

Universal Health (UHS)

\$144.33 (As of 01/09/20)

Price Target (6-12 Months): **\$152.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Universal Health's top line has been growing since 2013, driven by robust inorganic growth and strong performance from both its segments — Acute Care and Behavioral Health. The number of beds at both segments have been increasing since 2012. Acquisitions have also played an instrumental role in building its growth trajectory by adding facilities, bed and hospital to its business portfolio. Its solid 2019 guidance instills investor's confidence in the stock. Shares of the company have underperformed its industry in a year's time. However, it is exposed to integration risks due to several buyouts and rising expenses over the years. Expenses have been escalating since 2013, which weigh on its margins. Rising amount of debt also remains a key concern for Universal Health.

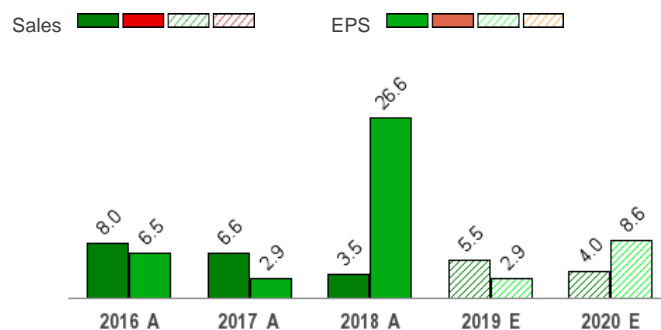
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$157.79 - \$117.77
20 Day Average Volume (sh)	465,553
Market Cap	\$12.6 B
YTD Price Change	0.6%
Beta	1.06
Dividend / Div Yld	\$0.80 / 0.6%
Industry	Medical - Hospital
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.0%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	15.1
P/E F1	13.6
PEG F1	1.4
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,922 E	2,961 E	2,940 E	3,001 E	11,818 E
2019	2,804 A	2,855 A	2,822 A	2,886 E	11,368 E
2018	2,688 A	2,681 A	2,649 A	2,755 A	10,772 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.77 E	\$2.81 E	\$2.37 E	\$2.92 E	\$10.65 E
2019	\$2.45 A	\$2.76 A	\$1.99 A	\$2.60 E	\$9.81 E
2018	\$2.45 A	\$2.47 A	\$2.23 A	\$2.37 A	\$9.53 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

King of Prussia, PA-based Universal Health Services Inc (UHS) owns and operates (through its subsidiaries) acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers and radiation oncology centers.

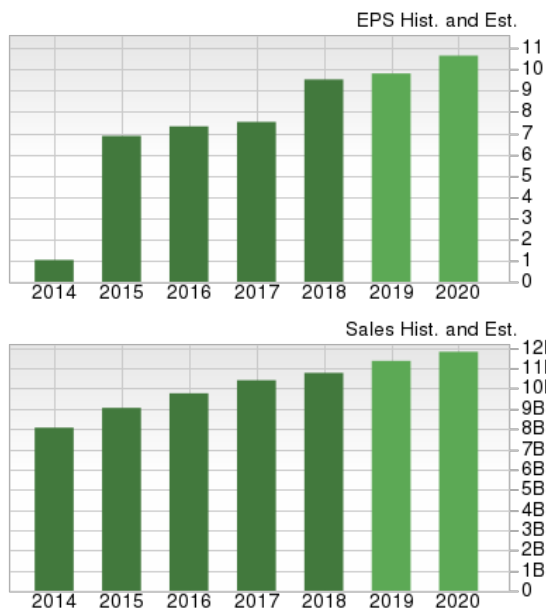
The company's range of services include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services.

Universal Health's sources of revenue include payments from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and patients.

The company through its subsidiaries operates 350 inpatient acute care hospitals and behavioral health facilities and 37 outpatient and other facilities located in 37 states, Washington, D.C., the United Kingdom, Puerto Rico and the U.S. Virgin Islands.

Acute Care (54% of total revenues in 3Q19): The segment includes 26 inpatient acute care hospitals, nine free-standing emergency departments, and six outpatient surgery/cancer care centers and one surgical hospital.

Behavioral Health Care (46%): The segment includes 188 inpatient behavioral healthcare facilities and 19 outpatient behavioral healthcare facilities located in the United States, 133 inpatient behavioral healthcare facilities and two outpatient behavioral healthcare facilities located in the United Kingdom, and three inpatient behavioral healthcare facilities in Puerto Rico.



Reasons To Buy:

- ▲ **Revenue Growth:** The company's revenues have been growing consistently since 2010. This upside was driven by solid inorganic growth and a strong performance from both its segments — Acute Care and Behavioral Health. The top line has witnessed a 2010-2018 CAGR of 10.35%. The same was up 5.8% year over year in the first nine months of 2019, led by higher admissions and patient days. In the first nine months of 2019, the company opened 183 beds at some of the busiest acute care and behavioral health hospitals, which are expected to contribute to its top line going forward. The company's revenue growth is expected to continue from strong performances by both its segments.
- ▲ **Accretive Acquisitions:** Over the years, acquisitions have played a key role in building Universal Health's growth trajectory, by adding facilities, bed and hospital to its business portfolio. We believe that the company will continue making acquisitions that will help it expand its domestic and international presence along with positioning it better to weather the regulatory uncertainty in the healthcare sector.
- ▲ **Solid Acute-care Platform:** Acute care is a branch of secondary healthcare where a patient receives short-term treatment for urgent medical conditions. Since 2012, average number of licensed beds in the acute care hospitals has been growing, pushing up the revenues. In 2018, the same increased 1.7% year over year. In fact, global market sentiments for acute care treatments are quite upbeat with North America accounting for the largest share in the space. Net revenues from acute care hospitals (same facility) in 2018 improved 4.6% year over year followed by an 8.1% rise in the first nine months of 2019 on the back of adjusted admissions. Recently, the company broke ground on a new acute care hospital in Reno, NV that will have 200 private patient rooms. It is expected to open in 2022. We believe that continuous growth in this segment is likely to favor the overall top-line going forward.
- ▲ **Strong Behavioral Platform:** Universal Health focuses on behavioral indications like eating disorders, sexual trauma, autism as well as disorderliness in the military through its patriot support program. Since 2012, average licensed beds in the behavioral health centers have been growing, contributing to the top line. In 2017, the segmental revenues inched up 1.7% year over year and 2.6% in 2018. Although the same decreased 11.7% in the first nine months of 2019, we still expect the company's strategic buyouts and other initiatives to help it win a decent market share in the fast-growing addiction and mental health disorder space. New laws (2008 Mental Health Parity and Addiction Equity Act as well as Obamacare) have raised the insurance coverage for patients suffering from substance abuse as well as mental disorders, which is a major positive for Universal Health which boost admission rate thereby driving top-line growth over the long term.
- ▲ **Strong Capital Position:** The company also boasts a strong capital position. In July 2019, the company's board of directors increased its share buyback plan by \$1 billion. In July, the company also hiked its cash dividend by 50%, which was paid on Sep 16, 2019 to shareholders of record on Sep 3, 2019.
- ▲ **Price Performance:** Shares of Universal Health have underperformed its industry in the past year. However, its strong fundamentals like growing revenues and favorable segmental performances would likely help the stock bounce back going forward.
- ▲ **Solid 2019 Guidance:** Following third-quarter results, the company expects adjusted net income in the range of \$9.60-\$9.90 per share, reflecting a 2.3% rise from the reported figure of 2018. This favorable guidance instills investor's confidence in the stock.

Growing demand for healthcare services, accretive acquisitions, solid acute care platform and share gains in behavioral market are key positives. Its solid capital position also impresses.

Reasons To Sell:

- ▼ **Rising Expenses:** Steep increase in operating expenses has also been a major concern for the company since 2013. In the first nine months of 2019, it rose 7.1% year over year to \$7.6 billion, accounting for 89.7% of the total revenue stream. Rising expenses are likely to drain the company's margin going forward.
- ▼ **High Leverage:** The company's long-term debt has been deteriorating since 2013. Also, its interest expenses have been rising by 11%, on average, since 2015. The same increased 7.4% in the first nine months of 2019. Times interest earned of the company decreased from 11.1 in 2015 to 7.7 in 2018. At the end of first nine months of 2019, it was 6.8.
- ▼ **Declining ROE:** The company's return on average equity has been declining since 2015. It has decreased 190 basis points from 2015 to 2018. This waning profitability measure, which also reflects the company's effectiveness in utilizing shareholders' money.

Elevated debt level, weak return on equity and increase in operating expenses are the major headwinds faced by the company.

Last Earnings Report

Universal Health's Earnings Lag in Q3, Decline Y/Y

Universal Health delivered third-quarter 2019 adjusted earnings of \$1.99 per share, missing the Zacks Consensus Estimate by 12%. Moreover, the bottom line declined 10.8% year over year due to higher expenses incurred in the quarter under review.

However, net revenues increased 6.6% year over year to \$2.8 billion and also exceeded the Zacks Consensus Estimate by 2.4%, backed by higher admissions and patient days.

Total operating expenses of \$2.6 billion at the end of the third quarter increased 10.1% year over year, mainly due to salaries, wages and benefits along with other operating expense plus supplies expenses.

Segmental Update

Acute Care Hospitals

Adjusted admissions and adjusted patient days rose 7.4% and 7%, respectively, from the prior-year quarter. Net revenues (on same-facility basis) climbed 9.3% in the third quarter, majorly aided by higher admissions and patient days.

Behavioral Hospitals:

On same-facility basis, adjusted admissions inched up 0.5% while adjusted patient days were up 0.4%, both on a year-over-year basis. Net revenues too were up 2.1% on same-facility basis.

Financial Update

As of Sep 30, 2019, the company had cash and cash equivalents of nearly \$58.9 million, down 44% from the level at 2018 end.

Total assets were \$11.6 billion as of Sep 30, 2019, up 2.9% from the 2018-end figure.

The company's long-term debt came in at \$3.8 billion, down 1.6% from the level at 2018 end.

For the first nine months of 2019, net cash provided by operating activities totaled \$1.049 billion, up 10.5% year over year. This was on the back of improvement in net income plus/minus depreciation and amortization expense, stock-based compensation expense, provision for asset impairment and net gains on sale of assets and businesses, favorable change in accounts receivable and other combined net unfavorable changes.

Buyback Program

In the third quarter, the company bought back shares worth \$79.5 million.

In July 2019, the company's board of directors increased its share buyback plan by \$1 billion.

Revised Guidance

Following third-quarter results, the company has revised its 2019 outlook.

Adjusted net income for 2019 is expected in the range of \$9.60-\$9.90 per share, lower than the earlier guidance of \$9.70-\$10.40. This includes unrealized loss of 11 cents per share recorded in the first nine months resulting from a decline in the market value of shares of some marketable securities held for investment and classified as available for sale.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	2.42%
EPS Surprise	-11.95%
Quarterly EPS	1.99
Annual EPS (TTM)	9.57

Recent News

Universal Health Ties Up for Joint Venture — Dec 16, 2019

Universal Health along with Beaumont Health recently broke ground on new mental health hospital in Dearborn, which is expected to open in mid-2021. Construction of the same will commence early 2020 .

Universal Health Declares Dividend — Nov 20, 2019

Universal Health Services recently announced that its board of directors approved a cash dividend of 20 cents per share. The amount was paid out on Dec 19, 2019 to its shareholders of record on Dec 5, 2019.

Valuation

Universal Health shares are up 15% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 15.4% and 4%, respectively.

The S&P 500 index is up 24.4% in the past year.

The stock is currently trading at 13.52X trailing 12-month price to earnings ratio, which compares to 13.49X for the Zacks sub-industry, 21.49X for the Zacks sector and 18.82X for the S&P 500 index.

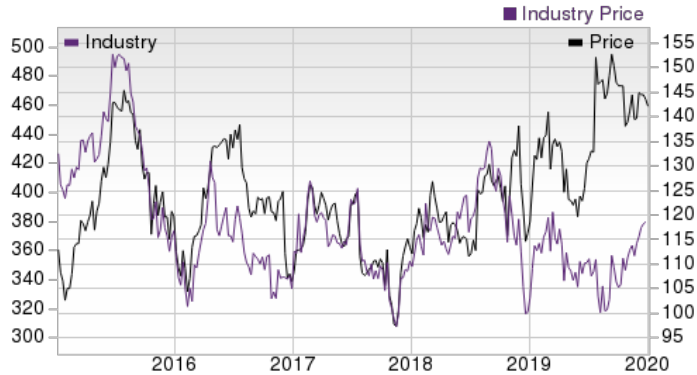
Over the past five years, the stock has traded as high as 20.83X and as low as 11.3X, with a 5-year median of 14.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$152 price target reflects 14.24X price to earnings ratio.

The table below shows summary valuation data for UHS

Valuation Multiples - UHS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.52	13.49	21.49	18.82
	5-Year High	20.83	17.8	21.49	19.32
	5-Year Low	11.3	10.5	15.91	15.17
	5-Year Median	14.04	12.19	18.98	17.44
P/S F12M	Current	1.07	0.53	2.82	3.49
	5-Year High	1.58	0.84	3.8	3.49
	5-Year Low	0.84	0.43	2.42	2.54
	5-Year Median	1.08	0.54	2.93	3

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

Acadia Healthcare Company, Inc. (ACHC)	Neutral
Brookdale Senior Living Inc. (BKD)	Neutral
Community Health Systems, Inc. (CYH)	Neutral
Encompass Health Corporation (EHC)	Neutral
HCA Healthcare, Inc. (HCA)	Neutral
MEDNAX, Inc. (MD)	Neutral
Tenet Healthcare Corporation (THC)	Neutral
Magellan Health, Inc. (MGLN)	Underperform

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	UHS Neutral	X Industry	S&P 500	CYH Neutral	MD Neutral	THC Neutral
VGM Score	A	-	-	B	A	A
Market Cap	12.64 B	2.27 B	23.94 B	284.01 M	2.27 B	3.77 B
# of Analysts	5	7.5	13	7	6	9
Dividend Yield	0.55%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	A	-	-	B	A	A
Cash/Price	0.00	0.03	0.04	0.50	0.05	0.08
EV/EBITDA	10.18	8.12	13.97	13.96	7.26	7.35
PEG Ratio	1.46	1.13	2.03	NA	0.91	0.69
Price/Book (P/B)	2.34	1.94	3.33	NA	1.53	7.67
Price/Cash Flow (P/CF)	9.78	5.51	13.73	0.58	5.49	3.57
P/E (F1)	13.71	13.01	18.79	NA	7.75	13.01
Price/Sales (P/S)	1.12	0.80	2.64	0.02	0.64	0.21
Earnings Yield	7.38%	7.38%	5.32%	-66.80%	12.91%	7.69%
Debt/Equity	0.76	0.06	0.72	-7.53	1.35	30.38
Cash Flow (\$/share)	14.75	4.15	6.94	4.15	4.89	10.15
Growth Score	B	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	10.69%	1.67%	10.56%	NA	-2.29%	-0.02%
Proj. EPS Growth (F1/F0)	8.57%	7.91%	7.49%	7.25%	3.09%	4.94%
Curr. Cash Flow Growth	14.84%	9.15%	14.83%	-33.89%	9.15%	4.42%
Hist. Cash Flow Growth (3-5 yrs)	11.28%	8.85%	9.00%	-13.69%	6.42%	6.10%
Current Ratio	1.19	1.44	1.23	1.44	1.93	1.22
Debt/Capital	43.16%	50.35%	42.99%	NA	57.54%	97.09%
Net Margin	6.48%	-3.51%	11.08%	-4.71%	-40.86%	-1.31%
Return on Equity	15.80%	8.85%	17.16%	NA	10.38%	35.68%
Sales/Assets	0.97	0.81	0.55	0.83	0.66	0.79
Proj. Sales Growth (F1/F0)	3.96%	2.72%	4.20%	-2.14%	2.16%	3.27%
Momentum Score	C	-	-	B	D	A
Daily Price Chg	-0.52%	-1.30%	0.53%	-5.12%	-1.72%	-1.36%
1 Week Price Chg	-0.96%	-0.83%	-0.30%	-3.97%	-0.26%	-0.78%
4 Week Price Chg	-1.33%	-1.93%	1.92%	-31.34%	-4.68%	-2.53%
12 Week Price Chg	-1.35%	6.25%	6.54%	-44.08%	13.32%	54.34%
52 Week Price Chg	14.85%	15.69%	22.58%	-35.39%	-22.13%	68.54%
20 Day Average Volume	465,553	473,007	1,580,816	1,634,686	927,880	833,864
(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%	-0.54%	-0.39%
(F1) EPS Est 12 week change	-3.25%	-3.19%	-0.50%	-33.68%	-3.19%	0.42%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.56%	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	B
Momentum Score	C
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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