The Ensign Group, Inc. (ENSG)

Updated November 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$109	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$6.23 B
Fair Value Price:	$101	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/29/2023[1]
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	01/31/2024[2]
Dividend Yield:	0.2%	**5 Year Price Target**	$149	**Years Of Dividend Growth:**	15
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 October 25th, 2023, the company announced results for its third quarter of 2023. ENSG reported Q3 non-GAAP EPS of $1.20, beating analysts' estimates by $0.01. In addition, the company reported revenues of $935.32 million for the quarter, up 22.1% year-over-year. The Ensign Group has demonstrated robust performance in the recent quarter, bolstered by the successful integration of its recent acquisitions. This strong performance has led the company to revise its earnings outlook for 2023 upwards. ENSG now forecasts its annual DEPS from $4.73 to $4.79. This updated guidance marks a slight increase from the previously estimated range of $4.70 to $4.78 per diluted share. Notably, the new midpoint of the 2023 earnings guidance signifies a substantial 15.0% growth over the results achieved in 2022 and an impressive 30.8% increase compared to the 2021 figures.

Total skilled services revenue soared to $903.0 million, a 22.1% increase over the prior year quarter, with segment income rising 15.8% to $117.8 million. The company also saw notable improvements in occupancy rates, with same-store and transitioning occupancy rising by 290 and 270 basis points, respectively. Additionally, managed care revenue and census in these categories grew by 13.8% and 6.6%, indicating robust demand and effective management. Lastly, the Standard Bearer segment also performed well, with revenue increasing by 12.0% to $21.0 million and funds from operations (FFO) growing 8.7% to $13.6 million.

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 of 2023 by 1.0% and 0.8%, respectively.

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

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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 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	***23.7***	***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 23.7, higher than its nine-year and five-year averages of 22.4. However, considering the growth prospects, 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

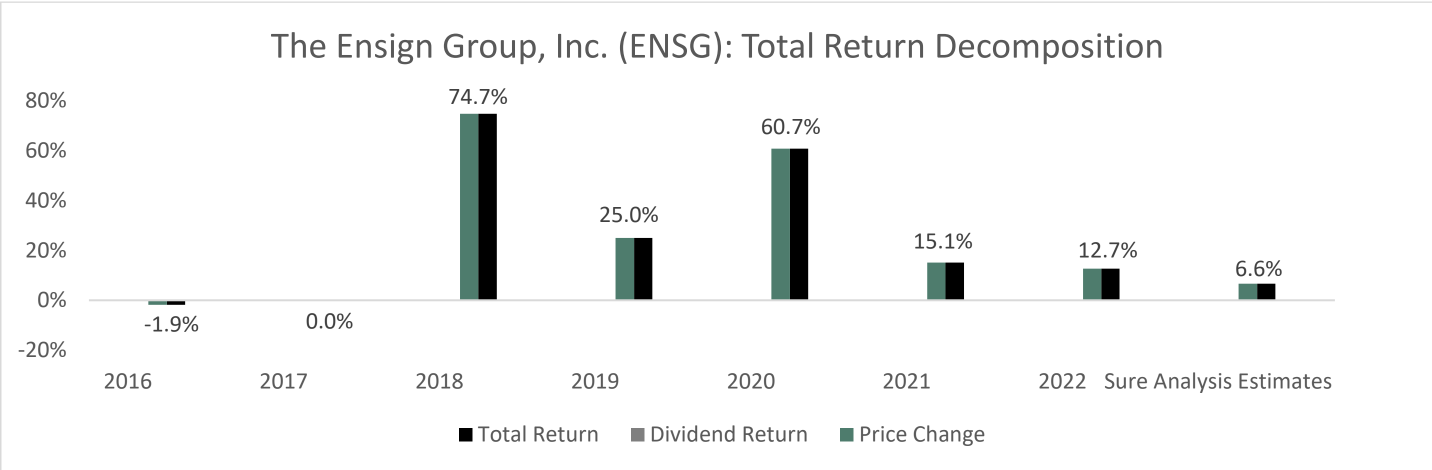
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	24%	18%	14%	19%	19%	11%	12%	7%	6%	6%	***5%***	***11%***

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 1.29, which is lower than the industry norm, it is still considered high. However, the company's cash reserve stands at $484.3 million compared to its long-term debt of $146.5 million, and its strong operating cash flow of $341.6 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 have revised our rating to hold, premised upon the 6.6% 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 headwind.

Total Return Breakdown by Year



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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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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.