

## NMC Health PLC

NMC.L - Sector: Healthcare, distribution and services

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As at 22/03/2019

### UPDATE 22/03/2019

As a fund we have decided to sell the shares of NMC Health Plc due to the fact the share price has plummeted and we do not see the stock being able to recover. NMC's profit wasn't as good as initially predicted. This has caused a dip in the share price. We thought this would recover, however over a week on since the profit news. The company has not recovered and has dipped further. To protect our capital further we have decided to sell on the 22nd of March 2019,

### Business Model

NMC Health plc is a private healthcare services provider in the United Arab Emirates. The Company operates through two segments: healthcare and distribution & services. The healthcare segment is engaged in providing professional medical services, comprising diagnostic services, in and outpatient clinics, provision of all types of research and medical services in the field of gynaecology, obstetrics and human reproduction and retailing of pharmaceutical goods. It also includes the provision of management services in respect of a hospital. It owns and operates hospitals, day surgery centres, medical centres and pharmacies. The distribution & services segment is engaged in wholesale trading of pharmaceutical goods, medical equipment, cosmetics and food. The Company also owns and operates Clinicia.

### Investment Rationale

Our BUY recommendation is derived from the technical analysis of financial statements and financial indicators. NMC's largest benefit over its competitors is its much larger operating margin over its competitors of 15.92 against an industry average of 5.79. Furthermore, this can evidence in a ROCE of 65%. This is a significant factor when considering NMC Health's potential for growth. As with a net income growth rate of 30% over the past five years NMC can afford to embark on new projects and increase expenses due to the buffer from the high operating margins.

Furthermore, by investing within NMC we not only gain access to a company with high earning potential and a high growth rate we

### RECOMMENDATION

**SELL**

Current Price

**2,500.48 GBp**

Our Valuation Range

**2,494.00 – 2636.00**

NMC boasts a strong earnings growth rate of 30% combined with effective use of capital employed allowing for minimal growth in expenses.



### MARKET DATA

	Updated	Previous
Revenue in £ (TTM)	1570.03	1603.03m
Net income in GBP	189.71m	185.9m
Incorporated in	1974	1974
Employees	12.70K	12.70k
52-week range	2430-2772	2,718 - 2,772
Average volume	0.661m	0.672m
Shares outstanding	208.21m	208.21m
Free float	85.30m	85.29m
P/E (TTM)	28.46	35.30
Market cap	5.37bn	5.72 bn
EPS (TTM)	0.9064	0.7837p
Cash Flow per share	1.35	1.3351
Price/Cash flow per share	18.97	24.23
Book value per share	4.78	14.11
Tangible book value per share	-1.15	8.55
Net profit margin (TTM)	12.24	11.60
Operating margin	18.74	17.09
Return on Capital Employed	43.26%	65.08%
Annual div (ADY)	18.10	0.13
Annual div yield (ADY)	0.7%	0.5%
Return on assets	7.40	8.07
Return on equity	20.78	24.73

also can mitigate overall portfolio risk due to the correlation of the company and its position being our only holding with the sector. Furthermore, as the firm operates mainly within the United Arab Emirates we expect some level of protection from the ramification of Brexit within the British markets and as such should alleviate some pressure from the portfolio.

If next year was the last period of growth then company earnings remain constants we have calculated a return of 3.87%, see appendix. This is however a poor scenario, as the firm has strong track record of earnings growth. As such NMC looks to be a position to be held for a long period and even if earnings do stagnate the fund should still benefit from the investment.

### **Investment Risks**

One major issue present with NMC is its balance sheet composition. This is due to a very small number of fixed long-term assets and instead having primarily inventories and intangibles. This becomes an issue when using certain valuation techniques limiting investors information on the true value of such a company.

This coupled with a lack of dividends payments really limits option around underpinning the value of NMC as such current market prices may be based upon speculative supply and demand rather than it being traded at its intrinsic value.

Due to such a risk the fund may experience rapid swings in price depending on market participants behaviour and the release of relevant news/information.

This investment opportunity also presents refuge from UK uncertainty relating to Brexit. As NMC main markets are the United Arab Emirates.

**Supplementary Data**Appendix

Average Net income growth rate of 30.43%

Last period net income of 186m

Total outstanding shares of 208.21m

Discount rate weighted average cost of capital 7.08%

*New Share Price = Old SharePrice + PV of Future Earnings, 1years time.*

$$2,862.82 = 2,485 + \frac{186(1.30)}{\frac{1.071864}{208.21}}$$

Therefore, a predicted new share price of 2,862.82 GBP

$$\text{Returns} = \text{Log}\left(\frac{Sp_1}{Sp_0}\right)$$

$$3.875\% = \log\left(\frac{2862.82}{2754}\right)$$

Predicted return if it reaches the previous valuation would be equal to 3.875% return.

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**Appendix - Balance Sheet**

Fiscal data as of Dec 31 2017	2017	2016	2015	2014	2013
<b>ASSETS</b>					
Cash And Short Term Investments	388	618	177	263	269
Total Receivables, Net	535	366	275	192	172
Total Inventory	181	144	135	110	94
Prepaid expenses	21	20	18	13	5.85
Other current assets, total	--	--	--	--	--
<b>Total current assets</b>	<b>1,125</b>	<b>1,148</b>	<b>604</b>	<b>578</b>	<b>540</b>
Property, plant & equipment, net	607	459	434	368	274
Goodwill, net	1,058	567	341	1.02	--
Intangibles, net	99	86	72	3.22	1.02
Long term investments	0	0.83	--	--	--
Note receivable - long term	0	913	1.73	--	--
Other long term assets	43	43	--	--	--
<b>Total assets</b>	<b>2,939</b>	<b>2,317</b>	<b>1,454</b>	<b>951</b>	<b>815</b>
<b>LIABILITIES</b>					
Accounts payable	181	123	104	86	63
Accrued expenses	20	14	12	6.44	7.17
Notes payable/short-term debt	207	220	155	170	82
Current portion long-term debt/capital leases	204	235	92	92	88
Other current liabilities, total	92	69	40	16	13
<b>Total current liabilities</b>	<b>704</b>	<b>660</b>	<b>402</b>	<b>371</b>	<b>254</b>
Total long term debt	988	595	484	114	162
Total debt	1,399	1,049	730	376	332
<b>Deferred income tax</b>	<b>9.69</b>	<b>8.25</b>	<b>9.76</b>	--	--
Minority interest	55	42	12	4.00	2.92
Other liabilities, total	93	105	58	12	10
<b>Total liabilities</b>	<b>1,849</b>	<b>1,410</b>	<b>966</b>	<b>502</b>	<b>429</b>
<b>SHAREHOLDERS EQUITY</b>					
Common stock	32	32	30	30	30
Additional paid-in capital	493	492	179	179	179
Retained earnings (accumulated deficit)	560	391	284	240	178
Treasury stock - common	--	--	--	--	--
Unrealized gain (loss)	--	--	--	--	--
Other equity, total	5.40	(8.13)	(4.62)	--	--
<b>Total equity</b>	<b>1,090</b>	<b>907</b>	<b>488</b>	<b>449</b>	<b>386</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>2,939</b>	<b>2,317</b>	<b>1,454</b>	<b>951</b>	<b>815</b>
Total common shares outstanding	204	204	186	186	186
Treasury shares - common primary issue	0	0	0	0	0

**Appendix - Income Statement**

<b>Fiscal data as of Dec 31 2017</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>REVENUE AND GROSS PROFIT</b>					
Total revenue	1,603	1,221	881	644	551
<b>OPERATING EXPENSES</b>					
Cost of revenue total	966	751	576	435	365
Selling, general and admin. expenses, total	335	312	227	167	120
Depreciation/amortization	71	56	35	14	9.66
Unusual expense(income)	11	7.85	4.13	0	0.21
Other operating expenses, total	(53)	(90)	(72)	(61)	(27)
<b>Total operating expense</b>	<b>1,330</b>	<b>1,037</b>	<b>770</b>	<b>556</b>	<b>468</b>
<b>Operating income</b>	<b>274</b>	<b>184</b>	<b>111</b>	<b>88</b>	<b>83</b>
Other, net	(13)	(5.75)	(6.56)	(2.17)	(5.65)
<b>INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS</b>					
<b>Net income before taxes</b>	<b>210</b>	<b>152</b>	<b>85</b>	<b>78</b>	<b>69</b>
Provision for income taxes	1.25	0.07	(0.4)	0	0
<b>Net income after taxes</b>	<b>209</b>	<b>151</b>	<b>86</b>	<b>78</b>	<b>69</b>
Minority interest	(23)	(79)	(3.55)	(0.97)	(0.98)
<b>Net income before extra. Items</b>	<b>186</b>	<b>133</b>	<b>82</b>	<b>77</b>	<b>68</b>
Total extraordinary items	--	--	--	--	--
<b>Net income</b>	<b>186</b>	<b>133</b>	<b>82</b>	<b>77</b>	<b>68</b>
<b>Inc.avail. to common excl. extra. Items</b>	<b>186</b>	<b>133</b>	<b>82</b>	<b>77</b>	<b>68</b>
<b>Inc.avail. to common incl. extra. Items</b>	<b>186</b>	<b>133</b>	<b>82</b>	<b>77</b>	<b>68</b>
<b>EPS RECONCILIATION</b>					
Basic/primary weighted average shares	204	187	186	186	186
Basic/primary eps excl. extra items	0.91	0.71	0.44	0.41	0.37
Basic/primary eps incl. extra items	0.91	0.71	0.44	0.41	0.37
Dilution adjustment	--	--	0	--	--
Diluted weighted average shares	206	188	186	186	186
Diluted eps excl. extra items	0.90	0.71	0.44	0.41	0.37
Diluted eps incl. extra items	0.90	0.71	0.44	0.41	0.37
<b>COMMON STOCK DIVIDENDS</b>					
DPS - common stock primary issue	0	0	0.09	0	0
Gross dividend - common stock	36	28	16	16	14
<b>PRO FORMA INCOME</b>					
Pro forma net income	--	--	--	--	--
Interest expense, supplemental	53	32	18	12	13
<b>SUPPLEMENTAL INCOME</b>					
Depreciation, supplemental	58	45	30	14	9.66
Total special items	12	7.88	4.32	0.22	0.21
<b>NORMALISED INCOME</b>					
<b>Normalized income before taxes</b>	<b>222</b>	<b>159</b>	<b>90</b>	<b>78</b>	<b>69</b>
Effect of special items on income taxes	0.07	0.01	1.51	0	0
Income tax excluding impact of special items	1.31	0.18	1.01	0	0
<b>Normalized income after tax</b>	<b>221</b>	<b>159</b>	<b>89</b>	<b>78</b>	<b>69</b>
<b>Normalized income avail. to common</b>	<b>197</b>	<b>141</b>	<b>85</b>	<b>77</b>	<b>68</b>
Basic normalized EPS	0.97	0.75	0.46	0.41	0.37
Diluted normalized EPS	0.96	0.75	0.46	0.41	0.37

**Appendix - Cash Flow**

<b>Fiscal data as of Dec 31 2017</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>OPERATIONS</b>					
Net income	210	152	85	78	69
Depreciation/depletion	58	45	30	14	9.66
Non-Cash items	87	45	31	15	17
Cash taxes paid, supplemental	4.38	0.67	1.37	--	--
Cash interest paid, supplemental	54	32	20	14	15
Changes in working capital	(90)	(76)	(67)	(21)	(11)
<b>Total cash from operations</b>	<b>278</b>	<b>176</b>	<b>84</b>	<b>86</b>	<b>85</b>
<b>INVESTING</b>					
<b>Capital expenditures</b>	<b>(65)</b>	<b>(60)</b>	<b>(80)</b>	<b>(111)</b>	<b>(79)</b>
Other investing and cash flow items, total	(656)	(310)	(345)	84	(29)
<b>Total cash from investing</b>	<b>(721)</b>	<b>(370)</b>	<b>(425)</b>	<b>(27)</b>	<b>(108)</b>
<b>FINANCING</b>					
Financing cash flow items	(86)	(40)	(31)	(14)	(15)
<b>Total cash dividends paid</b>	<b>(28)</b>	<b>(16)</b>	<b>(16)</b>	<b>(14)</b>	<b>(12)</b>
Issuance (retirement) of stock, net	0	315	--	--	0
Issuance (retirement) of debt, net	331	284	335	26	46
<b>Total cash from financing</b>	<b>217</b>	<b>543</b>	<b>288</b>	<b>(151)</b>	<b>20</b>
<b>NET CHANGE IN CASH</b>					
Foreign exchange effects	--	--	--	--	--
<b>Net change in cash</b>	<b>(227)</b>	<b>349</b>	<b>(52)</b>	<b>57</b>	<b>(2.73)</b>
Net cash-begin balance/reserved for future use	433	84	136	79	82
Net cash-end balance/reserved for future use	206	433	84	136	79
<b>SUPPLEMENTAL INCOME</b>					
Depreciation, supplemental	58	45	30	14	9.66
Cash interest paid, supplemental	54	32	20	14	15
Cash taxes paid, supplemental	4.38	0.67	1.37	--	--

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## LINCOLN STUDENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund management company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

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