

MCGS Alert – Better-than-Expected 3Q2020 Due to Strong Top-Line: Maintain TP & MP

- **MCGS posted 3Q2020 net income/EPS of QR19.4mn/QR0.07, up 91.7% YoY (+103.8%, QoQ), better than our net income estimate of QR9.4mn.** Medicare Group's (MCGS) net profit rose 91.7% YoY (+103.8% QoQ) to QR19.4mn in 3Q2020. In 9M2020, MCGS posted net profit of QR49.6mn as compared to QR44.0mn in 9M2019. EPS amounted to QR0.18 in 9M2020 as compared to QR0.16 in 9M2019.
- **Gross profit came in above our estimate – the company recorded QR50.2mn in 3Q2020 gross profits, rising 21.8% YoY and 50.2% QoQ (variance: 21.1%).** Revenue was higher 21.4% YoY and 57.2% QoQ at QR132.6mn, which we think is attributable to pent-up demand, triggered by the partial lifting of coronavirus-related measures during 3Q2020. Under the instructions of the Ministry of Public Health, the company had ceased to carry out any non-urgent or non-emergency procedures during most of 2Q. Certain services such as dentistry, cosmetic surgery, dermatology, etc. were also reduced. These restrictions have gradually started to ease by mid-June, which we think boosted MCGS' top-line. We also think, YoY increase in local population during 3Q2020 also supported MCGS' revenue growth. Gross margin was flat YoY at 37.8% in 3Q2020 vs. 37.7% in 3Q2019 but up sequentially vs. 2Q2020's 34.9%.
- **On the other hand, G&A rose 12.3% YoY and 32.5% QoQ in 3Q2020 in line with increasing revenue.**
- **We continue to rate MCGS as a Market Perform and keep our estimates for now.** We also maintain our TP at QR8.04/sh. As the restrictions have gradually started to ease by mid-June, MCGS' financial results should continue to improve in the coming quarters. Separately, on Sep. 30, a local court has issued a verdict to oblige National Health Insurance Company (SEHA) to pay QR130.7mn to MCGS for its past-due debt. Assuming that the net book value of the disputed receivable is around QR38mn, MCGS should be recording a profit of roughly QR90mn because of the court case, which accounts for 120% of MCGS' 2019 net profits and 9.6% of 1H2020 shareholder's equity. We think this is just the first ruling on the court case and legal process could continue in the Court of Cassation. We continue to believe 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 and net profit during its first implementation in 2013-2015. Until details of the new National Health Insurance are clarified, we foresee MCGS shares remaining volatile. We maintain our Market Perform rating with a QR8.04 price target.

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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