

MÉDICA: 4Q22 Results

Positive, recovery in the performance of traditional services continued in the quarter

MEDICA B	BUY
Target Price (MXN\$) [1]	\$ 55.00
Current Price (MXN\$)	\$ 37.43
Min / Max (L12M)	\$34.50 - 71.00
Expected Dividend (MXN\$)	\$ 2.50
Expected Return	53.6%
Market Cap (MXN\$ Mn)	4,040
Enterprise Value (MXN\$ Mn)	3,819
Outstanding Shares (Mn)	107.9
Float	37.5%
ADTV (MXN\$ Mn)	\$ 1.33

[1] P\$74.71 including land

Opinion and recommendation

MEDICA reported positive 4Q22 results as the company continued to show a clear recovery in traditional services. These results were practically in line with our revenue and EBITDA projections and exceeded our net profit estimates.

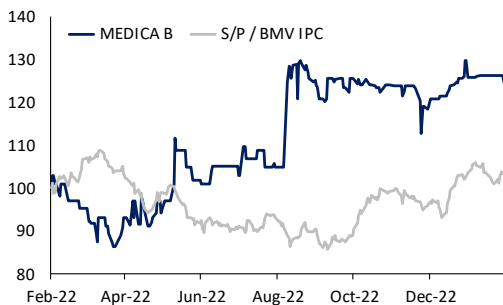
We continue with a BUY recommendation and a MXN\$55.00/share target price. MEDICA's shares continue to trade at a very attractive valuation with a forward EV/EBITDA of 4.4x (1.8x including land) and a projected P/E of 5.1x, according to our updated forecasting model.

Revenues

MEDICA reported 4Q22 total revenues of MXN\$917 million, a slight 2.5% year-over-year decline due to lower COVID-related sales. However, core revenues rose 5%, showing the strength of the company's operations.

For the year, total revenues grew 1.5% due to a recovery in traditional services, particularly in hospitalization and clinical services and diagnostic units, while recurring revenues rose 16%.

MEDICA treated 14,071 patients in 2022, 10.5% more than in the previous year. The average patient stay decreased to 3.53 days from 4.21 days, while the percentage of bed days fell slightly to 125 days. This translated into an occupancy rate of 66.5%, compared to 67.7% in the previous year.



February 20th, 2023

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Profitability

Reported 4Q22 EBITDA was MXN\$224 million, down 50.6% year-over-year on a non-comparable basis as the company recorded an extraordinary gain on the divestiture of the laboratories. EBITDA on a comparable basis increased 769% to MXN\$117 million due to the recovery of traditional services and a MXN\$101 million goodwill amortization in 4Q21, which related to the Santa Teresa hospital.

The company recorded a MXN\$0.4 million financial charge in the current quarter, down from a positive MXN\$14 million figure in the same period last year due to lower interest gains deriving from the reduction in cash.

Net profits were MXN\$137 million in 4Q22, down 70% due to lower gains from discontinued operations.

Financial position

MEDICA maintained an excellent financial structure with MXN\$1,221 million in cash and total debt of MXN\$1,000 million. This resulted in a negative net debt of MXN\$221 million.

Shares / Buy-back reserve

During the quarter, MEDICA cancelled 15.3 million treasury shares, leaving 107.9 million shares outstanding. It also repurchased an additional 1.3 million shares for MXN\$51.6 million. The company currently has a MXN\$377 million repurchase reserve.

Other

For the second consecutive year, MEDICA was ranked as the best hospital in Mexico by the *Newsweek International* magazine. It also received the same domestic recognition by the *Expansión* magazine and the Mexican Health Foundation. It stood out in nine of fourteen categories.

(Figures in Millions of MXN\$)	4Q22	4Q22E	Diff.	4Q21	Chg.
Revenues	917	961	-4.5%	941	-2.5%
Operating Profit	79	82	-4.4%	9	782.9%
Operating Margin	8.6%	8.6%		0.9%	
EBITDA	224	223	0.5%	453	-50.6%
EBITDA Margin	24.4%	23.2%		48.2%	
Financial Gains	20	19	3.9%	34	-42.8%
Financial Cost	-20	-21	-4.8%	-20	-1.4%
Net Profit	137	129	6.2%	459	-70.2%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	697	755	822	895	964	989
Tax Rate	28%	28%	28%	28%	28%	30%
Tax Shield	-197	-213	-232	-252	-272	-297
NOPLAT	501	542	590	642	692	692
Depreciation	182	197	208	225	225	231
Working Capital Changes	11	13	14	14	16	17
CAPEX	-220	-241	-262	-289	-289	-296
FCFF	473	512	550	593	645	643
Perpetuity Growth Rate						2.6%
PV of Explicit Period (2024 - 2028E)						1,972
Perpetuity Value						6,918
PV of Perpetuity Value						3,533
Enterprise Value						5,505
Net Debt						-480
Treasury Shares						49
Market Value						5,937
Land Properties						2,128
Adjusted Market Value w/ Land Properties						8,064
Outstanding Shares						108
Target Price						P\$ 55.00
Current Market Price						P\$ 37.43
Potential Return Incl. Dividends						46.9%
Forward EV/EBITDA						5.9x
Forward P/E						7.0x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						14.4%
Market Risk Premium						6.0%
Risk-Free Rate						9.1%
Beta						0.89
% Total Debt						27.0%
% Capital						73.0%
WACC						11.8%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	3,868	3,972	4,216	4,476	4,752	5,046	5,358
Cost of Sales	-2,501	-2,518	-2,652	-2,802	-2,960	-3,128	-3,311
Gross Profit	1,367	1,454	1,564	1,674	1,791	1,917	2,047
<i>Gross Margin</i>	35.3%	36.6%	37.1%	37.4%	37.7%	38.0%	38.2%
General Expenses	-792	-794	-835	-877	-922	-969	-1,029
Operating Profit	574	633	697	755	822	895	964
<i>Operating Margin</i>	14.9%	15.9%	16.5%	16.9%	17.3%	17.7%	18.0%
Depreciation and Amortization	-167	-170	-182	-197	-208	-225	-225
EBITDA	906	804	879	952	1,030	1,119	1,189
<i>EBITDA Margin</i>	23.4%	20.2%	20.8%	21.3%	21.7%	22.2%	22.2%
Financial Gains	182	86	106	128	149	173	199
Financial Cost	-79	-78	-79	-80	-77	-78	-78
Pre-Tax Profit	678	642	725	803	893	990	1,085
Income Tax & Profit Sharing	-205	-181	-204	-226	-252	-279	-306
<i>Tax & Profit Sharing Rate</i>	30.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%
Net Profit	950	785	844	901	965	1,034	1,103
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	4,576	4,931	5,365	5,703	6,180	6,656	7,171
Current Assets	1,685	2,049	2,445	2,739	3,162	3,574	4,025
LT Assets	2,891	2,882	2,921	2,964	3,018	3,082	3,146
TOTAL LIABILITIES	2,054	2,112	2,206	2,176	2,253	2,296	2,350
ST Liabilities	997	1,055	1,149	1,119	1,197	1,239	1,293
LT Liabilities	1,057	1,057	1,057	1,057	1,057	1,057	1,057
TOTAL DEBT	1,014	1,045	1,097	1,020	1,048	1,039	1,035
NET DEBT	-207	-480	-793	-1,130	-1,490	-1,873	-2,288
TOTAL CAPITAL	2,522	2,831	3,172	3,539	3,939	4,372	4,833
Stockholder's Equity	2,521	2,829	3,170	3,538	3,937	4,370	4,832
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
PRE-TAX PROFIT	950	642	725	803	893	990	1,085
Inv. Related Activities	-282	-239	-268	-297	-326	-360	-411
Pre-Tax Cash Flow	697	637	660	710	766	826	870
Working Capital Changes	-432	-33	11	13	14	14	16
Operating Cash Flow	264	604	671	723	779	841	886
Investment Cash Flow	732	-113	-112	-111	-112	-114	-88
Financing Cash Flow	-3,307	-187	-194	-352	-280	-353	-387
Net Incr. (Decr.) in Cash & Temp. Inv.	-2,310	304	365	261	388	374	411
Beg. of Period Cash and Temp. Inv.	3,532	1,221	1,526	1,890	2,151	2,538	2,912
End of Period Cash and Temp. Inv.	1,221	1,526	1,890	2,151	2,538	2,912	3,323

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