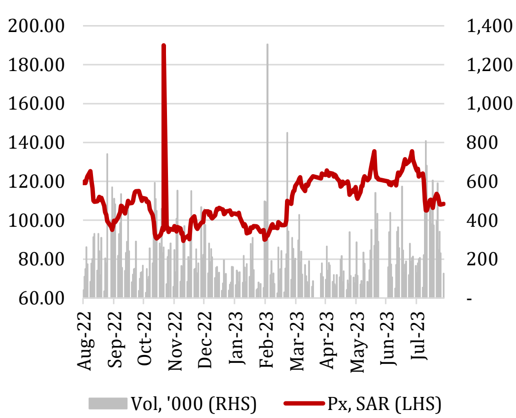
Mouwasat Medical Services

Target Price: SAR 122.60
Upside/ (Downside): 13.1%

Recommendation	**Accumulate**
Bloomberg Ticker	MOUWASAT AB
Current Market Price (SAR)	108.40
52wk High / Low (SAR)	140.40/86.60
12m Average Vol. (000)	225.2
Mkt. Cap. (USD/OMR mn)	5,766/21,680
Shares Outstanding (mn)	200.00
Free Float (%)	47%
3m Avg Daily Turnover (SAR'000)	31,737.2
6m Avg Daily Turnover (SAR'000)	26,741.2
P/E'23e (x)	31.6
EV/EBITDA'23e (x)	22.3
Dividend Yield '23e (%)	3.1%
Price Performance:	
1 month (%)	(17.4)
3 month (%)	(4.9)
12 month (%)	(9.3)

Source: Bloomberg, valued as of 27 Aug 2023

Price-Volume Performance



Source: Bloomberg

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- **New upcoming hospital projects to increase Mouwasat's presence in the Kingdom from six cities currently to eight cities.**
- **Accordingly, the company's hospital beds and clinics are estimated to grow by slightly over 30% and 20% during the next 3-4 years.**
- **Revenue growth is expected to rise at an increasing pace, driven by capacity increase with the market dynamics likely remaining favorable, as almost every healthcare player posted better utilization and higher patient traffic.**
- **Margins are estimated to nudge up gradually with the management focusing on expense rationalization and utilization improvement.**

We review our coverage of Mouwasat Medical Services (MMS) and raise our target price to SAR 122.60 (previously, SAR 97.50), indicating an upside of 13.1% from the current market price. Hence, we assign an **Accumulate** rating on the stock, as compared to Hold, previously, as we increase our revenue and earnings growth estimate incorporating an estimated capacity increase towards the end of our forecast period with the addition of some new hospitals. Currently, the stock trades at FY'23e P/E of 31.6x and EV/EBITDA of 22.3x, slightly below its blended forward 3-year average daily P/E of 29.2x and the 3-year average blended forward daily EV/EBITDA of 21.9x.

Investment Thesis

Capacity increase with profitability improvement is expected to step up earnings growth

i) Mouwasat is expected to add two new hospitals by FY26e. Consequently, the total beds and outpatient clinic capacity will jump from 1,600 to 2,100 and from 600 to 724, respectively, according to our estimates.

ii) We revise our FY22-27e revenue growth CAGR to 14% (vs. 12%, estimated previously) as we model in Jeddah hospital addition into our forecasts apart from Yanbu hospital.

iii) Mouwasat has managed its operations well with the profitability being largely in an uptrend over the past 5-6 years underpinned by healthy top-line growth, and we expect the trend to continue going forward,

iv) Capex is estimated to reduce relatively vs. historical trend as the new projects reach completion. This, along with the estimated improvement in margins should lead to good cash flow generation.

v) Mouwasat has consistently raised its DPS over the past five years with a high dividend payout, averaging around 95%.

Year	FY20	FY21	FY22	FY23e	FY24e	FY25e
Revenues (SAR mn)	2,045.0	2,144.1	2,334.1	2,640.6	2,912.6	3,232.3
Net income (SAR mn)	528.2	578.2	599.3	665.5	763.1	872.1
Gross margin	47.0%	46.4%	47.1%	47.8%	48.0%	48.1%
Net profit margin	25.8%	27.0%	25.7%	25.2%	26.2%	27.0%
RoE	24.9%	23.7%	21.7%	24.0%	28.8%	32.2%
FCF (SAR/share)	1.4	1.7	1.6	2.9	3.6	4.1
DPS (SAR/share)	2.5	2.8	3.0	3.3	3.6	4.0
Dividend Yield	3.6%	3.2%	2.9%	3.1%	3.4%	3.8%
P/E (x)	26.1x	30.1x	34.9x	31.6x	27.5x	24.1x
P/BV (x)	6.1x	6.7x	7.2x	8.0x	7.9x	7.7x

Source: Company Reports, U Capital Research **Dividend Yield, EV/EBITDA, and EV/Sales from FY24 onwards calculated on current price*

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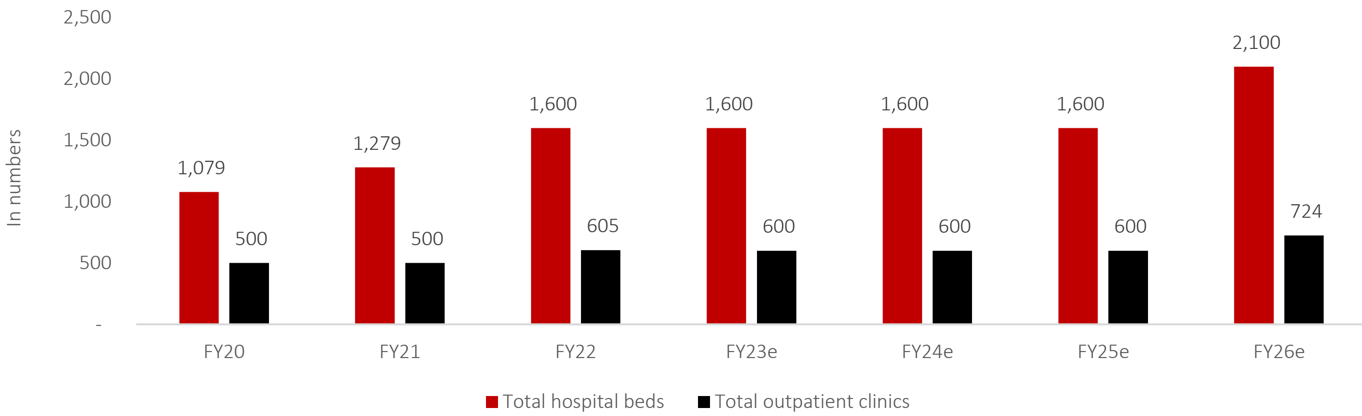
Investment thesis

Revenue to grow at a greater pace than estimated previously, as we modify our estimate to include the addition of a new hospital in Jeddah

Mouwasat Medical posted healthy double-digit revenue growth during 1H 2023, led by an increase in capacity vs. 1H 2022 as well as higher patients' visits. Inpatient revenue grew 10.4% YoY during 1H 2023 (vs. flat in 1H 2022) as the occupancy at inpatient departments increased. Outpatients' revenue growth accelerated as well to 17.4% YoY during the first half as compared to 10.1% YoY in the comparable period of the last year, driven by higher OPD visits. Consequently, revenue from Medical Services rose 14.0% YoY (1H 2022: +5.0% YoY), contributing 85.6% of the total revenue during the period. An increase in patients' volume, understandably, boosted the top line of the Pharmacy segment also (1H 2023: +20.1% YoY; 1H 2022: +13.3% YoY).

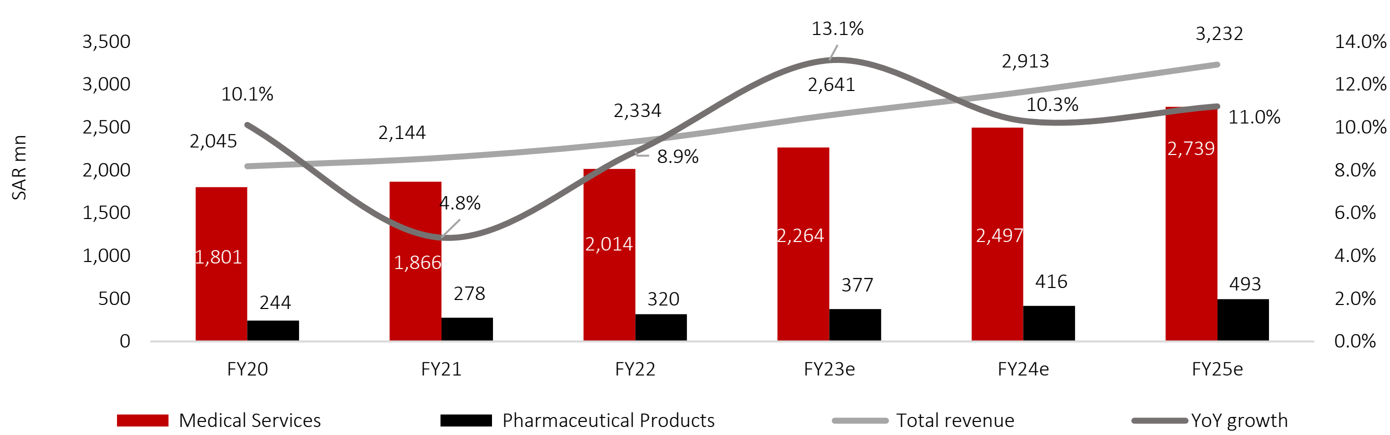
The revenue growth of most of the healthcare services providers under our coverage during 1H 2023 indicates favorable business conditions with an increase in bed utilization and OPD cases, and hence we expect revenue growth to remain healthy during the remaining two quarters of FY 2023.

Fig. 1: Mouwasat is expected to add 500 beds and over 100 outpatient clinics by FY26e



Source: Company Reports, U Capital Research

Fig. 2: Revenue from medical services has gained traction during 1H23 and we expect the trend to continue



Source: Company Reports, U Capital Research **Source: Company Reports, U Capital Research; *based on FY 2022 data**

Mouwasat is currently working on three new hospital projects, one each in Yanbu (200 beds, 60 clinics), Jeddah (300 beds, 64 clinics), and Riyadh (120 beds, 40 clinics). While Yanbu and Jeddah are new geographies for the company to expand, it already has a hospital in Riyadh that was opened in 2014 and has a capacity of 200 beds and 100 clinics. Out of the three new projects, we estimate Yanbu and Jeddah healthcare facilities to commence operations from FY 2026e. On

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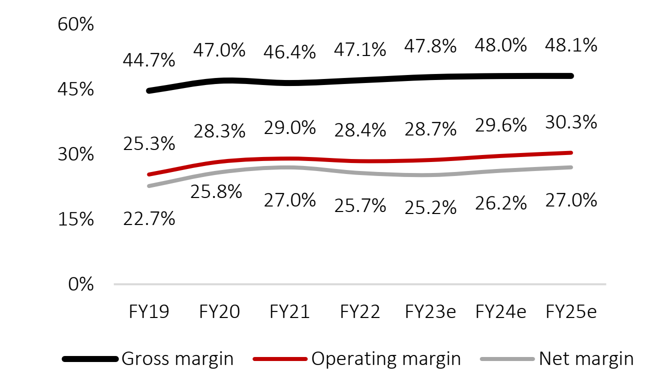
the back of the new capacity additions, our FY 2022-27e revenue CAGR stands at 14%, higher than our previous projection of 12% as well as the 9% revenue CAGR clocked by the company during FY 2017-22.

Profitability is expected to maintain its overall positive trend line with a focus on high asset utilization and cost control

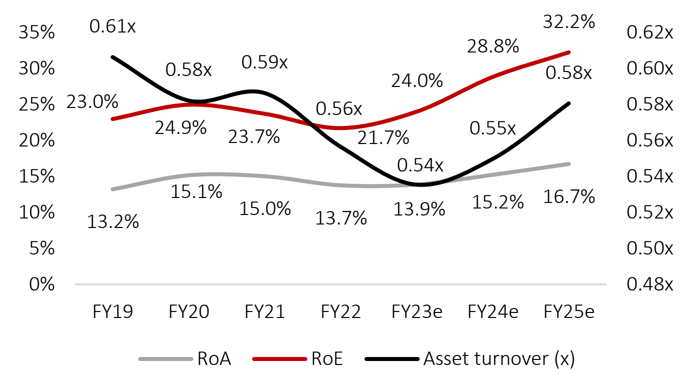
Mouwasat's business expansion has been complemented well with healthy margins, with the company's profitability at the gross, operating, and net levels showing being largely in an uptrend since FY 2019, albeit with intermittent hiccups which could be attributed to occasional capacity additions which takes time to reach optimum operating level. Given that no new capacity is likely to be added over the next couple of years and the management aims to maximize the utilization of its assets while keeping a check on operating costs, we forecast margins to remain largely in an uptrend going forward.

Fig. 3: Margins are estimated to keep edging higher…



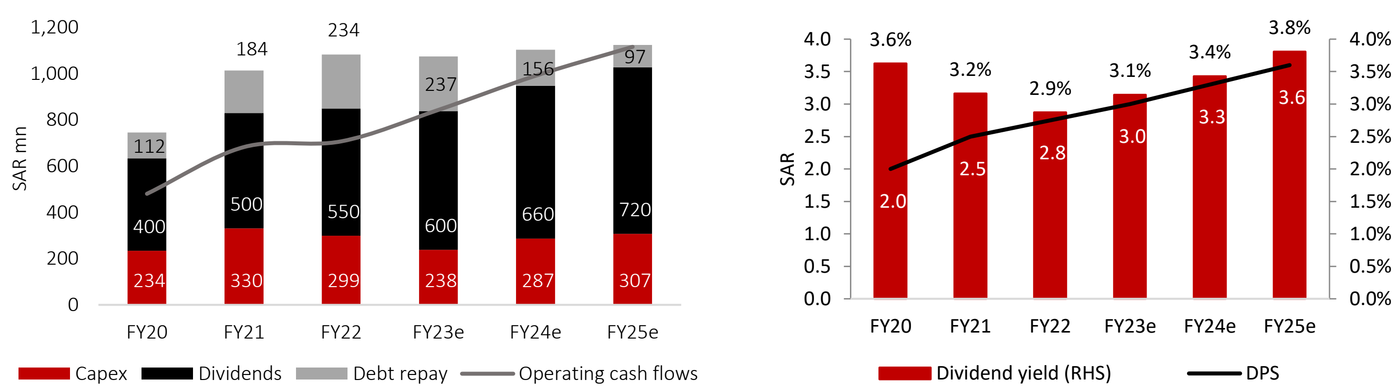
Source: Company Reports, U Capital Research

Fig. 4: …lifting the return to shareholders



Source: Company Reports, U Capital Research

Fig. 5: Healthy cash flow generation to fulfill day-to-day funding needs while aiding in maintaining a high dividend payout



Source: Company Reports, U Capital Research **Source: Company Reports, U Capital Research**

The balance sheet is expected to remain strong as healthy cash flow generation supported by potential margin expansions should keep borrowing needs low

Mouwasat Medical Services' debt/equity ratio has reduced gradually, reaching 0.32x by the end of 2Q 2023 as compared to 0.48x at FY 2018-end. This is despite the company increasing its capacity twice since FY 2017 and currently developing three new hospitals. With the projected increase in the company's earnings led by efficiency improvements and later by capacity expansion, we expect the debt/equity ratio to remain low going forward as well, as the healthy liquidity levels should take care of most of the daily funding needs as well as capex requirements.

The prudent financial management has also helped the company in rewarding its shareholders generously as it has raised its dividend per share (DPS) each year since FY 2018, leading to an average payout ratio of about 95%, and we expect a similar trend going forward as well.

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Valuation

Our target price is based on blended valuation methodologies – (i) DDM and (ii) Relative Valuation (using P/E).

We revised our target price for the company to SAR 122.60 (previously, SAR 97.50), which indicates an upside of 13.1% at the current market price. Accordingly, we rate the company **Accumulate** (previously, Hold), as we raise our FY 2022-27e revenue and earnings CAGR vs. our earlier estimate factoring in the upcoming new hospital additions. Currently, the stock trades at a P/E of 31.6x, based on our FY'23 estimates, slightly higher than its blended forward three-year daily average P/E multiple of c. 29x.

Risks

Key downside risks:

i) Below expected revenue growth resulting from either a delay in the commencement of the operations of the new hospitals than estimated or less-than-expected utilization and/or average revenue per bed/clinic.

ii) Profitability comes below our estimates either resulting from any weakening in the top line or a higher than usual time taken to ramp up new facilities.

Key upside risks:

i) Out of the three hospitals, we currently have included two hospitals in our model, which leads to chances that revenue growth might outpace our expectations if the third hospital starts operating within our explicit forecast period.

ii) Better-than-projected margins and cash flows in case the company introduces any new process or technology in the future which expedites efficiency enhancement.

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Valuation

	Mouwasat
(Currency)	SAR
DCF (70% weight)	
PV of Free Cash Flows (mn)	
Year 1 (Explicit forecast period)	548
Year 2 (Explicit forecast period)	640
Year 3 (Explicit forecast period)	680
Year 4 (Explicit forecast period)	612
Year 5 (Explicit forecast period)	885
Year 6 (High Growth/Transition period)	907
Year 7 (High Growth/Transition period)	928
Year 8 (High Growth/Transition period)	951
Year 9 (High Growth/Transition period)	974
Year 10 (High Growth/Transition period)	-
Year 11 (Transition period)	-
Year 12 (Transition period)	-
Year 13 (Transition period)	-
Year 14 (Transition period)	-
Year 15 (Transition period)	-
Terminal Value	33,324
PV of Terminal Value	18,347
Less: Debt	950
Less: Minority interest	134
Less: Employee retirement benefits	145
Add: Cash & bank balances	247
Add: Investments	24
Equity value (mn)	24,515
Outstanding Shares (mn)	200.0
Assumptions	
Risk Free Rate (%)	4.9%
Adjusted Beta	0.85
Risk Premium (%)	3.6%
Cost of Equity (Ke) (%)	7.9%
WACC (%)	7.4%
Target Price	***122.57***
P/E based Relative Valuation (30% weight)	
Target P/E multiple (x)	*36.9*
EPS FY23e	*3.33*
Target Price	***122.66***
Weighted Average Target Price	**122.60**
Current Market Price	108.40
Upside/(Downside), %	*13.1%*
Recommendation	**Accumulate**

Source: Company Financials, Bloomberg, U Capital Research

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Peer Group Valuation

Name	Mkt Cap (SAR mn)	Last Px (LC)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA'23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield' 23e, (%)	FCF Yield TTM (%)
Healthcare										
Dr Sulaiman Al Habib Medical	89,180.0	254.80	-13	-7	16	39.5	42.0	30.5%	1.5%	0.6%
Mouwasat Medical Services Co	21,680.0	108.40	-17	-6	4	22.3	31.6	24.0%	3.1%	2.7%
Dallah Healthcare Co	14,261.5	146.00	-19	-12	-1	26.4	34.7	13.6%	0.3%	2.6%
Middle East Healthcare Co	5,513.2	59.90	-11	5	135	17.6	32.8	11.7%	na	-0.1%
Al Hammadi Holding	8,640.0	54.000	-10	4	35	19.4	28.3	17.6%	0.6%	4.9%
Nahdi Medical Co	20,150.0	155.000	-12	-11	-7	12.3	19.8	40.5%	3.7%	5.4%
National Medical Care Co	5,597.3	124.800	-10	17	69	17.4	22.4	16.5%	1.0%	8.7%
Average						**22.1**	**30.2**	**22.0%**	**1.7%**	**3.6%**
Median						**19.4**	**31.6**	**17.6%**	**1.3%**	**2.7%**

Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 27 August 2023

Fig. 6: Healthcare - Price to Earnings & Dividend Yield

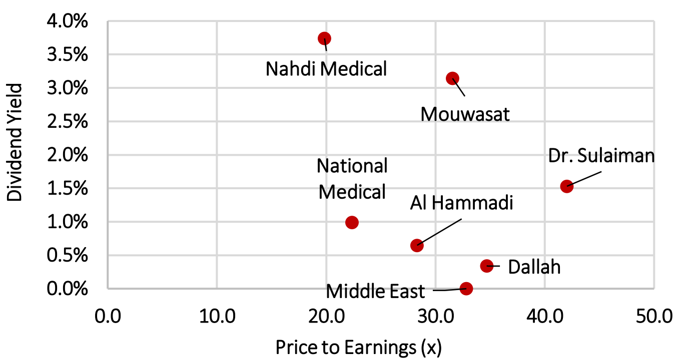
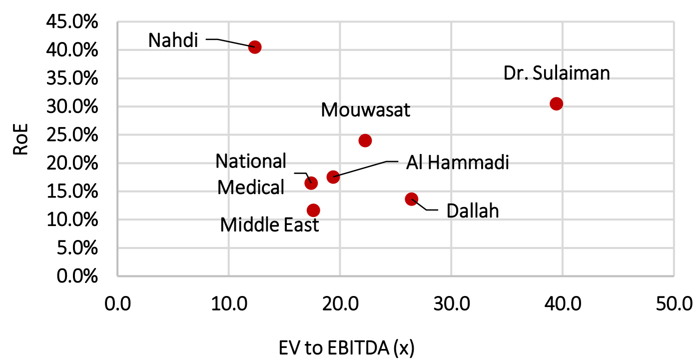


Fig. 7: Healthcare – RoE & EV to EBITDA



Source: Bloomberg, U Capital Research; As of 27 Aug 2023

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Key financials

In SAR mn, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Revenue	2,045	2,144	2,334	2,641	2,913	3,232
Cost of revenue	(1,085)	(1,148)	(1,235)	(1,378)	(1,513)	(1,678)
Gross profit	**960**	**996**	**1,099**	**1,262**	**1,399**	**1,554**
General & administrative expenses	(258)	(275)	(319)	(349)	(375)	(402)
Selling & marketing expenses	(124)	(99)	(117)	(155)	(162)	(172)
Other operating income	-	-	-	-	-	-
Operating profit	**578**	**622**	**663**	**757**	**863**	**981**
The company's share in income of associates	4	10	10	9	7	8
Finance charges	(14)	(8)	(23)	(42)	(37)	(36)
Profit before zakat	**577**	**632**	**660**	**738**	**846**	**966**
Zakat expense	(15)	(22)	(28)	(40)	(46)	(53)
Profit attributable to shareholders of the company	**528**	**578**	**599**	**666**	**763**	**872**
Balance Sheet						
Cash and cash equivalents	160	157	144	293	277	365
Trade receivables	690	791	1,039	1,125	1,219	1,328
Advance payments for acquisition of property & equipment	170	243	201	131	131	131
Right of use assets	35	31	28	24	21	17
Property and equipment	2,203	2,419	2,765	2,866	2,892	2,920
Total assets	**3,649**	**4,059**	**4,662**	**4,947**	**5,089**	**5,355**
Accrued expenses and other liabilities	115	125	175	192	211	234
Short term lease liabilities	38	33	30	26	23	19
Trade payables	198	219	250	314	345	383
Total liabilities	**1,269**	**1,357**	**1,585**	**2,168**	**2,231**	**2,384**
Share capital	1,000	1,000	1,000	1,000	1,000	1,000
Retained earnings	979	1,304	1,623	1,328	1,371	1,444
Equity Attributable to Shareholders	**2,279**	**2,604**	**2,923**	**2,628**	**2,671**	**2,744**
Cash Flow Statement						
Net cash generated from operating activities	481	683	707	843	991	1,116
Net cash generated from investing activities	(317)	(446)	(371)	(199)	(287)	(307)
Net cash (used in) provided by financing activities	(208)	(240)	(349)	(495)	(720)	(721)
Cash and cash equivalents at the end of the period	**160**	**157**	**144**	**293**	**277**	**365**
Key Ratios						
Gross margin (%)	47.0%	46.4%	47.1%	47.8%	48.0%	48.1%
EBITDA margin (%)	35.5%	36.4%	36.5%	37.1%	38.6%	39.0%
Operating margin (%)	28.3%	29.0%	28.4%	28.7%	29.6%	30.3%
Net margin (%)	25.8%	27.0%	25.7%	25.2%	26.2%	27.0%
ROA	15.1%	15.0%	13.7%	13.9%	15.2%	16.7%
ROE	24.9%	23.7%	21.7%	24.0%	28.8%	32.2%
Current Ratio (x)	2.2x	2.1x	2.0x	1.2x	1.2x	1.2x
Capex/Sales	11.2%	15.2%	12.5%	8.7%	9.5%	9.2%
Debt-Equity Ratio	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x
EPS	2.6	2.9	3.0	3.3	3.8	4.4
BVPS	11.4	13.0	14.6	13.1	13.4	13.7
DPS	2.5	2.8	3.0	3.3	3.6	4.0
Dividend Payout Ratio	94.7%	95.1%	100.1%	99.2%	94.4%	91.7%
Dividend Yield (%)	3.6%	3.2%	2.9%	3.1%	3.4%	3.8%
P/E (x)	26.1x	30.1x	34.9x	31.6x	27.5x	24.1x
P/BV (x)	6.1x	6.7x	7.2x	8.0x	7.9x	7.7x
EV/EBITDA (x)	20.2x	23.5x	25.9x	22.3x	19.4x	17.3x
Price as at period end*	69.0	86.9	104.5	105.0	105.0	105.0

*Source: Company Reports, U Capital Research; *Current market price is used for forecast periods*

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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