COMPANY UPDATE

MedLife SA

from Hold to Accumulate

Analyst: Caius Rapanu +4 0373 510 441 caiusroa.rapanu@bcr.ro

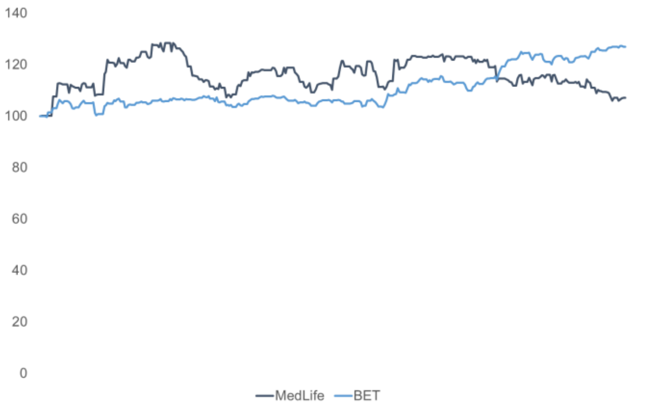
Share price (RON) close as of 23/11/2023	4.25	Reuters	ROM.BX	Free float	59.0%
Number of shares (mn)	531.5	Bloomberg	M RO	Shareholders	Marcu Mihail (15.8%)
Market capitalization (RON mn / EUR mn)	2,259 / 455	Div. Ex-date	11/04/23		Cristescu Mihaela Gabriela (14.04%)
Enterprise value (RON mn / EUR mn)	3,254 / 655	**Target price**	**4.73**	Homepage:	www.medlife.ro

Key figures Overview

RON mn	2022	2023e	2024e	2025e
Net sales	1,795.4	2,178.4	2,486.7	2,728.7
EBITDA	246.6	292.7	359.0	386.2
EBIT	94.2	111.9	142.1	142.4
EBT	49.5	15.2	76.5	77.8
Net profit	37.4	12.8	64.3	65.3
EPS (RON)	0.07	0.02	0.12	0.12
CEPS (RON)	0.35	0.35	0.50	0.52
BVPS (RON)	0.91	0.93	1.05	1.16
Dividend/Share (RON)				
EV/EBITDA (x)	39.66	11.11	9.08	8.31
P/E (x)	nm	176.49	35.13	34.58
P/CE (x)	48.65	12.16	8.52	8.12
Dividend yield (%)				
EBITDA margin (%)	13.74	13.44	14.44	14.15
Operating margin (%)	5.25	5.14	5.71	5.22
Net profit margin (%)	2.08	0.59	2.59	2.39

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	45,105	112,196	155,097
Trading value (RON mn)	0.2	0.5	0.7



Price performance	**1M**	**3M**	**6M**	**12M**
in RON	-5.3%	-11.5%	-6.4%	7.0%

Financial Strength

	2022	2023e	2024e	2025e
ROE (%)	8.66	2.62	12.24	11.12
ROCE (%)	5.64	5.56	6.45	6.30
Equity ratio (%)	22.40	20.02	21.51	23.09
Net debt (RON mn)	797.70	994.92	1,000.80	952.18
Gearing (%)	165.46	201.33	179.90	154.11

3Q23: some improvement, hopefully the beginning of a positive trend

3Q23 results of Medlife show an operational improvement vs. the previous quarter, however marred by financial costs that arose as a direct result of funding the expansion strategy. While it is too early to pencil in a new operational trend, 3Q offers a degree of comfort that – even with some volatility – the downwards trend of the previous two years may be on a reverse track.

Increasing financing costs are a concern, but pro-forma numbers, which include the impact of acquisitions, look better than IFRS, and point to a potential improvement in profitability during 2024, especially during 2H24. However, this exercise remains theoretical until confirmed. In addition, the recent stated company intentions of increasing existing credit limits to fund further expansion seem contrary to the stated strategy of concentrating on streamlining operations and fostering margin appreciation and may increase even more financial costs, with a negative impact on profitability.

Our main drivers remain valid, and we have no reasons to adjust our growth estimate profile, however we will be paying attention to the evolution of average fees going forward to confirm ongoing company pricing power. Our DCF target price remains unchanged, while – after the underperformance since our last downgrade – the current upside to target price warrants a recommendation of **Accumulate** vs. our previous Hold.

Erste Group Research – Company Update finalized and released November 27, 2023, 07:30, CET, reviewed by Henning Esskuchen (supervising analyst)
All prices are those current at the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via appropriate vendors.

3Q2023 results: the beginning of the turnaround?

9M23 results – better y-o-y top line, higher costs
MedLife 9M23 results show a significant boost in top line, with consolidated sales increasing by 23%. At the same time, operating expensed grew by 26%, leading to an operating profit that was 20% lower than that of 9M22, but an EBITDA that was 10% higher compared to the same period of last year. Net income also declined compared to the first nine months of 2022, by 93%. Margins weakened as well, with EBITDA margin dropping from 14.9% to 13.3%, and net margin from 4.3% to 0.2%.

INCOME ST. (RON, mn.)	3Q23	3Q22	chng (%)	2Q23	chng (%)	3Q21	chng (%)	9M23	9M22	chng (%)	9M21	chng (%)
Sales	561.2	463.6	21%	536.8	5%	365.0	54%	1,627.4	1,324.0	23%	1,042.3	56%
Other operating income	4.1	5.6	-27%	5.4	-25%	1.5	179%	12.9	9.9	30%	3.8	235%
Operating income	**565.3**	**469.2**	**20%**	**542.2**	**4.3%**	**366.5**	**54%**	**1,640.3**	**1,333.9**	**23%**	**1,046.2**	**57%**
Operating expenses	(538.4)	(442.9)	22%	(519.8)	3.6%	(323.6)	66%	(1,563.5)	(1,238.4)	26%	(900.1)	74%
Operating profit	**26.9**	**26.3**	**2%**	**22.3**	**20%**	**42.9**	**-37%**	**76.8**	**95.4**	**-20%**	**146.1**	**-47%**
EBITDA	**75.8**	**62.4**	**21%**	**67.2**	**13%**	**68.0**	**11%**	**217.7**	**198.1**	**10%**	**225.3**	**-3%**
Financial result	(24.0)	(11.4)	110%	(22.6)	6%	(10.1)	136%	(61.6)	(27.9)	121%	(28.0)	120%
Profit before taxes	**2.9**	**14.9**	**-80%**	**(0.2)**	**-1423%**	**32.8**	**-91%**	**15.2**	**67.6**	**-78%**	**118.1**	**-87%**
Income tax	(4.1)	(3.7)	12%	(3.2)	28%	(5.7)	-28%	(11.4)	(10.7)	6%	(19.4)	-41%
Net profit	**(1.2)**	**11.2**	**-111%**	**(3.4)**	**-65%**	**27.1**	**-104%**	**3.8**	**56.8**	**-93%**	**98.7**	**-96%**
EBITDA margin	*13.4%*	*13.3%*		*12.4%*		*18.6%*		*13.3%*	*14.9%*		*21.5%*	
Net margin	*-0.2%*	*2.4%*		*-0.6%*		*7.4%*		*0.2%*	*4.3%*		*9.5%*	
Operating margin	**4.79%**	**5.67%**		**4.16%**		**5%**		**4.72%**	**7.21%**		**14.01%**	

Source: Company data, Erste Group Research

Somewhat different story on a quarterly basis q-o-q
On a quarterly basis, the picture was similar, with 3Q23 top line increasing y-o-y by 20%, while costs grew by 22%, however resulting in a 2% increase in operating profit, and a negative net income. EBITDA though, grew by 21%. Profitability increased only marginally, with EBITDA margin inching up from 13.3% to 13.4%. More heartening, the negative trend of the previous quarter was bucked on a quarterly basis. On a q-o-q top line growth of 4.3%, operating expenses increased by only 3.6% leading to an operating income 20% higher, and an EBITDA 13% higher. This was partially balanced by the increase in the financial result net negative values, by 6% q-o-q, resulting in a lower bottom line loss of RON1.2mn, compared to the loss of RON3.4mn in 2Q23.

Proforma figures show better picture and future potential
The company issued also a pro-forma abridged income statement, adjusted with the historical financial results of the companies acquired by during the first nine months of the year.

This statement transposes the acquisitions as if they happened at the begging of the year by combining the financial results for the period of the acquired companies with those of the group and the elimination of certain expenses included in the consolidated I/S which the companies considers to be non-operational and/or non-recurring by nature. The Consolidated Pro Forma PL provides a hypothetical illustration of the impact of the transactions on the Company's earnings. The company is trying to illustrate the effect of the acquisitions completed in 2023 and provide an estimate of recurring EBITDA.

Furthermore, the consolidated figures include the full amount of debt incurred to finance the acquisitions completed as of September 30, 2023, but no portion of the annual earnings of the acquisitions.

	Rev. (RON, mn)			Proforma		
Bussiness line	**9M23**	**9M22**	**chng (%)**	**Adjustm.**	**9M23**	**chng (%)**
Clinics	608.2	446.2	**36%**	(24.2)	584.1	**31%**
Stomatology	92.5	87.4	**6%**	-	92.5	**6%**
Hospitals	353.1	274.7	**29%**	(44.9)	308.2	**12%**
Laboratories	171.7	153.2	**12%**	3.9	175.6	**15%**
Corporate	189.4	163.7	**16%**	0.6	189.9	**16%**
Pharmacies	46.3	60.3	**-23%**	-	46.3	**-23%**
Other	166.2	138.4	**20%**	0.016	166.2	**20%**
Total	**1,627.4**	**1,324.0**	**23%**	**(64.7)**	**1,562.7**	**18%**

Source: Company data, Erste Group Research

The financial results of acquired companies, which registered total sales of RON32mn, however when deducting the RON 97mn subsidies received at group level (clinics and hospitals) from the National Health Program for chemotherapy drugs the net impact is a sales increase of RON239mn vs. 9M22. The proforma expenses are also diminished by the costs related to the National Health Program for oncology (RON97mn) and RON16.5mn one-offs and non-recurrent costs, related to acquisitions, aborted project costs and early-stage investments, while the costs of acquired companies were about RON31.3mn. Under this representation, the profitability of the group was better, with EBITDA reaching RON239mn and EBITDA margin at 15.2%, compared to 13.3% under IFRS while net margin increased marginally to 1.2%, compared to 0.2% under IFRS.

	IFRS			Proforma		
INCOME ST. (RON, mn.)	**9M23**	**9M22**	**chng (%)**	**Adjustm.**	**9M23**	**chng (%)**
Sales	1,627.4	1,324.0	23%	(64.7)	1,562.7	18%
Other operating income	12.9	9.9	30%	1.0	13.9	40%
Operating income	**1,640.3**	**1,333.9**	**23%**	**(63.7)**	**1,576.6**	**18%**
Operating expenses	(1,563.5)	(1,238.4)	26%	82.3	(1,481.2)	20%
Operating profit	**76.8**	**95.4**	**-20%**	**18.6**	**95.4**	**0%**
EBITDA	**217.7**	**198.1**	**10%**	**21.3**	**239.0**	**21%**
Financial result	(61.6)	(27.9)	121%	(0.9)	(62.5)	124%
Profit before taxes	**15.2**	**67.6**	**-78%**	**17.7**	**32.9**	**-51%**
Income tax	(11.4)	(10.7)	6%	(2.7)	(14.1)	31%
Net profit	**3.8**	**56.8**	**-93%**	**15.0**	**18.8**	**-67%**
EBITDA margin	*13.3%*	*14.9%*			*15.2%*	
Net margin	*0.2%*	*4.3%*			*1.2%*	
Operating margin	*4.7%*	*7.2%*			*6.1%*	

Source: Company data, Erste Group Research

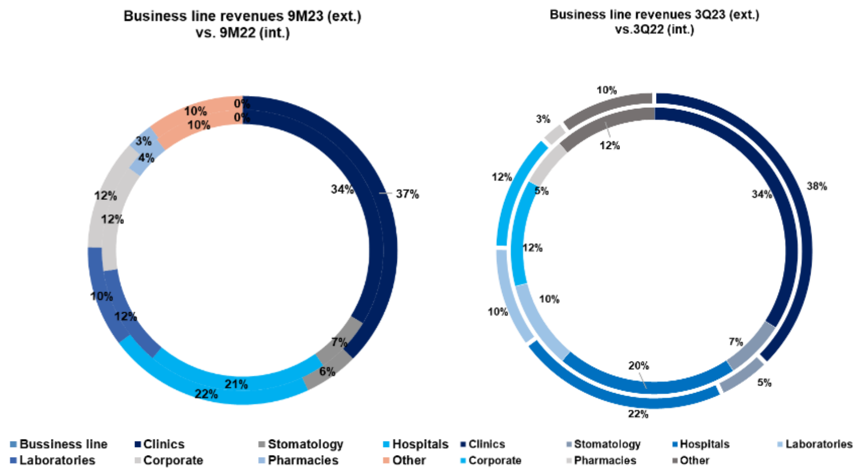
Top line growth across the board

Under IFRS and pro-forma All business segments registered significant growth in revenues during the first nine months of the year with the exception of 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 more than 36% compared to 9M22, while hospitals‘ revenues increased by 28.5%, stomatology by 6%, laboratories by 12% and corporates by 16%. Pharmacies revenues declined by about 23%.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**9M23**	**9M22**	**chng (%)**	**9M23**	**9M22**	**chng (%)**	**9M23**	**9M22**	**chng (%)**
Clinics	608.2	446.2	**36.3%**	2,837.3	2,203.4	**28.8%**	214.4	202.5	**5.9%**
Stomatology	92.5	87.4	**5.8%**	138.2	138.2	**-0.1%**	669.6	632.4	**5.9%**
Hospitals	353.1	274.7	**28.5%**	103.0	86.9	**18.5%**	3,429.9	3,162.3	**8.5%**
Laboratories	171.7	153.2	**12.1%**	5,463.9	4,904.2	**11.4%**	31.4	31.2	**0.6%**
Corporate	189.4	163.7	**15.7%**	867.3	784.9	**10.5%**	218	208.6	**4.7%**
Pharmacies	46.3	60.3	**-23.2%**	346.5	465.5	**-25.6%**	133.6	129.5	**3.1%**
Other	166.2	138.4	**20.0%**						
Total	**1,627.4**	**1,324.0**	**22.9%**						

Source: Company data, Erste Group Research

Generally, the clinics remained the largest contributor of the group, with more than 37% share of total revenues, while hospitals remained at around 22%. Laboratories and corporate revenues accounted for more or less the same share of total revenues of about 11-12%.



Source: Company data, Erste Group Research

Higher unit hikes in largest contributor segments…
Over the first half of the year the largest number of client visits were recorded in the clinics segment, 29%, as a result of acquisitions and organic growth. In the hospitals segment, the increase was 19%, under the consolidation of acquisitions. Stomatology visits remained flat while corporate subscriptions grew by about 11%. Laboratories saw a increase in client numbers by 11%, while pharmacy visits actually declined – by 26%.

… while 9M23 prices show growth, but slower compared to previous years
On a half year basis, the average fees increased across the board, in all business segments. The lowest increase among main contributors, 0.6% was recorded in the laboratories segment, where the market sees a harsher competition and it is shallower. In the clinics and stomatology segments, the average fee growth was about 6%, while in hospitals the average fees increased more, by about 8.5%. The oncology acquisitions brought about both higher number of visits and higher prices. In corporates segment, fees grew - by 5%, in pharmacies by 3% while in laboratories remained largely flat.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**3Q23**	**3Q22**	**chng (%)**	**3Q23**	**3Q22**	**chng (%)**	**3Q23**	**3Q22**	**chng (%)**
Clinics	210.9	157.6	**33.9%**	989.3	813.9	**21.6%**	213.2	193.6	**10.1%**
Stomatology	30.3	31.3	**-3.2%**	47.1	46.2	**1.8%**	644.1	677.5	**-4.9%**
Hospitals	123.0	94.3	**30.4%**	35.5	29.7	**19.5%**	3,469.8	3,178.6	**9.2%**
Laboratories	58.5	46.0	**27.3%**	1,898.6	1,417.5	**33.9%**	30.8	32.5	**-5.0%**
Corporate	68.4	55.9	**22.3%**	867.3	784.9	**10.5%**	79	71.2	**10.7%**
Pharmacies	14.0	25.0	**-44.0%**	114.2	186.3	**-38.7%**	122.5	134.1	**-8.7%**
Other	56.2	53.4	**5.1%**						
Total	**561.3**	**463.6**	**21.1%**						

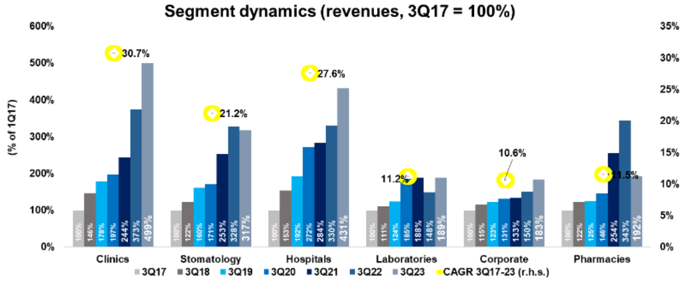
Source: Company data, Erste Group Research

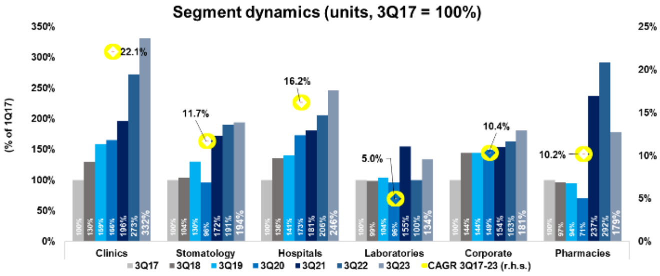
Quarterly dynamics: a less promising pricing trend, especially q-o-q
On a quarterly basis, the nine-month trend appears similar with high growth in clinics, hospitals, laboratories and corporate revenues, with declines in stomatology and pharmacies. In terms of units, y-o-y, there was considerable growth in clinics and hospitals, a jump in laboratories and lower growth in corporates, flat in stomatology and a decline in pharmacies. Average fees grew in clinics, hospitals and corporates, while declining in other segments.

-	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**3Q23**	**2Q23**	**chng (%)**	**3Q23**	**2Q23**	**chng (%)**	**3Q23**	**2Q23**	**chng (%)**
Clinics	210.9	198.0	**6.5%**	989.3	984.3	**0.5%**	213.2	201.2	**6.0%**
Stomatology	30.3	29.9	**1.4%**	47.1	44.4	**6.0%**	644.1	673.4	**-4.4%**
Hospitals	123.0	121.8	**1.0%**	35.5	34.2	**3.7%**	3,469.8	3,561.4	**-2.6%**
Laboratories	58.5	56.0	**4.5%**	1,898.6	1,712.0	**10.9%**	30.8	32.7	**-5.7%**
Corporate	68.4	63.0	**8.5%**	867.3	850.3	**2.0%**	78.8	74.1	**6.4%**
Pharmacies	14.0	13.8	**1.4%**	114.2	108.0	**5.8%**	122.5	127.8	**-4.2%**
Other	56.2	54.0	**4.0%**						
Total	**561.3**	**536.5**	**4.6%**						

Source: Company data, Erste Group Research

On a quarterly basis, vs. 2Q23, revenues grew mostly in clinics, on the back of largely flat unit growth but a average fee increase in line with inflation. The growth in units in the other segments has been more substantial, especially in the case of laboratories, however average fees have actually declined slightly compared to previous quarter, with the exception of corporate fees which also grew in line with inflation.

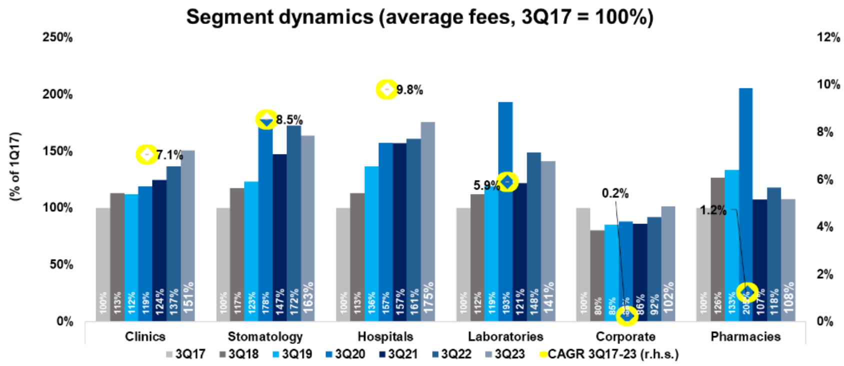




Source: Company data, Erste Group Research

Revenues and units CAGRs remain solid…

On a quarterly basis, revenue wise, the largest contributors to top line remained top growth performers, mainly on the back of acquisitions, and somewhat on organic growth. Thus, the clinics segment is showing an impressive 31% 7-year revenue CAGR, on the back of a 21% unit CAGR. At the same time, the hospitals segment also registered a 28% 7-yr revenue CAGR, fuelled by a 16% unit growth. Stomatology, came in third with a 21% 7-year revenue CAGR, on the back of 12% unit growth.



Source: Company data, Erste Group Research

… while prices are showing more moderate growth

Price-wise, the clinics segment has grown moderately, but considerably higher than inflation, with a 7% 7-year CAGR, while hospitals, fuelled by higher complexity treatments grew by about 10% over the same period. Stomatology and laboratories CAGR over the same period was in the medium and high teens while corporate and pharma grew marginally if at all. In the case of pharma, the high growth of the pandemic years is not computed under this analysis, as only beginning and end periods are considered.

Higher y-o-y operating costs…

On a 9 months basis, operating costs grew by 26%, on a 23% increase in total revenues. Large increases were recorded in personnel related expenses, with wages and social costs growing 25% and third party costs increasing by 34%, on the back of the inflationary upward pressure on wages and benefits. Consumables and commodities grew overall at 17%, with higher increases in chemotherapy drugs consumables, balanced by a decrease in commodities. Marketing expenses also registered a hike, in line with the strategy of consolidate and increase brand value. Depreciation also grew considerably as a result of the consolidation of the new companies and the increase in own developed projects. Out of the total y-o-y growth, third party expenses accounted for a more than third of total operating costs, with wages and social costs accounting for a quarter and consumables and commodities 20% of the increase.

						% of total rev.			9M23 % of y-o-y cost
Opex breakdown (RON,mn.)	**9M23**	**9M22**	**chng (%)**	**9M21**	**chng (%)**	**9M23**	**9M22**	**9M21**	**incr**
Wages & social	416.98	333.73	**24.9%**	252.9	**64.9%**	**25.4%**	**25.0%**	**24.2%**	**26%**
Third party	456.5	339.9	**34.3%**	278.7	**63.8%**	**27.8%**	**25.5%**	**26.6%**	**36%**
Consum.& commod.	442.33	378.21	**17.0%**	233.58	**89.4%**	**27.0%**	**28.4%**	**22.3%**	**20%**
Rent, utilit, maint, ins.	52.89	45.34	**16.7%**	31.48	**68.0%**	**3.2%**	**3.4%**	**3.0%**	**2%**
Promotion, comm.	31.7	23.3	**36.2%**	12.2	**161.2%**	**1.9%**	**1.7%**	**1.2%**	**3%**
Depreciation	140.9	102.7	**37.3%**	79.2	**77.8%**	**8.6%**	**7.7%**	**7.6%**	**12%**
Other	22.3	15.3	**45.0%**	12.0	**85.4%**	**1.4%**	**1.2%**	**1.1%**	**2%**
Total	**1563.6**	**1238.4**	**26.3%**	**900.0**	**73.7%**	**95.3%**	**92.8%**	**86.0%**	**100.0%**
Labor costs	873.4	673.6	**29.7%**	531.6	**64.3%**	53.2%	50.5%	50.8%	

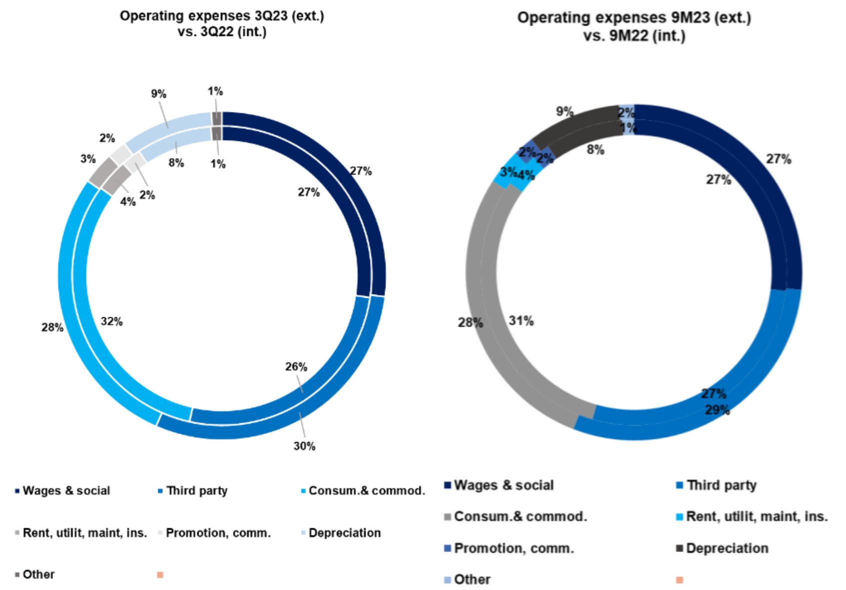
Source: Company data, Erste Group Research

… but a tapering q-o-q

While on a y-o-y basis, the 3Q23 expenses paint a similar picture compared to 9M23, on a q-o-q basis, the company has registered a tapering of the rate of cost growth. Thus, the main cost items appreciated less than in previous quarter, with personnel related costs growing 4%, third party costs by 6% and consumables and commodities costs by about 6%. This development is indicative of the efforts of management to streamline operations and create a solid operational base for margin consolidation going forward. Compared to the previous quarter, the third party expenses increased as a percentage of sales, on the back of the integration of the new businesses.

								% of total rev.				3Q23 % of y-o-y cost
Opex breakdown (RON,mn.)	**3Q23**	**3Q22**	**chng (%)**	**2Q23**	**chng (%)**	**3Q21**	**chng (%)**	**3Q23**	**3Q22**	**2Q23**	**3Q21**	**incr**
Wages & social	145.68	121.13	**20.3%**	140.55	**3.6%**	87.97	**65.6%**	**25.8%**	**25.8%**	**25.9%**	**24.0%**	**26%**
Third party	158.86	115.76	**37.2%**	149.88	**6.0%**	94.87	**67.5%**	**28.1%**	**24.7%**	**27.6%**	**25.9%**	**45%**
Consum.& commod.	152.03	139.51	**9.0%**	143.17	**6.2%**	93.21	**63.1%**	**26.9%**	**29.7%**	**26.4%**	**25.4%**	**13%**
Rent, utilit, maint, ins.	17.29	15.74	**9.8%**	18.76	**-7.8%**	11.63	**48.7%**	**3.1%**	**3.4%**	**3.5%**	**3.2%**	**2%**
Promotion, comm.	10.14	9.4	**7.9%**	12.15	**-16.5%**	4.95	**104.8%**	**1.8%**	**2.0%**	**2.2%**	**1.4%**	**1%**
Depreciation	48.9	36.15	**35.3%**	44.85	**9.0%**	26.48	**84.7%**	**8.7%**	**7.7%**	**8.3%**	**7.2%**	**13%**
Other	5.55	5.24	**5.9%**	10.57	**-47.5%**	4.4	**26.1%**	**1.0%**	**1.1%**	**1.9%**	**1.2%**	**0%**
Total	**538.5**	**442.9**	**21.6%**	**519.9**	**3.6%**	**323.5**	**66.4%**	**95.2%**	**94.4%**	**95.9%**	**88.3%**	**100.0%**
Labor costs	304.5	236.9	**28.6%**	290.4	**4.9%**	182.8	**66.6%**	53.9%	50.5%	53.6%	49.9%	

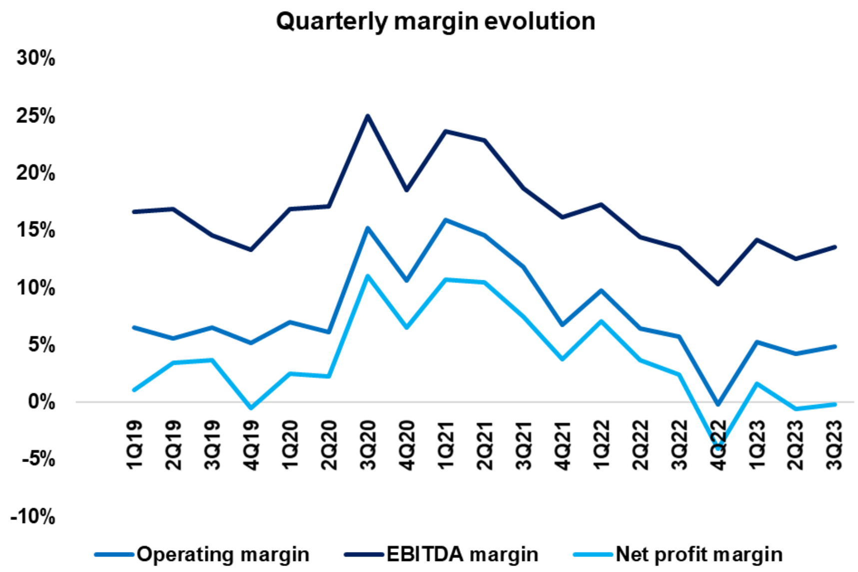
Source: Company data, Erste Group Research



Source: Company data, Erste Group Research

Margins inch up

Notwithstanding our hopes that the fourth quarter of 2022 might have represented the turnaround point for company profitability, the net margin sunk again in red during 2Q23, but showed a marginal improvement in the last quarter. Most probably, on a pro-forma basis, the picture looks somewhat better, however the IFRS figures show a loss for the quarter, however a profitability gain compared to 2Q23.



Source: Company data, Erste Group Research

The q-o-q slightly better profitability came entirely on the back of the 20% higher operating profit, that was partially balanced by the increase in the net negative financial result that increased by 110% y-o-y and 6% q-o-q.

Growing net debt, and financing costs

Net debt increased quite substantially, with gearing at an all-time high on the back of the acquisitions of last year. The increase compared to last year is significant, generating financial costs more than 2x those of 9M22, that contributed to the decline in profitability. This is concerning even if it is

still manageable for a company with the cash generating power of MedLife and its growth prospects. Worth noting, that while 9M23 EBITDA according to IFRS grew y-o-y by 10%, on a pro-forma basis the growth is double, and that would – in theory – bring 2023e EV/EBITDA to a level below that of the previous year.
(Note: in our net debt calculations, we have included leasing obligations and overdraft.)

(RON, mn.) EOP	2016	2017	2018	2019	2020	2021	2022	1Q23e***	2Q23e***	3Q23e***
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	89.1	118.3	109.6	121.3
Current port. of debt*	27.4	41.8	63.0	103.2	114.7	136.6	160.6	154.2	166.7	196.7
LT debt*	213.1	252.9	313.5	478.6	561.8	590.5	1,028.5	1,141.3	1,219.0	1,288.5
Net debt	**219.9**	**215.5**	**342.4**	**542.9**	**594.6**	**591.1**	**1,100.0**	**1,177.2**	**1,276.1**	**1,363.9**
Net debt/EBITDA (x)**	**3.95**	**2.77**	**3.59**	**3.67**	**2.80**	**2.07**	**4.46**	**4.02**	**4.36**	**4.66**

** - includes leasing and overdraft **- yearly EBITDA *** 2023e EBITDA*
Source: Company data, Erste Group Research

Finalizations of transactions and a new opening During 9M23, 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 by the end of the year.
The company completed two M&A transactions in the lower-end Sfanta Maria Group in Craiova (Sfantul Ilie Polyclinic) and Cluj (Union Medical Group). In September the group acquired a 56% stake in Brol Medical Center in Timisoara, a plastic surgery clinic. MedLife also opened in January a new hyperclinic in Deva, in the west of the country. The company opened 2 new oncology centers in Braila and Valcea counties.

Looking ahead: evolving in the consolidation phase

Company stated focus ahead on growth and consolidation
According to management, the inauguration of Nord Hospital will happen before the end of the year. During 2024, management plans to complete the investments started in MedLife Medical Park, Medici`s Hospital in Timisoara and a new medical unit in Craiova. The development strategy includes a continuation of the gradual shift from prevention services to hospital and oncology services. The group expects a strong performance and consolidation of oncology and hospital divisions and one of the main focuses of management is on optimizing operational flows and company structure, with 3 merger projects till year end. A much needed strategic direction will be tackled by focusing on consolidating profitability margins and forging a platform for growth based on the contributions of early-stage investments and projects.

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, growing market, with ample upside potential for Government and private spending, with ongoing consolidation activity.

- Solid demand, on the back of a general health state of the population and growing spending power
- 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 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 3Q23 and will monitor if they become a trend or remain just a seasonal accident.

At the same time, we recognize the impact of the financing of acquisitions on the profitability of the company. With growing debt and gearing, the financing costs have taken a toll on profitability and are an item that will remain significant for the medium term.

… however, some new questions arise
One of the main drivers for our stance on the company has always been the pricing power. That arose from the combination of a growing potential pool of clients, on the back of growing prosperity and lack of alternative services. Case in point, over the last seven years, the average fees in the main revenue contributors have grown steadily, above the rate of inflation. Nevertheless, we have noticed a tapering of average fee growth over the last quarter, in the business segments that grew in number of units, while growth in average fees was accompanied by flat unit growth.
This makes us more sensitive to testing our previous assumption regarding pricing power and the increasing depth of the market. Inflation and economic uncertainty may have made the customer pool grow less than expected and this may result in potential higher competition from other medical services companies, leading to stagnant fees. This issue is certainly worth monitoring; however, it is far to early to modify our previous, admittedly already conservative assumptions.

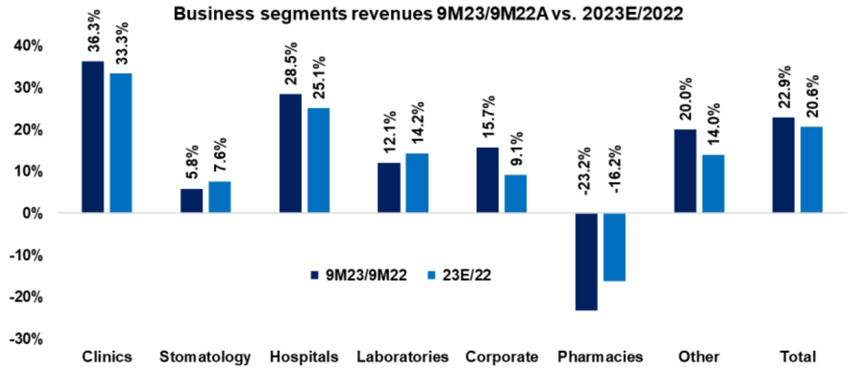
A breather for M&A activity…
According to company's management plans, MedLife will enter a period of less M&A activity and a consolidation stage focused on margins and better integration of the company's various assets. This is a stage that the company undergone in the past after successful sprees of 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, as we mention above, the plans of the company include merging some of the current assets in order to promote more efficient management and cost structures.

… or not?
Very recently, the board proposed an Eur50mn increase of credit limits in order to fund further M&A activity. This raises concerns that the stated focus on streamlining existing operations and margin appreciation may be diluted by a continuation of the acquisition sprees of the last years. We acknowledge the potential attractiveness of possible acquisition targets, however – while the expansion policy of the company is demonstrated – we would welcome a clearer evidence of profitability increase and margin appreciation.

Adjustments to the model, and to target price
We had to incorporate in our valuation model the new base for growth arising from the latest results of the first nine months of the year. Currently we do not see any impairment to the company's growth potential, and we are only concerned about the possibility of cost evolution. Management can only exert a certain degree of control over external influences that fuel cost growth. Moreover, with inflation tapering, customer perception on future attempts to price increases may determine migration to competitors – albeit the quality/price balance is consistent across the main private service providers in the country.

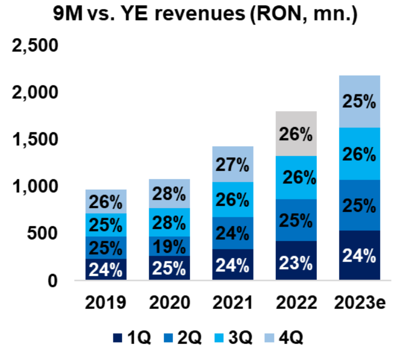
Thus, we adjust marginally downwards our profit target for the year and rebase subsequent figures, while maintaining drivers as per our previous model. We are expecting a more thorough revision of our forecasts and view on the company after the fourth quarter results and the confirmation of the management's indication of a pending profitability turnaround. Most probably though, a clearer indication of the impact of streamlining recent acquisitions, and better gearing should come in the mid 2024 and second half of the hear.
Note: in our model we only forecast existing businesses, we only account for minimal M&A Capex going forward, and do not account for major acquisitions needing additional debt. These are performed on an opportunistic basis and are not part of our financial forecasts. Thus, along the company's M&A path, it may incur additional debt and financing costs, while immediate margin impact may be negative, during the initial stages of integrating acquisitions within the group.

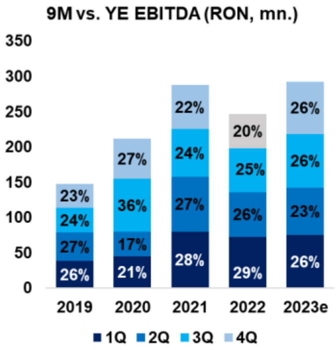
9M23 results validate our ST forecast - mostly
We have compared our revised YE2023e forecasts with what was achieved by the company during the first nine. In all business segments our forecast is more conservative than what the company registered YTD, with the exception of stomatology and laboratories, however overall our y-o-y total revenue growth is more than 2% below what was achieved during 9M23.

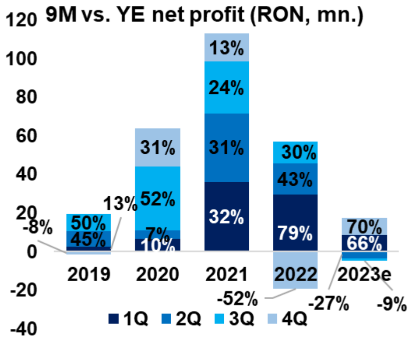


Source: Company data, Erste Group Research

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. In terms of net income, while on a relative basis net income appears less achievable, in absolute terms it would mean a 4Q23 profit of RON9mn, vastly inferior to those of the fourth quarter of 2020 and 2021. 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.







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Group Research

Head of Group Research
Friedrich Mostböck, CEFA®, CESGA® +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Jakub Cery (Fixed income) +43 (0)5 0100 17384

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428
János Nagy +361 272 5115

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436
Vlad Nicolae Ionita +40 7867 15618

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Matej Hornak +421 902 213 591

Major Markets & Credit Research
Head: Gudrun Egger, CEFA® +43 (0)5 0100 11909
Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA® (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA®, CESGA® (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA® (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA® (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA® (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA® +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA® (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA® (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Boris Pevalek, CFA® +385 99 237 2201
Marko Plastic +385 99 237 5191
Matej Pretkovic +385 99 237 7519
Bruno Barbic +385 99 237 1041
Davor Spoljar, CFA® +385 72 37 2825
Magdalena Basic +385 99 237 1407

Czech Republic
Petr Bartek (Head, Utilities) +420 956 765 227
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA® +361 235 5135

Poland
Cezary Bernatek (Head) +48 22 257 5751
Piotr Bogusz +48 22 257 5755
Łukasz Jańczak +48 22 257 5754
Krzysztof Kawa +48 22 257 5752
Jakub Szkopek +48 22 257 5753

Romania
Caius Rapanu +40 3735 10441

Group Institutional & Retail Sales

Group Institutional Equity Sales
Head: Michal Rizek +420 224 995 537

Cash Equity Sales
Werner Fuerst +43 (0)5 0100 83121
Viktoria Kubalcova +43 (0)5 0100 83124
Thomas Schneidhofer +43 (0)5 0100 83120
Oliver Schuster +43 (0)5 0100 83119

Institutional Equity Sales Croatia
Matija Tkalicanac +385 72 37 21 14

Institutional Equity Sales Czech Republic
Head: Michal Rizek +420 224 995 537
Pavel Krabicka +420 224 995 411
Martin Havlan +420 224 995 551
Jiri Feres +420 224 995 554

Institutional Equity Sales Hungary
Levente Nándori +361 235 5141
Balázs Zánkay +361 235 5156
Krisztián Kandik +361 235 5140

Institutional Equity Sales Poland
Jacek Jakub Langer (Head) +48 22 257 5711
Tomasz Galanciak +48 22 257 5715
Wojciech Wysocki +48 22 257 5714
Przemyslaw Nowosad +48 22 257 5712
Maciej Senderek +48 22 257 5713

Institutional Equity Sales Romania
Liviu George Avram +40 3735 16569

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Prod. Distribution
Head: Martina Kranzl-Carvell +43 (0)5 0100 84147

Group Securities Markets
Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
Head: Marc Friebertshäuser +49 (0)711 810400 5540
Bernd Bollhof +49 (0)30 8105800 5525
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562
Ulrich Inhofner +43 (0)5 0100 85544
Sven Kienzle +49 (0)711 810400 5541
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Michael Schmotz +43 (0)5 0100 85542
Klaus Vosseler +49 (0)711 810400 5560

Slovakia
Šarlota Šipulová +421 2 4862 5619
Monika Směliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
Head: Antun Burić +385 (0)7237 2439
Jaromir Malak +43 (0)5 0100 84254

Czech Republic
Head: Ondrej Čech +420 2 2499 5577
Milan Bartoš +420 2 2499 5562
Jan Porvich +420 2 2499 5566

Croatia
Head: Antun Burić +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Hungary
Head: Peter Csizmadia +36 1 237 8211
Gábor Bálint +36 1 237 8205
Ádám Szönyi +36 1 237 8213

Romania and Bulgaria
Head: Octavian Florin Munteanu +40 746128914

Institutional Asset Management Czech Republic
Head: Petr Holeček +420 956 765 453
Petra Maděrová +420 956 765 178
Martin Peřina +420 956 765 106
David Petráček +420 956 765 809
Blanca Weinerová +420 956 765 317
Petr Valenta +420 956 765 140

Group Fixed Income Securities Markets
Head: Goran Hoblaj +43 (0)50100 84403

FISM Flow
Head: Gorjan Hoblaj +43 (0)5 0100 84403
Margit Hraschek +43 (0)5 0100 84117
Bernd Thaler +43 (0)5 0100 84119
Ciprian Mitu +43 (0)5 0100 85612
Christian Kienesberger +43 (0)5 0100 84323
Zsuzsanna Toth +36-1-237 8209

Poland:
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

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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Buy	> +20% from target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% from target price

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Published by:

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Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com