Medicare Group (MCGS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.374	Target Price	QR5.524
Implied Upside	26.3%		

Normalized 2Q2024 NP Beat on Higher Top-Line & Margin-Expansion; Upgrade To Accumulate

Medicare's published 1H2024 net profit does not quite tell the right story regarding the healthcare group's underlying operations as it shows a marked decline by 69.0% to QR11.3mn from QR36.3mn. The profit decline primarily emanates from a large impairment of assets related to discontinued Al Wakra Clinics & Urgent Care Unit operations. *This also means the statutory 1H2024 financial statements, which have been restated, are not directly comparable on a quarterly basis but we have normalized them by adding back discountinued operations' performance to enhance a like-for-like (lfl) comparison. Medicare's normalized 2Q2024 results are actually impressive on lfl basis, beating our estimates both at the top and bottom line.* ***Consequently, we have upgraded our FY2024e revenue assumptions and adjusted our FY2024e profit assumptions to take into account of the impairment of Al Wakra Clinics assets. Since the asset impairment has limited impact on operating cashflows, we maintain our dividend estimate for the year. Consequently, we change our rating to Accumulate from Market Perform but maintain our PT for now.*** *While we reckon there are no major macro catalysts in the immediate horizon, we expect the closure of Al-Wakra Clinics & Urgent Care Unit to have an overall net positive effect at the bottom-line mainly due to cost-savings. The unit was making economic losses. Also, management expects to make more cost-saving initiatives in the interim, which could boost margins further. In addition, we note that MCGS could still get a one-off boost once there is more clarity on when it will receive a cash windfall following a second and similar Court of Appeal judgement in MCGS's favor against the National Health Insurance Company (Seha) in May. Moreover, MCGS looks inexpensive relative to regional peers.*

Highlights

- **MCGS's lfl 2Q2024 net profit rose 26.5%/12.2% YoY/QoQ to QR22.2mn, ahead of our estimate of QR18.5mn.** The bottom-line outperformance was driven by higher-than-modeled top-line growth and margin expansion. The GP margin came in higher at 37.9%, greater than both sequentially (35.9%) and 37.7% in 1Q2023.
- **MCGS's lfl 2Q2024 revenue rose by 8.3% YoY but declined by 1.0% QoQ to QR 128.8mn,** higher than our estimate of QR122.1mn, likely a continuation of the outpatient volume growth theme that was observed in 1Q. It seems management's marketing and promotional efforts are paying off. We are, however, still concerned that the highly competitive environment due to new entrants lends itself to price competition, which could have a negative impact on margins later on.
- **Margin boost to ensue from closure of Al-Wakra Clinics.** We see permanent margin-expansion due to the closure of Al Wakra clinics that was making economic losses. The 1H2024 results show a lfl loss of QR3.4mn from discontinued operations, which implies a haircut of 1.3ppts to the group NPM. It was a similar case in the base period where the haircut to the NPM was higher at 2.2%. We also note that the closure of Al Wakra Clinics bodes well for Medicare's capital return metrics that are relatively low.
- **Seha receivable boost.** On 20 May, MCGS was awarded QR109.1mn in compensation by the Court of Appeal in connection with a 2015/16 Seha receivable. Now, we estimate that the latest/second Court of Appeal ruling on 20 May 2024 implies a net positive impact of QR0.25/share down from QR0.33/share related to the court's previous/first ruling on 23 January 2023 on the same case. MCGS had written down QR76.3mn of the original QR114.1mn Seha receivable. In the worst case scenario, we estimate a net negative impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.

Catalysts

- **Catalysts: (1)** Phased rollout of the "new" health insurance policy **(2)** Cost-cutting initiatives including the closure of Al-Wakra Clinics **(3)** Contingent receivable cash windfall from Medicare's court case (vs. the government on "old" Seha).

Recommendation, Valuation and Risks

- **Recommendation and Valuation:** ***We upgrade our rating to Accumulate from Market Perform and maintain our weighted 12-month TP of QR5.524, which implies a 26.3% 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, where we see the following 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 medium- to longer-term, above-average population growth, disease burden & expected change in the composition of expats (to a more white-collar workforce), will become more dominant in shaping prospects.
- **Key risks: (1)** Further delays to planned bed-expansion plans **(2)** Further write-downs/offs of the Seha receivable **(3)** Escalating competitive pressure as both private and public bed-count increases **(4)** Low stock liquidity **(5)** Rising global/local yields **(6)** Global disease outbreak.

Key Financial Data and Estimates

Medicare Group	2023A	2024E	2025E	2026E	2027E
EPS (QR)	0.23	0.16	0.29	0.31	0.36
DPS (QR)	0.22	0.24	0.28	0.29	0.34
P/E (x)	18.7	28.0	15.0	14.0	12.1
EV/EBITDA (x)	15.6	14.0	12.7	11.5	10.1
DY (%)	5.0%	5.5%	6.3%	6.7%	7.8%

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	QR4.374
Dividend Yield (%)	5.0
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk High/52wk Low (QR)	6.420/3.950
3-m Average Vol. (mn)	1.8
Mkt. Cap. ($ bn/QR bn)	0.3/1.2
EV ($ bn/QR bn)	0.4/1.3
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	15.8
1-Year Total Return (%)	-27.4
Fiscal Year-End	December 31

Source: Bloomberg (as of July 21, 2024),*Qatar Exchange (as of July 21, 2024); Note: FO is foreign ownership

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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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