February 2020

National Medical Care Co.(CARE)

Result Flash Note 4Q-19

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

National Medical Care Company (Care) posted net income of SAR 19.6mn (SAR 0.44 EPS), above our estimate of SAR 14.9mn. Revenue was in line with our estimates. GP margin expansion can be attributed to lower provisions, cost rationalization measures undertaken by the company, and lower depreciation. We update our recommendation for the stock to "Overweight" with a TP of SAR 58.60/share.

- Care posted net income of SAR 19.6mn in Q4-19 (EPS of SAR 0.44), above AJC's estimate of SAR 14.9mn and above the market consensus estimate of SAR 16.0mn. The net income increase Y/Y was driven by reduced operating costs (manpower, consumables, maintenance and pharmaceuticals) and lower provision for credit losses. The reduced operating costs can be ascribed to cost rationalization measures undertaken by the company. A higher zakat charge partially offset the increase achieved from the items mentioned above.
- Care's revenue in Q4-19 stood at SAR 185.5mn, reflecting a marginal rise of 2.1% Y/Y, in line with our estimate of SAR 177.4mn. Revenue grew only marginally due to the lower number of inpatient and outpatient.
- Gross profit stood at SAR 39.3mn, indicating a rise of 22.6% Y/Y. The GP margin climbed to 21.2% in Q4-19 from 17.6% in Q4-18 against our estimate of 23.0%. Cost rationalization measures led to reduced operating costs (manpower, maintenance, pharmaceuticals and consumables), which boosted the GP margin.
- Operating profit stood at SAR 25.5mn, up 98.4% Y/Y. Net OPEX fell 28.2% to SAR 13.8mn in Q4-19 compared to our estimates of SAR 18.9mn and SAR 19.2mn posted in Q4-18.

AJC view: Care's net profit and operating profit surpassed our expectations. Even though the GP margin was below our expectations, it was more than offset by lower operating expenses, and represent positive signs for the company going forward. Despite lower volume of patients, revenue increased marginally, which is noteworthy. We forecast our EPS estimate for FY20 at SAR 1.88. 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 Care. 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 DCF and 30% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the five-year monthly beta is 0.80 and average WACC is 6.8%. We update our recommendation to "**Overweight**" for Care with a TP of **SAR 58.60/share.**

Results Summary

SARmn	Q4-18	Q3-19	Q4-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	181.7	173.5	185.5	2.1%	6.9%	4.6%
Gross Profit	32.0	40.1	39.3	22.6%	-2.1%	-3.7%
Gross Margin	*17.6%*	*23.1%*	*21.2%*	-	-	-
EBIT	12.9	23.0	25.5	98.4%	11.1%	16.7%
Net Profit	**4.9**	**16.6**	**19.6**	303.2%	18.0%	31.9%
EPS	0.11	0.37	0.44	-	-	-

Source: Company Reports, AlJazira Capital

Overweight

Target Price (SAR)	**58.60**
Upside / (Downside)*	**18.9%**

Source: Tadawul *prices as of 23rd of February 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	763.8	708.4	767.6
Growth %	-10.7%	-7.3%	8.4%
Net Income	62.2	80.1	84.4
Growth %	-27.1%	28.8%	5.3%
EPS	1.39	1.79	1.88

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	21.8%	23.4%	23.0%
Net Margin	8.1%	11.3%	11.0%
P/E	36.3x	27.2x	26.2x
P/B	2.3x	2.1x	2.1x
EV/EBITDA (x)	13.0x	10.9x	10.4x

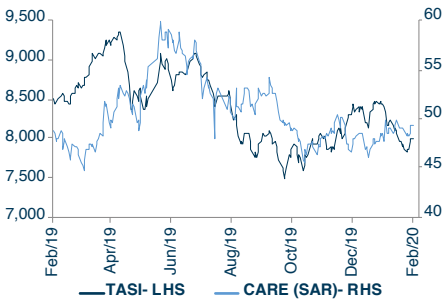
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.2
YTD %	**+1.4%**
52 Week High/ Low	44.80/60.90
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.

Disclaimer