# MedLife SA

Buy

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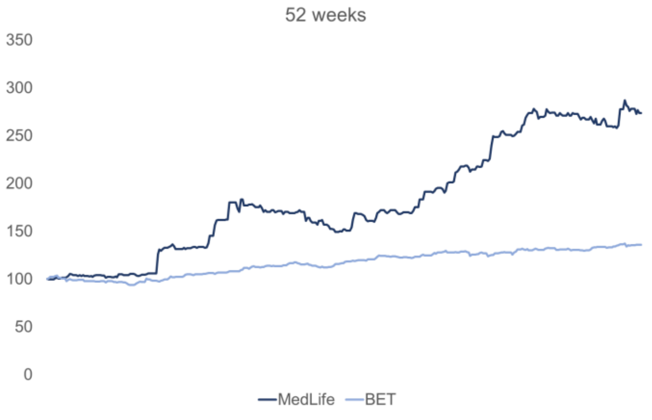
| | | | | | |
|---|---|---|---|---|---|
| Share price (RON) close as of 08/09/2021 | 17.0 | Reuters | ROM.BX | Free float | 59.0% |
| Number of shares (mn) | 132.9 | Bloomberg | M RO | Shareholders | Marcu Mihail (46.7%) |
| Market capitalization (RON mn / EUR mn) | 2,259 / 456 | Div. Ex-date | 11/04/21 | | Cristescu Mihaela Gabriela (15.79%) |
| Enterprise value (RON mn / EUR mn) | 2,592 / 524 | **Target price** | **19.9** | Homepage: | www.medlife.ro |

**Key figures Overview**

| RON mn | 2020 | 2021e | 2022e | 2023e |
|---|---|---|---|---|
| Net sales | 1,078.3 | 1,368.7 | 1,616.2 | 1,854.6 |
| EBITDA | 212.6 | 315.3 | 335.9 | 366.0 |
| EBIT | 109.5 | 197.8 | 204.9 | 221.1 |
| EBT | 78.8 | 159.4 | 180.7 | 210.0 |
| Net profit | 62.2 | 133.9 | 151.8 | 176.4 |
| EPS (RON) | 0.47 | 1.01 | 1.14 | 1.33 |
| CEPS (RON) | 1.25 | 1.89 | 2.16 | 2.45 |
| BVPS (RON) | 2.02 | 2.96 | 4.03 | 5.29 |
| Dividend/Share (RON) | | | | |
| EV/EBITDA (x) | 8.91 | 8.22 | 7.35 | 6.33 |
| P/E (x) | 23.93 | 16.86 | 14.88 | 12.81 |
| P/CE (x) | 8.99 | 8.98 | 7.88 | 6.95 |
| Dividend yield (%) | | | | |
| EBITDA margin (%) | 19.71 | 23.04 | 20.79 | 19.74 |
| Operating margin (%) | 10.16 | 14.45 | 12.68 | 11.92 |
| Net profit margin (%) | 5.77 | 9.79 | 9.39 | 9.51 |

**Trading data & Statistics**

| Daily averages | 5 days | 30 days | last year |
|---|---|---|---|
| Volume | 50,572 | 64,167 | 78,217 |
| Trading value (RON mn) | 0.9 | 1.1 | 0.9 |




| Performance | 12M | 6M | 3M | 1M |
|---|---|---|---|---|
| in Ron | 173% | 82% | 10% | 3% |

**Financial Strength**

| | 2020 | 2021e | 2022e | 2023e |
|---|---|---|---|---|
| ROE (%) | 26.07 | 40.47 | 32.68 | 28.48 |
| ROCE (%) | 10.88 | 18.96 | 19.02 | 20.00 |
| Equity ratio (%) | 22.72 | 30.68 | 38.92 | 49.80 |
| Net debt (RON mn) | 406.30 | 332.96 | 209.91 | 58.55 |
| Gearing (%) | 151.09 | 84.73 | 39.16 | 8.34 |

## Higher valuation on the back of strong expansion, sustained increase in profitability

We maintain our BUY recommendation and we increase our target price for MedLife to RON19.9/share on the back of higher than expected YTD top line expansion and profitability.

The first half of the year performance proved the company managed to increase considerably the number of units (patients/visits/analyses) vs. last year, but also vs. the pre-pandemic period.

At the same time, average fees have steadily grown across all business segments, while expenses increased at a lower pace than revenues leading to significant margin expansion.

The successful acquisition strategy is set to develop going forward and to remain value accretive, while superior service quality in an underserviced market should continue to fuel the considerable existing pricing power of the company.

While we do not alter significantly our expected CAGR for existing business, our forecasts are set now on the new base established by YTD figures, leading to an increase in target price.

At the same time, the upside provided by the continuation of the acquisition strategy remains difficult to quantify, as it is highly opportunistic. However, history proves it is highly value-creative and we expect the management team to continue to deliver at the pace and level of the last years.

# 1H21 results: continued expansion of top and bottom lines

### 2Q21 largely in line with previous quarter, leads 1H21 to significant improvement over historical data

MedLife 1H21 results show a significant growth compared to last year and to pre-pandemic financials. The positive trend established in the first quarter of 2021 continues with expansion on top and bottom lines, and better margins. During 1H21, operating income grew by 44% compared to both last year and 2019. Operating profit more than tripled, while net income increased sevenfold. EBITDA margin reached 23% compared to 17% in the previous periods while net margin improved to close to 11% comparable to barely over 2% in the previous two years.

| INCOME ST. (RON, mn.) | 2Q21 | 2Q20 | chng (%) | 1Q21 | chng (%) | 2Q19 | chng (%) | 1H21 | 1H20 | chng (%) | 1H19 | chng (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 339.5 | 205.4 | 65% | 337.8 | 1% | 237.3 | 43% | 677.3 | 469.5 | 44% | 468.3 | 45% |
| Other operating income | 1.3 | 0.8 | 60% | 1.0 | 26% | 1.9 | -29% | 2.4 | 1.7 | 39% | 3.9 | -39% |
| **Operating income** | **340.8** | **206.2** | **65%** | **338.8** | **1%** | **239.1** | **43%** | **679.7** | **471.2** | **44%** | **472.2** | **44%** |
| Operating expenses | (291.3) | (193.6) | 50% | (285.2) | 2% | (226.1) | 29% | (576.5) | (440.3) | 31% | (444.1) | 30% |
| **Operating profit** | **49.5** | **12.6** | **294%** | **53.6** | **-8%** | **13.1** | **279%** | **103.1** | **30.9** | **234%** | **28.1** | **267%** |
| **EBITDA** | **76.2** | **35.0** | **118%** | **81.1** | **-6%** | **40.0** | **90%** | **157.3** | **80.2** | **96%** | **78.3** | **101%** |
| Financial result | (7.3) | (6.2) | 17% | (10.6) | -31% | (3.3) | 123% | (17.9) | (15.1) | 19% | (14.4) | 24% |
| **Profit before taxes** | **42.2** | **6.4** | **565%** | **43.0** | **-2%** | **9.8** | **330%** | **85.3** | **15.8** | **439%** | **13.8** | **519%** |
| Income tax | (6.8) | (1.8) | 268% | (6.9) | -1% | (1.7) | 295% | (13.7) | (4.9) | 181% | (3.3) | 317% |
| **Net profit** | **35.4** | **4.5** | **686%** | **36.1** | **-2%** | **8.1** | **337%** | **71.6** | **10.9** | **554%** | **10.5** | **583%** |
| *EBITDA margin* | *22.3%* | *17.0%* | | *23.9%* | | *16.7%* | | *23.1%* | *17.0%* | | *16.6%* | |
| *Net margin* | *10.4%* | *2.2%* | | *10.7%* | | *3.4%* | | *10.6%* | *2.3%* | | *2.2%* | |

*Source: Company data, Erste Group Research*

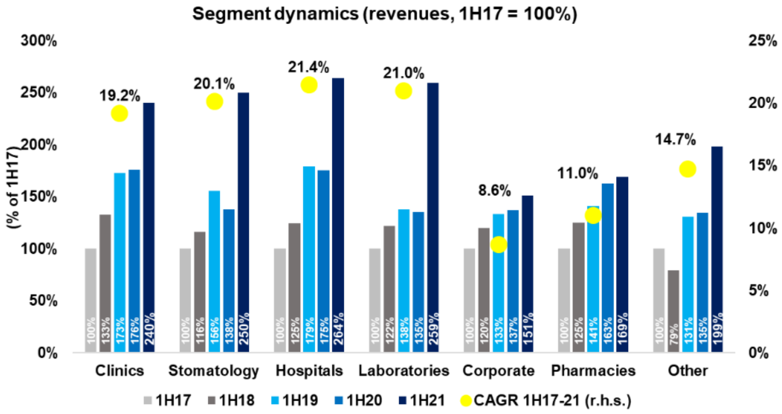
On a quarterly basis, the favourable comparison to 2Q20 and 2Q19 remains. Vs the previous quarter, the revenue increase was minimal, q-o-q, at 1%, while operating profit showed a slight contraction and net income dropped by 2%.

| | Rev. (RON, mn) | | | | | Units ('000) | | | | | Avg. fees (RON) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bussiness line** | **1H21** | **1H20** | **chng (%)** | **1H19** | **chng (%)** | **1H21** | **1H20** | **chng (%)** | **1H19** | **chng (%)** | **1H21** | **1H20** | **chng (%)** | **1H19** | **chng (%)** |
| **Clinics** | 194.2 | 142.2 | **37%** | 139.9 | **39%** | 1,118.2 | 862.8 | **30%** | 899.3 | **24%** | 173.7 | 164.8 | **5%** | 155.6 | **12%** |
| **Stomatology** | 46.3 | 25.5 | **81%** | 28.8 | **61%** | 74.1 | 42.8 | **73%** | 59.9 | **24%** | 624.3 | 595.8 | **5%** | 480.8 | **30%** |
| **Hospitals** | 157.7 | 104.5 | **51%** | 107.0 | **47%** | 50.3 | 35.7 | **41%** | 41.6 | **21%** | 3,134.1 | 2,928.3 | **7%** | 2,570.3 | **22%** |
| **Laboratories** | 142.4 | 74.4 | **91%** | 75.6 | **88%** | 4,220.8 | 2,485.0 | **70%** | 2,969.0 | **42%** | 33.7 | 29.9 | **13%** | 25.5 | **33%** |
| **Corporate** | 103.5 | 93.7 | **10%** | 91.0 | **14%** | 731.7 | 678.2 | **8%** | 676.3 | **8%** | 141.4 | 138.2 | **2%** | 134.6 | **5%** |
| **Pharmacies** | 23.4 | 22.6 | **4%** | 19.6 | **19%** | 99.9 | 106.5 | **-6%** | 132.1 | **-24%** | 234.4 | 212.2 | **10%** | 148.4 | **58%** |
| **Other** | 9.7 | 6.6 | **47%** | 6.4 | **52%** | | | | | | | | | | |

*Source: Company data, Erste Group Research*

### Revenue growth in all segments

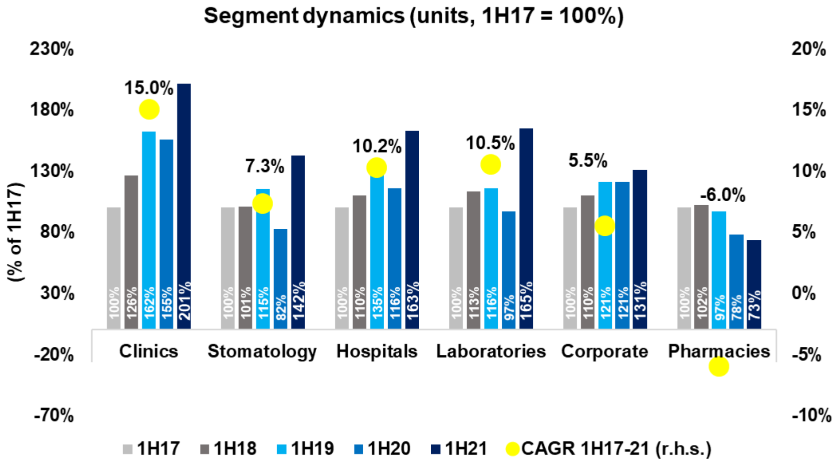
MedLife 1H21 results show a significant growth compared to last year and to pre-pandemic financials. The positive trend established in the first quarter of 2021 continues with expansion on top and bottom lines, and better margins. During the first half of the year, every segment experienced increases in revenues, due to a better performance of pharmacies in the second quarter, that reversed the slight decline noted during the first quarter.




*Source: Company data, Erste Group Research*

### Stellar CAGR on the back of 1H21 achievements

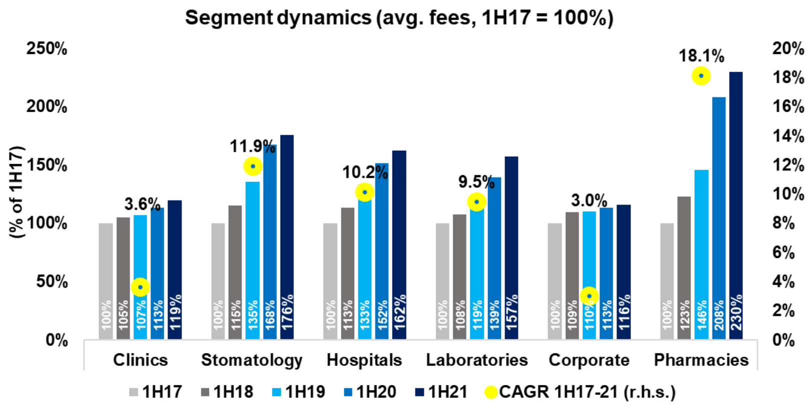
1H21 results have propelled an impressive growth track record to new highs. Thus, on a five-year basis, the company has four businesses that currently account for about four-fifths of the top line growing at around 20% CAGR. At the same time, the lowest growing revenue segment exhibits a very solid CAGR of about 9%. In terms of relative performance, the laboratory segment has increased significantly as a share of total revenues, as expected on the back of COVID testing, while the corporate segment has lost ground on a relative basis. Stomatology and hospital segments posted marginal relative gains, while the clinics' segment has slightly declined as a share of total revenues, together with pharmacies.




*Source: Company data, Erste Group Research*

### Similar trend of unit growth to previous quarter

On a half year basis, the main unit growth trends across business segments has remained largely the same. The highest growth in patients (5yr CAGR on half year basis) remains attached to the largest grossing segment of the company – clinics, at 15%. Hospitals and laboratories, of similar size in terms of receipts, have also experienced growth in excess of 10%.




*Source: Company data, Erste Group Research*

### Steady appreciation of average fees

Compared to the average fees of last year, the fees charged by the company have constantly grown across all segments. The largest increased was realized in the laboratories segment 13%, with pharmacies at 10% and hospitals at 7%, while clinics and stomatology average fees increased by 5%. Vs. 1H19, the increase in average fees is even more considerable with clinics at 12%, hospitals at 22% and laboratories at 33%.

### Expenses grow less than revenues

On a 44% y-o-y revenue increase, operating expenses grew only 31% and the comparison with 1H19 is similar. Out of all major expense items, only consumables and commodities increased more than the increase in revenues, a natural pandemic-related development. Other expenses grew more, however from a negligible base. Notably, wage and social expenditures grew at a rate less than half the increase in revenue as did rent, repairs and maintenance. Third party costs, representing mainly compensation for collaborating personnel have grown in line with the growth in revenues. As a result, the operating margin increased more than twofold, to 15%, compared to 7% in 1H20 and 6% in 1H19.

| | | | | | | % of total rev. | | |
|---|---|---|---|---|---|---|---|---|
| **Op. exp. (RON,mn.)** | **1H21** | **1H20** | **chng (%)** | **1H19** | **chng (%)** | **1H21** | **1H20** | **1H19** |
| **Wages & social** | 164.93 | 140.34 | **17.5%** | 147 | **12.2%** | **24.3%** | **29.8%** | **31.1%** |
| **Third party** | 183.82 | 128.4 | **43.2%** | 126 | **45.9%** | **27.0%** | **27.2%** | **26.7%** |
| **Consum.& commod.** | 140.37 | 93.8 | **49.6%** | 91.4 | **53.6%** | **20.7%** | **19.9%** | **19.4%** |
| **Rent, utilit, maint, ins.** | 19.86 | 16.3 | **21.8%** | 16.93 | **17.3%** | **2.9%** | **3.5%** | **3.6%** |
| **Promotion, comm.** | 7.16 | 7.8 | **-8.2%** | 8.14 | **-12.0%** | **1.1%** | **1.7%** | **1.7%** |
| **Depreciation** | 52.76 | 49.31 | **7.0%** | 46 | **14.7%** | **7.8%** | **10.5%** | **9.7%** |
| **Other** | 7.63 | 4.4 | **73.4%** | 8.6 | **-11.3%** | **1.1%** | **0.9%** | **1.8%** |
| **Total** | **576.5** | **440.4** | **30.9%** | **444.1** | **29.8%** | **84.8%** | **93.4%** | **94.0%** |

*Source: Company data, Erste Group Research*

### Adequate leverage on stronger balance sheet

The net debt of the company continued to decrease during 2Q21, and the ratio of net debt to EBITDA has reached below 1.7x, the lowest since 2016 YE.*(Note: In our Net Debt calculations, we have included leasing obligations and overdraft.)*

| **(RON, mn.) EOP** | **2016** | **2017** | **2018** | **2019** | **2020** | **1Q21*** | **2Q21*** |
|---|---|---|---|---|---|---|---|
| Cash and equivalents | 20.7 | 79.2 | 34.2 | 38.9 | 82.0 | 112.5 | 130.1 |
| Current port. of debt | 19.1 | 36.6 | 23.2 | 24.8 | 114.7 | 114.7 | 138.9 |
| LT debt | 202.8 | 242.8 | 287.0 | 346.0 | 561.8 | 560.8 | 538.7 |
| **Net debt** | **219.9** | **215.5** | **342.4** | **542.9** | **594.5** | **563.0** | **547.5** |
| **Net debt/EBITDA* (x)** | **3.95** | **2.77** | **3.59** | **3.67** | **2.80** | **1.74** | **1.69** |

** - 2021 EBITDA estimate Erste Group Research*
*Source: Company data, Erste Group Research*

## Forecast upgrades on higher growth in patient numbers, average fees

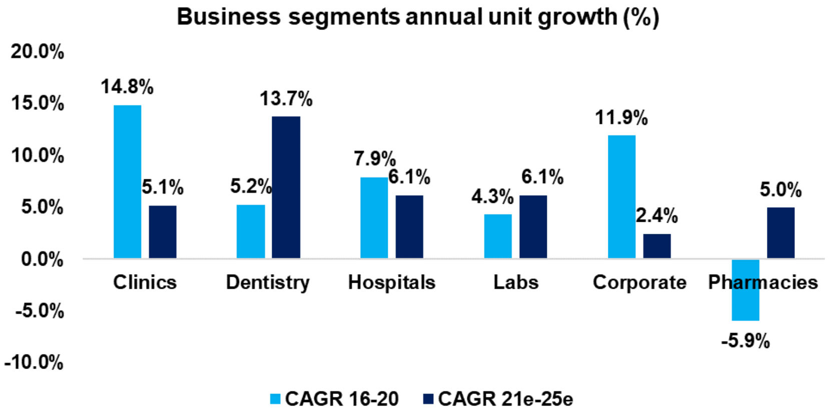
### Underlying investment rationale unchanged

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, that remained unsatisfied during pandemic.
- Company superior pricing power, resulting from lack of adequate alternatives.
- Effective cost management.
- Superior management of expansion via acquisitions.

### We forecast only organic growth, thus less than full value potential

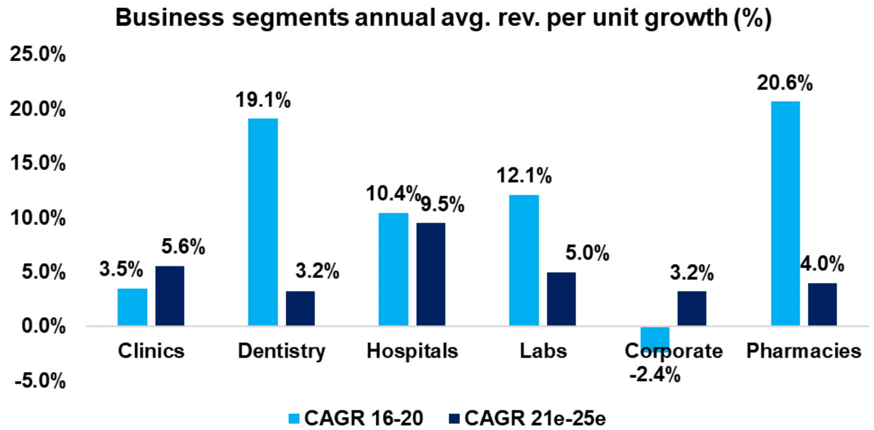
The expansion strategy of MedLife continues to be a major growth factor, both in terms of absolute values, and profitability. Nevertheless, we are only forecasting the organic growth of the company as is, without the impact of future, value accretive acquisitions. The impact of a successful continuation of the acquisition strategy is considerable albeit difficult to quantify and time accurately.




*Source: Company data, Erste Group Research*

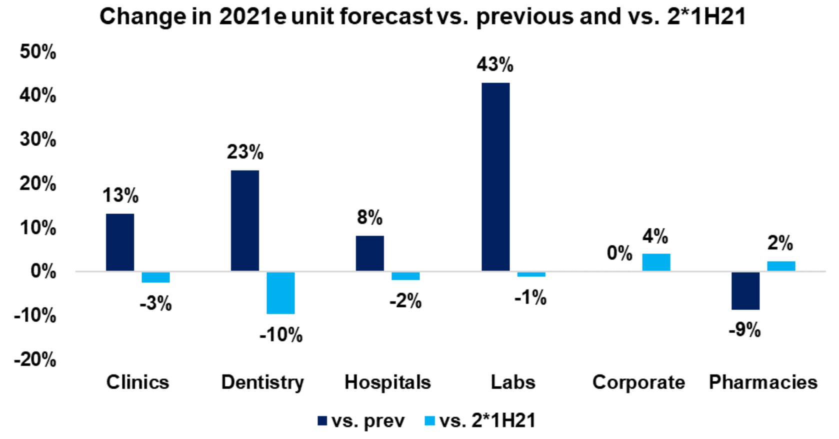
**Unit forecast upgrade on new base effect, similar conservative CAGR**
We have upgraded our unit growth forecast only marginally, compared to our previous report. The increase in absolute values, is derived mainly from the unexpectedly high numbers YTD and the impact of taking the new 2021 levels as a basis. Thus, compared to our previous forecast, our new CAGR growth assumptions have not increased dramatically. The only major changes in forecasted CAGR appear in the dentistry segment, with only a marginal higher growth in the clinics segment and no major changes in the rest of the business segments.

The rationale for individual segment forecasts is detailed in our previous report and takes into consideration capacity constraints and segment specifics. In view of recent results, we continue to believe that we may err on the side of caution and the potential for organic growth may exceed our current forecasts.




*Source: Company data, Erste Group Research*

**Changes in average fees forecast follow similar rationale**
In terms of average fees per unit our revised forecast is taking into consideration the latest company data and dynamics. We have marginally increased our CAGR for clinics, but decreased the one for stomatology and laboratories, taking into consideration higher than expected fee growth during 2021. Albeit the pricing power of the company is considerable, we are reluctant to extrapolate the recent growth to future periods.

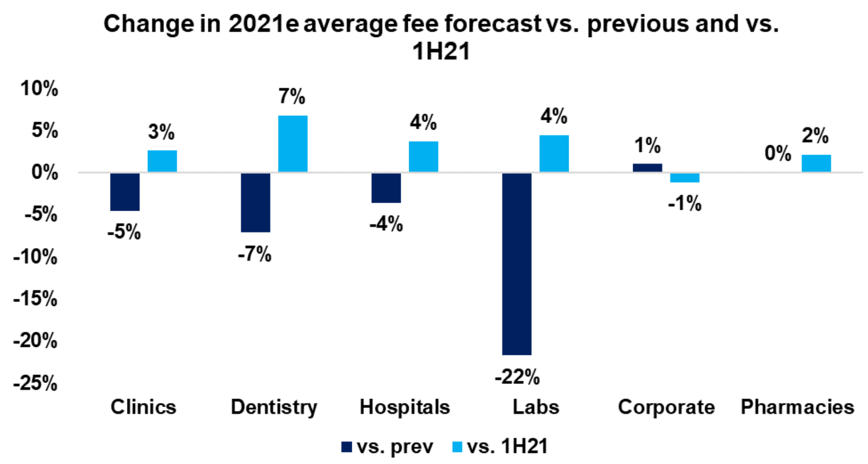



*Source: Company data, Erste Group Research*

**1H21 data sets new base for unit evolution…**
Although, as we mention above, our 5-yr CAGR forecasts for unit and average fees evolution hasn't changed dramatically, our update of 2021 estimates have generated the bulk of our current valuation upside for the stock.

Vs. our previous unit estimates, we have increased 2021 forecasts by a considerable amount in the laboratories segment, by 43%, while clinics' visits have been upgraded by 13% and dentistry patients by 23%. We believe our revision to be validated by recent performance, and we think it is still conservative compared to the capacity of the company to replicate in the second half of the year the achievements of the first six months of 2021.

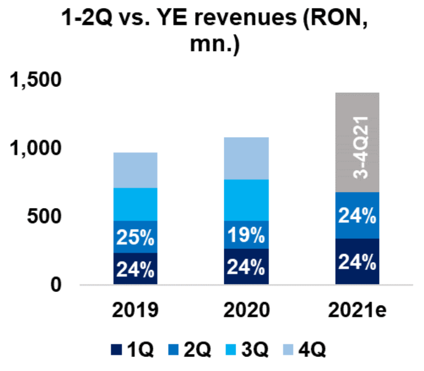
**… and for average fees as well**
We have curtailed marginally our average fees forecasts for the rest of the year, albeit we still anticipate a moderate appreciation in the second half of the year. More significantly, it appears the company has decided to increase volumes rather than exacerbate fees, a strategy that is congruent with the current uncertain economic situation in the country. We cut most drastically the average fees for laboratories, a development that was prompted by the large amount of COVID related tests over the last period.

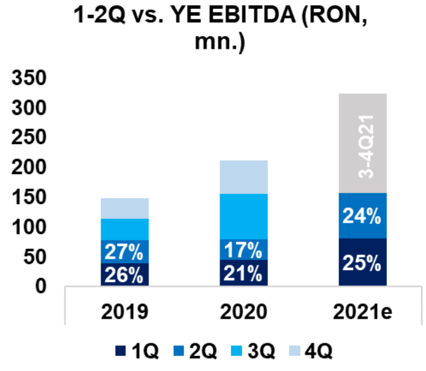


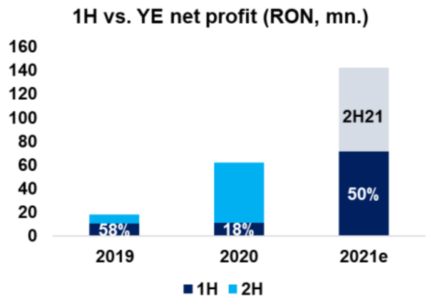

*Source: Company data, Erste Group Research*

## YE forecast upgrade in line with latest results

We consider our current upgrade of YE financials is only in line with latest results remaining conservatively in line with historical developments. 2020 results were marred by the epidemic lockdowns and second half of the year generated significantly more profit than the first part, however we anticipate for the rest of the current year an evolution compared to pre-pandemic periods, where the profitability of the year was relatively equally distributed among the two semesters.




*Source: Company data, Erste Group Research*

## No other major changes in income statement drivers

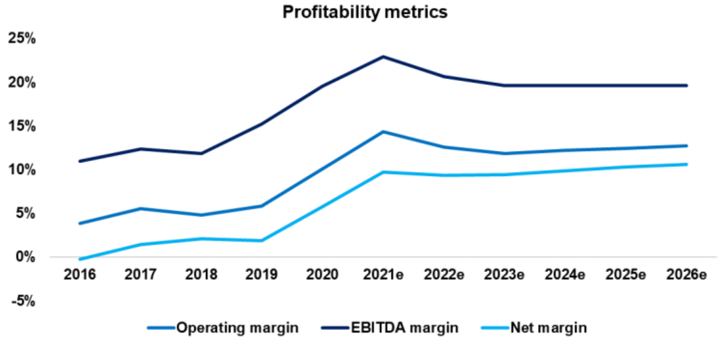
We found that our initial assumptions regarding the income statement drivers have held true. In addition to the changes described above, we have only marginally adjusted our expense forecasts in order to reflect latest developments and have not operated any other significant changes compared to our previous model.

| % of total rev. | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e |
|---|---|---|---|---|---|---|
| Clinics | 26% | 27% | 29% | 31% | 29% | 28% |
| Dentistry | 4% | 6% | 6% | 6% | 5% | 7% |
| Hospitals | 21% | 19% | 21% | 23% | 23% | 23% |
| Labs | 19% | 19% | 17% | 16% | 19% | 21% |
| Corporate | 25% | 23% | 21% | 19% | 18% | 16% |
| Pharmacies | 5% | 5% | 5% | 4% | 4% | 4% |
| Other | 1% | 2% | 1% | 1% | 1% | 1% |

| % of op. exp. | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e |
|---|---|---|---|---|---|---|
| Consumables | 17% | 16% | 16% | 17% | 19% | 20% |
| Third parties | 27% | 28% | 27% | 29% | 29% | 31% |
| Wages | 23% | 26% | 32% | 32% | 28% | 28% |
| Social contributi | 5% | 6% | 1% | 1% | 1% | 1% |
| Materials | 4% | 4% | 4% | 3% | 4% | 3% |
| Maint/Utilities/Cc | 3% | 3% | 3% | 3% | 3% | 3% |
| Ins/Advertising | 3% | 2% | 2% | 2% | 2% | 1% |
| Rents | 6% | 6% | 5% | 1% | 1% | 1% |
| Depreciation | 7% | 7% | 7% | 10% | 11% | 10% |
| Other op exp. | 5% | 2% | 2% | 2% | 3% | 2% |

*Source: Company data, Erste Group Research*

**We remain (maybe too) conservative in forecasting profitability**
Our forecasts for organic growth and profitability assumes a conservative outlook with margins contracting slightly in the coming periods. Indeed, we accounted for a moderate growth in revenues – at levels inferior to historical averages. At the same time, we have considered that the post crisis periods will witness a renewed negotiation power of employees and a degree of inputs inflation that should curtail margin expansion.

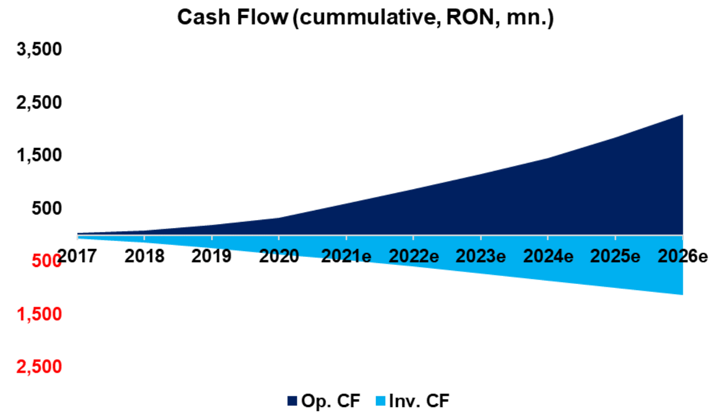



*Source: Company data, Erste Group Research*

## Valuation

**No major changes in previous valuation assumptions**
We updated our DCF, DDM and comparables' valuations with the latest changes in the model, but we did not alter any of the other assumptions.

**The assumptions of the DCF valuation are:**
• Sales growth and margin levels as per our assumptions discussed above, sales growth in perpetuity is 3%
• Risk free rate of 4.3% till 2025 and 5% in perpetuity
• Equity risk premium of 7.45% during the next five years and 7% in perpetuity, Beta of 0.9
• Debt premium of 1%
• Target level of close to 70% equity of total liabilities and equity on the Balance Sheet
• Terminal value growth at 1.5%, roughly half of forecasted inflation
• EBIT margin in perpetuity of 10%, less than current 14%
• Organic CAPEX plus acquisition CAPEX growing with inflation
• We have assumed going forward a CAPEX yearly sum of RON120mn – in real terms. *Note: this CAPEX is considered as a cost of the ongoing business. As we discuss above, acquisition CAPEX has a higher return on investment and is value accretive.*




*Source: Company data, Erste Group Research*

### DDM valuation remains theoretical exercise

We do not anticipate any major change in dividend policy, consequently we present our DDM valuation exercise as simply a theoretical exercise, a valuation anchor under the assumption that the company – under current configurations – would pay the entire net income in dividends post 2025.

### Comparables' valuation update

We have updated our comparables' valuation of MedLife stock, vs. international peers showing considerable appreciation potential on the basis of multiples. We continue nevertheless to believe that the most appropriate valuation exercise remains DCF based.

| | | P/E | EV/EBITDA | P/Sales |
|---|---|---|---|---|
| **Company** | **Ticker** | **curr.** | **curr.** | **curr.** |
| **Al Hammadi** | ALHAMMAD.AB | 34.15 | 16.27 | 4.49 |
| **Attendo** | ATT.SS | 170.67 | 9.77 | 0.54 |
| **Dallah Healthcare Co** | DALLAH.AB | 39.85 | 31.01 | 3.92 |
| **Fleury** | FLRY3.BZ | 16.60 | 10.82 | 2.09 |
| **Fresenius** | FRE.GR | 14.03 | 7.34 | 0.67 |
| **Life Healthcare Group** | LHC.SJ | 58.47 | 10.72 | 1.43 |
| **Lokman Hekim** | LKMNH.TI | 9.10 | 5.60 | 0.98 |
| **MD Medical Group** | MDMG.LI | 11.86 | 6.20 | 2.77 |
| **Mediclinic Int** | MEI.SJ | n/a | n/a | n/a |
| **Medicover** | MCOVB.SS | 45.11 | 18.98 | 3.32 |
| **Middle East Healthcare Co** | MEH.AB | 42.75 | 18.95 | 1.97 |
| **MLP Care** | MPARK.TI | 29.28 | 7.35 | 1.12 |
| **Mouwasat Medical** | MOUWASAT.AB | 32.58 | 18.92 | 9.00 |
| **National Medical** | CARE.AB | 29.01 | 13.21 | 3.61 |
| **Netcare** | NTC.SJ | 106.14 | 12.38 | 1.23 |
| **Pihlajalinna** | PIHLIS.FH | 16.69 | 8.16 | 0.52 |
| **Spire Healthcare** | SPI.LN | n/a | 6.68 | 1.04 |
| **Median** | | **32.58** | **10.77** | **1.70** |
| **Medlife 2021e** | **M.RO** | **17.06** | **9.13** | **1.66** |
| **Implied MedLifeTP on 2021e financials (RON/Share** | | **32.85** | **21.09** | **17.65** |

*Source: Refinitiv*

## MedLife DCF valuation

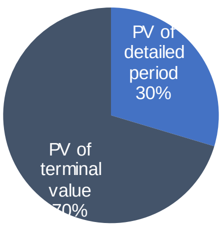
### WACC calculation

| | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e TV |
|---|---|---|---|---|---|---|
| Risk free rate | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% | 5.0% |
| Equity risk premium | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% | 7.0% |
| Beta | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| **Cost of equity** | **11.5%** | **11.5%** | **11.5%** | **11.5%** | **11.5%** | **11.3%** |
| Cost of debt | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.0% |
| Effective tax rate | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| **After-tax cost of debt** | **4.8%** | **4.8%** | **4.8%** | **4.8%** | **4.8%** | **4.2%** |
| Equity w eight | 70% | 70% | 70% | 70% | 70% | 68% |
| **WACC** | **9.5%** | **9.5%** | **9.5%** | **9.5%** | **9.5%** | **9.03%** |

### DCF valuation

| (RON mn) | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e TV |
|---|---|---|---|---|---|---|
| *Sales growth* | *26.9%* | *18.1%* | *14.8%* | *14.9%* | *13.3%* | *3.0%* |
| EBIT | 198 | 205 | 221 | 261 | 302 | 249 |
| *EBIT margin* | *14.5%* | *12.7%* | *11.9%* | *12.3%* | *12.5%* | *10.0%* |
| *Tax rate* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* |
| Taxes on EBIT | -31.6 | -32.8 | -35.4 | -41.8 | -48.4 | -39.8 |
| **NOPLAT** | **166.1** | **172.1** | **185.7** | **219.6** | **254.1** | **208.9** |
| + Depreciation | 118 | 131 | 145 | 159 | 174 | 189 |
| *Capital expenditures / Depreciation* | *102.1%* | *94.3%* | *87.8%* | *82.3%* | *77.6%* | *100.0%* |
| +/- Change in w orking capital | -15 | -3 | 7 | 19 | -16 | 1 |
| *Chg. working capital / chg. Sales* | *-5.3%* | *-1.3%* | *2.9%* | *6.8%* | *-5.8%* | *-20.0%* |
| - Capital expenditures | -120.0 | -123.6 | -127.3 | -131.1 | -135.1 | -139.1 |
| **Free cash flow to the firm** | **148.2** | **176.3** | **210.3** | **266.5** | **276.6** | **259.6** |
| *Terminal value growth* | | | | | | *1.5%* |
| Terminal value | | | | | | 3,499.9 |
| Discounted free cash flow - December 31 | 135.4 | 147.1 | 160.3 | 185.6 | 175.9 | 2,193.6 |
| **Enterprise value - December 31 2020** | **2,998** | | | | | |
| Minorities | 31 | | | | | |
| Non-operating assets | 0 | | | | | |
| Net debt | 595 | | | | | |
| Other adjustments | 0 | | | | | |
| **Equity value - (RON bn) December 31 2** | **2,372.4** | | | | | |
| Cost of equity | 11.3% | | | | | |
| **Fair value, RON mn** | **2,640.5** | | | | | |
| Number of shares outstanding (mn) | 132.9 | | | | | |
| **Fair value per share, RON** | **19.9** | | | | | |
| Share price | 17 | | | | | |
| *Upside/downside Official NAV (%)* | *17%* | | | | | |

### Enterprise value breakdown




### Sensitivity (Equity value - RON mn)

| WACC | Terminal value EBIT margin 9.0% | 9.5% | 10.0% | 10.5% | 11.0% |
|---|---|---|---|---|---|
| **8.0%** | 21.0 | 21.8 | 22.7 | 23.5 | 24.4 |
| **8.5%** | 19.6 | 20.4 | 21.2 | 22.0 | 22.8 |
| **9.0%** | 18.4 | 19.1 | **19.9** | 20.6 | 21.3 |
| **9.5%** | 17.3 | 18.0 | 18.7 | 19.4 | 20.1 |
| **10.0%** | 16.4 | 17.1 | 17.7 | 18.4 | 19.0 |

| WACC | Terminal value growth 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
|---|---|---|---|---|---|
| **8.0%** | 19.9 | 21.2 | 22.7 | 24.4 | 26.5 |
| **8.5%** | 18.7 | 19.9 | 21.2 | 22.7 | 24.4 |
| **9.0%** | 17.7 | 18.7 | **19.9** | 21.2 | 22.7 |
| **9.5%** | 16.8 | 17.7 | 18.7 | 19.9 | 21.2 |
| **10.0%** | 16.0 | 16.8 | 17.7 | 18.7 | 19.9 |

*Source: Erste Group Research*

## MedLife DDM valuation

### WACC calculation

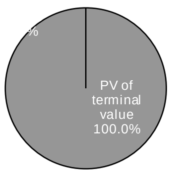
| | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e (TV) |
|---|---|---|---|---|---|---|
| Risk free rate | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% | 5.0% |
| Equity risk premium | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% | 7.0% |
| Beta | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| **Cost of equity** | **11.5%** | **11.5%** | **11.5%** | **11.5%** | **11.5%** | **11.30%** |

### DDM valuation

| (RON mn) | 2021e | 2022e | 2023e | 2024e | 2025e | 2026e (TV) |
|---|---|---|---|---|---|---|
| Net profit | 133.9 | 151.8 | 176.4 | 210.7 | 249.7 | 293 |
| **Gross dividends flow** | **-** | **-** | **-** | **-** | **-** | **293** |
| *Terminal value growth* | | | | | | *1.5%* |
| Terminal value | | | | | | 3,034 |
| Discounted dividends - Dec 31 2020 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,738 |
| **Equity value (RON mn) - Dec 31 2020** | **1,738.16** | | | | | |

| | |
|---|---|
| Number of shares outstanding (mn) | 132.9 |
| Cost of equity | 11.5% |
| **12M target value (RON)** | **14.6** |
| Current share price (RON) | 17.0 |
| *Up/Downside* | *-14.2%* |

### Enterprise value breakdown




*Source: Erste Group Research*

### Sensitivity

Payout ratio

| COE | 99.0% | 99.5% | 100.0% | 100.5% | 101.0% |
|---|---|---|---|---|---|
| **10.3%** | 16.1 | 16.2 | 16.2 | 16.3 | 16.4 |
| **10.8%** | 15.2 | 15.3 | 15.4 | 15.4 | 15.5 |
| **11.3%** | 14.4 | 14.5 | **14.6** | 14.7 | 14.7 |
| **11.8%** | 13.7 | 13.8 | 13.9 | 13.9 | 14.0 |
| **12.3%** | 13.1 | 13.2 | 13.2 | 13.3 | 13.4 |

Terminal value growth

| COE | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
|---|---|---|---|---|---|
| **10.3%** | 14.6 | 15.4 | 16.2 | 17.2 | 18.3 |
| **10.8%** | 13.9 | 14.6 | 15.4 | 16.2 | 17.2 |
| **11.3%** | 13.2 | 13.9 | **14.6** | 15.4 | 16.2 |
| **11.8%** | 12.6 | 13.2 | 13.9 | 14.6 | 15.4 |
| **12.3%** | 12.1 | 12.6 | 13.2 | 13.9 | 14.6 |

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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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| **Reduce** | -10% < target price < 0% |
| **Sell** | < -10% to target price |

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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