National Medical Care Co

Healthcare : Industrial
CARE AB: Saudi Arabia
14 May 2023

US$1.132bn	50.78%	US$4.99mn
Market Cap	Free Float	Avg. Daily Volume

Target price	97.00	1.0% below current
Current price	98.00	as at 14/05/2023

Existing rating

Underweight | **Neutral** | Overweight

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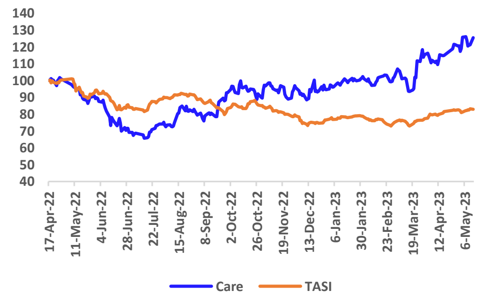
Performance (Rebased to 100)



Earnings

(SARmn)	2022A	2023E	2024E
Revenue	918	1,071	1,185
Revenue growth	9%	17%	11%
Gross profit	290	354	385
Gross margin	32%	33%	33%
Operating Profit	189	235	252
Op. margin	21%	22%	21%
Net profit	170	210	221
Net margin	19%	20%	19%
EPS	3.79	4.69	4.92
Adjusted EPS*	NA	4.33	4.52
DPS	1.00	1.00	1.25
Payout ratio	26%	21%	25%
EV/EBITDA	17.7x	13.6x	12.3x
P/E	25.8x	20.9x	19.9x
Adjusted P/E	NA	22.6x	21.7x
RoE	13.5%	14.9%	14.1%

Note: *Adjusted EPS includes normalised credit loss provision
Source: Company data, Al Rajhi Capital.

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Strong beat in Q1, target price raised

Care's Q1 2023 results were much ahead of our expectations led by both high utilisation levels as well as better pricing (MOH pricing improved). Given that Q4 2022 utilization level for both the Care's hospitals were already at 94% and Q4 has typically been the best quarter seasonally, further improvement in Q1 sales is indeed surprising. The sequential growth not only for Care, but also for other hospital operators that have reported so far is surprising and indicates the strong demand for healthcare demand driven by influx of expats in the last six months or so and improving penetration of insurance led by private employment among the locals. Care is highly levered to the return of expats, (mostly class B and C), which in our view is driving the topline. What we got wrong is the impact of return of expats on Care's earnings and the measures taken by the management to improve the efficiency. Post the strong Q1 results, we raise our estimates for 2023 as well as 2024 as we believe the HIMSS accreditation will help the company to improve revenue per patients. Further, we now consider utilisation levels to stay elevated (above 90%) in the near term due to strong influx of expats. Based on our updated estimates, our new target price is SAR 97/share, implying -1.0% from the current share price level. Thus, we maintain our neutral stance. Although, we raise our earnings estimates, we continue to believe that the company should trade at a discount to its peers (factors mentioned in our note published on 27th March 2023) mainly due to its weak future growth prospects versus peers.

Q1 2023 results: *Topline grew by 24% y-o-y and 4% q-o-q, led by higher MoH and GOSI patients. Higher MOH billing was due to Care's facilities achieving HIMSS accreditation. Revenues of SAR 261mn were 8% ahead of our estimates and 7% above consensus (Argaam). Given the sticky nature of the cost, higher revenues translated into solid gross and operating margins. Gross margins came in at 34.4%, expansion of 530 bps y-o-y and 310 bps q-o-q and were above our estimate of 31%. Moreover, operating margins also benefitted from the strong topline, and came in at 24% (+676 bps y-o-y, flat q-o-q), ahead of our expectations of 19%. Net profit of SAR 56.3mn (+88% y-o-y) was a strong beat versus our expectations of SAR 43mn.*

Figure 1 **Q1 2023 Earnings Summary**

(SAR mn)	Q1 2023	Q4 2022	Q1 2022	Q1 2021	ARC Est.	q-o-q	y-o-y	% chg vs 2021	vs ARC
Revenue	261	252	211	214	242	4%	24%	22%	8%
Gross Profit	90	79	61	64	74	14%	46%	41%	21%
G. margin	34%	31%	29%	30%	31%				
Op. profit	63	61	37	42	46	4%	71%	50%	38%
Op. margin	24%	24%	18%	20%	19%				
Net profit	56	55	30	36	43	1%	88%	57%	32%
Net margin	22%	22%	14%	17%	18%				

Source: Company Data, Al Rajhi Capital

Valuations: We value Care at a P/E multiple of 22x on its adjusted EPS for 2023/2024 (blended average). We are adjusting for the increase in credit loss provisions if the company treats GOSI receivables in the similar way as it treats other entities. We see Hammadi as the right comparable for the company. We assign a discount of 25% to our target multiple for Hammadi of 29.5x, that results in the 22x P/E multiple for Care. Based on the relative valuation methodology, our fair value for Care is SAR 97/share, that implies a downside of 1.0% from the current levels. Thus, we maintain our neutral recommendation on the stock.

Figure 2 **Valuation**

Relative valuation methodology	
Forward P/E	*22.0x*
2023e/2024E adj. EPS	4.4
Value per share	**97**
CMP (as of 27 March 2023)	98
Upside/(Downside)	**1%**

Source: Al Rajhi Capital Estimates

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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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