

MCGS Alert – 4Q2019 EPS Beat Due to Non-Operating Items, Maintain TP & Market Perform

- **MCGS posts 21.8% YoY decrease but 237.9% QoQ increase in net profit in 4Q2019, beating our estimate**, Medicare Group's (MCGS) net profit declined 21.8% YoY (but rose 237.9% on a QoQ basis) to QR34.2mn in 4Q2019, beating our estimate of QR31.3mn (variation of +9.3%). In FY2019, MCGS posted net profit of QR78.2mn declining by 7.5% YoY compared to a net profit amounting to QR84.5mn in FY2018. EPS amounted to QR0.28 in FY2019 as compared to QR0.30 in FY2018.
- **YoY bottom-line decline is mainly due to the lack of provision reversals in 4Q2019 vs. QR12.3mn in 4Q2018**, whereas lower depreciation charges for property and equipment in 4Q2019 (-QR90k vs. QR7.6mn in 3Q2019) supported the bottom-line sequentially. If the depreciation charges had followed the run-rate, 2019 net income should have declined by 17% YoY.
- **DPS is in-line with our estimate**. The board has decided to recommend QR0.28 per share in dividends, which is in-line with our QR0.27 estimate). The company announced it will hold an investor relations conference call to discuss FY2019 results and performance on February 9, 2020. This call will be hosted by QNB FS.
- **Gross profits were in-line with our estimate as well (variance 0.3%)**. The company recorded QR134.6mn revenue in 4Q2019 with a 6.2% rise YoY, in line with our QR128.2mn forecast (variation: 4.9%). Gross margin fell from 45.2% in 4Q2018 to 43.5% in 4Q2019 (yet up sequentially vs. 3Q2019's 37.7%). Hence, MCGS posted QR58.5mn in gross profits with a 1.8% increase YoY, pretty much in line with our QR58.3mn forecast.
- **We continue to rate MCGS as a Market Perform and keep our TP at QR8.4 which implies a 1.6% upside**. Following the announcement of draft law preparations for the new National Healthcare System on June 18, MCGS shares rose by 43.1% outperforming the QE Index' 1.3% decline and eroding the bulk of our upside potential. Our one-year TP (QR8.4) for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2020. Until details of the new National Health Insurance are clarified, we anticipate MCGS shares to maintain their volatility. Since our initiation on August 27, 2019 with a Market Perform rating, MCGS shares rose by 7.3%, vs the QE Index's 4.9%.

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

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