

Mouwasat Medical Services Co.

During Q3 2019 Mouwasat's profits grew by 15.0% Y-o-Y, despite continued losses at Al Khobar hospital. We believe that the company's growth story has not ended yet. We expect that Mouwasat will reap the benefits of its expansion plan gradually, supported by its hospitals' network and its geographical presence.

24 November 2019

Recommendation	BUY
Current Price (21-11-2019)	SAR83.3
Target Price	SAR105.4
Upside/ (Downside)	26.5%
Shariah Compliance	Pass

Key Points

We have adjusted our 52 weeks target price for Mouwasat to SAR105.4 and maintained our Buy recommendation, which represents an upside potential of 26.5%.

- Although Mouwasat experienced a loss of SAR15mn during Q3 2019 from AlKhobar Hospital, it has successfully increased its Net Income by 15.0% Y-o-Y to reach SAR93mn in Q3 2019, which is lower than our expectations only by 1.3%. Worth mentioning that Al Khobar hospital losses are in line with the operational plan, which was approved in advance by the company's management.
- Mouwasat's Total Revenues increased by 9.7% Y-o-Y (3.3% lower than our expectations) to reach SAR443mn in Q3 2019 compared to SAR404mn in Q3 2018 due to improved operational efficiency and addition of new specialized clinics. Inpatient segment revenues increased during Q3 2019 by 26.4% Y-o-Y, but on quarterly basis, it was decreased by 2.9% Q-o-Q. As a result, we expect that Al Khobar Hospital still needs more time to increase operating rates and cover its high costs.
- Despite the fierce competition in the Saudi Healthcare sector evident by the expansion plans taking place by all players, we still believe that Mouwasat has the privilege due to its geographical expansion network especially in Eastern region. Therefore, we maintained our positive outlook towards Mouwasat, and expect that it will reap the benefits of expansion projects gradually, and it will achieve a gradual increase in its new hospital's operation capacity supported by the rise in the population in the Kingdom, on average 2.2% Y-o-Y.

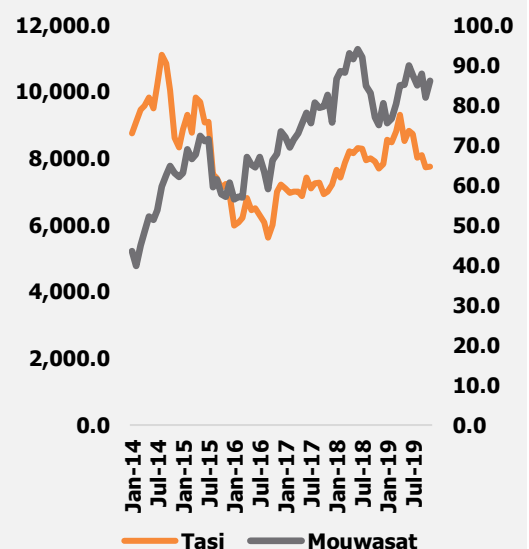
Key Growth Catalysts

- Saudi Healthcare Segment Improvement.
- Mouwasat Expansion Plan.

Key Risk Factors

- High Competition in Saudi Healthcare Sector.
- High Operational Costs.

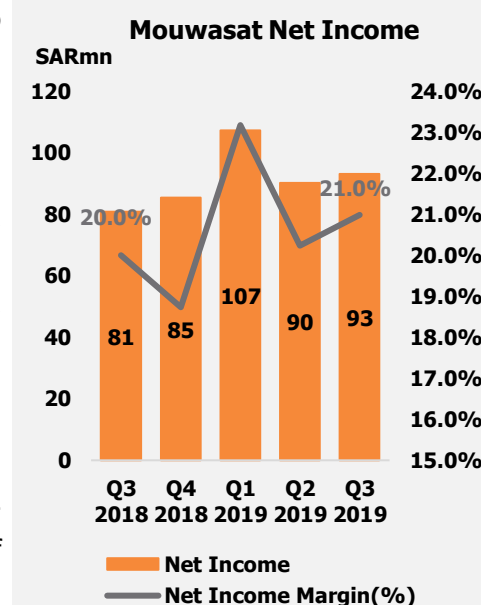
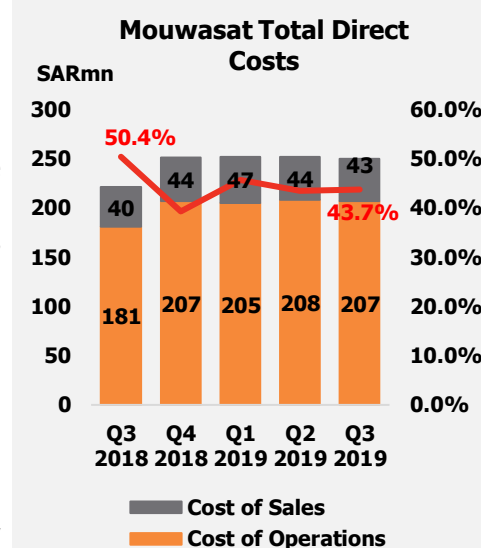
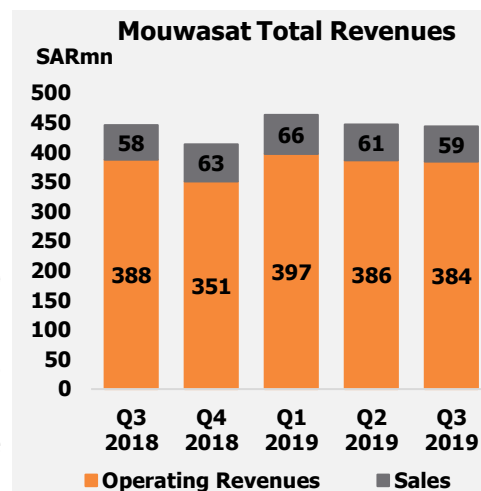
Reuters Code	4002.SE
Bloomberg Code	Mouwasat:AB
52 Weeks High	SAR92.0
52 Weeks Low	SAR72.2
Market Cap	SAR8.3bn
P/E	22.2
EPS	SAR3.8
Last Dividends	SAR1.75
AVG Value Traded	SAR0.2bn



Company Analysis

Financial Results

- Supported by an increase in all the company's business segment revenues, Mouwasat's total revenue during Q3 2019 was only 3.3% below our expectations. Its total revenue rose successfully by 9.7% Y-o-Y to reach SAR443mn in Q3 2019 compared to SAR404mn in Q3 2018. While during 9m in 2019, Mouwasat reported a 10.7% YTD increase to SAR1,352mn compared to SAR1,221mn in 9m 2018.
- Expansion of the subspecialty clinics and the addition of a new specialized department, led Mouwasat's Outpatient segment revenue to increase by 6.9% YTD to SAR564mn in Q3 2019 compared to SAR527mn in Q3 2018.
- On the other hand, despite the increase in the Inpatient segment by 26.4% Y-o-Y, the Inpatient segment on quarterly basis decreased by 2.9% Q-o-Q, which raises a flag, especially that the company's revenues usually slowdown in Q2 due to seasonality (Ramadan, Eid Al Fitr vacation).
- Al Khobar hospital (20% of total bed capacity) reported losses of SAR15.1mn (SAR46mn 9m 2019). It is expected to breakeven by Q1 2020e, which will be 18 months since the launch of its commercial operations.
- Worth mention that Pharmaceutical segment revenues increased by 7.7% YTD to reach SAR186mn in 9m 2019 compared to SAR172mn in 9M 2018. The Pharmaceutical segment contributes only 13.4% out of Mouwasat's total revenues, which is the lowest contribution compared to the company's other revenues segments.
- Due to starting operation in Al Khobar Hospital since Q4 2018, Mouwasat's Inpatient and Outpatient costs increased by 15.0% and 13.4% Y-o-Y, respectively. This led the total costs to increase by 12.6% Y-o-Y. As a result, Mouwasat Gross Profit Margins declined to 43.7% in Q3 2019 compared to 45.2% in Q3 2018, with a decrease of 1.5% Y-o-Y.
- Mouwasat successfully reduced its Selling & General Administrative Expenses by 3.6% Y-o-Y to reach SAR89mn in Q3 2019 compared to SAR92mn in Q3 2018. Accordingly, the company's Operating Profit Margin increased by 1.3% Y-o-Y to reach 23.6% in Q3 2019 compared to 22.4% in Q3 2018.
- During Q3 2019, Mouwasat's financial charges increased by 372.9% Y-o-Y as reach to SAR4.8mn compared to SAR1.0mn in Q3 2018. We should mention that 14.3% out of Mouwasat total finance obtained from the Saudi Ministry of Finance that does not carry any financial charges while 85.7% out of Mouwasat total fund has financial charge SIBOR plus 1.15% to 2.0%.
- A decrease in the Zakat provision compared to the previous period to be in line with zakat base calculation for 2019 as the final Zakat assessment due for the years 2017 and 2018 only, whereas the company received a final assessment from 2013 to 2016 duly paid and closed.
- Mouwasat Net Income reached SAR93mn during Q3 2019 compared to SAR80mn in Q3 2018, with an increase of 15.0% Y-o-Y. This increase was lower than our expectations of only 1.3%. In addition to, Mouwasat Net Income showed a rise of 5.7% YTD to reach SAR291mn in 9m 2019 compared to SAR275mn in 9m 2018.



Company Projection

Local Peers

	Country	Code	Market Price (SR)	Market Cap (SRBN)	P/E	Tot. Revenue (SRMN)	Net Income (SRMN)
Mouwasat Medical Services	KSA	4002	83.3	8.3	22.2	1,766	376
Saudi Chemical Co.	KSA	2230	22.6	1.4	14.2	3,233	101
National Medical Care Co.	KSA	4005	47.9	2.1	32.9	705	65
Al Hammadi	KSA	4007	19.5	2.3	28.2	932	83
Middle East Healthcare Co.	KSA	4009	27.0	2.5	30.5	1,401	81
Dallah Healthcare Co.	KSA	4004	43.7	3.3	29.9	1,227	110

Quarterly Income Statement

	Q3 2018	Q2 2019	Q3 2019	Q-o-Q	Y-o-Y
Sales	404	446	443	-0.7%	9.7%
Cost of sales	(222)	(252)	(250)	-1.0%	12.6%
Gross profit	183	194	194	-0.3%	6.0%
SG&A	(92)	(90)	(89)	-1.4%	-3.6%
Income before tax	92	102	102	0.9%	11.9%
Net Income	81	90	93	3.0%	15.0%

Interim Balance Sheet

Total current assets	929	1,083	1,156	6.7%	24.4%
Total assets	2,838	3,170	3,267	3.1%	15.1%
Total liabilities	1,122	1,350	1,349	-0.1%	20.2%
Total Equity	1,715	1,820	1,918	5.4%	11.8%

Pro Forma Income Statement

	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Sales	1,677	1,878	2,001	2,143	2,271	2,425	2,584
Cost of sales	(904)	(1,046)	(1,114)	(1,190)	(1,261)	(1,344)	(1,429)
Gross profit	773	832	888	952	1,010	1,081	1,155
SG&A	(369)	(369)	(418)	(443)	(464)	(489)	(515)
Income before tax	409	455	460	503	544	594	645
Net income	384	437	437	478	516	564	613

Pro Forma Balance Sheet

	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Total current assets	1,041	1,288	1,373	1,594	1,741	1,964	2,274
Total non-current assets	2,013	2,122	2,204	2,141	2,151	2,163	2,162
Total assets	3,054	3,410	3,577	3,736	3,892	4,127	4,437
Total current liabilities	565	638	688	729	702	679	703
Total non-current liabilities	681	708	567	407	295	227	160
Total Equity	1,807	2,064	2,322	2,599	2,896	3,220	3,573
Total liabilities and equity	3,054	3,410	3,577	3,736	3,892	4,127	4,437

Financial Ratios

	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Return on Average Assets	13.9%	13.5%	12.5%	13.1%	13.5%	14.1%	14.3%
Return on Average Equity	22.7%	22.6%	19.9%	19.4%	18.8%	18.5%	18.0%
Net Income Margin	22.9%	23.3%	21.9%	22.3%	22.7%	23.3%	23.7%
DPS	1.50	1.80	1.80	2.00	2.20	2.40	2.60
Payout Ratio	39.0%	41.1%	41.2%	41.9%	42.6%	42.5%	42.4%
EPS	3.84	4.37	4.37	4.78	5.16	5.64	6.13

Valuation Rational

DCF Valuation

	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
EBITDA	583	587	628	659	699	740
Operating CF	496	575	685	651	687	717
Capex	(229)	(224)	(154)	(150)	(148)	(132)
FCFF	267	351	531	501	539	586
Stub Period (FCF to be discounted)	67	351	531	501	539	586
PV (FCFF)	66	320	448	390	388	388
WACC	7.6%					
Perpetuity Growth	3.0%					
PV-FCFF	2,000					
PV-TV	7,787					
Net Debt	(578)					
Less: End of services benefits	(93)					
Add: JV and associates	60					
Less: Minority Interest	(90)					
Intrinsic Values	9,087					
Shares Outstanding	100					
Equity value per share	90.9					
CMP (21-11-2019)	83.3					
Upside / (Downside%)	9.1%					

We have valued Mouwasat using DCF and multiples approaches, considering a WACC is equal to 7.6% (based on a risk-free rate of 4.4%, market risk premium 6.9%, Beta of 0.56).

Based on the DCF valuation, the fair price of Mouwasat share price is SAR90.9, which is higher than the traded value by 9.1%.

Comparable Valuation – Local Peers

Name	Country	P/E
Mouwasat Medical Services Co.	KSA	22.2
Saudi Chemical Co.	KSA	14.2
National Medical Care Co.	KSA	32.9
Al Hammadi	KSA	28.2
Middle East Healthcare Co.	KSA	30.5
Dallah Health Care Co.	KSA	29.9
Median		29.1
Value Per Share		127.1

Weighted Valuation

Based on a weighted valuation approach, where the DCF is weighed 60%, and multiple valuations is weighed 40%, we value Mouwasat share price at SAR105.4.

Valuation Approach	Weight	Value
DCF	60%	90.9
P/E	40%	127.1
Valuation	100%	105.4

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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