

**Care: Care's Q3-2017 earnings came higher than AJC estimates and consensus. Net income came at SAR 26.9mn (SAR 0.60 EPS) against our estimates of SAR 18.0mn, the deviation is mainly due to lower than estimated provisions along with higher than estimated top-line growth. This quarter highlights the beginning of a reverse in the conservative approach on receivables, which was expected to carry on throughout FY2017. We update our recommendation to "Overweight" with an unchanged PT of SAR 39.2 per share.**

- Care reported higher than expected net income for the quarter. Net income came at SAR 26.9mn (EPS SAR 0.60), posting a marginal decline of 2.0% YoY. The result highlights the reverse in the company's conservative policy in forming provisions. The deviation from estimates is mainly due to: i) higher than expected top-line. ii) Lower than estimated SG&A in the form of lower provisions for the quarter. Care attributes the slight decline in earning on a YoY basis to tighter gross margins.
- Revenue for the quarter stood at SAR 208mn compared to SAR 197mn for the same quarter last year; an increase of 5.6%YoY and a 4.0% decline QoQ. According to the company, the 9m-2017 decline of 12%YoY was mainly due to an alteration in list of prices implemented by a major governmental client. Revenue trajectory is expected to stabilize close to current levels going forward, reversing 1H2017 downward trend in revenues. Revised FY2017 revenues are estimated to stand at SAR 833.5mn (c.2.0%).
- Gross profit for the quarter stood at SAR 46.9mn depicting a 7.0% decline YoY and 6.5% QoQ. Gross margins for the quarter stood at 22.6% compared to 25.6% for the same quarter last year, marking a 305bps decline in margins YoY. Operating Income stood at SAR 29.7mn, posting a 3.1% decline YoY. Operating income reported a significant 30.9% QoQ growth, which can be mostly attributed to lower provisions QoQ. Highlighting the start of a reverse in Care's conservative receivables policy.

**AJC view:** We have previously highlighted our view concerning a deceleration in the conservative approach on receivables, which was expected to carry on throughout FY2017 at a lesser degree compared to H1-2017. Going forward, Care is expected to continue decelerating formation of provision. We reiterate the potential of partial provision reversal by the end of FY2017 and higher than estimated top-line as the main upside risks to valuation. The impact of MOH price revisions and broad pricing pressure on revenues are estimated to stabilize at the current trajectory. Revised EPS stands at SAR 1.90 per share. The company currently trades at an estimated forward PE multiple of 18.2x compared to a sector TTM PE of 23.9x. We cautiously upgrade our recommendation on Care to "Overweight" with an unchanged PT of SAR 39.2 per share. The upgrade is comes on the back of a decline in price per share pre Q3-2017 earnings, trading at a 52-week low. We are expecting an update regarding the merger MOU with Al- Hammadi by the end of FY2017.

### Results Summary

SARmn (unless specified)	Q3-2016	Q2-2016	Q3-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	197.0	216.5	208.0	5.6%	-4.0%	22.3%
Gross Profit	50.5	50.2	46.9	-7.0%	-6.5%	25.7%
<b>Gross Margin</b>	<b>25.6%</b>	<b>23.1%</b>	<b>22.6%</b>	-	-	-
EBIT	30.6	22.6	29.7	-3.1%	30.9%	-
Net Profit	27.5	19.5	26.9	-2.0%	38.4%	49.4%
<b>EPS</b>	<b>0.61</b>	<b>0.43</b>	<b>0.59</b>	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	<b>Overweight</b>
Current Price* (SAR)	34.6
Target Price (SAR)	<b>39.2</b>
Upside / (Downside)	<b>13.3%</b>

Source: Tadawul \*prices as of 30<sup>th</sup> of October 2017

### Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenue	878.7	900.6	833.5
Gross Profit	220.2	204.6	182.5
Net Profit	130.7	49.3	85.4
EPS	2.90	1.10	1.90

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	1,554.0
YTD %	<b>-46.8%</b>
Shares Outstanding (mn)	44.9
52 Week (High )	73.2
52 Week (Low)	34.6

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	25.0%	22.7%	21.9%
Net Margin	14.8%	5.4%	10.3%
P/E	19.0x	59.9x	18.2x
P/BV	2.8x	3.2x	2.3x
Dividend Yield	1.4%	-	-

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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