

MCGS Alert – MCGS Discloses a Court Ruling to Receive QR130.7mn: Maintain TP & MP

- **Medicare Group discloses a favorable judgement issued on Wednesday (Sep. 30th) in its civil lawsuit No. 4048/2017 filed by the company against the National Health Insurance Company - SEHA (under liquidation) and other defendants. MCGS had requested the court to oblige the defendants to:**
 - Pay Medicare Group the outstanding amounts for the health services provided by the company to the insured citizens pursuant to the agreement signed between the parties, in addition to the demurrages due to delay in payment.
 - To nullify the decision of liquidating the first defendant.
 - Declare the first defendant's bankruptcy.
- **The court has issued the following verdict:**
 1. Not to accept the case against the second and third litigants.
 2. Oblige the first defendant (National Health Insurance Company) to pay the plaintiff an amount of QR125,683,595 plus an additional QR5,000,000 as compensation.
 3. Reject the other demands.
 4. Oblige the defendant to pay the expenses.
- **While this is a notable positive development for the company, we think this is just the first ruling in the court case and legal process could continue in the Court of Cassation. If the court case is finalized as the first ruling, net positive impact should be around QR90mn for MCGS.** 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 these receivables could be attributed 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. Please note that this data is not available in 1H2020's interim financials. Assuming that the net book value of the disputed receivable is around QR38mn, MCGS should be recording a profit of roughly QR90mn as a result of the court case, which accounts for 120% of MCGS' 2019 net profits and 9.6% of 1H2020 shareholder's equity.
- **We continue to rate MCGS as a Market Perform and keep our estimates for now.** We also maintain our TP at QR8.04/sh. We think MCGS' revenue and net earnings should be recovering starting from 3Q2020 with the reopening of the closed clinics in 3Q2020. In the medium- to long-term, the company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme, which resulted in an upsurge in MCGS' revenue, margins and consequently in net profits during its first implementation in 2013-2015. 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.

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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