

The Ensign Group, Inc. (ENSG)

\$52.68 (As of 02/11/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Ensign Group's fourth-quarter operating earnings of 60 cents per share beat the Zacks Consensus Estimate by 9.1% and improved 11.1% year over year on higher revenues. Its shares have outperformed its industry in a year's time. Its latest 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 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 inorganic strategies have consistently boosted its revenue base and a solid financial health enables it to enhance shareholder value. However, it has been suffering from rising expenses that keep draining its bottom line. High-debt levels persistently raise the company's interest expenses.

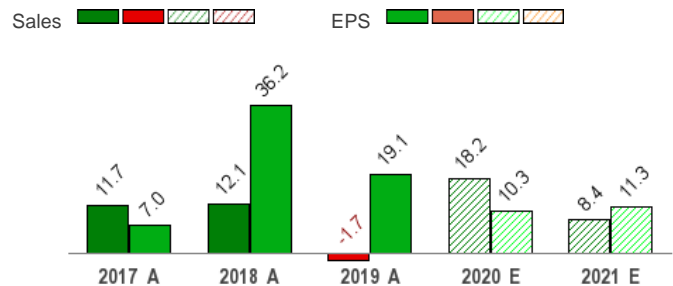
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.39 - \$38.65
20 Day Average Volume (sh)	240,728
Market Cap	\$2.8 B
YTD Price Change	16.1%
Beta	0.87
Dividend / Div Yld	\$0.20 / 0.4%
Industry	Medical - Nursing Homes
Zacks Industry Rank	Top 9% (22 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.1%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	9.6%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	23.5
P/E F1	21.3
PEG F1	1.4
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	629 E	636 E	647 E	664 E	2,609 E
2020	579 E	592 E	608 E	628 E	2,407 E
2019	549 A	576 A	601 A	560 A	2,037 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$0.67 E	\$0.69 E	\$0.72 E	\$2.75 E
2020	\$0.60 E	\$0.62 E	\$0.64 E	\$0.68 E	\$2.47 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 02/11/2020. The reports text is as of 02/12/2020.

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.

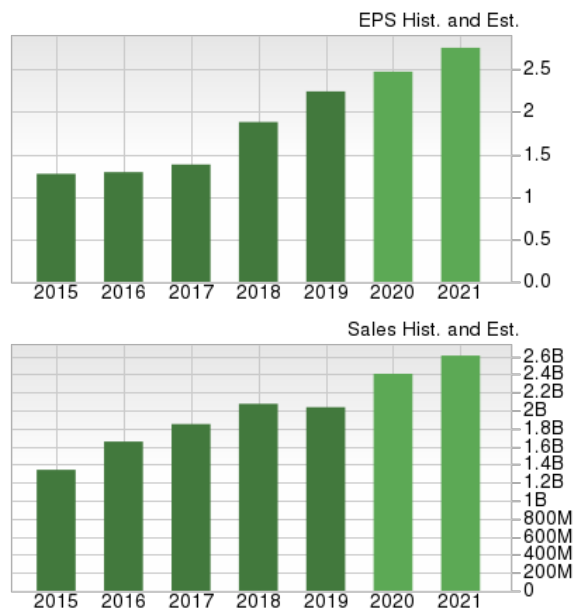
The company provides health care services across the post-acute care continuum and ancillary businesses in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, Wisconsin and Wyoming. As of Dec 31, 2019, it offered skilled nursing, 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.



Reasons To Buy:

- ▲ **Solid Outlook:** For the full year, share guidance is expected between \$2.50 and 2.58 per share, up from the earlier band of \$2.22-\$2.30 per share. The company expects revenues in the \$2.42-\$2.45 billion band, up from the \$2.30-\$2.35 bracket. 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 2019, it expanded its portfolio with 22 stand-alone skilled nursing operations, one stand-alone senior living operation and four campus operations. These operations added a total of 3,142 operational skilled nursing beds and 407 operational senior living units. We expect all these buyouts 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. 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.
- ▲ **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 17 years. The company's dividend yield stands at 0.4%, higher than the industry average of 0.2%. 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.

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

Risks

- **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. In 2019, interest expense of the company inched up 3.2% year over year. Also, its current debt to equity ratio came in at 205.2%. An increase in financial leverage and low interest coverage raise financial risk.
 - **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 14.2% year over year in 2019 due to higher cost of services, general and administrative expenses and rent-cost of services. 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 1.18, higher than the industry average of 0.39.
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Last Earnings Report

Ensign Group's Q4 Earnings Beat Estimates, Rise Y/Y

Ensign Group delivered adjusted operating earnings of 60 cents per share in fourth-quarter 2019, beating the Zacks Consensus Estimate by 9.1%. Also, the metric improved 11.1% year over year on higher revenues.

Moreover, adjusted net income in the quarter under review was \$27.4 million, up 3.9% from the prior-year quarter.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	3.04%
EPS Surprise	9.09%
Quarterly EPS	0.60
Annual EPS (TTM)	2.24

Operational Update

Total revenues of \$560 million increased 21.1% year over year in the reported quarter. Moreover, the metric beat the Zacks Consensus Estimate by 2.9%.

Total expenses escalated 18.7% year over year to \$520 million due to higher cost of services, rent, general and administrative expenses plus depreciation and amortization.

Interest expense of the company rose 11.8% year over year.

Financial Update

The company exited 2019 with \$59 million of cash and cash equivalents, up 90.6% from the level at 2018 end.

As of Dec 31, 2019, long-term debt less current maturities was \$325 million, up 39.5% from the level at 2018 end.

For 2019, net cash from operating activities stands at \$168.9 million, down 0.7% year over year.

Dividend Update

Ensign Group paid out a quarterly cash dividend of 5 cents per share during the fourth quarter. The company has been hiking its dividend for the 17 consecutive years.

2020 Outlook

Following solid fourth-quarter earnings, management again raised its 2020 guidance.

For the full year, earnings per share are expected between \$2.50 and 2.58 on revenues within \$2.42-\$2.45 billion.

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 4% over the trailing 12-month period. Over the past year, the Zacks industry and sector are down 5% and 4%, respectively.

The S&P 500 index is up 21.4% in the past year.

The stock is currently trading at 1.18X price to sales ratio, which compares to 0.39X for the Zacks sub-industry, 2.87X for the Zacks sector and 3.56X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$61 price target reflects 1.36X sales.

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Nursing Homes				Industry Peers		
	ENSG Outperform	X Industry	S&P 500	ACHC Neutral	MGLN Neutral	UHS Neutral
VGM Score	A	-	-	B	A	A
Market Cap	2.82 B	190.95 M	24.31 B	2.98 B	1.78 B	12.41 B
# of Analysts	4	2.5	13	7	3	5
Dividend Yield	0.38%	0.00%	1.78%	0.00%	0.00%	0.56%
Value Score	C	-	-	B	A	A
Cash/Price	0.03	0.26	0.04	0.03	0.40	0.00
EV/EBITDA	21.97	13.76	13.97	35.00	8.30	10.04
PEG Ratio	1.42	1.42	2.06	1.37	0.68	1.65
Price/Book (P/B)	4.28	2.08	3.24	1.23	1.31	2.29
Price/Cash Flow (P/CF)	16.66	3.21	13.65	8.15	9.05	9.61
P/E (F1)	21.33	21.31	19.12	14.44	15.49	13.30
Price/Sales (P/S)	1.23	0.20	2.67	0.97	0.25	1.10
Earnings Yield	4.69%	-17.24%	5.23%	6.92%	6.45%	7.52%
Debt/Equity	1.98	2.42	0.70	1.49	0.51	0.76
Cash Flow (\$/share)	3.16	1.06	6.94	4.13	8.05	14.75
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	14.58%	10.51%	10.85%	1.67%	-1.22%	10.69%
Proj. EPS Growth (F1/F0)	10.38%	13.21%	7.30%	14.53%	35.80%	8.57%
Curr. Cash Flow Growth	18.22%	-17.39%	8.92%	3.28%	-23.15%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	16.88%	9.64%	8.36%	37.98%	-1.10%	11.28%
Current Ratio	1.20	0.79	1.22	1.17	1.70	1.19
Debt/Capital	66.44%	87.83%	42.90%	60.09%	33.78%	43.16%
Net Margin	4.84%	-1.09%	11.81%	-6.88%	0.10%	6.48%
Return on Equity	17.32%	-24.04%	16.98%	7.31%	3.21%	15.80%
Sales/Assets	0.99	0.99	0.54	0.46	2.35	0.97
Proj. Sales Growth (F1/F0)	5.29%	-1.10%	3.90%	4.53%	3.56%	3.96%
Momentum Score	A	-	-	C	C	C
Daily Price Chg	-1.11%	0.97%	0.65%	1.14%	0.91%	1.48%
1 Week Price Chg	17.32%	1.15%	2.47%	2.80%	-0.04%	0.74%
4 Week Price Chg	12.93%	-3.35%	1.35%	0.45%	-1.66%	-2.60%
12 Week Price Chg	26.88%	-2.76%	5.63%	5.83%	-2.83%	-0.08%
52 Week Price Chg	3.80%	-13.67%	16.19%	23.97%	15.23%	6.25%
20 Day Average Volume	240,728	102,740	1,995,746	555,069	114,909	516,028
(F1) EPS Est 1 week change	9.60%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	9.60%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	11.04%	0.00%	-0.19%	0.00%	-2.08%	0.00%
(Q1) EPS Est Mthly Chg	9.74%	0.00%	0.00%	0.00%	0.00%	0.00%

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	C
Growth Score	A
Momentum Score	A
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.

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