

Afya Limited

Bertelsmann report – Purchases continue to decelerate to R\$10mn/month

Maintain Rating: BUY | PO: 24.00 USD | Price: 20.49 USD

Total amount purchased reached US\$213mn

Bertelsmann purchases of Afya shares decelerated to R\$9.7mn in January vs. R\$10.8mn in December, taking 6 months average down to R\$9.8mn vs. R\$10.3mn in 2H23 and R\$15mn throughout 2022. Since the start of the repurchase, Afya's stock price has increased by nearly 100% from US\$10.3 to current US\$20.5. In January, the average purchase price decreased to US\$20.9 vs. US\$21.4 in December.

Bertelsmann still has US\$115mn to buy

In May 2022, Bertelsmann (controlling group of Afya) announced its first trading agreement to purchase up to US\$129mn of Afya free float shares until Sep. 2023. Additionally, in Dec/22, the group announced a second agreement to purchase additional US\$200mn. Now the group still has US\$115mn to purchase until May 2024 and if it keeps the current avg. amount of purchase it should not exhaust the second agreement.

Our take: Total stake could go up to 55% vs. 49% now

With the latest purchases, Bertelsmann reached a total stake of 49% in Afya and at current stock price, the group could reach up 55% stake. If the group keeps the current pace of monthly purchases, we estimate that it will reach a stake of 52% by May, when the second purchase agreement ends. We continue to expect Bertelsmann activity to provide a cushion to stock price and thus reiterate our Buy at a US\$24 PO.

Estimates (Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	4.67	5.91	6.38	7.91	9.90
GAAP EPS	4.67	5.84	6.38	7.91	9.90
EPS Change (YoY)	0.6%	26.6%	8.0%	24.0%	25.2%
Consensus EPS (Bloomberg)			5.62	7.66	17.45
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	24.4x	18.3x	15.6x	12.8x	10.3x
GAAP P/E	24.4x	18.5x	15.6x	12.8x	10.3x
EV / EBITDA*	6.1x	4.8x	3.9x	3.5x	3.2x
Free Cash Flow Yield*	-18.5%	8.9%	13.7%	14.7%	19.7%

* For full definitions of *IQmethod*SM measures, see page 4.

13 February 2024

Equity

Fred Mendes, CFA >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4119
fred.mendes@bofa.com

Mirela Oliveira >>
Research Analyst
Merrill Lynch (Brazil)
mirela.oliveira@bofa.com

Gustavo Tiseo >>
Research Analyst
Merrill Lynch (Brazil)
gustavo.tiseo@bofa.com

Lucca R Brendim >>
Research Analyst
Merrill Lynch (Brazil)
lucca.brendim@bofa.com

Stock Data

Price	20.49 USD
Price Objective	24.00 USD
Date Established	31-Jul-2023
Investment Opinion	C-1-9
52-Week Range	9.66 USD - 22.48 USD
Mrkt Val (mn) / Shares Out (mn)	941 USD / 45.9
Free Float	46.0%
Average Daily Value (mn)	2.66 USD
BofA Ticker / Exchange	AFYA / NAS
Bloomberg / Reuters	AFYA US / AFYA.OQ
ROE (2023E)	16.6%
Net Dbt to Eqty (Dec-2022A)	42.5%
ESGMeter™	Low

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 13 February 2024 11:46AM EST

iQprofileSM Afya Limited

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.6%	11.1%	12.0%	11.8%	12.4%
Return on Equity	15.1%	17.1%	16.6%	17.7%	18.4%
Operating Margin	25.6%	28.5%	28.0%	29.5%	30.1%
Free Cash Flow	(940)	430	624	685	916

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.4x	1.4x	1.5x	1.5x	1.4x
Asset Replacement Ratio	-10.2x	-1.5x	-0.8x	-1.2x	-1.0x
Tax Rate	11.4%	8.3%	10.3%	12.5%	12.0%
Net Debt-to-Equity Ratio	39.6%	42.5%	45.1%	22.3%	1.3%
Interest Cover	1.8x	1.9x	1.8x	2.6x	2.9x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,719	2,329	2,849	3,138	3,405
% Change	43.1%	35.5%	22.3%	10.2%	8.5%
Gross Profit	1,067	1,470	1,755	1,963	2,136
% Change	39.2%	37.7%	19.5%	11.8%	8.8%
EBITDA	755	962	1,176	1,318	1,442
% Change	34.0%	27.4%	22.2%	12.1%	9.4%
Net Interest & Other Income	(167)	(236)	(335)	(262)	(192)
Net Income (Adjusted)	440	535	578	717	897
% Change	0.7%	21.5%	8.0%	23.9%	25.2%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	223	374	392	550	695
Depreciation & Amortization	(154)	(206)	(284)	(310)	(333)
Change in Working Capital	85	78	101	72	51
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	484	503	630	743	837
Capital Expenditure	(1,578)	(318)	(215)	(371)	(334)
Free Cash Flow	-940	430	624	685	916
% Change	3.3%	NM	45.1%	9.7%	33.8%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	919	357	148	0	0

Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	749	1,093	884	1,569	2,486
Trade Receivables	378	453	568	616	658
Other Current Assets	80	92	116	122	128
Property, Plant & Equipment	420	542	599	605	605
Other Non-Current Assets	4,821	5,020	5,798	5,853	5,855
Total Assets	6,447	7,200	7,965	8,765	9,731
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	767	906	1,189	1,273	1,341
Long-Term Debt	1,935	2,475	2,554	2,554	2,554
Other Non-Current Liabilities	746	569	521	521	521
Total Liabilities	3,447	3,949	4,264	4,348	4,417
Total Equity	3,000	3,250	3,700	4,417	5,314
Total Equity & Liabilities	6,447	7,200	7,965	8,765	9,731

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Education & Training Services

Company Description

Afya was founded in 1999 as a thematic educational service provider that produces and delivers content and technology to support the learning career of doctors in Brazil. The company has developed a high-quality educational platform and increased its presence country-wide on both the organic and M&A fronts, besides widening its business plan to supplemental health-related courses and services.

Investment Rationale

We have a Buy rating on Afya mainly due to its focus on the medicine segment, which is the most premium in Brazil and operates in a completely different market from other undergrad programs, we see Afya as better-positioned than its peers to develop an ecosystem that increases the length of engagement: from turning a student into a doctor, right up to adding value to physicians in several ways post-graduation.

Stock Data

Average Daily Volume 129,953

Quarterly Earnings Estimates

	2022	2023
Q1	1.77A	NAA
Q2	1.32A	NAA
Q3	1.33A	NAA
Q4	1.42A	NAE

Price objective basis & risk

Afya Limited (AFYA)

We base our price objective of US\$24 per share on a DCF-to-Firm with 10 years, discounted at a moving weighted-average cost of capital (WACC) averaging 16.1% (Nominal, BRL). Our Ke is composed of a Beta of 1.2, a risk-free rate of 3%, an equity risk premium of 6%, a sovereign spread of 3% and inflation differential of 2.5%, while our Kd is 7.7% (BRL Nominal) and we add a sector risk premium of 1%. We use terminal growth rate of 4%.

Risks: (i) Medicine undergrad courses regulation, (ii) possible changes in Prouni, (iii) macro downturn, (iv) M&A execution.

Analyst Certification

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Latin America - Healthcare & Education Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Afya Limited	AFYA	AFYA US	Fred Mendes, CFA
	Anima Educacao	XUMLF	ANIM3 BZ	Fred Mendes, CFA
	Cruzeiro do Sul	XCZZF	CSED3 BZ	Fred Mendes, CFA
	Fleury	XPOXF	FLRY3 BZ	Fred Mendes, CFA
	Hapvida	XDUFF	HAPV3 BZ	Fred Mendes, CFA
	Oncoclínicas S.A	XOBXF	ONCO3 BZ	Fred Mendes, CFA
	Vitru Limited	VTRU	VTRU US	Fred Mendes, CFA
	Viveo	XCUXF	VVEO3 BZ	Fred Mendes, CFA
	YDUQS	ECPCF	YDUQ3 BZ	Fred Mendes, CFA
NEUTRAL				
	Mater Dei	XXUDF	MATD3 BZ	Fred Mendes, CFA
	Odontoprev	ODPVF	ODPV3 BZ	Fred Mendes, CFA
	Rede D'Or	XPUSF	RDOR3 BZ	Fred Mendes, CFA
	Ser Educacional	XSAOF	SEER3 BZ	Fred Mendes, CFA
UNDERPERFORM				
	Cogna Educacao	KROTF	COGN3 BZ	Fred Mendes, CFA
	DASA	DIAOF	DASA3 BZ	Fred Mendes, CFA
	Qualicorp	QUAIF	QUAL3 BZ	Fred Mendes, CFA
	Vasta Platform	VSTA	VSTA US	Fred Mendes, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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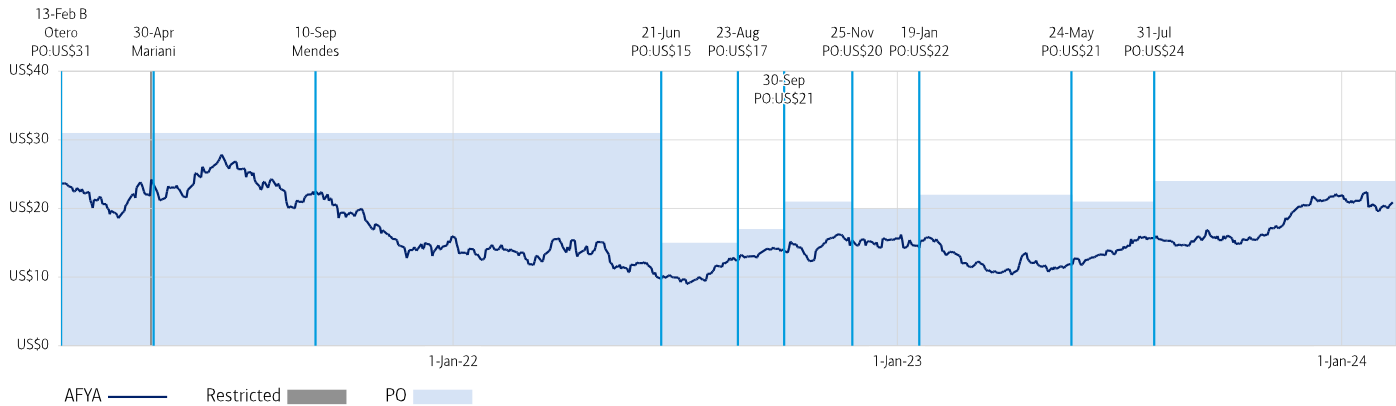
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Afya Limited (AFYA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Education & Training Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
Hold	4	26.67%	Hold	1	25.00%
Sell	3	20.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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