Rating
Buy

North America
United States

Health Care
Health Care Facilities and Services

Company
HCA Holdings, Inc.

Reuters	Bloomberg	Exchange	Ticker
HCA.N	HCA US	NYS	HCA

Date
4 February 2014

Results

Price at 3 Feb 2013 (USD)	48.46
Price Target	58.00
52-week range	51.41 - 35.21

Q4 surgery/mix recovering; 2014 / ACA outlook conservative

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Reiterate Buy; HCA's results demonstrate best in breed

Q4 operating metrics were not given at time of early Jan. +ve pre-anncmt. Actual results highlight a recovery in surgical trends, which boosted pricing/mix and helped drive solid Q4 EBITDA growth (+6.7% YoY) despite weaker inpt medical trends and a tough vol comp. HCA provided initial ACA guidance, but mgmt may revisit assumptions on key ACA variables mid-year given how fluid the roll-out is. For 2014, ACA initially guided ~$100M (+1.5%) EBITDA benefit underpinned by 7%-9% reduction in uninsured and slight offset by pricing/vol impact for exchange mix. Given strong organic growth trends in recent Qs, we believe 2014 EBITDA guidance should prove conservative.

Q4 CC takeaways (results review in body of note)

'(1) Volume/pricing metrics: surgery the bigger story. Weak SS inpt admits (-1.8%) reflect tough comp, lower flu trends and ~50 bps from 2-midnight rule. Importantly, HCA does not see 2-midnight rule having material financial impact. The bigger vol story in Q4 (and last 3 Qs) is surgeries; Q4 surg vol (+1.4%) and strength in higher-acuity areas (cardio, ortho, neuro) helped drive pricing (RPAA) +4.8% YoY. The ratio of inpt surg / inpt admit rose to 30% (from ~29% avg past 2 yrs) and ratio is 200-300 bps below peak. A sustained rebound in surgical mix could be an upside risk to guidance.

'(2) 2014 guidance assumes 1%-4% EBITDA growth. Underlying assumptions (ex. ACA) include 1-2% adj. admit (vol) growth, 2-3% RPAA (pricing) growth and flat margins. Given 2H'13 RPAA growth (+4%) and recovery in surg, RPAA seems conservative. Guidance assumes adj. vols improve vs. 2013 flat. The key headwinds built-into guidance: $120M lower YoY HITECH and $55M higher YoY stock comp which impact growth by 300 bps vs. DBe orig est 200 bps. We believe guidance implies 2%-5% base growth ex headwinds and ACA.

'(3) ACA commentary: a reasonable starting point. HCA framed ACA impact as a L-T positive, but key variables remain very fluid this year including: (1) enrollment for exchange and Medicaid; (2) net new lives; (3) networks and plan selection of exchange products. HCA assumes 7-9% reduction of uninsured (reasonable) but offset somewhat due to leakage and pricing (conservative).

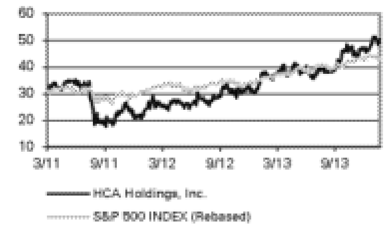
Updated estimates: modest adjustments to reflect HITECH, slower ACA ramp

2014 EBITDA / EPS are $7.05B / $3.92 from $7.145B / $4.17. We come out above guidance ($6.60B-$6.85B EBITDA / $3.45-$3.75 EPS) due to underlying growth and ACA. Our model now reflects higher S/O, slightly lower HITECH benefit, slightly lower ACA ramp but slightly better rate/mix.

Valuation and risks: PT remains at $58 or 7.5x 2015 EV/EBITDA

Our target multiple is in-line with group's L-T average of 6.5x-7.5x. Key risks: implementation of PPACA, payer mix changes, Medicare/Medicaid cuts.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.6	2.4	26.8
S&P 500 INDEX	-4.9	-1.1	15.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014E	2015E
FY EPS (USD)	3.42	3.92	4.77
EV/EBITDA	7.2	7.1	6.2
Adjusted EBITDA	6,574	7,048	7,749

Source: Deutsche Bank estimates, company data
[1] Includes the impact of FAS123R requiring the expensing of stock options.