National Medical Care Co.(CARE)

Result Flash Note 3Q-19

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

National Medical Care Company (Care) posted net income of SAR 16.6mn (SAR 0.37 EPS), in line with our estimate of SAR 15.8mn and above the consensus estimate of SAR 13.4mn. Revenue exceeded our estimates due to higher than expected average revenue per bed. The GP margin expansion can be attributed to cost rationalization measures undertaken by the company. We maintain our recommendation of "**Neutral**" on the stock with a TP of **SAR 58.60/share**.

- Care posted net income of SAR 16.6mn in Q3-19 (EPS of SAR 0.37), in line with AJC's estimate of SAR 15.8mn and above the market consensus estimate of SAR 13.4mn. The net income increase of 45.4% Y/Y was driven by reduced operating costs (manpower, consumables and pharmaceuticals) and lower provision for credit losses. The reduced operating costs can be ascribed to cost rationalization measures undertaken by the company. The surge in revenue and continued effective utilization of resources also contributed to the rise in net income. A higher zakat charge partially offset the increase achieved from items mentioned above.
- Care's sales in Q3-19 stood at SAR 173.5mn, reflecting a decrease of 1.6% Y/Y, above our estimate of SAR 158.6mn. The revenue decline was mainly due to the lower number of patients, especially those relating to the Occupational Hazard Contract with GOSI, and a drop in Ministry of Health (MoH) cases accepted by the company.
- Gross profit stood at SAR 40.1mn, indicating a rise of 20.9% Y/Y. The GP Margin climbed to 23.1% in Q3-19 from 18.8% in Q3-18 against our estimate of 21.5%. Cost rationalization measures led to lower operating costs (manpower, pharmaceuticals and consumables), which boosted the GP Margin.
- Operating profit stood at SAR 23.0mn, depicting an increase of 30.8% Y/Y. Net OPEX grew 9.8% Y/Y to SAR 17.1mn in Q3-19 compared to our estimates of SAR 12.4mn and SAR 15.6mn posted in Q3-18.

AJC view: Care's net profit was in line with our expectations. However, the expansion in the GP and operating margins beat our expectations, and represent positive signs for the company going forward. Despite lower volume of patients, the decline in Y/Y revenue was minimal which is noteworthy. We maintain our EPS estimate for FY19 at SAR 1.65, but tweak our revenue estimate for the year to SAR 695.7mn from SAR 674.1mn. In the medium term, improvement in margins through cost-control measures, revenue growth through capacity addition at CNH, and benefits accruing from NMC Health's expertise are expected to be the key drivers of the company's growth. A high percentage of receivables from government and semi-government entities (66% of receivables in FY18) remain a major concern for the company. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), where 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 0.80 and average WACC is 6.8%. We maintain our recommendation of "**Neutral**" on Care with a TP of **SAR 58.60/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	176.4	169.9	173.5	-1.6%	2.1%	9.4%
Gross Profit	33.2	38.3	40.1	20.9%	4.8%	17.6%
Gross Margin	*18.8%*	*22.5%*	*23.1%*	-	-	-
EBIT	17.6	20.3	23.0	30.8%	13.7%	5.8%
Net Profit	**11.4**	**13.8**	**16.6**	45.4%	20.5%	5.4%
EPS	0.26	0.31	0.37	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	**58.60**
Upside / (Downside)*	**26.5%**

Source: Tadawul *prices as of 06rd of November 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenues	855.1	763.8	695.7
Growth %	-5.1%	-10.7%	-8.9%
Net Income	85.3	62.2	74.1
Growth %	69.7%	-27.1%	19.1%
EPS	1.90	1.39	1.65

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E
Gross Margin	22.9%	21.8%	23.4%
Net Margin	10.0%	8.1%	10.6%
P/E	22.9x	36.3x	31.8x
P/B	2.0x	2.3x	2.3x
EV/EBITDA (x)	11.8x	13.0x	12.4x

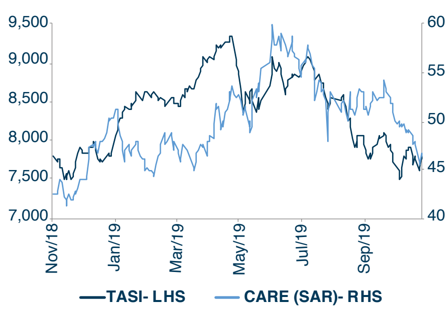
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.1
YTD %	-8.0%
52 Week High/ Low	41.00/60.90
Shares Outstanding (mn)	44.9

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, 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.