

HCA Healthcare, Inc.(HCA)

\$105.65 (As of 07/15/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

Summary

HCA Healthcare's top line has been growing over the last several quarters on the back of same facility as well as equivalent admissions. Multiple buyouts have helped it increase its patient volumes, enabled network expansion and added hospitals to its portfolio. A strong balance sheet is a positive. It has also taken up cost curbing measures, which would likely aid margins. Shares of the company underperformed its industry in a year's time. However, its escalating operating expenses persistently weigh on the margins. High leverage is another concern. The coronavirus global pandemic puts a pressure on revenues due to cancellation in elective surgeries. Due to the COVID-19-related uncertainty, it withdrew its 2020 guidance. A Zacks Rank #4 and an Earnings ESP of 104.2% leave us inconclusive as it is set to report its Q2 earnings on Jul 22.

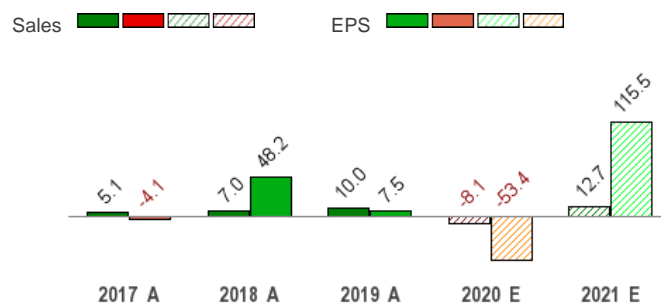
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$151.97 - \$58.38
20 Day Average Volume (sh)	2,431,801
Market Cap	\$35.7 B
YTD Price Change	-28.5%
Beta	1.30
Dividend / Div Yld	\$1.72 / 1.6%
Industry	Medical - Hospital
Zacks Industry Rank	Bottom 28% (180 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.7%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	104.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	13,173 E	12,767 E	12,882 E	13,898 E	53,212 E
2020	12,861 A	9,402 E	11,451 E	13,482 E	47,196 E
2019	12,517 A	12,602 A	12,694 A	13,523 A	51,336 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.55 E	\$2.22 E	\$2.18 E	\$3.20 E	\$10.54 E
2020	\$2.33 A	-\$0.94 E	\$0.71 E	\$3.02 E	\$4.89 E
2019	\$2.97 A	\$2.21 A	\$2.23 A	\$3.09 A	\$10.50 A

*Quarterly figures may not add up to annual.

P/E TTM	10.7
P/E F1	21.6
PEG F1	1.8
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

Overview

Effective May 8, 2017, the company's name was changed to HCA Healthcare, Inc. from HCA Holdings, Inc. It is the largest non-governmental operator of acute care hospitals in the U.S. Headquartered in Nashville, TN, it operates hospitals and related health care entities.

At the end of 2019, the company operated 184 hospitals comprising 179 general, acute care hospitals with 48,443 licensed beds, three psychiatric hospitals and one rehabilitation hospital. The company also operated 123 freestanding surgery centers. Its business is spread across 21 states and England.

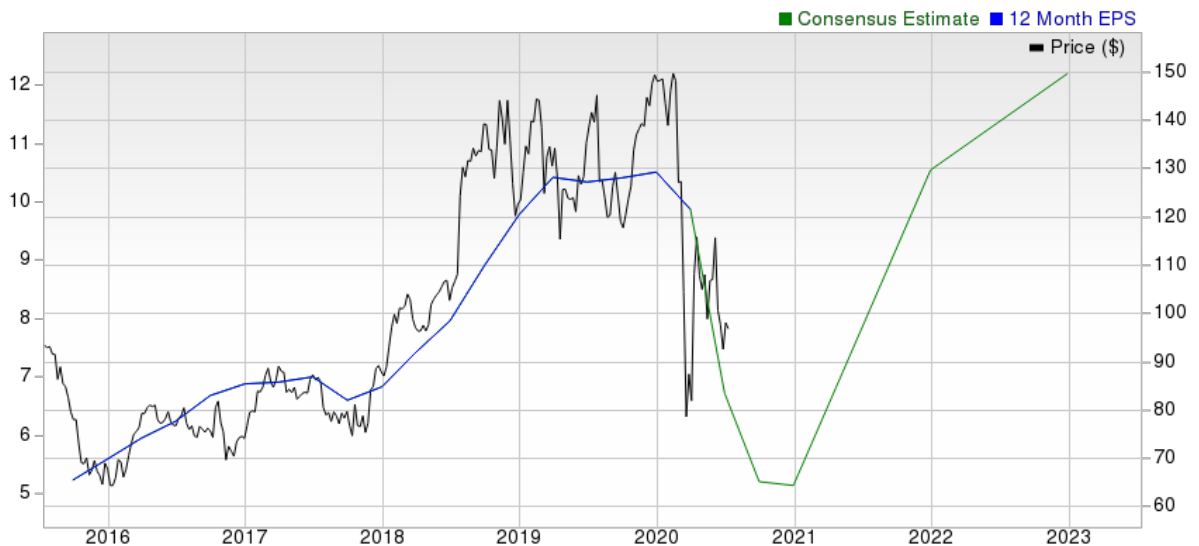
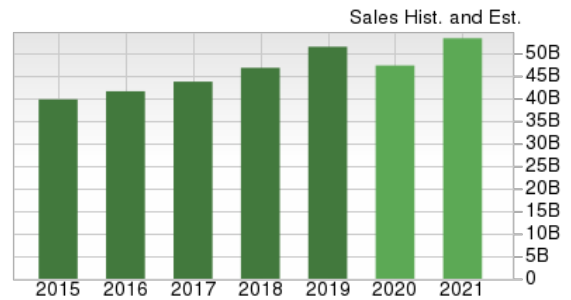
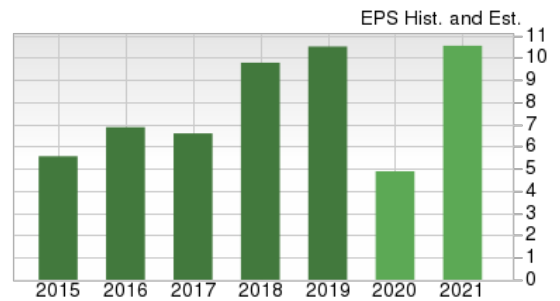
The general, acute care hospitals also provide outpatient services such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology and physical therapy

It operates in two geographically organized groups – the National and American Groups.

The National Group includes 95 hospitals across Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, North Carolina, South Carolina, Utah and Virginia.

The American Group includes 83 hospitals across Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. The company also operates six hospitals in England that are included in the Corporate and Other group.

The company's general, acute care hospitals with 48,443 licensed beds provide a wide range of services to cater to different medical specialties, such as internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics and obstetrics as well as diagnostic and emergency services. As of Dec 31, 2019, HCA Healthcare's three psychiatric hospitals with 412 licensed beds offered a full range of mental health care services through inpatient, partial hospitalization and outpatient settings.



Reasons To Buy:

- ▲ **Share Price Performance:** Shares of HCA Healthcare have underperformed its industry in the past year. However, the company's strong fundamentals are expected to help the stock bounce back going forward.
- ▲ **Acquisitions Fueling Inorganic Growth:** HCA Healthcare has been emphasizing on acquisitions for expedited growth. Its inorganic growth strategies have led to an increase in patient volumes enabled network expansion across several markets and added hospitals to its portfolio. The company's acquisitions are expected to add scale to its business, positioning it better to weather the regulatory uncertainty in the healthcare sector. During 2018 and 2019, HCA Healthcare paid a total of \$1.2 billion and \$1.7 billion each for its acquisitions. All these buyouts helped the company boost its portfolio and penetrate further into different geographies.
- ▲ **Capital Deployment:** HCA Healthcare's balance sheet and cash flows (the company has consistently generated increased free cash flow for the past several years) are impressive and offer the potential for accretive mergers and acquisitions alongside shareholder-friendly capital deployment through buybacks. In January 2020, the company raised its quarterly cash dividend by 7.5%. Its dividend yield of 1.6%, above the industry average of 1.3%, also impresses. Its cash flow provided by operating activities continues to be strong with the metric rising 12.4% and 41.2% year over year, respectively, in 2019 and the first quarter of 2020.
- ▲ **Cost Curbing Measures:** The company took up a series of cost-management strategies, such as travel freezes, regulation of variable cost structure, reduction in discretionary spending, etc. This, in turn, will likely aid margins.

The company's numerous acquisitions, rising admissions, diversified business and strong balance sheet should drive long term growth. A solid guidance also contributes.

Reasons To Sell:

- ▼ **Rising Expenses:** The company witnessed escalating expenses from the past many years due to higher salaries and benefits, supplies plus other operating costs. In 2019 and the first three months of 2020, the same rose 10.2% and 6.8%, respectively, year over year. Going forward, the company is again expected to witness a rise in costs due to its constant growth-related investments. Currently, it expects 2020 capital expenditures in the range of \$1-\$1.5 billion for the remaining year.
- ▼ **High Financial Leverage:** Long-term debt has been increasing since 2011, inducing a financial risk for the company. Moreover, its leverage ratio (total debt to capital) of 102.1% is higher than the industry average of 97.7%. The company's interest expense has also been rising over the last several quarters. In 2018 and 2019, the metric inched up 3.8% and 3.9% each year over year. Although it declined 8.4% year over year in the first quarter of 2020, the same remains a concern. As of Mar 31, 2020, its time interest earned stood at 3.6x, declining from 3.9x at the end of 2019. The company's high debt and low interest payment capacity raises financial risk.
- ▼ **Weak ROE:** Further, HCA Healthcare's trailing 12-month return on equity (ROE) of -304.8% reflects a decline since 2015. This, in turn, undermines its growth potential and also compares unfavorably with its industry average of 436.3%. Additionally, the company's negative ROE mirrors its inefficiency in using shareholders' funds, which is not attractive for investors.
- ▼ **COVID-19 Effect on Revenues:** The coronavirus outbreak has required hospitals to keep their elective procedures on hold to accommodate any potential surge in COVID-19 infected admissions. Cancellation in elective surgeries to accommodate coronavirus-infected patients is hurting the company's revenues. The top line has been waning due to the same reason since the middle of March. The company even withdrew its guidance because of the uncertainty surrounding the COVID-19 impact with decline in same facility emergency room visits, same facility in-patient surgeries, hospital-based outpatient surgeries, etc. Through April, the company witnessed a year-over-year 30% and 50% decline in its in-patient admissions and emergency room visits. Its hospital-based outpatient surgeries also saw a 70% plunge from the prior-year quarter.

Moreover, it is feared that coronavirus outbreak may cause recession. Such an economic situation may lead to loss of jobs, which would mean less number of people covered by private insurance and more number of people with insurance from Government health schemes – Medicare and Medicaid. Since profitability of the Government sponsored health insurance plans is lower than that covered under employer sponsored plans, margins of the hospitals are likely to take a hit. Higher number of individuals without sufficient health insurance cover might also lead to hospitals facing the issue of bad debts from unpaid medical bills.
- ▼ **Decline in Profitability:** The company's return on equity at the end of the first quarter was down 6270 basis points year over year. The company has also suspended its quarterly dividend program due to the COVID-19 effect and expects to resume it later. This measure was taken to maintain its financial strength, given the high level of uncertainty in the business environment. Given a difficult operating environment, we expect profitability to remain under pressure in the coming quarters.

HCA Healthcare suffers from weakness in international operations. Negative return on equity and stretched valuation makes the stock look unattractive.

Last Earnings Report

HCA Healthcare's Earnings Miss in Q1, Decrease Y/Y

HCA Healthcare reported first-quarter 2020 adjusted earnings of \$2.33 per share, missing the Zacks Consensus Estimate by 10.7%. Moreover, the bottom line declined 21.5% year over year due to lower patient volumes.

Quarterly Details

HCA Healthcare's revenues of \$12.8 billion lagged the Zacks Consensus Estimate by 1.6%. However, the top line was up 2.7% from the year-ago period.

Same facility equivalent admissions dipped 0.4% year over year while same facility admissions inched up 0.6%. Same facility revenue per equivalent admission also grew 1.6% year over year.

Same facility inpatient surgeries and same facility outpatient surgeries slid 1.8% and 5.9%, respectively, year over year due to the government-implemented rules to fight COVID-19.

Patient volumes across most services contracted in the last two weeks of the quarter.

Salaries and benefits, supplies and other operating expenses increased 6.8% year over year to \$10.7 billion.

Adjusted EBITDA totaled \$2.2 billion, down 13.4% year over year.

As of Mar 31, 2020, HCA Healthcare operated 186 hospitals.

Financial Update

As of Mar 31, 2020, the company had cash and cash equivalents of about \$731 million, total debt of \$34.86 billion and total assets worth \$45.421 billion.

In the reported quarter, capex came in at \$853 million minus acquisitions.

Cash flows provided by operating activities were \$1.375 billion, up 41.2% year over year.

Dividend and Share Buyback Update

HCA Healthcare suspended its quarterly dividend program due to the COVID-19 effect and expects to resume it later.

In the quarter under review, HCA Healthcare bought back shares worth \$441 million. As of Mar 31, 2020, it had shares of \$2.8 billion left under its suspended buyback authorization.

Business Update

Due to the uncertainty related to the COVID-19 impact, the company withdrew its 2020 guidance.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	-1.30%
EPS Surprise	-10.73%
Quarterly EPS	2.33
Annual EPS (TTM)	9.86

Recent News

HCA Healthcare to Provide up to 1,000 Ventilators — Apr 16, 2020

HCA Healthcare will provide 1,000 ventilators to fight the coronavirus outbreak as part of the American Hospital Association's collaboration with the federal government and health systems.

HCA Healthcare, Google Cloud Tie Up Amid Coronavirus Woes – Apr 7, 2020

HCA Healthcare along with Google Cloud launched the COVID-19 National Response Portal, an open data platform created and operated by SADA, a global leader in providing business and technology consulting services to organizations. The platform is expected to help communities and hospitals with updates on the coronavirus outbreak by sharing valuable data. It is expected to go live next week.

HCA Healthcare Makes Cost-Control Efforts Amid Coronavirus Woes – Apr 1, 2020

HCA Healthcare's unit CereCore has laid off more than 70% of its contractors, per the company's internal sources. This strategic move comes at a time when the company is forced to cut costs amid the loss of revenues from the COVID -19 breakout.

The company's Information Technology and Services division bore the brunt of this workforce reduction. The action was taken in the wake of several IT projects being put on the back-burner due to the prevalent uncertainty about the extent of the impact from the coronavirus pandemic.

Valuation

HCA Healthcare's shares are down 28.3% and 24% 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% and up 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24% and up 7%, respectively.

The S&P 500 index is up 0.6% in the year-to-date period and 10% in the past year.

The stock is currently trading at 13.32x forward 12-month earnings, which compares to 14.48x for the Zacks sub-industry, 23.49x for the Zacks sector and 22.72x for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.84x and as low as 5.71x, with a 5-year median of 11.62x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$111 price target reflects 13.99x forward earnings.

The table below shows summary valuation data for HCA

Valuation Multiples - HCA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.32	14.48	23.49	22.72
	5-Year High	18.84	18.12	23.49	22.72
	5-Year Low	5.71	7.8	15.91	15.25
	5-Year Median	11.62	12.52	19	17.52
P/S F12M	Current	0.71	0.45	2.86	3.55
	5-Year High	1.02	0.86	3.74	3.55
	5-Year Low	0.42	0.36	2.22	2.53
	5-Year Median	0.74	0.55	2.9	3.02

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (180 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Acadia Healthcare Company, Inc. (ACHC)	Outperform	2
Amedisys, Inc. (AMED)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
The Ensign Group, Inc. (ENSG)	Neutral	4
Select Medical Holdings Corporation (SEM)	Neutral	4
Tenet Healthcare Corporation (THC)	Neutral	3
Universal Health Services, Inc. (UHS)	Neutral	3
MEDNAX, Inc. (MD)	Underperform	5

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	HCA	X Industry	S&P 500	CYH	THC	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	C	C	A
Market Cap	35.67 B	1.60 B	22.66 B	402.08 M	2.19 B	8.32 B
# of Analysts	8	6	14	6	10	7
Dividend Yield	1.63%	0.00%	1.83%	0.00%	0.00%	0.82%
Value Score	B	-	-	B	C	A
Cash/Price	0.02	0.15	0.07	0.67	0.33	0.01
EV/EBITDA	7.18	7.44	12.99	11.22	7.69	7.14
PEG Ratio	1.82	2.34	2.97	NA	13.33	2.34
Price/Book (P/B)	NA	1.32	3.12	NA	4.34	1.55
Price/Cash Flow (P/CF)	5.71	3.78	12.14	0.78	1.86	6.14
P/E (F1)	21.79	15.58	22.04	NA	29.20	15.58
Price/Sales (P/S)	0.69	0.58	2.38	0.03	0.12	0.73
Earnings Yield	4.63%	4.63%	4.32%	-107.44%	3.40%	6.42%
Debt/Equity	-49.36	0.05	0.76	-6.33	29.98	0.73
Cash Flow (\$/share)	18.52	4.31	6.94	4.31	11.22	15.94
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	17.02%	7.97%	10.85%	NA	7.97%	9.76%
Proj. EPS Growth (F1/F0)	-53.48%	-53.55%	-9.64%	-305.43%	-73.32%	-37.08%
Curr. Cash Flow Growth	8.67%	8.67%	5.51%	5.15%	12.12%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	9.56%	16.58%	8.55%	-20.09%	2.67%	23.60%
Current Ratio	1.57	1.55	1.30	1.55	1.32	1.09
Debt/Capital	NA%	50.34%	44.46%	NA	97.06%	42.32%
Net Margin	5.90%	-2.42%	10.59%	-4.19%	-0.65%	6.34%
Return on Equity	-304.76%	10.06%	15.75%	NA	65.69%	14.89%
Sales/Assets	1.15	0.80	0.54	0.82	0.79	0.98
Proj. Sales Growth (F1/F0)	-8.07%	-5.38%	-2.52%	-12.92%	-5.17%	-5.60%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	6.76%	4.46%	1.91%	5.00%	8.13%	5.69%
1 Week Price Chg	-1.28%	-0.30%	-0.41%	1.66%	-2.36%	-4.11%
4 Week Price Chg	6.61%	1.56%	1.88%	4.02%	-0.14%	1.13%
12 Week Price Chg	1.08%	18.57%	16.37%	-0.30%	12.26%	-0.15%
52 Week Price Chg	-24.52%	-19.14%	-4.22%	59.24%	12.62%	-26.29%
20 Day Average Volume	2,431,801	703,013	2,266,132	1,538,345	2,065,072	759,731
(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%	-13.86%	-0.52%
(F1) EPS Est 12 week change	-55.09%	-55.09%	-5.76%	-145.23%	-67.02%	-37.03%
(Q1) EPS Est Mthly Chg	-5.03%	-2.23%	0.00%	-2.28%	-11.98%	-2.19%

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.

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