Riyad Capital
الرياض المالية

June 07, 2023

Mouwasat Medical Services Co.

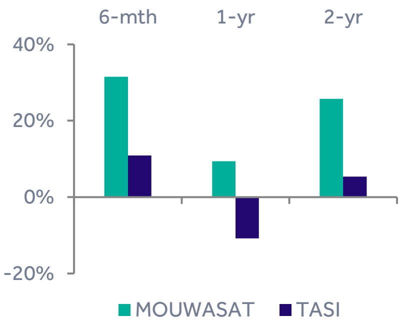
Initiating Coverage Report

Rating	Neutral
12- Month Target Price	SAR 254

Price as on June-07, 2023	SAR 242.6
Upside to Target Price	4.7%
Expected Dividend Yield	1.4%
Expected Total Return	6.1%

Market Data

52 Week H/L	SAR 259.4/173.2
Market Capitalization	SAR 24,260 mln
Shares Outstanding	100 mln
Free Float	47.5%
12-Month ADTV	100,438
Bloomberg Code	MOUWASAT AB



Volume-Driven Growth

Valuation at SAR 25.4 bln (SAR 254.0/share)

Mouwasat's growth is expected to be led by its expansion plans as well as structural demand drivers. We believe higher patient volumes across the network would drive topline. Mouwasat's leadership position and attractive product offering in the Eastern region will support the company to maintain healthy volume momentum in the region. In addition, a private insurance plan for Saudi public employees is on the horizon, which has the potential to transform public healthcare infrastructure in the Kingdom. Our SAR 25.4 bln (SAR 254 per share) valuation is derived from a combination of Discounted Cash Flows and Price to Earnings multiple.

Private Healthcare Sector Poised for Expansion

Macro and sector dynamics for healthcare in the Kingdom are fundamentally favorable. KSA's population grew from 29.2 mln in 2012 to 32.2 mln by 2022. 63% of Saudis are under the age of 30 with an average age of 25, highlighting the young population. In addition, life expectancy increased from 73.8 years in 2010 to 75.5 years in 2022. Life expectancy is likely to increase further to 79.6 years by 2050. Foreigners represent almost 42% of the total population at 13.4 mln and depend on private healthcare.

Best-in-Class Margins, Volumes to Lead Growth

The Company plans to expand in the coming years and has recently completed the Dammam Hospital expansion. Three new hospitals are expected between 2024E and 2027E (1 in Central region and 2 in Western region), which would raise bed capacity by +58% to 2,341 beds and clinics capacity by +33% to 744 clinics. Revenues are likely to grow at a CAGR of +8.0% to SAR 3,688 mln by 2027E while minimal gross margin expansion will continue on the back of efficiencies. We forecast net profit to rise at a CAGR of +8.4% to SAR 982 mln through 2027E. Mouwasat already boasts best-in-class margins with gross margins at 47% versus 34% average for other listed hospitals.

Consistent Dividends, Key Risks

Dividend payout has been consistent over the last three years, in the range of 45% to 50%. Moving forward, we expect similar payouts with dividends of SAR 3.50 in 2023E, SAR 3.75 for 2024E and rising to SAR 4.75 per share in 2027E. Higher operational costs, aggressive competitors in the new regions it is entering and dependence on Insurance patients are some of the risks that Mouwasat faces.

Table 1: Key Financials (2021-2027E)

SAR mln	2021	2022	2023E	2024E	2025E	2026E	2027E
Income Statement							
Revenues	2,144	2,334	2,721	2,905	3,096	3,390	3,688
Gross Profit	996	1,099	1,278	1,372	1,460	1,604	1,746
EBIT	622	663	772	830	883	972	1,058
Net Profit	578	599	711	764	816	900	982
Key Ratios (%)							
Gross Margin	46.4%	47.1%	47.0%	47.2%	47.2%	47.3%	47.3%
EBIT Margin	29.0%	28.4%	28.4%	28.6%	28.5%	28.7%	28.7%
Net Margin	27.0%	25.7%	26.1%	26.3%	26.3%	26.5%	26.6%

Source: RC

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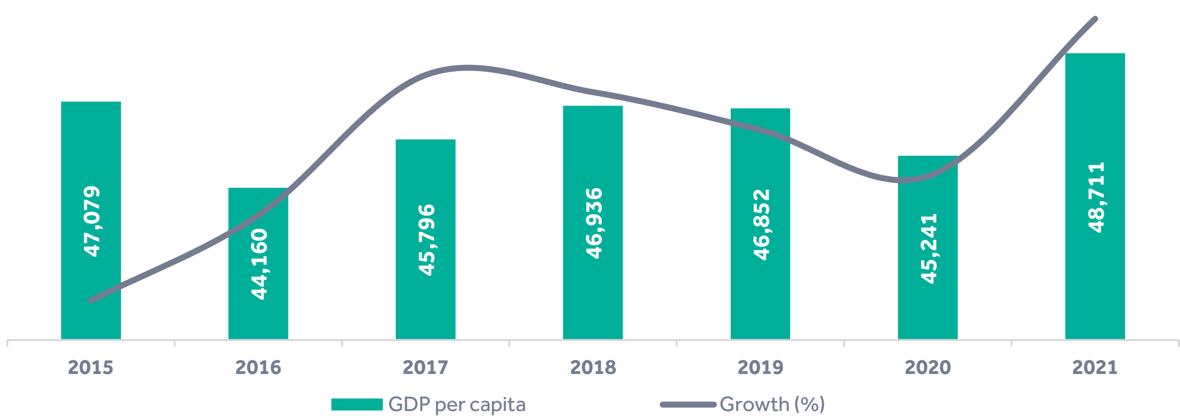
Macro and Sector Overview

GDP per Capita in PPP terms Rising

Saudi Arabia GDP per capita in PPP terms has generally been rising since 2015, except for declines in 2016 and 2020, which were primarily due to exogenous events. GDP per capita in PPP increased from USD 44,160 mln in 2016 to USD 46,852 mln in 2019. However, there was a minor drop to USD 45,241 in 2020 as the COVID-19 led decline in international oil prices took effect. With the diversification of the economy, GDP per capita in PPP has started to rise again and has jumped to USD 48,711 by 2021 and expected to grow further going forward.

Exhibit 1: Saudi Arabia GDP per Capita in PPP terms (USD mln)

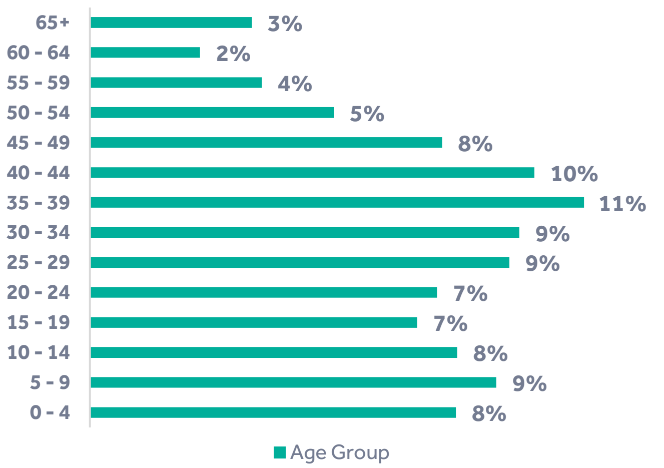


Source: RC, World Bank

Population and Life Expectancy to Grow

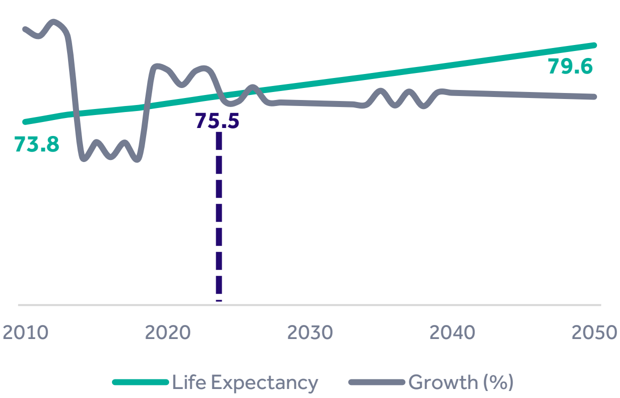
The population's specifications are underlying drivers of the sector. Age and life expectancy also play a role in shaping demand for healthcare services. Saudi Arabia's population is expected to continue expanding for the foreseeable future. During the past ten years (2012-2021) KSA total population increased by +16.8%, while the Saudi population increased by +9.3%. Total population in 2012 was 29.2 mln and reached 32.8 million by 2022, as per the latest numbers announced by the government. 63% of Saudis are under the age of 30 with an average age of 25 highlighting the young population. In addition, life expectancy rose from 73.8 years in 2010 to 75.5 years in 2022. Life expectancy is likely to increase further with the reduction of accidents and diseases, expected to reach 79.6 years by 2050.

Exhibit 2: Saudi Arabia Age Group as of Population (%)



Source: RC, World Bank

Exhibit 3: Saudi Arabia Life Expectancy



Source: RC, World Bank

Healthcare Framework Attractiveness in Kingdom

The healthcare framework in the Kingdom is designed to provide basic healthcare services for all with specialized treatment provided in both private and public hospitals.

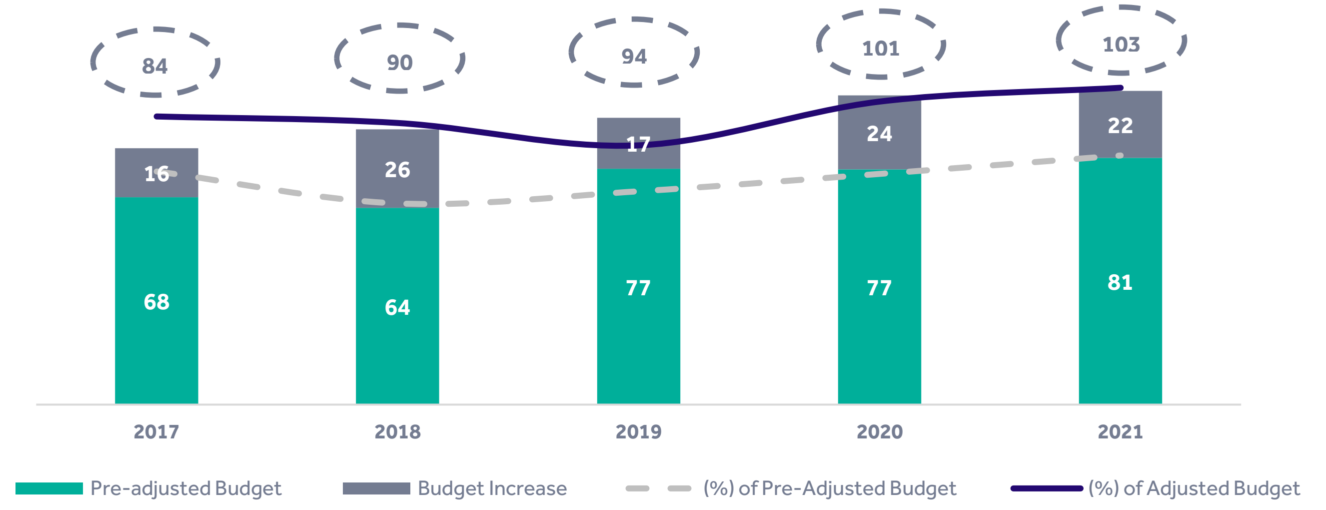
In line with Saudi Vision 2030 and its aspirations for achieving the Kingdom's potential and untapped capabilities, the Healthcare Program was established for Vision 2030 to ensure continued development of healthcare services in Saudi Arabia and focus efforts in this vital sector.

The program aims to restructure the Saudi health sector, enhancing its status and capabilities as an effective, integrated, value-based ecosystem centered on the health of the patient. Also, it aims to facilitate citizen’s access to free healthcare services and insurance. This is accomplished by guaranteeing fair and comprehensive geographical coverage across all regions of the Kingdom, expanding e-health services & digital solutions and improving the quality of healthcare.

- **Increased Private Sector Participation:** As the public sector is gradually becoming more regulated, investors in the private sector are being motivated to play a greater role in the healthcare sector. At the same time, foreign investors can now have 100% ownership in the healthcare sector.

- **Strong Public-Private Partnerships:** The government continues to invest in developing the healthcare infrastructure with various under-construction medical cities. The private sector is expected to act as an operator in the form of public-private partnerships. The annual increase in budgetary allocations for social healthcare services in Saudi Arabia sends a strong signal of potential demand as well as the government's willingness to increase allocations and its focus on improvements within the sector.

Exhibit 4: Budget Appropriations for MoH in Relation to Government (SAR bln)



Source: RC, MoH

Empowering the Private Sector

Saudi Arabia established the National Centre for Privatization (NCP) to oversee a privatization program, that targets 17 sectors. The program aims to raise private sector participation in GDP from 40% recorded in 2016 of to 65% by 2030. Moreover, around 85% of the program is planned in the form of public-private partnership projects and 15% in asset sales. Specifically, for Healthcare Sector, the program aims to raise PSP from 25% to 35% in specific areas. Similar to the overall privatization program, the majority of planned projects for the healthcare sector are in the form of PPP (for specific departments as well as whole hospitals).

Exhibit 5: Health Sector Program Focus Areas

Healthcare Sector Aims to Raise Private Sector Participation from 25% to 35%

Focus Areas		
	Operation of Hospital Services and Medical Cities	Laboratory Services
	Pharmacies	Primary, Extended and Long Term Care
	Rehabilitation	Radiology

Source: RC, NCP

Insurance Plan Drives Healthcare Sector

A private insurance plan for Saudi public employees has been set in motion with the Ministries of Commerce, Finance, Tourism and Economy and Planning, medical insurance for their staff. The likely transition within the public healthcare structure would be Saudis potentially brought under the private insurance umbrella. We can illustrate the main demand drivers and results as listed below:

- The potential transition of Saudi citizens to a private insurance scheme (Vision 2030).
- Supportive medium to long term trends in spending.
- A favorable demographic dividend stemming from the subsequent aging of the population, high share of Saudis in the population mix and urbanization trends.
- Sub-sectors driving Healthcare

Exhibit 6: Leading Sub-sectors in Healthcare and Kingdom's Plans

Leading Sub-Sectors in Healthcare

Dental Services	Digital Health	Health Insurance	Medical Devices	Pharma and Bioscience	Specialty Clinics and Ambulatory Centers
The dental care service sector is expected to grow due to an increase in dental care spending, growing penetration by insurance coverage, and increase in the per capita income.	Saudi Arabia is expected to be one of the fastest-growing digital health markets in the GCC region. The government has allocated $1.5 billion for healthcare IT and digital transformation programs.	Key growth drivers for this sector include an increase in the insured population, the gradual application of mandatory health insurance measures.	Saudi market for medical equipment has an estimated value of USD 2 billion and is growing annually at approximately +10%.	Saudi Arabia accounts for nearly 60% of the purchases for pharmaceutical products in the GCC. Its pharmaceutical market is expected to grow by +5.5% annually and reach USD 10.7 billion by 2023.	Saudi Arabia has a lack of facilities across specialty areas including gynecology, oncology, and cosmetology. It is expected that the government will use public private partnership (PPP) models to build capacity in these areas.
It is expected that KSA dental service market will grow at a CAGR of +14% for the 2022-2027E. On the back increased insurance coverage.	MOH established an e-Health strategy to utilize telemedicine to improve the accessibility and quality of care in remote areas.	Medical insurance is now a requirement to renew residency for expats, for all Saudis working in the private sector, and for tourists' visa applications.	Manufacturer of low-value commodities, such as bandages, gloves, and syringes, to a manufacturer of high-value medical products by offering financial incentives to encourage local manufacturing.	The transition to an increasingly privatized and comprehensive healthcare system will drive demand for both patented and generic medicine.	Focus on wellness and preventive care will drive investment toward non-hospital settings. It is projected that at least +5% of healthcare service spending will shift to non-hospital care settings.

Saudi Arabia Response and Plans Towards these Sectors

Source: RC

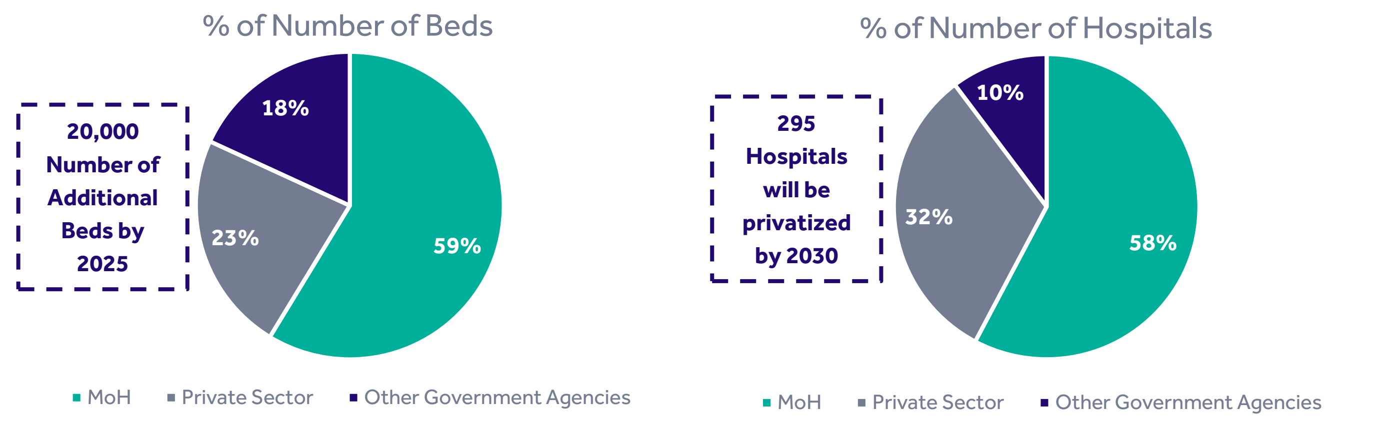
Public Healthcare Capacity Remains the Largest Pool

Currently, the healthcare sector in the Kingdom comprises three main participants:

1- **The Ministry of Health (MoH):** responsible for regulating medical procedures and services in the Kingdom, which is essential to the running of medical treatment through public hospitals.
2- **Private sector**: Caters to expatriates as well as Saudi nationals.
3- **Other government Agencies:** Represents hospitals and health centers operated by the MoH; primarily serves employees of government organizations. These include military, special forces, and other government-specific hospital services.

The Saudi government is the largest operator and provider of health services in the Kingdom through the Ministry of Health and other government agencies. The number of beds and the number of hospitals under MoH account for 59% and 58% of the Country's hospitals and beds capacity, respectively.

Exhibit 7: Healthcare Sector Capacity (%)

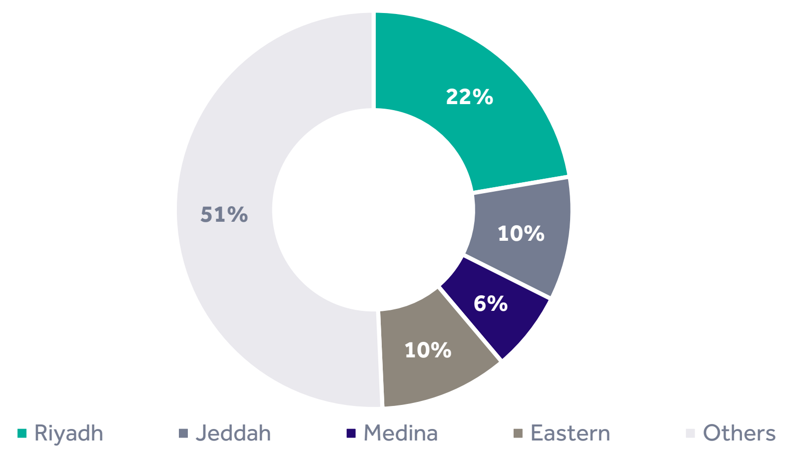


Source: RC, MoH, Mouwasat Data

Riyadh is the Dominant Player in Hospitals and Beds

In terms of number of hospitals, data from the MoH clearly shows that Riyadh has the highest number of hospitals at 111 including MoH, OGS and Private (contribute 22% of the total). This is followed by Eastern province with 52 hospitals and Jeddah with 52 hospitals. However, as with the number of beds, Riyadh and Jeddah have much bigger presence of the private hospitals as compared to other parts of the country (6,339 and 3,357 beds, respectively).

Exhibit 8: Hospitals in KSA Health Sector by Health Region (%)



Source: RC, MoH

Mouwasat Medical Services Co.

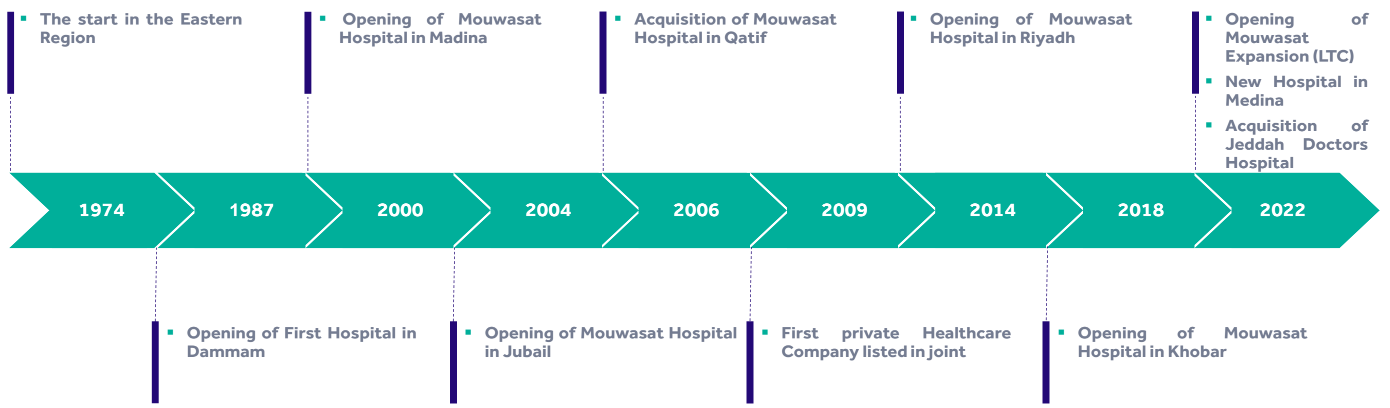
Mouwasat Medical Services has been a healthcare provider for over 40 years and is known aswas one of the first public joint stock company to be listed on the stock market (Tadawul) in healthcare. The Company's mission is to establish itself as a dominant force to be reckoned with in healthcare provision in the Middle East region, reputable and well-known for lucrative specialties namely Cardiac, Neuro, Orthopedics, Dialysis and Diabetes care.

Mouwasat is the second largest operator of private healthcare facilities in KSA, underpinned by an unmatched return profile beating that of domestic and EM peers, consistent in delivering high profitability levels even during expansion periods, and management's track record in weathering downturns, timing expansions, locating opportunities and efficiently ramping-up new assets even in competitive landscapes.

Origins

The origin of Mouwasat' s operation dates back to 1974 with the launching of Mouwasat Dispensary in Dammam - the first private medical clinic in that region. In 1979, Mouwasat undertook the management and operation of clinics in the residential area of Al-Jubail industrial city. During this period, the Company constructed its first owned comprehensive medical facility in Dammam. This is considered to be the first key project of the Company and the cornerstone which led to the establishment of other medical facilities Kingdom-wide.

Exhibit 9: Mouwasat's Timeline



Source: RC, Mouwasat Data

Best-in-Class Returns

Mouwasat has been consistent in generating best-in class returns. The management has been pro-active and disciplined with a well-thought out approach to expansions, specialties, demographics' dynamics and technology adoption as services are provided through its wide hospitals networks that are either owned or leased.

Exhibit 10: Mouwasat's Activities and Mission

Source: RC, Mouwasat Data

Mouwasat Geographical Network

The company includes a wide range of hospitals throughout the Kingdom, which are either wholly or partially owned. These hospitals include large numbers of beds and qualified equipment for patients, with the company owning the largest number of beds in the Eastern region (440 beds), including 200 beds for Specialized clinics with a Rehabilitation Center that's connected to the main hospital by tunnel. Moving forward, the company plans to expand its network in the central region, particularly Riyadh.

Exhibit 11: Mouwasat Geographic Network

Source: RC, Mouwasat Data

The company plans to expand its operations and expand its hospitals in the coming years and has recently finished its expansion of Dammam Hospital. Three new hospitals are upcoming between 2024 and 2027 (1 in Central region and 2 in the Western region). This would raise bed capacity by +58% to 2,341 beds and clinics capacity by +33% to 744 clinics. It is reasonable to expect continued growth beyond this, given the Company's track record. As a result, Mouwasat is well-placed to capitalize on sector growth. In 2022, the company announced a 51% acquisition of Jeddah Doctors Company worth SAR 102 mln.

- New hospital in Riyadh with a value of SAR 335 mln, and a bed capacity of 120 beds including 35 critical care and 40 outpatient clinics.
- Mouwasat hospital in Yanbu Industrial City at a value of SAR 465 mln and a bed capacity of 200 beds including 60 critical care and 60 outpatient clinics.

Table 2: Future Expansions of Mouwasat Hospitals

City	Region	# of Beds	# of Clinics	# of ICU	% of Ownership
Yanbu Industrial City	Western	200	60	60	**100%**
Jeddah	Western	300	64	70	**51%**
Riyadh	Central	120	40	35	**100%**
		620	**164**	**165**	

Source: RC, Mouwasat Data

Mouwasat's Subsidiaries and Associates

1. Eastern Company for Medical Services Limited

The main activity of this SAR 60 mln capital Company is the establishment of hospitals, clinics and private medical centers. Mouwasat owns 51% stake in Eastern Company for Medical Services, which in return owns Mouwasat Hospital in the city of Qatif in the Eastern Province, which is operated by medical network of the Mouwasat Company.

2. Advanced Medical Complexes Limited

This SAR 10 mln capital Company is based in the city of Dammam with its main activity being wholesale and retail trade in medical surgical devices, equipment and tools. Mouwasat owns 50% stake in Advanced Medical Complexes Company, which in return owns the center specialized in eye treatment and surgery by the name of Magrabi Eye Center located next to Mouwasat Hospital in Dammam.

Mouwasat's Major Clients

The company provides medical services to the cardholders of all insurance companies operating in the Kingdom under the umbrella of the Cooperative Health Insurance Board. It also provides services to Saudi Aramco employees and their families through a contract with Johns Hopkins. Moreover, Mouwasat provides services to a wide range of cash customers. The largest clients include:

Exhibit 12: Largest Hospital Group's Clients

Source: RC, Mouwasat Data

We would like to highlight that going forward Mouwasat is expected to be able to charge on a per-service basis rather than a fixed pre-paid fee. Management anticipates that the contract with Aramco (contributes 17% of revenues) will change from a per capita nature to a per-service nature. The management expects a higher profit margin from the per service contract. It is worth noting that most revenues are attributed to hospitals in the Eastern Region of the Kingdom, which contributed about 75% in 2022 due to the higher number of hospitals and bed capacity. The percentage of revenues contributed by Western and Central regions is approximately 25% in 2022.

Competitive Advantages

Mouwasat has been keen to adhere to a higher level of service and to compete effectively with other healthcare service providers in the Kingdom by providing good services at the lowest costs. They are also keen in providing value-added health services.

Stable Financials and Joint Cooperation Agreements

The company has maintained a stable financial position contributing to implementing its strategy and expanding its network to cover further cities in the Kingdom. Mouwasat has also entered into joint cooperation agreements with a number of international companies, organizations, hospitals, and medical centers, which have positively impacted the quality of health services provided by the group hospitals.

Introduction of Value-Added Services

Mouwasat has been striving to achieve international specifications in its day-to-day operations and contracts with experts to evaluate its operations. The company has managed to obtain multiple specialty services such as Cardiac, Neuro, Orthopedics, Dialysis and Diabetes care. As a result, value-accretive acquisitions and more hospital expansions may lead to higher average claim/patient.

Broad Client Base

The company has a broad client base that it managed to attract and retain over the past decades. Mouwasat clients network contains leading companies, such as Saudi Aramco since 1996, Saudi Basic Industries Corporation (SABIC), Saudi Arabian Airlines Company, General Organization for Social Insurance (GOSI), all insurance companies affiliated to Council of Cooperative Health Insurance, and many companies under direct contracts.

Control of Dammam Market

Saudi German and Al Habib are smaller rivals in the Eastern region with historically a much more condensed offering than Mouwasat although they do offer modern designs and a strong service mix. However, we believe the two companies are less experienced in the region which can help Mouwasat maintain its market share.

Best-in-class Profitability

Mouwasat has the best in class return profile versus domestic and EM peers. Gross margin averaged 46.3% over the last 5 years. They have been consistent in delivering higher profitability levels even during expansion periods and management's track record in weathering downturns, timing expansions, spotting opportunities and efficiently ramping-up new assets even in competitive landscapes has made Mouwasat a high-quality name to own in the Saudi healthcare space.

Key Risk and Challenges

Operational Cost

There is continuous increase in operating costs for medical facilities that aspire to achieve high level of quality in providing medical services. Mouwasat might face an increase in costs of high-tech medical systems and a decrease in the life of its use, especially due to the rapid pace of innovation and technological developments in an advanced digital world.

Entering New Regions

Mouwasat has been a major player in the Eastern region, especially Dammam, but lacks experience of operating in Riyadh. The company plans to expand aggressively in Riyadh, which is a fragmented market, and it would face tough competition from the established players such as HMG. Moreover, Mouwasat is tapping into the Yanbu healthcare market given the lack of multi-specialty facilities in the area amidst a prevalence of clinical establishment.

Dependence on Insurance Sector

The company relies mainly on the insurance segment for future growth. The company deals with many insurance companies, which is a major source and driver of revenue. The insurance segment is in turn largely led by expatriates. Any decline in the number of expatriates is a risk.

Saudi German Hospital is a More Direct Rival

The Eastern region's healthcare picture is marked by a presence of large networks and stand-alone operations with hospitals capacity exceeding 200 operating beds. The largest three medical groups in the eastern province are Almana (not listed), Mouwasat and HMG. However, given that Saudi German offerings have similarities in terms of addressable market, we believe that the new Saudi German facility in Dammam poses a greater competitive risk to Mouwasat Dammam facility compared to HMG Khobar.

Jeddah is a Highly Fragment Market

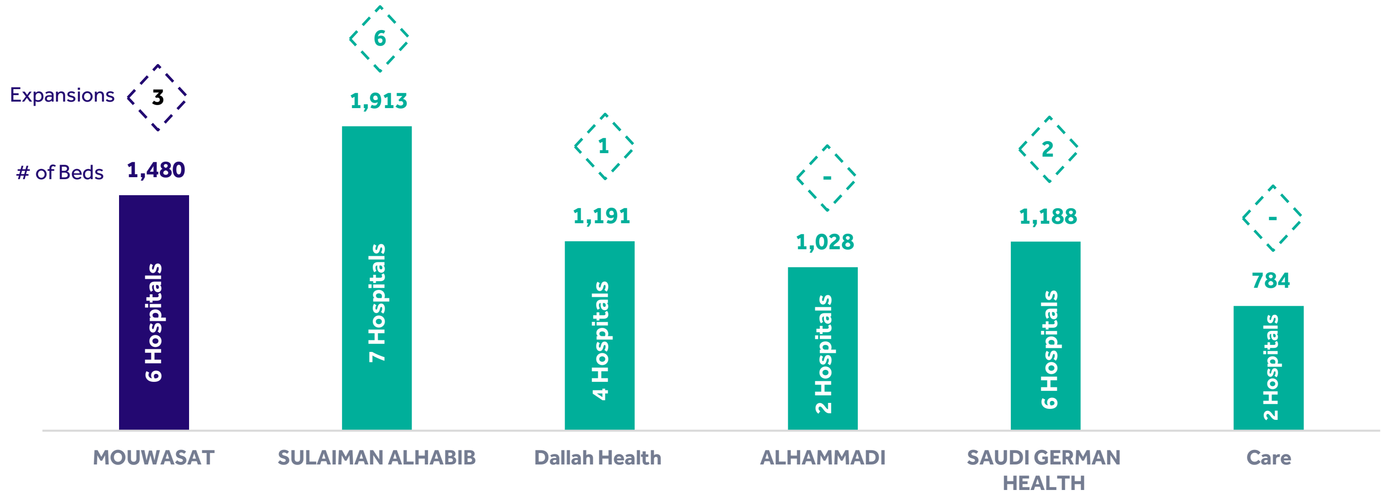
Currently the largest operator in the Western region is Dr. Soliman Fakeeh with 475 beds and 120 clinics in its Jeddah facility (expected to increase to 810 beds and 393 clinics). The listed operators do not have a strong foothold across the Western region of the Kingdom. Mouwasat operates in Medina with 120 beds and 35 clinics and plans to expand in Jeddah with 300 beds and 60 clinics. We believe that entry into areas with the presence of strong competitors would lead to challenges and difficulty in gaining market share, especially in Jeddah.

Mouwasat Market Positioning

Mouwasat' s has a reputation for offering high-quality healthcare services, especially in the Eastern region. The company has received numerous awards and recognitions for its services, including the "Best Hospital in the Eastern Province" award from the Ministry of Health in the Kingdom. Given the strong prospects for the healthcare sector, Mouwasat along with other key players, are expanding their capacity. The healthcare provider has been able to charge premium prices for its services, which has contributed to higher margins.

In terms of the number of beds, Dr. Sulaiman AlHabib Group dominates the sector. It has hospitals distributed throughout the Kingdom, particularly in Riyadh. Mouwasat has 1.480 beds as compared to 1,913 for Al Habib. We believe Riyadh has become a very competitive market and we see risk from Al Habib's upcoming projects. It is also worth noting that there are expansion plans for a group of hospitals, which we believe will support the health care sector.

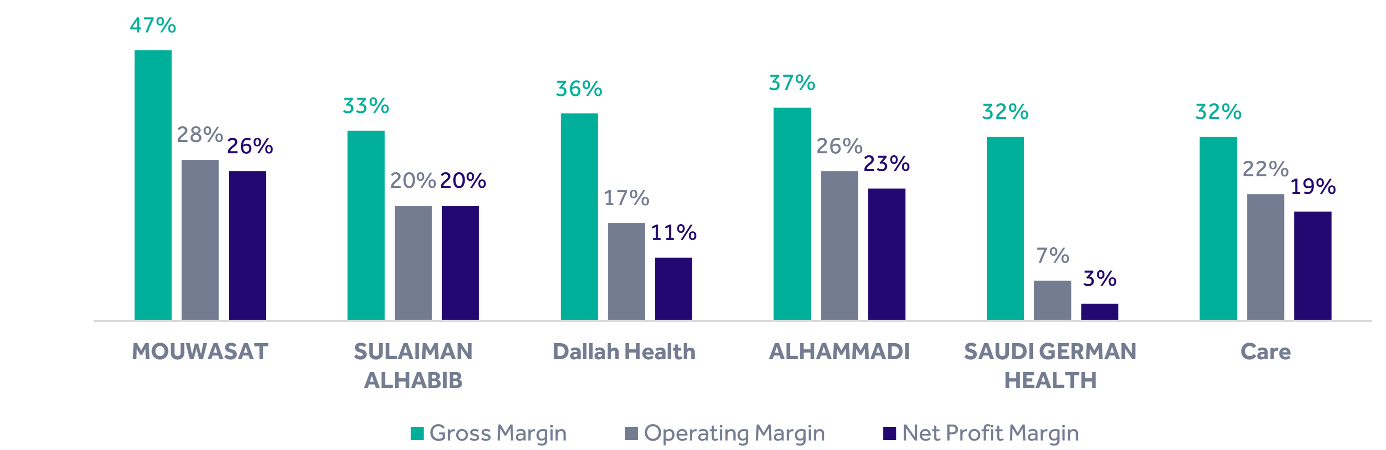
Exhibit 13: Number of Beds, Number of Hospitals and Future Expansions



Source: RC, Argaam

In term of margins, Mouwasat ranks better than peers for GM, OPM and NPM at 47.1%, 28.4% and 25.7%, respectively. The Company has a strong focus on cost management and operational efficiency. This has allowed Mouwasat to maintain a lower cost structure compared to its peers, which in turn has led to higher margins. We believe this enviable track record has helped the company to generate strong shareholder returns over the years.

Exhibit 14: Peer Margins for 2022 (%)



Source: RC, Bloomberg

Mouwasat Future Strategy

The company aims to provide distinguished services to its clients and its strategy is to cover all regions of the Kingdom. The group introduced various new medical services in the centers, such as the Heart Care Center, Fertilization, In Vitro Fertilization, and Infertility treatment and a center of genetic diseases treatment in Mouwasat Hospital in Dammam.

The group has the following objectives during the next five years:

- Increase market share by +5%
- Development of financial control system
- Providing a complementary set of priority health care services to the local community
- Obtaining and maintaining international accreditation certificates
- Providing high-quality medication dispensing services
- Expanding its service in order for the group to be the most important health care provider in the region

Mouwasat's entry into the Yanbu healthcare market is due to:

1. A lack of multi-specialty facility in the area amidst a prevalence of clinics.
2. A promising pipeline of large projects coming into the city in the next couple of years such as the Aramco/SABIC project.

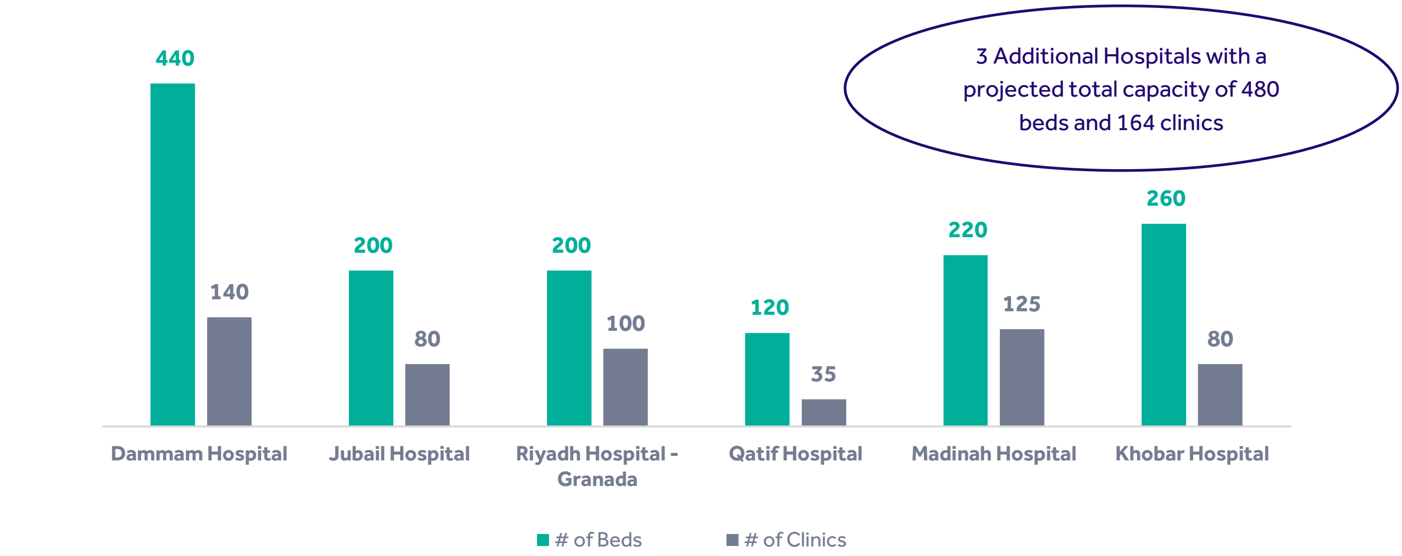
Volume driven growth strategy is reflected in its single price-list used across its six facilities and distributed to all its customers. Discounts differ from a one client to another. The insurance line generates the lowest claim/patient and cash patients are at the upper end of the spectrum while MoH and Aramco range in between those two.

Mouwasat's overall strategy is to spread its presence as one of the main providers of medical services in the private sector in the Kingdom and on continuing with the highest degree of diligence in implementing its plans and achieving its strategic goals.

Segmental & Financial Analysis

Mouwasat has a number of hospitals and clinics across the Kingdom. Its main revenue sources include inpatients and outpatients as well as a smaller portion contributed from pharmaceuticals. The Company's inpatients and outpatients' revenues are expected to go incline the back of the announced expansions.

Exhibit 15: Number of Beds and Clinics

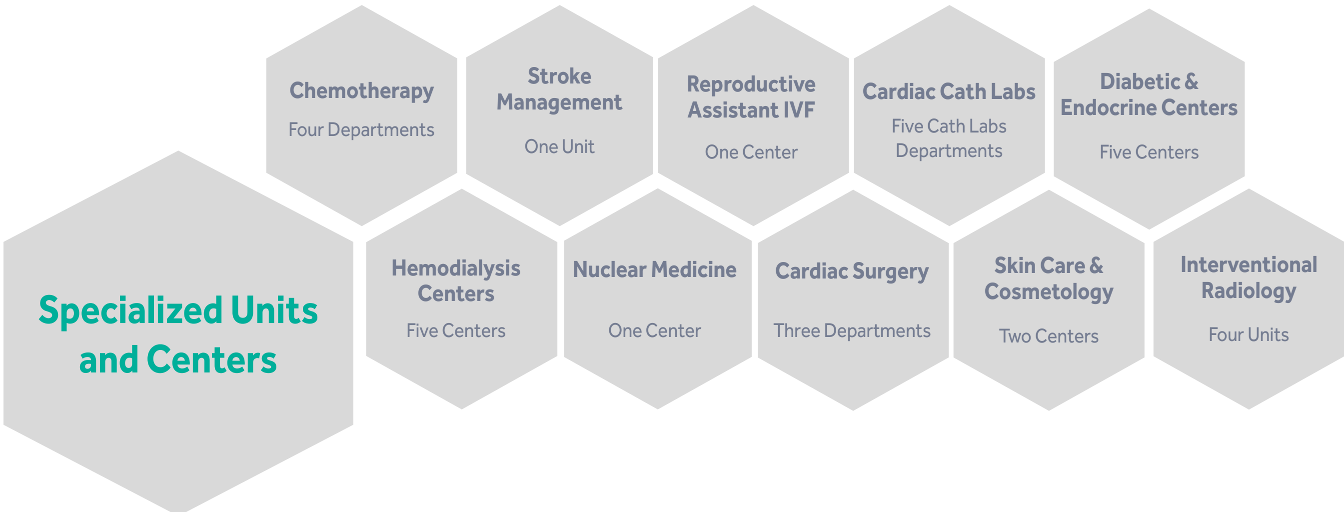


Source: RC, Mouwasat Data

Specialized Units

Mouwasat meets the requirements of patients with 9 specialized units in various fields to smooth the service of patients and provide them with the necessary care and service them with the finest technologies and laboratories. These specialized units and centers are illustrated in the exhibit below.

Exhibit 16: Specialized Units and Centers

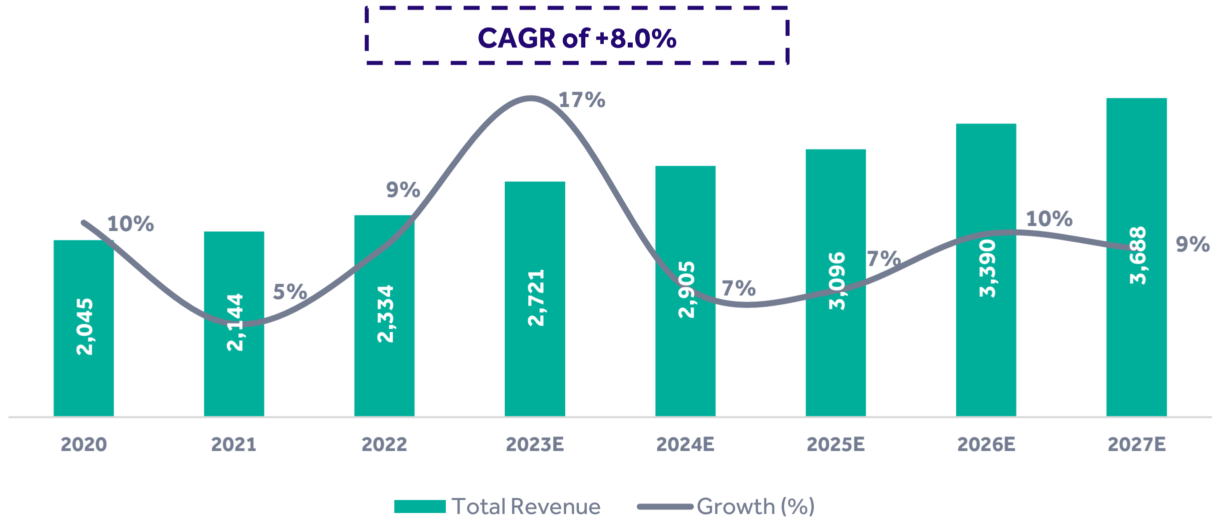


Source: RC, Mouwasat Data

Revenues Likely to Grow at a CAGR of +8.0% between 2023E-2027E

Mouwasat's revenues have grown steadily over the past years from SAR 2,045 mln in 2020 to SAR 2,334 mln in 2022. The reasons behind this continuous growth are the expansion of its operational capacity in line with the company's strategic plan for growth, the continued efficiency in operating the available assets, the continuous development of the medical systems operating in the service of the patients, the expansion of the services provided to them and the improvement of some contractual terms with the company's clients (in specific Aramco). Moreover, we expect solid growth on the back of the continued focus and development on the health sector coupled with company's future expansions. We expect a revenue CAGR of +8.0% between 2023E and 2027E to reach SAR 3,688 mln in 2027E.

Exhibit 17: Revenues Likely to grow at a CAGR of +8.0% for 2020-2027E (SAR mln)

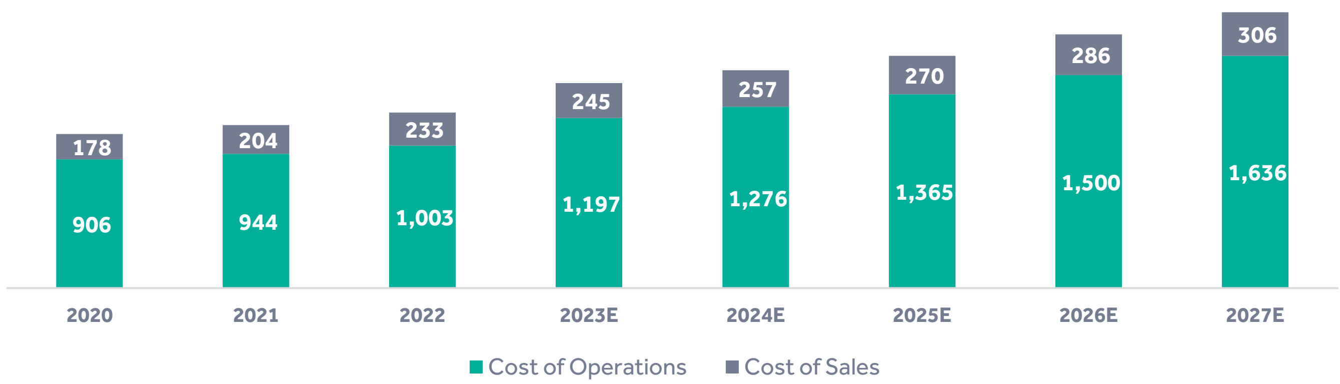


Source: RC, Mouwasat Data

Cost of Operations Comprise Majority of COGS

Mouwasat's total cost mainly comprises of cost of operations and cost of sales. The cost of operations is related to medical services provided to patients. On the other hand, cost of sales originates primarily from pharmaceutical's services. Cost of operations as percentage of medical services comprises 50% while cost of sales as a percentage of pharmaceuticals is 73%. We believe that total costs will increase on the back of upcoming expansions, which in turn may slow down and pressure margin growth. For 2023E, we expect costs of SAR 1,442 mln, increasing to SAR 1,942 mln by 2027.

Exhibit 18: Cost of Operations Comprise Majority of COGS 2020-2027E (SAR mln)

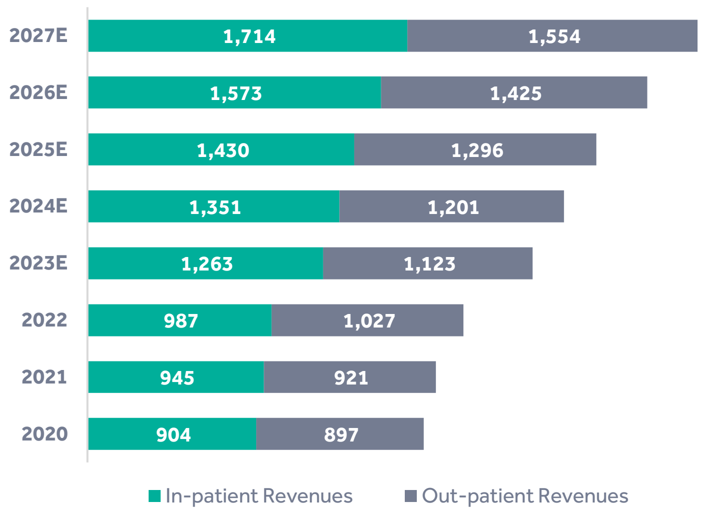


Source: RC, Mouwasat Data

Volume Driven Model with Healthy Utilization Rates

Mouwasat's focus revolves around securing a healthy flow of patients through filling existing gaps in the market and offering additional specialties, which enables the company to pass-through medical inflation costs. We believe that the number of inpatients and outpatients will increase in the coming years due to an increase in bed capacity and expansion in the regions. This is mainly underscored by a wide range of services and specialties offered in Mouwasat's facilities tied with favorable demographics and market dynamics supporting utilization rates.

Exhibit 19: inpatients and Outpatients Revenue (SAR mln)

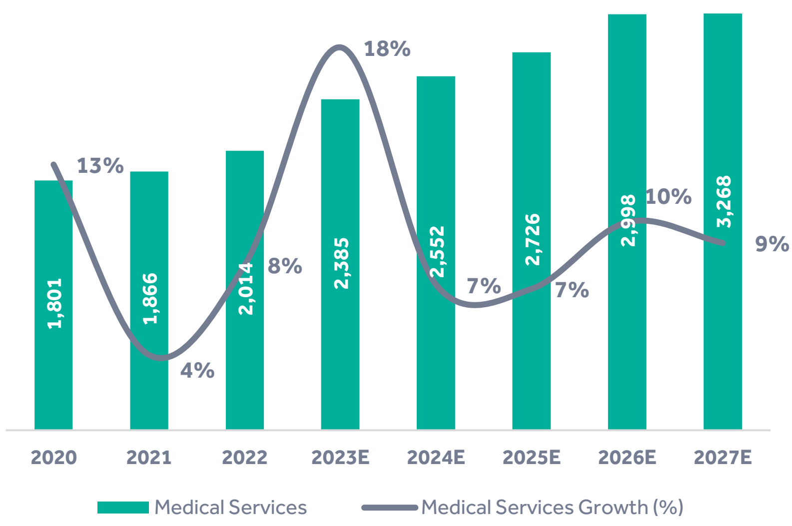


Source: RC, Mouwasat Data

Medical Services to Grow at a CAGR of +8.2%

Medical Services revenue line includes hospitals with inpatient and outpatient services and contributes 86% of total revenue. Mouwasat reported an increase in medical services of +8% Y/Y in 2022. We expect healthy growth on the back of capacity expansions with an increase of +18% Y/Y in 2023E to reach SAR 2,385 mln and gradually increasing to SAR 3,268 in 2027E.

Exhibit 20: Medical Services Revenues 2020-2027E (SAR mln)

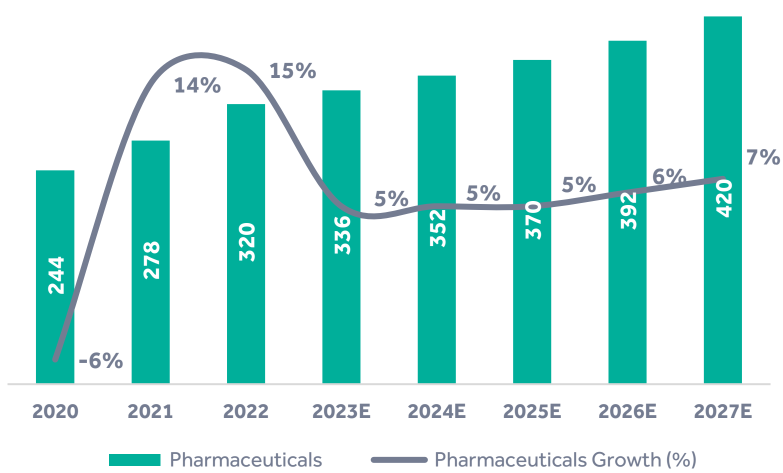


Source: RC, Mouwasat Data

Steady Rise in Pharmaceuticals

Pharmacy revenues are the next biggest category, comprising 14% of the total in 2022. The Saudi Pharma market is expected to grow at a CAGR of +5.7% until 2029E, which we have reflected in our assumptions, owing to population growth and rising demand for chronic disease treatment. The segment increased by +15% Y/Y in 2022 to SAR 320 mln. Going forward, we expect an increase of +5% Y/Y in 2023E-2025E and gradually going up to reach SAR 420 mln in 2027E.

Exhibit 21: Pharmaceuticals Revenues 2020-2027E (SAR mln)

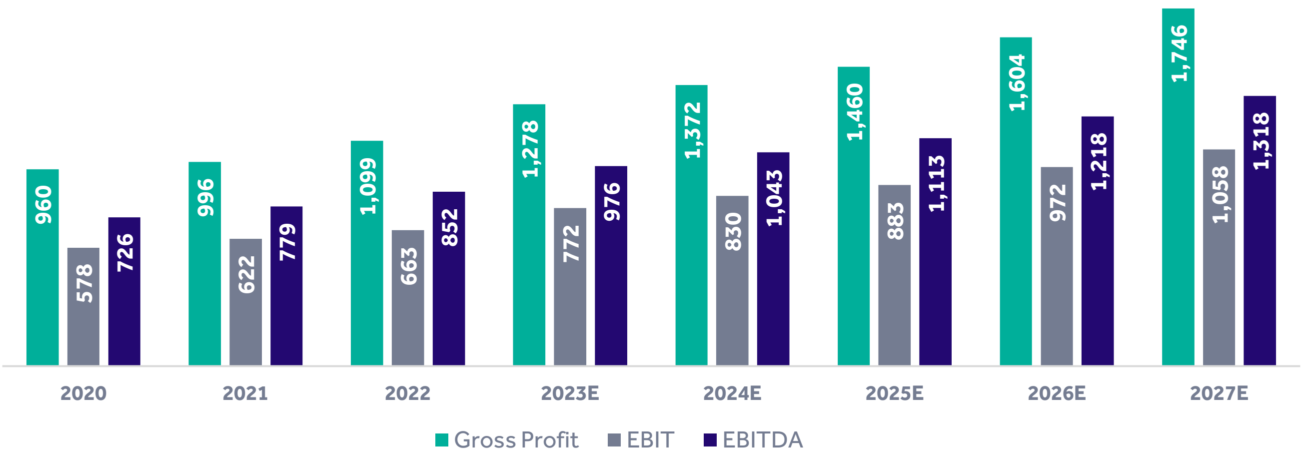


Source: RC, Mouwasat Data

Profitability Metrics Are Solid

We expect a gross profit of SAR 1,278 mln in 2023E from SAR 1,099 mln in 2022 and a further rise to SAR 1,746 mln in 2027E due to an increase in revenues and from maintaining healthy gross margins. Similarly, EBIT is forecasted at the SAR 772 mln level in 2023E from SAR 663 mln last year. Rising EBIT as well as depreciation due to new projects will raise EBITDA to SAR 1,318 mln in 2027E from SAR 852 mln in 2022.

Exhibit 22: Profitability Metrics 2020-2027E (SAR mln)



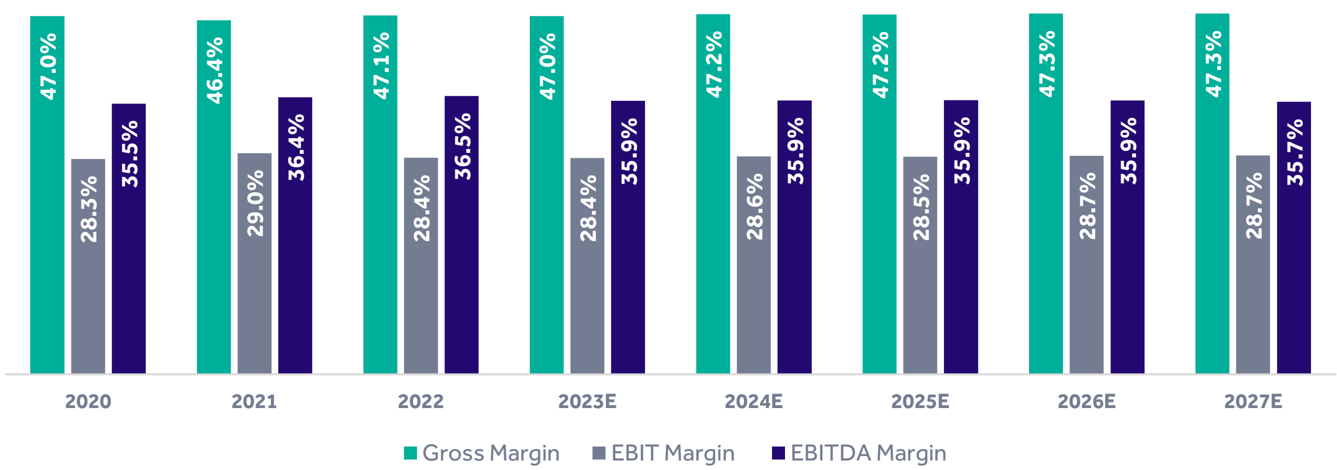
Source: RC, Mouwasat Data

Elevated Margins

Overall, we expect gross margins to slightly increase from 47.0% in 2022 to 47.3% in 2027E, However, there will be fluctuations in between as we believe gross margins will be under pressure from ramp-ups and moderate patient trends. EBIT margins are forecasted to rise from 28.4% in 2022 to 28.7% in 2027E. Rise in margins is expected to be minimal due to rising operating costs.

We expect EBITDA margins to compress from 36.5% to 35.9% in 2023E and maintain this level until 2026E. Rising depreciation along with the growth in topline due to the new planned projects in the upcoming years will maintain EBITDA margins.

Exhibit 23: Mouwasat's Profitability Margins 2020-2027E (%)

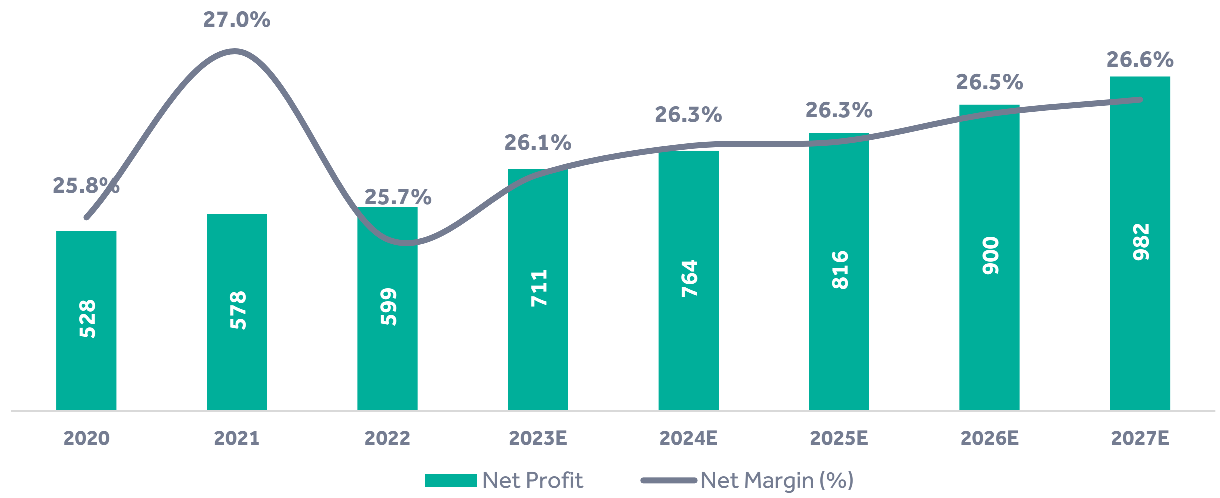


Source: RC, Mouwasat Data

Net Profit CAGR of +8.4% Between 2023E-2027E

We expect net profit of SAR 711 mln in 2023E from SAR 599 mln in 2022 and rise further to SAR 982 mln in 2027E on the back of an increase in revenues due partially to increased volumes on the back of expansions. We believe net profit will grow at a CAGR of +8.4% between 2023E-2027E, supported by the ramp-up of the new facilities. We believe these new geographical exposures will provide healthy growth supported by population trends.Net margins are forecasted to incline to 26.1% level in 2023E from 25.7% in 2022 and further to 26.6% by 2027E.

Exhibit 24: Mouwasat's Net Profit and Net Margin 2020-2027E (SAR mln)

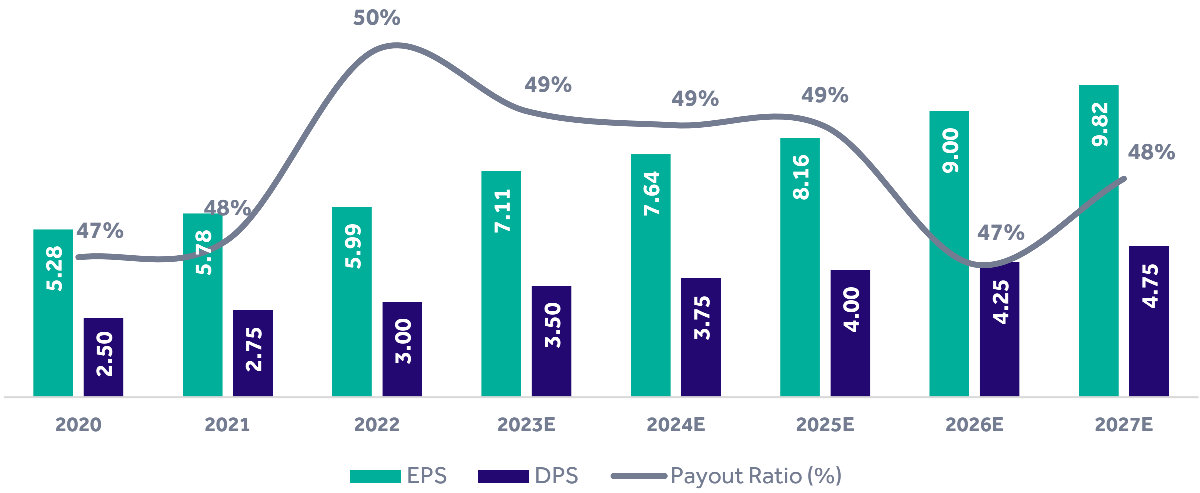


Source: RC, Mouwasat Data

Consistent Dividends

Dividend payout history has been consistent for Mouwasat over the last two years. Payouts have been maintained at a level of 45% to 50% between 2020 and 2022. Dividend has increased by SAR 0.25 per share over the last 2 years from SAR 2.50 to SAR 3.00. Going forward, we expect Mouwasat to maintain their payout ratio. Hence, we expect dividends of SAR 3.50 in 2023E rising to SAR 4.75 per share in 2027E.

Exhibit 25: EPS, DPS and Payouts Ratio 2020-2027E (SAR per share)

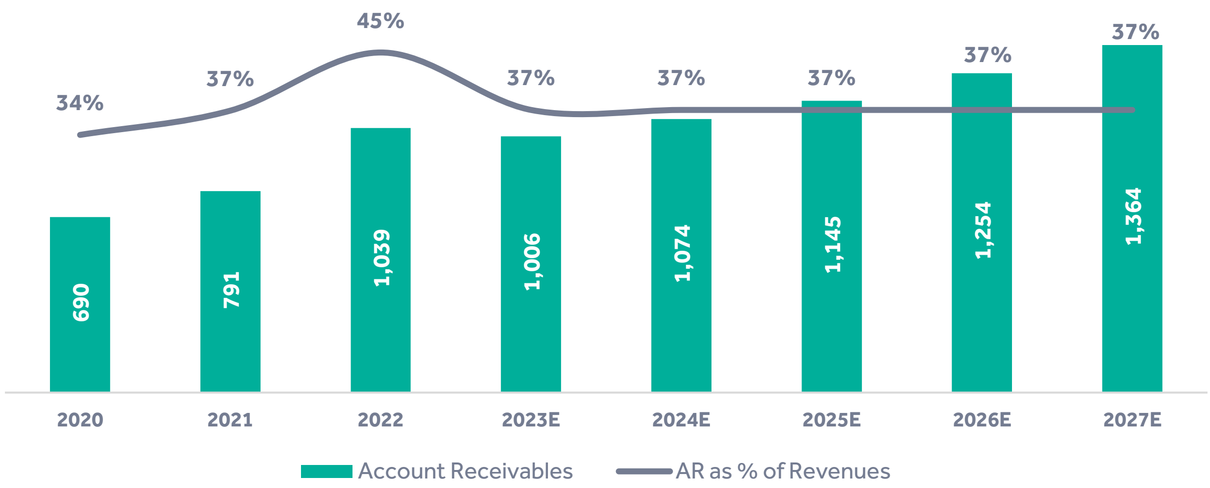


Source: RC, Mouwasat Data

Solid Receivables Position

Mouwasat receivables went up from SAR 690 mln in 2020 to SAR 1,039 mln in 2022. 93% of the receivables are from governmental and insurance entities compared to 92% in last year. As a percentage of revenues, receivables increased from 34% in 2020 to 45% in 2022. Going forward, we expect receivables to normalize at the level of 37% of revenues given that the Company is more focused on government clients and insurance. We expect a rise in the nominal account receivables to SAR 1,364 mln by 2027E, mainly on the back of an increase in revenues due to organic growth. In addition, the receivable days is expected to decline from 143 days in 2022 to 135 days.

Exhibit 26: Solid Receivables Position 2020-2027E (SAR mln)



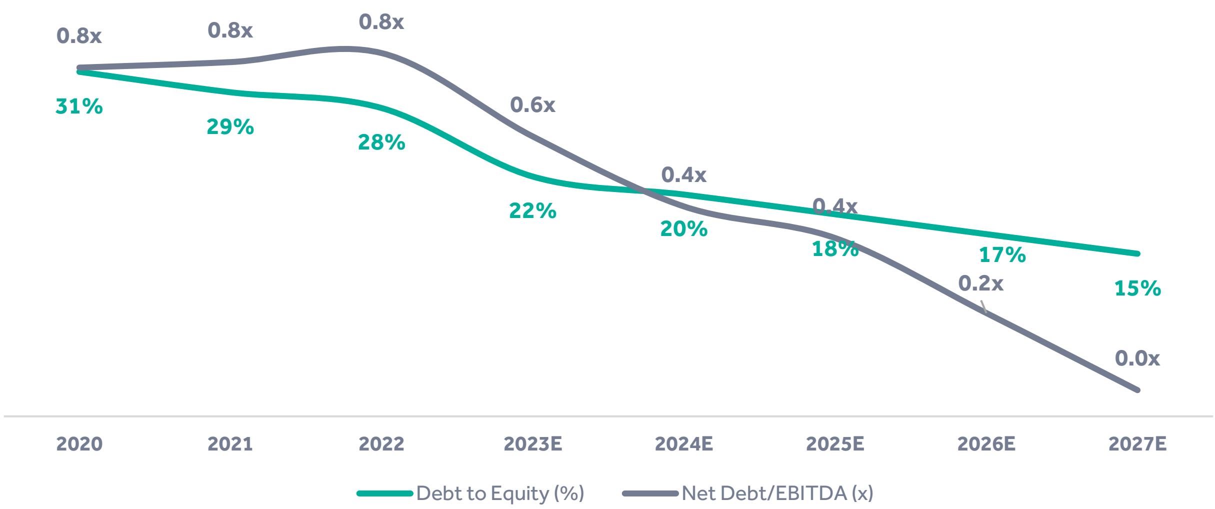
Source: RC, Mouwasat Data

Despite high total debt, leverage profile is controlled

Debt ratios are generally expected to start going down as debt to equity ratio has already declined from 31% in 2020 to 28% in 2022 and we project a further decline to 22% by 2023E. This indicates the stability of the company and its ability to raise additional capital to grow, which is in line with the Company's plan.

Net debt to EBITDA is expected to go down from 0.8x in 2022 to 0.6x by 2023E and then decline to 0.4x by 2024E. We believe Net debt to EBITDA was impacted by heavy capex in 2022 but moving forward we believe the company will maintain a healthier Balance Sheet compare to its peers.

Exhibit 27: Debt to Equity and Net Debt to EBITDA 2020-2027E



Source: RC, Mouwasat Data

Valuations

We have conducted the valuation for Mouwasat Medical Services through two broad valuation approaches i.e. the Fundamental approach using the Discounted Cash Flows (60%) and the Market based Multiple Valuations using the PE method (40%). We arrive at a valuation of SAR 25.4 bln or SAR 254.00 per share as summarized below.

Table 3: Valuation Summary

Valuation Method	Fair Price	Weight	Weighted Average
DCF	267.3	60%	160
PE	234.7	40%	94
Fair Price (SAR)			**254.0**

Source: RC

Discounted Cash Flow (DCF) valuation at SAR 26.7 bln (SAR 267.3/share)

Using our DCF valuation approach, we arrive at an equity value for the company of SAR 26.7 bln or SAR 267.3 per share. To calculate the Weighted Average Cost of Capital (WACC), we use a risk-free rate of 4.4% and an equity risk premium of 6.0% while the Beta is at 0.88. Our calculation calls for an equity and debt weight of 78% and 22%, respectively. Our cost of debt is 6.0%. Applying the respective weights to cost of equity and cost of debt, we arrive at a WACC of 8.9% and an equity value of SAR 26.7 bln or SAR 267.3 per share.

Table 4: Discounted Cash Flow Valuation at SAR 267.3/share

SAR mln	2023E	2024E	2025E	2026E	2027E
EBIT	772	830	883	972	1,058
Zakat	(23)	(25)	(27)	(29)	(32)
Depreciation & Amortization	196	204	220	236	250
Capital Expenditure	(286)	(308)	(389)	(322)	(315)
Change in Working Capital	851	1,034	1,049	1,148	1,236
Cash Flow to the Firm	1,509	1,734	1,736	2,005	2,196
Terminal Value					**30,117**
Total FCFF	**1,509**	**1,734**	**1,736**	**2,005**	**32,312**
Discounting Factor		0.9	0.8	0.8	0.7
Discounted Cash Flows		**1,593**	**1,464**	**1,553**	**22,975**

Long-term growth rate	1.5%
Enterprise value	27,584
Add: Cash	144
Add: Investments	19
Less: Debt	862
Less: Minority Interest	153
Equity Value	**26,731**
Number of shares	100
Price per share (SAR)	**267.3**

Source: RC

P/E multiple valuation at SAR 23.5 bln (SAR 234.7/share)

We have used the average P/E multiple of five relatively comparable companies that we have identified. We arrive at an equity value of SAR 23.5 bln or SAR 234.7 per share.

Table 5: Multiple Based Valuation at SAR 234.7/share

P/E Valuation			
SULAIMAN	45.8x	Mouwasat 2024E EPS	7.64
DALLAH	39.0x		
ALHAMMAD	25.9x	**Mouwasat Equity value**	**23,466**
MEH AB	21.1x	No of shares	100
CARE AB	21.7x	Fair value	234.7
Comparable and Target P/E (x)	***30.7x***		

Source: RC

Financial Statements

The following are the summarized Income statement, Balance Sheet and Cash Flow statement for Mouwasat Medical Services:

Table 6: Summarized Financials for Mouwasat (2020-2027E)

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Income Statement (SAR mln)								
Sales	2,045	2,144	2,334	2,721	2,905	3,096	3,390	3,688
Gross Profit	960	996	1,099	1,278	1,372	1,460	1,604	1,746
Operating Profit	578	622	663	772	830	883	972	1,058
Net Profit	528	578	599	711	764	816	900	982
Balance Sheet (SAR mln)								
Current Assets	1,195	1,315	1,574	1,583	1,823	1,986	2,323	2,704
Non-Current Assets	2,453	2,744	3,088	3,177	3,280	3,466	3,550	3,613
Current Liabilities	551	640	795	539	594	607	652	683
Non-Current Liabilities	718	717	790	809	820	825	827	824
Total Liabilities	1,269	1,357	1,585	1,348	1,413	1,431	1,479	1,507
Total Equity	2,380	2,702	3,076	3,411	3,690	4,021	4,393	4,810
Total Liabilities and Equity	3,649	4,059	4,662	4,759	5,103	5,452	5,872	6,317
Cash Flow (SAR mln)								
CFO	481	683	735	771	960	972	1,067	1,152
CFI	(317)	(446)	(371)	(320)	(324)	(405)	(342)	(335)
CFF	(208)	(240)	(349)	(464)	(488)	(512)	(537)	(586)
Growth (%)								
Sales	10.1%	4.8%	8.9%	16.6%	6.8%	6.6%	9.5%	8.8%
Gross Profit	15.8%	3.7%	10.4%	16.3%	7.3%	6.4%	9.8%	8.8%
Net Profit	25.4%	9.5%	3.7%	18.6%	7.5%	6.7%	10.3%	9.2%
Margins								
Gross Margin	47.0%	46.4%	47.1%	47.0%	47.2%	47.2%	47.3%	47.3%
EBITDA Margin	35.5%	36.4%	36.5%	35.9%	35.9%	35.9%	35.9%	35.7%
Net Margin	25.8%	27.0%	25.7%	26.1%	26.3%	26.3%	26.5%	26.6%
Key Ratio's								
Current Ratio	2.2	2.1	2.0	2.9	3.1	3.3	3.6	4.0
Quick Ratio	1.8	1.8	1.7	2.5	2.7	2.8	3.1	3.5
ROA	16%	16%	15%	16%	16%	16%	17%	17%
ROE	25%	24%	22%	23%	23%	22%	23%	23%
Operating Ratios (days)								
Inventory Outstanding	59	59	58	58	58	60	60	60
Receivable Outstanding	126	126	143	135	135	135	135	135
Payable Outstanding	37	35	37	35	35	36	35	34
Cash Cycle	148	150	164	158	158	159	160	161
Per Share (SAR)								
EPS	5.28	5.78	5.99	7.11	7.64	8.16	9.00	9.82
BVPS	23.80	27.02	30.76	34.11	36.90	40.21	43.93	48.10

Source: RC, Mouwasat Data

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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