Chemed Corporation (CHE)

Updated March 29th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$642	**5 Year CAGR Estimate:**	5.4%	**Market Cap:**	$9.58 B
Fair Value Price:	$588	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/24/2024[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	06/14/2024[2]
Dividend Yield:	0.2%	**5 Year Price Target**	$824	**Years Of Dividend Growth:**	16
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 February 27th, 2024, the company announced results for the fourth quarter of 2023. CHE reported non-GAAP EPS of $6.60, beating market estimates by $0.35. In addition, the company reported revenues of $585.9 million for the quarter, up 7.1% year-over-year. The management's full-year EPS guidance for 2024 is estimated to be in the range of $23.30 to $23.70.

Spearheading this was VITAS Healthcare, whose revenue reported an increase of 13.6%, up to $350.0 million. This was attributed to an 11.0% increase in the average daily census and a 7.0% increase in admissions. VITAS's net income, excluding certain items, leaped by 72.6%, with adjusted EBITDA up 61.6% to $83.3 million. On the other side, revenues at Roto-Rooter edged 1.1% lower to $235.9 million, net income declined 3.2% when excluding discrete items, and adjusted EBITDA declined 6.4% to $64.9 million. Overall, Chemed's diversified operation points to strong growth and operational effectiveness for the firm in a very difficult market.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.57	$6.33	$6.48	$8.43	$11.93	$13.95	$18.08	$19.35	$19.70	$17.93	***$23.50***	***$32.96***
DPS	$0.84	$0.92	$1.00	$1.08	$1.16	$1.24	$1.32	$1.40	$1.48	$1.56	***$1.60***	***$2.04***
Shares[3]	16.9	16.8	16.2	16.0	15.9	15.9	15.9	14.9	15.0	15.1	***14.9***	***14.0***

By 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 towards revenue growth between 6.0% and 7.0% for 2024.

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 matched the midpoint of management's guidance for 2024, forecasting an EPS of $23.50, and using a projected annual growth of 7.0% for the next five years, which is slower than its 10-year CAGR of 13.9%, we get an EPS of $32.96 by 2029. Moreover, Chemed Corporation's DPS had a 10-year and five-year CAGR of

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

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

[3] In millions.

7.1% and 16.0%, respectively. CHE has consistently increased its dividend distribution in the past 16 years, and we believe that DPS can grow slightly slower than EPS growth at an annual rate of 5.0%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.2	20.9	21.5	24.2	25.2	26.8	26.0	24.8	24.5	29.7	***27.3***	***25.0***
Avg. Yld.	0.9%	0.7%	0.7%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	***0.2%***	***0.2%***

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 27.3, higher than its five-year average of 26.4 and 10-year average of 24.1. However, considering the growth prospects, we have assumed a target P/E of 25.0 by 2029, close to its historical averages, suggesting a target price of $824.

Safety, Quality, Competitive Advantage, & Recession Resiliency

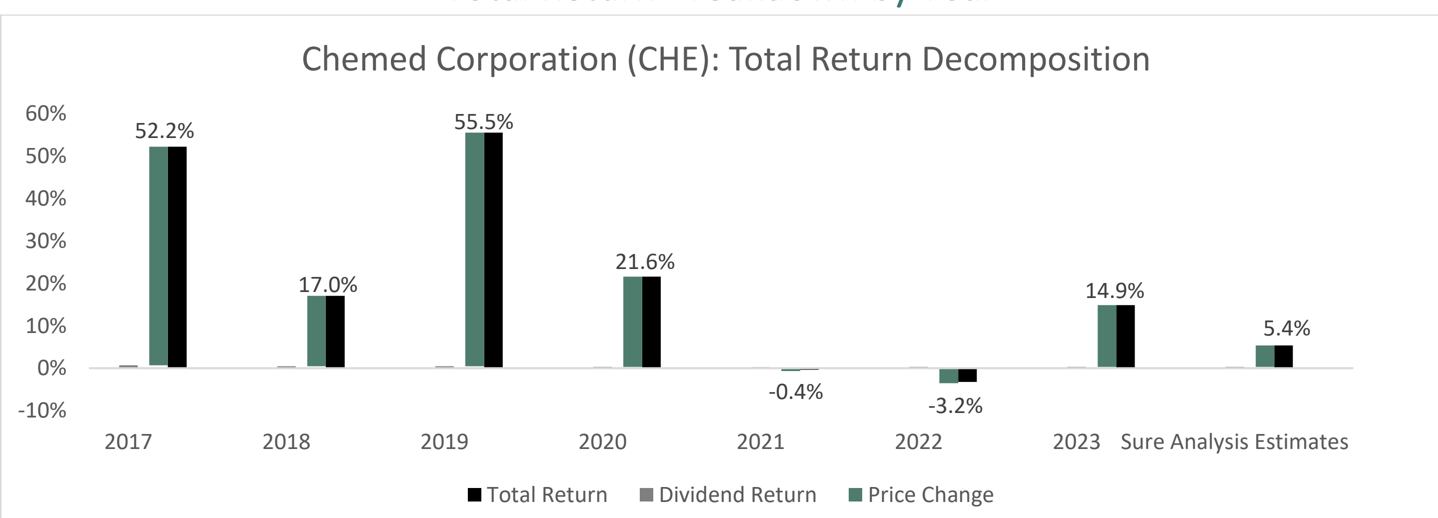
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	15%	15%	15%	13%	10%	9%	7%	7%	8%	9%	***7%***	***6%***

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 company's recession performance 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 13%, 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. In the quarter, Chemed repurchased 79,512 shares for $46.0 million, averaging $579.09 per share, with about $314.1 million left on its repurchase authorization as of December 31, 2023.

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 a better entry point at a lower valuation. Thus, the hold rating is premised upon the 5.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0% and 0.2% 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.