

Middle East Healthcare (MEH)'s Q4-22 results posted a basket of positively surprising reportings to reach a net income of SAR 33.2mn for the quarter; surpassing our estimates of SAR 14.2mn, and market consensus of SAR 17.2mn. Net income reached 280.3% higher Y/Y (198.5% Q/Q) majorly as a result of an increases in revenues (23.9% Y/Y, and 20.4% Q/Q) and margin-supporting changes in fundamental operations to optimize costs while expansions are on pause. On a yearly scale, the increase in patients, MEH's repricing with key clients, case mix, and increase in efficiency due to ramping-up facilities and optimization of cost contributed to the increased net income. With management indicating changes in the firm's medium term strategy, we maintain our TP of SAR 30/share and "Neutral" recommendation while more detailed financials are yet to be released.

- Middle East Healthcare (MEH) posted a net profit of SAR 33.2mn during Q4-22 (up 280% Y/Y, and 198.5% Q/Q), and positively surpassed our estimate of SAR 14.2mn and consensus estimates of SAR 17.2mn. Ramping-up facilities improved efficiency to support margins, while increase in number of patients (as well as MEH's repricing with its key clients) supported the increase in revenue. The deviation from our estimates (0.15 EPS, vs 0.36 EPS) was a result of the surprises in efficiency.
- MEH reported its highest quarterly revenue to date to reach SAR 617.9mn; increasing by 23.9% Y/Y and 20.4% Q/Q. The seasonal effect of winter on the sector, as well as an increase in number of patients and service repricing supported revenues to surpass our Q4 estimates of SAR 520.0mn by 18.8%. Inpatient volume grew 16% Y/Y, and outpatients 40% for the same period. More details are required to further know which factors majorly accounted towards our quarterly deviation.
- Gross profits for the quarter stood at SAR 204.0mn (up 27.4% Y/Y, down 34.0% Q/Q); almost 29.1% higher than our anticipated SAR 158.0mn. GP margins reached 33.0%, expanding 92bps Y/Y and 336bps Q/Q as a result of its three facilities (in Jeddah, Mecca, and Abha) ramping up their efficiencies, as well as MEH's Dammam facility breaking even. Management indicated initiatives to optimize cost of material and staff, extension of duty hours, and management's involvement in utilization growth for the coming periods to further support margins in the near term.
- Operating income stood 739.9% higher Y/Y, and 109.2% higher Q/Q, at SAR 56.4mn, almost double our estimates of SAR 26.7mn. OPEX-to-revenues contracted by almost 690bps Y/Y (and 50bps Q/Q) as a result of previous pressures from expansions still in their early stages of a medical facility's maturity cycle.

AJC view and valuation: MEG posted a significantly surprising set for Q4-22 at an annual NI of SAR 74.3mn (up by more than threefold Y/Y). Previous expansion-pressured results are displaying signs of fruition as the healthcare provider serviced more patients, witnessed higher revenues and a ramp up in efficiency. Yet with managements' focus redirected from expansions and onto business operations, and as MEH takes a breather before its' next set of expansions in around three years, we believe this quarter could mark the beginning of the next medium term phase for MEH. We will monitor the profitability while MEH still ranks as the lowest NI margin stock in the sector (as per latest TTM data), as well as working capital management which should improve partially as a result of development in utilizing the NPHIES platform. MEH's return profiles for the year slightly improved as it increases to an ROE of 5.3% compared to a 1.4% in the previous year, and an ROA of 1.8% as compared to 0.4%; both numbers ranking it the lowest among its peers. However it is to be noted that with the initiatives underway, sectoral changes, and the pause in the aggressive expansion campaign- the improvements in the firm's financial performance and position is expected to sustain its improvement in the medium term. The firm did indicate willingness to pay dividends during FY23 as well. Until we wait for more detailed financials to consider the working capital risks associated with MEH- We remain "Neutral" on the stock with a TP of SAR 30.0/share.

Results Summary

| SAR mn | Q4-21 | Q3-22 | Q4-22 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---------------------|--------------|--------------|--------------|------------|------------|------------------------------|
| Revenue | 499.0 | 513.3 | 618.0 | 23.9% | 20.4% | 18.8% |
| Gross Profit | 160.1 | 152.2 | 204.0 | 27.4% | 34.0% | 29.1% |
| <i>Gross Margin</i> | <i>32.1%</i> | <i>29.7%</i> | <i>33.0%</i> | - | - | - |
| EBIT | 6.7 | 26.9 | 56.4 | 739.9% | 109.2% | 111.1% |
| Net Profit | -18.4 | 11.1 | 33.2 | 280.3% | 198.5% | 132.7% |
| EPS | -0.20 | 0.12 | 0.36 | - | - | - |

Source: Company Reports, AlJazira Capital

Neutral

| | |
|----------------------|------|
| Target Price (SAR) | 30.0 |
| Upside / (Downside)* | 0.7% |

Source: Tadawul *prices as of 26th of Feb 2023

Key Financials

| SARmn (unless specified) | FY20 | FY21 | FY22 | FY23E |
|--------------------------|--------|--------|--------|-------|
| Revenues | 1,750 | 1,873 | 2,152 | 2,398 |
| Growth % | 17.0% | 7.0% | 14.9% | 11.7% |
| Net Income | 82.0 | 17.2 | 74.3 | 99.5 |
| Growth % | -16.0% | -79.0% | 332.0% | 18.9% |
| EPS | 0.89 | 0.19 | 0.81 | 1.08 |

Source: Company reports, Aljazira Capital

Key Ratios

| | FY20 | FY21 | FY22 | FY23E |
|---------------|-------|-------|-------|-------|
| Gross Margin | 33.0% | 32.5% | 31.6% | 32.6% |
| Net Margin | 4.7% | 0.9% | 3.4% | 4.2% |
| P/E (x) | 39.3 | 169.4 | 31.16 | 30.7 |
| P/B (x) | 2.6 | 2.3 | 1.7 | 2.1 |
| EV/EBITDA (x) | 20.8 | 26.1 | 17.5* | 15.1 |

Source: Company reports, Aljazira Capital *Estimate

Key Market Data

| | |
|------------------------|-----------|
| Market Cap (bn) | 2.7bn |
| YTD% | 17.1% |
| 52w (High)/(Low) | 39.3/25.0 |
| Share Outstanding (mn) | 92.04 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

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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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