

Medicare Group (MCGS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.369	Target Price	QR5.524
Implied Upside	26.1%		

Upping Estimates Post A Solid Normalized 4Q & FY2024; Maintain Accumulate

Medicare Group's 4Q2024 earnings growth of 56.9% YoY was impressive but missed our estimates. However, we remain upbeat on the company/stock: its top-line marginally beat our optimistic estimate, rising 8.5% YoY, driven by in/outpatient volume growth, thanks to the company's promotional efforts – recording the highest quarterly and annual revenue since 2015. It is even more impressive when you consider that management had closed Al Wakra in the first half of 2024. Therefore, the 4Q earnings miss boils down primarily to a surprisingly lower than modeled GPM and an unexpected drop in the "other income" print. FY2024 earnings declined 8.6% to QR60.1mn, primarily due to the Al Wakra Clinic impairment, which translated to EPS of QR0.213; however, continuing earnings for FY2024 climbed 23.5% YoY to QR94.1mn. The board declared DPS of QR0.198, down from QR0.220 for FY2023, and below our assumption that the dividend would remain flat. Going forward, we expect the GPM/NPM to keep improving as the group benefits from their newly streamlined operations. The decision to discontinue the underperforming Al Wakra Clinic was sound – it was making economic losses and eating into group margins. With the drag now removed, continuing operations look much healthier, as evidenced by improved margins and stronger operating cash flows in 2H2024. We see NP climbing 69.4%/11.7% in 2025/26 to QR101.8mn/QR113.7mn (previous estimates: QR101.2mn/QR106.1mn) and reiterate our Accumulate rating and QR5.524 PT. MCGS could also come back into play as the yield dynamics improve on declining global interest rates. While there is potential uplift related to "new Seha", which Medicare can take advantage of given its 60% average occupancy level for FY2024, healthcare has become a competitive market with the influx of new players.

Highlights

- MCGS's 4Q2024 net profit climbed 56.9% YoY but was lower QoQ by 2.9% to QR24.0mn, and also behind our estimate of QR27.5mn, even as the top-line marginally beat our forecast. The continuing NP – that excludes losses related to the discontinued Al Wakra Clinic – was also impressive YoY, rising 30.9%. However, continuing NP was also lower by 2.9% sequentially. The miss at the bottom-line was primarily due to the GP margin coming in at 35.5% (vs 33.6% in 4Q2023), considerably lower than the 40.7% that we had expected to remain stable sequentially. NP margin printed at 17% in 4Q2024 (vs. 19.7% expected), from 11.8% in 4Q2023 and 20% in 3Q2024. The 4Q2023 NPM would have been 13.3% without the impact of Al Wakra Clinic.
- MCGS's 4Q2024 revenue surprised to the upside, increasing 8.5%/14.2% YoY/sequentially to QR141.1mn vs QR139.4mn expected, due to continued strong patient growth thanks to management's marketing efforts. It seems management's marketing efforts are paying off and we are beginning to accept it as a winning strategy despite our reservations: In an increasingly competitive environment with new entrants, it has the potential to spark price competition, with the consequent negative impact on margins down the line.
- Margin boost from the closure of Al-Wakra Clinic; 0.7/2.2ppts boost to GPM/NPM. We see permanent margin-expansion due to the closure of the loss-making Al Wakra Clinic. The FY2023 results show a hit of QR3.4mn and QR10.5mn to the group GP and NP, respectively. That translates to a haircut of 0.7/2.2 percentage points to the GPM/NPM. The hit to the bottom-line is higher as Al Wakra accounted for a good chunk of D&A as well as almost all finance charges.
- A healthy earnings outlook: We see earnings maintaining double-digit growth in the short- to medium-term, even in a normalized sense, buttressed by improving margins. We project 2025 NP climbing 69.4%, mainly due to base effects. Still, we see normalized growth in 2025 at an impressive 8.1%. Earnings should then average 10.5% between 2026-28. That is on the back of an average revenue growth of 4.6% between 2025-28.

Catalysts

- Catalysts: (1) Phased rollout of the "new" health insurance policy (2) Cost-cutting initiatives including the closure of Al-Wakra Clinics (3) Contingent QR109mn receivable cash windfall from Medicare's court case vs. the government on "old Seha" (4) Ongoing marketing efforts and renovations and upgrade of hospital facilities (5) Declining but somewhat sticky global yields.

Recommendation, Valuation and Risks

- Recommendation and Valuation: We maintain our Accumulate rating and weighted 12-month PT of QR5.524, which implies a 26.1% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Several macro and micro themes cancel out each other to render a relatively neutral prognosis on MCGS's short- to medium-term outlook, with these notable variables driving the outlook: service level & product quality, public health policy, increased healthcare spend, limited bed capacity & occupancy levels growth, tariff controls and competition from both the private and public players. In the longer-term, above-average population growth, disease burden & expected favorable composition of expats, should become more dominant in shaping prospects.
- Key risks: (1) Escalating competitive pressure as both private and public bed-count increases (2) Further write-downs/offers of the Seha receivable (3) Low stock liquidity (5) Global disease outbreak.

Key Financial Data and Estimates

Medicare Group	2024A	2025E	2026E	2027E	2028E
EPS (QR)	0.21	0.36	0.40	0.44	0.49
DPS (QR)	0.20	0.34	0.38	0.41	0.46
P/E (x)	20.5	12.1	10.8	9.9	9.0
EV/EBITDA (x)	11.4	10.3	9.1	8.0	7.2
DY (%)	4.5%	7.7%	8.6%	9.5%	10.4%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price	QR4.369
Dividend Yield (%)	4.5
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Consumer Goods
52wk High/52wk Low (QR)	4.822/3.900
3-m Average Vol.	944,051
Mkt. Cap. (\$ bn/QR bn)	0.3/1.2
EV (\$ bn/QR bn)	0.3/1.2
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	17.1
1-Year Total Return (%)	-0.7
Fiscal Year-End	December 31

Source: Bloomberg (as of March 04, 2025),*Qatar Exchange (as of February 23, 2025); Note: FO is foreign ownership

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Condensed Income Statement

	2024A	2025E	2026E	2027E	2028E
REVENUE	523,491,870	545,228,514	571,255,701	598,135,103	626,297,980
GROSS PROFIT	196,683,631	207,720,403	222,162,823	237,112,876	252,773,213
EBITDA	108,019,433	116,947,641	128,964,061	141,432,239	154,647,605
OPERATING PROFIT	82,617,218	90,420,007	102,200,903	114,415,382	127,110,272
PROFIT FOR THE PERIOD (Continuing Operations)	94,152,828	101,761,036	113,658,674	124,426,993	137,379,848
PROFIT FOR THE PERIOD	60,056,920	101,761,036	113,658,674	124,426,993	137,379,848

Source: Company data, QNBFS Research

Balance Sheet

	2024A	2025E	2026E	2027E	2028E
Property and equipment	1,041,449,857	1,044,922,223	1,028,159,064	1,011,142,208	1,003,604,875
Investments at fair value through other comprehensive income	73,401,634	73,401,634	73,401,634	73,401,634	73,401,634
Investment property	26,244,000	26,244,000	26,244,000	26,244,000	26,244,000
Total Non-Current Assets	1,141,095,491	1,144,567,857	1,127,804,698	1,110,787,842	1,103,250,509
Inventories	31,253,873	32,551,609	34,105,502	35,710,275	37,391,674
Accounts Receivable and Prepayments	131,641,714	140,281,579	150,626,846	161,310,850	172,505,009
Cash and cash equivalents	108,792,159	98,581,553	100,739,208	102,730,432	97,949,481
Short term deposits	88,000,000	88,000,000	88,000,000	88,000,000	88,000,000
Total Current Assets	271,687,746	271,414,741	285,471,556	299,751,556	307,846,164
Total Assets	1,412,783,237	1,415,982,598	1,413,276,254	1,410,539,398	1,411,096,673
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	128,586,417	138,762,521	150,128,388	162,571,087	176,309,072
Fair Value Reserve	22,036,690	22,036,690	22,036,690	22,036,690	22,036,690
Revaluation reserve	521,092,396	521,092,396	521,092,396	521,092,396	521,092,396
Retained Earnings	55,981,067	91,840,681	99,037,513	104,807,455	112,171,941
Total Equity	1,009,137,570	1,055,173,288	1,073,735,987	1,091,948,628	1,113,051,100
Bank facilities	151,394,292	119,660,538	92,465,610	65,270,682	38,075,754
Employees' end of service benefits	88,808,832	96,586,673	104,558,961	112,730,556	121,106,440
Total Non-Current Liabilities	240,203,124	216,247,212	197,024,571	178,001,238	159,182,194
Accounts payable and accruals	129,546,099	117,770,687	121,813,096	125,975,745	130,338,404
Bank facilities st	33,896,444	26,791,411	20,702,599	14,613,788	8,524,976
Total Current Liabilities	163,442,543	144,562,098	142,515,696	140,589,532	138,863,379
Total Liabilities	403,645,667	360,809,310	339,540,267	318,590,770	298,045,574
Total Equity and Liabilities	1,412,783,237	1,415,982,598	1,413,276,254	1,410,539,398	1,411,096,673

Source: Company data, QNBFS Research

Summarized Cashflow Statement

	2024A	2025E	2026E	2027E	2028E
Cash Flow from Operating Activities	110,060,450	114,353,498	140,537,370	151,489,316	164,780,166
Cash Flow from Investing Activities	(134,016,414)	(30,000,000)	(10,000,000)	(10,000,000)	(20,000,000)
Cash Flow from Financing Activities	32,248,486	(94,564,104)	(128,379,715)	(139,498,092)	(149,561,116)
Change in Cash	8,292,522	(10,210,606)	2,157,655	1,991,224	(4,780,951)
Opening Cash	12,499,637	20,792,159	10,581,553	12,739,208	14,730,432
Cash End of Period	20,792,159	10,581,553	12,739,208	14,730,432	9,949,481

Source: Company data, QNBFS Research

Ratios

	2024A	2025E	2026E	2027E	2028E
GROWTH METRICS					
Revenue	7.7%	4.2%	4.8%	4.7%	4.7%
Gross Profit	11.7%	5.6%	7.0%	6.7%	6.6%
EBITDA	16.7%	8.3%	10.3%	9.7%	9.3%
Operating Profit	21.9%	9.4%	13.0%	12.0%	11.1%
Net Profit	-8.6%	69.4%	11.7%	9.5%	10.4%
Net Profit - Sustainable	23.5%	8.1%	11.7%	9.5%	10.4%
EPS (QR/share)	21.3%	36.2%	40.4%	44.2%	48.8%
DPS (QR/share)	19.8%	33.8%	37.7%	41.3%	45.6%
OPERATING RATIOS					
Gross Margin	37.6%	38.1%	38.9%	39.6%	40.4%
EBITDA Margin	20.6%	21.4%	22.6%	23.6%	24.7%
EBIT Margin	15.8%	16.6%	17.9%	19.1%	20.3%
Net Profit Margin	18.0%	18.7%	19.9%	20.8%	21.9%
RETURN RATIOS					
RoE	9.3%	9.6%	10.6%	11.4%	12.3%
RoIC	7.6%	8.2%	9.4%	10.7%	12.0%
RoA	5.8%	6.4%	7.2%	8.1%	9.0%
VALUATION RATIOS					
EV/Sales	2.4	2.2	2.0	1.9	1.8
EV/EBITDA	11.4	10.3	9.1	8.0	7.2
EV/EBIT	15.0	13.3	11.5	9.9	8.7
PE Ratio	20.5	12.1	10.8	9.9	9.0
PEG Ratio	0.6	1.0	1.1	1.2	-
P/CF	11.2	10.8	8.8	8.1	7.5
P/B	1.2	1.2	1.1	1.1	1.1
Dividend Yield	4.5%	7.7%	8.6%	9.5%	10.4%
FCF Yield	4.5%	6.9%	10.6%	11.5%	11.8%
LEVERAGE RATIOS					
Debt/Equity Ratio	18.4%	13.9%	10.5%	7.3%	4.2%
Net Debt/Equity Ratio	7.6%	4.5%	1.2%	-2.1%	-4.6%
Net Debt/Capital Ratio	8.5%	5.0%	1.3%	-2.3%	-5.1%
Net Debt/EBITDA	70.8%	40.9%	9.6%	-16.2%	-33.2%
Interest coverage	N.M.	N.M.	N.M.	73.1	89.0
LIQUIDITY RATIOS					
Current Ratio	1.7	1.9	2.0	2.1	2.2
Quick Ratio	1.5	1.7	1.8	1.9	1.9
WORKING CAPITAL DAYS					
Inventory Days	127	127	127	127	127
Average Collection Period	145	145	145	145	145
Payables Days	145	145	145	145	145

Source: Company data, QNBFS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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