

Pure Health Holding

New acquisitions and operating efficiencies drive top and bottom line

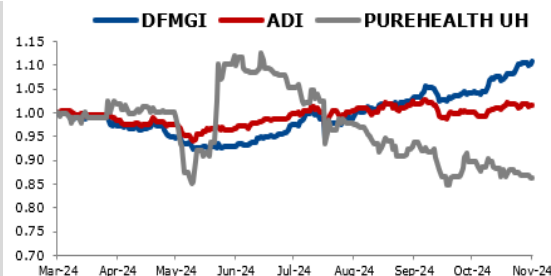
Current Price
AED 3.37

Target Price
AED 6.05

Upside/Downside (%)
+79%

Rating
BUY

- PURE HEALTH aims to generate at least 50% of revenue from international business.
- The Company completed the acquisition of Circle Health Group in the UK and SSMC in Abu Dhabi.
- The Company expects its revenue to grow in the mid-to-high teens through its UAE and International assets.
- Expects EBITDA margin to reach the early 20s over the medium term.
- PURE HEALTH is targeting the overall maintenance and growth capex to be less than 2.5% of total revenue over the midterm.



Stock Information

Market Cap (AED, mn)	37,444.44
Shares Outstanding(mm)	11,111.11
52 Week High	6.05
52 Week Low	3.26
3M Avg. daily value (AED)	21,206,210

3Q24 Net Profit lower than our estimate

Pure Health Holding (PURE HEALTH/the Company) recorded a net profit of AED 431 Mn in 3Q24, compared to a net loss of AED 76 Mn in 3Q23, lower than our estimate of AED 601 Mn. The higher growth in the net profit is mainly attributable to a significant rise in revenue driven by an increase in hospital segments and successful acquisitions coupled with higher finance income and lower income tax partially offset by higher G&A and S&D expenses and one-off loss from disposal of investment in Ardent Health.

3Q24 Result Review (AED, mn)

Total Assets	48,423
Total Liabilities	29,114
Total Equity	19,309
EBITDA	970
Net Profit	431

P&L Highlights

PURE HEALTH's revenue grew 62.7% YOY to AED 6,452 Mn in 3Q24, driven by the significant increase across all the segments particularly in the Hospital segment along with the Company's organic and inorganic growth. Revenue from Hospital segment rose 93.5% YOY to AED 4,956 Mn mainly due to increased patients' volume and through strategic acquisitions of Circle Health and SSMC. Revenue from Health insurance increased 19.7% YOY to AED 1,748 Mn in 3Q24, mainly due to increase in Gross written premiums fueled by key account retention at higher premiums and a growth in active members. Revenue from Diagnostic services grew 10.3% YOY to AED 237 Mn in 3Q24, due to higher inflow of patients. The Company's Procurement segment revenue grew 14.8% YOY to AED 1,131 Mn in 3Q24 primarily due to improved supply chain management. Revenues from Technology segment grew to AED 110 Mn in 3Q24, compared to AED 70 Mn in 2Q24. Furthermore, the Company's direct cost reported growth lower than topline and rose 45.1% YOY to AED 4,416 Mn in 3Q24. Thus, PURE HEALTH's gross profit grew from AED 923 Mn in 3Q23 to AED 2,037 Mn in 3Q24. The Company's gross profit margin grew 830 bps YOY to 31.6% in 3Q24. G&A expenses grew from AED 657 Mn in 3Q23 to AED 1,363 Mn in 3Q24. Selling & distribution expenses stood at AED 14 Mn in 3Q24 from AED 4 Mn in 3Q23.

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	33.99
Price-to-Book Ratio (x)	1.94
Book Value (AED)	1.74
Return-on Equity (%)	7.08

Stock Performance

5 Days	-0.59%
1 Months	-3.71%
3 Months	-11.32%
6 Months	-10.85%
1 Year	N/A
Month to Date (MTD%)	-2.60%
Quarter to Date (QTD%)	-6.39%
Year to Date (YTD%)	-40.88%

The Company's net finance cost grew significantly from 29 Mn in 3Q23 to AED 218 Mn in 3Q24. Pure Health's share from Joint ventures improved 16.2% YOY to AED 27 Mn in 3Q24. The Company recorded a loss of AED 137 Mn in 3Q24, mainly due to the dilution of a stake in Ardent Health. Other income increased 51.6% YOY to AED 142 Mn in 3Q24. Furthermore, the Company's EBITDA increased 56.4% YOY to AED 970 Mn in 3Q24, while EBITDA margin declined marginally from 15.6% in 3Q23 to 15.0% in 3Q24. Hospital segment EBITDA rose 50.2% YOY to AED 619 Mn in 3Q24, mainly due positive synergies of recent acquisitions. Health insurance segment EBITDA increased 38.9% YOY to AED 218 Mn in 3Q24, impacted by lower combined ratio and higher investment income. Diagnostic services segment EBITDA rose 6.8% YOY to AED 78 Mn, while Procurement services EBITDA declined 6.3% YOY to AED 60 Mn 3Q24. The Company's technology segment EBITDA stood at AED 6 Mn in 3Q24. PURE HEALTH's tax expenses declined significantly AED 429 Mn in 3Q23 to AED 40 Mn in 3Q24. Furthermore, share attributable to non-controlling holders stood at profit of AED 1 Mn in 3Q24 compared to loss of AED 4 Mn in 3Q23.

Balance Sheet Highlights

PURE HEALTH's total debt marginally increased from AED 1,851 Mn in 2Q24 to AED 1,872 Mn in 3Q24. The company's net cash generated from operating activities increased from AED 596 Mn in 3Q23 to AED 1,823 Mn in 3Q24, mainly attributed to improved working capital management. Capex of the company reduced from AED 142 Mn 3Q23 to AED 127 Mn 3Q24 Free cashflows to firm improved significantly from positive AED 455 Mn in 3Q23 to positive AED 1,696 Mn in 3Q24 due to increase in cash generated from operating activities coupled with reduction in CAPEX. PURE HEALTH's Cash and cash equivalents stood at AED 8,708 Mn in 3Q24 compared to AED 7,388 Mn in 2Q24.

Target Price and Rating

We maintain our BUY rating on PURE HEALTH with a target price of AED 6.05. PURE HEALTH demonstrated robust profitability growth driven by increased revenue from successful acquisitions, higher finance income, and reduced income tax expenses in 3Q24. PURE HEALTH continued to focus on inorganic growth by strengthening its healthcare network, expanding its market presence, and enhancing operational efficiency. The Company recently completed the acquisitions of Circle Health in the UK and Sheikh Shakhbout Medical City LLC (SSMC) in Abu Dhabi. The consolidation of Circle Health expanded the Company's footprint in the UK, providing access to a network of over 50 hospitals, 2,000 beds, 8,500+ employees, and 150 operating rooms. Similarly, the integration of SSMC has added the UAE's largest healthcare facility, spanning c.312,000 square meters with an overall capacity of 732 beds, to the Group's portfolio. Both acquisitions significantly contributed to the Company's top-line growth in 3Q24. Furthermore, the Company expects its revenue to grow in the mid-to-high teens through its UAE and International assets. It also anticipates EBITDA margin to reach the early 20s for over the medium term. PURE HEALTH further focuses on its M&A strategy to increase its market presence and healthcare network, which is expected to support revenue growth. The Company also focuses on using artificial intelligence across healthcare services to provide personalised treatments, better medical data analysis, and early detection of diseases. It expects to generate 50% of the revenue from the international business going forward. PURE HEALTH also maintained a strong balance sheet with a healthy cash balance of AED 8.7 Bn in 3Q24, which is expected to support its inorganic growth. In addition, the Company is targeting the overall maintenance and growth capex to be less than 2.5% of total revenue over the midterm, which is expected to boost the free cash flow. Thus, based on the above-mentioned factors, we maintain our BUY rating for the stock.

PURE HEALTH - Relative valuation

(at CMP)	2023	2024F
PE	9.75	7.35
PB	35.27	18.93
EV/EBITDA	2.12	1.92

FABS Estimates & Co Data

* PURE HEALTH got listed on December 2023 on the ADX as a result previous financial won't be comparable

PURE HEALTH – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	3,967	6,388	6,452	6,407	0.7%	62.7%	1.0%	16,399	25,506	55.5%
Cost of sales	-3,044	-5,008	-4,416	-4,909	-10.0%	45.1%	-11.8%	-13,840	-18,179	31.3%
Gross Profit	923	1,380	2,037	1,498	36.0%	120.7%	47.5%	2,559	7,327	186.4%
G&A & marketing exp	-657	-1,407	-1,363	-1,439	-5.3%	107.5%	-3.1%	-3,732	-4,824	29.3%
S&D expenses	-4	-11	-14	-22	-34.5%	NM	25.8%	-44	-58	32.6%
Net Finance income	-29	-190	-218	-186	17.7%	NM	15.1%	-117	-790	NM
Share from JV	23	40	27	14	86.1%	16.2%	-32.9%	25	131	NM
Loss on deemed disposal of invt in an associate	0	0	-137		NM	NM	NM		-137	NM
Other Income	93	725	142	796	-82.2%	51.6%	-80.5%	2,693	484	-82.0%
EBITDA	620	1,076	970	1,229	-21.1%	56.5%	-9.9%	2,437	4,198	72.3%
Profit before tax	349	537	472	662	-28.7%	35.2%	-12.0%	1,384	2,132	54.1%
Income tax expense	-429	-23	-40	-60	-32.5%	-90.6%	74.3%	-419	-139	-66.9%
Profit before NCI	-80	514	432	602	-28.3%	NM	-15.9%	965	1,993	106.6%
Non-controlling interest	-4	1	1	1	20.6%	NM	NM	0	4	NM
Profit / (loss) after tax for the year	-76	513	431	601	-28.4%	NM	-16.1%	965	1,989	106.2%

FABS estimate & Co Data

PURE HEALTH - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross profit	23.3%	21.6%	31.6%	830	996	15.6%	28.7%	1,312
EBITDA	15.6%	16.8%	15.0%	-60	-181	14.9%	16.5%	160
Net profit	-1.9%	8.0%	6.7%	859	-136	5.9%	7.8%	192

FABS estimate & Co Data

Valuation:

We have used a blend of Discounted Cash Flow (DCF) and Sum-of-the-parts (SOTP) valuation methods to arrive at Pure Health's fair value. We have assigned 70% weight to DCF and 30% to SOTP. In SOTP valuation, we have used the Comparable Company Method (CCM) (EV/EBITDA and PB) to value the firm. Since the Company operates into multiple segments, each segment is valued separately using the peers of the segment.

Valuation Method	Target	Weight	Weighted Value
DCF Method	6.41	70.0%	4.49
Relative Valuation (RV)	5.22	30.0%	1.56
Weighted Average Valuation (AED)			6.05
Current market price (AED)			3.37
Upside/Downside (%)			+79%

1) DCF Method:

PURE HEALTH is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 10.0%. To arrive at Ke (Cost of Equity), we have used the 10-year government bond yield of 4.9%, Country risk premium of 5.3%, and Beta of 1.00. After applying all these, we arrived at the cost of equity of 10.1%. We have used a 10-year US Government Yield and added an average 10-year CDS Spread of the Abu Dhabi Government to arrive at an appropriate risk-free rate. We assumed the cost of debt of 5.7% and adjusted it for the tax rate to arrive after the tax-adjusted cost of debt of 5.3%. We used a debt-to-equity ratio of 0.05x for the valuation. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (AED, Mn)	20,401
Terminal value (AED, Mn)	54,838
FV to Common shareholders (AED, Mn)	71,216
No. of share (Mn)	11,111
Current Market Price (AED)	3.37
Fair Value per share (AED)	6.41

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	2,660	3,054	3,865	4,612	5,288	5,927	6,583
(+/-) Depreciation & amortization	1,406	1,643	1,608	1,589	1,583	1,588	1,603
(+/-) CAPEX	-1,224	-700	-766	-837	-920	-988	-1,062
(+/-) Working Capital	-4,518	-1,064	-764	-140	-570	-471	-486
Free Cash Flow to Firm (FCFF)	-1,676	2,932	3,943	5,225	5,381	6,055	6,638
Discounting Factor	0.99	0.90	0.82	0.74	0.68	0.61	0.56
Discounted FCFF	-414	2,636	3,224	3,884	3,638	3,723	3,711

Source: FAB Securities

2) Relative Valuation:

In the SOTP valuation, we have used PB multiple to value the Health Insurance Services segment and EV/EBITDA to value other segments of the Company. The EV/EBITDA multiple allows us to compare companies of various sizes with different capital structures. Since the Company operates into multiple segments, each segment is valued separately using the peers of the segment. The value of all segments is summed up to arrive at the total enterprise value of the firm and, after that includes the value of net debt, valuation of JVs, and value of non-controlling interest to arrive at the value of equity. All segments are valued based on FY2025 financials in line with median market multiple.

(All Figures in Million AED)	Method	Peer Multiple
Hospital and other healthcare-related services	EV/EBITDA	49,261
Diagnostic Services	EV/EBITDA	4,070
Health insurance services	PB	7,621
Procurement and supply of medical-related products	EV/EBITDA	3,177
Technology services and others	EV/EBITDA	695
Adjustments & eliminations		-2,850
Enterprise Value		61,973
Net (Debt)/Cash		-5,850
Valuation of JVs		1,847
Minority Interest		-20
Equity Value		57,950

Source: FAB Securities

Hospital and other healthcare related services

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
IHH Healthcare Berhad	14,212	14.4x	13.4x	33.8x	31.6x
Al Hammadi Holding Company	1,687	13.2x	13.8x	18.8x	19.8x
Burjeel Holdings PLC	3,132	12.0x	11.1x	20.5x	17.4x
Ramsay Health	5,555	8.9x	8.2x	28.3x	21.8x
Mouwasat Medical Services Company	4,713	16.4x	15.0x	21.8x	20.0x
Middle East Healthcare Company	1,652	13.8x	12.4x	27.5x	20.3x
Dr Sulaiman Al Habib Medical	25,296	33.8x	29.7x	42.6x	36.9x
Nahdi Medical Co	4,272	10.8x	10.0x	19.3x	18.0x
Average		15.4x	14.2x	26.6x	23.2x
Median		13.5x	12.9x	24.7x	20.1x
Max		14.9x	14.1x	29.7x	24.3x
Min		11.7x	10.8x	20.2x	19.4x

Source: FAB Securities

Diagnostic Services

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Labcorp Holdings Inc	19,921	12.0x	11.0x	16.4x	14.9x
Quest Diagnostics Inc	17,506	12.4x	11.2x	17.6x	16.1x
Guangzhou Kingmed Diagnost-A	2,125	13.2x	9.3x	60.7x	21.4x
Sonic Healthcare Ltd	8,063	9.6x	8.8x	23.8x	20.3x
Hangzhou Tigermed Consulti-A	6,908	31.3x	22.3x	43.7x	28.3x
Radnet Inc	6,001	25.8x	23.3x	128.7x	102.9x
Synlab AG	2,683	7.9x	7.5x	31.2x	38.5x
Meinian Onehealth Healthca-A	2,560	16.6x	13.2x	34.0x	21.4x
Metropolis Healthcare Ltd	1,234	29.9x	25.5x	58.2x	46.2x
Average		17.6x	14.7x	46.0x	34.4x
Median		13.2x	11.2x	34.0x	21.4x
Max		25.8x	22.3x	58.2x	38.5x
Min		12.0x	9.3x	23.8x	20.3x

Source: FAB Securities

Health insurance services

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		Current	2024F	2024F	2025F
Bupa Arabia for Cooperative Insurance Co	7,484	5.4x	5.3x	21.1x	18.9x
The Company for Cooperative Insurance	5,029	4.4x	4.2x	18.0x	17.9x
Abu Dhabi National Insurance Company PJSC	940	1.2x	1.1x	7.7x	NA
Islamic Arab Insurance Co. (Salama) PJSC	96	0.6x	0.7x	18.0x	NA
Average		2.9x	2.8x	16.2x	18.4x
Median		2.8x	2.6x	18.0x	18.4x
Max		4.6x	4.5x	18.8x	18.6x
Min		1.0x	1.0x	15.4x	18.2x

Source: FAB Securities

Procurement and supply of medical related products

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Mckesson Corp	77,454	13.8x	12.8x	18.7x	16.7x
Cencora Inc	47,710	11.4x	10.7x	16.3x	14.9x
Cardinal Health Inc	29,353	10.2x	9.4x	15.5x	14.1x
Henry Schein Inc	8,296	11.8x	10.9x	13.9x	12.8x
Amplifon SPA	5,728	12.1x	10.8x	27.3x	22.4x
Galenica AG	4,225	14.9x	13.9x	21.8x	20.2x
Shanghai Pharmaceuticals-A	9,435	8.1x	7.3x	15.4x	13.7x
Owens & Minor Inc	946	5.6x	5.0x	8.1x	6.6x
Average		11.0x	10.1x	17.1x	15.2x
Median		11.6x	10.7x	15.9x	14.5x
Max		12.5x	11.3x	19.5x	17.6x
Min		9.6x	8.9x	15.0x	13.4x

Source: FAB Securities

Technology services and others

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Al Moammar Information Systems Company	1,489	NA	NA	46.1x	NA
Arabian Internet and Communication Services	7,922	14.9x	13.7x	19.7x	18.9x
Accenture	226,241	17.1x	15.7x	28.3x	25.7x
Wipro limited	35,025	14.8x	13.9x	24.2x	22.4x
Infosys Limited	91,450	19.3x	17.3x	29.2x	25.8x
IBM	193,242	15.0x	14.4x	20.5x	19.5x
Average		16.2x	15.0x	28.0x	22.5x
Median		15.0x	14.4x	26.2x	22.4x
Max		17.1x	15.7x	29.0x	25.7x
Min		14.9x	13.9x	21.4x	19.5x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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