

Tenet Healthcare

Strong print, as pre-announced; core guide modestly better

Reiterate Rating: BUY | PO: 95.00 USD | Price: 88.11 USD

Q4 as preannounced. 2024 guide better ex. asset sales

Adj EBITDA excluding \$52m Medicaid supplemental payments and \$2m CARES was \$958m, 2% above the higher end of the guide range and 7% above consensus, as preannounced. 2024 adj EBITDA guidance adjusted for \$215m impact from asset sales (not reflected in our est or consensus) is 3% above consensus and 2% above our est. Q1 EBITDA guide adj for sale is 3% above our est. Reiterate Buy given the strong performance and mix shift to the faster growing ambulatory surgery center (ASC) biz.

EBITDA guide ex asset sales 3% above consensus

Adjusting for asset sales (SC on 1/31 and CA 3/31), revs guide midpoint is in line with our est/ consensus. Adj EBITDA guide adjusted for \$215m asset sales implies a midpoint of \$3.6bn, 3% above consensus. Given \$98m government funding expiration / labor changes in 2023, asset sales, and other 1x items, the guide implies +4% core organic EBITDA growth. Margins of 16.5-17.2%, down 40bps y/y (high-margin assets sold).

Free cash flow (FCF) guide solid

FCF to be \$875-1,125m or \$225-425m after NCI payments. However, there is a \$635m drag to cash flow (taxes paid on gain on sale are in Operating while proceeds are in the Investing cash flow), putting normalized FCF (before \$250m of ASC deals) about \$860m.

USPI EBITDA guide 3% above our est

USPI segment (ASCs) rev guide is roughly in line. SS volumes to grow +1-3% after being up +5.6% in 2023, which seems conservative given the initial guide was for +2-3% which USPI beat. Adjusting for \$20m asset sale, EBITDA guide is \$1,635-1,705m, 3% above our est at the midpoint. Organic EBITDA growth +4%.

Core Hospital EBITDA guide slightly better

Hospital segment rev guide (now includes Conifer) is slightly below our est even after adjusting for the asset sales. SS adj admissions to grow +1-3% after being +2.5% in 2023. Adjusting for \$195m asset sale, EBITDA guide is \$1,865-1,995m, 1% above our est. Organic core EBITDA growth of +4% y/y.

Q4 USPI revs and EBITDA better, SS vols +3.9%

USPI revs were 2% above consensus, with EBITDA 1% above consensus and 4% above our est. SS cases grew +3.9% y/y, comparable to +4.0% in Q3, and below consensus of +4.7%. Vols are tracking +5.1% above pre-pandemic levels.

Q4 Hospital EBITDA beat nicely

Hospital segment revs (now includes Conifer) ex \$52m Medicaid supplemental were 1% below consensus, in line with our est. EBITD was 7% above our comparable est (Hospital + Conifer). SS adjusted admissions +0.1% y/y, worse than +0.4% y/y in Q3 and below Consensus of +1.5%. Vols were -12.2% below 2019 levels vs -12.5% as of 3Q23. SS admits +1% or +2.6% y/y ex COVID. SS pricing was +6.5%, aided by the \$52m.

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Stock Data

Price	88.11 USD
Price Objective	95.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	49.76 USD - 90.44 USD
Mkt Val (mn) / Shares Out (mn)	9,232 USD / 104.8
Free Float	98.0%
Average Daily Value (mn)	81.69 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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NCI = non controlling interest

SS = same store

SC = South Carolina

CA = California

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.

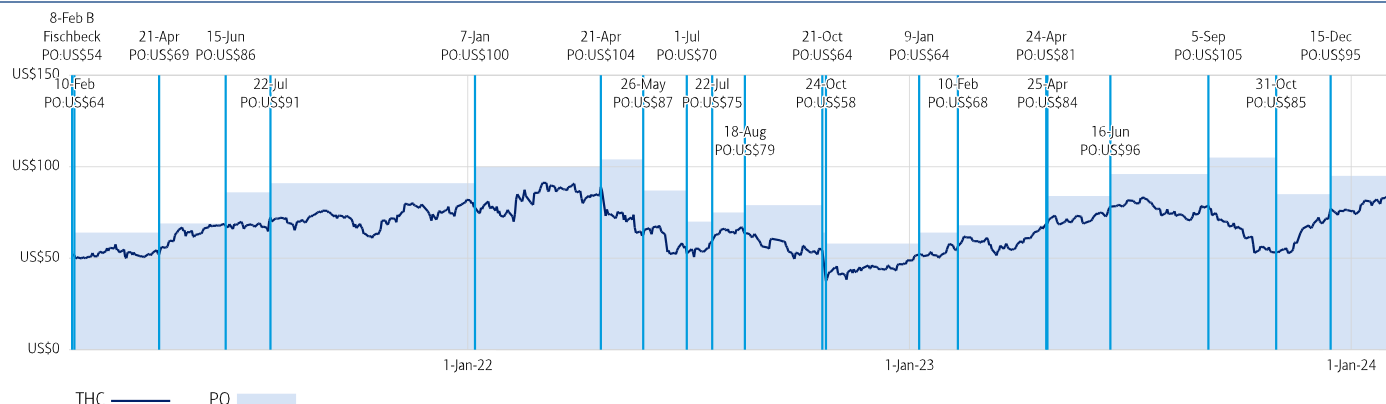
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Tenet Healthcare (THC) Price Chart



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 ^{R1}	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 ^{R1}	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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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