

GCC HEALTHCARE SECTOR

Not a panacea, but still attractive

Positive operational developments drive valuations higher

Maintain BUY on Mouwasat and NMC Health

3rd April 2013

Coverage Universe

Mouwasat	
Recommendation	BUY
Target Price (LC)	82.40
P/E 13	16.3
EV/EBITDA 13	12.4

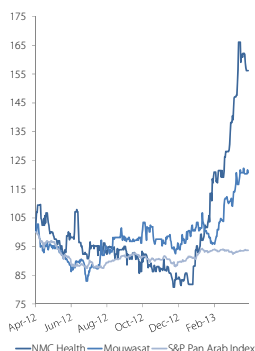
NMC Health	
Recommendation	BUY
Target Price (LC)	3.79
P/E 13	14.2
EV/EBITDA 13	11.3

RE-PRICING GETS DIFFICULT IN UAE, LESS OF A PROBLEM IN KSA

Faced by relatively high loss ratios, particularly from the medical segment (80-90% for three largest insurance providers in KSA and north of 100% for most insurance companies in UAE), regional insurance companies have started taking a number of steps to contain their costs. Insurance companies in the UAE in particular have strongly started resisting price increases by healthcare service providers. This was amply demonstrated by the threat by a number of insurance companies to exclude Mediclinic Middle East's hospital from their coverage list in response to its attempt to raise tariffs by an average of 5-6% for 2013. Similarly, American Hospital, which is one of the most expensive hospitals in Dubai, is no longer included in the coverage list of a number of insurers (either direct billing or by reimbursement), while others offer a discount in the annual premium if the hospital is excluded from coverage. Thus, healthcare operators in the UAE, particularly premium service providers, are likely to face hurdles in their ability to raise prices. In Saudi Arabia, on the other hand, while insurance companies similarly face hefty cost pressures from the medical segment, our discussion with various industry insiders indicates that large healthcare providers continue to enjoy the upper hand in negotiations. This is reflected in the 20% increase in prices for insurance clients achieved by Mouwasat for 2013. Our discussion with Tawuniya, the largest insurance provider in KSA, similarly indicates that operators with big networks, such as Dr. Sulaiman Al-Habib Medical Group and Mouwasat remain prized accounts for insurance companies and as such, wield significant bargaining power.

NUMBER OF LISTED HEALTHCARE PLAYS INCREASES; SECTOR OUTPERFORMS

Recent months witnessed the addition to two new healthcare operators to the list of liquid healthcare stocks in the region. Dallah Health Company (DHC) operates a 350-bed hospital in Riyadh, offering a range of specialties, from cardiac medicine to neurosurgery. It is in process of establishing a second 300-bed hospital in Riyadh, which is expected to cost SAR 508mn. The more recently listed company, National Medical Care, currently operates two hospitals, namely Riyadh Care Hospital and National Hospital. The latter has the distinction of being the first private hospital in Riyadh. Both IPOs performed extremely well, with Dallah closing up 51% on its first trading day and then continuing to trend higher over the next few weeks to reach a peak of SAR 96.75 (IPO price: SAR 38/share). National Medical Care performed even more strongly on the first day, closing 352% above its IPO price. In fact, the stock even briefly touched SAR 200 per share on the first day (IPO price: SAR 27/share). While both stocks have retraced significantly from their highs, they continue to trade well above their respective IPO prices. Even excluding the hefty gains achieved by the recently listed stocks, the healthcare sector has been one of the best performers in the past 12 months, with all three liquid listed companies (Mouwasat, NMC and Medicare) significantly outperforming the S&P Pan Arab Index. This can likely be explained by the fact that the regional healthcare sector offers a very attractive combination of defensiveness as well as strong medium to long term growth prospects.



POSITIVE DEVELOPMENTS LEAD TO UPWARD REVISION OF TARGET PRICES FOR MOUWASAT & NMC

We have upgraded our Target Prices for Mouwasat and NMC Health to SAR 82.40 and GBP 3.79, respectively, translating into 19% and 20% increase in our fair value estimates, respectively. These hikes are driven by a number of positive developments at both companies since our initiations last year. With regards to Mouwasat, the most significant catalyst is the re-pricing of insurance contracts by a higher than expected average of 20%, effective from 1 January 2013. Moreover, the company has revised the development size of its Khobar Hospital, which will now consist of 200 beds compared to the original plan of 150 beds. NMC Health, on the other hand, has added a new, high margin business line in the form of Third Party Management Services (90-95% EBITDA margin) and adopted a phased approach which will result in earlier than expected opening of NMC Specialty Hospital in Khalifa City (Q4-14 instead of 2015/2016). Thus, we reiterate our BUY recommendation on both names and continue to view them as the best means of gaining exposure to the attractive Saudi and UAE healthcare markets, respectively.

Sector Coverage

Asjad Yahya, CFA
+9714 3199 768
ayahya@shuaa.com

Taher Safieddine, CFA
+9714 3199 785
tsafieddine@shuaa.com

Company	Price (LC)	Recommendation	Target Price (LC)	%upside/(downside)
Mouwasat	64.0	BUY	82.40	28.8%
NMC Health	3.28	BUY	3.79	15.5%

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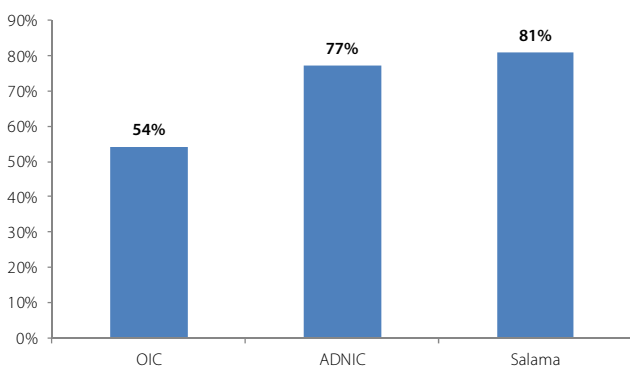
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GCC Healthcare Market Snapshot

Insurance companies resist price hikes in UAE, less of a problem in KSA

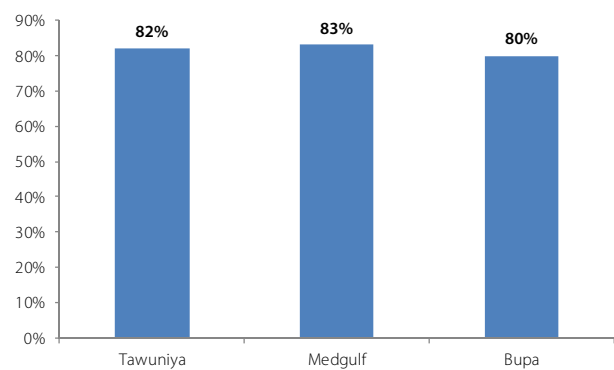
Faced by relatively high loss ratios, regional insurance companies have started taking a number of steps to contain their costs. This holds particularly true for the medical insurance segment, which is consistently associated with higher than average loss ratios: the ratio for the medical business for the three largest insurance providers in KSA stood in the 80-90% range in 2012, while our discussions in the UAE suggest that the loss ratio stands north of 100% for most insurance companies in the country.

Loss ratios for key players in UAE



Source: Company accounts, SHUAA Capital

Loss ratios for key players in KSA



Source: Company accounts, SHUAA Capital

As a result of increasing pressure from the medical segment, insurance companies in the UAE in particular have strongly started resisting price increases by healthcare service providers. This was amply demonstrated by the sharp negative reaction by insurance companies to Mediclinic Middle East's recent attempt to raise tariffs by an average of 5-6% for 2013. When insurance providers refused to accept the increase, Mediclinic offered to maintain prices, but readjust the available discounts to achieve the intended price increase, which too was rejected by insurance providers. Although the issue was eventually resolved amicably, the healthcare faced the possibility at one point that at least some insurance providers would no longer include the hospitals within the chain in their coverage list. Similarly, American Hospital, which is one of the most expensive hospitals in Dubai, is no longer included in the coverage list of a number of insurers (either direct billing or by reimbursement), while others offer a discount in the annual premium if the hospital is excluded from coverage.

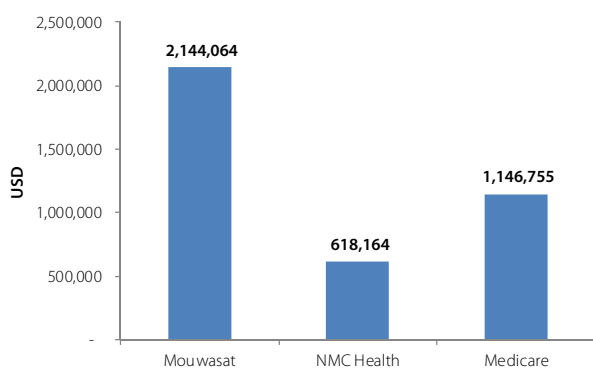
Note that the strong reaction of insurance providers in the UAE is likely to have been driven at least in part by the stance adopted by the government. For example, in December last year, the Dubai Health Authority recommended that insurance companies stop dealing with 6 private medical facilities, which has increased prices by up to 20%. As a result, 16 insurance companies stopped providing coverage for these operators. Consequently, we expect healthcare operators in the UAE, particularly premium service providers, to continue to face hurdles in their ability to raise prices.

In Saudi Arabia, on the other hand, while insurance companies similarly face hefty cost pressures from the medical segment, our discussion with various industry insiders indicates that large healthcare providers continue to enjoy the upper hand in negotiations. This is reflected in the 20% increase in prices for insurance clients achieved by Mouwasat for 2013. Our discussion with Tawuniya, the largest insurance provider in KSA, similarly indicates that operators with big networks, such as Dr. Sulaiman Al-Habib Medical Group and Mouwasat remain prized accounts for insurance companies and as such, wield significant bargaining power.

Healthcare listings expand in the region

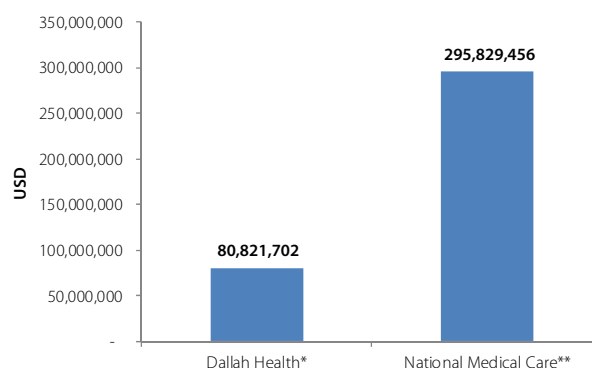
In our initiation note on the MENA Healthcare sector (see “High Growth Potential” dated 2 October 2012), we highlighted that the list of publicly traded healthcare names in the region, particularly reasonably well-traded stocks, remains limited. Recent months saw an expansion of this list, with the IPOs of two new healthcare operators in KSA, namely Dallah Health Company and National Medical Care.

Avg. daily traded value of key healthcare stocks (TTM)



Source: Bloomberg, SHUAA Capital

Average daily traded value of recent IPOs since listing



*: From 17-Dec-2012

**.: From 13-Mar-2013

Source: Bloomberg, SHUAA Capital

Dallah Health Company (DHC) currently operates a 350-bed hospital in Riyadh. The hospital offers a range of specialties, from cardiac medicine to neurosurgery. The company recently opened out-patient clinics as the first stage of a Specialized Pediatric wing next to the main hospital. Expected to be fully operational by the middle of this year, the facility will add 70 beds to the total. DHC is also establishing a second 300-bed hospital in Riyadh, which is expected to cost SAR 508mn.

The more recently listed company, National Medical Care, currently operates two hospitals, namely Riyadh Care Hospital and National Hospital. As the name suggests, the former is located in Riyadh city and was previously known as Social Insurance Hospital. It consists of 320 beds. Meanwhile, the National Hospital has the distinction of being the first private hospital in Riyadh. Initially setup with a 100 bed capacity, the hospital completed a 200-bed expansion last year. The IPO of the company was aimed at supporting its expansion plans, whereby it intends to open centers of Family Medicine, which provide primary healthcare services (the first center was opened last year, with 3 more to be opened by 2015). Additionally, the company intends to expand in the wider Kingdom, particularly in the cities of Jeddah and Dammam, through the establishment of new hospitals or acquisitions of existing ones. National Medical Care’s primary customers include General Organization for Social Insurance (GOSI), Aramco and Saudi Electricity Company.

Both IPOs performed extremely well, with Dallah closing up 51% on its first trading day. The stock then continued to trend higher over the coming weeks to reach a peak of SAR 96.75 (IPO price: SAR 38/share) before trending downwards. National Medical Care performed even more strongly on the first day, closing 352% above its IPO price. In fact, the stock even briefly touched SAR 200 per share on the first day (IPO price: SAR 27/share). The sharp initial runs made both companies expensive relative to regional and international peers and as such shares of both healthcare operators have retraced significantly during recent trading sessions. That being said, both stocks continue to trade well above their respective IPO prices.

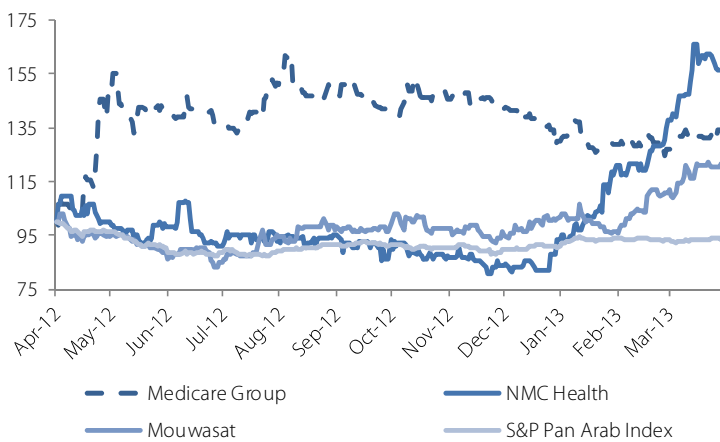
Snapshot of key listed healthcare providers in the region

Company	Market Cap (USDmn)	Current number of hospital beds	2012 P/E
NMC Health	925	230	15.7
Mouwasat	853	594	18.6
Dallah Health	765	350	21.5
National Medical Care	864	600	30.7
Medicare Group	292	250	23.1

Source: Bloomberg, SHUAA Capital

One of the best performing sectors in recent months

Even excluding the hefty gains achieved by the recently listed stocks, the healthcare sector has been one of the best performers in the past 12 months, with all three liquid listed companies significantly outperforming the S&P Pan Arab Index. This can likely be explained by the fact that the regional healthcare sector offers a very attractive combination of defensiveness as well as strong medium to long term growth prospects.

Healthcare sector outperforming overall index


Source: Bloomberg, SHUAA Capital

Bloomberg

Mouwasat AB

Mouwasat Medical Services

Reuters

4002.SE

Better pricing & bigger expansions drive value

 3rd April 2013

Recommendation: BUY

Current stock price (SAR)	64.00
52-week range (SAR)	43-65
YTD performance	19.1%
Number of shares ('000)	50,000
Free Float (%)	47.5%
Market Cap (SAR mn)	3,200
Market Cap (USD mn)	853
Div. Yld 2013P	3.1%

Current Price:	SAR 64.00	Country:	Saudi Arabia
Target Price	SAR 82.40	Sector:	Healthcare
Recommendation:	BUY	Exchange:	Tadawul

UPGRADE TARGET PRICE TO SAR 82.4; MAINTAIN BUY RECOMMENDATION

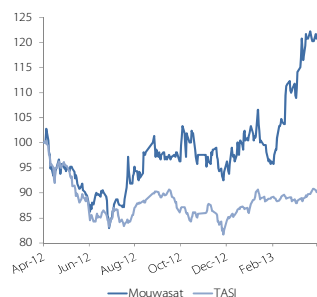
We are upgrading our Target Price for Mouwasat to SAR 82.4/share, 19% above our previous fair value estimate and 29% above the current market price. We thus reiterate our BUY recommendation on the stock and continue to view it as the best means of gaining exposure to the Saudi Healthcare sector. The stock currently trades at a 2013 P/E and 2013 EV/EBITDA multiples of 16.3x and 12.4x, respectively, against global peer averages of 20.1x and 12.1x. Our fair values estimate implies 2013 P/E and 2013 EV/EBITDA multiples of 21.0x and 15.8x, respectively. Given the combination of a clear growth plan, rapidly increasing demand for healthcare services in KSA, access to cheap funding and well-above average RoEs, we feel this premium is justified.

WHAT HAS CHANGED SINCE OUR INITIATION?

A number of positive developments have taken place at Mouwasat since our initiation in October 2012, the most notable of which is the re-pricing of insurance contracts by an average of 20%, effective from 1 January 2013. Given that the insurance customers account for almost half of Mouwasat's annual revenues, the hike is anticipated to have a very healthy impact on the company's top and bottom lines. Additionally, the company has revised the development size of its Khobar Hospital, which will now consist of 200 beds compared to the original plan of 150 beds. Management has also indicated that it is actively evaluating acquisition options for operating hospitals in the Western region, particularly in Jeddah, with a cost of up to SAR 350mn. Last, but not least, Mouwasat has adopted a new strategy to offer volume discounts to insurance companies in lieu of higher business. While this has led to an increase in Selling & Distribution costs (up from 11.0% of revenues in 2011 to 12.4% in 2012), it has proven useful in driving top line growth. For example, management indicates that following the offering of the discounts, claims from one insurance company jumped from SAR 150mn to SAR 170mn last year. As such, volume discounts are expected to remain a regular feature of Mouwasat's business strategy in the coming years.

RE-PRICING AND FACILITIES EXPANSION TO LEAD TO STRONG FINANCIAL PERFORMANCE

The re-pricing of insurance contracts is expected to be the biggest catalyst for top and bottom line growth in 2013, while planned facilities expansions are likely to gain more importance in terms of contribution from 2014 onwards. The 175-bed Riyadh Hospital is expected to become operational later this year, while the 100-bed expansion of the Jubail Hospital is scheduled for 2014. The revised plans for Khobar Hospital, on the other hand, have extended the anticipated opening date from 2015 to 2017. Management expects the number of out-patient clinics to expand 52% from the current 210 to 320 by 2017, while the number of in-patient beds is scheduled to increase by a sharper 80% of the same period. As a result we expect 2012-2019 revenue CAGR to stand at 15.1%, while net income CAGR is projected at a higher 17.3% over the same period. Margins are also likely improve during our forecast period on the back of continued price increases (insurance contracts reviewed every 3 year, Aramco contract revised upwards by 3% every year) and normalization of operations at the newly planned facilities. For 2013 in particular we forecast revenues of SAR 938mn translating into 18% YoY growth, while net income is projected at SAR 196mn, up 14% from the previous year.



Sector Coverage

Asjad Yahya, CFA
 +9714 3199 768
 ayahya@shuaa.com

Taher Safieddine, CFA
 +9714 3199 785
 tsafieddine@shuaa.com

Year	Revenues (SAR mn)	EBITDA(SAR mn)	Net Profit(SAR mn)	EPS (SAR)	P/E(x)	EV/EBITDA(x)
2012	796.5	225.2	171.6	3.43	18.6	14.6
2013P	937.9	265.3	195.8	3.92	16.3	12.4
2014P	1,192.6	330.1	237.9	4.76	13.4	9.9
2015P	1,416.2	411.7	310.1	6.20	10.3	8.0

Valuation

We are upgrading our Target Price for Mouwasat Medical Services (Mouwasat) to SAR 82.4/share, 19% above our previous fair value estimate and 29% above the current market price and thus reiterate our BUY recommendation on the stock. We continue to view Mouwasat as the best means of gaining exposure to the Saudi Healthcare sector as it offers a combination of cheaper valuation, higher RoE and a more geographically diversified portfolio than its peers. Our target price continues to be based on DCF methodology, with global peer analysis presented as a sanity check for our valuation exercise.

DCF preferred valuation methodology

Given the strong visibility on the company's medium term expansion plans, we continue to view DCF valuation as the best methodology to capture this growth. We have explicitly forecasted Mouwasat's financials over the 2013-2019 period for the purpose of this exercise. The choice of the forecast period is based on the fact that the company is expected to complete the second of its two new hospitals (Khobar Hospital) in 2017. Given that new hospitals typically require at least 18 months to achieve profitability, we have extended our forecast period till 2019 to incorporate a more normalized operation level for the facility.

The table below presents the main inputs for our DCF analysis:

Key inputs for DCF analysis (SARmn)

Details	2013P	2014P	2015P	2016P	2017P	2018P	2019P
EBITDA (adjusted for taxes)	253	315	393	454	498	545	609
Less: change in working capital	(28)	(36)	(42)	(35)	(29)	(28)	(33)
Less: minorities	(15)	(16)	(16)	(17)	(18)	(18)	(19)
Less: capital expenditure	(278)	(104)	(208)	(249)	(148)	(135)	(146)
Free Cash Flow	(67)	159	126	152	304	363	411
WACC	9.64%						
Terminal growth rate	3.0%						

Source: SHUAA Capital

Our WACC is calculated on an after tax cost of debt of 3.8%, cost of equity of 11.1% and debt-to-capital ratio of 20:80.

Details of DCF valuation

Detail	Value (SARmn)	% of EV
PV of explicit forecast	889	21.0%
PV of Terminal Value	3,345	79.0%
Enterprise Value	4,234	
Less: 2012 Net Debt	(81)	
Less: 2012 EOSB	(31)	
Equity Value	4,122	
Share outstanding (mn)	50	
Value per share (SAR)	82.4	

Source: SHUAA Capital

Relative valuation

Relative valuation based on average 2013 P/E and 2013 EV/EBITDA multiples yields a very wide range for the fair value estimate of Mouwasat, with an equal weighted approach implying an equity value of SAR 70.65/share for the company. While this translates into 10% upside potential from the current share price, it is considerably lower than our DCF-based target price of SAR 82.40/share, leading to the question whether our Target Price is over inflated.

Detail	Fair value	Weighting	Weighted fair value/share
P/E 2013P	78.73	50%	39.36
EV/EBITDA 2013P	62.58	50%	31.29
Fair value per share (SAR)			70.65
<i>Upside potential</i>			<i>10.4%</i>

Source: SHUAA Capital

Our fair value estimate translates into 2013 P/E of 21.0x and 2013 EV/EBITDA of 15.8x. While both stand above the global averages, the metrics remain within overall respective ranges for peers. In fact, with a clear growth plan, rapidly increasing demand for healthcare services in KSA, access to cheap funding and well-above average RoEs, Mouwasat should arguably trade at the upper end of the valuation range. We thus feel comfortable with our fair value estimate of SAR 82.40/share, despite the higher than average multiples implied by it.

The table on the following page lists the peers utilized for the relative valuation exercise.

Mouwasat's peers

Company	Country	Market Cap (USDm)	P/E			EV/EBITDA			EV/Sales	Div. yield	ROAE	
			TTM	2013	2014	TTM	2013	2014	2013	2013	TTM	2013
HCA Holdings Inc	USA	18,086	11.4	12.7	10.7	7.7	7.4	6.9	1.4	-	N/A	N/A
Community Health Systems	USA	4,368	10.1	12.7	10.4	7.2	7.0	6.4	1.0	-	10.4	11.7
Health Mgmt Associates	USA	3,311	17.6	14.1	12.1	7.6	6.7	6.4	1.1	-	15.0	18.9
Lifepoint Hospitals	USA	2,275	14.3	16.2	13.9	7.3	7.2	6.6	1.1	-	7.6	7.0
Tenet Healthcare	USA	4,962	24.8	17.0	13.8	8.3	7.3	6.7	1.0	-	12.5	25.1
Universal Health Services	USA	6,207	15.3	14.2	12.5	18.4	8.1	7.5	1.4	0.3	17.7	14.5
Ramsay Healthcare Ltd	Australia	6,797	28.1	23.4	20.7	14.8	12.2	11.0	1.8	2.1	19.8	19.1
Rhoen-Klinikum Ag	Germany	2,935	24.9	19.2	14.4	9.5	9.3	8.2	1.0	2.3	7.0	7.2
Netcare	S. Africa	3,154	20.8	14.6	12.9	11.2	12.4	11.4	2.0	3.3	N/A	55.4
Mediclinic International	S. Africa	5,755	25.6	24.2	19.5	N/A	14.4	13.1	3.1	1.5	15.3	13.8
Life Healthcare Group	S. Africa	3,909	24.6	20.6	17.7	14.0	12.1	10.8	3.3	3.5	40.1	41.6
Bangkok Dusit	Thailand	8,686	32.0	35.4	29.6	26.6	22.3	19.3	5.3	1.2	22.9	18.2
Bumrungrad Hospital	Thailand	2,134	23.4	27.4	24.0	20.3	16.2	14.1	4.2	1.9	35.3	27.1
Bangkok Chain Hospital	Thailand	825	26.7	26.9	23.7	16.9	14.9	13.3	4.8	2.1	26.6	23.7
Raffles Medical Group	Singapore	1,444	31.1	28.5	24.3	23.0	20.8	17.6	4.9	1.4	15.7	15.4
Fortis Healthcare	India	746	56.2	N/A	46.3	14.5	16.4	21.8	1.7	-	2.2	N/A
NMC Health	UAE	925	15.7	14.2	13.1	12.2	11.3	9.8	1.8	1.4	27.5	18.3
Average			23.7	20.1	18.8	13.7	12.1	11.2	2.4	1.2	18.4	21.1
Median			24.6	18.1	14.4	13.1	12.1	10.8	1.8	1.4	15.7	18.3
Mouwasat	KSA	853	18.6	16.3	13.4	14.6	12.4	9.9	3.5	3.1	23.9	23.8

Source: Bloomberg, SHUAA Capital

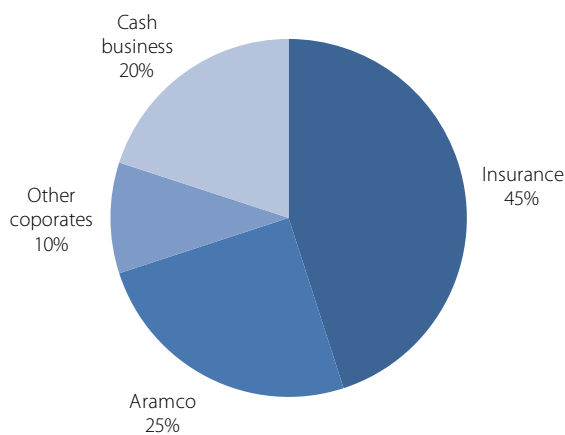
What has changed since our initiation?

A number of positive developments have taken place at Mouwasat since our initiation on the company in October 2012, the most significant of which is the re-pricing of insurance contracts by an average of 20%, effective from 1 January 2013. A summary of key factors that have re-affirmed our positive view on the company are presented below:

Insurance contracts re-priced

As highlighted in our initiation report, Mouwasat was engaged in discussions with insurance customers last year to revise the pricing structure. These negotiations culminated in a better than expected increase of 20% on average for insurance contracts, effective from 1 January 2013. Given that the insurance customers account for almost half of Mouwasat’s annual revenues, the hike is anticipated to have a very healthy impact on the company’s top and bottom lines. Following the revision, prices across all insurance companies are now unified. Management has indicated that despite the increase, its pricing remains very competitive compared to peers, particularly in comparison to newly established hospitals which often set the upper end of the pricing range. This is expected to translate into another healthy upward hike once pricing of insurance contracts is revised again in 3 years’ time (we assume a 15-16% hike in 2016 for our model).

Mouwasat’s revenue breakdown by customer type



Source: SHUAA Capital, Mouwasat

Note that even after the revision, pricing for Aramco-related business continues to be better than that for insurance customers. Additionally, Mouwasat’s agreement with Aramco includes a built-in annual 3% escalation clause, which is likely to ensure a continuation of the pricing gap between the two business segments for at least the medium term.

Expansions: Khobar to be larger than previously planned, acquisition on radar

Our discussion with management indicates that while the Riyadh and Jubail Hospital expansions are on schedule for completion in 2013 and 2014, respectively, the opening of the Khobar Hospital has been postponed till 2017 (previously 2015). This delay is largely attributable to an upward revision in the size of the project. The hospital will now be constructed over a 53,000 sqm land, versus previous land size of 18,000 sqm. The planned number of beds in the facility has similarly been increased to at least 200 against previous expectation of 150 beds. Last, but not least, the estimated cost of the Khobar Hospital has increased from SAR 275mn to SAR 350mn. Moreover, the company expects to finance SAR 120-150mn of this cost through interest free loans available from the Ministry of Finance at very attractive terms (5 years grace period, followed by loan repayment over 15 years).

Mouwasat's current and upcoming facilities

Hospital/Facility	Location	Inpatient beds	Outpatient clinics	Status
Dammam Hospital	Eastern region	240	110	Operational since 1988
Jubail Hospital	Eastern region	114	36	Operational since 2004
Qatif Hospital*	Eastern region	120	32	Operational since 2006
Madinah Hospital	Western region	120	32	Operational since 2000
Riyadh Hospital	Central region	175	60	Operational in 2013
Khobar Hospital	Eastern region	200	50	Operational in 2017
Jubail Hospital - expansion	Eastern region	120	-	Operational in 2014
Dispensaries	Al Ahsa and Dammam		25	
Pharmacies	Mainly Eastern region		8	
Total capacity - current		594	210	
Total capacity - post expansion		1,089	320	

Source: Mouwasat, SHUAA Capital
*: 51% owned

Management has also indicated that it is actively evaluating acquisition options in the Western region, particularly in Jeddah. Aimed at operating assets, any acquisition could cost up to the SAR 350mn mark.

Offering bulk discounts to drive revenues

Mouwasat witnessed a significant 40% YoY increase in "Doubtful debts", which are reported as part of Selling & Distribution (S&D) expenses, in 2012. This in turn raised S&D expenses as a percentage of revenues from 11.0% in 2011 to 12.4% in 2012. This hike can be explained by a new strategy adopted by the healthcare operator to offer volume discounts to insurance companies in lieu of higher business. These discounts have proven instrumental in attracting additional business, with management citing one example where offering of volume discount led to an increase in revenues from SAR 150mn to SAR 170mn from a single insurance company.

Higher doubtful debts raise S&D costs

Detail	2011	2012
Doubtful debts (SARmn)	49.6	69.2
S&D expenses as % of revenues	11.0%	12.4%

Source: Mouwasat, SHUAA Capital

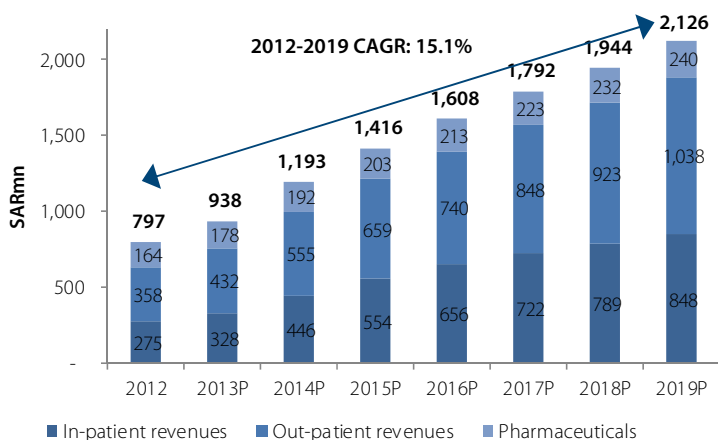
Given the success of this strategy, management intends to continue to offer volume discounts to insurance companies, with new providers expected to be added to this list in the current year. We thus expect the S&D expenses-to-revenues ratio to stand at 12.6% on average in the coming 5 years versus 8.9% for the 2008-2012 period.

Financial Outlook

Insurance contract re-pricing to drive revenue growth in 2013, facilities expansion beyond

The revision in pricing for insurance clients (up 20% on average), effective from 1 January 2013, is expected to be the most significant driver of revenue growth in 2013 for Mouwasat. Additionally, the company’s agreement with Aramco entails annual price escalation by 3%, which should support revenue growth as well. These factors, combined with management’s continued efforts to improve utilization rates should translate into a healthy 18% YoY growth in top line during the current year to SAR 938mn. Note that since the new Riyadh Hospital is expected to open in Q4-13, we do not anticipate significant contribution from it to revenues this year.

Healthy revenue growth anticipated



Source: Mouwasat, SHUAA Capital

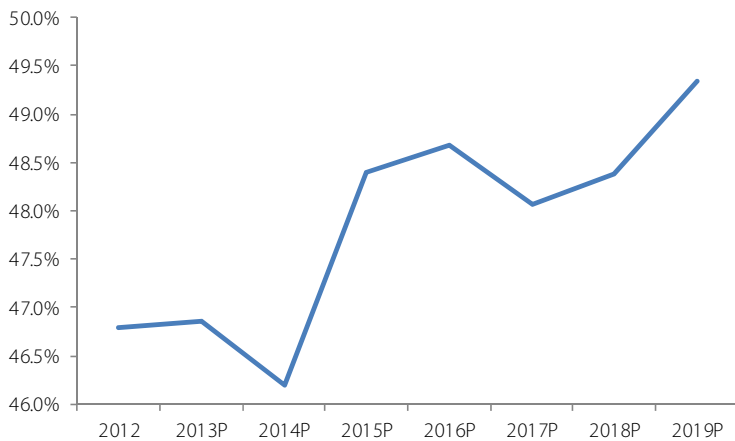
Beyond 2013, the planned facilities expansions are expected to gain more importance in terms of contribution to revenues, with 2014 anticipated to benefit from the first full year of operations of the Riyadh Hospital and the c. 100-bed expansion at the Jubail Hospital. As mentioned earlier, the opening of the Khobar Hospital is now expected in 2017. Management has indicated that healthcare facilities typically take 18 months to reach breakeven point. Consequently, we have extended our forecast period to 2019 to incorporate a “steady state” for the Khobar Hospital in our long term (Terminal) forecast.

With the company indicating that the number of out-patient clinics is set to expand 52% from the current 210 to 320 by 2017, while the number of inpatient-beds is scheduled to increase by a sharper 80% over the same period, we project 2012-2019 revenue CAGR of 15.1%.

New facility openings and SG&A costs to pressure margins in short to medium term

The opening of the Riyadh Hospital in Q4-13 and expansion of the Jubail Hospital in 2014 is expected to pressure margins in the medium term before utilization rates at the new facilities reaches more normalized levels. While gross margin in 2013 should remain in line with that seen in 2012 as Riyadh Hospital will have limited negative impact due to its opening towards the end of the year, 2014 is expected to witness a fall in the margin. Over the longer term (2019), we anticipate a gross margin of c. 49%, once all the planned facilities reach a normalized state of operations. Note that our forecast of higher margins over the longer term are driven in considerable part by the pricing policy, whereby Mouwasat renegotiates contracts with insurance companies every three years and its current pricing structure leaves further room for growth.

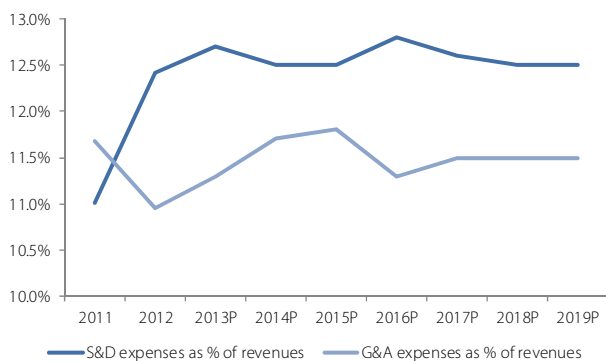
Annual gross margin edging higher over forecast period



Source: Mouwasat, SHUAA Capital

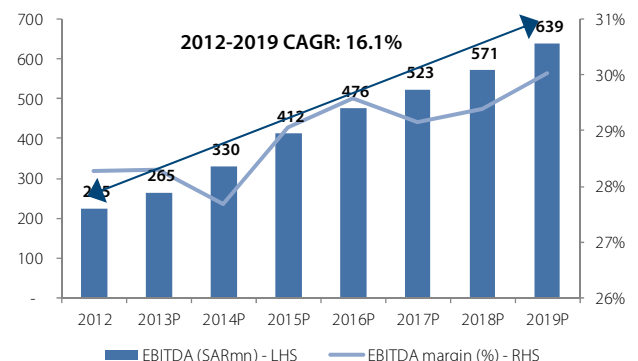
The EBITDA margin is likely to be further pressured in the medium term by an increase in SG&A costs as a percentage of revenues. As highlighted earlier, Mouwasat intends to continue to offer volume discounts to insurance companies in lieu of higher business, which will raise Selling & Distribution costs, while the commencement of operations at the new facilities is likely to result in relatively high General & Administration expense relative to revenues in the initial years. Over the long run (2019), we expect EBITDA margin to settle at 30.0% versus 28.3% in 2012.

SG&A costs to rise as % of revenues



Source: Mouwasat, SHUAA Capital

EBITDA margin to dip in 2014, but recover in 2015

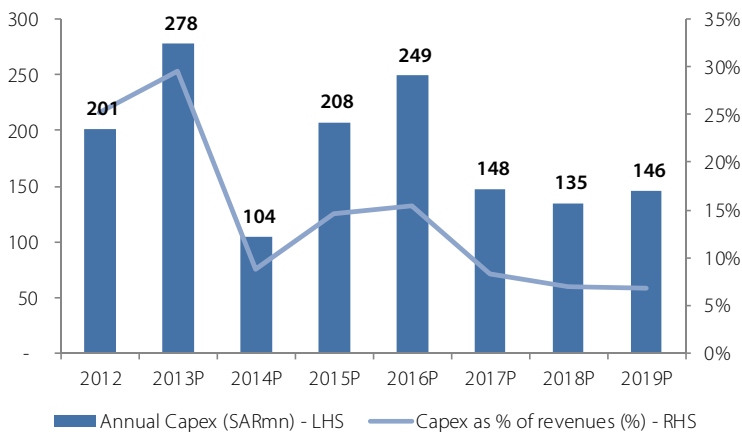


Source: Mouwasat, SHUAA Capital

Capital expenditure: SAR 630mn to be spent on new facilities

The planned Riyadh Hospital (SAR 320mn), Jubail Hospital expansion (SAR 110mn) and Khobar Hospital (SAR 350mn) are expected to be the biggest recipients of Mouwasat’s capital expenditure in the foreseeable future, Management has indicated that SAR 150mn has already been spent on the Riyadh Hospital, while the bulk of the remainder will be spent this year. With expenditure on both Riyadh and Jubail hospitals scheduled for this year, we expect 2013 to witness the highest capital expenditure during our forecast period. Note that expenditure on the Khobar Hospital is projected over the 2015-2017 period.

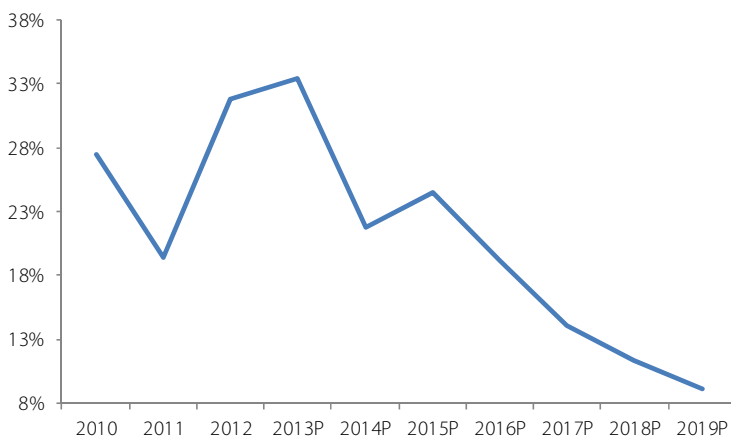
Capital expenditure to peak in 2013



Source: Mouwasat, SHUAA Capital

In line with the capital expenditure schedule, we expect Mouwasat’s debt-to-equity ratio to peak in 2013. Management expects to get up to SAR 70mn in financing from the Ministry of Finance for the Jubail Hospital expansion, while another SAR 120-150mn is likely to be borrowed through the Ministry at a later stage for the construction of Khobar Hospital. Both loans are expected to be attained on very attractive terms: 0% interest, 5-year grace period followed by 15 year repayment term.

Debt-to-equity ratio at comfortable level

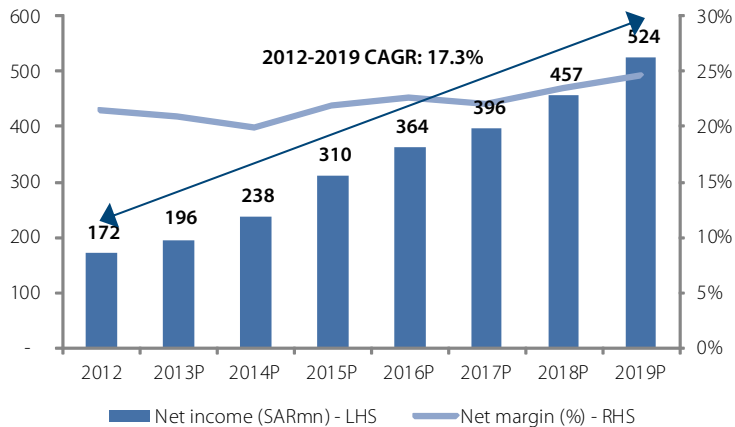


Source: Mouwasat, SHUAA Capital

2012-2019 net income CAGR projected at 17.3%; dividend yield expected at 3.1%

Given the expectation of higher margins over the longer term (once the new expansions are stabilized), net income is expected to grow at a faster 2012-2019 CAGR of 17.3% versus top line CAGR of 15.1% over the same period. For 2013 in particular, we expect bottom line growth to stand at 14%, primarily as a result of an increase in revenues.

Strong net income growth supported by improving margin



Source: Mouwasat, SHUAA Capital

In terms of dividends, we expect Mouwasat to distribute SAR 2.0 per share for 2013, translating into a payout ratio of 51% and a dividend yield of 3.1%. The company's stable cash flow generation capacity, combined with access to debt at very attractive terms, should ensure its capacity to continue to pay healthy dividends, despite the planned hefty capital expenditure.

Our forecast: more bullish than consensus, but conservative compared to company guidance

As evident from the table below, our forecasts are slightly more bullish than consensus estimates, particularly for 2014 and 2015. However, we remain more conservative than company guidance: during a recent conference, management indicated that it expects the 2013-2018 revenue CAGR to stand at c 21%, along with a net margin of 20-28%. In comparison, we are projecting a 2013-2018 top line CAGR of 16%, while forecasted net margin stands in the 20-23% range. Thus, management's ability to deliver on its more aggressive targets represents a key upside risk to our projections.

SHUAA estimates vs. consensus

	2013P	2014P	2015P
Revenues (SARmn)			
SHUAA forecast	938	1,193	1,416
Bloomberg Consensus	913	1,064	1,240
Variation	2.7%	12.1%	14.2%
Net Income (SARmn)			
SHUAA forecast	196	238	310
Bloomberg Consensus	191	221	296
Variation	2.5%	7.7%	4.7%

Source: Bloomberg, SHUAA Capital

Financial Statements

Income Statement (SAR mn)

Year to December	2011	2012	2013P	2014P	2015P
In-patient revenues	229.0	274.5	327.9	446.0	554.3
Out-patient revenues	301.0	357.7	431.7	555.0	658.8
Operating revenues	530.0	632.2	759.6	1,001.0	1,213.1
Other revenues	148.4	164.3	178.2	191.6	203.1
Total Revenues	678.4	796.5	937.9	1,192.6	1,416.2
Direct Costs	(354.4)	(423.8)	(498.4)	(641.6)	(730.8)
Gross Profit	324.0	372.7	439.5	551.0	685.4
Selling and distribution expenses	(74.7)	(98.9)	(119.1)	(149.1)	(177.0)
General and administration expenses	(79.2)	(87.2)	(106.0)	(139.5)	(167.1)
Amortization	(0.8)	(0.5)	(0.2)	(3.0)	(6.0)
Operating profit	169.3	186.0	214.2	259.4	335.3
Other income	8.5	8.7	8.9	9.1	9.2
Finance charges	(2.1)	(1.1)	(2.2)	(2.5)	(2.0)
Income before zakat and minorities	175.6	193.6	220.8	265.9	342.4
Zakat	(16.0)	(8.6)	(10.2)	(12.3)	(15.9)
Profit for the period	159.6	185.0	210.6	253.6	326.6
Attributable to:					
Net income attributable to shareholders	148.1	171.6	195.8	237.9	310.1
Minority interest	(11.5)	(13.4)	(14.8)	(15.7)	(16.4)
EPS (SAR)	2.96*	3.43	3.92	4.76	6.20
DPS (SAR)	1.50*	1.50	2.00	2.00	2.50

Source: Mouwasat, SHUAA Capital

*: 2011 figures adjusted for current number of shares

Balance Sheet (SAR mn)

Year to December	2011	2012P	2013P	2014P	2015P
Cash and cash equivalents	192.7	177.7	110.2	128.0	274.6
Short-term investment	-	50.0	50.0	50.0	50.0
Accounts receivable and prepayments	183.5	215.7	254.3	323.8	384.7
Inventories	58.6	62.6	72.0	77.0	81.8
Total current assets	434.8	506.0	486.5	578.8	791.0
Property and equipment	525.6	688.0	914.8	951.4	1,088.7
Other non-current assets	24.5	25.1	39.1	36.1	33.1
Total non-current assets	550.0	713.1	953.8	987.5	1,121.8
TOTAL ASSETS	984.8	1,219.2	1,440.3	1,566.3	1,912.8
Current portion of term loans	27.4	46.3	78.2	43.5	21.5
Short term loans	-	50.0	50.0	50.0	50.0
Accounts payable and accruals	106.9	115.2	135.3	173.9	197.4
Total current liabilities	134.2	211.5	263.5	267.3	269.0
Term loans	111.1	162.8	189.6	146.1	254.6
End-of-service indemnity	27.2	31.2	37.9	49.9	59.8
Total non-current liabilities	138.3	194.1	227.6	196.1	314.4
TOTAL LIABILITIES	272.6	405.6	491.1	463.4	583.4
Share capital	250.0	500.0	500.0	500.0	500.0
Other reserves & retained earnings	419.9	263.7	384.6	522.5	732.6
Total shareholders' equity	669.9	763.7	884.6	1,022.5	1,232.6
Minority interest	42.3	49.9	64.7	80.3	96.8
TOTAL EQUITY	712.3	813.6	949.2	1,102.8	1,329.4

Source: Mouwasat, SHUAA Capital

Key Ratios

Year to December	2011	2012	2013P	2014P	2015P
Growth					
Revenues	15.5%	17.4%	17.7%	27.2%	18.7%
EBITDA	16.4%	9.2%	17.8%	24.4%	24.7%
EBIT	18.5%	9.9%	15.1%	21.1%	29.3%
Net Profit	24.9%	15.9%	14.1%	21.5%	30.3%
Shareholders' Equity	17.1%	14.0%	15.8%	15.6%	20.6%
Number of out-patients	1.9%	8.4%	8.7%	21.3%	13.0%
Number of in-patients	4.3%	8.1%	6.6%	27.1%	17.2%
Margins & Profitability					
Gross Margin	47.8%	46.8%	46.9%	46.2%	48.4%
EBIT margin	24.9%	23.4%	22.8%	21.7%	23.7%
EBITDA margin	30.4%	28.3%	28.3%	27.7%	29.1%
Net Margin	21.8%	21.5%	20.9%	19.9%	21.9%
RoAE	23.8%	23.9%	23.8%	25.0%	27.5%
RoAA	17.0%	16.8%	15.8%	16.9%	18.8%
Leverage					
Net cash/(debt) (SARmn)	54.2	(81.4)	(207.6)	(111.6)	(51.6)
Debt-to-equity	19.4%	31.8%	33.5%	21.7%	24.5%
Efficiency					
Revenue per out-patient (SAR)	224	246	273	289	304
Revenue per in-patient (SAR)	5,864	6,507	7,287	7,798	8,265
In-patient to out-patient ratio	2.91%	2.90%	2.90%	2.90%	2.90%
Valuation					
EPS (SAR)	2.96	3.43	3.92	4.76	6.20
DPS (SAR)	1.50	1.50	2.00	2.00	2.50
P/E (x)	21.6	18.6	16.3	13.4	10.3
Fair value based P/E (x)	27.8	24.0	21.0	17.3	13.3
Dividend yield (%)	2.3%	2.3%	3.1%	3.1%	3.9%
EV/EBITDA (x)	15.3	14.6	12.4	9.9	8.0
EV/Sales (x)	4.6	4.1	3.5	2.8	2.3

Source: Mouwasat, SHUAA Capital

Bloomberg

NMC LN NMC Health

Reuters

NMC.LN Expanding business lines

 3rd April 2013

Recommendation: BUY

Current stock price (GBP)	3.28
52-week range (GBP)	1.69-3.57
YTD performance	66.7%
Number of shares (mn)	185.7
Free Float (%)	33%
Market Cap (GBP mn)	609.1
Market Cap (USD mn)	925.5
Div. Yld 2013P	1.4%

Current Price:	GBP 3.28	Country:	UAE
Target Price	GBP 3.79	Sector:	Healthcare
Recommendation:	BUY	Exchange:	LSE

NEW BUSINESS LINE & EARLIER OPENING OF NMC SPECIALTY SUPPORT VALUATION

We are upgrading our Target Price for NMC to GBP 3.79/share, 20% above our previous fair value and 16% above the prevailing market price. We thus maintain our BUY recommendation on the stock and continue to view it as the best means of gaining exposure to the attractive UAE Healthcare market. The increase in valuation is driven primarily by the addition of a new, high margin business line in the form of Third Party Management Services (90-95% EBITDA margin) and adoption of a phased approach which will result in earlier than expected opening NMC Specialty Hospital in Khalifa City (Q4-14 instead of 2015/2016). Our target price is based on DCF methodology, with global peer analysis presented as a sanity check for our valuation exercise. NMC currently trades at 2013 P/E and EV/EBITDA multiples of 14.2x and 11.3x, respectively. The company trades at a discount to both global Healthcare peers (average 2013 P/E: 20.2x, average 2013 EV/EBITDA: 12.2x) and Distribution peers (average 2013 P/E: 15.7x, average 2013 EV/EBITDA: 8.0x), which we feel is unjustified. An equally weighted relative valuation approach yields a fair value estimate of GBP 3.71/share, largely in line with our Target Price.


WHAT HAS CHANGED SINCE OUR INITIATION?

December 2012 witnessed the addition of a new, highly profitable revenue stream in the form of Third Party Management Services for NMC. The company was invited to tender for a 5-year contract to manage the newly opened Sheikh Khalifa General Hospital in Umm Al Quwain, which it subsequently won. Under the terms of the agreement, NMC will generate an annual fee income in the USD 4-5.4mn range, with the lower end of this range serving as the base fee and higher amounts attainable subject to achievement of certain KPIs based on quality and safety of the healthcare operations. Given that all staff costs, capital expenditure and other operational expenses for the hospital will be paid by the Ministry, NMC EBITDA margin for this business to stand in the 90-95% range. Furthermore, NMC is progressing with its aggressive expansion plan, which is set to increase its bed capacity by 157% to 590 beds from the current 230 beds. However, Mussafah Day Patient Medical Center, DIP Hospital and Brightpoint Hospital are all now anticipated to open this year against our previous forecast of 2012. The only notable exception to the general delay in opening of facilities is that of NMC Specialty Hospital in Khalifa City. We expected the facility to be completed in 2015/2016, however, management has indicated that it will initially be opened by the end of 2014 with a large range of out-patient services and 75 in-patient beds and will be fully functional by 2016.

PORTFOLIO EXPANSION TO TRANSLATE INTO HEALTHY TOP & BOTTOM LINE GROWTH

Contribution from the new business line and addition of healthcare facilities is expected to translate into healthy top and bottom line CAGRs of 10.3% and 10.8%, respectively. This growth is anticipated to be primarily driven by the Healthcare segment (2012-2017 revenues CAGR: 13.6%). Moreover, given that new healthcare facilities typically take 18-24 months to reach profitability (depending on the size and nature of the services offered), NMC's margins are expected to be pressured in the medium term. That being said, continued margin improvement at existing facilities (particularly Al Ain Specialty) and further expansion into higher margin segments, such as maternity (Brightpoint Hospital), is expected to result in slightly higher margins over the longer term than those seen in 2012. For 2013 in particular, we project 11.2% YoY revenue growth and 10.5% YoY increase in net income.

Sector Coverage

Asjad Yahya, CFA
+9714 3199 768
ayahya@shuaa.com

Taher Safieddine, CFA
+9714 3199 785
tsafieddine@shuaa.com

Year	Revenues (USD mn)	EBITDA (USD mn)	Net Profit (USD mn)	EPS (USD)	P/E(x)	EV/EBITDA (x)
2012	490.1	79.6	58.9	0.32	15.7	12.2
2013P	544.7	86.1	65.1	0.35	14.2	11.3
2014P	602.4	98.7	70.5	0.38	13.1	9.8
2015P	667.9	106.6	72.2	0.39	12.8	9.1

Valuation

We are upgrading our Target Price for NMC Health (NMC) to GBP 3.79/share, 20% above our previous fair value estimate and 16% above the current market price. We thus reiterate our BUY recommendation on the stock and continue to view it as the best means of gaining exposure to the attractive UAE Healthcare market. Our target price is based on DCF methodology, with global peer analysis presented as a sanity check for our valuation exercise.

DCF preferred valuation methodology

Given the strong visibility on the company's medium term expansion plans, we view DCF valuation as the best methodology to capture this growth. NMC is expected to open 4 new medical facilities during our forecast period, the last of which (NMC Specialty Hospital in Khalifa City) is scheduled for 2014 (partial opening during Q4-14, with full functionality to be achieved by 2016). All facilities are thus anticipated to reach profitability by 2017 and as such we restrict our forecast period to 5 years.

The table below presents the main inputs for our DCF analysis:

Key inputs for DCF analysis (USDmn)

Details	2013P	2014P	2015P	2016P	2017P
EBITDA	86.1	98.7	106.6	120.4	134.6
Less: change in working capital	(10.7)	(9.2)	(5.3)	(3.7)	(4.7)
Less: capital expenditure	(130.0)	(150.0)	(66.8)	(44.0)	(28.4)
Free Cash Flow	(54.7)	(60.5)	34.5	72.7	101.5
WACC	9.2%				
Terminal growth rate	3.0%				

Source: SHUAA Capital

Our WACC is calculated on cost of debt of 5%, cost of equity of 12% and debt-to-capital ratio of 40:60.

Details of DCF valuation

Details	Value (USDmn)
PV of explicit forecast	42
PV of Terminal Value	1,086
Enterprise Value	1,128
Less: 2012 net debt	(46)
Less: 2012 EOSB	(10)
Less: Minorities	(2)
Equity Value	1,070
Shares outstanding (mn)	186
Value per share (USD)	5.76
GBP-USD conversion rate	1.52
Value per share (GBP)	3.79

Source: SHUAA Capital

Relative valuation

For the purpose of conducting a relative valuation exercise as a sanity check for our DCF analysis, we have selected a wide range of global Healthcare and Distribution companies. The tables below present a snapshot of the peers used to determine the fair value of NMC.

Healthcare peers

Company	Country	Market Cap (USDm)	P/E			EV/EBITDA			EV/Sales	Div. yield		ROAE	
			TTM	2013	2014	TTM	2013	2014	2013	2013	TTM	2013	
HCA Holdings Inc	USA	18,086	11.4	12.7	10.7	7.7	7.4	6.9	1.4	-	N/A	N/A	
Community Health Systems	USA	4,368	10.1	12.7	10.4	7.2	7.0	6.4	1.0	-	10.4	11.7	
Health Mgmt Associates	USA	3,311	17.6	14.1	12.1	7.6	6.7	6.4	1.1	-	15.0	18.9	
Lifepoint Hospitals	USA	2,275	14.3	16.2	13.9	7.3	7.2	6.6	1.1	-	7.6	7.0	
Tenet Healthcare	USA	4,962	24.8	17.0	13.8	8.3	7.3	6.7	1.0	-	12.5	25.1	
Universal Health Services	USA	6,207	15.3	14.2	12.5	18.4	8.1	7.5	1.4	0.3	17.7	14.5	
Ramsay Healthcare Ltd	Australia	6,797	28.1	23.4	20.7	14.8	12.2	11.0	1.8	2.1	19.8	19.1	
Rhoen-Klinikum Ag	Germany	2,935	24.9	19.2	14.4	9.5	9.3	8.2	1.0	2.3	7.0	7.2	
Netcare	S. Africa	3,154	20.8	14.6	12.9	11.2	12.4	11.4	2.0	3.3	N/A	55.4	
Mediclinic International	S. Africa	5,755	25.6	24.2	19.5	N/A	14.4	13.1	3.1	1.5	15.3	13.8	
Life Healthcare Group	S. Africa	3,909	24.6	20.6	17.7	14.0	12.1	10.8	3.3	3.5	40.1	41.6	
Bangkok Dusit	Thailand	8,686	32.0	35.4	29.6	26.6	22.3	19.3	5.3	1.2	22.9	18.2	
Bumrungrad Hospital	Thailand	2,134	23.4	27.4	24.0	20.3	16.2	14.1	4.2	1.9	35.3	27.1	
Bangkok Chain Hospital	Thailand	825	26.7	26.9	23.7	16.9	14.9	13.3	4.8	2.1	26.6	23.7	
Raffles Medical Group	Singapore	1,444	31.1	28.5	24.3	23.0	20.8	17.6	4.9	1.4	15.7	15.4	
Fortis Healthcare	India	746	56.2	N/A	46.3	14.5	16.4	21.8	1.7	-	2.2	N/A	
Mouwasat	KSA	853	18.6	16.3	13.4	14.6	12.4	9.9	3.5	3.1	23.9	23.8	
Average			23.9	20.2	18.8	13.9	12.2	11.2	2.5	1.3	18.1	21.5	
Median			24.6	18.1	14.4	14.2	12.2	10.8	1.8	1.4	15.7	18.9	
NMC Health	UAE	925	15.7	14.2	13.1	12.2	11.3	9.8	1.8	1.4	27.5	18.3	

Source: Bloomberg, SHUAA Capital

Distribution peers

Company	Country	Market Cap (USDm)	P/E			EV/EBITDA			EV/Sales	Div. yield	ROAE	
			TTM	2013	2014	TTM	2013	2014			2013	TTM
AmerisourceBergen Corp	USA	11,842	17.6	16.7	14.0	8.8	9.0	7.9	0.1	1.5	27.7	25.4
Mckesson Corp	USA	25,143	16.7	15.0	13.5	9.2	8.6	7.8	0.2	0.8	21.2	22.3
Colabor Group	Canada	184	19.6	19.3	17.1	7.0	6.2	5.6	0.2	9.7	4.1	N/A
Marr Spa	Italy	730	11.7	11.7	10.8	9.0	8.1	7.6	0.5	6.9	21.4	20.7
Average			16.4	15.7	13.8	8.5	8.0	7.2	0.3	4.7	18.6	22.8
Median			17.1	15.8	13.7	8.9	8.3	7.7	0.2	4.2	21.3	22.3
NMC Health	UAE	925	15.7	14.2	13.1	12.2	11.3	9.8	1.8	1.4	27.5	18.3

Source: Bloomberg, SHUAA Capital

As evident from the tables above, NMC trades at a discount to both its Healthcare and Distribution peers, particular with regards to the 2013 P/E multiple. The average 2013 P/E multiple for Healthcare and Distribution peers stands at 18.0x, which implies a fair value of GBP 4.14/share for NMC, 9% above our DCF-based Target Price.

P/E based valuation

Detail	2013
Healthcare average P/E	20.2
Distribution average P/E	15.7
Average of both groups	18.0
NMC 2013 EPS (USD)	0.35
Valuation (USD)	6.29
GBP-USD exchange rate	1.52
Value per share (GBP)	4.14

Source: SHUAA Capital

On the other hand, EV/EBITDA based valuation yields an implied fair value of GBP 3.28/share, 13% below our DCF-based estimate. For the purpose of this exercise, we have estimated EBITDA contribution from each business segment and account for intersegment eliminations. This exercise is similar to the one we conducted in our initiation note on NMC.

EV/EBITDA based SOTP valuation

Detail	2013
Healthcare average EV/EBITDA (x)	12.2
Estimated NMC Healthcare segment EBITDA (USDmn)	77.1
Valuation of Healthcare segment (USDmn)	940.5
Distribution average EV/EBITDA (x)	8.0
Estimated NMC Distribution segment EBITDA (USDmn)	28.2
Valuation of Distribution segment (USDmn)	225.9
Average peer EV/EBITDA (x)	10.1
Estimated Corporate EBITDA for intersegment elimination (USDmn)	(19.3)
Valuation of Corporate segment (USDmn)	(194.6)
2012 net cash/(debt) (USDmn)	(46.2)
Valuation (USDmn)	925.6
GBP-USD exchange rate	1.52
Equity value (GBPmn)	609.2
Shares outstanding (mn)	185.7
Value per share (GBP)	3.28

Source: SHUAA Capital

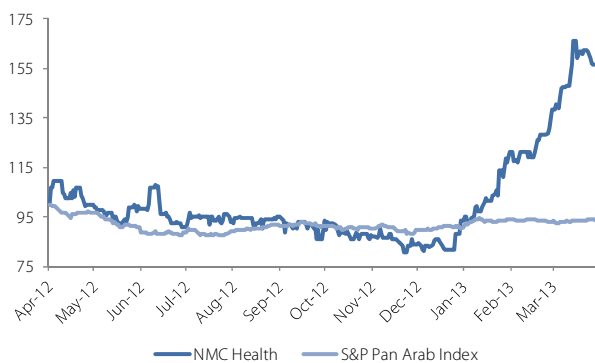
By equally weighting the results of the 2013 P/E and EV/EBITDA analyses, we arrive at a fair value estimate of GBP 3.71/share, in line with our DCF-based Target Price of GBP 3.79/share. We thus remain comfortable with our valuation.

What has changed since our initiation?

Strong share price performance post a “false start”

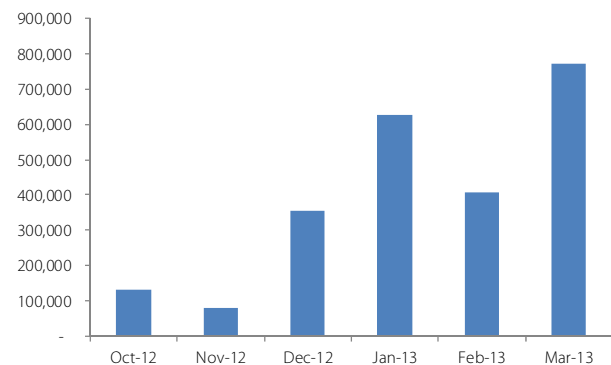
The trading pattern of NMC’s share price since its listing last year can be divided into two distinct segments: 1) in the first segment, lasting from early April 2012 to 24 Dec 2012, the stock drifted down steadily from its IPO price of GBP 2.10/share to GBP1.72/share at the end of this period, hitting a low of GBP 1.69/share on 23 Nov 2012 in the process. 2) the second phase, ranging from 24 Dec 2012 to date, however, saw a complete turnaround, with the share price jumping 91% along with a marked increase in turnover, making the stock one of the best performers in the region during this period. Note that the stock price was at GBP 2.10 the time of our initiation in May 2012 (the same as its IPO price).

NMC share price vs. S&P Composite Index (rebased)



Source: Bloomberg, SHUAA Capital

Average daily traded value (USD)



Source: Bloomberg, SHUAA Capital

Insiders show faith in company

Data from Bloomberg indicates that Board Members of NMC, including the Chairman, have acquired shares worth c. GBP 95,000 in the company between December 2012 and March 2013, reflecting their faith in the underlying fundamentals. Note that the recovery in NMC’s share price from December 2012 onwards coincides with the first news of insider purchases, suggesting that insider buying may have helped in identifying the disconnect between the company’s strong outlook and its depressed share price at the time.

Details of purchases by NMC insiders

Period	Total Amount (GBP)	Price/share (GBP)
Week ending Dec 21	59,791	1.75
Week ending Dec 28	19,747	1.72
Week ending Mar 22	14,875	3.26

Source: Bloomberg

Facilities expansion progressing, albeit with slight delay

As highlighted in our initiation report, NMC is pursuing an aggressive expansion plan which is set to increase its bed capacity by 157% to 590 beds from the current 230 beds (taking into account the 45 current beds at Al Ain Hospital vs. license for 100). However, there have been changes in completion schedules for some of the facilities compared to our original expectations. While the acquisition of BR Medical Suites in Dubai was completed in line with original expectations in 2012, Mussafah Day Patient Medical Center, DIP Hospital and Brightpoint Hospital are all now anticipated to open this year against our previous forecast of 2012. Moreover, the DIP facility will now be established as a general hospital instead of a Day Patient Medical Center.

One notable exception to the general delay in opening of facilities is that of NMC Specialty Hospital in Khalifa City, Abu Dhabi. We expected the facility to be completed in 2015/2016, however, management has indicated that it will initially be opened by the end of 2014 with a large range of out-patient services and 75 in-patient beds. Given the size of the project, the company's largest to date, the earlier date for phased opening of the hospital impacts our forecasts positively.

NMC's current assets

Detail	Abu Dhabi Specialty Hospital	Dubai Specialty Hospital	Al Ain Specialty Hospital	Dubai General Hospital	Sharjah Medical Centre	BR Medical Suites
Established	1975	2004	2008	1999	1996	2011*
No. of beds	100	75	100**	10	-	-
Accreditation	JCI	JCI	JCI	-	-	-
Staff	1,100	632	536	260	160	20
No of In-patients (2012)	20,025	7,689	6,108	1,387	-	N/A
No of Out-patients (2012)	585,855	205,290	246,551	134,948	95,490	1,527
2012 Bed Occupancy	68.4%	56.0%	55.6%	37.9%	N/A	N/A

*: acquired by NMC in 2012

** : Hospital has licensed capacity of 100 beds but currently has 45 beds

Source: NMC Health, SHUAA Capital

NMC's planned expansions

Detail	Mussafah Day Patient Medical Centre	Brightpoint Hospital	DIP Hospital	NMC Specialty Hospital, Khalifa City
Anticipated opening date	Q1-13	Q3-13	Q4-13	Q4-14*
Planned no. of beds	N/A	50	60	250
Staff	45	250	45	N/A
Leased/Owned	Leased	Leased	Leased	Owned
Total capital expenditure (USDmn)	18	70	35	200

*: The hospital will open in 2014 with a large range of out-patient services and 75 beds.

Source: NMC Health, SHUAA Capital

New business stream added in form of management contract

December 2012 witnessed the addition of a new, highly profitable revenue stream in the form of Third Party Management Services for NMC. The company was invited to tender for a 5-year contract to manage the newly opened Sheikh Khalifa General Hospital in Umm Al Quwain, which it subsequently won. The hospital is the first of three new general hospitals built by the UAE Ministry of Presidential Affairs in the Northern Emirates.

Under the terms of the agreement, NMC will generate an annual fee income in the USD 4-5.4mn range, with the lower end of this range serving as the base fee and higher amounts attainable subject to achievement of certain Key Performance Indicators (KPIs) based on quality and safety of the healthcare operations. Given that all staff costs, capital expenditure and other operational expenses for the hospital will be paid by the Ministry, NMC expects to incur minimal cost in relation to this revenue stream.

The addition of this new source of revenues bodes well for NMC. Although the agreement requires the company to train and handover responsibilities of the Sheikh Khalifa General Hospital to new management to be employed by the Ministry, good performance by NMC could open doors for similar additional contracts in the future. This holds particularly true in light of the fact that the government remains the largest healthcare service provider in the country and that it continues to expand its presence in the sector, as reflected by the two additional hospitals planned by the Ministry of Presidential Affairs in the Northern Emirates.

Financial Outlook

Healthcare segment to drive top line growth

Ramp up of operations (improvement of utilization rates) at existing hospitals/medical centers (particularly Al Ain Specialty) and opening of new facilities (Mussafah Day Patient Center, DIP Hospital and Brightpoint Hospital in 2013 and NMC Specialty Hospital in Q4-14) is expected to be the primary driver of Healthcare revenue growth over our forecast period. Coupled with modest increases in revenues per patient at the various hospitals, these factors are expected to translate into 2012-2017 top line CAGR of 13.6% for the Healthcare segment. With regards to revenue per patient, Al Ain Specialty is anticipated to witness the biggest improvement amongst existing facilities (from USD 108.3 in 2012 to USD 152.6 by 2017) as the in-patients to out-patients ratio improves from the current 2.5% towards the levels seen at the Abu Dhabi Specialty Hospital (3.4%). Moreover, the Brightpoint Hospital is anticipated to have the highest revenue per patient among all of NMC's facilities.

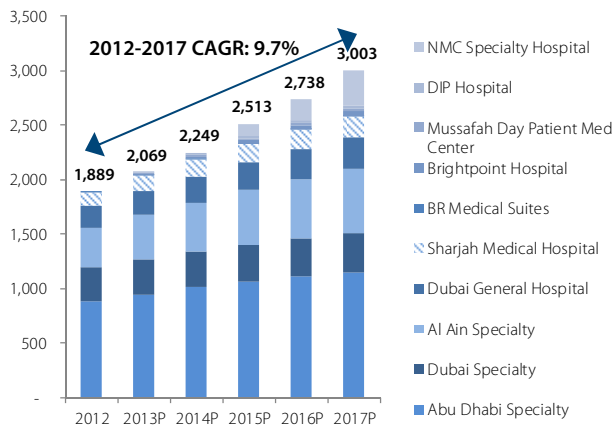
Revenue per patient by facility (USD)

Medical facility	2012	2013P	2014P	2015P	2016P	2017P
Abu Dhabi Specialty	101	104	107	110	112	114
Dubai Specialty	158	168	179	189	198	207
Al Ain Specialty	108	118	126	135	144	153
Dubai General Hospital	58	56	56	56	57	57
Sharjah Medical Hospital	73	73	73	74	74	75
BR Medical Suites	734	697	669	683	700	714
Brightpoint Hospital	-	250	438	591	679	717
Mussafah Day Patient Med Center	-	75	79	83	88	95
DIP Hospital	-	100	104	107	110	114
NMC Specialty Hospital	-	-	-	85	90	95
Aggregate revenue per patient	106	110	117	122	127	131

Source: NMC Health, SHUAA Capital

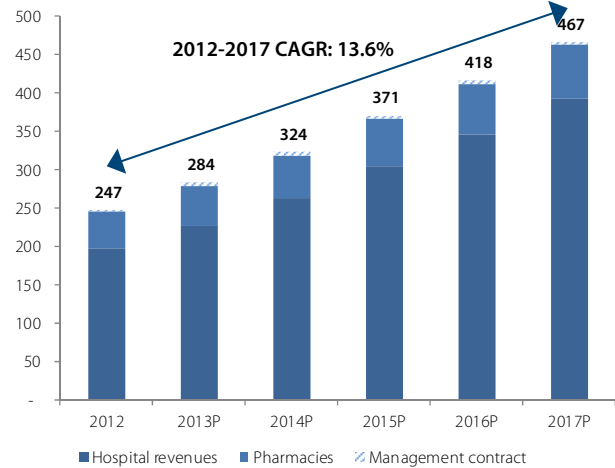
Our discussion with management indicates the average revenue per in-patient at NMC's existing facilities stands around the USD 1,000 mark and it expects the revenue per patient for Brightpoint Hospital to stand at a similar level upon normalization of operations. However, our our forecast more conservatively assumes revenue per patient of USD 717 by 2017.

Number of patients ('000)



Source: NMC Health, SHUAA Capital

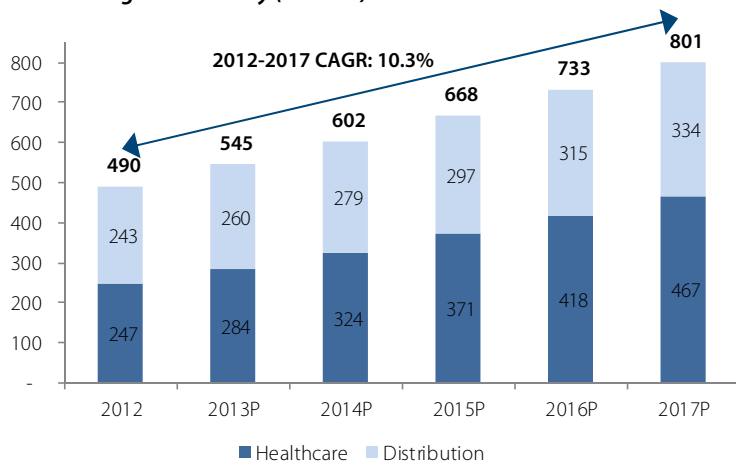
Healthcare revenues (USDmn)*



*: Includes contribution from management contract for Sheikh Khalifa General Hospital
Source: NMC Health, SHUAA Capital

NMC's Distribution business is expected to continue to grow healthily as well, albeit at slower pace than the Healthcare segment. Driven by continued expansion of product portfolio and improved distribution capabilities as a result of the capital expenditure incurred last year, we expect the Distribution segment to record 2012-2017 revenue CAGR of 6.6%. Thus aggregate revenues of the company are anticipated to post 2012-2017 CAGR of 10.3%, while 2013 in particular is anticipated to witness 11.2% YoY growth in the top line.

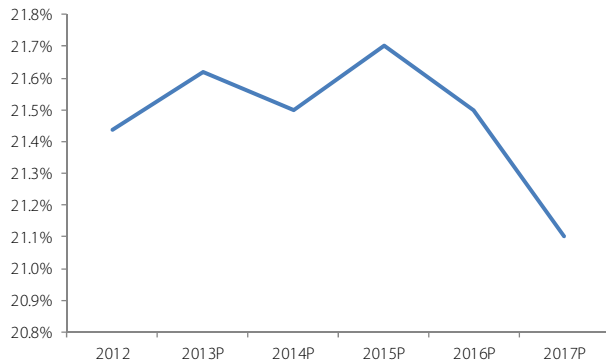
Revenues to grow healthily (USDmn)



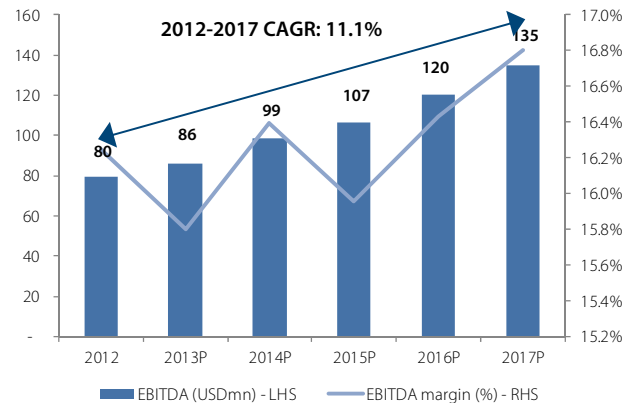
Source: NMC Health, SHUAA Capital

Margins: Pressure in medium term, but long term improvement

Given that new healthcare facilities typically take 18-24 months to reach profitability (depending on the size and nature of the services offered), NMC's margins are expected to be pressured in the medium term. That being said, continued margin improvement at existing facilities (particularly Al Ain Specialty) and further expansion into higher margin segments, such as maternity (Brightpoint Hospital), is expected to result in slightly higher margins over the longer term than those seen in 2012. Thus, margins in 2013 and 2015 in particular are likely to be pressured as new facilities commence operations (our model assumes that the NMC Specialty Hospital starts operations from 2015).

G&A expenses as % of revenues


Source: NMC Health, SHUAA Capital

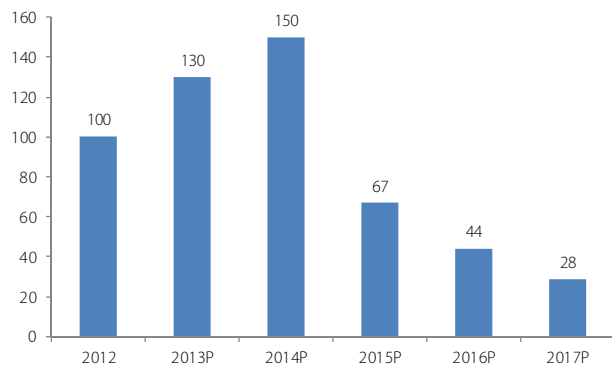
EBITDA growth to remain strong


Source: NMC Health, SHUAA Capital

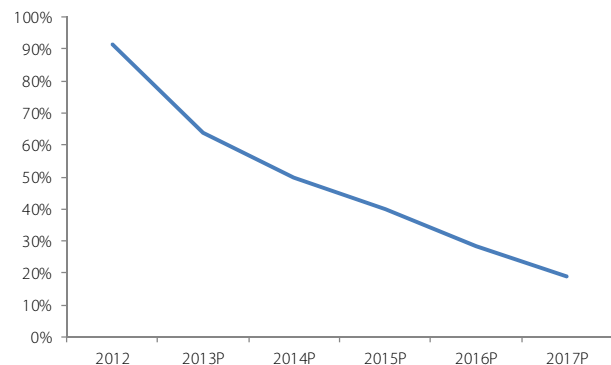
Note that the new business line of Third Party Management Services introduced in 2012 is anticipated to be a very profitable addition to NMC's portfolio. Management has indicated that it expects the EBITDA margin related to the management of the Sheikh Khalifa Hospital to stand around the 90-95% mark, with the Ministry of Presidential Affairs responsible for all staff costs, capital expenditure and other operational costs. We do not assume any additional similar contracts during our forecast, representing an important upside risk to our forecasts.

Capital expenditure to peak in 2013-2014 period; debt-to-equity to trend downwards

With expenditure on Brightpoint and DIP hospitals steaming ahead and NMC Specialty set for partial opening in 2014, we expect the company to spend USD 280mn over the 2013-2014 period, before tapering down in subsequent years. Over the long term (in 2017 and for Terminal value calculation) we assume capital expenditure to be in line with annual depreciation.

Annual capital expenditure


Source: NMC Health, SHUAA Capital

Debt-to-equity ratio to trend downwards


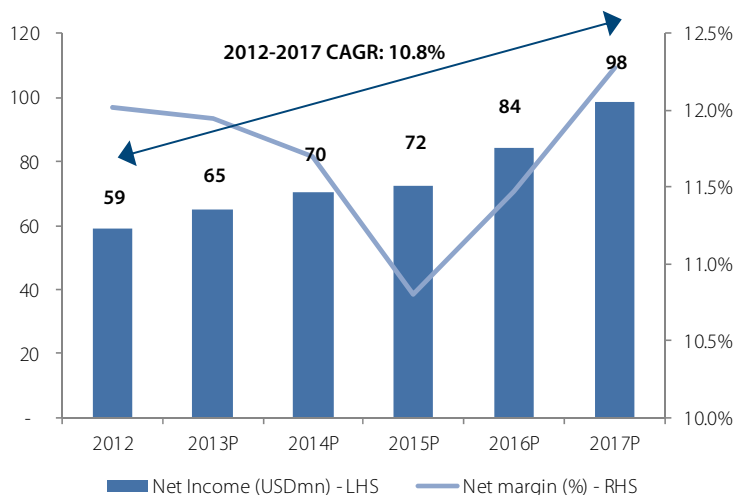
Source: NMC Health, SHUAA Capital

Following its IPO, NMC acquired a 5-year, USD 150mn loan from a syndicate led by J.P. Morgan Chase Bank to fund its development expenditure. As such, we expect the company's debt-to-equity ratio to have peaked last year and project the ratio to trend downwards throughout our forecast.

Net income and dividends

We expect NMC to record net income CAGR of 10.8% over the 2012-2017 period. The lower bottom line growth in comparison to EBITDA (2012-2017 CAGR: 11.1%) results mainly from an expectation of a decline in interest income as cash is utilized to fund capital expenditure. That being said, net income growth is anticipated to slightly surpass revenue growth over our forecast period as the net margin improves. Moreover, for 2013 in particular, we expect the company to post 10.5% YoY growth in net profits, with a reduction in net interest expense and absence of floatation costs (2012: USD 3.4mn) supporting profitability.

Net income & net margin



Source: NMC Health, SHUAA Capital

With regards to dividends, NMC targets a payout ratio of 20-30% of net profit. Given ongoing capital expenditure requirements, we expect payout in 2013 to remain at the lower end of this range and as such anticipate a dividend of USD 0.07/share, which translates into a dividend yield of 1.4% at the prevailing share price and GBP-USD conversion rate of 1.52.

Financial Statements

Income Statement (USD mn)

Year to December	2011	2012	2013P	2014P	2015P
<i>Healthcare revenues</i>	214.6	247.5	284.4	323.8	371.3
<i>Distribution revenues</i>	229.1	242.6	260.3	278.5	296.6
Total revenues	443.7	490.1	544.7	602.4	667.9
COGS	(306.4)	(329.8)	(367.0)	(403.6)	(449.1)
Gross Profit	137.4	160.3	177.7	198.7	218.8
G&A expenses	(78.8)	(105.1)	(117.8)	(129.5)	(144.9)
Other income	11.9	24.4	26.1	29.5	32.7
EBITDA	70.5	79.6	86.1	98.7	106.6
Depreciation	(12.0)	(7.0)	(13.1)	(19.7)	(24.7)
Rental income from investment properties	1.2	-	-	-	-
Finance costs	(16.9)	(13.7)	(12.1)	(9.9)	(9.1)
Finance income	1.1	4.3	5.1	2.6	0.5
Flotation costs	-	(3.4)	-	-	-
Profit before tax	43.8	59.8	66.0	71.6	73.3
Tax	-	-	-	-	-
Net Profit	43.8	59.8	66.0	71.6	73.3
Attributable to:					
Equity holders of the parent	43.0	58.9	65.1	70.5	72.2
Non-controlling interests	0.8	0.9	1.0	1.1	1.2
EPS (USD)	0.23	0.32	0.35	0.38	0.39
DPS (USD)	-	0.06	0.07	0.08	0.10

Source: NMC Health, SHUAA Capital

Balance Sheet (USD mn)

Year to December	2011	2012	2013P	2014P	2015P
Property, plant & equipment	94.9	201.7	318.5	448.8	490.9
Intangible assets	-	1.0	1.0	1.0	1.0
Total non-current assets	94.9	202.7	319.6	449.8	491.9
Inventories	54.2	72.5	78.4	82.9	89.8
Accounts receivable and prepayments	153.5	181.4	194.0	206.3	210.4
Amounts due from related parties	-	1.6	1.6	1.6	1.6
Cash and equivalents	54.1	257.5	127.6	24.6	17.1
Total current assets	261.7	512.9	401.7	315.4	318.9
TOTAL ASSETS	356.6	715.6	721.3	765.2	810.9
Term loans	35.5	118.4	138.4	116.3	76.1
Employees' EOSB	8.9	10.4	11.6	12.8	14.3
Other payables	-	1.2	1.2	1.2	1.2
Total non-current liabilities	44.3	130.0	151.3	130.3	91.7
Accounts payable and accruals	63.9	68.6	76.5	84.0	89.8
Amounts due to related parties	1.2	0.1	0.1	0.1	0.1
Bank overdrafts and other short term borrowings	101.3	80.7	82.3	83.9	85.2
Term loans	45.4	104.5	25.0	22.1	40.1
Total current liabilities	211.9	253.9	183.9	190.2	215.3
TOTAL LIABILITIES	256.2	384.0	335.2	320.5	307.0
Share capital	27.2	29.6	29.6	29.6	29.6
Share premium	-	179.2	179.2	179.2	179.2
Retained earnings & other reserves	72.1	121.0	174.4	231.9	290.0
Equity attributable to shareholders	99.3	329.7	383.2	440.6	498.7
Non-controlling interests	1.1	1.9	2.9	4.1	5.2
TOTAL EQUITY	100.3	331.6	386.1	444.7	503.9

Source: NMC Health, SHUAA Capital

Key ratios

Year to December	2012	2013P	2014P	2015P
Growth				
Healthcare revenues	15.3%	14.9%	13.9%	14.7%
Distribution revenues	5.9%	7.3%	7.0%	6.5%
Total revenues	10.4%	11.2%	10.6%	10.9%
EBITDA	13.0%	8.1%	14.7%	8.0%
EBIT	24.3%	0.5%	8.3%	3.7%
Net profit	37.0%	10.5%	8.3%	2.4%
Number of patients	10.4%	9.5%	8.7%	11.8%
Aggregate revenue per patient	4.7%	4.2%	6.1%	4.0%
Margins & Profitability				
Gross margin	32.7%	32.6%	33.0%	32.8%
EBIT margin	14.8%	13.4%	13.1%	12.3%
EBITDA margin	16.2%	15.8%	16.4%	16.0%
Net margin	12.0%	11.9%	11.7%	10.8%
RoAE	27.5%	18.3%	17.1%	15.4%
RoAA	11.1%	9.5%	9.9%	9.3%
Leverage				
Net cash/(debt) (USDmn)	(46.2)	(163.1)	(197.0)	(183.8)
Debt-to-equity	92%	64%	50%	40%
Valuation				
EPS (USD)	0.32	0.35	0.38	0.39
DPS (USD)	0.06	0.07	0.08	0.10
P/E (x)	15.7	14.2	13.1	12.8
Fair value based P/E (x)	18.2	16.4	15.2	14.8
Dividend yield (%)	1.3%	1.4%	1.5%	1.9%
EV/EBITDA (x)	12.2	11.3	9.8	9.1
EV/Sales (x)	2.0	1.8	1.6	1.5

Source: NMC Health, SHUAA Capital

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Research

Asjad Yahya, CFA
+9714 3199 768
ayahya@shuaa.com

Taher Safieddine, CFA
+9714 3199 785
tsafieddine@shuaa.com

Client Services:

800 SHUAA (74822) - UAE only
+971 (4) 319-9777 – International
clientservices@shuaa.com

Sales Trading Desk:

+971 (4) 319-9700
tradingdesk@shuaa.com

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