

# National Medical Care Company

Healthcare – Industrial

CARE AB: Saudi Arabia

09 November 2020

الراجحي المالية  
Al Rajhi Capital



**US\$0.657bn** Market cap  
**9%** Free float  
**US\$3.755mn** Avg. daily volume

Target price **60.00** +9.3% over current  
Current price **54.90** as at 8/11/2020

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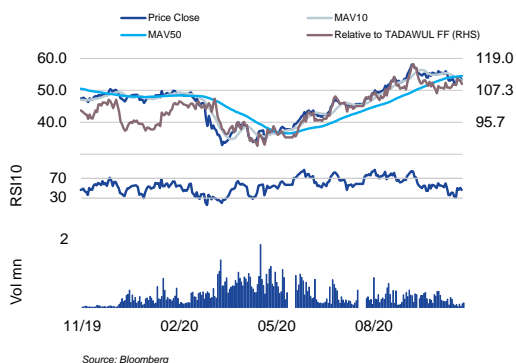
## Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

(SARmn)	2019A	2020E	2021E
Revenue	708	807	841
Revenue growth	-7%	14%	4%
Gross profit	166	220	235
Gross margin	23%	27%	28%
EBITDA	173	191	228
EBITDA margin	24%	24%	27%
Net profit	80	107	137
Net margin	11%	13%	16%
EPS	1.8	2.4	3.1
DPS	2.0	2.0	2.3
Payout ratio	112%	84%	73%
EV/EBITDA	8.0x	11.5x	9.5x
P/E	20.7x	23.1x	17.9x
RoE	8%	10%	13%

Source: Company data, Al Rajhi Capital

## National Medical Care Profitability impacted by provisions on receivables; TP at SAR60/sh

Care reported a 22.9% y-o-y growth in revenues at SAR213 mn and was higher than our estimates of SAR188 mn by 13.3%. Revenue growth was aided by growth in the number of patients and higher occupancy. Gross profits improved by 27.3% y-o-y and were aided by growth in revenues and the resulting improvement in operating leverage. Operating profits on the other hand increased by a lower 15.6% y-o-y and were impacted by higher provisions on receivables. Overall net income fell by 1.9% y-o-y to SAR16 mn and was also lower than our estimate of SAR28 mn by 41.5%. Despite the revenue growth, profitability was impacted by provisions on receivables. Apart from this, profitability was also impacted by lower investment income, due to lower interest rates, and lower rental income. Zakat charges too increased during the quarter due to a higher zakat base. Post Q3 result, we have revised the target price to SAR60/sh from SAR55/sh and reduce our rating at "Neutral".

**Q2 results:** Q3 revenue came in at SAR213mn (+22.9% y-o-y; 14.7% q-o-q) due to improvement in patient flow during the quarter. An increase in revenue and the resultant improvement in operating leverage aided the company post a better gross margin to 23.9% in Q3 2020 compared to 23.1% in Q3 2019. However, it was lower than 31.6% registered in Q2 2020. Net income was impacted by provisions on receivables, lower investment and rental income, and higher zakat, as it fell by 1.9% y-o-y and 36.7% q-o-q.

Figure 1 National Medical Care: Summary of Q3 2020 results

(SAR mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	213	186	174	23%	15%	188
Gross Profit	51	59	40	27%	-13%	55
Gross Margin	24%	32%	23%	NA	NA	29%
Operating Profit	23	30	20	16%	-24%	36
Net Profit	16	26	17	-2%	-37%	28

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 8.8% WACC comes to SAR52/sh and P/E based relative valuation based on 25x multiple gives a target price of SAR68/sh. Thus, we have revised our target price for the company to SAR60/sh, an upside of 9.3%, which implies an "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 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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