

Mouwasat Medical Services Company

Strong earnings growth by Mouwasat, downgrade to "Neutral"

Mouwasat reported strong earnings growth (+36.3% Y-o-Y) during Q1 2021 supported by higher margins and robust top-line growth. We maintain our positive outlook for Mouwasat but downgrade our recommendation to Neutral due to the recent rally in the stock price. We revise our recommendation for Mouwasat to Neutral with a 52-week target price of SAR194.1/share.

Mouwasat's revenues grew by 8.1% Y-o-Y, recording SAR534mn during Q1 2021. Y-o-Y growth was supported by outpatient medical services (+13.5% Y-o-Y) and inpatient medical services (+6.0% Y-o-Y), while the pharmaceuticals segment revenues remained relatively flat (-0.4% Y-o-Y).

Mouwasat's gross profit increased by 15.3% Y-o-Y and 2.0% Q-o-Q as Al Khobar hospital continues to contribute positively in addition to higher cost efficiencies. Gross margins widened to 47.6% vs 44.7% in Q1 2020 and 46.7% in Q4 2020. We expect tighter gross margins during H2 2021, however, as the new Medinah hospital and Dammam hospital expansion commence operations. Mouwasat expects the new projects to reflect positively on its profitability within 18 months of the start of operations (end of FY2022).

EBIT grew by 28.9% Y-o-Y and 5.4% Q-o-Q to SAR158mn during Q1 2021, supported by gross profit growth coupled with lower SG&A (-1.8% Y-o-Y). Lower finance charges further contributed to higher net income, which surged by 36.3% Y-o-Y to SAR147mn.

During April 2021, Mouwasat announced the start of the trial operations of the Dammam hospital extension, which will include 200 new beds. Official commencement of operations is expected to start during Q3 2021. Medinah hospital is also expected to start operations during H2 2021, as per the company's announcements. The new capacities will add around 40% to Mouwasat's existing bed capacities.

We expect Mouwasat to continue to report strong top-line and bottom-line growth during Q2 2021 supported by growth from the existing 6 hospitals and rise in reported COVID cases in Saudi Arabia during Q2 2021, which could potentially boost inpatient medical services and COVID testing services revenues compared to Q1 2021. Starting H2 2021, however, we expect some pressure on margins as operations in the new hospitals begin, yet top-line growth is expected to continue to be strong.

We previously highlighted the unjustified low multiples of Mouwasat compared to its peers, but we believe that the current stock price better reflects the company's strong fundamentals given the recent rally in the stock price. Mouwasat currently trades at 32.5x TTM P/E, in line with the sector's median and the sector's largest player (Suleiman Al Habib). We maintain our positive outlook for Mouwasat but downgrade our recommendation from Overweight to Neutral.

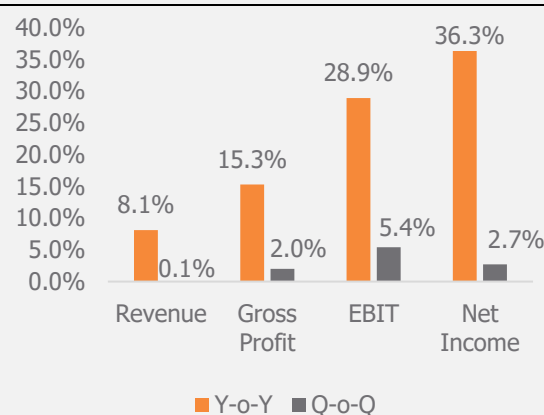
31 May 2021

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (30-05-2021)	SAR184.6
Target Price (52 Weeks)	SAR194.1
Upside/ (Downside)	5.1%
Shariah Compliance	Pass

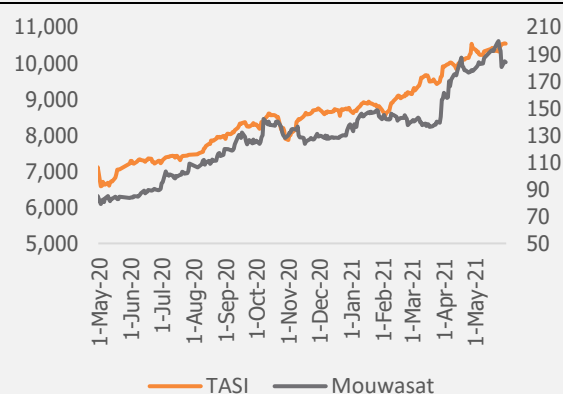
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	0.1%	-2.8%	-2.2%
Gross Margin	47.6%	46.7%	44.7%
EBIT Margin	29.7%	28.2%	24.9%
Net Margin	27.6%	26.9%	21.9%

Key Financial Results (Q1 2021)



Share Price Performance



Financial Projection

DCF Valuation

	2020A	2021E	2022F	2023F	2024F	2025F	2026F
EBITDA	703	766	830	897	968	1,043	1,123
Operating CF	396	727	870	846	923	982	1,059
Capex	(230)	(234)	(167)	(167)	(152)	(164)	(176)
FCFF	166	493	703	678	771	818	883
Stub Period (FCF to be discounted)	0	371	703	678	771	818	883
PV (FCFF)	0	354	628	568	603	599	605
WACC	6.7%						
Perpetuity Growth	3.0%						
PV-FCFF	3,357	We have valued Mouwasat using DCF approach, considering a WACC equal to 6.7% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 0.59).					
PV-TV	16,971	Based on the DCF valuation, the fair price of Mouwasat's share price is SAR196.9, which is higher than the traded value by 6.7%.					
Net Debt	(469)						
Less: End of services benefits	(115)						
Add: Investments	57						
Less: Minority interest	(107)						
Intrinsic Value	19,694						
Shares Outstanding (million shares)	100						
Equity value per share	196.9						
CMP (30-05-2021)	184.6						
Upside / (Downside%)	6.7%						

Comparable Valuation – Local Peers

Name	Code	P/E
Mouwasat Medical Services Co.	4002	32.5
National Medical Care Co.	4005	27.7
Hammadi Co. for Development & Investment	4007	29.2
Middle East Healthcare Co. (Saudi German Hospital)	4009	39.3
Dallah Healthcare Co.	4004	45.2
Dr. Sulaiman Al Habib Medical Services Group	4013	32.5
Median P/E		32.5
Forecasted EPS (SAR)		5.8
Value Per Share (SAR)		189.8

Weighted Valuation

Based on a weighted valuation approach, where the DCF is weighed 60% and multiple valuation is weighed 40%; we value Mouwasat's share price at SAR194.1/share.

Valuation Approach	Weight	Value
DCF	60%	196.9
P/E	40%	189.8
Valuation	100%	194.1

Financial Projection

Financial Ratios	2020A	2021E	2022F	2023F	2024F	2025F	2026F
Return on Average Assets (%)	16.1%	16.3%	16.8%	17.2%	17.3%	17.2%	17.0%
Return on Average Equity (%)	23.8%	22.8%	21.8%	21.0%	20.3%	19.6%	18.9%
Earnings Before Zakat Margin (%)	28.2%	27.6%	28.0%	28.4%	28.8%	29.2%	29.6%
Net Income Margin (%)	25.8%	25.4%	25.8%	26.1%	26.5%	26.8%	27.1%
Revenue Growth (%)	10.1%	12.3%	8.5%	8.3%	8.1%	7.9%	7.7%
EPS ¹	5.3	5.8	6.4	7.1	7.7	8.4	9.0

Income Statement	2020A	2021E	2022F	2023F	2024F	2025F	2026F
Revenues	2,045	2,296	2,491	2,698	2,916	3,145	3,388
Cost of Revenues	(1,085)	(1,236)	(1,339)	(1,443)	(1,551)	(1,665)	(1,785)
Gross Profit	960	1,059	1,152	1,255	1,365	1,480	1,603
SG&A	(382)	(424)	(457)	(493)	(531)	(571)	(612)
Zakat	(15)	(17)	(20)	(23)	(26)	(29)	(32)
Net Income	528	583	642	705	773	844	920

Balance Sheet	2020A	2021E	2022F	2023F	2024F	2025F	2026F
Current Assets	1,195	1,373	1,704	2,050	2,493	2,987	3,538
Non-Current Assets	2,453	2,532	2,450	2,454	2,430	2,430	2,439
Total Assets	3,649	3,906	4,155	4,503	4,923	5,417	5,978
Current Liabilities	551	632	607	615	623	644	641
Non-Current Liabilities	718	531	410	315	249	201	195
Total Equity	2,380	2,742	3,138	3,573	4,051	4,573	5,141
Total Liabilities and Equity	3,649	3,906	4,155	4,503	4,923	5,417	5,978

¹ Attributed to shareholders only

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

Itqan Capital

Al Zahraa District, Al Zahraa Commercial Center,
PO Box 8021, Jeddah 21482,
Kingdom of Saudi Arabia

Tel: 966 12 263 8787

Fax: 966 12 263 8789

info@itqancapital.com

www.itqancapital.com

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