



Encompass Health Spreads Position for Return to Growth

Ticker/Price: EHC \$69.10

Analysis:

Encompass Health (EHC) today with 1500 April \$75/\$65 bull risk reversals opening for a \$0.30 debit which follows some recent November call buying with 1,190 of the \$65 remaining in open interest. EHC this week are working out of a 10 month base of 11 points that targets a move up to around \$80. It reported results this week beating on EPS and Revenues, the latter rising 8.8% Y/Y. The \$6.3B provider of facility and home-based healthcare services trades 17.5X Earnings, 23X FCF and 10.8X EV/EBITDA. EHC also yields a 1.75% dividend and sees steady 5%+ top-line growth the next few years. EHC has 132 inpatient rehab centers, 245 home health locations and 82 hospice locations. The growth in Medicare population is seen as a key demographic tailwind. Analysts have an average target of \$75 and short interest low at 1.9% of the float. BAML raised shares to Buy in early September with a \$73 target noting 2020 will be a reset year but sees it already priced into shares and sees the company well positioned to adjust to the home health reimbursement changes with little exposure to Medicare for All headline risk. Stephens is at Overweight with a \$77 target seeing solid growth potential from EHC's joint venture with acute care hospitals. Hedge Fund ownership fell 11% in Q2 filings, Point 72 adding to its position.

Hawk Vision:



Hawk's Perspective: EHC jumped today with the final 2020 Medicare payment and policy rules out for Home Health agencies, a positive catalyst without much change to the near-term. The long-term setup looks great for **EHC** but would let it settle today's move a little for a better risk/reward.

Confidence Ranking: \$\$