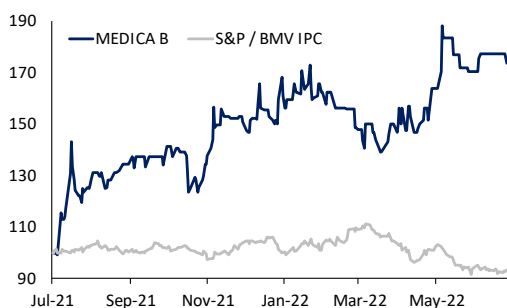


MÉDICA: 2Q22 Results

Core services growth continued, high cash generation, sells another 20 laboratories; operating results slightly above our forecasts

MÉDICA B	BUY
Target Price (MXN\$) [1]	\$ 60.00
Current Price (MXN\$)	\$ 53.00
Min / Max (L12M)	\$31.36 - 58.10
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	14.5%
Market Cap (MXN\$ Mn)	6,534
Enterprise Value (MXN\$ Mn)	3,847
Outstanding Shares (Mn)	123.3
Float	49.9%
ADTV (MXN\$ Mn)	\$ 1.79

[1] P\$88.40 including land



Opinion and recommendation

MÉDICA continued to experience an upward trend in the demand for non-COVID services. Revenues rose 5.9% with an EBITDA margin of over 20% and a strong cash flow generation. We estimate that recurring EBITDA grew 32.7% (-4.5% including COVID but excluding extraordinary items), slightly above our forecasts.

In April, the company sold 20 Laboratorios Médica Sur branch units. During the quarter, it received another MXN\$386 million net of taxes from last year's sale of Laboratorio Médico Polanco, and royalties related to the COVID tests, from SYNLAB International. This boosted the cash reserves to nearly MXN\$3.7 billion at the end of the quarter, widely exceeding the MXN\$1 billion debt.

We reiterate our BUY recommendation with a MXN\$60.0/share target price.

Revenues

MÉDICA continued to experience a higher demand for non-related COVID services, which boosted its total revenues by 5.9% YoY, to MXN\$983.3 million (vs. MXN\$985.1 million E). The growth rate was slightly higher than in 1Q22.

Hospitalization revenues decreased by MXN\$30 million net in the period, which derived from an increase of MXN\$74 million in non-COVID services (with surgeries +13%, care in critical units +40% and emergency patients +22%). This was offset by a MXN\$104 million reduction in critical and non-critical COVID hospitalization services.

In terms of volume, the company attended 3,650 hospitalization patients, up 16% YoY. The median stay for hospitalized patients fell slightly to 3.39 days, from 4.19 days. The occupancy rate remained virtually unchanged at 67.8%, from 68.0%.

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Clinical services and diagnostic units contributed MXN\$58 million due to higher demand in various units such as the Cancer Center, Gamma Knife radiosurgery, magnetic resonance imaging, PET-CT, angiography, gastroenterology, imaging and advanced urology.

The other businesses contributed MXN\$27 million which included a greater number of visitors to cafeterias and restaurants, higher occupancy levels at the Holiday Inn hotel, and rising revenues from pharmacies and office rentals.

Profitability

The reported EBITDA grew 84.7% YoY to MXN\$703.7 million. However, this indicator included effects from discontinued operations of MXN\$593 million (MXN\$386 million after taxes) that the company received from SYNLAB International GmbH during the first half of the year. This included: i) MXN\$385 million from last year's sale of Laboratorio Médico Polanco, and royalties related to COVID tests; and, ii) MXN\$208 million for the sale of 20 Laboratorios Médica Sur branches which took place last April.

We estimate that recurring EBITDA excluding COVID and discontinued operations would have been MXN\$202.2 million, up 32.7%. The margin would have expanded to 20.6%, from 16.4%. If we include COVID in both periods, we estimate that EBITDA would have been MXN\$210.8 million (vs. MXN\$203.2 million E), with a slight annual 4.7% fall. The margin would have contracted to 21.4%, from 23.8% in the same period of the previous year.

The company recorded MXN\$41 million in financial gains, compared to last year's negative MXN\$19.0 million figure.

Quarterly net profits advanced 161.6% to MXN\$500.6 million. They were also supported by gains of discontinued operations. We estimate that adjusted net profits excluding discontinued operations would have been MXN\$144.6 million in 2Q22, well above the 2Q21 figure of MXN\$109.5 million.

Financial structure

Cash continued to rise as it reached nearly MXN\$3.7 billion at the end of the quarter, supported by the sale of more laboratories and the SYNLAB payments. This figure compared to a total debt of only MXN\$1.0 billion. Therefore, net debt was negative at nearly MXN\$2.7 billion.

Share buy backs

MÉDICA repurchased 974 thousand shares during the quarter for MXN\$50 million. As a result, the company has 14.9 million treasury shares, which represent 12.1% of the total outstanding shares and have a market value of MXN\$806 million. The average cost was MXN\$29.98/share. The remainder of the reserve amounts to MXN\$450 million.

Others

MÉDICA extended its alliance with the Mayo Clinic. Initially they will focus on standardizing protocols for the treatment of oncological diseases, including diagnosis and treatment, and will add the different medical specialties that they serve within the hospital. We see this extended collaboration as MÉDICA's significant differentiator from its competitors, as doctors will be able to access the platform to stay ahead of the curve. It also provides multiple benefits for patients including world-class care.

(Figures in Millions of MXN\$)	2Q22	2Q22E	Diff.	2Q21	Chg.
Revenues	983	985	-0.2%	928	5.9%
Operating Profit	168	155	8.3%	180	-6.8%
<i>Operating Margin</i>	17.1%	15.8%		19.4%	
EBITDA	704	203	246.8%	381	84.7%
<i>EBITDA Margin</i>	71.6%	20.6%		41.0%	
EBITDA (recurring)	202	203	-0.3%	152	32.7%
<i>EBITDA Margin (recurring)</i>	20.6%	20.6%		24.8%	
Financial Gains	59	49	21.1%	4	n.a.
Financial Cost	-18	-16	9.7%	-23	-23.1%
Pre-Tax Profit	209	188	11.5%	161	29.6%
Income Tax & Profit Sharing	-64	-56	14.5%	-22	196.9%
Net Profit	501	104	n.a.	191	161.6%

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