



## Tenet LEAPS Position for Conifer Spin

Ticker/Price: THC \$

### Analysis:

**Tenet Health (THC)** with 10,000 January 2022 \$25 calls bought late on 3/12 for \$5.10 and shares closing the day strong despite the market rolling over. THC has 6,000 January \$25 and 5,000 January \$30 calls in OI from size buys. Shares are back near the low-end of value from the 5-year range as well as multi-month support from 2019. The \$2.18B company trades 5.8X earnings, 0.12X sales, and 3.8X FCF. They're looking at mid-teens EPS growth low-single digit revenue growth. THC has been a deleveraging story over the last year as they divest assets and focus on cash flows. Patient volumes remain strong while margins increased nearly 5% in Q4 while growth in their ambulatory business remains strong. In January, they finished a strategic review and plan to spin off their Conifer business in a tax-free process in 2021. THC is one of many hospitals in focus with COVID-19 and on 3/11 they spoke at an investor conference on the topic. The company has been prepared for weeks for the spread of the virus for weeks and has a strong system in place. They also have an adequate supply on masks and gowns and redistributing within its system to where most needed, avoiding a crunch. THC has also had questions about elective procedures getting canceled and noted that they most likely see those rescheduled, so more of a push back than a loss. They're also set up to repurpose capacity should more get deferred. Analysts have an average target for shares of \$34. RBC upgrading to Outperform on 3/11 with a \$39 PT. The firm thinks the turnaround has shown strong progress as they improve operational performance and reduce leverage. THC also trades at a sizable discount to peers. JP Morgan upgrading to Neutral in late February as tailwinds seem to be building for Tenet's ambulatory segment. CSFB has a \$43 PT and Outperform rating. They note that THC doesn't have any significant debt maturities until April 2022 and with their pending Memphis asset sale they can generation \$300M of cash flow for the year. Short interest is 7.7% but declining since November when it was 12.5%. Hedge fund ownership fell 10.8% in Q4, Glenview adding more to their position (3<sup>rd</sup> largest) and now over 19.5M shares. Insiders have been active into weakness including a \$271k buy from the CEO on 3/2 at \$27.11.

### Hawk Vision:



**Hawk's Perspective:** THC has near-term headline risk as hospitals deal with COVID-19 but they have interesting long-term drivers and positioning allows for a better setup to build

**Confidence Ranking:** \$\$