

Al Hammadi Development and Investment Co.

Q2 2017

Recommendation **Overweight**

Fair Value (SAR) **41.00**

Price as of August 23, 2017 35.21

Expected Return 16.4%

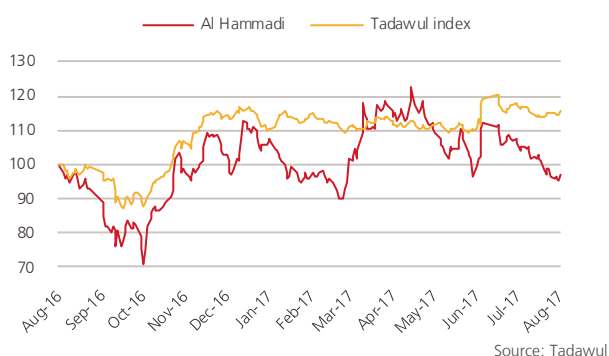
Company Data

Tadawul Symbol	4007.SE
52 Week High (SAR)	46.00
52 Week Low (SAR)	25.20
YTD Change	-15.0%
3-Month Average Volume (Thousand Shares)	340
Market Cap. (SAR Million)	4,225
Market Cap. (USD Million)	1,127
Outstanding Shares (Million Shares)	120

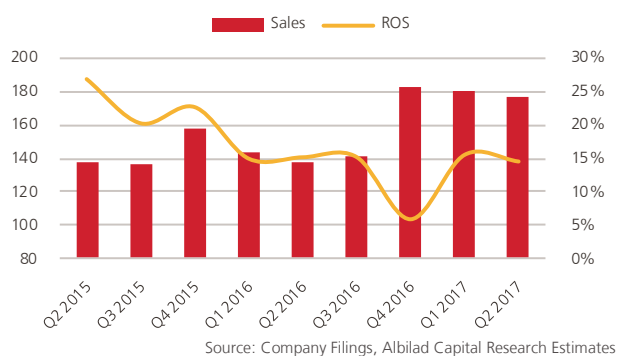
Major Shareholders (> 5%)

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 Q2 2017 interim results revealing a bottom line of SAR 25.7 million compared with SAR 20.6 million in Q2 2016 soaring 24.4% YoY, while slumping 8.3% QoQ from SAR 28 million in Q1 2017. This resulted in a net profit margin of 14.5% in Q2 2017 compared to 14.9% for Q2 2016. Therefore, the semiannual figure surged 28% to SAR 53.6 million compared with SAR 41.8 million in H1 2016.

Total revenues amounted to SAR 177 million in Q2 2017 compared with SAR 138 million in Q2 2016 soaring 28%, while shrinking slightly 2% from SAR 180 million in Q1 2017. Thus, the semiannual revenues climbed 16% to reach SAR 357 million compared to SAR 282 million in H1 2016.

The improvement in bottom line during Q2 2017 and H1 2017 was triggered by higher revenues resulting from the increase the number of patient nights, and the improvement of the contractual terms with some customers, in addition to the shutdown of Al Olaya Hospital due to an electric contact incident for the whole second quarter of 2016, and despite the increase in the doubtful debt provision. Meanwhile, the QoQ decline in net profit was driven by summer vacation, Ramadan and Eid Al-Fitr which coincided with Q2 2017, as well as the increase in direct costs as a result of recruitment Al Nuzha Hospital medical staff.

Gross profit concluded Q2 2017 at SAR 58.2 million compared to SAR 57.6 million in Q2 2016 growing slightly 1% YoY, while sliding 6.2% QoQ. Therefore, the gross margin shrank to 32.9% compared with 41.7% in Q2 2016. The semiannual gross profit climbed 7% posting SAR 120 million versus SAR 112 million in H1 2016.

The operating profit hit SAR 33.9 million in Q2 2017 compared to SAR 29.1 million in Q2 2016 surging 16.2% YoY, however operating profit fell 2.3% QoQ, thus the operating profit margin edged down to 19.2% compared with 21.1% in Q2 2016. Moreover, operating profit of H1 2017 leapt 20.4% reaching SAR 68.5 million versus SAR 56.9 million in H1 2016.

On the other hand, Al Hammadi announced preliminary non-binding discussions with National Medical Care Company (Care) to study the possibility of merging the two companies, resulting in the largest listed health care company with a capacity of 2,163 beds. The merger is expected to achieve cost synergies for the new entity and to strengthen bargaining power with suppliers and insurance companies. This integration will also result in wider geographic coverage within Riyadh, as well as strong market share position to compete for privatization opportunity.

The earning figure for Q2 2017 came in line with our estimate of SAR 24 million and analysts' consensus of SAR 26 million. We believe Al Hammadi will continue to achieve a good growth rate in the coming years, especially with the launch of Al Nuzha Hospital which will significantly boost the overall operating capacity of Al Hammadi Hospitals, in addition to higher demand for medical services. In light of the above, we revised our future estimates and profit margins factoring in the continuity of the conservative provisioning policy, thus we maintain our valuation of Al Hammadi at SAR 41 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	34.55	27.19	33.06	24.38
EV/Sales	10.39	8.92	8.26	6.54
P/E	32.77	29.90	56.58	36.78
Dividend Yield	1.8%	2.1%	0.0%	1.4%
P/BV	3.20	3.05	3.08	2.84
P/Revenue	8.77	7.53	6.97	5.52
Current Ratio	4.29	1.57	2.45	2.99
Revenue Growth	11.0%	16.5%	8.0%	26.2%
EPS (SAR)	1.07	1.18	0.62	0.96

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
Total Revenues	434.1	482.0	561.3	606.2	765.2
COGS	238.5	261.7	290.3	311.3	451.9
COGS/Sales	54.9%	54.3%	51.7%	51.4%	59.1%
SG&A	46.9	55.7	67.7	96.6	69.5
SG&A/Sales	10.8%	11.5%	12.1%	15.9%	9.1%
Doubtful Debts Provisions	23.0	19.7	19.1	46.9	38.5
EBITDA	125.7	144.9	184.2	151.5	205.4
EBITDA Margin	29.0%	30.1%	32.8%	25.0%	26.8%
Depreciation and Amortization	13.6	14.0	30.8	53.4	62.9
EBIT	112.1	130.9	153.4	98.1	142.5
EBIT Margin	25.8%	27.2%	27.3%	16.2%	18.6%
Net Interest Income	(0.3)	(0.1)	(6.2)	(13.6)	(18.7)
Others	3.9	3.3	3.2	1.2	3.7
Pre-Tax Income	115.7	134.1	150.3	85.7	127.5
Tax and Zakat	4.2	5.2	9.0	11.0	12.6
Net Income	111.5	128.9	141.3	74.7	114.9
ROS	25.7%	26.8%	25.2%	12.3%	15.0%
Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and marketable securities	42.2	543.7	88.9	12.6	60.6
Accounts Receivables	136.5	132.1	248.8	430.7	544.9
Inventory	15.6	18.3	27.2	32.1	26.8
Others	14.5	13.2	15.2	16.5	16.9
Total ST Assets	208.7	707.3	380.1	491.9	649.2
Net Fixed Assets	362.6	359.3	1,085.6	1,057.7	1,842.7
Projects Under Implementation	665.1	1,030.7	470.1	590.0	15.3
Total LT Assets	1,027.6	1,390.0	1,555.7	1,647.7	1,858.0
Total Assets	1,236.3	2,097.2	1,935.8	2,139.6	2,507.2
Short Term Debt and CPLTD	1.9	102.9	150.0	100.0	87.8
Accounts Payable	32.2	30.1	36.4	38.2	53.0
Accrued Expenses	19.6	27.3	45.0	50.7	63.9
Others	4.3	4.3	10.0	12.3	12.3
Total ST Liabilities	57.9	164.7	241.4	201.1	217.1
Total Long Term Debt	578.0	593.8	275.7	527.2	754.3
Other Noncurrent Liabilities	14.8	19.0	32.6	40.5	50.1
Equity	585.6	1,319.8	1,386.1	1,370.8	1,485.7
Total Liabilities and Equity	1,236.3	2,097.2	1,935.8	2,139.6	2,507.2
Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Operating Cash Flow	97.4	155.8	72.2	(31.1)	125.0
Financing Cash Flow	272.7	722.0	(352.3)	100.2	196.2
Investing Cash Flow	(391.4)	(376.3)	(174.6)	(145.3)	(273.2)
Change in Cash	(21.3)	501.5	(454.8)	(76.3)	48.0

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.

* All the financials statements were prepared in accordance with SOCPA standers until the releasing (IFRS) financial statements.

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

Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, AlBilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from AlBilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.