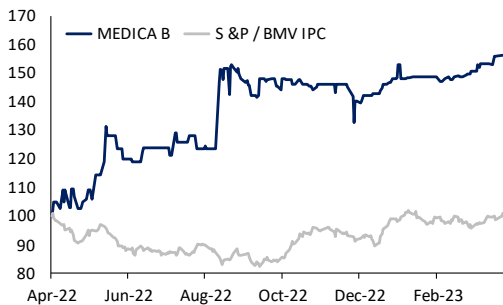


MÉDICA: 1Q23 Results

Positive results due to a significant recovery in traditional services which continued to fuel core revenues and EBITDA

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 61.00
Current Price (MXN\$)	\$ 41.50
Min / Max (L12M)	\$26.01 - 41.50
Expected Dividend (MXN\$)	\$ 6.53
Expected Return	62.7%
Market Cap (MXN\$ Mn)	4,479
Enterprise Value (MXN\$ Mn)	4,195
Outstanding Shares (Mn)	107.9
Float	37.5%
ADTV (MXN\$ Mn)	\$ 1.01

[1] P\$80.71 including land



Opinion and recommendation

MÉDICA reported very positive results that were above our projections in terms of revenues, EBITDA and net profits, as the company continued to benefit from a higher demand for traditional services, thus offsetting the reduction in COVID related revenues.

On the other hand, shareholders approved the payment of a MXN\$6.53/share dividend with a 15.7% yield with respect to the last market price.

We are reiterating our BUY recommendation on the stock. We have raised our target price to MXN\$61.0/share, from an original level of MXN\$55.0/share after having revised our projections upwards. The valuation of MÉDICA's shares still seems very low to us since they currently trade at a forward EV/EBITDA of 5.2x (2.8x including land) and a projected P/E of 8.5x.

Revenues

MÉDICA's total revenues reached MXN\$1,072.7 million (vs. our MXN\$920.8 million estimate) in the current quarter, up 10.8% (recurring revenues +22.6%) compared to 1Q22. They were driven mainly by a higher patient volume at the hospital, clinical services and diagnostic units. The strong performance of traditional services fully offset the MXN\$92.7 million reduction in COVID related revenues.

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Hospital patients increased 7.3% (critical units +52.2%, emergencies +11.7) to 3,511, which boosted the occupancy level by more than seven percentage points to 72.8%.

In clinical services and diagnostic units, the company posted double-digit growth in PET-CT, nuclear medicine and angiography. Other businesses rose due to a higher occupancy at the Holiday Inn hotel and a greater influx in cafeterias and restaurants.

Profitability

The reported EBITDA stood at MXN\$223.1 million (vs. MXN\$189.1 million E) in 1Q23, which represented a 13.2% reduction compared to the previous year on a non-comparable basis, since last year the company received non-recurring COVID royalties. The EBITDA margin was 20.8% in 1Q23, from 26.5% in 1Q22.

On a comparable basis (excluding last year's extraordinary revenues), core EBITDA grew a favorable 44.0% YoY growth thanks to operating leverage in conjunction with cost and expense controls. The EBITDA margin expanded to 20.6%, from 17.6% in 1Q22.

The comprehensive financing gain decreased 15% to MXN\$23.6 million as a result of the decline in interests gains due to lower cash levels compared to 1Q22.

Quarterly net profits were MXN\$141.8 million (vs. MXN\$104.4 million E), down 12.7% YoY, mainly due to the extraordinary revenues that the company received last year. Excluding non-recurring items, net profits were 7.0% higher than the prior year.

Financial structure

As in previous quarters, MÉDICA maintained an excellent financial structure with negative net debt of MXN\$284.4 million.

Buy-backs

MÉDICA repurchased 1.17 million shares for MXN\$45.1 million during the period. The company holds 2.35% of its own shares in treasury. We believe that they will be canceled in the future.

2023 dividend

Shareholders approved the payment of a MXN\$688.0 million dividend, equivalent to MXN\$6.53/share, which was above our expectations. The yield is 15.7% with respect to the last market price. In addition, they authorized the creation of a new MXN\$500 million share buy-back repurchase, which represents 11% of the current market value.

Others

On March 10th, the company announced the resignation of Ms. Laura Renée Diez Barroso Azcárraga as a Board Director.

For the third consecutive year, MÉDICA received the "Best Hospital in Mexico" ranking by the *Newsweek* magazine and Statista.

The company invested MXN\$58.5 million in new hemodynamic equipment. In addition, in February it launched the first phase of the "Núcleo" project for the SAP platform implementation. Total investment in this project will amount to MXN\$150.0 million.

(Figures in Millions of MXN\$)	1Q23	1Q23E	Diff.	1Q22	Chg.
Revenues	1,073	921	16.5%	968	10.8%
Operating Profit	180	146	23.2%	165	9.3%
<i>Operating Margin</i>	<i>16.8%</i>	<i>15.9%</i>		<i>17.0%</i>	
EBITDA	223	189	18.1%	257	-13.2%
<i>EBITDA Margin</i>	<i>20.8%</i>	<i>20.5%</i>		<i>26.5%</i>	
Financial Gains	47	21	122.9%	49	-5.0%
Financial Cost	-23	-22	5.8%	-22	7.5%
Net Profit	142	104	35.8%	162	-12.7%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	837	906	986	1,072	1,161	1,195
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-253	-274	-298	-324	-351	-359
NOPLAT	584	632	688	748	810	837
Depreciation	182	197	208	225	238	245
Working Capital Changes	12	10	10	11	11	11
CAPEX	-291	-309	-329	-349	-371	-382
FCFF	486	530	578	635	688	711
Perpetuity Growth Rate						3.0%
PV of Explicit Period (2024 - 2028E)						2,106
Perpetuity Value						8,604
PV of Perpetuity Value						4,547
Enterprise Value						6,653
Net Debt						174
Tresury Shares						105
Market Value						6,585
Land Properties						2,128
Adjusted Market Value w/ Land Properties						8,712
<i>Outstanding Shares</i>						<i>108</i>
Target Price						P\$ 61.00
Current Market Price						P\$ 41.50
Potential Return Incl. Dividends						62.7%
Forward EV/EBITDA						6.6x
Forward P/E						11.4x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						14.2%
Market Risk Premium						6.0%
Risk-Free Rate						8.9%
Beta						0.87
% Total Debt						31.8%
% Capital						68.2%
WACC						11.2%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	3,868	4,422	4,697	4,989	5,300	5,632	5,984
Cost of Sales	-2,501	-2,741	-2,898	-3,063	-3,239	-3,424	-3,620
Gross Profit	1,367	1,681	1,799	1,926	2,062	2,208	2,364
<i>Gross Margin</i>	<i>35.3%</i>	<i>38.0%</i>	<i>38.3%</i>	<i>38.6%</i>	<i>38.9%</i>	<i>39.2%</i>	<i>39.5%</i>
General Expenses	-792	-982	-930	-978	-1,028	-1,081	-1,149
Operating Profit	574	724	837	906	986	1,072	1,161
<i>Operating Margin</i>	<i>14.9%</i>	<i>16.4%</i>	<i>17.8%</i>	<i>18.2%</i>	<i>18.6%</i>	<i>19.0%</i>	<i>19.4%</i>
Depreciation and Amortization	-167	-172	-182	-197	-208	-225	-238
EBITDA	906	895	1,018	1,103	1,194	1,297	1,398
<i>EBITDA Margin</i>	<i>23.4%</i>	<i>20.2%</i>	<i>21.7%</i>	<i>22.1%</i>	<i>22.5%</i>	<i>23.0%</i>	<i>23.4%</i>
Financial Gains	182	98	65	69	74	78	83
Financial Cost	-79	-79	-75	-78	-80	-80	-79
Pre-Tax Profit	678	743	827	897	979	1,071	1,165
Income Tax & Profit Sharing	-205	-215	-250	-271	-296	-323	-352
<i>Tax & Profit Sharing Rate</i>	<i>30.2%</i>	<i>28.9%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>
Net Profit	950	528	577	626	683	747	813
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	4,576	4,398	4,600	4,810	5,035	5,271	5,522
Current Assets	1,685	1,477	1,569	1,668	1,772	1,883	2,001
LT Assets	2,891	2,921	3,031	3,143	3,263	3,388	3,521
TOTAL LIABILITIES	2,054	2,228	2,324	2,407	2,477	2,529	2,568
ST Liabilities	997	1,173	1,270	1,353	1,423	1,475	1,514
LT Liabilities	1,057	1,054	1,054	1,054	1,054	1,054	1,054
TOTAL DEBT	1,014	1,018	1,063	1,094	1,110	1,104	1,082
NET DEBT	-207	174	165	140	96	26	-64
TOTAL CAPITAL	2,522	2,182	2,288	2,415	2,569	2,752	2,965
Stockholder's Equity	2,521	2,181	2,287	2,414	2,568	2,751	2,964
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
NET PROFIT	950	528	577	626	683	747	813
Inv. Related Activities	-282	197	222	233	240	252	260
Pre-Tax Cash Flow	697	830	742	803	867	942	1,016
Working Capital Changes	-432	-114	12	10	10	11	11
Operating Cash Flow	264	716	754	812	877	953	1,027
Investment Cash Flow	732	-223	-275	-289	-304	-320	-337
Financing Cash Flow	-3,307	-870	-426	-467	-513	-569	-622
Net Incr. (Decr.) in Cash & Temp. Inv.	-2,310	-377	53	56	60	64	68
Beg. of Period Cash and Temp. Inv.	3,532	1,221	844	897	954	1,014	1,078
End of Period Cash and Temp. Inv.	1,221	844	897	954	1,014	1,078	1,146

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