

# Al Hammadi Development and Investment Co.

Q2 2016

## Recommendation

**Overweight**

### Fair Value (SAR)

50.20

Price as of August 1, 2016 38.39

Expected Return 30.8%

### Company Data

Tadawul Symbol 4007.SE

52 Week High (SAR) 60.25

52 Week Low (SAR) 32.00

YTD Change -21.8%

3-Month Average Volume (Thousand Shares) 162

Market Cap. (SAR Million) 4,607

Market Cap. (USD Million) 1,228

Outstanding Shares (Million Shares) 120

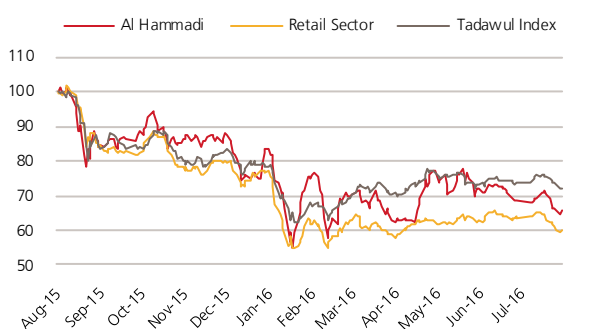
### Major Shareholders (> 5%)

Jadwa Healthcare Opportunities Company 21.00%

Abdulaziz Mohammed Hamad Al Hammadi 10.00%

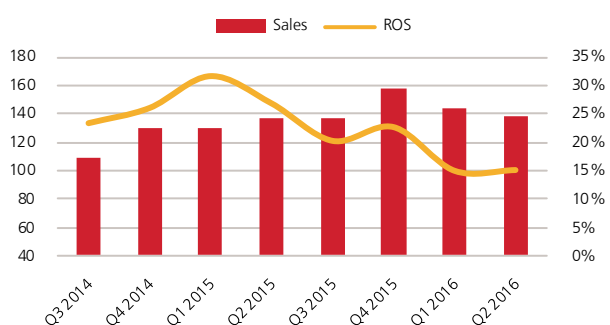
Saleh Mohammed Hamad Al Hammadi 10.00%

### 52-week Stock Price Movement



Source: Tadawul

### Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Al Hammadi Development and Investment Company reported a 43.3% drop in the second-quarter bottom line, thus net earnings languished at SAR 20.9 million down from SAR 36.9 million in Q2 2015. On a QoQ basis, the bottom line decreased 2.9% from SAR 21.6 million in the previous quarter. Therefore, the net profit of H1 2016 slumped by 45.5% to SAR 42.5 million compared to SAR 77.9 million in H1 2015.

Net revenues grew 1% YoY in Q2 2016, whilst the six-month figure was elevated by 6%. However, the net profit decrease compared with corresponding period is mainly attributed to :-

- The growth in depreciation expenses and financial charges associated with the launch of operations in Al Sweidi Hospital.
- The shutdown of Al Olaya Hospital due to an electrical contact incident since February 7, 2016.

In comparison with Q1 2016, Al Olaya Hospital was totally closed during the second quarter versus 54 days in the first quarter. Furthermore, the second quarter coincided with the holy month of Ramadan and the beginning of summer vacations, thus putting pressures on the top line.

Gross profit (GP) of H1 2016 decreased 2.9% YoY reaching SAR 111 million compared to SAR 114 million in H1 2015. Moreover, Operating profit (EBIT) hit SAR 52.7 million in H1 2016 falling 35% YoY, from SAR 77.9 million in H1 2015.

In July 2016, Al Hammadi disclosed that the completion rate in Al Nozha Hospital hit 86% at the end of Q2 2016. Al Hammadi forecasts the trial run to start in H2 2016 instead of Q2 2016 with a capacity of 600 beds and 64 clinics, thus raising the company's capacity to 1,328 beds and 202 clinics.

Net profit for Q2 2016 exceeded our estimate of SAR 15 million. Meanwhile, we reviewed our future estimates for revenues and profit margins factoring Q2 2016 results as well as the delay in reopening Al Olaya Hospital, therefore our valuation is downgraded from SAR 53.3 to SAR 50.2 per share with an "Overweight" recommendation.

FY - Ending December	2014A	2015A	2016E	2017F
EV/EBITDA	32.84	26.84	27.01	19.26
EV/Sales	9.88	8.81	8.33	6.08
P/E	35.73	32.60	39.93	27.78
Dividend Yield	1.6%	2.0%	2.0%	3.3%
P/BV	3.49	3.32	3.26	3.10
P/Revenue	9.56	8.21	7.60	5.65
Current Ratio	4.29	1.57	1.89	2.30
Revenue Growth	11.0%	16.5%	8.0%	34.4%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016E	2017F
<b>Total Revenues</b>	<b>434.1</b>	<b>482.0</b>	<b>561.3</b>	<b>606.2</b>	<b>814.8</b>
COGS	238.5	261.7	284.2	316.1	420.6
COGS/Sales	54.9%	54.3%	50.6%	52.1%	51.6%
SG&A	46.9	55.7	83.7	93.1	122.6
SG&A/Sales	10.8%	11.5%	14.9%	15.4%	15.1%
Doubtful Debts Provisions	23.0	19.7	9.3	10.1	14.2
<b>EBITDA</b>	<b>125.7</b>	<b>144.9</b>	<b>184.2</b>	<b>187.0</b>	<b>257.4</b>
EBITDA Margin	29.0%	30.1%	32.8%	30.8%	31.6%
Depreciation and Amortization	13.6	14.0	30.8	59.7	78.7
<b>EBIT</b>	<b>112.1</b>	<b>130.9</b>	<b>153.4</b>	<b>127.2</b>	<b>178.7</b>
EBIT Margin	25.8%	27.2%	27.3%	21.0%	21.9%
Net Interest Income	(0.3)	(0.1)	(6.2)	(7.9)	(6.8)
Others	3.9	3.3	3.2	3.4	4.6
<b>Pre-Tax Income</b>	<b>115.7</b>	<b>134.1</b>	<b>150.3</b>	<b>122.7</b>	<b>176.4</b>
Tax and Zakat	4.2	5.2	9.0	7.3	10.6
<b>Net Income</b>	<b>111.5</b>	<b>128.9</b>	<b>141.3</b>	<b>115.4</b>	<b>165.9</b>
ROS	25.7%	26.8%	25.2%	19.0%	20.4%
<b>Balance Sheet (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017F</b>
Cash and marketable securities	42.2	543.7	89.3	130.6	100.9
Accounts Receivables	136.5	132.1	249.3	248.4	322.9
Inventory	15.6	18.3	27.2	24.7	34.6
Others	14.5	13.2	14.3	16.0	21.3
<b>Total ST Assets</b>	<b>208.7</b>	<b>707.3</b>	<b>380.1</b>	<b>419.7</b>	<b>479.7</b>
Net Fixed Assets	362.6	359.3	1,085.6	1,682.1	1,621.2
Projects Under Implementation	665.1	1,030.7	470.1	31.8	33.4
<b>Total LT Assets</b>	<b>1,027.6</b>	<b>1,390.0</b>	<b>1,555.7</b>	<b>1,713.9</b>	<b>1,654.6</b>
<b>Total Assets</b>	<b>1,236.3</b>	<b>2,097.2</b>	<b>1,935.8</b>	<b>2,133.7</b>	<b>2,134.3</b>
Short Term Debt and CPLTD	1.9	102.9	150.0	123.9	81.4
Accounts Payable	32.2	33.9	57.4	60.7	80.0
Accrued Expenses	19.6	22.9	23.4	27.1	36.5
Others	4.3	4.9	10.6	10.7	10.9
<b>Total ST Liabilities</b>	<b>57.9</b>	<b>164.7</b>	<b>241.4</b>	<b>222.5</b>	<b>208.7</b>
Total Long Term Debt	578.0	593.8	275.7	450.6	369.3
Other Noncurrent Liabilities	14.8	19.0	32.6	49.1	69.0
<b>Equity</b>	<b>585.6</b>	<b>1,319.8</b>	<b>1,386.1</b>	<b>1,411.5</b>	<b>1,487.3</b>
<b>Total Liabilities and Equity</b>	<b>1,236.3</b>	<b>2,097.2</b>	<b>1,935.8</b>	<b>2,133.7</b>	<b>2,134.3</b>
<b>Cash Flow (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017F</b>
Operating Cash Flow	97.4	155.8	88.1	208.4	210.4
Financing Cash Flow	272.7	722.0	(346.0)	50.9	(220.7)
Investing Cash Flow	(391.4)	(376.3)	(196.5)	(218.0)	(19.4)
Change in Cash	(21.3)	501.5	(454.3)	41.3	(29.7)

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.



## 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.

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