

MCGS Alert – 2Q2021 Miss Due to Lower Margins & Higher G&A; Retain TP & MP

- **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 2Q2021.** 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 has managed to record both top and bottom-line growths, as the 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: 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.
- **2Q2021 G&A was also 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.
- **We continue to rate MCGS a Market Perform.** Similar to 2Q2021, we remind investors that Medicare’s 2Q2020 results were also temporarily affected from anti-Covid measures; however, if history repeats itself, this delayed demand should positively impact Medicare’s 3Q2021 results much as it did in 3Q2020. We note despite these restrictions last year, Medicare managed to increase its net income by 9.3% in 2020; therefore, we think the possible negative impact of restrictions is likely to be compensated over 3Q and 4Q. In the medium-to-long-term, the company is likely to benefit from an anticipated re-initiation of Qatar’s Mandatory Health Insurance Scheme, which resulted in an upsurge in MCGS’ revenue, margins and consequently, net profits during its first implementation in 2013-2015. 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.

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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