

## Astrana Health Inc

## Earnings inflection story set for 2024 as key initiatives come together

Reiterate Rating: BUY | PO: 55.00 USD | Price: 43.54 USD

## Clean results add confidence in trend, 2024 trajectory

ASTH (formerly known as AMEH), delivered a clean fourth quarter beat on EBITDA, and issued initial 2024 guidance which bracketed our estimates and consensus, leaving the company on track to accelerate EBITDA growth to 20% in 2024 vs the 5% it achieved in 2023. Meanwhile, the cost of service ratio (first + third party MLR) when excluding the divested assets, came in roughly in-line with consensus, (on a 98-99% completion factor) adding confidence in underlying cost trends. Overall, we tweak our estimates reflecting the result and new commentary and our \$55 PO (assuming just 15x EBITDA) remains unchanged. The company is set to more than double revenue by 2026 which should help support a 20%+ EBITDA CAGR over that time. Reiterate Buy.

## Bridging major headwinds and tailwinds through 2024

A major part of the EBITDA growth acceleration in 2024 is from moving past major headwinds in 2023 such as Medicaid redeterminations, MA utilization, the addition of new market entry costs into the run-rate (which will continue to recur as it adds 1-2 new markets per year), and the exclusion of a large NextGen ACO payment from the 2022 base. Meanwhile, in 2024 the company is beginning the process of converting its installed base of members to full risk (over the course of 24 months, based on specific county and product line approvals), as well as the integration of identified M&A. Notably, the company completed the spin out of a consolidated provider group real estate asset in 4Q23, simplifying the tax structure, as well as the reported disclosures.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.63	1.08	1.31	1.71	2.03
EPS Change (YoY)	61.4%	-33.7%	21.3%	30.5%	18.7%
Consensus EPS (Bloomberg)			1.25	1.60	1.81
DPS	0.69	0.31	0.08	0.12	0.15
Valuation (Dec)					
P/E	26.7x	40.3x	33.2x	25.5x	21.4x
Dividend Yield	1.6%	0.7%	0.2%	0.3%	0.3%
EV / EBITDA*	19.2x	18.3x	17.5x	14.5x	12.1x
Free Cash Flow Yield*	2.0%	2.3%	1.5%	3.4%	4.0%

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

28 February 2024

## Equity

**Adam Ron**  
Research Analyst  
BofAS  
+1 646 743 2020  
adam.ron@bofa.com

**Kevin Fischbeck, CFA**  
Research Analyst  
BofAS  
+1 646 855 5948  
kevin.fischbeck@bofa.com

## Stock Data

Price	43.54 USD
Price Objective	55.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-7
52-Week Range	28.87 USD - 43.87 USD
Mkt Val (mn) / Shares Out (mn)	2,538 USD / 58.3
Free Float	77.8%
Average Daily Value (mn)	7.56 USD
BofA Ticker / Exchange	ASTH / NAS
Bloomberg / Reuters	ASTH US / ASTH.OQ
ROE (2023E)	12.9%
Net Dbt to Eqty (Dec-2022A)	-14.8%
ESGMeter™	Medium

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ASTH = Astrana Health

AMEH = Apollo Health

MLR = Medical Loss Ratio

ACO = Accountable Care Organization

MA = Medicare Advantage

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Timestamp: 28 February 2024 08:36AM EST

# iQprofile<sup>SM</sup> Astrana Health Inc

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.7%	8.0%	8.5%	12.6%	13.3%
Return on Equity	18.7%	9.7%	12.9%	21.6%	23.2%
Operating Margin	12.7%	9.1%	6.1%	7.3%	6.8%
Free Cash Flow	51	59	38	86	100

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	1.7x	1.0x	1.2x	1.1x
Asset Replacement Ratio	1.1x	1.3x	1.5x	1.7x	1.7x
Tax Rate	36.6%	41.7%	33.6%	34.0%	34.0%
Net Debt-to-Equity Ratio	-9.6%	-14.8%	-3.7%	-17.5%	-30.8%
Interest Cover	18.2x	13.2x	5.3x	9.6x	12.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	774	1,144	1,387	1,836	2,472
% Change	12.6%	47.8%	21.2%	32.4%	34.6%
Gross Profit	178	199	215	291	334
% Change	20.1%	12.2%	7.8%	35.6%	14.4%
EBITDA	134	140	147	177	212
% Change	5.5%	4.9%	4.7%	20.8%	19.6%
Net Interest & Other Income	(20)	(18)	5	4	4
<b>Net Income (Adjusted)</b>	<b>74</b>	<b>49</b>	<b>62</b>	<b>91</b>	<b>113</b>
<b>% Change</b>	<b>95.1%</b>	<b>-33.6%</b>	<b>26.8%</b>	<b>47.0%</b>	<b>23.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	49	51	60	91	113
Depreciation & Amortization	18	18	18	15	15
Change in Working Capital	(20)	(10)	(29)	(22)	(32)
Deferred Taxation Charge	(6)	(8)	0	0	0
Other Adjustments, Net	30	31	16	27	30
Capital Expenditure	(19)	(23)	(28)	(25)	(25)
<b>Free Cash Flow</b>	<b>51</b>	<b>59</b>	<b>38</b>	<b>86</b>	<b>100</b>
<b>% Change</b>	<b>13.6%</b>	<b>15.8%</b>	<b>-36.5%</b>	<b>129.1%</b>	<b>16.7%</b>
Share / Issue Repurchase	43	(1)	(5)	0	0
Cost of Dividends Paid	(31)	(14)	(4)	(7)	(8)
Change in Debt	(58)	(1)	2	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	233	288	294	355	445
Trade Receivables	90	127	148	261	329
Other Current Assets	76	20	20	17	19
Property, Plant & Equipment	53	109	7	17	28
Other Non-Current Assets	400	420	465	465	465
<b>Total Assets</b>	<b>852</b>	<b>964</b>	<b>933</b>	<b>1,115</b>	<b>1,286</b>
Short-Term Debt	1	1	20	20	20
Other Current Liabilities	115	147	199	246	309
Long-Term Debt	183	203	259	259	259
Other Non-Current Liabilities	38	44	45	155	158
<b>Total Liabilities</b>	<b>336</b>	<b>395</b>	<b>523</b>	<b>679</b>	<b>745</b>
<b>Total Equity</b>	<b>516</b>	<b>569</b>	<b>411</b>	<b>435</b>	<b>540</b>
<b>Total Equity &amp; Liabilities</b>	<b>852</b>	<b>964</b>	<b>933</b>	<b>1,115</b>	<b>1,286</b>

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

## Company Sector

Physician Practice Management

## Company Description

Astrana Health (ASTH) is a physician enablement company that aims to streamline administrative functions for providers, and maximize practice economics by shifting the focus to value based care. What makes ASTH unique is its ability to work across all payers (vs peers who largely focus on Medicare products). Additionally, the company has a uniquely long track record (25+ years), and has proven its unit economics by generating target margins on a consolidated basis.

## Investment Rationale

Having proven the model in Southern California, ASTH is already generating ample free cash today, with enough local scale to have built a defensible moat around the core earnings base. Meanwhile, there is a large embedded opportunity to double its revenue in core markets over the next couple of years by expanding its existing contractual relationship with insurer and fee based customers, which supports a meaningful earnings acceleration with minimal execution risk.

## Stock Data

Average Daily Volume 173,715

## Quarterly Earnings Estimates

	2022	2023
Q1	0.31A	0.31A
Q2	0.25A	0.28A
Q3	0.56A	0.47E
Q4	-0.06A	0.25E

## Price objective basis & risk

### Astrana Health Inc (ASTH)

We value ASTH using 15x EV/EBITDA on our 2025 estimate to arrive at \$55 (1.3x GAAP revenues), which we see as justified as it is in-line with its historical 5YR average multiple of 15.5x.

This PO is also supported by a 10YR DCF assuming a discount rate and exit multiple. For the DCF we use the free cash flow numbers from 2023-2031 outlined above, but back out interest expense and stock compensation, apply an 'Exit Multiple' EBITDA multiple of 14x on 2032 EBITDA and a discount rate of 10%.

Upside risks are better than expected ramp of new markets and ACO REACH while downside risks are Medicaid redeterminations and risk model revision changes.

## Analyst Certification

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### 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
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSB	BTSB US	Joanna Gajuk
	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
	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
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
<b>UNDERPERFORM</b>				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix 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 &amp; 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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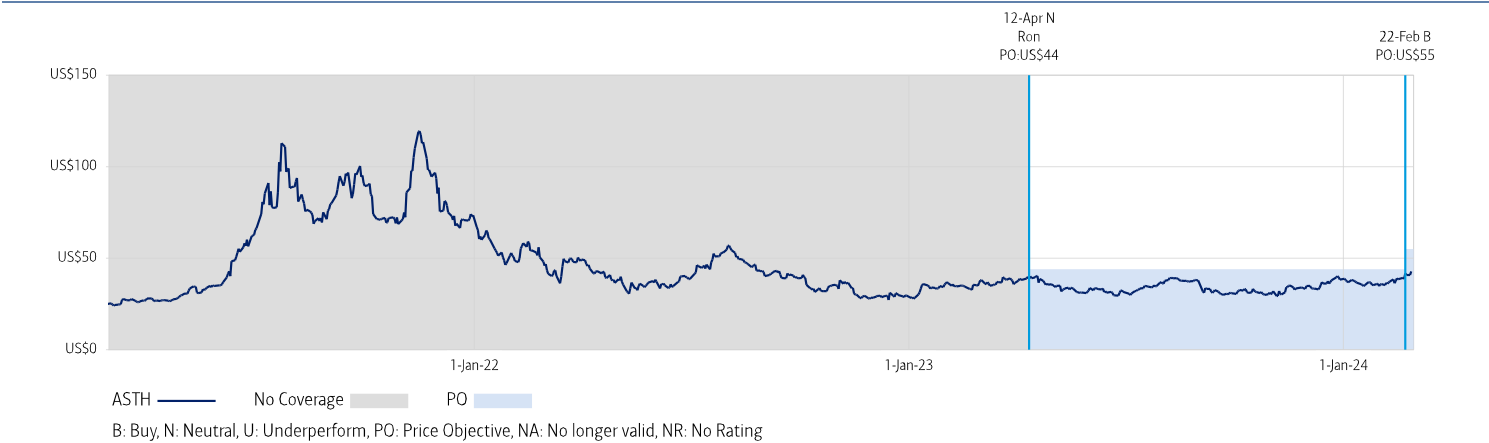
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### Astrana Health (ASTH) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### 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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Neutral	≥ 0%	≤ 30%
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