Erste Group Research – Company Update
MedLife SA | Medical Equipment | Romania
17 May 2023

MedLife SA

Buy

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Share price (RON) close as of 15/05/2023	17.2	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)	2,285 / 462	Div. Ex-date	11/04/23		Cristescu Mihaela Gabriela (14.04%)
Enterprise value (RON mn / EUR mn)	3,031 / 613	**Target price**	**20.9**	Homepage:	www.medlife.ro

Key figures Overview

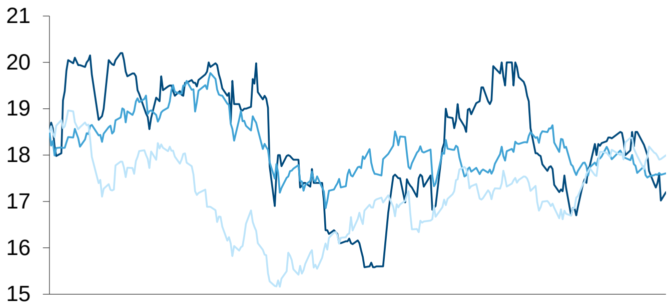
RON mn	2022	2023e	2024e	2025e
Net sales	1,795.4	2,195.0	2,492.3	2,736.8
EBITDA	246.6	295.0	359.8	401.0
EBIT	94.2	138.4	183.9	204.2
EBT	49.5	81.5	125.1	150.0
Net profit	37.4	68.4	105.1	126.0
EPS (RON)	0.28	0.51	0.79	0.95
CEPS (RON)	1.39	2.18	1.46	2.16
BVPS (RON)	3.63	4.11	4.86	5.75
Dividend/Share (RON)				
EV/EBITDA (x)	12.34	10.28	8.43	7.32
P/E (x)	60.06	33.40	21.75	18.14
P/CE (x)	12.16	7.91	11.75	7.95
Dividend yield (%)				
EBITDA margin (%)	13.74	13.44	14.44	14.65
Operating margin (%)	5.25	6.31	7.38	7.46
Net profit margin (%)	2.08	3.12	4.22	4.60

Financial Strength

	2022	2023e	2024e	2025e
ROE (%)	8.66	13.30	17.63	17.87
ROCE (%)	5.64	7.34	9.34	9.95
Equity ratio (%)	22.40	23.82	26.61	30.28
Net debt (RON mn)	797.70	745.89	748.15	648.36
Gearing (%)	165.46	136.46	115.88	84.82

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	26,612	23,774	34,561
Trading value (RON mn)	0.5	0.4	0.6



Price performance:	**1M**	**3M**	**6M**	**12M**
in EUR	**-6.3%**	**-14.7%**	**6.1%**	**-6.2%**

1Q23 results: evolving in the consolidation phase

As per our conservative valuation stance, we downgrade marginally the target price, at least until margin consolidation becomes a valid trend, to RON20.9/share and maintain our BUY recommendation on the company's stock.

The 1Q23 results of MedLife paint a better picture compared to the previous quarter, however it is yet not clear if this is a sustainable turnaround or a seasonal increase in profitability compared to those of previous years'.

Under normal circumstances, the company should start to post better margins going forward on the back of growth across most business segments in terms of both units and average revenues.

Moreover, management has announced a policy of consolidation of assets with the goal of streamlining operations and improve cost structure.

Personnel costs remain a major item, while expenses with consumables and materials should experience a milder inflationary pressure.

Going forward, M&A activities should take a breather, however the long-term strategy of increasing footprint remains valid and to be acted upon in an opportunistic manner over the short-term.

Our investment rationale remains valid, with main drivers still present, capitalizing on a growing market, largely price insensitive and enduring a dearth of alternatives at lower cost.

1Q2023 results: signs of a turnaround, but time will tell

1Q23 results – better y-o-y top line, higher costs

MedLife 1Q23 results show a significant boost in top line, with consolidated sales increasing by 26%. At the same time, operating expensed grew by 33%, leading to an operating profit that was 32% lower than that of 1Q22 and an EBITDA that was 4% higher compared to the same period of last year. Net income also declined compared to the first quarter of 2022, by 71%. Margins weakened as well, with EBITDA margin dropping from 17.2% to 14%, and net margin from 7.1% to 1.6%.

INCOME ST. (RON, mn.)	1Q23	1Q22	chng (%)	4Q22	chng (%)	1Q21	chng (%)
Sales	529.5	418.9	26%	471.5	12%	337.8	57%
Other operating income	3.3	2.0	62%	4.2	-21%	1.0	217%
Operating income	**532.8**	**420.9**	**27%**	**475.7**	**12%**	**338.8**	**57%**
Operating expenses	(505.2)	(380.1)	33%	(476.9)	6%	(285.2)	77%
Operating profit	**27.6**	**40.9**	**-32%**	**(1.2)**	**n.m.**	**53.6**	**-49%**
EBITDA	**74.7**	**72.2**	**4%**	**48.6**	**54%**	**79.7**	**-6%**
Financial result	(15.1)	(7.3)	106%	(16.8)	-10%	(10.6)	42%
Profit before taxes	**12.5**	**33.5**	**-63%**	**(18.0)**	**n.m.**	**43.0**	**-71%**
Income tax	(4.1)	(4.0)	2%	(1.4)	191%	(6.9)	-41%
Net profit	**8.4**	**29.6**	**-71%**	**(19.4)**	**n.m.**	**36.1**	**-77%**
EBITDA margin	*14.0%*	*17.2%*		*10.2%*		*23.5%*	
Net margin	*1.6%*	*7.1%*		*-4.1%*		*10.7%*	
Operating margin	**5.21%**	**9.75%**		**-0.26%**		**5%**	

Source: Company data, Erste Group Research

Better picture on a quarterly basis

On a quarterly basis, 1Q23 showed a top line growth of 12% vs. the last quarter of the previous year, and a more than 57% increase vs the first quarter of 2021. At the same time, operating profit and net income turned back to positive, compared to the losses of 4Q22. EBITDA grew by more than 54% compared to the previous quarter.

	IFRS			Proforma		
INCOME ST. (RON, mn.)	1Q23	1Q22	chng (%)	Adjustm.	1Q23	chng (%)
Sales	529.5	418.9	26%	(6.8)	522.7	25%
Other operating income	3.3	2.0	62%	0.8	4.1	101%
Operating income	**532.8**	**420.9**	**27%**	**(6.0)**	**526.8**	**25%**
Operating expenses	(505.2)	(380.1)	33%	8.7	(496.5)	31%
Operating profit	**27.6**	**40.9**	**-32%**	**2.7**	**30.3**	**-26%**
EBITDA	**74.7**	**72.2**	**4%**	**4.4**	**79.1**	**10%**
Financial result	(15.1)	(7.3)	106%	(0.4)	(15.5)	112%
Profit before taxes	**12.5**	**33.5**	**-63%**	**2.3**	**14.8**	**-56%**
Income tax	(4.1)	(4.0)	2%	(0.3)	(4.3)	9%
Net profit	**8.4**	**29.6**	**-71%**	**2.0**	**10.5**	**-65%**
EBITDA margin	*14.0%*	*17.2%*			*15.0%*	
Net margin	*1.6%*	*7.1%*			*2.0%*	
Operating margin	*5.2%*	*9.7%*			*5.7%*	

Source: Company data, Erste Group Research

Proforma figures show marginally better profitability

The company issued also a pro-forma abridged income statement that included the financial results of acquired companies, which registered total sales of RON26mn and do not include the subsidies received at group level from the National Health Program for chemotherapy drugs. Under this representation, the profitability of the group was slightly better, however in the same range of the IFRS figures.

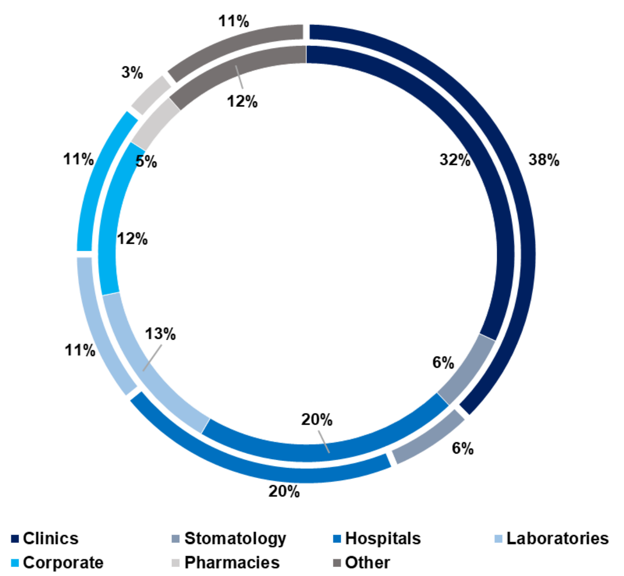
	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**1Q23**	**1Q22**	**chng (%)**	**1Q23**	**1Q22**	**chng (%)**	**1Q23**	**1Q22**	**chng (%)**
Clinics	199.3	133.5	**49%**	863.7	645.3	**34%**	230.8	206.9	**12%**
Stomatology	32.3	25.5	**27%**	46.7	44.2	**6%**	691.6	577.9	**20%**
Hospitals	108.3	85.7	**26%**	33.3	25.8	**29%**	3,252.3	3,317.2	**-2%**
Laboratories	57.2	56.0	**2%**	1,853.3	1,851.5	**0%**	30.9	30.2	**2%**
Corporate	58.0	51.4	**13%**	846.2	763.2	**11%**	69	67.4	**2%**
Pharmacies	18.5	18.7	**-1%**	124.3	148.5	**-16%**	148.8	126.1	**18%**
Other	56.0	48.1	**17%**						
Total	**529.6**	**418.9**	**26%**						

Source: Company data, Erste Group Research

Top line growth across the board
All business segments registered significant growth in revenues, with the exception of laboratories and pharmacies. The largest expansion was registered in clinics, on the back of increasing the number of clinics and sustained demand of outpatient medical services. Thus, clinics' revenues grew by close to 50% compared to 1Q22, while hospitals' revenues increased by 26%, stomatology by 27% and corporates by 13%. Revenues registered in the laboratories segment grew only by 2% while pharmacies recorded a 1% decline in revenues.

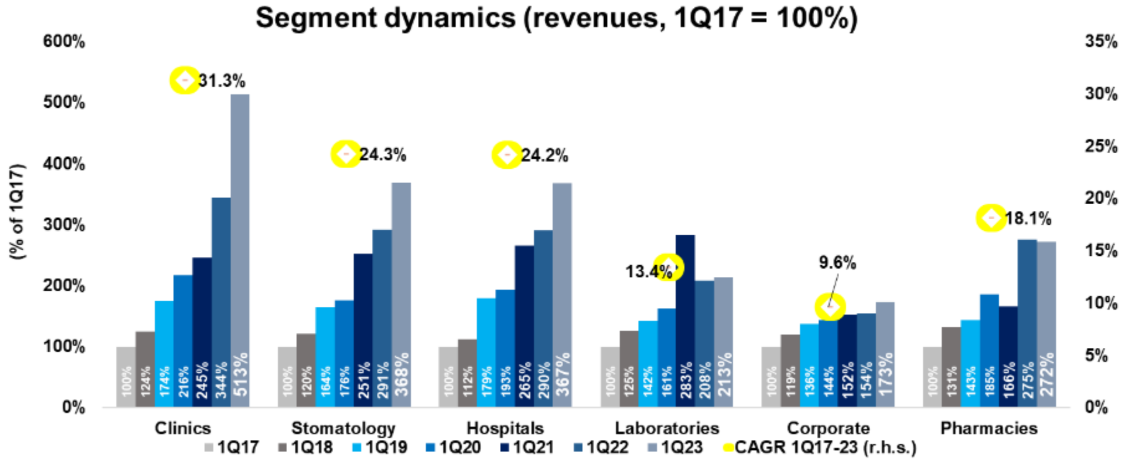
On a proforma basis, revenues in the clinics segment increased by about 55%, in stomatology by 27%, in hospitals by about 4%, in laboratories by 9%, in corporate by 13% and other revenues by around 17%, while pharmacies proforma revenues declined by 1.3% and stomatology by ith a decline of 22% compared to 1Q22.

Business line revenues 1Q23 (ext.) vs.1Q22 (int.)



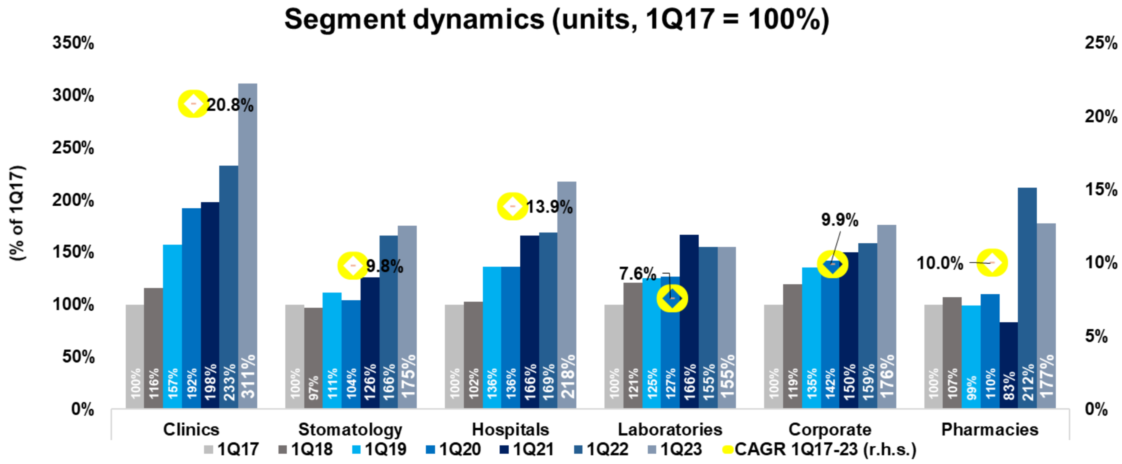
Source: Company data, Erste Group Research

The share in total revenues on a proforma basis s largely similar with the IFRS figures, with share of clinics slightly higher in proforma basis and that of hospitals marginally lower, with the rest of the business segments maintaining a similar share of total sales.



Source: Company data, Erste Group Research

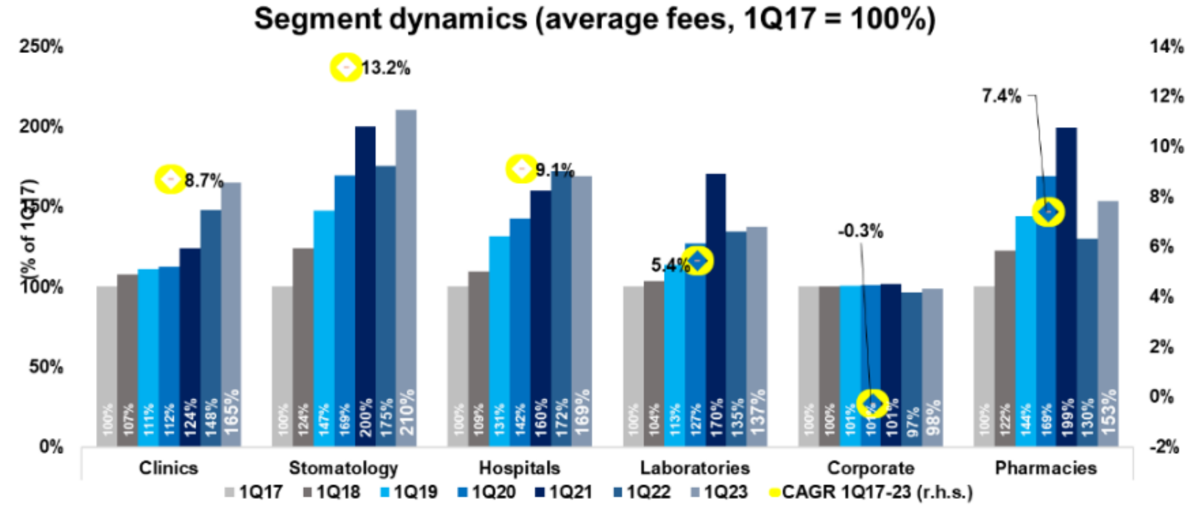
Revenue CAGR remains impressive…
With the corporate business showing the lowest 1Q17-1Q23 CAGR, at 9.6%, the rest of the segments are showing impressive truly impressive growth rates. Clinics grew above 30% and stomatology and hospitals' revenues grew each by above 24% with laboratories and pharmacies also showing solid growth rates in the medium to high teens.



Source: Company data, Erste Group Research

… on the back of higher number of patients…
The number of units, i.e. patients/visits/tests, has continued to grow at a high pace. Thus, on aggregate, for 1Q23 compared to 1Q22, the number of patient visits in clinics increased by 34%, in hospitals by 29%, while the growth in stomatology visits was 6%, in corporate 11% and in pharmacies 69%. The laboratories segment, stagnated while the number of pharmacies' clients declined by 16%.

As expected, the highest multiannual growth in number of patients has been recorded by the clinics, with almost 21% 6 yr. CAGR followed by hospitals with 14% and with stomatology, corporate and pharmacies each at about 10%. Laboratories lag slightly at about 8%



Source: Company data, Erste Group Research

… and higher average fees in most segments

Vs 1Q22, average fees increased during 1Q23 in clinics by 12%, stomatology by 20% and pharmacies by 18%. In the rest of the segments fees were mostly in line with the previous year.

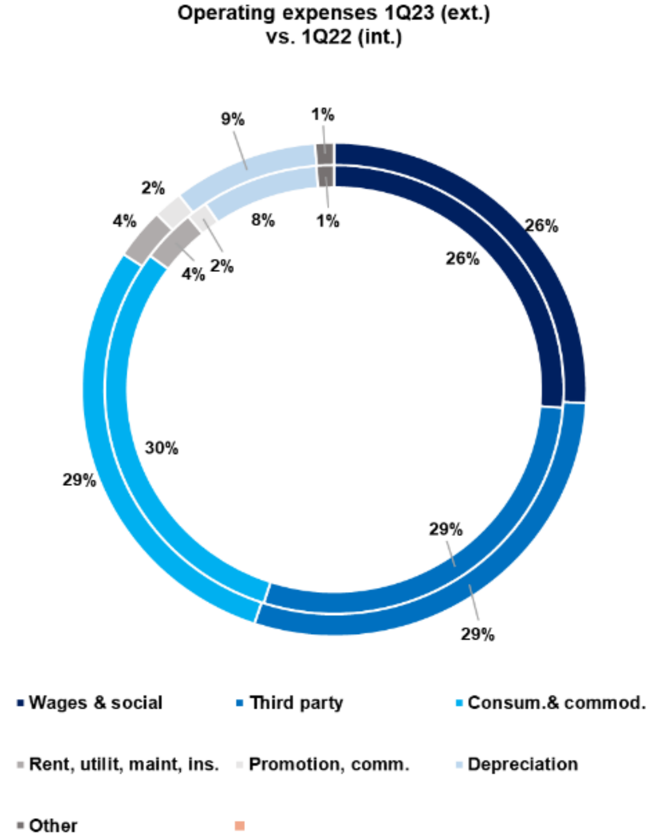
1Q23 expenses grow more than revenues y-o-y, but less q-o-q

During 1Q23, the 33% increase in expenses was higher than the 27% increase in revenues. The main expense items were personnel related costs. Thus, wages and social expenses grew by about RON30mn, or 31%, while expenses with third parties increase by about RON39mn or 36%. Over the first quarter of 2023, wage related items, including expenses with third parties have grown at 52.3% of sales, compared to 49.6% during 1Q22, however retreated compared to the 53.3% of the previous quarter. Consumables and commodities added another RON33mn, growing by about 28%. As a percentage of sales, they reached 27.6% vs 27.3% in 1Q22, but lower than the 30.1% of 4Q22.

								% of total rev.			
Opex breakdown (RON,mn.)	**1Q23**	**1Q22**	**chng (%)**	**4Q22**	**chng (%)**	**1Q21**	**chng (%)**	**1Q23**	**1Q22**	**4Q22**	**1Q21**
Wages & social	130.75	99.99	**30.8%**	125.07	**4.5%**	79	**65.5%**	**24.5%**	**23.8%**	**26.3%**	**23.3%**
Third party	147.72	108.93	**35.6%**	128.24	**15.2%**	89.13	**65.7%**	**27.7%**	**25.9%**	**27.0%**	**26.3%**
Consum.& commod.	147.13	114.77	**28.2%**	142.99	**2.9%**	73.183	**101.0%**	**27.6%**	**27.3%**	**30.1%**	**21.6%**
Rent, utilit, maint, ins.	16.84	14.63	**15.1%**	7.06	**138.5%**	9.935	**69.5%**	**3.2%**	**3.5%**	**1.5%**	**2.9%**
Promotion, comm.	9.45	5.68	**66.4%**	8.5	**11.2%**	3.42	**176.3%**	**1.8%**	**1.3%**	**1.8%**	**1.0%**
Depreciation	47.15	31.34	**50.4%**	49.75	**-5.2%**	26.08	**80.8%**	**8.8%**	**7.4%**	**10.5%**	**7.7%**
Other	6.13	4.7	**30.4%**	15.16	**-59.6%**	4.46	**37.4%**	**1.2%**	**1.1%**	**3.2%**	**1.3%**
Total	**505.2**	**380.0**	**32.9%**	**476.8**	**6.0%**	**285.2**	**77.1%**	**94.8%**	**90.3%**	**100.2%**	**84.2%**

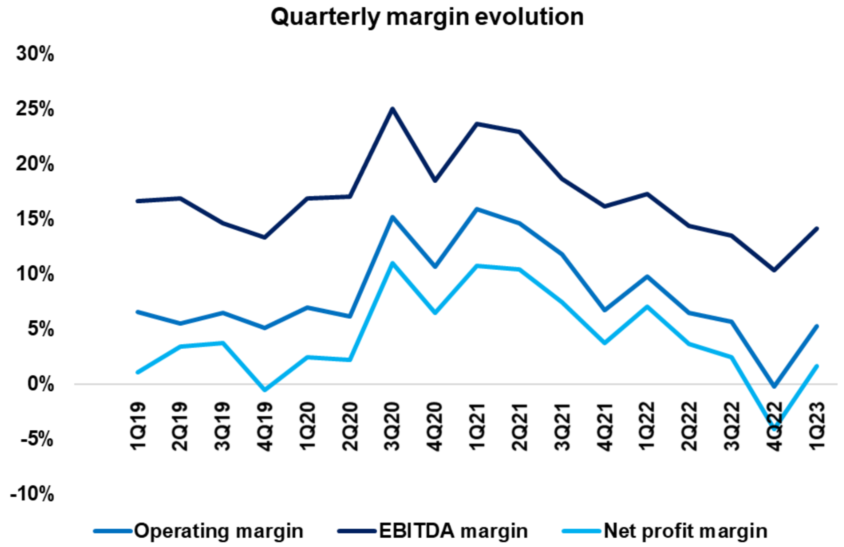
Source: Company data, Erste Group Research

On a quarterly basis, however the increase in expenses was significantly less significant with total expenses growing on aggregate by only 6% on a 12% increase of revenues. The main expense increases were represented by the same items, however at a growth rate much lower than that recorded on a yearly basis.



Source: Company data, Erste Group Research

As a consequence, profitability measures stage a turnaround, bucking the trend visible for the last nine quarters, with net income during 1Q23 turning back to positive. This is similar to the development so 1Q21 and in smaller measure during 1Q22 where profitability increased compared to the last quarter of the previous year, just to return on a declining trend. Further developments would show if 1Q23 is the beginning of a new directional movement in profitability or just a seasonal recovery followed by the continuation of the prevailing trend.



Source: Company data, Erste Group Research

Growing net debt, but gearing remains manageable
Net debt increased quite substantially, with gearing in line with that of 2016, and 2018, on the back of the continuing spat in acquisitions of last year and recent. The increase compared to last year is significant, however it is still manageable for a company with the pricing power of MedLife and its growth prospects. *(Note: in our net debt calculations, we have included leasing obligations and overdraft.)*

(RON, mn.) EOP	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**1Q23**
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	89.1	118.3
Current port. of debt*	27.4	41.8	63.0	103.2	114.7	136.6	160.6	154.2
LT debt*	213.1	252.9	313.5	478.6	561.8	590.5	1,028.5	1,141.3
Net debt	**219.9**	**215.5**	**342.4**	**542.9**	**594.6**	**591.1**	**1,100.0**	**1,177.2**
Net debt/EBITDA* (x)	**3.95**	**2.77**	**3.59**	**3.67**	**2.80**	**2.07**	**4.46**	**3.99**

** - includes leasing and overdraft*
Source: Company data, Erste Group Research

Finalizations of transactions and a new opening During 1Q23, the company managed the completion of acquisition of 99.76% of Muntenia Hospital shares, the largest hospital in Arges county, located north of Bucharest in a relatively prosperous area. Also, it has completed the acquisition of a 51% stake in Nord Group (Provita), a group present in the country's capital, with a hospital, five clinics and the only pain treatment therapy training center in CEE. Nord Group has also expanded in the north-east of Romania and is set to open another hospital in Bucharest. MedLife also opened in January a new hyperclinic in Deva, in the west of the country.

Looking ahead: evolving in the consolidation phase

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:

- Underserviced market with ample upside potential for Government and private spending, with ongoing consolidation activity.
- Pent-up demand, on the back of a general health state of the population
- Company superior pricing power, resulting from lack of adequate alternatives.
- Superior management of expansion via acquisitions.

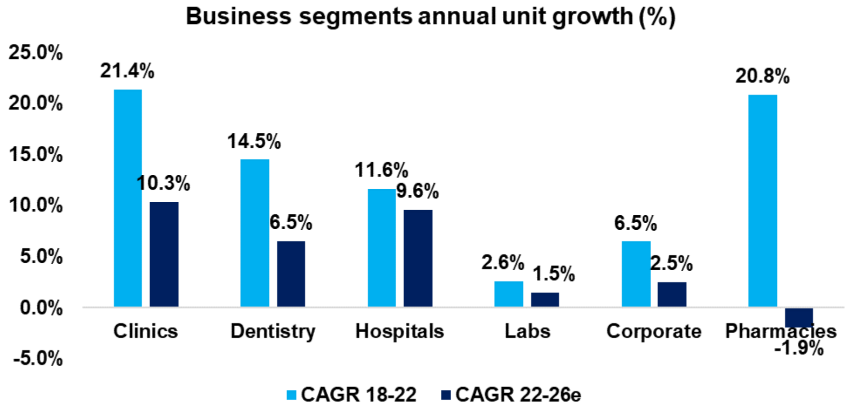
Previously, we were counting effective cost management among the main investment drivers. Nevertheless, the recent period of high inflation has shown that even a company with cost effectiveness at the center of its financial management policy cannot escape the brunt of the high inflation impact.

Case in point, the majority of costs that have eroded profitability during the last two years were costs over which management has little or no control. Wage inflation is manageable only to a certain extent, by offering employees career benefits that do not necessarily impact the bottom line. Finally, with the strong competition of employment abroad, MedLife, just as any Romanian company, has to offer a competitive package in order to lure and retain talent.

Another segment of the costs that has grown significantly relates to inputs that are consumables and commodities. The price growth of these commodities is difficult to completely hedge against by the management. Nevertheless, we see as positive the developments of 1Q23 and will monitor if they become a trend or remain just a seasonal accident.

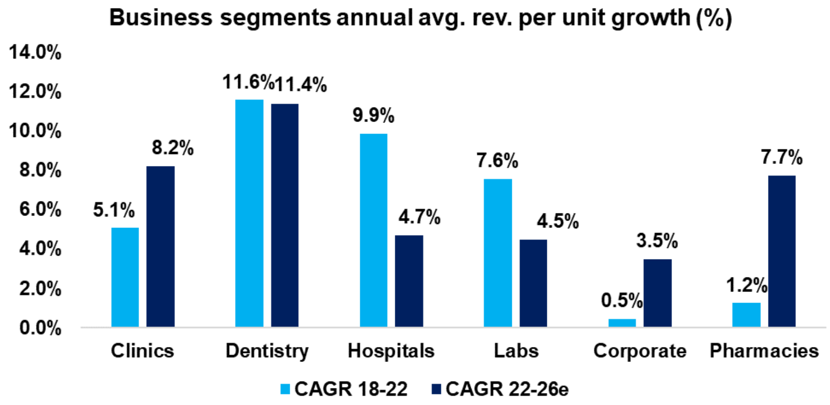
A breather for M&A activity According to company's management plans, MedLife will enter a period of less M&A activity and a consolidation stage focused on margins and better integration of the company's various assets. This is a stage that the company undergone in the past after successful sprees of acquisitions. The expansion overall strategic goals of MedLife remain intact and it should act in an opportunistic manner in the future, however immediate concentration of efforts lays in the direction of increased profitability for the existing assets and organic growth. Moreover, the plans of the company include merging some of the current assets in order to promote more efficient management and cost structures.

Our forecast: we maintain a conservative stance In anticipating the driver trends governing the evolution of the top line of the company we chose to remain on a conservative side and err on the side of caution. Thus, we account for a slowdown in the expansion via acquisitions and M&A, but maintain the organic growth consistent with the company's development plans. Overall, in each segment we anticipate a slower growth of units, than in the past, with the notable exception of pharmacies, where the recent severe drop in visits creates a base that influences 2022-2026 CAGR.



Source: Company data, Erste Group Research

Between inflation and disposable income In forecasting the average revenues per unit growth – in essence an expression of the pricing power of the company – we need to strike a balance between the effective lack of alternative of the patients and the erosion of the disposable income of the same, caused by the current inflationary period.



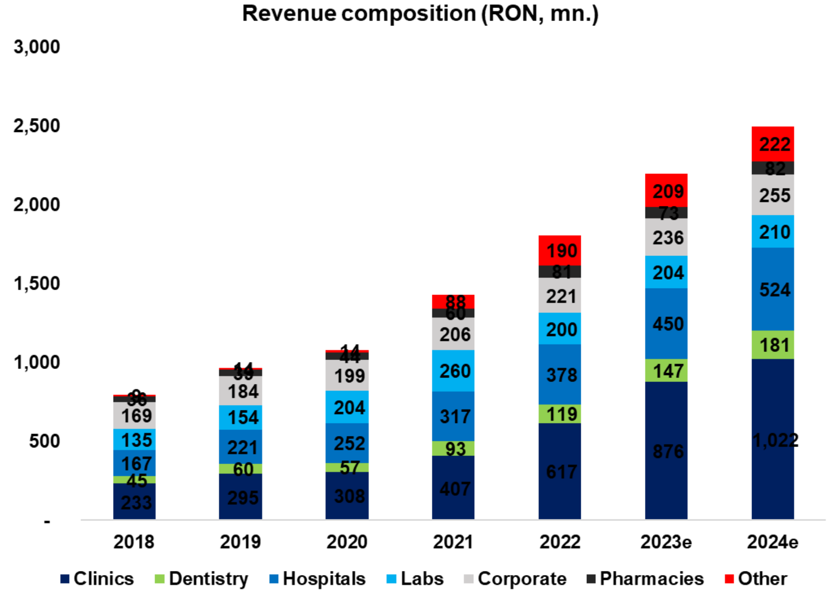
Source: Company data, Erste Group Research

In a conservative manner, we have tempered our forecasts, however taking into consideration inflation and the inelastic demand for healthcare services. We believe the result offers a realistic valuation for the stock, since MedLife's pricing power remains unabated, competition is still very little fought on price and the potential alternatives for patients are of inferior quality. Moreover, empirical observation shows even the good quality alternatives, i.e. other private healthcare providers, show consistent pricing trends with MedLife. It is worth noting in the pharmacy segment that the decline in average revenues noted in 2021 and 2022 is skewing significantly the historical CAGR levels while, in absolute terms, our forecast revenues per client reach the 2021 level only in 2024e and remain inferior to the 2020 level even by the end of our forecast horizon.

% of total rev.	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Clinics	26%	27%	29%	31%	29%	28%	34%	40%	41%	41%	41%
Dentistry	4%	6%	6%	6%	5%	7%	7%	7%	7%	8%	8%
Hospitals	21%	19%	21%	23%	23%	22%	21%	20%	21%	21%	22%
Labs	19%	19%	17%	16%	19%	18%	11%	9%	8%	8%	8%
Corporate	25%	23%	21%	19%	18%	14%	12%	11%	10%	10%	9%
Pharmacies	5%	5%	5%	4%	4%	4%	4%	3%	3%	3%	3%
Other	1%	2%	1%	1%	1%	6%	11%	10%	9%	9%	8%

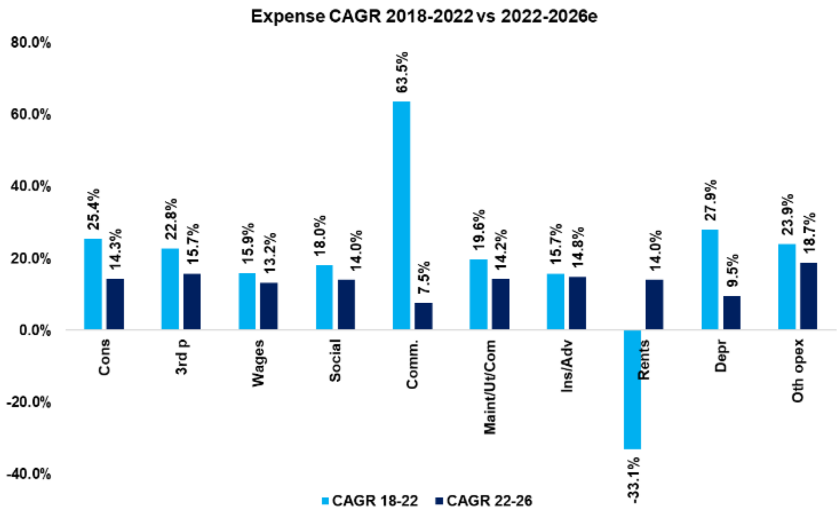
Source: Company data, Erste Group Research

We expect clinics to remain the major earner of the company, followed by hospitals and pharmacies commanding the lowest share of overall earnings. Dentistry should grow in terms of share and corporate and labs to slightly decline.



Source: Company data, Erste Group Research

Inflation: to early to call it quits In forecasting the cost side of the P&L we continue to account for a high inflationary environment, albeit to more manageable levels compared to the last year. We consider our forecast to be conservative and at levels superior to expected general inflation going forward. *(Note: We do not account for IFRS 16 impact that has an influence on the rent and depreciation side of the costs)*

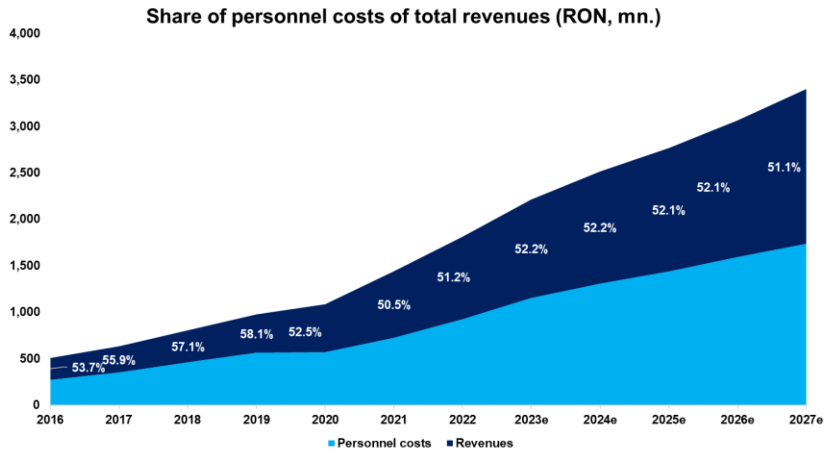


Source: Company data, Erste Group Research

The relative share of total operating expenses remains relatively constant in our forecast, with higher share of total wage related costs and consumables and commodities remaining the main contributors to total operating costs.

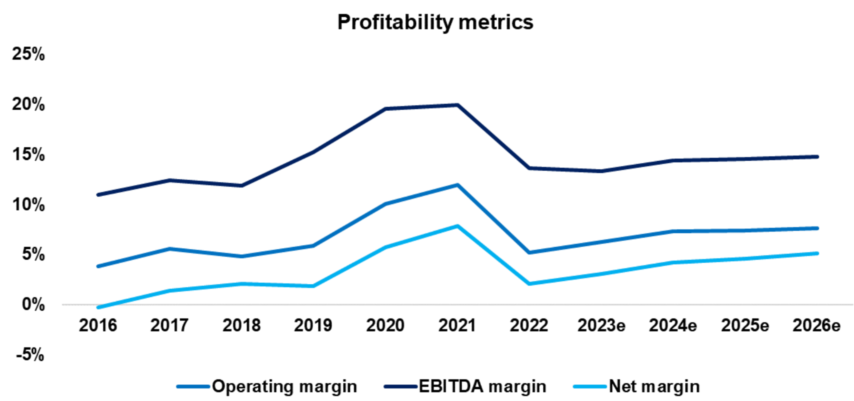
% of op. exp.	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Consumables	17%	16%	16%	17%	19%	19%	18%	19%	19%	19%	19%	19%
Third parties	27%	28%	27%	29%	29%	30%	27%	29%	30%	30%	30%	31%
Wages	23%	26%	32%	32%	28%	26%	26%	25%	26%	26%	26%	26%
Social contributi	5%	6%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Commodities	4%	4%	4%	3%	4%	8%	12%	11%	10%	10%	10%	8%
Maint/Utilities/Cc	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Ins/Advertising	3%	2%	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%
Rents	6%	6%	5%	1%	1%	1%	0%	0%	1%	1%	1%	1%
Depreciation	7%	7%	7%	10%	11%	9%	9%	8%	8%	8%	8%	8%
Other op exp.	5%	2%	2%	2%	3%	2%	2%	2%	2%	2%	2%	2%

Source: Company data, Erste Group Research



Source: Company data, Erste Group Research

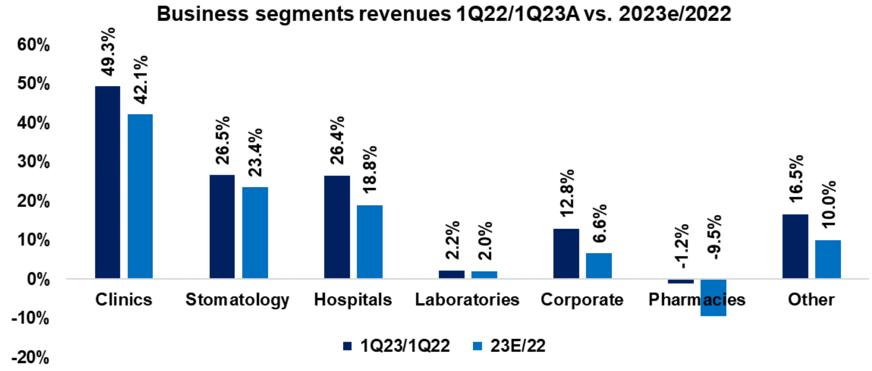
Conservative model in forecasting profitability Our forecasts for organic growth and profitability continues to offer a conservative outlook with 2023 margins largely consistent with latest evolution, and only marginally higher going forward. As described, we forecast for a moderate growth in units – at levels inferior to historical averages. At the same time, we have considered that the post crisis periods may witness a renewed negotiation power of employees and a continuing degree of inputs inflation that should curtail a rapid margin expansion. Even so, the evolution is positive and management action in this respect could have a major positive impact, alongside the lower expected inflation, compared to 2022.



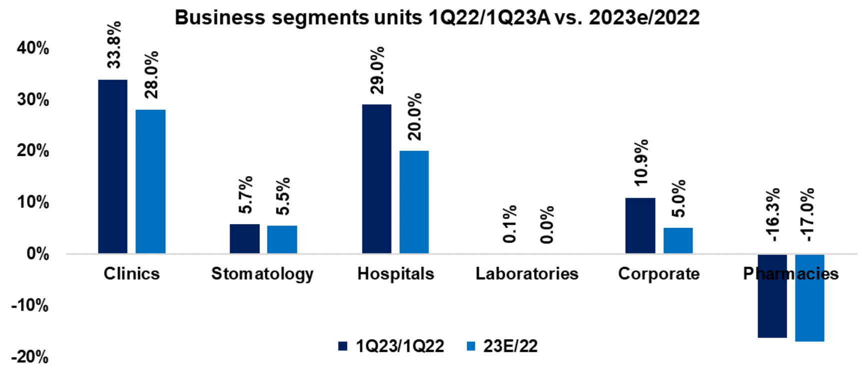
Source: Company data, Erste Group Research

1Q23 results validate your ST forecast

We have compared our YE2023e forecasts with what was achieved by the company during the first quarter. In all business segments our forecast is more conservative than what the company registered YTD.

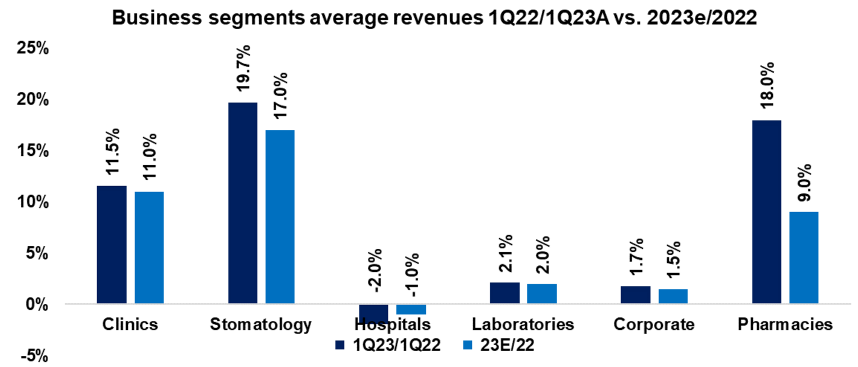


Source: Company data, Erste Group Research



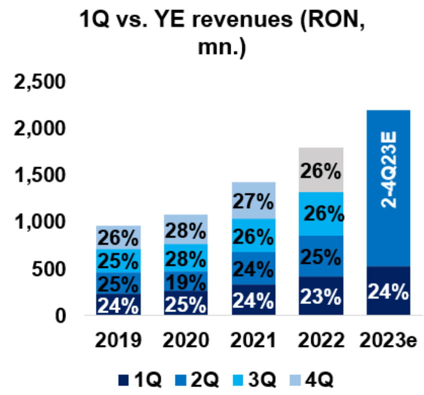
Source: Company data, Erste Group Research

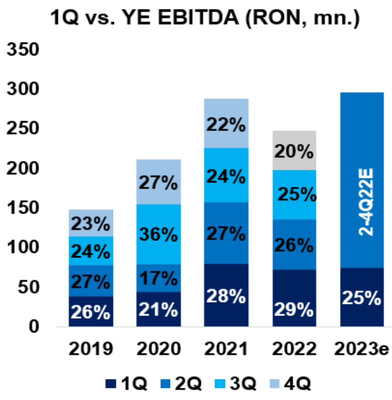
We consider especially the average revenue per unit to be conservative, since the level of inflation, both in terms of company costs and general services' inflation in the country should warrant a more sanguine forecast. Nevertheless, we would need to see a sustained growth in profitability over the next few quarters in order to validate a new trend and not just a seasonal effect that was present in previous years during the first quarter.

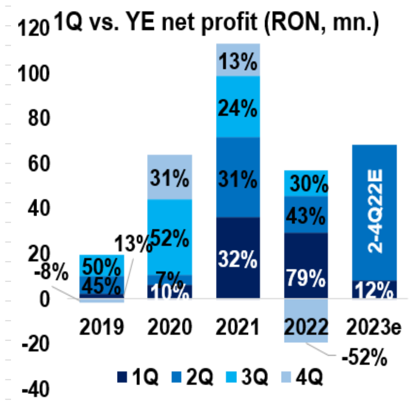


Source: Company data, Erste Group Research

Overall, we believe that in terms of revenues and EBITDA, our year end 2023e figures are in line with the achievements of previous in line with the achievements of previous years, and we consider the net income also achievable. Even if we would be too optimistic in terms of net income, our valuation is DCF based and as the company promises no dividends in the foreseeable future we are not unduly concerned about this item.







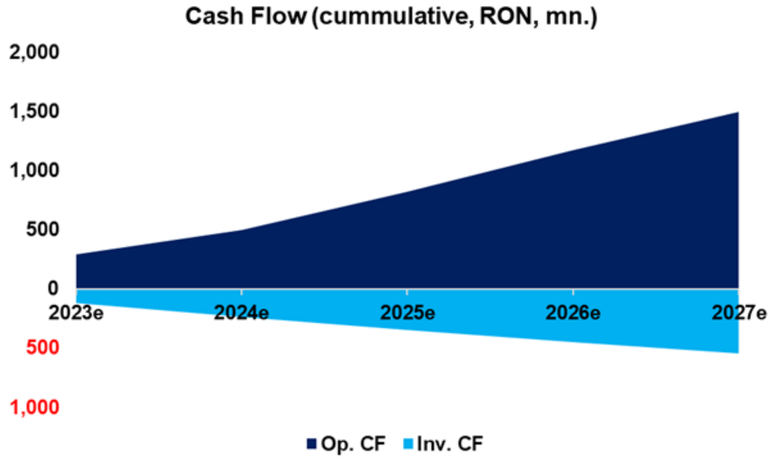
Source: Company data, Erste Group Research

No major changes in previous valuation assumptions

We updated our DCF, and DDM valuations with the latest changes in the model, but we did not alter significantly any of the other assumptions. We reiterate that we find our model to be conservative, both in terms of unit and average fee rates and in terms of cost evolutions. The assumptions of the DCF valuation are:

- Sales growth and margin levels as per our assumptions discussed above, sales growth in perpetuity is 5%, below inflation levels, considering company pricing power.
- Risk free rate of 8.5% till 2027 and 4.3% in perpetuity
- Equity risk premium of 7.45% during the next five years and 7% in perpetuity
- Debt premium of 1%
- 68% equity – at market price – of total liabilities and equity on the Balance Sheet – a level that we consider congruent with the characteristics of the company, at an optimum debt level
- Terminal value growth at 4%, roughly two-thirds of forecasted inflation
- EBIT margin in perpetuity of 7.5%, lower than historical levels during ordinary inflationary environments (12.3% in 2021, 10.2% in 2020) and company potential
- Organic CAPEX at levels congruent with the development plan stated by the company- We have assumed going forward a maintenance CAPEX yearly sum of RON100mn – in line with a constant proportion of depreciation, and equal to depreciation in perpetuity.

Note: this CAPEX is considered as a cost of the ongoing business. Acquisition CAPEX has a higher return on investment and is value accretive.



Source: Company data, Erste Group Research

In our DDM valuation exercise we have assumed no dividend distribution during the forecasted period and 100% distribution in perpetuity. As there is no plan for dividend distribution, this remains a theoretical exercise, however indicative of the value creation of the company

MedLife DCF valuation

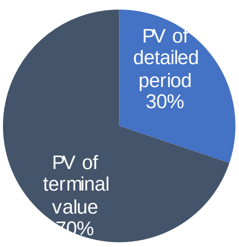
WACC calculation

	2023e	2024e	2025e	2026e	2027e	2028e TV
Risk free rate	8.5%	8.5%	8.5%	8.5%	8.5%	4.3%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**11.3%**
Cost of debt	9.5%	9.5%	9.5%	9.5%	9.5%	5.3%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**8.0%**	**8.0%**	**8.0%**	**8.0%**	**8.0%**	**4.5%**
Equity w eight	70%	70%	70%	70%	70%	68%
WACC	**13.6%**	**13.6%**	**13.6%**	**13.56%**	**13.56%**	**9.11%**

DCF valuation

(RON mn)	2023e	2024e	2025e	2026e	2027e	2028e TV
Sales growth	*22.3%*	*13.5%*	*9.8%*	*10.7%*	*11.0%*	*3.0%*
EBIT	138	184	204	232	384	260
EBIT margin	*6.3%*	*7.4%*	*7.5%*	*7.7%*	*11.4%*	*7.5%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-22.2	-29.4	-32.7	-37.2	-61.4	-41.6
NOPLAT	**116.3**	**154.4**	**171.5**	**195.1**	**322.4**	**218.3**
+ Depreciation	157	176	197	219	244	268
Capital expenditures / Depreciation	*63.9%*	*56.8%*	*50.8%*	*45.6%*	*41.0%*	*100.0%*
+/- Change in w orking capital	-104	58	-18	-6	97	-5
Chg. working capital / chg. Sales	*-26.1%*	*19.5%*	*-7.4%*	*-2.2%*	*29.0%*	*-5.0%*
- Capital expenditures	-100.0	-100.0	-100.0	-100.0	-100.0	-268.2
Free cash flow to the firm	**68.5**	**288.3**	**250.2**	**308.1**	**563.2**	**213.3**
Terminal value growth						*4.0%*
Terminal value						4,342.3
Discounted free cash flow - December 31	60.3	223.6	170.9	185.3	298.2	2,210.9
Enterprise value - December 31 2022	**3,149**					
Minorities	58					
Non-operating assets	0					
Net debt (incl. lease liabilities)	595					
Other adjustments	0					
Equity value - (RON bn) December 31 2	**2,496.2**					
Cost of equity	11.3%					
Fair value, RON mn	**2,778.3**					
Number of shares outstanding (mn)	132.9					
Fair value per share, RON	**20.9**					
Share price	17.2					
Upside/downside Official NAV (%)	*21.57%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

Terminal value EBIT margin

WACC	6.5%	7.0%	7.5%	8.0%	8.5%
8.1%	22.27	23.85	25.42	26.99	28.56
8.6%	20.12	21.52	22.92	24.32	25.72
9.1%	18.38	19.65	**20.9**	22.17	23.44
9.6%	16.96	18.11	19.26	20.41	21.56
10.1%	15.76	16.82	17.88	18.93	19.99

Terminal value growth

WACC	3.0%	3.5%	4.0%	4.5%	5.0%
8.1%	20.91	22.92	25.42	28.61	32.83
8.6%	19.26	20.91	22.92	25.42	28.61
9.1%	17.88	19.26	**20.9**	22.92	25.42
9.6%	16.71	17.88	19.26	20.91	22.92
10.1%	15.70	16.71	17.88	19.26	20.91

Source: Erste Group Research

MedLife DDM valuation

WACC calculation

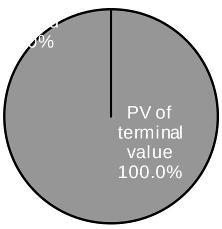
	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Risk free rate	8.5%	8.5%	8.5%	8.5%	8.5%	4.3%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**11.30%**

DDM valuation

(RON mn)	2023e	2024e	2025e	2026e	2027e	2028e (TV)
Net profit	68.4	105.1	126.0	156.0	292.3	322
Net profit input	68.4	105.1	126.0	156.0	292.3	322
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Gross dividends flow	**-**	**-**	**-**	**-**	**-**	**322**
Terminal value growth						*4.0%*
Terminal value						4,581
Discounted dividends - Dec 31 2022	0.0	0.0	0.0	0.0	0.0	2,826
Equity value (RON mn) - Dec 31 2022	**2,825.67**					

Number of shares outstanding (mn)	132.9
Cost of equity	16.0%
12M target value (RON)	**24.7**
Current share price (RON)	17.2
Up/Downside	*43.4%*

Enterprise value breakdown



Source: Erste Group Research

Sensitivity

Payout ratio

COE	99.0%	99.5%	100.0%	100.5%	101.0%
10.3%	28.3	28.4	28.6	28.7	28.9
10.8%	26.2	26.3	26.5	26.6	26.7
11.3%	24.4	24.5	**24.7**	24.8	24.9
11.8%	22.8	23.0	23.1	23.2	23.3
12.3%	21.5	21.6	21.7	21.8	21.9

Terminal value growth

COE	3.0%	3.5%	4.0%	4.5%	5.0%
10.3%	24.7	26.5	28.6	31.0	34.0
10.8%	23.1	24.7	26.5	28.6	31.0
11.3%	21.7	23.1	**24.7**	26.5	28.6
11.8%	20.5	21.7	23.1	24.7	26.5
12.3%	19.4	20.5	21.7	23.1	24.7

Erste Group Research – Company Update
MedLife SA | Medical Equipment | Romania
17 May 2023

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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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