

# MÉDICA SUR: 2Q20 RESULTS

## Net Profit Rises 20.8% in the First Half of the Year, Despite the Pandemic

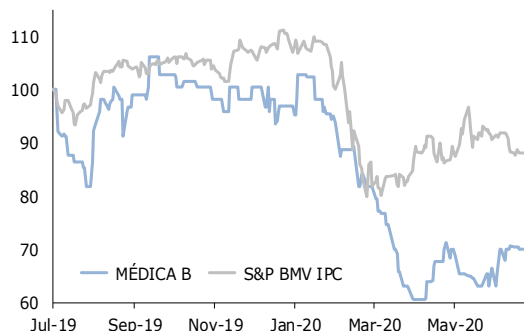
### BUY

|                                |                 |
|--------------------------------|-----------------|
| 2020E Target Price (MXN\$) [1] | \$ 26.50        |
| Current Price (MXN\$)          | \$ 15.05        |
| Min / Max (L12M)               | \$12.65 - 22.70 |
| Expected Return                | 76.1%           |
| Market Cap (MXN\$ Mn)          | 1,855           |
| Enterprise Value (MXN\$ Mn)    | 2,714           |
| Outstanding Shares (Mn)        | 123.3           |
| Float                          | 49.9%           |
| ADTV (MXN\$ Mn)                | \$ 1.35         |

[1] MXN\$40.40 including real estate assets

### Opinion and Recommendation:

- MÉDICA reported neutral results in 2Q20. The company's performance was temporarily affected by the COVID-19, which dragged down revenues by 10.7% and the EBITDA excluding extraordinary expenses by 9.4%, but with a net profit that was up 7.6%. The company experienced a recovery from May due to its rapid response which clearly highlights that the sector is a defensive one and has a significant recovery capacity. The company also implemented various cost and expense containment initiatives during the quarter. On a cumulative basis, sales declined only 4.6% and the EBITDA was down 2.3% (+0.8% excluding extraordinary items), while net profit rose 20.8%.
- MÉDICA maintained a solid financial structure with a net debt to EBITDA ratio of only 1.3x and plans to issue domestic bonds amounting to MXN\$1 billion to refinance existing debt. It received an HR AA credit rating with a Stable Outlook by HR Ratings and AA- (mex) by Fitch Ratings.
- We are reiterating our BUY recommendation with a MXN\$26.50 per share target price. We expect MÉDICA's results to continue improving in the coming quarters due to the re-opening of the Mexican economy.



### Volume

Hospital patients were down 40.6% to 1,948 as a result of the health emergency and the mobility restrictions that were implemented during the period. The impact occurred mainly in the diagnose and elective surgeries areas.

The average stay of non-COVID-19 patients decreased slightly to 3.40 days. However, the average stay for non-critical covid-19 patients was 6.8 days and for critical patients it was 16.8 days.

The average number of hospital bed days was 28.2% lower than that of the same period last year, standing at 74.0 days.

MÉDICA closed the quarter with 111 diagnose units of which 10 operated under the "Drive-Thru" model for COVID-19 detection. It currently operates 14 of such units.

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### Revenues

MÉDICA was able to partially offset the lower patient volume with higher covid-19 related revenues. The company treated more than 300 patients with such disease, which generated higher sales in the Emergencies, Intensive Care, Coronary Care, Neonatology and Blood Bank areas. The internal MÉDICA SUR laboratory and the "Drive-Thru" laboratory units of the three brands that the company owns registered additional revenues for the same reason. In addition, the company posted higher sales from reference customers and processed a greater number of samples.

It is worth mentioning that MEDICA has processed more than 50 thousand virus detection tests using the PCR technique in its three laboratory brands.

With respect to non-covid-19 related patients, MÉDICA registered higher sales at the Comprehensive Cancer Center and Gamma Knife Surgery. However, revenues of non-covid-19 labs decreased.

MÉDICA's 2Q20 total revenues were down 10.7% to MXN\$839.7 million as a result of COVID-19. This effect occurred mainly in April and abated in May. As of June, the company experienced a recovery thanks to revenue diversification actions. MÉDICA is operating normally, but with lower volumes in the diagnose and elective surgeries areas. On a cumulative basis, sales were down 4.6% despite the pandemic impact, which clearly shows that the health sector is a defensive one and has a significant recovery capacity.

### Profitability

MÉDICA carried out several cost and expense containment measures that included a reduction in fees and subscriptions for the Mayo Clinic Care Network, lower advertising spending, and decreased labor spending. The latter generated a non-recurring MXN\$11.5 million expense in May.

EBITDA was down 15.1% to MXN\$173.0 million. The EBITDA margin was 20.6% in the current quarter, down from 21.7% in 2Q19, but in line with the 1Q20 level. Excluding the non-recurring expense related to personnel restructuring, EBITDA would have fallen 9.4% while the margin would have been 22.0%. During the first half of the year, EBITDA decreased only 2.3% (but was up +0.8% excluding extraordinary items).

Net income grew 7.6% to MXN\$44.0 million, mainly due to the fact that the company recorded a MXN\$14.7 million interest payment to Grupo Sordo Madaleno the year before. In addition, it generated a MXN\$5.4 million FX gain in the current quarter. The net margin was 5.3% in 2Q20, from last year's 4.4%. On a cumulative basis, net profits advanced 20.8% with a net margin of 5.3%, from 4.2%.

### Debt

Leverage was low with a net debt to EBITDA ratio of only 1.3x at the end of 2Q20. MÉDICA maintains cash levels that will allow it to meet its maturities in the coming months and does not foresee any liquidity problem. In fact, on April 7, it contracted a MXN\$195 million revolving loan that it keeps in its cash reserves.

MÉDICA received a HR AA with a Stable Outlook from HR Ratings. The upcoming MÉDICA 20 "Certificados Bursátiles" issue amounting to MXN\$1.0 billion obtained the same credit rating. On the other hand, Fitch Ratings assigned a National Scale Long-Term Rating of AA- (mex) to both MÉDICA and the proposed issuance. This will be MÉDICA's first bond offering in the financial markets. We believe that the company will extend its maturity profile and reduce the average rate of its debt.

## MÉDICA SUR: 2Q20 Results

### Major Initiatives in 2Q20

MÉDICA implemented various important initiatives during the current quarter that included a hospital reconversion, the launching of "Hospital Digital Médica Sur", the opening of the Laboratory - COVID-19 care center, the reconversion of process centers, " Drive-Thru " units and personalized attention to companies, the implementation of a non-COVID-19 patient care agreement with the Federal Government, and the launching of the " Medica Sur en Tu Casa "home nursing service.

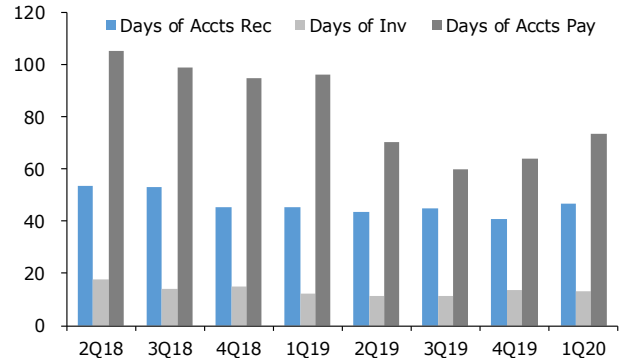
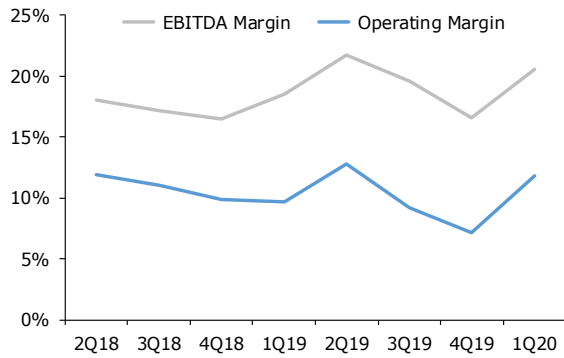
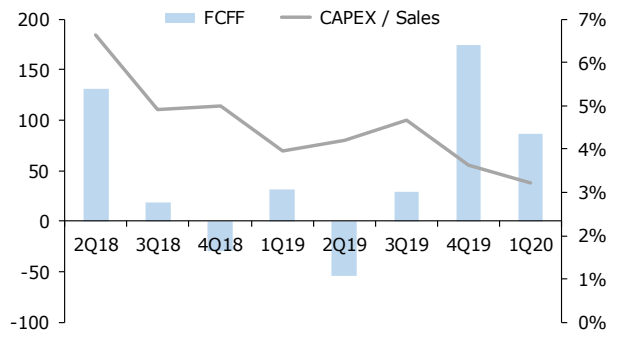
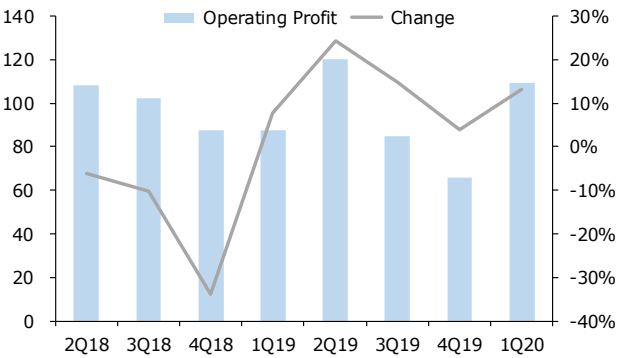
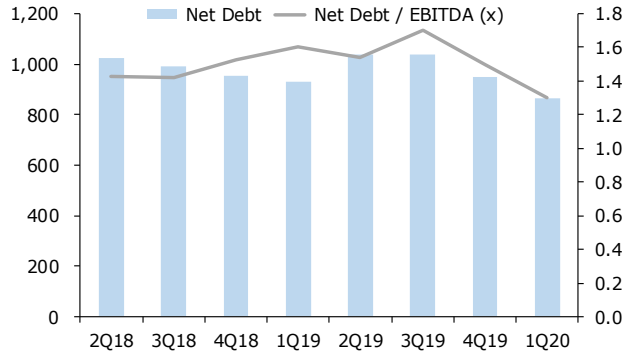
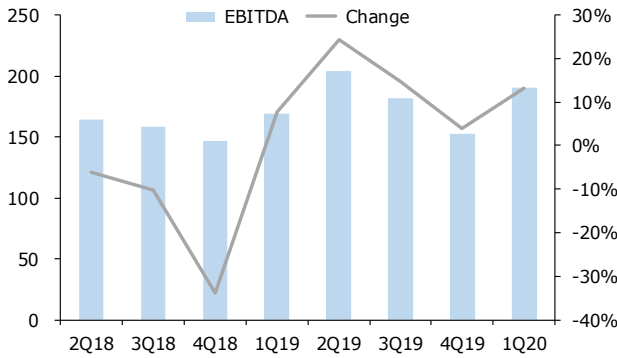
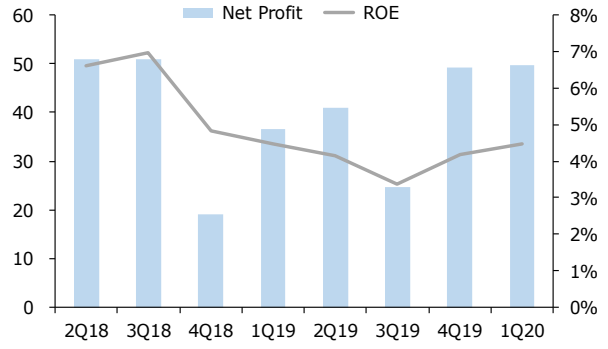
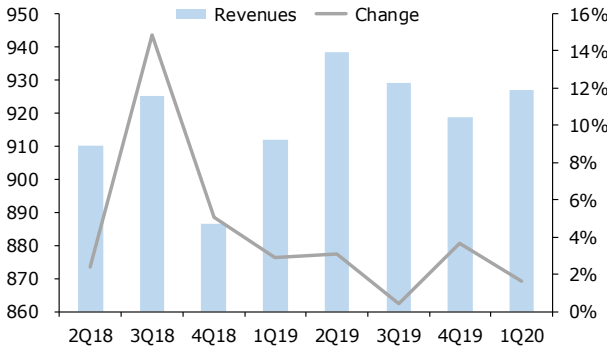
(Figures in Millions of MXN\$)

| INCOME STATEMENT                     | 2Q20         | 2Q19         | Change | Acum 2020    | Acum 2019    | Change |
|--------------------------------------|--------------|--------------|--------|--------------|--------------|--------|
| Revenues                             | 838          | 938          | -10.7% | 1,765        | 1,850        | -4.6%  |
| Operating Profit                     | 90           | 120          | -25.2% | 199          | 208          | -4.3%  |
| <i>Operating Margin</i>              | <i>10.7%</i> | <i>12.8%</i> |        | <i>11.3%</i> | <i>11.2%</i> |        |
| EBITDA                               | 173          | 204          | -15.1% | 364          | 372          | -2.3%  |
| <i>EBITDA Margin</i>                 | <i>20.6%</i> | <i>21.7%</i> |        | <i>20.6%</i> | <i>20.1%</i> |        |
| Financial Gains                      | 5            | 2            | 164.6% | 10           | 4            | 171.9% |
| Financial Cost                       | -38          | -55          | -31.2% | -79          | -93          | -15.1% |
| Pre-Tax Profit                       | 56           | 66           | -15.1% | 129          | 118          | 9.5%   |
| Income Tax & Profit Sharing          | -12          | -25          | -51.7% | -36          | -41          | -12.2% |
| <i>Tax &amp; Profit Sharing Rate</i> | <i>21.9%</i> | <i>38.4%</i> |        | <i>27.6%</i> | <i>34.4%</i> |        |
| Profit Before Minorities             | 44           | 41           | 7.6%   | 94           | 78           | 20.9%  |
| Minority Interest                    | -0           | -0           | 140.0% | -0           | -0           | 35.7%  |
| Net Profit                           | 44           | 41           | 7.6%   | 94           | 78           | 20.8%  |
| EPS                                  | P\$ 0.35     | P\$ 0.33     | 6.3%   | P\$ 0.76     | P\$ 0.63     | 20.1%  |
| BALANCE SHEET                        | 2Q20         | 2Q19         | Change | Acum 2020    | Acum 2019    | Change |
| TOTAL ASSETS                         | 6,027        | 5,848        | 3.1%   | 6,027        | 5,848        | 3.1%   |
| LT Assets                            | 4,710        | 5,057        | -6.9%  | 4,710        | 5,057        | -6.9%  |
| TOTAL LIABILITIES                    | 2,286        | 2,229        | 2.6%   | 2,286        | 2,229        | 2.6%   |
| ST Liabilities                       | 1,226        | 905          | 35.5%  | 1,226        | 905          | 35.5%  |
| LT Liabilities                       | 1,060        | 1,323        | -19.9% | 1,060        | 1,323        | -19.9% |
| TOTAL CAPITAL                        | 3,740        | 3,619        | 3.3%   | 3,740        | 3,619        | 3.3%   |
| Stockholder's Equity                 | 3,739        | 3,618        | 3.3%   | 3,739        | 3,618        | 3.3%   |
| NET DEBT                             | 824          | 1,039        | -20.7% | 824          | 1,039        | -20.7% |
| Net Debt / EBITDA (x)                | 1.3x         | 1.5x         |        | 1.3x         | 1.5x         |        |

Source: BMV

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(Figures in Millions of MXN\$)



Source: BMV

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