

## MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR7.55	Current Target Price	QR8.04
Implied Upside	6.6%	Old Price Target	QR8.40

### Waiting for Seha; Revising Estimates & Target Price Down; Maintain MP

*MCGS's net income beat our 4Q2019 estimate driven by lower-than-expected depreciation charges, partially mitigated by lower-than-expected gross margins and higher SG&A. We continue to rate MCGS as a Market Perform and tweak our 2020 estimates accordingly. Given the persistent uncertainty around the new National Healthcare Plan, we think plan initiation could be pushed out to late 2021; thus, we have revised our 2021 forecasts lower. We do continue to believe that the critical question for Seha remains when and not if. Following the announcement of draft law preparations for the new National Healthcare System on June 18, MCGS shares rose by 21.3% outperforming the QE Index' -2.6% decline and eroding the bulk of our upside potential. Our one-year TP (QR8.04) for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2021. Until details of the new National Health Insurance become clear, we anticipate MCGS shares to maintain their volatility. Since our initiation on August 27, 2019 with a Market Perform rating, MCGS shares fell by 1.8%, vs the QE Index's +1.2%.*

### Highlights

- **MCGS posts 21.8% YoY decrease but 237.9% QoQ increase in net profit in 4Q2019**, beating our estimate. Medicare Group's (MCGS) net profit declined 21.8% YoY (but rose 237.9% on a QoQ basis) to QR34.2mn in 4Q2019, beating our estimate of QR31.3mn (variation of +9.3%). In FY2019, MCGS posted net profit of QR78.2mn declining by 7.5% YoY compared to a net profit amounting to QR84.5mn in FY2018. EPS amounted to QR0.28 in FY2019 as compared to QR0.30 in FY2018. **DPS is in-line with our estimate.** The board has decided to recommend QR0.28 per share in dividends, which is in-line with our QR0.27 estimate.
- **YoY bottom-line decline is mainly due to the lack of provision reversals in 4Q2019 vs. QR12.2mn in 4Q2018, whereas lower depreciation charges for property and equipment in 4Q2019 (-QR90k vs. QR7.6mn in 3Q2019) supported the bottom-line sequentially.** If the depreciation charges had followed its 9M2019 run-rate, 2019 net income would have declined by 17% YoY. During 4Q2019, MCGS conducted a review of the useful life of property and equipment, which resulted in changes in the expected life of its property and equipment. The adjustment reduced MCGS' depreciation expenses on property & equipment by QR7.76mn to QR22.8mn for FY2019.
- **Gross profits were in-line with our estimate as well (variance 0.3%).** The company recorded QR134.6mn revenue in 4Q2019 with a 6.2% rise YoY, in line with our QR128.2mn forecast (variation: 4.9%). Gross margin fell from 46.3% in 4Q2018 to 43.5% in 4Q2019 (yet up sequentially vs. 3Q2019's 38%). Hence, MCGS posted flattish gross profits YoY at QR58.5mn, pretty much in line with our QR58.3mn forecast.
- **On the other hand, 4Q2019 adj. G&A (excluding Board of Directors' remuneration) rose by 12% YoY, primarily due to an 20% rise in staff costs, comprising 64% of total adj. G&A.** Similarly, 2019 adj. G&A rose by 6.2% over 2018, with a 9.0% rise in staff costs, which may partially be attributable to the new Al Wakrah Clinic.
- **We have revised our 2020e net earnings estimates to QR82.8mn from QR88.1mn given slightly lower gross margin and higher G&A, which is likely to be partially mitigated by lower depreciation charges. We have also revised our 2021 forecasts down to QR86.5mn from QR112.9mn as we think preparations for the new National Health Insurance Scheme may take longer-than-expected and its initiation may be pushed out to late 2021.**

### Catalysts

1) Collection of NHIC/Seha receivables, 2) Performance of the new Al Wakra clinic, 3) Normalization in MCGS' share price volatility, which should lead to a higher target price. MCGS' 5-year beta is 1.1x vs. international peer group's median of 0.74x. It is also the highest in the international peer group. 4) Completion of the hospital expansion project.

### Recommendation, Valuation and Risks

- **We continue to rate MCGS as a Market Perform.** Our revised 12-month target price of QR8.04, implies a 6.6% upside potential, assuming that the new National Insurance Scheme will be fully operational by end-2021 and based on a weighted average combination of DCF, international peer comparison and local market P/E.
- **Risks:** 1) Geopolitical risks. 2) Collection risks. 3) Delays in the expected new National Health Insurance Scheme. 4) Volatility of provision expenses.

### Key Financial Data and Estimates

	2018	2019	2020e	2021e
EPS (QR)	0.30	0.28	0.29	0.31
P/E (x)	21.0	27.2	25.7	24.6
EV/EBITDA (x)	20.4	20.2	19.5	19.0
DPS (QR)	0.30	0.28	0.29	0.31
DY (%)	6.3%	3.7%	3.9%	4.1%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QD
ISIN	QA0006929754
Sector	Healthcare
52wk High/52wk Low (QR)	9.2 / 5.31
3-m Avg. Volume (000)	166.6
Mkt. Cap. (\$ bn/QR bn)	0.58/2.1
EV (\$ bn/QR bn)	0.60/2.2
Current FO*/FO limit (%)	18.5%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	23.7%
Fiscal Year End	December 31

Source: Bloomberg (as of Feb 09, 2020), \*Qatar Exchange (as of Feb 09, 2020); Note: FO is foreign ownership

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## Estimate Revisions

QR000	2019	2020e		C. vs. O	YoY ch.	2021e		C. vs. O	YoY ch.
		Current	Old			Current	Old		
Revenue	490,678	508,834	508,337	0.1%	3.7%	524,079	555,185	-5.6%	3.0%
Gross Profit	196,641	203,916	212,424	-4.0%	3.7%	212,982	233,780	-8.9%	4.4%
Gross Margin	40.1%	40.1%	41.8%			40.6%	42.1%		
SG&A	93,891	96,540	93,126	3.7%	2.8%	99,954	95,454	4.7%	3.5%
Depreciation	27,398	28,079	36,312	-22.7%		30,247	37,184	-18.7%	
Operating Income	75,352	79,298	82,986	-4.4%	5.2%	82,781	101,141	-18.2%	4.4%
EBIT Margin	15.4%	15.6%	16.3%			15.8%	18.2%		
Net Income	78,199	82,822	88,086	-6.0%		86,494	112,908	-23.4%	4.4%

Source: Company data, QNB FS Research

## Detailed Financial Statements

### Income Statement (QR000)

	2017	2018	2019	2020e	2021e
<b>Revenue</b>	<b>470,621</b>	<b>484,211</b>	<b>490,678</b>	<b>508,834</b>	<b>524,079</b>
COGS	268,101	283,162	294,038	304,917	311,097
<b>Gross Profit</b>	<b>202,520</b>	<b>201,050</b>	<b>196,641</b>	<b>203,916</b>	<b>212,982</b>
SG&A	85,880	88,397	93,891	96,540	99,954
Depreciation	28,191	31,370	27,398	28,079	30,247
<b>Operating Income</b>	<b>88,449</b>	<b>81,282</b>	<b>75,352</b>	<b>79,298</b>	<b>82,781</b>
EBITDA	116,640	112,652	102,750	107,376	113,028
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-652	-376	-388
Other Income	11,235	8,891	8,829	8,527	8,815
<i>Rental Income</i>	2,902	2,698	3,740	3,740	3,927
<i>Dividend Income</i>	2,656	2,819	2,575	2,652	2,732
<i>Write back of Prior Year Accruals</i>	3,218	959	400	0	0
<i>Others</i>	2,459	2,415	2,113	2,134	2,156
Fair value gain from investment properties	0	0	0	0	0
<b>Total Other Income</b>	<b>-4,932</b>	<b>5,839</b>	<b>8,176</b>	<b>8,150</b>	<b>8,427</b>
Net Finance Income (Expense)	-732	366	-2,469	-1,596	-1,550
<b>Net profit before management fees and income tax</b>	<b>82,785</b>	<b>87,486</b>	<b>81,059</b>	<b>85,852</b>	<b>89,658</b>
Management fees	-2,783	-2,975	-2,861	-3,030	-3,164
Income Tax	0	0	0	0	0
Non controlling interests	0	0	0	0	0
<b>Net Income</b>	<b>80,002</b>	<b>84,511</b>	<b>78,199</b>	<b>82,822</b>	<b>86,494</b>
<i>Net Profit Margin</i>	17.0%	17.5%	15.9%	16.3%	16.5%
<i>Shares Outstanding (mn)</i>	281,441	281,441	281,441	281,441	281,441
<b>EPS</b>	<b>0.28</b>	<b>0.30</b>	<b>0.28</b>	<b>0.29</b>	<b>0.31</b>
<b>DPS</b>	<b>0.40</b>	<b>0.30</b>	<b>0.28</b>	<b>0.29</b>	<b>0.31</b>

Note: EPS based on current number of shares, Source: Company data, QNB FS Research

## Balance Sheet (QR000)

	2017	2018	2019	2020e	2021e
Cash & Cash Equivalents	52,053	53,638	40,320	40,320	21,320
S/T Deposits	50,066	40,000	35,000	40,996	5,861
Accounts Receivable & Prepayments	83,815	63,825	67,009	69,488	71,570
Other Receivables and Prepayments	15,267	29,534	26,155	27,123	27,935
Due From Related Parties	0	0	0	0	0
Inventories	27,543	23,087	21,509	24,861	25,365
<b>Total Current Assets</b>	<b>228,745</b>	<b>210,085</b>	<b>189,992</b>	<b>202,788</b>	<b>152,050</b>
Financial assets at fair value through other comprehensiv	45,619	52,059	63,334	63,334	63,334
Right-of-use assets	0	0	66,464	61,839	57,213
Property, Plant & Equipment	909,271	942,705	947,945	961,356	1,022,094
<b>Non-Current Assets</b>	<b>954,890</b>	<b>994,764</b>	<b>1,104,831</b>	<b>1,114,971</b>	<b>1,172,505</b>
<b>Total Assets</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,317,759</b>	<b>1,324,556</b>
Short-Term Debt	14,472	14,974	11,449	28,587	30,792
Lease Liabilities	0	0	3,404	3,231	3,050
Accounts Payable & Accruals	29,683	32,718	34,664	35,749	36,473
Other Payables	46,451	41,561	50,694	50,652	50,823
Dividends Payable/Payable to shareholders	18,880	21,404	24,431	25,876	27,169
<b>Current Liabilities</b>	<b>109,486</b>	<b>110,657</b>	<b>124,642</b>	<b>144,095</b>	<b>148,308</b>
<b>Non-Current Liabilities</b>					
Lease Liabilities	0	0	64,373	61,108	57,684
Retentions payable	0	0	0	0	0
Long-Term Debt	19,708	16,032	19,083	20,037	21,039
Employees end of service benefits	52,692	60,176	65,654	68,937	72,384
<b>Non-Current Liabilities</b>	<b>72,399</b>	<b>76,208</b>	<b>149,110</b>	<b>150,083</b>	<b>151,107</b>
<b>Total Liabilities</b>	<b>181,885</b>	<b>186,865</b>	<b>273,753</b>	<b>294,178</b>	<b>299,416</b>
<b>Total Shareholder's Equity</b>	<b>1,001,749</b>	<b>1,017,984</b>	<b>1,021,070</b>	<b>1,023,581</b>	<b>1,025,140</b>
Minority Interest	0	0	0	0	0
<b>Liabilities &amp; Shareholder's Equity</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,317,759</b>	<b>1,324,556</b>

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

Particulars	2017	2018	2019	2020e	2021e
<b>Growth Rates</b>					
Revenue	0.3%	2.9%	1.3%	3.7%	3.0%
Gross Profit	2.8%	(0.7%)	(2.2%)	3.7%	4.4%
EBITDA	(0.1%)	(3.4%)	(8.8%)	4.5%	5.3%
EBIT	(2.0%)	(8.1%)	(7.3%)	5.2%	4.4%
PAT/EPS	N/M	5.6%	(7.5%)	5.9%	4.4%
DPS	N/M	(25.0%)	(7.4%)	5.9%	4.4%
CFPS	N/M	(25.1%)	(5.9%)	(13.4%)	8.5%
<b>Operating Ratios</b>					
Gross Margin	43.0%	41.5%	40.1%	40.1%	40.6%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	40.1%	40.1%	40.6%
EBITDA Margin	24.8%	23.3%	20.9%	21.1%	21.6%
EBIT Margin	18.8%	16.8%	15.4%	15.6%	15.8%
Net Margin	17.0%	17.5%	15.9%	16.3%	16.5%
<b>Working Capital Ratios</b>					
Inventory Days	59	76	71	76	76
Average Collection Period	37	30	27	30	30
Payable Days	98	88	85	87	87
<b>Finance Ratios</b>					
Debt-Equity Ratio	3%	3%	3%	5%	5%
Net Debt-Equity Ratio	-7%	-6%	-4%	-3%	2%
Net Debt-to-Capital	-7%	-7%	-5%	-3%	2%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.4)	(0.3)	0.2
Interest Coverage	54.4	76.2	19.1	21.8	26.3
<b>Return Ratios</b>					
ROIC	8.5%	7.7%	7.2%	7.4%	7.7%
ROE	8.0%	8.3%	7.7%	8.1%	8.4%
ROA	6.8%	7.0%	6.0%	6.3%	6.5%
FCF Yield	5.1%	4.8%	4.4%	3.4%	1.5%
<b>Liquidity Ratios</b>					
Current Ratio	2.1	1.9	1.5	1.4	1.0
Quick Ratio	1.8	1.7	1.4	1.2	0.9
<b>Valuation</b>					
EV/Sales	4.4	4.3	4.2	4.1	4.1
EV/EBITDA	19.4	20.4	20.2	19.5	19.0
EV/EBIT	23.3	25.4	27.6	26.4	26.0
P/E	24.6	21.0	27.2	25.7	24.6
P/CF	12.3	16.4	17.4	20.1	18.5
P/BV	2.1	2.1	2.1	2.1	2.1
Dividend Yield	4.3%	6.3%	3.7%	3.9%	4.1%
FCF Yield	5.1%	4.8%	4.4%	3.4%	1.5%

Source: Company data, QNB FS Research

### Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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