

Service Corp.

Takes from call: back to LT growth algorithm in 2025

Reiterate Rating: BUY | PO: 78.00 USD | Price: 69.83 USD

Bullish comments on 2025 outlook

2024 EPS guide midpoint implies +5% growth, below the LT growth target due to high interest rates and the headwind of a pull-forward that occurred during COVID. In a positive, SCI expects to return to its LT growth target of 8-12% in 2025. The headwind of the pull-forward will continue to wane while aging demographics and deals will more than offset that resulting in funeral vols growing in out years which drives at-need as well as pre-need activity. We raise our PO to \$78 on the higher EBITDA estimate (12.5x 2024E EBITDA vs 12.7x on the prior EBITDA estimate). Reiterate Buy given solid trends despite weakness in a broader discretionary.

Confident in Pre-need cemetery sales outlook

Recognized preneed revs grew 11% y/y largely due to the 9% growth in pre-need production (much better than expected). The \$30m growth in preneed was equally split between large sales and core. Contract velocity was down slightly y/y but 8% higher than 2019 level. SCI continues to expect preneed production to grow low single digits y/y in 2024 – we view it as conservative given the outperformance in 4Q23. LT growth of mid-single digits: 4-5% pricing/mix, +1-2% velocity.

High-end demand remains robust

The Q4 outperformance in preneed cemetery sales was driven by the investments in inventory with SCI noting the strength in the high-end demand: sold 800 properties at a \$200k average, double the 2019 velocity at a slightly higher avg price. SCI continues to see strong demand at the higher end which is more correlated with housing and stock markets. Meanwhile, lower-end activity is less robust, similar to experiences at retailers.

Q1 EPS to be down y/y

Q1 has the toughest comps: 1) 6-7c headwind from higher interest expense y/y, 2) less revs from completed cemetery projects (1Q23 had high recognition rate). There was some impact to sales due to adverse weather in January. The key is the activity in March, ahead of Ching Ming (2023 was disrupted by rain which destroyed inventory).

Deal pipeline is full; more activity after standstill expires

\$14m of deals closed in Jan. Given its standstill agreement related to the Stewart acquisition expires in May, the company will likely be active.

Funeral Rule changes to have no impact to slight positive

Since the Funeral Rule was put in place 30+ yrs ago, on average 1-3 SCI's locations per year were found non-compliant with the rule. This accounts for less than 1% of SCI's funeral homes. SCI continues to expect the Funeral Rule changes to center on on-line price disclosure requirements, which the company is prepared for – expects no impact with a potential for positive impact to the pre-need funeral sales. Outside of online pricing requirement, other changes appear unlikely since the FTC did not bring those up in its request for information.

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Timestamp: 13 February 2024 11:37AM EST

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	77.00	78.00

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Stock Data

Price	69.83 USD
Price Objective	78.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-1-7
52-Week Range	52.89 USD - 73.32 USD
Mkt Val (mn) / Shares Out (mn)	10,390 USD / 148.8
Free Float	96.3%
Average Daily Value (mn)	59.00 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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LT = long term

FTC = Federal Trade Commission

Price objective basis & risk

Service Corp. (SCI)

Our price objective (PO) of \$78 is based on 12.5x 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 roughly in line with the 5-year avg multiple for SCI of 12.4x.

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.

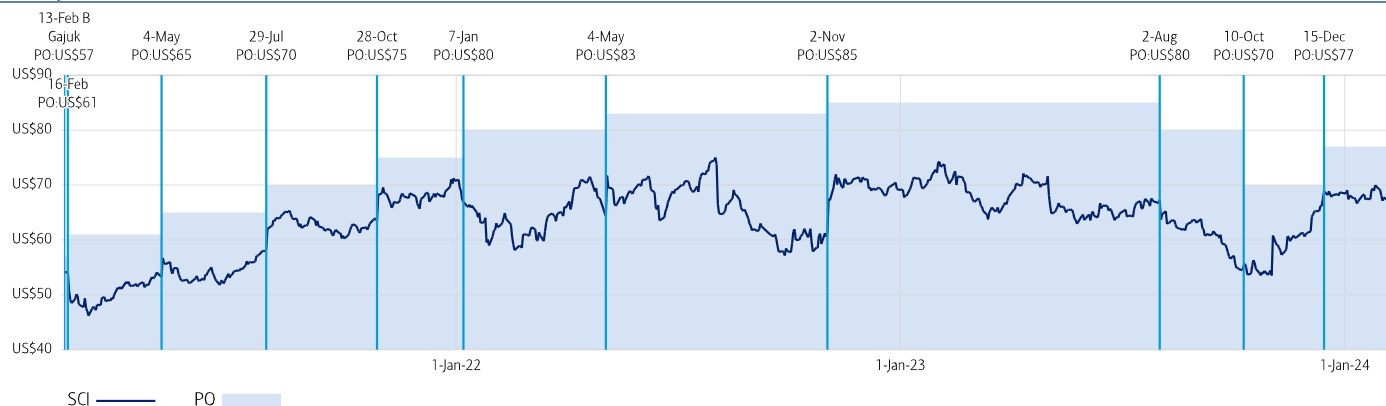
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Service Corp. (SCI) Price Chart



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

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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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