Chemed Corporation (CHE)

Updated November 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$581	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$8.56 B
Fair Value Price:	$500	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/23/2024[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	03/18/2024[2]
Dividend Yield:	0.3%	**5 Year Price Target**	$701	**Years Of Dividend Growth:**	15
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Chemed Corporation (CHE) is a publicly traded company based in Cincinnati, Ohio, that operates two wholly owned subsidiaries: VITAS Healthcare Corporation and Roto-Rooter. The company was founded in 1970 and has established itself as a leading provider of healthcare equipment and services, primarily in end-of-life hospice care through VITAS and plumbing and drain services through Roto-Rooter. Chemed Corporation maintains a strong competitive position in the healthcare and plumbing markets, with revenues of $2.1 billion in 2022. The company's market share is substantial, with VITAS generating roughly 75% of Chemed Corporation's total revenue and Roto-Rooter accounting for the remaining 25%. The company has a strong management team. Its mission is to provide its customers with high-quality healthcare and plumbing services, making it a trusted and reliable partner in these industries.

On October 23rd, 2023, the company announced results for the third quarter of 2023. CHE reported Q3 non-GAAP EPS of $5.32, beating market estimates by $0.42. In addition, the company reported revenues of $565 million for the quarter, up 7.3% year-over-year. The management's full-year EPS guidance for 2023 is estimated to be in the range of $19.82 to $20.02.

In the third quarter of 2023, VITAS achieved a notable 12.5% increase in net revenue, reaching $334 million. This growth is primarily attributed to a 9.4% rise in days of care and a 2.7% increase in the geographically weighted average Medicare reimbursement rate. Additionally, a positive shift in the acuity mix contributed 24 basis points to revenue growth compared to the prior year. In comparison, changes in Medicare Cap and other contra-revenue factors added approximately 20 basis points to this growth. A significant aspect of VITAS' financial performance is the management of Medicare Cap billing limitations. In Q3 2023, the company accrued only $0.13 million in Medicare Cap billing limitations, a substantial decrease from the $0.6 million recorded in the same quarter of 2022. This demonstrates effective management of Medicare Cap constraints.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.16	$5.57	$6.33	$6.48	$8.43	$11.93	$13.95	$18.08	$19.35	$19.70	***$20.00***	***$28.05***
DPS	$0.76	$0.84	$0.92	$1.00	$1.08	$1.16	$1.24	$1.32	$1.40	$1.48	***$1.60***	***$2.04***
Shares	17.6	16.9	16.8	16.2	16.0	15.9	15.9	15.9	14.9	15.0	***14.7***	***13.5***

In 2030, 21% of the population is anticipated to be over 65. This suggests that many more Americans than today will require the healthcare services offered by VITAS. Therefore, the management has guided that VITA's revenue 2023 will rise between 6.0% and 7.0% in 2023.

Chemed Corporation has effectively utilized the CARES Act during the pandemic and boosted its operating profits. However, these non-recurring benefits are gone, and we consider a growth rate in the high single digits to be more representative of its prospects. We maintain our EPS estimate in 2023 at $20.00, and using a projected annual growth of 7.0% for the next five years, which is slower than its nine-year CAGR of 18.9%, we get an EPS of $28.05 by 2028.

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[1] [1] The ex-dividend date is estimated based on historical data.

[2] [2] The dividend payment date is estimated based on historical data.

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.

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Moreover, Chemed Corporation's DPS had a 10-year and five-year CAGR of 7.7% and 17.1%, respectively. CHE has consistently increased its dividend distribution in the past 14 years, and we believe that DPS can grow slightly slower than EPS growth at an annual rate of 5.0%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	17.7	17.0	20.7	21.4	23.5	25.1	26.5	25.9	24.9	24.6	***29.1***	***25.0***
Avg. Yld.	1.0%	0.9%	0.7%	0.7%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	***0.3%***	***0.3%***

The company's largest revenue contributor, VITAS, has significant tailwinds, such as the aging US population, that will support its growth for the foreseeable future. Chemed Corporation is trading at a forward P/E of 29.1, higher than its five-year average of 25.4 and 10-year average of 22.7. However, considering the growth prospects, we have assumed a target P/E of 25.0 by 2028, close to its historical averages, suggesting a target price of $701.

Safety, Quality, Competitive Advantage, & Recession Resiliency

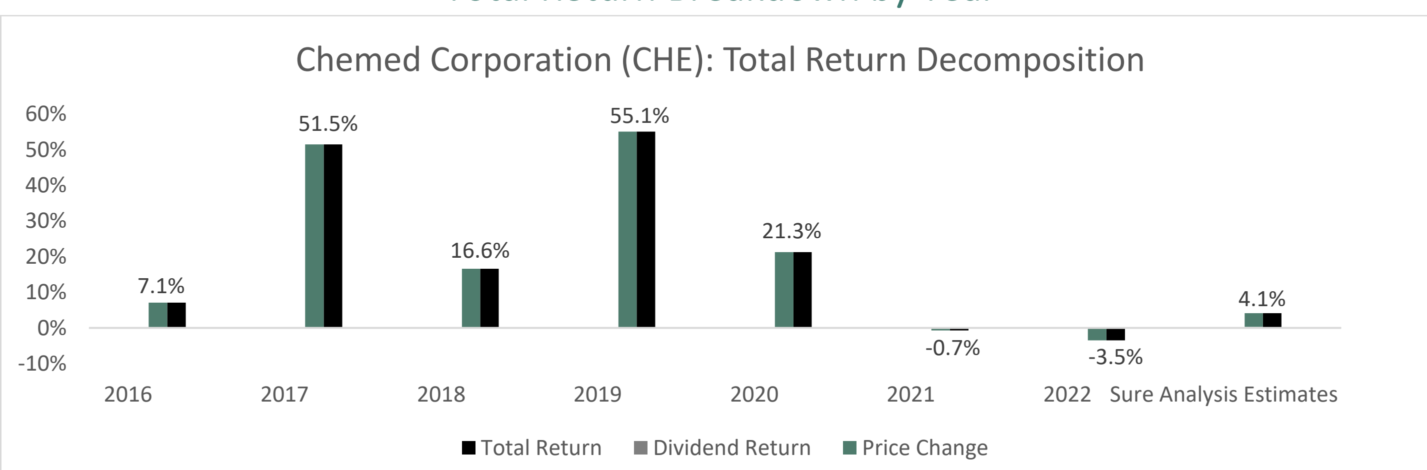
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	15%	15%	15%	13%	10%	9%	7%	7%	8%	***8%***	***10%***

The company's competitive advantage lies in its ability to provide high-quality hospice care to terminally ill patients through VITAS, one of the largest hospice care providers in the US. The recession performance of the company has been relatively stable due to the essential nature of its healthcare services, and it has demonstrated consistent revenue growth and profitability over the years. Chemed Corporation has a moderate level of debt, with a debt-to-equity ratio of around 0.15, indicating that it has utilized debt financing to some extent but has yet to over-leverage its balance sheet. In addition, the company's persistent trend of repurchasing shares helps to justify a multiple closer to the higher long-term averages. Lastly, Chemed Corporation has officially approved repurchasing an extra $300 million of stock under its current share repurchase program.

Final Thoughts & Recommendation

We remain confident in Chemed Corporation's prospects, as its outlook is still favorable, and there are some strong tailwinds. However, we believe that investors should wait for better entry points at a lower valuation. Thus, the hold rating is premised upon the 4.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0% and 0.3% dividend yield, offset by a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,413	1,456	1,543	1,577	1,667	1,783	1,939	2,080	2,139	2,135
Gross Profit	405	422	456	461	516	555	617	701	770	765
Gross Margin	28.6%	29.0%	29.5%	29.3%	31.0%	31.1%	31.8%	33.7%	36.0%	35.8%
SG&A Exp.	216	223	238	248	277	271	306	330	367	359
D&A Exp.	29	31	33	35	36	39	45	57	59	59
Operating Profit	133	168	184	179	204	245	267	390	344	347
Op. Margin	9.4%	11.6%	12.0%	11.3%	12.2%	13.7%	13.7%	18.7%	16.1%	16.3%
Net Profit	77	99	110	109	98	206	220	319	269	250
Net Margin	5.5%	6.8%	7.1%	6.9%	5.9%	11.5%	11.3%	15.4%	12.6%	11.7%
Free Cash Flow	122	67	127	96	98	234	248	430	250	253
Income Tax	47	63	70	68	19	34	42	77	82	80

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	894	860	852	880	920	976	1,268	1,435	1,343	1,442
Cash & Equivalents	84	14	15	15	11	5	6	163	33	74
Acc. Receivable	92	125	106	132	114	120	144	127	137	139
Inventories	7	6	6	6	5	6	7	7	10	10
Goodwill & Int.	523	523	527	527	532	579	704	697	687	681
Total Liabilities	445	409	339	356	380	384	542	534	719	643
Accounts Payable	42	47	44	40	48	50	51	54	73	42
Long-Term Debt	184	148	91	109	101	89	90	-	185	98
Total Equity	449	451	513	524	540	591	727	901	623	799
LTD/E Ratio	0.41	0.33	0.18	0.21	0.19	0.15	0.12	-	0.30	0.12

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.8%	11.3%	12.9%	12.6%	10.9%	21.7%	19.6%	23.6%	19.3%	17.9%
Return on Equity	17.1%	22.1%	22.9%	21.0%	18.4%	36.3%	33.4%	39.3%	35.2%	35.1%
ROIC	12.3%	16.1%	18.3%	17.6%	15.4%	31.1%	29.4%	37.2%	31.4%	29.3%
Shares Out.	17.6	16.9	16.8	16.2	16.0	15.9	15.9	15.9	14.9	15.0
Revenue/Share	76.05	81.63	88.59	93.92	99.55	106.09	117.30	126.82	134.22	141.40
FCF/Share	6.54	3.74	7.31	5.70	5.87	13.94	15.02	26.25	15.68	16.73

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