Mouwasat Medical Services Co

Medical – Industrial
MOUWASAT AB: Saudi Arabia
17 August 2021

Al Rajhi Capital

US$5.216bn	44%	US$8.44mn
Market cap	Free float	Avg. daily volume

Target price	190.0	-2.9% over current
Current price	195.6	as at 16/8/2021

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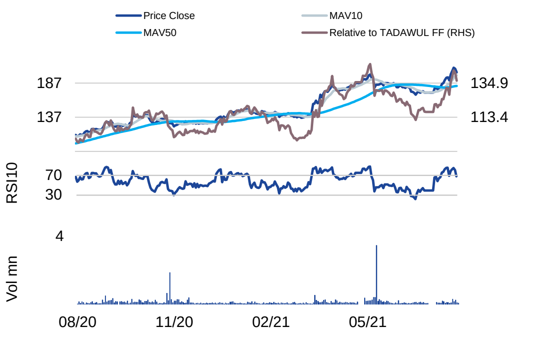
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2020	2021E	2022E
Revenue	2,045	2,156	2,488
Revenue growth	10%	5%	15%
Gross profit	960	1,001	1,135
Gross margin	47%	46%	46%
EBITDA	726	739	830
EBITDA margin	36%	34%	33%
Net profit	528	526	611
Net margin	26%	24%	25%
EPS	5.28	5.26	6.11
DPS	2.50	2.50	2.75
Payout ratio	47%	48%	45%
EV/EBITDA	27.8x	27.1x	23.9x
P/E	37.0x	37.2x	32.0x
RoE	23.2%	20.6%	21.1%

Source: Company data, Al Rajhi Capital

Mouwasat Medical Services Co

Performance to remain strong; TP at SAR190/sh

Mouwasat Medical Services Co (Mouwasat) reported Q2 2021 revenue increased by 12.4% y-o-y to SAR527 mn and was lower than our estimates of SAR565 mn. The increase in revenue was aided by the performance of the company's new specialized departments, improvement in contractual terms with customers, and better utilization of existing capacity. Gross profit increased by 12.5% y-o-y while operating profits improved by 18.0% y-o-y and were aided by higher revenue and improved scale of operations. This along with lower finance cost, at the back of lower cost of borrowing, aided profitability. We also expect that the improvement in the operating performance of Khobar hospital is likely to have had a positive impact on both the revenue and profitability of the company. Going forward, we expect revenue to be driven by improvement in utilization, while revenue per bed is likely to remain flat. We also expect revenue to be positively aided by the company's expansion in Dammam and Madina, which we expect to become operational by the end of 4Q21. However, this is likely to be reflected in 2022 results. Overall, we have revised the target price to SAR190/sh from SAR180/sh, and have maintained our rating at "Neutral".

Q2 results: Q2 2021 revenue came in at SAR527mn (+12.4% y-o-y; -1.4% q-o-q). Gross margins at 46.8% for Q2 2021 was similar to the levels a year back, though the same was lower than 47.6% in Q1 2021. Lower revenue, resulting in lower operating leverage was the main reason for the fall in margins on a q-o-q basis. Net margins at 26.8% for Q2 2021, was higher compared to 24.7% a year back, aided by lower growth in operating expenses and lower finance cost. However, it was lower than 27.6% in the previous quarter, in line with lower revenue and gross margins.

Figure 1 Mouwasat: Summary of Q2 2021 results

(SARmn)	Q2 2021	Q2 2020	Q1 2021	% chg y-o-y	% chg q-oq	ARC Estimates
Revenue	527	468	534	12%	-1%	565
Gross Profit	246	219	254	13%	-3%	279
Gross Margin	47%	47%	48%	NA	NA	49%
Operating Profit	155	131	158	18%	-2%	183
Net Profit	141	116	147	22%	-4%	166

Source: Company data, Al Rajhi Capital

Valuation and risks: We value the company based on an equal mix of DCF and relative valuation. The DCF based target price, with a 2% terminal growth and 6.7% WACC comes to SAR190/sh. The P/E-based relative valuation, with a 28x multiple, also gives a target price of SAR190/sh. Thus, we have revised our target price for the company to SAR190/sh, a downside of 2.9%, which implies a "Neutral" rating. The key downside risks are a decline in occupancy, lower revenue per bed, and a rise in the cost of sales along with high receivables. The key upside risks are higher than the expected number of patient visits and a rise in prices.

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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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