

## Universal Health Services

Approval in Nevada a boost to UHS,  
smaller for HCA

Reiterate Rating: BUY | PO: 190.00 USD | Price: 155.77 USD

## Raising ests and PO for UHS on the NV payment boost

Nevada received an approval for a new component of its Medicaid program, which will be a 9% boost to UHS' 2024 EBITDA, the higher end of the company's prior comments. HCA also operates in the state and is likely to see a small benefit to EBITDA (less than 1%) from the program. Although the state will need annual approval to continue paying these rates, states historically have secured approval and we would expect these higher rates to essentially become permanent. Meanwhile, additional states are likely to increase rates, helping hospital pricing (see more in our report). We raise our ests for UHS to reflect the incremental revs/ income, partially offset by continued cost pressures, and raise PO to \$190 (still at 9.2x 2024E EBITDA) from \$175 on the higher est. Reiterate Buy on UHS on strong fundamentals in the Acute biz while we expect improvement in Psych over time.

## NV Medicaid program to add 9% to UHS' EBITDA

UHS disclosed that in late Dec 2023, Nevada (the largest state for UHS) received an approval for the Medicaid managed care component of the Nevada State-Directed Payment program. The company estimates that the program will add \$140m in 2024 net of provider taxes, the higher end of the prior comments (\$100-150m). Combined with the impact of another component of the NV Medicaid program, the combined benefit in 2024 will be about \$158m or 1% of UHS' revs and 9% to its EBITDA.

## Benefit to HCA less than 1% of EBITDA

About 3% of HCA beds are in the state of NV (vs 37% for UHS), and the company previously indicated that the approval of the NV new program could add \$75-100m to its results, which is less than 1% of HCA's 2024 EBITDA. Maintain Buy on HCA.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	11.84	9.92	10.35	13.39	15.39
GAAP EPS	11.82	9.14	10.12	13.36	15.37
EPS Change (YoY)	6.0%	-16.2%	4.3%	29.4%	14.9%
Consensus EPS (Bloomberg)			10.26	11.64	12.93
DPS	0.80	0.80	0.80	0.84	0.88
Valuation (Dec)					
P/E	13.2x	15.7x	15.1x	11.6x	10.1x
GAAP P/E	13.2x	17.0x	15.4x	11.7x	10.1x
Dividend Yield	0.5%	0.5%	0.5%	0.5%	0.6%
EV / EBITDA*	5.8x	7.0x	6.4x	5.6x	5.3x
Free Cash Flow Yield*	0.3%	2.4%	3.8%	4.4%	4.8%

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

02 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	175.00	190.00
2024E Rev (m)	15,006.2	15,156.2
2025E Rev (m)	15,825.2	15,900.2
2024E EPS	11.95	13.39
2025E EPS	13.87	15.39
2024E EBITDA (m)	1,846.0	1,971.0
2025E EBITDA (m)	1,957.3	2,082.3

**Kevin Fischbeck, CFA**

Research Analyst  
BofAS  
+1 646 855 5948  
[kevin.fischbeck@bofa.com](mailto:kevin.fischbeck@bofa.com)

**Joanna Gajuk**

Research Analyst  
BofAS  
+1 646 855 3961  
[joanna.gajuk@bofa.com](mailto:joanna.gajuk@bofa.com)

**Mia Munoz**

Research Analyst  
BofAS  
+1 646 855 0735  
[mia.munoz2@bofa.com](mailto:mia.munoz2@bofa.com)

## Stock Data

Price	155.77 USD
Price Objective	190.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	113.69 USD - 158.57 USD
Mrkt Val (mn) / Shares Out (mn)	11,035 USD / 70.8
Free Float	95.3%
Average Daily Value (mn)	68.67 USD
BofA Ticker / Exchange	UHS / NYS
Bloomberg / Reuters	UHS US / UHS.N
ROE (2023E)	-4.6%
Net Dbt to Eqty (Dec-2022A)	0%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 02 January 2024 02:42PM EST

# iQprofile<sup>SM</sup> Universal Health Services

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	14.2%	10.2%	11.2%	12.8%	13.0%
Return on Equity	1.2%	-2.8%	-4.6%	-2.8%	-2.0%
Operating Margin	10.8%	7.5%	8.1%	9.0%	9.3%
Free Cash Flow	28	262	425	480	525

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	12.1x	NM	NM	NM	NM
Asset Replacement Ratio	1.6x	1.3x	1.3x	1.2x	1.3x
Tax Rate	23.9%	23.9%	23.5%	22.9%	22.9%
Net Debt-to-Equity Ratio	65.8%	78.9%	76.8%	73.4%	69.4%
Interest Cover	16.3x	7.9x	5.7x	7.1x	7.4x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	12,642	13,399	14,230	15,156	15,900
% Change	9.4%	6.0%	6.2%	6.5%	4.9%
Gross Profit	8,179	8,479	8,989	9,620	10,096
% Change	7.6%	3.7%	6.0%	7.0%	4.9%
EBITDA	1,896	1,585	1,731	1,971	2,082
% Change	1.5%	-16.4%	9.2%	13.8%	5.6%
Net Interest & Other Income	(84)	(127)	(201)	(191)	(199)
<b>Net Income (Adjusted)</b>	<b>73</b>	<b>(169)</b>	<b>(283)</b>	<b>(181)</b>	<b>(136)</b>
<b>% Change</b>	<b>145.2%</b>	<b>NM</b>	<b>-67.0%</b>	<b>36.0%</b>	<b>24.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	978	686	724	899	977
Depreciation & Amortization	533	582	582	609	609
Change in Working Capital	(11)	(433)	(328)	(300)	(310)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(616)	161	180	32	34
Capital Expenditure	(856)	(734)	(733)	(760)	(785)
<b>Free Cash Flow</b>	<b>28</b>	<b>262</b>	<b>425</b>	<b>480</b>	<b>525</b>
<b>% Change</b>	<b>-98.3%</b>	<b>834.6%</b>	<b>62.1%</b>	<b>13.0%</b>	<b>9.4%</b>
Share / Issue Repurchase	1,221	833	465	500	600
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	217	616	59	76	131

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	115	103	81	81	81
Trade Receivables	1,747	2,018	2,123	2,261	2,372
Other Current Assets	402	417	445	465	476
Property, Plant & Equipment	5,874	5,918	6,124	6,281	6,467
Other Non-Current Assets	4,956	5,038	5,050	5,118	5,186
<b>Total Assets</b>	<b>13,094</b>	<b>13,494</b>	<b>13,823</b>	<b>14,206</b>	<b>14,583</b>
Short-Term Debt	48	81	127	127	127
Other Current Liabilities	1,936	1,833	1,942	1,913	1,640
Long-Term Debt	4,142	4,727	4,744	4,820	4,811
Other Non-Current Liabilities	775	888	775	721	1,011
<b>Total Liabilities</b>	<b>6,900</b>	<b>7,529</b>	<b>7,587</b>	<b>7,580</b>	<b>7,587</b>
<b>Total Equity</b>	<b>6,193</b>	<b>5,965</b>	<b>6,235</b>	<b>6,626</b>	<b>6,995</b>
<b>Total Equity &amp; Liabilities</b>	<b>13,094</b>	<b>13,494</b>	<b>13,823</b>	<b>14,206</b>	<b>14,583</b>

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

## Company Sector

Hospital Management

## Company Description

Universal Health Services, Inc., owns and operates acute care hospitals, behavioral health centers, and ambulatory surgery and radiation oncology centers. Its hospitals provide general surgery, internal medicine, obstetrics, ER care, radiology, etc. UHS operates 26 acute care hospitals and 348 behavioral health facilities in the US, Puerto Rico, and the UK.

## Investment Rationale

We rate UHS Buy based on our view that acute care hospitals should see accelerated growth in 2024+ due to multi-year repricing and volume tailwinds and the Behavioral business should see margin improvement as labor pressure eases.

## Stock Data

Average Daily Volume

440,863

## Quarterly Earnings Estimates

	2022	2023
Q1	2.15A	2.34A
Q2	2.20A	2.42A
Q3	2.54A	2.55A
Q4	3.02A	3.04E

**Exhibit 1: Stock Mentioned**

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
UHS	UHS US	Universal Health	US\$ 155.77	B-1-7
HCA	HCA US	HCA Healthcare	US\$ 274.29	B-1-7

Source: BofA Global Research

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## Price objective basis & risk

### HCA (HCA)

Our \$330 price objective is based on 10.1x our 2024E EBITDA, above the high end of its historical 6-9x multiple range, given what we see as a favorable backdrop for hospitals broadly and a strong balance sheet.

Risks to the downside are that labor costs continue to rise, volumes recover slower than expected, or margins are pressured if payor mix deteriorates as volumes normalize.

### Universal Health Services (UHS)

Our \$190 price objective (PO) is based on 9.2x our 2024E EBITDA estimate. This represents a multiple near the high end of the company's historical range of 6-10x EBITDA. We see this as justified given the favorable backdrop broadly for hospitals.

Upside risks to our PO are a quicker-than-expected recovery in labor, Acute vols returning faster, larger-than-expected demand tailwinds in the behavioral business. Downside risks to our PO are a slower-than-expected labor recovery, worse-than-expected Psych business performance, a slower volume recovery, slowing economies in UHS' other markets, and government reimbursement cuts.

## Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### 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
	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
	Privia Health	PRVA	PRVA 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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
<b>UNDERPERFORM</b>				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	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

**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

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**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**

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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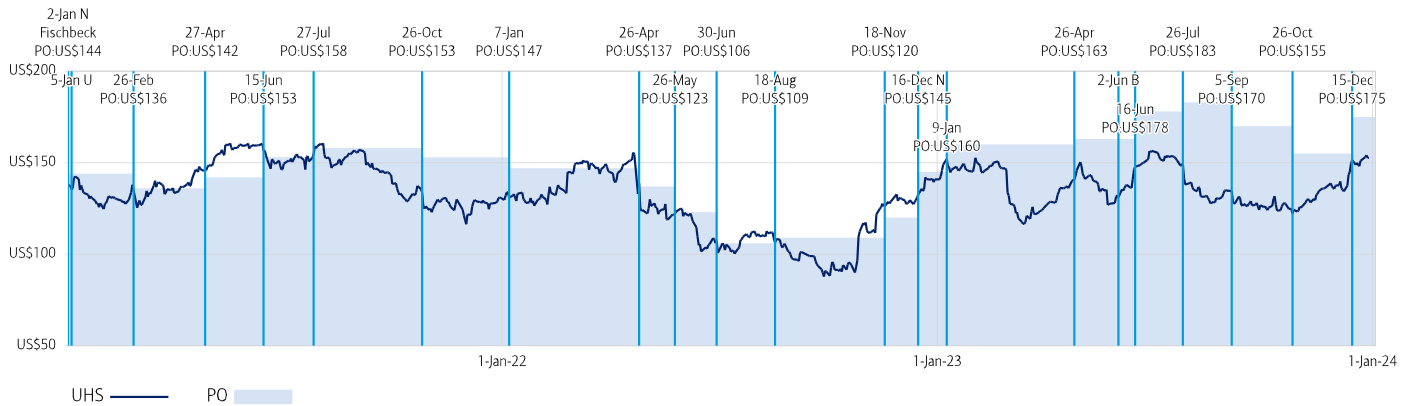
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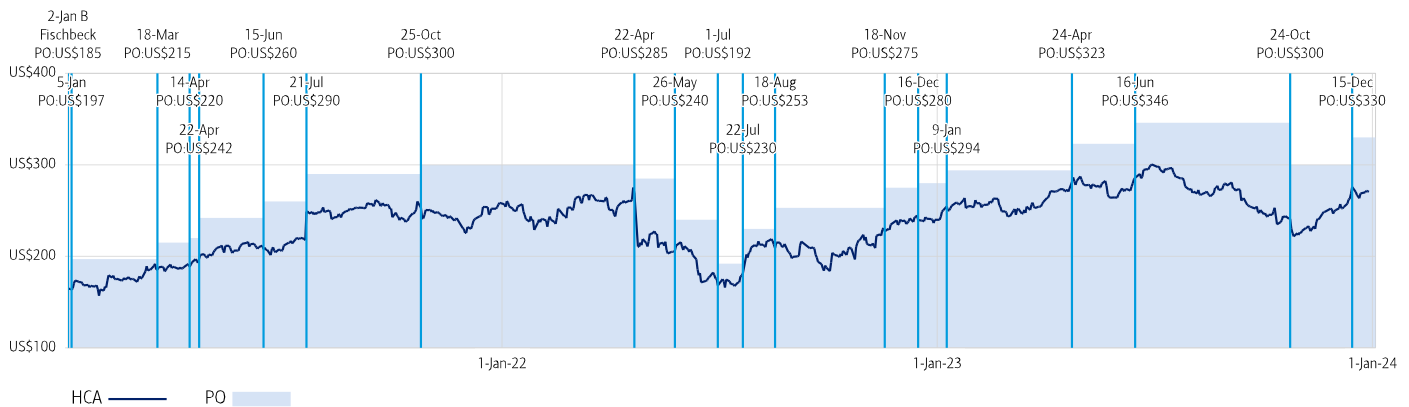
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### Universal Health (UHS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### HCA Healthcare (HCA) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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