



The Ensign Group, Inc. (ENSG)

Updated August 3rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$97	5 Year CAGR Estimate:	9.1%	Market Cap:	\$5.55 B
Fair Value Price:	\$101	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/29/2023 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	10/31/2023
Dividend Yield:	0.2%	5 Year Price Target	\$149	Years Of Dividend Growth:	15
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

The Ensign Group, Inc. is a healthcare company founded in 1999 and headquartered in San Juan Capistrano, California. The company operates 288 healthcare facilities in 13 states, providing skilled nursing, senior living, rehabilitative care services, and ancillary businesses such as mobile diagnostics and medical transportation. The Ensign Group competes with other healthcare providers in the market. Still, its focus on delivering quality care and creating solid relationships with patients and their families has helped it establish a competitive advantage. The company's revenue segments are divided into four categories: skilled nursing services, assisted living services, home health and hospice services, and other services.

On July 27th, 2023, the company announced results for its second quarter of 2023. ENSG reported Q2 non-GAAP EPS of \$1.16, beating analysts' estimates by \$0.02. In addition, the company reported revenues of \$921.34 million for the quarter, up 25.8% year-over-year. The company is raising the annual 2023 EPS guidance to between \$4.70 and \$4.78 per diluted share, up from \$4.64 to \$4.77 per diluted share, due to the strong skilled mix, very strong sequential occupancy growth, and earlier-than-expected results from the recent acquisitions.

The skilled mix revenue and days increased during the quarter by 8.8% and 5.6%, respectively, over the same period the previous year. Due to improved care coordination, expanded capabilities, and impressive clinical results, the organization keeps forging closer links with its managed care partners. As a result, the business reported an increase in volume in its combined same-store and migrating managed care census and revenue, which rose by 8.2% and 12.2%, respectively, over the prior year during the quarter.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.54	\$0.78	\$1.06	\$0.83	\$0.91	\$1.70	\$1.64	\$3.06	\$3.42	\$3.95	\$4.60	\$6.76
DPS	\$0.13	\$0.14	\$0.15	\$0.16	\$0.17	\$0.18	\$0.19	\$0.20	\$0.21	\$0.22	\$0.23	\$0.29
Shares	44.7	45.2	51.4	51.9	51.4	52.6	53.5	54.6	55.2	55.7	57.2	65.4

Notwithstanding the macro environment, growth was robust, and occupancy rates returned to levels before the pandemic. Ensign Group, is well financed to continue supporting its growth efforts, and we saw that the tail of its asset returns continues to generate value. The sequential growth in the aggregate occupancy rate, which has increased for eight consecutive quarters, was critical for forecasting its future growth. Same-store and transitional occupancy rose sequentially by 2.9% and 4.3%, respectively, and over the third quarter by 1.0% and over the prior year quarter by 0.8%. Favorably, the same-store occupancy rate maintained its upward trajectory toward pre-pandemic levels, and this remains the key growth contributor.

Despite the minor change in the management guidance, we maintain our previous EPS forecast EPS of \$4.60 in 2023, suggesting double-digit growth. However, as earnings normalize and reach pre-pandemic levels, there is less room for growth, and we have assumed an annual EPS growth rate of 8.0% through 2028. In addition, DPS has consistently

¹ The ex-div and dividend payment dates are estimated based on historical data.

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increased for the last 15 years, and we remain confident that the company can keep on this track. Notably, the company raised its cash dividend for the fourth quarter to \$0.058 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	17.7	24.6	21.7	25.1	22.8	20.2	29.7	16.5	24.3	21.2	21.1	22.0
Avg. Yld.	1.4%	1.0%	0.7%	0.8%	0.9%	0.6%	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%

ENSG has attracted a relatively high P/E multiple in the past couple of years, and the stock is trading at a forward P/E of 21.1, lower than its nine-year and five-year averages of 22.4. However, considering the growth prospects, we believe that a P/E of 22.0 accurately reflects the risk/reward of the stock, which leads to our estimated fair value of the company at \$149 by 2028, implying an upside potential of 54%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

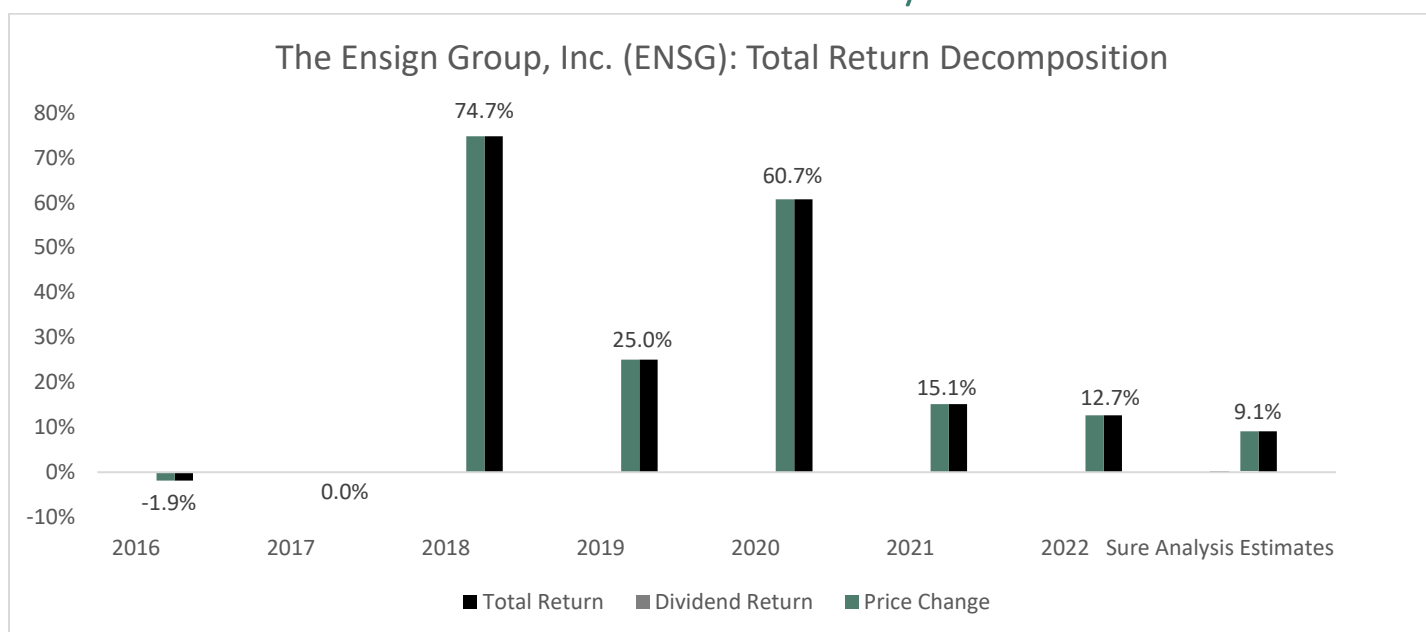
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	24%	18%	14%	19%	19%	11%	12%	7%	6%	6%	5%	11%

The Ensign Group's distinctive business model, which focuses on buying and renovating troubled healthcare facilities to restore performance and profitability, gives them a competitive advantage. In addition, the organization has performed well during recessions thanks to its solid financial position and capacity to adapt to the evolving healthcare market. Even though Ensign Group has a debt-to-equity ratio of 1.26 which is lower than the industry norm, it is still considered high. However, the company's cash reserve stands at \$331.7 million compared to its long-term debt of \$149.3 million, and its strong operating cash flow of \$272.5 million supports a favorable leverage profile.

Final Thoughts & Recommendation

We remain confident in The Ensign Group's prospects, as its outlook is still favorable, with strong growth ahead. However, we revised our rating to hold, premised upon the 9.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 0.2% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	905	1,027	1,342	1,655	1,598	1,755	2,037	2,403	2,627	3,025
Gross Profit	165	156	185	188	173	219	291	407	468	518
Gross Margin	18.2%	15.2%	13.8%	11.4%	10.8%	12.5%	14.3%	17.0%	17.8%	17.1%
SG&A Exp.	40	57	64	69	74	91	111	130	152	159
D&A Exp.	34	26	28	39	42	45	51	55	56	62
Operating Profit	91	73	93	81	57	83	129	223	260	297
Op. Margin	10.1%	7.1%	6.9%	4.9%	3.5%	4.7%	6.3%	9.3%	9.9%	9.8%
Net Profit	24	36	55	50	40	92	111	170	195	225
Net Margin	2.7%	3.5%	4.1%	3.0%	2.5%	5.3%	5.4%	7.1%	7.4%	7.4%
Free Cash Flow	8	31	(27)	8	25	159	121	323	206	185
Income Tax	20	27	35	33	14	13	24	46	60	64

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	760	494	748	1,001	1,102	1,182	2,362	2,546	2,851	3,452
Cash & Equivalents	66	50	42	58	42	31	59	237	262	316
Acc. Receivable	111	130	209	244	265	252	309	305	329	408
Goodwill & Int.	37	78	105	122	139	83	61	61	67	83
Total Liabilities	403	236	321	541	602	580	1,706	1,727	1,829	2,203
Accounts Payable	24	33	36	39	39	40	45	51	58	77
Long-Term Debt	259	68	100	284	313	243	328	116	157	153
Total Equity	356	259	427	456	492	591	654	818	1,021	1,247
LTD/E Ratio	0.73	0.26	0.23	0.62	0.64	0.41	0.50	0.14	0.15	0.12

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.3%	5.7%	8.9%	5.7%	3.8%	8.1%	6.2%	6.9%	7.2%	7.1%
Return on Equity	7.0%	11.7%	16.2%	11.3%	8.5%	17.1%	17.8%	23.2%	21.2%	19.8%
ROIC	4.2%	7.6%	13.0%	7.9%	5.2%	11.1%	12.1%	17.8%	18.4%	17.4%
Shares Out.	44.7	45.2	51.4	51.9	51.4	52.6	53.5	54.6	55.2	55.7
Revenue/Share	20.22	22.24	25.70	31.74	30.25	32.26	36.38	43.07	46.16	53.20
FCF/Share	0.17	0.68	(0.51)	0.16	0.48	2.93	2.16	5.79	3.62	3.25

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

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