National Medical Care Co. (CARE)

Investment Update

Care firing on all cylinders across its operational metrics- increased cost base revises forecast and TP down, however we upgrade to an "Overweight" recommendation after a price decline of 17% in 6m.

Care ended FY24 with a net income of SAR 298.2mn (up 11.7% Y/Y) while reporting healthy pulse readings across key operational metrics from patient growths supported by a 54% increase in recent capacity additions from since Q4-23, and 11.6pcp increase in Q4-24 utilization rates (Y/Y). Q4-24 however, displayed an increased cost base for Care, we expect some of which to carry on in the medium term as AlSalam ramps up, and as management undergoes their M&A strategy. In absence of net positive one-offs, we estimate that Care's Q4-24 net income of SAR 87.19mn (up 37.3% Y/Y and 44.9% Q/Q) would be normalized at the range of SAR 60.0mn (down 2.4% Y/Y and flat Q/Q), as a result of a 41.2% increase in SG&A's and 230bps decline in GPMs Y/Y. We expect some of these costs to carry on, to drive our outlook to revise down from a previously forecasted net income CAGR of 16.2% to 14.9% through FY23-29E. We revise our TP down by 7% to SAR 188.0 per share at an upgraded recommendation at "Overweight" on the back of an AlSalam turnaround, improving utilization rates, and future expansions.

Display of strong business momentum in FY24 across various operational metrics in a sign of growth for Care; signs of heightened cost base apparent by Q4-24: Care's net income for 2024 reached a bottom line of SAR 298.16mn (up 11.7% Y/Y); FY24 results were supported by capacity additions; Jeddah-Balad (175 beds) and Haram branches (100 beds), which came in late FY23, as well as the AlSalam acquisition (100 beds), and launch of the Mental Health Center (20 beds). In support from new facility additions, Care served 742.5 thousand patients in 2024, a 14% increase Y/Y. Capacity increases and patient volumes drove a yearly revenue growth of 19.6% Y/Y to reach SAR 1.29bn for FY24, in support of increased referrals from MoH and GOSI patients. Despite the positive operational metrics, Q4-24 came with heightened cost base (some sustainable in the short term), and reversals to drive Q4-24 net income to reach SAR 87.19mn (up 37.3% Y/Y and 44.9% Q/Q). Estimated normalized results, after adjusting for the net positive c. SAR 28mn in other income and ECL provisions, as well as one off costs, would drive net income to near SAR 60mn; down 2.4% Y/Y and flat Q/Q as gross margins dip 230bps Y/Y to 33.3% and SG&A increases 41.2% Y/Y as a result of higher salaries, AlSalam consolidation, and advisory fees. Heightened ECL provisions at c. SAR 16mn are however expected to reverse by H1-25.

FY25-27 expected performance driven by capacity ramp ups, and potential price increases; our downward revised net income FY24-27E CAGR forecast of 9.1% to reflect changes in cost base: Care ended FY24E at an increased capacity of c. 1,128 after adding AlSalam hospital to its portfolio (class C hospital at 100 beds capacity), and the ReLib Mental Health Center (20 beds). When considering the Q4-23 additions of the Haram branch (100 beds) and Al-Balad branch (175 beds), Care's built up capacity grew by an estimated 54% from pre Q4-23; while Malaz branch increased its operational capacity during the year as well. The capacity additions, turnaround of AlSalam, potential price increases by FY25's end and mid FY26, along with the additional new services at Care are expected to carry the expected revenue CAGR of 11.2% throughout FY24-27E. We expect yearly utilization levels to improve from FY24's 68.1%, as capacity additions and the completion of the National Guard Contract pressurized utilizations up until Q3-24, and then supported by the Prince Sultan Military Medical City contract secured in Q2-24 to have utilization reach a healthy 79.4% in Q4-24. Furthermore, AlSalam Hospital showed quick signs of improvement as it nearly broke even in December, while management is also in talks with insurance clients to revise prices for the underutilized facility.

On the other hand, our future outlook on Care is revised to reflect the negative surprises in gross margins (35.1% vs our previously estimated 36.3% for FY24) and FY24 SG&As reaching 12.7% higher than our estimates. Taking into account one-off fees for idle land in Narjis, cyclical advisory fees, and ECL provisions, as well as Zakat and legal provision reversals, our net income estimate for FY25E was revised down from SAR 340mn to SAR 284.8mn due to tightened gross margins and increased SG&As (expected net income at a 4.5% decline Y/Y as FY24 was supported by a SAR 29mn zakat reversal and SAR 49mn in reversal-supported other income). Our medium term net income forecasts reach a FY24-27E CAGR of 9.1%, supported by new capacity and services while pressurized by ramp ups and costs of expansions.

Table 1. Changes in AJC estimates

	FY25 Revised	FY25 previous	Difference	FY26 Revised	FY26 Previous	Difference
Revenue	1,473	1,511	-2%	1,623	1,650	-2%
Gross profit	512	537	-5%	571	591	-3%
GP Margin	**34.7%**	**35.5%**	-80bps	**35.2%**	**35.8%**	-60bps
Op Income	320	368	-13%	381	416	-8%
Op margin	**21.8%**	**24.3%**	-260bps	**23.5%**	**25.2%**	-170bps
Net Income	285	341	-16%	337	383	-12%
NI Margin	**19.3%**	**22.6%**	-330bps	**20.8%**	**23.2%**	-240bps

Source: Company reports, Aljazira Capital

Recommendation	**Overweight**
Target Price (SAR)	**188.0**
Upside / (Downside)*	**12.6%**

Source: Tadawul *prices as of 05th of March 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	1,293.7	1,473.4	1,623.2	1,780.1
Growth %	19.6%	13.9%	10.2%	9.7%
Net Income	298.1	284.8	337.0	387.1
Growth %	23.7%	-4.5%	18.3%	14.9%
EPS	6.65	6.35	7.51	8.63
DPS	2.0*	2.0	2.25	2.25

Source: Company reports, Aljazira Capital *Expected

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	35.1%	34.7%	35.2%	35.7%
OP Margin	22.9%	21.8%	23.5%	24.5%
Net Margin	23.0%	19.3%	20.8%	21.7%
EBITDA Margin	27.3%	26.4%	29.3%	30.5%
RoE	17.7%	19.3%	16.4%	17.4%
P/E (x)	25.08	26.55	22.24	19.36
P/B (x)	4.60	4.12	3.65	3.21
EV/EBITDA (x)	21.35	19.34	15.91	13.78
Dividend Yield	1.2%	1.2%	1.3%	1.4%

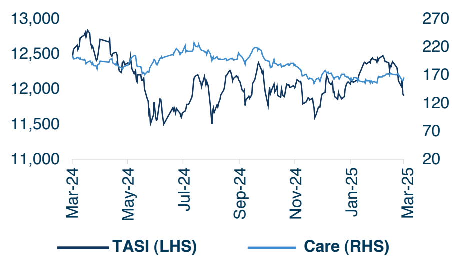
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	7.5
YTD%	0%
52 weeks (High)/(Low)	160.8/157.0
Share Outstanding (bn)	44.85

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Equity Analyst
Ibrahim Elaiwat
+966 11 2256115
i.elaiwat@Aljaziracapital.com.sa

National Medical Care Co. (CARE)

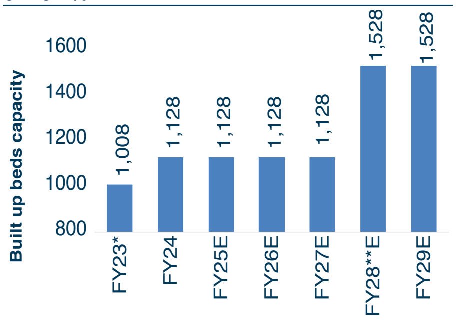
Investment Update

FY28 Narjis expansion (400 beds) to drive Care's longer term performance to an expected FY24-29 net income CAGR of 13.2%: The Narjis expansion, which has begun construction after an idle land penalty, is guided to be completed by end of 2027, and operational by FY28 to roll out in two phases. We expect the expansion to support a forecasted long term revenue and net income CAGRs of 13.1%, and 13.2% respectively (FY24-29). The two phase opening of Narjis is expected to roll out into FY29, while ramping up into FY30 where we expect gross profit margins to normalize at 35.7% after an expansion-pressurized gross margin of 34.7% in FY28. Upside and downside risks are present in Care's M&A strategy which intends to add to its portfolio in the coming years. Management has indicated that it is not a part of their strategy to focus on C class hospitals, but are open to opportunistic M&As. Our long term outlook from our previous FY23-29 CAGR forecast has come down from 16.2% to 14.9% in light of heightened costs mainly from hirings, and some from cyclical advisory fees.

Care financially positioned for more M&A activity, while we expect dividend policy to remain locked during its expansionary phase: A negative net debt to equity, improving working capital (net), and future cash flows are expected to support the M&A strategy while maintaining a dividend payout with little expected increase from the previous range of SAR 1.0-2.0 per share. Care's cash and cash equivalent holdings are supported by 12% of total assets being income generating Murabaha holdings (FY24), which decreased from SAR 385mn to SAR 303mn Y/Y (estimated EIR of 5.7%). Its cash conversion cycle, as per management, has also decreased from 157 days to 124 days (net); though gross receivables have increased by 42% to 934mn by FY24's end from receivables coming in from AlSalam and slower collections from insurance and GOSI clients. Management however expects that AlSalam's delayed collections should not be of issue due to Care's relationship with their clients. We forecast dividends to remain at a range of SAR 2.0 to 2.5 per share till Care's foreseeable expansions are taking place until FY28.

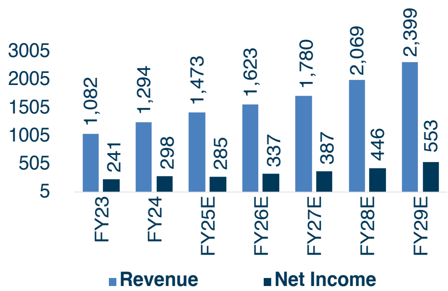
AJC view and valuation: Care displays healthy pulse readings across its operational metrics from recent capacity increases (54% increase in recent additions from since Q3-24), patient growth (14% Y/Y), and signs of normalizing utilization rates (79.4% by Q4-24). With the new capacities and services along with potential price increases driving short term performance; Care also possesses long term growth levers through its 400 bed Narjis expansion (35% increase in capacity) expected to be operational by early FY28. Our financial outlook on Care, however, was revised down to reflect the larger than expected costs of these expansions. Heightened G&A's, tighter gross margins are expected to improve gradually while driving our long term net income forecast of a CAGR of 13.2% (FY24-29). Care's cash and debt position and management experience is promising towards more mergers and acquisitions to be announced in the future to expand Care's portfolio. We value the stock at 50% DCF (WACC=8.8 and terminal growth rate = 2.5%) and 50% PE (29.0x on FY25-26 averages) to downwardly revise our TP to **SAR 188.0 per share** by 7% from our previous TP, while upgrading to an "**Overweight**" recommendation on the stock ahead of potentials in an AlSalam turnaround, improving utilization rates, and future expansions.

Fig 1: Announced capacity additions to extend net income growth to FY24-29E CAGR of 13.2%



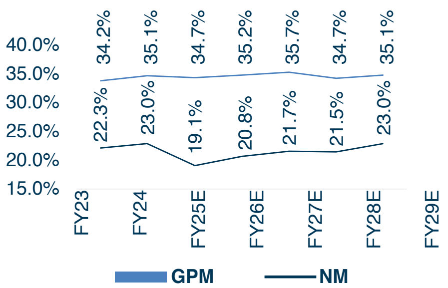
Source: Company presentations, AlJazira Capital Research
*Including Malaz built up capacity, Haram and AlBalad added end of FY24 **Narjis to roll out in two phases

Fig 2: Future growth supported by capacity expansions, utilization improvement, with potential M&A activity to reshape trajectory



Source: Company presentations, AlJazira Capital Research

Fig 3: Expansionary activity to weigh on margins



Source: Company presentations, AlJazira Capital Research

Key Financials

Amount in USD mn, unless otherwise specified	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement								
Revenues	1,081.8	1,293.7	1,473.4	1,623.2	1,780.1	2,069.1	2,398.6	2,706.1
Y/Y	**17.8%**	**19.6%**	**13.9%**	**10.2%**	**9.7%**	**16.2%**	**15.9%**	**12.8%**
Cost	(712.2)	(839.6)	(961.8)	(1,051.9)	(1,144.8)	(1,351.8)	(1,555.6)	(1,740.8)
Gross profit	**369.6**	**454.1**	**511.5**	**571.3**	**635.3**	**717.3**	**843.1**	**965.3**
GPM	**34.2%**	**35.1%**	**34.7%**	**35.2%**	**35.7%**	**34.7%**	**35.1%**	**35.7%**
Selling & distribution expense	(8.5)	(11.3)	(12.0)	(13.3)	(14.4)	(16.9)	(19.6)	(21.9)
General & administration expense	(118.8)	(161.8)	(180.0)	(175.8)	(183.8)	(199.3)	(211.9)	(215.9)
Other expenses/income	4.4	15.9	1.0	(0.8)	(0.9)	(2.1)	-	-
Operating profit	**246.7**	**296.9**	**320.5**	**381.4**	**436.2**	**499.1**	**611.6**	**727.5**
Y/Y	**24.3%**	**20.3%**	**8.0%**	**19.0%**	**14.4%**	**14.4%**	**22.5%**	**19.0%**
Operating margin	**22.8%**	**22.9%**	**21.8%**	**23.5%**	**24.5%**	**24.1%**	**25.5%**	**26.9%**
Net Finance and other cost	17.9	(3.3)	(7.8)	(8.0)	(7.2)	(5.0)	1.3	11.1
Income before zakat	**264.6**	**293.6**	**312.7**	**373.4**	**428.9**	**494.1**	**612.9**	**738.6**
Zakat	(23.7)	4.5	(30.6)	(36.6)	(42.0)	(48.4)	(60.1)	(72.4)
Net income	**240.9**	**298.2**	**282.1**	**336.8**	**386.9**	**445.7**	**552.8**	**666.3**
Y/Y	**41.7%**	**23.8%**	**-5.4%**	**19.4%**	**14.9%**	**15.2%**	**24.0%**	**20.5%**
Net Margin	22.3%	23.0%	19.1%	20.8%	21.7%	21.5%	23.0%	24.6%
EPS	**5.37**	**6.66**	**6.29**	**7.51**	**8.63**	**9.94**	**12.33**	**14.86**
DPS	**2.00**	**2.00**	**2.08**	**2.25**	**2.33**	**2.48**	**3.33**	**4.01**
Balance sheet								
Assets								
Cash & bank balance	694	567	437	341	298	453	853	1,351
Other current assets	53	58	61	65	69	73	77	82
Receivables	532	605	681	741	801	917	1,046	1,162
Property & Equipment	822	1,108	1,381	1,650	1,915	2,027	1,999	1,969
Other non-current assets	114	165	165	165	165	165	165	165
Total assets	**2,214**	**2,502**	**2,725**	**2,962**	**3,247**	**3,634**	**4,141**	**4,728**
Liabilities & owners' equity								
Trade and Other Payables	228	248	288	319	352	421	491	556
Other current liabilities	120	101	92	93	92	94	99	109
Long-term loans	262	244	273	242	210	175	186	198
Total other non-current liabilities	151	280	253	254	257	274	290	305
Paid -up capital	449	449	449	449	449	449	449	449
Statutory reserves	186	-	-	-	-	-	-	-
Retained earnings	819	1,215	1,404	1,640	1,922	2,257	2,660	3,147
Total owners' equity	1,453	1,630	1,819	2,054	2,337	2,671	3,075	3,561
Total equity & liabilities	**2,214**	**2,502**	**2,725**	**2,962**	**3,248**	**3,634**	**4,141**	**4,728**
Cashflow statement								
CAPEX	(153)	(342)	(363)	(378)	(386)	(240)	(102)	(102)
Operating activities	467	245	330	418	482	528	629	755
Investing activities	(625)	(193)	(260)	(328)	(336)	(290)	(352)	(402)
Financing activities	138	(93)	(101)	(136)	(139)	(134)	(126)	(156)
Key fundamental ratios								
Liquidty ratios								
Current ratio (x)	6.4	7.2	7.2	7.2	7.3	7.1	7.0	7.1
Quick ratio (x)	3.5	3.4	2.9	2.6	2.5	2.7	3.2	3.8
Profitability ratios								
Gross profit margin	34.2%	35.1%	34.7%	35.2%	35.7%	34.7%	35.1%	35.7%
Operating margin	22.8%	22.9%	21.8%	23.5%	24.5%	24.1%	25.5%	26.9%
EBITDA margin	26.9%	27.3%	26.4%	29.3%	30.5%	29.7%	30.5%	31.4%
Net profit margin	22.3%	23.0%	19.1%	20.8%	21.7%	21.5%	23.0%	24.6%
Return on assets	10.4%	12.3%	12.6%	10.8%	11.8%	12.5%	13.0%	14.2%
Return on equity	14.2%	17.7%	19.3%	16.4%	17.4%	17.6%	17.8%	19.2%
Leverage ratio								
Debt / equity (x)	0.19	0.19	0.16	0.13	0.10	0.07	0.06	0.06
Market/valuation ratios								
EV/Sales (x)	7.19	5.82	5.11	4.66	4.21	3.62	3.12	2.77
EV/EBITDA (x)	26.75	21.35	19.34	15.91	13.78	12.18	10.25	8.81
EPS (SAR)	5.37	6.66	6.29	7.51	8.63	9.94	12.33	14.86
BVPS (SAR)	32.41	36.33	40.55	45.80	52.10	59.55	68.55	79.40
Market price (SAR)*	174.40	167.00	167.00	167.00	167.00	167.00	167.00	167.00
Market-Cap (SAR mn)	7,821.8	7,490.0	7,476.5	7,490.0	7,490.0	7,490.0	7,490.0	7,490.0
Dividend yield	1.1%	1.2%	1.2%	1.3%	1.4%	1.5%	2.0%	2.4%
P/E ratio (x)	32.47	25.08	26.55	22.24	19.36	16.80	13.55	11.24
P/BV ratio (x)	5.38	4.60	4.12	3.65	3.21	2.80	2.44	2.10

Sources: AlJazira Capital, Company Financials

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - Director
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

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