

National Medical Care Co. (Care) posted a higher-than-anticipated net profit of SAR 42.01mn for Q2-22 (up 36.7%Y/Y, and 40%Q/Q). Surpassing our estimated SAR 33.7mn, and the market consensus of SAR 29.23mn. The increase in net income, on a Y/Y and Q/Q basis, is attributed to an increase in patient volumes across their bases, as well as a return in the volume of referrals from GOSI- whom Care cites as a high margin client. Atop the increased referrals from GOSI, GP margins also increased due to direct cost of sale control measures, which resulted in a GP margin for Q2-22 at 30.9% (up 240bps Y/Y, and 180bps Q/Q). Care's Q/Q performance was positively impacted by a lowered provision on credit losses, and higher other incomes. We maintain our "Overweight" recommendation a TP of SAR 66/share.

- Care posted a net profit of 42.01mn for Q2-22 (up 36.7%Y/Y, and 40%Q/Q), above our estimated SAR 33.7m by 8.3m, and the market consensus of SAR 29.2mn by 12.8mn. The higher Q/Q results were attributed to a number of favorable factors: i) higher volume of sales coming from all client segments, ii) Lower costs of sales iii) lower OPEX expenses from the previous quarter- resulting from lessened provisions on credit losses, but despite higher sales and marketing expenses as well as general and administrative costs iv) higher other income. These factors punctuated to an EPS of SAR 0.94 (up 36.2%Y/Y, and 40.3%Q/Q). The deviation from our estimates was widened from the costs cut from cost of sales and OPEX, which heightened Care's net income margin to 19.4% for the quarter.
- The revenues seen by Care at SAR 216.5mn, came at a 6.9%Y/Y increase (and up 2.4%Q/Q from SAR 211.50mn), and above our expectations of SAR 205.9mn by 5.2%. The higher volume of patient inflows stemmed from their insurance client segment, as well as cash and contracts, and increased referrals from GOSI- a client that, with the MoH, makes the bulk of Care's client segments.
- Gross profits stood at SAR 66.8mn (up 15.6% Y/Y, and 8.7% Q/Q), deviating from our expectations of 59.8mn by 11.8%. The deviation was attributed to the cost cutting initiatives on direct costs of revenues, as well as the increase in the high margin business inflow from GOSI. GP margin inturn expanded to 30.9%, above our estimates of 29.0%, and the 28.5% recorded in Q2-21 (down 218 bps Y/Y).
- Operating income stood at 46.0mn, increasing on a Y/Y and Q/Q basis by 22.2% and 30.0% respectively. Above our estimates of SAR 37.6mn by 22.2%. With lowered provisions for expected credit losses, Care's OPEX shrunk to 20.8mn to make up 9.6% of revenues (down from 10.0% of revenues in Q2-21, and 12.4% in the previous quarter), despite higher selling and marketing expenses as well as general and administrative costs.

AJC view and valuation: Care posted a favorable set of result for Q2-22 with top line growth, and improved margins as a result of several factors. We reiterate our previous outlook, that Care, due to the lack of expansions, excluding its recently announced plan to build a third hospital in Riyadh, must focus on capacity utilization and margin efficiency to support earnings. Care favorably displayed so this quarter. We are positive about Care's LT prospects, given its potential to retain healthy margin levels. We believe stiff competition from major regional players and high receivables from government institutions (gross receivables as of Q1-22 to MoH and GOSI stand at 75%) remain key concerns as Care's receivables made up 90.6% of revenues, the highest among its peers. However, we remain "Overweight" on the stock with a TP of SAR 66.0/share.

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	202.5	211.5	216.5	6.9%	2.4%	5.2%
Gross Profit	57.8	61.4	66.8	15.6%	8.7%	11.8%
<i>Gross Margin</i>	<i>28.5%</i>	<i>29.1%</i>	<i>30.9%</i>	-	-	-
EBIT	37.6	35.2	46.0	22.2%	30.7%	22.2%
Net Profit	30.7	30.0	42.0	36.7%	40.0%	24.6%
EPS	0.69	0.67	0.94	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR)	66.0
Upside / (Downside)*	12.8%

Source: Tadawul *prices as of 11th of August 2022**Key Financials**

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	809.0	845.4	862.1	884.1
Growth %	14.2%	4.5%	2.0%	2.6%
Net Income	97.3	136.4	140.1	146.8
Growth %	21.3%	40.2%	2.7%	4.8%
EPS	2.17	3.04	3.12	3.27

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	27.7%	29.2%	29.4%	29.6%
Net Margin	12.0%	16.1%	16.3%	16.6%
P/E (x)	28.9	18.0	17.5	16.7
P/B (x)	2.7	2.2	2.0	1.9
EV/EBITDA (x)	14.9	10.7	10.6	9.8
Dividend Yield	1.6%	1.8%	1.8%	1.8%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.6bn
YTD %	-6.5%
52 Week (High)/(Low)	84.60/50.70
Shares Outstanding (mn)	44.85

Source: Company reports, Aljazira Capital

Price Performance

Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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