National Medical Care Co.

Results Flash Note Q3-24

Net income declined in Q3-24 as a result of gross profit margin contraction and previous comparable periods' one-off reversals, while reaching its highest revenue to date

Care reported a net income of SAR 60.2mn in Q3-24 (down 18.0% Y/Y, and 13.4% Q/Q) due to gross margin contraction; while previous comparable results were supported by zakat and ECL reversals. Bottom line results came in 13.7% lower than our estimates of SAR 69.7mn, and 15.8% lower from the market's. This quarter, however, saw the highest revenue recorded for Care to date at SAR 325.8mn, supported by client mixes as well as a 12% increase in outpatient visits (Y/Y). Gross profit margins, however recorded their lowest (TTM) at 34.2% while still up 90bps Y/Y (down 220 bps Q/Q) as a result of the consumables required for the case mix for the quarter. The deviation in GPM from our estimates (200bps below our forecasted 36.2%) drove the bulk of the deviation in our estimates; while OPEX to revenues at 12.5% (down 200bps Q/Q and up c. 640bps Y/Y) further displayed a normalized result in absence of Q3-23's ECL reversal. Going forward, we expect the class C AlSalam acquisition in Riyadh to continue to pressure GPMs, while driving top line growth in the short term, along with the effects of the Prince Sultan Medical City contract and the Haram facility ramp up. We maintain our "Neutral" recommendation on the stock with a TP of SAR 202.0 per share.

- Care reported a net income of SAR 60.2mn (down 18.0% Y/Y, and 13.4% Q/Q) mainly driven by GPM contractions; results also came at a decline partially as a result of non-reoccurring incomes in the comparable periods (net SAR 8.4mn ECL income due to a reversal in Q3-23, and a net-positive SAR 4.4mn zakat contribution in Q2-24). Higher financing cost, and lesser finance income as a result decreased deposits weighed in on bottom line results for the quarter. Operationally, GPMs pressured results to reach SAR 60.2mn, deviating negatively from our estimates of SAR 69.7mn by 13.7% and 15.8% from the market's SAR 71.5mn.
- Revenue reached its highest recorded to date at SAR 325.8mn (up 18.3% Y/Y and 9.8% Q/Q) driven by favorable client mixes and the support of the openings of AlBalad and Haram facilities. Revenues were in line with our estimates of SAR 331.7mn at a 1.8% deviation. Outpatient visits grew c. 12%, while inpatient revenues remained relatively flat Y/Y at c. -1%. Inpatient volume growths, however, are improving sequentially in the last three quarters after the completion of the National Guard Contract in Q2-23 which previously provided a higher comparable base. Occupancy reached 66.8% across all facilities for 9M-24.
- Gross profits came in at SAR 111.5mn (7.1% lower than our estimated SAR 120.1mn); as GP margins for the quarter reached 34.2% (up 90bps Y/Y, and down 220bps Q/Q), declining Q/Q as a result of consumables related to the quarter's case mix. At a 200bps deviation from our estimated 36.2%. Notable increases in cost of sales were in Salaries and Benefits, up c. 23% Y/Y as AlBalad and Haram facilities came in since then.
- Operating income, reported at SAR 70.9mn (against our estimate of SAR 79.0mn), came in 5.4% lower Y/Y as a result of ECL reversals in the previous period, and up 8.8% Q/Q. OPEX to revenues then reached 12.5%, down 200bps Q/Q and up c. 640bps Y/Y, as Q3-23 was supported by the ECL reversal netting a positive SAR 8.4mn income from provisions; while this quarter saw higher provisions for insurance clients expected to be reversed at later periods. OPEX to Revenues were in line with our estimate of 12.38%.

AJC view and valuation: Care's Q3-24 results displayed healthy top line growth driven by new facilities and growth in outpatient visits. Net income, however, was absent from comparable periods' reversals which pressured bottom line growth. Reported GP margins drove the deviation from our results, while OPEX-to-revenues came in in line with results. We expect GPM margins to continue being pressured in the immediate term while Hamra and Mental Health Facilities ramp up, and ahead of the class C facility consolidation. Going forward, we expect the Salam acquisition (visible in Q4-24), Prince Sultan Medical City contract, and the Haram facility ramp up to drive short term perf ormance; while the Narjis expansion at 400 bed s (rolled out gradually and estimated live by 2028) to drive longer term performance. We forecast net income for FY24 & FY25 at SAR 310.1mn and SAR 340.8mn, respectively (growing 28.7% and 9.9% respectively). Standing at a forward PE of 24.2x (FY25E). We maintain our TP of SAR 202.0 per share, at a "**Neutral**" recommendation.

Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	275.4	296.8	325.8	18.3%	9.8%	-1.8%
Gross Profit	91.8	108.2	111.5	21.5%	3.1%	-7.1%
Gross Margin	*33.3%*	*36.4%*	*34.2%*	-	-	-
EBIT	74.9	65.1	70.9	-5.4%	8.8%	-10.3%
Net Profit	**73.4**	**69.5**	**60.2**	-18.0%	-13.4%	-13.7%
EPS	**1.64**	**1.55**	**1.34**	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	202.0
Upside / (Downside)*	9.8%

Source: Tadawul *prices as of 21st of Oct 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	918	1,082	1,282	1,511
Growth %	8.6%	17.8%	18.5%	17.8%
Net Income	170.1	240.9	310.1	340.8
Growth %	24.7%	41.7%	28.7%	9.9%
EPS	3.79	5.37	6.91	7.60
DPS	1.00	2.00	2.25	2.50

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	31.6%	34.2%	36.3%	35.5%
OP Margin	20.6%	22.8%	23.6%	24.3%
Net Margin	18.5%	22.3%	24.2%	22.6%
EBITDA Margin	25.1%	26.9%	27.27%	28.8%
RoE	12.6%	14.2%	17.7%	19.9%
P/E	19.5	32.5	26.6	24.2
P/B	2.6	5.4	5.0	4.4
EV/EBITDA	13.3	26.8	23.6	19.1
Dividend Yield	1.4%	1.1%	1.2%	1.4%

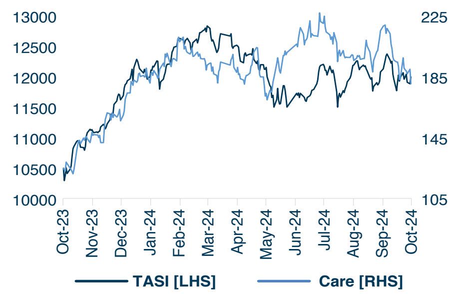
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	8.0
YTD%	8.95%
52 week (High)/(Low)	227.6/120.0
Share Outstanding (bn)	44.85

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer