

MedLife SA

Buy

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Share price (RON) close as of 20/05/2022	18.0	Reuters	ROM.BX	Free float	59.0%
Number of shares (mn)	132.9	Bloomberg	M RO	Shareholders	Marcu Mihail (15.8%)
Market capitalization (RON mn / EUR mn)	2,389 / 483	Div. Ex-date	11/04/22	Cristescu Mihaela Gabriela (14.04%)	
Enterprise value (RON mn / EUR mn)	2,656 / 537	Target price	28.5	Homepage:	www.medlife.ro

Key figures Overview

RON mn	2020	2021	2022e	2023e
Net sales	1,078.3	1,432.0	1,701.0	1,946.0
EBITDA	212.6	287.5	296.7	392.2
EBIT	109.5	176.4	170.8	253.8
EBT	78.8	141.2	139.6	233.7
Net profit	62.2	117.6	117.3	196.3
EPS (RON)	0.47	0.88	0.88	1.48
CEPS (RON)	1.25	1.75	1.86	2.55
BVPS (RON)	2.02	2.91	3.67	5.07
Dividend/Share (RON)				
EV/EBITDA (x)	8.91	12.42	8.95	6.22
P/E (x)	23.93	27.01	20.37	12.17
P/CE (x)	8.99	13.69	9.65	7.05
Dividend yield (%)				
EBITDA margin (%)	19.71	20.08	17.44	20.15
Operating margin (%)	10.16	12.32	10.04	13.04
Net profit margin (%)	5.77	8.21	6.90	10.09

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	20,731	36,989	101,330
Trading value (RON mn)	0.4	0.7	2.1



Price performance:	1M	3M	6M	12M
in EUR	-17.4%	-17.9%	-14.4%	34.1%

Financial Strength

	2020	2021	2022e	2023e
ROE (%)	26.07	35.91	26.84	33.81
ROCE (%)	10.88	16.04	14.93	22.73
Equity ratio (%)	22.72	27.15	32.85	44.99
Net debt (RON mn)	406.30	395.53	267.40	50.01
Gearing (%)	151.09	102.46	54.78	7.43

1Q22 results: on a positive trend

Improving q-o-q margins

After the cost increases of late 2021, the company has seen its profitability diminish, however this trend has been reversed during 1Q22, with revenues growing faster than costs leading to solid top-line growth and margin consolidation that should continue throughout the remainder of the year.

The main drivers of the company remain unchanged, with pent-up demand complementing very strong pricing power and a successful organic and M&A growth strategy. Our conservative forecast assumptions remain unchanged and are validated by the financial results of the first quarter of 2022.

The upside of the stock is considerable, in view of the risk-off trend following the war in Ukraine, however the last several months have shown the impact of the conflict to be marginal at best. Domestic demand has increased in the post pandemic period and it is expected to continue solid over the medium term, with no discernible influence of the events in Ukraine.

1Q2022 results: on the right track after slight loss in profitability

1Q22 results – better y-o-y top line, higher costs

MedLife 1Q22 results show a significant boost in top line, with consolidated sales increasing by 24%. At the same time, operating expensed grew by 33%, leading to an operating profit that was 24% lower than that of 1Q21 and an EBITDA that was 2% lower compared to the same period of last year. Net income also declined compared to the first quarter of 2021, by 18%. Margins weakened as well, with EBITDA margin dropping from 23.5% to 18.6%, and net margin from 10.7% to 7.1%.

INCOME ST. (RON, mn.)	1Q22	1Q21	chng (%)	4Q21	chng (%)	1Q20	chng (%)
Sales	418.9	337.8	24%	389.7	7%	264.2	59%
Other operating income	2.0	1.0	96%	6.5	-69%	0.9	132%
Operating income	420.9	338.8	24%	396.2	6%	265.0	59%
Operating expenses	(380.1)	(285.2)	33%	(365.9)	4%	(246.7)	54%
Operating profit	40.9	53.6	-24%	30.3	35%	18.3	123%
EBITDA	78.1	79.7	-2%	67.9	15%	44.6	75%
Financial result	(7.3)	(10.6)	-31%	(7.2)	1%	(8.9)	-17%
Profit before taxes	33.5	43.0	-22%	23.1	45%	9.5	255%
Income tax	(4.0)	(6.9)	-42%	(4.2)	-5%	(3.0)	31%
Net profit	29.6	36.1	-18%	18.9	57%	6.4	360%
<i>EBITDA margin</i>	<i>18.6%</i>	<i>23.5%</i>		<i>17.1%</i>		<i>16.8%</i>	
<i>Net margin</i>	<i>7.1%</i>	<i>10.7%</i>		<i>4.8%</i>		<i>2.4%</i>	

Source: Company data, Erste Group Research

Better picture on a quarterly basis

The second half of last year saw the impact of a combination of factors that had a negative impact on margins. Lower amounts PCR testing together with higher commodities and compensation costs led to an erosion of margins. The situation extended to 1Q22, however with a significant improvement compared to the previous quarter. Thus, compared to 4Q22, Top line increased by 6%, while operating costs grew by only 4%, leading to a q-o-q jump in operating profit of 35% and in EBITDA of 15%. Compared to the last quarter of 2021, net profit increased by close to 60%.

Top line growth across the board, but in laboratories' segment

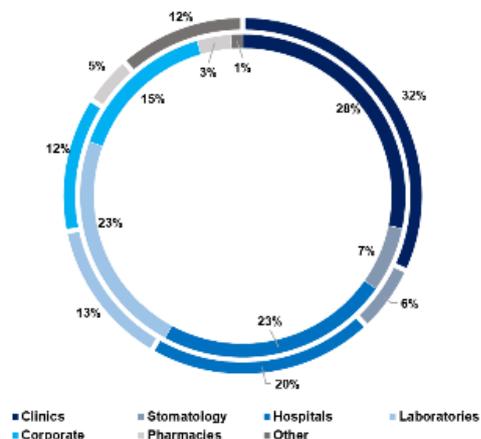
All business segments registered solid growth rates with the exception of laboratories. The main revenue contributor – clinics – saw a huge y-o-y revenue growth of 40%, while hospitals grew by 9%, stomatology by 16% and pharmacies by 66%. Corporate segment revenues stayed largely flat while “other revenues” increased significantly on the back of the consolidation of the pharma distribution business. The exception was the sharp decline in laboratories' revenues, due to the decline in PCR testing on the waning period of the pandemic.

Results by segment

Business line	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
	1Q22	1Q21	chng (%)	1Q22	1Q21	chng (%)	1Q22	1Q21	chng (%)
Clinics	133.5	95.3	40%	645.3	548.6	18%	206.9	173.8	19%
Stomatology	25.5	22.0	16%	44.2	33.5	32%	577.9	657.9	-12%
Hospitals	85.7	78.3	9%	25.8	25.4	2%	3,317.2	3,079.5	8%
Laboratories	56.0	76.1	-26%	1,851.5	1,992.2	-7%	30.2	38.2	-21%
Corporate	51.4	50.7	1%	763.2	719.0	6%	67	70.5	-4%
Pharmacies	18.7	11.3	66%	148.5	58.4	154%	126.1	193.3	-35%
Other	48.1	4.0	1092%						

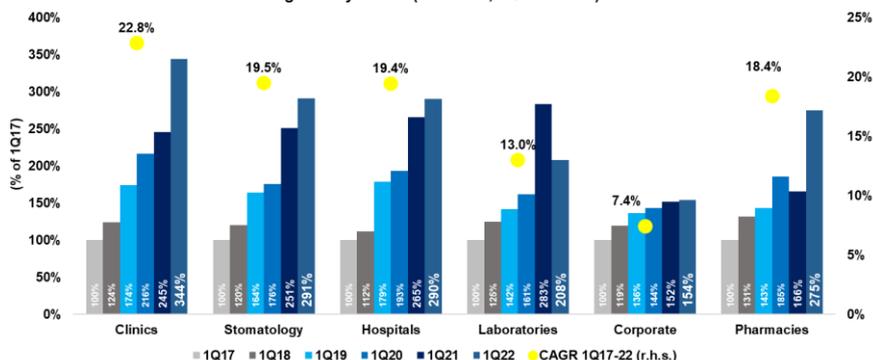
Source: Company data, Erste Group Research

Business line revenues 1Q22 (ext.) vs. 1Q21 (int.)



Source: Company data, Erste Group Research

Segment dynamics (revenues, 1Q17 = 100%)

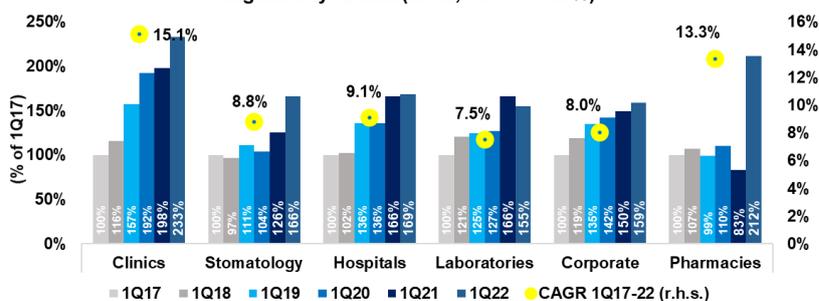


Source: Company data, Erste Group Research

Revenue CAGR remains impressive

On a yearly basis, the revenues of first quarter of each of the last six years has shown a significant growth. Thus, the lowest growth was posted by the corporate segment, at a very solid 7.4%, while the highest revenue contributor – the clinics segment – recorded a staggering CAGR of close to 23%. Hospitals, stomatology and pharmacies segments also recorded CAGRs of close to 20%, while the third largest revenue contributor – laboratories – grew at a CAGR of 13%.

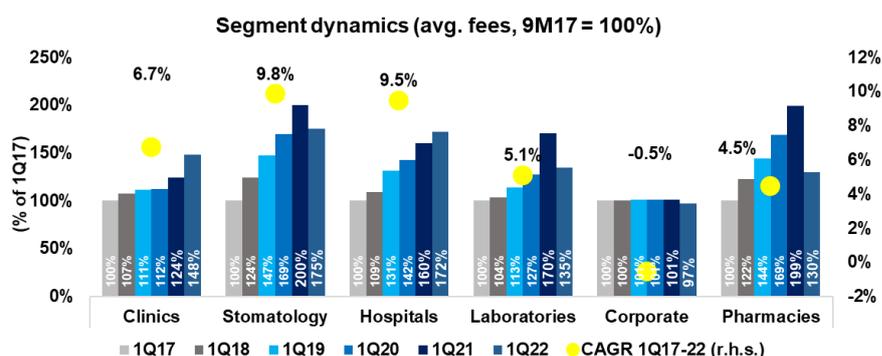
Segment dynamics (units, 9M17 = 100%)



Source: Company data, Erste Group Research

Impressive unit growth

The main contributor to the growth in volumes was higher traffic, both in terms of organic growth, but also of acquisitions. Clinics number of visits increased at a CAGR of 15%, while the rest of the segments grew in high single digit numbers. On a yearly basis, compared to 1Q21, the number of clinic visits grew by 18%, hospital patients by 2%, of stomatology patients by a staggering 32% while corporate subscriptions increased by 6%. Following acquisitions, the pharmacies number of clients jumped by 154%.



Source: Company data, Erste Group Research

Pricing power remains very solid

The top two revenue contributors – clinics and hospitals – continued to increase average fees at solid rates. The clinic segment saw in 1Q22 19% higher average fees compared to 1Q21, while hospital average fees grew by 8%. CAGR of the last 6 years remains considerable, especially in the stomatology, hospital and clinics segments. The laboratory segment saw the largest downward adjustment in average receipts, on the back of a drop in PCR testing, while pharmacies' average receipts were diminished by acquisitions that led to a change in customer mix.

Costs by category

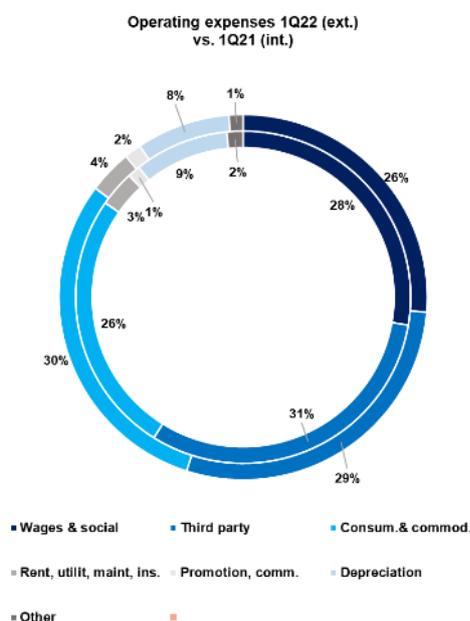
Op. exp. (RON.mn.)	1Q22				1Q21				4Q21				% of total rev.			
	1Q22	1Q21	chng (%)	4Q21	chng (%)	1Q20	chng (%)	1Q22	1Q21	4Q21	1Q20	1Q22	1Q21	4Q21	1Q20	
Wages & social	99.99	79.00	26.6%	93.10	7.4%	80.03	24.9%	23.8%	23.3%	23.5%	30.2%	23.8%	23.3%	23.5%	30.2%	
Third party	108.93	89.13	22.2%	104.5	4.2%	74.07	47.1%	25.9%	26.3%	26.4%	27.9%	25.9%	26.3%	26.4%	27.9%	
Consum. & commod.	114.77	73.18	56.8%	107.32	6.9%	51.52	122.8%	27.3%	21.6%	27.1%	19.4%	27.3%	21.6%	27.1%	19.4%	
Rent, utilit, maint, ins.	14.63	9.94	47.3%	10.62	37.8%	9.41	55.5%	3.5%	2.9%	2.7%	3.6%	3.5%	2.9%	2.7%	3.6%	
Promotion, comm.	5.68	3.42	66.1%	7.85	-27.6%	3.39	67.6%	1.3%	1.0%	2.0%	1.3%	1.3%	1.0%	2.0%	1.3%	
Depreciation	31.34	26.08	20.2%	31.77	-1.4%	26.25	19.4%	7.4%	7.7%	8.0%	9.9%	7.4%	7.7%	8.0%	9.9%	
Other	4.7	4.46	5.4%	10.5	-55.2%	2.11	122.7%	1.1%	1.3%	2.7%	0.8%	1.1%	1.3%	2.7%	0.8%	
Total	380.0	285.2	33.3%	365.7	3.9%	246.8	54.0%	90.3%	84.2%	92.3%	93.1%	90.3%	84.2%	92.3%	93.1%	

Source: Company data, Erste Group Research

Overall costs grow more than revenues, but at lower pace in 1Q22

The cost increases of late last year were not reversed and that led to a y-o-y overall operating costs increase of 33%, on a 24% higher revenue compared to 1Q21. The largest cost increase was recorded in the consumables and commodities items, on the back of higher utilization mandated by the pandemic. This amounted to about 40% of the overall increase in costs. Personnel related costs i.e. wages and third parties also added another 40% of the overall cost increase, while the rest was evenly spread between the other major cost items.

Nevertheless, on a quarterly basis, the increase in costs, at 4% was lower than the increase in revenues, with a lower growth in the major cost items, compared to the growth of these items in late 2021 vs. the beginning of last year.



Source: Company data, Erste Group Research

Balance sheet remains solid

Net debt increased, as expected in the wake of acquisitions. At the same time, the gearing is more than manageable, with a coverage of net debt compared to 2021 EBITDA of 2.4, a level significantly inferior than historical averages.

(RON, mn.) EOP	2016	2017	2018	2019	2020	2021	1Q22*
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	145.7
Current port. of debt**	27.4	41.8	63.0	103.2	114.7	136.6	148.6
LT debt**	213.1	252.9	313.5	478.6	561.8	590.5	680.5
Net debt	219.9	215.5	342.4	542.9	594.6	591.1	683.4
Net debt/EBITDA* (x)	3.95	2.77	3.59	3.67	2.80	2.06	2.38

* - 2021 Actual reported EBITDA ** - includes leasing and overdraft

Source: Company data, Erste Group Research

M&A activity continues along successful development strategy

Oncology expansion

MedLife management has continued its successful acquisition strategy. The company finalized the acquisition of 50% of Neolife, in the oncology segment, where it was not represented. Approved by the Competition Council in February, this acquisition expands the company's offering in this hi-tech segment in the large population centers of Bucharest, Brasov and Iasi and enable expansion in Bulgaria and Moldova, together with other neighboring countries. 2021 turnover of Neolife reached RON110mn, posting a 20% growth y-o-y.

In the same field, after approval from the Competition Council, the company finalized recently the acquisition of 100% of the OncoCard Hospital in Brasov, with a 2021 turnover of RON64mn.

Expansion in segment under contract with NHIH

The company continued to expand in the area of health services provided under contract with the national health insurance system. Recently, it has announced the acquisition of 100% of the share capital of Life Med, one of the largest private providers of outpatient medical services under contract with NHIH. The company operates in Bucharest and had a 2021 turnover of RON9mn. It will become part of Sfanta Maria network.

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Also, during 1Q22, MedLife increased shareholding in two subsidiaries, Almina – from 80% to 90% and Genesys – from 73% to 83%.

Acquisition spree to continue. According to management, MedLife has a strong pipeline of acquisitions with discussions being held with 2 large and medium-size companies and 5 smaller companies, most of these transactions expected to be finalized during 2022.

Strategy to continue beyond 2022. The state-of-the-art Hyperclinic, connected to the long term development plans of MedLife Park in undergoing its second stage of development. The development will continue in 2023 with the expansion of hospitalization capacity by 150 beds, opening new surgery rooms and extended in the medium and long term with similar projects in major population centers in the country such as Brasov, Sibiu, Cluj, Timisoara, Arad.

Accelerated expansion of secondary brand. MedLife plans to accelerate the expansion of its second brand Sfanta Maria, focusing on patients that use NHIH backed medical services. This expansion, in smaller and medium population centers will be undergone through organic growth and further acquisitions.

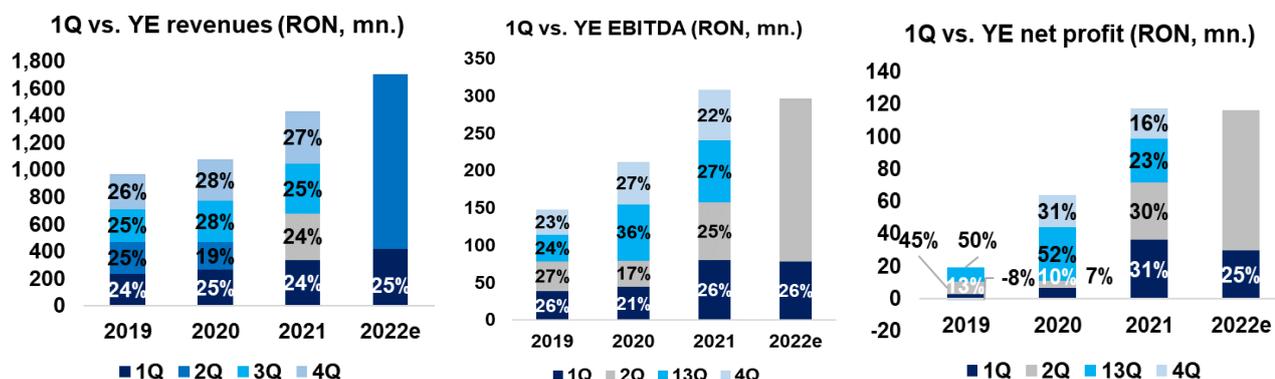
Underlying investment rationale unchanged since our previous update

The attractiveness of MedLife as an investment vehicle encompasses the combined exposure to desirable geography, sector and product. Our main investment tenets remain unchanged, as detailed in previous reports:

- Underserved market with ample upside potential for Government and private spending, with ongoing consolidation activity.
- Pent-up demand, that remained unsatisfied during pandemic.
- Company superior pricing power, resulting from lack of adequate alternatives.
- Effective cost management.
- Superior management of expansion via acquisitions.

Our forecast remains unchanged for the remainder of 2022

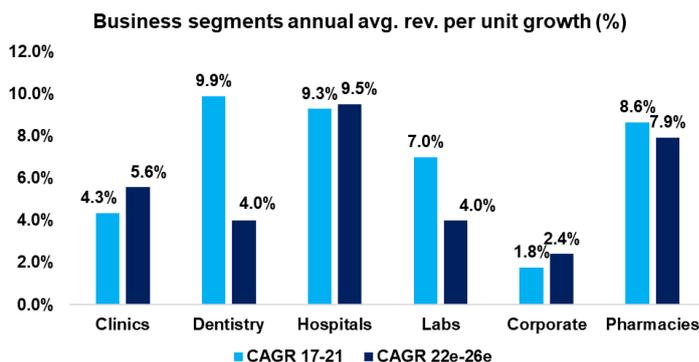
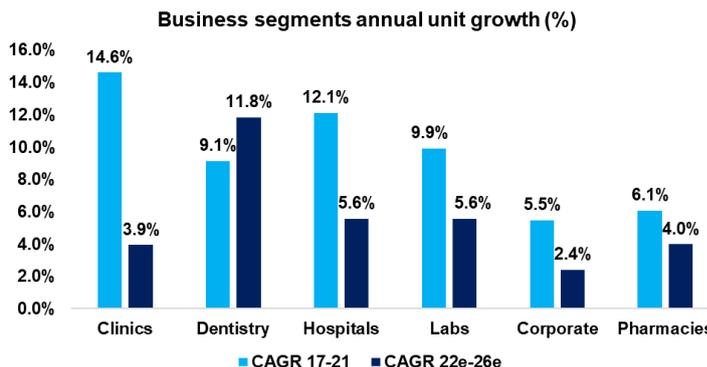
We had no compelling reason to alter significantly our latest forecasts for the company. The 1Q22 results, both in terms of top line growth and profitability are consistent with our YE projections. We forecast a slight decline in profitability compared to last year, on the back of the cost increases that influenced especially the last quarter of 2021, however our assumptions may prove to be on the conservative side.



Source: Company data, Erste Group Research

5 yr. CAGR forecasts conservative compared to historical averages

Our forecasts of unit sales and average sales per unit remain largely unchanged from our previous review of the company. We continue to forecast a conservative rate of growth going forward overall, both in term of organic growth and in terms of realized sales per unit. Nevertheless, under these conservative assumptions, the upside of the company remains considerable, as the stock price was unduly punished on the back of the risk-off mood caused by the war in Ukraine.



Source: Company data, Erste Group Research

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24 May 2022

Company description

Medlife is the leading private healthcare provider in Romania, operating the widest network of clinics, medical laboratories, mono and multidisciplinary hospitals and largest HPP client database in the country. The company operates 22 hyperclinics, 53 clinics, 10 hospitals, 13 stomatology centers, 5 maternities, a stem cell bank, 33 laboratories and more than 180 sampling points. It owns 20 pharmacies and services more than 705k HPP corporate clients.

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