

Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR5.225	Target Price	QR6.113
Implied Upside	16.3%	Old Target Price	QR6.072

Curtailing Full-Year Estimates But Stock Remains Cheaper Than Peers; Maintain Market Perform

We had done a back-of-the-envelope adjustment to Medicare's estimate of its fair value when it announced a disappointing set of 3Q2023 results – we had adjusted the TP down to QR6.072 from QR7.144. Now after a more extensive review of the 3Q2023 performance, which culminated in the downward revision our FY2023E profit and top line estimates together with medium-term estimates, we fine-tune our new TP to QR6.113 and maintain our Market Perform rating. The stock remains attractive relative to international sector peers but it looks pricey compared with the local market. Also, we trimmed our margins, after they came under pressure during 3Q2023 as staff costs rose more than modelled due to the global scarcity of nurses and the emerging competition locally. **Our overall thesis remains, with growth drivers weak in the immediate horizon. The forecast period looks rather pedestrian due to competition dynamics and limited fruition of previously-announced expansion plans. In the medium- to longer-term, tailwinds due to positive demographics will likely become dominant.** While Medicare has proven to be an attractive dividend play over the years, this yield allure is being weighed down by improving cross asset yields. Nonetheless, MCGS is a cash-cow, with a high cash conversion ratio. The board has been generous, with most of the bottom-line paid to shareholders as dividends. We estimate a 2023 dividend yield of 4.5% (vs. QSE's 4.7%; International sector peers: 2.6%). We also like Medicare's lower risk profile owing to its product offering and strong balance sheet, which in turn, supports a continued stable dividend flow.

Highlights

- **Medicare Group 3Q2023 net profit fell 31.8%/19.9% YoY/QoQ to QR14.0mn, missing our estimate of QR20.5mn.** We attribute about 91% of the miss to lower-than-expected revenue and the other 9% to lower-than-modeled margins. MCGS's 3Q2023 revenue declined 4.2%/8.1% YoY/QoQ to QR109.3mn, below our expectations of QR113.6mn. While we adjust the miss at the top-line of 3.8% to be within a reasonable forecast deviation range, it had an outsized impact on the bottom-line miss. We reckon Qatar's average population (per PSA data) during 3Q2023 actually increased by 1.7% YoY, and it is possible that the recent increase in bed supply by competitors is beginning to take a toll.
- **The GP margin came in lower at 36.3% compared with the 39.5% we had expected, and lower both sequentially (37.7%) and compared with 2Q2022, which printed at 39.6%.** While the biggest cost of sales line items came largely in-line, community doctor expenses were significantly above forecast. Other operating costs came in 4.7% above our estimates.
- **We have revised down our revenue projection for FY2023 to QR490.9mn from QR505.0mn and our net profit forecast is now lower at QR73.4mn from QR79.5mn.**
- **While we reiterate our Market Perform rating, we note that MCGS could get a boost once there is more clarity on when it will receive a cash windfall following the Court of Appeal judgement in its favor against the National Health Insurance Company (Seha) on 24 January.** MCGS was awarded a total of QR130.7mn (including additional QR16.6mn in damages/comprehensive compensation). It had written down QR76.2mn of the original QR114.1mn Seha receivable. We estimate a net positive impact of QR0.33/share but this is not in our base model. Recent newsflow where the Court of Cassation referred back the case to the Court of Appeal – following Seha's challenge of the January 24 Court of Appeal judgement – means the process will be drawn out and less certainty is now built in the quantum and timing of the payment. We estimate a net impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.

Catalysts

- **Catalysts: (1) Phased rollout of the "new" health insurance policy (2) Inpatient beds expansion plans, though drawn-out than initially planned (3) Contingent cash windfall from Medicare's court case (vs. the government on "old" Seha) (4) Initiative by the QIA to increase market liquidity (5) Increase in FOL to 100% from 49%.**

Recommendation, Valuation and Risks

- **Recommendation and Valuation: We maintain our Market Perform rating and adjust our weighted 12-month TP from QR6.072 to QR6.113, which implies a 16.3% 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: bed capacity & occupancy levels, 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 and expected change in the composition of expats (to a more white-collar workforce), 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) Cross asset yields dynamics (6) Global disease outbreak.**

Key Financial Data and Estimates

Medicare Group	2022A	2023E	2024E	2025E	2026E
EPS (QR)	0.28	0.26	0.29	0.33	0.36
DPS (QR)	0.26	0.23	0.26	0.30	0.32
P/E (x)	18.7	20.2	18.4	15.8	14.6
EV/EBITDA (x)	15.3	16.3	14.7	13.1	11.8
DY (%)	5.0%	4.5%	4.9%	5.7%	6.2%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price	QR5.225
Dividend Yield (%)	5.0
P/E Ratio	20.1
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk Share Price High	QR7.60
52wk Share Price Low	QR5.06
3-m Average Vol. (mn)	0.7
Mkt. Cap. (\$ bn/QR bn)	0.4/1.5
EV (\$ bn/QR bn)	0.4/1.6
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	17.8
1-Year Total Return (%)	-22.0
Fiscal Year-End	December 31

Source: Bloomberg (as of November 13, 2023); *Qatar Exchange (as of November 13, 2023); Note: FO is foreign ownership

Phibion Makuwerere, CFA

+974 4476 6589

phibion.makuwerere@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Valuation Summary
Weighted Valuation

Method	Weight in Overall Valuation	Upside Potential
DCF	30%	-8.8%
EEM	20%	34.4%
International Comparison	30%	55.2%
P/E, 2023E	5.0%	36.8%
DY, 2023E	5.0%	123%
EV/EBITDA, 2023E	5.0%	18.3%
P/E, 2024E	5.0%	38.5%
DY, 2024E	5.0%	96%
EV/EBITDA, 2024E	5.0%	19.2%
Local Comparison	20%	-22.4%
DSM All Share Index Dividend Yield 2023E	10.0%	-4.7%
DSM All Share Index P/E, 2023E	10.0%	-40.2%
Weighted Average Upside Potential	100%	16.3%

Source: QNB FS Research

Condensed Financial Statements & Forecasts
Income Statement (QR)

GROUP	2022A	2023E	2024E	2025E	2026E
REVENUE	487,165,561	490,863,676	504,122,848	527,903,318	552,443,116
GROSS PROFIT	185,409,085	181,621,114	191,560,492	204,432,613	217,867,256
EBITDA	102,150,287	96,351,900	104,927,579	114,067,827	123,680,107
OPERATING PROFIT	73,704,284	68,034,898	76,897,223	86,226,474	95,876,518
PROFIT FOR THE PERIOD	79,164,805	73,365,405	80,449,526	93,419,569	101,295,539

Source: Company data, QNB FS Research

Balance Sheet (QR)

GROUP	2022A	2023E	2024E	2025E	2026E
Property, Plant and Equipment	1,032,712,543	1,047,452,294	1,029,481,802	1,012,051,358	995,020,935
Right-of-Use Assets	37,592,055	34,974,044	32,356,033	29,738,022	27,120,011
Financial Investments at FVTOCI	69,730,395	69,730,395	69,730,395	69,730,395	69,730,395
Investment Properties	26,233,810	26,233,810	26,233,810	26,233,810	26,233,810
Total Non-Current Assets	1,166,268,803	1,178,390,543	1,157,802,040	1,137,753,585	1,118,105,151
Inventories	30,586,104	31,718,149	32,574,917	34,111,541	35,697,229
Accounts Receivable and Prepayments	118,063,533	118,599,837	120,522,695	123,971,361	127,530,146
Cash and Bank Balances	42,150,235	2,774,231	14,717,076	35,417,415	56,406,636
Total Current Assets	190,799,872	153,092,217	167,814,689	193,500,317	219,634,011
Total Assets	1,357,068,675	1,331,482,760	1,325,616,728	1,331,253,902	1,337,739,162
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	116,010,669	123,347,209	131,392,162	140,734,118	150,863,672
Fair Value Reserve	18,365,451	18,365,451	18,365,451	18,365,451	18,365,451
Revaluations Surplus	549,025,726	549,025,726	549,025,726	549,025,726	549,025,726
Retained Earnings	75,356,136	63,280,939	67,645,410	76,982,959	81,538,944
Total Equity	1,040,198,982	1,035,460,325	1,047,869,748	1,066,549,254	1,081,234,793
Interest Bearing Loans	54,396,528	37,575,275	23,642,683	11,206,931	2,001,087
Lease Liabilities	40,692,837	39,407,796	38,163,336	36,958,175	35,791,071
Employees' End of Service Benefits	77,292,252	79,107,657	80,923,062	82,791,869	84,728,057
Total Non-Current Liabilities	172,381,617	156,090,729	142,729,081	130,956,975	122,520,215
Accounts Payables & Accruals	118,503,116	121,442,985	122,746,705	127,030,535	131,391,652
Interest Bearing Loans	24,043,006	16,608,093	10,449,953	4,953,410	884,471
Lease Liabilities	1,941,954	1,880,629	1,821,241	1,763,727	1,708,031
Total Current Liabilities	144,488,076	139,931,707	135,017,899	133,747,672	133,984,154
Total Liabilities	316,869,693	296,022,435	277,746,980	264,704,648	256,504,369
Total Equity and Liabilities	1,357,068,675	1,331,482,760	1,325,616,728	1,331,253,902	1,337,739,162

Source: Company data, QNB FS Research

Cash Flow Statement (QR)

GROUP	2022A	2023E	2024E	2025E	2026E
Cash Flow from Operating Activities	102,928,555	83,780,582	106,116,103	116,645,276	126,782,635
Cash Flow from Investing Activities	(59,721,426)	(37,450,522)	(4,818,116)	(2,474,700)	(5,406,599)
Cash Flow from Financing Activities	(53,303,967)	(95,802,903)	(89,355,141)	(93,470,238)	(100,386,816)
Change in Cash	(10,096,838)	(49,472,842)	11,942,846	20,700,339	20,989,221
Opening Cash	52,247,073	52,247,073	2,774,231	14,717,076	35,417,415
Cash End of Period	42,150,235	2,774,231	14,717,076	35,417,415	56,406,636

Source: Company data, QNB FS Research

Key Ratios

GROUP	2022A	2023E	2024E	2025E	2026E
GROWTH METRICS					
Revenue	0.7%	0.8%	2.7%	4.7%	4.6%
Gross Profit	0.4%	-2.0%	5.5%	6.7%	6.6%
EBITDA	-2.0%	-5.7%	8.9%	8.7%	8.4%
Operating Profit	-3.2%	-7.7%	13.0%	12.1%	11.2%
Net Profit	0.1%	-7.3%	9.7%	16.1%	8.4%
OPERATING RATIOS					
Gross Margin	38.1%	37.0%	38.0%	38.7%	39.4%
EBITDA Margin	21.0%	19.6%	20.8%	21.6%	22.4%
EBIT Margin	15.1%	13.9%	15.3%	16.3%	17.4%
Net Profit Margin	16.3%	14.9%	16.0%	17.7%	18.3%
RETURN RATIOS					
RoE	7.6%	7.1%	7.7%	8.8%	9.4%
RoIC	6.6%	6.0%	6.9%	7.9%	9.0%
RoA	5.4%	5.1%	5.8%	6.5%	7.2%
VALUATION RATIOS					
EV/Sales	3.2	3.2	3.1	2.8	2.6
EV/EBITDA	15.3	16.3	14.7	13.1	11.8
EV/EBIT	21.1	23.1	20.0	17.4	15.3
PE Ratio	18.7	20.2	18.4	15.8	14.6
PEG Ratio	3.3	1.8	1.3	1.3	1.5
P/CF	14.4	17.7	13.9	12.7	11.7
P/B	1.4	1.4	1.4	1.4	1.4
Dividend Yield	5.0%	4.5%	4.9%	5.7%	6.2%
FCF Yield	3.9%	2.9%	6.7%	7.4%	8.0%
LEVERAGE RATIOS					
Debt/Equity Ratio	11.6%	9.2%	7.1%	5.1%	3.7%
Net Debt/Equity Ratio	7.6%	9.0%	5.7%	1.8%	-1.5%
Net Debt/Capital Ratio	7.9%	9.0%	5.7%	1.9%	-1.6%
Net Debt/EBITDA	77.3%	96.2%	56.6%	17.1%	-13.0%
Interest coverage	35.8	39.8	21.3	30.9	45.2
LIQUIDITY RATIOS					
Current Ratio	1.3	1.1	1.2	1.4	1.6
Quick Ratio	1.1	0.9	1.0	1.2	1.4
WORKING CAPITAL DAYS					
Inventory Days	157	157	157	157	157
Average Collection Period	110	110	110	110	110
Payables Days	143	143	143	143	143

Source: Company data, QNB FS Research

Price Multiple Valuation Peer Analysis

Company	P/E		EV/EBITDA		P/B		ROE		EBITDA Margin		Dividend Yield	
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
AYYAN INVESTMENT CO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AL HAMMADI HOLDING	27.6	27.1	19.4	18.6	4.94	4.69	17.8%	17.9%	37.8%	35.4%	2.64	2.73
DALLAH HEALTHCARE CO	45.1	36.5	27.1	24.1	5.77	5.29	0.15	0.16	22.0%	22.4%	1.31	1.63
GULF MEDICAL PROJECTS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
LIFE HEALTHCARE GROUP HOLDIN	18.2	14.2	7.3	7.0	1.35	1.77	8.1%	6.2%	18.1%	18.9%	2.00	2.50
AL MAIDAN DENTAL CLINIC CO K	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MOUWASAT MEDICAL SERVICES CO	31.9	27.9	22.1	19.7	6.71	6.06	0.22	0.22	37.4%	37.3%	1.97	2.22
NAHDI MEDICAL CO	19.3	19.8	11.2	11.0	7.27	6.89	0.38	0.34	17.9%	17.5%	4.03	3.82
NETCARE LTD	12.4	9.9	6.9	6.2	1.58	1.48	0.13	0.15	17.5%	18.2%	4.93	6.42
DR SULAIMAN AL HABIB MEDICAL	46.5	42.9	41.1	35.8	13.95	12.77	0.32	0.30	23.9%	22.5%	1.56	1.70
Peer Group Mean	28.7	25.5	19.3	17.5	5.94	5.56	20.6%	20.2%	24.9%	24.6%	2.6%	3.0%
Peer Group Median	27.6	27.1	19.4	18.6	5.77	5.29	17.8%	17.9%	22.0%	22.4%	2.0%	2.5%
MEDICARE GROUP	20.2	18.4	16.3	14.7	1.43	1.41	7.1%	7.7%	19.6%	20.8%	4.5%	4.9%

Source: Bloomberg, 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

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

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