

Medicare Group (MCGS)

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|----------------|----------------|--------------|---------|
| Recommendation | MARKET PERFORM | Risk Rating | R-3 |
| Share Price | QR4.430 | Target Price | QR5.524 |
| Implied Upside | 24.7% | | |

Court Ruling Implies Potential Positive Impact of QR0.25 Per Share; Maintain Market Perform

Hopefully the latest Court of Appeal ruling brings the back-and-forth between Medicare Group (MCGS) and the National Health Insurance Company (Seha) to an end following the award of QR109.1mn in compensation to the former. We have written on several occasions, including in our recent coverage of Medicare, about the potential implications of the court ruling on MCGS's stock price. With this latest ruling we revise the positive impact to QR0.25/share down from our earlier estimate of QR0.33/share. The downward revision emanates from the fact that the new award of QR109.1mn is lower than the previously QR130.7mn awarded. Finer details of the new ruling are yet to come to light.

Highlights

- Previously, on 24 January 2023, MCGS was awarded a total of QR130.7mn (including additional QR16.6mn in damages/comprehensive compensation) by the Court of Appeal in connection with a 2015/16 Seha receivable. However, Seha challenged that ruling in the Court of Cassation, which consequently referred back the case to the Court of Appeal. Now, we estimate that the latest Court of Appeal ruling on 20 May 2024 implies a net positive impact of QR0.25/share down from QR0.33/share related to the court's previous ruling. MCGS had written down QR76.3mn of the original QR114.1mn Seha receivable. In the worst case scenario, we estimate a net negative impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.
- Is this the end to the years-long court saga?** It is difficult to say, as Seha will likely have the option to challenge the new ruling again in the Court of Cassation.
- What happens to these proceeds?** It is possible that the board may decide to pay it out as a special dividend given the group is already well-capitalized.
- During the most recent quarter (1Q2024), Medicare Group's net profit rose 5.1%/29.1% to QR19.8mn, beating our estimate of QR17.0mn.** The bottom-line outperformance was driven primarily by the top-line growth and impressive recovery in the GP margin. The GP margin came in higher at 35.9% vs. 34.7% expected, and greater both sequentially (33.0%) and compared with 1Q2023 (35.3%). **The 1Q2024 top-line was driven by strong inpatient volume growth as revenue edged up by 1.6%/0.6% YoY/QoQ to QR 130.1mn,** higher than our estimate of QR125.9mn. While this growth is impressive in the context of a high base in 1Q2023, the highly competitive environment due to new entrants lends itself to price competition. For now, we maintain our estimates for the full year while we observe the durability of the group's revenue trend in the coming quarters. Also, we may update our bottom-line estimates once there is more clarity on the receipt of the Court of Appeal latest compensation award to MCGS.
- MCGS also recently announced the closure of Al-Wakra Clinics, which should bode well for its GP margin,** driven by a decline in direct staff costs. Double-digit growth in staff costs in the previous quarter had driven the GP margin to its lowest level in at least three years and management seems to be addressing that – hopefully, this is not at the expense of service quality down the road. We also note that the closure of Al Wakra Clinics bodes well for Medicare's capital return metrics that are relatively low.

Catalysts

- Catalysts:** (1) Special dividend announcement related to the latest court ruling (2) Phased rollout of the "new" health insurance policy (3) Cost-cutting initiatives including the closure of Al-Wakra Clinics (4) Contingent receivable cash windfall from Medicare's court case (vs. the government on "old" Seha).

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain our Market Perform rating and our weighted 12-month TP of QR5.524, which implies a 24.7% 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 near-term outlook. In the short- to medium-term, we see the following variables driving the outlook: limited bed capacity & occupancy levels growth, service level & product quality, public health policy, increased healthcare spend, low beta, tariff controls and competition from both the private and public players. In the medium- to longer-term, above-average population growth, disease burden & expected change in the composition of expats, will become more dominant in shaping prospects.
- Key risks:** (1) Further delays to planned bed-expansion plans (2) Further write-downs/offsets of the Seha receivable (3) Escalating competitive pressure as both private and public bed-count increases (4) Low stock liquidity (5) Rising global/local yields (6) Global disease outbreak.

Key Financial Data and Estimates

| Medicare Group | 2023A | 2024E | 2025E | 2026E | 2027E |
|----------------|-------|-------|-------|-------|-------|
| EPS (QR) | 0.23 | 0.24 | 0.26 | 0.30 | 0.34 |
| DPS (QR) | 0.22 | 0.22 | 0.24 | 0.28 | 0.32 |
| P/E (x) | 19.0 | 18.6 | 17.3 | 14.8 | 13.2 |
| EV/EBITDA (x) | 16.5 | 15.1 | 14.0 | 12.7 | 11.0 |
| DY (%) | 5.0% | 5.0% | 5.4% | 6.3% | 7.1% |

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 | QR4.430 |
| Dividend Yield (%) | 5.0 |
| P/E Ratio | 18.7 |
| Bloomberg Ticker | MCGS QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | MCGS.QA |
| ISIN | QA0006929754 |
| Sector* | Healthcare |
| 52wk High/52wk Low (QR) | 7.490/3.950 |
| 3-m Average Vol. (mn) | 1.5 |
| Mkt. Cap. (\$ bn/QR bn) | 0.3/1.2 |
| EV (\$ bn/QR bn) | 0.4/1.3 |
| Shares O/S (mn) | 281.4 |
| FO Limit* (%) | 100.0 |
| FO (Institutional)* (%) | 17.2 |
| 1-Year Total Return (%) | -36.9 |
| Fiscal Year-End | December 31 |

Source: Bloomberg (as of May 21, 2024), *Qatar Exchange (as of May 20, 2024); Note: FO is foreign ownership

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| 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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