Company Research Series

August 2022

Mouwasat Medical Services Company

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Mouwasat Medical Services was founded in 1975 as an individual entity owned by Mr Mohammed Sultan Subaie in Dammam (KSA). The company began its initial medical operation as a Private Dispensary. The company's major business is owning, managing, operating, and maintaining hospitals, health centres, medication warehouses, and pharmacies.

The company's hospitals are located in Dammam, Jubail, Madinah and Qatif. Mouwasat Medical Services also runs Skin Care Centers, Mouwasat Care Fertility, and Badana Clinic, as well as dispensaries and pharmacies. Eastern Medical Services Company Limited, which builds and operates hospitals, dispensaries, and speciality clinics, and Specialized Medical Clinic Company Limited, which builds, manages, and operates clinics (plastic surgery)., are two of the company's subsidiaries. In addition, the company owns a 50% share of Advance Medical Project Company (AMPC).

Mohammed Al-Saleem, the company's Managing Director, is the largest shareholder, owning 18%%of the company's stock. Mohammed Al-Subaie and Nasser Sultan Al-Subaie are the second and third largest stockholders, each owning around 18% of the company's shares. Nasser Sultan Al-Subaie, the company's third-largest stakeholder, is also a Vice-Chairman, showing high insider ownership among the company's top shareholders. The top three owners own more than half of the company's stock, implying that they have a significant influence on the company's decisions. The general public holds a 36% stake in Mouwasat Medical Services.

Why do we like Mouwasat Medical Services Company?

Mouwasat Medical Services Company is the first public joint-stock company in the Saudi healthcare industry to be listed on the Tadawul stock exchange. The Mouwasat Hospital in Khobar was the first hospital in the Kingdom to get the American Society's seventh level classification, the highest level for hospitals in terms of clinical information technology use. All of Mouwasat Medical Services' hospitals across the Kingdom have received this designation. By introducing additional specialised departments and developing sub-speciality clinics, the firm increased the operating capacity of outpatient clinics in the company's hospitals vertically. The Mouwasat Hospital expansion project in Dammam is completed.

Digital and Artificial intelligence adoption

The Mouwasat Control & Command Centre of Critical Care Units (Tele-ICU), which uses Telemedicine and Artificial Intelligence to reduce the time of stay in the intensive care unit and the cost of patient care, offers significant benefits. The artificial intelligence program's advantage is that it alerts the treating clinician of potential risks to the patient. Artificial intelligence is most commonly used to prioritise treatment based on the severity of the patient's ailment.

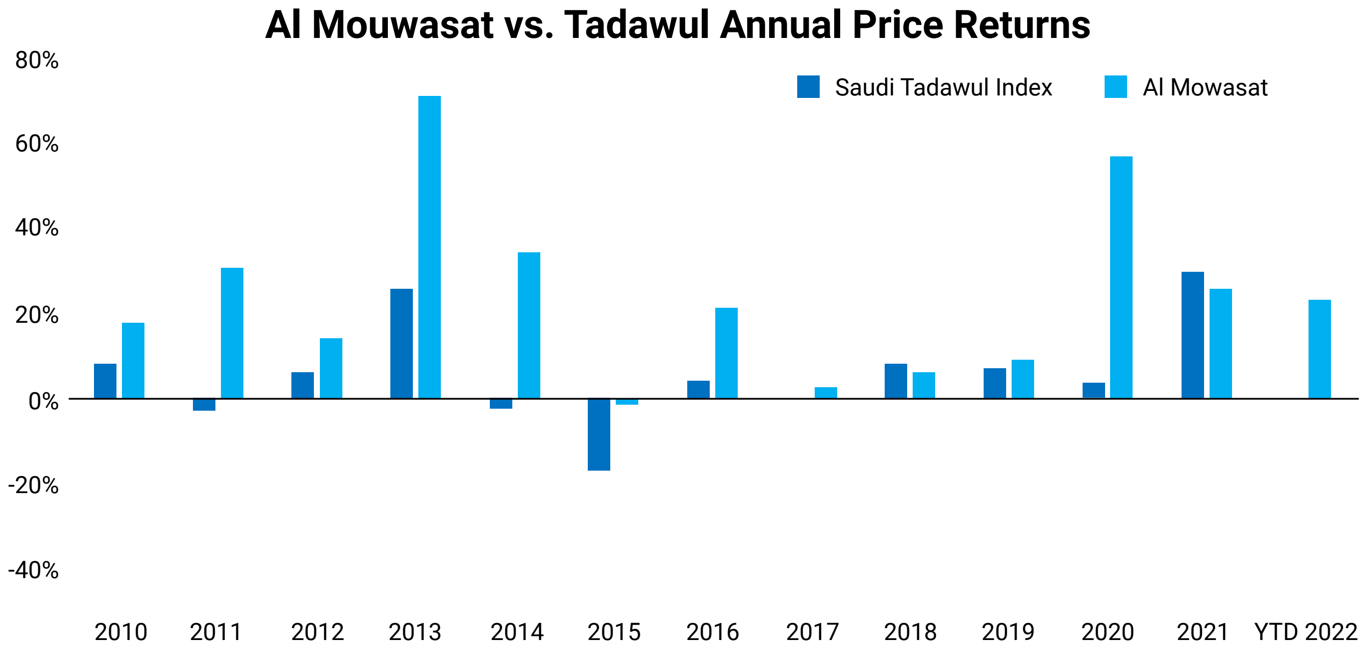
Mouwasat Medical Services Company's Smart Robotic Outpatient Pharmacy project has begun at Khobar, Jubail, and Madinah. The Mouwasat Hospital in Khobar is the first private hospital in the country to adopt this initiative, which will be followed by Mouwasat Hospitals in Riyadh, Dammam, and Qatif. The new smart robotic outpatient pharmacy is based on the latest German technology, which ensures high accuracy in medicine administration, inventory/stock management, and automatic verification for pharmaceutical validity/expiration dates.

Robotic Pharmacy

In accordance with Mouwasat Medical Services' strategic objective to constantly develop its services and implement the most up-to-date technologies in the field of healthcare, Mouwasat is providing world-class medical care to its consumers in all of its hospitals around the Kingdom. Mouwasat Medical Services Company has started work on a Smart Robotic Outpatient Pharmacy project at Mouwasat Hospitals in Khobar, Jubail, and Madinah. The automated production of pharmaceuticals with a dispensing pace of up to 4000 packs per hour and the ability to serve up to 6000 clients per day are some of the applications of Smart Robotic Outpatient Pharmacy in the healthcare industry.

Share Performance

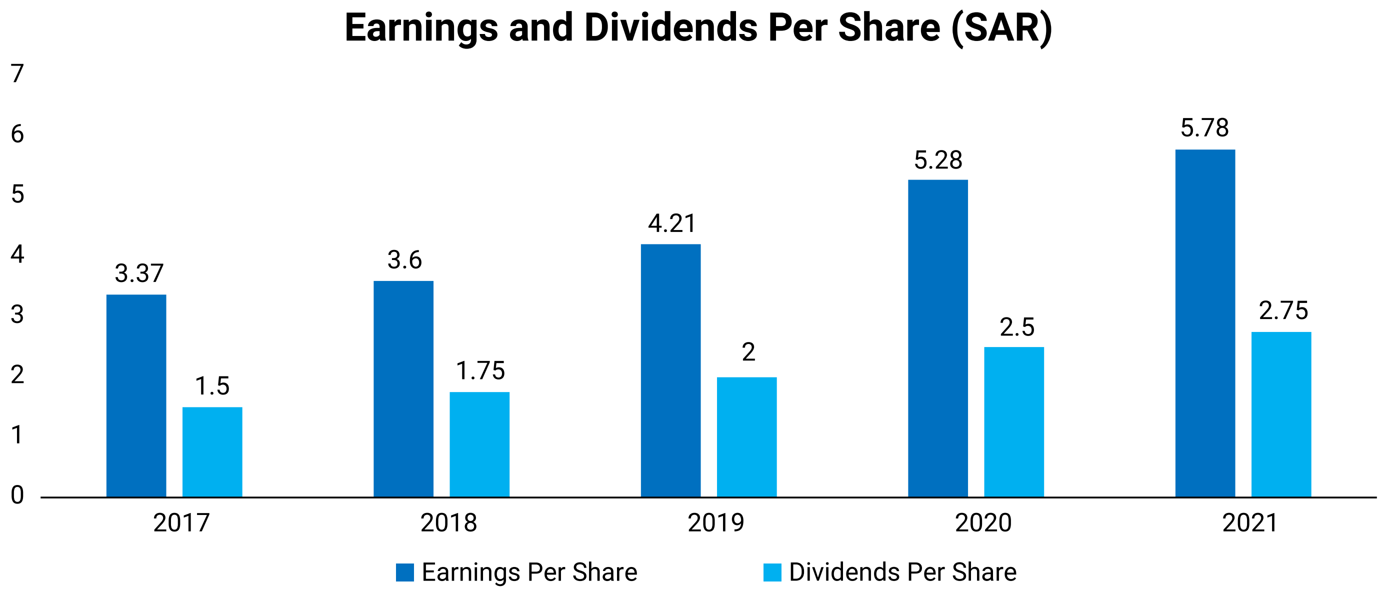
Al Mouwasat shares have outperformed the Tadawul in 11 out of 13 years (including 2022). USD 1 invested in Al Mouwasat at the start of 2010 would be worth USD 17.97 (including dividends reinvested) while the same for amount invested in Tadawul index would be USD 1.85



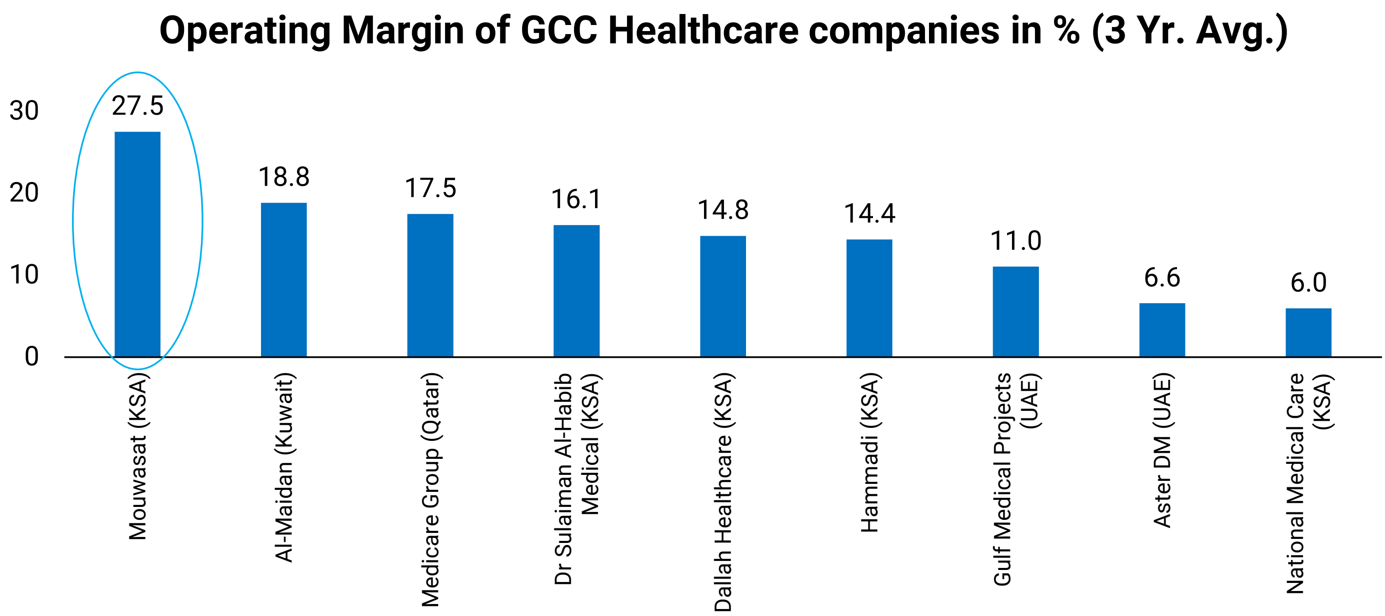
Source: Refinitiv

Fundamentals Summary

Over the last five years, the company's revenue has consistently increased from SAR 1507 million in 2017 to 2144 million riyals in 2021, and its net profit has increased from SAR 337 million in 2017 to 578 million riyals in 2021. The reason for this continuous growth is the company's strategy, which includes a constant increase in operational capacity and sustained efficiency in running the available assets. Earnings per share continued to grow during the last five fiscal years, as EPS increased from SAR 3.37 riyals in 2017 to SAR 5.78 in 2021.

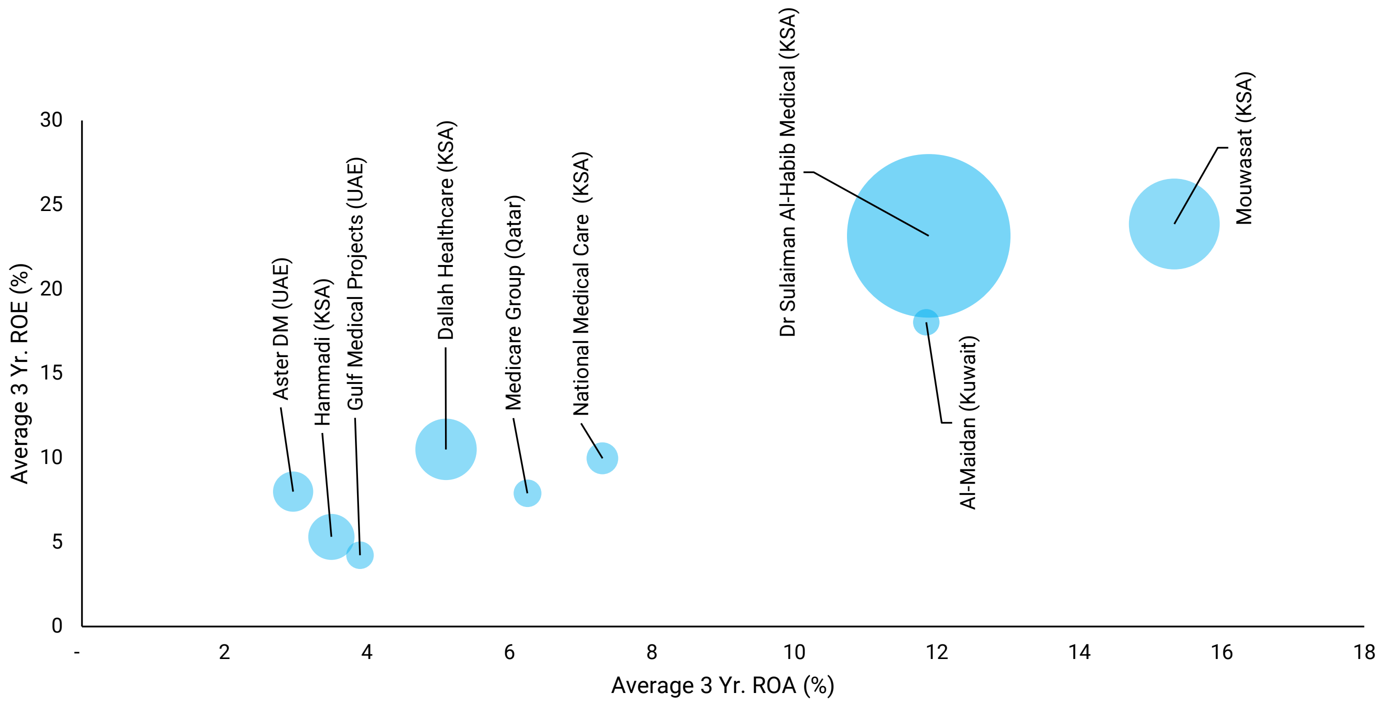


Al Mouwasat's operating margins were much higher than its competitors and has been widening consistently for the past five years. In 2021, Al Mowasat's operating margin of 29% was higher than the industry average of 13.5%. The three-year average operating margin of Mouwasat stands at 27.5% compared to the next higher margin of 18.8% by Al-Maidan (Kuwait).



Source: Refinitiv

The Return on Equity (ROE) of the company is high compared to the industry median. The average ROE of the Mouwasat medical services company for the past five years is 23.7% which is higher than the ROE of the industry (14.6%). The company's 3 year average ROE for the last 3 years was 23.9% and ROA was 15.3%, which is the highest among its GCC peers as seen in the chart below:



The current and quick ratios are also higher than the industrial mean for the last five years. The earnings per share continued to grow during the last five fiscal years, as earnings per share increased from 3.37 riyals in 2017 to 5.78 riyals in 2021. Mouwasat Medical Services' revenue increased 5% to SAR2.14 billion in the fiscal year ending December 31, 2021. Net income grew by 9% to SAR578.2 million. Medical services revenue increased by 4% to SAR1.87 billion, while pharmaceuticals revenue increased by 14% to SAR278 million. The free cash flow generated in 2019 is 379.49M SAR and it is increased in 2021 by free cash flow of 558.37M SAR. The company has been able to generate positive free cash flow in the past five years, with an annualized growth rate of 80.5%, much higher than competitors. High free cash flow, on the other hand, means that a firm can pay its obligations, contribute to development, share its success with investors through dividends, and have a great future of it. The company's P/E ratio is higher than the industry's P/E ratio in past few years. This indicates that the investors expect higher growth in future and they are ready to pay higher share price of the company.

Key risks

The rising expenses of high-tech healthcare systems and the shortening of their useful lives, owing to the fast rate of invention and technical advancements in today's modern digital environment are the major risks. One of the company's major threats is price competitiveness. The major competitors are Dr. Sulaiman Al Habib Medical Services Group, Dallah Healthcare, Al Hammadi Company for development and investment and Middle east healthcare company. The scarcity of qualified personnel, particularly physicians, nurses, and technicians and the rising expenses of experienced and trained staff make it difficult for the organisation to maintain the needed quality standards. New firms have entered the healthcare industry in the Kingdom of Saudi Arabia as a result of the government's diversification of the local market.

Possible Future Scenarios:

There is an increasing demand for the private hospitals in Saudi Arabia. In future, the number of private hospitals will increase in the kingdom. One of the most important foundations of the Kingdom's Vision 2030 is to care for citizens and ensure their safety, and because the advancement of health care is the first of the eight dimensions of the National Transformation Program to ensure citizens and residents' safety, Mouwasat

should keep up with this ambitious vision to improve the company. The company continues to expand both vertically and horizontally, as seen by its operation of the Mouwasat Hospital expansion project in Dammam. In addition, the business plans to open Mouwasat Digital Hospital in Medina's Knowledge Economic City in the second quarter of 2022, following receiving the necessary permissions from the Ministry of Health and other relevant authorities. In the near future, it is also scheduled to begin assessing proposals for the Mouwasat Hospital project in Yanbu. The company must continue to enhance its revenues by implementing vertical and horizontal expansion projects for operational capacity. Saudi Arabia's annual increase in the budget allotted to social services for healthcare gives a strong indication of prospective demand as well as the government's willingness to expand and strengthen the industry.

Mouwasat Medical Services Financial & Ratios

Income Statement (SAR million)	2015	2016	2017	2018	2019	2020	2021
Revenue	1,000	1,243	1,507	1,677	1,857	2,045	2,144
Gross Profit	446.8	576	712	773	829	960	996
Operating Income	235	288	371	404	471	578	622
Net Income	**209**	**257**	**337**	**360**	**421**	**528**	**578**
Basic EPS Excluding Extraordinary Items	2.09	2.57	3.37	3.60	4.21	5.28	5.78
DPS - Common Stock Primary Issue	1.00	1.25	1.50	1.75	2.00	2.50	2.75

Balance Sheet (SAR million)	2015	2016	2017	2018	2019	2020	2021
Cash and Short-Term Investments	231	155	242	165	295	243	257
Total Receivables, Net	252	321	381	662	532	697	801
Total Current Assets	618	629	774	1041	1066	1195	1315
Property/Plant/ Equipment, Total - Gross	1195	1361	1634	1911	2114	2238	2450
Total Assets	**1867**	**2099**	**2479**	**3053**	**3328**	**3649**	**4059**
Total Current Liabilities	290	356	378	565	543	551	640
Total Debt	447	466	564	681	760	783	829
Total Liabilities	745	822	989	1341	1373	1370	1455
Total Equity	1123	1277	1490	1713	1956	2279	2604
Total Liabilities & Shareholders' Equity	**1867**	**2099**	**2479**	**3053**	**3328**	**3649**	**4059**

Cash flow Statement (SAR million)	2015	2016	2017	2018	2019	2020	2021
Net Income/Starting Line	239	297	379	409	462	577	632
Depreciation/Depletion	54	75	89	107	142	144	153
Changes in Working Capital	(100)	(84)	(38)	(180)	(24)	(308)	(134)
Cash from Operating Activities	207	306	452	386	635	481	683
Capital Expenditures	(169)	(241)	(300)	(312)	(264)	(234)	(330)
Cash from Investing Activities	(239)	(172)	(333)	(409)	(398)	(317)	(446)
Cash from Financing Activities	(69)	(91)	(42)	(48)	(162)	(208)	(240)
Free Cash Flow	**38**	**65**	**152**	**74**	**371**	**247**	**353**

Key Ratios	2015	2016	2017	2018	2019	2020	2021
Gross Margin	44.7%	46.4%	47.3%	46.1%	44.7%	47.0%	46.4%
EBITDA Margin	28.9%	29.3%	30.7%	30.6%	33.1%	35.5%	36.4%
Net Margin	22.3%	22.1%	23.6%	22.9%	24.2%	27.5%	28.5%
Asset Turnover	0.56	0.63	0.66	0.61	0.58	0.59	0.56
Pretax ROA	13.4%	15.0%	16.6%	14.8%	14.5%	16.5%	16.4%
x Leverage (Assets/ Equity)	1.66	1.64	1.66	1.78	1.70	1.60	1.56
ROE	19.4%	21.4%	24.3%	22.5%	23.0%	24.9%	23.7%
Quick Ratio	1.76	1.42	1.72	1.59	1.66	1.83	1.76
Current Ratio	2.13	1.77	2.05	1.84	1.96	2.17	2.05
Cash Cycle (Days)	96.9	103.9	96.8	111.2	107.8	106.5	129.4
Assets/Equity	1.66	1.64	1.66	1.78	1.70	1.60	1.56
Debt/Equity	0.40	0.37	0.38	0.40	0.39	0.34	0.32
% LT Debt to Total Capital	19.9%	17.7%	21.6%	24.2%	22.6%	19.2%	16.8%
ROIC	15.6%	17.3%	19.3%	17.4%	17.7%	19.8%	19.3%

Source: Refinitiv

About Marmore

OUR VISION

To be the first choice for obtaining strategic intelligence on the Middle East and North Africa region

OUR MISSION

Serving businesses and institutions with reliable information and intelligence about Middle East and North Africa needed to catalyze growth, understand the larger environment economies, businesses and financial markets and provide customized, actionable solutions

OUR FOUNDATION

A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history

Markaz commenced its research activities in 2006, which led to establishment of Marmore in 2010 as research focused firm

Marmore publishes research reports, provides customized research to suit clients unique requirements and consulting services Primarily focusses on the GCC region

Business Verticals

CUSTOMIZED RESEARCH

Our customized research department caters to unique requirements of the clients

CONSULTING SERVICES

Our GCC focus enables us to provide bespoke consulting services based on clients requirements

PUBLISHED RESEARCH

We provide GCC focused research on demand or subscription

In case of any queries reach out to **Enquiry@e-marmore.com**

Disclaimer

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