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Operator: Good day, everyone. Welcome to the Saudi German Hospitals 3Q 2019 Results Call.
Today's conference is being recorded. At this time, I'd like to turn the conference over to Miss Nada Amin. Please go ahead, ma'am.

Nada Amin: Thank you. Hello everyone. My name is Nada Amin. I'm from EFG's consumer and healthcare team. Thank you for taking the time to dial into today's call. It's our pleasure to be hosting Saudi German Hospital MEAHCO 3Q 2019 Results Call. From the company's management on the line today, we have Dr. Ahmed Shebl the company's CEO; Mr. Madani Hozaien, and Mr. Khaled Sadek, the company's Director of Strategic Planning, and Investor Relations. Khaled, please go ahead.

Khaled Sadek: Thank you, Nada. Good day, everyone and thank you again for joining me for our 3Q 2019 Results Conference Call. I will run you briefly through our results and recent developments and then we'll be happy to take any questions. As you can see from the numbers, the third quarter showed significant recovery in profitability driven mainly by health topline growth and cost control initiatives.

Net profit for the quarter grew by 65% year on year to SAR 33 million while revenue was up 14% year on year to SAR 386 million. On the group level, the number of inpatients increased by 29% and outpatients by 8%. Insurance remains the most contributor to the topline with 49% contribution, followed by MOH at 27%, and cash at 19%. The improvement in both revenue and profitability was driven mainly by the recovery in Jeddah and Medina operations.

Meanwhile the Riyadh Hospital showed single-digit bottom line growth, while still our profitability was pressured. On the other hand, high yield end over the clinics remain loss making with a combined net loss of SAR 3.9 million. And overall per[?] region, wages well for the group increased mainly on new hires. I will now hand over to Dr Shebl to update you on the latest developments. Dr Shebl, please go ahead.

Ahmed Shebl: Thank you, Khaled. As we communicated previously, we have taken a number of initiatives about the management ongoing, restructuring and strategy, and cost rationalization plans which will start driven[?] benefit hopefully by next year. We hired a new Chief of Patients Relations to improve patient experience. We started a VIP club program in Jeddah and Riyadh to attract VIP and A clients by facilitating their services.

And we are currently implementing the same concepts across all hospitals. On managing the salaries and wages, we really started talent – started to present talent in the group, and accordingly decided to lay off underperforming employees, and that's above the age of 60. We're also working on an offshore project to mobilize most support function and shared services to Egypt and the Philippines to cut costs.

Another key thing is that we successfully obtained the CAP accreditation, this CAP accreditation for laboratory services in Medina and the high-end hospitals which should directly reflect positively on our pricing with MOH. Finally construction for Dammam hospital is 100% completed. And we are waiting for the final approval to start operations. Our sales team already started talks with several insurance companies who kickstart operations in Dammam. Now, I'll hand to Mr Madani Hozaien, our Group CFO for the latest on cash management.

Madani Hozaien: Thank you, Mr Shebl, and hi everyone – everybody. Actually, on cash management we succeeded to manage to raise more facilities with a lot of favorable terms and renegotiated all debt and facilities with our current bank. We started to renegotiate our terms of supplier for better

discounts against cash payments which will reflect on cash savings as the – for both Opex and Capex.

We also have a relationship[?] to appoint McKenzie based on [inaudible] to standardize and restructure the group procurement and supply chain functions. We negotiated to collect – we managed to collect around SAR 341 million from MOH to date which covering invoices till July 2019 for selected hospitals. As we stand almost 55%, our receivables are related to MOH, and 30% to insurer companies.

Lastly, we are reassessing the group's Capex plan to ensure any required Capex as a valid feasibility study. I think that concludes it from the management side. And we're open to any questions. Thank you.

Nada Amin: Alan, can we please open the floor for questions?

Operator: Certainly. If you'd like to ask a question at this time, please signal by pressing star one on your telephone keypad. If you're using a speakerphone please make sure that your mute function is turned off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when your line is open. Once again, that is star one if you'd like to ask a question. We'll pause for just a moment to everyone the opportunity to signal. All right one more time, that is star one if you'd like to ask a question. We'll pause for just another moment. We'll take our first question from Jagdish Bathija with Lazard Asset Management.

Jagdish Bathija: Hi, thank you for hosting the call. I have a couple of questions, the first one being towards receivables. What's the current outstanding? How much of that would be government and aging if possible? And last five quarters we've seen cost continuously increase, and do we see these costs stabilizing now? And if that, what is the operating leverage we can expect? Thank you.

Speaker: Actually, the backlog for MOH is around SAR 600 million. And this is a net amount of provisions. The total receivables is around SAR 1.1 million – SAR 1.1 billion, over which SAR 600 million is MOH. We provide provision according to an aging receivable with fixed formulas since a long time. The ones we collect, we reverse any additional provision. MOH started to pay more efficiently this year than last year.

However, we collected as Khaled said since July this year for all invoices concerning 2019. Some of the invoices concerning 2018 are not yet paid as MOH is waiting for release of funds from the Ministry of Finance.

Jagdish Bathija: Okay.

Speaker: This is the question or you need something more?

Jagdish Bathija: No, I am fine. I think I am good. Thank you. Secondly the SG&A and we've seen in the last few quarters it's been on the rise. Do we see this can now stabilize, and what's happening to the average realizations per patient?

Speaker: Yeah, actually during the last – during this year, we had a lot of initiative not to cut cost but to optimize costs and to cut any additional cost that has no value. We concentrate on the operational costs and operational needs only. Any additional costs that has no value is completely cut.

Jagdish Bathija: All right. Thank you.

Speaker: Thank you very much.

Operator: All right, once again that is star one if you'd like to ask a question. We'll next go to Beshayer Alhoraish with Riyadh Capital.

Beshayer Alhoraish: Hello, everyone. I would like to ask about your outlook on the sector so for the next year from healthcare perspective and also from insurance, as we can see insurance companies are getting well this year hopefully. And so, we would like to know your – how would it be reflected in your performance? Thank you.

Speaker: [inaudible]. Thank you for the question. Our direction in 2020 and years after, that we would invest more with insurance companies. Especially we found day by day that already that a number of insured [inaudible] came higher with corporate clients like KOSI[?], like KECO Saudi Electricity Company, and of course as we know Aramco use Bupa as a TBA. And most of the big corporate clients of Saudi [inaudible] already saw insurance either direct or through TBA.

Our insurance segment, we target for the insurance segment to increase it for the coming at least three years. The business in MOH, we found it as an opportunity. But we need to balance this, make a balance between all business segments, maybe to reduce a little bit our business with the MOH because of delays in collection and increase the receivables. And also, we'll invest in cash. Cash when I mentioned, cash I mean civil workers in Saudi Arabia, those people still work in those ministry like Ministry of Finance, Ministry of Defense, Interior, Municipality and so on.

Also, our plan for [inaudible] cash – more cash promotion campaigns targeting the most frequently-used services. And as all of you know that the market in Saudi Arabia is cash driven. So, this is our direction in the coming year and at least the coming three years.

Beshayer Alhoraish: I'd like to ask another question if I may.

Speaker: Yes, please.

Beshayer Alhoraish: Yeah, I just would like to your guidance for 2020?

Speaker: Actually 2020, we are in the full – you can say we are still in the expansion phase. We will have our Dammam branch opening within a few – two or three weeks, maximum. We expect next year to have an increase in capital of around 10% – increase of sales sorry of around 10%. We expect to have an increase – an EBITDA in the range of 20%.

Beshayer Alhoraish: Okay. And how about the dividends? Any –

Speaker: Actually, we're still sorting dividends and we will be able to speak about it very shortly, Inshallah.

Beshayer Alhoraish: Okay, thank you very much.

Speaker: You are welcome.

Operator: All Right. Next we'll go to Alowi Alimirah with Morgan Stanley.

Alowi Alimirah: Thank you for the call and for the presentation. I have two questions. So, can you please provide more details about the performance of your hospital in different regions? So, you mentioned Jeddah[?] and Dammam are doing well. Can you provide more reasons why they are doing well, and [inaudible] etc. That's the first question.

And the second question is that you mentioned Bupa with Aramco, so before, did you guys have clients from or patients from Aramco Electricity or yes, this is something no that with Bupa or other insurer that you are getting traffic from here?

Speaker: Thank you. For the first question, we – yeah, we will put aside the first half of the year results, but we see that the third quarter and we expect fourth quarter also and later on to have better results in all our branches. Dammam will start operations within two weeks as we say. And for the first time, not only in MEAHCO, but maybe in the Kingdom. We have an opening of a branch with full range of revenues, cash and [inaudible].

We used to have our openings only with cash revenues only. Dammam will start insurance and credit revenues starting from the first day. And by Q1 2021 or beginning of 2021, Q2 2021 we will start our business in Mecca also. For the revenues of Aramco or any insurer – any public-sector companies that went under insurance, yes, we have – we are receiving customers for Aramco in our branches in Jeddah and Riyadh.

And we have a special deck for Aramco customers in both Jeddah and Riyadh. These customers comes with the Bupa insurance card. And they have this privilege to have their desk in our hospitals. Our sales team actually when they deal with insurance companies, they do not deal with Bupa directly only.

But then also we have sub-accounts under every insurance company where our team are promote – our sales team are promoting the services with the customers of the insurance companies, especially the big customers like Aramco, like Saudi Airlines and others. So, we have always events in these – at the premises of these customers, we have good relations, and people that are leaving with the VIP – the big customers that are covered by insurance companies.

Alowi Alimirah: Okay, thank you.

Speaker: You are welcome.

Operator: All right. We'll next go to Naveed Ahmed with GIB Capital.

Naveed Ahmed: Hello. Good afternoon. Thank you so much for the call and the presentation. The question that I would like to ask is related to your cash flows. Within the cash flows, we can see that there have been reversals of against credit losses amounting to about SAR 16 million for the first nine months. And if we compare the June and the September numbers, this reversal has increased by about SAR 11 million, which basically implies that although your revenues were up during the quarter, you also benefited by about SAR 11 because of these reversals, which hence the bottom line would have been flat year on year. So, can you just elaborate whether our understanding is correct and how should we treat these reversals going forward? Thank you.

Speaker: Actually, when we speak about the reversals of – you speak about the reversal of provisions, yes?

Naveed Ahmed: Yes, that's correct.

Speaker: When we have overdue payments more than a year of MOH, normally we provide a provision for it. When[?] this is collected, this provision is reversed. And this is normal, but what we say – and this is done in on a monthly basis actually. On a monthly basis, we review the provisions according to the balance, the closing balance of the month. And it is done automatically, whether there is an increase or decrease.

The fact, yes, you found a decrease in Q3, but this is because in Q3 we collected a lot of overdues from MOH that was dated more than a year. It is not something that we do the booking manually. It is done automatically according to the aging balance of the receivables at the closing date. We expect more collections. Once we will collect the 2018 balances from MOH, we will find another reversal. Nobody likes to have overdue amounts, but this is the case for MOH. And the fact that there is a reversal meaning there is a good collection of overdue amounts.

Naveed Ahmed: Sure. Thank you so much for the clarification. And we do – and obviously, it's a very good thing that you are collecting it. My only – our only comment was that if you look at the third quarter specifically, so the SAR 29.6 million profit that you have includes a SAR 11 million reversal, which basically implies that although you did wonderfully well on the revenue side, the profits would have been flat year on year. So, does this imply that your costs are still elevated?

Speaker: No actually the – if you – you need to realize Q3 – the first half was not as good as we wish. And Q3 standalone, yes, revenues increased and profits increased. However, yes, a part of this revenue increases the refund[?] group of the reversal of the provision. But what we see the trend in Q4 is that revenue still continues to increase with no relation with this provision; meaning that we expect to see an increase of revenues to continue for the remaining period of the year, and Inshallah in the future.

Naveed Ahmed: Okay. So, basically the reversal in the provisioning is booked in the revenues?

Speaker: The revenues that you see in the reporting is the net revenues, and net of provisions.

Naveed Ahmed: Okay, fine. All right, okay. Thank you so much for your clarification. Thank you.

Speaker: You are welcome.

Operator: All right. And one more time that is star one if you'd like to ask a question. We'll pause for just another moment. And it looks like we have no further questions at this time. Oh, I am sorry. We did have one other question queue up. We'll take the next question from Daseer Abbas with Derayah Financial.

Daseer Abbas: Hi. Thank you so much for the detailed presentation. I would like to reconfirm are you booking the reversal of provisions in the revenue?

Speaker: We are not booking the provisions in the revenue. We are booking the revenues, the collateral amount – the expected collateral amount to revenues as revenue. This is the application of the IFRS [inaudible].

Daseer Abbas: Okay clear.

Speaker: [inaudible] is they showed as revenues. What we expect not to collect is deducted from the base of revenues.

Daseer Abbas: Okay. Second, do you have any guidance for the gross profit margins going forward, because we are seeing there has been an improvement in the revenue but the gross profit margin is still the same or declining at the least.

Speaker: Actually, you speak about the quarter or the year?

Daseer Abbas: I am talking about the quarter.

Speaker: The quarter, yeah, I mean however revenues increased, but we have as we mentioned earlier we still have the throughput, the caregiver salaries are increasing. And the patient experience due to maintaining or to improving the patient experience, a lot of cost increase at the beginning. But the solution here is to increase revenues and to optimize costs with the McKenzie projects that we'll see the effect Inshallah in 2020. We expect to have better gross profit as restructuring the supply chain function and the procurement function will improve the cost of sales.

Daseer Abbas: Okay, I understood. Thank you so much.

Speaker: You are welcome.

Operator: All right we'll take a follow-up question from Alowi Alimirah with Morgan Stanley.

Alowi Alimirah: Yes, in terms of the McKenzie, when is the project expected to be completed, so you said end of 2020 or –

Speaker: Yeah, the project with McKenzie already started two months ago, but the effect in 2019 is minor actually. It is – we took the time to assess the problems. And we started to see the contracts signed with much better prices. But this, the consumption will be in 2020. Usually when you buy with a different price, the average cost change. But the consumption, the average cost will come to the current prices in a few months, not immediately.

Alowi Alimirah: Okay, thank you.

Speaker: You are welcome.

Operator: All right, and one more time, that is star one if you'd like to ask a question. We'll pause for just another moment. All right, at this point, we have no further questions. So, I'd like to turn it back over to our speakers for any additional or closing remarks.

Speaker: Well, we have no closing remarks. I think that concludes our call. Thank you everyone for dialing in and making the time for the call. And thank you, Nada for hosting the call.

Nada Amin: Thank you, gentlemen. Have a good day.

Operator: All right and that does conclude today's conference. We thank everyone for their participation.