

# MCGS Alert – 2Q2020 Miss Due to Lower Revenues & Higher G&A : Maintain TP & MP

- MCGS posted 2Q2020 net income/EPS of QR9.53mn/QR0.03, down 29.3% YoY (down 53.9%, QoQ), falling below our net income estimate of QR11.5mn. In 1H2020, MCGS reported net profit of QR30.2mn vs. QR33.8mn in 1H2019. Whereas, 1H2020 EPS amounted to QR0.11 with a 10.7% decline YoY.
- Gross profit was slightly below our estimate. The company recorded QR29.4mn in gross profits, declining 32.5% YoY and 45.1% QoQ (variance: -6.7%). Revenues were lower 29.0% YoY and 35.3% QoQ at QR84.3mn as a result of the coronavirus-related regulations coming into effect at the beginning of 2Q2020. As such, these regulations limited the services that could be offered by private hospitals and clinics in Qatar, which we believe were partially offset by stronger emergency service revenue. Gross margin declined from 36.7% in 2Q2019 to 34.9% in 2Q2020 (also down sequentially vs. 1Q2020's 41.1%).
- On the other hand, G&A (excluding the Board of Directors remuneration) declined 21.8% YoY and 19.7% QoQ in 2Q2020 (variation: +6.7%), mainly due to a 32% YoY decline in staff costs, accounting for 59% of the G&A as of 2Q2020.
- During 2Q2020, MCGS reversed QR4.48mn of provisions, which were previously allocated for expected credit losses on trade receivables. The provisions had been allocated in 1Q2020 and management had stated during the 1Q2020 conference call that they would be reconsidered during June or December. In 2Q2019, MCGS' provision reversals amounted to QR4.14mn. Therefore, the impact of provision reversals on the YoY net income growth was limited.
- We continue to rate MCGS as a Market Perform and keep our estimates for now. We also maintain our TP at QR8.04/sh. We think MCGS' revenues and net earnings should be recovering starting from 3Q2020 with the reopening of the closed clinics in 3Q2020. In the medium to long term, the company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme, which resulted in an upsurge in MCGS' revenue, margins and consequently in 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, 2019, MCGS shares rose by 27.2%, outperforming the QE Index' 9.8% decline. Our one-year TP (QR8.04) for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2021. Until details of the new National Health Insurance become clear, we anticipate MCGS shares to maintain their volatility.

### 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

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

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Zaid Al Nafsoosi, CMT, CFTE**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

**Mehmet Aksoy, PhD**  
Senior Research Analyst  
+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

**DISCLAIMER:** This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.