

MÉDICA: 1Q22 Results

Revenue grows due to higher demand from non-COVID patients but profitability declines

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 60.00
Current Price (MXN\$)	\$ 47.52
Min / Max (L12M)	\$31.05 - 58.10
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	27.7%
Market Cap (MXN\$ Mn)	5,858
Enterprise Value (MXN\$ Mn)	3,431
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 1.70

[1] P\$88.40 including land

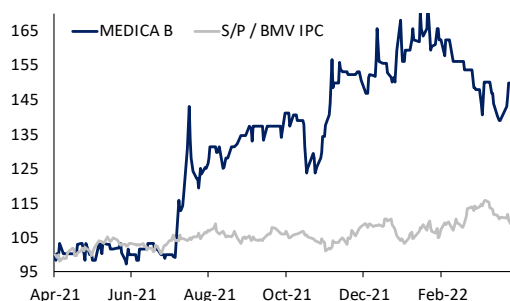
Opinion and recommendation

MÉDICA's revenues rose slightly due to higher demand from non-COVID patients. However, profitability was affected by the change in sales mix and higher expenses, which resulted in a 25.7% drop in adjusted EBITDA, excluding discontinued LMS-related operations. These results exceeded our expectations.

We continue with a BUY recommendation and a MXN\$60.0/share target price as the valuation of MÉDICA shares is very low with a forward EV/EBITDA of 5.5x (around 1.0x including land) and an estimated P/E of 12.1x, below its international counterparts.

Revenues

MÉDICA presented a favorable performance in terms of revenues, as these were up 2.9% YoY to MXN\$994.7 million (vs. a 7.7% fall that we expected). This stemmed from a MXN\$83.8 million improvement in non-COVID hospital revenues, which included a greater number of ambulatory surgeries, general surgery, gynecology and emergencies. Revenues from clinical and diagnostic services for non-COVID patients advanced by MXN\$75.5 million supported by a higher demand in the comprehensive diagnostic and treatment center, cancer center, angiography, magnetic resonance, Gamma Knife and urology and neurophysics. This was partially offset by a MXN\$137.9 million reduction in COVID related revenues, given higher vaccination levels in Mexico City.



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Volume

The total number of patients discharged from hospitalization was 3,272 in 1Q22, up 21.1%, which included 216 COVID patients. In addition, the company carried out 39,767 COVID tests.

The median stay for non-COVID patients dropped slightly to 3.80 days, from 3.88 the previous year. The median stay for non-critical COVID patients decreased to 3.63 days, from 6.94, while that of critical COVID patients was 9.8 days, from 12.9 days. MÉDICA carried out a conversion process of the area that was originally intended for COVID, given the lower demand.

Profitability

Adjusted EBITDA, excluding LMS-related discontinued operations, decreased 25.7% to M\$217.9 million (vs. M\$210.5 million E) in 1Q22. Adjusted EBITDA margin contracted to 21.9%, from 30.3% a year earlier. This was due to the revenue growth of non-COVID patients in the aforementioned areas, the annual salary adjustment due to inflation, the effect of profit sharing, well as higher expenses in fees and subscriptions, primarily from the Mayo Clinic.

As a result of the significant increase in the cash position from the sale of LMS, the company recorded a MXN\$27.0 million financial gain, compared to a MXN\$11.4 million loss the previous year.

Net profit was down 39.2% to MXN\$162.4 million (vs. MXN\$127 million E) due to the reduction in operating results.

Financial structure

MÉDICA continued with a very solid financial structure with a MXN\$3.4 billion cash position, which greatly exceeded the MXN\$1.0 billion debt.

Others

MÉDICA incorporated the Rezum treatment in the advanced urology unit, which includes highly specialized thermal steam therapy. On the other hand, MÉDICA was rated as Mexico's second best hospital according to Newsweek International magazine and Statista for the second consecutive year. In addition, the company strengthened its relationship with the Mayo Clinic.

(Figures in Millions of MXN\$)	1Q22	1Q22E	Diff.	1Q21	Chg.
Revenues	995	893	11.4%	967	2.9%
Operating Profit	170	165	3.3%	252	-32.3%
<i>Operating Margin</i>	<i>17.1%</i>	<i>18.5%</i>		<i>26.0%</i>	
EBITDA	218	211	3.5%	293	-25.7%
<i>EBITDA Margin</i>	<i>21.9%</i>	<i>23.6%</i>		<i>30.3%</i>	
Financial Gains	49	34	44.7%	8	515.6%
Financial Cost	-22	-23	-4.8%	-19	14.3%
Pre-Tax Profit	197	176	12.4%	240	-17.9%
Income Tax & Profit Sharing	-62	-50	25.2%	-74	-15.8%
Net Profit	162	127	28.1%	166	-2.4%
EPS	P\$ 1.32	P\$ 1.03	28.1%	P\$ 1.35	-2.4%

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