Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR5.790	Target Price	QR6.200
Implied Upside	7.1%	Old Target Price	QR6.400

Strong 2Q26 Print Masks Margin & Cost Pressure; Reducing PT & Switching To Market Perform

Medicare Group's 2Q2026 net profit came in at QR41.1mn, up 109.5% YoY and 310.8% QoQ, but missing our QR54.4mn estimate by 24.4%. The headline bottom-line growth was primarily driven by the partial recovery of the old Seha receivable, with MCGS recognizing a QR35.4mn Seha recoverable/ECL reversal during the quarter following the QR75.2mn cash deposit into the company's bank account on June 18, 2026. Excluding this Seha-related recovery and its related costs, we estimate MCGS's 2Q2026 net profit would have been QR13.2mn, down 32.7% YoY, although up 32.1% QoQ from the weak 1Q2026 base. Medicare's share price action to the results, a 2.2% dip post-announcement, aligns with our view of a weak underlying performance. Revenue was broadly in line with our estimate at QR128.6mn, down 1.4% YoY but up 15.6% QoQ, while gross profit declined 17.0% YoY to QR38.8mn and missed our estimate by 13.6%. GPM remained weak at 30.2% versus 35.8% in 2Q2025 and our 34.8% forecast. **We are lowering MCGS to Market Perform from Accumulate and cutting our 12-month PT to QR6.200 from QR6.400, as the reported earnings beat versus last year masks still-fragile underlying margins, elevated costs, muted HMC referral contribution, and no new visibility on the timing of the new Seha rollout.**

Highlights

- **2Q2026 reported earnings were boosted by old Seha recovery, but underlying earnings remain soft:** MCGS reported net profit of QR41.1mn in 2Q2026, up 109.5% YoY from QR19.6mn in 2Q2025 and up 310.8% QoQ from QR10.0mn in 1Q2026. However, the reported number was largely driven by QR35.4mn of Seha recoverable/ECL reversal, which was slightly below our QR36.2mn estimate. Excluding this recovery, we estimate 2Q2026 NP would have been QR13.2mn, down 32.7% YoY and missing our estimate by 37.7%. This is the key message of the quarter: **the reported profit line looks strong, but normalized profitability is still under pressure.**
- **Revenue was broadly in line, but medicine-dispensing changes weighed:** Revenue declined 1.4% YoY to QR128.6mn but recovered 15.6% QoQ from QR111.2mn in 1Q2026, essentially in-line with our QR129.1mn estimate. The quarterly rebound from 1Q2026 suggests volumes normalized after the March disruption, but YoY revenue remained modestly lower. We have learned that, in conjunction with HMC, there were changes to how medicine is administered following the geopolitical instability, with medication supply per prescription/request reduced to one month from three months; this weighed on revenue mainly through lower medication sales.
- **Old Seha part-payment is real cash, but still not fully collected:** The old Seha development is material and positive from a balance-sheet and cash-flow perspective that bodes well for distributions; however, we do note that management hesitated to give guidance on the matter. A final judgment obligated National Health Insurance Company (old Seha) to pay MCGS QR130.45mn of outstanding dues plus QR5.0mn as comprehensive compensation. On Thursday, June 18, 2026, QR75.17mn was paid to the company, and management is actively pursuing the outstanding amount.
- **HMC referrals remain muted and new Seha timing remains unclear:** The investment thesis still requires a volume and mix inflection from public-policy channels, but near-term evidence remains limited. HMC referrals were muted in 2Q and CFO Muhammad Burjaq reckons this has also been observed with other local peers participating in the program. Importantly, there is still no new guidance on the new Seha program, specifically its timing. This lack of visibility is also central to our downgrade.

Catalysts

- **Catalysts: (1)** further collection of the remaining old Seha court award; **(2)** any new official guidance on new Seha timing; **(3)** evidence of a sustained recovery in GPM from the current ~30% level; **(4)** stronger contribution from HMC-related referrals; and **(5)** improved cost discipline after Seha-related and geopolitical-driven cost effects normalize.

Recommendation, Valuation and Risks

- **Recommendation and Valuation:** ***We lower MCGS to Market Perform from Accumulate and cut our weighted 12-month PT to QR6.200 from QR6.400***. Our valuation framework implies 7.1% weighted average upside potential, with DCF weighted at 40%, DDM at 20%, International Comparison at 20%, and Local Comparison at 20%. The PT reduction is primarily driven by weaker-than-expected underlying margins even after adjusting for the old Seha recovery/costs, muted HMC referral traction, and continued lack of visibility on new Seha timing. The old Seha part-payment provides real cash-flow support and reduces legal-recovery uncertainty: We value the realized 2Q2026 component at QR0.13/share while we estimate the outstanding balance at QR0.22/share.
- **Key risks: (1)** further delays or non-implementation of new Seha; **(2)** weaker-than-expected gross margin recovery; **(3)** persistent cost inflation from staff, litigation, board, finance, or other operating items; **(4)** lower-than-expected contribution from HMC referrals; **(5)** delay or shortfall in collecting the remaining old Seha award; **(6)** adverse changes in medication-dispensing practices or healthcare reimbursement dynamics; **(7)** rising competition from both private and public healthcare providers; and **(8)** low stock liquidity.

Key Data

Current Market Price	QR5.790
Dividend Yield (%)	3.8
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Consumer Goods
52wk High/52wk Low (QR)	7.213/4.814
3-m Average Vol. (mn)	0.94
Mkt. Cap. ($ bn/QR bn)	0.4/1.6
EV ($ bn/QR bn)	0.4/1.6
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	16.1
1-Year Total Return (%)	5.6
Fiscal Year-End	December 31

Source: Bloomberg (as of July 22, 2026),*Qatar Exchange (as of July 22, 2026); Note: FO is foreign ownership

Key Financial Data and Estimates

Group	2025A	2026E	2027E
EPS (QR)	0.27	0.29	0.53
DPS (QR)	0.22	0.26	0.48
P/E (x)	21.4	19.7	10.8
EV/EBITDA (x)	19.2	27.0	10.2
DY (%)	3.8%	4.6%	8.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

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Financial Statements and Forecasts

2Q2026 Condensed Income Statement vs. Estimates (QR)

	2Q25	1Q26	2Q26	2Q26e	YoY	QoQ	vs. Est.
REVENUE	**130,461,756**	**111,233,322**	**128,592,742**	**129,141,290**	-1.4%	15.6%	-0.4%
GROSS PROFIT	46,744,474	32,653,924	38,791,143	44,917,462	-17.0%	18.8%	-13.6%
GP M	*35.8%*	*29.4%*	*30.2%*	*34.8%*			
OPERATING PROFIT	17,425,621	5,509,591	4,972,524	16,012,638	-71.5%	-9.7%	-68.9%
SEHA RECOVERABLE	-	-	35,386,892	36,172,489	N.M.	N.M.	-2.2%
PROFIT FOR THE PERIOD	**19,618,140**	**10,003,000**	**41,096,000**	**54,377,646**	109.5%	310.8%	-24.4%
NP M	*15.0%*	*9.0%*	*32.0%*	*42.1%*			
PROFIT FOR THE PERIOD ex. SEHA REC.	**19,618,140**	**10,003,000**	**13,209,108**	**21,205,157**	-32.7%	32.1%	-37.7%
NP M	*15.0%*	*9.0%*	*10.3%*	*16.4%*			

Source: Company data, QNBFS Research

Highlights (continued)

- **Gross margin remains a core concern:** Gross profit declined 17.0% YoY to QR38.8mn, despite the sequential improvement from QR32.7mn in 1Q2026. GPM reached only 30.2%, up marginally from 29.4% in 1Q2026 but still well below 35.8% in 2Q2025 and our 34.8% estimate. In our view, this reinforces that MCGS has not yet exited the weak-margin environment that became evident in 1Q2026. While after stripping out an estimate of the old Seha recovery/associated costs, the GPM improves considerably but it remains weaker than expected/2Q2025, which argues against treating the 2Q2026 print as a clean earnings recovery.
- **Cost pressure offset much of the operating recovery:** Pre-Seha operating profit was only QR5.0mn in 2Q2026, substantially below our QR16.0mn estimate. However, around QR7.5mn of incremental costs are linked to the old Seha part-collection – including doctors/staff, board, and litigation-related expenses. Adjusted earnings of QR12.5mn is still lower than our estimate by more than 28% YoY. Also, we note some cost elevation, specifically in financing, tied to the regional instability since March.

QNB FS Estimates Revision

	2025A	2026E			2027E			2028E		
		Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
REVENUE	**502,601,326**	**483,797,441**	**479,335,422**	0.9%	**675,183,971**	**675,183,971**	0.0%	**812,137,701**	**812,137,701**	0.0%
GROSS PROFIT	176,319,998	151,455,780	160,550,189	-5.7%	295,493,099	295,876,019	-0.1%	391,646,005	392,050,549	-0.1%
EBITDA	89,136,758	63,705,876	76,835,091	-17.1%	170,982,146	170,432,341	0.3%	237,128,855	236,560,499	0.2%
OPERATING PROFIT	62,737,731	35,851,555	49,859,759	-28.1%	141,424,996	141,807,916	-0.3%	206,326,861	206,731,406	-0.2%
PROFIT FOR THE PERIOD (LFL)	**76,011,600**	**82,509,037**	**95,758,773**	-13.8%	**150,373,411**	**148,860,078**	1.0%	**214,790,082**	**212,592,216**	1.0%
PROFIT FOR THE PERIOD	**76,011,600**	**82,509,037**	**95,758,773**	-13.8%	**150,373,411**	**148,860,078**	1.0%	**214,790,082**	**212,592,216**	1.0%

Source: Company data, QNBFS Research

Condensed Income Statement

	2025A	2026E	2027E	2028E	2029E
REVENUE	**502,601,326**	**483,797,441**	**675,183,971**	**812,137,701**	**853,830,665**
GROSS PROFIT	176,319,998	151,455,780	295,493,099	391,646,005	418,211,255
EBITDA	89,136,758	63,705,876	170,982,146	237,128,855	254,945,507
OPERATING PROFIT	62,737,731	35,851,555	141,424,996	206,326,861	223,378,326
PROFIT FOR THE PERIOD	**76,011,600**	**82,509,037**	**150,373,411**	**214,790,082**	**232,677,340**

Source: Company data, QNBFS Research

Summarized Cashflow Statement

	2025A	2026E	2027E	2028E	2029E
Cash Flow from Operating Activities	**95,159,989**	**108,071,052**	**122,075,860**	**204,733,462**	**254,875,768**
Cash Flow from Investing Activities	**(20,392,805)**	**(70,000,000)**	**(70,000,000)**	**(50,000,000)**	**(30,000,000)**
Cash Flow from Financing Activities	**(91,107,426)**	**(61,917,020)**	**(61,990,122)**	**(133,018,986)**	**(191,206,182)**
Change in Cash	(16,340,242)	(23,845,968)	(9,914,261)	21,714,477	33,669,587
Opening Cash	20,792,159	4,451,917	(19,394,051)	(29,308,312)	(7,593,835)
Cash End of Period	**64,451,917**	**(19,394,051)**	**(29,308,312)**	**(7,593,835)**	**26,075,751**

Source: Company data, QNBFS Research

Balance Sheet

	2025A	2026E	2027E	2028E	2029E
Property and equipment	1,075,037,550	1,117,183,229	1,157,626,079	1,176,824,086	1,175,256,905
Investments at fair value through other comprehensive income	76,765,285	76,765,285	76,765,285	76,765,285	76,765,285
Investment property	26,242,000	26,242,000	26,242,000	26,242,000	26,242,000
Total Non-Current Assets	**1,178,044,835**	**1,220,190,514**	**1,260,633,364**	**1,279,831,371**	**1,278,264,190**
Inventories	27,023,381	25,521,059	35,616,992	42,841,512	45,040,880
Accounts Receivable and Prepayments	114,623,486	107,500,030	180,002,787	231,884,823	247,679,324
Cash and cash equivalents	64,451,917	59,560,843	36,585,291	59,304,847	94,121,639
Short term deposits	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Total Current Assets	**206,098,784**	**192,581,932**	**252,205,070**	**334,031,182**	**386,841,844**
Total Assets	**1,384,143,619**	**1,412,772,446**	**1,512,838,434**	**1,613,862,553**	**1,665,106,034**
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	136,187,577	144,438,481	159,475,822	180,954,830	204,222,564
Fair Value Reserve	25,400,341	25,400,341	25,400,341	25,400,341	25,400,341
Revaluation reserve	518,218,065	518,218,065	518,218,065	518,218,065	518,218,065
Retained Earnings	69,640,230	81,981,343	143,059,280	201,034,284	217,132,816
Total Equity	**1,030,887,213**	**1,051,479,230**	**1,127,594,508**	**1,207,048,520**	**1,246,414,786**
Bank facilities	121,428,584	121,428,584	121,428,584	121,428,584	121,428,584
Employees' end of service benefits	78,458,175	84,176,989	90,017,262	95,981,602	102,072,671
Total Non-Current Liabilities	**199,886,759**	**205,605,573**	**211,445,846**	**217,410,186**	**223,501,255**
Accounts payable and accruals	124,798,223	127,116,219	145,226,656	160,832,423	166,618,570
Bank facilities	28,571,424	28,571,424	28,571,424	28,571,424	28,571,424
Total Current Liabilities	**153,369,647**	**155,687,643**	**173,798,080**	**189,403,847**	**195,189,994**
Total Liabilities	**353,256,406**	**361,293,216**	**385,243,926**	**406,814,033**	**418,691,248**
Total Equity and Liabilities	**1,384,143,619**	**1,412,772,446**	**1,512,838,434**	**1,613,862,553**	**1,665,106,034**

Source: Company data, QNBFS Research

Ratios

	2024A	2025E	2026E	2027E	2028E
GROWTH METRICS					
Revenue	-4.0%	-3.7%	39.6%	20.3%	5.1%
Gross Profit	-10.4%	-14.1%	95.1%	32.5%	6.8%
EBITDA	-16.9%	-28.5%	168.4%	38.7%	7.5%
Operating Profit	-24.1%	-42.9%	294.5%	45.9%	8.3%
Net Profit	26.6%	8.5%	82.3%	42.8%	8.3%
Net Profit - Sustainable	-19.3%	8.5%	82.3%	42.8%	8.3%
EPS (QR/share)	26.6%	8.5%	82.3%	42.8%	8.3%
DPS (QR/share)	11.1%	19.9%	82.3%	42.8%	14.3%
OPERATING RATIOS					
Gross Margin	35.1%	31.3%	43.8%	48.2%	49.0%
EBITDA Margin	17.7%	13.2%	25.3%	29.2%	29.9%
EBIT Margin	12.5%	7.4%	20.9%	25.4%	26.2%
Net Profit Margin	15.1%	17.1%	22.3%	26.4%	27.3%
RETURN RATIOS					
RoE	7.4%	7.8%	13.3%	17.8%	18.7%
RoIC	5.6%	3.1%	11.4%	15.9%	17.2%
RoA	4.5%	2.5%	9.3%	12.8%	13.4%
VALUATION RATIOS					
EV/Sales	3.4	3.6	2.6	2.1	2.0
EV/EBITDA	19.2	27.0	10.2	7.3	6.6
EV/EBIT	27.3	48.0	12.3	8.3	7.5
PE Ratio	21.4	19.7	10.8	7.6	7.0
PEG Ratio	0.5	0.6	5.4	-	-
P/CF	17.1	12.8	13.4	7.8	6.3
P/B	1.6	1.5	1.4	1.4	1.3
Dividend Yield	3.8%	4.6%	8.3%	11.9%	13.6%
FCF Yield	2.2%	3.5%	3.1%	9.7%	14.0%
LEVERAGE RATIOS					
Debt/Equity Ratio	14.6%	14.3%	13.3%	12.4%	12.0%
Net Debt/Equity Ratio	8.3%	8.6%	10.1%	7.5%	4.5%
Net Debt/Capital Ratio	8.9%	9.1%	10.4%	7.9%	4.8%
Net Debt/EBITDA	96.0%	142.0%	66.3%	38.2%	21.9%
Interest coverage	N.M.	260.9	86.8	126.6	137.1
LIQUDITY RATIOS					
Current Ratio	1.3	1.2	1.5	1.8	2.0
Quick Ratio	1.2	1.1	1.2	1.5	1.8
WORKING CAPITAL DAYS	126	125	128	129	129
Inventory Days	108	108	108	108	108
Average Collection Period	138	138	138	138	138
Payables Days	140	140	140	140	140

Source: Company data, QNBFS Research

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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