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INITIATING COVERAGE

Diverse client mix is a key strength

We initiate coverage on Mouwasat Medical Services (Mouwasat) with a Neutral rating and a PT of SR149.2. Mouwasat's expansion plans and diverse client mix are the company's key strengths. However, we believe these factors are already priced-in, with Mouwasat currently trading at a P/E 2017E of 22.5x, compared to listed peers' average of 24.3x.

- Defensive sector with strong demand fundamentals:** The demand outlook for healthcare is strong, supported by a growing population and the prevalence of NCDs. In addition, Saudi healthcare sector is undergoing structural changes, which will bring new opportunities. For instance, MoH has plans to introduce a health insurance plan for government employees and their dependants. This will expand the client base for private providers, including Mouwasat. Also, the government is set to further enforce mandatory health insurance which will support growth in patient volumes.
- Mouwasat's expansion plans:** As of April 2016, the company has three expansion plans to increase its current bed capacity from 869 beds to 1,353 beds by the end of 2021E, an increase of 56%. Mouwasat is currently building a new hospital in Khobar city (220 beds). The company will also construct a new inpatient facility at Dammam hospital (204 beds) and a new hospital in Madinah (180 beds). These plans will support revenue growth which we believe will grow by a CAGR of 14.4% between 2016 and 2021E. The company is also considering expanding into new cities. Currently, management is studying the construction of a new hospital in the Western Region.
- Diverse client mix is a key positive:** Mouwasat is among the few listed companies that has limited exposure to MoH referrals. Mouwasat's main clients are insurance companies and Aramco. Historically, insurance companies contributed 50% of revenue on average, while Aramco contributed 20% to the top-line. We believe this is a key strength since these clients are known for the timely settlement of their due payments. This is evident by the receivables collection period which stood at 101 days in 2016, in-line with 6-years average of 100 days but less than covered peers' average collection period of 259 days.
- Neutral on Mouwasat, with a PT of SR149.2:** Although company's expansion plans and diverse client mix are key strengths, we believe these factors are already priced-in. The company currently trades at 2017E P/E of 22.5x which is above the Saudi peer group average of 24.3x.

Summary Financials

| SR mn | 2016 | 2017E | 2018E | 2019E | 2020E |
|------------------|-------|-------|-------|-------|-------|
| Revenues | 1,245 | 1,434 | 1,613 | 1,852 | 2,171 |
| Gross profit | 575 | 692 | 776 | 828 | 1,025 |
| Gross margin (%) | 46.2% | 48.3% | 48.1% | 44.7% | 47.2% |
| EBIT | 302 | 375 | 424 | 447 | 525 |
| EBIT margin (%) | 24.3% | 26.2% | 26.3% | 24.1% | 24.2% |
| Net Income | 256 | 322 | 366 | 384 | 454 |
| Net margin (%) | 20.6% | 22.4% | 22.7% | 20.7% | 20.9% |
| EPS (SR) | 5.1 | 6.4 | 7.3 | 7.7 | 9.1 |

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

NEUTRAL

| | |
|-----------------------------|--------------|
| Target price (SR) | 149.2 |
| Current price (SR) | 149.9 |
| Upside/ Downside (%) | (0.5) |

STOCK DETAILS

| | | |
|-------------------------|---------|--|
| M52-week range H/L (SR) | 160/109 | |
| Market cap (\$ mn) | 2,013 | |
| Shares outstanding (mn) | 50 | |
| Listed on exchanges | TADAWUL | |

| Price perform (%) | 1M | 3M | 12M |
|-------------------|-----|-----|------|
| Absolute | 4.1 | 7.8 | 12.8 |
| Rel. to market | 3.0 | 9.0 | 7.5 |

| Avg daily turnover (mn) | SR | US\$ |
|-------------------------|-----|------|
| 3M | 5.3 | 1.4 |
| 12M | 5.6 | 1.5 |

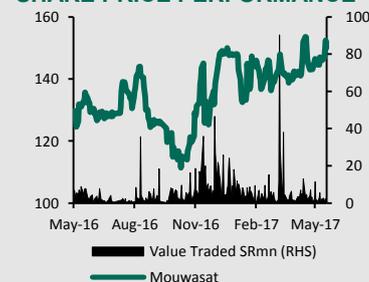
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|----------------|--|
| Reuters code | 4002.SE |
| Bloomberg code | Mouwasat AB |
| | www.mouwasat.com |

VALUATION MULTIPLES

| | 16A | 17E | 18E |
|---------------|------|------|------|
| P/E (x) | 28.2 | 22.5 | 19.7 |
| P/B (x) | 5.6 | 4.9 | 4.3 |
| EV/EBITDA (x) | 20.8 | 17.8 | 16.0 |
| Div Yield (%) | 1.7 | 2.1 | 2.4 |

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Investment Summary

Investment View

- Mouwasat has exposure to favourable demand fundamentals driven by a growing population, high incidents of lifestyle-related diseases and increasing life expectancy.
- The company's expansion plans are a key catalyst moving forward. Over the next three years, the company plans to increase its total bed capacity by 56% and its total clinic capacity by 23%. These expansion plans are expected to support earnings growth of 14.3% CAGR (2016-2021).
- One of NTP 2020's main themes is the privatization of different government functions. The newly privatized entities will have to purchase insurance policy for their employees. This, along with MoH's health insurance scheme for public employees, will cause the client base for the private providers to expand which will benefit Mouwasat.

Investment Risk

- The monthly expat levy on family members could have an adverse impact on private healthcare providers. A potential outcome is that many expatriates' family members may decide to leave the country. As a result, the number of outpatient visits to private providers could decline in the short to medium term, since the majority of the healthcare policyholders are non-Saudi.
- The upward revision of expat levy for companies with Saudization rate less than 50% will impact Mouwasat. Mouwasat falls within the Green category of MoL's Nitiqat program with an estimated Saudization rate of 29%. We believe the degree of the impact on earnings to range from 3.8% to 7.0%.
- Some of MoH and other government hospitals (such as National Guard Hospitals) have started to accept insured patients. Previously, public hospitals provide care mainly to government-sponsored patients. The new decision will increase overall competitiveness. However, the impact could be minimal given state-run hospitals generally have long waiting lists.
- Any issues experienced during the execution of expansion plans will result in delays of opening and operating these new facilities. Any delays will adversely impact our revenue projections and our valuation.

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| | |
|---------------|---|
| OVERWEIGHT: | Target price represents an increase in the share price in excess of 15% in the next 12 months |
| NEUTRAL: | Target price represents a change in the share price between -10% and +15% in the next 12 months |
| UNDERWEIGHT: | Target price represents a fall in share price exceeding 10% in the next 12 months |
| PRICE TARGET: | Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon |

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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