National Medical Care Co.

One-offs drive earnings outperformance– Maintain Overweight

Rating: Overweight | 12M Target Price: SR 231

February 27, 2025

Market Data

Last Price (SR)*	172
Target Price (SR)	231
Upside / Downside (%)	34
Market Cap (mn) (SR/USD)	7,714/2,057
52 week High / Low (SR)	228/150
12-month ADTV (mn) (SR/USD)	23/6
YTD Return (%)	2.9
Bloomberg Code	CARE AB

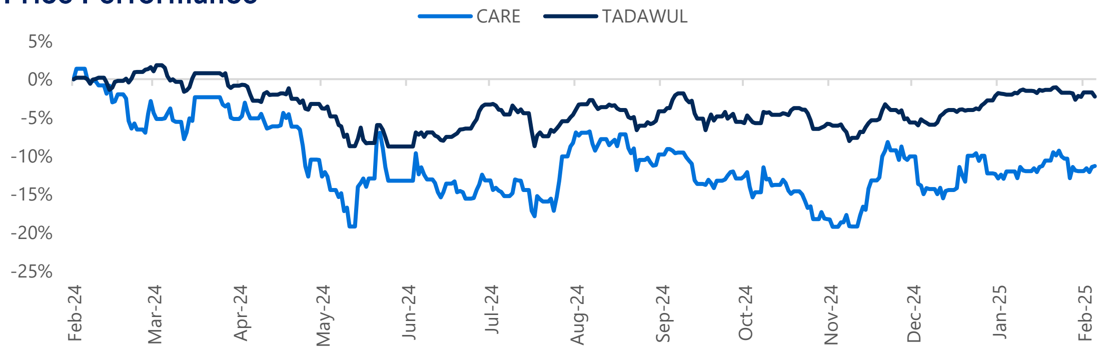
*last price as of 26 Feb 2025

Valuations	2024A	2025F	2026F	2027F
Net Income (SR)	298	374	480	499
EPS (SR)	6.6	8.3	10.7	11.1
PER (x)	25.8	20.6	16.0	15.4
PBV (x)	4.7	4.2	3.7	3.3
DPS (SR)	.	4.3	5.3	5.5
D/Y (%)	.	2.5	3.1	3.2
RoE (%)	19.3	21.5	24.4	22.6

Financials (SR mn)	4Q24A	4Q24E*	Var (%)	4Q23A	YoY (%)	3Q24A	QoQ (%)
Revenue	373	402	*-7*	300	*24*	326	*14*
Gross Profit	124	137	*-9*	107	*16*	112	*10*
Operating Profit	89	96	*-7*	51	*56*	71	*25*
Net Income	87	63	*39*	63	*38*	60	*46*
EPS	1.9	1.4		1.4		1.3	
Ratios			**Var (bps)**		**YoY (bps)**		**QoQ (bps)**
Gross Margin (%)	33.2	33.9	*-78*	35.6	*-239*	34.4	*-118*
Operating Margin (%)	23.9	23.8	*-9*	19.0	*485*	21.8	*208*
Net Income Margin (%)	23.4	15.6	*781*	21.2	*225*	18.4	*502*

*anbc estimates

Price Performance



Source: Tadawul, Bloomberg and anbc research

National Medical Care Co. (CARE AB) reported a net profit of SR87mn in 4Q24 (EPS: SR1.9), up 37% YoY and 46% QoQ. Profitability growth was primarily driven by higher operating revenue (aided by provision reversals related to legal cases) and below the line items (Zakat assessment finalization for prior years), which was partially offset by compression in gross margins. Earnings were higher than consensus estimate of SR71mn and our estimate of SR63mn.

- Revenue during the quarter grew 24% YoY to SR373mn primarily from higher patient count (up 36% YoY in 4Q24 to 238k), in addition to higher contribution from Chronic Care Hospital (acquired in Nov'23) and Al Salam Hospital (acquired in 4Q24). On a sequential basis, revenue improved 14% QoQ supported by Al Salam Hospital and higher patient traffic in both in-patient (+32% QoQ to 7.1k) and out-patient segments (+35% QoQ to 231k).
- Gross margins deteriorated 239bps to 33.2% in 4Q24 YoY driven by purchase price allocation adjustment for Chronic Care and expansion-related costs resulting from higher payroll costs and launch of the mental health platform.
- Operating profit increased 73% YoY in 4Q24 driven in part by the higher patient traffic/revenue as well as significant reversal of provisions for certain legal cases that were deemed no longer necessary based on the advice of the company's legal team. This comes despite increase in ECL provisions during the same period which are expected to be reversed in 1H25 as settlements progress, per company announcement.
- Net profit increased 38% YoY and 46% QoQ primarily due to provision reversals linked to Zakat assessments by Zakat, Tax and Customs Authority (ZATCA). In 4Q24, the company reversed provisions amounting to SR 29mn following the finalization of its Zakat assessment for the years 2019-2022.
- We maintain our Overweight stance on Care with a target price of SR231/share. Earnings in 4Q24 exceeded expectations primarily due to one-offs despite compression in gross margins. With majority of the expansion projects completed (expansion of Malaz branch, launch of mental health facility and acquisition of Al Balad and Haram branches) and Al Salam Hospital nearing breakeven as of Dec'24, we expect gross margins to recover in 2025. Care's execution of its expansion pipeline remains key to our investment thesis. From a strategic perspective, the company is planning to expand its presence in the A+ insurance patient segments, while from an operational perspective, the company has increased its bed capacity by 72% YoY to 1,128 in 2024 through both organic and inorganic expansions with bed occupancy reaching nearly 80% in 4Q24. We expect EPS to reach SR8.3 in 2025, which leaves Care trading at a 2025e P/E of 20.6x and P/B of 4.2x while we highlight gross margin compression as a key risk to our estimates.

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