The Ensign Group, Inc. (ENSG)

Updated November 6th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$153	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$8.6 B
Fair Value Price:	$121	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/27/2024[1]
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	01/31/2025[2]
Dividend Yield:	0.2%	**5 Year Price Target**	$178	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

The Ensign Group, Inc. (ENSG) 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, 2024, the company announced results for its third quarter of 2024. ENSG reported Q3 non-GAAP EPS of $1.39 for the period, beating analysts' estimates by $0.01. In addition, the company reported revenues of $1.08 billion for the quarter, up 15.5% year-over-year.

GAAP net income reached $78.4 million, a 22.8% year-over-year rise, while adjusted net income was $81.1 million, up 17.7%. The company's focus on occupancy and skilled service expansion has driven these gains, with same-facility and transitioning-facility occupancy increasing by 2.8% and 4.8%, respectively, over the prior year. Revenue also surged, with consolidated GAAP and adjusted revenue hitting $1.08 billion, a 15.0% increase, fueled by a notable uptick in skilled service days and managed care revenue, which grew by 7.3% to 22.4%.

CEO Barry Port highlighted the exceptional performance in integrating 53 new operations, attributing success to Ensign's cluster-based operational model that supports new acquisitions while enhancing existing facilities. This quarter marked an occupancy high for same-store operations, growing to 81.7%, while skilled mix days expanded across all payer relationships. Looking forward, Ensign raised its 2024 earnings guidance to $5.46-$5.52 per share and revenue guidance to $4.25-$4.26 billion, emphasizing potential in its current portfolio. The company remains optimistic about scaling occupancy levels in mature facilities while capitalizing on acquisitions, signaling sustained growth into 2025.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.78	$1.06	$0.83	$0.91	$1.70	$1.64	$3.06	$3.42	$3.95	$3.65	***$5.50***	***$8.08***
DPS	$0.14	$0.15	$0.16	$0.17	$0.18	$0.19	$0.20	$0.21	$0.22	$0.23	***$0.24***	***$0.31***
Shares[3]	45.2	51.4	51.9	51.4	52.6	53.5	54.6	55.2	55.7	55.7	***56.2***	***59.1***

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. 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 2029. We revised our EPS estimate for 2024, matching the midpoint of analysts' estimates at $5.50. In addition, DPS has consistently increased for the last 17

[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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years, and we remain confident that the company can keep on this track. We expect the company's DPS to grow slightly slower than its EPS at 5.0% through 2029, in-line with its long-term averages.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.7	20.1	23.6	21.5	18.8	28.7	16.8	24.1	21.3	26.4	***27.8***	***22.0***
Avg. Yld.	1.0%	0.7%	0.8%	0.9%	0.6%	0.4%	0.4%	0.3%	0.3%	0.2%	***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 27.8, higher than its 10-year and five-year averages of 22.0 and 23.5, respectively. However, considering the growth prospects, we believe that 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 $178 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

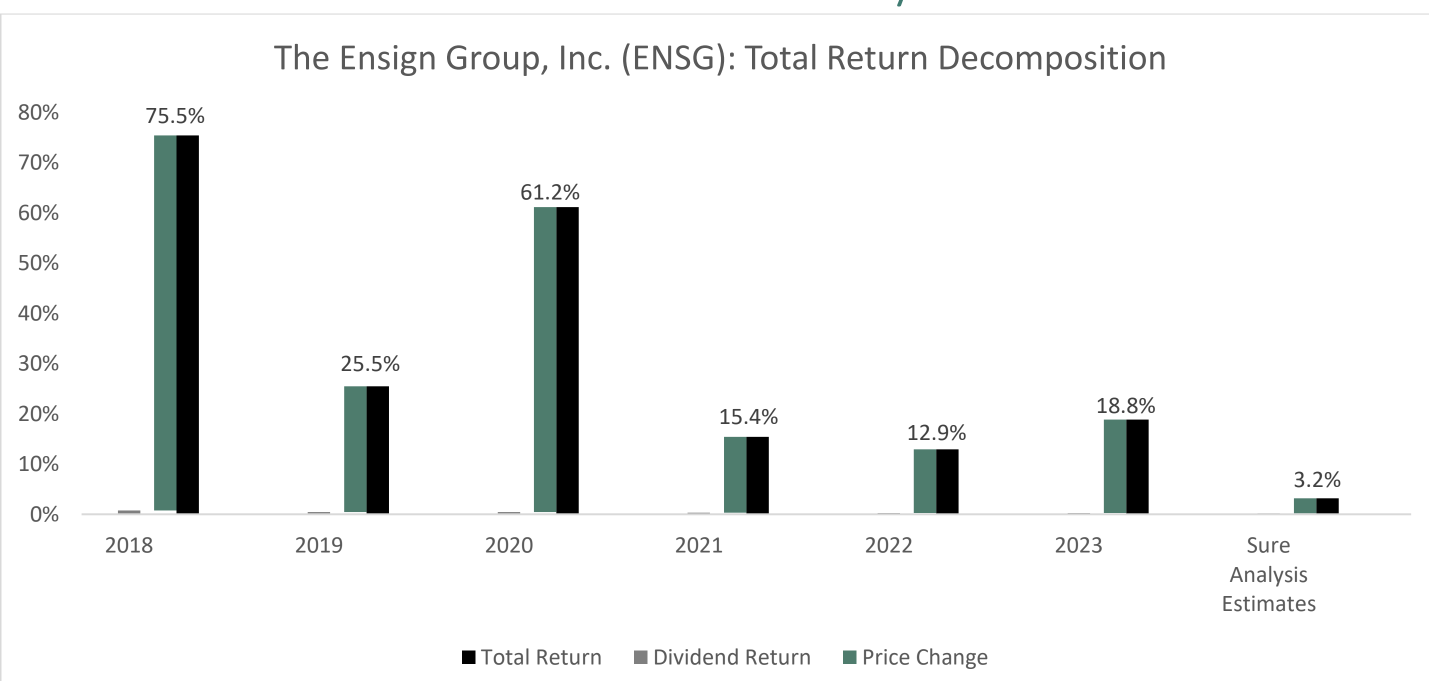
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	18%	14%	19%	19%	11%	12%	7%	6%	6%	6%	***4%***	***4%***

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. Ensign Group has strong liquidity with $532.1 million of cash on hand and $572.1 million of available capacity under its line-of-credit.

Final Thoughts & Recommendation

We remain confident in The Ensign Group's prospects, as its outlook is still favorable, with strong growth ahead. However, we maintain our hold rating, premised upon the 3.2% 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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,027	1,342	1,655	1,598	1,755	2,037	2,403	2,627	3,025	3,729
Gross Profit	156	185	188	173	219	291	407	468	518	591
Gross Margin	15.2%	13.8%	11.4%	10.8%	12.5%	14.3%	17.0%	17.8%	17.1%	15.8%
SG&A Exp.	57	64	69	74	91	111	130	152	159	263
D&A Exp.	26	28	39	42	45	51	55	56	62	72
Operating Profit	73	93	81	57	83	129	223	260	297	255
Op. Margin	7.1%	6.9%	4.9%	3.5%	4.7%	6.3%	9.3%	9.9%	9.8%	6.8%
Net Profit	36	55	50	40	92	111	170	195	225	209
Net Margin	3.5%	4.1%	3.0%	2.5%	5.3%	5.4%	7.1%	7.4%	7.4%	5.6%
Free Cash Flow	31	(27)	8	25	159	121	323	206	185	270
Income Tax	27	35	33	14	13	24	46	60	64	63

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	494	748	1,001	1,102	1,182	2,362	2,546	2,851	3,452	4,178
Cash & Equivalents	50	42	58	42	31	59	237	262	316	510
Acc. Receivable	130	209	244	265	252	309	305	329	408	485
Goodwill & Int.	78	105	122	139	83	61	61	67	83	83
Total Liabilities	236	321	541	602	580	1,706	1,727	1,829	2,203	2,680
Accounts Payable	33	36	39	39	40	45	51	58	77	93
Long-Term Debt	68	100	284	313	243	328	116	157	153	149
Total Equity	259	427	456	492	591	654	818	1,021	1,247	1,492
LTD/E Ratio	0.26	0.23	0.62	0.64	0.41	0.50	0.14	0.15	0.12	0.10

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.7%	8.9%	5.7%	3.8%	8.1%	6.2%	6.9%	7.2%	7.1%	5.5%
Return on Equity	11.7%	16.2%	11.3%	8.5%	17.1%	17.8%	23.2%	21.2%	19.8%	15.3%
ROIC	7.6%	13.0%	7.9%	5.2%	11.1%	12.1%	17.8%	18.4%	17.4%	13.7%
Shares Out.	45.2	51.4	51.9	51.4	52.6	53.5	54.6	55.2	55.7	57.3
Revenue/Share	22.24	25.70	31.74	30.25	32.26	36.38	43.07	46.16	53.20	65.06
FCF/Share	0.68	(0.51)	0.16	0.48	2.93	2.16	5.79	3.62	3.25	4.72

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