MEDICARE GROUP (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR7.71	Current Target Price	QR8.24
Implied Upside	6.9%		

Healthy Outlook but Mostly Priced In; Initiating Coverage with MP

We initiate coverage on Medicare Group (MCGS) with a Market Perform rating. *With its strong balance sheet and robust cash generation, MCGS has the potential to be one of the top beneficiaries of the expected 50% expansion in number of hospital beds in Qatar by 2033. Moreover, the company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme, which resulted in a substantial upsurge in MCGS' revenue and net profits during its first implementation in 2013-2015. Following the announcement of draft law preparations for the new National Healthcare System on June 18, MCGS shares rose by 36.2% outperforming the DSM Index' minus 5.8% return and eroding bulk of our upside potential. Our one-year TP for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2020. Until details of the new National Health Insurance are clarified, we anticipate MCGS shares to maintain their volatility.*

Highlights

- **Medicare Group owns & operates Al Ahli Hospital in Qatar.** The company was established in 1996 with the aim of building a 250-bed private general hospital to provide five-star healthcare services. Opened in November 2004, Al Ahli hospital covers nearly all specialties with an estimated 55% market share among private hospitals in Qatar.
- **Preparations are in place for a re-run of Qatar's National Health Insurance Scheme, which may result in substantially higher volumes and net profits for MCGS, as was the case during 2013-2015.** It was revealed in June'19 that the draft law on the new scheme will be soon presented to the Advisory Council. During Qatar's National Health Insurance Scheme's (Seha) first implementation in 2013-2015, Al Ahli's number of inpatient, outpatient and emergency visits rose by 52.7%, 27.4% and 43.9%, respectively as of 2015 vs. 2013. The company's revenue and net profits also surged by 42.6% and 101.6%, respectively. **However, it is important to note the structure of the new scheme and its initiation date still remain unclear. Furthermore, with extended checks & balances in place, the new system may be less profitable for the hospitals compared to the previous one.**
- **The stock rose by 36.2% since the announcement, beating the DSM Index' minus 5.8% return.** As a result of the recent rally, our one-year TP now indicates a 6.9% upside potential.
- **Medicare has healthy dividend yields, backed by its net cash position and robust operating cash generation.** As of 1H2019, Medicare has a net cash position of QR4mn and excluding the (positive) working capital changes, MCGS records stable operating cash flows – QR130.0mn in 2018 and QR131.2mn in 2017. Its strong financial position leads MCGS shares to enjoy lucrative dividend yields of 4.3% for 2017 and 6.3% for 2018. For 2019-2020, we expect dividend yields of 3.9% and 4.3%, respectively.
- **We expect the number of hospital beds in Qatar to reach 5.7k by 2033 vs. an estimated 3.8k in 2018 as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033.** Thanks to its financial muscle, MCGS may be a beneficiary of the expected expansion in the sector, if the company implements its expansion plans dedicatedly.

Catalysts

1) Collection of NHIC/Seha receivables. 2) Performance of the new Al Wakra clinic. 3) Normalization in MCGS' share price volatility, which should lead to a higher target price. MCGS' 5-year beta is 1.10 vs. international peer group's median of 0.72. It is also the highest in the international peer group. If we had used 1x beta or MCGS' 2-year beta of 0.86, MCGS' DCF valuation would imply 9.5% and 28.3% upsides, respectively. 4) Completion of the hospital expansion project.

Recommendation, Valuation and Risks

- ***We rate MCGS as MARKET PERFORM. Our 12-month target price of QR8.24 implies a 6.9% upside potential, assuming that the new National Insurance Scheme will be fully operational by end-2020 and based on a weighted average combination of DCF, international peer comparison and local market P/E.*** MCGS' 2019e and 2020e P/E multiples imply 13% and 8%, respectively, discounts to the international hospitals' peer group whereas its EV/EBITDA multiples are at 22% and 37% premiums, respectively, to its international peers. On the positive side, MCGS's 2019-2020e dividend yields are notably above the peer group average of 1.8% for both 2019e and 2020e.
- **Risks:** 1) Geopolitical risks. 2) Collection risks. 3) Delays in the expected new National Health Insurance Scheme. 4) Volatility of provision expenses

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.28	0.30	0.30	0.33
P/E (x)	24.6	21.0	25.4	23.3
EV/EBITDA (x)	19.4	20.4	18.3	17.2
DPS (QR)	0.40	0.30	0.30	0.33
DY (%)	4.3%	6.3%	3.9%	4.3%

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)	8.55 /5.31
3-m Avg. Volume (000)	658.8
Mkt. Cap. ($ bn/QR bn)	0.58/2.1
EV ($ bn/QR bn)	0.58/2.1
Current FO*/FO limit (%)	18.5%/49%
Shares Outstanding (mn)	281.4
1-Year Total Return (%)	21.2%
Fiscal Year End	December 31

Source: Bloomberg (as of August 26, 2019), *Qatar Exchange (as of as of August 26, 2019); Note: FO is foreign ownership

Mehmet Aksoy, PhD
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Valuation

We value MCGS shares at QR8.24 with a 6.9% upside potential using a combination of DCF, international and domestic multiples. We assign the biggest weight to DCF (cash flows to firm) methodology, as we think it captures the long-term potential of companies better than market multiples.

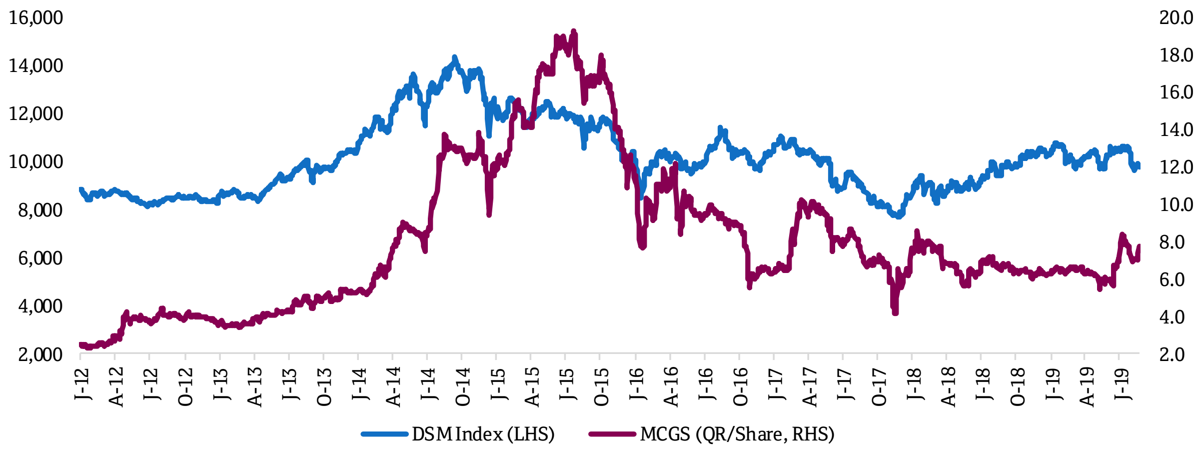
Valuation Summary

Method	Weight in Overall Valuation	MCGS` Upside/Downside Potential
DCF	60%	-1.3%
International Comparison	30%	
P/E, 2019e	5%	15.5%
EV/EBITDA, 2019e	5%	-18.0%
Dividend Yield, 2019e	5%	106.1%
P/E, 2020e	5%	8.5%
EV/EBITDA, 2020e	5%	-26.9%
Dividend Yield, 2020e	5%	138.8%
Local Comparison	10%	
DSM All Share Index Dividend Yield 2019E @ 4.95%	5%	-21.5%
DSM All Share Index P/E, 2019E @11.8x	5%	-49.9%
Weighted Average Upside Potential for MCGS Shares		6.9%

Source: Bloomberg consensus figures for international peers, QNB FS Research

MCGS shares experienced their historic peak in 2015, closing at QR19.3/share on July 27, 2015 during the first implementation of National Health Insurance Scheme (Seha). Since the cancellation of Seha which was announced on December 23, 2015, MCGS' shares fell by 39.2%, underperforming the DSM Index by 36.6%. Seha was initiated in July 2013 and was in place until the end of 2015, which boosted Al Ahli Hospital's number of inpatient, outpatient and emergency visits by 52.7%, 27.4% and 43.9%, respectively. This propelled MCGS' net revenue and net profits to rise by 42.6% and 101.6% as of 2015 vs. 2013, respectively. Consequently, MCGS' shares rose steeply from QR3.57 (Dec 31, 2012) to QR19.3 by July 27, 2015. On December 23, 2015, The Supreme Council of Health (SCH) announced that health insurance services provided by the National Health Insurance Company would be suspended by December 31, 2015. Since the cancellation of the Seha program, MCGS' shares have tumbled by 39.2% from QR12.69 to QR7.71 (Aug 26, 2019).

MCGS Share Price Graph



Source: Bloomberg, QNB FS Research

On the other hand, the stock reacted sharply to recent new health insurance scheme developments. It was revealed during the week ended June 18 that the draft law on the scheme will be soon presented to the Advisory Council. The announcement triggered a 51% rally in MCGS shares from QR5.66/share on June 17 to a peak of QR8.55 on July 11. Despite the recent correction to QR7.71, MCGS shares are still up 36.2% vs. the pre-announcement price, beating the DSM Index' -5.8%.

MCGS' 2019e & 2020e P/Es are at discounts to the normalized averages of the international hospitals' peer group. MCGS trades at 2019e and 2020e P/E multiples of 25.4x and 23.3x, implying 13% and 8% discounts to its international peers, respectively. It is noteworthy that hospitals, in general, tend to trade at higher PE multiples vs. local market averages, due to the low elasticity of their revenue against economic downturns, coupled with their propensity to increase revenue with population growth and/or increasing healthcare expenditures over time due to aging of the adult population.

Valuation Multiples: International Peers vs. MCGS

	Country	Mcap	Beta	P/E		EV/EBITDA		EBITDA Margin		Dividend Yield		ROE%	
Company		USDmn	5yr adj.	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e
NATIONAL MEDICAL CARE CO	KSA	598	0.88	25.8	20.1	11.8	10.5	24.4%	25.0%	2.4%	3.2%	8.6%	8.8%
AL HAMMADI CO FOR DEVELOPMEN	KSA	729	1.01	27.0	20.7	14.0	12.4	24.2%	25.3%	3.3%	3.4%	6.6%	7.9%
DALLAH HEALTHCARE CO	KSA	998	0.86	25.0	19.3	18.6	14.9	20.2%	22.4%	2.8%	3.2%	9.1%	11.4%
MIDDLE EAST HEALTHCARE CO	KSA	631	1.01	18.9	17.8	17.2	13.7	13.0%	15.1%	7.6%	7.8%	7.8%	7.5%
MOUWASAT MEDICAL SERVICES CO	KSA	2,381	0.84	22.8	19.8	16.8	14.3	30.7%	32.0%	2.1%	2.5%	21.7%	21.8%
CLEOPATRA HOSPITAL	Egypt	623	0.74	28.8	20.7	19.6	14.2	25.6%	27.3%	n.a.	1.9%	20.5%	22.3%
MEDICLINIC INTERNATIONAL PLC	Bahrain	2,876	0.83	11.8	12.3	8.5	8.2	16.8%	16.5%	2.4%	2.4%	5.8%	6.2%
ASTER DM HEALTHCARE LTD	India	830	0.56	22.0	15.6	10.7	8.3	10.2%	11.7%	n.a.	n.a.	11.5%	13.1%
NARAYANA HRUDAYALAYA LTD	India	646	0.58	105.9	41.6	19.4	13.4	9.7%	12.0%	n.a.	n.a.	9.5%	12.2%
APOLLO HOSPITALS ENTERPRISE	India	2,823	0.82	76.2	55.2	22.8	17.2	10.8%	12.6%	0.5%	0.5%	10.5%	13.2%
FORTIS HEALTHCARE LTD	India	1,274	1.02	n.a.	56.5	23.9	16.1	9.3%	13.8%	0.0%	0.0%	2.5%	4.0%
NETCARE LTD	S. Africa	1,436	0.86	9.2	8.8	6.6	6.3	20.1%	19.9%	7.4%	7.8%	22.2%	22.4%
LIFE HEALTHCARE GROUP HOLDIN	S. Africa	2,064	0.92	17.4	14.1	8.5	7.8	22.5%	22.8%	4.2%	5.0%	11.3%	15.2%
MEDICLINIC INTERNATIONAL PLC	S. Africa	2,887	1.02	11.9	12.3	8.5	8.2	16.8%	16.5%	2.4%	2.4%	5.8%	6.2%
BANGKOK DUSIT MED SERVICE	Thailand	12,100	0.64	31.9	32.2	21.9	19.8	21.5%	22.2%	1.8%	1.7%	17.5%	13.7%
BUMRUNGRAD HOSPITAL PCL	Thailand	3,275	0.84	25.8	24.5	15.5	14.6	32.9%	33.5%	2.1%	2.2%	20.8%	19.9%
THONBURI HEALTHCARE GROUP PC	Thailand	722	0.57	79.7	82.3	31.3	25.9	11.3%	12.6%	1.2%	0.9%	3.2%	3.6%
VIBHAVADI MEDICAL CENTER PCL	Thailand	888	0.73	34.9	24.0	21.0	17.8	24.8%	26.3%	2.3%	2.7%	10.7%	12.6%
BANGKOK CHAIN HOSPITAL PCL	Thailand	1,279	0.79	32.4	28.8	18.1	16.4	27.3%	27.4%	1.7%	1.8%	19.2%	19.5%
IHH HEALTHCARE BHD	Malaysia	11,899	0.77	47.1	38.3	20.1	18.0	22.4%	23.1%	0.5%	0.6%	4.4%	5.2%
KPJ HEALTHCARE BERHAD	Malaysia	918	0.63	22.0	20.5	12.0	11.0	14.4%	14.7%	2.1%	2.2%	9.5%	9.8%
MITRA KELUARGA KARYASEHAT TB	Indonesia	2,421	0.48	50.5	45.9	33.4	30.6	33.0%	32.9%	0.9%	1.0%	15.9%	15.9%
SILOAM INTERNATIONAL HOSPITA	Indonesia	670	0.73	228.3	150.3	11.0	9.5	12.8%	13.2%	n.a.	0.0%	0.7%	0.8%
MEDIKALOKA HERMINA TBK PT	Indonesia	705	0.32	53.8	44.7	15.5	12.9	20.4%	21.1%	0.5%	0.9%	8.7%	9.5%
CHINA RESOURCES MEDICAL HOLD	China	899	1.08	15.0	13.4	8.4	7.5	30.9%	32.2%	1.2%	1.4%	7.3%	6.6%
WENZHOU KANGNING HOSPITAL -H	China	333	0.44	19.3	15.4	9.8	8.1	25.7%	26.2%	1.1%	1.4%	9.9%	11.9%
RAMSAY HEALTH CARE LTD	Australia	9,224	0.84	23.5	21.6	12.4	11.3	13.7%	13.4%	2.2%	2.4%	22.4%	21.5%
HEALTH MANAGEMENT INTL LTD	Singapore	434	0.70	31.6	28.3	17.9	15.7	22.6%	23.9%	0.9%	1.0%	19.6%	18.6%
Peer Group Median			0.72	25.8	20.7	15.5	13.2	20.2%	21.1%	1.9%	1.9%	9.5%	11.4%
Peer Group Normalized Av.			0.73	29.4	25.3	15.0	12.6	19.1%	20.1%	1.8%	1.8%	10.5%	11.2%
MCGS	Qatar	596	1.10	25.4	23.3	18.3	17.2	23.5%	24.5%	3.9%	4.3%	8.4%	9.1%

Source: Bloomberg consensus figures for international peers, QNB FS Research

- **On the EV/EBITDA front, MCGS' multiples are above its international peers.** MCGS trades at 2019e & 2020e EV/EBITDA multiples of 18.3x and 17.2x, implying 22% and 37% premiums, respectively, to international peers. These higher multiples are partially justified with our expected EBITDA margins for MCGS (23.5% for 2019E and 24.5% for 2020E vs. international peers' 19.1% and 20.1%). With the implementation of the National Health Insurance Scheme, we think there is room for expansion in MCGS' EBITDA margins by 2022, thanks to anticipated economies of scale due to the expected rise in inpatient/outpatient volumes. Accordingly, we anticipate MCGS' EBITDA margin to expand to 32.0% by 2022 from 23.3% as of 2018. However, we think our assumptions are on the optimistic side, as the structure of the plan as well as its implementation dates are yet to be announced. **Hence, we think it could be too early to fully price-in our margin expansion forecasts into our relative valuation.**

DCF Assumptions:

- **MCGS' beta is materially above its international peers, due to severe stock volatility during 2014-2019.** MCGS' 5-year beta was 1.10 vs. international peer group's normalized average and median of 0.73 and 0.72, respectively. It is also the highest in the international peer group. Implementation and cancellation of Seha during 2013-2015 caused significant upward and downward swings in MCGS' revenue and earnings and consequently its share price, boosting its 5-year beta.
- **If MCGS' beta normalization continues, we may consider updating our DCF model accordingly in the future.** If we had used 1x beta or MCGS' 2-year beta (which equals to 0.86), MCGS' DCF valuation would imply 9.5% and 28.3% upsides, respectively vs. -1.3% currently.
- **That said, a 51% price increase during June 17 - July 11, 2019 to a peak of QR8.55 and a 19% correction to QR6.92 from July 11 to August 6, imply that MCGS still maintains its high beta characteristics.**

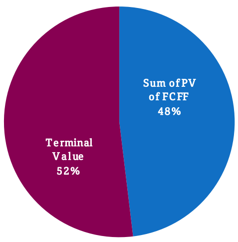
CF Summary

WACC calculation	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Value Normalized
Cost of equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
RFr (US 10 yr+Qatar 10yr CDS)	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
ERP	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
ERP for 1x Beta	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%
Beta	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
After-tax cost of debt	3.52%	2.06%	1.37%	0.69%	0.16%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Weight of Equity	98.59%										
Weight of Debt	1.41%										
Mcap (QRmn)	2,170										
Debt (QRmn)	31										
Total (QRmn)	2,201										
WACC	**10.3%**	**10.3%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**	**10.2%**

DCF-Cash Flow to Firm (QR)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Term. Value Normalized
EBIT (1-tax rate)	**79,168,200**	**85,786,511**	**110,312,603**	**157,546,794**	**167,102,177**	**179,282,340**	**191,280,409**	**208,150,536**	**228,482,228**	**228,900,903**	**225,193,433**
EBIT	81,198,153	87,986,165	113,141,131	161,586,456	171,386,848	183,879,323	196,185,035	213,487,729	234,340,747	234,770,157	230,967,624
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Depreciation	**31,547,553**	**31,733,031**	**30,183,981**	**35,318,328**	**36,014,831**	**36,126,587**	**34,892,628**	**30,739,566**	**23,606,927**	**23,923,006**	**24,239,085**
Capital Expenditure	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**	**28,144,174**
% of Enterprise Value	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Change in WC	**-5,361,125**	**2,260,583**	**7,562,325**	**10,894,767**	**3,877,126**	**4,274,765**	**4,446,389**	**5,027,024**	**5,352,060**	**1,196,749**	**-24,916**
Chg. working capital days	-4.0	1.6	5.0	6.5	2.2	2.3	2.3	2.5	2.6	0.6	0.0
Net Sales	495,386,442	508,337,151	555,184,891	615,964,130	639,451,260	665,123,203	692,378,940	723,097,801	755,905,148	763,283,330	763,283,330
Change in sales	2.3%	2.6%	9.2%	10.9%	3.8%	4.0%	4.1%	4.4%	4.5%	1.0%	0.0%
Free cash flow to the firm (FCFF)	**87,932,704**	**87,114,784**	**104,790,084**	**153,826,181**	**171,095,708**	**182,989,988**	**193,582,474**	**205,718,903**	**218,592,921**	**223,482,986**	**221,313,260**
PV of FFCF	**87,932,704**	**79,009,550**	**86,205,269**	**114,790,890**	**115,826,810**	**112,382,606**	**107,854,830**	**103,979,938**	**100,233,579**	**92,965,841**	**83,519,554**
Sum of PV of FCFF	**1,001,182,018**										

Terminal Value	**1,080,516,673**
Terminal FCFF	83,519,554
Terminal Growth Rate	2.5%
Terminal WACC	10.2%
Enterprise value	**2,081,698,690**
+Cash and cash equivalents	101,460,438
-Debt - long term and short term	40,698,307
-Minority Interest	0
Fair Value of Equity	**2,142,460,821**
Shares o/s (mn)	281,441,000
12M target price per share	**7.61**
12 Month Upside Potential	**-1.3%**

DCF Enterprise value breakdown



DCF SENSITIVITY

TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

Terminal Discount Rate % \ Terminal Growth Rate	1.5%	2.0%	2.5%	3.0%	3.5%
9.2%	7.61	7.88	8.18	8.54	8.95
9.7%	7.38	7.61	7.88	8.18	8.54
10.2%	7.17	7.38	7.61	7.88	8.18
10.7%	6.99	7.17	7.38	7.61	7.88
11.2%	6.82	6.99	7.17	7.38	7.61

SHARE PRICE UPSIDE POTENTIAL SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

Terminal Discount Rate % \ Terminal Growth Rate	1.5%	2.0%	2.5%	3.0%	3.5%
9.2%	-1.3%	2.2%	6.1%	10.7%	16.1%
9.7%	-4.3%	-1.3%	2.2%	6.1%	10.7%
10.2%	-7.0%	-4.3%	-1.3%	2.2%	6.1%
10.7%	-9.4%	-7.0%	-4.3%	-1.3%	2.2%
11.2%	-11.5%	-9.4%	-7.0%	-4.3%	-1.3%

Source: QNB FS Research

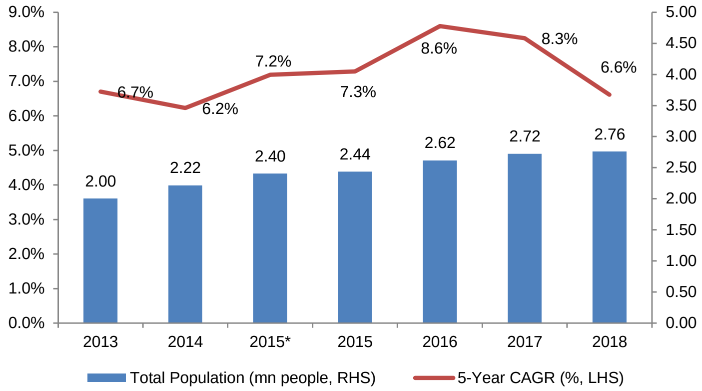
- **As an optimistic expectation, we foresee the New National Health Insurance Scheme to be initiated through the end of 2020, with its positive impacts on MCGS' financials to be fully observed by 2022.** However, uncertainty about the structure and the initiation date of the new scheme **may pose risks to our DCF outcome.**

- **Our 2.5% intrinsic growth rate estimation for MCGS may be conservative given Qatar's favorable demographics; 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 the existing population ages), life expectancy with a room for increase, coupled with Qatar's high GDP per capita, create a favorable backdrop for the Qatari healthcare sector.
    - **Strong population growth** (2.4% YoY as of Apr'19) provides a tailwind.
    - **As Qatar's prevailing population (excluding new births and potential new residents) ages in time, healthcare expenditures are expected to increase.** Our simulation implies a 12.3% higher annual healthcare expenditure over the next 5 years for the prevailing population.
    - **Life expectancy at birth can be enhanced with further advancements in the healthcare system.** OECD's average life expectancy of 83.2 years is above the GCC average of 76.8 years. Qatari life expectancy at birth leads the GCC peer group with 80.4 years, yet it still has room for increase vs. OECD averages.
    - **Qatari hospital bed density has room for expansion:** Qatar plans to increase its number of hospital beds to 5.7k by 2033 from an estimated 3.8k (2018) as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033.
    - **Qatar's highest GDP per capita (PPP adjusted) in the world should provide sufficient resources for its expected healthcare demand in the future.** As of 2018, Qatar has the highest GDP per capita (PPP adjusted) in the world with $130.5k according to IMF's 2018 ranking, which is impressively above the major advanced economies' (G7) average of $53.1k and OECD's $43.8k (as of 2017).
    - **On the other hand, in order to deserve a 2.5% terminal growth pa, we think MCGS needs to complete its multi-phased long-awaited expansion plan.** Otherwise, new or existing players may end up filling the future demand-supply gap.

Investment Themes

- **Favorable demographics:** Strong population growth, young population (which results in rising health expenditures as the population ages), life expectancy with a room for increase, coupled with its high GDP per capita creates a favorable backdrop for the Qatari healthcare sector.
    - **Strong population growth (2.4% YoY as of Apr'19)** is likely to be a major driver for the Qatari healthcare services sector in the coming years. Qatar's population reached 2.77mn as of Apr'19, growing at a CAGR of 6.6% during 2013-2018.

Qatar: Population & Growth (as of Mid-Year)

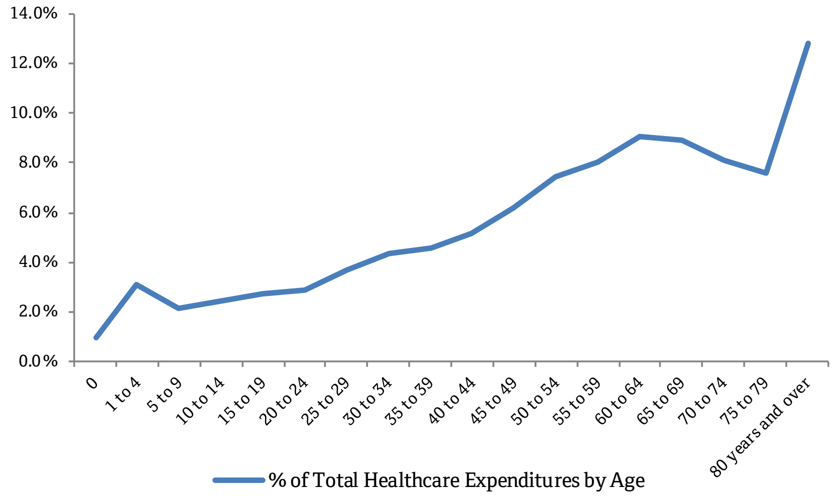


(*) Results of the General Population & Housing Census
Source: Qatar Planning and Statistics Authority

-
    - **As Qatar's present population ages (excluding new births & new residents), healthcare expenditures are expected to increase. Based on a 2016 OECD study, our simulation implies a 12.3% higher annual healthcare expenditure over the next five years, barring population growth**: According to the 2018 population statistics, only 1.1% of the Qatar's population is above and equal to the age of 65, which is substantially below the OECD average of 17.3% as of 2017.

      Using OECD's healthcare expenditures percentage breakdown by age data for Korea, Czech Republic and Netherlands and adjusting it according to Qatar's population age breakdown, we have calculated that a 5-year aging of the current population (excluding births and deaths) may result in a 12.3% higher annual health expenditures.

Healthcare Expenditure Distribution by Age Groups



Source: OECD Publication (Focus on Health Spending, April 2016), QNB FS adjustments

-
    - **Highest GDP per capita (PPP adjusted), coupled with a growing economy to provide sufficient resources for healthcare investments:** As of 2018, Qatar has the highest GDP per capita (PPP

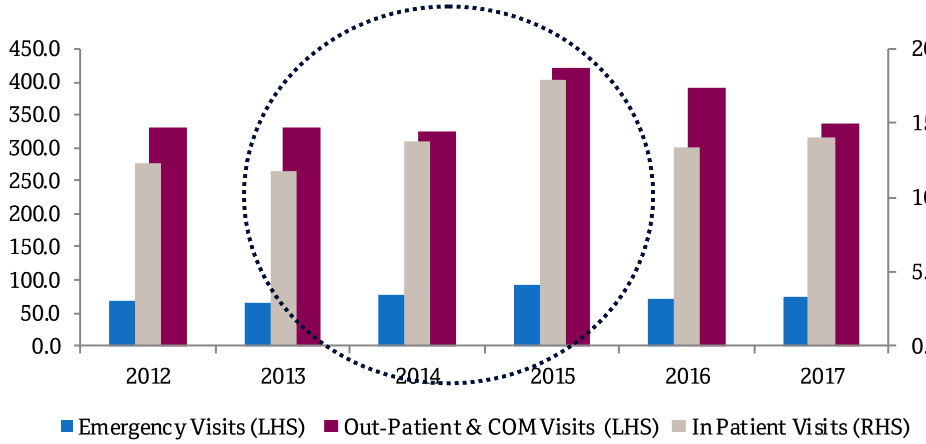
adjusted) in the world with $130.5k according to IMF's 2018 ranking, notably above the major advanced economies (G7) average of $53.1k and OECD's $43.8k (as of 2017). IMF anticipates Qatar's real GDP per capita to increase further in the coming years (1.4% in 2019 and 2.9% in 2020) as the agency foresees real GDP growth to accelerate from 2.2% in 2018 to 2.6% as of 2019 and further to 3.2% in 2020. Qatar is likely to be one of the few countries that promise GDP acceleration both in 2019 and 2020.

  - **In the longer term, Qatar's economy should benefit from a number of recent measures.** Investments should be bolstered by new projects related to the expansion of LNG production and projects aimed at ensuring self-sufficiency and sustainability, as well as an expected new law to open up more sectors to 100%-foreign ownership. **Therefore, we expect Qatar's real GDP growth to continue rising over the coming years.**

- **On the other hand, both GCC and Qatari hospital bed-density has room for expansion:** OECD countries' average hospital beds/10k population (47.9 as of 2016) suggests the whole GCC region (with its average hospital beds/10k population of 16.3 for the 2014-2018 period), including Qatar, may also need a higher hospital bed-density in the coming years. Qatar plans to increase its number of hospital beds to 5.7k by 2033 from an estimated 3.8k in 2018, as targeted by the Qatar Healthcare Facilities Master Plan 2013-2033.
- **Life expectancy at birth in the GCC is also below OECD averages, which can be enhanced with further advancements in the healthcare system.** Qatar leads the GCC peer group with 80.4 years of life expectancy at birth (National Health Strategy 2018-2022), which is above the GCC average of 76.8 years. On the other hand, OECD's average life expectancy of 83.2 years shows the upward potential for the GCC countries.
- **In order to increase hospital & doctor penetration, the government is considering offering three large pieces of land for hospital investments.** The Ministry of Public Health (MoPH) has announced a public tender process in a circular released on Jan'18, inviting bidders from the private sector to design, build and operate three hospitals on government-owned land. Two of these hospitals will be located in Abu Hamour and one in Al Shamal. The hospitals in Abu Hamour are planned to be built on 42.9k sqm and 30k sqm pieces of land and will enjoy 150 beds and 60 beds respectively. The hospital in Al Shamal will be based on 65k sqm land and will have 100 beds. The land for each project will be allocated for 25 years and the operating entity will pay QR1/sqm nominal rent to the Government. After the first 25 years, the concession may be extended for another 25 years.
- **Preparations are being carried out for a re-run of the Qatar's National Health Insurance Scheme: According to a Ministry of Public Health statement made in Jun'19, the draft law on the new health insurance system will soon be presented to the Advisory Council.** A committee composed of the Ministry of Public Health, the Ministry of Finance, the Ministry of Commerce and Industry and the State Audit Bureau are examining the tender for the new health insurance after studying the drawbacks of the previous system. Apart from Qatar residents, it may be compulsory for visitors in Qatar to have health insurance under the new scheme.

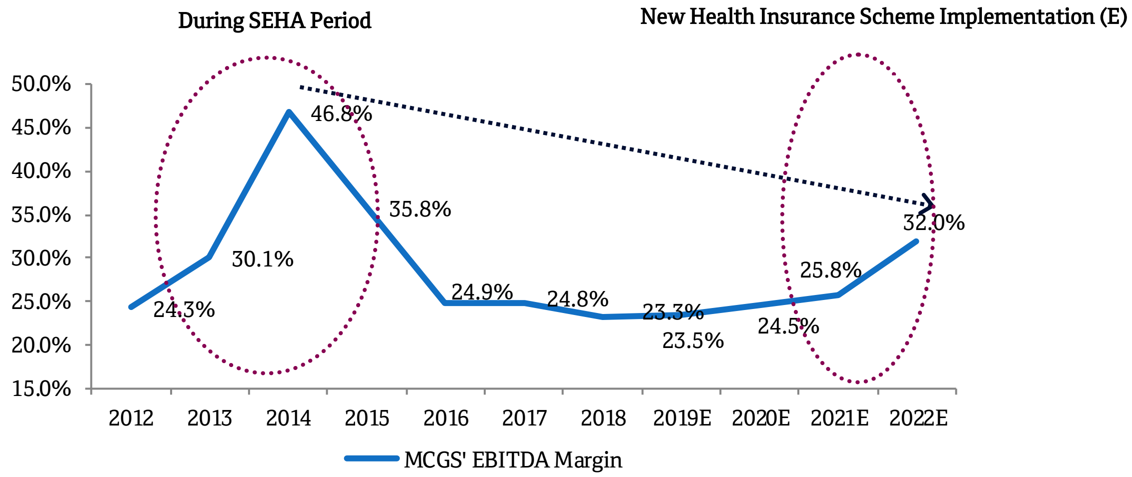
  The structure (whether the new health insurance scheme will be administered via a State organization like the National Health Insurance Company/NHIC which happened during 2013-2015 or through private insurance companies) is not clear yet. However, given the experiences gained during its first implementation, we believe private insurance companies are more likely to run the new scheme, which would be preferred by the healthcare service providers. We are of the view, rather than blanket coverage, the State is anticipated to pay the insurance premiums of citizens under coverage to the insurance companies, which in turn will run the scheme. Therefore, we expect detailed pre-approvals and strong checks & balances to be implemented this time. It is not clear whether the new plan will include expatriates initially, but it is highly likely that expats will join the system at some stage with employers paying for their employees' health insurance premiums. Timing of the re-launch is also yet to be announced; however, technical meetings are being held with private and public healthcare service providers.

Al Ahli's Number of Inpatient and Outpatients During Seha Implementation (2013-15)



Source: MCGS

MCGS' EBITDA Margin During and After Seha Implementation (2013-15)



Source: MCGS

- **While we think the new scheme should result in substantial inpatient/outpatient volume increases for MCGS to 2015 levels, we think it is highly likely that it will be run by the insurance companies this time with strong checks and balances in place. Therefore, we anticipate the new system to result in lower EBITDA margins and net profits vs. 2013-2015.** During National Health Insurance Scheme's first implementation (Seha) in July 2013-2015, Al Ahli's number of inpatient, outpatient and emergency visits rose by 52.7%, 27.4% and 43.9%, respectively, in 2015 vs. 2013. The company's net revenue and net profits also rose by 42.6% and 101.6%, respectively.
- **MCGS' strong relationships with the insurance companies could be a notable asset if the new National Health Insurance Scheme is eventually managed through insurance companies.** It is noteworthy that c70% of Medicare's revenue is through the insurance channel and the company has established robust relationships with insurance companies with its claim rejection rate below 1%.
- **Among the GCC countries, Oman is expected to initiate its Mandatory Health Insurance Program (Dhamani) in 2019 while Bahrain's Sehati program has been initiated in 2019 and will be fully operational in 2020.** In Apr'19, Omani Capital Market Authority issued the Unified Health Insurance Policy (UHIP) to be implemented for private sector employees, including expatriates and visitors to the

Sultanate. The policy provides the basic health care coverage to the beneficiaries of "Dhamani" including outpatient visits (up to RO500), inpatient services (up to RO3k), emergency and treatment of basic illnesses as well as prescribed medicines. Depending on the employer, the policies may include additional benefits like pregnancy, birth, child health, dental and eye care on top of the mandatory coverage.

  - **Bahrain's mandatory health insurance program (Sehati) has been initiated in 2019 with the distribution of first batch of 150,000 Sehati cards.** When fully implemented, the program will cover Bahrainis and expats; Bahrainis will receive free service from the government hospitals, whereas expats' fees are to be paid by their employers during the renewal of work permits.

- **Medicare's strong operating cash generation (coupled with its net cash position) provide the financial muscle to the company for the expansion of its hospital and/or the maintenance of its lucrative dividend yields.** As of 1H2019, Medicare has a net cash position of QR4mn. Furthermore, the company has a QR56.7mn public equities portfolio recorded under "financial investments at fair value through other comprehensive income". Moreover, MCGS is a strong cash generator with its QR140mn net operating cash flows in 2018 and QR187mn in 2017, backed by declining accounts receivables and prepayments (QR5.2mn and QR37.7mn, respectively). Excluding the (positive) working capital changes, MCGS recorded stable operating cash flows – QR130.0mn in 2018 and QR131.2mn in 2017.
- **Medicare's strong dividend yield:** Medicare has paid QR0.4/share dividends for 2017 and QR0.3 for 2018, which correspond to respective dividend yields (based on historical prices) of 4.3% and 6.3%. For 2019-2020, we expect MCGS' dividend yield of 3.9% and 4.3%, respectively.

Investment Challenges

- **Additional provisioning requirement for receivables.** MCGS has yet to collect its receivables due from the 2013-2015 Seha implementation and has already taken this issue to the court. As of Dec'18, Medicare has QR114mn of gross receivables, which have not been 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. Please note that this data is not available in 1H2019's interim financials). The company has already provisioned QR75.4mn for its receivables as of 2018 and 99.97% of which is for +365 days receivables. Applying the same ratio to 1H2019's allowance for impairment of trade receivables (QR75.7mn), **we estimate the net BV of the +365 days receivables as QR38.3mn, accounting for 3.9% of MCGS' shareholders' equity as of 1H2019 and 45.3% of its 2018 net income.**
- **Volatility of the provisions for impairment of receivables is an important risk factor for our net earnings estimations.** The company had allocated QR13.2mn of provisions for the impairment of receivables as of 9M2018, QR12.2mn of which were reversed in 4Q2018. Total reversed amount accounted for 14% of the 2018 net income. In 1Q2019, MCGS again recorded QR4.4mn in provisions for receivables, which corresponded to 22% of 1Q2019's net income. The company then reversed bulk of the provisions allocated in 2Q2019, ending 1H2019 with a mere QR0.3mn of new provisions for receivables vs. 2018 year-end.
  - **Seha in a nutshell:** Qatar's National Health Insurance Scheme (Seha) was launched in July 2013 as an integral part of the National Health Strategy. The scheme was managed by the National Health Insurance Company (NHIC) and was planned as five consecutive steps starting with covering Qatari females aged 12 and above for gynecology, obstetrics, maternity and related women's health conditions. The second and third steps were envisaged to include all Qatari individuals, the fourth step was planned to include white collar expatriates and visitors and the final step was considered to cover blue collar expatriates as well. According to scheme, Qatari Nationals were able to visit public and participating private health facilities (including Al Ahli Hospital) freely and Seha was to pay the private hospitals for the services delivered.

2013-2015 National Health Insurance Scheme (Seha) Phases

Phase	Date of Implementation	Groups covered	Services Covered	Providers In the Network
1	Jul-13	Qatari women aged 12+ years	Gynecology Obstetrics Maternity and related women's health conditions	1. HMC Women's Hospital 2. Al Emadi Hospital 3. Doha Clinic Hospital 4. Al Ahli Hospital 5. AL Wakra Hospital 6. The Cuban Hospital 7. Al Khor Hospital
2	1Q2014	All Qatari Nationals	All Services	Select HMC and private providers
3	3Q2014	All Qatari Nationals	All Services	Select HMC and private providers
4	1Q2015	All Qatari Nationals, white collar expats and visitors	All Services	Select HMC and private providers
5	2015	All Qatari Nationals, white & blue collar expats and visitors	All Services	Select HMC and expanded private providers + 3 designated propose-built single male laborers' hospitals

Source: www.taameenqatar.com

  - **However, once the implementation started even before covering expats & visitors, it was understood that health insurance coverage was costlier than initially expected, apart from overloading the healthcare facilities.** During July 2013 to Oct 21, 2015, total medical bills for Qataris under Seha surpassed QR1bn. By the end of 2015, the National Health Insurance Scheme was suspended.

- **Pricing of healthcare services is regulated.** On one hand, it protects the sector from irrational pricing competition and maintains the focus on service quality and volume growth. On the other hand, it usually requires a couple of months to receive approval from Ministry of Health to change prices. Nevertheless, healthcare companies can increase their revenue by increasing the number of services provided to patients.

Catalysts

- **Ongoing court case for the collection of Seha receivables or a probable out-of-court settlement with Seha.** MCGS submitted claims amounting to QR187mn to the National Health Insurance Company ("NHIC") with respect to services provided to patients under the Seha scheme. As of Dec'18, anticipated gross book value of Medicare's receivables was QR114mn and we think the company has already provisioned an estimated QR75.7mn for these receivables (Jun'19). As we have previously expressed in the Investment Challenges section, we estimate the net BV of Seha receivables as QR38.3mn, accounting for 3.9% of MCGS' shareholders' equity as of 1H2019. The company contends its case is quite strong and remains optimistic about recovering the entire amount; MCGS claims it has strong documentation and legal evidence for the services provided, which have already been delivered to the counterparty as well as the court. Trials in 2019 regarding this case may provide some insight to investors on the collectability of these receivables.

  If Medicare wins the court case or it reaches a settlement with NHIC, the company could write back the estimated QR75.7mn of provisions, which account for 89.5% of its 2018 net income and 7.8% of its 1H2019 shareholders' equity.
- **On the flip side, new provisions could be allocated for NHIC/Seha receivables,** which could depress 2019-20 net income.
- **Re-initiation of Qatar's National Health Insurance Scheme** with private insurance companies could provide an injection of growth to Medicare.
- **In line with the Master Plan goals, an auction process for three large pieces of Government land was initiated in 2018 for hospital investments,** which creates further expansion opportunities for local private hospitals.

Company Overview

Al Ahli Hospital is a general sub-specialized hospital. The company was established in 1996 by one hundred founding members, who decided to build a 250-bed private general hospital that would provide five-star healthcare services in a relaxing environment. The Hospital was finally completed on Jan'04 and officially opened its services to the public in Nov'04.

Today, Al Ahli covers all specialties, cancer diseases being the exception which is exclusively Hamad Medical Corporation's specialty.

- Medical Departments of Al Ahli Hospital: Anesthesiology, dentistry, dermatology, emergency, gastroenterology, general surgery, heart care center (opened in Nov'17), internal medicine, neurology, women's 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.
- Ancillary Services and Units: Dietary, ICU and coronary care unit, pharmacy, radiology and 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 in terms of volume and financial value generation.

Given the healthcare expenditure statistics and its own turnover, Medicare thinks it has c.55% market share among privately-owned hospitals in Qatar.

A long-planned expansion project aims to double Al Ahli's number of beds. However, to be on the safe side, we have not incorporated the impact of this expansion in our forecasts due to lingering uncertainties about implementation speed and timeline. Over the last couple of years, Al Ahli Hospital has prepared plans to expand its main hospital via a QR450-500mn capex program in an attempt to double the number of inpatient beds to 350. The company has stated that Phase I expansion has started and could be completed by 2021:

- **Phase I expansion (outpatient clinic building):** The company is planning to add a new five-story outpatient clinic building. Currently, Al Ahli has 155 inpatient rooms available out of the 250 rooms, with the remaining inpatient rooms being used as outpatient clinics. Thus, while the new outpatient clinic building may add new outpatient clinics, the main aim for the expansion is to move the current 100 outpatient clinics to this new building and open up space for inpatient rooms. **Furthermore, Al Ahli plans to utilize 2 floors for its own outpatient clinics, which allows the company to rent the remaining three floors to reputable doctors (that are not already employed by Al Ahli Hospital) in a revenue sharing structure.** The outpatient clinics' building is currently under construction and is slated to be operational by the end of 2021.
- **Phase II expansion (new inpatient building): During its second phase, Al Ahli Plans to add 100 inpatient rooms.** Therefore, if this project is initiated and completed, Al Ahli is likely to reach 350 inpatient rooms compared to the current inpatient rooms.
- **Optimizing space allocation.** As its administration head office is adjacent to its operations theaters, MCGS is considering a new administration head office besides the hospital. By re-utilizing the prevailing administration office space, Al Ahli could add eight operation theaters, which should bring the overall number to +20.

Medicare is likely to consider a combination of internal cash generation and debt to fuel its expansion plans. MCGS is a strong cash generator given its QR140mn net operating cash in 2018. Moreover, the company had a net cash position of QR4mn, apart from QR56.7mn in public equities, as of 1H2019. However, in order to reduce strain on dividends, management could fund its QR450-500mn capex program using 70% debt and 30% cash generated internally. Currently, we do not anticipate MCGS to raise new capital via a rights issue.

MCGS opened a satellite clinic at Al Wakra in 1Q2019, which is expected to reach its full capacity by 2020. As part of its expansion plan, Al-Ahli Hospital opened its first branch in Al Wakra with a view to lower the load on the main hospital. Since the end of Jan'19, this facility is partially operational with 5 specialties and along with the branch's Urgent Care Unit plans to expand its operations hours from 8am to 5pm to around the clock in 6 months. The total space for clinics is 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. Once fully operational, Al Wakra will be able to handle most specialties reducing the need for patients in the surrounding areas to go to the main hospital. Those who come for urgent care will be assessed, stabilized and transferred to the Al-Ahli Hospital or Al Wakra Hospital depending on the patient's condition. A day care clinic will open soon at the Al Wakra branch.

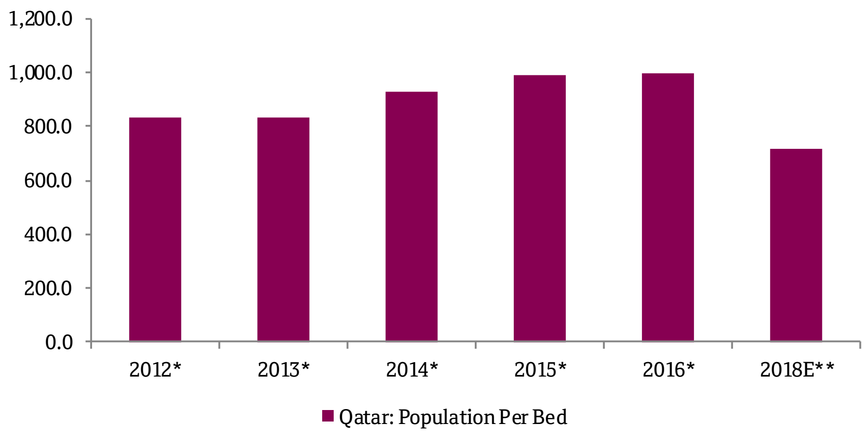
Initial impact of Al Wakra Clinic is expected to be marginal on Medicare's financial results. For the time being, Al Wakra is anticipated to see 20 to 25 patients per clinic daily, which corresponds to 100-150 patients a day.

Healthcare Services in Qatar

Qatar provides universal access to its population to the state healthcare system, while some large employers provide health insurance for their employees. The Ministry of Public Health is the authority for health in the country, and is responsible for regulating, monitoring and evaluating care. Healthcare services are provided by a mix of public, private and semi-government providers, with public providers constituting most of the healthcare activity across the country. According to Legatum Institute (a London-based think tank), Qatar received the 5th highest health ranking in the world as of 2018 (notably above its 13th as of 2017), based on its health infrastructure, physical and mental health state and preventive care initiatives.

Qatar is the only country in the region to score in the top five on the annual Legatum health index, placing it behind Singapore, Luxembourg, Japan, and Switzerland. Qatar also has the highest life expectancy rate in the Eastern Mediterranean Region and globally ranks in the top 25 percentile for healthcare access and quality.

Qatar: Hospital Density (Population per Bed) 2012-2018E



Source: (*) Qatar Planning and Statistics Authority Health Services Statistics 2017, (**) QNB FS Research

Established in 1979, Hamad Medical Corporation (HMC) is the principal provider of secondary and tertiary healthcare in Qatar and one of the leading hospital providers in the Middle East. HMC manages 12 state hospitals – nine specialist hospitals and three community hospitals – as well as the National Ambulance Service and home & residential care services. Besides the state hospitals, Primary Health Care Corporation (PHCC) provides healthcare services to the population, with its approximately 28 Health Centers across Qatar. **We estimate that there are 16 public and 6 private hospitals in Qatar, supporting 3.8k beds.**

Number of Hospitals and Beds in Qatar

(000 Beds)	2012*	2013*	2014*	2015*	2016*	2018E**	2033T***
Total of beds in Government Hospitals	2.2	2.1	2	2.2	2.4	3.5	
Total of beds in Private Hospital	0.3	0.3	0.3	0.3	0.3	0.4	
Grand Total	**2.5**	**2.4**	**2.3**	**2.5**	**2.6**	**3.8**	**5.7**

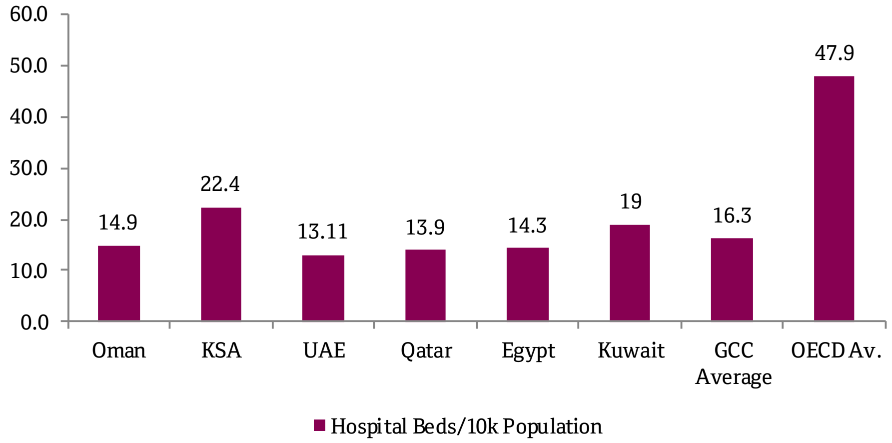
Source: (*) Qatar Planning and Statistics Authority Health Services Statistics 2017
(**) Includes estimated additions during 2017-2018
(***) Qatar Healthcare Facilities Master Plan 2013-2033, Qatar Supreme Council of Health

The country's healthcare spending is among the highest in the Middle East, with QR22.7bn invested in healthcare in 2018, a 4% increase from the previous year. Following the initiation of the first National Health Strategy in 2011, Qatari healthcare system invested heavily and demonstrated notable efforts to enhance its capacity, infrastructure, workforce and service quality. While five new hospitals opened in Qatar between 2011 & 2016, efforts have been intensified over the past two years, which resulted in the addition of six new public sector hospitals and more than 1,100 new hospital beds. Since 2017, Hamad Medical Corporation (HMC) has opened four new hospitals - Hazm Mebaireek General Hospital, Women's Wellness and Research Center, the Qatar Rehabilitation Institute and the Ambulatory Care Center - significantly expanding its infrastructure and the range of services offered to patients. In the past eighteen months, Sidra Medical and Research Centre (a 400-bed hospital established by Qatar Foundation), Naufar, four new Primary Health Care Corporation (PHCC) Health and Wellness Centers and one new Health Center have been opened. Additionally, a number of new private sector hospitals and diagnostic and treatment centers have begun caring for patients and new healthcare facilities are set to open this year.

Opening of the new facilities, along with the expansion of existing services is a part of the long-term plan set out in the National Health Strategy 2018-2022. More governmental facilities are planned from 2018 and beyond, with 13 new or expanded secondary care facilities and hospitals as well as 10 wellness centers.

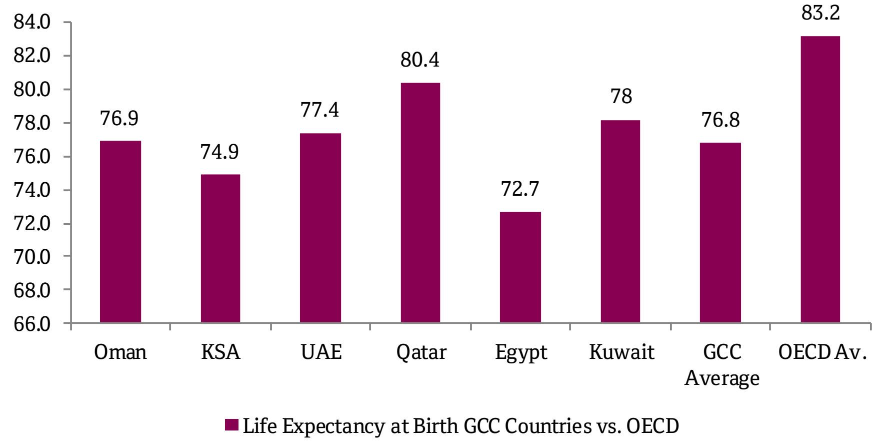
OECD countries' average hospital beds/10k population suggests that the whole GCC region, including Qatar, has further room for hospital bed expansion. We think a comparison of hospital bed density among GCC countries might not be accurate as some GCC countries' hospital bed base might include considerable amount of substandard beds.

International Comparison of Hospital Beds/10k population



Source: Country health statistics, OECD

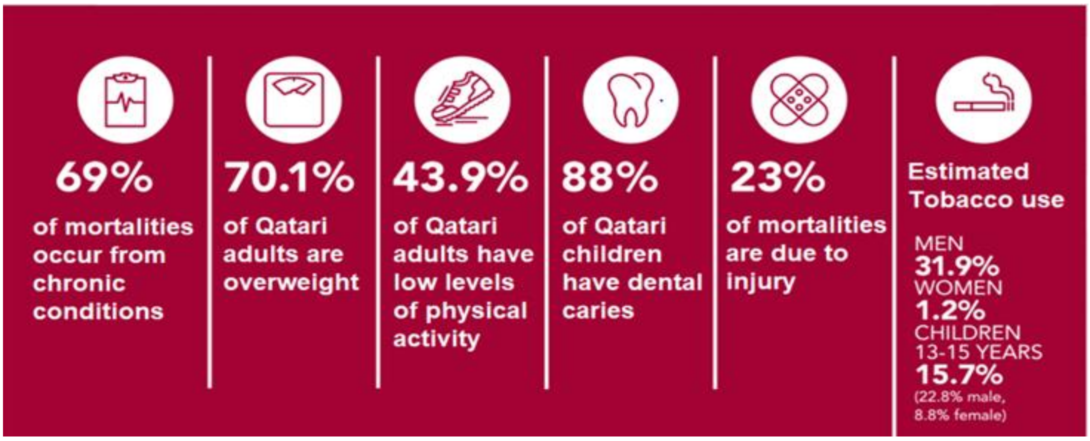
Life expectancy at birth GCC Countries vs. OECD



Source: Country health statistics, OECD

Life expectancy at birth in the GCC is below OECD averages, which can be increased with advancements in the healthcare system. Qatar leads the GCC peer group with 80.4 years of life expectancy at birth (National Health Strategy 2018-2022).

National Health Strategy 2018-2022: Health Challenges



Source: National Health Strategy 2018-2022

Earnings Outlook

In 2019, we expect MCGS to post QR495.4mn in revenue (up 2.3% vs. 2018) and QR85.4mn in net earnings with a 1.0% rise YoY. Al Wakra's initiation costs are expected to put pressure on 2019 EBITDA margin while we think its revenue generation should be marginal in 2019, due to some unexpected setbacks.

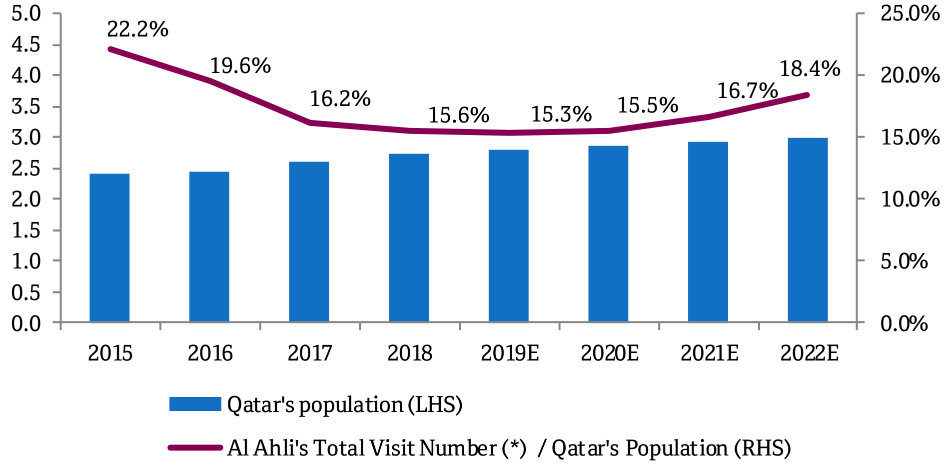
- **Please note volatility of provisions for receivables (with new provision allocations during some quarters including 1Q2019 and as well as reversals in some other quarters, i.e. 4Q2018 and 2Q2019) is an important risk factor for our net earnings estimates.**
- We anticipate MCGS' EBITDA to rise by 3.2% in 2019 to QR116.2mn vs. 2018, while its EBITDA margin is expected to remain flattish at 23.5% vs. 23.3% as of 2018. We anticipate incremental increase in revenue will be partially mitigated by a 1.8% YoY rise in COGS and a 2.8% increase in SG&A. Note that the expected rise in costs is attributable to the new Al Wakra Clinic, which opened during 1Q2019. At this initial stage, Al Wakra Clinic is only partially active for the time being, operating only during weekdays from 8AM to 5PM.
- **We also anticipate no new provisions for Seha receivables in 2H2019, as the company may prefer to wait for the outcome of the court case.** MCGS recorded QR4.4mn in provisions for receivables in 1Q2019, which was reversed in 2Q2019. Investors might recall that the

company allocated QR13.2mn of provisions as of 9M2018 last year, QR12.2mn of which were reversed in 4Q2018. Hence, MCGS had ended 2018 with merely QR1mn of new provisions.

In 2020, we expect MCGS to post QR508.3mn in revenue (up 2.6% vs. 2019) and QR93.1mn in net earnings (+9.0% vs. 2019). We anticipate MCGS' EBITDA to grow by 6.9% YoY to QR124.3mn, thanks to increasing revenue from Al Wakra Clinic, coupled with a further recovery in the EBITDA margin to 24.5%. It is noteworthy that most of Al Wakra-related costs are anticipated to impact 2019.

- **Our model assumes the new version of Seha to commence late 2020 and start impacting numbers in 2021 with full impact by 2022.** While the program can start earlier, we choose to adopt a wait-and-see attitutde given past history. We expect Al Ahli to reach its inpatient, outpatient and emergency visit numbers prevailing in 2015 (during Seha's implementation) fully in two years (by 2022) once the National Health Scheme is initiated. We think this is a conservative estimate as we anticipate Qatar's population to reach 3.0mn by 2022 (assuming that the actual 2.4% YoY growth realized as of Apr'19 will be maintained until 2022). Therefore, Qatar's population in 2022 should be 24.5% higher than what it was in 2015, which could lead to higher visitor numbers for Al Ahli in 2022 vs. 2015.

Al Ahli's visit numbers vs. Qatar's population (2015 vs. 2022e)

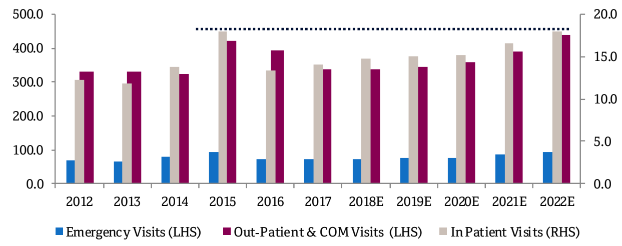


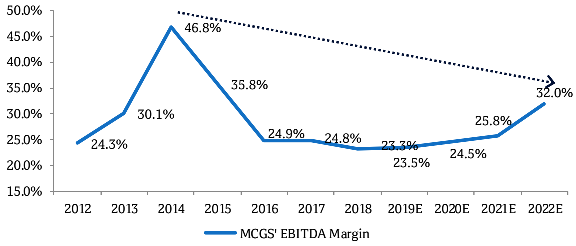
(*) Inpatient visits + outpatient visits +emergency visits
Source: Qatar Planning and Statistics Authority, MCGS, QNB FS Research

We forecast a 26.7% EPS growth for 2021, driven by a 9.2% revenue growth and expected EBITDA margin expansion to 25.8% from 24.5% as of 2020. **We expect MCGS to only partially benefit from the new National Insurance Scheme in 2021, whereas the full volume impact of the scheme should be observed in 2022.**

Strong economies of scale benefits is expected to lead to EBITDA margin expansion. MCGS believes that it will not be necessary to increase its employee/doctor force to reach its 2015 visit numbers again, therefore any volume growth should result in substantial economies of scale as staff costs account for 64% of MCGS' cost base (COGS+SG&A) as of 2018.

Al Ahli's visit numbers and EBITDA margins (2015 vs. 2022e)





Source: MCGS, QNB FS Research

While we think the new system should increase the inpatient/outpatient volumes for MCGS substantially, EBITDA margins for MCGS may not be as high as the previous implementation, as we anticipate strict checks and balances this time.

Detailed Financial Statements

Income Statement (QR000)

	2017	2018	2019e	2020e	2021e	2022e
Revenue	**470,621**	**484,211**	**495,386**	**508,337**	**555,185**	**615,964**
COGS	268,101	283,162	288,300	290,913	316,405	321,219
Gross Profit	**202,520**	**201,050**	**207,086**	**217,424**	**238,780**	**294,746**
SG&A	85,880	88,397	90,855	93,126	95,454	97,841
Depreciation	28,191	31,370	35,033	36,312	30,184	35,318
Operating Income	**88,449**	**81,282**	**81,198**	**87,986**	**113,141**	**161,586**
EBITDA	116,640	112,652	116,231	124,298	143,325	10,673
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-487	0	0	0
Other Income	11,235	8,891	9,917	10,027	10,344	10,673
Rental Income	*2,902*	*2,698*	*4,080*	*4,080*	*4,283*	*4,498*
Dividend Income	*2,656*	*2,819*	*2,575*	*2,652*	*2,732*	*2,814*
Write back of Prior Year Accruals	*3,218*	*959*	*0*	*0*	*0*	*0*
Others	*2,459*	*2,415*	*3,263*	*3,295*	*3,328*	*3,362*
Fair value gain from investment properties	0	0	0	0	0	0
Total Other Income	**-4,932**	**5,839**	**9,430**	**10,027**	**10,344**	**10,673**
Net Finance Income (Expense)	-732	366	-2,367	-1,769	-1,576	-693
Net profit before management fees and income t	**82,785**	**87,486**	**88,262**	**96,244**	**121,909**	**171,566**
Management fees	-2,783	-2,975	-2,897	-3,159	-4,001	-5,631
Income Tax	0	0	0	0	0	0
Non controlling interests	0	0	0	0	0	0
Net Income	**80,002**	**84,511**	**85,365**	**93,086**	**117,908**	**165,935**
Net Profit Margin	*17.0%*	*17.5%*	*17.2%*	*18.3%*	*21.2%*	*26.9%*
Shares Outstanding (mn)	*281,441*	*281,441*	*281,441*	*281,441*	*281,441*	*281,441*
EPS	**0.28**	**0.30**	**0.30**	**0.33**	**0.42**	**0.59**
DPS	**0.40**	**0.30**	**0.30**	**0.33**	**0.42**	**0.42**

Note: EPS based on current number of shares

Source: Company data, QNB FS Research

Balance Sheet (QR000)

	2017	2018	2019e	2020e	2021e	2022e
Cash & Cash Equivalents	52,053	53,638	53,638	53,638	36,638	36,638
S/T Deposits	50,066	40,000	39,517	25,124	20,042	71,978
Accounts Receivable & Prepayments	83,815	63,825	64,500	66,186	72,286	80,199
Other Recevables and Prepayments	15,267	29,534	25,803	26,477	28,918	32,083
Due From Related Parties	0	0	0	0	0	0
Inventories	27,543	23,087	23,506	23,719	25,798	26,190
Total Current Assets	**228,745**	**210,085**	**206,965**	**195,145**	**183,681**	**247,090**
Financial assets at fair value through other comprehensiv	45,619	52,059	56,709	56,709	56,709	56,709
Right-of-use assets	0	0	66,593	62,014	57,435	52,856
Property, Plant & Equipment	909,271	942,705	965,880	988,669	1,035,480	1,028,306
Non-Current Assets	**954,890**	**994,764**	**1,089,181**	**1,107,391**	**1,149,624**	**1,137,871**
Total Assets	**1,183,634**	**1,204,849**	**1,296,146**	**1,302,537**	**1,333,305**	**1,384,960**
Short-Term Debt	14,472	14,974	33,347	30,950	33,273	35,225
Lease Liabilities	0	0	3,235	3,068	2,894	2,711
Accounts Payable & Accruals	29,683	32,718	33,312	33,614	36,559	37,115
Other Payables	46,451	41,561	41,582	41,775	42,496	43,738
Dividends Payable/Payable to shareholders	18,880	21,404	22,838	24,904	26,149	27,457
Current Liabilities	**109,486**	**110,657**	**134,314**	**134,311**	**141,371**	**146,246**
Non-Current Liabilities						
Lease Liabilities	0	0	62,863	59,629	56,236	52,678
Retentions payable	0	0	2,146	2,166	2,355	2,391
Long-Term Debt	19,708	16,032	16,833	17,675	18,559	19,487
Employees end of service benefits	52,692	60,176	63,185	66,345	69,662	73,145
Non-Current Liabilities	**72,399**	**76,208**	**145,028**	**145,814**	**146,812**	**147,700**
Total Liabilities	**181,885**	**186,865**	**279,342**	**280,125**	**288,183**	**293,946**
Total Shareholder's Equity	**1,001,749**	**1,017,984**	**1,016,804**	**1,022,412**	**1,045,121**	**1,091,015**
Minority Interest	0	0	0	0	0	0
Liabilities & Shareholder's Equity	**1,183,634**	**1,204,849**	**1,296,146**	**1,302,537**	**1,333,305**	**1,384,960**

Source: Company data, QNB FS Research

Cash Flow Statement (QR000)

	2017	2018	2019e	2020e	2021e	2022e
Cash Flow From Operations	173,099	129,676	122,521	127,279	140,364	188,674
Cash Flow From Investment Activities	-49,737	-24,802	-52,871	-52,653	-75,418	-25,864
Cash Flow From Financing Activities	-103,110	-113,355	-63,940	-84,916	-87,776	-111,540
Cash Flow From Other Activities	0	0	-6,193	-4,103	17,748	1,259
Change In Cash	**20,252**	**-8,481**	**-483**	**-14,393**	**-5,082**	**52,529**
Cash Beginning of Period	31,802	52,053	53,638	53,638	53,638	36,638
Decrease (increase) in Fixed Deposits	14,997	10,066	483	14,393	5,082	-51,937
Cash End of Period	**52,053**	**53,638**	**53,639**	**53,639**	**53,639**	**37,231**

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e	2022e
Growth Rates						
Revenue	0.3%	2.9%	2.3%	2.6%	9.2%	10.9%
Gross Profit	2.8%	(0.7%)	3.0%	5.0%	9.8%	23.4%
EBITDA	(0.1%)	(3.4%)	3.2%	6.9%	15.3%	37.4%
EBIT	(2.0%)	(8.1%)	(0.1%)	8.4%	28.6%	42.8%
PAT/EPS	N/M	5.6%	1.0%	9.0%	26.7%	40.7%
DPS	N/M	(25.0%)	1.1%	9.0%	26.7%	0.0%
CFPS	N/M	(25.1%)	(2.1%)	0.3%	10.3%	34.4%
Operating Ratios						
Gross Margin	43.0%	41.5%	41.8%	42.8%	43.0%	47.9%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	41.8%	42.8%	43.0%	47.9%
EBITDA Margin	24.8%	23.3%	23.5%	24.5%	25.8%	32.0%
EBIT Margin	18.8%	16.8%	16.4%	17.3%	20.4%	26.2%
Net Margin	17.0%	17.5%	17.2%	18.3%	21.2%	26.9%
Working Capital Ratios	59	76	70	70	70	68
Inventory Days	37	30	30	30	30	30
Average Collection Period	98	88	84	84	83	82
Payable Days	39	41	44	44	44	44
Finance Ratios						
Debt-Equity Ratio	3%	3%	5%	5%	5%	5%
Net Debt-Equity Ratio	-7%	-6%	-4%	-3%	0%	-5%
Net Debt-to-Capital	-7%	-7%	-4%	-3%	0%	-5%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.4)	(0.2)	(0.0)	(0.3)
Interest Coverage	54.4	76.2	19.3	24.2	35.9	54.3
Return Ratios						
ROIC	8.5%	7.7%	7.6%	8.2%	10.3%	14.1%
ROE	8.0%	8.3%	8.4%	9.1%	11.3%	15.2%
ROA	6.8%	7.0%	6.6%	7.1%	8.8%	12.0%
FCF Yield	49.9%	46.7%	33.3%	33.5%	29.2%	74.0%
Liquidity Ratios						
Current Ratio	2.1	1.9	1.5	1.5	1.3	1.7
Quick Ratio	1.8	1.7	1.4	1.3	1.1	1.5
Valuation						
EV/Sales	4.5	4.4	4.3	4.2	3.9	3.4
EV/EBITDA	19.4	20.4	18.3	17.2	15.1	10.7
EV/EBIT	23.8	25.9	26.2	24.3	19.1	13.1
P/E	24.6	21.0	25.4	23.3	18.4	13.1
P/CF	1.3	1.7	1.7	1.7	1.5	1.2
P/BV	0.2	0.2	0.2	0.2	0.2	0.2
Dividend Yield	4.3%	6.3%	3.9%	4.3%	5.4%	5.4%
FCF Yield	49.9%	46.7%	33.3%	33.5%	29.2%	74.0%

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*	
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

Saugata Sarkar, CFA, CAIA
Head of Research
Tel: (+974) 4476 6534
saugata.sarkar@QNBFS.com.qa

Shahan Keushgerian
Senior Research Analyst
Tel: (+974) 4476 6509
shahan.keushgerian@QNBFS.com.qa

Zaid al-Nafoosi, CMT, CFTe
Senior Research Analyst
Tel: (+974) 4476 6535
zaid.alnafoosi@QNBFS.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
Tel: (+974) 4476 6589
mehmet.aksoy@QNBFS.com.qa

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
PO Box 24025
Doha, Qatar