

# MÉDICA

## Raising Target Price to MXN\$60.00/Share

MEDICA B	BUY
Target Price (MXN\$) [1]	\$ 60.00
Current Price (MXN\$)	\$ 48.68
Min / Max (L12M)	\$31.05 - 50.10
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	24.7%
Market Cap (MXN\$ Mn)	6,001
Enterprise Value (MXN\$ Mn)	3,645
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 1.10

[1] P\$88.40 including land

### Opinion and Recommendation

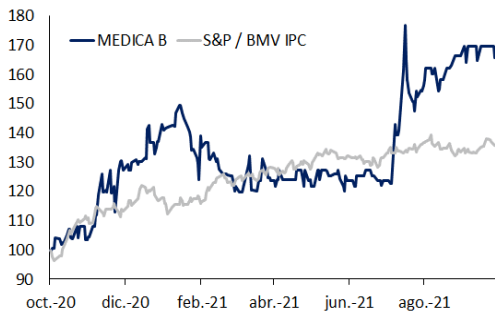
We are raising our target price on MÉDICA's shares to MXN\$60.0/share (MXN\$88.40 / share including real estate), from an original level of MXN\$53.0 / share, after including the sale of Laboratorio Médico Polanco (LMP) and Laboratorios Ruiz (LR) in our projections model. The recommendation remains BUY mainly due to MÉDICA's solid fundamentals and its attractive valuation with a forward EV/EBITDA of 4.6x, a projected P/E of 12.9x, and a P/BV of 1.3x, which are below its international counterparts.

We set our new target price through a discounted cash flow model which includes a 5.3% perpetuity growth rate in nominal terms and a 12.3% WACC. The target multiples are 6.5x EV/EBITDA and 18.5x P/E.

As a result of the recent sale of the laboratories to Synlab International GmbH (Synlab), MÉDICA has a very strong financial structure with a negative net debt to EBITDA of 2.3x. This will allow the company to strengthen its strategy, which focuses on providing the country's best medical infrastructure.

### Sale of Laboratories

On November 1, MÉDICA announced that it had concluded the sale of 102 diagnose units to Synlab International GmbH (Synlab) LMP and LS for an initial payment of MXN\$2.25 billion +/- the working capital variation and financial position at the closing of the transaction. In addition, buyers will pay up to MXN\$550 million depending on the EBITDA that LMP/LR registers in 2021 and 20% of royalties generated by the sale of Covid-19 tests, between the closing date and December 31, 2022. We estimate that MÉDICA could receive around MXN\$3.0 billion if all the above conditions are met.



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**Discounted Cash Flow Model**

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	611	655	706	779	848	893
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-183	-196	-212	-234	-254	-268
NOPLAT	427	458	495	545	594	625
Depreciation	194	206	217	228	241	253
Working Capital Changes	-4	-19	-21	-21	-23	-25
CAPEX	-201	-220	-241	-262	-289	-370
FCFF	417	425	450	490	522	484
Perpetuity Growth Rate						5.3%
PV of Explicit Period (2023 - 2027E)						1,625
Perpetuity Value						6,841
PV of Perpetuity Value						3,823
Enterprise Value						5,447
Net Debt						-1,950
Market Value						7,397
Land Properties						3,501
Adjusted Market Value						10,898
Outstanding Shares						123
Target Price						P\$ 60.00
Adjusted Target Price with Land Properties						P\$ 88.40
Current Market Price						<b>P\$ 48.68</b>
Potential Return Incl. Dividends						24.7%
Forward EV/EBITDA						6.5x
Forward P/E						18.5x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						13.8%
Market Risk Premium						6.0%
Risk-Free Rate						7.8%
Beta						1.00
% Total Debt						15.9%
% Capital						84.1%
WACC						12.3%

Source: Miranda Global Research

## Global Valuation Table - Hospital Sector

Company	Country	Price (USD) 04-Jan-22	Mkt. Cap. (USD Mn)	EV/EBITDA			P/E		P/BV	EBITDA Δ%		Net Debt EBITDA	ROE	EBITDA Margin		
				L12M	2021E	2022E	L12M	2021E		2022E	2021E				2022E	
<i>Mercados Emergentes</i>																
Médica Sur	México	\$ 2.37	293	2.7x	2.6x	4.6x	3.6x	4.1x	12.9x	1.3	65%	(33%)	(2.3x)	n.d.	25.6	
Aier Eye Hospital Group	China	\$ 6.62	35,808	115.6x	53.9x	42.5x	115.5x	97.7x	74.3x	19.4	50%	26%	0.2x	24.9	28.2	
Bangkok Dusit Medical Services	Thailand	\$ 0.67	10,707	18.8x	22.6x	19.8x	43.5x	50.2x	40.5x	4.3	(13%)	13%	0.4x	9.4	25.7	
IHH Healthcare Bhd	Malaysia	\$ 1.63	14,332	15.1x	15.3x	14.2x	32.3x	39.9x	37.6x	2.2	59%	5%	1.5x	7.9	26.5	
Ryman Healthcare LTD	New Zealand	\$ 8.33	4,166	266.5x	26.8x	24.0x	12.0x	26.4x	19.7x	2.0	622%	15%	78.6x	17.9	6.5	
Bumrungrad Hospital Public Company	Thailand	\$ 4.24	3,370	49.1x	44.0x	25.8x	136x	115.3x	46.4x	6.7	(10%)	70%	0.3x	4.4	18.8	
Apollo Hospitals Enterprise Ltd.	India	\$ 66.61	9,577	64.7x	32.4x	27.2x	472.7x	78.4x	59.9x	14.6	97%	17%	n.d.	n.d.	n.d.	
Mitra Keluarga Karyasehat Tbk	Indonesia	\$ 0.16	2,235	15.8x	17.9x	19.1x	26.7x	28.3x	30.1x	5.5	34%	(8%)	(1.1x)	24.8	42.0	
Bangkok Chain Hospital	Thailand	\$ 0.59	1,463	7.0x	6.5x	14.4x	9.8x	9.2x	24.9x	4.2	191%	(55%)	0.7x	54.1	43.0	
KPJ Healthcare Bhd	Malaysia	\$ 0.26	1,106	15.1x	12.9x	9.9x	78.8x	75.5x	30.7x	2.1	(10%)	30%	5.9x	2.9	19.3	
China Resources Medican Holdings	China	\$ 0.60	780	10.4x	4.6x	3.8x	12.9x	12.1x	10.7x	0.8	65%	12%	(0.1x)	6.6	13.5	
Chularat Hospital PCL	Thailand	\$ 0.11	1,184	10.2x	9.5x	18.5x	14.0x	13.3x	28.7x	6.7	162%	(48%)	0.1x	55.5	39.1	
Medikaloka Hermina Tbk	Indonesia	\$ 0.07	1,111	7.5x	7.9x	9.1x	16.2x	17.0x	20.9x	3.8	58%	(14%)	0.6x	35.9	n.d.	
<b>Total / Average Emerging Markets</b>				<b>86,131</b>	<b>30.0x</b>	<b>24.5x</b>	<b>22.8x</b>	<b>46.5x</b>	<b>48.4x</b>	<b>44.6x</b>	<b>5.0</b>	<b>50%</b>	<b>6%</b>	<b>7.1x</b>	<b>22.2</b>	<b>26.2</b>
<i>Average Developed Markets</i>																
HCA Healthcare Inc	US	\$ 257.86	80,199	9.0x	8.8x	8.6x	12.2x	13.8x	13.7x	43.9	22%	2%	2.6x	n.d.	21.6	
Universal Health Services	US	\$ 135.00	10,850	7.0x	7.6x	7.5x	10.2x	11.0x	11.1x	1.7	(1%)	1%	1.8x	17.3	16.9	
Korian SA	France	\$ 32.04	3,383	10.9x	9.4x	8.2x	46.4x	24.6x	17.1x	0.8	21%	13%	7.7x	2.0	22.0	
The Ensign Group Ltd.	US	\$ 85.25	4,710	12.9x	17.0x	15.5x	24.5x	22.6x	20.5x	4.8	(18%)	9%	2.2x	22.0	17.2	
Tenet Healthcare Corp.	US	\$ 80.53	8,627	5.2x	6.3x	6.2x	8.0x	12.7x	12.2x	2.3	13%	1%	3.2x	n.d.	20.2	
Terveystalo Oyj	Finland	\$ 13.46	1,723	9.9x	10.3x	9.4x	18.7x	20.0x	18.4x	2.4	23%	7%	2.7x	13.3	17.8	
Target Hospitality Corp.	US	\$ 3.70	377	7.5x	6.4x	5.7x	(22.7x)	(58.0x)	69.1x	4.0	n.d.	15%	3.3x	(16.5)	34.3	
Community Health Systems	US	\$ 13.25	1,750	6.1x	7.0x	7.2x	4.8x	7.6x	10.7x	(1.8)	1%	(3%)	5.3x	n.d.	17.5	
<b>Total / Average Developed Markets</b>				<b>111,619</b>	<b>8.1x</b>	<b>8.3x</b>	<b>8.1x</b>	<b>11.9x</b>	<b>13.7x</b>	<b>13.6x</b>	<b>6.6</b>	<b>15%</b>	<b>2%</b>	<b>3.6x</b>	<b>7.6</b>	<b>21.0</b>

Source: Miranda Global Research; n.a. = not available

Note: All figures are in USD

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