National HealthCare Corp. (NHC)

Updated November 19th, 2023, by Ian Bezek

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$1.1 B
Fair Value Price:	$55	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/28/23
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	02/01/24
Dividend Yield:	3.1%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**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 September 30th, 2023, National Healthcare operated or managed 68 skilled nursing facilities with 8,732 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, profits declined, and National HealthCare adjusted its portfolio to adjust to new market conditions. Specifically, 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 third quarter results on November 3rd, 2023. Adjusted earnings-per-share of $0.86 rose from the $0.50 figure recorded in the same period of 2022. Revenues increased 6% to $288 million for the quarter. The firm's operating results improved markedly in Q2 as it finally saw Covid-19 related headwinds abate. These Q3 results confirmed the positive inflection in the firm's earnings trajectory, and we've raised our earnings forecast accordingly.

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	***$2.90***	***$4.26***
DPS	$1.26	$1.34	$1.48	$1.75	$1.89	$1.98	$2.06	$2.08	$2.08	$2.26	***$2.36***	***$2.74***
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. Operating results finally appear to be returning to normal now, however and we anticipate the firm returning to 8% annualized growth going forward.

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. On May 4th, 2023, National HealthCare announced a 4% dividend increase, raising its quarterly payment from 57 cents to 59 cents.

[1] In millions.

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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	***26.2***	***19.0***
Avg. Yld.	2.6%	2.4%	2.3%	2.7%	2.8%	2.8%	2.6%	3.0%	2.0%	3.7%	***3.1%***	***3.4%***

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 in part because earnings have been depressed recently. 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 current 3.1% dividend yield is above the high end of that range. However, growth is likely to be slower given the firm's high payout ratio.

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%	***81%***	***64%***

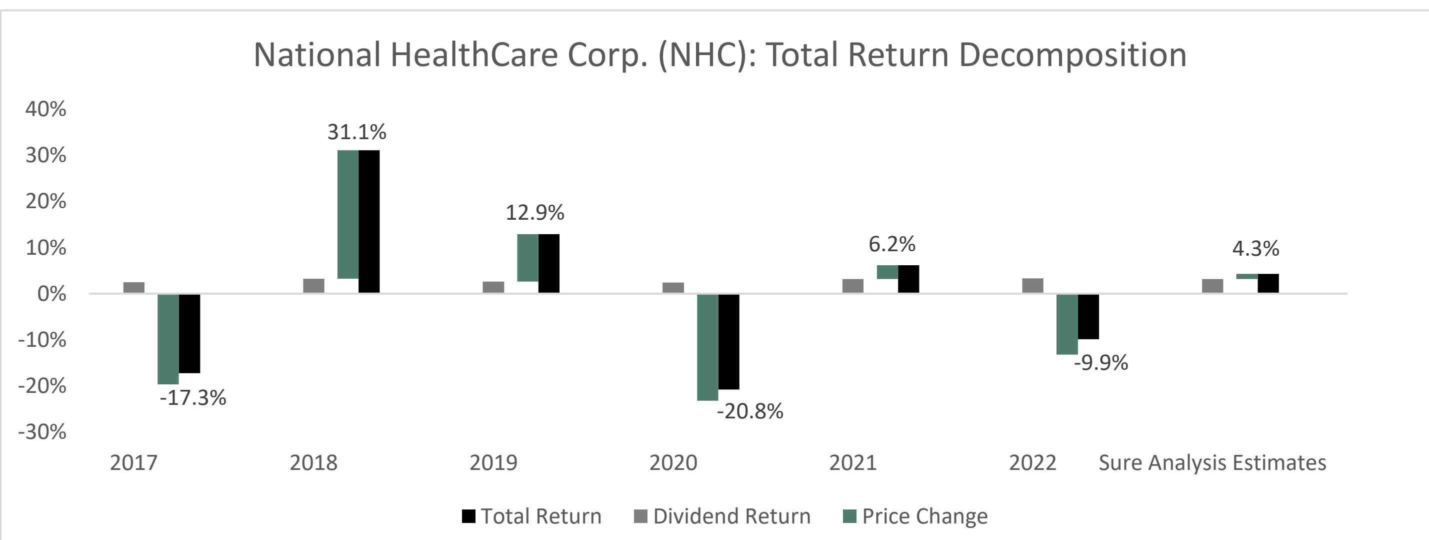
National HealthCare saw its payout ratio spike in 2022 given the fall in its earnings. The pandemic highlighted a number of risk factors within the skilled healthcare industry that investors previously hadn't focused on. That said, the industry has normally been viewed as a defensive one serving a growing 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 recently faced 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. However, with the recent rally, shares are now well above our fair value estimate. This leads to an annualized return outlook of 4.3% and as such, we give shares a hold rating today.

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	789	872	907	924	964	980	996	981	1,011	1,074
SG&A Exp.	493	550	573	589	612	624	633	650	670	727
D&A Exp.	29	34	37	39	43	42	42	42	41	40
Operating Profit	78	70	70	64	59	61	52	50	60	29
Op. Margin	9.9%	8.1%	7.7%	7.0%	6.1%	6.2%	5.2%	5.1%	5.9%	2.7%
Net Profit	65	53	53	51	56	59	68	42	139	22
Net Margin	8.2%	6.1%	5.9%	5.5%	5.8%	6.0%	6.8%	4.3%	13.7%	2.0%
Free Cash Flow	59	29	25	28	62	69	74	181	23	(21)
Income Tax	38	32	32	30	19	16	20	10	11	7

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	984	1,074	1,045	1,087	1,097	1,081	1,287	1,362	1,403	1,275
Cash & Equivalents	82	70	38	26	59	43	50	147	108	59
Acc. Receivable	80	79	84	83	87	97	93	90	96	100
Inventories	7	7	8	8	7	7	7	9	9	7
Goodwill & Int.	18	18	18	18	18	21	21	21	175	175
Total Liabilities	296	340	414	418	393	346	508	564	495	398
Accounts Payable	13	16	20	19	16	20	19	21	22	17
Long-Term Debt	10	10	120	120	100	55	10	-	-	-
Total Equity	518	564	631	670	703	733	779	795	903	874
LTD/E Ratio	0.01	0.01	0.19	0.18	0.14	0.08	0.01	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.8%	5.2%	5.0%	4.7%	5.1%	5.4%	5.8%	3.2%	10.0%	1.7%
Return on Equity	12.9%	9.9%	8.9%	7.8%	8.2%	8.2%	9.0%	5.3%	16.3%	2.5%
ROIC	9.5%	7.4%	7.1%	6.6%	7.1%	7.4%	8.6%	5.3%	16.2%	2.5%
Shares Out.	14	14	15	16	15	15	15	15	15	15.5
Revenue/Share	47.25	61.29	62.56	60.73	63.34	64.34	64.87	63.81	65.57	69.55
FCF/Share	3.53	2.01	1.72	1.86	4.08	4.51	4.80	11.80	1.49	(1.39)

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