The Ensign Group, Inc. (ENSG)

$45.73 (As of 01/06/20)

Price Target (6-12 Months): **$48.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/03/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A	Momentum: D

Summary

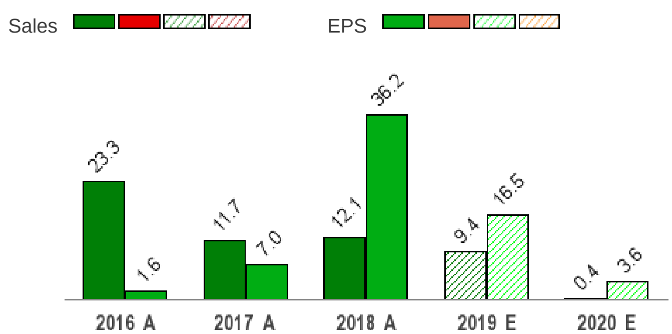
The Ensign Group's shares have outperformed its industry in a year's time. Its latest spin-off is expected to help it meet the patients' requirements as well as enhance shareholder's value. Its historical growth has been driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. Its guidance for 2019 should buoy investors' optimism on the stock. Its inorganic strategies have consistently given a boost to its revenue base and a solid financial health enables it to enhance shareholder value through share repurchases and dividend payments. However, it has been suffering from rising expenses since 2012 that keep draining its bottom line. Moreover, high-debt levels persistently raise the company's interest expenses, which increases financial risk.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$58.39 - $36.63**
20 Day Average Volume (sh)	**236,064**
Market Cap	**$2.4 B**
YTD Price Change	**0.8%**
Beta	**0.89**
Dividend / Div Yld	**$0.20 / 0.4%**
Industry	**Medical - Nursing Homes**
Zacks Industry Rank	**Top 41% (105 out of 254)**
Last EPS Surprise	**-1.8%**
Last Sales Surprise	**0.2%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.0**
P/E F1	**20.2**
PEG F1	**1.3**
P/S TTM	**1.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	553 E	561 E	573 E	589 E	2,276 E
2019	549 A	576 A	601 A	544 E	2,267 E
2018	492 A	505 A	514 A	538 A	2,073 A

EPS Estimates

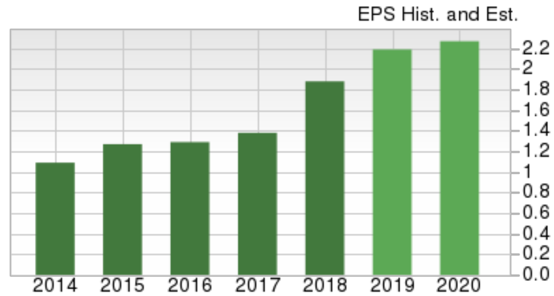
	Q1	Q2	Q3	Q4	Annual*
2020	$0.55 E	$0.55 E	$0.56 E	$0.61 E	$2.27 E
2019	$0.55 A	$0.54 A	$0.55 A	$0.55 E	$2.19 E
2018	$0.45 A	$0.44 A	$0.46 A	$0.54 A	$1.88 A

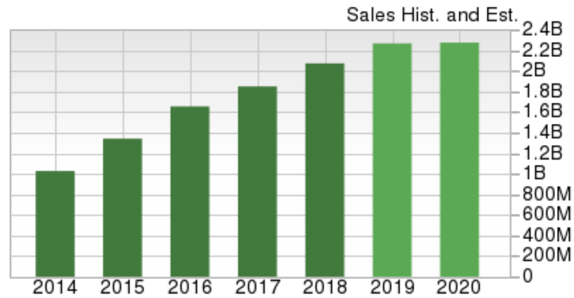
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

Overview

Founded in 1999 and headquartered in Mission Viejo, CA, The Ensign Group Inc. provides health care services in the post-acute care continuum, urgent care center and mobile ancillary businesses in the U.S.





The company provides health care services across the post-acute care continuum and ancillary businesses in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, Wisconsin and Wyoming. As of Dec 31, 2018, it offered skilled nursing, assisted living and rehabilitative care services through 244 skilled nursing and assisted living facilities. Its owned 72 and operated an additional 172 facilities under long-term lease arrangements of the 244 facilities. Its home health and hospice business offer home health, hospice and home care services from 54 agencies across 12 states.

The company primarily operates through three major segments namely, The Transitional & Skilled Services, Assisted & Independent Living Services and Home Health and Hospice Services.

The Transitional & Skilled Services (80.9% of the total revenues in 3Q19): The segment includes the operations of skilled nursing facilities. As of Dec 31, 2018, it had 5,664 assisted and independent living units.

Assisted & Independent Living Services (7.3%): The segment includes the operations of all the assisted and independent living facilities of the company.

Home Health & Hospice Services (9.2%): The segment includes the company's home health, home care and hospice businesses. As of Dec 31, 2018, the company provided home health care services in Arizona, California, Colorado, Idaho, Iowa, Oklahoma, Oregon, Texas, Utah, Washington and Wyoming.

Other (2.6%): Other than these segments, the company operates urgent care clinics, known as Other Operations. As of Dec 31, 2018, the company held a majority membership interest of ancillary operations in Arizona, California, Colorado, Idaho, Texas, Utah and Washington.

Reasons To Buy:

> Promising Post-Acute Care industry, competitive strength, inorganic growth, strong underwriting Results and efficient capital deployment pave the way for long term growth.

▲ **Solid Outlook:** Following third-quarter 2019 results, the company updated its annual guidance for 2019 and also provided an initial 2020 outlook. Management now expects earnings in the range of $2.24-$2.31, up from the prior view of $2.22-$2.30. This new projection suggests an uptick of 33.8% from the 2018 reported figure. The company also anticipates annual revenues between $2.35 billion and $2.40 billion, indicating a 16.4% increase from the year-ago reported figure. Including the fourth-quarter impact of the Pennant spin-off, management's raised earnings per share guidance for 2019 is expected between $2.15 and $2.21 on revenues of $2.27-$2.30 billion band. For 2020, the company expects earnings between $2.22 and $2.30 per share and annual revenues in the $2.30-$2.35 billion band. This strong guidance should instill investor's confidence in the company.

▲ **Inorganic Growth:** The company boasts a strong inorganic growth story with several acquisitions in the past decade. Its historical growth has been mainly driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. With each acquisition, the company had sharpened its expertise, both clinically and financially. Ensign continues to actively seek transactions to acquire real estate and to lease both well-performing and struggling skilled nursing, assisted living and other healthcare related businesses in new and existing markets. During the first nine months of 2019, it expanded its portfolio with 11 stand-alone skilled nursing operations, two stand-alone senior living operation, three campus operations, two home health agencies, five hospice agencies and two home care agencies. It recently acquired facilities in Texas and Arizona to further enhance its portfolio. We expect all these buyouts to have poised the company well for long-term growth.

▲ **Growing Revenues:** The Ensign Group's top line has been growing since 2012. Revenues have witnessed a six-year CAGR (2012-18) of 16.3%. This upside continued in the first nine months of 2019 with the metric rising 14.8% year over year, driven by both its Medicaid and Medicare businesses. The consistent rise in the metric was majorly driven by the company's Transitional & Skilled Services, accounting for nearly 84% and 82.3% of the total revenues in 2017 and 2018, respectively. The company's growth strategies and acquisitions are likely to drive the top line. It also anticipates 2019 annual revenues between $2.35 billion and $2.40 billion, indicating a 16.4% increase from the 2018 reported figure.

▲ **Efficient Capital Deployment:** The company has been taking up several initiatives in order to efficiently deploy capital. Frequent share repurchases and dividend payments at regular intervals have helped the company retain investors' confidence in this stock. Ensign Group has been a dividend-paying company since 2002 and has increased its payout annually for the past 16 years. The company's dividend yield stands at 1.7%, higher than the industry's average of 0.9%. We believe the company's financial strength to continue buoying investors' confidence in the stock.

▲ **Divestiture:** The company recently separated its home health and hospice business into a separate publicly-traded company. This spin-off is expected to meet the patients' requirements and also be beneficial to the shareholders. The company hopes that it will be able to add value to its home health, senior living and hospice business line from this spin-off. We expect this divestiture to enable Ensign Group to focus on its core operations.

▲ **Price Performance:** In a year's time, shares of Ensign Group have outperformed its industry's gain. Moreover, its solid fundamentals such as divestitures and growing revenues should likely continue to support the company's performance going forward.

Reasons To Sell:

- **High Financial Leverage:** The Ensign Group's long-term debt level has been rising since 2011. Although in 2014, it dipped to some extent owing to an early retirement of certain long-term debt agreements, it started increasing again from 2015 onward. The company's interest expenses have also been rising since 2015. Also, its current debt to equity ratio came in at 186.8%. An increase in financial leverage and low interest coverage raise financial risk.

The company severely suffers from regulatory uncertainty, high debt level and rising expenses from due to higher cost of services, selling, general & administrative expenses.

- **Rising Expenses:** The company has been witnessing a persistent increase in total expenses since 2012. The same was up 8.2% year over year in 2018 due to higher cost of services, selling, general & administrative expenses, etc. Expenses again rose 14.3% in the first nine months of 2019. The rising trend in expenses continues to hurt the company, denting its bottom line.

- **Overvalued**: Ensign Group's valuation looks expensive at the current level. Looking at the company's price-to-sales ratio, investors may not want to pay any further premium. Its current P/S ratio stands at 1.06, higher than the industry average of 0.37.

Last Earnings Report

Ensign Group's Q3 Earnings Miss Estimates, Rise Y/Y

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	0.15%
EPS Surprise	-1.79%
Quarterly EPS	0.55
Annual EPS (TTM)	2.18

Ensign Group delivered adjusted operating earnings of 55 cents per share in third-quarter 2019, missing the Zacks Consensus Estimate by 1.8% due to high expenses. However, the metric improved 19.6% year over year on higher revenues.

Also, adjusted net income in the quarter under review was $30.9 million, up 24% from the prior-year quarter.

Operational Update

Total revenues of $601 million increased 16.9% year over year in the reported quarter. This upside was driven by solid segmental performances at Transitional and skilled services, Senior living services plus Home health and hospice services. Moreover, the metric beat the Zacks Consensus Estimate by 0.2%.

Total Transitional and Skilled Services segment income was $56.8 million for the quarter under consideration, up 22.6% from the prior-year period.
Total Home Health and Hospice Services segment's revenues rose 25.9% year over year to $55 million. Total expenses escalated 15.8% year over year to $561 million due to higher cost of services, depreciation and amortization plus general and administrative expenses.

Quarterly Segment Update

Transitional and Skilled Services

Revenue generation of $485.9 million was up 15.2% year over year. Notably, the segment accounted for 80.9% of the total revenues in the reported quarter.

Senior Living Services

Operating revenues of $43.7 million were up 15.1% year over year with the segment contributing 7.3% to the company's top line.

Home Health & Hospice Services

Total operating revenues in this segment were $55 million, up 25.9% year over year, representing 9.2% of the total revenues.

Other Services

Revenues of $15.5 million surged 45.4% from the prior-year quarter, reflecting 2.6% of the total revenue base.

Financial Update

The company exited the first nine months of 2019 with $44 million of cash and cash equivalents, up 42.8% from the level at 2018 end. As of Sep 30, 2019, long-term debt less current maturities was $265.7 million, up 14% from the level at 2018 end. For the first nine months of 2019, net cash by operating activities stands at $137.5 million, down 12.5% year over year.

Business Update

The company completed the spin-off of Pennant as previously announced.

Dividend Update

Ensign Group paid out a quarterly cash dividend of 4.75 cents per share during the third quarter. The company has been hiking its dividend for the 16 consecutive years.

2019 and 2020 Outlook

Following solid third-quarter earnings, management again raised its 2019 guidance. The company now expects earnings between $2.24 and $2.31. It also anticipates annual revenues between $2.35 billion and $2.40 billion.
Including the fourth-quarter impact of the Pennant spin-off, management's 2019 raised earnings per share guidance is expected between $2.15 and $2.21 per share on revenues of $2.27-$2.30 billion band. For 2020, management of the company expects earnings to be in between $2.22 and $2.30 per share and annual revenue to be in the $2.30-$2.35 band.

Recent News

Ensign Group Takes Shareholder-Friendly Initiatives – Dec 17, 2019

In an effort to enhance shareholder value, the board of directors of Ensign Group has proposed a 5.3% increase in the quarterly dividend of 4.75 cents per share. This translates to a yearly dividend payment of 5 cents per share. Shareholders of record on Dec 31, 2019 are expected to receive this meatier dividend on or before Jan 31, 2019.

Ensign Group Acquires Facilities to Boost Portfolio – Dec 3, 2019

Ensign Group acquired four skilled nursing facilities in Dallas, TX. Effective Dec 1, 2019, the purchases will be subject to long-term, triple net leases with purchase options following year five of the lease. Ensign Group also purchased the real estate and operations of Mission Hills Post Acute in Mesa, AZ, which will further bolster its portfolio.

Ensign Group Acquires Nursing Facilities in Texas — Nov 4, 2019

Ensign Group acquired the real estate and the operations of Treasure Hills Healthcare and Rehabilitation Center in Harlingen, TX, Keller Oaks Healthcare Center in Keller, TX and Kirkwood Manor in Braunfels, TX. The transactions were effective Nov 1, 2019.

Ensign Group Acquires Nursing Facilities in South Texas — Nov 4, 2019

Ensign Group bought the real estate and the operations of three nursing facilities in San Antonio, TX. The transactions were effective Nov 1, 2019.

The Ensign Group Completes Pending Spin-off – Oct 1, 2019

The Ensign Group completed the pending spin-off of its home health and hospice business The Pennant Group, Inc. The Ensign stockholders got a share of Pennant for every two shares owned by the company at the close of business on Sep 20, 2019. A cash payment will be made in place of any fractional shares. The effective date of profit distribution was Oct 1, 2019.

With this spin-off, Ensign Group is expected to unlock more earnings prospects and enhance its shareholder value.

Valuation

The Ensign Group's shares are up 12% over the trailing 12-month period. Over the past year, the Zacks industry and sector are up 1.2% and 5%, respectively.

The S&P 500 index is up 25% in the past year.

The stock is currently trading at 1.07X price to sales ratio, which compares to 0.37X for the Zacks sub-industry, 2.79X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.31X and as low as 0.48X, with a 5-year median of 0.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $48 price target reflects 1.12X price to sales ratio.

Industry Analysis **Zacks Industry Rank:** Top 41% (105 out of 254)

Top Peers

Genesis Healthcare, Inc. **(GEN)**	Outperform
Acadia Healthcare Company, Inc. **(ACHC)**	Neutral
Brookdale Senior Living Inc. **(BKD)**	Neutral
Capital Senior Living Corporation **(CSU)**	Neutral
Tenet Healthcare Corporation **(THC)**	Neutral
Universal Health Services, Inc. **(UHS)**	Neutral
UnitedHealth Group Incorporated **(UNH)**	Neutral
Magellan Health, Inc. **(MGLN)**	Underperform

Industry Comparison Industry: Medical - Nursing Homes

Industry Peers

	ENSG Neutral	X Industry	S&P 500	ACHC Neutral	MGLN Underperform	UHS Neutral
VGM Score	A	-	-	B	A	A
Market Cap	2.44 B	187.52 M	23.72 B	2.99 B	1.85 B	12.42 B
# of Analysts	4	2	13	7	3	5
Dividend Yield	0.44%	0.00%	1.79%	0.00%	0.00%	0.56%
Value Score	B	-	-	B	A	A
Cash/Price	0.02	0.25	0.04	0.03	0.38	0.00
EV/EBITDA	20.31	13.75	13.90	35.02	8.61	10.05
PEG Ratio	1.33	1.34	2.00	1.37	0.70	1.65
Price/Book (P/B)	3.48	2.08	3.34	1.23	1.36	2.30
Price/Cash Flow (P/CF)	16.48	3.18	13.67	8.16	9.38	9.62
P/E (F1)	19.95	20.15	18.72	14.46	16.05	13.32
Price/Sales (P/S)	1.08	0.22	2.66	0.97	0.26	1.11
Earnings Yield	4.96%	-13.19%	5.31%	6.91%	6.23%	7.51%
Debt/Equity	1.77	2.31	0.72	1.49	0.51	0.76
Cash Flow ($/share)	2.78	1.06	6.94	4.13	8.05	14.75
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	13.13%	9.78%	10.56%	1.67%	-1.22%	10.69%
Proj. EPS Growth (F1/F0)	3.65%	13.29%	7.42%	14.53%	35.80%	8.57%
Curr. Cash Flow Growth	34.15%	-17.39%	14.83%	3.28%	-23.15%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	10.03%	6.21%	9.00%	37.98%	-1.10%	11.28%
Current Ratio	1.11	0.79	1.23	1.17	1.70	1.19
Debt/Capital	63.86%	87.83%	42.92%	60.09%	33.78%	43.16%
Net Margin	4.84%	-1.09%	11.08%	-6.88%	0.10%	6.48%
Return on Equity	17.27%	-24.04%	17.16%	7.31%	3.21%	15.80%
Sales/Assets	1.12	1.01	0.55	0.46	2.35	0.97
Proj. Sales Growth (F1/F0)	0.36%	-1.10%	4.15%	4.53%	3.56%	3.96%
Momentum Score	D	-	-	C	A	B
Daily Price Chg	0.93%	0.32%	0.10%	1.87%	-0.63%	-0.08%
1 Week Price Chg	1.41%	-1.10%	-0.30%	0.39%	-3.09%	-0.96%
4 Week Price Chg	8.08%	-5.49%	2.33%	5.38%	-3.64%	-1.29%
12 Week Price Chg	14.70%	-0.17%	7.02%	16.52%	29.73%	-1.48%
52 Week Price Chg	15.31%	-11.96%	24.61%	28.17%	25.90%	19.92%
20 Day Average Volume	236,064	136,674	1,589,897	515,160	126,405	449,952
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-11.16%	-6.95%	-0.56%	-4.50%	-6.37%	-3.25%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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