

Al Mouwasat Medical Services Co

Medical – Industrial

MOUWASAT AB: Saudi Arabia

10 November 2020

الراجحي المالية
Al Rajhi Capital



US\$3.573bn Market cap **44%** Free float **US\$4.256mn** Avg. daily volume

Target price **165.0** 23.1% over current
Current price **134.0** as at 9/11/2020

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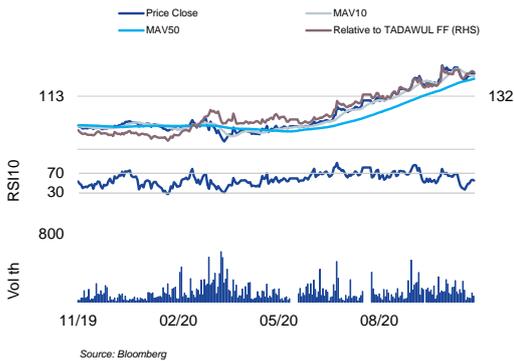
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2019A	2020E	2021E
Revenue	1,857	2,063	2,559
Revenue growth	11%	11%	24%
Gross profit	829	989	1,175
Gross margin	45%	48%	46%
EBITDA	612	726	891
EBITDA margin	33%	35%	35%
Net profit	421	546	703
Net margin	23%	26%	27%
EPS	4.2	5.5	7.0
DPS	2.0	2.3	2.5
Payout ratio	48%	41%	36%
EV/EBITDA	22.6x	18.8x	15.2x
P/E	31.8x	24.5x	19.0x
RoE	13%	15%	18%

Source: Company data, Al Rajhi Capital

Al Mouwasat Medical Services

Robust financial performance; TP at SAR165/sh

Mouwasat reported its Q3 2020 financial results, with revenue increasing by 23.9% y-o-y to SAR549 million and was 16.1% higher than our estimates. Improvement in the performance of the company's specialized departments, improved occupancy, and higher referrals from MoH aided revenue growth. Overall, we feel that lower vacation during the year due to the ongoing Covid pandemic, aided in improving the patient base during the period. Added to this, we also feel that postponement of certain operations and other medical needs too would have aided improvement in patient flow during the quarter. Gross profit increased by 40.2% y-o-y while operating profits improved by 65.5% y-o-y and were aided by higher revenue and improved scale of operations. Mouwasat reported that the performance of Khobar turned positive during the period, compared to a negative SAR15 mn contribution during the same period the previous year. This along with lower finance cost, due to a fall in interest cost aided the overall profitability of the company. The net income of Mouwasat increased by 73.2% y-o-y and was better than our estimates by 33.2%. Higher than expected patient volume and the resultant improvement in the operating leverage were the main reason for this. Post Q3 result, we have revised the target price to SAR165/sh from SAR123/sh and have maintained our rating at "Overweight".

Figure 1 Mouwasat: Summary of Q3 2020 results

(SARmn)	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-oq	ARC est
Revenue	549	443	468	24%	17%	473
Gross Profit	272	194	219	40%	24%	216
Gross Margin	49%	44%	47%	NA	NA	46%
Operating Profit	173	105	131	65%	32%	133
Net Profit	161	93	116	73%	39%	121

Source: Company data, Al Rajhi Capital

Q3 results: Q3 revenue came in at SAR549mn (23.9% y-o-y; 17.2% q-o-q). Aided by improvement in revenue and the resulting improvement in operating leverage, gross margins increased to 49.5% in Q3 2020, compared to 43.7% a year back and 46.8% in Q2 2020. Reflecting the improvement in gross margins, net margins too improved to 29.3% for Q3 2020, compared to 21.0% a year back and 24.7% in Q2 2020. Overall, the financial performance of Mouwasat has been strong and better than expected. Better than expected improvement in patient flow and the resultant improvement in operating leverage were the main reason for this.

Valuation and risks: We value the company based on an equal mix of DCF and relative valuation. The DCF based target price based on 2% terminal growth and 7.2% WACC comes to SAR154/sh and P/E based relative valuation based on 25x multiple gives a target price of SAR176/sh. Thus, we have revised our target price for the company to SAR165/sh, an upside of 23.1%, which implies an "Overweight" rating. The key downside risks are a decline in occupancy, lower revenue per bed, and a rise in the cost of sales along with high receivables. The key upside risks are higher than the expected number of visits and a rise in prices.



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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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