

## Cigna Corp. (CI)

**\$195.35** (As of 04/16/20)

Price Target (6-12 Months): **\$205.00**

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: B

Growth: A

Momentum: B

## Summary

Cigna's shares have outperformed its industry in a year's time. The company's acquisition of Express Scripts will fuel its long-term growth. Its expanding international business provides diversification. The company is divesting its Group Life and Disability insurance business, which will reduce its debt level and streamline business operations. An increase in the company's medical membership has led to revenue growth. Its strong capital position enables investment in business and generation of shareholders' wealth via share buyback and dividend payout. Its shares have outperformed the industry in a year's time. An increase in leverage might pose financial risk. Also, rise in operating expenses may weigh on margins.

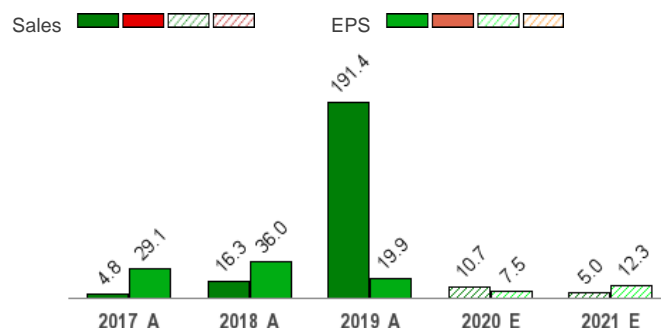
## Price, Consensus & Surprise



## Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | \$224.64 - \$118.50                    |
| 20 Day Average Volume (sh) | 3,066,759                              |
| Market Cap                 | \$72.7 B                               |
| YTD Price Change           | -4.5%                                  |
| Beta                       | 0.66                                   |
| Dividend / Div Yld         | \$0.04 / 0.0%                          |
| Industry                   | <a href="#">Insurance - Multi line</a> |
| Zacks Industry Rank        | Top 17% (42 out of 253)                |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 2.9%       |
| Last Sales Surprise       | 3.5%       |
| EPS F1 Est- 4 week change | -1.0%      |
| Expected Report Date      | 04/30/2020 |
| Earnings ESP              | 1.5%       |
| P/E TTM                   | 11.5       |
| P/E F1                    | 10.7       |
| PEG F1                    | 0.9        |
| P/S TTM                   | 0.5        |

## Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | 39,451 E | 40,034 E | 41,495 E | 42,053 E | 162,874 E |
| 2020 | 37,243 E | 37,916 E | 39,444 E | 40,056 E | 155,126 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 | \$5.43 E | \$5.17 E | \$5.35 E | \$4.94 E | \$20.58 E |
| 2020 | \$4.42 E | \$4.63 E | \$4.81 E | \$4.39 E | \$18.33 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

## 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."

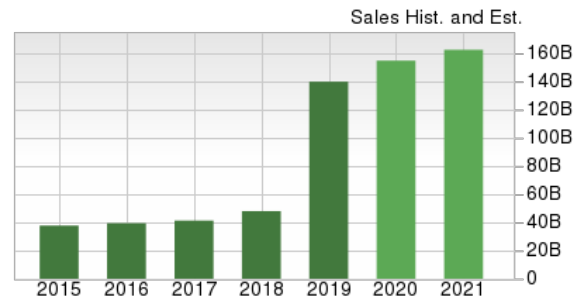
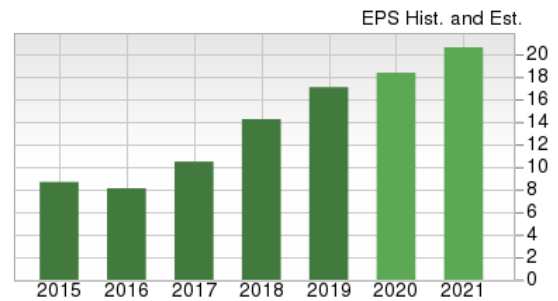
Cigna's results are now reported through the following segments;

**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.



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## 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, solid balance sheet, 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 witnessed a CAGR of 11% from 2010 to 2018. The same was up 235% in the first nine months of 2019, due 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 million 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%). This operating profitability has been maintained by control medical care cost and other operating costs. In 2019, the company's bottom line grew 20% 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. For 2020, the company expects 150,000 to 250,000 customers, driven by continued organic growth in commercial business, led by the selected middle market segments, partially offset by lower national accounts enrollment. It also expects Medicare Advantage customer growth of 13% to 16%.
- ▲ **Share Price Performance:** In a year's time, the stock has outperformed its industry. Its strong growth fundamentals should further support its stock price.
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## 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 45.2% (as of Dec 31, 2019), which is higher than the industry average of 18%. Such high debt levels increase financial risk. It might induce a higher interest expense (was \$1.6 billion in 2019, up from \$271 million in 2018), which is likely to keep the margins under pressure. Regarding interest expense, the company expects costs of approximately \$1.6 billion pre-tax in 2020.

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## Last Earnings Report

### Cigna Q4 Earnings Beat Estimates

Cigna Corp. came up with adjusted earnings of \$4.54 per share in fourth-quarter 2019, surpassing the Zacks Consensus Estimate by 2.9%. Quarterly earnings were up 75% year over year.

Cigna's revenues of \$36.6 billion beat the Zacks Consensus Estimate by 3.7%. Revenues grew 167% year over year owing to the acquisition of Express Scripts.

Among the revenue components, pharmacy revenues were \$25.6 billion compared with \$3.3 billion in the year-ago quarter, premiums were up 9.8% year over year to \$10 billion while fees increased 50.2% to \$2.2 billion. The growth in pharmacy revenues was backed by the acquisition of pharmacy benefit manager Express Scripts.

The company's medical enrollment grew by 184,000 lives from the prior-year quarter to 17.15 million customers, driven by growth in Commercial and International markets.

### Segment Details

**Health Services** – Adjusted revenues of \$25.6 billion were up from \$3.3 billion in the year-ago quarter, primarily due to the acquisition of Express Scripts completed in December 2018.

**Integrated Medical** – Adjusted revenues of \$9.2 billion were up 11% year over year, driven by increase in Commercial customer as well as premium growth.

**International Markets** – Adjusted revenues of \$1.43 billion were up 5.5% year over year, reflecting continued business growth.

### Capital Position

Cigna's debt-to-capitalization ratio improved to 45.2% as on Dec 31, 2019, from 50.9% as of Dec 31, 2018.

Shareholders' equity as of Dec 31, 2019 was \$45.3 billion, up 10.5% year over year.

### 2020 Guidance

The company expects earnings per share in the range of \$18-\$18.6; adjusted revenues in the range of \$154 billion to \$156 billion. Medical customers are projected to grow between 150,000 and 250,000.

Medical care ratio is expected in the range of 80.2-81.2%.

Quarter Ending 12/2019

|                  |              |
|------------------|--------------|
| Report Date      | Feb 06, 2020 |
| Sales Surprise   | 3.51%        |
| EPS Surprise     | 2.86%        |
| Quarterly EPS    | 4.31         |
| Annual EPS (TTM) | 17.05        |

## Recent News

### Cigna's New Solution to Boost Its Dental Care Services - Apr 15, 2020

The company has introduced a virtual care solution — Dental Virtual Care — for mainly catering to dental issues amid the COVID-19 pandemic. More than 16 million enrollees of the company's employer-sponsored insurance plans are likely to gain from the launch. The new service can be availed free of cost until May 31 of this year. Subject to customary approval, the solution is likely to continue even after the pandemic ends.

### AM Best Assigns Issue Credit Ratings to Notes - Mar 10, 2020

A.M.Best has assigned the Long-Term Issue Credit Ratings (Long-Term IRs) of "bbb" to the \$1.5 billion 2.4% senior unsecured notes due 2030, \$750 million 3.2% senior unsecured notes due 2040 and the \$1.25 billion 3.4% senior unsecured notes due 2050 recently issued by Cigna.

Furthermore, A.M. Best has assigned indicative Long-Term IRs of "bbb" to senior unsecured debt and "bb+" to preferred shares under the recently filed shelf registration. The outlook assigned to these Credit Ratings (ratings) is stable. The existing ratings of Cigna and its subsidiaries are unchanged.

The proceeds of the recent \$3.5 billion of aggregate debt, issued on Mar 4, 2020, will be used to redeem/tender upcoming 2021, 2022 and 2023 higher coupon issues.

### Cigna, Oscar Team Up to Offer Health Aids to Small Businesses - Jan 13, 2020

The company has entered into a collaboration with Oscar, a tech-driven health insurance company, to offer feasible commercial health solutions to small businesses.

Both companies reached a consensus to share risks in equal proportion under a reinsurance agreement for services delivered through this alliance. The partners will launch the solutions in specified markets during 2020 and gradually grow their partnership over time. However, the agreement is subject to closing conditions.

## Valuation

Cigna's shares are down 4.5% in the year-to-date period, but up 31.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 4.9% and 6.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 25.7% and 1.7%, respectively.

The S&P 500 index is down 13.1% in the year-to-date period and 4.1% in the past year.

The stock is currently trading at 10.25X forward 12-month price to earnings, which compares to 15.03X for the Zacks sub-industry, 20.43X for the Zacks sector and 18.65X 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 14.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$205 price target reflects 10.76X forward 12-month earnings.

The table below shows summary valuation data for CI

| Valuation Multiples - CI |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                 | Current       | 10.25 | 15.03        | 20.43  | 18.65   |
|                          | 5-Year High   | 19.99 | 20.58        | 21.07  | 19.34   |
|                          | 5-Year Low    | 6.83  | 12.48        | 15.81  | 15.16   |
|                          | 5-Year Median | 14.02 | 16.14        | 18.81  | 17.43   |
| P/S F12M                 | Current       | 0.46  | 0.73         | 2.59   | 3.09    |
|                          | 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       | 1.6   | 3.38         | 3.54   | 3.71    |
|                          | 5-Year High   | 4.07  | 4.07         | 5.05   | 4.55    |
|                          | 5-Year Low    | 1.07  | 2.3          | 2.9    | 2.84    |
|                          | 5-Year Median | 2.86  | 3.13         | 4.29   | 3.64    |

As of 04/16/2020

## Industry Analysis Zacks Industry Rank: Top 17% (42 out of 253)



## Top Peers

|  |            |
|--|------------|
| Zurich Insurance Group Ltd. (ZURVY)      | Outperform |
| Aegon NV (AEG)                           | Neutral    |
| American International Group, Inc. (AIG) | Neutral    |
| Legal & General Group PLC (LGGNY)        | Neutral    |
| Prudential Financial, Inc. (PRU)         | Neutral    |
| Prudential Public Limited Company (PUK)  | Neutral    |
| Swiss Re Ltd. (SSREY)                    | Neutral    |
| UnitedHealth Group Incorporated (UNH)    | Neutral    |

| Industry Comparison Industry: Insurance - Multi Line |            |            |           | Industry Peers |               |                  |
|--|------------|------------|-----------|----------------|---------------|------------------|
|  | CI Neutral | X Industry | S&P 500   | AIG Neutral    | LGGNY Neutral | ZURVY Outperform |
| <b>VGM Score</b>                                     | <b>A</b>   | -          | -         | <b>B</b>       | <b>A</b>      | <b>B</b>         |
| Market Cap   | 72.65 B    | 3.08 B     | 19.06 B   | 20.25 B        | 14.58 B       | 46.60 B          |
| # of Analysts  | 13         | 2.5        | 14        | 6              | 2             | 2                |
| Dividend Yield                                       | 0.02%      | 3.27%      | 2.26%     | 5.52%          | 4.47%         | 5.48%            |
| <b>Value Score</b>                                   | <b>B</b>   | -          | -         | <b>A</b>       | <b>A</b>      | <b>B</b>         |
| Cash/Price   | 0.08       | 0.33       | 0.06      | 0.98           | NA            | NA               |
| EV/EBITDA  | 8.32       | 4.20       | 11.49     | 2.84           | NA            | NA               |
| PEG Ratio  | 0.87       | 0.96       | 2.09      | NA             | NA            | NA               |
| Price/Book (P/B)                                     | 1.61       | 0.73       | 2.55      | 0.30           | 1.21          | 1.48             |
| Price/Cash Flow (P/CF)                               | 7.20       | 6.92       | 10.06     | 2.22           | 6.30          | 10.22            |
| P/E (F1)   | 10.66      | 7.08       | 17.56     | 5.84           | 4.76          | 10.51            |
| Price/Sales (P/S)                                    | 0.47       | 0.67       | 1.94      | 0.41           | NA            | NA               |
| Earnings Yield                                       | 9.38%      | 13.95%     | 5.57%     | 17.13%         | 21.01%        | 9.50%            |
| Debt/Equity  | 0.70       | 0.21       | 0.70      | 0.53           | NA            | NA               |
| Cash Flow (\$/share)                                 | 27.12      | 3.27       | 7.01      | 10.45          | 1.94          | 3.05             |
| <b>Growth Score</b>                                  | <b>A</b>   | -          | -         | <b>C</b>       | <b>D</b>      | <b>D</b>         |
| Hist. EPS Growth (3-5 yrs)                           | 18.21%     | 6.75%      | 10.92%    | -6.76%         | NA            | NA               |
| Proj. EPS Growth (F1/F0)                             | 7.51%      | 3.71%      | -3.36%    | -13.51%        | 31.79%        | 13.60%           |
| Curr. Cash Flow Growth                               | 138.17%    | 9.34%      | 5.93%     | 41.46%         | 2.04%         | 17.11%           |
| Hist. Cash Flow Growth (3-5 yrs)                     | 31.41%     | 1.57%      | 8.55%     | -3.88%         | 9.01%         | -2.46%           |
| Current Ratio  | 0.64       | 0.42       | 1.24      | 0.24           | NA            | NA               |
| Debt/Capital   | 41.32%     | 17.89%     | 42.78%    | 34.40%         | NA            | NA               |
| Net Margin   | 3.32%      | 7.17%      | 11.64%    | 6.73%          | NA            | NA               |
| Return on Equity                                     | 14.69%     | 6.51%      | 16.74%    | 6.28%          | NA            | NA               |
| Sales/Assets   | 0.99       | 0.23       | 0.54      | 0.10           | NA            | NA               |
| Proj. Sales Growth (F1/F0)                           | 10.67%     | 0.00%      | -0.14%    | -3.06%         | -87.71%       | 1.69%            |
| <b>Momentum Score</b>                                | <b>B</b>   | -          | -         | <b>D</b>       | <b>A</b>      | <b>A</b>         |
| Daily Price Chg                                      | 6.98%      | -0.94%     | -0.20%    | -3.74%         | 1.33%         | -0.12%           |
| 1 Week Price Chg                                     | 10.98%     | 15.85%     | 16.01%    | 29.72%         | 36.03%        | 6.11%            |
| 4 Week Price Chg                                     | 33.33%     | 11.03%     | 14.56%    | 12.52%         | 36.95%        | 9.18%            |
| 12 Week Price Chg                                    | -8.16%     | -33.93%    | -22.94%   | -55.09%        | -39.96%       | -26.13%          |
| 52 Week Price Chg                                    | 31.11%     | -29.95%    | -15.02%   | -49.65%        | -35.74%       | -3.62%           |
| 20 Day Average Volume                                | 3,066,759  | 244,170    | 3,220,598 | 9,932,991      | 176,486       | 146,340          |
| (F1) EPS Est 1 week change                           | -0.27%     | 0.00%      | 0.00%     | -7.21%         | 0.00%         | 0.00%            |
| (F1) EPS Est 4 week change                           | -1.00%     | -2.02%     | -7.09%    | -10.09%        | 0.00%         | 0.00%            |
| (F1) EPS Est 12 week change                          | -1.55%     | -4.62%     | -9.32%    | -21.65%        | 9.13%         | 2.24%            |
| (Q1) EPS Est Mthly Chg                               | 3.27%      | -2.00%     | -10.68%   | -4.45%         | NA            | NA               |

## 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    | <b>B</b> |
| Growth Score   | <b>A</b> |
| Momentum Score | <b>B</b> |
| VGM Score      | <b>A</b> |

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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