Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR6.650	Target Price	QR7.191
Implied Upside	8.1%		

Defensive Attributes Compensate For Muted Growth; Initiate Coverage With A Market Perform

We initiate coverage of MCGS with a Market Perform rating as we believe that prevailing tailwinds and headwinds combine for a balanced/neutral outlook in the short- to medium-term for the largest private hospital operator in Qatar. In the medium- to longer-term, it is likely that tailwinds, primarily due to positive demographics, become dominant. *Investors can hold this stock as a yield play but we see limited upside price return potential in the short- to medium-term. Also, the yield argument is being weighed down by improving government bonds yields – latest QCB TB yields range between 3.76%-4.75%. Nonetheless, MCGS is a cash-cow, with a high cash conversion ratio, on average converting more than 100% of its EBITDA into operating cash flows historically. The board and management have been generous, with most of the bottom-line paid to shareholders as dividends. The stock boasts a LTM dividend yield of 3.8% on the back of an 89% payout ratio. We expect the stock to remain range-bound for the foreseeable future, with MCGS down 18.9% YTD (total-return) compared with the QSE Index's 5.8% gain. However, we like its lower risk profile due to its product offering and strong balance sheet, which in turn, supports a continued stable dividend flow.* ***In the very near-term, we see a potential uplift in revenue/profit from increased capacity utilization in 4Q2022 due to the World Cup. The rest of the forecast period looks rather pedestrian due to competition dynamics and limited fruition of previously-announced expansion plans.***

Highlights

- **Changing market dynamics and stalled inpatient bed expansion plans weigh down on MCGS in the short- to medium-term.** We note there are many healthcare facilities in Qatar, mostly day clinics and outpatient models, and the number keeps growing. However, we consider Hamad Hospital & its subsidiaries, and in the private sector, seven hospitals specifically Al Emadi Hospital and Doha Clinic, as Medicare's major competitors as they are full-fledged hospitals with both inpatient and outpatient offerings. Also, **The View, IGRD's new hospital set to enter the market in 4Q2022 with c.240 beds, hikes up competition. Moreover, Hamad Medical has two projects entering the market soon, in addition to three projects that recently came on-stream. Consequently, given Medicare's market share dominance in the private sector plus spare capacity, it has been compelled to "kick the can down the road" on plans to add 100 inpatient beds.**

- **Savvy capital reallocation in light of increased competition shows prudence by Medicare management.** Rather than focus on bed expansion, MCGS has reallocated capital to upgrade existing facilities – improving existing patient rooms, theatres and therapy rooms – so that it can compete effectively. We also note Al Ahli's current capacity can take on more patient flows, without necessarily adding more beds, should they materialize in the short-term. However, at the moment, Medicare's prerogative is to protect its existing turf. We believe Ahli Hospital's brand name, service level and established patient-doctor relationships, will help in the near-term.

- **Medicare's 3Q2022 net profit declined 6.3% YoY but rose 12.7% sequentially due to stronger margins primarily driven by lower staff and medical & surgical costs** (its biggest operating cost items). Meanwhile, 3Q2022 revenue decreased both YoY (-6.8%) and QoQ (-11.0%). Looking at YTD metrics, 9M2022 revenue edged up 1.2% YoY on the back of inpatient and outpatient growth, while net income rose 4.6%. The relatively better YTD bottom-line growth has primarily been driven by the decline in medical & surgical costs.

- **We tip MCGS to report strong 4Q2022 results, which could well resuscitate the stock in the very near-term. We estimate full year revenue of QR501.4mn and net income of QR87.7mn, implying that 4Q2022 revenue will increase 12.1% YoY to QR141.7mn, while we see NP climbing 37.5% YoY to QR35.0mn as operating leverage kicks in.** We expect the jump to be driven primarily by a lumpy increase in World Cup visitor influx – where World Cup tourists account for 7.6 percentage points of 4Q2022 YoY revenue growth – buttressed by the "new" Seha where the first phase is focusing on tourists. Hayya card holders have free access to government hospitals, but we think there will be enough to go around due to capacity constraints. While 1+mn visitors are expected, c.3mn tickets have been sold, so the odds of upside risks look good.

Catalysts

- **Catalysts:** ***(1)*** *Recent increase in FOL to 100% from 49%* ***(2)*** *Expected World Cup Qatar 2022-related patient volume increase in 4Q2022* ***(3)*** *"New" Seha* ***(4)*** *Inpatient beds expansion plans, though drawn-out than initially planned* ***(5)*** *Contingent receivable cash windfall from Medicare's court case (vs. the government on "old" Seha).*

Recommendation, Valuation and Risks

- **Recommendation and Valuation:** ***We initiate coverage with a Market Perform rating and a weighted 12-month TP of QR7.191 with 8.1% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies.*** *If we look past the potential boost in 4Q2022, several macro and micro themes cancel 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: 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/offs of the Seha receivable **(3)** Escalating competitive pressure as both private and public bed-count increases **(4)** Rising global/local yields **(5)** High base set by World Cup-volumes **(6)** Global disease outbreak.

Key Financial Data and Estimates

Medicare Group	FY21A	2022E	2023E	2024E	2025E
EPS (QR)	0.28	0.31	0.34	0.38	0.41
DPS (QR)	0.25	0.28	0.31	0.34	0.37
P/E (x)	23.7	21.3	19.3	17.6	16.0
EV/EBITDA (x)	18.8	17.7	16.2	14.8	13.4
DY (%)	3.8%	4.2%	4.7%	5.1%	5.6%

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

Key Data

Current Market Price	QR6.650
Dividend Yield (%)	3.8
P/E Ratio	23.0
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk Share Price High	QR8.75
52wk Share Price Low	QR6.50
3-m Average Vol. (mn)	0.2
Mkt. Cap. ($ bn/QR bn)	0.5/1.9
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	20.0
1-Year Total Return (%)	-18.4
Fiscal Year-End	December 31

Source: Bloomberg (as of November 23, 2022), *Qatar Exchange (as of November 23, 2022); 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

Global Model Assumptions Commentary

- **The major macro demand drivers for healthcare services include population growth and the rising average population age, increased incidence of sedentary lifestyles, rising allocation to healthcare expenditure, government policy, medical inflation and technological advances**. To tap on some of these themes, MCGS can primarily pull three levers: increasing bed numbers, hiking capacity utilization and expanding product offerings. Higher occupancy levels drive margins given that quite a chunk of the company's cost base is fixed – this also explains why the decline in staff costs in 3Q2022 saw its bottom line rising QoQ, even as revenue declined.
- **In the recent 3Q2022 conference call, we learned that the 100-inpatient bed project expansion – that we had anticipated to finalize at the end of this year/beginning of next year – had been shelved until end of next year**. In our conversations with management, we note Medicare will take a wait-and-see approach as the company assesses the market impact of new competition.
- **Medium- to long-term, we will no longer incorporate the potential impact of these additional 100 inpatient beds in our model as we had done since 2019** in our first MCGS initiation report, and in subsequent reports through to August 2021 (*click here to view*). **However, we modeled slightly improved occupancy levels**. We believe the slight improvement in occupancy level in our outlook emanates from the ongoing renovations of existing facilities.
- **The phasing in of the rest of the "new" Seha policy might not significantly move the dial than previously thought given that it is primarily premised on providing basic cover**, whereas Al Ahli is focused on the upper-end of the demand curve. Consequently, we have de-emphasized the likely "positive" impact of Seha in our model compared to our older expectations. Overall, we see MCGS's revenue increasing marginally by 1.9% in FY2023 (due to World-Cup base effects), and then rise by an average of 4.8% per annum between FY2024 and FY2026.

Risk-Free Rates And Yield Differential Deterioration

- **Yields affect Medicare in two primary ways. (1) Cost of capital –** in the DCF valuation section, we performed a sensitivity analysis to show the impact of changes in WACC. **(2) Yield differential –** Medicare's DY has hovered around 4.5% since 2016 (after Seha) and around 3.3% in the last 24 months. **It is worth noting that MCGS's current LTM DY of 3.8% is better than the Bloomberg median of its MEA peers of 1.5%. With Medicare's yield as one of its most attractive attributes, it is somewhat disconcerting, however, that risk-free yields (QCB Treasury Bills) have risen to levels similar to MCGS's historical average yield**. Coupled with MCGS's limited upside price return potential, the stock runs the risk of losing its yield appeal as TB yields continue to rise and look increasingly attractive in both absolute terms and on a risk-adjusted basis. The latest QCB treasury yields (in the table below) show that the risk-free rate has already eclipsed Medicare's historical dividend yield average. The differential is likely to grow wider in favor of TBs given that global central banks are in a rate-tightening cycle to curb the highest inflation in a generation.

QCB Treasury Yields

مصرف قطر المركزي
Qatar Central Bank
State of Qatar • دولــة قطــر

T-BILLS & SUKUK (QATAR CENTRAL BANK)

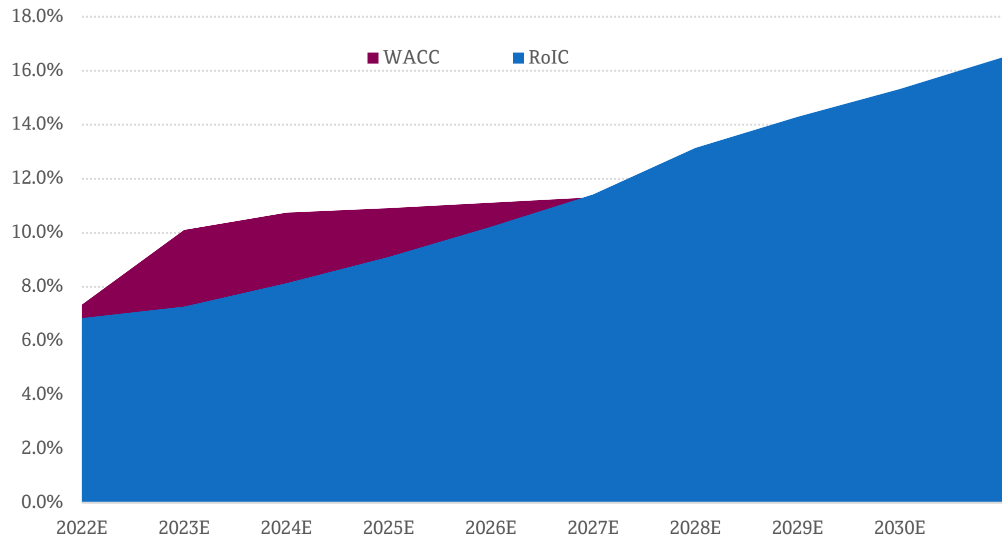
%	VALUE (QR)	TENORS	Maturity Date	ISSUE DATE	ISIN
3.7550	2,000,000,000	3M	03/01/2023	04/10/2022	QA000E9LA0N5
3.8125	1,700,000,000	6M	04/04/2023	04/10/2022	QA000457XVD5
3.8950	1,300,000,000	9M	04/07/2023	04/10/2022	QA00098K7EA8
4.5050	500,000,000	Week	22/11/2022	15/11/2022	QCB002211007
4.5625	500,000,000	1M	29/11/2022	01/11/2022	QCB012211002
4.6450	2,000,000,000	3M	31/01/2023	01/11/2022	QA000SBJP052
4.7025	1,700,000,000	6M	02/05/2023	01/11/2022	QA0005890MA0
4.7500	1,300,000,000	9M	01/08/2023	01/11/2022	QA000L1U97M4
	11,000,000,000	TOTAL			

Source: QCB

Weak Value-Creation Attributes: Inefficient Balance Sheet

- **One of our preferred measures of competitiveness highlight a weakness in MCGS's capital structure, although an improvement is seen over time**. When RoIC is greater than WACC by at least 2ppts, the company is deemed to be improving shareholder value and should generally trade at a premium. This is not the case with MCGS as we expect its RoIC to stay below WACC in the near-term, although it should improve with time. We attribute this primarily to the company's capital structure, which has minuscule debt levels. A strong balance sheet is generally a good outcome, especially if the outlook is weak (with rising interest rates) but it entails an inefficient capital structure. Furthermore, a balance sheet with some headroom, like Medicare's, is more acceptable if the company has major expansions ahead. However, with expansion plans shelved indefinitely, management should consider re-engineering the balance to create more shareholder value.

RoIC < WACC In The Short- To Medium-Term



Source: QNB FS Research

Valuation

- We value MCGS at QR7.191 per share with 8.1% upside potential (lower than our last TP of QR9.01 on *5 August 2021*) using a combination of DCF, EBITDA Exit Multiple (EEM) and several relative valuation methodologies. We assign the biggest weights to the DCF and EEM methodologies as we contend they capture the longer-term potential of MCGS better than other methodologies.

Valuation Summary

Methodology	Weight in Overall Valuation	Upside/Downside Potential
DCF	**35.0%**	-18.6%
EEM, FY22e	**30.0%**	21.6%
Dividend Discount Model	**5.0%**	-42.0%
Relative Valuation	**30.0%**	
International Sector Peers	**20.0%**	
P/E, FY22e	5.0%	40.9%
P/FCF, FY21	5.0%	-50.5%
P/BV, 3Q22	5.0%	74.4%
LTM Div. Yield	5.0%	180.5%
Local Comparisons	**10.0%**	
DSM Index P/E @12.3x, FY22e	5.0%	-39.0%
DSM Index LTM Div. Yield @ 3.7%	5.0%	-0.6%
Weighted Average Upside Potential		**8.1%**

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

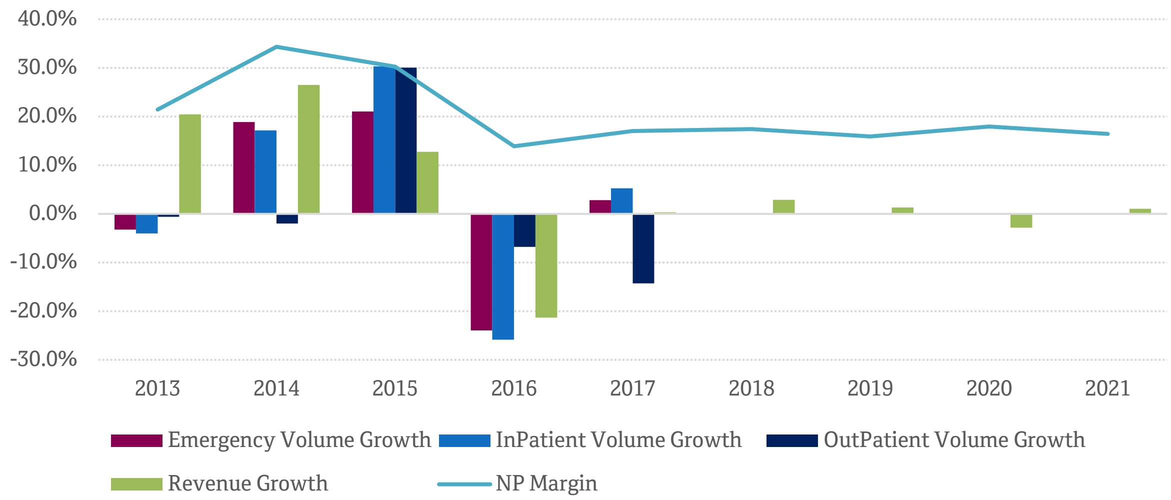
- **MCGS share price experienced its historic peak in 2015, closing at QR19.3/share on 27 July 2015 from QR3.57 on 31 December 2012, during the first implementation of National Health Insurance Scheme (Seha).** Seha was initiated in July 2013 and was in place until the end of 2015, which boosted Al Ahli Hospital's patient volumes and financial performance. On December 23, 2015, the Supreme Council of Health announced that health insurance services provided by the National Health Insurance Company would be suspended by December 31, 2015. Consequently, Medicare's stock price fell. While MCGS performed significantly better than the market between 2013 and 2015 on a total-return basis, most of its returns ever since have come primarily through its generous dividend policy.

Total-Return & Dividend Yield (%) Performance

Source: Bloomberg

- **Seha propelled MCGS's revenue to peak in FY2015 at QR596.0mn from QR346.9mn in FY2012, but it has ranged between QR469.0mn and QR490.7mn ever since, with FY2021 printing at QR481.7mn.** The net profit margin also rebased at a lower level to less than 18% from more than 30% in FY2015 and FY2014.

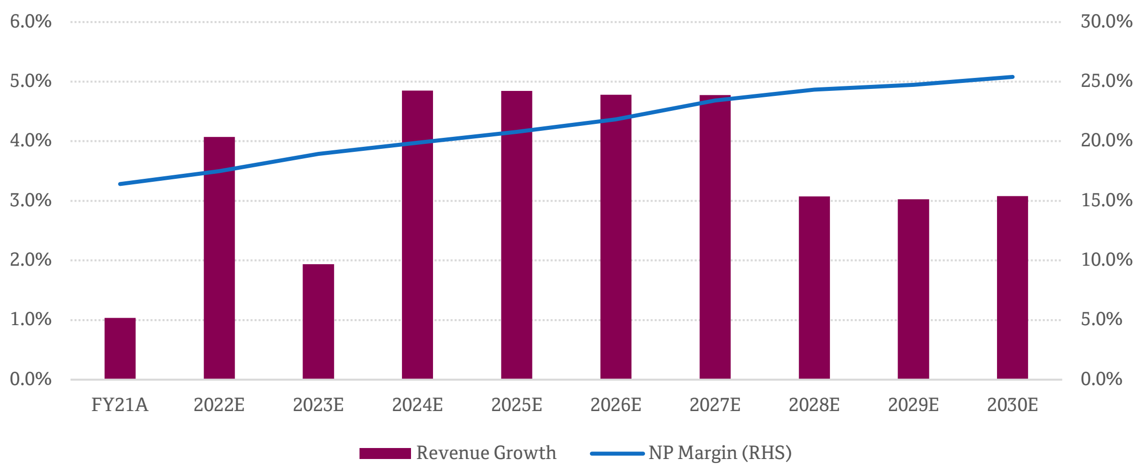
Patient Volumes Growth, Revenue Growth & NP Margin



Source: MCGS, QNB FS Research
MCGS stopped disclosing patient volume data in 2017

- **In the short- to medium-term, we see revenue growth averaging 4.0%, while the net profit margin hovers around 20.0%.**

Revenue Growth And Net Profit Margins Forecast

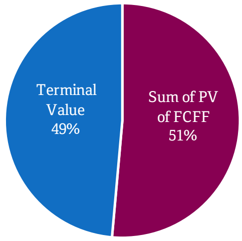


Source: MCGS, QNB FS Research

DCF Valuation & Assumptions

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT (1-tax rate)	83,215,343	91,476,282	100,752,346	111,100,760	122,113,870	138,032,151	147,394,199	154,954,157	163,478,957
EBIT	83,215,343	91,476,282	100,752,346	111,100,760	122,113,870	138,032,151	147,394,199	154,954,157	163,478,957
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	27,656,083	27,176,689	27,056,805	27,224,563	27,244,110	27,587,819	27,691,541	28,144,140	28,144,140
Capital Expenditure	-40,509,980	-8,296,025	-8,698,363	-9,119,929	-9,555,767	-10,012,113	-10,319,955	-10,632,056	-10,632,056
% of Enterprise Value	-2.1%	-0.4%	-0.5%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%
Change in WC	-25,363,132	-1,965,768	-5,235,402	-4,868,580	-6,121,147	-5,913,493	-4,346,851	-3,150,179	-3,446,163
FCFF	44,998,314	108,391,178	113,875,386	124,336,814	133,681,066	149,694,363	160,418,934	169,316,062	177,544,878
WACC	10.1%	10.7%	10.9%	11.1%	11.3%	11.6%	11.8%	12.1%	12.3%
Period	0.20	1.20	2.20	3.20	4.20	5.20	6.20	7.20	8.20
Discount Factor	1.02	1.13	1.26	1.40	1.57	1.77	2.00	2.27	2.60
PV of FFCF	44,140,636	95,900,924	90,668,477	88,763,746	85,220,850	84,725,555	80,284,818	74,543,888	68,335,662

Sum of PV of FCFF	712,584,557
Terminal Value	673,531,906
Terminal FCFF	68,335,662
Terminal Growth Rate	2.00%
Terminal WACC	12.35%
Enterprise value	1,386,116,463
+Cash and cash equivalents	17,022,598
+FVTOCI	80,270,123
-Long- and Short-term Debt	(128,165,777)
-Minority Interest	-
Fair Value of Equity	1,355,243,407
Shares outstanding	281,441,000
Fair Value Per Share	4.82
12M Target price per share	5.410
Upside Potential	-18.6%



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

- **While capex was higher in FY2022, as the group finalized the erection of its new administration block and operating rooms and theatres, we expect it to normalize from FY2023 onward.**
- **Our annualized FY2022 estimates show working capital days increasing to 105 days from 84 days in FY2021.** This is due to an increase in both inventory and receivables days, compounded by a decline in payable days. Consequently, for the rest of the forecast period we have maintained working capital days around the conservative 105 days.
- **Our 2.0% terminal growth rate estimate for MCGS could be conservative given Qatar's demographics, deteriorating health card profile and rising healthcare expenditure**. However, this growth rate also depends on the company's dedication to follow through on its long-promised expansion initiatives. Qatar's strong population growth, young population (which results in accelerating health expenditures as average population age increases), life expectancy with a room to rise, coupled with Qatar's high GDP per capita, create a favorable backdrop for the Qatari healthcare sector.

DCF Sensitivity Analysis

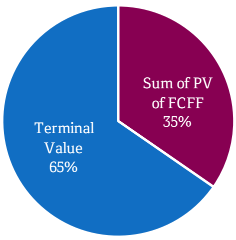
Terminal Discount Rate %	Terminal Growth Rate 1.0%	1.5%	2.0%	2.5%	3.0%
11.3%	5.34	5.48	5.65	5.83	6.03
11.8%	5.24	5.37	5.52	5.69	5.87
12.3%	5.15	5.27	5.410	5.56	5.73
12.8%	5.07	5.18	5.31	5.45	5.60
13.3%	5.00	5.10	5.22	5.35	5.48

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

EBITDA Exit Multiple Valuation & Assumptions

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBITDA	110,871,426	118,652,971	127,809,151	138,325,323	149,357,979	165,619,970	175,085,740	183,098,297	191,623,097
PV of EBITDA	108,758,191	104,980,219	101,762,651	98,750,108	95,214,785	93,739,294	87,625,110	80,611,720	73,754,260

Sum of PV of FCFF	712,584,557
Terminal Value	1,344,189,702
Terminal EBITDA	75,229,345
EBITDA Multiple	17.87
Enterprise value	2,056,774,259
+Cash and cash equivalents	17,022,598
+FVTOCI	80,270,123
-Long- and Short-term Debt	(128,165,777)
-Minority Interest	-
Fair Value of Equity	2,025,901,203
Shares outstanding	281,441,000
Fair Value Per Share	7.198
12M Target price per share	8.087
Upside Potential	21.6%



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

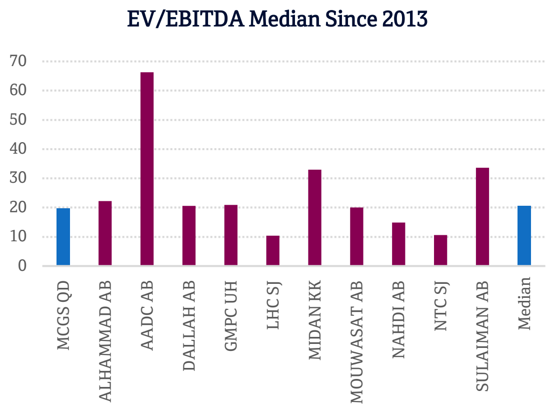
- We used a median FY22e EV/EBITDA multiple based on Bloomberg MEA peers (see Multiples Table below for more). We also explore the cross-sectional and time-series dynamics of the multiple below.

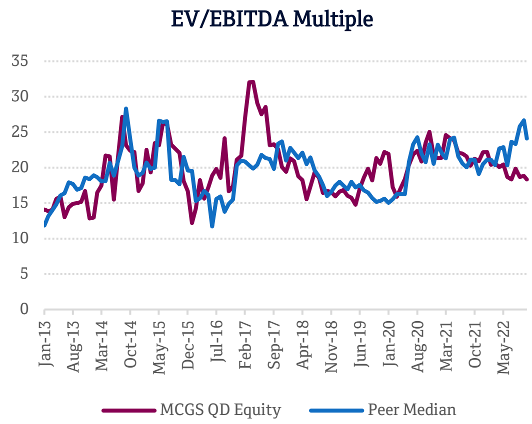
EBITDA Exit Multiple Sensitivity Analysis

Terminal Discount Rate %	Exit Multiple 15.9	16.9	17.9	18.9	19.9
11.3%	7.80	8.12	8.44	8.76	9.08
11.8%	7.64	7.95	8.26	8.57	8.88
12.3%	7.49	7.79	8.087	8.39	8.69
12.8%	7.34	7.63	7.92	8.21	8.50
13.3%	7.20	7.48	7.76	8.04	8.32

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

High EV/EBITDA Multiples Cross-Sectionally and Historically





Source: Bloomberg data between 2 Jan 2013 and 20 November 2022, QNB FS Research

- We used a median FY22e EV/EBITDA multiple based on Bloomberg MEA peers. We note that EV/EBITDA multiples of healthcare providers in the GCC region are high and this is pervasive both cross-sectional and historically.
- Based on our statistical calculations, we are 95% confident that the median LTM EV/EBITDA multiple for healthcare providers in the MEA (excluding MCGS) region lies between 20.2 and 20.6 since 2013. We note that the range for MCGS is between 19.4 and 19.7, using a 95% confidence interval.

EV/EBITDA Multiple Statistical Output

Stats since 2013	MCGS	Peers
Mean	19.53	20.39
Standard Error	0.08	0.09
Median	19.55	20.35
Mode	16.68	21.14
Standard Deviation	3.49	3.97
Sample Variance	12.21	15.79
Kurtosis	-0.51	0.92
Skewness	0.15	0.76
Range	18.56	24.42
Minimum	10.65	11.74
Maximum	29.21	36.16
Sum	40,674.56	42,479.14
Count	2,083	2,083
Confidence Level (95.0%)	0.15	0.17
Upper CI (95%)	19.68	20.56
Lower CI (95%)	19.38	20.22

Source: Bloomberg data between 2 Jan 2013 and 20 November 2022, QNB FS Research

Dividend Discount Model

DDM	2022E	2023E	2024E	2025E	2026E-onwards
Div Growth Rate	12.2%	10.3%	10.1%	9.6%	2.0%
Dividend Per Share	0.28	0.31	0.34	0.37	3.68
PVIF	0.98	0.88	0.80	0.71	0.64
Present Value	0.28	0.27	0.27	0.27	2.35
12M TP					3.857

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

Price Multiples Valuation Assumptions

	Country	Market Cap	P/E	P/FCF	P/BV	D/P	EV/EBITDA
		US$'mn	Earnings	Cashflow	Book Value	DY (%)	EBITDA
AADC AB Equity	Saudi Arabia	504.2	N/A	N/A	1.5	N/A	N/A
ALHAMMAD AB Equity	Saudi Arabia	1,835.3	27.9	21.0	3.9	2.9	17.9
DALLAH AB Equity	Saudi Arabia	4,222.3	47.3	64.2	7.1	1.3	29.1
GMPC UH Equity	UAE	334.6	N/A	17.6	1.2	5.4	N/A
LHC SJ Equity	South Africa	2,200.6	13.0	14.0	1.4	1.8	6.3
MIDAN KK Equity	Kuwait	370.7	N/A	N/A	2.4	1.4	N/A
MOUWASAT AB Equity	Saudi Arabia	5,269.1	31.0	47.1	6.9	1.5	23.7
NAHDI AB Equity	Saudi Arabia	6,667.6	30.7	N/A	11.7	1.2	16.8
NTC SJ Equity	South Africa	1,852.2	12.4	17.5	1.9	3.9	7.2
SULAIMAN AB Equity	Saudi Arabia	20,799.5	47.4	91.7	13.5	1.5	38.8
Peer Group Median		**2,026.4**	**30.7**	**21.0**	**3.1**	**1.5**	**17.9**
Peer Group Average		4,405.6	30.0	39.0	5.1	2.3	20.0
MCGS QD Equity	**Qatar**	**510.4**	**21.3**	**35.0**	**1.8**	**3.8**	**17.2**

Source: Bloomberg, QNB FS Research

- All relative valuation methodologies are based on the median firm.

Investment Thesis: Company Overview & Market Dynamics

- **Medicare Group (MCGS) was incorporated in 1996 to provide five-star healthcare services in a relaxing environment. Its biggest unit, Al Ahli Hospital generates about 98% of group revenue, boasts a combined 250 inpatient and outpatient beds services – about 150 beds are dedicated to inpatient services and the balance carters to outpatient services**. The hospital was completed in Jan'04 and officially opened its services to the public in Nov'04. In 2019, MCGS opened Al Wakra clinic, which generates about 1% of group revenue, to provide various outpatient services (including an urgent care unit) and serve the surrounding community with an estimated population of about 500,000 people. There are three additional operations: Hemya, a healthy nutrition-specialized company, generating 1% of group revenue; Re'aya, which deals with home nursing services, but is not yet operational; and Enaya, a physical therapy services firm, which is also not operational, but expected to open soon as its model is being changed to manpower outsourcing.
- **With an initial focus on pediatrics and obstetrics & gynecology, Al Ahli currently covers most specialties, with oncology a notable exception. Oncology, we note, has traditionally been offered by the Hamad Medical Corporation.** Al Ahli's medical departments/specialties, include anesthesiology, dentistry, dermatology, emergency, gastroenterology, general surgery, heart care center/cardiology (opened in Nov'17), internal medicine, neurology, womens' clinic (obstetrics and gynecology), ophthalmology, orthopedics & traumatology, pediatrics, psychiatry, pulmonary & chest, physical & rehabilitative medicine, urology, endocrinology, nephrology, rheumatology, ENT surgery, hearing and balance, fertility center and neurosurgery. It also offers ancillary services that include dietary, ICU & coronary care unit, pharmacy, radiology & neonatal ICU, speech and language therapy, pathology and laboratory medicine.
- **The hospital is particularly strong in surgery, obstetrics and gynecology, pediatrics and cardiology, as well as orthopedics.** Al Ahli is competing for the top place in these medical departments, which are the major drivers for the hospital's volume and revenue. Given Qatar's healthcare expenditure statistics and its turnover, Medicare estimated its market share at c.55% in the private sector in 2019. However, it commands more in terms of beds as a share of the private market. With 250 beds, it accounted for 70% of the private hospitals beds in 2019.

Qatari Hospital Beds & Density

		2016		2017		2018		2019	
		Number	Rate*	Number	Rate*	Number	Rate*	Number	Rate*
No. of Beds in Hospitals	Government	2,373	0.9	2,223	0.8	2,498	0.9	2,778	1.0
	Private	254	0.1	327	0.1	358	0.1	356	0.1
	Total	2,627	1.0	2,550	0.9	2,856	1.0	3,134	1.1
Population per Bed	Government	1,103		1,226		1,105		1,008	
	Private	10,306		8,332		7,710		7,863	
	Total	996		1,068		966		893	

Source: Planning and Statistics Authority * Rate per 1000 population

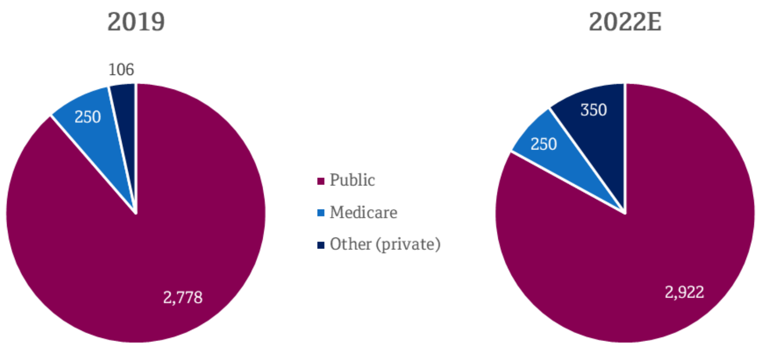
- **Medicare's Al Wakra clinic, opened in 2019, covers approximately 4,400 sqm, containing 15 beds in the Urgent Care Unit and 36 rooms divided into the following specialized clinics: obstetrics & gynecology, pediatrics, dental, general internal medicine and general surgery, in addition to medical support sections such as radiology and laboratory**. Al Wakra handles most specialties reducing the need for patients in the surrounding areas to go to the main hospital. Those who come for urgent care are assessed, stabilized, and transferred to Al-Ahli Hospital or Al Wakra Hospital depending on the patient's condition. So far, Al Wakra clinic has had a muted impact on Medicare's performance as its opening was followed by the COVID-19 outbreak a few months down the line. While we do not have patient volume data, we have learned that Al Wakra is contributing about 1% to group revenue.

Stalled Expansion Plans & Market Dynamics

- **Due to the changing market landscape, specifically on the supply side, a long-planned expansion project aimed at doubling Al Ahli's number of beds looks increasingly unlikely. However, one project that has materialized is optimizing space allocation**. Since its current administration head office shares the same premises with its operating theaters, MCGS has erected a new administration head office adjacent to the hospital. It has also added and upgraded new operating rooms and theatres. These are all expected to become operational in 4Q2022/1Q2023. In addition, Al Ahli plans to add more operating theaters, by re-utilizing the old administration office space.
- **In the past few years, the Hamad Medical Corporation has added new hospitals, and more are expected to come on stream as part of its 2030 strategy**. For instance, Aisha Bint Hamad Al Attiya Hospital was recently opened, albeit at a reduced capacity, to increase healthcare services during the World Cup period. It will undergo a phased opening, becoming fully operational in mid-2023. Initially, this hospital has opened its emergency and outpatient departments for urgent, but non-life-threatening cases, during the WC tournament. At full capacity, this facility will boast 48 obstetric rooms, 15 VIP inpatient rooms, 15 beds for on-call units, 40 pediatric rooms, 40 ICU beds for adults and 28 beds for neonatal ICU. The hospital also includes 64 outpatient clinics, a pharmacy, an 11-bed hemodialysis unit, a rehabilitation unit and a clinical imaging department.
- **In the private space, Estithmar's upmarket hospital, The View, is also set to open doors in 4Q2022.** The View is affiliated with US's Cedars Sinai Medical Center in Los Angeles. Its offerings include usually treated-abroad specialties, such as oncology, cardiology, strokes and complex orthopedics, as well as several trademark specialty services, such as women's health, heart health, diabetes care, executive health, wellness (weight management & bariatric surgery) and family health. Recently, Cedars-Sinai was ranked as the #2 hospital in the US and as #1 in California by the US News & World

Report. The View has 244 beds (ensuite rooms), three elegant presidential suites, six ambassador suites, three royal suites and 62 VIP suites. It is located in the Al Qutaifiya area, in the vicinity of Lusail, Katara and The Pearl.

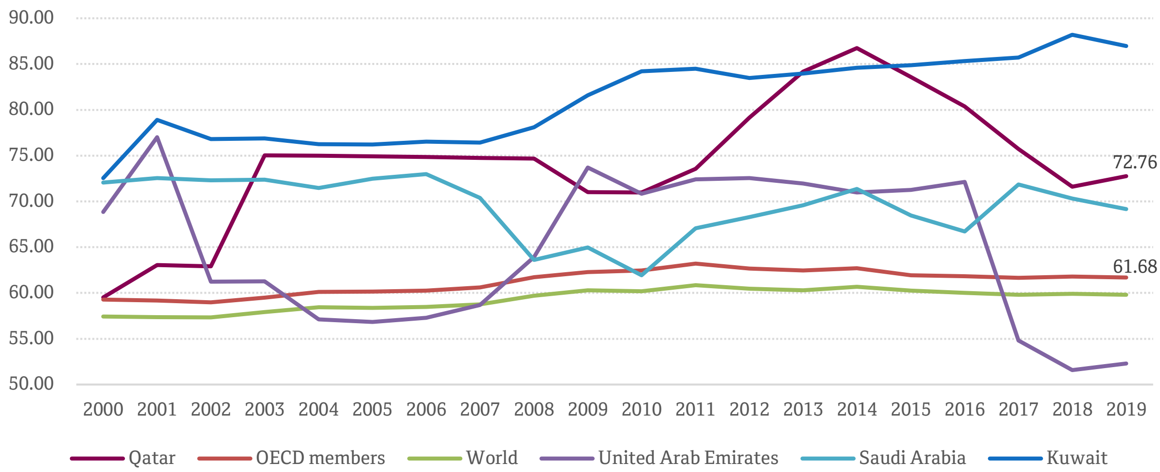
Medicare Share Of Hospital Beds In The Qatari Market



Source: Planning and Statistics Authority, Hamad Hospital, Estithmar, QNB FS Research

- **Low private market penetration and low private sector participation in the economy is a growth omen for private players**. More than 72% of healthcare expenditure is borne by the state, considerably higher than the global and OECD averages. Basic care services are provided mostly free of charge to citizens and at a subsidized rate for other residents.

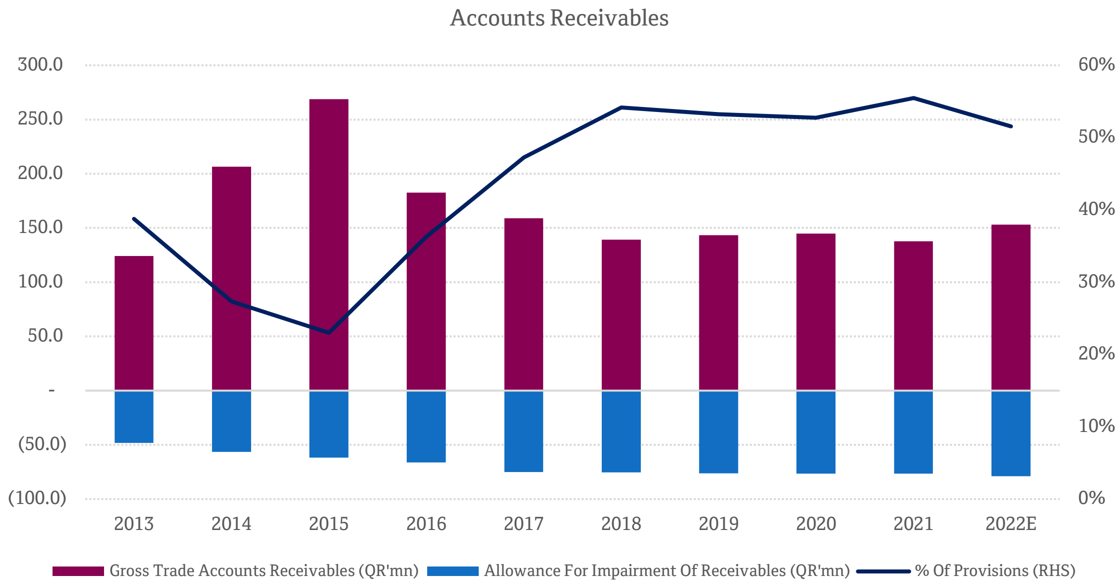
Government Vs. Private Health Expenditure (As A % of Health Expenditure)



Source: World Bank

- **We believe the GCC (including Qatari) hospital bed density has room for expansion**: OECD countries had an average of 47.9 hospital beds/10k population in 2016, which suggests the whole GCC region (with its average of 16.3 hospital beds/10k population between 2014 and 2018), including Qatar, may need a higher hospital bed-density in the coming years as they play catch-up. Qatar plans to increase its number of hospital beds to 5.7k by 2033 from an estimated 3.1k in 2019 (Qatar Healthcare Facilities Master Plan 2013- 2033).
- **Qatar's private hospital market is small but growing from a low base**. Medicare (MCGS) is the dominant private market player but we see IGRD's The View creating a new underserved niche market within the Qatari healthcare market. IGRD plans to focus on specialties/services usually treated abroad: oncology, cardiology, strokes and complex orthopedic procedures.
- **The format of the "new" Seha could also have played into MCGS's decision to delay expansion.** The new policy, with scant details and to be rolled out in phases, bodes well for overall utilization rates in the country. However, this policy seems to focus on the provision of basic medical services and looks unlikely to meaningfully expand the high-end market that can afford the products and services Al Ahli offers. **However, MCGS still has an outside chance of collecting its FY2015 Seha receivable from the government. This could be a windfall since bulk of it has been written down. However, there has not been much movement as court dates are repeatedly postponed – as MCGS challenges the government to discharge its responsibility by settling an obligation that we estimate to be around QR111.5mn based on FY2021 data. We have not modeled in any recoveries in our estimates.**

Medicare Accounts Receivables Evolution



Source: MCGS, QNB FS Research

- **At end-FY2021, Medicare had QR137.8mn in gross receivables, of which 80.9% or QR111.5mn (FY2016: QR116.4mn) had not been collected for more than 120 days (we attribute that to the FY2015 Seha receivables** – the company's average credit period is between 30 to 90 days, after which receivables are considered overdue). The company provisioned QR76.4mn for its receivables in FY2021, about 68.6% of the problematic Seha receivables. Therefore, we estimate the net BV of the >120 days receivables at QR35.1mn, making up 3.4% of MCGS' shareholders' equity and 44.4% of its net income in FY2021. **This implies that Seha receivables have both downside and upside risks – skewed to the downside as the company has not been able to collect on it for about seven years.**

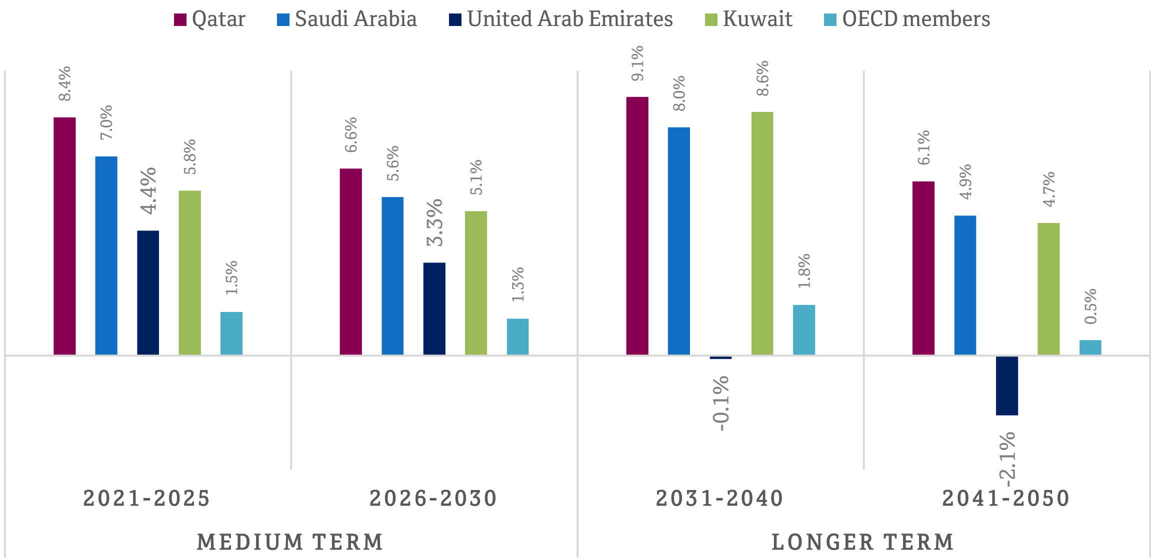
Tailwinds

Barring the potential World Cup boost, short-term prospects are at best neutral, but in the medium- to long-term, we believe risks are skewed to the upside. The main socio-economic factors we expect to drive the healthcare market in the longer term include: **(1)** population growth and aging, **(2)** sedentary lifestyles, **(3)** a nascent private sector and **(4)** rising healthcare expenditures coupled with government policy. In this section, we explore some of these sub-themes.

Healthcare markets are generally well penetrated and volume growth is highly linked to population growth, which by nature is pedestrian, but the sector's defensive properties during normal business cycles improve its appeal. Qatar's unique healthcare sector profile, however, does not neatly fit this narrative as it has distinctly unique drivers. **Growth in patient volumes will not only come from its expected above-average population growth in the medium- to long-term but also from growing demand for more complex acuity services that command higher margins (for healthcare service providers such as MCGS) as the population's average age increases and sedentary lifestyles take a toll**. While regulation risk has increased globally, in Qatar we have seen positive regulatory developments to crowd-in and increase the role of the private sector as the government unburdens its finances. The announcement for Qatari residents and visitors to have private health insurance was a clear big step in that direction. Favorable income level trends further support private sector growth.

- **While Qatar's population is likely to dip next year due to World Cup-related base effects, we expect that above-average population growth in the medium- to long-term will drive the consumption of healthcare services in Qatar. This will be buttressed by increased insurance coverage, growing awareness of healthy lifestyle by consumers and improving private sector healthcare services**. Over longer-time horizons, healthcare expenditure growth rate is positively correlated with population growth and is more elastic with respect to the rising average population age and/or the deteriorating health profile of the population. However, the path for healthcare expenditure is not as smooth mainly due to public policy interventions. Qatar's healthcare expenditure metrics (below) show the palpable influence of policy trials-and-errors. This is not unique to Qatar but is a global phenomenon as authorities grapple with ballooning healthcare costs – recent examples include the UAE and Switzerland.
- **With an inherently small population, the move by the Qatari government to advance the economy (NV2030) and attract highly-skilled labor/expats bodes well for patient numbers as well as buying power**. Most of this "above-average" growth in population is expected to emanate from expatriates. At the end of October 2022, Qatar's population was 3.0mn[1] with males accounting for 72%, which is largely attributed to the gender profile of the expat population.

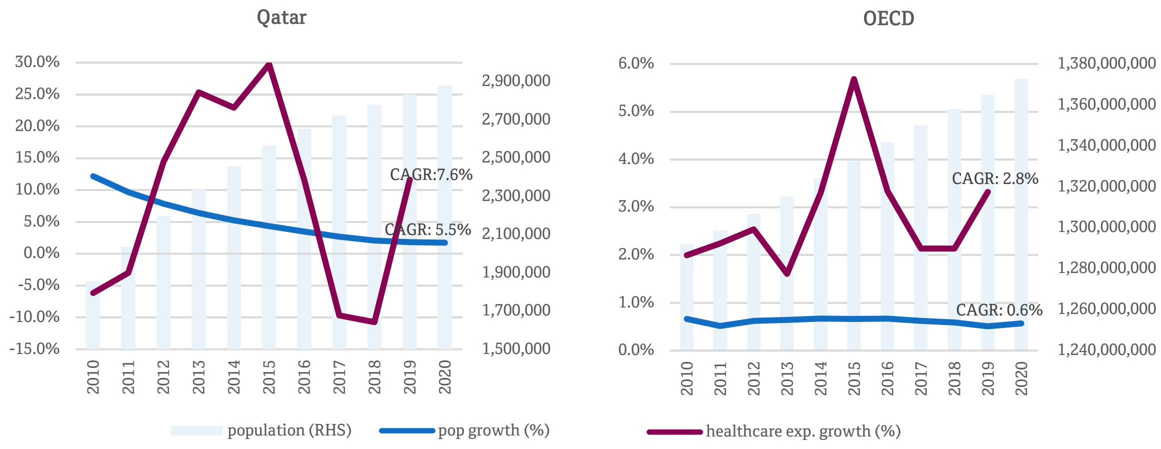
Qatari Population Growth Rate To Exceed Peers Longer Term



Source: World Bank

[1] https://www.psa.gov.qa/en/statistics1/StatisticsSite/Pages/Population.aspx

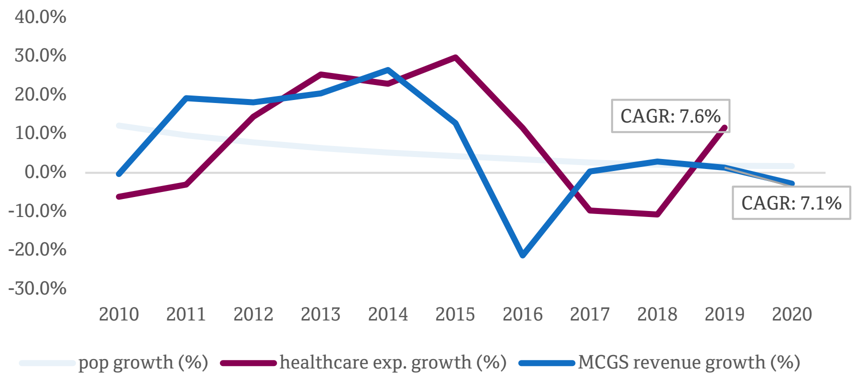
Population And Healthcare Growth



Source: World Bank

- **MCGS, the only listed healthcare provider until recently, has enjoyed some positive co-movement of its revenue with changes in Qatar's healthcare expenditure.** Qatar's healthcare expenditure has seen a CAGR of 7.6% between 2009 and 2019, while MCGS has experienced a CAGR of 7.1% over the same period. In both instances, growth has been higher than the 5.5% implied by population growth. Meanwhile, there is a government healthcare expenditure forecast of [2]5.8% annually between 2016 and 2026.

Healthcare Expenditure Vs. Medicare's Revenue Growth Rates

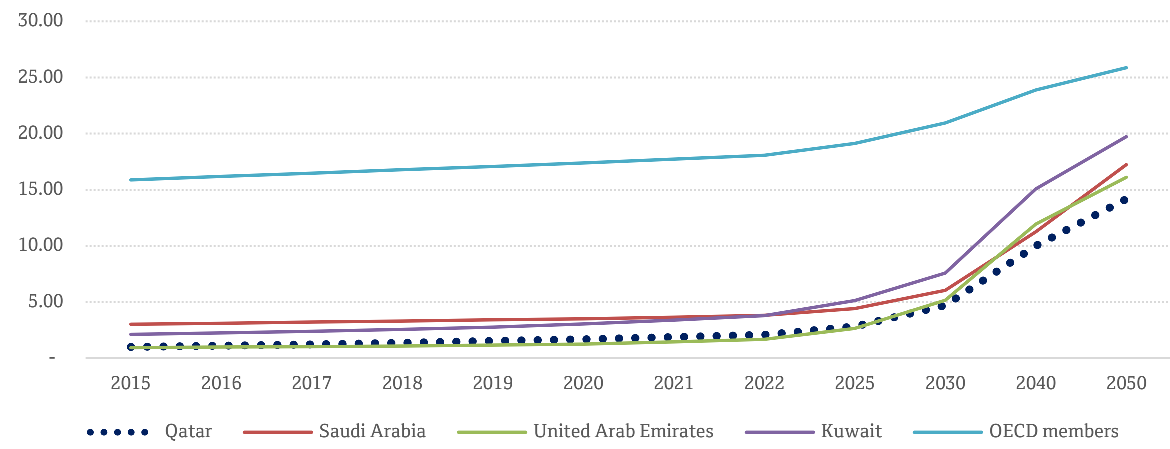


Source: World Bank, MCGS

- **While globally, the demand for healthcare spend is growing due to an increasing proportion of the elderly in the demographics, Qatar's relatively young population is unhealthy due to sedentary lifestyles, which equally requires more healthcare spend, specifically on premium services and high-margin procedures (including electives).** Of course, over the longer-term, with its high life expectancy, there is room for a further increase in healthcare expenditures as Qatar's average-age-profile increases.
- Consanguinity marriages, relatively high within the GCC region, adds a layer of unique health challenges. However, the government is working to mitigate this (gene/blood testing before marriage) and the ongoing genome project should further help.
- Qatar's young unhealthy population, ironically, bodes well for Qatar healthcare providers like MCGS and IGRD.

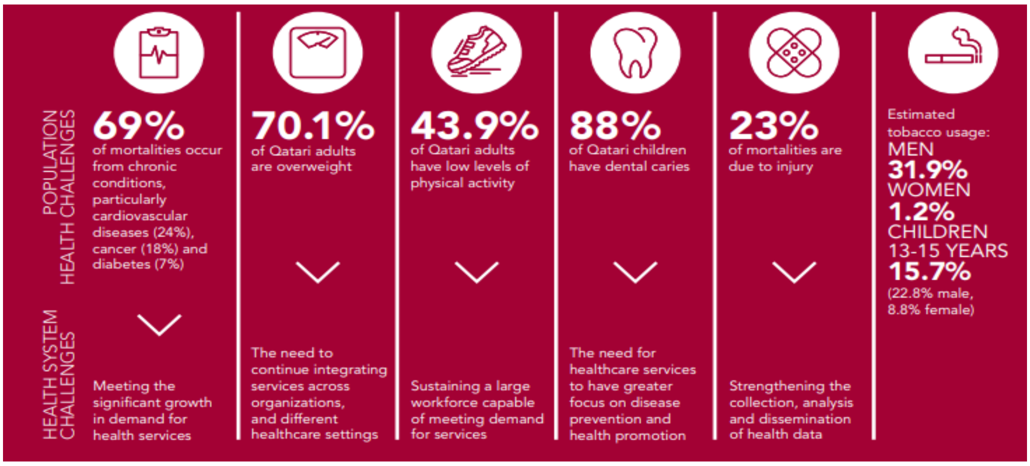
[2] Qatar's healthcare system has benefited from largescale investments with spending forecast to grow from USD $4.2bn in 2016 to USD $7.4bn in 2026, representing a 10-year compound annual growth rate of 5.8%. (https://qfz.gov.qa/why-qatar/great-place-to-live/)

Elderly As A % Of Total Population (Ages 65 And Above)



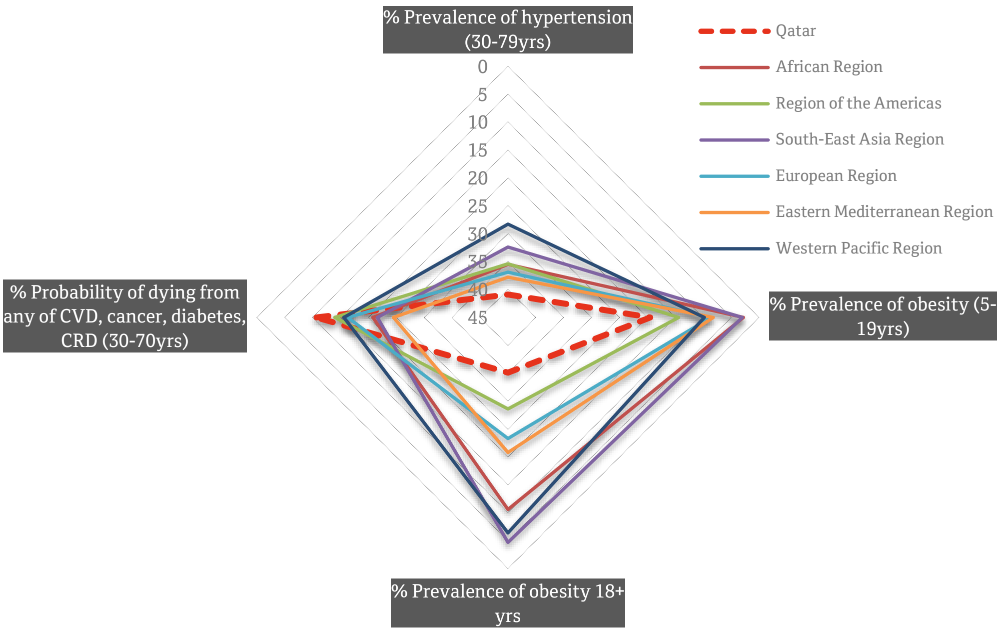
Source: World Bank

Qatari Healthcare System's Challenges



Source: MoPH, National Healthcare Strategy 2018-2022 (Our Health Our Future) Report

Qatar's Health Card Vs. Peers



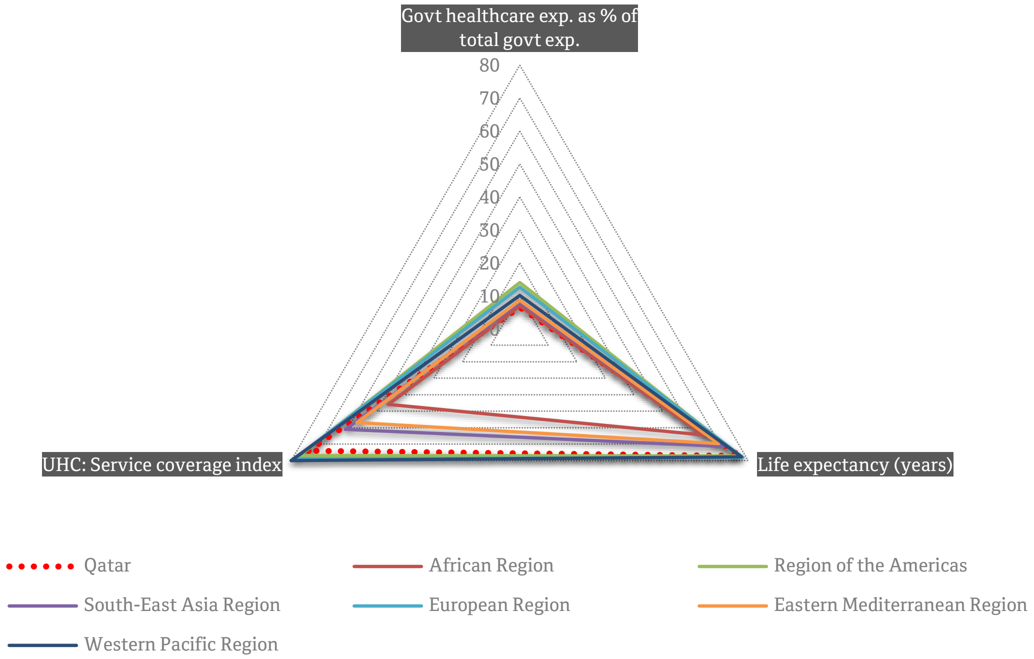
Source: WHO

- According to data from the WHO, NCDs were responsible for approximately 69% of all deaths in Qatar in 2016, with cardiovascular diseases and cancer accounting for 27% and 16%, respectively. While around 9% of deaths were caused by diabetes – much lower than rates in other GCC countries such as the UAE (18.7%), Saudi Arabia (16.8%) and Oman

(13.4%) – it is still above the global average of 6.4%. The economic costs of NCDs on Qatar's health sector are high and expected to rise as current lifestyle trends continue. A study from the World Economic Forum and Harvard University's School of Public Health in 2015 estimated that the cost of NCDs in the country is set to reach around $2,778 per capita. This figure is noteworthy as the OECD average for total healthcare spending per capita in 2017 stood at approximately $3,857.

- We do note some healthcare metrics are encouraging, such as Qatar's comparatively high life expectancy. The longer people live the more they spend on healthcare, however.

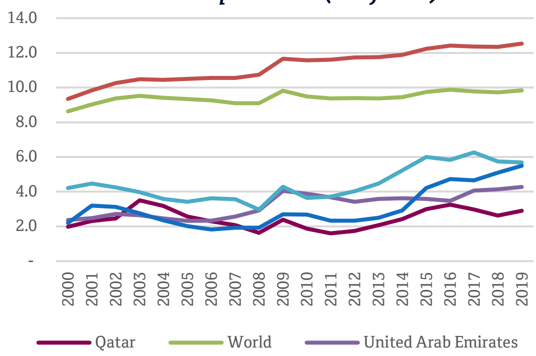
Some Encouraging Qatari Stats: Longer Life Spans



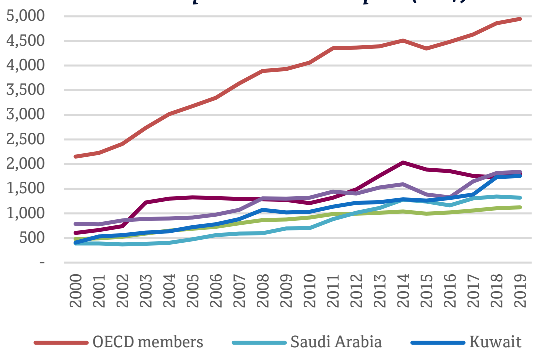
Source: WHO, WB

- Positive base effects as relative healthcare spending is lower than both the global and OECD average – both per capita and as a % of GDP: Qatar's high GDP per capita creates a favorable backdrop for the Qatari healthcare sector. Given its 2030 goal of becoming an advanced country, it is reasonable to hypothesize Qatar's health spending will rise to catch up with the OECD averages. The relatively poor health of its populace could drive this growth anyway. Qatar's total healthcare expenditure of ~QR19bn in 2020 is expected to grow at a 6.8% CAGR over five years; outpacing GDP growth of 2.8% (*Fitch Solutions as cited by Consulting Haus*[3]). Meanwhile, Oxford Economics sees consumer spending on healthcare experiencing a CAGR of 7.1% (2020-26) compared with a CAGR of 6.1% in overall consumer spending in the same period.

Health Expenditure (% of GDP)



Health Expenditure Per Capita (US$)



Source: WB

- **On the downside, governments around the world are crafting policies to combat ballooning healthcare expenditures.** The abrupt halt of the "old" Seha is a case in point, but this is a global phenomenon with the UAE (in 2016) and Switzerland as some of the most recent examples of governments clamping down on medical costs/inflation. Also, there are growing calls among payers (governments and insurers) for outcome- or value-based disbursements systems, which further increase scrutiny on the healthcare sector. However, Qatar's finances are likely to remain strong riding on LNG tailwinds, which bodes well for healthcare spending; moreover, as Qatar catches up with spending averages in advanced economies, we expect healthcare spending to grow.

[3] https://consultinghaus.qa/wp-content/uploads/2022/03/Healthcare-Sector-Overview_Sept_2021-1.pdf

Consolidated Financial Statements & Forecasts

Income Statement (QR)

MCGS INCOME STATEMENT	2021A	2022E	2023E	2024E	2025E
REVENUE	**481,747,661**	**501,357,773**	**511,068,077**	**535,853,665**	**561,823,802**
GROSS PROFIT	183,710,743	197,139,627	204,860,744	218,487,801	232,932,810
EBITDA	103,413,139	110,871,426	118,652,971	127,809,151	138,325,323
OPERATING PROFIT	75,254,227	83,215,343	91,476,282	100,752,346	111,100,760
PROFIT FOR THE PERIOD	**79,061,137**	**87,688,372**	**96,736,990**	**106,495,335**	**116,768,277**

Source: Company data, QNB FS Research

Balance Sheet (QR)

MCGS BALANCE SHEET	2021A	2022E	2023E	2024E	2025E
Property & Plant	1,013,292,628	1,028,841,000	1,011,885,664	996,172,076	979,946,240
Right-of-Use Assets	58,199,927	37,805,457	36,844,107	35,882,757	34,921,407
Investments at FVTOCI	66,309,911	80,270,123	80,270,123	80,270,123	80,270,123
Investment Properties	25,881,077	25,881,077	25,881,077	25,881,077	25,881,077
Total Non-Current Assets	**1,163,683,543**	**1,172,797,657**	**1,154,880,971**	**1,138,206,033**	**1,121,018,847**
Inventories	30,167,226	31,328,700	31,935,475	33,484,269	35,107,084
Accounts Receivables	91,413,565	128,015,427	129,450,916	133,115,009	136,954,215
Cash and Bank Balances	52,247,073	40,240,524	73,818,069	107,870,104	143,859,152
Total Current Assets	**173,827,864**	**199,584,650**	**235,204,460**	**274,469,382**	**315,920,452**
Total Assets	**1,337,511,407**	**1,372,382,307**	**1,390,085,431**	**1,412,675,415**	**1,436,939,298**
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	108,094,188	108,094,188	108,094,188	108,094,188	108,094,188
Fair Value Reserve	14,944,967	28,905,179	28,905,179	28,905,179	28,905,179
Revaluations Surplus	552,508,436	549,896,403	549,896,403	549,896,403	549,896,403
Retained Earnings	72,964,472	90,269,257	105,451,341	122,248,014	140,535,119
Total Equity	**1,029,953,063**	**1,058,606,027**	**1,073,788,111**	**1,090,584,784**	**1,108,871,889**
Interest Bearing Loans	39,718,752	59,104,026	59,104,026	59,104,026	59,104,026
Lease Liabilities	59,639,215	40,234,526	38,687,809	37,068,448	35,373,032
Employees' Benefits	75,518,914	78,954,979	82,391,045	85,930,742	89,603,786
Total Non-Current Liabilities	**174,876,881**	**178,293,532**	**180,182,880**	**182,103,216**	**184,080,844**
Accounts Payables	109,847,471	107,651,016	108,354,913	112,303,484	116,381,781
Interest Bearing Loans	20,325,571	25,953,469	25,953,469	25,953,469	25,953,469
Lease Liabilities	2,375,706	1,878,263	1,806,058	1,730,462	1,651,315
Total Current Liabilities	**132,681,463**	**135,482,749**	**136,114,440**	**139,987,415**	**143,986,565**
Total Liabilities	**307,558,344**	**313,776,280**	**316,297,319**	**322,090,632**	**328,067,409**
Total Equity and Liabilities	**1,337,511,407**	**1,372,382,307**	**1,390,085,431**	**1,412,675,415**	**1,436,939,298**

Source: Company data, QNB FS Research

Cash Flow Statement (QR)

MCGS CASH FLOW STATEMENT	2021A	2022E	2023E	2024E	2025E
Cash Flow from Operating Activities	**102,167,490**	**91,064,059**	**121,580,108**	**130,137,803**	**141,544,153**
Cash Flow from Investing Activities	**(54,418,042)**	**(56,367,172)**	**(5,486,227)**	**(5,425,676)**	**(6,112,502)**
Cash Flow from Financing Activities	**(59,657,009)**	**(46,703,437)**	**(82,516,336)**	**(90,660,092)**	**(99,442,602)**
Change in Cash	(11,907,561)	(12,006,549)	33,577,546	34,052,035	35,989,048
Opening Cash	64,154,634	52,247,073	40,240,524	73,818,069	107,870,104
Cash End of Period	**52,247,073**	**40,240,524**	**73,818,069**	**107,870,104**	**143,859,152**

Source: Company data, QNB FS Research

Key Ratios

MCGS RATIOS	2021A	2022E	2023E	2024E	2025E
OPERATING RATIOS					
Gross Margin	38.1%	39.3%	40.1%	40.8%	41.5%
EBITDA Margin	21.5%	22.1%	23.2%	23.9%	24.6%
EBIT Margin	15.6%	16.6%	17.9%	18.8%	19.8%
Net Profit Margin	16.4%	17.5%	18.9%	19.9%	20.8%
RETURN RATIOS					
RoE	7.7%	8.3%	9.0%	9.8%	10.5%
RoIC	6.8%	7.3%	8.1%	9.1%	10.2%
RoA	5.6%	6.1%	6.6%	7.1%	7.7%
VALUATION RATIOS	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales	4.0	3.9	3.8	3.5	3.3
EV/EBITDA	18.8	17.7	16.2	14.8	13.4
EV/EBIT	25.8	23.5	21.0	18.7	16.6
PE Ratio	23.7	21.3	19.3	17.6	16.0
PEG Ratio	-	2.1	1.4	1.3	1.4
P/CF	18.3	20.6	15.4	14.4	13.2
P/B	1.8	1.8	1.7	1.7	1.7
Dividend Yield	3.8%	4.2%	4.7%	5.1%	5.6%
FCF Yield	2.3%	2.7%	6.1%	6.5%	7.1%
LEVERAGE RATIOS					
Debt/Equity Ratio	11.9%	12.0%	11.7%	11.4%	11.0%
Net Debt/Equity Ratio	6.8%	8.2%	4.8%	1.5%	-2.0%
Net Debt/Capital Ratio	7.1%	8.5%	5.2%	1.6%	-2.3%
Net Debt/EBITDA	67.5%	78.4%	43.6%	12.5%	-15.7%
Interest coverage	23.9	40.6	46.2	52.9	60.9
LIQUIDITY RATIOS					
Current Ratio	1.3	1.5	1.7	2.0	2.2
Quick Ratio	1.1	1.2	1.5	1.7	2.0
WORKING CAPITAL DAYS	84	105	106	106	106
Inventory Days	140	153	153	153	153
Average Collection Period	104	116	115	115	114
Payables Days	135	129	129	129	129

[Ends]

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

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