



## EVENT FLASH

## Record-high quarterly net income

Mouwasat reported a strong set of 4Q17 results with a net income of SR98.5mn, increasing 30.2% YoY. This is significantly higher than the NCBC estimate of SR86.4mn. The variance in the results is due to the strong revenue, which grew 20.2% YoY driven by higher than expected bed utilization rate. The stock currently trades at 2018 P/E of 24.4x, a premium to the sector P/E of 23.2x.

- Mouwasat reported a strong set of 4Q17 results, with a net income increasing 30.2% YoY (28.4% QoQ) to SR98.5mn. This is the highest quarterly earnings on record. This is significantly higher than the NCBC and consensus estimate of SR86.4mn and SR87.3mn, respectively. We believe the variance in the results is due to strong revenue, which grew 20.2% YoY and was higher than our estimate by 14.5%. The strong revenue is supported by higher than expected bed utilization rate and higher average prices.
- Revenue stood at SR431mn in 4Q17, an increase of 20.2% YoY and 20.0% QoQ. This is significantly higher than our estimates of SR377mn. The company attributed the growth in revenue to the improvement in utilization rates and better contractual agreements with key clients. We believe bed utilization rate stood 71% in 4Q17 vs. our estimate of 69%. This is also higher than 3Q17 level of 66%.
- The company reported a gross profit of SR211mn, an increase of 24.8% YoY and 28.3% QoQ. The gross margin expanded 184bps YoY to 48.9% in 4Q17. This compared to our estimates of 46.4% and 45.7% in 3Q17. We believe the expansion in gross margin is due to the improvement in overall utilization rate driven by the revamp in Jubail hospital's operations. In May 2016, the additional capacity (100 beds) to Jubail hospital commenced operation.
- Operating income grew by 28% YoY to SR108mn. The variance in operating income vs. our estimate has contracted to 15.6% on higher Opex. Opex-to-revenue stood at 23.8%, compared to 3Q17 level of 21.8% and our estimate of 21.5%.
- We are Neutral on Mouwasat with a PT of SR150.3. The stock's key positive is the on-going expansions which will increase its bed capacity by 56% by 2021E. However, the decline in health insurance GWPs is a cause of concern as it can negatively impact revenue growth going forward. The company trades at a 2018 P/E of 24.4x, a premium to the sector P/E of 23.2x. We believe the stock is fairly valued at the current level.

## 4Q17 Results Summary

SR mn	4Q17A	4Q16A	% YoY	4Q17E	%Var^	% QoQ
Revenues	431	359	20.2%	377	14.5%	20.0%
Gross income	211	169	24.8%	175	20.6%	28.3%
Gross margin (%)	48.9%	47.1%	184bps	46.4%	249bps	318bps
Operating income	108	84	28.3%	94	15.6%	26.2%
Operating Margin (%)	25.1%	23.5%	159bps	24.9%	25bps	124bps
Net income	99	76	30.2%	86	14.1%	28.4%
Net Margin (%)	22.8%	21.1%	176bps	22.9%	(9)bps	150bps
EPS (SR)	2.0	1.5	30.2%	1.7	14.1%	28.4%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts;

## NEUTRAL

**Target price (SR)** 150.3

**Current price (SR)** 167.6

**Upside/Downside (%)** (10.3)

## STOCK DETAILS

M52-week range H/L (SR)	182/139
Market cap (\$mn)	2,233
Shares outstanding (mn)	50.0
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.8)	6.7	18.0
Rel. to market	(8.6)	(2.5)	4.1

Avg. daily turnover (mn)	SR	US\$
3M	5.8	1.5
12M	4.4	1.2

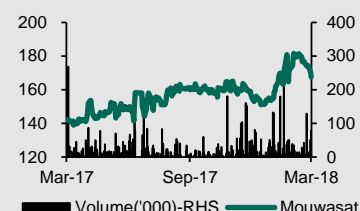
Reuters code	4002.SE
Bloomberg code	MOUWASAT AB
	www.mouwasat.com

## VALUATION MULTIPLES

	17A	18E	19E
P/E (x)	26.0	24.4	23.7
P/B (x)	5.9	5.2	4.6
EV/EBITDA (x)	20.3	19.0	17.9
Div Yield (%)	1.7	2.0	2.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**NCBC Investment Ratings**

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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