

## MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR8.688	Current Target Price	QR9.010
Implied Upside	3.7%		

**2H2021 Recovery Expected on Demand Pickup Amid Lower Restrictions; Retain MP Impacted by COVID-19 counter-measures, MCGS' 2Q2021 net income was below our estimate.** As investors would remember, the Cabinet halted non-emergency medical services in private health facilities in April, which weighed on MCGS' 2Q2021 results. At the beginning of May'21, private clinics were allowed to resume services at up to 50% of their capacity, which was further increased to 80% at the end of that month. Therefore going further, we think MCGS' quarterly results should at least sequentially improve in 3Q2021. We note that despite the restrictions in 1H2020, Medicare managed to increase its net income by 9.3% in 2020, thanks to a partial relief in restrictions in the 2H2020 that allowed pent-up demand to kick in. Similarly, we think possible negative impact of restrictions in 2Q2021 is likely to buoy demand over 2H. 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. Our estimates for 2022 and onward incorporate a partial impact of this upcoming National Healthcare Plan on MCGS. 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 9.1% of its 1H2021 shareholder's equity.

### Highlights

- **MCGS posted 2Q2021 net income of QR9.79mn, up 2.7% YoY but down 55.1% QoQ, vs. our net income estimate of QR14.5mn.** EPS amounted to QR0.112 in 6M2021 as compared to QR0.107 in 6M2020.
- **2Q2021 results were impacted by the Cabinet's decision to stop the provision of medical services in private healthcare facilities (except in emergency cases) in April 2021.** At the beginning of May, the Cabinet decided to allow private healthcare facilities to provide their services at 50% capacity, which was further increased to 80% by the end of May 2021. On a YoY basis, however, Medicare managed to record both top- and bottom-line growth, as anti-COVID measures were less strict in 2Q2021 vs. 2Q2020. As investors recall, the Cabinet had stopped the provision of medical services in private health facilities (except emergency cases) at the end of March last year, only to allow them at 40% capacity by mid-June 2020. As a result, MCGS recorded QR108.1mn in 2Q2021 operating income (revenue), rising 28.3% YoY, but 12.8% lower QoQ (variance vs. QNB FS estimate: 6.6%). With operating expenses rising 26.8% YoY and retreating a mere 6.0% to QR71.8mn, MCGS recorded QR36.3mn in gross profits during 2Q2021, increasing 31.3% YoY but falling 23.6% QoQ (variance 4.9%). Consequently, gross margin was down QoQ at 33.6% in 2Q2021 vs. 38.3% in 1Q2021 yet slightly above 2Q2020's 32.8%. Medication and surgical costs rising 61.5% YoY/1.7% QoQ to QR23.6mn was the major contributor to the gross margin decline.

### 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 0.93x 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 QR9.010 implies a 3.7% upside 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)	28.6	30.7	23.4	21.9
EV/EBITDA (x)	23.8	26.3	20.4	18.9
DPS (QR)	0.28	0.28	0.28	0.28
DY (%)	3.2%	3.3%	3.3%	3.3%

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 /7.00
3-m Avg. Volume (000)	120.3
Mkt. Cap. (\$ bn/QR bn)	0.67/2.45
EV (\$ bn/QR bn)	0.72/2.55
Current FO*/FO limit (%)	19.1%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	22.20%
Fiscal Year End	December 31

Source: Bloomberg (as of Aug 04, 2021), \*Qatar Exchange (as of Aug 04, 2021); Note: FO is foreign ownership

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**Other Highlights of 2Q2021 Results**

- **2Q2021 G&A was above our estimate (deviation: 10.3%)**, primarily due to staff costs, rising 28.6% YoY in 2Q2021 to QR14.3mn and retreating by a mere 0.3% QoQ.
- **Lower other income in 2Q2021 also depressed the bottom line.** MCGS recorded QR1.09mn in other income during 2Q2021, which is below 2Q2020's QR2.53mn and 1Q2021's QR3.05mn. In the lack of other income breakdown for 1Q2021, 1H2021 results imply that a 21.7% YoY decline in dividend income and QR1.35mn of gain from rent concession in 1H2020 (which was not repeated in 1H2021) could be the major reasons for lower other income in 2021.
- **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 4Q2021. 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 9.1% of its 1H2021 shareholder's equity.**

## Detailed Financial Statements

### 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
<b>Gross Profit</b>	<b>202,520</b>	<b>201,050</b>	<b>190,028</b>	<b>187,005</b>	<b>177,941</b>	<b>221,318</b>	<b>229,422</b>
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
<b>Operating Income</b>	<b>88,449</b>	<b>81,282</b>	<b>74,989</b>	<b>81,586</b>	<b>74,250</b>	<b>100,066</b>	<b>106,908</b>
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
<b>Net profit before management fees and income tax</b>	<b>82,785</b>	<b>87,486</b>	<b>81,059</b>	<b>88,706</b>	<b>82,512</b>	<b>108,412</b>	<b>115,877</b>
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
<b>Net Income</b>	<b>80,002</b>	<b>84,511</b>	<b>78,199</b>	<b>85,508</b>	<b>79,538</b>	<b>104,504</b>	<b>111,700</b>
<i>Net Profit Margin</i>	<i>17.0%</i>	<i>17.5%</i>	<i>15.9%</i>	<i>17.9%</i>	<i>17.0%</i>	<i>19.9%</i>	<i>20.6%</i>
<i>Shares Outstanding (mn)</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>
<b>EPS</b>	<b>0.28</b>	<b>0.30</b>	<b>0.28</b>	<b>0.30</b>	<b>0.28</b>	<b>0.37</b>	<b>0.40</b>
<b>DPS</b>	<b>0.40</b>	<b>0.30</b>	<b>0.28</b>	<b>0.28</b>	<b>0.28</b>	<b>0.28</b>	<b>0.28</b>

Note: EPS based on current number of shares, Source: Company data, QNB FS Research  
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### 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
<b>Total Current Assets</b>	<b>228,745</b>	<b>210,085</b>	<b>189,992</b>	<b>185,095</b>	<b>143,236</b>	<b>172,700</b>	<b>175,724</b>
Financial assets at fair value through other comprehensive	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
<b>Non-Current Assets</b>	<b>954,890</b>	<b>994,764</b>	<b>1,104,831</b>	<b>1,131,705</b>	<b>1,172,505</b>	<b>1,172,667</b>	<b>1,172,446</b>
<b>Total Assets</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,316,799</b>	<b>1,315,742</b>	<b>1,345,367</b>	<b>1,348,170</b>
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
<b>Current Liabilities</b>	<b>109,486</b>	<b>110,657</b>	<b>124,642</b>	<b>133,118</b>	<b>146,451</b>	<b>151,986</b>	<b>123,628</b>
<b>Non-Current Liabilities</b>							
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
<b>Non-Current Liabilities</b>	<b>72,399</b>	<b>76,208</b>	<b>149,110</b>	<b>155,449</b>	<b>151,107</b>	<b>152,186</b>	<b>153,323</b>
<b>Total Liabilities</b>	<b>181,885</b>	<b>186,865</b>	<b>273,753</b>	<b>288,567</b>	<b>297,558</b>	<b>304,172</b>	<b>276,951</b>
<b>Total Shareholder's Equity</b>	<b>1,001,749</b>	<b>1,017,984</b>	<b>1,021,070</b>	<b>1,028,233</b>	<b>1,018,184</b>	<b>1,041,195</b>	<b>1,071,220</b>
Minority Interest	0	0	0	0	0	0	0
<b>Liabilities &amp; Shareholder's Equity</b>	<b>1,183,634</b>	<b>1,204,849</b>	<b>1,294,823</b>	<b>1,316,799</b>	<b>1,315,742</b>	<b>1,345,367</b>	<b>1,348,170</b>

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

Particulars	2017	2018	2019	2020	2021e	2022e	2023
<b>Growth Rates</b>							
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	NM	5.6%	(7.5%)	9.3%	(7.0%)	31.4%	6.9%
DPS	NM	(25.0%)	(7.4%)	0.8%	0.9%	0.0%	0.0%
<b>Operating Ratios</b>							
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%
<b>Working Capital Days</b>							
Inventory Days	59	76	71	76	76	75	75
Inventory Days	37	30	26	30	30	30	30
Average Collection Period	98	88	85	87	88	87	86
Payable Days	39	41	40	41	41	41	41
<b>Finance Ratios</b>							
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
<b>Return Ratios</b>							
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%
<b>Liquidity Ratios</b>							
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
<b>Valuation</b>							
EV/Sales	5.1	4.9	4.9	5.0	5.3	4.7	4.5
EV/EBITDA	19.4	20.4	25.2	23.8	26.3	20.4	18.9
EV/EBIT	26.9	29.3	32.0	29.5	33.2	24.5	22.7
P/E	24.6	21.0	31.3	28.6	30.7	23.4	21.9
P/CF	14.1	18.9	21.3	22.9	24.2	21.4	18.9
P/BV	2.4	2.4	2.4	2.4	2.4	2.3	2.3
Dividend Yield	4.3%	6.3%	3.2%	3.2%	3.3%	3.3%	3.3%

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

<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

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

<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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