

Service Corp.

Takes from meetings: funeral vols troughed; confident in cemetery sales

Reiterate Rating: BUY | PO: 85.00 USD | Price: 73.86 USD

Bullish tone; raising our PO

We hosted meetings with Service Corp's (SCI) CFO, Eric Tanzberger, and Treasurer, Aaron Foley. Key takes: 1) funeral vols troughed in 4Q23; 2) aging demographics to benefit both segments; 3) confident in cemetery preneed sales production growth. We raise our PO to \$85 on a higher multiple (13.3x 2024E EBITDA vs 12.5x prior) given the increased visibility. We reiterate Buy as we remain bullish on solid fundamentals and strong cash flows.

Funeral vols troughed in Q4

Funeral vols flat to down slightly in 2024 as the population growth combined with deals help offset the pull forward headwind. Volumes appear to have bottomed in late 2023 and are expected to grow from here as the headwind of pull forward becomes smaller.

Aging wave few years away, both segments to benefit

As the growth accelerates for the population in their 80s, it would aid the Funeral segment margins. The aging demographics will also be additive to Cemetery as merchandise and services revenues are recognized at the time of death.

Q4 preneed boosted by transactions delayed from Q1

Cemetery preneed sales production in Q4 was better than expected and grew 9% vs LT growth of 4-6% as it benefited from the inventory catchup from earlier in 2023. Heavy rains and mudslides impacted 1Q23 sales production as inventory was destroyed and subsequently rebuilt – most was sold/recognized in 4Q23. Of note, the high-end market remained strong, and the core consumer business improved slightly in Q4.

Confident in the cemetery preneed sales production

With funeral vols to be flat to slightly down, cemetery preneed sales to grow in 2024 less than the LT growth target. In 2025+, sales should grow in the mid-single digits as SCI continues to develop cemetery properties: development capex was 9% of cemetery at-need and pre-need production (vs 7% in 2022) and is expected to increase y/y in 2024. SCI purchased cemetery land (combined with other purchases, real estate spend was \$56m in 2023 vs \$17m in 2022) which we think will aid growth in pre-need sales.

Pricing power, efficiencies to drive cemetery margins

SCI's biggest asset is its cemetery network (3,500 acres in major metros) which represents 28-30% market share. Barriers to enter are high which allows for the LT pricing in the 5-6% range (vs +2-3% in funeral). In addition, a leaner and more efficient sales force (3,700 sales generating \$2.7bn sales now vs 4,500 generating \$1.8bn pre COVID) should result in Cemetery margins normalizing in the 35% range.

Strong cash flow to go towards capex, deals, repo

With the operating cash flow of \$930m, cemetery development remains SCI's priority, while it also expects deals and share repo; possibly debt payoff.

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 06 March 2024 12:05AM EST

06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	78.00	85.00

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Stock Data

Price	73.86 USD
Price Objective	85.00 USD
Date Established	6-Mar-2024
Investment Opinion	B-1-7
52-Week Range	52.89 USD - 74.59 USD
Mrkt Val (mn) / Shares Out (mn)	10,989 USD / 148.8
Free Float	96.4%
Average Daily Value (mn)	67.92 USD
BofA Ticker / Exchange	SCI / NYS
Bloomberg / Reuters	SCI US / SCI.N
ROE (2024E)	32.4%
Net Dbt to Eqty (Dec-2023A)	269.6%
ESGMeter™	Medium

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Price objective basis & risk

Service Corp. (SCI)

Our price objective (PO) of \$85 is based on 13.3x 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 a premium to the 5-year avg multiple for SCI of 12.4x as the headwind of the pull-forward effect diminishes going forward.

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.

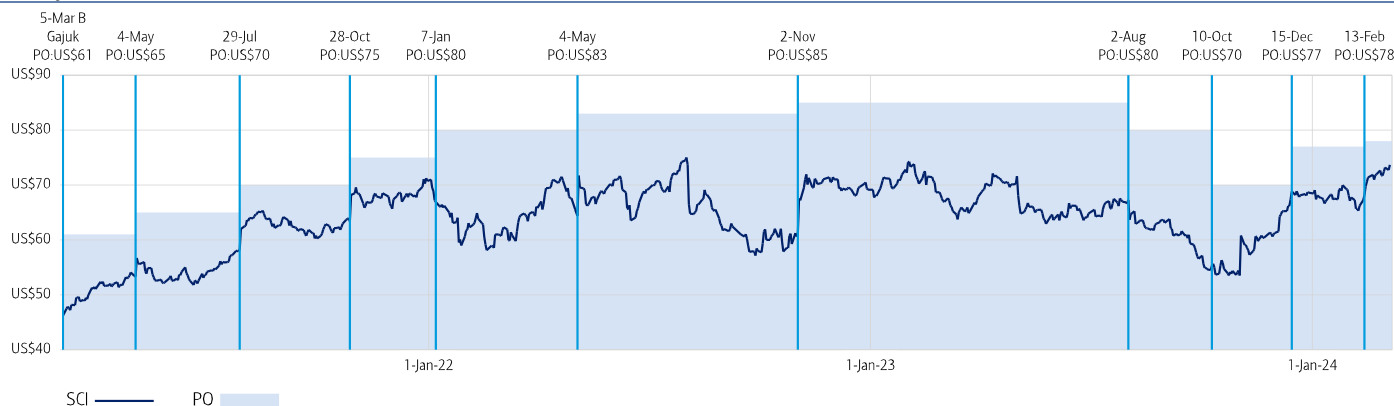
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Service Corp. (SCI) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

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