

**Neutral**

**Price Target (SAR): 138.0**

Current: 137.0  
 Upside/Downside: 0.7% above current

| Valuation Multiples | 23   | 24E  | 25E  |
|---------------------|------|------|------|
| P/E (x)             | 41.7 | 34.2 | 31.3 |
| P/B (x)             | 8.7  | 7.8  | 7.0  |
| ROE (%)             | 20.2 | 22.1 | 21.6 |

**Major Shareholders % Ownership**

|                                      |      |
|--------------------------------------|------|
| Al Subaie Mohammed Sultan Hammed     | 17.5 |
| Al Subaie Nasser Sultan Fahad        | 17.5 |
| Al-Saleem Suleiman Muhammad Suleiman | 17.5 |

**Price Performance 1M 3M YTD**

|                  |       |       |       |
|------------------|-------|-------|-------|
| Absolute         | 11.6% | 13.2% | 22.5% |
| Relative to TASI | 14.3% | 10.1% | 18.2% |

**Earnings**

| (SARmn)          | 2023  | 2024E | 2025E |
|------------------|-------|-------|-------|
| Revenue          | 2,706 | 3,103 | 3,505 |
| Revenue growth   | 16%   | 15%   | 13%   |
| Gross profit     | 1,313 | 1,492 | 1,641 |
| Gross margin     | 49%   | 48%   | 47%   |
| Operating profit | 748   | 910   | 990   |
| Op. margins      | 28%   | 29%   | 28%   |
| Net profit       | 658   | 801   | 875   |
| Net margin       | 24%   | 26%   | 25%   |
| EPS              | 3.29  | 4.01  | 4.38  |
| DPS              | 1.75  | 2.13  | 2.33  |
| Payout ratio     | 53%   | 53%   | 53%   |
| P/E              | 41.7x | 34.2x | 31.3x |
| RoE              | 20.2% | 22.1% | 21.6% |

Source: Company data, Al Rajhi Capital

# Mouwasat

## Price hikes to offset cost pressure

Despite Q4 being a moderate quarter in terms of seasonality in 2023 for most operators, Mouwasat reported solid topline growth in Q4 2023 and outgrew its Riyadh-based peers. We noticed that the Riyadh based operators (ex-Saudi German) faced some weakness in Q4 in terms of seasonal impact as the sequential growth was only 3%, however, for Mouwasat the sequential growth in topline was 21%. In our view, this could be due to its higher presence in the eastern region, that has relatively more expats, while the Riyadh based operators are more geared towards local. Thus, the seasonality pattern is different for Mouwasat and its peers. To put things into perspective, sequential growth in Q3 for Mouwasat was just 2%, while for its Riyadh-based peers it was 9%. Additionally, in Q4 for Mouwasat, there could have been positive impact from change in terms for Aramco patients, from per capita to fee for service. As per the company, the company was expecting positive benefit of 10% improvement in revenues per patient starting November 2023. At the moment, we do not have clarity on the pricing improvement in Q4 2023. Thus, we would be cautious to extrapolate Q4 earnings for entire 2024. In our view, Q1 2024 earnings could be sequentially down despite improvement in pricing for insurance clientele and opening up of Madina LTC facility. We estimate Q1 revenue to decline by almost 2% Q-o-Q to SAR 761 mn, but profits to improve as we consider normalized ECL provisions in Q1 (Q4 2023 operating expenses shot up on ECL provisions).

Nevertheless, 2024 as a whole is expected to witness mid-teens topline growth for the company led by price revisions from insurance and contribution from LTC facility at Madina (opened in Q1 2024) and ramp up of Dammam. We see upside risks to our revenue estimates for 2024 once we have more clarity on the impact of change in terms for John Hopkins contract, currently we are not considering any positive impact. On gross margins, we estimate some contraction related to pre-operating costs for LTC facility in Madina and ramp up at Dammam. However, we expect normalized ECL provisions in 2024 to support operating margins. Overall, we estimate net income to grow by 22% supported by better operating margins.

Post the recent rally, the stock trades at a 2024E P/E of 34x and at 31x on 2025E EPS estimates. In our view, the stock is fairly valued at the current level. Post the beat in Q4 numbers on topline and expectations of improvement in net income in Q1 supported by normalized ECL provisions, we raise our target price to SAR 138/share from SAR 128/share before, but maintain neutral recommendation on the stock. Our fair value is derived through target P/E of 33x on average EPS of 2024 and 2025 (details below).

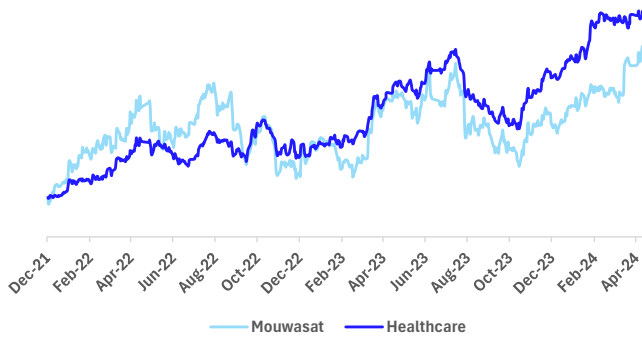
Figure 1 Summary of Q1 Estimates

| (SARmn)           | 1Q24E | 4Q23 | 3Q23 | 2Q23 | 1Q23 | 1Q24E y-o-y | 1Q24E q-o-q |
|-------------------|-------|------|------|------|------|-------------|-------------|
| Revenue           | 761   | 773  | 641  | 627  | 664  | 15%         | -2%         |
| Gross Profit      | 376   | 395  | 298  | 292  | 328  | 14%         | -5%         |
| Gross Margin      | 49%   | 51%  | 47%  | 47%  | 49%  |             |             |
| Operating Profit  | 239   | 202  | 182  | 172  | 193  | 24%         | 18%         |
| Operating Margin  | 31%   | 26%  | 28%  | 27%  | 29%  |             |             |
| Net Income        | 214   | 184  | 156  | 151  | 167  | 28%         | 16%         |
| Net Income Margin | 28%   | 24%  | 24%  | 24%  | 25%  |             |             |

Source: Company Data, Al Rajhi Capital Estimates

**Valuations:** Based on the above-mentioned catalysts (price hikes from insurance and capacity increase), we estimate the topline to grow by 15% and 13% in 2024 and 2025, respectively. We assign a P/E multiple of 33x to 2024/2025E EPS and arrive at our new target price of SAR 138/share, offering around 1% upside from the current levels and implying Neutral recommendation on the stock. The key upside risks to our assumptions are price hikes from insurance, no negative impact from change in terms of Aramco contract, etc.

Figure 2 **Mouwasat vs Healthcare Index (Rebased to 100)**



Source: Bloomberg, Al Rajhi Capital

Figure 3 **Valuations**

| Relative Valuation Multiples |              |
|------------------------------|--------------|
| Forward P/E                  | 33.0x        |
| 2024E/2025E EPS              | 4.19         |
| <b>Value per share</b>       | <b>138.0</b> |
| CMP                          | 137.0        |
| Upside/Downside              | 0.7%         |

Source: Company Data, Al Rajhi Capital

## Financials

Figure 4 Income Statement

| (SARmn)                  | 2023         | 2024E        | 2025E        |
|--------------------------|--------------|--------------|--------------|
| <b>Revenue</b>           | <b>2,706</b> | <b>3,103</b> | <b>3,505</b> |
| Y/Y%                     | 16%          | 15%          | 13%          |
| COGS                     | (1,392)      | (1,610)      | (1,864)      |
| <b>Gross profit</b>      | <b>1,313</b> | <b>1,492</b> | <b>1,641</b> |
| Y/Y%                     | 19%          | 14%          | 10%          |
| <i>Gross margin</i>      | <i>49%</i>   | <i>48%</i>   | <i>47%</i>   |
| Operating Expenses       | (448)        | (522)        | (593)        |
| ECL                      | (117)        | (60)         | (63)         |
| <b>Operating profit</b>  | <b>748</b>   | <b>910</b>   | <b>985</b>   |
| <i>Op. margins</i>       | <i>28%</i>   | <i>29%</i>   | <i>28%</i>   |
| Investments and other    | 25           | 20           | 25           |
| Financing Expense        | (46)         | (52)         | (56)         |
| <b>Profit before tax</b> | <b>727</b>   | <b>878</b>   | <b>954</b>   |
| Zakat & Tax              | (39)         | (44)         | (48)         |
| Minority Interest        | (31)         | (33)         | (36)         |
| <b>Net profit</b>        | <b>658</b>   | <b>801</b>   | <b>870</b>   |
| <i>Net margin</i>        | <i>24%</i>   | <i>26%</i>   | <i>25%</i>   |
| EPS                      | 3.29         | 4.01         | 4.35         |

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

| (SARmn)   | 2023      | 2024E      | 2025E      |
|---|-----------|------------|------------|
| Cash Flows from Operating Activities              | 814       | 898        | 1,054      |
| Cash Flows from Investing Activities              | (475)     | (494)      | (796)      |
| Cash Flows from Financing Activities              | (434)     | (300)      | (184)      |
| Change in Cash                                    | (95)      | 104        | 75         |
| <b>Cash &amp; Cash Equivalents at End of year</b> | <b>49</b> | <b>153</b> | <b>228</b> |

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

| (SARmn)                              | 2023         | 2024E        | 2025E        |
|--------------------------------------|--------------|--------------|--------------|
| Cash & Cash Equivalents              | 49           | 153          | 228          |
| Receivables, Net                     | 1,154        | 1,334        | 1,472        |
| Inventory                            | 197          | 247          | 311          |
| Other                                | 218          | 218          | 218          |
| <b>Total Current Assets</b>          | <b>1,618</b> | <b>1,953</b> | <b>2,229</b> |
| Fixed Assets                         | 3,046        | 3,295        | 3,806        |
| Other                                | 244          | 255          | 265          |
| Right-of-use asset                   | 20           | 20           | 20           |
| Intangibles                          | 37           | 37           | 37           |
| <b>Total Non-current Assets</b>      | <b>3,347</b> | <b>3,606</b> | <b>4,127</b> |
| <b>Assets</b>                        | <b>4,965</b> | <b>5,558</b> | <b>6,356</b> |
| Trade payable                        | 232          | 291          | 366          |
| Others                               | 329          | 329          | 329          |
| Short-term Debt                      | 266          | 106          | 0            |
| Short-term lease liabilities         | 4            | 4            | 4            |
| <b>Total Current Liabilities</b>     | <b>831</b>   | <b>730</b>   | <b>698</b>   |
| Long-Term Debt                       | 500          | 787          | 1,172        |
| Long-term lease liabilities          | 19           | 19           | 19           |
| Other                                | 188          | 188          | 188          |
| <b>Total Non-current Liabilities</b> | <b>707</b>   | <b>994</b>   | <b>1,379</b> |
| <b>Total Owners Equity</b>           | <b>3,427</b> | <b>3,835</b> | <b>4,278</b> |
| <b>Total Liabilities</b>             | <b>4,965</b> | <b>5,558</b> | <b>6,356</b> |

Source: Al Rajhi Capital estimates

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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