

Medicare Group (MCGS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR5.670	Target Price	QR5.962
Implied Upside	5.1%	Old Target Price	QR5.524

2Q2025 Earnings Miss; HMC Program Is A New Chapter in Value Creation; Raise PT

Medicare Group's 2Q2025 earnings printed at QR19.6mn, behind our expectations, from a loss of QR8.5mn in 2Q2024. The loss in the base period was due to a largely non-cash impairment charge from the closing down of Al Wakra Clinic, a loss-making subsidiary; otherwise, operating cashflows are actually lower in 2Q2025 compared with 2Q2024. Also, like-for-like (lfl) 2Q2025 NP is lower by 14.1%. The miss to our NP projections was primarily due to a combination of moderate top-line miss and a markedly weaker GP margin than modeled. Meanwhile, revenue rose 1.3% to QR130.5mn driven by outpatient growth. While YTD sales and profit track behind our estimates, the outlook is suddenly more upbeat with the recent announcement of the Hamad Medical Corporation (HMC) referral program. While management is still hesitant to quantify the potential financial benefit, it says it will charge prevailing tariffs applied to private insurance patients. We see material upside for Medicare, even with conservative referral assumptions. During the old Seha program, MCGS full year top-line peaked at QR861mn (FY2015) vs QR523mn last year; but this is new referral program is likely to be more contained in nature. After updating for the HMC referral program, we see NP climbing 73.6%/16.7% in 2025/26 to QR104.2mn/QR121.7mn. Therefore, we reiterate our Accumulate rating and raise our PT to QR5.962.

Highlights

- **MCGS's 2Q2025 net profit rose to QR19.6mn from a loss of QR8.5mn in 2Q2024 but was lower QoQ by 9.2%, and also behind our estimate of QR21.1mn. The loss in the base period was primarily due to a one-off impairment charge of QR36.2mn related to closure of Al Wakra Clinic.** We attribute the miss mainly to revenue coming in lower than anticipated and lower GPM (the jump in utility costs YoY is seen as permanent). Comparatively, the like-for-like NP that adjusts for the losses related to the discontinued Al Wakra Clinic in the base period declined 9.2% YoY. The GPM came in at 35.8% vs. 38.0%/35.6% in 2Q2024/1Q2025 and slimmer than expectations of 37.9%. G&A expense rose 2.9% YoY to QR29.3mn vs. QR31.8mn expected, which saw the EBITDA margin printing at 18.3% vs 18.8% modeled. NP margin (lfl) came in at 15.0% in 2Q2025 (vs. 15.8% expected), from 17.7% in 2Q2024.
- **MCGS's 2Q2025 revenue edged up 1.3%/2.1% YoY/QoQ to QR1mn, moderately behind QR130.5mn expected.** Inpatient rose while outpatient volumes declined YoY. We see that the marketing budget declined during the quarter but is flat YTD. With the new HMC referral agreement, outlook is upbeat for the rest of the year.
- **In early July, Al-Ahli Hospital, MCGS's subsidiary, signed a Blanket Agreement for Medical Referrals with HMC,** where Qatari citizens can be referred to Al-Ahli for treatment. The agreement is reviewed/renewed annually. Besides Al-Ahli, four other private hospitals have entered into similar agreements. This includes The View Hospital, which was the first to sign an agreement with HMC, and the other three are: Al Emadi Hospital, Aman Hospital and Doha Clinic Hospital. The project is still being trialed and is expected to become fully operational from August: Management is yet to quantify the financial impact. We note that The View Hospital (a subsidiary of Estithmar Holding or IGRD), which disclosed a similar agreement with HMC during its 1Q25 earnings call, cited potential incremental revenue of up to QR60mn/month. While this scale is probably unattainable for MCGS – given Al-Ahli's smaller size (~150 beds vs. ~250 beds at The View) – a pro rata adjustment still implies meaningful upside. Based on MCGS's FY2024 revenue of QR523mn and our FY2025E of QR554mn, even a QR6mn/month uplift (i.e., one-tenth of The View's run rate) could drive double-digit earnings growth, assuming current margin levels hold. However, **our model assumes only QR2mn/month revenue kicker from August onwards.**

Catalysts

- **Catalysts: (1) HMC referral program as well as phased rollout of the "new" health insurance policy (2) Margin lift from cost-cutting initiatives including the closure of Al-Wakra Clinics (3) Contingent QR109mn receivable cash windfall from Medicare's court case vs. the government on "old Seha" (4) Ongoing marketing efforts and renovations and upgrade of hospital facilities (5) Improving yield dynamics as global interest rates decline.**

Recommendation, Valuation and Risks

- **Recommendation and Valuation: We maintain our Accumulate rating but raise our weighted 12-month PT to QR5.962, which implies a 5.1% 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 short- to medium-term outlook, with these notable variables driving the outlook: service level & product quality, public health policy, increased healthcare spend, limited bed capacity & occupancy levels growth, tariff controls and competition from both the private and public players. In the longer-term, above-average population growth, disease burden & expected favorable composition of expats, should become more dominant in shaping prospects.
- **Key risks: (1) Escalating competitive pressure as both private and public bed-count increases (2) Further write-downs/off of the Seha receivable (3) Low stock liquidity (5) Global disease outbreak.**

Key Financial Data and Estimates

Medicare Group	2024A	2025E	2026E	2027E	2028E
EPS (QR)	0.21	0.37	0.43	0.47	0.52
DPS (QR)	0.20	0.35	0.40	0.44	0.48
P/E (x)	26.6	15.3	13.1	12.1	11.0
EV/EBITDA (x)	15.5	13.8	11.7	10.5	9.5
DY (%)	3.5%	6.1%	7.1%	7.8%	8.5%

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	QR5.670
Dividend Yield (%)	3.5
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Consumer Goods
52wk High/52wk Low (QR)	5.850/3.905
3-m Average Vol. (mn)	1.4
Mkt. Cap. (\$ bn/QR bn)	0.4/1.6
EV (\$ bn/QR bn)	0.4/1.6
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	16.6
1-Year Total Return (%)	39.6
Fiscal Year-End	December 31

Source: Bloomberg (as of July 23, 2025), *Qatar Exchange (as of July 23, 2025); Note: FO is foreign ownership

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QNB FS Estimates Revision

	2024A	2025E			2026E			2027E		
		Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
REVENUE	523,491,870	554,228,514	545,228,514	1.7%	595,255,701	571,255,701	4.2%	622,135,103	598,135,103	4.0%
GROSS PROFIT	196,683,631	210,509,001	207,720,403	1.3%	230,826,860	222,162,823	3.9%	245,708,386	237,112,876	3.6%
EBITDA	108,019,433	119,431,389	116,947,641	2.1%	137,001,631	128,964,061	6.2%	149,385,620	141,432,239	5.6%
OPERATING PROFIT	82,617,218	92,903,755	90,420,007	2.7%	110,238,472	102,200,903	7.9%	122,368,763	114,415,382	7.0%
PROFIT FOR THE PERIOD (LFL)	94,152,828	104,244,784	101,761,036	2.4%	121,696,244	113,658,674	7.1%	132,380,374	124,426,993	6.4%
PROFIT FOR THE PERIOD	60,056,920	104,244,784	101,761,036	2.4%	121,696,244	113,658,674	7.1%	132,380,374	124,426,993	6.4%

Source: Company data, QNBFS Research

Condensed Income Statement

	2024A	2025E	2026E	2027E	2028E
REVENUE	523,491,870	554,228,514	595,255,701	622,135,103	650,297,980
GROSS PROFIT	196,683,631	210,509,001	230,826,860	245,708,386	261,239,139
EBITDA	108,019,433	119,431,389	137,001,631	149,385,620	162,455,348
OPERATING PROFIT	82,617,218	92,903,755	110,238,472	122,368,763	134,918,015
PROFIT FOR THE PERIOD (LFL)	94,152,828	104,244,784	121,696,244	132,380,374	145,187,592
PROFIT FOR THE PERIOD	60,056,920	104,244,784	121,696,244	132,380,374	145,187,592

Source: Company data, QNBFS Research

Balance Sheet

	2024A	2025E	2026E	2027E	2028E
Property and equipment	1,041,449,857	1,044,922,223	1,028,159,064	1,011,142,208	1,003,604,875
Investments at fair value through other comprehensive income	73,401,634	73,401,634	73,401,634	73,401,634	73,401,634
Investment property	26,244,000	26,244,000	26,244,000	26,244,000	26,244,000
Total Non-Current Assets	1,141,095,491	1,144,567,857	1,127,804,698	1,110,787,842	1,103,250,509
Inventories	31,253,873	33,088,933	35,538,367	37,143,139	38,824,539
Accounts Receivable and Prepayments	131,641,714	143,858,892	160,166,348	170,850,352	182,044,511
Cash and cash equivalents	108,792,159	99,127,963	103,348,635	105,826,834	101,487,721
Total Current Assets	271,687,746	276,075,788	299,053,349	313,820,325	322,356,770
Total Assets	1,412,783,237	1,420,643,645	1,426,858,047	1,424,608,167	1,425,607,279
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	128,586,417	139,010,895	151,180,520	164,418,557	178,937,316
Fair Value Reserve	22,036,690	22,036,690	22,036,690	22,036,690	22,036,690
Revaluation reserve	521,092,396	521,092,396	521,092,396	521,092,396	521,092,396
Retained Earnings	55,981,067	94,076,055	106,185,629	111,602,483	118,561,481
Total Equity	1,009,137,570	1,057,657,036	1,081,936,235	1,100,591,126	1,122,068,884
Bank facilities	151,394,292	119,660,538	92,465,610	65,270,682	38,075,754
Employees' end of service benefits	88,808,832	96,596,555	104,589,148	112,781,556	121,178,774
Total Non-Current Liabilities	240,203,124	216,257,093	197,054,758	178,052,238	159,254,528
Accounts payable and accruals	129,546,099	119,938,105	127,164,455	131,351,015	135,758,892
Bank facilities st	33,896,444	26,791,411	20,702,599	14,613,788	8,524,976
Total Current Liabilities	163,442,543	146,729,516	147,867,055	145,964,803	144,283,867
Total Liabilities	403,645,667	362,986,609	344,921,813	324,017,041	303,538,395
Total Equity and Liabilities	1,412,783,237	1,420,643,645	1,426,858,047	1,424,608,167	1,425,607,279

Source: Company data, QNBFS Research

Summarized Cashflow Statement

	2024A	2025E	2026E	2027E	2028E
Cash Flow from Operating Activities	110,060,450	114,899,908	144,921,457	159,487,422	172,654,460
Cash Flow from Investing Activities	(134,016,414)	(30,000,000)	(10,000,000)	(10,000,000)	(20,000,000)
Cash Flow from Financing Activities	32,248,486	(94,564,104)	(130,700,785)	(147,009,223)	(156,993,574)
Change in Cash	8,292,522	(9,664,196)	4,220,672	2,478,199	(4,339,113)
Opening Cash	12,499,637	20,792,159	11,127,963	15,348,635	17,826,834
Cash End of Period	20,792,159	11,127,963	15,348,635	17,826,834	13,487,721

Source: Company data, QNBFS Research

Ratios

	2024A	2025E	2026E	2027E	2028E
GROWTH METRICS					
Revenue	7.7%	5.9%	7.4%	4.5%	4.5%
Gross Profit	11.7%	7.0%	9.7%	6.4%	6.3%
EBITDA	16.7%	10.6%	14.7%	9.0%	8.7%
Operating Profit	21.9%	12.5%	18.7%	11.0%	10.3%
Net Profit	-8.6%	73.6%	16.7%	8.8%	9.7%
Net Profit - Sustainable	43.3%	10.7%	16.7%	8.8%	9.7%
EPS (QR/share)	21.3%	37.0%	43.2%	47.0%	51.6%
DPS (QR/share)	19.8%	34.6%	40.4%	44.0%	48.2%
OPERATING RATIOS					
Gross Margin	37.6%	38.0%	38.8%	39.5%	40.2%
EBITDA Margin	20.6%	21.5%	23.0%	24.0%	25.0%
EBIT Margin	15.8%	16.8%	18.5%	19.7%	20.7%
Net Profit Margin	18.0%	18.8%	20.4%	21.3%	22.3%
RETURN RATIOS					
RoE	9.3%	9.9%	11.2%	12.0%	12.9%
RoIC	7.6%	8.4%	10.1%	11.4%	12.6%
RoA	5.8%	6.5%	7.7%	8.6%	9.5%
VALUATION RATIOS					
EV/Sales	3.2	3.0	2.7	2.5	2.4
EV/EBITDA	15.5	13.8	11.7	10.5	9.5
EV/EBIT	20.2	17.7	14.6	12.8	11.4
PE Ratio	26.6	15.3	13.1	12.1	11.0
PEG Ratio	0.8	1.1	1.4	1.6	-
P/CF	14.5	13.9	11.0	10.0	9.2
P/B	1.6	1.5	1.5	1.4	1.4
Dividend Yield	3.5%	6.1%	7.1%	7.8%	8.5%
FCF Yield	3.5%	5.3%	8.5%	9.4%	9.6%
LEVERAGE RATIOS					
Debt/Equity Ratio	18.4%	13.8%	10.5%	7.3%	4.2%
Net Debt/Equity Ratio	7.6%	4.5%	0.9%	-2.4%	-4.9%
Net Debt/Capital Ratio	8.5%	4.9%	1.0%	-2.6%	-5.4%
Net Debt/EBITDA	70.8%	39.6%	7.2%	-17.4%	-33.8%
Interest coverage	N.M.	N.M.	N.M.	78.2	94.5
LIQUIDITY RATIOS					
Current Ratio	1.7	1.9	2.0	2.1	2.2
Quick Ratio	1.5	1.7	1.8	1.9	2.0
WORKING CAPITAL DAYS					
Inventory Days	140	159	158	158	158
Average Collection Period	127	127	127	127	127
Average Collection Period	145	145	145	145	145
Payables Days	145	145	145	145	145

Source: Company data, 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

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