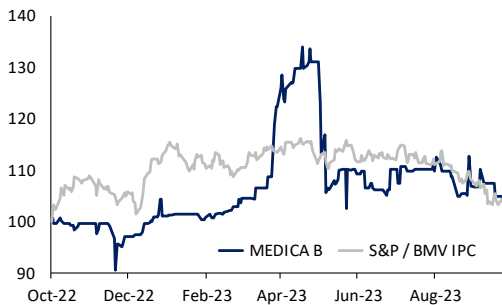


# MÉDICA: 3Q23 Results

Results fueled by asset sales, we reiterate BUY recommendation with a MXN\$64.0/share target price

MEDICA B	BUY
Target Price (MXN\$) [1]	\$ 64.00
Current Price (MXN\$)	\$ 40.37
Min / Max (L12M)	\$34.50 - 52.02
Expected Dividend (MXN\$)	\$ 2.00
Expected Return	63.5%
Market Cap (MXN\$ Mn)	4,357
Enterprise Value (MXN\$ Mn)	4,686
Outstanding Shares (Mn)	107.9
Float	37.5%
ADTV (MXN\$ Mn)	\$ 3.87

[1] P\$83.11 including land



## Opinion and recommendation

MÉDICA's results were mainly supported by higher revenue from clinical and diagnostic services, cost and expense control, and land sales, which offset the temporary slowdown in hospital services revenues.

We reiterate our BUY recommendation with a MXN\$64.0/share target price after having included this report in our model.

The valuation of MÉDICA shares is low since they trade with a forward EV/EBITDA of 5.6x (2.9x including land) and a projected P/E of 9.5x. Furthermore, the outlook is favorable and we believe the company could continue paying attractive dividends in the future.

## 3Q23 Results

Total revenues stood at MXN\$956 million, with a slight 4.3% YoY decrease, as a result of a MXN\$51 million reduction in hospital revenues. Total patients fell 3.4%, surgeries 17.5% and emergencies 9.2%. This was partially offset by a 7% increase in short stays. For its part, clinical services and diagnostic units contributed with MXN\$9 million in sales, which included significant growth in checkups in the CIDyT (+25%), radio oncology (+12%), and PET-CT (+9).

EBITDA grew 30.7% to MXN\$281 million, since the company recorded a MXN\$103 million extraordinary gain in the quarter from the sale of land in the west of Mexico City. Excluding such an extraordinary item, we estimate that EBITDA would have been MXN\$176 million, down 8.8%.

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Net profits were up 34.0% to MXN\$201 million due to the aforementioned extraordinary gain. Excluding this item, we estimate that net profits would have decreased by 30% to MXN\$97 million as a result of lower interest gains.

### Financial structure

MÉDICA maintained its financial strength with a net debt to EBITDA ratio of only 0.3x at the end of the quarter, compared to -0.1x in 3Q22. Cash levels fell 43% due to dividend payments and share repurchases (MXN\$37 million in the period), which was partially offset by land sales. Total debt remained unchanged at MXN\$1.0 billion.

Fitch Ratings ratified MÉDICA's AA (mex) rating with Stable Outlook, highlighting the company's high operating cash flow generation, robust financial structure, strong liquidity position, and solid position within the Mexican private hospital sector.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff.	3Q22	Chg.
Revenues	956	976	-2.0%	999	-4.3%
Operating Profit	236	166	42.1%	163	44.9%
<i>Operating Margin</i>	24.7%	17.0%		16.3%	
EBITDA	281	209	34.4%	215	30.7%
<i>EBITDA Margin</i>	29.3%	21.4%		21.5%	
Financial Gains	12	18	-34.0%	54	-78.6%
Financial Cost	-11	-17	-34.0%	-19	-41.4%
Net Profit	201	183	9.9%	150	34.0%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	661	704	766	834	914	971
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-200	-212	-231	-252	-276	-291
NOPLAT	461	491	535	582	638	680
Depreciation	182	197	208	225	238	253
Working Capital Changes	15	8	10	11	11	12
CAPEX	-253	-264	-280	-298	-316	-336
FCFF	405	432	473	520	571	608
Perpetuity Growth Rate						6.3%
PV of Explicit Period (2024 - 2028E)						1,690
Perpetuity Value						10,370
PV of Perpetuity Value						5,214
Enterprise Value						6,904
Net Debt						373
Treasury Shares						377
Market Value						6,908
Land Properties						2,062
Adjusted Market Value w/ Land Properties						8,970
Outstanding Shares						108
Target Price						P\$ 64.00
Adjusted Target Price with Land Properties						P\$ 83.11
Current Market Price						P\$ 40.37
Potential Return Incl. Dividends						63.5%
Forward EV/EBITDA						8.6x
Forward P/E						15.1x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						15.7%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						0.95
% Total Debt						33.0%
% Capital						67.0%
WACC						12.1%

**Sensitivity Analysis Table, EV/EBITDA vs. EBITDA**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected EBITDA</b>	<b>760</b>	<b>800</b>	<b>842</b>	<b>885</b>	<b>929</b>
<b>Target EV/EBITDA</b>					
7.1x	46.89	49.52	52.29	55.06	57.97
7.6x	50.41	53.23	56.20	59.16	62.28
8.1x	53.93	56.94	60.10	63.26	66.58
<b>8.6x</b>	<b>57.45</b>	<b>60.64</b>	<b>64.00</b>	<b>67.36</b>	<b>70.88</b>
9.1x	60.98	64.35	67.90	71.46	75.19
9.6x	64.50	68.06	71.81	75.55	79.49

**Sensitivity Analysis Table, P/E vs. Net Profit**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected Net Profit</b>	<b>413</b>	<b>434</b>	<b>457</b>	<b>480</b>	<b>504</b>
<b>Target P/E</b>					
12.1x	46.29	48.73	51.29	53.86	56.55
13.1x	50.11	52.75	55.53	58.31	61.22
14.1x	53.94	56.78	59.76	62.75	65.89
<b>15.1x</b>	<b>57.76</b>	<b>60.80</b>	<b>64.00</b>	<b>67.20</b>	<b>70.56</b>
16.1x	61.58	64.82	68.24	71.65	75.23
17.1x	65.41	68.85	72.47	76.10	79.90

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Revenues	3,868	4,024	4,076	4,261	4,522	4,799	5,094
Cost of Sales	-2,501	-2,545	-2,527	-2,629	-2,776	-2,932	-3,097
Gross Profit	1,367	1,479	1,549	1,632	1,745	1,867	1,997
<i>Gross Margin</i>	35.3%	36.8%	38.0%	38.3%	38.6%	38.9%	39.2%
General Expenses	-792	-855	-856	-886	-931	-979	-1,029
Operating Profit	574	748	661	704	766	834	914
<i>Operating Margin</i>	14.9%	18.6%	16.2%	16.5%	16.9%	17.4%	17.9%
Depreciation and Amortization	-167	-175	-182	-197	-208	-225	-238
EBITDA	898	924	842	901	974	1,059	1,151
<i>EBITDA Margin</i>	23.2%	23.0%	20.7%	21.1%	21.5%	22.1%	22.6%
Financial Gains	182	98	54	57	60	64	68
Financial Cost	-79	-64	-66	-70	-74	-75	-74
Pre-Tax Profit	678	782	649	690	752	823	908
Income Tax & Profit Sharing	-205	-175	-196	-208	-227	-248	-274
<i>Tax &amp; Profit Sharing Rate</i>	30.2%	22.4%	30.2%	30.2%	30.2%	30.2%	30.2%
Net Profit	950	609	457	486	529	578	638
<b>BALANCE SHEET</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
TOTAL ASSETS	4,576	4,095	4,251	4,382	4,534	4,693	4,862
Current Assets	1,685	1,232	1,317	1,380	1,461	1,547	1,638
LT Assets	2,891	2,863	2,934	3,001	3,073	3,146	3,224
TOTAL LIABILITIES	2,054	2,078	2,142	2,234	2,318	2,371	2,389
ST Liabilities	997	1,030	1,094	1,186	1,270	1,323	1,341
LT Liabilities	1,057	1,048	1,048	1,048	1,048	1,048	1,048
TOTAL DEBT	1,014	1,004	1,013	1,069	1,104	1,107	1,072
NET DEBT	-207	373	338	359	351	308	224
TOTAL CAPITAL	2,522	2,034	2,125	2,164	2,233	2,339	2,490
Stockholder's Equity	2,521	2,033	2,124	2,163	2,232	2,337	2,489
<b>CASH FLOW STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
NET PROFIT	950	609	457	486	529	578	638
Inv. Related Activities	-282	219	156	171	180	195	206
Pre-Tax Cash Flow	697	814	556	597	648	710	778
Working Capital Changes	-432	-318	15	8	10	11	11
Operating Cash Flow	264	496	570	605	659	721	789
Investment Cash Flow	732	-19	-170	-179	-191	-205	-219
Financing Cash Flow	-3,307	-1,068	-356	-392	-424	-470	-521
Net Incr. (Decr.) in Cash & Temp. Inv.	-2,310	-591	45	34	43	46	49
Beg. of Period Cash and Temp. Inv.	3,532	1,221	630	675	709	753	799
End of Period Cash and Temp. Inv.	1,221	630	675	709	753	799	848

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