

MÉDICA: 4Q20 P REVIEW

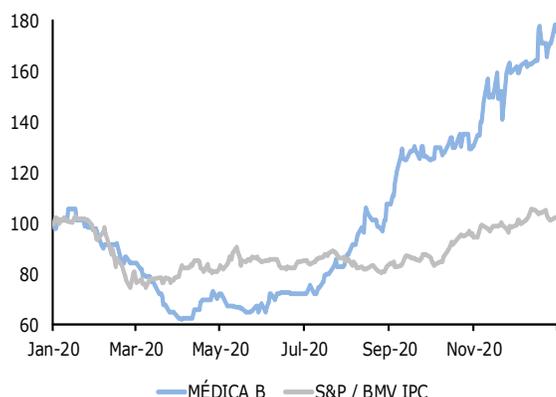
We Expect Very Solid 4Q20 Results

BUY

2021E Target Price (MXN\$)	\$ 46.00
Current Price (MXN\$)	\$ 36.50
Min / Max (L12M)	\$12.65 - 37.12
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	27.9%
Market Cap (MXN\$ Mn)	4,645
Enterprise Value (MXN\$ Mn)	5,285
Outstanding Shares (Mn)	127.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 3.50

Opinion and Recommendation:

- We expect MÉDICA to deliver excellent 4Q20 results with a 44.1% YoY increase in revenues, a 178.2% YoY EBITDA growth and a 366.7% YoY rise in net income, driven by the company's specialized services to face the prevailing health situation. We estimate that around 25% of MÉDICA's revenues derive from Covid-19 related services.
- We are establishing a new target price of MXN\$46.00 per share based on a discounted cash flow model that includes a growth rate in perpetuity of 4.8% in nominal terms, as well as a 10.0% WACC.
- Our recommendation remains BUY mainly due to an attractive valuation with an EV/EBITDA of 6.2x and a P/E of 14.5x projected for 2021. In addition, the potential return against our new target price of MXN\$46.00 is 26.4%. In our model we are including a cash dividend of MXN\$0.70 per share in 2021, with a 1.9% dividend yield.



4Q20 Preview

We expect MÉDICA to present excellent 4Q20 results with a 44.1% YoY increase in revenues to MXN\$1,325 million, driven by the prevailing health situation which will generate a high demand for hospital and clinical services.

The company will benefit from a high operating leverage, which will translate in a 178.2% YoY EBITDA growth to MXN\$423 million. The EBITDA margin will thus expand to 31.9% in 4Q20, from 16.6% in the same period last year.

Net income will reach MXN\$230 million in 4Q20, advancing 366.7% YoY, supported by the favorable operating performance, which will be partially offset by a higher fiscal reserve.

We expect MÉDICA to close the quarter with a net debt to EBITDA ratio of 0.6x, slightly below the 0.7x in 3Q20.

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2022E	2023E	2024E	2025E	2026E	Perp.
OPERATING PROFIT	518	540	568	606	614	644
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-155	-162	-171	-182	-184	-193
NOPLAT	363	378	398	424	430	451
Depreciation	356	372	388	400	400	419
Working Capital Changes	-8	-12	-16	-19	-18	-19
CAPEX	-200	-220	-240	-240	-240	-450
FCFF	510	518	530	566	572	401
Perpetuity Growth Rate						4.8%
PV of Explicit Period (2022 - 2026E)						2,029
Perpetuity Value						7,701
PV of Perpetuity Value						4,337
Enterprise Value						6,366
Net Debt						511
Minority Interest						1
Market Value						5,854
<i>Outstanding Shares</i>						127
Target Price						P\$ 46.00
Current Market Price						P\$ 36.95
Potential Return Incl. Dividends						26.4%
Forward EV/EBITDA						7.3x
Forward P/E						18.0x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						11.5%
Market Risk Premium						6.0%
Risk-Free Rate						5.5%
Beta						1.00
% Total Debt						22.5%
% Capital						77.5%
WACC						10.0%

Source: Miranda Global Research

Disclaimer

The current report was prepared by Miranda Global Research ("Miranda GR") for Vector Casa de Bolsa, S.A. de C.V. The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this presentation was obtained from public and/or private sources. Projections or previsions included in this presentation, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

This report and its contents are property of Miranda GR and cannot be reproduced or broadcast in part or in its entirety without the previous written consent of Miranda GR.

Miranda Global Research receives fees from Médica Sur, S.A.B. de C.V. for independent analyst services.