

HCA Healthcare, Inc.(HCA)

\$147.14 (As of 01/22/20)

Price Target (6-12 Months): **\$154.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

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, same facility emergency room growth, etc. Multiple acquisitions have helped it increase its patient volumes, enabled network expansion across several markets and added hospitals to its portfolio. A strong balance sheet and free cash flow are other positives of the company. A bullish 2019 guidance should instill investor's confidence in the stock. The company's shares have underperformed its industry in a year's time. However, HCA Healthcare's high operating expenses persistently weigh on the margins. High leverage is another concern for the company. Its weak return on equity also continues to bother.

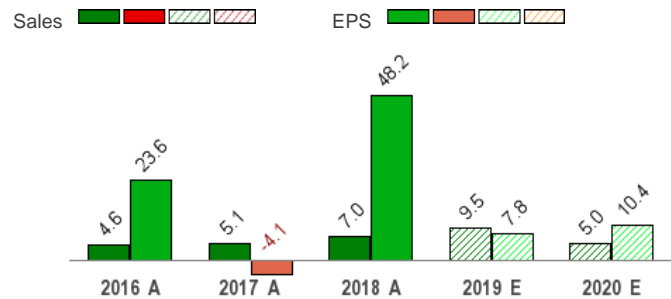
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|------------------------------------|
| 52 Week High-Low | \$150.17 - \$110.31 |
| 20 Day Average Volume (sh) | 970,446 |
| Market Cap | \$49.9 B |
| YTD Price Change | -0.5% |
| Beta | 0.92 |
| Dividend / Div Yld | \$1.60 / 1.1% |
| Industry | Medical - Hospital |
| Zacks Industry Rank | Top 19% (49 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 4.2% |
| Last Sales Surprise | 1.6% |
| EPS F1 Est- 4 week change | 0.0% |
| Expected Report Date | 01/28/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 14.2 |
| P/E F1 | 12.7 |
| PEG F1 | 1.1 |
| P/S TTM | 1.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | 13,219 E | 13,208 E | 13,277 E | 13,974 E | 53,695 E |
| 2019 | 12,517 A | 12,602 A | 12,694 A | 13,313 E | 51,126 E |
| 2018 | 11,423 A | 11,529 A | 11,451 A | 12,274 A | 46,677 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2020 | \$3.02 E | \$2.73 E | \$2.49 E | \$3.36 E | \$11.63 E |
| 2019 | \$2.97 A | \$2.21 A | \$2.23 A | \$3.06 E | \$10.53 E |
| 2018 | \$2.33 A | \$2.29 A | \$2.16 A | \$2.99 A | \$9.77 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 01/22/2020. The reports text is as of 01/23/2020.

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.

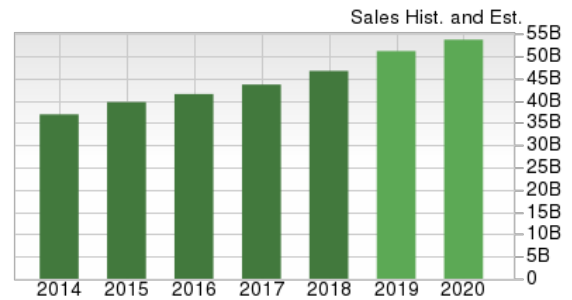
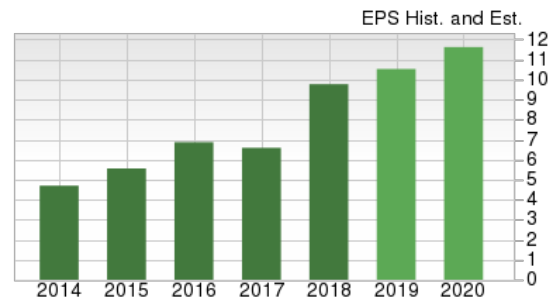
At the end of 2018, the company operated 179 hospitals comprising 175 general, acute care hospitals, three psychiatric hospitals and one rehabilitation hospital. The company also operated 123 freestanding surgery centers. Its business is spread across 20 states and England.

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

The National Group includes 88 hospitals across Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia.

The American Group includes 85 hospitals across Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, 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 46,687 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. HCA Healthcare's psychiatric hospitals with 412 licensed beds offer 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 a year's time. However, the company's strong fundamentals are expected to help the stock bounce back going forward.
- ▲ **2019 Guidance:** Following third-quarter 2019, the company has updated its guidance for 2019. The company still expects 2019 revenues in the band of \$50.5-\$51.5 billion, the mid-point is 9.4% above the reported figure of 2018. Adjusted EBITDA is tapered to a new range of \$9.65-\$9.85 billion from the earlier band of \$9.60-\$9.85 billion. The company upped the lower end of its earlier EPS guidance to \$10.30-\$10.65 from \$10.25-\$10.65. An upward revision in guidance instills investor confidence in the stock.
- ▲ **Consistent Growth in Top Line:** HCA Healthcare has sustained growth for long. Its revenues witnessed a six-year (2012-18) CAGR of 5.9%, backed by an increase in same facility admissions and equivalent admissions, same facility emergency room growth and surgical growth. In the first nine months of 2019, the company's revenues were up 9.9% year over year on the back of volume growth across its markets, service lines and the recent buyouts. It expects 2019 revenues in the band of \$50.5-\$51.5 billion. We expect the trend to continue, given the company's efforts to enter large, fast-developing urban markets with growing population in constant need of its services.
- ▲ **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 the first nine months of 2019, HCA Healthcare paid a total of \$1.2 billion and \$1.6 billion each for its acquisitions. All these buyouts helped the company boost its portfolio and penetrate further into different geographies.
- ▲ **Strong Balance Sheet:** 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 2019, the company raised its quarterly cash dividend by 14.3%. Its dividend yield of 1.1%, above the industry average of 0.8%, also impresses. Its cash flow provided by operating activities continues to be strong with the metric rising 11.1% in the first nine months of 2019.

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 has witnessed escalating expenses from past many years due to higher salaries and benefits, supplies plus other operating costs. In the first nine months of 2019, the same rose 9.7% year over year. Going forward, the company is expected to witness a rise in costs due its constant growth-related investments. Although the company is working on expense management, higher costs might weigh on its margins.
- ▼ **High Financial Leverage:** Long-term debt has been increasing since 2011, creating a financial risk for the company. Moreover, its leverage ratio (total debt to capital) of 105% is higher than the industry's average of 98.9%. The company's interest expense has also been rising over the last several quarters. In 2018 and during the first nine months of 2019, the metric increased 3.8% and 5.9% each year over year. We expect leverage to remain at elevated levels as the company raises debt-to-finance buyouts.
- ▼ **Weak ROE:** Further, HCA Healthcare's trailing 12-month return on equity (ROE) of -174%, reflects a decline since 2015, undermines its growth potential. The company's negative ROE reflects the company's inefficiency in using shareholders' funds, which is not attractive for the investors.

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 Q3 Earnings Beat Estimates, Improve Y/Y

HCA Healthcare reported third-quarter 2019 adjusted earnings of \$2.23 per share, surpassing the Zacks Consensus Estimate by 4.2%. Moreover, the bottom line inched up nearly 3.2% year over year on the back of higher revenues.

The company's net income per share of \$1.76 in the quarter under review was down 18% year over year.

Quarter Ending **09/2019**

| Report Date | Oct 29, 2019 |
|------------------|--------------|
| Sales Surprise | 1.55% |
| EPS Surprise | 4.21% |
| Quarterly EPS | 2.23 |
| Annual EPS (TTM) | 10.40 |

Quarterly Details

HCA Healthcare generated revenues of \$12.7 billion, beating the Zacks Consensus Estimate by 1.6%. The reported figure was up 10.9% from the year-ago period.

Same facility equivalent admissions increased 4.2% year over year while same facility admissions rose 3.2%. Same facility revenue per equivalent admission also grew 2%.

Salaries and benefits, supplies and other operating expenses increased 11.2 % year over year to \$10.4 billion.

Adjusted EBITDA totaled \$2.3 billion, up 9% year over year.

As of Sep 30, 2019, HCA Healthcare operated 184 hospitals and around 2000 sites of care including surgery centers, freestanding emergency rooms, urgent care centers and physician clinics.

Financial Update

As of Sep 30, 2019, the company had cash and cash equivalents of about \$559 million, total debt of \$34.2 billion and total assets of \$43.9 billion. During the reported quarter, capital expenditures totaled \$1.1 billion excluding acquisitions. Cash flows provided by operating activities were \$2.1 billion, up 23.5% year over year.

Dividend and Share Repurchase Update

HCA Healthcare announced a quarterly cash dividend of 40 cents per share payable Dec 27 to stockholders of record at the close of business on Dec 2.

The company bought back shares worth \$239 million in the third quarter and had shares worth \$1.5 billion remaining under its current repurchase authorization as of Sep 30, 2019.

2019 Outlook

The company still expects its 2019 revenues in the band of \$50.5-\$51.5 billion. Adjusted EBITDA is tapered to a new range of \$9.65-\$9.85 billion from the earlier band of \$9.60-\$9.85 billion. Capital expenditures are anticipated to be around \$3.8 billion. The company upped the lower end of its earlier EPS guidance from \$10.25-\$10.65 to \$10.30-\$10.65.

Recent News

HCA Healthcare Acquires Valify to Rein in Medical Costs – Jan 10, 2020

HCA Healthcare has acquired Valify, a technology entity that emphasizes on reducing overall healthcare expenditure for clients. However, terms of the deal were not disclosed.

HCA Healthcare Acquires Galen, Expands Nursing Schools – Jan 7, 2020

Leading hospital operator HCA Healthcare has bought a majority ownership of Galen College of Nursing. The deal was announced in March 2019.

With this acquisition, HCA Healthcare will be adding to its existing pool of two nursing schools, Research College of Nursing and Mercy School of Nursing, as well as seven advanced nursing simulation training centers.

Valuation

HCA shares are up 10.9% over the year-to-date period. Over the past year, the Zacks sub-industry and sector are 11.6% and 6%, respectively.

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

The stock is currently trading at 12.59X forward 12-month price to earnings ratio, which compares to 13.3X for the Zacks sub-industry, 21.75X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.05X and as low as 9.65X, with a 5-year median of 11.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$154 price target reflects 13.18X price to earnings ratio.

The table below shows summary valuation data for HCA

| Valuation Multiples -HCA | | | | | |
|--------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 12.59 | 13.3 | 21.75 | 19.13 |
| | 5-Year High | 17.05 | 17.79 | 21.75 | 19.34 |
| | 5-Year Low | 9.65 | 10.5 | 15.85 | 15.17 |
| | 5-Year Median | 11.7 | 12.19 | 18.91 | 17.44 |
| P/S F12M | Current | 0.93 | 0.53 | 2.87 | 3.56 |
| | 5-Year High | 1.02 | 0.84 | 3.82 | 3.56 |
| | 5-Year Low | 0.58 | 0.43 | 2.43 | 2.54 |
| | 5-Year Median | 0.76 | 0.54 | 2.94 | 3 |

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 255)



Top Peers

| | |
|---|------------|
| Amedisys, Inc. (AMED) | Outperform |
| Community Health Systems, Inc. (CYH) | Outperform |
| Acadia Healthcare Company, Inc. (ACHC) | Neutral |
| The Ensign Group, Inc. (ENSG) | Neutral |
| MEDNAX, Inc. (MD) | Neutral |
| Select Medical Holdings Corporation (SEM) | Neutral |
| Tenet Healthcare Corporation (THC) | Neutral |
| Universal Health Services, Inc. (UHS) | Neutral |

| Industry Comparison Industry: Medical - Hospital | | | | Industry Peers | | |
|--|-------------|------------|-----------|----------------|-------------|-------------|
| | HCA Neutral | X Industry | S&P 500 | CYH Outperform | THC Neutral | UHS Neutral |
| VGM Score | A | - | - | C | A | A |
| Market Cap | 49.91 B | 2.32 B | 24.65 B | 481.98 M | 3.78 B | 12.75 B |
| # of Analysts | 7 | 7.5 | 13 | 7 | 9 | 5 |
| Dividend Yield | 1.09% | 0.00% | 1.77% | 0.00% | 0.00% | 0.55% |
| Value Score | A | - | - | B | A | A |
| Cash/Price | 0.01 | 0.03 | 0.04 | 0.39 | 0.08 | 0.00 |
| EV/EBITDA | 8.88 | 8.12 | 13.98 | 14.16 | 7.36 | 10.25 |
| PEG Ratio | 1.05 | 1.13 | 2.05 | NA | 0.69 | 1.69 |
| Price/Book (P/B) | NA | 1.97 | 3.38 | NA | 7.70 | 2.36 |
| Price/Cash Flow (P/CF) | 8.76 | 5.63 | 13.60 | 0.99 | 3.59 | 9.87 |
| P/E (F1) | 12.65 | 12.96 | 19.07 | NA | 12.96 | 13.67 |
| Price/Sales (P/S) | 1.00 | 0.80 | 2.69 | 0.04 | 0.21 | 1.13 |
| Earnings Yield | 7.90% | 7.32% | 5.24% | -38.88% | 7.72% | 7.32% |
| Debt/Equity | -23.56 | 0.06 | 0.72 | -7.53 | 30.38 | 0.76 |
| Cash Flow (\$/share) | 16.79 | 4.15 | 6.94 | 4.15 | 10.15 | 14.75 |
| Growth Score | A | - | - | C | A | B |
| Hist. EPS Growth (3-5 yrs) | 17.64% | 1.67% | 10.60% | NA | -0.02% | 10.69% |
| Proj. EPS Growth (F1/F0) | 10.44% | 9.36% | 7.53% | 10.14% | 4.30% | 8.57% |
| Curr. Cash Flow Growth | 25.22% | 9.15% | 13.90% | -33.89% | 4.42% | 14.84% |
| Hist. Cash Flow Growth (3-5 yrs) | 11.31% | 8.85% | 9.00% | -13.69% | 6.10% | 11.28% |
| Current Ratio | 1.51 | 1.44 | 1.22 | 1.44 | 1.22 | 1.19 |
| Debt/Capital | NA% | 50.35% | 42.99% | NA | 97.09% | 43.16% |
| Net Margin | 6.98% | -3.51% | 11.21% | -4.71% | -1.31% | 6.48% |
| Return on Equity | -173.49% | 8.85% | 17.16% | NA | 35.68% | 15.80% |
| Sales/Assets | 1.17 | 0.81 | 0.55 | 0.83 | 0.79 | 0.97 |
| Proj. Sales Growth (F1/F0) | 5.02% | 2.72% | 4.08% | -2.14% | 3.27% | 3.96% |
| Momentum Score | A | - | - | F | C | B |
| Daily Price Chg | -0.07% | 0.20% | -0.04% | 5.14% | 0.69% | 0.41% |
| 1 Week Price Chg | 0.18% | 1.57% | 2.29% | 40.57% | 2.65% | -0.70% |
| 4 Week Price Chg | -0.57% | -0.41% | 2.05% | 46.60% | -4.81% | 1.58% |
| 12 Week Price Chg | 9.18% | 8.62% | 6.92% | 7.07% | 37.89% | 4.68% |
| 52 Week Price Chg | 9.98% | 14.46% | 21.50% | 10.24% | 74.95% | 11.61% |
| 20 Day Average Volume | 970,446 | 408,454 | 1,518,423 | 2,119,926 | 959,123 | 419,717 |
| (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% | 0.89% | 0.72% | 0.00% |
| (F1) EPS Est 12 week change | 3.10% | -3.17% | -0.23% | -31.22% | 1.14% | -3.17% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | 0.00% | 0.00% | -2.17% | 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 | A |
| 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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