Dallah Healthcare Holding

Diversified Operations – Industrial
DALLAH AB: Saudi Arabia
27 January 2015

الراجحي المالية
Al Rajhi Capital

US$1.652bn	43%	US$5.44mn
Market cap	Free float	Avg. daily volume

Target price	UR	
Consensus price	100.0	-24.0% over current
Current price	131.5	as at 21/1/2015

Existing rating

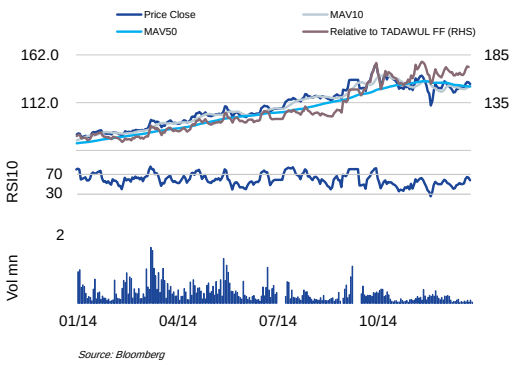
Underweight	Under Review	Overweight

Pritish K. Devassy, CFA
Senior Research Analyst
Tel +966 11 2119370, devassyp@alrajhi-capital.com

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

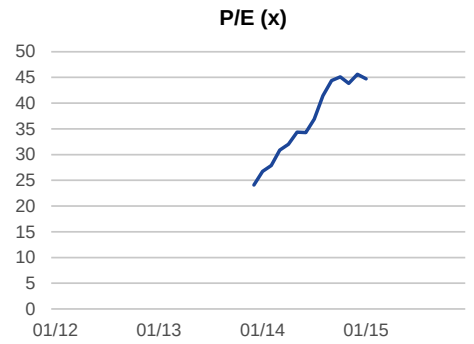


Earnings

Period End (SAR)	12/14E	12/15E	12/16E	12/17E
Revenue (mn)	886	1,037	1,340	1,951
Revenue Growth	18.2%	17.1%	29.2%	45.6%
EBITDA (mn)	85	96	132	241
EBITDA Growth	-16.2%	13.4%	36.8%	83.2%
EPS	2.85	3.92	4.91	7.39
EPS Growth	-1.6%	37.5%	25.4%	50.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Dallah Healthcare
Q4: Above expectations

Dallah's Q4 2014 net profit declined by 3% y-o-y to SAR50.4mn, but better than our expectation of SAR43mn. On the other hand revenue grew by 20% y-o-y to SAR253mn, 5% higher than our estimate of SAR241mn, mainly benefiting from the expansion of paediatric department and overall increase in patient traffic. The y-o-y decline in net profit is because of the increase in general and administrative expenses accompanying the hospital expansions, expenses related to expansion of customer market base for Pharmaceutical products in the Kingdom and expenses related to the acquisition of Dr. Erfan and Bagedo hospital in Jeddah. Provision for doubtful accounts and Zakat were the other reasons. We had accounted for even higher expenses in our estimates, hence the earnings beat. Overall, we continue to remain Under Review on the stock in view of its recent acquisition of Dr. Erfan and Bagedo hospital in Jeddah.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	**No Change**	Down
Dividend estimates	Up	**No Change**	Down
Recommendation	Upgrade	**No Change**	Downgrade
Long term view	Stronger	**Confirmed**	Weaker

- **Revenue:** Revenue came in at SAR253mn, implying a strong 20% y-o-y vs our expectation of SAR241mn. Gross profit came in at SAR117mn(+22% y-o-y) vs our expectation of SAR110mn. We believe, the beat was because of higher than expected increase in traffic of both inpatients and outpatients and also owing to increased capacity at its paediatric facilities.

- **Operating profit:** While Gross profit grew by 22% y-o-y, operating profit grew by only 4% y-o-y to SAR50mn vs our estimate of SAR43mn. This was because of higher general and administrative expenses accompanying the hospital expansions, expenses related to expansion of customer market base for Pharmaceutical products in the Kingdom and expenses related to the acquisition of Jeddah based hospital. We had accounted for even higher expenses in our forecasts, which is the reason for the beat in op. profit.

- **Net profit:** Apart from the reasons mentioned above, provisions in doubtful accounts and zakat were responsible for the 3% y-o-y decline in net income. Net income came in at SAR50mn vs our estimate of SAR43mn.

- **Valuation:** We continue to remain Under Review on the stock, as we await more details of the company's acquisition of Dr. Erfan and Bagedo hospital in Jeddah. Dr. Erfan and Bagedo hospital has a huge capacity of 326 beds compared to 422 beds at Dallah in Riyadh and therefore its financials will determine the direction of the stock price for Dallah. Excluding the impact of this, our previous Target Price was SAR125 per share.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": **Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

"Neutral": **We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.**

"Underweight**": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

2. Definitions

"Time horizon": **Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.**

"Fair value": **We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.**

"Target price": **This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.**

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Pritish K. Devassy, CFA
Tel : +966 11 2119370
devassyp@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.