

## Service Corp.

# Much better pre-need Cemetery production underscores the strength of the model

Reiterate Rating: BUY | PO: 77.00 USD | Price: 68.14 USD

## Q4 slightly better, guide midpoint unchanged

Adj EPS was 2c or 2% above consensus on 2% better EBITDA driven by better Cemetery revs partially offset by higher G&A. SCI narrowed its 2024 EPS guide with the midpoint unchanged at \$3.65, 1% above consensus. Importantly, the pre-need cemetery sales production was much better and increased 9% y/y, underscoring the strength of the model –cemetery development capex is driving growth despite tough comps and economic conditions impacting consumers. We trim 2024/25E EPS on interest and roll out 2026E. We reiterate our Buy rating given solid results and capital deployment upside (6% FCF yield).

## Cash flow guide better, capex higher; 2024 FCF yield 6%

SCI guided to operating cash flow ex \$65m settlement (delayed from 2023) of \$900-960m, 3% above consensus, on lower taxes due to the previously discussed changes in a tax accounting method (\$80m benefit in 2023, \$70m in 2024 – tax payments delayed to future years). Maintenance capex to be \$325m, flat y/y as a higher cemetery development spending is offset by lower digital/ corporate capex. Assuming growth capex of \$38m (flat y/y), it implies 2024E FCF/share of about \$3.80, a 6% yield.

## Pre-need Cemetery sales +9%, much better than guide

Pre-need sales production increased +9.4% y/y, much better than the guide for flat to up low-single digits. The strong Q4 and higher capex outlook imply production is on track to grow low-single digits in 2024 (vs. -3% in 2023), in line with the prior outlook.

## Cemetery revs much better, margins up nicely

Cemetery revs (+7.8% y/y) were 7% above consensus/ 9% above our est. Same store (SS) revs grew 8% y/y largely due to a \$33m or +10.7% y/y increase in recognized revs as production was up +9.4%. Also, trust fund income increased \$3m y/y. SS gross margin increased 190bps to 34.4% and was 190bps above 4Q19.

## Funeral revs in line, vols better; cremation shift lower

Funeral revs were -1% y/y and in line with consensus / our est. Volumes declined 3% y/y, 2% above our est. SS revs -2% as -4.6% y/y volumes were partially offset by +3% pricing. 50bps shift toward cremation is lower than a typical -100-150bp shift.

| Estimates (Dec) (US\$)    | 2022A  | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------|-------|-------|-------|-------|
| EPS                       | 3.79   | 3.47  | 3.64  | 4.02  | 4.40  |
| GAAP EPS                  | 3.53   | 3.53  | 3.64  | 4.02  | 4.40  |
| EPS Change (YoY)          | -17.1% | -8.4% | 4.9%  | 10.4% | 9.5%  |
| Consensus EPS (Bloomberg) |        |       | 3.61  | 3.94  | NA    |
| DPS                       | 1.02   | 1.12  | 1.22  | 1.28  | 1.34  |
| Valuation (Dec)           |        |       |       |       |       |
| P/E                       | 18.0x  | 19.6x | 18.7x | 17.0x | 15.5x |
| GAAP P/E                  | 19.3x  | 19.3x | 18.7x | 17.0x | 15.5x |
| Dividend Yield            | 1.5%   | 1.6%  | 1.8%  | 1.9%  | 2.0%  |
| EV / EBITDA*              | 11.5x  | 11.7x | 11.3x | 10.8x | 10.3x |
| Free Cash Flow Yield*     | 4.5%   | 5.0%  | 5.0%  | 5.1%  | 1.8%  |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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### Equity

#### Key Changes

| (US\$)           | Previous | Current |
|------------------|----------|---------|
| 2024E EPS        | 3.66     | 3.64    |
| 2025E EPS        | 4.06     | 4.02    |
| 2026E EPS        | NA       | 4.40    |
| 2024E EBITDA (m) | 1,270.4  | 1,292.4 |
| 2025E EBITDA (m) | 1,336.8  | 1,353.6 |
| 2026E EBITDA (m) | NA       | 1,416.9 |

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### Stock Data

|                                 |                       |
|---------------------------------|-----------------------|
| Price                           | 68.14 USD             |
| Price Objective                 | 77.00 USD             |
| Date Established                | 15-Dec-2023           |
| Investment Opinion              | B-1-7                 |
| 52-Week Range                   | 52.89 USD - 73.32 USD |
| Mrkt Val (mn) / Shares Out (mn) | 10,138 USD / 148.8    |
| Free Float                      | 96.3%                 |
| Average Daily Value (mn)        | 56.58 USD             |
| BofA Ticker / Exchange          | SCI / NYS             |
| Bloomberg / Reuters             | SCI US / SCIN         |
| ROE (2024E)                     | 32.4%                 |
| Net Dbt to Eqty (Dec-2023A)     | 269.6%                |
| ESGMeter™                       | Medium                |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Service Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

| (US\$ Millions)            | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 5.0%  | 4.7%  | 4.7%  | 4.9%  | 5.1%  |
| Return on Equity           | 33.9% | 31.7% | 32.4% | 35.4% | 38.4% |
| Operating Margin           | 23.9% | 22.8% | 23.3% | 23.9% | 24.6% |
| Free Cash Flow             | 456   | 507   | 512   | 514   | 181   |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (US\$ Millions)          | 2022A  | 2023A  | 2024E  | 2025E  | 2026E  |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio   | 1.4x   | 1.6x   | 1.6x   | 1.5x   | 0.4x   |
| Asset Replacement Ratio  | 2.1x   | 1.9x   | 1.8x   | 1.8x   | 0.5x   |
| Tax Rate                 | 25.1%  | 24.1%  | 24.0%  | 24.0%  | 24.0%  |
| Net Debt-to-Equity Ratio | 248.0% | 269.6% | 268.6% | 267.9% | 264.9% |
| Interest Cover           | 5.7x   | 3.9x   | 3.7x   | 4.1x   | 4.5x   |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2022A         | 2023A         | 2024E       | 2025E       | 2026E       |
|------------------------------|---------------|---------------|-------------|-------------|-------------|
| Sales                        | 4,109         | 4,100         | 4,156       | 4,281       | 4,411       |
| % Change                     | -0.8%         | -0.2%         | 1.4%        | 3.0%        | 3.0%        |
| Gross Profit                 | 1,442         | 1,403         | 1,448       | 1,509       | 1,572       |
| % Change                     | -8.8%         | -2.7%         | 3.2%        | 4.2%        | 4.2%        |
| EBITDA                       | 1,270         | 1,246         | 1,292       | 1,354       | 1,417       |
| % Change                     | -12.0%        | -1.9%         | 3.7%        | 4.7%        | 4.7%        |
| Net Interest & Other Income  | (226)         | (226)         | (258)       | (249)       | (241)       |
| <b>Net Income (Adjusted)</b> | <b>608</b>    | <b>529</b>    | <b>539</b>  | <b>589</b>  | <b>640</b>  |
| <b>% Change</b>              | <b>-21.9%</b> | <b>-12.9%</b> | <b>1.8%</b> | <b>9.3%</b> | <b>8.7%</b> |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2022A         | 2023A        | 2024E       | 2025E       | 2026E         |
|--|---------------|--------------|-------------|-------------|---------------|
| Net Income from Cont Operations (GAAP) | 566           | 538          | 539         | 589         | 640           |
| Depreciation & Amortization            | 175           | 191          | 200         | 200         | 200           |
| Change in Working Capital              | (60)          | (196)        | (35)        | (80)        | 0             |
| Deferred Taxation Charge               | 3             | 192          | 0           | 0           | 0             |
| Other Adjustments, Net                 | 141           | 145          | 174         | 175         | (565)         |
| Capital Expenditure                    | (370)         | (362)        | (367)       | (370)       | (95)          |
| <b>Free Cash Flow</b>                  | <b>456</b>    | <b>507</b>   | <b>512</b>  | <b>514</b>  | <b>181</b>    |
| <b>% Change</b>                        | <b>-26.1%</b> | <b>11.2%</b> | <b>0.9%</b> | <b>0.5%</b> | <b>-64.9%</b> |
| Share / Issue Repurchase               | (661)         | (545)        | (240)       | (240)       | (60)          |
| Cost of Dividends Paid                 | (160)         | (168)        | (180)       | (187)       | (49)          |
| Change in Debt                         | 346           | 315          | (17)        | (12)        | (42)          |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2022A         | 2023A         | 2024E         | 2025E         | 2026E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents                    | 192           | 222           | 222           | 222           | 222           |
| Trade Receivables                     | 97            | 98            | 97            | 100           | 103           |
| Other Current Assets                  | 71            | 179           | 179           | 179           | 179           |
| Property, Plant & Equipment           | 2,351         | 2,480         | 2,647         | 2,817         | 2,991         |
| Other Non-Current Assets              | 12,356        | 13,377        | 13,377        | 13,377        | 13,377        |
| <b>Total Assets</b>                   | <b>15,066</b> | <b>16,355</b> | <b>16,522</b> | <b>16,694</b> | <b>16,871</b> |
| Short-Term Debt                       | 91            | 63            | 63            | 63            | 63            |
| Other Current Liabilities             | 709           | 686           | 743           | 766           | 789           |
| Long-Term Debt                        | 4,251         | 4,649         | 4,633         | 4,621         | 4,570         |
| Other Non-Current Liabilities         | 8,342         | 9,416         | 9,541         | 9,703         | 9,908         |
| <b>Total Liabilities</b>              | <b>13,393</b> | <b>14,814</b> | <b>14,980</b> | <b>15,153</b> | <b>15,330</b> |
| <b>Total Equity</b>                   | <b>1,673</b>  | <b>1,666</b>  | <b>1,666</b>  | <b>1,666</b>  | <b>1,666</b>  |
| <b>Total Equity &amp; Liabilities</b> | <b>15,066</b> | <b>16,480</b> | <b>16,646</b> | <b>16,819</b> | <b>16,995</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Death Care

## Company Description

SCI is the largest provider of death care services in the US. The company operates funeral service locations, cemeteries, and crematoria. Service Corp also sells prearranged funeral services in most service markets. The company has a 16% market share of the funeral and cemetery market in North America.

## Investment Rationale

SCI is a long-term investment in the US aging demographics. While we wait for the aging wave to aid results in a more meaningful way, the company drives shareholder returns via continued share repo and increasing dividends while building a pipeline of revenue growth through pre-need sales. We believe the death care industry is relatively more resistant to a recession.

## Stock Data

Average Daily Volume 830,281

## Quarterly Earnings Estimates

|    | 2023  | 2024  |
|----|-------|-------|
| Q1 | 0.93A | 0.85E |
| Q2 | 0.83A | 0.89E |
| Q3 | 0.78A | 0.85E |
| Q4 | 0.93A | 1.05E |

## Price objective basis & risk

### Service Corp. (SCI)

Our price objective (PO) of \$77 is based on 12.7x 2024E EBITDA, a premium to the median multiple we use for the stocks in our coverage (10x) due to the demographic tailwinds, a better payor mix and margins, and lower than average leverage with growing dividends being a differentiating factor. It is below the 5-year avg multiple for SCI of 12.4x due to the risks to the pre-need cemetery sales production (discretionary).

Risks to our PO are unexpected pressure to volumes, weaker pre-need sales and trust fund performance. In addition, there is risk around execution of acquisitions and share repurchases.

## Analyst Certification

I, Joanna Gajuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

| Investment rating   | Company                   | BofA Ticker | Bloomberg symbol | Analyst              |
|---------------------|---------------------------|-------------|------------------|----------------------|
| <b>BUY</b>          |                           |             |                  |                      |
|                     | Acadia Healthcare         | ACHC        | ACHC US          | Kevin Fischbeck, CFA |
|                     | Addus HomeCare            | ADUS        | ADUS US          | Joanna Gajuk         |
|                     | Agilon Health             | AGL         | AGL US           | Adam Ron             |
|                     | Chemed Corporation        | CHE         | CHE US           | Joanna Gajuk         |
|                     | Elevance Health Inc       | ELV         | ELV US           | Kevin Fischbeck, CFA |
|                     | Encompass Health          | EHC         | EHC US           | Kevin Fischbeck, CFA |
|                     | HCA                       | HCA         | HCA US           | Kevin Fischbeck, CFA |
|                     | Humana Inc                | HUM         | HUM US           | Kevin Fischbeck, CFA |
|                     | Option Care Health        | OPCH        | OPCH US          | Joanna Gajuk         |
|                     | Oscar Health              | OSCR        | OSCR US          | Adam Ron             |
|                     | Privia Health             | PRVA        | PRVA US          | Adam Ron             |
|                     | Select Medical Corp.      | SEM         | SEM US           | Kevin Fischbeck, CFA |
|                     | Service Corp.             | SCI         | SCI US           | Joanna Gajuk         |
|                     | Surgery Partners, Inc     | SGRY        | SGRY US          | Kevin Fischbeck, CFA |
|                     | Tenet Healthcare          | THC         | THC US           | Kevin Fischbeck, CFA |
|                     | The Cigna Group           | CI          | CI US            | Kevin Fischbeck, CFA |
|                     | UnitedHealth Group        | UNH         | UNH US           | Kevin Fischbeck, CFA |
|                     | Universal Health Services | UHS         | UHS US           | Kevin Fischbeck, CFA |
|                     | US Physical Therapy       | USPH        | USPH US          | Joanna Gajuk         |
| <b>NEUTRAL</b>      |                           |             |                  |                      |
|                     | Alignment Healthcare      | ALHC        | ALHC US          | Adam Ron             |
|                     | AMN Healthcare            | AMN         | AMN US           | Kevin Fischbeck, CFA |
|                     | Apollo Medical            | AMEH        | AMEH US          | Adam Ron             |
|                     | Brookdale                 | BKD         | BKD US           | Joanna Gajuk         |
|                     | Centene Corporation       | CNC         | CNC US           | Kevin Fischbeck, CFA |
|                     | Molina Healthcare, Inc.   | MOH         | MOH US           | Kevin Fischbeck, CFA |
| <b>UNDERPERFORM</b> |                           |             |                  |                      |
|                     | AdaptHealth Corp.         | AHCO        | AHCO US          | Joanna Gajuk         |
|                     | Agility Health Inc        | AGTI        | AGTI US          | Kevin Fischbeck, CFA |



## US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

| Investment rating | Company                       | BofA Ticker | Bloomberg symbol | Analyst              |
|-------------------|-------------------------------|-------------|------------------|----------------------|
|                   | Cross Country Healthcare      | CCRN        | CCRN US          | Kevin Fischbeck, CFA |
|                   | DaVita Inc                    | DVA         | DVA US           | Kevin Fischbeck, CFA |
|                   | Enhabit Home Health & Hospice | EHAB        | EHAB US          | Joanna Gajuk         |
|                   | Pediatric Medical Group, Inc. | MD          | MD US            | Kevin Fischbeck, CFA |

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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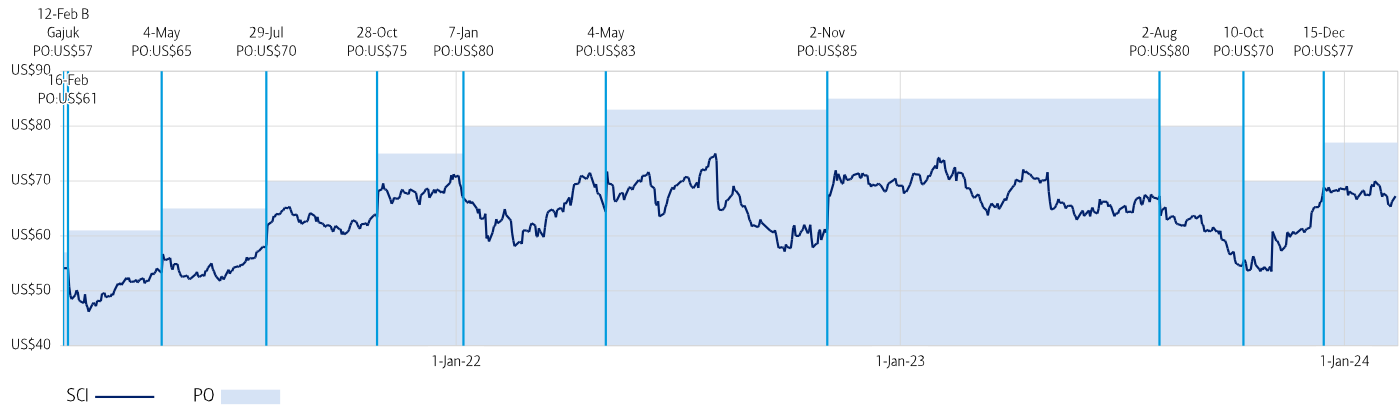
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### Service Corp. (SCI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Services Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 5     | 41.67%  | Buy                                      | 3     | 60.00%  |
| Hold              | 2     | 16.67%  | Hold                                     | 1     | 50.00%  |
| Sell              | 5     | 41.67%  | Sell                                     | 2     | 40.00%  |

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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