



US\$0.569bn Market cap
51% Free float
US\$0.865mn Avg. daily volume

Target price 47.00 -0.3% over current
Current price 47.15 as at 13/11/2019

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Existing rating

Underweight **Neutral** Overweight

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	764	718	740
Revenue growth	-11%	-6%	3%
Gross profit	167	183	192
Gross margin	21.8%	25.5%	26.0%
EBITDA	161	179	183
EBITDA margin	21.0%	24.9%	24.7%
Net profit	62	84	88
Net margin	8.1%	11.7%	11.9%
EPS	1.4	1.9	2.0
P/E	33.1x	27.2x	25.8x
EV/EBITDA	12.2x	10.8x	10.2x
RoE	6.8%	8.1%	8.5%

Source: Company data, Al Rajhi Capital

National Medical Care Q3: Earnings beat

National Medical Care (NMCC) reported a robust Q3 net profit of SAR17mn (+51% y-o-y), beating our (SAR11mn) and consensus (SAR13.4mn) estimates. The improvement in earnings was primarily aided by lower COGS (manpower, pharmaceuticals and consumables) and reduction in bad-debt provisions, offsetting higher zakat charge due to increase in zakat base of the company. Revenue came 13% higher-than-our estimate, due to relatively slower decline in number of patients than expected, indicating that the company might be diversifying its client-base other than government patients. This, along with better cost efficiency, resulted in gross margin of 23%, around ~450bps above our estimate. This also flowed to operating level as well, with operating margin widened by 300bps y-o-y to 13%. Going ahead, we believe that margin is likely to improve further, given improving customer base mix, coupled with cost efficiencies. Post Q3 earnings beat; we raise our TP to SAR47/sh. (earlier SAR 44/sh.) and thereby revise our rating to Neutral (earlier Underweight) on the stock.

Revenue & Profitability: Revenue marginally declined 1% y-o-y to SAR174mn (+2% q-o-q; our estimate: SAR157mn), due to decline in number of patients and lower pricing. However, gross profit increased 23% y-o-y, mainly due to its cost optimization efforts. Operating profit rose by 28% y-o-y to SAR23mn, despite 10% y-o-y increase in S&G costs. Accordingly, net profit jumped 51% to SAR17mn, beating our and consensus estimates.

Figure 1 NMCC: Summary of Q3 2019 results

(SAR mn)	Q3 2019	Q3 2018	Q2 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	174	176	170	-1%	2%	157
Gross Profit	40	33	38	21%	5%	29
Gross Margin	23.0%	18.8%	22.4%	23%	NA	18.5%
Operating profit	23	18	20	28%	15%	15
Net Profit	17	11	14	51%	19%	11

Source: Company data, Al Rajhi Capital

Valuation and risks: Post good set of Q3 results, we revise our forward-looking estimates upwards to factor in improvement in operating efficiencies. However, a pile of receivables (SAR413mn as of 1H 2019, more than half of annualized revenue) from the Government remains a primary concern. Based on our weighted average valuation methodology of DCF (8.7% WACC, and 2.0% terminal growth) and relative valuation (forward P/E of 20.8x, EV/EBITDA of 12.4x), we revise the TP to SAR47/sh. and rating to Neutral on NMCC. Further, the company trades at an adjusted trailing P/E of 27.7x and a dividend yield of 2.0%. The key upside risk is higher than expected hospitals utilization and higher than expected recovery in patient's numbers. The key downside risks are lower than expected hospitals utilization and higher than expected credit losses.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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