

Service Corporation(SCI)

\$37.94 (As of 06/26/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Service Corporation has outperformed the industry year to date. The company posted first-quarter 2020 results, with revenues rising year over year due to improved performance in the funeral segment. Speaking of funeral services, comparable sales grew on the back of higher preneed revenues along with higher core sales. Moreover, the company's focus on acquisitions and building new funeral homes bodes well. Further, management's focus on maintaining dividend policy is noteworthy. However, the company's adjusted earnings missed the consensus mark and declined in the first quarter. The downside was caused by reduced gross profit stemming from lower preneed cemetery property revenues induced by the coronavirus outbreak. Moreover, the company expects the coronavirus pandemic to have an adverse impact on the bottom line in 2020.

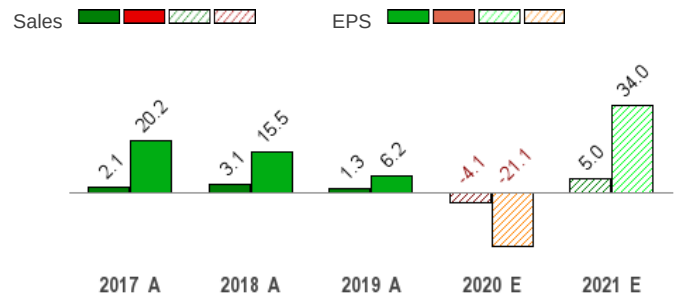
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.89 - \$33.93
20 Day Average Volume (sh)	1,168,492
Market Cap	\$6.8 B
YTD Price Change	-17.6%
Beta	0.72
Dividend / Div Yld	\$0.76 / 2.0%
Industry	Funeral Services
Zacks Industry Rank	Bottom 26% (187 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.4%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	1.4%
Expected Report Date	08/03/2020
Earnings ESP	14.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	824 E	794 E	794 E	866 E	3,254 E
2020	803 A	710 E	745 E	839 E	3,098 E
2019	798 A	813 A	769 A	851 A	3,231 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.47 E	\$0.43 E	\$0.63 E	\$2.01 E
2020	\$0.43 A	\$0.24 E	\$0.29 E	\$0.55 E	\$1.50 E
2019	\$0.47 A	\$0.47 A	\$0.37 A	\$0.60 A	\$1.90 A

*Quarterly figures may not add up to annual.

P/E TTM	20.3
P/E F1	25.3
PEG F1	2.3
P/S TTM	2.1

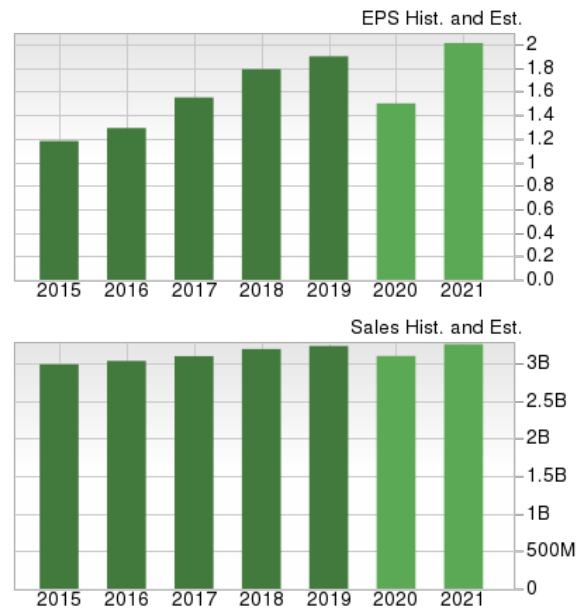
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/26/2020. The reports text is as of 06/29/2020.

Overview

Known for its transcontinental brand namely Dignity Memorial, Service Corporation International has been strengthening its funeral and cemetery businesses for a while now. Notably, the company had a market share of 15-16% in North America's death care industry in 2019. With a wide repertoire of funeral service and cemetery operations, the company remains well-positioned to take advantage of the aging Baby Boomer generation. In this context, Service Corporation's funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria and other related businesses spread across geographies are noteworthy. Additionally, the company's active acquisition efforts, including 15 funeral homes and seven cemeteries in June 2018, have been accretive.

Further, Service Corporation's cemeteries offer cemetery property interment rights, including developed lots, mausoleum spaces, lawn crypts, niches, and other cremation memorialization and interment options. Additionally, cemetery merchandise and services, which includes memorial markers and bases, graveside services, flowers and floral placement, other ancillary merchandise, as well as interments among others, are provided at Service Corporation's cemeteries.

As of December 31, 2019, Service Corporation operated 1,471 funeral service locations and 482 cemeteries across 44 states, eight provinces in Canada, the District of Columbia and Puerto Rico. Markedly, cemeteries include 290 funeral service/cemetery combination locations.



Reasons To Buy:

- ▲ **Funeral Services Segment Robust:** Service Corporation posted first-quarter 2020 results, with sales slightly up year over year due to improved performance in the funeral segment. Speaking of funeral services, comparable revenues in the segment inched up 1.6% year over year, backed by improved preneed revenues along with higher core revenues.

Notably, core revenues rose 2.2% year over year on the back of 1.5% increase in core funeral services performed and 0.7% higher average revenue per service conducted. Also, the company's organic sales average was higher by 1% in the quarter. Moreover, recognized preneed revenues increased 4.2%. Although, shares of Service Corporation have lost 16.8% year to date, it has outperformed the industry's decline of 22.9%.

The company remains committed toward pursuing strategic buyouts and building new funeral homes to generate greater returns. Further, solid performance in the funeral service segment bodes well.

- ▲ **Focus on Expansion:** The company remains committed toward pursuing strategic buyouts for both its segments and building new funeral homes to generate greater returns. Service Corporation has a solid record of making and integrating prudent businesses. We note that buyouts are an integral part of the company's capital investment ventures targeted toward growth. It deployed \$107 million for 2019, with \$56 million already spent on acquisitions, and \$51 million was invested in building two cemeteries and new funeral homes. These investments are touted to be accretive to the company in the near term. For 2020, management remains focused on seeking acquisition opportunities. Moreover, the company anticipates to continue spending capital on new funeral homes and expansion opportunities to increase its footprint. In this regard, Service Corporation expects spending a total of \$180 million as capital expenditure for 2020 on maintenance and development of cemeteries. Notably, during the first quarter of 2020, the company incurred capital expenditures of \$52.3 million.

In 2018, the company deployed approximately \$200 million towards acquisitions. Some notable acquisitions made by the company in the past include Alderwoods Group, Keystone North America, The Neptune Society, and Stewart Enterprises. Also, buyouts in the cemetery segment are aimed at exploiting increased opportunities to cater to Baby Boomers.

- ▲ **Dividend Policy on Track:** Service Corporation's strong cash flow helps it undertake efficient capital allocation. The company remains focused on enhancing shareholders' value via dividend payments and share repurchases. The company has a targeted dividend payout ratio of 30-40% of earnings. In February 2020, the company hiked quarterly cash dividend rate by 6%, taking it from 18 cents per share to 19 cents. Moreover, at a juncture where many companies have suspended dividends amid the coronavirus pandemic, Service Corporation intends to maintain its current dividend policy. This reflects the company's commitment toward shareholders. In 2019, the company has returned \$261 million to shareholders through share repurchases and dividends.

- ▲ **Debt Analysis:** Although Service Corporation's long-term debt of \$3,536 million as of Mar 31, 2020, increased 0.6% sequentially; its debt-to-capitalization ratio of 0.66 stands lower than the preceding quarter's ratio of 0.67. Further, the company had cash and cash equivalents of \$176 million, which is sufficient to meet its short-term debt of \$86 million as of Mar 31, 2020. Moreover, the company's times interest earned ratio stands at 3.6, higher than the preceding quarter's ratio of 19.2. The times-interest-earned ratio is very important for some companies as it measures a company's ability to meet its debt obligations based on its current income.
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Reasons To Sell:

- ▼ **Weak Cemetery Segment:** During the first quarter of 2020, comparable cemetery revenues fell 2.4% year over year due to decline in recognized preneed property revenues. Notably, comparable preneed cemetery sales production declined 10.5% in the quarter.

Moreover, comparable cemetery gross profit declined 12.8% to \$75.3 million and the respective margin contracted 300 bps to 25.3% in the first quarter. The decline can be attributed to reduced cemetery sales as well as higher employee-related costs, increased maintenance expenses and an increase in doubtful account reserves.

Weakness in Cemetery segment along with continued rise in cremations is a threat to the company.

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Service Corporation looks overvalued when compared with the industry and the index. The stock has a trailing 12-month P/E ratio of 20.29, which is below its median level of 24.73 and the high level of 27.66 scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry and S&P 500 index is currently pegged at 15.04 and 19.39, respectively.

- ▼ **Stiff Competition:** The funeral and cemetery industry is quite competitive in North America. The company competes with various locally-owned, independent operators on grounds of standard, products and pricing.

In fact, the company has faced pricing pressure in the past from independent funeral service location and cemetery operators, monument dealers, casket retailers, low-cost funeral providers and more. Also, use of alternative channels, such as e-commerce, to buy funeral related products has increased competition. Failure to keep up with the pressure may hurt the company's financial results and cash flow.

- ▼ **Increased Cremations:** The company has been witnessing a continued rising trend in the number of cremations, as another option to the traditional funeral service. Well, the company's average revenue from cremations with service is usually lower compared to that for traditional burials. Continuance of such trends remains a threat to the company's overall performance.
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Last Earnings Report

Service Corporation Q1 Earnings Lag Estimates, Down Y/Y

Service Corporation International posted first-quarter 2020 results, with earnings missing the Zacks Consensus Estimate and revenues beating the same. Further, earnings declined year over year. Sales were up slightly year over year owing to improved performance in the funeral segment.

Given the current situation related to the coronavirus outbreak and its unpredictable impact on economic activities, Service Corporation has withdrawn its 2020 guidance. The company expects the coronavirus pandemic to negatively impact its adjusted earnings per share in 2020. Nevertheless, it is undertaking a number of cost-control measures to minimize these negative impacts.

Also, management anticipates adjusted operating cash flow to be less impacted than adjusted earnings per share on the back of continued cash collection from preneed installment sales, deferred taxes as well as reduced costs and capital expenditures.

Q1 in Detail

Service Corporation reported adjusted earnings of 43 cents per share, which lagged the Zacks Consensus Estimate of 45 cents. Further, the bottom line fell 8.5% from the year-ago quarter's figure due to reduced gross profit stemming from lower preneed cemetery property revenues induced by the coronavirus pandemic. Nevertheless, lower corporate general and administrative costs along with reduced interest expenses offer some respite.

Total revenues of \$803 million inched up 0.6% from \$798.2 million in the year-ago quarter, backed by increased funeral revenues. Moreover, the figure beat the consensus mark of \$793 million.

Corporate general and administrative costs fell 26% to \$31.8 million. Additionally, the company's interest costs fell 6.4% to \$44.4 million in the reported quarter.

Segment Discussion

Comparable Funeral revenues inched up 1.6% year over year, backed by improved preneed revenues along with higher core revenues. Core revenues rose on the back of increased funeral services performed and higher average revenue per service conducted. Recognized preneed revenues improved 4.2%.

Comparable preneed funeral sales production declined 7.2% due to fall in preneed production in non-funeral home channel and an increase in core funeral locations.

Comparable funeral gross profit declined 2.7% to \$102.9 million. Also, the gross profit margin contracted 90 basis points (bps) to 20.7% due to increased employee-related expenses and rise in doubtful account reserves.

Comparable Cemetery revenues fell 2.4% year over year due to decline in recognized preneed property revenues. This was partly offset by increase in recognized preneed merchandise and service revenues along with higher atneed sales. Comparable preneed cemetery sales production declined 10.5%.

Comparable cemetery gross profit declined 12.8% to \$75.3 million and the respective margin contracted 300 bps to 25.3%. The decline can be attributable to reduced cemetery sales as well as higher employee-related costs, increased maintenance expenses and an increase in doubtful account reserves.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$176.3 million, long-term debt of \$3,535.8 million and total equity of \$1,751.1 million.

Net cash provided by operating activities amounted to \$180 million in the quarter compared with \$184.9 million in the prior-year quarter. During the first quarter, the company incurred capital expenditures of \$52.3 million.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	1.31%
EPS Surprise	-4.44%
Quarterly EPS	0.43
Annual EPS (TTM)	1.87

Recent News

Service Corporation Declares Dividend – May 13, 2020

Service Corporation has approved its quarterly cash dividend of 19 cents per share. This will be payable on Jun 30, 2020 to shareholders of record as on Jun 15.

Valuation

Service Corporation's shares are down 16.8% in the year-to-date period and 16.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 22.9% and 14% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.7% and 9.6%, respectively.

The S&P 500 index is down 5.7% in the year-to-date period and up 4% in the past year.

The stock is currently trading at 21.64X forward 12-month earnings, which compares to 16.35X for the Zacks sub-industry, 18.93X for the Zacks sector and 21.56X the S&P 500 index.

Over the past five years, the stock has traded as high as 25.12X and as low as 16.39X, with a 5-year median of 21.62X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 22.81X forward 12-month earnings.

The table below shows summary valuation data for SCI

Valuation Multiples -SCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.64	16.35	18.93	21.56
	5-Year High	25.12	23.78	22.37	22.14
	5-Year Low	16.39	14.07	16.65	15.25
	5-Year Median	21.62	18.09	19.59	17.51
P/S F12M	Current	2.13	1.48	9.15	3.37
	5-Year High	2.85	2.19	11.15	3.44
	5-Year Low	1.37	1.38	8.1	2.53
	5-Year Median	2.08	1.86	9.89	3.02
EV/EBITDA F12M	Current	12.22	9.53	32.84	13.21
	5-Year High	13.56	12.27	37.28	14.2
	5-Year Low	8.92	7.41	25.89	9.01
	5-Year Median	11.17	9.32	33.67	10.97

As of 06/26/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Carriage Services, Inc. (CSV)	Outperform	1
HR Block, Inc. (HRB)	Outperform	3
BrightView Holdings, Inc. (BV)	Neutral	3
1800 FLOWERS.COM, Inc. (FLWS)	Neutral	3
Hillenbrand Inc (HI)	Neutral	4
RentACenter, Inc. (RCII)	Neutral	3
Matthews International Corporation (MATW)	Underperform	5
SP Plus Corporation (SP)	Underperform	5

Industry Comparison Industry: Funeral Services				Industry Peers		
	SCI	X Industry	S&P 500	CSV	HI	MATW
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	1	4	5
VGM Score	B	-	-	B	A	A
Market Cap	6.76 B	1.21 B	21.00 B	318.23 M	1.84 B	567.53 M
# of Analysts	2	1	14	1	1	1
Dividend Yield	2.00%	2.73%	2%	1.69%	3.45%	4.63%
Value Score	B	-	-	B	A	A
Cash/Price	0.02	0.08	0.07	0.03	0.19	0.13
EV/EBITDA	11.21	12.56	12.28	12.40	12.72	15.32
PEG Ratio	2.30	1.60	2.80	0.85	NA	NA
Price/Book (P/B)	3.86	1.61	2.88	1.43	1.79	0.96
Price/Cash Flow (P/CF)	11.45	7.36	11.08	7.71	7.01	2.93
P/E (F1)	25.81	12.67	20.57	12.69	12.65	7.09
Price/Sales (P/S)	2.09	1.00	2.14	1.13	0.86	0.38
Earnings Yield	3.95%	7.89%	4.62%	7.88%	7.91%	14.10%
Debt/Equity	2.02	1.96	0.77	2.40	1.91	1.59
Cash Flow (\$/share)	3.31	3.41	7.01	2.31	3.52	6.20
Growth Score	D	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	13.12%	4.21%	10.84%	-6.92%	5.77%	2.64%
Proj. EPS Growth (F1/F0)	-21.05%	-20.14%	-10.73%	16.67%	-20.41%	-22.66%
Curr. Cash Flow Growth	2.68%	-0.63%	5.46%	-4.99%	3.57%	-3.95%
Hist. Cash Flow Growth (3-5 yrs)	4.63%	3.82%	8.55%	0.53%	3.00%	10.03%
Current Ratio	0.61	1.54	1.29	1.38	1.69	1.94
Debt/Capital	66.88%	66.23%	45.14%	70.63%	65.59%	61.38%
Net Margin	11.50%	0.17%	10.53%	1.35%	-1.02%	-10.15%
Return on Equity	19.44%	15.49%	16.06%	9.71%	17.85%	13.12%
Sales/Assets	0.24	0.47	0.55	0.27	0.67	0.67
Proj. Sales Growth (F1/F0)	-4.13%	-1.34%	-2.70%	10.54%	0.00%	-2.68%
Momentum Score	A	-	-	C	B	B
Daily Price Chg	-3.21%	-2.30%	-1.90%	-1.39%	-4.20%	1.57%
1 Week Price Chg	4.48%	0.48%	0.92%	2.03%	-1.07%	-5.17%
4 Week Price Chg	-4.60%	-5.26%	-3.33%	-4.05%	-5.91%	-16.74%
12 Week Price Chg	0.50%	9.88%	19.31%	19.26%	40.75%	-16.93%
52 Week Price Chg	-17.79%	-27.47%	-9.84%	-5.58%	-37.14%	-46.99%
20 Day Average Volume	1,168,492	378,012	2,782,477	161,810	492,196	263,827
(F1) EPS Est 1 week change	1.35%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.35%	0.00%	0.00%	0.00%	-2.50%	0.00%
(F1) EPS Est 12 week change	-28.12%	-20.18%	-12.23%	-12.50%	-15.22%	-25.15%
(Q1) EPS Est Mthly Chg	9.30%	0.00%	0.00%	0.00%	-2.70%	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	D
Momentum Score	A
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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