Mouwasat Medical Services Co

Healthcare : Industrial
MOUWASAT AB: Saudi Arabia
5 April 2023

US$6.341bn	47.49%	US$5.22mn
Market Cap	Free Float	Avg. Daily Volume

Target price	224.00	5.4% below current
Current price	237.20	as at 05/04/2023

Existing rating

Underweight | **Neutral** | Overweight

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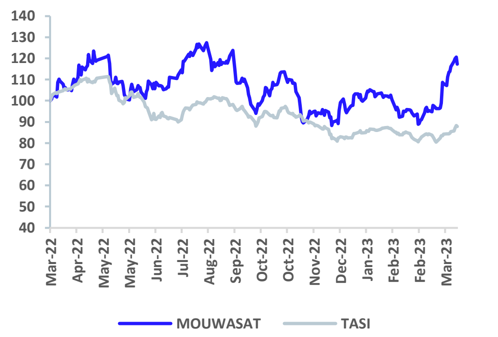
Performance (Rebased to 100)



Earnings

(SARmn)	2022A	2023E	2024E
Revenue	2,334	2,633	2,919
Revenue growth	8.9%	12.8%	10.9%
Gross profit	1,099	1,245	1,355
Gross margin	47.1%	47.3%	46.4%
Operating profit	663	753	827
Op. margins	28.4%	28.6%	28.3%
Net profit	599	665	736
Net margin	25.7%	25.3%	25.2%
EPS	5.99	6.65	7.36
DPS	3.00	3.00	3.25
Payout ratio	50.1%	45.1%	44.1%
EV/EBITDA	28.8x	25.2x	22.8x
P/E	39.6x	35.6x	32.2x
RoE	21.7%	21.4%	21.1%

Source: Company data, Al Rajhi Capital.

Mouwasat Medical Services Co.

Maintain neutral, target price of SAR224/sh

Mouwasat Medical Services Co (Mouwasat) has a notable track record of maintaining strong topline growth (over 12% average growth for more than a decade) along with one of the best margins (gross margins around 47%) in the industry. This enviable track record has helped the company to generate strong shareholder returns over the years. Given the strong prospects for the healthcare sector, Mouwasat along with other key players, are expanding their capacity notably. By the end of 2025, total beds are expected to increase by almost 40% from 1600 beds currently to over 2200 beds. This should ensure the topline growth to be healthy going forward. However, rising manpower costs, inflation related to medical equipment/construction and higher interest expense is expected to weigh on the margins. Further rising competition in the sector could limit the ability of the company to offset the cost pressure through price increases. Further, as the sector moves more towards insurance clientele, the sector in general will have to spend more on manpower, digitisation, modern layout to improve the patient experience. In our view, all these factors could weigh on the margins of Mouwasat. For 2023e, we expect margins to be resilient as the company would benefit from better utilisation levels, however, as the company gets into the capex mode and cost pressure start reflecting more notably, the gross margins could decline to between 44-45% in the medium term. Nevertheless, we believe 2023e as well as 2024e should see low double-digit net income growth supported by strong topline. We value the company at a P/E multiple of 32x on our blended average EPS of 2023/2024e to arrive at our target price of SAR 224/share (earlier: SAR 222/share), implying a slight downside of 5.4% from the current levels. Thus, we maintain our neutral recommendation on the stock.

Q1 2023 and FY 2023 results- For Q1 2023, we expect revenues to grow by 13% y-o-y supported by newly opened facilities (Dammam and Madinah) and improved pricing. However, we expect net income to grow by just 10% despite better operating margins (29.7%, +150 bps y-o-y) primarily due to sharp jump in interest expenses. For the year as a whole, we estimate topline to grow by 13% y-o-y and net income to grow by 11% supported by better utilisation, higher pricing, as well as additional beds that would be opened at Dammam (100 beds) and New Madinah (120 beds). For FY 2023, we expect operating margins to average around 28.6% lower than Q1 2023 due to cost pressure related to opening of additional beds.

Figure 1 **Mouwasat Medical Services Q1 2023e Earnings**

(SARmn)	Q1 2023e	Q4 2022	Q1 2022	% chg q-o-q	% chg y-o-y
Revenue	640	660	567	-3%	13%
Gross Profit	306	326	268	-6%	14%
Gross Margin	*48%*	*49%*	*47%*	*NA*	*NA*
Operating Profit	190	209	160	-9%	19%
Operating Margin	*30%*	*32%*	*28%*	*NA*	*NA*
Net Profit	165	185	150	-11%	10%
Net Margin	*26%*	*28%*	*26%*	*NA*	*NA*

Source: Company Data, Al Rajhi Capital

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Valuations: We value Mouwasat at a P/E multiple of 32x based on its EPS for 2023/2024 (blended average). Increased healthcare expenditure in KSA, strong expansion plan in place, contracts with MoH and price increases shall aid revenue growth in the coming years. We believe Mouwasat should trade above its historical 5 year average multiple of 27x, but below Habib, Dallah and Hammadi (average 38x) given that the former is more focussed on the eastern part of the country and have limited growth plans in Riyadh. We slightly raised our target price to SAR 224/share (previous: SAR 222/share) and maintain our neutral recommendation on the stock.

Figure 2 **Valuations**

Relative Valutaion Methodology	
Forward P/E	32.0x
Avg 2023e-2024e EPS	7.01
value per share	***224***
CMP (22 06 2022)	*237*
upside/(downside)	***-5.4%***

Source: Company data, Al Rajhi Capital

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