 320 long-stay and re-habitation beds, in addition to 64 outpatient clinics, thus raising the total capacity of Al Hammadi hospitals to 1,378 beds and 202 clinics.

As stated in our previous report, we expect Al Hammadi's revenues to witness significant improvement over the coming period, especially with the launch of Al-Nuzha Hospital which will significantly boost the overall operating capacity of Al Hammadi. However, we expect that new hospital to weigh on the company's profits in 2018 due to huge depreciation charges and reporting the interest expenses of Al-Nuzha Hospital in the income statement instead of capitalizing these expenses in the balance sheet statement, in addition to the cost of operating the hospital and the possibility of delaying the link of Al-Nuzha Hospital with insurance companies, as it was the case at Al-Suweidi Hospital. In light of the above, we maintained our valuation of Al Hammadi at SAR 39 per share; after reviewing future estimates for the company's performance in the coming years.

FY - Ending December	2015A	2016A	2017A	2018E
EV/EBITDA	25.34	30.66	25.32	19.89
EV/Sales	8.31	7.70	6.58	5.66
P/E	29.10	56.37	38.09	37.08
Dividend Yield	2.2%	0.0%	2.2%	2.2%
P/BV	2.97	3.00	2.96	2.75
P/Revenue	7.33	6.78	5.80	4.99
Current Ratio	1.57	2.31	2.30	3.28
Revenue Growth	16.5%	8.0%	16.9%	16.3%
EPS (SAR)	1.18	0.61	0.90	0.92

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
Total Revenues	482.0	561.3	606.2	708.6	823.8
COGS	261.7	290.3	310.7	396.6	478.7
COGS/Sales	54.3%	51.7%	51.3%	56.0%	58.1%
SG&A	55.7	67.7	96.4	88.5	107.6
SG&A/Sales	11.5%	12.1%	15.9%	12.5%	13.1%
Doubtful Debts Provisions	19.7	19.1	46.9	39.3	3.0
Other Revenues	-	-	4.2	11.4	6.5
EBITDA	144.9	184.2	156.4	195.6	241.1
EBITDA Margin	30.1%	32.8%	25.8%	27.6%	29.3%
Depreciation and Amortization	14.0	30.8	53.4	53.0	86.2
EBIT	130.9	153.4	103.0	142.6	154.8
EBIT Margin	27.2%	27.3%	17.0%	20.1%	18.8%
Net Interest Income	(0.1)	(6.2)	(19.0)	(19.6)	(29.7)
Others	3.3	3.2	-	-	-
Pre-Tax Income	134.1	150.3	84.0	123.0	125.1
Tax and Zakat	5.2	9.0	11.0	15.1	14.2
Net Income	128.9	141.3	73.0	108.0	110.9
ROS	26.8%	25.2%	12.0%	15.2%	13.5%

Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018E
Cash and marketable securities	543.7	88.9	12.6	178.3	186.5
Accounts Receivables	132.1	248.8	430.5	252.4	384.7
Inventory	18.3	27.2	32.1	29.7	34.2
Others	13.2	15.2	16.8	45.1	29.4
Total ST Assets	707.3	380.1	491.9	505.6	634.9
Net Fixed Assets and Projects Under Implementation	1,390.0	1,555.7	1,650.5	1,797.7	1,778.9
Total LT Assets	1,390.0	1,555.7	1,650.5	1,797.7	1,778.9
Total Assets	2,097.2	1,935.8	2,142.5	2,303.3	2,413.8

Short Term Debt and CPLTD	102.9	150.0	114.9	44.0	79.9
Accounts Payable	30.1	36.4	37.8	34.2	39.0
Accrued Expenses	27.3	45.0	47.7	39.5	58.9
Others	4.3	10.0	12.7	102.4	15.7
Total ST Liabilities	164.7	241.4	213.0	220.1	193.6
Total Long Term Debt	593.8	275.7	519.2	646.1	660.2
Other Noncurrent Liabilities	19.0	32.6	40.6	50.1	62.0
Equity	1,319.8	1,386.1	1,369.6	1,387.1	1,498.0
Total Liabilities and Equity	2,097.2	1,935.8	2,142.5	2,303.3	2,413.8

Cash Flow (SAR mn)	2014A	2015A	2016A	2017A	2018E
Operating Cash Flow	155.8	72.2	(42.4)	310.1	145.1
Financing Cash Flow	722.0	(352.3)	111.5	52.1	(69.6)
Investing Cash Flow	(376.3)	(174.6)	(145.4)	(196.6)	(67.4)
Change in Cash	501.5	(454.8)	(76.3)	165.7	8.1

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

* The financial statements for the period 2016 - 2018 are presented according to IFRS.

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com

Tel: +966-11-203-9888

Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com

Tel: +966-11-290-6250

Website: www.albilad-capital.com/en/research

Asset Management

E-mail: abiccasset@albilad-capital.com

Tel: +966-11-290-6280

Brokerage

E-mail: abiccctu@albilad-capital.com

Tel: +966-11-290-6230

Custody

E-mail: custody@albilad-capital.com

Tel: +966-11-290-6259

Investment Banking

E-mail: investmentbanking@albilad-capital.com

Tel: +966-11-290-6256

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