

The Q3-22 cost-burdened net income for Mouwasat Medical Services Co. (Mouwasat) reached SAR 122.2mn; missing our expected net income by 11.4% (versus the expected SAR 138.0mn) as well as the market consensus by approximately 17.0% (at an expected SAR 147.18mn in net income). The seasonally lesser patient volumes, as well as the costs incurred from servicing and financing the newly operational Madinah and Dammam expansions (causing operational expenses to rise by around SAR 5mn from Q2 to record its second highest OPEX ever reported) constricted the net income as the bottom line was etched at a 13.6% Q/Q decline, as well as a 14.3% decline on the Y/Y scale. We maintain our “Neutral” recommendation on Mouwasat with a TP of SAR 209.0/share.

- Mouwasat cemented its Q3-22 performance at a declined net profit of SAR 122.2mn; down 13.6% Q/Q and 14.3% Y/Y. The results missed our expected SAR 138.0mn (by 11.4%), and the market consensus of almost SAR 147.2mn (by 17.0%). The lower than expected bottom line came as a result of the seasonal impact during Q3, where a series of holidays and summer vacations over the period resulted in less patient volumes. The decreased net income was further punctuated by a rise in operational expenses as the newly operational Madinah hospital (to replace the previous one) kicks off and the Damam expansion becoming newly operational as well. While Mouwasat's Q3-22 top-line came well in-line with our anticipated revenues for the firm, it was the increase in OPEX which deviated our estimates of a SAR 1.49 EPS, versus the SAR 1.22 EPS reported.
- Mouwasat's revenues reached our expected SAR 546.3mn with a deviation of 0.5% to end the quarter at a reported SAR 549.2mn in sales (up 3.4% Y/Y due to the increase in capacity at the Dammam hospital from that period, yet down 1.6% from the previous quarter). Management cite the holiday and vacation pressures the third quarter brings on their patient volumes as a reason behind the lessened top-line.
- Gross profits stood at SAR 247.1mn for the third quarter (up 1.1% Y/Y, yet down 4.3% Q/Q); meeting our expected SAR 248.8mn in gross profits for Mouwasat with a -0.7% deviation. As anticipated, GP margin contracted on a Y/Y and Q/Q scale to 45.0% (down 100bps and 80bps respectively). This came in just 50bps blow our estimated GP margin of 45.5%. The contraction in GP margins could be attributed to the costs of servicing the sales at the newly operational expansions.
- Operating income for the quarter arrived at SAR 139.3mn; down 7.2% Y/Y as well as 10.4% Q/Q, and 7.1% less than our estimated SAR 149.9mn. The figure was pressured by Mouwasat's expansions in its Damam hospital and the new Madinah hospital, which now record expenses operationally, and the financing burdens on the P&L as well as the projects kick off. Mouwasat recorded its second highest OPEX ever reported at SAR 107.8mn for the quarter at 19.6% of revenues- a 190bps increase from Q3-21's 17.8% in OPEX to revenues, and a 120bps increase on a Q/Q basis

AJC view and valuation: Mouwasat posted below than expected results, at a deviation of 11.4% from our net income estimates. The deviation was almost wholly exasperated by the increased OPEX arising from the newly operational expansions in Dammam, and more recently Madinah. The firm's Q3-22's performance was weighed down by the effects of seasonality and the costs of servicing the new expansions. We expect revenue to increase at a CAGR of 7.4% during FY21–FY26E, driven by the company's lucrative service offering and solid presence in the Eastern region. We expect the company to leverage its key partnership with Aramco and strong positioning across the Class B segment. Mouwasat delivers consistent returns (TTM ROE of 21.6% vs sector average of 14.3%) and efficient profitability at a podium position with a TTM net income margin of 25.2% (compared to the sector average of 14.0%), supported by a patient mix, sub-specialty service offering, and strong brand equity. We believe the healthcare operator has a healthy balance sheet and cash flow generation (average FCF margin of 29.6% and FCF yield of 3.3% during FY22E-FY26E) to finance additional projects. We remain “Neutral” on the stock with a TP of SAR 209.0/share.

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	531.0	557.9	549.2	3.4%	-1.6%	0.5%
Gross Profit	244.4	258.1	247.1	1.1%	-4.3%	-0.7%
Gross Margin	46.0%	46.3%	45.0%	-	-	-
EBIT	150.1	155.3	139.3	-7.2%	-10.4%	-7.1%
Net Profit	142.7	141.5	122.2	-14.3%	-13.6%	-11.4%
EPS	1.43	1.41	1.22	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	209.0
Upside / (Downside)*	5.5%

Source: Tadawul *prices as of 07th of November 2022**Key Financials**

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	2,045.0	2,144.1	2,241.3	2,403.6
Growth %	10.1%	4.8%	4.5%	7.2%
Net Income	528.2	578.2	574.0	609.9
Growth %	25.4%	9.5%	-0.7%	6.3%
EPS	5.28	5.78	5.74	6.10

Source: Company reports, Aljazira Capital

Key Ratios

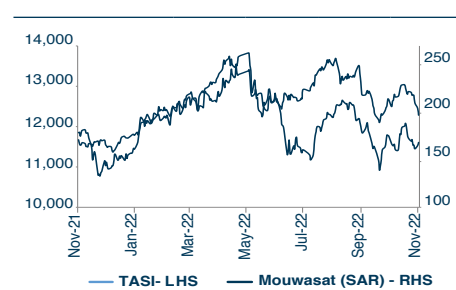
	FY20	FY21	FY22E	FY23E
Gross Margin	47.0%	46.4%	46.0%	45.4%
Net Margin	25.8%	27.0%	25.6%	25.4%
P/E (x)	26.1	30.1	41.8	39.4
P/B (x)	6.1	6.7	8.2	7.3
EV/EBITDA (x)	19.9	31.7	30.9	28.6
Dividend Yield	1.4%	1.4%	1.1%	1.0%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	19.8bn
YTD %	13.9%
52 Week (High) / (Low)	259.4/158.8
Shares Outstanding (mn)	100

Source: Company reports, Aljazira Capital

Price Performance

Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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.

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