

The Ensign Group, Inc. (ENSG)

\$41.80 (As of 06/23/20)

Price Target (6-12 Months): **\$44.00**

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:B

Value: B

Growth: B

Momentum: C

Summary

Ensign Group's shares have outperformed its industry year-to-date. Its growth has been driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. The company's 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 inorganic strategies have boosted its revenue base and a solid financial health enables it to enhance shareholder value. The company retained its 2020 guidance following solid first-quarter results, which should instill investor's confidence in the stock. However, it has been suffering from rising expenses that keep draining its bottom line. A decline in occupancy bothers. It first-quarter results gained on the back of solid revenues.

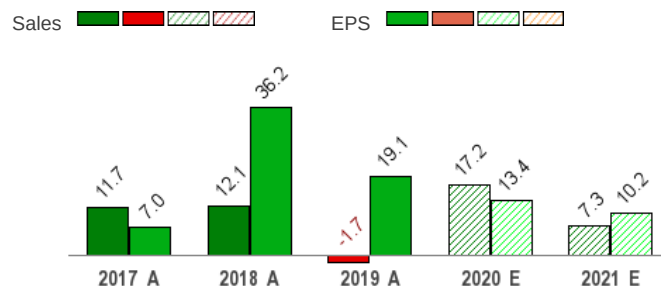
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.39 - \$24.06
20 Day Average Volume (sh)	286,395
Market Cap	\$2.2 B
YTD Price Change	-7.9%
Beta	0.81
Dividend / Div Yld	\$0.20 / 0.5%
Industry	Medical - Nursing Homes
Zacks Industry Rank	Top 15% (39 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.2%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	17.0
P/E F1	16.5
PEG F1	1.1
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	613 E	619 E	629 E	638 E	2,561 E
2020	590 A	573 E	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	\$0.57 E	\$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 06/23/2020. The reports text is as of 06/24/2020.

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.

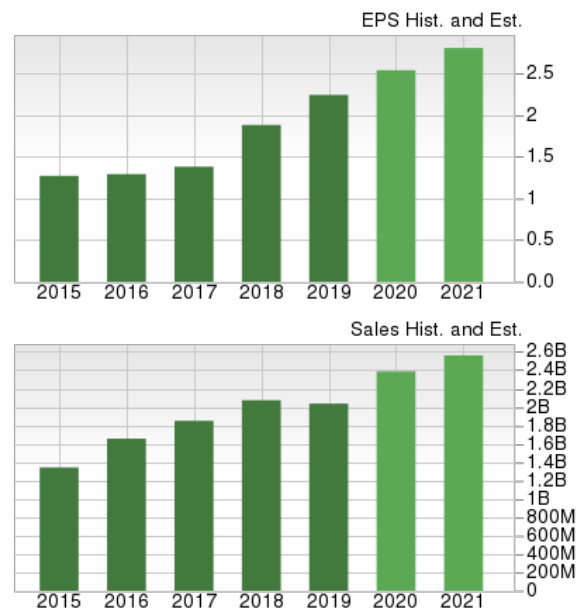
The company provides health care services across the post-acute care continuum and ancillary businesses in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, Wisconsin and Wyoming. As of Dec 31, 2019, it offered skilled nursing, 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:** The company retained its 2020 guidance following solid first-quarter results. For the full year, earnings guidance is expected between \$2.50 and 2.58 per share, the midpoint indicating a hike of 29% from the year-ago reported figure. The company expects revenues in the \$2.42-\$2.45 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 2019, it expanded its portfolio with 22 stand-alone skilled nursing operations, one stand-alone senior living operation and four campus operations. In the first quarter, the company announced addition of four buyouts to its portfolio. 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 quarter of 2020, the metric improved 25.1% year over year to \$590 million, driven by a solid segmental performance at Transitional and Skilled Services. 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's dividend yield stands at 0.5%, 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 industry's average of 106.2%. Also, its time interest earned stands at 10.1X, much higher than the industry average of 0.3X. As of Mar 31, 2020, it had cash and cash equivalents worth \$78 million and \$235 million of revolving line of credit, higher than the current maturities of long-term debt of \$2.7 million. The company also received around \$40 million of grant under the CARES act and \$100 million from the Medicare Accelerated Payment Program as well, which have to be repaid in August 2020. Thus, its financial flexibility is impressive.
- ▲ **Price Performance:** Year-to-date, shares of Ensign Group have outperformed its industry. Its solid fundamentals such as divestitures and growing revenues should help the stock bounce back 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.

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 was down by an additional 1.7%.
- ▼ **Rising Expenses:** The company has been witnessing a persistent increase in total expenses since 2012. Expenses rose 14.2% and 20.7% year over year in 2019 and the first quarter of 2020 each 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 premium to its industry average. Its current price-to-sales value stands at 0.9X, much above the industry's average of 0.4X. This makes its valuation expensive.

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

Last Earnings Report

Ensign Group's Q1 Earnings Beat, Revenues Rise Y/Y

The Ensign Group delivered adjusted operating earnings of 77 cents per share in first-quarter 2020, surpassing the Zacks Consensus Estimate by 24.2%. Further, the bottom line improved 92.5% year over year.

The company's results benefited from improved revenues. However, the results were partially offset by onset of the COVID-19 pandemic in the second half of March, which adversely impacted its occupancies and skilled mix to some extent.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	1.91%
EPS Surprise	24.19%
Quarterly EPS	0.77
Annual EPS (TTM)	2.46

Operational Update

Total revenues of \$590 million increased 25.1% year over year in the reported quarter. This improvement was driven by solid segmental performance at Transitional and Skilled Services. Moreover, the top line beat the Zacks Consensus Estimate by 1.9%.

Further, adjusted net income in the quarter under review was \$43 million, up 93.3% from the prior-year quarter.

Total revenues in the Transitional and Skilled Services, the only reporting segment of the company, came in at \$558.4 million, up 24.3% year over year. Notably, the segment accounted for 94.7% of the total revenues in the reported quarter.

Revenues from "All Other" category improved 41.5% year over year to \$31.2 million, reflecting 5.3% of total revenues.

However, total expenses increased 20.7% year over year to \$532.8 million due to higher cost of services, depreciation and amortization plus general and administrative expenses.

Financial Update

The company exited the first quarter with \$63.2 million of cash and cash equivalents, up 6.8% from the level at 2019 end.

As of Mar 31, 2020, long-term debt less current maturities was \$344.6 million, up 5.9% from the level at 2019 end.

For first-quarter 2020, net cash by operating activities stands at \$27.1 million, up 72.2% year over year.

Dividend Update

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

2020 Outlook Intact

Despite the COVID-19 pandemic-induced economic turmoil, Ensign Group retained guidance for 2020.

Management still expects annual earnings between \$2.50 and \$2.58 per share and annual revenues in the range of \$2.42-\$2.45 billion.

Recent News

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.

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.

Valuation

The Ensign Group's shares are down 8% and 20% 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 30.7% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 35.5% and up 2.1%, respectively.

The S&P 500 index is down 2.3% in the year-to-date period and up 9% in the past year.

The stock is currently trading at 0.91x price to sales value, which compares to 0.43x for the Zacks sub-industry, 2.79x for the Zacks sector and 3.49x 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 \$44 price target reflects 1.04x sales.

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Brookdale Senior Living Inc. (BKD)	Outperform	2
Acadia Healthcare Company, Inc. (ACHC)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
HCA Healthcare, Inc. (HCA)	Neutral	4
Tenet Healthcare Corporation (THC)	Neutral	3
UnitedHealth Group Incorporated (UNH)	Neutral	4
Magellan Health, Inc. (MGLN)	Underperform	3
Universal Health Services, Inc. (UHS)	Underperform	3

Industry Comparison Industry: Medical - Nursing Homes				Industry Peers		
	ENSG	X Industry	S&P 500	ACHC	MGLN	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	A	A
Market Cap	2.24 B	126.12 M	21.86 B	2.30 B	1.78 B	8.11 B
# of Analysts	3	.5	14	8	3	6
Dividend Yield	0.48%	0.00%	1.92%	0.00%	0.00%	0.84%
Value Score	B	-	-	B	A	A
Cash/Price	0.03	0.50	0.07	0.03	0.42	0.01
EV/EBITDA	18.92	12.03	12.65	11.30	6.84	7.02
PEG Ratio	1.04	1.10	2.90	1.95	1.27	2.27
Price/Book (P/B)	3.31	0.95	2.99	0.93	1.25	1.51
Price/Cash Flow (P/CF)	13.22	2.02	11.61	6.45	7.84	5.99
P/E (F1)	15.60	16.48	21.08	13.93	23.01	15.12
Price/Sales (P/S)	0.96	0.10	2.25	0.74	0.25	0.71
Earnings Yield	6.08%	-13.21%	4.42%	7.19%	4.34%	6.62%
Debt/Equity	1.94	-1.87	0.77	1.39	0.45	0.73
Cash Flow (\$/share)	3.16	0.93	7.01	4.01	9.10	15.94
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	16.04%	11.27%	10.84%	-1.53%	0.94%	9.76%
Proj. EPS Growth (F1/F0)	13.25%	-0.54%	-10.80%	-8.95%	-16.80%	-36.75%
Curr. Cash Flow Growth	18.22%	6.85%	5.46%	-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	1.31	1.02	1.29	0.87	1.75	1.09
Debt/Capital	66.02%	66.02%	45.14%	58.36%	31.15%	42.32%
Net Margin	5.33%	1.41%	10.53%	3.61%	1.02%	6.34%
Return on Equity	18.88%	-3.89%	16.06%	7.40%	8.02%	14.89%
Sales/Assets	0.99	0.97	0.55	0.46	2.30	0.98
Proj. Sales Growth (F1/F0)	4.44%	0.00%	-2.66%	1.60%	-30.22%	-5.58%
Momentum Score	C	-	-	A	B	C
Daily Price Chg	-0.76%	-0.30%	0.04%	0.82%	1.51%	-0.59%
1 Week Price Chg	-0.31%	-5.70%	0.92%	1.19%	1.11%	1.17%
4 Week Price Chg	-6.00%	-0.00%	2.71%	-9.61%	0.44%	-10.19%
12 Week Price Chg	11.14%	-7.02%	19.78%	40.98%	48.41%	-3.57%
52 Week Price Chg	-26.11%	-34.02%	-6.05%	-24.91%	8.58%	-25.73%
20 Day Average Volume	286,395	197,609	2,819,961	708,361	191,720	829,271
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.42%	0.00%	0.00%	1.23%	2.20%	-10.53%
(F1) EPS Est 12 week change	-0.42%	-9.38%	-12.72%	-17.81%	-17.68%	-40.32%
(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	B
Momentum Score	C
VGM Score	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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