National Medical Care Company

Healthcare – Industrial
CARE AB: Saudi Arabia
30 July 2017

Al Rajhi Capital الراجحي المالية

US$0.549bn	9%	US$3.034mn
Market cap	Free float	Avg. daily volume

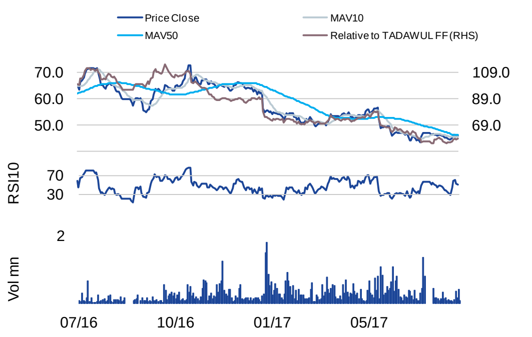
Target price	**45.0**	4.2% over current
Current price	**43.1**	as at 27/7/2017

Research Department
Mohammed althunayyan
Tel +966 1 211 9395, althunayyanm@alrajhi-capital.com

Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	879	901	895	948
Revenue Growth	19.7%	2.5%	-0.7%	5.9%
EBITDA (mn)	187	160	155	150
EBITDA Growth	30.6%	-14.4%	-3.1%	-3.6%
EPS	2.91	1.12	1.94	2.26
EPS Growth	36.9%	-61.5%	72.8%	16.6%

Source: Company data, Al Rajhi Capital

National Medical Care

Q2: In line, pressures are likely to continue on pricing revision

NMCC's Q2 2017 results were in-line with our estimates. Pricing revisions with Health ministry, provisions against rising receivables, and restructuring of the Medicines segment pushed Q2 earnings lower by 67% y-o-y to SAR19.5mn, in line with our estimate of SAR19.7mn and below consensus estimates of SAR25mn. Care reported a ~17% y-o-y fall in revenues in Q2 2017, partially due to pricing revisions with Health ministry since beginning of this year, however, revenue improvement of 7% in quarterly basis despite of Ramadan and Eid al-fitr seasons was impressive given the company's current conditions. Going forward, while the company's top line will be supported by recent completion of the expansion project (adding 100 beds), profitability will remain a concern on pricing pressure and receivables. Rising receivables remains a risk for the company, and any payment from the government will provide an immediate upside trigger for the stock. The stock currently trades at ~23x its 2017E earnings. For now, we continue with our Neutral rating on the stock with a target price of SAR45 per share.

Key takeaway from Q2 earnings:

- Margins declined sharply due to the Health ministry's pricing revision as well as the restructuring of the pharmaceutical distribution unit. Net profit margins came in at high single digits in the first two quarters of the year.
- Despite the lower pricing, revenues surprised on the upside, rising on a sequential basis, which we believe was mainly due to the first phase of the hospital expansion.

Outlook

- Top line growth will remain under pressure in 2017 on lower pricings from Ministry of Health. However, it will be partially offset by improving utilization of the recently opened expansion, which added 100 beds.
- We expect revenue growth to return to double digits in 2018, as another 224 beds are expected to be added next year, and the impact of the lower pricing would completely set by the end of 2017.
- Margins are expected to slightly recover from the current levels on the back restructuring of the medicines segment and improving utilization of the recently commissioned expansion. However, the company will not be able to generate net profit margins of 20%, enjoyed earlier, till the pricing does not recover

Valuation

- As mentioned above, while revenue is expected to pick up from next year due to the completion of the expansion projects, profitability will remain under pressure on pricing concerns. In addition, rising receivables continue to be a concern for the company as we haven't seen any write back of provisions. Our target price on the company comes to SAR45 per share.

Figure 1 Care: Summary of Q2 2017 results

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	260	202	217	-16.5%	7.2%	198
Gross profit	84.3	41.2	50.2	-40.4%	22.0%	47.5
Gross profit margin	32.5%	20.3%	23.2%			24.0%
Operating profit	63.1	16.8	22.7	-64.1%	34.9%	20.6
Net profit	59.3	15.5	19.5	-67.1%	25.5%	19.7

Source: Company data, Al Rajhi Capital

Risks: Upside risks to our estimates is from payment of outstanding receivables, which will not only improve the company's cash balance but also may lead to write back of provisions. Further, any increase in pricing from the government will directly improve the bottom line. Downside risks include delay in completion of its ongoing expansion plans, and further increase in outstanding receivables, forcing further provisioning.

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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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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@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

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