

Healthcare Sector

Middle East Healthcare Co.

First Cut – Middle East Healthcare Co.

Increase in patient flow aids revenue growth: Middle East Healthcare Co. (MEHC) 3Q23 revenue at SAR671mn was up by 31.0% YoY and was aided by growth in the flow of both inpatients and outpatients, at the back of capacity addition. The reported revenue was slightly higher than our expectation of SAR651mn.

Improved utilization aids in margin improvement: Gross profit increased by 75.0% YoY to SAR266mn and was aided by higher revenue, and an improvement in gross margins from 29.7% in 3Q22 to 39.7% in 3Q23. Gross margins have improved on the basis of improved efficiency and faster ramping up of its new facilities. These margins have been better than our expectation of c.34% and also higher than the historical average of c.30-35%. We feel that these levels are unlikely to be sustainable and expect it to revert back to the normal levels from the next quarter. SG&A expenses grew by 24.2% YoY to SAR156mn, at the back of the commencement of operations of the new facilities. Overall, net income increased by 380% YoY to SAR53mn and was higher than our estimate of SAR36mn. The better-than-expected profitability was at the back of strong performance at the gross margin levels.

Strong financial performance, but prefer to wait and watch: Overall, the operating performance of the company has been strong and higher than our expectation. However, we will wait for the detailed results to weigh in on the complete performance of MEHC. The stock is currently trading at 33x its 2023e EPS and we have a Hold rating with a target price of SAR63/share.

in SAR mn	3Q23	2Q23	QoQ	3Q22	YoY	3Q23e	VaR	9M23	9M22	YoY	2022	2021	YoY	2023E	YoY
Revenue	671	624	7.5%	512	31.0%	651	3.1%	1,933	1,534	26.1%	2,152	1,873	14.9%	2,585	20.1%
Gross profit	266	229	16.5%	152	75.0%	224	18.8%	720	476	51.4%	680	608	11.8%	948	39.4%
Gross margins (%)	39.7%	36.6%		29.7%		34.4%		37.3%	31.0%		31.6%	32.5%		36.7%	
Operating profit	110	69	59.2%	26	318.3%	60	83.6%	255	82	210.0%	140	54	158.7%	310	121.0%
Operating margins	16.4%	11.1%		5.1%		9.2%		13.2%	5.4%		6.5%	2.9%		12.0%	
Net income	53	40	32.4%	11	379.7%	36	48.8%	144	42	241.9%	75	17	337.1%	194	158.6%
Net margins	7.9%	6.4%		2.2%		5.5%		7.4%	2.7%		3.5%	0.9%		7.5%	

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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