Chemed Corporation (CHE)

Updated July 30th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$554	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$8.26 B
Fair Value Price:	$592	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/12/2024[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	09/05/2024[2]
Dividend Yield:	0.3%	**5 Year Price Target**	$830	**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 July 24th, 2024, the company announced results for the second quarter of 2024. CHE reported non-GAAP EPS of $5.47, beating market estimates by $0.12. In addition, the company reported revenues of $595.9 million for the quarter, up 7.6% year-over-year.

VITAS Healthcare saw substantial growth with a 16.7% increase in net patient revenue, driven by a 14.4% rise in the average daily census and significant acquisition of Covenant Health assets contributing $8.2 to $8.7 million in revenue. Adjusted EBITDA, excluding Medicare Cap, grew by 77%, reflecting strong operational performance and strategic expansions. The acquisition's integration has bolstered VITAS' market presence, with the new territory in Pasco County, Florida, expected to enhance growth further. Roto-Rooter experienced a 5% revenue decline to $221.3 million due to reduced demand in both commercial and residential services. Despite this, the segment improved its gross margin by 60 basis points. Adjusted EBITDA decreased by 9.2%, but the adjusted EBITDA margin saw a sequential improvement from the previous quarter. Chemed's consolidated performance showcases robust cash positions and no long-term debt, reinforcing its financial stability. For 2024, the company revised its guidance upwards, projecting VITAS revenue growth between 16.3% and 17.3%, and a revenue decline of 4.0% to 5.0% for Roto-Rooter. Full-year adjusted earnings per diluted share are expected to range from $23.55 to $23.80.

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	***$23.68***	***$33.21***
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.

[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.

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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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 $23.68, and are using a projected annual growth of 7.0% for the next five years, which is lower than the company's 10-year CAGR of 13.9%, to get an EPS estimate of $33.21 by 2029. Moreover, Chemed Corporation's DPS had a 10-year and five-year CAGR of 7.1% and 16.0%, respectively. CHE has consistently increased its dividend distribution for the past 16 years, and we believe that DPS will 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	***23.4***	***25.0***
Avg. Yld.	0.9%	0.7%	0.7%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	***0.3%***	***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 23.4, lower 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 $830.

Safety, Quality, Competitive Advantage, & Recession Resiliency

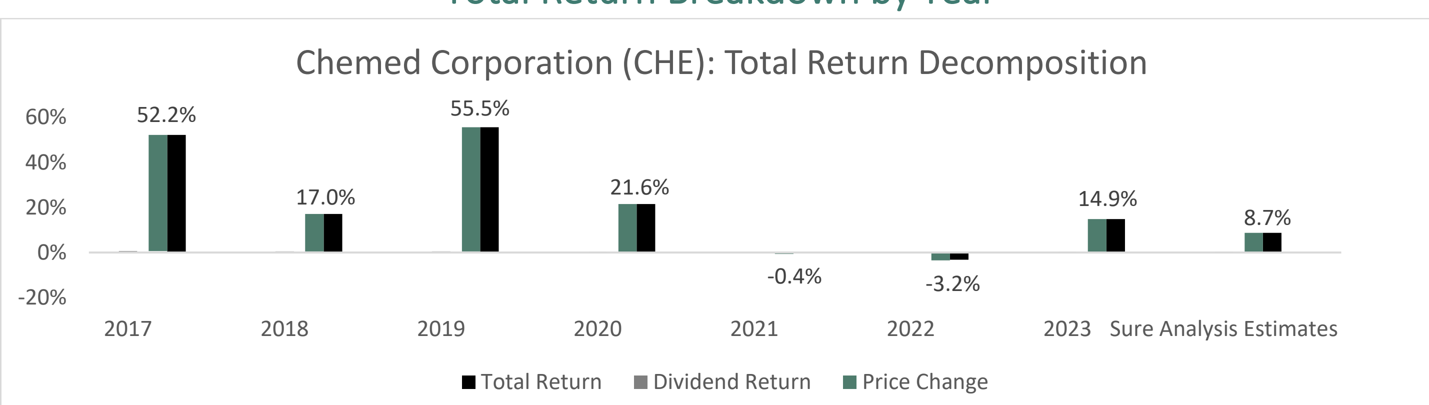
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	15%	15%	15%	13%	10%	9%	7%	7%	8%	9%	***7%***	***6%***

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. During Q2 2024, Chemed repurchased 100,000 shares for $55.8 million and has $225.9 million remaining under its share repurchase authorization.

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. Thus, the hold rating is premised upon the 8.7% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 0.3% dividend yield, and a small valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,456	1,543	1,577	1,667	1,783	1,939	2,080	2,139	2,135	2,264
Gross Profit	422	456	461	516	555	617	701	770	765	799
Gross Margin	29.0%	29.5%	29.3%	31.0%	31.1%	31.8%	33.7%	36.0%	35.8%	35.3%
SG&A Exp.	223	238	248	277	271	306	330	367	359	395
D&A Exp.	31	33	35	36	39	45	57	59	59	61
Operating Profit	168	184	179	204	245	267	390	344	347	343
Op. Margin	11.6%	12.0%	11.3%	12.2%	13.7%	13.7%	18.7%	16.1%	16.3%	15.2%
Net Profit	99	110	109	98	206	220	319	269	250	273
Net Margin	6.8%	7.1%	6.9%	5.9%	11.5%	11.3%	15.4%	12.6%	11.7%	12.1%
Free Cash Flow	67	127	96	98	234	248	430	250	253	273
Income Tax	63	70	68	19	34	42	77	82	80	78

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	860	852	880	920	976	1,268	1,435	1,343	1,442	1,668
Cash & Equivalents	14	15	15	11	5	6	163	33	74	264
Acc. Receivable	125	106	132	114	120	144	127	137	139	182
Inventories	6	6	6	5	6	7	7	10	10	12
Goodwill & Int.	523	527	527	532	579	704	697	687	681	675
Total Liabilities	409	339	356	380	384	542	534	719	643	560
Accounts Payable	47	44	40	48	50	51	54	73	42	48
Long-Term Debt	148	91	109	101	89	90	-	185	98	16
Total Equity	451	513	524	540	591	727	901	623	799	1,108
LTD/E Ratio	0.33	0.18	0.21	0.19	0.15	0.12	-	0.30	0.12	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.3%	12.9%	12.6%	10.9%	21.7%	19.6%	23.6%	19.3%	17.9%	17.5%
Return on Equity	22.1%	22.9%	21.0%	18.4%	36.3%	33.4%	39.3%	35.2%	35.1%	28.6%
ROIC	16.1%	18.3%	17.6%	15.4%	31.1%	29.4%	37.2%	31.4%	29.3%	27.0%
Shares Out.	16.9	16.8	16.2	16.0	15.9	15.9	15.9	14.9	15.0	15.2
Revenue/Share	81.63	88.59	93.92	99.55	106.09	117.30	126.82	134.22	141.40	148.97
FCF/Share	3.74	7.31	5.70	5.87	13.94	15.02	26.25	15.68	16.73	17.99

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