

# MÉDICA: 3Q22 Results

Recurring EBITDA grows 27% due to core services which offset the reduction in COVID related revenues

MEDICA B	BUY
Target Price (MXN\$) [1]	\$ 55.00
Current Price (MXN\$)	\$ 38.40
Min / Max (L12M)	\$36.05 - 71.00
Expected Dividend (MXN\$)	\$ 2.50
Expected Return	49.7%
Market Cap (MXN\$ Mn)	4,146
Enterprise Value (MXN\$ Mn)	3,959
Outstanding Shares (Mn)	108.0
Float	42.8%
ADTV (MXN\$ Mn)	\$ 1.15

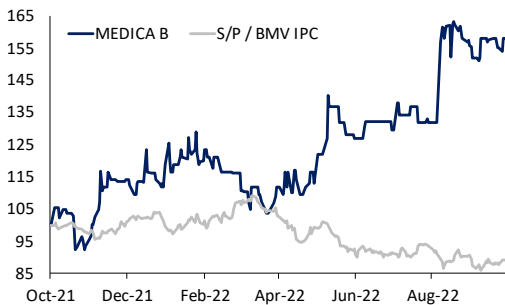
## Opinion and recommendation

MEDICA reported positive results that were in line with our projections. The company continued to experience strong double-digit growth in traditional services that offset the reduction in COVID-related sales. As a result, total revenues remained practically unchanged, while traditional businesses EBITDA rose 27%.

We reiterate our BUY recommendation and MXN\$55.0/share target price after updating our forecast model. We believe that the valuation of MÉDICA's shares is very attractive with a forward EV/EBITDA of only 4.1x and estimated P/E of 7.6x.

## Revenues

Total revenue remained virtually unchanged from the prior year due to a significant 18% recovery in non-COVID revenue that fully offset pandemic-related sales. In fact, the company treated 9% more patients with traditional diseases, which offset the decrease of 300 COVID patients. This included an increase of 37% in critical units, 15% in emergencies and 2% in surgeries. In addition, revenues from clinical services unit and diagnostic units grew by MXN\$43 million and those of other businesses by MXN\$14 million. In sum, the “core” business contributed MXN\$148 million in additional sales, similar to the MXN\$151 million decrease in pandemic related revenues.



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## Profitability

Reported EBITDA was MXN\$215 million (in line with our MXN\$214 million forecast), down 50% YoY as a result of discontinued operations in 3Q31 related to the sale of Laboratorio Médico Polanco to Grupo SYNLAB International GmbH. Excluding extraordinary items, we estimate that the recurring EBITDA for the current quarter would have been around MXN\$193 million, up 27%.

The company presented financial gains of MXN\$35 million due to high cash levels during the quarter. This compared against last year's MXN\$4 million in financial losses.

Reported net profit decreased 37% YoY to MXN\$150 million (vs. MXN\$124 million E) due to discontinued operations in 3Q21. Excluding non-recurring items, we estimate that net profits would have been around MXN\$140 million supported by high financial gains.

## Financial structure

Cash decreased 66% to nearly MXN\$1.2 billion due to the extraordinary MXN\$2.9 billion dividend payment on September 7. Despite this situation, the company closed the quarter with a slightly negative debt of MXN\$187 million.

## Cancellation of shares

On October 14<sup>th</sup>, shareholders approved the cancellation of 15.3 million treasury shares, which represented 12.4% of outstanding shares. We believe this was excellent news as the potential overhang of shares was effectively cancelled.

(Figures in Millions of MXN\$)	3Q22	3Q22E	Diff.	3Q21	Chg.
Revenues	999	1,005	-0.6%	1,003	-0.3%
Operating Profit	163	161	1.2%	204	-20.0%
<i>Operating Margin</i>	16.3%	16.0%		20.3%	
EBITDA	215	214	0.5%	427	-49.7%
<i>EBITDA Margin</i>	21.5%	21.2%		42.6%	
Financial Gains	54	38	41.9%	11	415.2%
Financial Cost	-19	-21	-7.4%	-18	4.4%
Pre-Tax Profit	198	178	10.9%	200	-0.9%
Income Tax & Profit Sharing	-58	-54	7.4%	-57	3.0%
Net Profit	150	124	20.7%	237	-36.8%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	709	772	835	909	985	1,009
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-209	-228	-246	-268	-290	-303
NOPLAT	500	544	589	641	694	706
Depreciation	170	182	197	208	225	230
Working Capital Changes	16	14	14	15	17	17
CAPEX	-201	-220	-241	-262	-289	-296
FCFF	486	519	560	602	647	658
Perpetuity Growth Rate						2.5%
PV of Explicit Period (2023 - 2027E)						2,007
Perpetuity Value						7,078
PV of Perpetuity Value						3,627
Enterprise Value						5,634
Net Debt						-305
Market Value						5,939
Land Properties						2,128
Adjusted Market Value w/ Land Properties						8,067
Outstanding Shares						108
Target Price						P\$ 55.00
Current Market Price						<b>P\$ 38.40</b>
Potential Return Incl. Dividends						43.2%
Forward EV/EBITDA						6.2x
Forward P/E						10.9x
Average Cost of Debt						7.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.9%
Cost of Equity						14.5%
Market Risk Premium						6.0%
Risk-Free Rate						9.9%
Beta						0.77
% Total Debt						28.5%
% Capital						71.5%
WACC						11.8%

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenues	3,906	3,981	4,301	4,566	4,848	5,147	5,466
Cost of Sales	-2,371	-2,523	-2,705	-2,858	-3,020	-3,191	-3,378
Gross Profit	1,535	1,458	1,596	1,708	1,828	1,956	2,088
<i>Gross Margin</i>	<i>39.3%</i>	<i>36.6%</i>	<i>37.1%</i>	<i>37.4%</i>	<i>37.7%</i>	<i>38.0%</i>	<i>38.2%</i>
General Expenses	-718	-794	-860	-904	-950	-999	-1,050
Operating Profit	662	667	709	772	835	909	985
<i>Operating Margin</i>	<i>16.9%</i>	<i>16.8%</i>	<i>16.5%</i>	<i>16.9%</i>	<i>17.2%</i>	<i>17.7%</i>	<i>18.0%</i>
Depreciation and Amortization	-277	-163	-170	-182	-197	-208	-225
EBITDA	2,035	905	880	953	1,033	1,118	1,209
<i>EBITDA Margin</i>	<i>52.1%</i>	<i>22.7%</i>	<i>20.5%</i>	<i>20.9%</i>	<i>21.3%</i>	<i>21.7%</i>	<i>22.1%</i>
Financial Gains	57	181	82	95	110	128	147
Financial Cost	-79	-77	-77	-78	-78	-78	-77
Pre-Tax Profit	640	771	714	789	868	960	1,055
Income Tax & Profit Sharing	-264	-233	-211	-233	-256	-283	-311
<i>Tax &amp; Profit Sharing Rate</i>	<i>41.2%</i>	<i>30.3%</i>	<i>29.5%</i>	<i>29.5%</i>	<i>29.5%</i>	<i>29.5%</i>	<i>29.5%</i>
Net Profit	1,358	944	545	597	653	717	785
<b>BALANCE SHEET</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
TOTAL ASSETS	6,984	4,751	5,019	5,380	5,727	6,112	6,595
Current Assets	4,162	1,914	2,153	2,474	2,777	3,109	3,528
LT Assets	2,822	2,836	2,867	2,905	2,949	3,003	3,067
TOTAL LIABILITIES	2,070	2,220	2,271	2,372	2,417	2,449	2,526
ST Liabilities	1,004	1,166	1,217	1,318	1,363	1,395	1,471
LT Liabilities	1,066	1,054	1,054	1,054	1,054	1,054	1,054
TOTAL DEBT	1,011	1,014	1,003	1,052	1,042	1,015	1,027
NET DEBT	-2,520	-305	-509	-742	-1,014	-1,329	-1,689
TOTAL CAPITAL	4,914	2,547	2,765	3,023	3,325	3,678	4,085
Stockholder's Equity	4,913	2,546	2,763	3,022	3,324	3,677	4,083
<b>CASH FLOW STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
PRE-TAX PROFIT	1,358	984	714	789	868	960	1,055
Inv. Related Activities	495	-252	57	42	27	3	-20
Pre-Tax Cash Flow	1,935	750	604	654	711	769	833
Working Capital Changes	-1,184	-544	16	14	14	15	17
Operating Cash Flow	751	206	620	668	725	784	850
Investment Cash Flow	2,559	649	-90	-96	-101	-105	-112
Financing Cash Flow	-351	-3,067	-338	-290	-362	-391	-366
Net Incr. (Decr.) in Cash & Temp. Inv.	2,959	-2,212	193	283	262	288	372
Beg. of Period Cash and Temp. Inv.	573	3,532	1,319	1,512	1,795	2,056	2,344
End of Period Cash and Temp. Inv.	3,532	1,319	1,512	1,795	2,056	2,344	2,716

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