Kicking off two new facilities in FY25, after weak cost absorption from expansions seen in FY24; we revise our TP to SAR 86.4/share at a "Neutral" recommendation

Underwhelming top line performance in Q1-25 was countered by cost improvements and decreased Zakat charges to post a net income of SAR 197.05mn (up 14.8% Y/Y and 17.7% Q/Q) for Mouwasat. Sequential gross profit margin improvement of 340bps came 240bps lower Y/Y to reach 45.4%. Despite an only 3% inflation rate on service prices, management aims for a 15-20% revenue growth in FY25 on the back of improved rejection rates (which hindered FY24 performance), as well as complexity of services and patient growth. With two FY25 expansions coming in late into the year (200 beds in Yanbu by Q3-25, and 300 beds in Jeddah by Q4-25's end) we expect the facilities to contribute little to revenue performance while increasing cost base. Along with increased competition sector wide, as well as competition for hirings and hiring inflation, we expect Mouwasat to remain wrestling with cost initiatives not generating return as quick-as-expected and as hirings for the upcoming facilities are not in effect yet. The firm's 40% capacity expansion plan along with the costs associated with that drive our FY24-29E revenue and net income forecast CAGRs of 10.7% and 15.3%. We revise down our TP to SAR 86.4 per share on the back of weak cost absorption displayed from FY24's Madina LTC ramp up ahead of costly initiatives, and competition not in favor of Mouwasat. We maintain a "Neutral" recommendation on the stock ahead of expansionary pressures and competition challenges.

Cost improvements supported Q1-25 results ahead of H2-25 pressures. Top line growth remains underwhelming and away from management growth targets for the year: Coming off of a lackluster FY24, Mouwasat posted a Q1-25 net income of SAR 197.05mn (up 14.8% Y/Y, and 17.7% Q/Q). While top line growth remained underwhelming (SAR 764.4mn at a growth of 5.8% Y/Y and 1.2% Q/Q, despite Madina LTC ramp up), Q1-25 results were driven by cost improvements and decreased finance & Zakat expenses. Gross margins improved sequentially by 340bps, yet came down by 240bps Y/Y to reach 45.4%, and still a way down from the FY23 levels that management were targeting for H1-25. Furthermore, OPEX to revenues came down 330bps Y/Y (flat Q/Q), as management indicated that much of the issues prompting heightened impairment charges taken place through FY23-24 were resolved by FY24's end. We see risks in Q1-25 results as we expect issues on rejection rates could potentially be at play pressurizing results. While Q1-25 did see more Ramadan days than last year (having an adverse effect), Q2-25 is conventionally also a down season- leaving performance for the year to be dependent on H2-25 where two expansions will take place.

Firm target of 15%-20% revenue growth in FY25, as well as net margins of more than 23% by FY25 (excluding expansions), & FY23-level gross margins in H1-25 seem optimistic in light of cost obligations and competition and only 3% in price inflation for the provider: Management gave a set of targeted performances during the previous earnings call which we consider as optimistic as Mouwasat faces increased competition in the Eastern Region, as well as two expansions by end of FY25. While net price increases are set at an average of 3%, management is banking on the complexity of operations and lesser rejection rates along with patient growth to drive the guided growth of 15%-20% in FY25. We expect the more pronounced competition in the sector to challenge that target, with less support from the two expansions coming in by end of year at Q3-25 and end of Q4-25. Furthermore, as Q1-25 was not on track for such growth, Q2-25 to be not seasonally-favorable, and considering the late expansions, reaching these targets will be based on initiatives to improve rejection rates. On the cost front, staff hirings, completion over talent and thus staffing inflation, could also further challenge the target to reach FY23 level gross margins for H1-25 (at 48.5%). Q1-25 GPMs was also a way down from those targets. The expansions which come online late into the year should increase salary cost base, as well as depreciation costs, without contributing much into FY25's performance. Much of the net income margin guidance of over 23% (excluding expansions) will then depend on H1-25 performance and management's success in reducing rejection rates and patient attraction. Our forecasts are summarized by a FY24-29E revenue and net income CAGR of 10.7% and 15.3% respectively.

Recommendation	**Neutral**
Target Price (SAR)	**86.4**
Upside / (Downside)*	**14.1%**

Source: Tadawul *prices as of 06th of May 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	2,879	3,177	3,671	4,023
Growth %	6.4%	10.3%	15.6%	9.6%
Gross Profit	1,289	1,377	1,560	1,757
Op. Profit	724	837	997	1,171
Net Income	646	741	881	1,045
Growth %	-1.8%	14.8%	19.0%	18.6%
EPS	3.23	3.71	4.41	5.23
DPS	2.00	2.25	2.75	3.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	44.8%	43.3%	42.5%	43.7%
OP Margin	25.2%	26.3%	27.1%	29.1%
Net Margin	22.4%	23.3%	24.0%	26.0%
EBITDA Margin	33.3%	34.4%	34.9%	36.5%
RoE	18.9%	19.9%	21.8%	23.8%
P/E	26.4	20.4	17.2	14.5
P/B	4.8	3.9	3.6	3.3
EV/EBITDA	18.5	13.9	12.0	10.4
Dividend Yield	2.1%	2.6%	3.0%	3.6%

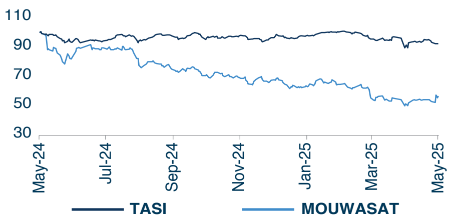
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	15.5
YTD%	11.1%-
52 weeks (High)/(Low)	138.4/65.6
Share Outstanding (mn)	200.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

Equity Analyst
Ibrahim Elaiwat
+966 11 2256115
i.elaiwat@Aljaziracapital.com.sa

Expanding beds capacity by c. 40% to 2,220 beds via the addition of three facilities to drive long term performance: Mouwasat plans to increase its beds capacity to 2,100 by FY25's end, and 2,220 beds by FY28E. The two expansion around the corner are both in the Western region; a 200 bed facility in Yanbu (expected by Q3-24), and a 300 bed facility in Jeddah (expected by Q4-25). Management expects the ramp ups of these facilities to break even in 18 months from operation. The third facility in Qadisiya, Riyadh, is still in the design phase, and is expected to be online in 36 months after the start of construction. We expect the 120 bed facility to be operational by FY28. Further in the project pipeline are two approved polyclinic projects in Khobar and Jubail. We see the challenges of hirings and competition, sector-wide, to be a source of attrition for the ramping up, patient attraction, and cost efficiencies of the upcoming expansions. As a result, we expect the two FY25 facilities to continue the cost pressures into FY26 where we forecast GPMs to reach 42.5% (down from 44.8% in FY24). We further expect the FY28 expansion in Riyadh, where there is considerable increase in competition, to cost GPMs a 110bps decline Y/Y in FY28 to reach 42.6%, before improving gradually thereafter.

More debt expected to fund the forecasted SAR 1.3bn expansion-driven FY25-28E CAPEX ahead for Mouwasat: Expansion costs underway as well as maintenance CAPEX for the facilities around the corner are estimated at a bill of SAR 1.3bn till FY28. While improvements are expected in working capital ahead, after a 20% decrease in receivables balance, and less need for provisions after a SAR 149.5mn write off in bad debts in FY24 (as compared to FY23 write offs of SAR 26.3mn); we still expect Mouwasat to maintain a debt/equity of 0.2x till winding down by FY27 prior to the opening of its 2028 expansion. Its relatively low D/E levels, and cash generation post the two FY25 expansions are expected to support Mouwasat maintaining dividend payouts in the range of 60%-70% by through FY24-29E.

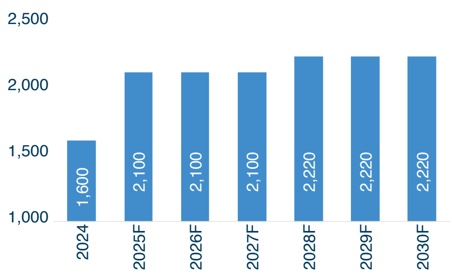
AJC View and Valuation: Mouwasat is expected to wrestle with several friction points ahead of its three facility expansions, bringing in challenges on revenue attraction and cost management. Heightened competition, as well as hirings yet-to-be in effect, along with plans to improve rejection rates are all challenge points for Mouwasat that we consider to be significant when forming our outlook on the stock. Its upcoming expansions face competitive geographic markets as well, namely in Riyadh and Jeddah, to further pose a concern on the speed of ramp ups for the upcoming facilities. Its evident lack of absorption of cost pressures, as seen in FY24 from the ramp up of Madinah's LTC facility as well as rejection increases further brings a point of concern ahead of the many cost initiatives facing Mouwasat. We revise down our TP of **SAR 86.4 per share** via way of 50% PE and 50% DCF blended weightage valuations, at a "**Neutral**" recommendation due risks of expansionary pressures and competition challenges. We revise our multiples lower on the back of increased competition and cost pressures.

Valuation Summary

	Value (SAR)	Weight	Weighted Value (SAR)
PE (25x on FY25E)	92.6	50%	46.3
DCF	80.1	50%	40.1
Blended TP			**86.4**
Upside/Downside			**14.1%**

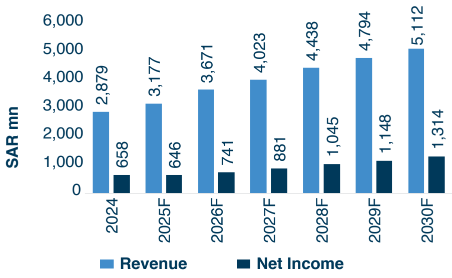
Sources: AlJazira Capital, *Prices as of 6th May 2025

Fig 1: Increasing capacity by 40% via three new facilities



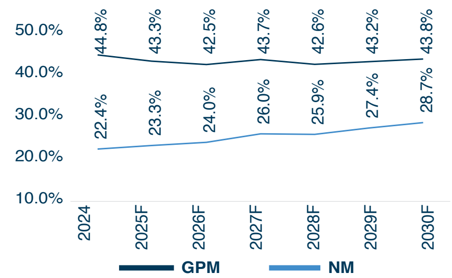
Source: Company, AlJazira Capital research

Fig 2: Price increases to drive short term revenue growth before expansions



Source: Company, AlJazira Capital research

Fig 3: Cost pressures to keep GPMs at a locked range ahead of expansions



Source: Company, AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement								
Revenues	2,706	2,879	3,177	3,671	4,023	4,438	4,794	5,112
Y/Y	**15.9%**	**6.4%**	**10.3%**	**15.6%**	**9.6%**	**10.3%**	**8.0%**	**6.6%**
Cost	(1,392)	(1,590)	(1,800)	(2,111)	(2,266)	(2,548)	(2,725)	(2,871)
Gross profit	**1,313**	**1,289**	**1,377**	**1,560**	**1,757**	**1,890**	**2,069**	**2,240**
GPM	**48.53%**	**44.77%**	**43.3%**	**42.5%**	**43.7%**	**42.6%**	**43.2%**	**43.8%**
Selling & distribution expense	(110.2)	(118.1)	(123.4)	(128.5)	(136.8)	(146.5)	(151.0)	(153.3)
General & administration expense	(337.4)	(376.4)	(407.9)	(426.8)	(443.5)	(467.1)	(475.6)	(486.7)
Provisions on Impairments	(117.3)	(78.4)	(17.2)	(16.2)	(14.3)	(13.6)	(12.3)	(10.5)
Other income	8.7	8.2	8.3	8.4	9.3	10.2	11.0	11.8
Operating profit	**757**	**724**	**837**	**997**	**1,171**	**1,273**	**1,441**	**1,602**
Y/Y	**14.1%**	**-4.3%**	**15.5%**	**19.1%**	**17.5%**	**8.7%**	**13.2%**	**11.1%**
OP Margin	**28.0%**	**25.2%**	**26.3%**	**27.1%**	**29.1%**	**28.7%**	**30.1%**	**31.3%**
Financial charges	(46.5)	(30.5)	(32.7)	(33.5)	(28.6)	(18.7)	(9.5)	(4.7)
Finance Income	6.5	12.0	2.6	3.3	2.4	1.9	4.3	5.3
Profit before zakat & minority interest	**727**	**706**	**807**	**967**	**1,145**	**1,256**	**1,436**	**1,602**
Non-controlling interest	(30.7)	(23.9)	(29.1)	(36.7)	(42.4)	(45.2)	(50.3)	(54.5)
Profit before zakat	**696**	**682**	**777**	**930**	**1,103**	**1,211**	**1,386**	**1,548**
Zakat	(38.7)	(36.2)	(36.5)	(48.4)	(57.3)	(63.0)	(72.1)	(80.5)
Net income	**658**	**646**	**741**	**881**	**1,045**	**1,148**	**1,314**	**1,467**
Y/Y	**9.7%**	**-1.8%**	**14.8%**	**19.0%**	**18.6%**	**9.8%**	**14.5%**	**11.7%**
EPS	**3.29**	**3.23**	**3.71**	**4.41**	**5.23**	**5.74**	**6.57**	**7.34**
DPS	**1.75**	**2.00**	**2.25**	**2.75**	**3.50**	**4.00**	**4.75**	**5.75**
Balance sheet								
Assets								
Cash & bank balance	49	427	240	316	424	636	879	1,139
Receivables	1,154	925	1,016	1,169	1,276	1,401	1,507	1,600
Other current assets	396	405	444	531	541	596	687	754
Property & Equipment	3,046	3,510	3,725	3,781	3,768	3,649	3,511	3,377
Other non-current assets	301	137	297	367	398	361	387	411
Total assets	**4,946**	**5,403**	**5,723**	**6,165**	**6,407**	**6,644**	**6,971**	**7,282**
Liabilities & owners' equity								
Payables	232	277	333	408	457	534	586	634
Total current liabilities	599	604	574	628	647	648	624	630
Long-term loans	500	565	603	565	407	197	120	45
Total other non-current liabilities	207	243	183	199	182	196	204	210
Non-controlling interest	150	145	149	153	158	164	170	176
Paid -up capital	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Statutory reserves	366	430	504	593	593	593	593	593
Retained earnings	911	1,138	1,376	1,619	1,964	2,312	2,676	2,993
Total owners' equity	3,277	3,568	3,880	4,212	4,557	4,905	5,269	5,586
Total equity & liabilities	**4,965**	**5,403**	**5,723**	**6,165**	**6,407**	**6,644**	**6,971**	**7,282**
Cashflow statement								
Operating activities	814	1,256	847	1,077	1,272	1,399	1,573	1,746
Investing activities	(475)	(468)	(616)	(407)	(312)	(147)	(201)	(211)
Financing activities	(434)	(411)	(418)	(594)	(852)	(1,040)	(1,128)	(1,275)
Change in cash	(95)	378	(186)	76	108	211	244	260
CAPEX	(453)	(693)	(464)	(332)	(276)	(178)	(168)	(179)
Ending cash balance	**49**	**427**	**240**	**316**	**424**	**636**	**879**	**1,139**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.9	2.0	1.9	1.9	2.0	2.2	2.5	2.8
Quick ratio (x)	1.7	1.7	1.6	1.7	1.7	1.9	2.2	2.4
Profitability ratios								
Gross profit margin	48.5%	44.8%	43.3%	42.5%	43.7%	42.6%	43.2%	43.8%
Operating margin	28.0%	25.2%	26.3%	27.1%	29.1%	28.7%	30.1%	31.3%
EBITDA margin	36.1%	33.3%	34.4%	34.9%	36.5%	35.6%	36.6%	37.7%
Net profit margin	24.3%	22.4%	23.3%	24.0%	26.0%	25.9%	27.4%	28.7%
Return on assets	13.7%	12.5%	13.3%	14.8%	16.6%	17.6%	19.3%	20.6%
Return on equity	21.2%	18.9%	19.9%	21.8%	23.8%	24.3%	25.8%	27.0%
Leverage ratio								
Debt / equity (x)	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Market/valuation ratios								
EV/sales (x)	8.5	6.2	4.9	4.3	3.9	3.4	3.1	3.0
EV/EBITDA (x)	23.6	18.5	14.2	12.2	10.6	9.7	8.4	7.9
EPS (SAR)	3.29	3.23	3.71	4.41	5.23	5.74	6.57	7.34
BVPS (SAR)	16.4	17.8	19.4	21.1	22.8	24.5	26.3	27.9
Market price (SAR)*	111.8	85.1	75.7	75.7	75.7	75.7	75.7	75.7
Market-Cap (SAR mn)	22,360	17,020	15,140	15,140	15,140	15,140	15,140	15,140
Dividend yield	1.3%	2.1%	2.6%	3.0%	3.6%	4.6%	5.3%	6.3%
P/E ratio (x)	34.0	26.4	20.4	17.2	14.5	13.2	11.5	10.3
P/BV ratio (x)	6.8	4.8	3.9	3.6	3.3	3.1	2.9	2.7

Sources: AlJazira Capital, Company Financials *Prices as of 6th May 2025

RESEARCH DIVISION

Head of Sell-Side Research - Director
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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