

## The Ensign Group, Inc. (ENSG)

**\$56.86** (As of 08/07/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

### Summary

Ensign Group's adjusted operating earnings of 78 cents per share surpassed the Zacks Consensus Estimate by 36.8% and improved 44.4% year over year owing to revenues. Its shares have outperformed its industry in a year's time. Its growth has been driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. Its spin-off of its home health and hospice business is expected to help it meet the patients' requirements as well as enhance shareholder's value. Its solid financial health enables it to enhance shareholder value. The company raised its 2020 guidance, which should instill investor's confidence in the stock. However, it has been suffering from rising expenses that keep draining its bottom line. Decline in occupancy remains a concern.

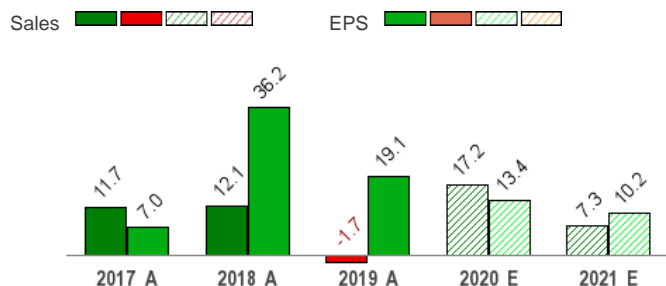
### Price, Consensus & Surprise



### Data Overview

|                            |   |
|----------------------------|---|
| 52 Week High-Low           | \$58.34 - \$24.06                       |
| 20 Day Average Volume (sh) | 255,529                                 |
| Market Cap                 | \$3.1 B                                 |
| YTD Price Change           | 25.7%                                   |
| Beta                       | 0.86                                    |
| Dividend / Div Yld         | \$0.20 / 0.4%                           |
| Industry                   | <a href="#">Medical - Nursing Homes</a> |
| Zacks Industry Rank        | Top 49% (123 out of 252)                |

### Sales and EPS Growth Rates (Y/Y %)



|                           |       |
|---------------------------|-------|
| Last EPS Surprise         | 37.7% |
| Last Sales Surprise       | 2.0%  |
| EPS F1 Est- 4 week change | 0.0%  |
| Expected Report Date      | NA    |
| Earnings ESP              | 0.0%  |
| P/E TTM                   | 21.1  |
| P/E F1                    | 22.4  |
| PEG F1                    | 1.5   |
| P/S TTM                   | 1.3   |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 613 E | 619 E | 629 E | 638 E | 2,561 E |
| 2020 | 590 A | 585 A | 595 E | 630 E | 2,387 E |
| 2019 | 549 A | 576 A | 601 A | 560 A | 2,037 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.70 E | \$0.69 E | \$0.71 E | \$0.71 E | \$2.80 E |
| 2020 | \$0.77 A | \$0.78 A | \$0.57 E | \$0.64 E | \$2.54 E |
| 2019 | \$0.55 A | \$0.54 A | \$0.55 A | \$0.60 A | \$2.24 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 08/07/2020. The reports text is as of 08/10/2020.

## 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.

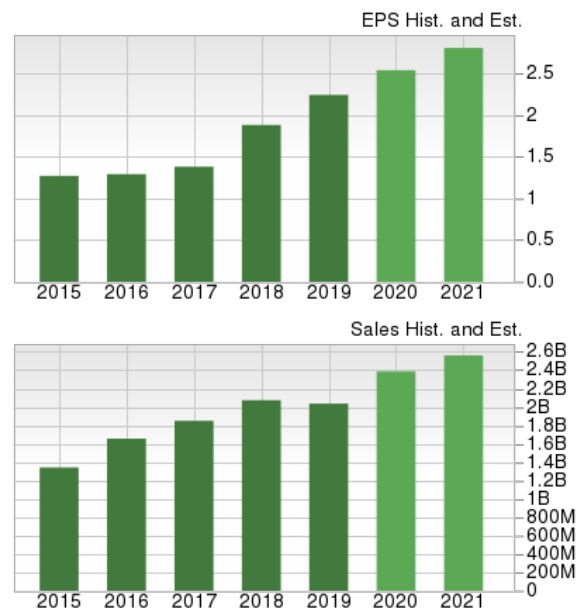
The company provides health care services across the post-acute care continuum and ancillary businesses in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, Wisconsin and Wyoming. As of Dec 31, 2019, it offered skilled nursing, senior living and rehabilitative care services through 223 skilled nursing and senior living facilities. Of the 223 facilities, the company operated 161 facilities under long-term lease arrangements with options to purchase 11 of those 161 facilities. It also owned an additional 90 real estate properties.

Recently, the company authorized the separation of its home health and hospice business and also all its senior living operations from the parent company into a separate publicly traded entity. On its completion, there are two different companies, namely The Ensign Group, Inc. that will consist of the transitional and skilled services, rehabilitative care services, healthcare campuses, post-acute-related new business endeavors and real estate investments, and The Pennant Group, Inc., which will comprise the company's home health and hospice business line and substantially, all its senior living operations.

The company now operates through two services lines, namely Transitional and Skilled Services and Other.

**Transitional and Skilled Services:** As of Dec 31, 2019, its skilled nursing companies provided skilled nursing care at 213 operations with 22,625 operational beds in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, Texas, Utah, Washington and Wisconsin.

**Other:** This service line consists of senior living operations, real estate properties, mobile diagnostics and other ancillary operations.



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## Reasons To Buy:

- ▲ **Solid Outlook:** The company raised its 2020 guidance following solid second-quarter results. For the full year, earnings guidance is expected between \$3 and \$3.10, up from the previous expected range of \$2.50-2.58 per share. The company still expects revenues in the \$2.42-\$2.45 billion band. This strong outlook 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 2019, it expanded its portfolio with 22 stand-alone skilled nursing operations, one stand-alone senior living operation and four campus operations. During the first six months of 2020, the company purchased three stand-alone skilled nursing operations and one stand-alone independent living operation. Its portfolio now consists of 226 skilled nursing operations, 24 of which include senior living operations and other ancillary businesses across 14 states. We expect all these acquisitions to bode well for the long haul.
- ▲ **Growing Revenues:** The Ensign Group's top line has been growing since 2012. Revenues witnessed a six-year CAGR (2012-18) of 16.3%. This upside continued in 2019 with the metric rising 16.1% year over year, driven by both its Medicaid and Medicare businesses. The company's growth strategies and acquisitions are likely to drive the top line. In the first six months of 2020, the metric improved 22% year over year to \$590 million, driven by a solid segmental performance at Transitional and Skilled Services. Its revenues have gained traction on the back of its Medicaid and Medicare business lines. It also anticipates 2020 annual revenues in the band of \$2.42-\$2.45 billion, the midpoint indicating an upside of 6.3% from the year-ago reported figure.
- ▲ **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 17 years. The company doesn't have plans to suspend its dividend as well. Its dividend yield stands at 0.4%, higher than the industry average of 0.3%. The company continued with its capital deployment on the back of its capital position despite the current environment. We believe the company's financial strength to continue buoying investors' confidence in the stock.
- ▲ **Divestiture:** In late 2019, the company 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.
- ▲ **Cost-Curbing Measures:** The company has taken certain cost-cutting measures including voluntary reduction in base salaries by the board of directors, the executive team and other key leaders. This is likely to help the margins.
- ▲ **Capital Position:** The company's balance sheet position also remains a positive. Its net debt is 65.3% of capital, much lower than the industry's average of 96.4%. Also, its time interest earned stands at 13.3X, much higher than the industry average of 1.6X. As of Jun 30, 2020, it had cash and cash equivalents worth \$200 million, higher than the current maturities of long-term debt of \$3.2 million. The company also received around \$110 million of the Provider Relief Funding under the CARES Act. Thus, its financial flexibility is impressive.
- ▲ **Price Performance:** In a year's time, shares of Ensign Group have outperformed its industry. Its solid fundamentals such as divestitures and growing revenues should continue to drive the stock going forward.

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

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## Reasons To Sell:

- ▼ **Declining Occupancy:** The company has been witnessing a decline in occupancy due to COVID-19 from the last few weeks of March. Ensign Group is likely to endure cancellation of vital procedures and overall lower hospital occupancy. From mid-March and mid-April onward, the company witnessed same-store and transitioning occupancy declining 5.2% and 11.8%, respectively. Moreover, between mid-April and early May, combined same-store and transitioning occupancy dipped an additional 1.7%. Same-store occupancy for the second quarter was 73.7%, down 5.9% year over year. Between mid-June and mid-July, combined same-store was down 1.9% year over year, which remains a concern.
- ▼ **Rising Expenses:** The company has been witnessing a persistent increase in total expenses since 2012. Expenses rose 14.2% and 14% year over year in 2019 and during the first six months of 2020, respectively, due to higher cost of services, general and administrative expenses, etc. The rising trend in expenses continues to hurt the company, denting its bottom line.
- ▼ **Overvalued:** The stock is trading at a higher value than its industry average. Its current price-to-sales value stands at 1.2X, much above the industry's average of 0.3X. This makes its valuation expensive.

The company severely suffers regulatory uncertainties and rising expenses from higher cost of services, selling, general & administrative expenses.

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## Last Earnings Report

### Ensign Group's Q2 Earnings Beat Estimates, Rise Y/Y

Ensign Group delivered adjusted operating earnings of 78 cents per share in second-quarter 2020, surpassing the Zacks Consensus Estimate by 36.8%. Further, the bottom line improved 44.4% year over year.

The company's results benefited from improved revenues.

**Quarter Ending** 06/2020

| Report Date      | Aug 05, 2020 |
|------------------|--------------|
| Sales Surprise   | 2.00%        |
| EPS Surprise     | 37.74%       |
| Quarterly EPS    | 0.78         |
| Annual EPS (TTM) | 2.53         |

## Operational Update

Total revenues of \$584.7 million increased 1.6% year over year in the reported quarter. This improvement was driven by a solid segmental performance at Transitional and Skilled Services. Moreover, the top line beat the Zacks Consensus Estimate by 2%.

Further, adjusted net income in the quarter under review was \$43.1 million, up 99% from the prior-year quarter.

Total revenues in the Transitional and Skilled Services, the only reporting segment of the company, came in at \$556.7 million, up 18.7% year over year. Notably, the segment accounted for 95.2% of the total revenues in the reported quarter.

However, total expenses increased 14% year over year to \$529.3 million due to higher cost of services, plus general and administrative expenses.

## Financial Update

The company exited the second quarter with \$201.7 million of cash and cash equivalents, up 241% from the level at 2019 end.

As of Jun 30, 2020, long-term debt less current maturities was \$143.8 million, down 55.8% from the level at 2019 end.

Net cash from operating activities for the first six months of 2020 stands at \$174.1 million, up 229.7% year over year.

## Dividend Update

Ensign Group paid out a quarterly cash dividend of 5 cents per share during the second quarter.

## 2020 Guidance

Following solid second-quarter results, the company raised its 2020 annual earnings guidance to \$3-\$3.10 per share, up from the prior expectation of \$2.50-\$2.58 per share.

It still expects its annual revenues in the band of \$2.42-\$2.45 billion.

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## Recent News

### Ensign Group Boosts Presence in Arizona With Campus Buyout — Aug 3, 2020

Ensign Group announced the buyout of the real estate and operations of one post-acute care retirement campus located in Tempe, AZ. The transaction was effective from Aug 1, 2020. The addition of Tempe Post Acute, a skilled nursing facility containing 62 beds, and Desert Marigold Senior Living of Tempe, a senior living center containing 72 assisted living beds and 90 independent living units, adds 226 healthcare operations to the company's portfolio.

### Ensign Group Announces Quarterly Dividend — Jun 19, 2020

Ensign Group cleared a quarterly cash dividend of 5 cents per share, payable Jul 31, 2020 to its shareholders of record as of Jun 30, 2020.

### Ensign Group Expands Colorado Presence With Twin Buyouts – Mar 3, 2020

Ensign Group completed the buyouts of the operations of two skilled nursing facilities located in Commerce City, CO. Subject to long-term, triple net leases, the transactions were effective Mar 1, 2020. The addition of Ridgeview Post Acute, a skilled nursing facility with 105 skilled nursing beds, and Irondale Post Acute, a skilled nursing facility with 83 skilled nursing beds, adds 216 skilled nursing operations to the company's portfolio.

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## Valuation

The Ensign Group's shares are up 26% and 23% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.2% and 13.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11% and up 2%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and up 18.8% in the past year.

The stock is currently trading at 1.23x price to sales value, which compares to 0.33x for the Zacks sub-industry, 2.82x for the Zacks sector and 3.66x 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 0.76x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 1.29x sales.

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## Industry Analysis Zacks Industry Rank: Top 49% (123 out of 252)



## Top Peers

| Company (Ticker)                       | Rec     | Rank |
|--|---------|------|
| Acadia Healthcare Company, Inc. (ACHC) | Neutral | 3    |
| Brookdale Senior Living Inc. (BKD)     | Neutral | 3    |
| Community Health Systems, Inc. (CYH)   | Neutral | 3    |
| HCA Healthcare, Inc. (HCA)             | Neutral | 3    |
| Magellan Health, Inc. (MGLN)           | Neutral | 3    |
| Tenet Healthcare Corporation (THC)     | Neutral | 3    |
| Universal Health Services, Inc. (UHS)  | Neutral | 2    |
| UnitedHealth Group Incorporated (UNH)  | Neutral | 3    |

| Industry Comparison Industry: Medical - Nursing Homes |         |            |           | Industry Peers |          |           |
|---|---------|------------|-----------|----------------|----------|-----------|
|   | ENSG    | X Industry | S&P 500   | ACHC           | MGLN     | UHS       |
| Zacks Recommendation (Long Term)                      | Neutral | -          | -         | Neutral        | Neutral  | Neutral   |
| Zacks Rank (Short Term)                               | 3       | -          | -         | 3              | 3        | 2         |
| VGM Score   | A       | -          | -         | A              | D        | A         |
| Market Cap  | 3.07 B  | 159.87 M   | 23.30 B   | 2.76 B         | 1.90 B   | 9.29 B    |
| # of Analysts   | 3       | 1.5        | 14        | 8              | 2        | 6         |
| Dividend Yield  | 0.35%   | 0.00%      | 1.76%     | 0.00%          | 0.00%    | 0.55%     |
| Value Score   | B       | -          | -         | A              | B        | A         |
| Cash/Price  | 0.03    | 0.48       | 0.07      | 0.03           | 0.13     | 0.06      |
| EV/EBITDA   | 22.23   | 12.14      | 13.32     | 12.49          | 9.28     | 7.26      |
| PEG Ratio   | 1.49    | 1.50       | 2.94      | 1.28           | 4.81     | 1.55      |
| Price/Book (P/B)                                      | 4.27    | 1.06       | 3.19      | 1.10           | 1.23     | 1.61      |
| Price/Cash Flow (P/CF)                                | 18.02   | 2.25       | 12.51     | 7.74           | 8.23     | 6.86      |
| P/E (F1)  | 22.39   | 22.47      | 22.02     | 15.08          | 87.15    | 12.36     |
| Price/Sales (P/S)                                     | 1.31    | 0.12       | 2.53      | 0.89           | 0.29     | 0.82      |
| Earnings Yield  | 4.46%   | -11.73%    | 4.37%     | 6.63%          | 1.15%    | 8.09%     |
| Debt/Equity   | 1.54    | -1.87      | 0.77      | 1.42           | 0.42     | 0.65      |
| Cash Flow (\$/share)                                  | 3.16    | 0.93       | 6.94      | 4.01           | 9.10     | 15.94     |
| Growth Score  | A       | -          | -         | B              | D        | A         |
| Hist. EPS Growth (3-5 yrs)                            | 16.04%  | 11.27%     | 10.46%    | -1.53%         | 1.93%    | 9.30%     |
| Proj. EPS Growth (F1/F0)                              | 21.37%  | -0.54%     | -6.80%    | 0.92%          | 368.75%  | 1,305.03% |
| Curr. Cash Flow Growth                                | 18.22%  | 6.85%      | 5.39%     | -2.61%         | 14.08%   | 2.58%     |
| Hist. Cash Flow Growth (3-5 yrs)                      | 16.88%  | -6.54%     | 8.55%     | 24.05%         | 3.37%    | 23.60%    |
| Current Ratio   | 0.94    | 0.90       | 1.33      | 1.16           | 2.05     | 1.02      |
| Debt/Capital  | 60.56%  | 60.56%     | 44.50%    | 58.89%         | 29.38%   | 39.32%    |
| Net Margin  | 5.81%   | 1.41%      | 10.13%    | 3.42%          | 2.20%    | 6.53%     |
| Return on Equity                                      | 20.42%  | -4.81%     | 14.39%    | 7.11%          | 7.74%    | 14.75%    |
| Sales/Assets  | 0.97    | 0.97       | 0.51      | 0.46           | 2.04     | 0.96      |
| Proj. Sales Growth (F1/F0)                            | 4.44%   | 0.00%      | -1.51%    | 1.85%          | -37.55%  | -1.42%    |
| Momentum Score  | D       | -          | -         | A              | F        | A         |
| Daily Price Chg                                       | 1.88%   | 3.38%      | 0.90%     | 0.62%          | 0.17%    | 1.50%     |
| 1 Week Price Chg                                      | 1.79%   | 8.57%      | 0.14%     | 3.13%          | -1.15%   | 1.68%     |
| 4 Week Price Chg                                      | 41.50%  | 21.56%     | 8.95%     | 28.84%         | 8.70%    | 23.51%    |
| 12 Week Price Chg                                     | 51.34%  | 22.67%     | 18.90%    | 26.92%         | 9.21%    | 19.63%    |
| 52 Week Price Chg                                     | 10.04%  | -27.17%    | 1.18%     | 6.08%          | 7.81%    | -25.28%   |
| 20 Day Average Volume                                 | 255,529 | 161,825    | 2,057,775 | 535,572        | 113,596  | 728,146   |
| (F1) EPS Est 1 week change                            | 0.00%   | 0.00%      | 0.00%     | 4.37%          | 0.00%    | 15.13%    |
| (F1) EPS Est 4 week change                            | 0.00%   | 0.00%      | 1.36%     | 4.37%          | -67.61%  | 40.10%    |
| (F1) EPS Est 12 week change                           | -0.42%  | -0.21%     | 1.57%     | 9.46%          | -77.03%  | 25.35%    |
| (Q1) EPS Est Mthly Chg                                | 0.00%   | 0.00%      | 0.54%     | 4.82%          | -128.05% | 49.20%    |

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## 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.

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### 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>B</b> |
| Growth Score   | <b>A</b> |
| Momentum Score | <b>D</b> |
| VGM Score      | <b>A</b> |

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.

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