EthiFinance Ratings

CUF SGPS SA

507231066 CORPORATE

BBB- ISSUER RATING Long term

OUTLOOK Stable

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Rating Action and Rationale

- EthiFinance Ratings initiates the long-term rating of CUF SGPS S.A's, assigning a BBB- rating with a Stable outlook.
- CUF SGPS S.A's rating is strictly linked to the credit worthiness assigned to the corporate conglomerate to which it belongs, tapping the subsidiary to CUF S.A's credit quality . At a CUF SA's level it is worth highlighting:
  - The credit worthiness 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 credit worthiness is constrained by a financial profile characterized by its still relatively high indebtedness level (NFD/EBITDA ~4.5x and FFO/NFD ~15.0%) which, together with medium interest coverage (EBITDA/interest ~5.0x 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 adequate (company ESG score between 1.5 and 3.5), resulting in a neutral impact on the rating.

Issuer Description

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. The Group offers a wide range of services (consultations, exams, hospitalization, maternity care, intensive care, palliative care, surgeries, etc.). The CUF network consists of 24 units, with presence in Lisbon, Porto, Almada, Montijo, Oeiras, Cascais, Sintra, Mafra, Torres Vedras, Santarém, Leiria, Coimbra, Viseu, S. João da Madeira, Lagoa and Matosinhos. The company's turnover in 2023 amounted to €730.7m (+18.1% YoY), with EBITDA of €129.5m and an EBITDA margin of 17.7%. Adjusted NFD/EBITDA stood at 2.9x.

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 presents a leading position within the private healthcare sector in Portugal, representing 7.2% of the total private healthcare expenditure in 2022 (current expenditure on healthcare in 2022, latest information available. Source: INE). This reference positioning is based on its long track-record (more than 70 years), which provides them with a strong expertise in the sector, its brand, which is highly recognized within the industry, and a state-of-the-art technology and equipment, which enables CUF to provide high quality services. Additionally, the group has an integrated network that enables the company to offer its wide range of services throughout the main cities of Portugal.

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

Although the three biggest hospitals (CUF Descobertas, CUF Tejo and CUF Porto) generated 60% of sales in 2023, 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.).

Shareholder Structure and Governance

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

The ownership is mainly concentrated in the hands of the José de Mello Group (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 sharecapital, a key player in healthcare in Portugal.

- **Professionalized management team.**

Despite the concentration of 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 CUF SGPS level, the financial policy is marked by controlled indebtedness levels (NFD/EBITDA below 3.0x) and strong financial autonomy (equity/TFD ~200%) in spite of its investment plan, which is expected to consolidate an even more robust network of hospitals and clinics, strengthening its current market share and improving its financial metrics.

- **Neutral ESG policy.**

CUF has a neutral ESG exposure (score between 1.5 and 3.5). The company's strategy already considered and managed ESG issues, leading to a low probability of occurrence of an ESG related impact on revenues, results, cash flows, asset value or reputation. 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. Followed by social and environmental policies.

Financial Risk Profile

Sales and Profitability

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

Group's turnover reached €730.7m in 2023, +18.1% 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 €129.5m in 2023 (+23.3% YoY) with an EBITDA margin that stood at 17.7% (17.0% in 2022) enhanced by cost efficiencies gained. EBIT stood at €71.3m (+91.9% YoY) with EBIT margin of 9.8% +3.8pps YoY, 2022 figures were affected by the impairment of non-current assets. Financial expenses increased to €22.5m, +37.2% YoY derived from a greater volume of financial obligations in a context of higher interest rates. All together led the group to achieve EBT of €49.9m (134.1% YoY). Between 2024-2026, the company is expected to continue its growth, with sales between €900m-1.0bn supported by the full year revenue of the units opened in 2023 (CUF Açores and CUF Leiria Clinic), the acquisition of Médica Arrifana de Sousa Clinic, and CUF Barreiro Clinic in 2024, the expansion of CUF Barreiro and CUF Mafra in 2025 and the opening of Hospital CUF Leiria in 2026. EBITDA margin is estimated to remain at ~17%.

Leverage and Coverage

- **Controlled indebtedness despite the group's inorganic growth.**

The positive evolution of the company and its capacity to generate higher operating cash flows during 2023 has enabled the company to maintain its indebtedness levels despite its investment plans. This has been reflected in an adjusted NFD/EBITDA ratio of 2.9x at end-2023, similar to previous year. On the contrary, the interest coverage ratio has deteriorated from 6.4x in 2022 to 5.7x in 2023 given the raise in Euribor rates and higher volume of debt. EthiFinance Ratings takes a positive view on the fact that the group is increasing its presence in the country, strengthening its leading position, while the company continues generating strong operating results based on an efficient and manageable cost structure and controlled indebtedness level (estimated at 2.5x on average between 2024-2026), within a low-cyclicality industry that assures robust demand.

Cash Flow Analysis

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

In 2023, the group achieved record EBITDA of €129.5m (+23.3 YoY, EBITDA mg at 17.7%), favoured by increase in the capacity of CUF's network and healthcare indicators' positive performance. The capacity to generate strong and increasing cash flows from operations (FFO/EBITDA of 78.0% in 2022 and 82.9% in 2023) has contributed to continue with the group's inorganic growth plan, showing positive and strong FCF (€54.5m in 2022 and €66.1m in 2023).

Capitalization

- **Strong and stable financial autonomy.**

Equity remained stable at €958.1m (-1.3% vs previous year, dividends payout to parent company CUF S.A in the amount of €46.7m). The group's financial autonomy remained strong, with equity equivalent to 195.7% of total financial debt in 2023, although significantly reduced by 54.2pp compared to 2022. Total financial debt increased by 26.0%, highlighting the acquisition of new loans (€61.5m) mainly related to the acquisition of Hospital Internacional dos Açores (HIA), Médica Arrifana de Sousa Clinic and the expansion of the existing facilities.

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 €81.2m in 2024) which, together with the cash and cash equivalents estimated at December 2023 (€109.3m, cash pooling with CUF group of €65.7m included) and undrawn credit lines (€8.0m), provide it with a good liquidity cushion to meet short-term payment obligations (€79.3m at December 2023), maintenance capex (estimated at €35.8m in 2024) and dividend payments (estimated at €46.7m in 2024). In addition, the company has a good refinancing profile, which is relevant in any stress scenario.

Modifiers

Controversies

- **The group had an administrative offence proceeding raised by the Portuguese Competition Authority (AdC) at December 2023.** 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. As such, 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. **In May 2024, the group received a formal communication from the Court declaring the entire process as closed.**
- **On 31 December 2023 there were lawsuits brought against the Group.** The group estimates that the liability not covered by the insurance it has contracted amounts to approximately €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 is considered 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 €.	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	618,755	730,652	852,387	917,219	969,909	18.1%
EBITDA	105,053	129,483	144,828	156,560	168,031	23.3%
EBITDA Margin	17.0%	17.7%	17.0%	17.1%	17.3%	0.7pp
EBIT	37,176	71,338	80,633	81,712	89,118	91.9%
EBIT Margin	6.0%	9.8%	9.5%	8.9%	9.2%	3.8pp
EBT	21,307	49,884	57,900	60,494	69,086	134.1%
Total Assets	1,485,746	1,584,930	1,591,739	1,593,743	1,599,349	6.7%
Equity	971,062	958,139	952,635	951,305	956,286	-1.3%
Total Financial Debt[1]	388,522	489,560	487,267	486,153	483,162	26.0%
Net Financial Debt[1]	310,629	380,279	411,529	392,045	367,219	22.4%
Equity/TFD	249.9%	195.7%	195.5%	195.7%	197.9%	-54.2pp
NFD/EBITDA	3.0x	2.9x	2.8x	2.5x	2.2x	-0.1x
FFO	81,950	107,291	105,454	117,986	128,872	30.9%
FFO/NFD	26.4%	28.2%	25.6%	30.1%	35.1%	1.8pp
EBITDA/Interest	6.4x	5.7x	5.8x	6.7x	7.6x	-0.6x

1 *Financial debt has been adjusted including i) non-recourse factoring: €43.4m (2023) and €35.6m (2022) and ii) the amount to be paid for the purchase of companies in accordance with the respective acquisition contracts has been included: €1.7m (2023) and €1.9m (2022).2Ethifinance Ratings projection*

CUF S.A

Main financial figures. Thousands of €.	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	630,046	747,075	876,804	944,520	1,000,274	18.6%
EBITDA	98,455	120,218	137,377	150,402	164,111	22.1%
EBITDA Margin	15.6%	16.1%	15.7%	15.9%	16.4%	0.5pp
EBIT	57,542	72,823	81,633	84,711	95,291	26.6%
EBIT Margin	9.1%	9.7%	9.3%	9.0%	9.5%	0.6pp
EBT	41,495	43,078	53,216	56,590	68,474	3.8%
Total Assets	900,970	995,200	1,045,074	1,082,758	1,125,175	10.5%
Equity	189,002	210,525	231,026	254,661	285,172	11.4%
Total Financial Debt[1]	565,129	609,280	630,120	639,714	647,953	7.8%
Net Financial Debt[1]	498,583	550,273	620,942	637,385	629,811	10.4%
Equity/TFD	33.4%	34.6%	36.7%	39.8%	44.0%	1.1pp
NFD/EBITDA	5.1x	4.6x	4.5x	4.2x	3.8x	-0.5x
FFO	69,390	82,881	86,566	93,560	108,518	19.4%
FFO/NFD	13.9%	15.1%	13.9%	14.7%	17.2%	1.1pp
EBITDA/Interest	5.6x	4.1x	4.4x	5.0x	5.7x	-1.6x

1 *Financial debt has been adjusted including i) non-recourse factoring: €43.4m (2023) and €35.6m (2022) and ii) the amount to be paid for the purchase of companies in accordance with the respective acquisition contracts has been included: €3.6m (2023) and €3.6m (2022). 2Ethifinance Ratings projections.*

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry risk assessment	*A-*
Industry's ESG	*Neutral*
Competitive Positioning	*BBB*
Governance	*BBB*
Financial Risk Profile	**A-**
Cash flow and leverage	*BBB+*
Solvency	*A*
Company's ESG	Neutral
Anchor Rating	**BBB-**[1]
Modifiers	*No*
Rating	**BBB-**

1Anchor rating strictly linked to the creditworthiness of the corporate conglomerate to which it belongs (CUF SA).

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 debt levels (NFD/EBITDA below 3.5x, FFO/NFD above 25%, and EBITDA/interest above 6.0x on average). Increased financial autonomy (equity/TFD above 50% on average) would also be required. An improvement on the ESG score could also benefit the overall 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 of debt ratios (NFD/EBITDA above 5.0x, FFO/NFD below 10% and EBITDA/interest below 4.5x on average). Decreased financial autonomy (equity/TFD below 35% on average).

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 - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- 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.

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