

MÉDICA: 3Q21 Results

Very Solid Results, With Higher-Than-Expected Sales, EBITDA and Net Profits

MÉDICA B	BUY
Target Price (MXN\$)	\$ 53.00
Current Price (MXN\$)	\$ 42.90
Min / Max (L12M)	\$25.50 - 45.80
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	25.2%
Market Cap (MXN\$ Mn)	5,289
Enterprise Value (MXN\$ Mn)	4,941
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 0.56

Opinion and Recommendation

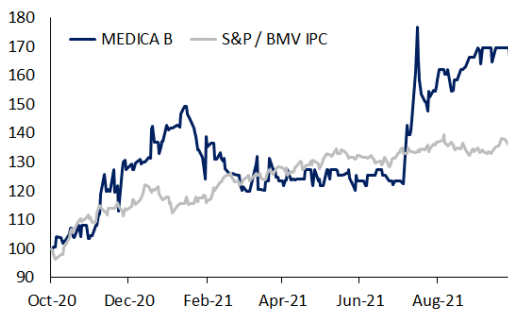
MÉDICA once again delivered very positive quarterly result with a substantial double-digit growth in its main operating indicators that exceeded our expectations. They were supported mainly by a greater demand for traditional services, in addition to the health contingency. We expect a favorable short-term reaction in MEDICA's share price. We reiterate our BUY recommendation and are raising our target price to MXN\$53.00/share, from MXN\$46.00/share, which is based on a DCF model with a 5.3% perpetuity growth rate and a 12.1% WACC. Our recommendation is based on the company's solid prospects and the low valuation of its shares with a 2022E EV/EBITDA of 4.8x and a projected P/E of 12.5x.

Revenues

Revenues rose 21.1% YoY to nearly MXN\$1.5 billion (+6.2% vs. our estimates), driven mainly by a higher demand for non-COVID 19 services in the three business areas, hospital services, diagnostic and clinical services and others.

Hospital patients increased 17% YoY to 3,413 in the current quarter, and 16.0% cumulatively to 9,472 thanks to the higher demand for non-COVID-19 services and the health contingency. The company treated more critically ill COVID-19 patients, and applied fewer tests. The mean stay of non-COVID-19 patients dropped to 3.63 days, from 3.79 days, while those of non-critical COVID-19 patients decreased to 6.12 days, from 6.33 days. The median stay of critically ill COVID-19 patients increased to 15.54 days, from 13.31 days the previous year.

On the other hand, vaccination levels reached 79% of the Mexico City population in 3Q21, compared to 26% in 2Q21, according to official data.



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Profitability

EBITDA grew 13.0% YoY to MXN\$426.8 million (+13.6% vs. our projection). The EBITDA margin contracted to 28.6% in the current quarter, from 30.6% in 3Q20, due to the impact of the labor reform, extraordinary expenses for providing samples at "GAP" airports and higher consulting and advertising expenses.

Net Profits

Net profits were up 30.5% YoY to MXN\$236.9 million (+21.6% vs. E) driven by FX gains, higher interest gains and lower financial expenses.

Financial Structure

The cash position increased 285% to MXN\$1.3 billion, while the total debt amounted to MXN\$1.0 billion in Cebures at a fixed rate of 6.99%. MÉDICA closed the quarter with a negative net debt of MXN\$348 million (net debt / EBITDA of -0.2x), from last year's positive net debt of M\$650 million (net debt to EBITDA of 0.7x).

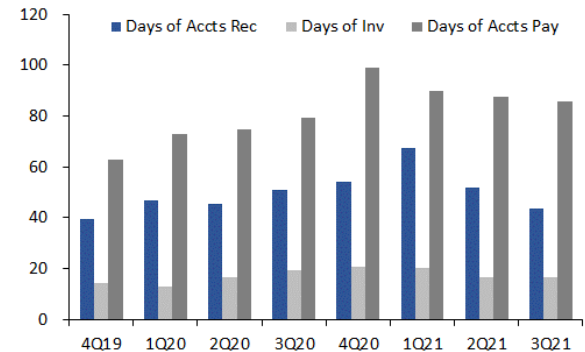
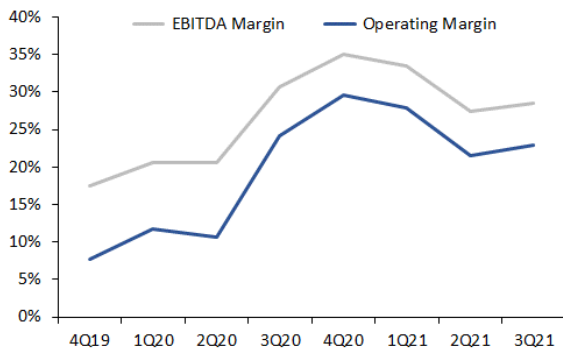
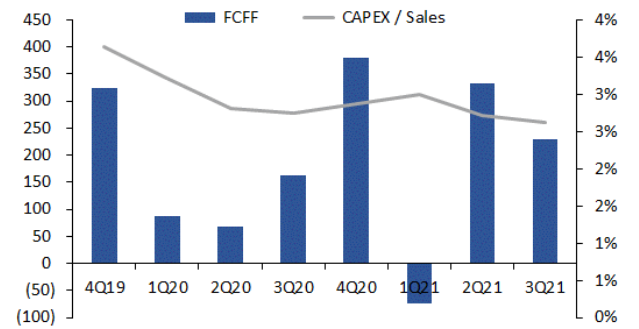
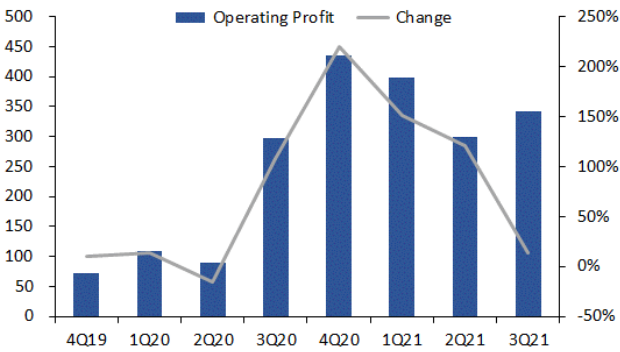
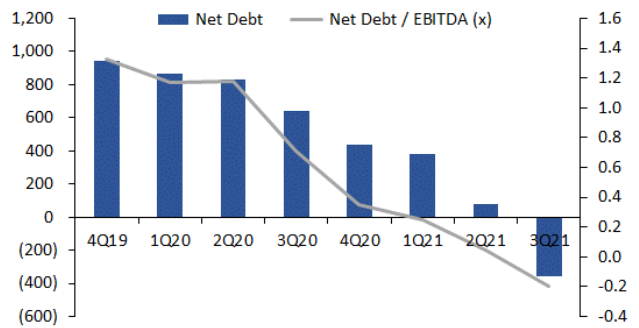
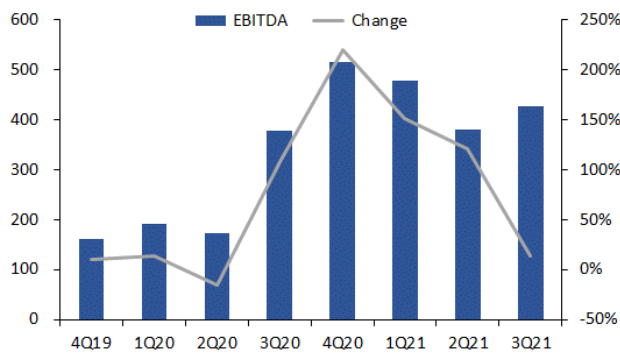
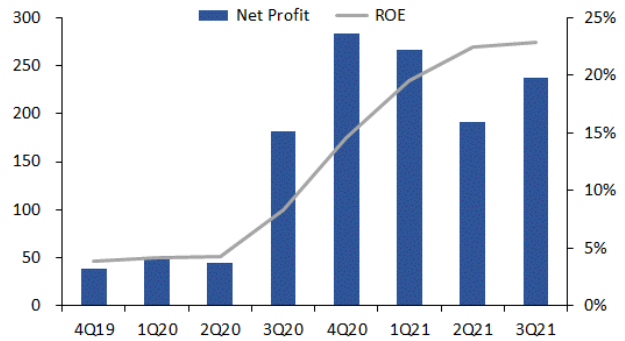
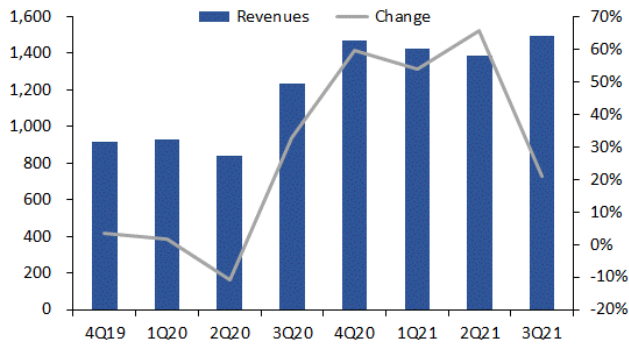
Sale of Laboratorio México Polanco and Laboratorios Ruiz

MÉDICA provided the following information related to the sale of 102 Diagnose Units of Laboratorio Médico Polanco (LMP) and Laboratorios Ruiz (LR) to Synlab International GmbH (Synlab):

- The sale price was set at MXN\$2.25 billion +/- changes in working capital and in the financial position at the closing of the transaction. Buyers will pay an additional amount of up to MXN\$550 million depending on the EBITDA that LMP / LR will register in 2021 and 20% of the royalties generated by the sale of Covid-19 tests between the date of closing and December 31st, 2022. We estimate that MÉDICA could receive a total amount of nearly MXN\$3.0 billion if all conditions are met, which we believe is likely;
 - LMP/LR recorded total revenues of MXN\$1.27 billion in 2020 and M\$1.27 billion in the first nine months of 2021, which represented 28% and 32% of MÉDICA's revenues, respectively. In addition, it posted an EBITDA of MXN\$456 million in 2020 and MXN\$502 million in the first nine months of 2021. It registered a cash position of MXN\$117 million at the end of 2020 and MXN\$164 million in 3Q21 and does not have any debt. It is worth mentioning that these figures benefited from the pandemic.
 - MÉDICA will generate a significant extraordinary gain since it had acquired LMP/LR for MXN\$1.67 billion in October 2016.
 - MÉDICA's shareholders approved the transaction last October 19th in an Ordinary Shareholder's Meeting. The company received approval from COFECE on October 14th.
 - The operation is expected to close in 4Q21.
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(Figures in Millions of MXN\$)	3Q21	3Q21E	Diff.	3Q20	Chg.
Revenues	1,494	1,407	6.2%	1,234	21.1%
Operating Profit	342	295	15.9%	297	15.0%
<i>Operating Margin</i>	22.9%	21.0%		24.1%	
EBITDA	427	376	13.6%	378	13.0%
<i>EBITDA Margin</i>	28.6%	26.7%		30.6%	
Financial Gains	15	7	104.4%	6	145.1%
Financial Cost	-27	-24	12.4%	-52	-47.3%
Pre-Tax Profit	330	278	18.6%	252	31.0%
Income Tax & Profit Sharing	-93	-84	11.8%	-71	32.4%
<i>Tax & Profit Sharing Rate</i>	28.3%	30.0%		28.0%	
Net Profit	237	195	21.6%	182	30.5%

(Figures in Millions of MXN\$)



Source: BMV

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