# Al Mouwasat Medical Services Co

**Retail – Industrial**
MOUWASAT AB: Saudi Arabia
20 August 2020

Al Rajhi Capital
الراجحي المالية

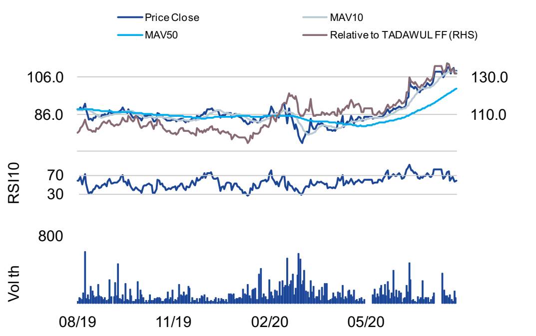
| US$2.922bn | 44% | US$2.430mn |
|---|---|---|
| Market cap | Free float | Avg. daily volume |

| | | |
|---|---|---|
| Target price | 123.0 | 12.2% over current |
| Current price | 109.6 | as at 18/8/2020 |

**Existing rating**

| Underweight | Neutral | Overweight |
|---|---|---|

**Performance**




**Earnings**

| (SARmn) | 2019A | 2020E | 2021E |
|---|---|---|---|
| Revenue | 1857 | 1934 | 2195 |
| Revenue growth | 11% | 4% | 13% |
| Gross profit | 829 | 905 | 1008 |
| Gross margin | 45% | 47% | 46% |
| EBITDA | 612 | 690 | 793 |
| EBITDA margin | 33% | 36% | 36% |
| Net profit | 421 | 513 | 611 |
| Net margin | 23% | 27% | 28% |
| EPS | 4.2 | 5.1 | 6.1 |
| DPS | 2.0 | 2.6 | 3.0 |
| Payout ratio | 48% | 51% | 49% |
| EV/EBITDA | 14.4x | 15.9x | 13.8x |
| P/E | 26.0x | 21.4x | 17.9x |
| RoE | 23% | 25% | 26% |

**Source:** Company data, Al Rajhi Capital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## Impressive results on cost control; TP raised to SAR123/sh

*Mouwasat reported earnings of SAR116mn, a rise of 27% y-o-y, as compared to our estimate of SAR81mn and consensus estimate of SAR83mn. The beat was due to higher revenue and lower operating expenses as well as a decrease in finance cost. The company reported revenue of SAR468mn, an increase of 5% y-o-y, primarily due to a rise in occupancy because of an increase in patient visits, driven by growth in referrals from the Ministry of Health. The combination of higher top-line and lower cost of sales resulted in the improvement in gross margin to 47% as compared to 44% in Q2 2019. Lower operating expenses in-line with the initiative to control costs benefited the company, which increased the operating margin to 28% from 23% in the prior-year quarter. Further, a decrease in financing cost boosted the bottom line, which improved 28% y-o-y. This resulted in higher net margin to 25% from 20% in the same period prior year. The Q2 performance is in-line with the industry, wherein, benefit from COVID-19 was witnessed along with improvement in costs. Further, the company outperformed significantly as compared to other major players in terms of gross and net margins during the quarter. Going forward, we believe that the COVID situation is returning to normalcy. On the other hand, the economies of scale are expected to continue and similar performance is expected. Post Q2 result, we have revised the target price to SAR123/sh from SAR109/sh and revised our rating to "Overweight" from "Neutral" on the stock.*

**Q2 results:** Q2 revenue came in at SAR468mn (5% y-o-y; -5% q-o-q). The y-o-y growth was mainly due to an increase in referrals from MoH and thereby, increase in occupancy. The cost of sales declined 1% y-o-y, which improved the gross margin to 47% from 44% in Q2 2019. This along with a decrease in operating expenses helped the company post improved operating and net margins, which came at 28% and 25% from 23% and 20%, respectively, in the prior-year quarter.

**Figure 1 Mouwasat: Summary of Q2 2020 results**

| (SARmn) | Q2 2019 | Q1 2020 | Q2 2020 | % chg y-o-y | % chg q-oq | ARC est |
|---|---|---|---|---|---|---|
| Revenue | 446 | 494 | 468 | 5% | -5% | 393 |
| Gross Profit | 194 | 221 | 219 | 13% | -1% | 171 |
| Gross Margin | 44% | 45% | 47% | NA | NA | 44% |
| Operating Profit | 104 | 123 | 131 | 26% | 7% | 92 |
| Net Profit | 91 | 108 | 116 | 27% | 7% | 81 |

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 based on 2% terminal growth and 7% WACC comes to SAR135/sh and P/E based relative valuation based on 24.5x multiple gives a target price of SAR126/sh. Thus, we have revised our target price for the company to SAR123/sh, an upside of 12.2%, which implies an "Overweight" 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 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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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company’s profits or operating performance exceed or fall short of our expectations.

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