Al Mouwasat Medical Services Co

Healthcare – Industrial

MOUWASAT AB: Saudi Arabia

14 November 2019

الراجحي المالية
Al Rajhi Capital

US$2.245bn	44%	US$1.979mn
Market cap	Free float	Avg. daily volume

Target price	89.00	7.6% over current
Current price	82.70	as at 14/11/2019

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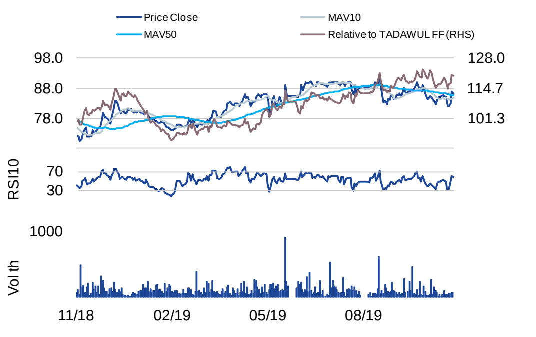
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2018	2019e	2020e
Revenue	1677.0	1836.3	2012.6
Revenue growth	11.3%	9.5%	9.6%
Gross profit	773.5	828.9	937.9
Gross margin	46.1%	45.1%	46.6%
EBITDA	510.9	581.1	668.2
EBITDA margin	30.5%	31.6%	33.2%
Net profit	360.2	401.9	478.0
Net margin	21.5%	21.9%	23.8%
EPS	3.6	4.0	4.8
DPS	1.8	2.0	3.0
Payout ratio	49%	50%	63%
EV/EBITDA	16.9x	15.8x	13.6x
P/E	22.2x	19.9x	16.7x
RoE	22.5%	22.2%	23.9%

Source: *Company data, Al Rajhi Capital*

Al Mouwasat Medical Services

Q3: Earnings largely in-line

Mouwasat's Q3 2019 net profit grew 15.0% y-o-y to SAR93.0 mn (broadly in-line with our estimate as well as consensus estimates), mainly driven by higher top-line, coupled with improved operating efficiencies. Q3 revenues came in slightly lower than our estimate, primarily due to slower than expected ramp-up of Khobar new hospital and addition of new specialized departments. However, this was more than offset by higher-than-expected overhead cost savings during the quarter, resulting into 16% y-o-y growth at the operating level. This, along with lower Zakat provision and minority interests had offset the higher interest costs resulting a good growth in bottom line. Going forward, we believe that slower occupancy growth will keep the company's top-line under pressure; however, improved pricing because of lower discounts and overhead cost savings may continue support the profitability. Post mostly in-line Q3 results, we maintain our TP at SAR89/sh. and rating as Neutral on the stock.

Revenue & Profitability: Q3 revenues rose 9.7% y-o-y, marginally below our estimate, largely on account of slower than expected ramp-up and addition of new specialized departments. Accordingly, gross margin narrowed by 150bps to 43.7% in Q3. However, the company managed to improve operating margin by 120bps to 23.6%, aided by cost savings measures. Further, lower minority interests and zakat provision pushed net profit higher by 15.0% y-o-y.

Figure 1 Mouwasat: Summary of Q3 2019 results

	Q3 2019	Q3 2018	Q2 2019	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	443	404	446	10%	-1%	466
Gross Profit	194	183	194	6%	0%	207
Gross Margin	44%	45%	43%	NA	NA	44%
Operating Profit	105.0	90.0	104	16%	1%	113
Net Profit	93.0	81.0	90	15%	3%	96

Source: Company data, Al Rajhi Capital

Valuation and risks: We expect the company's earnings to remain stable, on the back of better pricing due to lower discounts, offsetting slower pace of rise in occupancy rate across its hospitals. In the long-term, the company is expected to be benefited from the Dammam hospital and Jubail hospital expansions and new hospital opened in Khobar. Based on our weighted average valuation methodology of DCF (8.5% WACC, and 2.0% terminal growth) and relative valuation (Forward PE of 17.9x), our TP stands at SAR89 per/sh. and we maintain our rating on the stock as Neutral. Key upside risks are faster than expected ramp-up of khobar and better than expected pricing. Key downside risks are lower than expected utilization of hospitals and lower than expected pricing.

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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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