

Mouwasat Reported higher than expected Q3-2017 earnings, beating market estimates for the 4th consecutive quarter. Net income came at SAR76.7mn for the quarter compared to our estimate of SAR68.1mn, and 10.0% above market consensus. The beat was mainly driven by higher revenues as a result of higher than estimated effective utilization. Revenue stood at SAR359.0 compared to our estimate of SAR321.1mn. Expansions are expected to rollout by FY2020, tighter margins might take effect in early low utilization post expansion phase. We maintain our "Neutral" recommendation with a revised PT of SAR146.0 per share.

- Mouwasat reported higher than expected net income for the quarter, exceeding estimates for four consecutive quarters. Net income came at SAR76.7mn (EPS SAR1.53); indicating a growth of 55.2%YoY. The company attributed the YoY rise in revenue to i) growth in revenue contributed by Riyadh branch, along with expansion in sub specialty clinics operations, ii) continuous development of medical systems along with enhancement of contractual terms with clients. The slight 0.5%QoQ increase in net income was attributed to seasonality. Earnings for FY2017 are estimated to grow by 29.4%YoY.
- Revenue stood at SAR359.0mn compared to SAR280.0mn for the same quarter last year; an increase of 28.2%YoY and compared to our estimates of SAR321.1mn. Top line growth was attributed to higher contribution from Riyadh branch and effective utilization of available resources along with the recent additional capacity for Jubail branch (100 beds in 2Q2016). Overall quarterly Rev/Bed showed a noticeable 28.2%YoY growth for the current quarter, standing at SAR485.8K compared to SAR378.9K for 3Q2016. The company recently announced signing a MoU with Emaar contracting company worth SAR150mn for expansion of Dammam hospital, with an estimated quarterly impact of SAR17.6mn from 4Q2017 onwards by increasing its bedding capacity to 204 beds. Considerable expansions adding 704 beds-75 clinics are expected to rollout by 4Q2020-1Q2021, reaching a total capacity of 1,443 beds and 93 clinics. Revised FY2017 revenues are estimated to stand at SAR1,477.1mn, 18.6% growth YoY.
- Gross profit stood at SAR164.4mn depicting an increase of 32.2%YoY and 1.6%QoQ supported by top-line growth. Gross margin stood at 45.8% for the quarter, up from 44.3% in 3Q2016. Opex increased 15.5%YoY at SAR78.6mn, at a slower rate compared to top-line growth. Operating margin stood at around 23.9% in 3Q2017 compared to 20.1% for the same quarter last year.

AJC view: Expansions are expected to rollout by end of FY2020, tighter margins might take effect in early low utilization post expansion phase. Currently, the company is in a favorable position regarding receivables cycle compared to the sector; at 3.4x receivable turnover compared to 2.5x for the sector in 1H2017. Downside risks to valuation are mainly related to broad exposure to sector risks, which would include further price revisions from government related clients and insurers, as well as higher than estimated impact of expat fees on different income lines. These risks are relatively mitigated for Mouwasat compared to the sector given the current client mix of the company. We also note a level of execution risk for forward expansions. Revised FY2017 EPS is estimated to stand at SAR6.62 per share at an estimated forward PE and PB multiple of 24.3x and 5.4x respectively, compared to a sector TTM PE and PB of 23.9x and 2.8x respectively. We maintain our "Neutral" recommendation with a revised PT of SAR146.0 per share. FY2017 DPS is estimated at SAR 3.0 per share (at around 45% payout of SAR150mn), at a yield of 1.9% at current prices.

Results Summary

SARmn (unless specified)	Q3-2016	Q2-2017	Q3-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	280.0	353.2	359.0	28.2%	1.6%	11.8%
Gross Profit	124.3	163.5	164.4	32.2%	0.5%	7.1%
Gross Margin	44.3%	46.2%	45.8%	-	-	-
EBIT	56.3	84.2	85.8	52.3%	1.9%	-
Net Profit	49.4	76.3	76.7	55.2%	0.5%	12.6%
EPS	0.99	1.53	1.53	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	Neutral
Current Price* (SAR)	161.0
Target Price (SAR)	146.0
Upside / (Downside)	-9.4%

Source: Tadawul *prices as of 25th of October 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenue	1000.1	1244.8	1477.1
Gross Profit	446.8	574.9	696.3
Net Profit	208.8	255.9	331.2
EPS	4.17	5.12	6.62

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	8,050.00
YTD %	9.59 %
Shares Outstanding (mn)	50.00
52 Week (High)	168.00
52 Week (Low)	118.50

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	44.6%	46.1%	47.1%
Net Margin	20.8%	20.5%	22.4%
P/E	29.2x	28.7x	24.3x
P/BV	5.4x	5.8x	5.4x
Dividend Yield	1.6%	1.7%	1.9%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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- 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.
- 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.
- 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.
- 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.

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