

Al Hammadi Development and Investment Co.

Q4 2017

Recommendation

Neutral

Fair Value (SAR)

39.00

Price as of February 8, 2018	36.85
Expected Return	5.8%

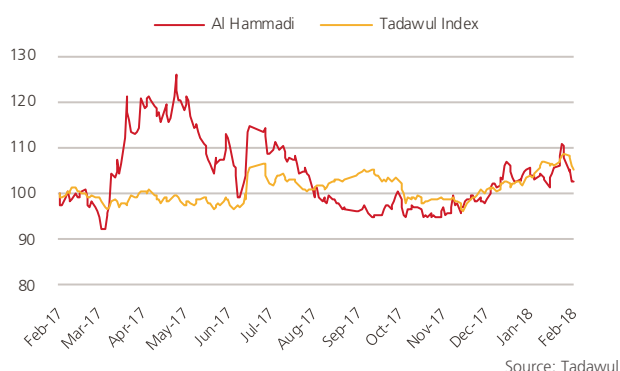
Company Data

Tadawul Symbol	4007.SE
52 Week High (SAR)	46.00
52 Week Low (SAR)	32.80
YTD Change	-0.1%
3-Month Average Volume (Thousand Shares)	261
Market Cap. (SAR Million)	4,422
Market Cap. (USD Million)	1,179
Outstanding Shares (Million Shares)	120

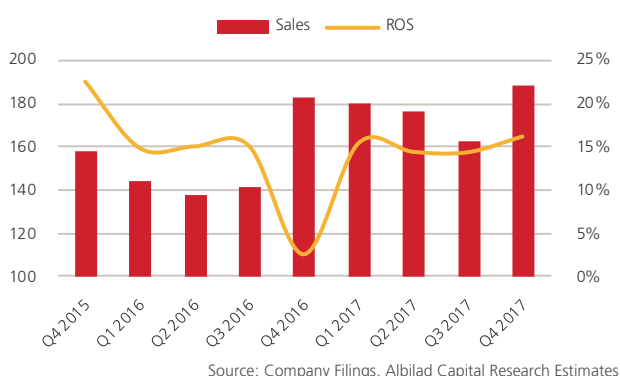
Major Shareholders (> 5%)

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 Q4 2017 interim results revealing a bottom line of SAR 30.8 million compared with SAR 10.5 million in Q4 2016 skyrocketing 194% YoY and also 30.5% QoQ from SAR 23.6 million in Q3 2017. Therefore, the annual figure surged 48% to SAR 108 million compared with SAR 73 million in 2016. This resulted in a net profit margin of 15.2% in 2017 compared to 12.0% for the previous year. The fourth quarter profit missed our estimate of SAR 26 million and analysts' consensus of SAR 28 million, as the operating cost came lower than our estimates.

Total revenues amounted to SAR 188.7 million in Q4 2017 compared to SAR 182.6 million in Q4 2016 climbing 3% YoY and 16% QoQ from SAR 163 million in Q3 2017. Thus, the full-year revenues soared 17% to reach SAR 708.6 million compared with SAR 606.2 million in 2016.

The improvement in the annual bottom line was triggered by higher revenues resulting from the increase in the number of patient nights, and the improvement of the contractual terms with some customers, in addition to recording an extra doubtful debt provision of SAR 18.5 million during Q4 2016. Furthermore, Al Olaya Hospital was closed due to an electric contact incident for six month during 2016. However, the YoY gross profit decline during the fourth quarter was driven by the 9% growth in direct costs as a result of medical and non-medical staff in preparation of Al-Nuzha Hospital. The QoQ improvement in net profit was supported by the end of seasonal impact of vacations and holiday season.

The operating profit hit SAR 39.8 million in Q4 2017 compared with SAR 19.6 million in Q4 2016 showing a remarkable increase of 103% YoY, in addition to soaring 16% QoQ. Moreover, operating profit of 2017 leapt 38% reaching SAR 142.6 million compared to SAR 103 million for last year, thus the operating profit margin improved to 20.1% versus 17% in 2016.

Al Hammadi announced the launch of the commercial operations of Al-Nuzha hospital and will start receiving patients on February 13, 2018. The company will initially operate 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.

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. As a result, we revised our future estimates and profit margins factoring in the drop in the receivables to SAR 252 million at the end of 2017 versus SAR 580 million in the third quarter of the same year, as well as lower doubtful debt provision compared to the previous year, thus we upgraded our valuation of Al Hammadi from SAR 36 to SAR 39 per share.

FY - Ending December	2015A	2016A	2017A	2018F
EV/EBITDA	26.79	32.42	26.77	22.80
EV/Sales	8.79	8.14	6.96	5.86
P/E	31.29	60.61	40.96	44.18
Dividend Yield	%2.0	%0.0	%2.0	%2.7
P/BV	3.19	3.23	3.19	2.97
P/Revenue	7.88	7.29	6.24	5.30
Current Ratio	1.57	2.31	2.30	2.97
Revenue Growth	%16.5	%8.0	%16.9	%17.7
EPS (SAR)	1.18	0.61	0.90	0.83

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F
Total Revenues	482.0	561.3	606.2	708.6	834.3
COGS	261.7	290.3	310.7	407.2	484.3
COGS/Sales	%54.3	%51.7	%51.3	%57.5	%58.0
SG&A	55.7	67.7	96.4	77.9	90.8
SG&A/Sales	%11.5	%12.1	%15.9	%11.0	%10.9
Doubtful Debts Provisions	19.7	19.1	46.9	39.3	44.8
Other Revenues	-	-	4.2	11.4	7.4
EBITDA	144.9	184.2	156.4	195.6	221.9
EBITDA Margin	%30.1	%32.8	%25.8	%27.6	%26.6
Depreciation and Amortization	14.0	30.8	53.4	53.0	76.4
EBIT	130.9	153.4	103.0	142.6	145.5
EBIT Margin	%27.2	%27.3	%17.0	%20.1	%17.4
Net Interest Income	(0.1)	(6.2)	(19.0)	(19.6)	(31.5)
Others	3.3	3.2	0.0	-	-
Pre-Tax Income	134.1	150.3	84.0	123.0	114.0
Tax and Zakat	5.2	9.0	11.0	15.1	14.0
Net Income	128.9	141.3	73.0	108.0	100.1
ROS	%26.8	%25.2	%12.0	%15.2	%12.0

Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018F
Cash and marketable securities	543.7	88.9	12.6	178.9	189.6
Accounts Receivables	132.1	248.8	430.5	251.8	282.1
Inventory	18.3	27.2	32.1	29.7	37.4
Others	13.2	15.2	16.8	45.1	29.8
Total ST Assets	707.3	380.1	491.9	505.6	538.9
Net Fixed Assets and Projects Under Implementation	1,390.0	1,555.7	1,650.5	1,797.7	1,768.4
Total LT Assets	1,390.0	1,555.7	1,650.5	1,797.7	1,768.4
Total Assets	2,097.2	1,935.8	2,142.5	2,303.3	2,307.3

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	39.5
Accrued Expenses	27.3	45.0	47.7	39.5	46.5
Others	4.3	10.0	12.7	102.4	15.7
Total ST Liabilities	164.7	241.4	213.0	220.1	181.7
Total Long Term Debt	593.8	275.7	519.2	646.1	576.4
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	1,487.2
Total Liabilities and Equity	2,097.2	1,935.8	2,142.5	2,303.3	2,307.3

Cash Flow (SAR mn)	2014A	2015A	2016A	2017A	2018F
Operating Cash Flow	155.8	72.2	(28.0)	324.8	212.8
Financing Cash Flow	722.0	(352.3)	97.1	38.0	(155.2)
Investing Cash Flow	(376.3)	(174.6)	(145.4)	(196.6)	(47.1)
Change in Cash	501.5	(454.8)	(76.3)	166.3	10.5

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 financial statements for 2016-2018 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.

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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