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Fitch Rtgs: Coronavirus Pressure Builds for NFP Hospitals, Health Systems

Fitch Ratings-Austin/New York-19 March 2020: Not-for-profit (NFP) hospitals and health systems, particularly those that are higher rated, should have sufficient financial cushion to absorb an increase in operating costs and the effects of a shift in volumes associated with the spread of the coronavirus without meaningfully affecting credit profiles over the short term, says Fitch Ratings. While we do not initially expect sector-wide rating changes, smaller single-site facilities with lower liquidity levels are at heightened credit risk. Beyond the near term, risks associated with the economic disruption caused by the outbreak are expected to increase pressures on operating margins for all providers.

For the majority of rated credits, Fitch expects that the coronavirus will cause delayed earnings as elective procedures are temporarily suspended, but these will resume after the crisis abates.

Lower rated, typically smaller, single site facilities, and those credits with comparatively lower liquidity levels, particularly in areas with a high concentration of people who are 65 and older, are more vulnerable to near-term pressures. Credits such as these will be far more constrained at their current rating level as they are unable to easily absorb declining reimbursement as more lucrative elective surgical cases are replaced by medical volumes. They will also be challenged to manage the rising expense pressure due to the influx of coronavirus volumes that will require additional staffing and supplies, potentially at a significant premium.

Hospital staffing levels may become a greater concern if a significant number of staff become subject to isolation or furlough. This could not only reduce hospital capacity but also increase costs in the form of premium staffing, such as agency employment and overtime. The sector's ability to begin quickly testing for the virus in order to more rapidly identify and quarantine an infected patient or rule out infections among staff will be critical for containment and will help hospitals managing their care resources.

All hospitals have protocols in place for viral outbreaks, and prior epidemics, such as Influenza A H1N1, and natural disasters that have significantly challenged operations have typically not affected hospital credit. However, while the healthcare sector has responded extremely well to past crises, the scale of the coronavirus pandemic is unprecedented. Severe disruptions to operations and longer-term economic pressures could affect provider and consumer decisions for years to come. With this outbreak, hospitals will very likely end up at peak capacity levels or beyond for an undetermined amount of time, with high demands for specific services such as intensive care unit beds and ventilators. The mortality rate of the coronavirus at least initially appears to be much higher than that of ordinary influenza and the duration and severity of the epidemic in the US remains uncertain. The crisis in Italy has shown how health systems can quickly become overloaded and struggle to triage healthcare needs.

While the immediate effects of the outbreak will be challenging but manageable for higher rated hospital credits, medium- and longer-term risks will weigh on the sector, particularly if the outbreak continues throughout 2020 and macroeconomic conditions deteriorate for a prolonged period. Lower-rated hospitals with lower liquidity buffers that take a significant financial loss over the next few months will be limited in their ability to respond to any operational issues, particularly in light of significant declines in unrestricted liquidity levels with recent market activity.

Over the medium term hospitals may face sustained increases in supply costs, ongoing spending for future preventative measures, and delays in expansion projects, which would lead to deterioration in operating margins and pressure ratings. Longer-term rating concerns relate to the virus' negative economic effects on local economies, which in turn could lead to reduced volumes and a weakened payor mix well after the initial effects of the coronavirus are managed. This is particularly a risk for smaller, less diverse economies, particularly locations dependent on travel, tourism and entertainment, oil production, and hospital districts that depend on tax revenues.

This is an exceptionally fluid situation at the moment, and Fitch will continue to monitor incoming information and update the market with opinions, analysis, and rating actions as appropriate.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.