

Mouwasat posted net income of SAR 115.7mn (SAR 1.16 EPS), above our and the consensus estimate of SAR 77.2mn and SAR 83.1mn, respectively. Revenue growth was above our estimates, driven by the improved performance of the new specialized department, better utilization of operating resources, and increase in inpatient revenues. The company has surpassed our TP of SAR 100.3. We revise our recommendation to **“Neutral”** from **“Overweight”** on the stock, with revised TP at **SAR 110.4/share**, as we believe upside from current levels is limited.

- Mouwasat posted net income of SAR 115.7mn in Q2-20 (EPS of SAR 1.16), surpassing AJC's and the consensus estimate of SAR 77.2mn and SAR 83.1mn, respectively. The deviation of Q2-20 net income from our estimate is mainly ascribed to a higher-than-expected gross margin owing to lower labor costs and better cost control. Increase in inpatient revenue and continued effective utilization of resources also contributed to the rise in net income. Decrease in finance cost and lower Zakat provision also boosted net income.
- Mouwasat's sales in Q2-20 stood at SAR 468.4mn, reflecting an increase of 5.0% Y/Y, above our estimate of SAR 400.4mn. Revenue growth was driven by improved performance in the new specialized department, efficient utilization of available resources, and higher inpatient revenues. Growth in transfers of MoH drove higher occupancy in the inpatient department, which boosted the revenue.
- Gross profit stood at SAR 219.0mn, indicating a rise of 12.8% Y/Y. GP margin increased to 46.8% in Q2-20 from 43.5% in Q2-19, against our estimate of 41.9%. This was led by lower labor costs and a flexible operating model which enabled the company to control costs.
- Operating profit stood at SAR 131.2mn, depicting a surge of 26.1% Y/Y. The company saw a decline of 2.6% Y/Y in net OPEX to SAR 87.8mn in Q2-20 compared to our estimates of SAR 81.9mn and SAR 90.2mn posted in Q2-19.

AJC view: Mouwasat's overall results exceeded our expectations. However, we believe the net profit growth achieved in Q2-20 would not be sustainable in the LT, as margins could come under pressure, going forward, with capacity additions planned in FY-21. We believe a gradual increase in capacity would enable Mouwasat to capitalize on demand for additional beds. As about 90% of the company's patients are Saudi nationals, it faces minimal impact from the reduction of expats. The key challenge for Mouwasat would be to improve its utilization rate and maintain its GP margin, as other private companies also have expansion plans. We value Mouwasat on 50% weight for DCF (3.0% terminal growth and 5.9% average WACC), and 25% weight each for relative valuation based on P/E (24.7x FY21 EPS) and EV/EBITDA (14.7x FY21 EBITDA). These yield a TP of SAR 110.4/share, implying a 1.5% downside from the current level. The stock is currently trading at a P/E of 22.7x based on our FY21 EPS estimate. We remain positive on the stock from a LT perspective; however, an upside from current levels seems limited. Hence, we revise our recommendation to **“Neutral”** from **“Overweight”** on Mouwasat with a revised TP at **SAR 110.4/share**.

Results Summary

SARmn	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	446.3	493.9	468.4	5.0%	-5.2%	17.0%
Gross Profit	194.2	220.6	219.0	12.8%	-0.7%	30.6%
<i>Gross Margin</i>	<i>43.5%</i>	<i>44.7%</i>	<i>46.8%</i>	-	-	-
EBIT	104.0	123.0	131.2	26.1%	6.7%	52.7%
Net Profit	90.3	108.0	115.7	28.1%	7.1%	49.9%
EPS	0.90	1.08	1.16	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **110.4**

Upside / (Downside)* **-1.5%**

Source: Tadawul *prices as of 19th of August 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	1,857.2	1,959.3	2,142.8
Growth %	10.7%	5.5%	9.4%
Net Income	421.0	454.7	492.9
Growth %	16.9%	8.0%	8.4%
EPS	4.21	4.55	4.93

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	44.7%	45.4%	44.8%
Net Margin	22.7%	23.2%	23.0%
P/E	20.9x	24.6x	22.7x
P/B	4.5x	5.1x	4.5x
EV/EBITDA (x)	15.3x	17.9x	16.3x

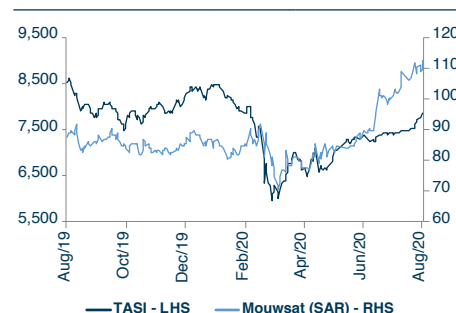
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	12.0
YTD %	27.3%
52 Week (High)/(Low)	113.8/68.3
Shares Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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