National Medical Care Co. (Care)

Result Flash Note 4Q-2017 **January 2018**

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Care reported Q4-2017 earnings in-line with AJC estimates and consensus. Net income came at SAR 30.67mn (SAR 0.68 EPS) against our estimates of SAR 28.6mn. The deviation is mainly due to slightly higher than estimated top-line growth. The company announced the collection of around 47.4% of outstanding receivables, easing a major pressure point. The collection sets the tone for the potential of lower provisions going forward, a move from the previously conservative approach on receivables. We update our recommendation to "Overweight" with a PT of 54.7 SAR per share.

- Care's Q4-2017 earnings came in line with estimates for the quarter. Net income came at SAR 30.67mn (EPS SAR 0.68), compared to a SAR 69.7mn loss for the same quarter last year. The quarter marks the end of Care's conservative policy in forming provisions for doubtful debts and sets the tone for provisions going forward. The slight deviation from estimates is mainly due to: i) Higher than expected top-line. ii) Higher than estimated gross margins.
- Revenue for the quarter stood at SAR 225.7mn compared to SAR 190mn for the same quarter last year; an increase of 18.8% YoY and 8.3% QoQ. It is worth noting that on an annual basis, Care recorded a 5.2% YoY decline in revenues which can be mainly attributed to a weak H1-2017 revenues due to a revision in list of prices implemented by a major governmental client compared to the year earlier. We reiterate our positive note on revenues, revenue trajectory is expected to continue the positive trend going forward, supported by H1-2018 expansion plans. Revised FY2018 revenues are estimated at SAR 980.5mn (14.9% YoY).
- Given the low base recorded in Q4-2016, we should note that comparisons on a YoY basis in income lines below revenue are not meaningful. Gross profit for the quarter stood at SAR 54.9mn compared to SAR 4.8mn for the same quarter last year and SAR 46.9mn last quarter, depicting a 1,029% increase YoY and 16.9% QoQ. Gross margins for the quarter stood at 24.3% compared to 22.5% last quarter, marking a 178bps expansion in margins QoQ. Operating Income stood at SAR 34.5mn for the quarter, posting a 16.1% growth QoQ. Operating margins for FY2018 are estimated to expand 110bps.

AJC view: We reiterate our view on healthcare sector receivables, the pressure is expected to ease going forward. A deceleration in the conservative approach on receivables is expected to carry on throughout FY2018 for companies with high receivables concentration. Care announced the recovery of 47.4% of receivables, of which SAR 210.3mn are from a major client. Total receivables stand at SAR313.5mn compared to SAR 596.5mn prior to the recovery. At this level, receivables as a % of T12 sales stands at 36.7%, below sector average, easing a major ST pressure point for the company. As a result, Care has room for capital allocation; expansion through leverage and the ability to pay dividends (no dividends were paid for FY2016) are back on the table. Going forward, Care is expected to slow down the formation of provisions throughout FY2018. The impact of MOH price revisions and broad pricing pressure on revenues are estimated to stabilize at the current levels. We should note that the company still holds a relatively unfavorable client mix compared to the sector. A higher than estimated receivables buildup throughout FY2018 remains as the main downside risk to valuation. Revised FY2018 EPS stands at SAR 2.60 per share. The company currently trades at an estimated forward PE multiple of 19.1x compared to a sector TTM PE of 22.9x. We update our recommendation to **"Overweight"** with a PT of **SAR 54.7** per share.

Results Summary

SARmn (unless specified)	Q4-2016	Q3-2017	Q4-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	190.0	208.3	225.7	18.8%	8.3%	6.9%
Gross Profit	4.86	46.79	54.91	1,029%	16.9%	16.7%
Gross Margin	2.5%	22.4%	24.3%	-	-	-
EBIT	-59.8	29.7	34.5	-	16.1%	-
Net Profit	-69.7	26.9	30.6	-	13.6%	7.2%
EPS	**-**	**0.60**	**0.68**		-	-

Source: Company reports, Aljazira Capital

Recommendation	**Overweight**
Current Price* (SAR)	49.7
Target Price (SAR)	**54.7**
Upside / (Downside)	**10.1%**

Source: Tadawul *prices as of 30th of January 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	900.6	853.0	980.5
Gross Profit	204.6	193.3	222.3
Net Profit	49.3	92.7	116.8
EPS	1.10	2.07	2.60

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2,229.0
YTD %	**13.78%**
Shares Outstanding (mn)	44.85
52 Week (High)	57
52 Week (Low)	31.7

Source: Company reports, Aljazira Capital , Bloomberg

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	22.7%	22.6%	22.6%
Net Margin	5.4%	10.8%	11.9%
P/E	59.9x	24.0x	19.1x
P/BV	3.2x	2.2x	2.3x
Dividend Yield	-	2.0%	2.0%

Source: Company reports, Aljazira Capital , Blomberg * Adjusted price

Price Performance

Source: Bloomberg, Aljazira Capital

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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