



Mouwasat posted a net income of SAR 93.0mn (SAR 0.93 EPS), above our and consensus estimate of SAR 84.8mn and SAR 90.7mn respectively. Revenue was in line with our estimates. The increase was driven by expansion of operation of the sub-specialties clinics and addition of new specialized department. We maintain our “**Overweight**” recommendation with a TP at **SAR 100.33/share**.

- Mouwasat posted net income of SAR 93.0mn in Q3-19 (EPS of SAR 0.93), surpassing AJC's and the market consensus estimates of SAR 84.8mn and SAR 90.7mn, respectively. The deviation of Q3-19 net income from our estimates is mainly ascribed to a higher than expected gross margin attributed to lower than expected cost of goods sold. Increase in revenue and continued effective utilization of resources also contributed to the rise in net income. New hospital at Khobar (opened in Q4-18) incurred a loss of SAR 15.1mn, in-line with the operational plan prepared for the hospital. Lower zakat provision also boosted the net income.
- Mouwasat's sales in Q3-19 stood at SAR 443.3mn, reflecting an increase of 9.7% Y/Y, in line with our estimate of SAR 456.9mn. Revenue increase was driven by expansion of operation of the sub-specialties clinics and addition of new specialized department.
- Gross profit stood at SAR 193.6mn, indicating a rise of 6.0% Y/Y. The GP Margin declined to 43.7% in Q3-19 from 45.2% in Q3-18 against our estimate of 42.0%. Operations at Khobar Hospital, which commenced in Q4-18 had an adverse impact on the margin, offset partially by continued use of available resources.
- Operating profit stood at SAR 104.7mn, depicting an increase of 15.8% Y/Y. The company witnessed a decline of 3.6% Y/Y in net OPEX to record SAR 88.9mn in Q3-19 compared to our estimates of SAR 94.6mn and SAR 92.2mn posted in Q3-18.

AJC view: Mouwasat's overall results exceeded our expectations. GP Margin and Operating profit were higher than our estimates, which resulted in higher net income. We expect the company to continue the positive momentum witnessed in Q3-19 into Q4-19, and tweak our FY-19 EPS estimate to SAR 3.82 from SAR 3.74 earlier. We believe a gradual increase in capacity would enable Mouwasat to capitalize on demand for additional beds. The majority (>90 per cent) of the company's patients are Saudi nationals. Hence, the company faces minimal impact of the reduction of expats. The key challenge for the company would be to increase its utilization rate and maintain its GP margin, as other private companies also have expansion plans. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), wherein 70% weight is assigned to the DCF and 30% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the two-year weekly beta is 0.82 and average WACC is 7.0%. The estimates yield a TP of SAR 100.33, implying an upside of 22.4%. We maintain our recommendation of “**Overweight**” on Mouwasat with a TP at **SAR 100.33/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	404.3	446.3	443.3	9.7%	-0.7%	-3.0%
Gross Profit	182.6	194.2	193.6	6.0%	-0.3%	0.8%
Gross Margin	45.2%	43.5%	43.7%	-	-	-
EBIT	90.5	104.0	104.7	15.8%	0.7%	7.5%
Net Profit	80.9	90.3	93.0	15.0%	3.0%	9.7%
EPS	0.81	0.90	0.93	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR) **100.33**

Upside / (Downside)* **22.4%**

Source: Tadawul *prices as of 24th of October 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	1,507.1	1,677.0	1,815.7
Growth %	21.2%	11.3%	8.3%
Net Income	336.7	360.2	382.2
Growth %	30.9%	7.0%	6.1%
EPS	3.37	3.60	3.82

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E
Gross Margin	47.3%	46.1%	44.1%
Net Margin	22.3%	21.5%	21.0%
P/E	22.5x	22.3x	21.5x
P/B	2.5x	4.7x	3.9x
EV/EBITDA (x)	17.1x	16.4x	15.0x

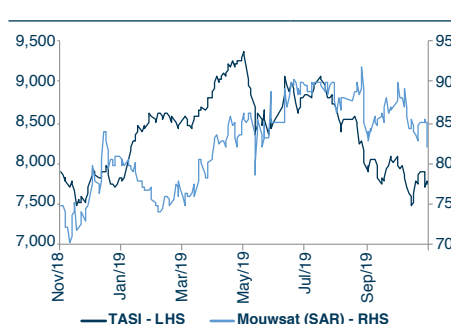
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	8.2
YTD %	+1.9%
52 Week (High)/(Low)	92.00/69.90
Shares Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060

a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage

Luay Jawad Al-Motawa

+966 11 2256277

l.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547

a.alrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers

Central Region, & acting head Western and

Southern Region Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364

s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068