# Chemed Corporation (CHE)

*Updated November 5th, 2024, by Yiannis Zourmpanos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $525 | **5 Year CAGR Estimate:** | 9.3% | **Market Cap:** | $7.83 B |
| **Fair Value Price:** | $577 | **5 Year Growth Estimate:** | 7.0% | **Ex-Dividend Date:** | 11/11/2024[1] |
| **% Fair Value:** | 91% | **5 Year Valuation Multiple Estimate:** | 1.9% | **Dividend Payment Date:** | 12/04/2024[2] |
| **Dividend Yield:** | 0.4% | **5 Year Price Target** | $809 | **Years Of Dividend Growth:** | 17 |
| **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 29th, 2024, the company announced results for the third quarter of 2024. CHE reported Q3 non-GAAP EPS of $5.64, missing market estimates by $0.12.

Chemed Corporation reported robust results for Q3 2024, with total revenue growing 7.4% to $606.2 million. VITAS, the company's end-of-life care provider, achieved notable growth, with revenue rising 17.3% to $391.4 million, driven by a 15.5% increase in average daily census and a higher Medicare reimbursement rate. VITAS' adjusted EBITDA increased by 33.1% to $73.1 million, with a margin of 18.6%, up 212 basis points year-over-year. The recent acquisition of Covenant Health contributed approximately $10–11 million in revenue and $2.4–2.6 million in adjusted EBITDA, reinforcing VITAS' presence in Florida. Despite challenges from Hurricanes Helene and Milton, the company maintained strong performance metrics, with minimal property damage and a slight impact on admissions expected to be more noticeable in Q4. Roto-Rooter, Chemed's plumbing and drain service segment, faced a 6.9% decline in revenue to $214.8 million due to reduced commercial and residential demand. Adjusted EBITDA for Roto-Rooter fell by 15.8% to $56.4 million, with the margin contracting by 275 basis points to 26.3%. Nonetheless, Roto-Rooter sustained its gross margin at 52.9%, attributed to ongoing marketing efforts to boost demand. Consolidated earnings per diluted EPS increased by 1.4% to $5.00, while adjusted EPS rose 6.0% to $5.64. Chemed revised its 2024 guidance, expecting an EPS range of $23.00–$23.15, reflecting a solid growth trajectory from 2023's earnings.

## 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 | ***$23.08*** | ***$32.36*** |
| **DPS** | $0.84 | $0.92 | $1.00 | $1.08 | $1.16 | $1.24 | $1.32 | $1.40 | $1.48 | $1.56 | ***$2.00*** | ***$2.55*** |
| **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. 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

[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.

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guidance for 2024, forecasting an EPS of $23.08, 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 $32.36 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 | ***22.8*** | ***25.0*** |
| **Avg. Yld.** | 0.9% | 0.7% | 0.7% | 0.5% | 0.4% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | ***0.4%*** | ***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 22.8, 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 $809.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

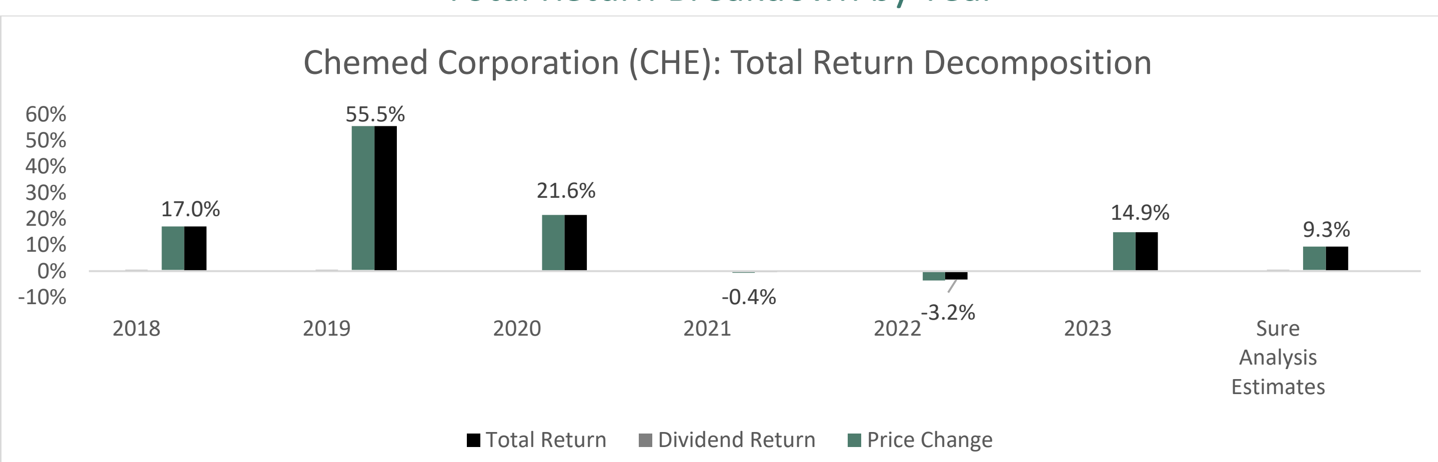
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 15% | 15% | 15% | 13% | 10% | 9% | 7% | 7% | 8% | 9% | ***9%*** | ***8%*** |

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 12%, indicating that it has utilized debt financing to some extent but has yet to over-leverage its balance sheet. During the Q3, Chemed repurchased 100,000 shares of its stock for $57.8 million, at an average price of $578.21 per share, with $168.1 million remaining under its 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 9.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 0.4% 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.*