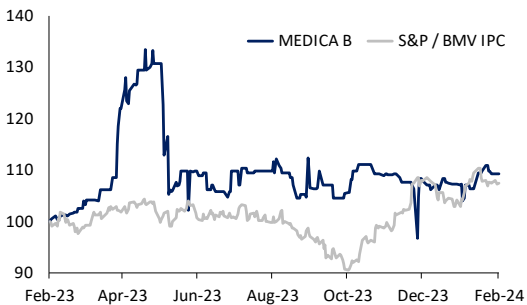


MÉDICA: 4Q23 Results

Positive results fueled by hospital and diagnose services, and extraordinary revenues; appoints new CEO

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 68.00
Current Price (MXN\$)	\$ 41.80
Min / Max (L12M)	\$37.00 - 52.02
Expected Dividend (MXN\$)	\$ 2.00
Expected Return	67.5%
Market Cap (MXN\$ Mn)	4,512
Enterprise Value (MXN\$ Mn)	4,807
Outstanding Shares (Mn)	107.9
Float	37.5%
ADTV (MXN\$ Mn)	\$ 2.07

[1] P\$87.11 including land



Opinion and recommendation

MÉDICA's quarterly results exceeded our projections in terms of revenue, EBITDA and net profits as the company benefited from high demand for hospital and diagnostic services, as well as extraordinary revenues from the sale of laboratories that it carried out in 2021. We continue with a BUY recommendation and we are raising the target price to MXN\$68.00/share (MXN\$87.11/share including land), from MXN\$64.00/share, after these results.

The valuation of MÉDICA shares remains at very attractive levels as they currently trade at a forward EV/EBITDA of 6.1x (3.4x including land with a book value of more than P\$2 billion) and a projected P/E of 6.3x. Furthermore, the company's outlook is very favorable due to a strong demand for hospital services.

On the other hand, MÉDICA announced the appointment of Dr. Carlos Arellano as its new CEO, replacing Juan Carlos Griera. Dr. Arellano is a surgeon from the Anáhuac University and has an MBA from the Boston University Questrom School of Business, with a specialty in Health Services. Dr. Arellano, among others, has held the positions of Regional Vice President of Operations, Vice President of Imaging and Surgical Services, both at Mass General Brigham Hospital, Senior Director of Surgery and Radiology Services and Director of Performance Improvement at Outpatient Services at Boston Medical Center. He has been responsible for the management and administration of hospital operating budgets worth US\$500 million, the development of growth strategies, as well as the development of quality and patient safety plans.

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4Q23 Results

Revenues reached MXN\$1,033 million (above our P\$927 million expectation) in the quarter, which represented an annual increase of 12.6%. They were mainly driven by the 7.2% growth in hospital services revenue, as the number of patients was slightly lower than the previous year. The 20.3% increase in diagnostic sales (angiography +13%, radio oncology +14% and CIDyT comprehensive diagnosis and treatment center +9%) also contributed.

Core EBITDA grew 48.4% YoY to MXN\$178 million (vs. MXN\$171 million E), supported by higher sales, cost and expense control, and extraordinary revenues from the sale of the laboratory business carried out in 2021. As a result, the margin expanded 4.2 PP to 17.2%.

For its part, net profits were up 16.9% YoY to MXN\$160 million (vs. MXN\$115 million E), thanks to a strong operating performance, which was partially offset by a 12.6% increase in the comprehensive financing cost due to higher FX losses and lower interest gains.

Financial structure

The net debt to EBITDA ratio was 0.3x in 4Q23, compared to -0.2x in 4Q22. Total debt remained unchanged at MXN\$1.0 billion, but cash decreased 42% due to the dividends that the company paid during the year and the share buybacks.

Regarding this last point, MÉDICA repurchased 2.8 million shares for MXN\$119.6 million in the quarter. It has 12,199,204 shares in its buyback reserve, which represent 11.3% of outstanding shares. In our opinion, they are likely to be canceled in the future.

During the quarter, HR Ratings ratified MÉDICA's HR AAA rating with a Stable Outlook and the 'AA (mex)' rating with a Stable Outlook for its MEDICA 20 domestic bond issue, highlighting good operating cash flow generation, robust financial structure and strong liquidity position.

Others

MÉDICA remained the best hospital in Mexico for the second consecutive year in the EXPANSIÓN and FUNSALUD classification. In January 2024, the company marked 10 years of its partnership with Mayo Clinic. It also obtained the third JCI reaccreditation for the 2023-2026 period.

(Figures in Millions of MXN\$)	4Q23	4Q23E	Diff.	4Q22	Chg.
Revenues	1,033	927	11.4%	917	12.6%
Operating Profit	129	127	2.2%	79	64.7%
<i>Operating Margin</i>	<i>12.5%</i>	<i>13.7%</i>		<i>8.6%</i>	
EBITDA	178	171	3.8%	120	48.3%
<i>EBITDA Margin</i>	<i>17.2%</i>	<i>18.5%</i>		<i>13.1%</i>	
Financial Gains	15	13	16.8%	20	-23.2%
Financial Cost	-28	-5	467.0%	-20	40.3%
Net Profit	160	115	38.9%	137	16.9%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2025E	2026E	2027E	2028E	2029E	Perp.
OPERATING PROFIT	639	697	762	838	893	946
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-193	-211	-230	-253	-270	-284
NOPLAT	446	487	532	585	623	662
Depreciation	197	208	225	238	238	252
Working Capital Changes	-38	-41	-47	-53	-56	-59
CAPEX	-272	-289	-307	-325	-345	-366
FCFF	333	365	403	444	460	587
Perpetuity Growth Rate						6.0%
PV of Explicit Period (2025 - 2029E)						1,440
Perpetuity Value						10,763
PV of Perpetuity Value						5,624
Enterprise Value						7,064
Net Debt						234
Treasury Shares						510
Market Value						7,340
Land Properties						2,062
Adjusted Market Value w/ Land Properties						9,402
Outstanding Shares						108
Target Price						P\$ 68.00
Adjusted Target Price with Land Properties						P\$ 87.11
Current Market Price						P\$ 41.80
Potential Return Incl. Dividends						67.5%
Forward EV/EBITDA						8.8x
Forward P/E						9.7x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						14.9%
Market Risk Premium						6.0%
Risk-Free Rate						9.2%
Beta						0.95
% Total Debt						34.7%
% Capital						65.3%
WACC						11.4%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	754	794	836	877	921
Target EV/EBITDA					
7.3x	50.85	53.55	56.39	59.23	62.21
7.8x	54.35	57.23	60.26	63.29	66.48
8.3x	57.84	60.91	64.13	67.36	70.74
8.8x	61.34	64.58	68.00	71.42	75.01
9.3x	64.83	68.26	71.87	75.49	79.28
9.8x	68.32	71.94	75.75	79.55	83.55

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	681	717	754	792	832
Target P/E					
6.7x	42.45	44.68	47.03	49.38	51.85
7.7x	48.76	51.32	54.02	56.72	59.56
8.7x	55.06	57.96	61.01	64.06	67.27
9.7x	61.37	64.60	68.00	71.40	74.97
10.7x	67.68	71.24	74.99	78.74	82.68
11.7x	73.99	77.88	81.98	86.08	90.39

(Figures in Millions of MXN\$)

INCOME STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	4,130	4,199	4,390	4,659	4,944	5,247	5,569
Cost of Sales	-2,670	-2,688	-2,797	-2,954	-3,120	-3,295	-3,497
Gross Profit	1,460	1,512	1,594	1,705	1,824	1,952	2,072
<i>Gross Margin</i>	<i>35.3%</i>	<i>36.0%</i>	<i>36.3%</i>	<i>36.6%</i>	<i>36.9%</i>	<i>37.2%</i>	<i>37.2%</i>
General Expenses	-869	-882	-913	-960	-1,009	-1,060	-1,125
Operating Profit	727	598	639	697	762	838	893
<i>Operating Margin</i>	<i>17.6%</i>	<i>14.2%</i>	<i>14.5%</i>	<i>15.0%</i>	<i>15.4%</i>	<i>16.0%</i>	<i>16.0%</i>
Depreciation and Amortization	-175	-182	-197	-208	-225	-238	-238
EBITDA	908	779	836	906	987	1,076	1,130
<i>EBITDA Margin</i>	<i>22.0%</i>	<i>18.6%</i>	<i>19.0%</i>	<i>19.4%</i>	<i>20.0%</i>	<i>20.5%</i>	<i>20.3%</i>
Financial Gains	100	73	88	96	114	141	169
Financial Cost	-86	-72	-81	-71	-65	-65	-62
Pre-Tax Profit	742	599	646	723	810	914	1,000
Tax & Profit Sharing	-184	-181	-195	-218	-245	-276	-302
<i>Tax & Profit Sharing Rate</i>	<i>24.8%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>	<i>30.2%</i>
Net Profit	635	721	754	808	869	941	1,001
BALANCE SHEET	2023	2024E	2025E	2026E	2027E	2028E	2029E
TOTAL ASSETS	4,128	4,541	4,740	5,118	5,580	6,087	6,598
Current Assets	1,272	1,607	1,731	2,028	2,408	2,827	3,231
LT Assets	2,856	2,935	3,010	3,090	3,172	3,260	3,367
TOTAL LIABILITIES	2,091	2,289	2,181	2,211	2,277	2,328	2,339
ST Liabilities	1,040	1,238	1,130	1,160	1,225	1,277	1,288
LT Liabilities	1,051	1,051	1,051	1,051	1,051	1,051	1,051
TOTAL DEBT	1,016	1,206	1,061	1,045	1,061	1,061	1,011
NET DEBT	311	234	40	-187	-454	-768	-1,106
TOTAL CAPITAL	2,037	2,273	2,580	2,928	3,324	3,779	4,280
Stockholder's Equity	2,036	2,272	2,579	2,927	3,322	3,777	4,278
CASH FLOW STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
NET PROFIT	635	721	754	808	869	941	1,001
Inv. Related Activities	79	145	153	160	168	167	153
Pre-Tax Cash Flow	705	789	839	892	948	1,002	1,030
Working Capital Changes	-351	-59	-38	-41	-47	-53	-56
Operating Cash Flow	353	730	801	851	901	949	974
Investment Cash Flow	234	-167	-160	-165	-161	-148	-136
Financing Cash Flow	-1,104	-295	-592	-477	-456	-487	-550
Net Incr. (Decr.) in Cash & Temp. Inv.	-517	268	49	210	284	314	288
Beg. of Period Cash and Temp. Inv.	1,221	705	972	1,022	1,231	1,515	1,829
End of Period Cash and Temp. Inv.	705	972	1,022	1,231	1,515	1,829	2,117

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