

## Tenet Healthcare

# Biz mix shift to ASCs continues on high multiple hospital sales; Q4 beat on ASCs

Reiterate Rating: BUY | PO: 95.00 USD | Price: 82.74 USD

## Better Q4; asset sales lower leverage, increase % in ASCs

THC preannounced better Q4 results, and said it will sell 4 hospitals in California at an attractive multiple (13.7x EBITDA) after completing the sale of 3 assets in South Carolina. This is positive as net leverage pro-forma the 2 transactions would be reduced by 0.6x turns to 4.5x from 5.1x LTM EBITDA less non-controlling interests (NCI) at 9/30/23, while cash flow will benefit from a lower interest expense. In addition, the better Q4 results were driven by strong surgical growth at USPI alleviating some concern after weak surgery vols at HCA. We plan to review our estimates with full Q4 results (Feb 8th). Reiterate Buy given the growing exposure to the faster growing ambulatory surgery center (ASC) business (37% PF EBITDA-NCI vs 34% at 9/30).

## Q4 EBITDA at least 5% above consensus

The company booked \$52m pre-tax income in Q4 from Medicaid supplemental payments in California and Texas. Excluding the \$52m gain, adj EBITDA is still expected to be above the high end of the guidance range (\$3,465m). This implies Q4 EBITDA of at least \$936m, or at least 5% above consensus and 3% above our est. THC flagged a strong surgical growth at USPI, which is a welcome sign after some worries post HCA's surgical volume deceleration in Q4 (HCA flagged calendar headwind).

## Another asset sale at attractive multiple, 13.7x EBITDA

THC said it completed the previously announced \$2.4bn sale of 3 hospitals in South Carolina. Today, it announced a definitive agreement to sell 4 hospitals and related assets in California to UCI Health for \$975m or \$800m after tax. This is another transaction with above average multiple of 13.7x EBITDA and 1x revs, given lower margins (7%). In contrast to the SC deal, it appears Conifer will not sign a multi-year contract to retain that business (will provide services though the transition).

## Asset sales to lower leverage, increase cash flows

Given the pre-tax book gains from the 2 transactions (SC and CA asset sales), THC's income tax expense will benefit by \$190m due to a reduction in interest expense limitations. In the release, THC did not specify the use of the net proceeds other than collectively the 2 transactions will lower leverage (THC had already indicated the SC sale proceeds would go to debt paydown). Assuming additional debt paydown, PF the 2 deals, net leverage would be 4.5x vs 5.1x at 9/30/23.

01 February 2024

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### Stock Data

Price	82.74 USD
Price Objective	95.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	49.76 USD - 86.50 USD
Mrkt Val (mn) / Shares Out (mn)	8,669 USD / 104.8
Free Float	98.0%
Average Daily Value (mn)	70.90 USD
BofA Ticker / Exchange	THC / NYS
Bloomberg / Reuters	THC US / THC.N
ROE (2023E)	42.2%
Net Dbt to Eqty (Dec-2022A)	0%
ESGMeter™	Medium

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Timestamp: 01 February 2024 09:21AM EST

## Price objective basis & risk

### Tenet Healthcare (THC)

Our \$95 PO is based on 8.4x our 2024 EBITDA less non-controlling interests estimate, above the high end of the company's historical 5.5x-8.5x range. While growth in the Acute care business will likely continue to be impacted by labor headwinds, the company's strong cost control should drive earnings and position the company well heading into the expected ramp in volumes as COVID normalizes. Meanwhile, continued repositioning into Ambulatory Surgery Centers (ASCs) will help both the organic growth and FCF profile.

Downside risks to our PO are: 1) Volume trends rebound slower than expected following COVID-19, 2) Government reimbursement reductions, 3) Margin pressure/integration issues at recently acquired assets, 4) Above average leverage, 5) labor costs pressures.

Upside risks to our PO are: 1) Volumes are better than expected, 2) Continued acuity strength and pricing growth, 3) Better than expected cost controls.

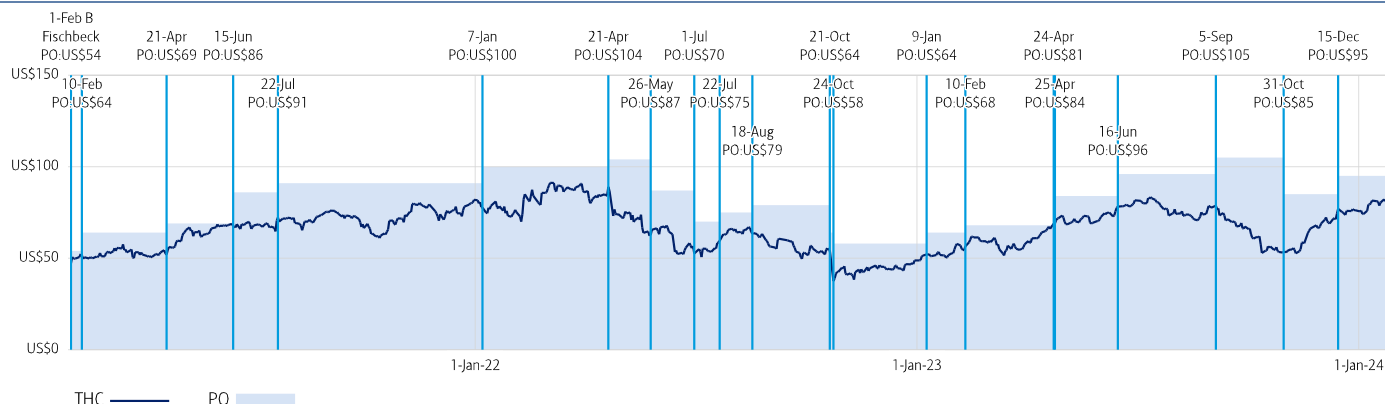
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### Tenet Healthcare (THC) Price Chart



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

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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%

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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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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