

MCGS Alert – Private Hospitals to Halt Non-Emergency Care Given Covid-19 Precautions; Market Perform

- **The Cabinet has decided to stop providing medical services in private health facilities, except for emergency cases, from April 2.** According to reporting by the Qatar News Agency (QNA), private health facilities in Qatar will be allowed to provide some medical services, if possible, through modern means of communication. The decision came at the Cabinet’s regular meeting on March 31, chaired by HE the Prime Minister and Minister of Interior Sheikh Khalid bin Khalifa bin Abdulaziz al-Thani via videoconference. Following the meeting, HE the Minister of Justice and Acting Minister of State for Cabinet Affairs Dr Issa Saad al-Jafali al-Nuaimi issued a statement providing details of the proceedings. At the outset of the meeting, the Cabinet affirmed the continued implementation of precautionary measures in order to combat the pandemic.
- **While we do not have color on how long these restrictions will last we do think MCGS’ business will be temporarily impacted.** We remind investors that Medicare’s 2Q2020 results were temporarily affected from similar measures. Medicare’s 2Q2020 revenue declined 29.0% YoY and 35.3% QoQ to QR84.3mn as a result of coronavirus-related regulations implemented back in March 2020. Under the instructions of the Ministry of Public Health, MCGS had ceased to carry out any non-urgent or non-emergency procedures during most 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. During 2Q2020, Medicare’s gross margin also declined from 36.7% in 2Q2019 to 34.9% in 2Q2020 (also down sequentially vs. 1Q2020’s 41.1%).
- **On the positive front, if history repeats itself, the delayed demand should favorably impact Medicare’s 3Q2021 results.** MCGS’ 3Q2020 revenue increased 21.4% YoY and 57.2% QoQ to come in at QR132.6mn, which we think was attributable to the pent-up demand that came back after the partial lifting of coronavirus-related measures during 3Q2020.
- **We continue to rate MCGS as a Market Perform and maintain our estimates for now.** Despite the restrictions imposed in 2020, Medicare managed to increase its net income by 9.3% last year; therefore, we think the possible negative impact of current restrictions is likely to be compensated over 3Q-4Q 2021. In the medium- to long-term, the company is likely to benefit from an anticipated re-initiation of Qatar’s National Health Insurance Scheme (the “new” Seha), which resulted in an upsurge in MCGS’ revenue, margins, and consequently, net profits during its first implementation in 2013-2015. Our one-year TP (QR8.04) for MCGS also does not factor in the recently announced mandatory health insurance coverage for expats/tourists given lack of specific program details. Until details of these plans become clear, we anticipate MCGS shares could remain volatile.

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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