

## MCGS Alert – 4Q2022 Earnings Miss As World Cup Adversely Affects Activity; Stay Market Perform

- **Medicare's 4Q2022 NP declined 9.2% YoY to QR23.1mn (vs. our estimate of QR27.8mn), though it rose 12.3% QoQ due to the usual seasonal effects.** The poor performance at the bottom-line was largely due to an uncharacteristic disappointment at the top-line. Revenue failed to benefit from the World Cup and came in marginally weaker by 0.6% YoY at QR127.5mn compared with QR128.3mn in 4Q2021, and below our estimate of QR132.1mn. The decline in revenue is surprising, in our view and this can probably be partially explained by the fact that some office workers were working from home during the World Cup – this usually affects emergencies adversely. It should also be noted that competition increased during 4Q2022 as one public and two private hospitals begun operations. We will try to get more color from management regarding the impact this has had.
- **We note some small distortions due restatement of FY2021 revenue (QR483.6mn vs. QR481.7mn previously), COGS, other income, and G&A expenses.** However, this did not have any impact on the bottom-line. Without the restatement, 4Q2022 revenue would have been largely flat YoY – certain components of “other income” and G&A expenses were reclassified as revenue and COGS, respectively.
- **While COGS and G&A expenses came in line with expectations, margins came under pressure primarily due to MCGS's significant fixed-cost base.** This then meant the revenue miss of QR5.2mn passed straight through and culminated in a similar bottom-line miss of QR5.1mn. Since FY2020, 4Q is the only quarter where revenues have sustained a downtrend YoY. COGS inched up by 0.9% to QR77.6mn YoY, bang in-line with our estimates, but the gross profit margin faltered to 39.2% from 40.1%. Meanwhile, G&A costs increased 6.5% YoY to QR27.8mn (vs. our estimate of QR27.6mn) with the operating margin dropping to 17.4% from 19.7%.
- **The board was generous and proposed a dividend of QR0.2625/share for FY2022,** right in line with our expectations, and translates to a payout ratio of 93.8%. DPS grew 5% YoY.
- **We maintain our Market Perform rating and TP of QR7.191.** The share price has been moving southward in the past few weeks, and while fears that the stock could be dropped from MSCI small-cap index did not materialize, it contributed to the selling pressure. We see the stock trading sideways for the foreseeable future given that across assets, yields are relatively more attractive. The proposed dividend translates to a DY of 4.3% compared with more than 5.0% for TBs. **However, we expect MCGS to get a cash windfall after the Court of Appeal upheld a judgement in its favor of QR130.7mn against the National Health Insurance Company in January.** Previously, management had indicated that it will likely be paid as dividend.
- **We see several macro and micro themes canceling out each other to render a relatively neutral verdict on MCGS's near-term outlook.** In the short- to medium-term, we see the following variables driving the outlook: muted bed growth due to delayed bed-expansion plans, superior service level & product quality, public health policy, increased healthcare spend, low beta, tariff controls and increasing competition from both the private and public players. In the medium- to longer-term, things are encouraging with some of the following factors expected to become more dominant in shaping prospects: an above-average population growth, disease burden and expected change in the composition of expats (to a more white-collar workforce).

Recommendations	
<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>	
<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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<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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