Research

CEE | Equity Research

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DIAGNOSTYKA

Buy
(Initiation)

Right diagnose of market leadership

Target Price: PLN 165

Upside: +21%

We are initiating coverage on Diagnostyka with a BUY recommendation and a target price of PLN 165, representing 21% upside. Diagnostyka continues to be a leader in the provision of Medical Laboratory Testing (MLT) services, expanding its service portfolio and focusing more on the increasing share of direct out-of-pocket expenses in the sales mix. In 2023-2028, we forecast revenue to expand at a 14% CAGR on the back of 7% volume growth and 7% prices growth. Within B2B channel we model in 13% growth in volumes in 2024E with normalization towards 5-6% dynamics in 2025-28E. In the B2C channel, we expect volumes growth to stay elevated at 6-8% in the mid-term driven by growing share of privately-operated labs in the MLT market among others. Diagnostyka is increasingly prioritizing the development of its diagnostic imaging (DI) segment as part of its long-term growth strategy. We assume 90% of total M&A expenditures to be used to acquire controlling stake in the businesses with 80% of that amount dedicated to Diagnostic Imaging segment. M&A revenue could add 2-3% to the topline growth in the mid-term. In our view, further development of B2C services in sales mix, growing revenues from DI procedures and upsides in further acquisitions represents a set of factors supporting the company's growth in the coming months.

Dominant player within MLT segment... Diagnostyka is a leading player in the Medical Laboratory Testing (MLT) segment in Poland, with a robust position driven by an extensive network of laboratories and blood collection points. Through an extensive network of 156 laboratories and 1,134 blood collection points - approximately twice the size of its closest competitor - Diagnostyka offers broad national coverage, reaching by Blood Collection Points (BPCs) 95% and 65% of the Polish population within 20km and 5km, respectively, and serving 20m patients annually. Growth is further driven by rising test volumes and pricing across both B2B and B2C segments, with particularly strong momentum in the B2C market.

...with deep dive into DI segment. Diagnostyka has entered diagnostic imaging segment in 2023 through Wyrobek acquisition, and development within this segment is one of the key pillars of its growth strategy. Currently, the company operates 19 imaging centres staffed by approximately 330 specialists. With continued acquisitions and organic growth, Diagnostyka aims to become a leading provider of DI in Poland by 2025 in terms of the number of labs and scans. In 2025-2028, Diagnostyka plans to allocate approximately PLN 70-100m annually for M&A activities, primarily aimed at strengthening the company's market position in the diagnostic imaging segment.

Robust margins with room for further expansion and improved cash conversion. Diagnostyka recorded its highest Adj. EBITDA in 2021 at PLN 808m with Adj. EBITDA margin reaching record 44% largely driven by the higher share of COVID related revenue. As the COVID impact waned, Adj. EBITDA margin normalized to 26% in 2022 and 24% in 2023. However by LTM 3Q24, the Adj. EBITDA margin improved to 25.6%, supported by a stronger gross margin and operating leverage, with all cost lines growing slower than revenue during this period. Going forward we assume Adj. EBITDA margin to further expand by 70bps to 26.3% in 2026E driven by scale benefits as well as growing share of more profitable B2C channel and DI segment in revenue mix. At the same time, the FCF conversion ratio has been volatile in recent years, ranging between 12-60% during 2021-23. We expect this ratio to compress to 8.7% in 2024E due to high M&A expenditures (PLN 100m) and Capex (cPLN 150m). Thereafter, we assume an improvement to 32% by 2026E.

…providing ample room for investments and shareholder distributions while maintaining safe leverage. Diagnostyka primarily relies on operating cash flow to fund growth while bank financing was historically used to pay dividend. As of 3Q24, financial debt amounted to PLN 530m, mainly consisting of a revolving credit facility maturing in August 2027. Lease liabilities have grown from PLN 275m in 2021 to PLN 339m as of 3Q24, with capitalized leases covering laboratory equipment, facilities, and vehicles, among other assets. The company's net debt stood at PLN 834m as of 3Q24, resulting in a leverage ratio of 1.8x LTM Net Debt/EBITDA.

Valuation & risk factors. We applied equal weights to the DCF and multiple-based valuation methods, which indicated a 12M target price of PLN 165/sh offering 21% upside. Our 10-year DCF model is based on the consolidated cash flows of Grupa Diagnostyka. For the peer valuation, we benchmark Diagnostyka against global clinical laboratory companies and healthcare providers operating in the CEE region. The Group demonstrates a solid growth profile, supported by a strong EBITDA CAGR relative to its peers. Key risks are detailed in a separate section of the report (p. 22).

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenue*	1,843	1,436	1,588	1,954	2,255	2,536
EBITDA	802	369	382	495	593	683
Adj. EBITDA	808	373	383	501	594	683
EBIT	688	243	234	329	405	477
Net Profit attributable to Parent	558	167	123	211	259	310
P/E (x)	8.3	27.5	37.3	21.8	17.8	14.9
EV/EBITDA (x)	6.2	14.2	14.1	11.2	9.4	8.1
FCF yield**	9.9%	1.5%	0.9%	0.8%	2.5%	4.2%
FCF yield** (ex. M&A Capex)	11.1%	2.0%	2.7%	2.8%	4.1%	5.5%
DY (%)	9.0%	6.4%	2.4%	2.3%	2.3%	2.8%

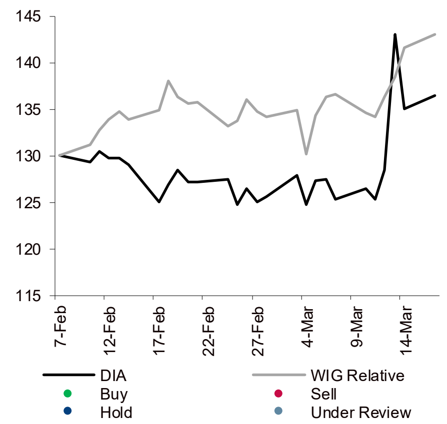
Source: Company, Trigon DM. Note: (*) from contracts with customers; (**) calculated as OCF - Capex (incl. M&A) - total lease payment and divided by EV (ex. leases).

FACT SHEET

Ticker	DIA
Sector	Healthcare
Price (PLN)	136.5
52W range (PLN)	122.8 / 152.98
Shares outstanding (m)	33.8
Market Cap (PLNm)	4,607
Free-float	53%
3M Avg. Vol. (PLNm)	35.5

	1M	3M	1Y
Price performance	9.2%	-	-

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS

RECOMMENDATIONS	DATE	TP

SHAREHOLDERS

SHAREHOLDERS	Share %
Grzegorz Głownia (Co-founder)	18.9%
Jacek Prusek (Co-founder)	18.9%
Jakub Swadźba (CEO & Co-founder)	9.4%
Marcin Fryda	4.2%
Paweł Pirkl	0.8%
Free-float	47.8%

INVESTOR CALENDAR

4Q24 results	24.04
1Q25 results	27.05
2Q25 results	18.09
3Q25 results	20.11

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Glossary of professional terms:

capitalisation – market price multiplied by the number of a company’s shares
free float (%) – percentage of a company’s shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company’s operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company’s EV to EBITDA
EV – sum of a company’s current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House

Issuer – Diagnostyka S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Katarzyna Kosiorek, Volodymyr Shkuropat, Grzegorz Kujawski

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn’t consider market sentiment or short-term fluctuations.

The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.

SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.

Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.

Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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