Dr. Soliman Abdel Kader Fakeeh Hospital Co.
Investment Update

Expansion delays across the board pushes forecasted revenue pipeline back; we downgrade our TP to 44.6/share at a maintained "Neutral" recommendation

Fakeeh's Q1-25 performance was burdened by Ramadan & Eid holidays and increased costs to post a net income of SAR 72.2mn (down 0.7% Y/Y and 2.1% Q/Q). While revenues reached SAR 701mn (up 3% Y/Y and down 5.6% Q/Q), patient volumes when normalized for Ramadan and Eid would have grown 9% Y/Y in a sign of healthy operational metrics. While decreasing finance charges supported the quarter, costs of sales and operating expenses mounted up from hiring inflation and likely some costs ahead of the Madinah hospital opening, which came live by April 2025; declining GPMs by 260bps Y/Y to reach 25.1%, and OPEX to revenue increasing by 180bps Y/Y to reach 14.4%. Going forward, Fakeeh's next years are categorized by an aggressive expansion campaign (doubling its current 835 bed capacity). Much of the expansions were delayed, and while we account for their maturity in our forecast timelines, we see more pressures amounting from competition to challenge costs as well as ramp up speeds. We revise our TP down to 44.6/share, at a maintained "Neutral" recommendation.

Ramadan sequentially pressured Q1-25, while supported by Riyadh hospital turnaround; higher expenses built up, likely ahead of Madinah opening, but offset by lower finance charges: Fakeeh ended Q1-25 recording a bottom line of SAR 72.2mn (down 0.7% Y/Y and 2.1% Q/Q), while pressured by more Ramadan days in Q1-25 and increasing expenses during the quarter. Revenue at SAR 701mn (up 3.0% Y/Y and down 5.6% Q/Q) reflected the pressures of a full Q1 of Ramadan, which in 2025 saw a slowdown of almost 7 working days as compared to Q1-24. The turnaround of the Riyadh hospital, however, supported the top line with an SAR 18mn growth in its contribution to revenues (Y/Y). Patient growth of 9% Y/Y when normalized for impact of Ramadan an Eid is a notable feature achieved during the quarter in a sign of solid operational metrics alongside the 80% occupancy rate reached. Cost of revenue increased 6.7% to reach SAR 524.9mn as a result of competitive salary adjustments in light of increased competition in the sector, and likely due to Madina pre-operating expenses. This resulted in a GPM of 25.1% (down 260bps Y/Y, and up 290bps sequentially as Q4-24 saw one-off costs related to the NEOM contract). Operating expenses displayed similar trends, as OPEX to revenues increased to 14.4% of revenues (up from 12.6% Y/Y, and 12.5% Q/Q). The increase costs during Q1-25 were partially offset by a significant decline in finance charges (Y/Y) from SAR 39mn to SAR 9.9mn during the quarter, as Fakeeh settled almost 70% of the amount of debt that was held this time last year. Excluding the effects of the Hajj contract tender awarded, we expect similar trends to carry onto Q2-25 as Fakeeh ramps up manpower in Madinah and increases salary spending in Jeddah where competition is increasing.

Expansion delays of upcoming four projects (expanding at c. 100% of current beds capacity), including the delay of now-open Madinah Hospital, pushes timeline of our previous forecasts: Fakeeh eyes an impressive expansion campaign to define the long term growth story for the firm, which will be driven by its plan to open up four new greenfield and brownfield facilities: DSFH Jeddah Surgery Tower (140 beds by H1-28), HEAL Hospital Jeddah (200 beds by H1-28), DSFH Makkah (200 beds by H1-28), and DSFH South Obhur Jeddah (300 beds by H2-28). All of which have been delayed by almost 1 half of a year from the initial timelines announced; including the now opened Madinah hospital which was delayed till Q2-25. These delays brought our FY23-30E revenue and net income pre non-controlling interest CAGR estimates down from 17.3% and 22.3%, respectively, to 15.2% and 17.5% for the same period. We see that the story remains somewhat similar, just delayed and extended, as we expect FY32 to reflect the delayed ramp ups of the facilities. Atop the expansion delays, we extend our forecasted ramp up times, due to the more apparent competition in the sector which has been weighing down on patient attraction across providers, as well increasing costs on staffing and operating. We expect significant cost pressures to take place during FY28-29, where all the expansions at 100% of current capacities would begin operations and ramp up. This takes our operating margins estimates to contract by 210bps from FY24 levels (12.9%) to reach 10.8% by FY28E before improving gradually.

Recommendation	Neutral
Target Price (SAR)	44.6
Upside / (Downside)*	5.8%

Source: Tadawul *prices as of 29th of May 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	2,791	3,156	3,467	3,764
Growth %	19.95%	13.07%	9.86%	8.57%
Gross Profit	699	777	857	949
EBIT	359	375	435	500
Net Income*	288	355	368	405
Growth %	2.85%	23.57%	3.65%	9.93%
EPS	1.32	1.53	1.59	1.75
DPS	0.30	0.30	0.30	0.35

Source: Company reports, Aljazira Capital *Post non-controlling interest

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	25.05%	24.63%	24.71%	25.21%
OP Margin	12.87%	11.87%	12.64%	13.37%
Net Margin	10.30%	11.26%	10.62%	10.76%
EBITDA Margin	18.4%	19.0%	21.0%	22.4%
RoE	12.6%	10.3%	9.9%	10.1%
P/E (x)	51.4	27.6	26.6	24.2
P/B (x)	4.7	2.7	2.5	2.4
EV/EBITDA (x)	30.6	17.2	15.2	13.4
Dividend Yield	0.4%	0.7%	0.7%	0.8%

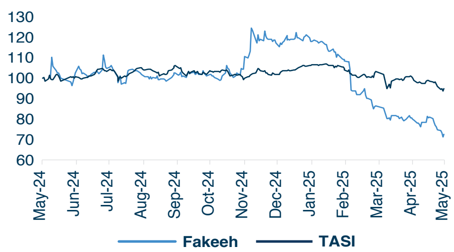
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	9.65
YTD%	-37.9%
52 weeks (High)/(Low)	72.90/40.55
Share Outstanding (mn)	232

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

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One-off SAR 80mn Hajj contract expected to support initial Madinah ramp up costs during Q2-25; Gross margin trajectory to remain challenged by hefty expansion campaign as Fakeeh scales up: Fakeeh secured an SAR 80mn contract to provide ambulatory services during Hajj season (Q2-25) which we expect to offset some of the cost damage incurred by Madinah Hospital's opening visible by Q2-25. The Hajj contract, at a cost+ framework, is expected to be gross margin accretive for the comparatively low gross margin group. However, while we expect the contract to offset some pressures in Q2-25, we expect the one-off engagement to contribute modestly to gross margins by only 10bps on an annual basis. Our gross margin estimates for FY25 reach 24.6%, which seem like a minor decline from FY24's GPM of 25.0% yet we consider the one off costs incurred in FY24 related to the NEOM contract; however our estimates remain a way shorter from FY22-23 levels of 30.4% and 26.5%, as a result of Madinah pressures to take place, and expected pre-operating costs for three medical centers on the horrizon to start rolling out by H2-25. Our forecasted GPM trajectory remains muted as the firm undergoes significant hospital and clinics expansions, mostly in FY28, where we expect GPMs to reach 23.5% before improving gradually. Management indicate optimism in more tender awardations to come, and an active approach towards Vision 2030 mega project tenders; such engagements provide an upside to Fakeeh's revenues, but also to enhance its cost base as it sits subpar to sector averages (FY24 GPM at 25.0% vs 36.2% sector average, and net margin at 10.3% vs 18.3% market average).

Estimated SAR 3.2bn CAPEX ahead from FY25-28 to require a re-onloading of debt: The group shed almost 70% of its debt it carried during Q1-24, bringing its net debt to equity down to almost 0x in Q1-25, and a debt to equity to 15% (down from 130% Y/Y). Going forward, however, as the firm braces for the set of expansions underway with four hospitals coming in by FY28 along with clinic expansions along the way, we expect Fakeeh to face a CAPEX bill of SAR 3.2bn over FY25-28E mainly due to expansion campaign ahead. While some costs are expected to take place in FY25, we expect the bulk of CAPEX to take place between FY26-27E where SAR 2bn are expected to be incurred. We expect D/E to peak by FY27E at 0.42x as compared to 0.16x in FY24 before unlevering gradually. Along with the cashflows from operations as well as debt to fund CAPEX, we expect dividend payout ratios to be able to be safely maintained at early 20% for the coming periods.

AJC view and valuation: Fakeeh possesses solid brand equity driven by a reputation of complex procedures and a long-standing history in the Western region. Its solid operational metrics, at the group level, and at the recently acquired Riyadh hospital is a good signal on its capabilities and patient attraction. However, Fakeeh's financial performance remains constricted as compared to its peers, summarized by an ROAE of 12.6% vs the sector's 19.6%, as well as subpar margins at the gross, operating, and net levels. We see its expansion campaign to be a medium term challenge to its financial performance as Fakeeh scales to double up from its now 835 bed operation. Its involvement in government tenders and Mega projects could however enhance its financial profile along the way during its campaign. While considering the maturity of the delayed expansions, we revise down our forecasted revenue & net income FY23-30E CAGRs to 15.2% and 17.5%, and TP to **SAR 44.6 per share** due to competition extending ramp up speed and cost base. We value the stock by way of 50% PE valuation (30x on FY25E) blended with 50% DCF (terminal growth rate=2.75% and WACC=10.4%). We maintain a "**Neutral**" recommendation on the stock which currently trades at a forward PE of 27.6x.

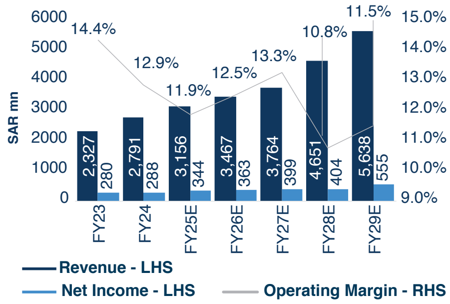
Valuation Summary (SAR /share):

	Target Price	Weight	Weighted TP
PE (30x on FY25E)	45.9	50%	23.0
DCF	43.3	50%	21.7
Target Price (SAR/share):			**44.6 /share**

Source: AlJazira Capital Research *Sums may differ due to rounding

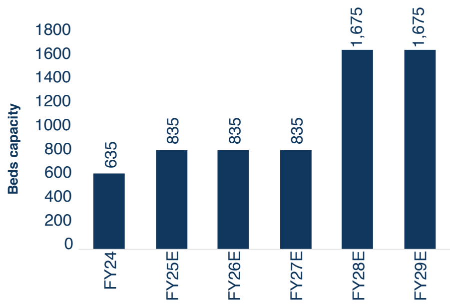
Upside risks to valuation:	**Downside risks to valuation:**
• More margin accretive tender awardations and Vision 2030 engagements	• More than expected competition pressures in Western Region
• Quicker than expected ramp up of facilities	• Further delays or project cancellations
• DRG pricing in favor of its complex nature of operations	• Higher than expected talent retention and attraction costs

Fig 2: Cost pressures to mount while expansions ramp up



Source: Company reports, Aljazira Capital Research

Fig 3: Doubling current capacity of 835 beds, via four projects by FY28



Source: Company reports, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement								
Revenues	2,327	2,791	3,156	3,467	3,764	4,651	5,638	6,271
Y/Y	**15.62%**	**19.95%**	**13.07%**	**9.86%**	**8.57%**	**23.56%**	**21.23%**	**11.21%**
Cost of revenue	(1,710)	(2,092)	(2,378)	(2,610)	(2,815)	(3,560)	(4,302)	(4,751)
Gross profit	**617**	**699**	**777**	**857**	**949**	**1,091**	**1,336**	**1,520**
GPM	**26.50%**	**25.05%**	**24.63%**	**24.71%**	**25.21%**	**23.46%**	**23.70%**	**24.24%**
General & administration expense	(243)	(279)	(339)	(366)	(390)	(518)	(610)	(626)
Selling & Marketing	(49)	(59)	(59)	(53)	(57)	(69)	(73)	(75)
ECL	(11)	(13)	(19)	(17)	(17)	(20)	(24)	(25)
Other income	21	11	13	17	19	21	25	27
Operating profit	**334**	**359**	**375**	**438**	**503**	**504**	**654**	**821**
Y/Y	**-12.61%**	**7.51%**	**4.31%**	**16.96%**	**14.89%**	**0.23%**	**29.70%**	**25.47%**
OP Margin	**14.35%**	**12.87%**	**11.87%**	**12.64%**	**13.37%**	**10.85%**	**11.60%**	**13.09%**
Financial charges	(122)	(96)	(49)	(77)	(94)	(86)	(64)	(46)
Finance income	43	24	27	10	10	9	7	8
EBITDA	474	514	599	729	843	874	1,053	1,257
Y/Y	**-8.14%**	**8.44%**	**16.45%**	**21.76%**	**15.51%**	**3.72%**	**20.54%**	**19.30%**
Income before zakat	**255**	**287**	**353**	**371**	**419**	**427**	**598**	**782**
Zakat	(23)	(23)	(29)	(30)	(34)	(35)	(48)	(64)
Net income	**232**	**264**	**324**	**341**	**385**	**393**	**550**	**718**
Net Income Post Minority Interest	**280**	**288**	**355**	**368**	**405**	**410**	**562**	**722**
Y/Y	**-14.32%**	**2.85%**	**23.57%**	**3.65%**	**9.93%**	**1.27%**	**37.00%**	**28.53%**
NI Margin	**12.02%**	**10.30%**	**11.26%**	**10.62%**	**10.76%**	**8.82%**	**9.96%**	**11.51%**
EPS (SAR)	1.21	1.32	1.53	1.59	1.75	1.77	2.42	3.11
DPS (SAR)	5.00	0.30	0.30	0.30	0.35	0.40	0.50	0.65
Balance sheet								
Assets								
Cash & equivalent	214	534	156	130	228	183	233	278
Receivables	746	896	919	1,000	1,076	1,316	1,581	1,741
Other current assets	428	418	450	486	520	621	732	800
Total current assets	**1,388**	**1,848**	**1,525**	**1,616**	**1,823**	**2,120**	**2,545**	**2,818**
Property plant & equipment	1,635	2,096	2,840	3,845	4,333	4,335	4,217	4,117
Right of use assets	521	505	486	523	557	597	586	557
Total assets	**4,232**	**5,322**	**5,728**	**6,868**	**7,605**	**7,963**	**8,284**	**8,461**
Liabilities & owners' equity								
Short term debt	494	215	244	500	601	510	357	143
Trade payables	275	373	371	412	453	566	693	780
Other current liabilities	296	351	343	376	407	490	576	634
Total current liabilities	**1,066**	**938**	**958**	**1,288**	**1,460**	**1,566**	**1,626**	**1,556**
Lease liabilities – non-current	496	481	464	510	561	628	659	699
Long term loans	1,196	322	453	929	1,115	948	664	265
Other non-current liabilities	219	261	278	296	321	374	453	491
Total non-current liabilities	**1,911**	**1,063**	**1,195**	**1,736**	**1,997**	**1,950**	**1,776**	**1,455**
Share capital	200	232	232	232	232	232	232	232
Reserves	820	2,713	2,967	3,238	3,542	3,842	4,275	4,843
Total owners' equity	**1,255**	**3,319**	**3,574**	**3,845**	**4,148**	**4,448**	**4,881**	**5,449**
Total equity & liabilities	**4,233**	**5,321**	**5,728**	**6,868**	**7,605**	**7,963**	**8,284**	**8,461**
Cashflow statement								
Operating activities	304	436	511	609	717	673	880	1,125
Investing activities	970	(703)	(930)	(1,249)	(768)	(304)	(200)	(235)
Financing activities	(1,377)	587	41	614	149	(415)	(631)	(844)
Change in cash	(102)	319	(378)	(26)	98	(45)	50	45
CAPEX	(372)	(518)	(918)	(1,233)	(747)	(273)	(157)	(181)
Ending cash balance	**214**	**534**	**156**	**130**	**228**	**183**	**233**	**278**
Liquidity ratios								
Current ratio (x)	1.3	2.0	1.6	1.3	1.2	1.4	1.6	1.8
Quick ratio (x)	1.1	1.4	1.4	1.2	1.1	1.2	1.4	1.6
Profitability ratios								
Gross profit margin	26.5%	25.0%	24.6%	24.7%	25.2%	23.5%	23.7%	24.2%
Operating margin	14.4%	12.9%	11.9%	12.6%	13.4%	10.8%	11.6%	13.1%
EBITDA margin	20.4%	18.4%	19.0%	21.0%	22.4%	18.8%	18.7%	20.0%
Net profit margin	12.0%	10.3%	11.3%	10.6%	10.8%	8.8%	10.0%	11.5%
Return on assets	6.0%	6.0%	6.4%	5.8%	5.6%	5.3%	6.9%	8.6%
Return on equity	16.4%	12.6%	10.3%	9.9%	10.1%	9.5%	12.0%	14.0%
Leverage ratio								
Debt / equity (x)	1.37	0.16	0.20	0.37	0.41	0.33	0.21	0.07
Market/valuation ratios								
EV/sales (x)	6.4	5.6	3.3	3.2	3.0	2.4	1.9	1.6
EV/EBITDA (x)	31.3	30.6	17.2	15.2	13.4	12.7	10.0	7.9
Market-Cap	13,340	15,730	9,790	9,790	9,790	9,790	9,790	9,790
P/E ratio (x)	47.7	51.4	27.6	26.6	24.2	23.9	17.4	13.6
P/BV ratio (x)	10.6	4.7	2.7	2.5	2.4	2.2	2.0	1.8
DY (%)	8.7%	0.4%	0.7%	0.7%	0.8%	0.9%	1.2%	1.5%

Sources: AlJazira Capital, Company Financials *Prices as of 29th May 2025

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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