

Chemed Corporation

Vitas offset slight Roto miss. EBITDA guidance above ests for both segments

Reiterate Rating: BUY | PO: 708.00 USD | Price: 596.60 USD

Beat on margins; guide above estimates

Adj EBITDA was 3% above consensus/our est as much better Vitas more than offset slightly worse Roto EBITDA. 2024 revs guide is 1% above and adj EBITDA 4% above consensus/our est. with guide for both segments above estimates. We raise our 2024/25E EBITDA, and roll out 2026 ests. Raise PO to \$708 (20.5x 2024E EBITDA, unchanged) on the higher est. Reiterate Buy as the Vitas strength helps offset Roto.

Vitas EBITDA guide better on better revs and margins

VITAS revenue prior to Medicare cap is expected to grow 9-9.8% driven by census growing +6.5-7% and +2.7% Medicare rate increase. Medicare cap of \$9.5m better than our \$11m est. The rev guide is 1% above consensus/our est. Margin guide of 17.8-18.3% is 40bp above our est. Margins to increase from 16% in 2023 (impacted by bonus accrual). This implies segment EBITDA of \$252m after cap, \$11m or 4% above our est.

Roto EBITDA guide better, revs to grow 3.5-4% y/y

Roto-Rooter rev to grow 3.5-4% (+2% in 2023), 1% above consensus/our est. Margin to be 28.7-29.1%, up 50bps y/y, and 60bps above our est. This is well above 2019 level (24%). The implied EBITDA of \$285m is \$10m or 4% above our est. This should be well received given some concerns around discretionary spending.

Consolidated EBITDA guide 4% above consensus/our est

Total revs guide 1% above consensus/our est. Assuming corp overhead of \$22m (in line with 2023), consolidated Adj EBITDA guide is \$514m, 4% above consensus/our est.

Vitas EBITDA much higher on better margins

Q4 Vitas revs came in line with consensus/our est. Census increased 11% y/y, and was 1% better. Margins were 230bps better than consensus driving an 11% EBITDA beat.

Roto missed on margins, revs in line

Roto revs declined 1% y/y, in line with our est / consensus, and in line with our est. based on the Google Trends data (see [2/14/24 report](#)). Residential grew +2% y/y, while Commercial was weak, -8% y/y. Margins of 27.5% were 30bps below consensus.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	19.75	20.28	23.46	26.13	29.00
GAAP EPS	16.53	17.93	21.56	24.18	27.27
EPS Change (YoY)	2.1%	2.7%	15.7%	11.4%	11.0%
Consensus EPS (Bloomberg)			23.01	24.86	NA
DPS	1.48	1.56	1.60	1.60	1.60
Valuation (Dec)					
P/E	30.2x	29.4x	25.4x	22.8x	20.6x
GAAP P/E	36.1x	33.3x	27.7x	24.7x	21.9x
Dividend Yield	0.2%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	19.7x	19.7x	17.3x	16.3x	15.1x
Free Cash Flow Yield*	2.8%	3.0%	3.6%	4.0%	4.4%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 28 February 2024 12:05AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	680.00	708.00
2024E Rev (m)	2,385.5	2,424.1
2025E Rev (m)	2,550.9	2,586.6
2026E Rev (m)	NA	2,766.1
2024E EPS	22.59	23.46
2025E EPS	24.75	26.13
2026E EPS	NA	29.00
2024E EBITDA (m)	495.9	513.6
2025E EBITDA (m)	536.0	544.7
2026E EBITDA (m)	NA	587.5

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Stock Data

Price	596.60 USD
Price Objective	708.00 USD
Date Established	27-Feb-2024
Investment Opinion	A-1-7
52-Week Range	492.84 USD - 610.35 USD
Mkt Val (mn) / Shares Out (mn)	9,110 USD / 15.3
Free Float	98.3%
Average Daily Value (mn)	49.13 USD
BofA Ticker / Exchange	CHE / NYS
Bloomberg / Reuters	CHE US / CHE.N
ROE (2024E)	29.1%
Net Dbt to Eqty (Dec-2023A)	-23.8%
ESGMeter™	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".

iQprofileSM Chemed Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	24.3%	21.6%	22.0%	22.0%	47.2%
Return on Equity	41.9%	32.3%	29.1%	27.4%	56.2%
Operating Margin	16.5%	15.4%	16.4%	17.0%	17.8%
Free Cash Flow	253	273	329	364	397

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.0x	0.9x	0.9x	0.9x	1.0x
Tax Rate	24.3%	22.2%	20.1%	19.8%	19.8%
Net Debt-to-Equity Ratio	2.9%	-23.8%	-30.5%	-33.3%	NA
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,135	2,264	2,424	2,587	2,766
% Change	-0.2%	6.1%	7.1%	6.7%	6.9%
Gross Profit	765	799	861	924	993
% Change	-0.6%	4.4%	7.8%	7.3%	7.5%
EBITDA	452	452	514	545	587
% Change	-1.6%	-0.1%	13.7%	6.1%	7.8%
Net Interest & Other Income	(22)	2	12	12	12
Net Income (Adjusted)	298	308	357	393	430
% Change	-3.3%	3.4%	15.7%	10.1%	9.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	250	273	328	363	404
Depreciation & Amortization	59	61	66	66	62
Change in Working Capital	(35)	(38)	(40)	(40)	(40)
Deferred Taxation Charge	15	(8)	0	0	0
Other Adjustments, Net	21	43	36	36	32
Capital Expenditure	(57)	(57)	(61)	(61)	(61)
Free Cash Flow	253	273	329	364	397
% Change	1.1%	8.3%	20.2%	10.9%	8.9%
Share / Issue Repurchase	115	68	160	240	240
Cost of Dividends Paid	(22)	(24)	(24)	(24)	(24)
Change in Debt	(85)	(98)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	74	264	408	509	0
Trade Receivables	139	182	193	206	0
Other Current Assets	59	55	53	50	0
Property, Plant & Equipment	200	204	199	194	0
Other Non-Current Assets	970	963	963	963	0
Total Assets	1,442	1,668	1,816	1,923	0
Short-Term Debt	5	0	0	0	0
Other Current Liabilities	292	312	281	250	0
Long-Term Debt	93	0	0	0	0
Other Non-Current Liabilities	254	248	195	144	0
Total Liabilities	643	560	476	393	0
Total Equity	799	1,108	1,340	1,529	0
Total Equity & Liabilities	1,442	1,668	1,816	1,923	0

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Long-Term Care

Company Description

Chemed (CHE) operates through two wholly owned subsidiaries: VITAS and Roto-Rooter Group. VITAS is one of the largest providers of hospice service in the US, accounting for 7% of the industry. It operates 45 programs in 15 states and the DC. The average daily census of an average program is about 350 patients, with the largest program having census of 1,800. Roto-Rooter provides plumbing, drain cleaning, water restoration and other related services to both residential and commercial customers.

Investment Rationale

We like the LT volume tailwinds for hospice and the stability/cash flow of both the hospice and Roto-Rooter business, even during recession. In addition, we view favorably CHE's very low leverage (close to zero) and a growing dividend.

Stock Data

Average Daily Volume 82,348

Quarterly Earnings Estimates

	2023	2024
Q1	4.30A	5.44E
Q2	4.06A	5.64E
Q3	5.32A	5.91E
Q4	6.60A	6.47E



Price objective basis & risk

Chemed Corporation (CHE)

Our PO of \$708 is based on 20.5x 2024E EBITDA, a significant premium to CHE's historical average of 9x to reflect the clear and strong tailwinds to hospice volumes and a better than average near to medium-term outlook for Medicare reimbursement. Hospice is also defensive from a recession.

Given the above peer margins in the 28% range, the asset-light model, the reduced exposure to economic cycles (due to increased exposure to water restoration), and a limited potential for an on-line competition, we believe an above-peer multiple of 20x for Roto-Rooter is warranted. Meanwhile, given the size of the Vitas platform (scarcity value), the positive outlook for the hospice industry, the minimal leverage at the corporate level, the growing dividend, and the solid track record, we believe an above average multiple for Vitas is warranted. Applying 20x to Roto's 2024E EBITDA, our PO implies about 21x VITAS EBITDA.

Downside risks to our PO: 1) Medicare reimbursement is worse than expected. 2) Labor cost pressure is higher than expected. 3) Volume growth is lower than expected. 4) Unexpected legal issues around government billing. 5) Recession impact to Roto-Rooter is worse than expected.

Upside risks to our PO: 1) Medicare reimbursement is much better than expected. 2) Volume growth is better than expected. 3) Capital deployment.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	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
	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
	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
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	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
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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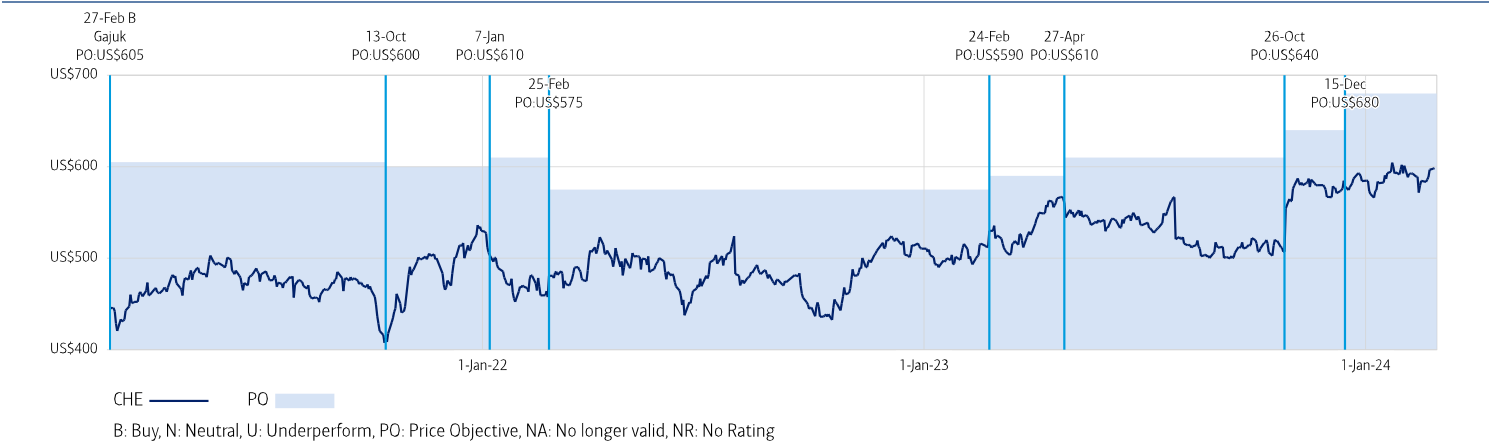
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Chemed (CHE) Price Chart



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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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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