

## Medicare Group (MCGS)

|                |            |              |         |
|----------------|------------|--------------|---------|
| Recommendation | ACCUMULATE | Risk Rating  | R-3     |
| Share Price    | QR4.619    | Target Price | QR5.524 |
| Implied Upside | 19.6%      |              |         |

### 1Q2025 Earnings Miss on Lower Revenue and Margin Shrinkage; Stay Accumulate

Medicare Group's 1Q2025 earnings growth of 9.3% to QR21.6mn YoY missed our estimates primarily due to a top-line miss, compounded by modest operating leverage effects, which saw the GPM slightly weaker than modeled. Bottom-line growth emanated from last year's base effects related to the loss-making Al Wakra Clinics that were still operational in 1Q2024 before being discontinued midway through 2Q2024. Otherwise, continuing net profit, which excludes the now closed Al Wakra Clinics, was lower by 4.1%. The decrease in revenue by 1.8% to QR127.8mn, which missed our forecast, was primarily due to seasonal effects related to the Ramadan period. So, we do not necessarily view these results in a bad light and, consequently, are not adjusting our forecasts as we believe the seasonal knock to the 1Q revenue could reverse in 2Q. **Going forward, we expect the NPM to continue improving as the group benefits from the newly streamlined operations.** We believe the decision to discontinue the underperforming Al Wakra Clinic was sound – it was making economic losses and eating into group margins. With the drag now removed, continuing operations look much healthier, as evidenced by the improved NPM. **We see NP climbing 69.4%/11.7% in 2025/26 to QR101.8mn/QR113.7mn and reiterate our Accumulate rating and QR5.524 PT. MCGS could also come back into play as the yield dynamics improve on declining global interest rates.** While there is potential uplift related to "new Seha", which Medicare can take advantage of given its 60% average occupancy level for FY2024, healthcare has become a competitive market with the influx of new players.

### Highlights

- **MCGS's 1Q2025 net profit rose 9.3% YoY but was lower QoQ by 10.0% to QR21.6mn, and also behind our estimate of QR23.1mn.** We attribute the miss primarily to revenue coming in lower than anticipated. Comparatively, the like-for-like NP that adjusts for the losses related to the discontinued Al Wakra Clinic in the base period declined 4.1% YoY. The gross profit margin decreased to 35.6% from 36.4% in 1Q2024 and slightly slimmer than expectations of 35.7%. The EBITDA margin also printed lower than we had anticipated at 17.9% vs 18.8% modeled, primarily due to operating leverage effect; otherwise G&A costs were largely in line. NP margin came in at 16.9% in 1Q2025 (vs. 17.0% expected), from 15.2% in 1Q2024. The 1Q2024 NPM would have been 17.3% without the impact of Al Wakra Clinic.
- **MCGS's 1Q2025 revenue declined 1.8%/5.7% YoY/sequentially to QR127.8mn vs QR135.5mn expected,** due to Ramadan seasonal effects, specifically hitting inpatient volumes. Outpatient volumes were up despite the the seasonal impact. Management says growth in the first two months of the year, before Ramadan, was strong, and outlook remains upbeat for the full year, though without giving a specific guidance. Also, we see that the marketing budget jumped during the quarter despite a disappointing revenue print, and this could see revenue returning to growth YoY in future quarters, similar to the momentum sustained during 2024. Moreover, management stated new competition has had negligible impact so far.
- **Margin boost from the closure of Al-Wakra Clinic; 0.5/2.1ppts boost to GPM/NPM.** We see permanent margin-expansion due to the closure of the loss-making Al Wakra clinic. The 1Q2024 results show a hit of QR0.6mn (FY2023: QR3.4mn) and QR2.8mn (FY2023: QR10.5mn) to the group GP and NP, respectively. That translates to a haircut of 0.5/2.1 percentage points (FY2023: 0.7/2.2) to the GPM/NPM in 1Q2024. Also, the Al Wakra clinic accounted for all finance charges.
- **A healthy earnings outlook:** We see decent earnings growth in the short- to medium-term, even in a normalized sense, buttressed by improving margins. We project 2025 NP climbing to 69.4%, mainly due to base effects. Still, we see normalized growth in 2025 at an impressive 8.1%. Earnings growth should then average 10.5% between 2026-28. That is on the back of an average revenue growth of 4.6% between 2025-28.

### Catalysts

- **Catalysts: (1)** Phased rollout of the "new" health insurance policy **(2)** Cost-cutting initiatives including the closure of Al-Wakra Clinics **(3)** Contingent QR109mn receivable cash windfall from Medicare's court case vs. the government on "old Seha" **(4)** Ongoing marketing efforts and renovations and upgrade of hospital facilities **(5)** Declining but somewhat sticky global yields.

### Recommendation, Valuation and Risks

- **Recommendation and Valuation: We maintain our Accumulate rating and weighted 12-month PT of QR5.524, which implies a 19.6% upside potential.** Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Several macro and micro themes cancel out each other to render a relatively neutral prognosis on MCGS's short- to medium-term outlook, with these notable variables driving the outlook: service level & product quality, public health policy, increased healthcare spend, limited bed capacity & occupancy levels growth, tariff controls and competition from both the private and public players. In the longer-term, above-average population growth, disease burden & expected favorable composition of expats, should become more dominant in shaping prospects.
- **Key risks: (1)** Escalating competitive pressure as both private and public bed-count increases **(2)** Further write-downs/offers of the Seha receivable **(3)** Low stock liquidity **(5)** Global disease outbreak.

### Key Financial Data and Estimates

| Medicare Group | 2024A | 2025E | 2026E | 2027E | 2028E |
|----------------|-------|-------|-------|-------|-------|
| EPS (QR)       | 0.21  | 0.36  | 0.40  | 0.44  | 0.49  |
| DPS (QR)       | 0.20  | 0.34  | 0.38  | 0.41  | 0.46  |
| P/E (x)        | 21.6  | 12.8  | 11.4  | 10.4  | 9.5   |
| EV/EBITDA (x)  | 12.7  | 11.5  | 10.2  | 9.0   | 8.1   |
| DY (%)         | 4.3%  | 7.3%  | 8.2%  | 8.9%  | 9.9%  |

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

### Key Data

|                         |                |
|-------------------------|----------------|
| Current Market Price    | QR4.619        |
| Dividend Yield (%)      | 4.3            |
| Bloomberg Ticker        | MCGS QD        |
| ADR/GDR Ticker          | N/A            |
| Reuters Ticker          | MCGS.QA        |
| ISIN                    | QA0006929754   |
| Sector*                 | Consumer Goods |
| 52wk High/52wk Low (QR) | 4.822/3.905    |
| 3-m Average Vol.        | 802,832        |
| Mkt. Cap. (\$ bn/QR bn) | 0.4/1.3        |
| EV (\$ bn/QR bn)        | 0.4/1.4        |
| Shares O/S (mn)         | 281.4          |
| FO Limit* (%)           | 100.0          |
| FO (Institutional)* (%) | 17.3           |
| 1-Year Total Return (%) | 18.0           |
| Fiscal Year-End         | December 31    |

Source: Bloomberg (as of April 22, 2025),\*Qatar Exchange (as of April 21, 2025); Note: FO is foreign ownership

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**Condensed Income Statement**

|  | 2024A              | 2025E              | 2026E              | 2027E              | 2028E              |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>REVENUE</b>                                       | <b>523,491,870</b> | <b>545,228,514</b> | <b>571,255,701</b> | <b>598,135,103</b> | <b>626,297,980</b> |
| GROSS PROFIT   | 196,683,631        | 207,720,403        | 222,162,823        | 237,112,876        | 252,773,213        |
| EBITDA   | 108,019,433        | 116,947,641        | 128,964,061        | 141,432,239        | 154,647,605        |
| OPERATING PROFIT                                     | 82,617,218         | 90,420,007         | 102,200,903        | 114,415,382        | 127,110,272        |
| <b>PROFIT FOR THE PERIOD (Continuing Operations)</b> | <b>94,152,828</b>  | <b>101,761,036</b> | <b>113,658,674</b> | <b>124,426,993</b> | <b>137,379,848</b> |
| <b>PROFIT FOR THE PERIOD</b>                         | <b>60,056,920</b>  | <b>101,761,036</b> | <b>113,658,674</b> | <b>124,426,993</b> | <b>137,379,848</b> |

Source: Company data, QNBFS Research

**Balance Sheet**

|  | 2024A                | 2025E                | 2026E                | 2027E                | 2028E                |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Property and equipment                                       | 1,041,449,857        | 1,044,922,223        | 1,028,159,064        | 1,011,142,208        | 1,003,604,875        |
| Investments at fair value through other comprehensive income | 73,401,634           | 73,401,634           | 73,401,634           | 73,401,634           | 73,401,634           |
| Investment property  | 26,244,000           | 26,244,000           | 26,244,000           | 26,244,000           | 26,244,000           |
| <b>Total Non-Current Assets</b>                              | <b>1,141,095,491</b> | <b>1,144,567,857</b> | <b>1,127,804,698</b> | <b>1,110,787,842</b> | <b>1,103,250,509</b> |
| Inventories  | 31,253,873           | 32,551,609           | 34,105,502           | 35,710,275           | 37,391,674           |
| Accounts Receivable and Prepayments                          | 131,641,714          | 140,281,579          | 150,626,846          | 161,310,850          | 172,505,009          |
| Cash and cash equivalents                                    | 108,792,159          | 98,581,553           | 100,739,208          | 102,730,432          | 97,949,481           |
| Short term deposits  | 88,000,000           | 88,000,000           | 88,000,000           | 88,000,000           | 88,000,000           |
| <b>Total Current Assets</b>                                  | <b>271,687,746</b>   | <b>271,414,741</b>   | <b>285,471,556</b>   | <b>299,751,556</b>   | <b>307,846,164</b>   |
| <b>Total Assets</b>  | <b>1,412,783,237</b> | <b>1,415,982,598</b> | <b>1,413,276,254</b> | <b>1,410,539,398</b> | <b>1,411,096,673</b> |
| <b>EQUITY AND LIABILITIES</b>                                |                      |                      |                      |                      |                      |
| Share Capital  | 281,441,000          | 281,441,000          | 281,441,000          | 281,441,000          | 281,441,000          |
| Legal Reserve  | 128,586,417          | 138,762,521          | 150,128,388          | 162,571,087          | 176,309,072          |
| Fair Value Reserve   | 22,036,690           | 22,036,690           | 22,036,690           | 22,036,690           | 22,036,690           |
| Revaluation reserve  | 521,092,396          | 521,092,396          | 521,092,396          | 521,092,396          | 521,092,396          |
| Retained Earnings  | 55,981,067           | 91,840,681           | 99,037,513           | 104,807,455          | 112,171,941          |
| <b>Total Equity</b>  | <b>1,009,137,570</b> | <b>1,055,173,288</b> | <b>1,073,735,987</b> | <b>1,091,948,628</b> | <b>1,113,051,100</b> |
| Bank facilities  | 151,394,292          | 119,660,538          | 92,465,610           | 65,270,682           | 38,075,754           |
| Employees' end of service benefits                           | 88,808,832           | 96,586,673           | 104,558,961          | 112,730,556          | 121,106,440          |
| <b>Total Non-Current Liabilities</b>                         | <b>240,203,124</b>   | <b>216,247,212</b>   | <b>197,024,571</b>   | <b>178,001,238</b>   | <b>159,182,194</b>   |
| Accounts payable and accruals                                | 129,546,099          | 117,770,687          | 121,813,096          | 125,975,745          | 130,338,404          |
| Bank facilities st   | 33,896,444           | 26,791,411           | 20,702,599           | 14,613,788           | 8,524,976            |
| <b>Total Current Liabilities</b>                             | <b>163,442,543</b>   | <b>144,562,098</b>   | <b>142,515,696</b>   | <b>140,589,532</b>   | <b>138,863,379</b>   |
| <b>Total Liabilities</b>                                     | <b>403,645,667</b>   | <b>360,809,310</b>   | <b>339,540,267</b>   | <b>318,590,770</b>   | <b>298,045,574</b>   |
| <b>Total Equity and Liabilities</b>                          | <b>1,412,783,237</b> | <b>1,415,982,598</b> | <b>1,413,276,254</b> | <b>1,410,539,398</b> | <b>1,411,096,673</b> |

Source: Company data, QNBFS Research

**Summarized Cashflow Statement**

|  | 2024A                | 2025E               | 2026E                | 2027E                | 2028E                |
|--|----------------------|---------------------|----------------------|----------------------|----------------------|
| <b>Cash Flow from Operating Activities</b> | <b>110,060,450</b>   | <b>114,353,498</b>  | <b>140,537,370</b>   | <b>151,489,316</b>   | <b>164,780,166</b>   |
| <b>Cash Flow from Investing Activities</b> | <b>(134,016,414)</b> | <b>(30,000,000)</b> | <b>(10,000,000)</b>  | <b>(10,000,000)</b>  | <b>(20,000,000)</b>  |
| <b>Cash Flow from Financing Activities</b> | <b>32,248,486</b>    | <b>(94,564,104)</b> | <b>(128,379,715)</b> | <b>(139,498,092)</b> | <b>(149,561,116)</b> |
| Change in Cash                             | 8,292,522            | (10,210,606)        | 2,157,655            | 1,991,224            | (4,780,951)          |
| Opening Cash                               | 12,499,637           | 20,792,159          | 10,581,553           | 12,739,208           | 14,730,432           |
| <b>Cash End of Period</b>                  | <b>20,792,159</b>    | <b>10,581,553</b>   | <b>12,739,208</b>    | <b>14,730,432</b>    | <b>9,949,481</b>     |

Source: Company data, QNBFS Research

**Ratios**

|                             | 2024A | 2025E | 2026E | 2027E  | 2028E  |
|-----------------------------|-------|-------|-------|--------|--------|
| <b>GROWTH METRICS</b>       |       |       |       |        |        |
| Revenue                     | 7.7%  | 4.2%  | 4.8%  | 4.7%   | 4.7%   |
| Gross Profit                | 11.7% | 5.6%  | 7.0%  | 6.7%   | 6.6%   |
| EBITDA                      | 16.7% | 8.3%  | 10.3% | 9.7%   | 9.3%   |
| Operating Profit            | 21.9% | 9.4%  | 13.0% | 12.0%  | 11.1%  |
| Net Profit                  | -8.6% | 69.4% | 11.7% | 9.5%   | 10.4%  |
| Net Profit - Sustainable    | 43.3% | 8.1%  | 11.7% | 9.5%   | 10.4%  |
| EPS (QR/share)              | 21.3% | 36.2% | 40.4% | 44.2%  | 48.8%  |
| DPS (QR/share)              | 19.8% | 33.8% | 37.7% | 41.3%  | 45.6%  |
| <b>OPERATING RATIOS</b>     |       |       |       |        |        |
| Gross Margin                | 37.6% | 38.1% | 38.9% | 39.6%  | 40.4%  |
| EBITDA Margin               | 20.6% | 21.4% | 22.6% | 23.6%  | 24.7%  |
| EBIT Margin                 | 15.8% | 16.6% | 17.9% | 19.1%  | 20.3%  |
| Net Profit Margin           | 18.0% | 18.7% | 19.9% | 20.8%  | 21.9%  |
| <b>RETURN RATIOS</b>        |       |       |       |        |        |
| RoE                         | 9.3%  | 9.6%  | 10.6% | 11.4%  | 12.3%  |
| RoIC                        | 7.6%  | 8.2%  | 9.4%  | 10.7%  | 12.0%  |
| RoA                         | 5.8%  | 6.4%  | 7.2%  | 8.1%   | 9.0%   |
| <b>VALUATION RATIOS</b>     |       |       |       |        |        |
| EV/Sales                    | 2.6   | 2.5   | 2.3   | 2.1    | 2.0    |
| EV/EBITDA                   | 12.7  | 11.5  | 10.2  | 9.0    | 8.1    |
| EV/EBIT                     | 16.7  | 14.9  | 12.8  | 11.2   | 9.8    |
| PE Ratio                    | 21.6  | 12.8  | 11.4  | 10.4   | 9.5    |
| PEG Ratio                   | 0.7   | 1.0   | 1.1   | 1.3    | -      |
| P/CF                        | 11.8  | 11.4  | 9.3   | 8.6    | 7.9    |
| P/B                         | 1.3   | 1.2   | 1.2   | 1.2    | 1.2    |
| Dividend Yield              | 4.3%  | 7.3%  | 8.2%  | 8.9%   | 9.9%   |
| FCF Yield                   | 4.2%  | 6.5%  | 10.0% | 10.9%  | 11.1%  |
| <b>LEVERAGE RATIOS</b>      |       |       |       |        |        |
| Debt/Equity Ratio           | 18.4% | 13.9% | 10.5% | 7.3%   | 4.2%   |
| Net Debt/Equity Ratio       | 7.6%  | 4.5%  | 1.2%  | -2.1%  | -4.6%  |
| Net Debt/Capital Ratio      | 8.5%  | 5.0%  | 1.3%  | -2.3%  | -5.1%  |
| Net Debt/EBITDA             | 70.8% | 40.9% | 9.6%  | -16.2% | -33.2% |
| Interest coverage           | N.M.  | N.M.  | N.M.  | 73.1   | 89.0   |
| <b>LIQUIDITY RATIOS</b>     |       |       |       |        |        |
| Current Ratio               | 1.7   | 1.9   | 2.0   | 2.1    | 2.2    |
| Quick Ratio                 | 1.5   | 1.7   | 1.8   | 1.9    | 1.9    |
| <b>WORKING CAPITAL DAYS</b> |       |       |       |        |        |
| Inventory Days              | 127   | 127   | 127   | 127    | 127    |
| Average Collection Period   | 145   | 145   | 145   | 145    | 145    |
| Payables Days               | 145   | 145   | 145   | 145    | 145    |

Source: Company data, QNBFS Research

| Recommendations   |                      | Risk Ratings   |                                   |
|---|----------------------|--|-----------------------------------|
| <i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i> |                      | <i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i> |                                   |
| <b>OUTPERFORM</b>   | Greater than +20%    | <b>R-1</b>   | Significantly lower than average  |
| <b>ACCUMULATE</b>   | Between +10% to +20% | <b>R-2</b>   | Lower than average                |
| <b>MARKET PERFORM</b>   | Between -10% to +10% | <b>R-3</b>   | Medium / In-line with the average |
| <b>REDUCE</b>   | Between -10% to -20% | <b>R-4</b>   | Above average                     |
| <b>UNDERPERFORM</b>   | Lower than -20%      | <b>R-5</b>   | Significantly above average       |

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