

Significant provisions were the highlight of Care's set of Q1-2017 result, lower than AJC estimates and consensus. Net income came at SAR 14.7mn (SAR0.33 EPS) against our estimates of SAR 26.0mn, the deviation is mainly due to provisioning. Conservative approach on receivables is expected to carry on throughout FY2017. We remain **Neutral** on the company with a revised PT of 47.4 SAR per share.

- Care reported lower than expected net income for the quarter. Net income came at SAR 14.7mn (EPS SAR 0.33), posting 54.6% decline YoY. The result downfall is due to the company's conservative policy in forming provisions for doubtful debts started in 4Q2016 have impacted the company's bottom line. The disappointing set of results came after the company posted a loss on Q4-2016. the loss was mainly due to settlement agreements with two major clients along with an increase in provisions for doubtful debt.
- Revenue for the quarter stood at SAR 202.0mn; a decline of 20.5%YoY and a 6.3% growth QoQ. According to the company, the YoY decline was mainly due to an alteration in list of prices implemented by a major governmental client. Medicine distribution and pharmaceutical segments declined 72.2%YoY and 20.5%YoY respectively. Operations and other medical segments declined 18.9%YoY and 12.2%YoY respectively. While revenues from outpatient clinics segment were stable during 1Q2017 (2.3% YoY).
- Gross profit for the quarter stood at SAR 41.2mn depicting a 38.8% decline YoY and 956.4% QoQ increase (from a low base on Q4-2016). Gross margins for the quarter stood at 20.3% compared to 26.4% for the same quarter last year. FY2017 gross margin is estimated to stand at 24.3%. Income from operations stood at SAR 16.8mn compared to SAR67.3mn in 1Q2016, the YoY decline in operating margin resulted from top line decline in revenues.

AJC view: Conservative approach on receivables is expected to carry on throughout FY2017. Alteration in prices is expected to dampen revenue growth (-5.0% YoY). However, upcoming expansions would partially offset the decline in revenue. Revised EPS is estimated to stand at SAR 2.71 per share. The company currently trades at TTM PE of 69.0x and an estimated forward PE multiple of 18.1x compared to a sector TTM PE of 28.3x. We remain **"Neutral"** on Care with a revised PT of SAR 47.4 per share.

Results Summary

| SARmn (unless specified) | Q1-2016 | Q4-2016 | Q1-2017 | Change YoY | Change QoQ | Deviation from AJC Estimates |
|-----------------------------|--------------|--------------|--------------|---------------|---------------|------------------------------------|
| Sales | 254.0 | 189.9 | 202.0 | -20.5% | 6.3% | -5.6% |
| Gross Profit | 67.3 | 3.9 | 41.2 | -38.8% | 956.4% | -24.0% |
| Gross Margin | 26.4% | 2.0% | 20.3% | - | - | - |
| EBIT | 37.5 | -32.6 | 16.8 | -55.2% | - | - |
| Net Profit | 32.4 | -71.4 | 14.7 | -54.6% | - | -43.5% |
| EPS | 0.72 | -1.59 | 0.33 | - | - | - |

Source: Company reports, Aljazira Capital

| | |
|----------------------|------------------|
| Recommendation | 'Neutral' |
| Current Price* (SAR) | 49.1 |
| Target Price (SAR) | 47.4 |
| Upside / (Downside) | 3.5% |

*prices as of 14th of May 2017

Key Financials

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|--------------------------|-------|-------|-------|
| Revenue | 878.7 | 900.6 | 856.2 |
| Gross Profit | 220.2 | 204.6 | 208.5 |
| Net Profit | 130.7 | 49.3 | 121.5 |
| EPS | 2.90 | 1.10 | 2.71 |

Source: Company reports, Aljazira Capital

Key Market Data

| | |
|-------------------------|---------------|
| Market Cap (mn) | 2,202.1 |
| YTD % | -20.4% |
| Shares Outstanding (mn) | 44.9 |
| 52 Week (High) | 73.3 |
| 52 Week (Low) | 49.0 |

Source: Company reports, Aljazira Capital

Key Ratios

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|--------------------------|-------|-------|-------|
| Gross Margin | 25.0% | 22.7% | 24.3% |
| Net Margin | 14.8% | 5.4% | 14.1% |
| P/E | 19.0x | 59.9x | 18.1x |
| P/B | 2.8x | 3.2x | 2.3x |
| Dividend Yield | 1.4% | - | - |

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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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