

## Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR4.030	Target Price	QR5.524
Implied Upside	37.1%		

### 1Q2024 Beat on Higher Top Line & Commendable Margin Recovery; Maintain Market Perform

**Although Medicare Group's 1Q2024 net profit printed ahead of our projections, we maintain our Market Perform rating and TP for now.** The 1Q2024 outperformance was primarily due to a modest top-line growth coupled with a healthy recovery in margins following weak margins in the previous quarter – both metrics were above our estimates. While our TP of QR5.524 implies an upside of 37.1% primarily due MCGS looking inexpensive relative to regional peers, we still do not see major catalysts on the horizon to warrant an upgrade in the rating. However, the recently announced closure of Al-Wakra Clinics & Urgent Care Unit is expected by management to have an overall net positive effect at the bottom-line mainly due to cost-savings from May onward. More cost initiatives are expected in the interim which could boost margins further. Also, we note that MCGS could still get a one-off boost once there is more clarity on when it will receive a cash windfall following the Court of Appeal judgement in its favor against the National Health Insurance Company (Seha) early last year.

#### Highlights

- **Medicare Group (MCGS) 1Q2024 net profit rose 5.1%/29.1% to QR19.8mn and beat our estimate of QR17.0mn.** The bottom-line outperformance was driven primarily by the top-line growth and impressive recovery in the GP margin. **The GP margin came in higher at 35.9% vs. 34.7% expected, and greater both sequentially (33.0%) and compared with 1Q2023 (35.3%).** The decline in medications & surgical costs, despite an increase in revenue, managed to keep the increase in overall COGS to just 0.6%. While other items were roughly in line with expectations, "Other income" came above our estimate as it grew by double-digits.
- **With the closure of Al-Wakra Clinics, further GP margin improvement is expected,** driven by a decline in direct staff costs. Double-digit growth in staff costs in the previous quarter had driven the GP margin to its lowest level in at least three years and management seems to be addressing that – hopefully, this is not at the expense of service quality down the road. We also note that the closure of Al Wakra Clinics bodes well for Medicare's capital return metrics that are relatively low.
- **The strong inpatient volume growth is not quite reflected at the top-line as MCGS 1Q2024 revenue edged up by 1.6%/0.6% YoY/QoQ to QR 130.1mn,** higher than our estimate of QR125.9mn, likely driven by favorable tariffs and service quality. While this growth is impressive in the context of a high base in 1Q2023, the highly competitive environment due to new entrants lends itself to price competition. Consequently, we maintain our estimates for the full year for now while we observe the durability of the group's revenue trend in the coming quarters.
- **MCGS was awarded a total of QR130.7mn (including additional QR16.6mn in damages/comprehensive compensation) on 24 January 2023 by the Court of Appeal in connection with the Seha receivable.** However, the Court of Cassation has since referred back the case to the Court of Appeal following Seha's challenge of the 24 January 2023 Court of Appeal judgement. This means the process will be drawn out and less certainty is now built in the quantum and timing of the payment. MCGS had written down QR76.3mn of the original QR114.1mn Seha receivable. We estimate a net positive impact of QR0.33/share but this is not in our base model. We estimate a net impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.

#### Catalysts

- **Catalysts: (1)** Phased rollout of the "new" health insurance policy **(2)** Cost-cutting initiatives including the closure of Al-Wakra Clinics **(3)** Contingent receivable cash windfall from Medicare's court case (vs. the government on "old" Seha).

#### Recommendation, Valuation and Risks

- **Recommendation and Valuation: We maintain our Market Perform rating and our weighted 12-month TP of QR5.524, which implies a 37.1% upside potential.** Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Several macro and micro themes cancel out each other to render a relatively neutral prognosis on MCGS's near-term outlook. In the short- to medium-term, we see the following variables driving the outlook: limited bed capacity & occupancy levels growth, 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 & expected change in the composition of expats (to a more white-collar workforce), will become more dominant in shaping prospects.
- **Key risks: (1)** Further delays to planned bed-expansion plans **(2)** Further write-downs/offsets of the Seha receivable **(3)** Escalating competitive pressure as both private and public bed-count increases **(4)** Low stock liquidity **(5)** Rising global/local yields **(6)** Global disease outbreak.

#### Key Financial Data and Estimates

Medicare Group	2023A	2024E	2025E	2026E	2027E
EPS (QR)	0.23	0.24	0.24	0.30	0.31
DPS (QR)	0.22	0.22	0.23	0.28	0.30
P/E (x)	19.9	19.6	19.1	15.7	14.8
EV/EBITDA (x)	16.5	15.8	14.9	13.6	11.9
DY (%)	4.7%	4.8%	4.9%	6.0%	6.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

#### Key Data

Current Market Price	QR4.030
Dividend Yield (%)	5.5
P/E Ratio	17.0
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk Share Price High	QR7.600
52wk Share Price Low	QR3.950
3-m Average Vol. (mn)	1.2
Mkt. Cap. (\$ bn/QR bn)	0.3/1.1
EV (\$ bn/QR bn)	0.3/1.2
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	17.1
1-Year Total Return (%)	-29.2
Fiscal Year-End	December 31

Source: Bloomberg (as of April 28, 2024),\*Qatar Exchange (as of April 28, 2024); Note: FO is foreign ownership

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Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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