


**US\$1.926bn**

Market cap

**44%**

Free float

**US\$1.546mn**

Avg. daily volume

**Target price**
**149.0**

3.1% over current

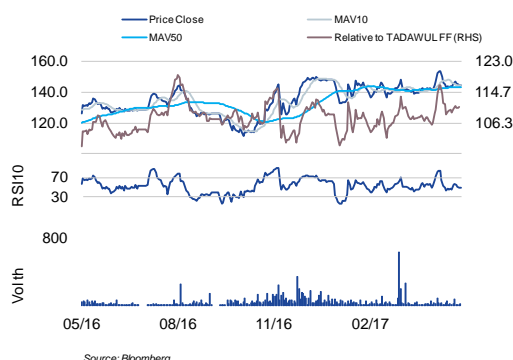
**Current price**
**144.5**

as at 8/5/2017

Research Department

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**Existing rating**
**Underweight**
**Neutral**
**Overweight**
**Performance**


## Al Mouwasat Medical Services

### Robust performance continues

Mouwasat posted a stronger than expected set of results for Q1 2017 with revenue and net profit rising ~20% and 24% y-o-y, respectively. The high growth was supported by improving performance of the Riyadh hospital (opened in 2014-end) and the sub speciality clinics. As a result of the improving utilization, profit margins also expanded for the company, though we believe the improvement in margins was limited by the increased costs related to expansion at the Jubail hospital, which began operations in May 2016. Mouwasat has two hospitals under construction (Khobar and Dammam), which are expected to be completed in 2019 and 2020, and another one planned in Madinah. These expansion plans will ensure high growth rates into the mid-2020s. However, over the next couple of years, we expect the company's growth to ease-off (from the current 20+%). The stock is currently trading at ~24x our 2017E EPS. At current levels, we believe the stock incorporates most positives. Hence, we maintain a Neutral rating on the company with a target price of SAR149.

- **Revenues:** Mouwasat's revenue surged 19.4% y-o-y to SAR363mn, coming in ahead of our (SAR344mn) as well as consensus estimates (SAR350mn). The company mentioned that the top line growth was supported by the increasing contribution from the Riyadh hospital (opened in 2014-end) and the expansion in sub specialty clinics operations. We believe the 100-bed expansion of the Jubail hospital, which began operations in May 2016, is also likely to have contributed to growth.
- **Profitability:** Mouwasat's profit margins improved slightly as the impact of improving utilization of Riyadh hospital was partially offset by the addition of new capacity at Jubail. In addition, margins were also supported by the improved contractual terms with customers. Operating profit margin improved ~80bps y-o-y to 25.7%. Net profit rose 24.2% y-o-y to SAR85.1mn, beating our estimate of SAR71mn (consensus: SAR75.8mn).
- **Valuation:** Mouwasat stock currently trades at ~24x 2017E EPS, compared to its three year average 12-m forward trading multiple of 22x. Based on our weighted average valuation method of DCF (50%) and PE-based relative valuation (50%), we arrive at a target price of SAR149. Thus, at current levels, there is little scope for further upside in the near-term, and we rate the stock Neutral.

**Figure 1 Mouwasat: Summary of Q1 2017 results**

(SAR mn)	Q1 2016	Q4 2016	Q1 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	304.0	352.7	363.0	19.4%	2.9%	344.0
Gross profit	143.5	168.9	173.4	20.8%	2.7%	156.6
Gross profit margin	47.2%	47.9%	47.8%			45.5%
Operating profit	75.7	84.4	93.2	23.1%	10.4%	80.7
Net profit	68.5	75.6	85.1	24.2%	12.6%	71.0

Source: Company data, Al Rajhi Capital



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"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 12 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 12 month time horizon.

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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.

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