

MÉDICA SUR: 4Q19 RESULTS

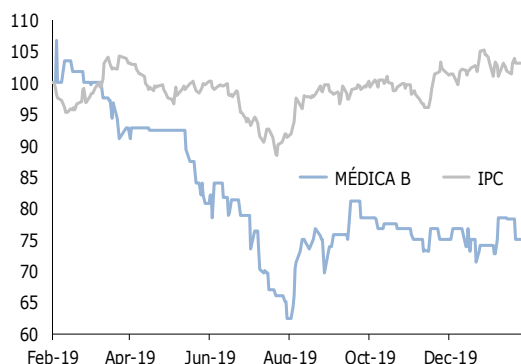
Neutral Results, Basically In Line with Expectations

BUY

2020E Target Price (MXN\$) [1] [2]	\$ 26.50
Current Price (MXN\$)	\$ 20.40
Min / Max (L12M)	\$17.50 - 29.90
Expected Dividend (MXN\$)	\$ 0.61
Expected Return	32.9%
Market Cap (MXN\$ Mn)	2,515
Enterprise Value (MXN\$ Mn)	3,790
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 0.31

[1] Including LMS

[2] MXN\$40.40 including real estate assets



Opinion and Recommendation:

- **MÉDICA's 4Q19 results were neutral since revenues and EBITDA rose 4% YoY. Sales were in line with our projections, but EBITDA was 4% below our estimates. Net income showed a significant improvement as a result of an unexpected fiscal gain.**
- **Our recommendation remains BUY with a year-end MXN\$26.50 target price per share. MÉDICA's valuation is attractive at current levels as the stock trades at a forward EV/EBITDA of 5.0x, a projected P/E of 14.7x, and a P/BV of 0.7x, which are at a discount against the emerging markets and developed markets peers.**
- **We believe that the outlook for 2020 is favorable as we expect revenues, EBITDA and net profits to rise 4.2%, 9.5% and 13.1%, respectively, supported on a slightly higher number of patients and greater demand for diagnosis services.**
- **MÉDICA was recognized as the best hospital in Mexico by the "América Economía" magazine, a place it has held since 2011.**

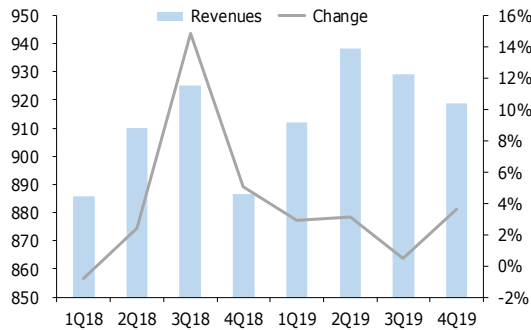
Revenues

Sales were up 3.6% YoY (vs. 4.1% E) in 4Q19, reaching MXN\$918.7 million, supported by a higher activity in clinical services such as the cancer center, the Gamma Knife radiosurgery unit, radiotherapy and gastroenterology. The diagnostic unit also registered higher sales in tomography and imaging, as well as in the integral diagnosis and treatment center ("CIDYT"). The company had 113 clinical diagnostic units in operation at the end of 4Q19, from 126 the previous year.

In hospitalization, the number of patients remained at 13,070 in 2019, virtually unchanged from the previous year. The daily stay was 2.91 days in the current quarter, and 2.94 days in 2019. The occupation was 54.3% in 4Q19 and 55.4% in the year, which translated into 105.2 bed days.

It is important to mention that the performance of MÉDICA's revenues was affected by the cancellation of the federal government's major medical expenses policy with MetLife since

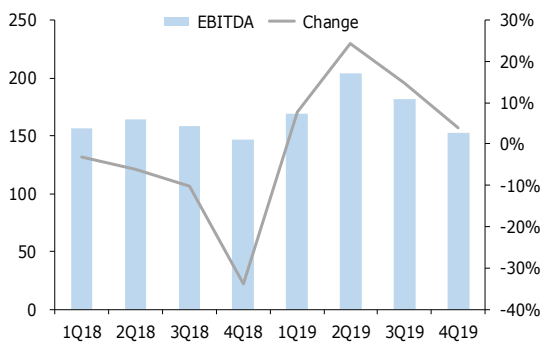
MÉDICA SUR: 4Q19 Results



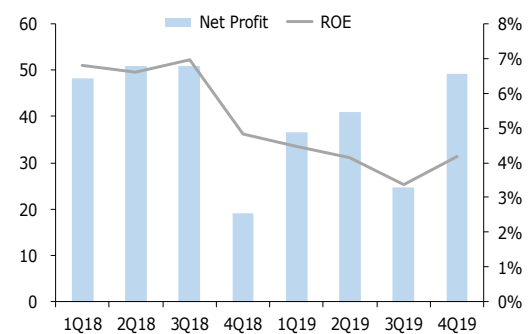
the beginning of the year. However, MÉDICA reached agreements with the country's main insurers to have access to a higher number of patients. In addition, the company launched last December its rewards program with which patients can accumulate and redeem points in clinical services, hospitalization and laboratory. We believe that these initiatives will support the company's sales going forward.

Profitability

Costs advanced 2.4% YoY (vs. +5.6% E), while expenses rose 0.9% YoY (vs. -10.1% E). MÉDICA generated significant cost reduction efforts, mainly in the personnel area, which was offset by higher expenses in advertising, professional services, and a larger amount of property. In addition, the diagnostic area experienced higher expenses due to the personnel restructuring that took place at the end of the year. It also registered higher advisory expenses to optimize the internal control and administration processes. The company also presented a MXN\$18.7 million charge under "other expenses", compared to the previous year's MXN\$25.8 million gain.



EBITDA grew 3.7% YoY (vs. 8.1% E) to MXN\$152.2 million in 4Q19 thanks to the IFRS 16 implementation, which was offset by extraordinary personnel reduction expenses. EBITDA margin improved slightly to 16.6% in 4Q19 (vs. 17.1% E), from 16.5% in 4Q18.



Net Profit

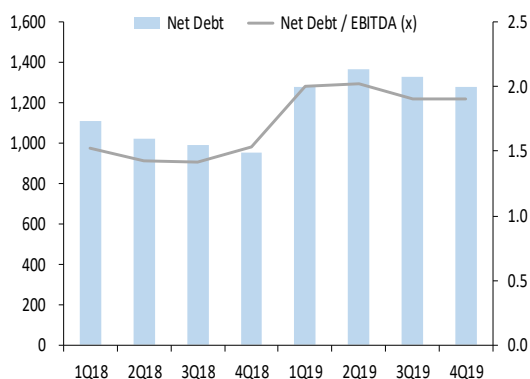
Net income grew a higher-than-expected 156.6% YoY (vs. 0.6% E), reaching MXN\$49.3 million due to an unexpected deferred tax gain.

Financial structure

The company is in compliance with its financial covenants. The net debt / EBITDA ratio (including leases) rose to 1.9x in 4Q19 from 1.5x in 4Q18. The EBITDA / financial expense ratio was 4.2x, from 4.5x the previous year.

Investments

MÉDICA invested MXN\$134.7 million in 2019 in order to improve its facilities. This included new equipment (PET-CT, X-rays), renovation of the seven operating rooms and technology projects.



MÉDICA SUR: 4Q19 Results

Quarterly Results (Figures in MXN\$ Mn)

	4Q19 Actual	4Q19 Estimated	Difference (%)	4Q18 Actual	Change Actual (%)	Change Estimated (%)
Sales	919	923	- 0.5	887	3.6	4.1
Costs	-647	-667	- 3.0	-631	2.4	5.6
Gross Profit	272	256	6.2	255	6.6	0.4
Gross Margin	29.6	27.7		28.8		
Expenses	-187	-167	12.2	-186	0.9	10.1
Other Expenses	-19	-17		18		
Expenses / Sales	20.4	18.1		20.9		
Operating Profit	66	72		88	- 24.9	- 17.9
EBITDA	152	158	- 3.7	146	4.0	8.1
EBITDA Margin	16.6	17.1		16.5		
Net Profit	49	19	156.6	19	156.7	0.6
ROE	4.2	3.4		4.8		
Net Debt / EBITDA	1.9x	1.5x		1.5x		

Source: BMV, Miranda Global Research

Global Valuation Table - Hospital Sector

Company	Country	Price (USD) 21-Feb-20	Mkt. Cap. (USD Mn)	EV/EBITDA				P/E			EBITDA Δ%		Net EBITDA	ROE	EBITDA Margin 4Q19	Div. Yield
				L12M	2019E	2020E	L12M	2019E	2020E	P/BV	2019E	2020E				
Emerging Markets																
Médica Sur	México	\$ 1.08	133	5.5x	5.5x	5.0x	17.1x	17.1x	14.7x	0.7	13%	11%	1.9x	4.2	16.6	2.9
Aier Eye Hospital Group	China	\$ 6.16	19,088	61.4x	55.2x	42.9x	61.6x	97.8x	73.6x	20.0	26%	29%	(0.1x)	21.7	23.5	0.4
Bangkok Dusit Medical Services	Thailand	\$ 0.77	12,195	16.8x	22.2x	20.5x	26.6x	38.5x	34.9x	4.4	11%	8%	0.8x	19.4	30.2	1.8
IHH Healthcare Bhd	Malaysia	\$ 1.37	12,020	19.5x	17.8x	15.8x	48.8x	54.4x	44.0x	1.8	30%	10%	2.1x	4.3	21.6	0.5
Ryman Healthcare LTD	New Zealand	\$ 10.66	5,331	114.5x	31.5x	27.9x	23.2x	31.5x	27.9x	3.7	279%	15%	18.4x	15.9	20.5	1.4
Bumrungrad Hospital Public Company	Thailand	\$ 4.04	2,947	15.2x	14.5x	13.9x	24x	23.8x	23.3x	4.6	(2%)	4%	(0.8x)	21.0	31.8	2.3
Apollo Hospitals Enterprise Ltd.	India	\$ 25.05	3,489	26.1x	18.7x	16.0x	103.3x	72.3x	49.6x	7.0	39%	15%	n.d.	n.d.	n.d.	0.4
Mitra Keluarga Karyasehat Tbk	Indonesia	\$ 0.19	2,660	36.1x	33.7x	29.9x	57.9x	51.6x	46.0x	8.1	21%	12%	(1.1x)	16.4	33.9	0.7
Bangkok Chain Hospital	Thailand	\$ 0.48	1,186	18.0x	17.5x	15.5x	32.3x	31.9x	27.5x	5.4	11%	13%	1.9x	20.3	27.3	1.5
KPJ Healthcare Bhd	Malaysia	\$ 0.23	1,001	11.5x	10.5x	10.1x	22.9x	22.3x	20.6x	2.2	13%	9%	4.0x	10.5	16.3	2.0
China Resources Medican Holdings	China	\$ 0.54	703	5.8x	7.0x	5.3x	11.6x	12.3x	11.2x	0.8	(18%)	21%	(2.4x)	7.3	28.4	2.8
Chularat Hospital PCL	Thailand	\$ 0.08	928	26.3x	24.9x	21.1x	43.1x	40.4x	34.1x	7.6	16%	17%	0.9x	19.4	23.5	1.9
Medikaloka Hermina Tbk	Indonesia	\$ 0.24	710	19.5x	13.8x	11.5x	81.2x	39.5x	31.8x	3.8	41%	21%	1.0x	11.4	n.d.	0.3
Total / Average Emerging Markets			62,390	25.0x	23.8x	21.0x	38.4x	47.5x	40.5x	4.1	25%	13%	2.2x	15.2	25.3	1.3
Developed Markets																
HCA Healthcare Inc	US	\$ 148.00	50,087	8.6x	8.1x	7.7x	14.3x	12.5x	11.5x	(88.6)	3%	6%	3.4x	n.d.	19.9	1.2
Universal Health Services	US	\$ 142.72	12,500	10.1x	9.1x	8.7x	17.2x	14.3x	13.4x	2.3	11%	5%	2.5x	13.5	14.9	0.6
Korian SA	France	\$ 49.07	4,064	14.8x	12.8x	10.5x	30.0x	27.7x	24.0x	1.4	4%	10%	9.3x	4.8	18.7	1.3
The Ensign Group Ltd.	US	\$ 51.20	2,741	9.9x	15.5x	14.1x	24.8x	18.8x	16.9x	4.2	(16%)	10%	3.1x	17.8	17.8	0.4
Tenet Healthcare Corp.	US	\$ 34.20	3,553	9.5x	7.6x	7.2x	(14.9x)	13.0x	11.3x	1.8	17%	5%	6.8x	n.d.	12.8	n.d.
Terveystalo Oyj	Finland	\$ 12.37	1,585	11.5x	10.8x	9.8x	26.2x	22.2x	18.3x	2.6	3%	5%	3.2x	10.3	16.6	n.d.
Target Hospitality Corp.	US	\$ 4.80	497	11.3x	5.4x	5.2x	82.1x	13.5x	11.7x	3.5	n.d.	(1%)	5.0x	2.6	32.0	n.d.
Community Health Systems	US	\$ 7.18	846	10.9x	8.8x	8.5x	(1.3x)	(5.7x)	(7.9x)	(0.5)	16%	3%	9.9x	n.d.	10.6	n.d.
American Renal Associates	US	\$ 8.75	285	7.6x	10.8x	9.0x	(19.7x)	190.2x	(30.7x)	1.4	5%	17%	4.8x	n.d.	16.0	n.d.
Total / Average Developed Markets			76,158	9.4x	8.5x	8.0x	21.1x	14.1x	12.8x	7.9	7%	5%	5.3x	9.8	17.7	0.9

Source: Miranda Global Research; n.a. = not available

Note: All figures are in USD

MÉDICA SUR: 4Q19 Results

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2021E	2022E	2023E	2024E	2025E	Perp.
OPERATING PROFIT	462	493	524	562	616	624
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-139	-148	-157	-169	-185	-187
NOPLAT	324	345	367	394	431	437
Depreciation	352	368	384	400	400	405
Working Capital Changes	-40	-44	126	-15	77	78
CAPEX	-180	-200	-220	-240	-240	-450
FCFF	456	470	656	538	668	470
Perpetuity Growth Rate						1.3%
PV of Explicit Period (2021 - 2025E)						2,021
Perpetuity Value						4,822
PV of Perpetuity Value						2,573
Enterprise Value						4,594
Net Debt						1,325
Minority Interest						1
Market Value						3,267
<i>Outstanding Shares</i>						123
Target Price						P\$ 26.50
Current Market Price						P\$ 20.40
Potential Return Incl. Dividends						30.0%
Forward EV/EBITDA						5.8x
Forward P/E						17.8x
Average Cost of Debt						10.6%
LT Tax Rate						30.0%
After-Tax Cost of Debt						7.4%
Cost of Equity						12.5%
Market Risk Premium						6.0%
Risk-Free Rate						6.5%
Beta						1.00
% Total Debt						28.7%
% Capital						71.3%
WACC						11.0%

Source: Miranda Global Research

MÉDICA SUR: 4Q19 Results

Financial Projections

(Figures in Millions of MXNS)

INCOME STATEMENT	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenues	3,698	3,852	4,014	4,183	4,360	4,544	4,737	3%	4.2%	4%	4%	4%	4%	4%
Cost of Sales	-2,592	-2,679	-2,795	-2,898	-3,005	-3,120	-3,237	4%	3%	4%	4%	4%	4%	4%
Gross Profit	1,106	1,173	1,219	1,285	1,355	1,424	1,500	-1%	6%	4%	5%	5%	5%	5%
Gross Margin	29.9%	30.5%	30.4%	30.7%	31.1%	31.3%	31.7%							
General Expenses	-714	-712	-721	-752	-787	-814	-832	-3%	-0%	1%	4%	5%	3%	2%
Operating Profit	359	429	462	493	524	562	616	-10%	20%	8%	7%	6%	7%	10%
Operating Margin	9.7%	11.1%	11.5%	11.8%	12.0%	12.4%	13.0%							
Depreciation and Amortization	-347	-344	-352	-368	-384	-400	-400	54%	-1%	2%	5%	4%	4%	0%
EBITDA	706	773	814	861	908	962	1,016	13%	9.5%	5%	6%	5%	6%	6%
EBITDA Margin	19.1%	20.1%	20.3%	20.6%	20.8%	21.2%	21.5%							
Financial Gains	9	-24	-27	-24	-20	-24	-41	-42%	-370%	13%	-13%	-15%	17%	74%
Financial Cost	-171	-161	-173	-190	-192	-203	-207	18%	-6%	8%	10%	1%	6%	2%
Pre-Tax Profit	197	245	262	280	312	336	368	-27%	24%	7%	7%	12%	8%	10%
Income Tax & Profit Sharing	-45	-73	-79	-84	-94	-101	-110	-55%	61%	7%	7%	12%	8%	10%
Tax & Profit Sharing Rate	23.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%							
Net Profit	151	171	183	196	218	235	258	-11%	13.1%	7%	7%	12%	8%	10%
Outstanding Shares	123	123	123	123	123	123	123	-0%	0%	0%	0%	0%	0%	0%
EPS	P\$ 1.23	P\$ 1.39	P\$ 1.49	P\$ 1.59	P\$ 1.77	P\$ 1.91	P\$ 2.09	-11%	13%	7%	7%	12%	8%	10%
BALANCE SHEET	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
TOTAL ASSETS	5,830	5,939	6,212	6,504	6,648	6,932	7,128	7%	2%	5%	5%	2%	4%	3%
Current Assets	1,096	1,358	1,451	1,543	1,467	1,511	1,467	4%	24%	7%	6%	-5%	3%	-3%
Cash & Temp. Inv.	274	200	230	260	290	300	310	60%	-27%	15%	13%	12%	3%	3%
LT Assets	4,734	4,581	4,761	4,961	5,181	5,421	5,661	7%	-3%	4%	4%	4%	5%	4%
P, P & E	2,440	2,600	2,780	2,980	3,200	3,440	3,680	-12%	7%	7%	7%	7%	8%	7%
TOTAL LIABILITIES	2,140	2,165	2,339	2,523	2,540	2,686	2,725	11%	1%	8%	8%	1%	6%	1%
ST Liabilities	900	925	1,098	1,283	1,300	1,446	1,485	14%	3%	19%	17%	1%	11%	3%
LT Liabilities	1,240	1,240	1,240	1,240	1,240	1,240	1,240	10%	0%	0%	0%	0%	0%	0%
TOTAL DEBT	1,549	1,525	1,676	1,841	1,839	1,966	1,982	38%	-2%	10%	10%	-0%	7%	1%
NET DEBT	1,275	1,325	1,446	1,581	1,549	1,666	1,672	34%	4%	9%	9%	-2%	8%	0%
TOTAL CAPITAL	3,690	3,781	3,881	3,988	4,115	4,254	4,410	4%	2%	3%	3%	3%	3%	4%
Stockholder's Equity	3,689	3,780	3,879	3,987	4,114	4,252	4,409	4%	2%	3%	3%	3%	3%	4%
Minority Interest	1	1	1	1	1	1	1	2%	2%	3%	3%	3%	3%	4%
CASH FLOW STATEMENT	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
PRE-TAX PROFIT	151	245	262	280	312	336	368	-11%	62%	7%	7%	12%	8%	10%
Inv. Related Activities	390	79	86	100	115	130	129	21%	-80%	9%	17%	14%	13%	-0%
Pre-Tax Cash Flow	541	729	182	193	214	230	252	9%	35%	-75%	6%	11%	8%	10%
Working Capital Changes	-284	-539	-40	-44	126	-15	77	49%	90%	-93%	10%	-388%	-112%	-604%
Operating Cash Flow	257	189	142	149	339	215	329	-16%	-26%	-25%	5%	127%	-37%	53%
Investment Cash Flow	-128	-159	-179	-197	-215	-235	-234	443%	24%	12%	10%	9%	9%	-0%
Financing Cash Flow	-26	-104	66	78	-94	30	-85	-92%	307%	-164%	17%	-221%	-132%	-381%
Net Incr. (Decr.) in Cash & Temp. Inv.	103	-74	30	30	30	10	10	-327%	-172%	-140%	0%	0%	-67%	0%
Begin. of Period Cash and Temp. Inv.	171	274	200	230	260	290	300	-21%	60%	-27%	15%	13%	12%	3%
End of Period Cash and Temp. Inv.	274	200	230	260	290	300	310	60%	-27%	15%	13%	12%	3%	3%

Source: Miranda Global Research Research

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