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Mar 11, 2020

# Universal Health (UHS)

**$119.56** (As of 03/10/20)

Price Target (6-12 Months): **$126.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 03/04/19) Prior Recommendation: Underperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:A |
| | Value: B \| Growth: A \| Momentum: B | |

## Summary

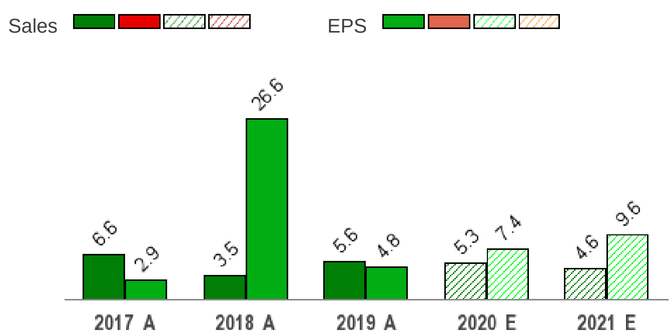
Universal Health's earnings of $2.79 per share surpassed the Zacks Consensus Estimate by 6.9% and also increased 17.7% year over year on the back of higher revenues. Its top line has been growing since 2013, driven by robust inorganic growth and a strong performance from both its segments — Acute Care and Behavioral Health. The number of beds at both segments have been increasing since 2012. Acquisitions have played an instrumental role in building its growth trajectory by adding facilities, bed and hospital to its business portfolio. Its solid 2020 guidance impresses. 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 weighing on its margins. Rising amount of debt also remains a key concern.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | $157.79 - $113.09 |
| 20 Day Average Volume (sh) | 808,903 |
| Market Cap | $10.4 B |
| YTD Price Change | -16.7% |
| Beta | 1.02 |
| Dividend / Div Yld | $0.80 / 0.7% |
| Industry | Medical - Hospital |
| Zacks Industry Rank | Top 45% (115 out of 253) |
| Last EPS Surprise | 6.9% |
| Last Sales Surprise | 0.4% |
| EPS F1 Est- 4 week change | 0.1% |
| Expected Report Date | 04/23/2020 |
| Earnings ESP | -0.7% |
| P/E TTM | 12.0 |
| P/E F1 | 11.1 |
| PEG F1 | 1.2 |
| P/S TTM | 0.9 |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 3,084 E | 3,134 E | 3,105 E | 3,192 E | 12,529 E |
| 2020 | 2,957 E | 2,996 E | 2,970 E | 3,056 E | 11,979 E |
| 2019 | 2,804 A | 2,855 A | 2,822 A | 2,896 A | 11,378 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $3.06 E | $3.08 E | $2.60 E | $3.23 E | $11.76 E |
| 2020 | $2.75 E | $2.78 E | $2.36 E | $2.87 E | $10.73 E |
| 2019 | $2.45 A | $2.76 A | $1.99 A | $2.79 A | $9.99 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 03/10/2020. The reports text is as of 03/11/2020.

## Overview

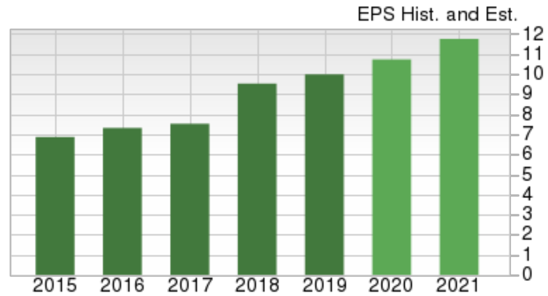
King of Prussia, PA-based Universal Health Services Inc (UHS) owns and operates (through its subsidiaries) acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers and radiation oncology centers.

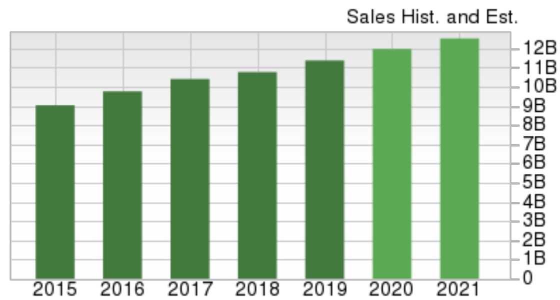
The compan's range of services include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services.

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 (55% of total revenues in 2019):** 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 (45%):** 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:

> 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.

- **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 witnessed a 2010-2019 CAGR of 9.81%, led by solid segmental contributions, higher admissions and patient days. In 2019, the company opened 250 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 also developed four new freestanding emergency departments and acquired two more last year. 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. In 2018 and 2019, the company spent a total of $110 million and $8 million on acquisitions. 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, the average number of licensed beds in the acute care hospitals has been growing, pushing up the revenues. In 2018 and 2019, the same inched up 1.7% and 2.5%, respectively, 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 a 7.7% rise in 2019 owing to adjusted admissions. 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. Segmental revenues inched up 2.6% and 3.4% year over year in 2018 and 2019, respectively. We expect this segment to continue growing on the back of buyouts and other initiatives in the fast-evolving 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. The company is also putting in efforts to boost its behavioral health joint venture portfolio with three new facilities and seven under-construction projects, which are expected to be unveiled in 2020 and 2021.

- **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. In 2019, its cash flow from operating activities increased 12.8% year over year. We expect the company's solid financial strength to enable it to continue with capital deployment going forward.

- **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 2020 Guidance:** Following strong 2019 results, the company expects net revenues for the current year to be between $11.96 billion and $12.11 billion, the midpoint indicating a 5.6% hike from the reported 2019 figure. Its adjusted EPS guidance implies a roughly 3-10% rise from the adjusted of $9.99 per share for the year ended Dec 31, 2019. This favorable guidance instills investors' confidence in the stock.

## Reasons To Sell:

- **Rising Expenses:** Steep increase in operating expenses has also been a major concern for the company since 2013. In 2019, it rose 6% year over year to $10 billion, accounting for 89.3% of the total revenue stream, which remains a major concern for the company. Rising expenses are likely to drain the company's margin going forward.

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

- **High Leverage:** The company's long-term debt has been deteriorating since 2013. Also, its interest expenses have been rising since 2015. The same increased 5% in 2019. Times interest earned of the company decreased from 11.1 in 2015 to 7.55 in 2019. Its high leverage level continues to bother the company.

- **Declining ROE:** The company's return on average equity has been declining since 2015. It currently stands at 16.2%, much lower than its industry's metric of 668.2%. This waning profitability measure also reflects the company's effectiveness in utilizing shareholders' money.

## Last Earnings Report

**Universal Health's Q4 Earnings Surpass, Improve Y/Y**

| Quarter Ending | 12/2019 |
|---|---|
| Report Date | Feb 26, 2020 |
| Sales Surprise | 0.36% |
| EPS Surprise | 6.90% |
| Quarterly EPS | 2.79 |
| Annual EPS (TTM) | 9.99 |

Universal Health Services delivered fourth-quarter 2019 adjusted earnings of $2.79 per share, beating the Zacks Consensus Estimate by 6.9%. Moreover, the bottom line increased 17.7% year over year on the back of higher revenues.

In the quarter under review, revenues increased 5.1% year over year to $2.9 billion and also exceeded the Zacks Consensus Estimate by 0.3%, backed by higher admissions and patient days.

Total operating expenses of $2.5 billion at the end of the fourth quarter increased 2.4% year over year due to higher salaries, wages and benefits, supplies expense, and depreciation and amortization expenses.

**Segmental Update**

**Acute Care Hospitals:**

Adjusted admissions and adjusted patient days rose 2.1% and 6%, respectively, from the prior-year quarter. Net revenues (on same-facility basis) climbed 7.9% in the fourth quarter, majorly aided by higher admissions and patient days.

**Behavioral Hospitals:**

On same-facility basis, adjusted admissions inched up 0.8% while adjusted patient days were up 0.9%, both on a year-over-year basis. Net revenues too were up 4.5% year over year on same-facility basis.

**Financial Update**

As of Dec 31, 2019, the company had cash and cash equivalents of $61.3 million, down 41.8% from the level at 2018 end.

Total assets were $11.6 billion as of Dec 31, 2019, up 3.6% from the 2018-end figure.

The company's long-term debt came in at $3.9 billion, down 1% from the level at 2018 end.

For 2019, net cash provided by operating activities came in at $1.4 billion, up 12.8% 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 costs related to extinguishment of debt, favorable change in accrued and deferred income taxes as well as net favorable changes.

**Buyback Program**

In the fourth quarter, the company bought back shares worth $181.2 million.
In July 2019, the company's board of directors increased its share buyback plan by $1 billion.

**Full-Year Highlights**

For 2019, the company's net income came in at $9.13 per share, up 9.9% year over year.

Net revenues for 2019 were up 5.6% year over year to $11.4 billion.

**2020 Guidance**

Following fourth-quarter results, the company gave its 2020 outlook.

Net revenues for the current year are anticipated between $11.96 billion and $12.11 billion.

Adjusted EPS per share is expected in the band of $10.30-$11. Management projects capital expenditures between $775 million and $825 million.

## Recent News

**Universal Health Declares Dividend** — Jan 30, 2020

Universal Health recently announced that its board of directors has agreed to pay a cash dividend of 20 cents per share, payable Mar 16, 2020 to shareholders of record on Mar 2, 2020.

**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 down 17% and 7.8% 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 22.6% and 10% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13% and 9%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 10.9 trailing 12-month price to earnings ratio, which compares to 10.1 for the Zacks sub-industry, 18.7 for the Zacks sector and 15.8 for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.8 and as low as 10.5, with a 5-year median of 13.9. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $126 price target reflects 11.5 earnings ratio.

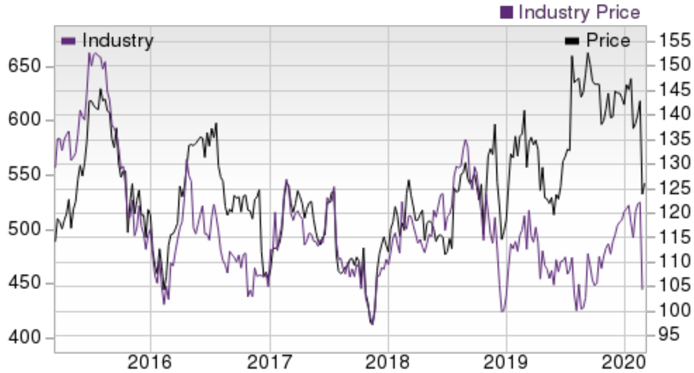
The table below shows summary valuation data for UHS

**Valuation Multiples - UHS**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 10.94 | 10.12 | 18.72 | 15.75 |
| | 5-Year High | 20.83 | 17.8 | 21.08 | 19.34 |
| | 5-Year Low | 10.49 | 9.79 | 15.83 | 15.17 |
| | 5-Year Median | 13.86 | 11.9 | 18.74 | 17.42 |
| P/S F12M | Current | 0.86 | 0.4 | 2.53 | 2.91 |
| | 5-Year High | 1.58 | 0.84 | 3.83 | 3.44 |
| | 5-Year Low | 0.82 | 0.4 | 2.45 | 2.54 |
| | 5-Year Median | 1.08 | 0.54 | 2.96 | 3 |

As of 03/10/2020

## Industry Analysis **Zacks Industry Rank:** Top 45% (115 out of 253)




## Top Peers

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

## Industry Comparison Industry: Medical - Hospital

Industry Peers

| | UHS Neutral | X Industry | S&P 500 | CYH Outperform | MD Underperform | THC Neutral |
|---|---|---|---|---|---|---|
| **VGM Score** | A | - | - | A | A | A |
| Market Cap | 10.37 B | 1.25 B | 20.21 B | 495.00 M | 1.25 B | 2.25 B |
| # of Analysts | 7 | 7.5 | 13 | 7 | 7 | 10 |
| Dividend Yield | 0.67% | 0.00% | 2.18% | 0.00% | 0.00% | 0.00% |
| **Value Score** | B | - | - | A | A | A |
| Cash/Price | 0.01 | 0.10 | 0.05 | 0.35 | 0.14 | 0.10 |
| EV/EBITDA | 8.42 | 7.63 | 12.36 | 11.21 | 6.96 | 7.65 |
| PEG Ratio | 1.13 | 0.92 | 1.78 | NA | 0.48 | 0.85 |
| Price/Book (P/B) | 1.86 | 1.40 | 2.77 | NA | 0.84 | 4.65 |
| Price/Cash Flow (P/CF) | 7.50 | 4.62 | 11.04 | 0.98 | 0.70 | 1.92 |
| P/E (F1) | 10.60 | 10.33 | 16.09 | NA | 4.77 | 7.36 |
| Price/Sales (P/S) | 0.91 | 0.56 | 2.17 | 0.04 | 0.36 | 0.12 |
| Earnings Yield | 8.97% | 8.97% | 6.20% | -29.52% | 20.94% | 13.61% |
| Debt/Equity | 0.75 | 0.06 | 0.70 | -6.25 | 1.20 | 30.19 |
| Cash Flow ($/share) | 15.94 | 4.31 | 7.01 | 4.31 | 21.32 | 11.22 |
| **Growth Score** | A | - | - | A | A | A |
| Hist. EPS Growth (3-5 yrs) | 10.40% | 1.97% | 10.85% | NA | -3.50% | 1.97% |
| Proj. EPS Growth (F1/F0) | 7.44% | 10.32% | 6.14% | -39.00% | -7.86% | 9.55% |
| Curr. Cash Flow Growth | 2.58% | 8.67% | 6.09% | 5.15% | 338.26% | 12.12% |
| Hist. Cash Flow Growth (3-5 yrs) | 23.60% | 16.58% | 8.52% | -20.09% | 37.59% | 2.67% |
| Current Ratio | 1.23 | 1.35 | 1.24 | 1.50 | 1.35 | 1.21 |
| Debt/Capital | 42.78% | 48.65% | 42.57% | NA | 54.53% | 97.08% |
| Net Margin | 7.16% | -2.19% | 11.69% | -5.11% | -42.63% | -1.26% |
| Return on Equity | 16.17% | 9.79% | 16.74% | NA | 12.22% | 47.57% |
| Sales/Assets | 0.97 | 0.81 | 0.54 | 0.83 | 0.71 | 0.79 |
| Proj. Sales Growth (F1/F0) | 5.28% | 2.58% | 3.71% | -3.56% | 0.92% | 4.25% |
| **Momentum Score** | B | - | - | B | D | A |
| Daily Price Chg | 4.34% | 0.85% | 4.87% | 1.69% | 3.99% | -1.41% |
| 1 Week Price Chg | 1.80% | 0.07% | -0.67% | 5.68% | -6.20% | -1.64% |
| 4 Week Price Chg | -15.61% | -17.40% | -15.65% | -11.58% | -43.96% | -36.86% |
| 12 Week Price Chg | -15.52% | -14.97% | -13.60% | 35.05% | -45.86% | -42.54% |
| 52 Week Price Chg | -8.80% | -10.43% | -2.27% | -9.29% | -50.55% | -26.71% |
| 20 Day Average Volume | 808,903 | 790,290 | 2,778,843 | 4,360,125 | 2,049,053 | 1,821,536 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.11% | 0.00% | -0.16% | 23.44% | -7.21% | 2.05% |
| (F1) EPS Est 12 week change | 0.76% | 0.63% | -0.57% | 28.40% | -9.87% | 4.90% |
| (Q1) EPS Est Mthly Chg | -0.79% | -0.40% | -0.49% | 10.99% | -6.79% | 17.27% |

## 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.

| | |
|---|---|
| Value Score | B |
| Growth Score | A |
| Momentum Score | B |
| VGM Score | A |

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.

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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