

HCA Healthcare, Inc.(HCA)

\$140.02 (As of 02/24/20)

Price Target (6-12 Months): **\$147.00**

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 fourth-quarter 2019 adjusted earnings of \$3.09 per share beat the Zacks Consensus Estimate by 0.9% and improved 3.3% year over year on higher revenues and increased admissions. Its 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 solid 2020 guidance impresses. Its shares have underperformed its industry in a year's time. However, its high operating expenses persistently weigh on the margins. High leverage is another concern. Its weak return on equity also continues to bother.

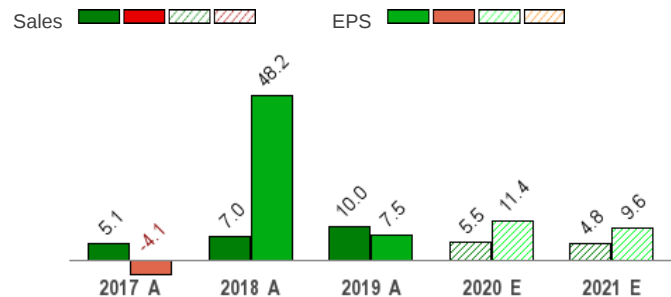
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$151.97 - \$110.31
20 Day Average Volume (sh)	1,625,401
Market Cap	\$47.4 B
YTD Price Change	-5.3%
Beta	0.93
Dividend / Div Yld	\$1.72 / 1.1%
Industry	Medical - Hospital
Zacks Industry Rank	Top 32% (81 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	05/05/2020
Earnings ESP	-0.4%
P/E TTM	13.3
P/E F1	12.0
PEG F1	1.0
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	13,906 E	13,947 E	13,963 E	14,803 E	56,778 E
2020	13,271 E	13,344 E	13,367 E	14,175 E	54,156 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	\$3.21 E	\$3.08 E	\$2.80 E	\$3.74 E	\$12.82 E
2020	\$2.91 E	\$2.77 E	\$2.55 E	\$3.46 E	\$11.70 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/24/2020. The reports text is as of 02/25/2020.

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.

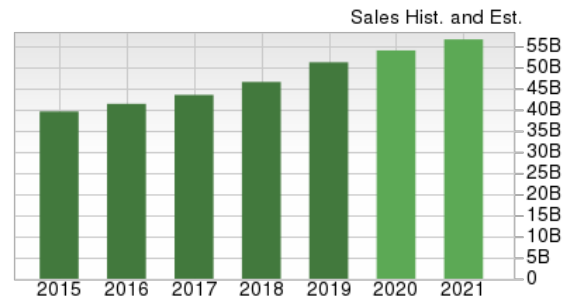
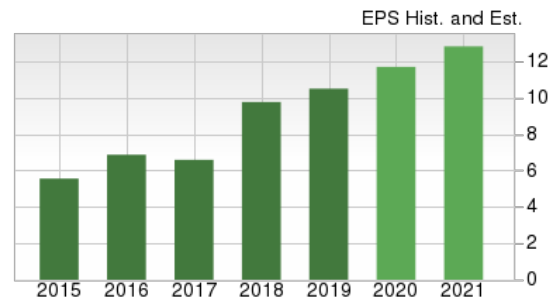
At the end of 2019, the company operated 184 hospitals comprising 179 general, acute care hospitals, three psychiatric hospitals and one rehabilitation hospital. The company also operated 123 freestanding surgery centers. Its business is spread across 21 states and England.

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 a year's time. However, the company's strong fundamentals are expected to help the stock bounce back going forward.
- ▲ **2020 Guidance:** Following fourth-quarter results, the company provided its 2020 guidance. It expects its current-year revenues in the band of \$53.5-\$55.5 billion, the midpoint implying an increase of 6.2% from the 2019 reported figure. Adjusted EBITDA is projected at a revised range of \$10.25-10.65 billion, the midpoint indicating an upside of 6% from the prior-year reported figure. The company expects its EPS in the bracket of \$11.30-\$12.10 per share for 2020, indicating growth from \$10.07 reported in 2019. The company expects its same-facility equivalent admissions to grow between 2% and 3% for 2020. 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 CAGR of 6.7% during the 2015-2019 period, backed by an increase in same facility admissions and equivalent admissions, same facility emergency room growth and surgical growth. 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 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.
- ▲ **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 2020, the company raised its quarterly cash dividend by 7.5%. 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 12.4% in 2019. The company projects its 2020 cash flow from operations to be between \$7.6 billion and \$8 billion, the midpoint reflects a 2.6% increase from the 2019 reported figure.

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, the same rose 10.2% year over year. Going forward too, the company is expected to witness a rise in costs due to its constant growth-related investments. The company expects capital expenditures for 2020? in the range of \$4-\$4.2 billion while depreciation and amortization are estimated to be \$2.8 billion.
- ▼ **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 102.2% is higher than the industry average of 98.9%. The company's interest expense has also been rising over the last several quarters. In 2018 and 2019, the metric increased 3.8% and 3.9% each year over year. For 2020, the company expects its interest expense to be \$1.8 billion, almost in-line with 2019's reported figure. 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 -242% reflects a decline since 2015. This, in turn, undermines its growth potential and also compares unfavorably with its industry average of 1770%. Additionally, the company's negative ROE mirrors its inefficiency in using shareholders' funds, which is not attractive for 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 Q4 Earnings Beat Estimates, Rise Y/Y

HCA Healthcare's fourth-quarter 2019 adjusted earnings of \$3.09 per share, surpassed the Zacks Consensus Estimate by 0.9%. Moreover, the bottom line inched up 3.3% year over year on the back of higher revenues and increased admissions.

Quarterly Details

HCA Healthcare generated revenues of \$13.5 billion, beating the Zacks Consensus Estimate by 1.6%. The top line was also up 10.2% from the year-ago period.

Same facility equivalent admissions increased 5% year over year while same facility admissions rose 4.7%. Same facility revenue per equivalent admission also grew 1.1% year over year.

Salaries and benefits, supplies and other operating expenses increased 10.6 % year over year to \$10.8 billion.

Adjusted EBITDA totaled \$2.7 billion, up 9.2% year over year.

As of Dec 31, 2019, HCA Healthcare operated 184 hospitals.

Financial Update

As of Dec 31, 2019, the company had cash and cash equivalents of about \$621 million, total debt of \$33.72 billion and total assets of \$45.05 billion.

In the reported quarter, capex came in at \$1.27 billion minus acquisitions.

Cash flows provided by operating activities were \$2.5 billion, up 15.2% year over year.

Dividend and Share Repurchase Update

HCA Healthcare announced a quarterly cash dividend of 43 cents per share payable Mar 31 to its stockholders of record at the close of business on Mar 2.

The company bought back shares worth \$272 million in the fourth quarter and had \$1.24 billion remaining under its current repurchase authorization as of Dec 31, 2019.

Full-Year Results

The company reported 2019 revenues of \$51.3 billion, up 9.95% year over year.

Net income of the company was \$10.07 per share, down 5.5% year over year.

2020 Outlook

Following fourth-quarter results, the company has provided its 2020 guidance.

It expects its 2020 revenues in the band of \$53.5-\$55.5 billion. Adjusted EBITDA is projected to a new range of \$10.25-10.65 billion.

Capital expenditures are anticipated in the range of \$4-\$4.2 billion.

The company expects its EPS in the bracket of \$11.30-\$12.10 per share.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	1.58%
EPS Surprise	0.98%
Quarterly EPS	3.09
Annual EPS (TTM)	10.50

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 down 5.3% and 2.3% 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 0.5% and up 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.5% and 1.7%, respectively.

The S&P 500 index is up 3.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 11.8 forward 12-month price to earnings ratio, which compares to 13.1 for the Zacks sub-industry, 21.2 for the Zacks sector and 19.1 for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.1 and as low as 9.7, with a 5-year median of 11.7. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$147 price target reflects 12.39 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	11.8	13.11	21.23	19.09
	5-Year High	17.05	17.79	21.23	19.34
	5-Year Low	9.65	10.5	15.82	15.17
	5-Year Median	11.7	12.19	18.87	17.47
P/S F12M	Current	0.87	0.53	2.84	3.51
	5-Year High	1.02	0.84	3.84	3.51
	5-Year Low	0.58	0.43	2.45	2.54
	5-Year Median	0.76	0.54	2.97	3

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 255)



Top Peers

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

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	HCA Neutral	X Industry	S&P 500	CYH Outperform	THC Outperform	UHS Neutral
VGM Score	A	-	-	A	A	A
Market Cap	47.39 B	1.58 B	23.50 B	709.50 M	3.40 B	12.37 B
# of Analysts	11	6.5	13	7	10	3
Dividend Yield	1.14%	0.00%	1.83%	0.00%	0.00%	0.57%
Value Score	A	-	-	A	A	A
Cash/Price	0.01	0.09	0.04	0.26	0.09	0.00
EV/EBITDA	8.29	8.02	13.56	11.39	7.20	10.02
PEG Ratio	1.00	1.10	2.02	NA	0.62	2.18
Price/Book (P/B)	NA	1.76	3.20	NA	6.92	2.29
Price/Cash Flow (P/CF)	7.56	4.14	13.05	1.40	3.22	9.57
P/E (F1)	11.97	11.97	18.56	NA	11.64	13.41
Price/Sales (P/S)	0.92	0.69	2.60	0.05	0.18	1.10
Earnings Yield	8.36%	7.46%	5.38%	-22.26%	8.60%	7.46%
Debt/Equity	-59.43	0.06	0.70	-6.25	30.38	0.76
Cash Flow (\$/share)	18.52	4.31	7.03	4.31	10.15	14.75
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	17.45%	1.67%	10.85%	NA	-0.02%	10.69%
Proj. EPS Growth (F1/F0)	11.41%	9.28%	6.90%	-50.24%	4.78%	7.34%
Curr. Cash Flow Growth	8.67%	8.67%	6.78%	5.15%	4.42%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	9.56%	10.42%	8.38%	-20.09%	6.10%	11.28%
Current Ratio	1.44	1.35	1.22	1.50	1.22	1.19
Debt/Capital	NA%	48.84%	42.37%	NA	97.09%	43.16%
Net Margin	6.83%	-4.11%	11.57%	-5.11%	-1.26%	6.48%
Return on Equity	-242.05%	9.77%	16.80%	NA	44.84%	15.80%
Sales/Assets	1.15	0.81	0.55	0.83	0.80	0.97
Proj. Sales Growth (F1/F0)	5.42%	2.50%	4.03%	-3.16%	2.98%	3.96%
Momentum Score	A	-	-	A	D	C
Daily Price Chg	-5.39%	-4.04%	-2.98%	-16.16%	-4.42%	-1.04%
1 Week Price Chg	-1.05%	0.92%	-0.94%	52.12%	2.40%	1.99%
4 Week Price Chg	-1.12%	1.56%	-0.94%	31.73%	-3.05%	-2.59%
12 Week Price Chg	1.10%	3.14%	1.75%	97.38%	0.15%	1.01%
52 Week Price Chg	-2.26%	13.08%	10.97%	24.64%	34.97%	5.08%
20 Day Average Volume	1,625,401	546,632	2,001,782	3,620,235	900,694	494,300
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	19.23%	0.00%	-1.14%
(F1) EPS Est 4 week change	0.63%	0.00%	-0.05%	19.23%	0.00%	-1.14%
(F1) EPS Est 12 week change	0.63%	0.00%	-0.21%	24.47%	-1.92%	-1.14%
(Q1) EPS Est Mthly Chg	-3.58%	0.00%	-0.49%	12.45%	0.00%	0.90%

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	B
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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