

## MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR7.31	Current Target Price	QR8.04
Implied Upside	10.0%		

### Lowering Estimates, Maintain MP and Target Price QR8.04/sh.

MCGS' 2Q2020 revenue, and consequently its bottom-line, were below our estimates as the company was adversely impacted by COVID-19 precautions. Under the instructions of the Ministry of Public Health, the company ceased to carry out any non-urgent or non-emergency procedures during most of 2Q. Certain services such as dentistry, cosmetic surgery, dermatology, were also reduced. As the restrictions have gradually started to ease by mid-June, we think MCGS' revenue should be improving in the coming periods, supported by a YoY increase in local population. We continue to rate MCGS as a Market Perform while trimming our 2020/2021 net earnings estimates by 20.1% and 8.3%, respectively. Following the announcement of draft-law preparations for the new National Healthcare System on June 2019, MCGS' shares rose by 29.2%, outperforming the QE Index' 6.4% decline. Our one-year TP for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2022. Until details of the new National Health Insurance become clear, we anticipate MCGS shares to maintain their volatility.

#### Highlights

- **MCGS posted 2Q2020 net income/EPS of QR9.53mn/QR0.03, down 29.3% YoY (down 53.9%, QoQ),** falling below our net income estimate of QR11.5mn. In 1H2020, MCGS reported net profit of QR30.2mn vs. QR33.8mn in 1H2019. 1H2020 EPS amounted to QR0.11 with a 10.7% decline YoY.
- **Gross profit was slightly below our estimate.** The company recorded QR29.4mn in gross profits, declining 32.5% YoY and 45.1% QoQ (variance: -6.7%). Revenue declined by 29.0% YoY and 35.3% QoQ to QR84.3mn as a result of coronavirus-related regulations coming into effect at the beginning of 2Q2020. As such, these regulations limited the services that could be offered by private hospitals and clinics in Qatar, which we believe were partially offset by stronger emergency service revenue. Gross margin declined from 36.6% in 2Q2019 to 34.9% in 2Q2020 (also down sequentially vs. 1Q2020's 41.1%).
- **On the other hand, G&A declined 21.3% QoQ and 23.8% YoY in 2Q2020** (variation: +6.7%), mainly due to a 31% YoY decline in staff costs, accounting for 59% of the G&A as of 2Q2020.
- **During 2Q2020, MCGS reversed QR4.48mn of provisions, which were previously allocated for expected credit losses on trade receivables.** The provisions had been allocated in 1Q2020 and management had stated during the 1Q2020 conference call that they would be reconsidered during June or December. In 2Q2019, MCGS' provision reversals amounted to QR4.14mn. Therefore, the impact of provision reversals on the YoY net income performance was limited.
- **We reduced our FY2020 and 2021 net earnings by 20.1% and 8.3% following the 2Q2020 results.** On the positive side, as is the case for most of the consumer related companies we cover, we believe disruptions in international flights may support Medicare's revenue in 3Q2020. Qatar's seasonal population contraction during summer months seems to be much less this time in 2020 vs. 2018 & 2019. Typically, Qatar's population contracts by 10% in July vs. May (10.3% in 2018 and 9.7% in 2019) due to increased outbound tourism activity, coupled with expats visiting their home countries. However in 2020, July-May population contraction remained at 2.1%, resulting in an 11.1% population growth YoY for Qatar in July.

#### Catalysts

- 1) Collection of NHIC/Seha receivables, 2) Performance of the new Al Wakra clinic, 3) Normalization in MCGS' share price volatility, which should lead to a higher target price. MCGS' 5-year beta is 1.05x vs. international peer group's median of 0.75x. It is also the highest in the international peer group. 4) Completion of the hospital expansion project.

#### Recommendation, Valuation and Risks

- **We continue to rate MCGS as a Market Perform.** Our 12-month target price of QR8.04 implies a 10.0% upside potential, assuming that the new National Insurance Scheme will be fully operational by end-2022 and based on a weighted average combination of DCF, international peer comparison and local market P/E.
- **Risks:** 1) Geopolitical risks. 2) Collection risks. 3) Delays in the expected new National Health Insurance Scheme. 4) Volatility of provision expenses.

#### Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.30	0.28	0.24	0.28
P/E (x)	21.0	25.3	29.9	24.9
EV/EBITDA (x)	20.4	18.7	21.9	19.0
DPS (QR)	0.30	0.28	0.24	0.28
DY (%)	6.3%	4.0%	3.3%	4.0%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QD
ISIN	QA0006929754
Sector	Healthcare
52wk High/52wk Low (QR)	9.20 / 5.50
3-m Avg. Volume (000)	1,159.5
Mkt. Cap. (\$ bn/QR bn)	0.57/2.1
EV (\$ bn/QR bn)	0.59/2.1
Current FO*/FO limit (%)	19.0%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	-2.69%
Fiscal Year End	December 31

Source: Bloomberg (as of September 06, 2020), \*Qatar Exchange (as of September 06, 2020); Note: FO is foreign ownership

**Mehmet Aksoy, Ph.D.**  
+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

**Saugata Sarkar, CFA, CAIA**  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

### Estimates & Revisions (QR000)

QR000	2018	2019	2020e			2021e		
			Current	Previous	%ch.	Current	Previous	%ch.
<b>Gross Profit</b>	<b>201,050</b>	<b>196,641</b>	<b>167,175</b>	<b>203,916</b>	<b>-18.0%</b>	<b>203,420</b>	<b>212,982</b>	<b>-4.5%</b>
Operating Income	81,282	75,352	62,066	79,298	-21.7%	75,633	82,781	-8.6%
<b>Net Income</b>	<b>84,511</b>	<b>78,199</b>	<b>66,151</b>	<b>82,822</b>	<b>-20.1%</b>	<b>79,355</b>	<b>86,494</b>	<b>-8.3%</b>
EPS	0.30	0.28	0.24	0.29	-20.1%	0.28	0.31	-8.3%
Growth (YoY)	5.6%	-7.5%	-15.4%	5.9%		20.0%	4.4%	

Source: Company data, QNB FS Research

### Income Statement (QR000)

	2017	2018	2019	2020e	2021e
<b>Revenue</b>	<b>470,621</b>	<b>484,211</b>	<b>490,678</b>	<b>421,862</b>	<b>508,337</b>
COGS	268,101	283,162	294,038	254,687	304,917
<b>Gross Profit</b>	<b>202,520</b>	<b>201,050</b>	<b>196,641</b>	<b>167,175</b>	<b>203,420</b>
SG&A	85,880	88,397	93,891	78,031	97,540
Depreciation	28,191	31,370	27,398	27,079	30,247
<b>Operating Income</b>	<b>88,449</b>	<b>81,282</b>	<b>75,352</b>	<b>62,066</b>	<b>75,633</b>
EBITDA	116,640	112,652	102,750	89,144	105,880
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-652	-312	-376
Other Income	11,235	8,891	8,829	8,527	8,815
Net Finance Income (Expense)	-732	366	-2,469	-1,709	-1,814
<b>Net profit before management fees and income t</b>	<b>82,785</b>	<b>87,486</b>	<b>81,059</b>	<b>68,571</b>	<b>82,258</b>
Management fees	-2,783	-2,975	-2,861	-2,420	-2,903
Income Tax	0	0	0	0	0
Non controlling interests	0	0	0	0	0
<b>Net Income</b>	<b>80,002</b>	<b>84,511</b>	<b>78,199</b>	<b>66,151</b>	<b>79,355</b>
<i>Net Profit Margin</i>	<i>17.0%</i>	<i>17.5%</i>	<i>15.9%</i>	<i>15.7%</i>	<i>15.6%</i>
<i>Shares Outstanding (mn)</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>
<b>EPS</b>	<b>0.28</b>	<b>0.30</b>	<b>0.28</b>	<b>0.24</b>	<b>0.28</b>
<b>DPS</b>	<b>0.40</b>	<b>0.30</b>	<b>0.28</b>	<b>0.24</b>	<b>0.28</b>

Note: EPS based on current number of shares, Source: Company data, QNB FS Research

Source: Company data, QNB FS Research

**Balance Sheet (QR000)**

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	52,053	53,638	40,320	40,320	16,320
S/T Deposits	50,066	40,000	35,000	33,419	836
Accounts Receivable & Prepayments	83,815	63,825	67,009	57,611	69,420
Other Receivables and Prepayments	15,267	29,534	26,155	22,487	27,096
Due From Related Parties	0	0	0	0	0
Inventories	27,543	23,087	21,509	20,766	24,861
<b>Total Current Assets</b>	<b>228,745</b>	<b>210,085</b>	<b>189,992</b>	<b>174,602</b>	<b>138,533</b>
Financial assets at fair value through other comprehensiv	45,619	52,059	63,334	63,334	63,334
Right-of-use assets	0	0	66,464	61,839	57,213
Property, Plant & Equipment	909,271	942,705	947,945	961,356	1,022,094
<b>Non-Current Assets</b>	<b>954,890</b>	<b>994,764</b>	<b>1,104,831</b>	<b>1,114,971</b>	<b>1,172,505</b>
<b>Total Assets</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,289,573</b>	<b>1,311,038</b>
Short-Term Debt	14,472	14,974	0	28,587	30,792
Lease Liabilities	0	0	3,404	3,231	3,050
Accounts Payable & Accruals	29,683	32,718	34,664	29,860	35,749
Other Payables	46,451	41,561	50,694	50,235	50,638
Dividends Payable/Payable to shareholders	18,880	21,404	24,431	20,667	21,701
<b>Current Liabilities</b>	<b>109,486</b>	<b>110,657</b>	<b>113,194</b>	<b>132,581</b>	<b>141,930</b>
<b>Non-Current Liabilities</b>					
Lease Liabilities	0	0	64,373	61,108	57,684
Retentions payable	0	0	0	0	0
Long-Term Debt	19,708	16,032	19,083	20,037	21,039
Employees end of service benefits	52,692	60,176	65,654	68,937	72,384
<b>Non-Current Liabilities</b>	<b>72,399</b>	<b>76,208</b>	<b>149,110</b>	<b>150,083</b>	<b>151,107</b>
<b>Total Liabilities</b>	<b>181,885</b>	<b>186,865</b>	<b>273,753</b>	<b>282,664</b>	<b>293,037</b>
<b>Total Shareholder's Equity</b>	<b>1,001,749</b>	<b>1,017,984</b>	<b>1,021,070</b>	<b>1,006,910</b>	<b>1,018,001</b>
Minority Interest	0	0	0	0	0
<b>Liabilities &amp; Shareholder's Equity</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,289,573</b>	<b>1,311,038</b>

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

Particulars	2017	2018	2019	2020e	2021e
<b>Growth Rates</b>					
Revenue	0.3%	2.9%	1.3%	(14.0%)	20.5%
Gross Profit	2.8%	(0.7%)	(2.2%)	(15.0%)	21.7%
EBITDA	(0.1%)	(3.4%)	(8.8%)	(13.2%)	18.8%
EBIT	(2.0%)	(8.1%)	(7.3%)	(17.6%)	21.9%
PAT/EPS	N/M	5.6%	(7.5%)	(15.4%)	20.0%
DPS	N/M	(25.0%)	(7.4%)	(15.4%)	20.0%
<b>Operating Ratios</b>					
Gross Margin	43.0%	41.5%	40.1%	39.6%	40.0%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	40.1%	39.6%	40.0%
EBITDA Margin	24.8%	23.3%	20.9%	21.1%	20.8%
EBIT Margin	18.8%	16.8%	15.4%	14.7%	14.9%
Net Margin	17.0%	17.5%	15.9%	15.7%	15.6%
<b>Working Capital Days</b>					
Inventory Days	59	76	71	76	76
Inventory Days	37	30	27	30	30
Average Collection Period	98	88	85	87	87
Payable Days	39	41	41	41	41
<b>Finance Ratios</b>					
Debt-Equity Ratio	3%	3%	2%	5%	5%
Net Debt-Equity Ratio	-7%	-6%	-6%	-2%	3%
Net Debt-to-Capital	-7%	-7%	-6%	-3%	3%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.5)	(0.3)	0.3
Interest Coverage	54.4	76.2	19.1	17.1	24.0
<b>Return Ratios</b>					
ROIC	8.5%	7.7%	7.2%	5.9%	7.1%
ROE	8.0%	8.3%	7.7%	6.6%	7.8%
ROA	6.8%	7.0%	6.0%	5.1%	6.1%
<b>Liquidity Ratios</b>					
Current Ratio	2.1	1.9	1.7	1.3	1.0
Quick Ratio	1.8	1.7	1.5	1.2	0.8
<b>Valuation</b>					
EV/Sales	4.1	4.0	3.9	4.6	4.0
EV/EBITDA	19.4	20.4	18.7	21.9	19.0
EV/EBIT	21.6	23.6	25.5	31.5	26.6
P/E	24.6	21.0	25.3	29.9	24.9
P/CF	11.4	15.3	16.2	19.2	20.6
P/BV	2.0	1.9	1.9	2.0	1.9
Dividend Yield	4.3%	6.3%	4.0%	3.3%	4.0%

Source: Company data, QNB FS Research

### Recommendations

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

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

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

### Contacts

#### Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@QNBFS.com.qa](mailto:saugata.sarkar@QNBFS.com.qa)

#### Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@QNBFS.com.qa](mailto:mehmet.aksoy@QNBFS.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@QNBFS.com.qa](mailto:shahan.keushgerian@QNBFS.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@QNBFS.com.qa](mailto:zaid.alnafoosi@QNBFS.com.qa)

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