Middle East Healthcare (MEH)

Result Flash Note 2Q-22

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Middle East Healthcare (MEH) posted a modest net profit of SAR 10.4mn for Q2-22 (up 14.1%Y/Y, down by a steep 49.1%Q/Q), above our estimates of SAR 7.7mn, but below market consensus of SAR 16.6mn. On a yearly basis- the increase can be attributed to developments in recovering a key client, pricing changes, and a speedy ramp up in utilization at the Dammam Hospital. However, the firm cited the negative seasonal effects of Ramadan and Holidays during Q2-22, which weighed down net profits to a decline from Q1-22. Atop an increase in OPEX, MEH continues to cite the costs of expansions as an overarching variable on the increased costs on net profits- All of which resulted in the continuously lackluster net margin of 2.05% (down 194 bps from Q1-22). We maintain our TP of SAR 30/share and "Neutral" recommendation.

- Middle East Healthcare (MEH) posted a net profit of SAR 10.4mn (up 14.1% Y/Y, down 49.1% Q/Q) in Q2-22, above our estimate of SAR 7.7mn but below consensus estimate of SAR 16.6mn. The Q/Q weak result was attributed to i) the impact of the seasonality of Ramadan and the holidays on the top line ii) a contracting GP margin due to additional cost associated with ongoing expansion iii) increase in OPEX as a natural result of servicing the expansion. This we believe resulted to an EPS at SAR 0.11 (down 50%Q/Q, and up one 0.01 from the same quarter last year). The deviation from our estimates was mainly due to lower-than-expected GP margin.
- The revenues seen by MEH at SAR 508.1mn came at an 11.3%Y/Y increase (down 1.0%Q/Q from SAR 513mn), and below our expectations of SAR 523.7mn. Although revenues were affected by the seasonality of Ramadan and the holidays in Q2, revenues remained buoyant due to increasing service prices, recovering an insurance client, as well as the ramp up in Dammam.
- Gross profits stood at SAR 158.77mn (up 4.0% Y/Y, down 3.8% Q/Q), virtually right in-line with our expectations of SAR 158.5mn. GP margin contracted to 31.2%, below our estimates of 32.3% and 33.4% recorded in Q2-21 (down 218 bps Y/Y) which is possibly due to pressures from the expansion in Jeddah and Asser.
- Operating income, stood at 21.8mn- right by our estimates of SAR 20.4mn (down 38.3% Q/Q, but up 10.8% Y/Y). The figure was pressured by MEH's expansions in Jeddah and Aseer, as well as the increases in marketing and selling costs. OPEX for the quarter amounted to SAR 137mn at 27.0% of revenues- an increase from last quarter's 25.2% OPEX from revenues.

AJC view and valuation: MEH posted a growing top line figure (Y/Y), at a reasonable quarterly decline that was offset by higher prices and utilization in Dammam. However, operational costs remain a pressure on MEH, and especially while they are aggressively expanding. The company's plans to set up new facilities, expand capacity, and enter a joint venture agreement highlights its intention to capture market opportunities. MEH's weak cash generation profile and high leverage position with net debt to TTM EBITDA of 9.4x indicates a point of concern as it balances its expansions and operations. Furthermore, the company's return profile has been the weakest in the sector, with ROE at 1.9% versus the sector average of 13.2% and ROA at 0.6% versus the sector average of 7.6%. MEH's receivable days have been highest after Care at 245 days (FY21). We do believe however that MEH has the business infrastructure to be an attractive company should their financials and cost control return to normality. Until then- We remain "**Neutral**" on the stock with a TP of **SAR 30.0/share**.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	456.6	513.3	508.1	11.3%	-1.0%	3.3%
Gross Profit	152.6	165.0	158.8	4.0%	-3.8%	0.2%
Gross Margin	*33.4%*	*32.1%*	*31.2%*	-	-	-
EBIT	19.6	35.3	21.8	10.8%	-38.3%	6.8%
Net Profit	**9.1**	**20.5**	**10.4**	14.1%	-49.1%	35.4%
EPS	0.10	0.22	0.11	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	**30.0**
Upside / (Downside)*	**-14.5%**

Source: Tadawul *prices as of 07th of August 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	1,750.6	1,872.6	2,147.3	2,398.0
Growth %	17.0%	7.0%	14.7%	11.7%
Net Income	82.0	17.2	83.7	99.5
Growth %	-16.0%	-79.0%	386.8%	18.9%
EPS	0.89	0.19	0.91	1.08

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	33.0%	32.5%	32.4%	32.6%
Net Margin	4.7%	0.9%	3.9%	4.2%
P/E (x)	39.3	169.4	36.4	30.7
P/B (x)	2.6	2.3	2.3	2.1
EV/EBITDA (x)	20.8	26.1	16.3	15.1

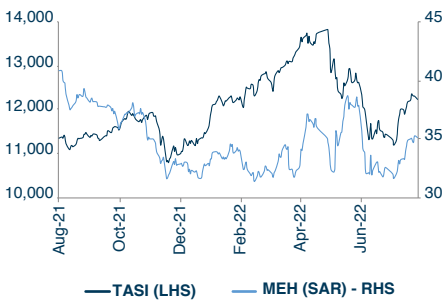
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.0bn
YTD %	10.9%
52 Week (High)/(Low)	41.75/30.95
Shares Outstanding (mn)	92.04

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Equity Analyst
Ibrahim Elaiwat
+966 11 225 6115
i.elaiwat@aliaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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