



**US\$0.782bn** Market cap  
**9%** Free float  
**US\$14.81mn** Avg. daily volume

Target price **80.00** 22.4% over current  
 Current price **65.37** as at 19/10/2014

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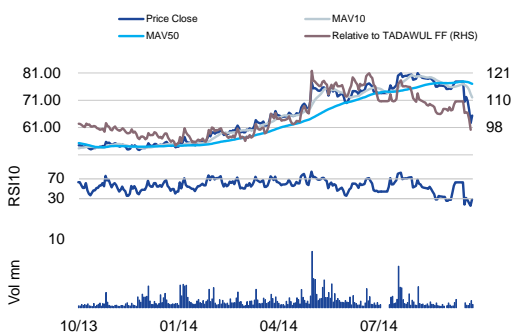
**Existing rating**  
**Underweight** **Neutral** **Overweight**

## National Medical Care Below expectations

### Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

### Performance



Source: Bloomberg

### Earnings

| Period End (SAR) | 12/14E | 12/15E | 12/16E | 12/17E |
|------------------|--------|--------|--------|--------|
| Revenue (mn)     | 759    | 952    | 1,116  | 1,241  |
| Revenue Growth   | 29.5%  | 25.4%  | 17.2%  | 11.2%  |
| EBITDA (mn)      | 165    | 192    | 232    | 253    |
| EBITDA Growth    | 33.8%  | 16.5%  | 21.1%  | 9.0%   |
| EPS              | 2.67   | 3.22   | 3.98   | 4.46   |
| EPS Growth       | 19.8%  | 20.5%  | 23.7%  | 12.0%  |

Source: Company data, Al Rajhi Capital

### Valuation



Source: Company data, Al Rajhi Capital

NMCC's Q3 2014 net income came in at SAR20.4mn, below our expectation of SAR27mn, mainly due to an increase in depreciation expense. This expense is related to capitalization of fixed assets, beginning this quarter, of its recently expanded National hospital. As a result, NMCC reported only a modest 8.5% y-o-y increase in net income and a 4% y-o-y growth in operating profit. While revenues have not yet been reported, the company reported a strong 34% y-o-y growth in gross profit, in line with our estimates. We await complete financials before we revise our estimates. For now, we continue to remain Neutral on NMCC with a target price of SAR80 per share.

| Earnings vs our forecast | Above    | In Line          | Below       |
|--------------------------|----------|------------------|-------------|
| <b>Likely impact:</b>    |          |                  |             |
| Earnings estimates       | Up       | No Change        | <b>Down</b> |
| Dividend estimates       | Up       | <b>No Change</b> | Down        |
| Recommendation           | Upgrade  | <b>No Change</b> | Downgrade   |
| Long term view           | Stronger | <b>Confirmed</b> | Weaker      |

- **Revenues:** The company is yet to disclose revenue and KPIs. Gross Profit at SAR32.3mn increased by 34% y-o-y, in line with our expectations. We believe that a strong gross profit growth implies similar top-line performance as well, as seen in the past few quarters. This strong growth, we believe, is attributed to its recent hospital expansion, launched at the start of the year.
- **Operating income:** While gross profit growth was strong, operating income came in at SAR18.1mn, below our expectation of SAR27mn, translating to a moderate 4% y-o-y growth. This was mainly due to higher depreciation expenses, as the company started depreciating the capitalized fixed assets of the new hospital expansion from this quarter. Profit margins continue to be a concern for the company as seen in the past. NMCC has the lowest operating margins among the four listed healthcare players in Saudi Arabia.
- **Net profit:** In line with the decline in operating profit due to higher depreciation expense, net profit came in at SAR20.4mn (+8.5% y-o-y increase) below our expectations of SAR27mn.
- **Accounts receivables:** As per the company, accounts receivable increased due to application of a new automated system on the 1st of April 2014. This resulted in delayed collection of receivables from companies and hence led to an increase in accounts receivables.
- **Valuation:** We will revisit our estimates once the detailed financials are published. For now, we continue to remain Neutral on the stock with a target price of SAR80 per share.



## Disclaimer and additional disclosures for Equity Research

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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"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 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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