



National Medical Care Company (Care) posted net income of SAR 33.2mn (SAR 0.74 EPS), above our and consensus estimate of SAR 27.7mn and SAR 21.0mn respectively. The 10.6% Y/Y growth in net income was driven by 8.7% Y/Y increase in revenue and decrease in provision for expected credit losses. Care's Q1-20 revenue is broadly in line with our estimates. COVID-19 is expected to adversely impact the company's outpatient revenues, as well as the overall financials in FY-20. We expect improvement in financials in FY-21, and thereby upgrade our recommendation to a cautious **"Overweight"** on the stock due to ST pressures associated with COVID-19, and set TP at **SAR 58.60/share**.

- Care posted net income of SAR 33.2mn in Q1-20 (EPS of SAR 0.74), above AJC's estimate of SAR 27.7mn and the consensus estimate of SAR 21.0mn. The net income increase of 10.6% Y/Y was driven by 8.7% rise in revenue and lower provision for credit losses. Higher operating expenses partially offset the growth achieved by Care in this quarter.
- Care's sales in Q1-20 stood at SAR 195.0mn, reflecting a rise of 8.7% Y/Y, broadly in line with our estimate of SAR 183.5mn. Even though outpatient visits declined in March due to COVID-19, other segments of the company continued to perform well, which resulted in an increase in its revenue. However, we expect outpatient revenues to significantly decline in the next few months due to lower visits driven by restrictions on offering certain services on account of the lockdown.
- Gross profit stood at SAR 52.2mn, indicating a rise of 8.8% Y/Y. The GP margin was stable at 26.8% in Q1-20, in line with our estimate of 26.4%. We expect the GP Margin to be adversely impacted for the next few quarters due to cost pressures driven by COVID-19.
- Operating profit stood at SAR 36.3mn, up by 0.5% Y/Y. Net OPEX rose 33.9% Y/Y to SAR 15.9mn in Q1-20 compared to our estimates of SAR 14.9mn and SAR 11.9mn posted in Q1-19.

AJC view: Care's overall results surpassed our expectations. We expect the overall revenues and GP margins to be under pressure in the next couple of quarters due to the impact of COVID-19. While the inpatient revenue continues to grow, the outpatient revenue could significantly decline in the near-term which would pressurize the margins and also have an adverse impact on the net income. We update our EPS estimate for FY-20 to SAR 1.62. In the medium term, improvement in margins through cost-control measures, revenue growth through capacity addition at CNH, are expected to be the key drivers of the company's growth. A high percentage of receivables from government and semi-government entities (72% of receivables in FY19) remain a major concern for Care. Our weighted average value is based on the DCF and relative valuation technique (a peer group EV/EBITDA matrix), where 70% weight is assigned to DCF and 30% to the relative valuation technique. The terminal growth rate is taken at 3.0%, while the 5-year monthly beta is 0.80, and average WACC is 6.9%. We upgrade our recommendation to cautious **"Overweight"** on Care with TP of **SAR 58.60/share**.

Results Summary

SARmn	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	179.4	185.5	195.0	8.7%	5.1%	6.3%
Gross Profit	48.0	39.3	52.2	8.8%	33.0%	8.0%
<i>Gross Margin</i>	<i>26.8%</i>	<i>21.2%</i>	<i>26.8%</i>	-	-	-
EBIT	36.1	25.5	36.3	0.5%	42.1%	8.3%
Net Profit	30.0	19.6	33.2	10.6%	68.9%	19.9%
EPS	0.67	0.44	0.74	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR) **58.60**

Upside / (Downside)* **57.7%**

Source: Tadawul *prices as of 05th of May 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	763.8	708.4	685.3
Growth %	-10.7%	-7.3%	-3.3%
Net Income	62.2	80.1	72.4
Growth %	-27.1%	28.8%	-9.6%
EPS	1.39	1.79	1.62

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	21.8%	23.4%	22.6%
Net Margin	8.1%	11.3%	10.6%
P/E	36.3x	27.2x	23.0x
P/B	2.3x	2.1x	1.6x
EV/EBITDA (x)	13.0x	11.0x	8.2x

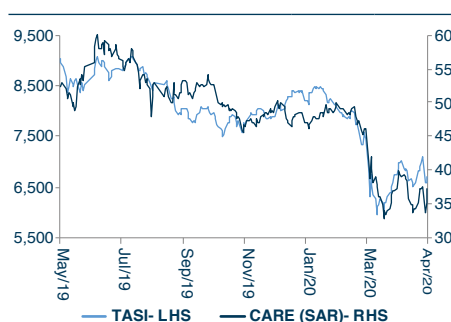
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	1.7
YTD %	-23.6%
52 Week High/ Low	32.60/60.90
Shares Outstanding (mn)	44.9

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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.

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