

Healthcare

Middle East Healthcare Co.

Maintain HOLD: 12M TP @ 72

Valuation Summary (TTM)

Price (SAR)	70.0
PER TTM (x)	36.5
P/Book (x)	4.3
P/Sales (x)	2.5
EV/Sales (x)	2.9
EV/EBITDA (x)	18.0
Dividend Yield (%)	NM
Free Float (%)	43%
Shares O/S (mn)	92
YTD Return (%)	175%
Beta	0.9

(mn)	SAR	USD
Market Cap	6,443	1,718
EV	8,853	2,361

Price performance (%)	1M	3M	12M
Middle East Healthcare Co	6%	17%	158%
Tadawul All Share Index	4%	-3%	-1%
Industry Index	4%	-3%	-1%

Trading liquidity (.000)	1M	3M	6M
Avg daily turnover (SAR ,000)	43,599	35,140	51,317
Avg Daily Volume (.000)	613	554	813

52 week	High	Low	CTL*
Price (SAR)	80.40	25.00	180.0

* CTL is % change in CMP to 52wk low

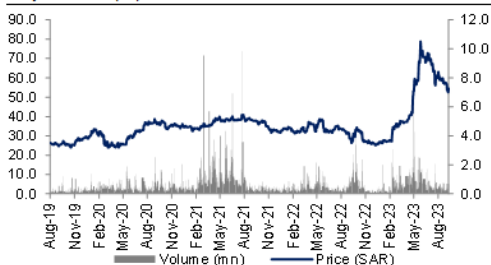
Major shareholders

Bait Al-Batterjee Me	55%
Vanguard Group Inc/T	1.8%
Batterjee Sobhi Abdu	1.0%
Others	42.6%

Other details

Exchange	Saudi Arabia
Sector	Healthcare-Services
Index weight (%)	0.1%

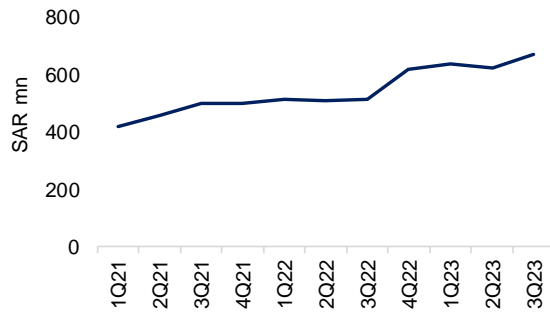
Key ratios	2020	2021	2022
EPS (SAR)	0.89	0.19	0.82
BVPS (SAR)	13.38	13.66	14.83
DPS (SAR)	0.00	0.00	0.00
Payout ratio (%)	0%	0%	0%



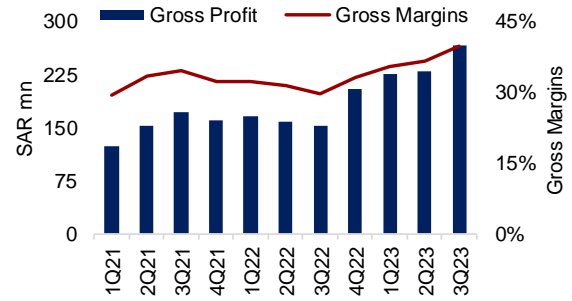
Middle East Healthcare Co. (MEHC) reported revenue at SAR671mn, which was higher by 31.0% YoY and was at the back of strong growth in patient volumes, for both inpatients and outpatients. The topline growth was aided by a 37.8% YoY and a 23.9% YoY growth in inpatient and outpatient revenue, respectively. Pharma revenue on the other hand grew by 24.8% YoY, and was buoyed by the strong growth witnessed in the hospital's performance. The revenue was slightly higher than our estimate of SAR651mn. Gross profit increased by 75.0% YoY to SAR266mn, and was aided by the improvement in revenue and gross margins (29.7% in 3Q22 to 39.7% in 3Q23). Both the inpatient (44.8% in 3Q23 vs 33.1% in 3Q22) and the outpatient (38.5% in 3Q23 vs 29.4% in 3Q22) segments witnessed an improvement in the margins. The gross margins of the pharma operation on the other hand improved to 20.6% in 3Q23 vs 14.8% in 3Q22. SG&A expenses increased by 24.9% YoY, at the back of higher administrative expenses, while finance expenses increased by more than 200% YoY to SAR55mn. Overall net income increased by a robust 379.9% YoY to SAR53mn and was higher than our expectation of SAR36mn. Better than expected gross margins was the main reason for the higher-than-expected net income, despite revenue coming close to our estimate. The current levels of gross margins are at a relatively elevated levels compared to the historical average of c.33% in the past four years. We do not expect the current levels of margins to be sustainable and expect it to moderate in the coming quarters. Apart from this, we also expect finance expenses to increase, as the company's new hospitals commences operation. On the back of the positive 9M23 numbers we revise our target price of MEHC upwards from SAR63/share to SAR72/share and maintain our rating at HOLD.

Strong expansion of facilities to aid revenue growth: The company established a new facility in Makkah with a licenced bed capacity of 300 beds in 2022, while it completed its 143 licensed bed and 160 clinics medical tower and bed expansion in Riyadh. It is currently undertaking a hospital renovation and tower expansion project in Jeddah, which will add 194 beds and 22 clinics to its existing facilities. These expansions will keep the revenue growth intact. However, we feel that the margins witnessed in 2023e are unsustainable and expect it to revert to its historical averages in the coming quarters. MEHC is currently quoting at c.38x its 2024e EPS, which we feel discounts most of the company's positives. Given this, despite an increase in target price to SAR72/share we maintain our rating at HOLD.

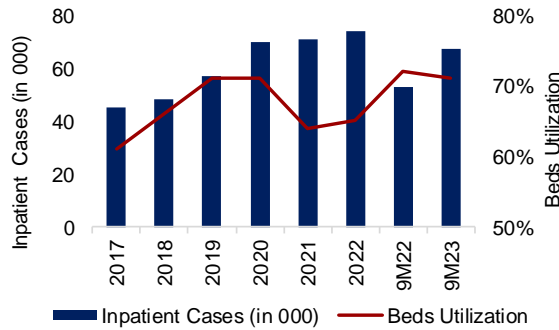
Revenue growth remains strong in 3Q23



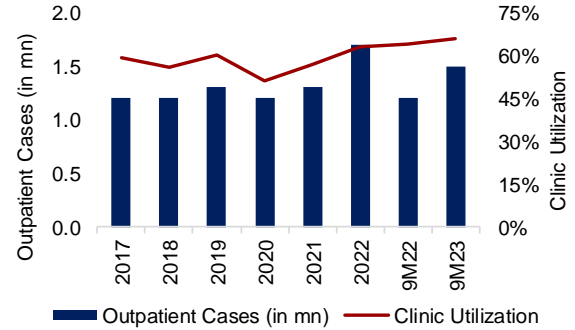
Gross margins higher than historical average



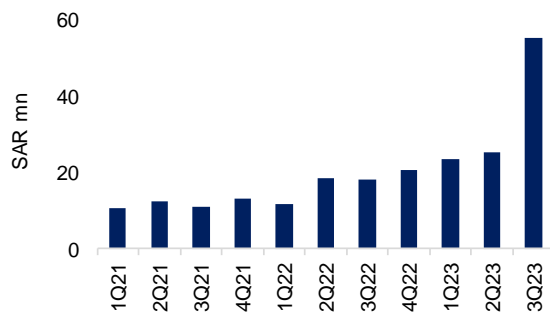
Higher inpatient flow aids in strong utilization of beds



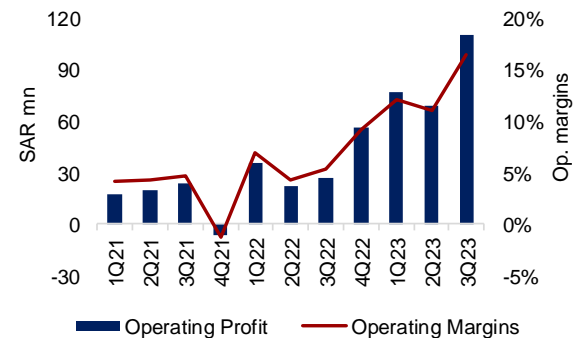
Outpatient flow and clinic utilization improves



Finance charges increases in 3Q23



Operating profits in 3Q23 higher YoY



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,497	1,751	1,873	2,152	2,603	3,066	3,217	3,561	3,755
Cost of sales	(1,024)	(1,172)	(1,264)	(1,472)	(1,637)	(2,084)	(2,169)	(2,430)	(2,530)
Gross profit	473	578	608	680	965	982	1,048	1,131	1,225
Operating expenses	(370)	(471)	(554)	(540)	(625)	(643)	(658)	(736)	(752)
Operating profit	103	107	54	140	341	338	390	395	472
Other income	17	7	12	10	14	14	15	15	15
Finance expenses	(25)	(34)	(47)	(69)	(159)	(166)	(132)	(99)	(71)
Earnings before tax	95	81	19	81	196	187	273	311	417
Tax	(5)	(6)	(8)	(10)	(17)	(14)	(16)	(19)	(21)
Earnings before MI	90	75	12	72	179	173	257	292	395
Minority interest	7	7	5	4	(5)	(5)	(8)	(9)	(12)
Net income	98	82	17	75	173	168	249	283	383

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Property and equipment	1,909	2,074	2,357	2,471	2,645	2,863	2,874	2,900	2,934
Other non-current assets	35	33	40	71	69	68	66	65	64
Total non-current assets	1,945	2,106	2,397	2,542	2,715	2,931	2,940	2,965	2,998
Trade receivables	1,109	1,236	1,282	1,635	1,938	2,237	2,299	2,492	2,571
Inventories	125	156	156	149	166	211	220	246	257
Cash and cash equivalents	54	17	28	16	16	23	85	45	214
Other current assets	74	85	112	157	190	224	235	260	275
Total current assets	1,361	1,493	1,578	1,957	2,311	2,696	2,840	3,043	3,316
Total assets	3,305	3,599	3,975	4,499	5,026	5,627	5,780	6,008	6,314
Share Capital	920	920	920	920	920	920	920	920	920
Total reserves	602	311	337	445	618	786	1,035	1,318	1,702
Minority interest	39	43	38	43	49	54	61	70	82
Total equity	1,562	1,275	1,295	1,408	1,587	1,760	2,017	2,309	2,704
Lease liabilities current portion	4	4	7	12	12	12	12	12	12
Short-term loans	357	675	904	991	1,206	1,411	1,442	1,437	1,476
Trade payables	337	359	302	426	474	603	627	703	732
Other current liabilities	123	149	157	202	260	327	340	379	394
Total current liabilities	821	1,188	1,370	1,631	1,951	2,353	2,421	2,530	2,613
Non-current lease liabilities	27	23	27	57	72	87	102	117	132
Loans and borrowings	643	847	1,028	1,181	1,193	1,205	1,017	830	642
Other non-current liabilities	252	267	254	223	223	223	223	223	223
Total non-current liabilities	923	1,137	1,310	1,460	1,488	1,515	1,342	1,169	997
Total Liabilities	1,744	2,325	2,680	3,091	3,439	3,867	3,763	3,700	3,610
Equity and liabilities	3,305	3,599	3,975	4,499	5,026	5,627	5,780	6,008	6,314

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	99	(229)	77	76	86	157	380	331	505
Cash from investments	(469)	(294)	(417)	(249)	(312)	(368)	(161)	(178)	(188)
Cash from financing	380	486	352	161	227	218	(157)	(193)	(149)
Net changes in cash	10	(37)	11	(13)	1	7	62	(40)	169
Closing balance (C/b)	54	17	28	16	16	23	85	45	214

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	1.1	0.9	0.2	0.8	1.9	1.8	2.7	3.1	4.2
BVPS	16.5	13.4	13.7	14.8	16.7	18.5	21.2	24.3	28.5
DPS	-	-	-	-	-	-	-	-	-
FCF/share	(4.0)	(5.7)	(3.7)	(1.9)	(2.5)	(2.3)	2.4	1.7	3.5
Revenue/share	16.3	19.0	20.3	23.4	28.3	33.3	34.9	38.7	40.8
Valuations									
M.Cap (SAR mn)	2,632	2,924	3,336	2,961	6,443	6,443	6,443	6,443	6,443
EV (SAR mn)	3,649	4,500	5,312	5,229	8,958	9,188	8,992	8,863	8,573
P/E	27.0	35.7	193.9	39.4	37.2	38.4	25.8	22.7	16.8
EV/EBITDA	18.1	19.2	27.1	18.3	18.1	18.2	16.1	15.7	13.4
EV/Sales	2.4	2.6	2.8	2.4	3.4	3.0	2.8	2.5	2.3
P/BV	1.7	2.4	2.7	2.2	4.2	3.8	3.3	2.9	2.5
P/S	1.8	1.7	1.8	1.4	2.5	2.1	2.0	1.8	1.7
Div. yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-14.1%	-17.9%	-10.2%	-5.9%	-3.5%	-3.3%	3.4%	2.4%	4.9%
Liquidity									
Cash Ratio	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Current ratio	1.7	1.3	1.2	1.2	1.2	1.1	1.2	1.2	1.3
Quick ratio	1.5	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.2
Return ratio									
ROA	3.0%	2.3%	0.4%	1.7%	3.4%	3.0%	4.3%	4.7%	6.1%
ROE	6.4%	6.7%	1.4%	5.5%	11.3%	9.8%	12.8%	12.7%	14.6%
ROCE	4.0%	3.8%	1.7%	3.8%	8.4%	7.6%	8.5%	8.4%	9.5%
Cash cycle									
Trade receivables	1.4	1.4	1.5	1.3	1.3	1.4	1.4	1.4	1.5
Inventory	8.2	7.5	8.1	9.9	9.9	9.9	9.9	9.9	9.9
Payable turnover	3.0	3.3	4.2	3.5	3.5	3.5	3.5	3.5	3.5
Receivables days	267	254	247	274	268	263	257	252	247
Inventory days	44	48	44	37	37	37	37	37	37
Payable days	119	110	86	104	104	104	104	104	104
Cash Cycle	192	192	205	206	200	195	190	184	179
Profitability ratio									
Gross margins	31.6%	33.0%	32.5%	31.6%	37.1%	32.0%	32.6%	31.8%	32.6%
EBITDA margins	13.5%	13.4%	10.4%	13.3%	19.0%	16.5%	17.3%	15.8%	17.1%
Operating margins	6.9%	6.1%	2.9%	6.5%	13.1%	11.0%	12.1%	11.1%	12.6%
PBT margins	6.4%	4.6%	1.0%	3.8%	7.5%	6.1%	8.5%	8.7%	11.1%
Net margins	6.5%	4.7%	0.9%	3.5%	6.7%	5.5%	7.8%	8.0%	10.2%
Effective tax rate	5.4%	6.8%	39.0%	11.8%	8.6%	7.5%	5.9%	6.0%	5.1%
Leverage									
Total debt (SAR mn)	1,031	1,550	1,967	2,240	2,482	2,715	2,573	2,395	2,261
Net debt (SAR mn)	978	1,533	1,939	2,225	2,466	2,692	2,488	2,350	2,048
Debt/Capital	39.8%	54.9%	60.3%	61.4%	61.0%	60.7%	56.1%	50.9%	45.5%
Debt/Total assets	31.2%	43.1%	49.5%	49.8%	49.4%	48.3%	44.5%	39.9%	35.8%
Debt/Equity	0.7	1.2	1.5	1.6	1.6	1.5	1.3	1.0	0.8
Debt/EBITDA	5.1	6.6	10.1	7.8	5.0	5.4	4.6	4.3	3.5
Net debt/EBITDA	4.8	6.5	9.9	7.8	5.0	5.3	4.5	4.2	3.2

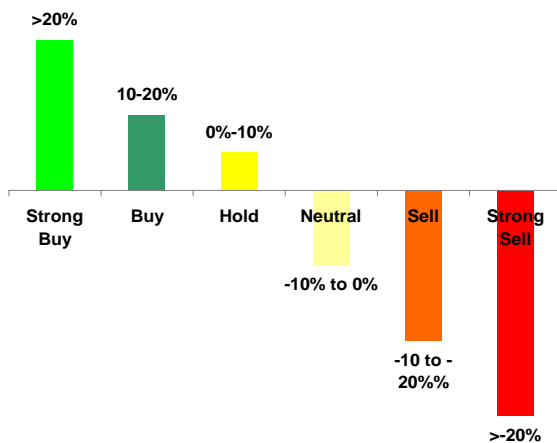
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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