National HealthCare Corp. (NHC)

Updated February 18th, 2023, by Ian Bezek

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$870 M
Fair Value Price:	$49	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/30/23
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	05/01/23
Dividend Yield:	3.9%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

National HealthCare was founded in 1971 to own and manage medical facilities. It operates skilled nursing facilities, home and hospice agencies, assisted living facilities, independent living facilities, and behavioral health hospitals. Besides operating its own facilities, National HealthCare leases some facilities to third-party operators. As of December 31st, 2022, National Healthcare operated or managed 68 skilled nursing facilities with 8,726 licensed beds in addition to its assortment of other healthcare, homecare, and hospice assets.

The company has been in a period of transition over the past few years. Covid-19 initially was a shock to the business, as it created a series of unprecedented challenges and obstacles to providing skilled care. However, the government provided substantial aid to the industry, giving National HealthCare a large amount of stimulus income in 2020 and 2021. After National HealthCare's record profits in 2021, though, momentum has faded, with earnings falling sharply. In addition, National HealthCare has trimmed its portfolio. It left the Massachusetts and New Hampshire markets in the third quarter of 2022 as it moved on from seven facilities in those states. This concentrates National HealthCare's focus on its home market in the Southeast.

National HealthCare reported its fourth quarter results on February 17th, 2023. Adjusted earnings-per-share of $0.72 fell sharply from the $1.02 figure recorded in the same period of 2021. Revenues also declined 1% to $252 million for the quarter. The decline in earnings came due to the lapsing of government relief funds combined with a sharp rise in costs to operate the company's facilities. We expect National Healthcare to return to growth in 2023, but it will likely take years to return to pre-pandemic levels of profitability.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.87	$3.14	$3.20	$3.32	$3.69	$3.87	$4.44	$2.72	$5.32	$2.42	***$2.60***	***$3.82***
DPS	$1.26	$1.34	$1.48	$1.75	$1.89	$1.98	$2.06	$2.08	$2.08	$2.26	***$2.28***	***$2.64***
Shares[1]	14	14	15	16	15	15	15	15	15	15	***15***	***15***

National HealthCare has had a somewhat volatile but a generally increasing earnings-per-share trend over the past decade; at least that was the case until March 2020. With the onset of the pandemic, however, the business faced many additional costs for keeping facilities safe and well-staffed with qualified healthcare professionals. National HealthCare received $47.5 million and $63.4 million of CARES Act government relief in 2020 and 2021 respectively, which added a great deal to the company's overall earnings. As this emergency aid has wound down, however, the company's earnings have slumped to below pre-pandemic levels given the impact of inflation on the industry. We expect that National HealthCare will see renewed earnings growth going forward, but it will take time to return to prior levels of profitability.

The company had delivered a strong series of dividend hikes prior to 2020. However, the dividend was paused during the pandemic before hikes resumed in 2022. The company's payout ratio has moved sharply higher, which we believe will limit dividend growth for the time being.

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

National HealthCare Corp. (NHC)

Updated February 18th, 2023, by Ian Bezek

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.5	17.8	19.9	19.6	18.6	18.0	18.2	25.3	13.4	26.8	***22.3***	***19.0***
Avg. Yld.	2.6%	2.4%	2.3%	2.7%	2.8%	2.8%	2.6%	3.0%	2.0%	3.7%	***3.9%***	***3.6%***

National HealthCare has generally maintained a P/E ratio in the mid-to-high teens. The company's P/E ratio is currently above average, however that is because 2022 earnings were depressed. We expect the firm's P/E ratio to settle back at 19 in future years as the company's earnings picture normalizes.

The company has traditionally offered a dividend yield between 2.5% and 3.0%. The company's dividend yield has moved up to almost 4% thanks to the sell-off in the company's shares over the past few months. This could offer investors a stronger entry point, with the caveat being that dividend growth will likely be modest from here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	43%	46%	53%	51%	51%	46%	76%	39%	93%	***88%***	***69%***

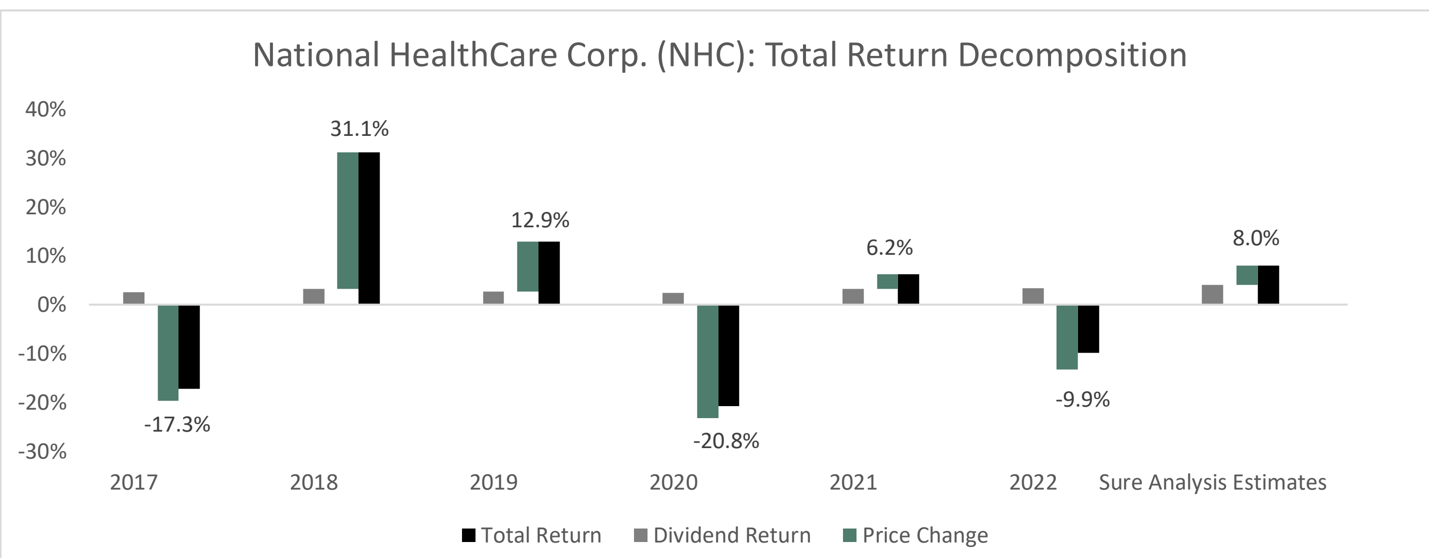
National HealthCare saw its payout ratio spike in 2022 given the fall in its earnings. The pandemic highlighted a number of risk factors within the skilled healthcare industry that investors previously hadn't focused on. That said, the industry has normally been viewed as a defensive one serving a growing market given America's aging demographics.

In addition, National HealthCare has a pristine balance sheet. It has no long-term debt, while holding a significant cash position. This gives it additional flexibility to navigate the currently choppy waters in its industry.

Final Thoughts & Recommendation

Prior to the pandemic, National HealthCare looked like a steady low-volatility dividend growth investment. The Covid-19 outbreak fundamentally shook that understanding, and earnings are currently facing material headwinds. That said, the company's strong balance sheet is a major asset. And the essential nature of the services it provides ensures future demand will be there. We forecast an 8% annualized return outlook over the next five years. That's thanks to earnings growth picking back up, but that being offset by a decline in the company's P/E ratio. Shares earn a hold rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

National HealthCare Corp. (NHC)

Updated February 18th, 2023, by Ian Bezek

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	761	789	872	907	924	964	980	996	981	1,011
SG&A Exp.	466	493	550	573	589	612	624	633	650	670
D&A Exp.	30	29	34	37	39	43	42	42	42	41
Operating Profit	69	78	70	70	64	59	61	52	50	60
Op. Margin	9.0%	9.9%	8.1%	7.7%	7.0%	6.1%	6.2%	5.2%	5.1%	5.9%
Net Profit	59	65	53	53	51	56	59	68	42	139
Net Margin	7.8%	8.2%	6.1%	5.9%	5.5%	5.8%	6.0%	6.8%	4.3%	13.7%
Free Cash Flow	42	59	29	25	28	62	69	74	181	23
Income Tax	34	38	32	32	30	19	16	20	10	11

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	925	984	1,074	1,045	1,087	1,097	1,081	1,287	1,362	1,403
Cash & Equivalents	67	82	70	38	26	59	43	50	147	108
Acc. Receivable	77	80	79	84	83	87	97	93	90	96
Inventories	7	7	7	8	8	7	7	7	9	9
Goodwill & Int.	18	18	18	18	18	18	21	21	21	175
Total Liabilities	269	296	340	414	418	393	346	508	564	495
Accounts Payable	11	13	16	20	19	16	20	19	21	22
Long-Term Debt	10	10	10	120	120	100	55	10	-	-
Total Equity	486	518	564	631	670	703	733	779	795	903
LTD/E Ratio	0.02	0.01	0.01	0.19	0.18	0.14	0.08	0.01	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.6%	6.8%	5.2%	5.0%	4.7%	5.1%	5.4%	5.8%	3.2%	10.0%
Return on Equity	12.8%	12.9%	9.9%	8.9%	7.8%	8.2%	8.2%	9.0%	5.3%	16.3%
ROIC	9.2%	9.5%	7.4%	7.1%	6.6%	7.1%	7.4%	8.6%	5.3%	16.2%
Shares Out.	14	14	14	15	16	15	15	15	15	15
Revenue/Share	45.85	47.25	61.29	62.56	60.73	63.34	64.34	64.87	63.81	65.57
FCF/Share	2.55	3.53	2.01	1.72	1.86	4.08	4.51	4.80	11.80	1.49

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.