Universal Hospital (UHOS)

We rate UHOS's bonds Buy. At an offer price of 100.75, investors can see an above-market return (YTW 6.40% to the 8/15/18 call) for what we view as YTC paper in a solid and improving credit story. We also believe UHOS's bonds could serve as a hedge and potentially outperform in a market downturn as bonds remain call constrained.

We believe UHOS's strategic focus around EVM will help it grow revenue and EBITDA at inflated rates, and that it will create more meaningful FCF and equity cushion in connection with this. And although we could envision UHOS refinancing its bonds within the next year or so, we also believe it could have other options at its disposal. If UHOS can continue to execute operationally, we believe the public equity markets could be an avenue for the sponsor as we believe growth prospects are currently better today given its CES focus than they had been under previous strategies with former management.

On the M&A front, we believe UHOS will likely pursue smaller complementary strategic acquisitions rather than transformative deals. Q317 results were strong, and we suspect if UHOS continues on its current path that 2018 net leverage could be < 5x and FCF would be more meaningfully positive.

The risks to our rating are largely operational. If UHOS does not achieve expected growth rates, or if it loses a significant amount of business to a competitor, the bonds could underperform.