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S&P U.S. Not-For-Profit Acute Health Care Speculative-Grade Median Financial Ratios - 2023

Rating And Outlook Overview

The number of rated entities remains stable, although downgrades have caused changes in distribution. The total number of speculative-grade ratings has remained stable year-over-year, but some shifts in distribution have occurred primarily due to downgrades, either within the category or from the investment-grade categories. For example, the number of 'BB' and 'BB-' ratings has increased at the expense of low investment-grade and 'BB+' ratings. S&P Global Ratings believes negative shifts within the speculative-grade category could continue, given the very thin liquidity and continued operating losses for many speculative-grade rated issuers. Shifts at the lower end of the rating scale may be amplified by the very limited sample size and make trend analysis less meaningful. Although we took positive rating actions on a few speculative-grade providers, they were primarily the result of mergers with higher-rated organizations.

Covenant violations continue but there were no payment defaults during the last year. Due to their weaker debt service coverage and thin liquidity, speculative-grade issuers remain at a higher risk of breaching their financial covenants than investment-grade entities. Debt service coverage, in particular, is the most common covenant violation, followed by days' cash on hand and debt to capitalization. Although these violations often constitute a technical event of default, none of them have resulted in acceleration of the debt, as management teams have been proactive in successfully negotiating waivers or forbearance agreements with bondholders. In many cases, these agreements were remedied before maturity. Similarly, there have been no payment defaults during the last year.

Favorable outlook changes reflect some mitigation efforts to offset operating pressures. Relative to 2023, when almost half of speculative-grade providers had a negative outlook due to persistent operating difficulties, most recent data indicates just a third of organizations carry a negative outlook as of June 2024. Although negative outlooks are still high for this subset, the favorable shift is encouraging. We believe this improvement reflects some alleviation in sector pressures of the past few years, particularly in relation to labor and lower agency staff usage. Stable outlooks now represent close to two-thirds of rated providers, and therefore, we do not expect any significant increase in upgrades.

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