

MÉDICA SUR: 3Q19 RESULTS

Neutral 3Q19 Results, As Expected; Renegotiates Contracts with Insurance Companies

BUY

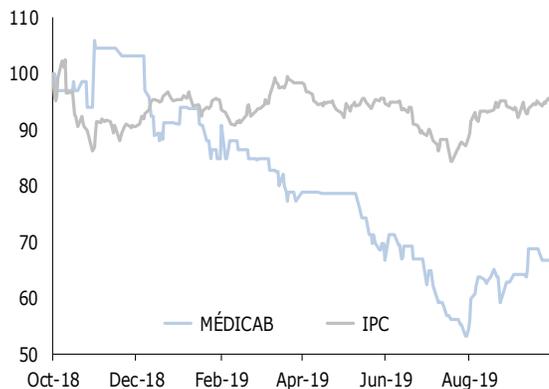
2019E Target Price (MXN\$) [1] [2]	\$ 26.50
Current Price (MXN\$)	\$ 22.00
Min / Max (L12M)	\$17.50 - 34.90
Expected Dividend (MXN\$)	\$ 11.25
Expected Return	20.5%
Market Cap (MXN\$ Mn)	2,712
Enterprise Value (MXN\$ Mn)	4,043
Oustanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 0.31

[1] Including LMS

[2] MXN\$40.40 including real estate assets

Opinion and Recommendation:

- **MÉDICA presented neutral operating results in 3Q19 with stable revenues and a slight increase in comparable EBITDA (excluding the effect of the IFRS 16 implementation and extraordinary charges for the closure of 24 laboratories). These figures were practically in line with our projections.**
- **We continue with a BUY recommendation and a year-end with a target price of MXN\$26.50. We believe that MÉDICA's shares offer exposure to the growing Mexican health sector. In addition, their valuation is very low with a forward EV/EBITDA of 5.2x and a projected P/E of 19.1x, which are at a discount compared to similar companies in emerging markets.**
- **The company renegotiated contracts with the main insurers in the country, which we believe will boost the number of patients going forward.**
- **MEDICA was recognized as Mexico's best hospital in Mexico as of the end of September 2019 by the "América Economía" magazine for its high standards related to patient safety, dignity and experience, prestige, capacity, efficiency, human capital, and management of knowledge.**

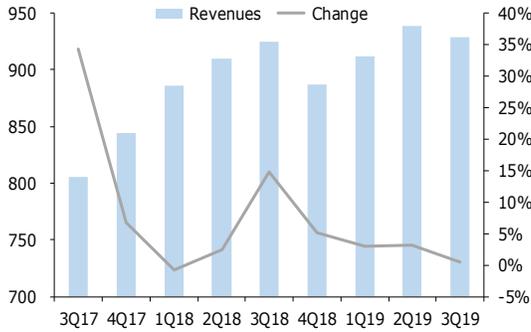


3Q19 Results

MÉDICA's revenues remained virtually unchanged at MXN\$929.1 million in 3Q19. This performance was due mainly to higher revenues in the diagnostic units, such as the cancer center, Gamma Knife surgery, angiography, and laboratories. The average hospital stay was 2.94 days, 0.7% below the previous year, which we believe is positive for the company. However, the number of hospital patients decreased 6.9% YoY due to the prevailing macroeconomic weakness.

EBITDA experienced a significant 14.9% YoY growth mainly as a result of the IFRS16 implementation, which contributed with MXN\$25.7 million in the current quarter. EBITDA margin was 19.5% in 3Q19, higher than 17.1% in 3Q18. Excluding the IFRS 16 effect, and certain non-recurring expenses related to severance costs, we estimate that the company's EBITDA would have grown 5.9% YoY and that the EBITDA margin would have been 18.0% in the current quarter.

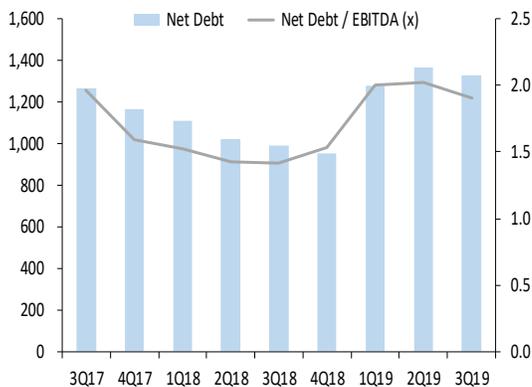
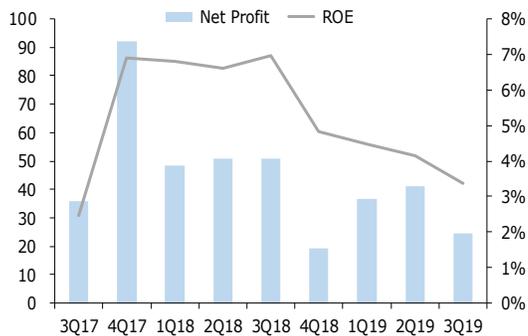
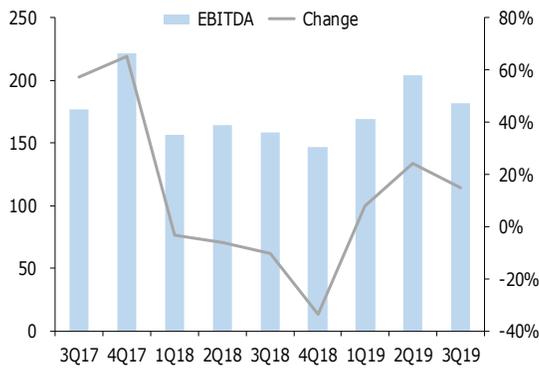
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The integral cost of financing was MXN\$32.6 million in 3Q19, from MXN\$31.9 million in 3Q18 also as a result of the IFRS16 implementation. This was offset by savings in interests paid due to a reduced debt level and lower interest rates.

Net income fell 51.6% YoY to MXN\$24.6 million thanks to an extraordinary MXN\$17.1 million charge related to the closure of 24 unprofitable laboratory branches. In addition, the tax rate was 53.0%, well above last year's 27.5% level.

MÉDICA maintained its solid financial structure with a net debt to EBITDA ratio of 1.6x and an interest coverage (EBITDA to financial expenses) of 4.3x, thus complying with its financial covenants. It is worth mentioning that interest-bearing liabilities were down 4.1% YoY.



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