

MÉDICA

Shareholders approved a MXN\$26.833/share cash dividend with a 41.9% yield

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 81.80
Current Price (MXN\$)	\$ 64.50
Min / Max (L12M)	\$37.00 - 64.99
Expected Dividend (MXN\$)	\$ 26.83
Expected Return	26.8%
Market Cap (MXN\$ Mn)	7,952
Enterprise Value (MXN\$ Mn)	5,253
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 1.79

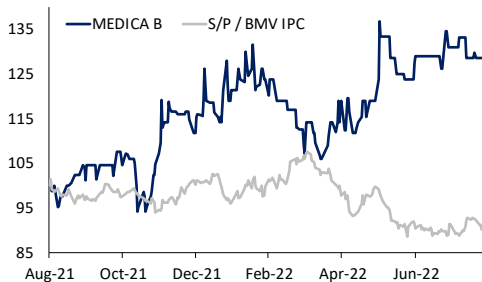
Opinion and recommendation

MÉDICA's shareholders approved the payment of a total dividend of nearly MXN\$2.9 billion, equivalent to MXN\$26.833/share, with a 41.9% yield against the last closing price. It will be paid on September 7th.

We are raising our target price for MÉDICA to MXN\$81.80/share pre-dividend (MXN\$55.0/post-dividend share) from an original level of MXN\$60.00/share, after having updated our projections model. This new target price is based on a DCF model, which includes a 10.7% WACC and a 2.6% growth rate in perpetuity in nominal terms.

Our recommendation remains BUY due to the company's strong fundamentals, its low leverage with a net debt to EBITDA ratio of around 0.1x after the dividend payment and its attractive valuation with an estimated EV/EBITDA of 8.4x and a projected P/E of 15.2x, which are below those of its international counterparts, according to our global valuation table. If we include the shares that the company has repurchased (14.9 million shares with a market value of MXN\$939 million) and the value of real estate properties, MÉDICA's shares are currently trading at a forward EV/EBITDA of only 5.1x.

We expect MÉDICA's traditional business to continue to recover over the next few quarters, thus offsetting the lower level of COVID-related revenue. In addition, the company will continue to receive COVID royalties from SYNLAB International for the remainder of this year.



August 29th, 2022

Martin Lara
 +5255-6413-8563
 martin.lara@miranda-gr.com

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	707	764	823	891	959	984
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-215	-233	-251	-271	-292	-295
NOPLAT	492	532	573	620	667	689
Depreciation	194	206	217	228	241	247
Working Capital Changes	-5	-4	-4	-5	-4	-4
CAPEX	-201	-220	-241	-262	-289	-296
FCFF	481	513	545	582	615	635
Perpetuity Growth Rate						2.6%
PV of Explicit Period (2023 - 2027E)						2,013
Perpetuity Value						7,856
PV of Perpetuity Value						4,277
Enterprise Value						6,291
Net Debt						72
Repurchased shares						561
Market Value						6,780
Land Properties						2,128
Adjusted Market Value w/ Land Properties						8,908
Outstanding Shares						123
Target Price (post-Dividend)						P\$ 55.00
Current Market Price (post-Dividend)						P\$ 37.67
Potential Return Incl. Dividends						46.0%
Forward EV/EBITDA						7.6x
Forward P/E						14.2x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						13.1%
Market Risk Premium						6.0%
Risk-Free Rate						8.5%
Beta						0.76
% Total Debt						29.4%
% Capital						70.6%
WACC						10.7%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	Original	+5%	+10%
Projected EBITDA	813	856	901	946	993
Target EV/EBITDA					
6.1x	39.71	41.81	44.03	46.25	48.58
6.6x	43.00	45.29	47.69	50.09	52.61
7.1x	46.30	48.76	51.34	53.93	56.64
7.6x	49.60	52.23	55.00	57.77	60.67
8.1x	52.90	55.70	58.65	61.60	64.70
8.6x	56.20	59.17	62.31	65.44	68.73

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	Original	+5%	+10%
Projected Net Profit	430	452	476	500	525
Target P/E					
11.2x	39.18	41.24	43.41	45.58	47.86
12.2x	42.66	44.91	47.27	49.64	52.12
13.2x	46.15	48.58	51.13	53.69	56.38
14.2x	49.64	52.25	55.00	57.75	60.63
15.2x	53.12	55.92	58.86	61.80	64.89
16.2x	56.61	59.59	62.72	65.86	69.15

Global Valuation Table - Hospital Sector

Company	Country	Price (USD) 29-Aug-22	Mkt. Cap. (USD Mn)	EV/EBITDA			P/E			P/BV	EBITDA Δ%		Net Debt EBITDA	ROE	EBITDA Margin	Div. Yield	
				L12M	2022E	2023E	L12M	2022E	2023E		2022E	2023E					
Emerging Markets																	
Médica Sur	México	\$ 3.23	398	n.a.	8.7x	9.2x	n.a.	9.0x	17.3x	1.5	22%	(6%)	(2.3x)	n.a.	25.6	42.6	
Aier Eye Hospital Group	China	\$ 4.11	28,931	93.5x	37.1x	28.8x	93.3x	66.6x	49.9x	14.8	12%	28%	0.1x	22.3	29.3	0.3	
Bangkok Dusit Medical Services	Thailand	\$ 0.76	12,143	19.0x	21.3x	19.9x	36.1x	41.0x	37.4x	4.7	4%	6%	0.2x	13.3	25.1	1.6	
IHH Healthcare Bhd	Malaysia	\$ 1.41	12,439	12.8x	13.8x	12.5x	24.9x	33.6x	29.5x	1.8	(2%)	8%	1.2x	8.4	26.0	0.9	
Ryman Healthcare LTD	New Zealand	\$ 5.51	2,757	153.0x	15.1x	18.7x	5.7x	15.8x	13.4x	1.2	926%	(16%)	60.3x	22.1	8.4	1.5	
Bumrungrad Hospital Public Company	Thailand	\$ 5.92	4,706	34.0x	28.1x	24.6x	56x	43.5x	37.5x	9.3	93%	13%	(0.4x)	16.1	29.0	1.5	
Apollo Hospitals Enterprise Ltd.	India	\$ 53.18	7,646	27.2x	26.6x	20.6x	54.0x	59.9x	42.3x	9.9	(0%)	27%	n.d.	n.d.	n.d.	0.3	
Mitra Keluarga Karyasehat Tbk	Indonesia	\$ 0.17	2,432	19.7x	21.5x	18.8x	30.6x	33.4x	29.6x	6.5	(16%)	13%	(1.0x)	21.8	42.1	1.4	
Bangkok Chain Hospital	Thailand	\$ 0.51	1,277	3.7x	7.1x	11.7x	5.0x	11.3x	22.7x	3.1	(42%)	(41%)	0.3x	79.0	46.0	7.5	
KPJ Healthcare Bhd	Malaysia	\$ 0.20	852	12.0x	9.2x	8.2x	44.8x	29.6x	22.3x	1.6	7%	11%	5.8x	3.8	20.5	0.6	
China Resources Medican Holdings	China	\$ 0.58	753	4.9x	4.9x	4.0x	11.6x	11.2x	10.2x	0.7	18%	6%	(1.0x)	6.7	15.0	2.6	
Chularat Hospital PCL	Thailand	\$ 0.10	1,090	4.8x	9.5x	16.8x	6.5x	13.5x	26.9x	4.7	(39%)	(44%)	(0.1x)	90.1	51.2	7.1	
Medikaloka Hermina Tbk	Indonesia	\$ 0.10	1,476	13.9x	14.4x	12.5x	34.1x	38.1x	28.6x	5.0	(33%)	15%	0.6x	20.3	n.d.	0.4	
Total / Average Emerging Markets				76,900	22.6x	20.5x	18.9x	31.0x	39.3x	34.9x	4.2	5%	8%	5.3x	27.6	28.9	2.2
Developed Markets																	
HCA Healthcare Inc	US	\$ 204.22	58,616	8.0x	7.9x	7.6x	9.0x	11.5x	11.0x	(51.3)	(7%)	4%	3.2x	n.d.	20.4	1.1	
Universal Health Services	US	\$ 100.84	7,380	7.4x	7.3x	7.1x	9.5x	10.1x	9.4x	1.2	(16%)	7%	3.0x	12.6	12.6	0.8	
Korian SA	France	\$ 13.12	1,397	8.6x	8.2x	7.6x	16.4x	14.4x	9.9x	0.4	(5%)	9%	7.8x	2.2	21.1	2.7	
The Ensign Group Ltd.	US	\$ 86.23	4,768	12.3x	15.3x	13.9x	23.4x	20.3x	18.0x	4.3	(16%)	10%	2.4x	19.9	17.2	0.3	
Tenet Healthcare Corp.	US	\$ 59.26	6,393	5.2x	5.9x	5.4x	7.3x	9.6x	8.4x	1.6	(8%)	6%	3.5x	n.d.	20.2	n.d.	
Terveystalo Oyj	Finland	\$ 8.78	1,116	7.5x	7.9x	6.8x	12.9x	14.4x	12.2x	1.8	(15%)	11%	2.8x	12.8	16.1	n.d.	
Target Hospitality Corp.	US	\$ 14.09	1,370	11.5x	5.9x	4.6x	41.7x	10.0x	6.8x	11.0	n.d.	31%	2.3x	31.1	41.3	n.d.	
Community Health Systems	US	\$ 2.98	401	6.9x	9.1x	7.8x	(10.6x)	(1.5x)	11.2x	(0.3)	(36%)	17%	6.7x	n.d.	15.2	n.d.	
Total / Average Developed Markets				81,441	7.5x	7.7x	7.3x	9.5x	12.0x	10.7x	6.0	(10%)	6%	4.0x	15.7	20.5	1.2

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

Note: All figures are in USD

(Figures in Millions of MXN\$)

INCOME STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	3,906	3,986	4,285	4,525	4,780	5,049	5,333
Cost of Sales	-2,371	-2,523	-2,695	-2,833	-2,978	-3,130	-3,296
Gross Profit	1,535	1,463	1,590	1,693	1,802	1,918	2,037
<i>Gross Margin</i>	39.3%	36.7%	37.1%	37.4%	37.7%	38.0%	38.2%
General Expenses	-718	-795	-857	-896	-937	-979	-1,024
Operating Profit	662	659	707	764	823	891	959
<i>Operating Margin</i>	16.9%	16.5%	16.5%	16.9%	17.2%	17.6%	18.0%
Depreciation and Amortization	-277	-169	-194	-206	-217	-228	-241
Covid Royalties	0	60	0	0	0	0	0
EBITDA	2,035	934	901	970	1,040	1,119	1,200
<i>EBITDA Margin</i>	52.1%	23.4%	21.0%	21.4%	21.8%	22.2%	22.5%
Financial Gains	57	162	65	68	72	76	81
Financial Cost	-79	-81	-87	-88	-88	-86	-84
Pre-Tax Profit	640	740	685	745	807	881	957
Income Tax & Profit Sharing	-264	-227	-208	-227	-246	-268	-291
<i>Tax & Profit Sharing Rate</i>	41.2%	30.7%	30.4%	30.4%	30.4%	30.4%	30.4%
Net Profit	1,358	898	476	518	561	613	666
Outstanding Shares	123	123	123	123	123	123	123
EPS	P\$ 11.01	P\$ 7.29	P\$ 3.86	P\$ 4.20	P\$ 4.55	P\$ 4.97	P\$ 5.40
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
TOTAL ASSETS	6,984	4,424	4,547	4,658	4,784	4,925	5,143
Current Assets	4,162	1,613	1,729	1,826	1,928	2,036	2,205
Cash & Temp. Inv.	3,532	947	1,016	1,073	1,134	1,198	1,320
LT Assets	2,822	2,811	2,817	2,832	2,856	2,889	2,937
P, P & E	2,485	2,492	2,498	2,513	2,537	2,570	2,618
TOTAL LIABILITIES	2,070	1,997	2,081	2,124	2,150	2,153	2,193
ST Liabilities	1,004	940	1,024	1,067	1,093	1,096	1,136
LT Liabilities	1,066	1,057	1,057	1,057	1,057	1,057	1,057
TOTAL DEBT	1,011	1,019	1,060	1,067	1,055	1,019	1,017
NET DEBT	-2,520	72	44	-7	-79	-179	-304
TOTAL CAPITAL	4,914	2,442	2,482	2,550	2,650	2,788	2,965
Stockholder's Equity	4,913	2,442	2,481	2,550	2,650	2,788	2,965
CASH FLOW STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
PRE-TAX PROFIT	1,358	1,001	685	745	807	881	957
Inv. Related Activities	495	-545	-541	-526	-510	-495	-478
Pre-Tax Cash Flow	1,935	662	578	627	678	737	797
Working Capital Changes	-1,184	-503	-5	-4	-4	-5	-4
Operating Cash Flow	751	160	573	623	674	732	793
Investment Cash Flow	2,559	619	-108	-124	-140	-157	-179
Financing Cash Flow	-351	-3,363	-396	-442	-473	-511	-491
Net Incr. (Decr.) in Cash & Temp. Inv.	2,959	-2,585	69	57	60	64	123
Beg. of Period Cash and Temp. Inv.	573	3,532	947	1,016	1,073	1,134	1,198
End of Period Cash and Temp. Inv.	3,532	947	1,016	1,073	1,134	1,198	1,320

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