

MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR9.405	Current Target Price	QR9.01
Implied Upside	-4.2%	Old Target Price	QR8.04

Tweaking our post-2021 Estimates & Target Price; Retain Market Perform

MCGS' 1Q2021 bottom-line was below our estimate as the COVID-19 malaise continued to impact its business. Going forward, we think MCGS' quarterly results are likely to remain volatile given the Cabinet's April decision to halt non-emergency medical services in private health facilities; however, by the end of April, private clinics have been allowed to resume services at up to 50% of their capacity. We remind investors that Medicare's 2Q2020 results were also affected by similar measures; however, if history repeats itself, this delayed demand should positively impact Medicare's 3Q2021 results much as it did in 3Q2020. We note that despite these restrictions last year, Medicare managed to increase its net income by 9.3% in 2020; therefore, we think the possible negative impact of restrictions is likely to be compensated over 2H2021. Hence, we maintain our 2021 estimates, which we think are already conservative, foreseeing a 7.0% decline in earnings vs. 2020. In the medium-to-long-term, the company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme (the "new" Seha), which resulted in an upsurge in MCGS' revenue, margins, and consequently, net profits during its first implementation in 2013-2015. We have increased our estimates for 2022 and onward to incorporate a partial impact of this upcoming National Healthcare Plan on MCGS. Accordingly, we have increased our TP to QR9.01 from QR8.04 previously. It is noteworthy that this time, the approved draft law includes tourists visiting Qatar as well, which could bring further upside to our price target. Until details of these plans become clear, we anticipate MCGS shares to maintain their volatility. Meanwhile, the court case that the company won against the National Health Insurance Company – Seha (under liquidation) – could be finalized in 2021, which could allow MCGS to record QR90mn of net proceeds in its P&L, amounting to 105.2% of MCGS' 2020 net profits and 9.2% of its 1Q2021 shareholder's equity.

Highlights

- **We increased our estimates for 2022 and onward to incorporate a partial impact of the upcoming National Healthcare Plan on MCGS.** We estimate the new National Insurance Scheme to be initiated in 2022, which could reach its full potential by 2024. We prefer to remain on the conservative side as the coverage details are yet to be announced for the basic products to be endorsed by the Government for different segments of the workforce and tourists. Accordingly, we raise our TP for MCGS to QR9.01 from QR8.04.
- **The court case that the company won against the National Health Insurance Company, Seha (under liquidation), continues in the Court of Cassation and could be finalized in 2021. If the court case is concluded as the first ruling, MCGS will receive QR130.7mn from Seha with a net P&L impact of c. QR90mn for the company.** MCGS has yet to collect its receivables due from the 2013-2015 Seha implementation and as of 1H2020, MCGS has allocated QR76.2mn of provisions for the expected losses on trade receivables. Dec'18 financials imply that Medicare had QR114mn of gross receivables, which were not collected for more than +365 days (bulk of which may be attributable to Seha receivables from its 2013-2015 implementation as the company's average credit period is 30 to 90 days, after which receivables are considered to be past due). **Assuming that the net book value of the disputed receivables is around QR38mn, MCGS should be recording net proceeds of roughly QR90mn in its P&L, which accounts for 105.2% of MCGS' 2020 net profits and 9.2% of its 1Q2021 shareholder's equity.**

Catalysts

- 1) New Mandatory Health Insurance Scheme
- 2) Collection of NHIC/Seha receivables
- 3) Lifting/re-imposing of COVID precautions
- 3) Normalization in MCGS' share price volatility, which should lead to a higher target price. MCGS' 5-year beta is 0.92x vs. international peer group's median of 0.75x.

Recommendation, Valuation and Risks

- **We continue to rate MCGS as a Market Perform.** Our 12-month target price of QR9.01 implies a 4.2% downside potential, based on a weighted average combination of DCF, international peer comparison and local market P/E.
- **Risks:** 1) Geopolitical risks. 2) Coronavirus-related suspension of activity risk. 3) Delays in the expected new National Health Insurance Scheme. 4) Volatility of provision expenses.

Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS (QR)	0.30	0.28	0.37	0.40
P/E (x)	31.0	33.3	25.3	23.7
EV/EBITDA (x)	25.8	28.4	22.0	20.5
DPS (QR)	0.28	0.28	0.28	0.28
DY (%)	3.0%	3.0%	3.0%	3.0%

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)	10.67 /6.20
3-m Avg. Volume (000)	470.2
Mkt. Cap. (\$ bn/QR bn)	0.72/2.6
EV (\$ bn/QR bn)	0.71/2.6
Current FO*/FO limit (%)	19.1%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	55.17%
Fiscal Year End	December 31

Source: Bloomberg (as of May 02, 2021), *Qatar Exchange (as of May 02, 2021); Note: FO is foreign ownership

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Highlights of 1Q2021 Results

- **MCGS posted 1Q2021 net income of QR21.8mn, up 5.4% YoY but down 39.2% QoQ, vs. our net income estimate of QR27.1mn.** We were expecting a flattish operational performance YoY and a higher bottom-line growth in the lack of 1Q2020's QR4.8mn of provisions which depressed 1Q2020 results. EPS amounted to QR0.08 in 1Q2021 as compared to QR0.07 in 1Q2020.
- **Lower 1Q2021 revenue vs. 4Q2020 and 1Q2020 filtered all the way down the P&L, resulting in a lower EBIT and the net income deviation vs. our estimates.** The company recorded QR123.9mn in 1Q2021 operating income (revenue), falling 4.9% YoY and 4.4% QoQ (variance: -3.8%), which may be due to the COVID-19 malaise as well as a c.1% decline in Qatar's population. With operating expenses retreating a mere 2.4% to QR76.4mn (deviation: -0.9%), MCGS recorded QR47.5mn in gross profits, falling 8.7% YoY/ 11.7% QoQ. Consequently, gross margin was down YoY/QoQ at 38.3% in 1Q2021 vs. 39.9% in 1Q2020 and 41.5% in 4Q2020. Medication and surgical costs rising from QR21.8mn in 1Q2020 to QR23.1mn in 1Q2021 and doctor's charges increasing from QR6.3mn to QR7.1mn (despite lower revenue) over the same period, were the major contributors to the gross margin decline.
- **On the other hand, 1Q2021 G&A fell by 6.0% YoY in line with our estimate (deviation: 4.2%), as a result of across-the-board declines in many cost items.** However, mainly due to the lower revenue, 1Q2021 EBIT was down 11.2% YoY/30.0% QoQ.

Detailed Financial Statements

Estimates & Revisions (QR000)

QR000	2022e			2023e		
	Current	Previous	%ch.	Current	Previous	%ch.
Gross Profit	221,318	200,186	10.6%	229,422	212,982	7.7%
Operating Income	100,066	89,089	12.3%	106,908	98,794	8.2%
Net Income	104,504	91,778	13.9%	111,700	103,005	8.4%
EPS	0.37	0.33	13.9%	0.40	0.37	8.4%
Growth (YoY)	31.4%	5.9%		6.9%	4.4%	

Source: Company data, QNB FS Research

Income Statement (QR000)

	2017	2018	2019	2020	2021e	2022e	2023e
Revenue	470,621	484,211	490,678	476,795	467,201	526,328	542,946
COGS	268,101	283,162	300,651	289,791	289,259	305,010	313,525
Gross Profit	202,520	201,050	190,028	187,005	177,941	221,318	229,422
SG&A	85,880	88,397	94,727	85,871	84,143	100,954	101,428
Depreciation	28,191	31,370	20,312	19,548	19,548	20,298	21,086
Operating Income	88,449	81,282	74,989	81,586	74,250	100,066	106,908
EBITDA	116,640	112,652	95,301	101,134	93,799	9,879	10,149
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-289	-174	0	0	0
Other Income	11,235	8,891	8,829	10,232	9,618	9,879	10,149
Net Finance Income (Expense)	-732	366	-2,469	-2,992	-1,356	-1,533	-1,181
Net profit before management fees and income tax	82,785	87,486	81,059	88,706	82,512	108,412	115,877
Management fees	-2,783	-2,975	-2,861	-3,197	-2,974	-3,908	-4,177
Income Tax	0	0	0	0	0	0	0
Non controlling interests	0	0	0	0	0	0	0
Net Income	80,002	84,511	78,199	85,508	79,538	104,504	111,700
Net Profit Margin	17.0%	17.5%	15.9%	17.9%	17.0%	19.9%	20.6%
Shares Outstanding (mn)	281,441	281,441	281,441	281,441	281,441	281,441	281,441
EPS	0.28	0.30	0.28	0.30	0.28	0.37	0.40
DPS	0.40	0.30	0.28	0.28	0.28	0.28	0.28

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

Source: Company data, QNB FS Research

Balance Sheet (QR000)

	2017	2018	2019	2020	2021e	2022e	2023e
Cash & Cash Equivalents	52,053	53,638	40,320	64,155	16,320	21,320	21,320
S/T Deposits	50,066	40,000	35,000	0	14,626	26,580	25,754
Accounts Receivable & Prepayments	83,815	63,825	93,163	97,450	63,802	71,877	74,146
Other Receivables and Prepayments	15,267	29,534	0	0	24,903	28,055	28,941
Due From Related Parties	0	0	0	0	0	0	0
Inventories	27,543	23,087	21,509	23,490	23,584	24,869	25,563
Total Current Assets	228,745	210,085	189,992	185,095	143,236	172,700	175,724
Financial assets at fair value through other comprehensiv	45,619	52,059	63,334	66,034	63,334	63,334	63,334
Investment Properties	0	0	27,088	25,869	29,864	31,358	32,925
Right-of-use assets	0	0	66,464	61,764	57,213	52,588	47,963
Property, Plant & Equipment	909,271	942,705	947,945	978,038	1,022,094	1,025,388	1,028,224
Non-Current Assets	954,890	994,764	1,104,831	1,131,705	1,172,505	1,172,667	1,172,446
Total Assets	1,183,634	1,204,849	1,294,823	1,316,799	1,315,742	1,345,367	1,348,170
Short-Term Debt	14,472	14,974	11,449	13,363	30,792	32,620	1,804
Lease Liabilities	0	0	3,404	2,358	3,050	2,860	2,661
Accounts Payable & Accruals	29,683	32,718	108,368	117,264	33,913	35,760	36,758
Other Payables	46,451	41,561	1,422	133	50,644	51,292	51,479
Dividends Payable/Payable to shareholders	18,880	21,404	0	0	28,051	29,453	30,926
Current Liabilities	109,486	110,657	124,642	133,118	146,451	151,986	123,628
Non-Current Liabilities							
Lease Liabilities	0	0	64,373	62,015	57,684	54,092	50,324
Retentions payable	0	0	0	0	0	0	0
Long-Term Debt	19,708	16,032	19,083	22,761	21,039	22,091	23,196
Employees end of service benefits	52,692	60,176	65,654	70,673	72,384	76,003	79,803
Non-Current Liabilities	72,399	76,208	149,110	155,449	151,107	152,186	153,323
Total Liabilities	181,885	186,865	273,753	288,567	297,558	304,172	276,951
Total Shareholder's Equity	1,001,749	1,017,984	1,021,070	1,028,233	1,018,184	1,041,195	1,071,220
Minority Interest	0	0	0	0	0	0	0
Liabilities & Shareholder's Equity	1,183,634	1,204,849	1,294,823	1,316,799	1,315,742	1,345,367	1,348,170

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019	2020	2021e	2022e	2023
Growth Rates							
Revenue	0.3%	2.9%	1.3%	(2.8%)	(2.0%)	12.7%	3.2%
Gross Profit	2.8%	(0.7%)	(5.5%)	(1.6%)	(4.8%)	24.4%	3.7%
EBITDA	(0.1%)	(3.4%)	(15.4%)	6.1%	(7.3%)	28.3%	6.3%
EBIT	(2.0%)	(8.1%)	(7.7%)	8.8%	(9.0%)	34.8%	6.8%
PAT/EPS	N/M	5.6%	(7.5%)	9.3%	(7.0%)	31.4%	6.9%
DPS	N/M	(25.0%)	(7.4%)	0.8%	0.9%	0.0%	0.0%
Operating Ratios							
Gross Margin	43.0%	41.5%	38.7%	39.2%	38.1%	42.0%	42.3%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	38.7%	39.2%	38.1%	42.0%	42.3%
EBITDA Margin	24.8%	23.3%	19.4%	21.2%	20.1%	22.9%	23.6%
EBIT Margin	18.8%	16.8%	15.3%	17.1%	15.9%	19.0%	19.7%
Net Margin	17.0%	17.5%	15.9%	17.9%	17.0%	19.9%	20.6%
Working Capital Days							
Inventory Days	59	76	71	76	76	75	75
Average Collection Period	37	30	26	30	30	30	30
Payable Days	98	88	85	87	88	87	86
	39	41	40	41	41	41	41
Finance Ratios							
Debt-Equity Ratio	3%	3%	3%	5%	5%	5%	2%
Net Debt-Equity Ratio	-7%	-6%	-4%	-4%	2%	1%	-2%
Net Debt-to-Capital	-7%	-7%	-5%	-4%	2%	1%	-2%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.5)	(0.4)	0.2	0.1	(0.2)
Interest Coverage	54.4	76.2	19.0	24.3	23.6	33.6	38.3
Return Ratios							
ROIC	8.5%	7.7%	7.1%	7.6%	6.9%	9.1%	9.8%
ROE	8.0%	8.3%	7.7%	8.3%	7.8%	10.0%	10.4%
ROA	6.8%	7.0%	6.0%	6.5%	6.0%	7.8%	8.3%
Liquidity Ratios							
Current Ratio	2.1	1.9	1.5	1.4	1.0	1.1	1.4
Quick Ratio	1.8	1.7	1.4	1.3	0.8	1.0	1.2
Valuation							
EV/Sales	5.5	5.3	5.3	5.5	5.7	5.0	4.8
EV/EBITDA	19.4	20.4	27.3	25.8	28.4	22.0	20.5
EV/EBIT	29.2	31.8	34.7	31.9	35.9	26.5	24.6
P/E	24.6	21.0	33.8	31.0	33.3	25.3	23.7
P/CF	15.3	20.4	23.1	24.8	26.2	23.1	20.5
P/BV	2.6	2.6	2.6	2.6	2.6	2.5	2.5
Dividend Yield	4.3%	6.3%	3.0%	3.0%	3.0%	3.0%	3.0%

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

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

Risk Ratings

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

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

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