

Cigna Corp. (CI)

\$183.00 (As of 08/10/20)

Price Target (6-12 Months): **\$192.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Cigna's earnings of \$5.81 per share beat the Zacks Consensus Estimate by 15% and were also up 35% year over year. Results reflected revenue and earnings growth owing to a strong fundamental performance and lower medical costs from deferred care following the COVID-19 pandemic. The stock has underperformed its industry year to date. However, the acquisition of Express Scripts bodes well for the long haul. The company is divesting its Group Life and Disability insurance business, which will reduce its debt level and streamline business operations. Retaining its earnings guidance despite the COVID-19-led uncertainty boosts investor confidence. The company's strong capital position leads to investment in business. However, higher leverage might pose a financial threat. Also, rise in operating expenses may limit margins.

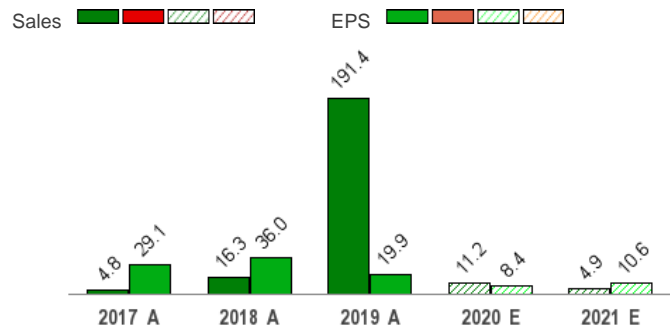
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$224.64 - \$118.50
20 Day Average Volume (sh)	2,015,804
Market Cap	\$67.2 B
YTD Price Change	-10.5%
Beta	0.67
Dividend / Div Yld	\$0.04 / 0.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 34% (166 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.1%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	10/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	40,726 E	40,892 E	41,316 E	41,857 E	163,450 E
2020	38,392 A	39,205 A	39,144 E	39,364 E	155,831 E
2019	33,429 A	34,375 A	35,833 A	36,538 A	140,175 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.39 E	\$4.99 E	\$5.31 E	\$4.97 E	\$20.45 E
2020	\$4.69 A	\$5.81 A	\$4.24 E	\$3.79 E	\$18.49 E
2019	\$3.90 A	\$4.30 A	\$4.54 A	\$4.31 A	\$17.05 A

*Quarterly figures may not add up to annual.

P/E TTM	9.5
P/E F1	9.9
PEG F1	0.8
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

Headquartered in Bloomfield, CT and formed in 1982, Cigna Corp. is the result of a merger between Connecticut General Life Insurance Company (CG) and Insurance Company of North America (INA).

On Dec 20, 2018, Cigna completed its combination with Express Scripts Holding Company. Shares of Cigna and Express Scripts ceased trading on the New York Stock Exchange and NASDAQ, respectively, on Dec 20, 2018. Shares of the new combined Cigna ("New Cigna") have started trading on the NYSE under the stock ticker symbol "CI."

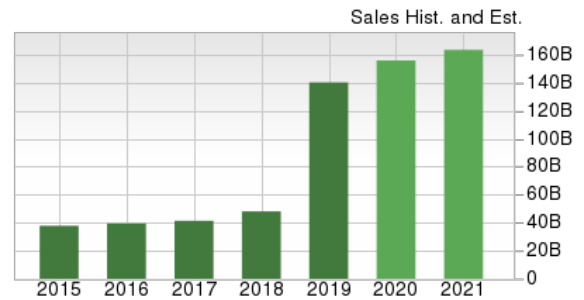
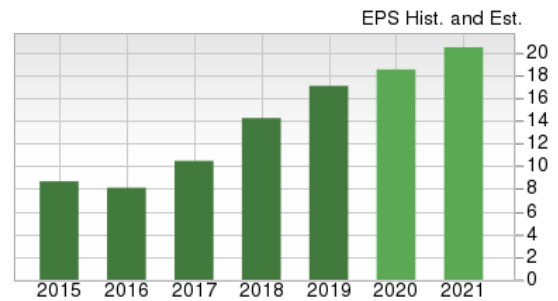
Cigna's results are now reported through the following segments;

Integrated Medical (68% of 2019 revenues) offers a mix of core health insurance products and services to employers, other groups and individuals along with specialty products and services designed to improve the quality of care, lower cost and help customers achieve better health outcomes.

Health Services (14%) consists of the Express Scripts Pharmacy Benefit Manager business beginning Dec 21, 2018 as well as Cigna's legacy home delivery operations. The offerings of this business include: clinical solutions that help patients manage prescription use to improve health outcomes and lower costs; value programs that assist patients with chronic conditions where the treatment requires high-cost drugs; home delivery services and retail pharmacy network administration; specialty pharmacy services that focus on dispensing drugs that require a higher level of clinical service; benefit design consultation and drug formulary management and; integrated medical benefit management solutions that focus on driving adherence to evidence-based guidelines, improving the quality of customer outcomes and reducing the cost of care.

International Markets (11%) has operations in over 30 countries and jurisdictions providing a full range of comprehensive medical and supplemental health, life and accident benefits to individuals and employers.

Group Disability and Other (7%) provides insurance products and related services for group short-term and long-term disability, life, accident, voluntary and specialty coverage.



Reasons To Buy:

▲ **Acquisition of Express Scripts:** Cigna has acquired the largest pharmacy benefit manager Express Scripts holding for \$67 billion, including \$15 billion in debt. The merged company is now a one-stop shop for customers' healthcare needs, ranging from sale of drugs to insurance cover. It would benefit consumers by bringing together medical care and pharmacy benefits under one roof to improve treatments and lower costs. The combined company will be able to rise in rank in the health insurance industry, strengthening its competitive position. Cigna expects the deal to increase earnings per share from \$18 to the range of \$20-\$21 in 2021. The combined company will generate free cash flow of at least \$6 billion in 2021.

Acquisition of Express Scripts, strong international operations, growing medical membership should drive growth at the company.

▲ **Other Acquisitions:** The company, in the first quarter of 2019, acquired OnePath Life Insurance from ANZ Bank in New Zealand. This acquisition will enable the company to delve deeper into an existing geography, with an expanded set of solutions and capabilities to create more value for its customers and exemplify its continued focus on effective capital deployment and drive long-term growth. This will also expand its international operations, which have been increasing revenues over the years.

▲ **Increasing Top Line:** The company's revenues have been increasing consistently since the last several years. The same was up 14.4% in the first six months of 2020 owing to the acquisition of Express Scripts. The consistent top-line growth has been driven by a number of acquisitions, the company's superior operating performance plus provision of quality products and services. For 2020, the company expects consolidated adjusted revenues in the range of \$154 billion to \$156 billion, representing growth of 10% to 11%.

▲ **Increasing Bottom Line:** Along with top-line growth, Cigna has been able to maintain bottom-line profitability, evident from annual earnings growth since 2009 (with the exceptional year being 2016 when earnings per share declined 6.4%). Its EPS has witnessed a CAGR of 17% from 2014-2019. This operating profitability has been maintained by control medical care cost and other operating costs. In the first six months of 2020, the company's bottom line grew 28% year over year. For 2020, consolidated adjusted income from operations is expected to be \$6.8 billion to \$7 billion or \$18 to \$18.60 per share. This suggests growth in the range of 9% to 13% over 2019 baseline earnings. For 2021, the company targets EPS of \$20 to \$21.

▲ **Cigna to Divest Non-Health Unit:** The company has announced to sell its non-health insurance unit, Group Life and Disability insurance business to New York Life, America's largest mutual life insurer. The sale valued at \$6.3 billion is expected to fetch \$5.3 billion and is likely to close in the third quarter of 2020. This move is in-line with the company's efforts to reduce its debt level, which increased after the buyout of Express Scripts for \$54 billion, last year. The deal required Cigna to borrow funds. Part of the fund from sale proceeds will be used for buying back shares. The divestiture will have no material impact on Cigna 2020 earnings but will add slightly to 2021 earnings.

▲ **Growing Membership:** Cigna has been growing its membership for the past many quarters. We expect a rise in membership going forward, given Cigna's diversified product portfolio, a wide agent network and superior service, which should drive enrollment in Commercial market segments.

▲ **Favorable Cash Flows:** The company has been generating positive cash flow from operations over the past several years. This reflects its healthy business operations. In the first six months of 2020, cash flow from operations increased 22% year over year to \$5.2 billion. Consistent cash flow generation enables the company to reinvest in its business, go for strategic merger and acquisition and return capital to its shareholders via dividend payments and share buybacks. For 2020, the company expects greater than \$7.5 billion of cash flow from operations, reflecting the strong capital efficiency of its well-performing businesses.

▲ **Share Price Performance:** Year to date, the stock has underperformed its industry. Its strong growth and solid fundamentals should further support its stock price.

Reasons To Sell:

▼ **Increase in Operating Expenses:** Operating expenses increased 227% (more than the revenue growth of 216%) in 2019, driven by pharmacy and other service costs, incurred due to the acquisition of Express Scripts. Going further, we expect expenses to remain elevated as the company continues to invest in growth and innovation.

Increase in expenses, high debt levels are some of the headwinds facing the company.

▼ **Increase in Leverage:** Post the buyout of Express Scripts, the company's leverage ratio (debt-to-total capitalization) stands at 43.5 (as of Jun 30, 2020), higher than the industry average of 38.2. Also total debt as of Jun 30, 2020 of \$31.8 billion is way higher than its cash and cash equivalents of \$7.2 billion. Such high debt levels increase its financial risk. Its times interest earned of 5.3x is lower than the industry average of 10.3x. The company, however, expects, debt to capitalization ratio come down to upper 30s by the end of 2020.

Last Earnings Report

Cigna Earnings Surpass Estimates in Q2, Improve Y/Y

Cigna's second-quarter 2020 earnings of \$5.81 per share surpassed the Zacks Consensus Estimate by 15% and also grew 35% year over year.

Results reflected revenue and earnings growth owing to a strong fundamental performance and lower medical costs from deferred care following the COVID-19 pandemic.

Cigna's revenues of \$39.3 billion beat the Zacks Consensus Estimate by 4.2% and also increased 13.9% year over year mirroring solid contributions from each of the company's ongoing businesses.

The company's medical enrollment grew by 86,000 lives from the prior-year quarter to 17.083 million customers, attributable to membership gains in the Government and International markets.

Selling, general and administrative expense ratio was 8.4, improved 60 basis points year over year on significant growth in revenues and cost-control measures.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	4.11%
EPS Surprise	15.05%
Quarterly EPS	5.81
Annual EPS (TTM)	19.35

Strong Segmental Performances

Health Services: Adjusted revenues of \$28.6 billion were up 21.5% year over year, driven by insourcing of Integrated Medical pharmacy volumes and a sturdy performance in specialty pharmacy services, partly offset by a decline in retail script volumes.

Operating income of \$1.25 billion increased 7% year over year, representing customer growth, higher adjusted pharmacy scripts volumes, benefits from effective management of the supply chain and a steady performance in specialty pharmacy services, partially offset by an increase in operating expenses to support growth

Integrated Medical: Adjusted revenues of \$9.23 billion were up 3% year over year, highlighting customer wins in Medicare Advantage and in the Select segment, as well as premium growth. However, this upside was partially offset by premium relief programs for clients that were carried out in response to the COVID-19 pandemic.

Operating income of \$1.52 billion surged 53.83% year over year on significantly lower medical utilization in both the Commercial and Government segments compared with the historic patterns. However, this uptrend was partially offset by premium relief programs for clients and cost share waivers for customers.

International Markets: Adjusted revenues of \$1.43 billion were up 3.1% year over year, reflecting consistent business growth, partially offset by an adverse foreign currency movement.

Operating earnings of \$319 million soared 54.1% year over year, driven by lower claim levels amid the COVID-19 pandemic, constant business gains and operational efficiency.

Group Disability and Other Operations: Adjusted revenues of \$1.33 billion inched up 1.5% year over year. Operating earnings of \$132 million were down 11.4% year over year due to elevated claims in Cigna's Life business, primarily related to the COVID-19 pandemic. However, this downside was partially mitigated by a favorable performance within the Disability business.

Capital Position

Cigna's debt-to-capitalization ratio improved to 43.5 as of Jun 30, 2020 from 45.2 as of Dec 31, 2019.

Shareholders' equity as of Jun 30, 2020 was \$47.4 billion, up 8.1% year over year.

Share Buyback

Year to date through Jul 29, 2020, the company repurchased 8.3 million shares of common stock for \$1.5 billion.

2020 Guidance

The company's earlier-issued guidance for the full year was intact, indicating earnings per share to remain in the range of \$18-\$18.6 while adjusted revenues in the \$154-\$156 billion band.

Recent News

Cigna, Oscar to Launch Health Plan for Small Businesses – Jun 23, 2020

Cigna along with Oscar, a tech-driven health insurance company, launched Cigna + Oscar, a unique consumer-first health insurance for small businesses available in Atlanta and the San Francisco Bay Area as well as across Tennessee, Nashville, Memphis, Knoxville and Chattanooga. Subject to certain conditions, this will be effective fourth-quarter 2020. The fully-insured health plans include no charge, 24/7 virtual doctor visits, \$3 drug co-pays on the most commonly prescribed medicines and constant Care Team member help, etc. It will allow access to local and nationwide networks of doctors, hospitals and specialists.

Cigna, Priority Health Team Up to Offer Improved Healthcare – Jun 22, 2020

Cigna partnered with Priority Health — the second largest health plan in the state of Michigan. Priority Health. On one hand, the extended collaboration will enable Cigna's clients to access the wide network of health care providers and high-quality specialists of Priority Health in Michigan. On the other hand, out-of-state members of Priority Health can access Cigna's diverse range of health care services. The abovementioned accessibility will commence from Jan 1 of next year.

Cigna's Tie-Up to Offer Improved Healthcare in North Alabama – Jun 15, 2020

Cigna partnered with Huntsville Hospital Health System. Notably being the second largest healthcare facility in north Alabama, the hospital also acts as the regional referral and trauma center for several residents of the Tennessee Valley. Enrollees of the company's Medicare Advantage plans are likely to gain traction from this tie-up. The new collaboration is anticipated to provide enhanced health outcomes on the back of new value-based care services in addition to the existing ones. Apart from solving health issues, this initiative is also likely to reduce medical costs for members.

Cigna Ramps up Efforts to Contain Coronavirus Spread – Jun 1, 2020

As part of several initiatives taken in response to the coronavirus outbreak, Cigna has eliminated certain 'out-of-pocket' costs required for the in-network medical or behavioral telehealth visits. In the United States, the initiative provides coverage for the members under the company's Medicare Advantage and Individual and Family Plans. For the same customers who are unable to opt for telehealth visits, Cigna has eliminated certain costs related to office visits to in-network primary care physicians, specialists and behavioral practitioners.

Valuation

Cigna's shares are down 10.5% in the year-to-date period, but up 10.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 0.1% and 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 8.6% and 18.43%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and up 16.7% in the past year.

The stock is currently trading at 9.3x forward 12-month earnings, which compares to 16.02x for the Zacks sub-industry, 22.12x for the Zacks sector and 22.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.99x and as low as 6.83x, with a 5-year median of 13.45x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$192 price target reflects 9.76x forward earnings.

The table below shows summary valuation data for CI

Valuation Multiples - CI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.3	16.02	22.12	22.81
	5-Year High	19.99	20.58	23.17	22.81
	5-Year Low	6.83	12.48	15.89	15.25
	5-Year Median	13.45	16.05	18.97	17.58
P/S F12M	Current	0.44	0.75	2.68	3.2
	5-Year High	1.26	0.86	3.84	3.44
	5-Year Low	0.29	0.48	2.25	2.54
	5-Year Median	0.9	0.67	2.96	3.01
P/B TTM	Current	1.52	3.48	3.67	3.77
	5-Year High	4.07	4.07	5.05	4.55
	5-Year Low	1.07	2.3	2.92	2.85
	5-Year Median	2.85	3.15	4.29	3.64

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Aegon NV (AEG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
Prudential Public Limited Company (PUK)	Neutral	3
Swiss Re Ltd. (SSREY)	Neutral	4
UnitedHealth Group Incorporated (UNH)	Neutral	3
American International Group, Inc. (AIG)	Underperform	4
LegalGeneral Group PLC (LGGNY)	Underperform	4
Zurich Insurance Group Ltd. (ZURVY)	Underperform	4

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	CI	X Industry	S&P 500	AIG	LGGNY	ZURVY
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	A	-	-	B	A	B
Market Cap	67.20 B	3.63 B	23.56 B	27.10 B	18.25 B	57.14 B
# of Analysts	14	3	14	6	1	1
Dividend Yield	0.02%	2.23%	1.71%	4.07%	9.95%	3.44%
Value Score	A	-	-	B	A	B
Cash/Price	0.13	0.34	0.07	1.14	0.99	0.14
EV/EBITDA	7.61	4.14	13.39	3.13	2.54	7.60
PEG Ratio	0.82	1.28	2.92	1.21	NA	NA
Price/Book (P/B)	1.43	0.80	3.18	0.43	1.52	1.56
Price/Cash Flow (P/CF)	6.75	7.11	12.69	3.01	7.89	11.17
P/E (F1)	10.00	10.01	22.16	12.10	8.19	16.97
Price/Sales (P/S)	0.43	0.82	2.55	0.56	NA	NA
Earnings Yield	10.10%	9.89%	4.33%	8.26%	12.21%	5.89%
Debt/Equity	0.67	0.24	0.77	0.63	0.54	0.33
Cash Flow (\$/share)	27.12	3.45	6.94	10.45	1.94	3.42
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	20.75%	10.16%	10.41%	2.87%	NA	NA
Proj. EPS Growth (F1/F0)	8.45%	-9.20%	-6.51%	-43.36%	-4.10%	-18.18%
Curr. Cash Flow Growth	138.17%	7.19%	5.26%	41.46%	2.04%	10.84%
Hist. Cash Flow Growth (3-5 yrs)	31.41%	1.69%	8.55%	-3.88%	8.60%	0.83%
Current Ratio	0.74	0.47	1.34	0.34	3.27	27.88
Debt/Capital	40.17%	20.31%	44.59%	38.47%	35.17%	24.72%
Net Margin	3.41%	4.27%	10.13%	-9.46%	NA	NA
Return on Equity	15.89%	6.79%	14.59%	3.28%	NA	NA
Sales/Assets	0.99	0.20	0.51	0.09	NA	NA
Proj. Sales Growth (F1/F0)	11.17%	0.00%	-1.54%	-7.51%	-88.19%	-46.80%
Momentum Score	D	-	-	B	C	C
Daily Price Chg	2.70%	1.03%	0.91%	2.61%	1.80%	0.45%
1 Week Price Chg	3.18%	3.21%	2.30%	-4.60%	7.05%	3.04%
4 Week Price Chg	3.17%	5.88%	8.54%	5.85%	11.67%	6.29%
12 Week Price Chg	-5.43%	20.16%	13.68%	10.58%	30.74%	28.41%
52 Week Price Chg	10.48%	-14.94%	3.71%	-42.88%	7.67%	6.26%
20 Day Average Volume	2,015,804	152,432	2,015,804	6,567,808	16,845	328,311
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	-1.64%	0.00%	0.00%
(F1) EPS Est 4 week change	0.31%	1.69%	1.67%	-8.83%	-4.59%	0.00%
(F1) EPS Est 12 week change	0.43%	0.54%	2.27%	-12.51%	-21.43%	-22.68%
(Q1) EPS Est Mthly Chg	-8.36%	0.00%	0.67%	-4.05%	NA	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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