

MCGS Alert – 1Q2021 Profit Dips Below Forecast Due to Lower Revenue; Retain TP & MP

- **MCGS posted 1Q2021 net income of QR21.8mn, up 5.4% YoY but down 39.2% QoQ, vs. our net income estimate of QR27.1mn.** We were expecting a flattish operational performance YoY and a higher bottom-line growth in the lack of 1Q2020's QR4.8mn of provisions which depressed 1Q2020 results. EPS amounted to QR0.08 in 1Q2021 as compared to QR0.07 in 1Q2020.
- **Lower 1Q2021 revenue vs. 4Q2020 and 1Q2020 filtered all the way down the P&L, resulting in a lower EBIT and the net income deviation vs. our estimates.** The company recorded QR123.9mn in 1Q2021 operating income (revenue), falling 4.9% YoY and 4.4% QoQ (variance: -3.8%), which may be due to the COVID-19 malaise as well as a c.1% decline in Qatar's population. With operating expenses retreating a mere 2.4% to QR76.4mn (deviation: -0.9%), MCGS recorded QR47.5mn in gross profits, falling 8.7% YoY/ 11.7% QoQ. Consequently, gross margin was down YoY/QoQ at 38.3% in 1Q2021 vs. 39.9% in 1Q2020 and 41.5% in 4Q2020. Medication and surgical costs rising from QR21.8mn in 1Q2020 to QR23.1mn in 1Q2021 and doctor's charges increasing from QR6.3mn to QR7.1mn (despite lower revenue) over the same period, were the major contributors to the gross margin decline.
- **On the other hand, 1Q2021 G&A fell by 6.0% YoY in line with our estimate (deviation: 4.2%),** as a result of across-the-board declines in many cost items. However, mainly due to the lower revenue, 1Q2021 EBIT was down 11.2% YoY/30.0% QoQ.
- **We continue to rate MCGS a Market Perform and may revise our estimates and TP after the conference call.** 2Q2021 performance of MCGS is likely to be adversely impacted from the recent Cabinet decision to stop providing medical services in private health facilities, except for emergency cases. We remind investors that Medicare's 2Q2020 results were temporarily affected from similar measures; however, if history repeats itself, this delayed demand should positively impact Medicare's 3Q2021 results much as it did in 3Q2020. We note despite these restrictions last year, Medicare managed to increase its net income by 9.3% in 2020; therefore, we think the possible negative impact of restrictions is likely to be compensated over 3Q and 4Q. 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 does not include the prospects of the recently announced mandatory health insurance coverage for expats/tourists on the company. This is because specific program details, such as the quantitative inputs, including the coverage of basic health insurance plan to be endorsed by the Government for different segments of the workforce and the tourists, are yet to be announced. However, this time, the approved draft law includes tourists visiting Qatar as well, which may bring further upside to our price target. Until details of these plans become clear, we anticipate MCGS shares to maintain their volatility.

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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