Al Mouwasat Medical Services Co

Healthcare– Industrial

MOUWASAT AB: Saudi Arabia

29 July 2018

Target price	89.0	6.0% below current
Current price	94.5	as at 29/7/2018

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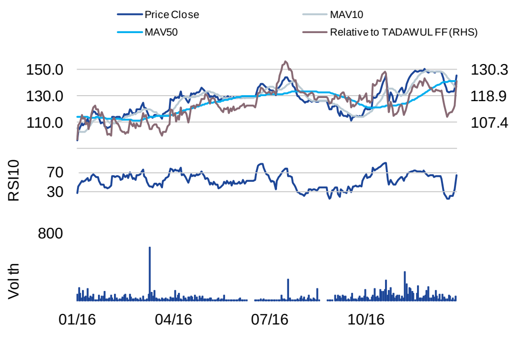
Existing rating

Underweight | **Neutral** | Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	2017A	2018E	2019E
Revenue (mn)	1507	1717	1941
Revenue Growth	21%	14%	13%
EBITDA (mn)	461	535	592
EBITDA Growth	27%	16%	11%
EPS	3.3	3.9	4.3
EPS Growth	29%	16%	12%

Source: Company data, Al Rajhi Capital

Al Mouwasat Medical Services

Q2: Inline results. Remain Neutral

Mouwasat posted a strong set of results in Q2 2018 with revenue (+16% y-o-y) and net profit (+15% y-o-y) inline compared to our estimates. The strong growth was driven by improving utilization rates at Riyadh and other hospitals/clinics and expanding the operation of sub-specialties clinics. Next quarter the utilization rate is likely to pick up for both inpatient and outpatient due to the end of seasonality factors. However we expect growth to pick up in short term as the company is expected to open Khobar hospital (280 beds, 100 clinics) in Q3 2018 which will be a new revenue driver. In the long-term, we believe there is still room for improvement in profitability, on the back of further utilisation ramp-up in Riyadh Hospital as well as opening of Madinah hospital (Q4 2020)and Dammam hospital expansion (Q2 2020). Mouwasat's stock price surged ~25% in H1 2018, and at current levels we believe the stock price already incorporates these positives, leaving limited further upside in the short term. We keep our rating to Neutral on the company with a target price of SAR89/share.

Revenue: Mouwasat reported 16% y-o-y increase in revenue to SAR408mn, slightly lower than our (SAR416mn) estimate. The top line was boosted due to an improvement in utilization rates. We believe next quarter will witness a pickup in utilization rate due to the end of seasonality effect.

Profitability: Gross profit surged 22% y-o-y to SAR200mn above our estimate of SAR196mn. The sequential increase in gross margin is indicative of improving utilization of resources and is likely to continue in long run as patient visits increase at the Riyadh hospital. Operating profit grew 18% y-o-y to SAR99mn.

Conclusion and valuation: Mouwasat hospitals showed strong and consistent growth during the past years with a smart expansions and efficient management of hospitals. There are plenty of growth drivers which we believe will be capitalized on by the management. However for now, we believe the stock incorporates these positives, leaving limited upside potential for the short term. We are Neutral on Mouwasat with a target of SAR89 based on an equal mix of DCF and relative valuation (12month forward target P/E of 24x).

Figure 1 Mouwasat: Summary of Q2 2018 results

	Q2 2018	Q2 2017	Q1 2018	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	408	353	439	16%	-7%	416
Gross Profit	199.6	163.5	216.0	22%	-8%	196
Gross Margin	49%	46%	49%	NA	NA	47%
Operating Profit	98.8	84.1	116	18%	-15%	98
Net Profit	87.9	76.3	112	15%	-22%	94

Source: Company data, Al Rajhi Capital

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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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