National Medical Care Co.(CARE)

Results Flash Note Q3-22

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

National Medical Care Co. (Care)'s net profit reached SAR 42.6mn for Q3-22 (increasing 28.5% Y/Y, and 1.5% Q/Q). The results positively surprised our estimated SAR 38.4mn by SAR 4.2mn (at a deviation of 11%), and the market consensus of SAR 37.2mn (by 14.6%). The increase in net income, on a Y/Y and Q/Q basis, is attributed to an increase in patient volumes across all of their client bases (GOSI, insurance, and cash patients). Care cites GOSI as a high margin client, whom is now increasing business with the healthcare provider after a hiatus in GOSI's engagement with the firm. Atop the increased referrals from GOSI, GP margins also increased due to higher margin surgeries and admissions, and economies of scale from higher patient volumes. GP margins for Q3-22 then reached 34.7% (up 510bps Y/Y, and 390bps Q/Q), a historical record for Care. We revise our TP to SAR 73.0/ share, at a "Neutral" recommendation.

- Care posted a net profit of SAR 42.6mn for Q3-22 (up 28.5% Y/Y, and 1.5% Q/Q), positively surprising our estimated SAR 38.4m at a deviation of 11.0%, and the market consensus of SAR 37.2mn by 14.6%. The higher Q/Q results were attributed to a higher volume of patients coming from all client segments as well as an increase in higher GP margin business. Higher OPEX to revenues this quarter was an attrition to the bottom line, which still managed to record the highest net income reported by the firm since 2016. These factors punctuated to an EPS of SAR 0.95. The deviation from our estimates came as a result of the influx of patients seen by Care in Q3, and the margins the patients presented.
- The revenues reached by Care this quarter at SAR 238.3mn, came at an 11.8% Y/Y increase (and up 10.1% Q/Q from SAR 216.5mn), and above our expectations of SAR 209.8mn by 13.6%. The higher volume of patient inflows stemmed from their insurance client segment, as well as cash and contracts, and increased referrals from GOSI- a client that, with the MoH, makes the bulk of Care's client segments.
- Gross profits stood at SAR 82.7mn (up 31.1% Y/Y, and 23.8% Q/Q), deviating from our estimates as a result of the surprise in the volume of high margin business seen this quarter by Care from surgeries and admissions, and likely from the increase in GOSI referred patients. In turn, Care was able to successfully report its highest GP margins to date at 34.7% (up 510bps Y/Y and 390bps Q/Q, and above our estimated 30.1%).
- Care's operating income for the quarter stood at 49.1mn (increasing on a Y/Y and Q/Q basis by 22.2% and 30.0% respectively) and above our estimates of SAR 40.6mn by 20.9%. With higher provisions for expected credit losses, as well as SG&A costs, Care's OPEX expanded to 33.6mn, to make up 14.1% of revenues (up from 10.9% of revenues in Q3-21, and 9.6% in the previous quarter).

AJC view and valuation: Care posted a favorable set of result for Q3-22 with top line growth, and record margins to punctuate at a positively surprising net profit. As previously reported; with the limited expansion plans in Care's pipeline, the firm must focus on utilization rates and margins as it did so successfully this quarter. We anticipate that Care will be able to maintain its financial performances going forward, while facing a step cost in margins by the time the firm's third Riyadh based hospital becomes operational. Among the risks we are monitoring is the firm's high exposure to its government client base, a specification which previously resulted in uncertain outlooks as a result of a momentary withdrawal from GOSI's engagement with the firm. Besides its geographic competition, among the chief downside risks specific to Care is it's sub-par receivables collections management; Care's receivables to revenues on a TTM basis stands at an astronomical 98.9% of revenues (not accounting for provisions on credit loss). The average among its peers stand 59.1% of TTM revenues. Should their collection management improve, this could significantly free up cash flows to the firm- Until then, we remain "**Neutral**" on the stock, while raising our TP to **SAR 73.0/share**.

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	213.1	216.5	238.3	11.8%	10.1%	13.6%
Gross Profit	63.1	66.8	82.7	31.1%	23.8%	31.1%
Gross Margin	*29.6%*	*30.9%*	*34.7%*	-	-	-
EBIT	39.8	46.0	49.1	23.3%	6.8%	20.9%
Net Profit	**33.2**	**42.0**	**42.6**	28.5%	1.5%	11.0%
EPS	0.74	0.94	0.95	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	73.0
Upside / (Downside)*	4.3%

Source: Tadawul *prices as of 27th of November 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	809.0	845.4	906.5	915.5
Growth %	14.2%	4.5%	7.2%	1.0%
Net Income	97.3	136.4	158.5	157.2
Growth %	21.3%	40.2%	16.3%	-0.8%
EPS	2.17	3.04	3.53	3.51

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	27.7%	29.2%	31.8%	31.7%
Net Margin	12.0%	16.1%	17.5%	17.2%
P/E (x)	28.9	23.0	19.8	20.0
P/B (x)	2.7	2.8	2.6	2.4
EV/EBITDA (x)	14.9	14.1	13.3	12.6

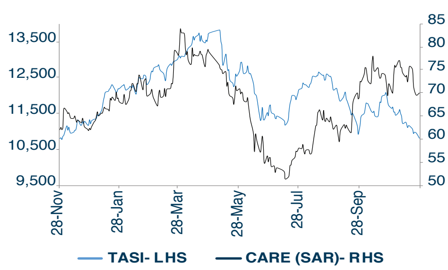
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.14bn
YTD %	11.0%
52 Week (High)/(Low)	84.60/50.70
Shares Outstanding (mn)	44.85

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, 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