

# Al Hammadi Development and Investment Co.

Q3 2017

## Recommendation

Neutral

## Fair Value (SAR)

36.00

Price as of November 22, 2017	35.39
Expected Return	1.7%

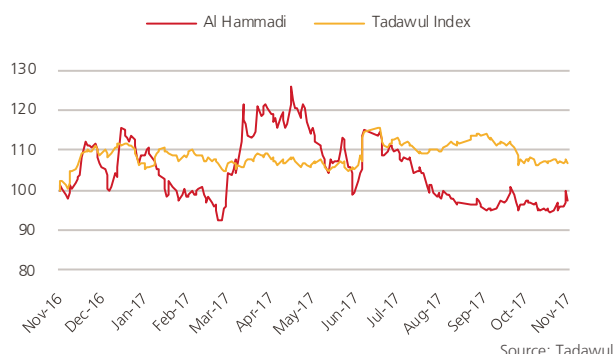
## Company Data

Tadawul Symbol	4007.SE
52 Week High (SAR)	46.00
52 Week Low (SAR)	32.80
YTD Change	-14.5%
3-Month Average Volume (Thousand Shares)	276
Market Cap. (SAR Million)	4,247
Market Cap. (USD Million)	1,132
Outstanding Shares (Million Shares)	120

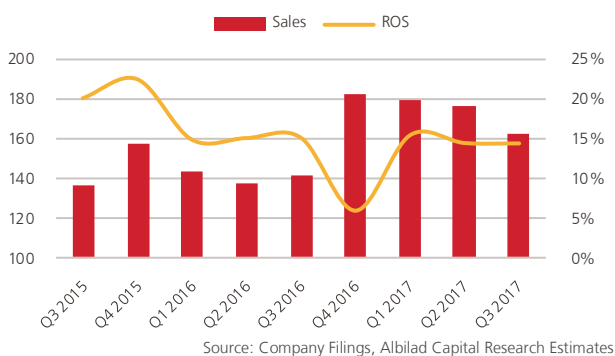
## Major Shareholders (> 5%)

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



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Al Hammadi disclosed its Q3 2017 interim results revealing a bottom line of SAR 23.6 million compared with SAR 20.7 million in Q3 2016 soaring 14% YoY, while slumping 8% QoQ from SAR 25.7 million in Q2 2017. Therefore, the nine-month figure surged 24% to SAR 77.2 million compared with SAR 62.4 million in 9M 2016. This resulted in a net profit margin of 14.8% in 9M 2017 compared to 14.7% for 9M 2016.

Total revenues amounted to SAR 163 million in Q3 2017 compared with SAR 141 million in Q3 2016 climbing 15%, while shrinking 8% from SAR 177 million in Q2 2017. Thus, the nine-month revenues soared 23% to reach SAR 520 million compared to SAR 424 million in 9M 2016.

The improvement in bottom line during Q3 2017 and 9M 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 six month during the comparative period of 2016. The profit growth also occurred despite the increase in the doubtful debt provision. Moreover, the QoQ decline in net profit was driven by lower revenues due to the seasonal impact of summer vacations.

Gross profit concluded Q3 2017 at SAR 58 million compared to SAR 56 million in Q3 2016 increasing 3% YoY, while growing by less than 1% QoQ. The nine-month gross profit climbed 6% posting SAR 179 million versus SAR 169 million in 9M 2016. However, the gross margin shrank to 34.3% compared with 39.8% for the same period last year.

The operating profit hit SAR 34 million in Q3 2017 compared to SAR 27 million in Q3 2016 surging 29% YoY, however operating profit slightly improved 1% QoQ. Moreover, operating profit of 9M 2017 leapt 23% reaching SAR 103 million versus SAR 83 million for the same period last year, thus the operating profit margin improved to 19.8% compared with 19.7% in 9M 2016.

The third quarter results missed our estimate and analysts' consensus of SAR 28 million. Meanwhile, 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. It is worth mentioning that Al Nuzha Hospital capacity is determined at 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. Accordingly, we revised our future estimates and profit margins factoring in the high rate of receivables recently as well as the continuity of the conservative provisioning policy, thus we downgraded our valuation of Al Hammadi from SAR 41 to SAR 36 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	34.94	27.50	33.43	28.45
EV/Sales	10.51	9.02	8.35	7.09
P/E	32.93	30.05	56.87	41.57
Dividend Yield	1.8%	2.1%	0.0%	1.4%
P/BV	3.22	3.06	3.10	2.88
P/Revenue	8.81	7.57	7.01	5.95
Current Ratio	4.29	1.57	2.45	3.09
Revenue Growth	11.0%	16.5%	8.0%	17.8%
EPS (SAR)	1.07	1.18	0.62	0.85

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
<b>Total Revenues</b>	<b>434.1</b>	<b>482.0</b>	<b>561.3</b>	<b>606.2</b>	<b>714.1</b>
COGS	238.5	261.7	290.3	311.3	414.7
COGS/Sales	54.9%	54.3%	51.7%	51.4%	58.1%
SG&A	46.9	55.7	67.7	96.6	78.1
SG&A/Sales	10.8%	11.5%	12.1%	15.9%	10.9%
Doubtful Debts Provisions	23.0	19.7	19.1	46.9	43.3
<b>EBITDA</b>	<b>125.7</b>	<b>144.9</b>	<b>184.2</b>	<b>151.5</b>	<b>178.0</b>
EBITDA Margin	29.0%	30.1%	32.8%	25.0%	24.9%
Depreciation and Amortization	13.6	14.0	30.8	53.4	52.9
<b>EBIT</b>	<b>112.1</b>	<b>130.9</b>	<b>153.4</b>	<b>98.1</b>	<b>125.0</b>
EBIT Margin	25.8%	27.2%	27.3%	16.2%	17.5%
Net Interest Income	(0.3)	(0.1)	(6.2)	(13.6)	(19.2)
Others	3.9	3.3	3.2	1.2	10.9
<b>Pre-Tax Income</b>	<b>115.7</b>	<b>134.1</b>	<b>150.3</b>	<b>85.7</b>	<b>116.7</b>
Tax and Zakat	4.2	5.2	9.0	11.0	14.6
<b>Net Income</b>	<b>111.5</b>	<b>128.9</b>	<b>141.3</b>	<b>74.7</b>	<b>102.2</b>
ROS	25.7%	26.8%	25.2%	12.3%	14.3%
<b>Balance Sheet (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>
Cash and marketable securities	42.2	543.7	88.9	12.6	28.6
Accounts Receivables	136.5	132.1	248.8	430.7	585.4
Inventory	15.6	18.3	27.2	32.1	26.6
Others	14.5	13.2	15.2	16.5	15.8
<b>Total ST Assets</b>	<b>208.7</b>	<b>707.3</b>	<b>380.1</b>	<b>491.9</b>	<b>656.3</b>
Net Fixed Assets and Projects Under Implementation	1,027.6	1,390.0	1,555.7	1,647.7	1,836.7
<b>Total LT Assets</b>	<b>1,027.6</b>	<b>1,390.0</b>	<b>1,555.7</b>	<b>1,647.7</b>	<b>1,836.7</b>
<b>Total Assets</b>	<b>1,236.3</b>	<b>2,097.2</b>	<b>1,935.8</b>	<b>2,139.6</b>	<b>2,493.0</b>
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	45.5
Accrued Expenses	19.6	27.3	45.0	50.7	63.8
Others	4.3	4.3	10.0	12.3	15.2
<b>Total ST Liabilities</b>	<b>57.9</b>	<b>164.7</b>	<b>241.4</b>	<b>201.1</b>	<b>212.3</b>
Total Long Term Debt	578.0	593.8	275.7	527.2	757.6
Other Noncurrent Liabilities	14.8	19.0	32.6	40.5	50.1
<b>Equity</b>	<b>585.6</b>	<b>1,319.8</b>	<b>1,386.1</b>	<b>1,370.8</b>	<b>1,473.0</b>
<b>Total Liabilities and Equity</b>	<b>1,236.3</b>	<b>2,097.2</b>	<b>1,935.8</b>	<b>2,139.6</b>	<b>2,493.0</b>
<b>Cash Flow (SAR mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>
Operating Cash Flow	97.4	155.8	72.2	(31.1)	58.8
Financing Cash Flow	272.7	722.0	(352.3)	100.2	199.1
Investing Cash Flow	(391.4)	(376.3)	(174.6)	(145.3)	(241.9)
Change in Cash	(21.3)	501.5	(454.8)	(76.3)	16.0

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.

\* Historical financial statements were prepared according to the previous Saudi reporting standards. Some items in the financials statements for 2017 are reclassified 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.

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