

Medicare Group (MCGS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.391	Target Price	QR5.524
Implied Upside	25.8%		

Upbeat 3Q2024 Earnings; Decision To Close Al Wakra Clinic Vindicated; Maintain Accumulate

Medicare posted a strong 3Q2024 earnings beat driven by a strong top-line and much better margins following management's decision to close Al Wakra Clinic during 1H2024. After upgrading our rating on Medicare to Accumulate from Market Perform following the 1H/2Q2024 results, this latest set of 3Q2024 numbers strongly reinforces our conviction. Although Medicare's share price came under pressure immediately after the 2Q/1H reporting season – likely due to the initial appearance of weaker results – we believe the market eventually recognized the underlying strength in the numbers as the stock recovered. 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 improved margins and stronger operating cash flows. While YTD profit remains lower YoY due to non-cash impairments linked to the clinic closure, operating cash flows have significantly strengthened compared to 9M2023, highlighting the positive impact of this decision. Furthermore, marketing efforts seem to continue to pay off, with revenue surpassing our expectations—achieving the highest 3Q revenue since 2015 that was boosted by the old Seha program (excluding the COVID-driven results in 2020). Additionally, as previously guided, there were no further costs associated with the Al Wakra Clinic in 3Q, boosting our confidence in the outlook. **We are raising our full-year revenue target to QR521.9mn from QR515.6mn, marking a consecutive upward revision on consecutive upbeat results. We reiterate our Accumulate rating and maintain our QR5.524 PT. MCGS could also come back into play as the yield dynamics improve as interest rates cool off.** Besides the potential uplift by the “new Seha” we do not see any other major macro catalysts in the immediate horizon. However, we see the closure of Al Wakra Clinic having an overall net positive effect on margins, already evidenced in 3Q2024. Management has signaled that additional cost-saving initiatives are in the pipeline, which could further enhance margins. Moreover, there is the potential for a one-off boost if Medicare receives a cash windfall following a second favorable Court of Appeal judgment against the “old Seha” in May.

Highlights

- **MCGS's 3Q2024 net profit climbed 76.2% YoY to QR24.7mn, ahead of our estimate of QR19.8mn.** The continuing NP rose 45.1% YoY, as the base period excludes the impact of the loss from the discontinued Al Wakra Clinic that is equivalent 2.8 percentage points of the group NP Margin. NP margin came in at 20% in 3Q2024 (vs. 16.9% expected), from 12.9% in 3Q2023 – comparatively, continuing NP margin in 3Q2023 printed at 15.6%. The bottom-line outperformance was driven by higher-than-modeled top-line growth and margin expansion. Meanwhile, due to restatement of the financial statements to account for discontinued operations, like-for-like comparison of certain line items is difficult especially QoQ, without first normalizing the results by adding back the stripped out discontinued operations. **During 2Q2024, the group made a loss of QR8.5mn primarily due to the impairment of discontinued Al Wakra Clinic. However, continuing NP in 2Q2024 was QR22.2mn, implying that continuing 3Q2024 NP of QR24.7mn grew 11.5% sequentially.**
- **MCGS's 3Q2024 revenue rose by 13.1% YoY but declined by 4.1% QoQ to QR 123.5mn,** higher than our estimate of QR117.2mn, likely due to continuation of strong patient growth owing to marketing and discounting efforts. It seems management's marketing efforts are paying off and eventually we could be compelled to accept it as a winning strategy despite our concerns: In a highly competitive environment, due to new entrants, it has the potential to spark price competition, with the consequent negative impact on margins down the line.
- **Margin boost from closure of the Al-Wakra Clinic.** We see permanent margin-expansion due to the closure of the loss-making Al Wakra Clinic. The 9M2023 results show a hit of QR8.6mn to the group bottom-line by Al Wakra Clinic, roughly a haircut of 2.4 percentage points to NP margin. We also note that the closure of Al Wakra Clinics bodes well for Medicare's capital return metrics that are relatively low.

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 maintain our Accumulate rating and our weighted 12-month TP of QR5.524, which implies a 25.8% 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 favourable composition of expats, should become more dominant in shaping prospects.
- **Key risks: (1)** Further delays to planned bed-expansion plans **(2)** Further write-downs/offsets 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	0.23	0.36	0.38	0.41
DPS (QR)	0.22	0.24	0.34	0.35	0.38
P/E (x)	18.8	19.5	12.3	11.7	10.8
EV/EBITDA (x)	15.6	11.9	10.8	9.9	9.2
DY (%)	5.0%	5.5%	7.7%	8.1%	8.7%

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	QR4.391
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)	5.629/3.905
3-m Average Vol. (mn)	1.0
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 (%)	-13.2
Fiscal Year-End	December 31

Source: Bloomberg (as of October 23, 2024); *Qatar Exchange (as of October 23, 2024); Note: FO is foreign ownership

Phibion Makuwerere, CFA

+974 4476 6589

phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Condensed Income Statement

GROUP	2023A	2024E	2025E	2026E	2027E
REVENUE	486,306,751	521,908,712	543,340,017	569,190,027	595,880,539
GROSS PROFIT	172,710,664	203,258,908	211,605,393	221,672,757	232,067,456
EBITDA	86,733,370	112,948,245	119,542,707	127,100,933	134,985,749
OPERATING PROFIT	58,317,364	84,532,239	90,927,326	98,271,410	105,926,227
PROFIT FOR THE PERIOD	65,700,560	63,515,480	100,880,072	105,813,327	114,623,671

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>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”) QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.