

MÉDICA: 2Q23 Results

Positive results with sales in line and EBITDA and net profits above our expectations; we raised our target price to MXN\$63.0/share

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 63.00
Current Price (MXN\$)	\$ 42.23
Min / Max (L12M)	\$34.50 - 52.02
Expected Dividend (MXN\$)	\$ 2.00
Expected Return	53.9%
Market Cap (MXN\$ Mn)	4,558
Enterprise Value (MXN\$ Mn)	5,051
Outstanding Shares (Mn)	107.9
Float	37.5%
ADTV (MXN\$ Mn)	\$ 5.68

[1] P\$83.08 including land

Opinion and recommendation

MÉDICA reported positive results that were once again driven by the growth of traditional (non-COVID) services. Revenues were in line with our expectations, while EBITDA and net profits exceeded our forecasts.

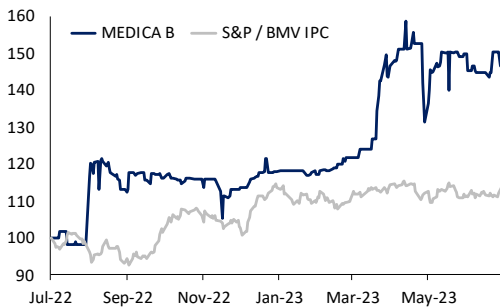
We have raised our target price to MXN\$63.0/share, from an original level of MXN\$61.0/share, after having slightly revised our projections upwards. The valuation of MÉDICA's shares still seems very low to us since they trade at a forward EV/EBITDA of 5.6x (3.3x including land) and an estimated P/E of 8.4x.

Revenues

MÉDICA's 2Q23 total revenues were up 8.6 YoY to MXN\$1.068 billion. This figure was practically in line with our MXN\$1.065 billion expectation. They were driven mainly by the recovery in demand for traditional services, which included increases of 19.1% in critical units, 18.3% in angiography, 8.1% in magnetic resonance and 8.0% in PET-CT studies. This was partially offset by reductions of 8.6% in the surgery volume and 1.3% in ER patients.

Profitability

EBITDA from continuing operations grew 11.6% to MXN\$227 million, above our MXN\$213 million estimate, supported by economies of scale. The EBITDA margin expanded 60 bps to 21.2% (vs. 20.0% E).



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Net profits for the period stood at MXN\$132 million, with a 73.6% reduction, as last year the company recorded a MXN\$593 million non-recurring gain related to the sale of the laboratory units to Synlab.

Financial structure / Buybacks

MÉDICA paid a MXN\$688.3 million dividend (equivalent to MXN\$6.53/share) last June 1st. Total debt remained at MXN\$1.0 billion. The net debt to EBITDA ratio stood at 0.6x at the end of the current quarter, compared to -1.5x the previous year.

The company repurchased 5.9 million shares in the quarter amounting to MXN\$228 million. Its treasury shares represent 7.84% of its capital.

INCOME STATEMENT	2Q23	2Q23E	Diff.	2Q22	Chg.
Revenues	1,068	1,065	0.3%	983	8.6%
Operating Profit	182	170	6.9%	168	8.2%
<i>Operating Margin</i>	<i>17.0%</i>	<i>16.0%</i>		<i>17.1%</i>	
EBITDA	227	213	6.4%	202	11.6%
<i>EBITDA Margin</i>	<i>21.2%</i>	<i>20.0%</i>		<i>20.6%</i>	
Financial Gains	27	20	34.3%	59	-54.2%
Financial Cost	-24	-20	22.0%	-18	32.7%
Net Profit	132	122	8.4%	501	-73.6%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	823	890	968	1,053	1,139	1,170
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-249	-269	-292	-318	-344	-351
NOPLAT	574	622	676	735	795	819
Depreciation	182	197	208	225	238	244
Working Capital Changes	15	13	14	15	15	16
CAPEX	-287	-304	-323	-343	-365	-374
FCFF	485	528	575	631	684	704
Perpetuity Growth Rate						2.6%
PV of Explicit Period (2024 - 2028E)						2,133
Perpetuity Value						8,913
PV of Perpetuity Value						4,886
Enterprise Value						7,019
Net Debt						576
Treasury Shares						357
Market Value						6,800
Land Properties						2,167
Adjusted Market Value w/ Land Properties						8,967
Outstanding Shares						108
Target Price						P\$ 63.00
Adjusted Target Price with Land Properties						P\$ 83.08
Current Market Price						P\$ 42.23
Potential Return Incl. Dividends						53.9%
Forward EV/EBITDA						7.5x
Forward P/E						12.1x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						14.1%
Market Risk Premium						6.0%
Risk-Free Rate						8.9%
Beta						0.87
% Total Debt						38.7%
% Capital						61.3%
WACC						10.5%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	907	954	1,005	1,055	1,108
Target EV/EBITDA					
6.0x	43.56	46.23	49.04	51.85	54.80
6.5x	47.76	50.65	53.69	56.73	59.93
7.0x	51.96	55.07	58.35	61.62	65.06
7.5x	56.16	59.49	63.00	66.51	70.19
8.0x	60.36	63.91	67.65	71.39	75.32
8.5x	64.56	68.33	72.31	76.28	80.45

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	505	532	560	588	617
Target P/E					
9.1x	42.81	45.06	47.43	49.81	52.30
10.1x	47.49	49.99	52.62	55.25	58.02
11.1x	52.17	54.92	57.81	60.70	63.74
12.1x	56.86	59.85	63.00	66.15	69.46
13.1x	61.54	64.78	68.19	71.60	75.18
14.1x	66.22	69.71	73.38	77.04	80.90

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	3,868	4,353	4,622	4,908	5,212	5,535	5,879
Cost of Sales	-2,501	-2,699	-2,852	-3,013	-3,184	-3,365	-3,557
Gross Profit	1,367	1,654	1,770	1,894	2,027	2,170	2,322
<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	-964	-915	-962	-1,011	-1,063	-1,129
Operating Profit	574	747	823	890	968	1,053	1,139
<i>Operating Margin</i>	<i>14.9%</i>	<i>17.2%</i>	<i>17.8%</i>	<i>18.1%</i>	<i>18.6%</i>	<i>19.0%</i>	<i>19.4%</i>
Depreciation and Amortization	-167	-171	-182	-197	-208	-225	-238
EBITDA	898	920	1,005	1,088	1,177	1,278	1,377
<i>EBITDA Margin</i>	<i>23.2%</i>	<i>21.1%</i>	<i>21.7%</i>	<i>22.2%</i>	<i>22.6%</i>	<i>23.1%</i>	<i>23.4%</i>
Financial Gains	182	105	66	70	75	79	84
Financial Cost	-79	-84	-95	-108	-119	-127	-132
Pre-Tax Profit	678	769	795	853	924	1,005	1,091
Income Tax & Profit Sharing	-205	-230	-240	-258	-279	-304	-330
<i>Tax & Profit Sharing Rate</i>	<i>30.2%</i>	<i>29.9%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>
Net Profit	950	543	560	601	650	707	767
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	4,576	4,085	4,262	4,446	4,643	4,848	5,067
Current Assets	1,685	1,175	1,248	1,325	1,407	1,494	1,586
LT Assets	2,891	2,909	3,014	3,121	3,236	3,354	3,481
TOTAL LIABILITIES	2,054	2,344	2,627	2,837	3,022	3,170	3,285
ST Liabilities	997	1,290	1,574	1,784	1,968	2,116	2,231
LT Liabilities	1,057	1,054	1,054	1,054	1,054	1,054	1,054
TOTAL DEBT	1,014	1,108	1,337	1,492	1,618	1,705	1,754
NET DEBT	-207	576	772	892	980	1,027	1,034
TOTAL CAPITAL	2,522	1,754	1,648	1,622	1,634	1,692	1,796
Stockholder's Equity	2,521	1,753	1,647	1,621	1,634	1,691	1,795
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
NET PROFIT	950	543	560	601	650	707	767
Inv. Related Activities	-282	242	240	253	262	276	286
Pre-Tax Cash Flow	697	817	674	726	782	851	919
Working Capital Changes	-432	-165	15	13	14	15	15
Operating Cash Flow	264	651	689	739	796	865	934
Investment Cash Flow	732	-168	-218	-232	-247	-262	-278
Financing Cash Flow	-3,307	-1,173	-437	-472	-512	-563	-613
Net Incr. (Decr.) in Cash & Temp. Inv.	-2,310	-689	33	35	38	40	43
Beg. of Period Cash and Temp. Inv.	3,532	1,221	532	565	600	638	678
End of Period Cash and Temp. Inv.	1,221	532	565	600	638	678	720

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