

MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR7.69	Current Target Price	QR8.24
Implied Upside	7.1%		

3Q2019 Results: EPS Beat With Lower G&A; Market Perform

MCGS's net income beat our 3Q2019 estimate driven by lower-than-expected G&A, while its top-line and gross profits were in line with our estimates. We maintain our revenue growth estimate at 2.3% YoY in 2019. On the other hand, we reduced our FY2019 G&A forecast by 2.5% factoring in 3Q2019's reported figure, leading to an increase of 3% for our 2019 EPS estimate. Following the announcement of draft law preparations for the new National Healthcare System on June 18, MCGS shares rose by 36.0% outperforming the DSM Index' 1.9% decline and eroding the bulk of our upside potential. 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 2020. Until details of the new National Health Insurance are clarified, we anticipate MCGS shares to maintain their volatility. We maintain our Market Perform rating and our target price at QR8.24. Since our initiation on August 27, 2019 with a Market Perform rating, MCGS shares have remained flat, in line with the QE All Share Index's 1.7%.

Highlights

- **MCGS posted 3Q2019 net income/EPS of QR10.1m/QR0.036, up 35.0% YoY (down 24.8%, QoQ), beating our net income estimate of QR6.8mn.** In 9M2019, MCGS reported net profit of QR44.0mn vs. QR40.8mn in 9M2018. EPS amounted to QR0.16 in 9M2019 as compared to QR0.14 in 9M2018 with a 14.3% increase YoY.
- **Revenue and gross profits were in line with our estimates.** The company recorded QR109.2mn revenue in 3Q2019 with a 2.2% decline YoY, in line with our QR113.3mn forecast (variation: -3.6%). Gross margin rose from 36.4% in 3Q2018 to 37.9% in 3Q2019 (also up sequentially vs. 2Q2019's 36.6%). Hence, MCGS posted QR41.4mn in gross profits (variation: +0.7%) with a 1.8% increase YoY.
- **On the other hand, the decline in G&A (excluding the Board of Directors remuneration) was a surprise (10.2% QoQ) as of 3Q2019 (variation: -10.4%).** It is noteworthy that MCGS' G&A was 5.5% higher YoY as of 1H2019 which may partially be attributable to the new Al Wakrah Clinic.
- **We maintain our revenue growth rate estimate of 2.3% YoY in 2019, while we have reduced our G&A estimate slightly by 2.5% from QR90.8mn to QR88.4mn.** As such, we increase our FY2019 net earnings forecast for MCGS by 3% to QR87.9mn (previously QR85.4mn).

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 1.12x vs. international peer group's median of 0.74x. It is also the highest in the international peer group. If we had used a beta of 1x or MCGS' 2-year beta of 0.88x, MCGS' DCF valuation would imply 9.4% and 28.0% upside, respectively. 4) Completion of the hospital expansion project.

Recommendation, Valuation and Risks

- **We continue to rate MCGS as a Market Perform.** We also maintain our 12-month target price of QR8.24, which implies a 7.1% upside potential, assuming that the new National Insurance Scheme will be fully operational by end-2020 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

	2017	2018	2019e	2020e
EPS (QR)	0.28	0.30	0.31	0.33
P/E (x)	24.6	21.0	24.6	23.2
EV/EBITDA (x)	19.4	20.4	17.9	17.2
DPS (QR)	0.40	0.30	0.31	0.33
DY (%)	4.3%	6.3%	4.1%	4.3%

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)	8.55 / 5.31
3-m Avg. Volume (000)	530.6
Mkt. Cap. (\$ bn/QR bn)	0.60/2.2
EV (\$ bn/QR bn)	0.60/2.2
Current FO*/FO limit (%)	18.5%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	26.8%
Fiscal Year End	December 31

Source: Bloomberg (as of Oct 10, 2019), *Qatar Exchange (as of Oct 09, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (QR000)

	2017	2018	2019e	2020e	2021e
Revenue	470,621	484,211	495,386	508,337	555,185
COGS	268,101	283,162	288,300	290,913	316,405
Gross Profit	202,520	201,050	207,086	217,424	238,780
SG&A	85,880	88,397	88,355	93,126	95,454
Depreciation	28,191	31,370	35,033	36,312	30,184
Operating Income	88,449	81,282	83,698	87,986	113,141
EBITDA	116,640	112,652	116,231	124,298	143,325
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-487	0	0
Other Income	11,235	8,891	9,917	10,027	10,344
<i>Rental Income</i>	<i>2,902</i>	<i>2,698</i>	<i>4,080</i>	<i>4,080</i>	<i>4,283</i>
<i>Dividend Income</i>	<i>2,656</i>	<i>2,819</i>	<i>2,575</i>	<i>2,652</i>	<i>2,732</i>
<i>Write back of Prior Year Accruals</i>	<i>3,218</i>	<i>959</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Others</i>	<i>2,459</i>	<i>2,415</i>	<i>3,263</i>	<i>3,295</i>	<i>3,328</i>
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	-4,932	5,839	9,430	10,027	10,344
Net Finance Income (Expense)	-732	366	-2,367	-1,769	-1,576
Net profit before management fees and income tax	82,785	87,486	90,762	96,244	121,909
Management fees	-2,783	-2,975	-2,897	-3,159	-4,001
Income Tax	0	0	0	0	0
Non controlling interests	0	0	0	0	0
Net Income	80,002	84,511	87,865	93,086	117,908
<i>Net Profit Margin</i>	<i>17.0%</i>	<i>17.5%</i>	<i>17.2%</i>	<i>18.3%</i>	<i>21.2%</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>
EPS	0.28	0.30	0.30	0.33	0.42
DPS	0.40	0.30	0.30	0.33	0.42

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet (QR000)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	52,053	53,638	53,638	53,638	36,638
S/T Deposits	50,066	40,000	39,517	25,124	20,042
Accounts Receivable & Prepayments	83,815	63,825	64,500	66,186	72,286
Other Receivables and Prepayments	15,267	29,534	25,803	26,477	28,918
Due From Related Parties	0	0	0	0	0
Inventories	27,543	23,087	23,506	23,719	25,798
Total Current Assets	228,745	210,085	206,965	195,145	183,681
Financial assets at fair value through other comprehensiv	45,619	52,059	56,709	56,709	56,709
Right-of-use assets	0	0	66,593	62,014	57,435
Property, Plant & Equipment	909,271	942,705	965,880	988,669	1,035,480
Non-Current Assets	954,890	994,764	1,089,181	1,107,391	1,149,624
Total Assets	1,183,634	1,204,849	1,298,646	1,305,037	1,335,805
Short-Term Debt	14,472	14,974	33,347	30,950	33,273
Lease Liabilities	0	0	3,235	3,068	2,894
Accounts Payable & Accruals	29,683	32,718	33,312	33,614	36,559
Other Payables	46,451	41,561	41,582	41,775	42,496
Dividends Payable/Payable to shareholders	18,880	21,404	22,838	24,904	26,149
Current Liabilities	109,486	110,657	134,314	134,311	141,371
Non-Current Liabilities					
Lease Liabilities	0	0	62,863	59,629	56,236
Retentions payable	0	0	2,146	2,166	2,355
Long-Term Debt	19,708	16,032	16,833	17,675	18,559
Employees end of service benefits	52,692	60,176	63,185	66,345	69,662
Non-Current Liabilities	72,399	76,208	145,028	145,814	146,812
Total Liabilities	181,885	186,865	279,342	280,125	288,183
Total Shareholder's Equity	1,001,749	1,017,984	1,019,304	1,024,912	1,047,621
Minority Interest	0	0	0	0	0
Liabilities & Shareholder's Equity	1,183,634	1,204,849	1,298,646	1,305,037	1,335,805

Source: Company data, QNB FS Research

Cash Flow Statement (QR000)

	2017	2018	2019e	2020e	2021e	2022e
Cash Flow From Operations	173,099	129,676	122,521	127,279	140,364	188,674
Cash Flow From Investment Activities	-49,737	-24,802	-52,871	-52,653	-75,418	-25,864
Cash Flow From Financing Activities	-103,110	-113,355	-63,940	-84,916	-87,776	-111,540
Cash Flow From Other Activities	0	0	-6,193	-4,103	17,748	1,259
Change In Cash	20,252	-8,481	-483	-14,393	-5,082	52,529
Cash Beginning of Period	31,802	52,053	53,638	53,638	53,638	36,638
Decrease (increase) in Fixed Deposits	14,997	10,066	483	14,393	5,082	-51,937
Cash End of Period	52,053	53,638	53,639	53,639	53,639	37,231

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	0.3%	2.9%	2.3%	2.6%	9.2%
Gross Profit	2.8%	(0.7%)	3.0%	5.0%	9.8%
EBITDA	(0.1%)	(3.4%)	5.4%	4.7%	15.3%
EBIT	(2.0%)	(8.1%)	3.0%	5.1%	28.6%
PAT/EPS	N/M	5.6%	4.0%	6.0%	26.6%
DPS	N/M	(25.0%)	4.1%	6.0%	26.6%
CFPS	N/M	(25.1%)	(0.2%)	(1.6%)	10.3%
Operating Ratios					
Gross Margin	43.0%	41.5%	41.8%	42.8%	43.0%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	41.8%	42.8%	43.0%
EBITDA Margin	24.8%	23.3%	24.0%	24.5%	25.8%
EBIT Margin	18.8%	16.8%	16.9%	17.3%	20.4%
Net Margin	17.0%	17.5%	17.7%	18.3%	21.3%
Working Capital Ratios					
Inventory Days	59	76	70	70	70
Average Collection Period	37	30	30	30	30
Payable Days	98	88	84	84	83
Finance Ratios					
Debt-Equity Ratio	3%	3%	5%	5%	5%
Net Debt-Equity Ratio	-7%	-6%	-5%	-3%	0%
Net Debt-to-Capital	-7%	-7%	-5%	-3%	0%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.4)	(0.2)	(0.0)
Interest Coverage	54.4	76.2	19.8	24.2	35.9
Return Ratios					
ROIC	8.5%	7.7%	7.8%	8.2%	10.3%
ROE	8.0%	8.3%	8.6%	9.1%	11.3%
ROA	6.8%	7.0%	6.8%	7.2%	8.9%
FCF Yield	5.0%	4.7%	3.4%	3.4%	2.9%
Liquidity Ratios					
Current Ratio	2.1	1.9	1.6	1.5	1.3
Quick Ratio	1.8	1.7	1.4	1.3	1.1
Valuation					
EV/Sales	4.5	4.3	4.3	4.2	3.9
EV/EBITDA	19.4	20.4	17.9	17.2	15.1
EV/EBIT	23.7	25.9	25.3	24.3	19.1
P/E	24.6	21.0	24.6	23.2	18.4
P/CF	12.5	16.7	16.7	17.0	15.4
P/BV	2.2	2.1	2.1	2.1	2.1
Dividend Yield	4.3%	6.3%	4.1%	4.3%	5.4%
FCF Yield	5.0%	4.7%	3.4%	3.4%	2.9%

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

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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