

MÉDICA: 2Q21 Results

Outstanding Results, Once Again Above our Forecasts

| BUY | |
|-----------------------------|-----------------|
| Target Price (MXN\$) | \$ 46.00 |
| Current Price (MXN\$) | \$ 32.50 |
| Min / Max (L12M) | \$15.00 - 38.70 |
| Expected Dividend (MXN\$) | \$ 0.70 |
| Expected Return | 43.7% |
| Market Cap (MXN\$ Mn) | 4,334 |
| Enterprise Value (MXN\$ Mn) | 4,410 |
| Outstanding Shares (Mn) | 133.4 |
| Float | 49.9% |
| ADTV (MXN\$ Mn) | \$ 0.73 |

Opinion and Recommendation

MÉDICA reported outstanding 2Q21 results driven by a significant recovery in hospital and non-COVID diagnostic services that have exceeded pre-pandemic levels, in addition to the prevailing health situation. This resulted in a 65.8% increase in revenues and a 120.3% EBITDA growth. The bottom line also benefitted from lower interest payments, rising 334.5%. As a result of the strong free cash flow generation, MÉDICA reduced its net debt by 92.0% to only MXN\$66.1 million with a net debt to EBITDA ratio of practically 0x.

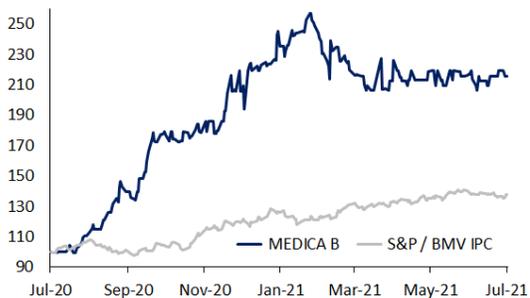
After these results, we reiterate our BUY recommendation with a MXN\$46.0/share target price. We believe that the company's operating performance will remain strong in the coming quarters, subject to vaccination levels.

Revenues

MÉDICA reported 2Q21 revenues of MXN\$1,389.7 million (+ 7.8% above our projections), up 65.8% annually. By business segment, hospital services revenues advanced 98.1%, diagnostics' +52.0% and "others" +24.2%.

Sales levels were influenced by several factors such as the significant recovery in hospital and diagnostic services other than COVID, which have even exceeded pre-pandemic levels, mainly in surgical activity; the recovery of clinical services and diagnostic units such as the radiotherapy, neurophysiology, advanced urology and radiosurgery cancer center; and a higher number of hospitalized patients COVID-19, as well as a greater amount of tests related to such disease. Since the beginning of the pandemic, MÉDICA has treated more than 1,600 patients and has applied more than 700 thousand tests.

As a result, the company treated 3,158 hospitalization patients during the quarter, with a 62% increase. The average bill per patient was MXN\$166,493, up 22.2%.



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The average stay of Non-COVID patients rose slightly from 3.48 to 3.74 days. However, the average stay of non-critical COVID-19 patients decreased from 7.20 to 6.19 days, while that of critical COVID-19 patients fell from 16.81 days to 14.15 days.

Diagnostic units reached 124 thanks to the agreement with GAP, which also helped to expand coverage from 6 to 14 cities.

Profitability

EBITDA grew 120.3% YoY to MXN\$381.0 million (+ 11.5% against our estimate) thanks to the company's high operating leverage. The EBITDA margin expanded 6.8 percentage points to 27.4% (vs. 26.5% E).

Net profits advanced 334.5% YoY to MXN\$191.4 million (+ 13.8% vs. our projection) supported by lower interests paid on the Cebures MEDICA 20 compared to the interests paid on bank loans that the company previously had. Interest gains rose due to the higher cash position. This more than offset the FX and the increase in the fiscal reserve. The net margin expanded 8.5 percentage points to 13.8%.

Financial Structure

Interest-bearing liabilities were down 23.0% YoY to MXN\$1 billion, while the cash position was 96.5% YoY higher to MXN\$933.9 million. For this reason, net debt fell 92.0% to only MXN\$66.1 million, with a net debt to EBITDA ratio practically at 0x.

Others

- Last June, MÉDICA celebrated its 40th anniversary.
 - MEDICA is the sponsor of the Mexican Olympic Committee. It will apply 1,000 COVID-19 tests as a requirement for the arrival of Mexican athletes.
 - Laboratorio Médico Polanco is also an official sponsor of the #OlaParalímpica. It will conduct COVID-19 tests during the Mexican Athletics Open.
 - In April, the company renewed the magnetic resonance service incorporating the Magnetom Sola Siemens resonator with 1.5 Tesla Biomatrix technology.
 - MÉDICA rose 34 places in the ranking of Mexico's 500 largest companies according to the "Expansión" magazine.
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(Figures in Millions of MXN\$)

| INCOME STATEMENT | 2Q21 | 2Q21E | Diff. | 2Q20 | Chg. |
|--------------------------------------|--------------|--------------|---------|--------------|--------|
| Revenues | 1,390 | 1,290 | 7.8% | 838 | 65.8% |
| Operating Profit | 300 | 262 | 14.3% | 90 | 233.5% |
| <i>Operating Margin</i> | <i>21.6%</i> | <i>20.3%</i> | | <i>10.7%</i> | |
| EBITDA | 381 | 342 | 11.5% | 173 | 120.3% |
| <i>EBITDA Margin</i> | <i>27.4%</i> | <i>26.5%</i> | | <i>20.6%</i> | |
| Financial Gains | 3 | 6 | -55.9% | 5 | -39.8% |
| Financial Cost | -27 | -28 | -3.1% | -38 | -28.4% |
| Pre-Tax Profit | 275 | 240 | 14.6% | 56 | 388.0% |
| Income Tax & Profit Sharing | -84 | -72 | 16.2% | -12 | 579.6% |
| <i>Tax & Profit Sharing Rate</i> | <i>30.4%</i> | <i>30.0%</i> | | <i>21.9%</i> | |
| Profit Before Minorities | 191 | 168 | 13.8% | 44 | 334.5% |
| Minority Interest | -0 | 0 | -308.1% | -0 | 216.7% |
| Net Profit | 191 | 168 | 13.8% | 44 | 334.5% |
| EPS | P\$ 1.43 | P\$ 1.26 | 13.8% | P\$ 0.35 | 306.5% |

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