EthiFinance Ratings

CUF SGPS SA

507231066

CORPORATE

BBB- ISSUER RATING Long term

OUTLOOK Stable

Initiation date	20/05/2024
Rating Date	20/05/2025

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Rating Action and Rationale

- EthiFinance Ratings affirms CUF SGPS S.A's rating at BBB-, maintaining its Stable outlook.
- CUF, founded in 1945, is one of the most experienced players in providing private health care in Portugal, whether in person through its national network of hospitals and clinics, at patient's own home or virtually.
- Although CUF SGPS S.A's rating is higher, it is capped at CUF S.A's, corporate group to which it belongs. This is primarily due to the fact that the debt is not entirely located at the subsidiary level, despite the subsidiary representing 97% of total sales. In this regard, it should be noted that EthiFinance Ratings has affirmed CUF S.A 's rating at BBB-, maintaining its Stable outlook
    - The rating is supported by the company's strong business profile based on its leading competitive positioning and robust governance within a sector that presents favourable fundamentals (high barriers to entry, low volatility of profitability and stable growth prospects).
    - On the other hand, the rating is constrained by a financial profile characterized by its still relatively high indebtedness level (NFD/EBITDA of 4.0x and FFO/NFD of 15.0% on average) which, together with medium interest coverage (EBITDA/interest of 4.5x on average) and low financial autonomy (equity/TFD below 40%), weakens the overall financial profile.
    - It is worth highlighting that the low volatility table has been applied, based on an industry which shows a proven track record of stability over long term economic cycles.
- In line with our methodology, the healthcare equipment and services sectors have medium to low ESG risks under our methodology (sector heatmap score between 2 and 3). This results in a sector assessment which is not impacted by industry-related considerations. On the other hand, the company's ESG policy is considered to be good (company ESG score between 1.0 and 1.5), resulting in a positive impact on the financial profile (+0.5 notch).

Company Description

The Group offers a wide range of services (consultations, exams, hospitalization, maternity care, intensive care, palliative care, surgeries, etc.). The CUF network consists of 41 units, with presence in Lisbon, Setúbal, Santarém, Leiria, Coimbra, Aveiro, Viseu, Porto and Açores. The company's turnover in 2024 amounted to €859.8m (+17.7% YoY), with EBITDA of €155.4m and an EBITDA margin of 18.1%. Adjusted NFD/EBITDA stood at 2.4x.

At a CUF SA level, turnover in 2024 amounted to €884.3m (+18.4% YoY), with EBITDA of €147.6m and an EBITDA margin of 16.7%. Adjusted NFD/EBITDA stood at 3.9x.

Fundamentals

Business Risk Profile

Industry Risk Assessment

- **Sector characterized by medium profitability margins (at the EBIT level), high barriers to entry, low correlation to macroeconomic trends and positive long-term prospects.**

The private healthcare sector in Portugal is fragmented (more than 100 private hospitals and a significant number of private consultations owned by independent doctors), although dominated by a few, well-known companies with large geographic footprints, such as CUF. The presence of the government through public hospitals and the still low concentration intensifies the levels of competition and derives in medium profitability margins (EBIT mg between 6%-9%) although with a very low level of volatility given its essential characteristic. The barriers to entry are considered high given the relevant capital and R&D investments required (facilities, highly innovative equipment, qualified staff, etc.), significant know-how, expertise and brand recognition. These characteristics are necessary to be competitive and to stand out within the industry. The health private sector shows favorable growth perspectives due to the demographic ageing (population aged 65 or over) and the longer life expectancy, together with a trend towards signing up for insurance private health policies over last years. However, it is dependent on the macroeconomic situation and its impact on families' disposable household income for private healthcare services.

- **The health sector has medium-to-low ESG exposure.**

The healthcare equipment and services sectors have medium to low ESG risks under our methodology (sector heatmap score between 2 and 3). This results in a sector assessment which is not impacted by industry-related considerations. Regarding environmental factors, the sector has a low impact on climate and resources. It has a medium impact on pollution linked to waste, which create issues on nature and biodiversity. However, healthcare is critical for consumers, which imposes significant responsibilities on the industry. In particular, equal access to medication remains a significant issue. On the financial materiality side, on some occasions expensive lawsuits can affect the business. In addition, health is a major item in the budget for all countries and is also contributing to job creation in many regions.

Competitive Positioning

- **Robust competitive advantages in Portugal, based on its long track-record, brand recognition and state-of-the-art technology and equipment.**

CUF has a leading position within the private healthcare sector in Portugal, representing 7.9% of the total private healthcare expenditure in 2023 (current expenditure on healthcare in 2023, latest information available. Source: INE). This reference positioning is based on its long track-record (more than 70 years), which provides them with strong expertise in the sector, its brand, which is highly recognized within the industry, and state-of-the-art technology and equipment, which enables CUF to provide high quality services. Additionally, the group has an integrated network of high-performance units which enables the company to offer its wide range of services throughout the main cities of Portugal.

Its competitive positioning is expected to strengthen further through the acquisition of a 75% stake in HPA Health Group, which consists of five hospitals and 16 clinics in Alentejo, Algarve, and the Autonomous Region of Madeira. This acquisition provides an opportunity to strengthen and expand the quality of services offered nationwide, ensuring access to differentiated, quality healthcare in all regions.

- **Strong diversification of services and clients.**

Although the three biggest hospitals (CUF Descobertas, CUF Tejo and CUF Porto) generated close to 60% of sales in 2024, the ample range of specialties (from cardiology to psychiatry) combined with specific centers (odontology, ophthalmology, etc.), ancillary services (such as laboratory or diagnostic units) and its strategic locations in the main population centers are assessed positively. In addition, the ample portfolio of clinics and the access from anywhere in the country, or even abroad, through remote consultation (proximity care), make the company resilient against potential difficulties in any of the large hospitals. In terms of clients, CUF shows a well-diversified portfolio composed by individuals, insurance companies, civil servants and other minority customers (state, international entities, work accidents, etc.). Insurance companies are the most significant clients, such as Médis (17.2% of sales in 2024), Multicare (17.1%) or Advance Care (14.9%). Additionally, we highlight the presence of the public institute (ADSE) which provides healthcare benefits to civil servants (12.8%). Individuals represented 10.4% of total sales in 2024.

Shareholder Structure and Governance

- **Family ownership structure with strong financial capacity.**

The ownership of the group is concentrated in the hands of the Mello family (through its investment vehicle José de Mello Capital S.A), which controls 65.85% of the share capital of CUF S.A and stands out as one of the biggest industrial groups in Portugal. The other significant investor is the Association of pharmacies, Farminveste S.A with a 30.0% of the share capital, a key player in healthcare in Portugal.

- **Professionalized management team.**

Despite the concentration in decision-making, evidenced by the presence of shareholders on the board of directors, Salvador Maria Guimarães José de Mello (President of the Board of Directors of CUF S.A), we positively value the commitment in day-to-day management and the extensive professional background of the members of the management team. At the level of CUF SGPS, the financial policy is marked by controlled indebtedness levels (adjusted NFD/EBITDA of 3.1x on average) and strong financial autonomy (adjusted equity/TFD close to 140%).

- **Positive ESG policy.**

The company's strategy already considered and managed ESG issues, leading to a low probability of an ESG-related impact on revenues, results, cash flows, asset value or reputation. We highlight company's social policies with the presence of responsible purchasing policies, gender diversity, HSS management system and low accident and absenteeism rates. Also, CUF's governance policies stand out, marked by a qualified board of directors including the presence of independent members, separation of the roles (CEO and Chair of the Board/Supervisory Board), public disclosure of policies (Business Code of Conduct and Corruption Policy) and prioritization of ESG issues. This assessment (score between 1.0 and 1.5) results in a positive impact on the financial profile (+0.5 notch).

Financial Risk Profile

Sales and Profitability

- **Positive evolution of sales and profitability margins.**

The company's turnover reached €859.8m in 2024, increasing by 17.7% YoY driven by increases in prices, strong growth in some areas such as orthopedics or urology, and the expansion of activity via acquisitions. EBITDA improved to €155.4m in 2024 (+20% YoY) with an EBITDA margin that stood at 18.1% (17.7% in 2023) enhanced by cost efficiencies in process and economies of scale gained through companies acquired over the past few years. The EBIT margin of 10.6% (+0.9pps vs 2023) remains above the sector average, demonstrating the group's solid competitive advantages. Financial expenses increased to €27.9m, +23.7% YoY derived from the increase in interest paid through CUF's new loans, as well as the financial debt of the Arrifana de Sousa Group companies, incorporated since January 2024.

Between 2025-2027, the company is expected to continue to grow, with sales between €1.1bn and €1.3bn supported by the combination of organic and inorganic growth. EBITDA margin is estimated to remain between 17-18%.

Leverage and Coverage

- **Controlled indebtedness level.**

Although net financial debt stood at €379.4m (-0.2% YoY, cash and equivalents position of €210.3m), the positive evolution of the company evidenced by the increase of EBITDA (+20% YoY) led to a significant reduction in debt level (NFD/EBITDA of 2.4x, -0.5x vs last year). The interest coverage ratio remained relatively stable at 5.6x (vs 5.7x in 2023) in the context of higher interest rates and higher volume of debt.

We expect the leverage ratio to increase due to its investment program, although remaining under controlled levels (below 3.0x on average between 2025-2027). EthiFinance Ratings takes a positive view on the fact that the group is increasing its presence in the country, thereby strengthening its leading position while maintaining controlled leverage. Furthermore, the company continues to generate strong operating results based on an efficient and manageable cost structure, within a low-cyclicality industry that assures robust demand.

Cash Flow Analysis

- **Growing and positive FFO on the back of the increase in EBITDA.**

CUF SGPS reported strong FFO in 2024 (+5.8% YoY) favored by higher EBITDA generation. Operating cash flow stood at €136.8, +29.7% YoY after positive working capital variation. Higher CFI (-€106.5m) led the company to report a negative adjusted CF generated internally of -€34.2m . However, the positive gross deb variation of +€85.2m enabled to reinforce its cash position to €160.3m (+46.7% YoY). This reinforcement of liquidity is in line with CUF's growth strategy, and reduces the risk of not completing its acquisition pipeline.

Capitalization

- **Strong financial autonomy.**

Equity remained relatively stable at €972.3m (+1.5% vs previous year, after dividends payment to parent company CUF S.A in the amount of €31.9m). The group's capitalization has remained strong, with equity equivalent to 164.9% of total financial debt at end-2024, although significantly reduced by 30.9pp compared to 2023. Total financial debt increased by 20.5%, highlighting the acquisition of new loans signed in order to meet their investment plans and the financial debt of the Arrifana de Sousa Group.

Liquidity

- **High level of liquidity with a satisfactory refinancing profile.**

CUF SGPS has a good capacity to meet its commitments in the short term, supported by its ability to generate stable and recurring cash flows from its operations (CFO estimated at €135.4m in 2025) which, together with the cash and equivalents (€160.3m at December 2024), provide it with a good liquidity cushion to meet short-term payment obligations (€96.8m at December 2024), maintenance capex (estimated at €50m in 2025) and dividend payments. In addition, the company has a good refinancing profile, which is relevant in any stress scenario.

Modifiers

Controversies

- **The group has an administrative offence proceeding raised by the Portuguese Competition Authority (AdC).** Fines were imposed to CUF S.A in the amount of €74.98m, with its shareholder José de Mello Capital, S.A being jointly liable for the payment of the fine. CUF S.A and José de Mello Capital, S.A, rejected the decision of the AdC and its legal grounds. Therefore, the group did not recognise any provision. In May 2023, an order was issued by the Competition, Supervision and Regulation Court ("TCSR") restricting the suspensive effect of the appeal, and as a result of the obligation to pay the fine imposed by the AdC, the Court accepted a provision of a guarantee through the pledge of 100% of the share capital of the companies CUF Alvalade and CUF Viseu. The group received a communication from the Court in April 2024, referring that the process will not go ahead since the Court declared the evidence obtained by the Competition Authority null, thus declaring the entire process also null. As of today, although the Competition Authority can still appeal to this decision, the risk is considered manageable.

- **On 31 December 2024 there were lawsuits brought against the Group.** The group estimates that the liability not covered by the insurance it has contracted amounts to approximately €25m (FYE23: €27.5m). However, the group considered that from this amount only around €1.5m is a reasonable value at risk. As so, they have a provision in their accounts with this value.

The above controversies, although monitored by Ethifinance Ratings are considered manageable and therefore to have a neutral impact on the rating (Controversial ESG score between 1 and 3).

Country Risk

- **No country risk has been identified.**

Main Financial Figures

CUF SGPS SA

Main financial figures. Thousands of €.	FY23	FY24	24vs23
Turnover	730,652	859,797	17.7%
EBITDA	129,483	155,364	20.0%
EBITDA Margin	17.7%	18.1%	0.3pp
EBIT	71,338	91,349	28.1%
EBIT Margin	9.8%	10.6%	0.9pp
EBT	49,884	65,436	31.2%
Total Assets	1,584,930	1,723,660	8.8%
Equity	958,139	972,270	1.5%
Total Financial Debt[2]	489,559	589,742	20.5%
Net Financial Debt[2]	380,278	379,427	-0.2%
Equity/TFD	195.7%	164.9%	-30.9pp
NFD/ EBITDA	2.9x	2.4x	-0.5x
FFO	107,291	113,505	5.8%
FFO/ NFD	28.2%	29.9%	1.7pp
EBITDA/Interest	5.7x	5.6x	-0.1x

CUF S.A

Main financial figures. Thousands of €.	FY23	FY24	24vs23
Turnover	747,075	884,335	18.4%
EBITDA	120,218	147,585	22.8%
EBITDA Margin	16.1%	16.7%	0.6pp
EBIT	72,823	92,175	26.6%
EBIT Margin	9.7%	10.4%	0.7pp
EBT	44,753	58,950	31.7%
Total Assets	995,200	1,145,382	15.1%
Equity	210,525	247,771	17.7%
Total Financial Debt[2]	609,280	691,200	13.4%
Net Financial Debt[2]	550,273	572,386	4.0%
Equity/TFD	34.6%	35.8%	1.3pp
NFD/ EBITDA	4.6x	3.9x	-0.7x
FFO	82,881	95,222	14.9%
FFO/ NFD	15.1%	16.6%	1.6pp
EBITDA/Interest	4.1x	4.2x	0.1x

1 Proforma figures have been used, as if HPA Health Group had been acquired at the beginning of the year . 2 Financial debt adjusted considering estimated non-recourse factoring and acquisition debt.

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry risk assessment	*A-*
Industry's ESG	*Neutral*
Competitive Positioning	*BBB+*
Governance	*BBB*
Financial Risk Profile	**BBB+**
Cash flow and leverage	*BBB*
Capitalization	*A-*
Company's ESG	Positive
Anchor Rating	**BBB+**
Modifiers	*No*
Rating standalone CUF SGPS	**BBB+**
CAP CUF S.A[1]	**BBB-**
Final Rating CUF SGPS	**BBB-**

1Final rating strictly linked to the rating assigned to the corporate group to which it belongs, tapping the subsidiary to CUF S.A's rating.

Rating Sensitivity

- **Long-term rating positive factors (↑)**

A rating upgrade could be entailed by a sustained improvement in CUF S.A's rating, which could be a consequence of a combination of the following: Improvement in adjusted indebtedness levels (NFD/EBITDA below 3.5x, FFO/NFD above 20%, and EBITDA/interest above 5.0x on average). Increased financial autonomy (equity/TFD above 50% on average) would also be required. An ESG company score between 0 to 1 corresponding to the best ESG grading would also enhance the rating.

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a sustained deterioration in CUF S.A's rating, which could be a consequence of a combination of the following: Deterioration in adjusted indebtedness levels (NFD/EBITDA above 4.5x, FFO/NFD below 10% and EBITDA/interest below 4.0x on average). Decreased financial autonomy (equity/TFD below 30% on average). Deterioration of ESG assessment.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.