



US\$0.561bn

Market cap

9%

Free float

US\$2.509mn

Avg. daily volume

Target price

44.00

16.3% below current

Current price

52.60

as at 5/5/2019

Research Department

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Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	2018E	2019E	2020E
Revenue (mn)	764	739	793
Revenue Growth	-11%	-3%	7%
Operating profit (mn)	88	115	124
OPM	12%	16%	16%
EPS	1.39	2.01	2.18
EPS Growth	-27%	45%	8%

Source: Company data, Al Rajhi Capital

## National Medical Care Q1: Beating estimates

National Medical Care (NMCC) reported healthy Q1 2019 net profit of SAR29.9mn (17% y-o-y), above our estimate of SAR22mn and consensus estimate of SAR21.8mn. However, top-line decreased to SAR179mn (-13% y-o-y, -1% q-o-q), in-line with our estimate. The pickup in bottom-line is primarily due to the improvement in gross profit margin (first time it reached this level of 26.8% since Q1 2016) as a result of cost saving initiatives implemented by the company during 2018, which is the main reason for the miss. Further, there was a support from reduction in general and administrative expenses due to renegotiated contracts and cost control. Moreover, Other income increased due to income generated from excess cash invested with various financial institutions. Meanwhile, the company is waiting for final approval from Ministry of Health to start its expansions, which is expected during Q2 2019. Going forward, we expect company to benefit in the medium term from NMC's (Dubai) expertise, given its international experience in operating hospitals. However, the positive effect of all these factors will take some time to reflect on financials. As such, we remain conservative on short-term prospects about the company even though we raise our TP to SAR44 per share, implying lower new expected cost levels.

**Revenue & Profitability:** Revenue came in at SAR179mn (-13% y-o-y, -1% q-o-q), in-line with our estimate of SAR180mn. The cost of operations dropped to reach 73% of revenue (82% in Q4 2018), as a result of the company's cost saving initiatives undertaken at the end of 2018. Consequently, this lifted gross and operating margins to a high level of 26.8% (17.6% in Q4 2018) and 20% (7.1% in Q4 2018), respectively.

Figure 1 NMCC: Summary of Q1 2019 results

(SAR mn)	Q1 2019	Q1 2018	Q4 2018	% chg y-o-y	% chg q-o-q	ARC est
Revenue	179	207	182	-13%	-1%	180
Gross profit	48	52	32	-7%	50%	32
Gross profit margin	27%	25%	18%	N/A	N/A	18%
Operating profit	36	32	13	13%	181%	29
Net operating margin	20%	16%	7%	NA	N/A	N/A
Net profit	30	26	5	17%	472%	22.4

Source: Company data, Al Rajhi Capital

**Conclusion & valuation:** NMCC was able to post a decent profit despite weakness in top-line as result of cost optimization initiatives implemented last year. Our main concern yet is the high level of receivables (SAR528mn in 2018) as almost half of its revenue comes from government. On the other hand the cash position for the company is solid. Post Q1 results, we revise our forward looking estimates based on equal mix of DCF valuation (8.5% WACC, 2.5% terminal growth) and relative valuation (25x forward PE), our target price stands at SAR44/share, implying a downside of 16.3%. Consequently, our rating is "Underweight" on the stock.



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