

Cigna Corp. (CI)

\$211.26 (As of 01/22/20)

Price Target (6-12 Months): **\$222.00**

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: F

Summary

Cigna's acquisition of Express Scripts is expected to fuel long-term growth. Its expanding international business provides diversification and shields against stiff regulations governing its businesses in the United States. The company is divesting its Group Life and Disability insurance business, which will reduce its debt level and streamline its 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 strong guidance instills investors' confidence. 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.

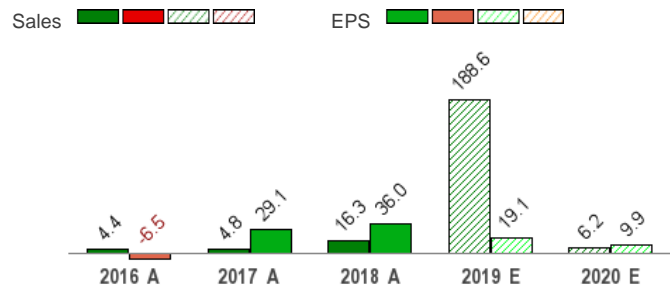
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$214.44 - \$141.95
20 Day Average Volume (sh)	1,325,531
Market Cap	\$78.9 B
YTD Price Change	3.3%
Beta	0.75
Dividend / Div Yld	\$0.04 / 0.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 34% (169 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	5.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	-0.3%
P/E TTM	13.9
P/E F1	11.4
PEG F1	0.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	35,873 E	36,606 E	37,192 E	36,933 E	147,463 E
2019	33,429 A	34,375 A	35,833 A	35,096 E	138,872 E
2018	11,415 A	11,500 A	11,445 A	13,751 A	48,111 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$4.60 E	\$4.63 E	\$4.85 E	\$4.55 E	\$18.62 E
2019	\$3.90 A	\$4.30 A	\$4.54 A	\$4.19 E	\$16.94 E
2018	\$4.11 A	\$3.89 A	\$3.84 A	\$2.46 A	\$14.22 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 01/22/2020. The reports text is as of 01/23/2020.

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."

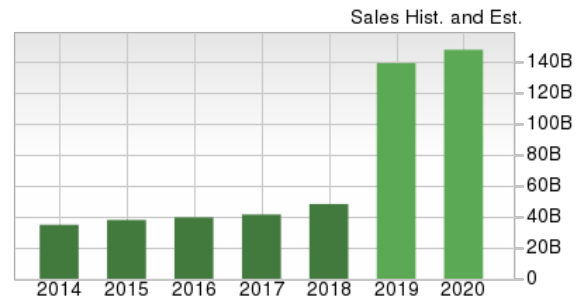
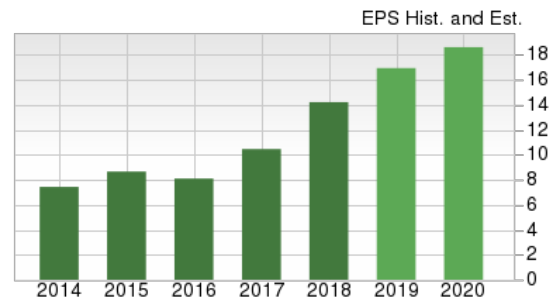
Cigna's results are now reported through the following five segments;

Integrated Medical (68% of 2018 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:

- ▲ **Bullish Guidance:** For 2019, the company expects earnings per share in the range of \$16.6-\$16.9, up from the prior range of \$16.25-\$16.65. Total revenues are expected in the range of \$136-\$137 billion (versus \$132.5-\$134.5 billion expected earlier) and medical customers are projected to grow by approximately 200,000. The increase in revenue and earnings guidance instills investors' confidence in the company.
- ▲ **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.
- ▲ **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. Total revenues are expected to be \$138 billion (versus \$136-\$137 billion expected earlier), indicating 188% growth year over year. This upside will primarily be backed by the company's acquisition of Express Scripts.
- ▲ **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. For 2019, the company expects earnings per share in the range of \$16.8-\$17 compared with the previous guidance of \$16.6-\$16.9, suggesting a 19% rise year over year.
- ▲ **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. The same was up 1.3% in the first nine months of 2019. 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 2019, the company expects total medical customers to grow by 200,000 which is lower than the addition of 291,000 in 2018.
- ▲ **Share Price Performance:** In a year's time, the stock has outperformed its industry. Its strong growth fundamentals should further support its stock price.

Cigna's differentiated business portfolio, strong global supplemental business, organizational efficiency plans along with Express Scripts acquisition should drive long term growth.

Reasons To Sell:

- ▼ **Increase in Operating Expenses:** Operating expenses increased 254% (more than the revenue growth of 235%) in the first nine months of 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 Leverage:** Post the buyout of Express Scripts, the company's leverage ratio (debt-to-total capitalization) stands at 49% (as of Sep 30, 2019), which is higher than the industry average of 31%. Such high debt levels increase financial risk. It might induce a higher interest expense (was \$1.3 billion in the first nine months of 2019, up 669% year over year), which is likely to keep the margins under pressure.
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Increase in expenses, high debt levels are some of the headwinds facing the company.

Last Earnings Report

Cigna Q3 Earnings and Revenues Beat Estimates

Cigna Corp. came up with adjusted earnings of \$4.54 per share in third-quarter 2019, surpassing the Zacks Consensus Estimate by 3.84%. Quarterly earnings were up 18% year over year.

Cigna's revenues of \$35.8 billion beat the Zacks Consensus Estimate by 5%. Revenues grew 214% year over year owing to the acquisition of Express Scripts.

Among the revenue components, pharmacy revenues were \$25.9 billion compared with \$747 million in the year-ago quarter, premiums were up 10.5% year over year to \$9.9 billion while fees increased 68% to \$2.3 billion. The growth in pharmacy revenues was backed by the acquisition of pharmacy benefit manager Express Scripts.

The SG&A expense ratio was 9.2% for third-quarter 2019, down from 23.8% in the year-ago quarter. The decline was mainly led by business mix changes resulting from the Express Scripts combination and the health insurance tax suspension.

The company's medical enrollment grew by 212,000 lives from the prior-year quarter to 17.07 million customers, driven by growth in Government, Commercial and International markets. Moreover, the acquisition of Express Scripts, completed last December, led to an increase in Pharmacy and Medicare Part D members.

Cigna's debt-to-capitalization ratio improved to 46.4% as on Sep 30, 2019, from 50.9% as of Dec 31, 2018.

2019 Guidance

For 2019, the company expects earnings per share in the range of \$16.8-\$17 compared with the previous guidance of \$16.6-\$16.9.

Total revenues are expected to be \$138 billion (versus \$136-\$137 billion expected earlier) and medical customers are projected to grow by approximately 200,000.

Medical care ratio is expected in the range of 80.8-81.2% versus previous estimate of 80.5-81.5%.

2020 Guidance

For 2020, the company projects Health Services' retention rate of 97% for the 2019 selling season for pharmacy services. Health Services' adjusted pharmacy scripts are expected to grow between 25 million and 35 million organically in 2020.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	5.08%
EPS Surprise	3.89%
Quarterly EPS	4.54
Annual EPS (TTM)	15.20

Recent News

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.

Cigna to Divest Non-Health Unit - Dec 20, 2019

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.

Cigna Expands Solutions in Colorado, Offering Medicare Advantage Plans for the First Time - Oct 14, 2019

Cigna is expanding in Colorado, offering for the first time Medicare Advantage (MA) plans in the Denver and Boulder areas. These plans will first be available to Medicare eligible customers during Medicare's Annual Election Period (AEP), which begins Oct 15 and continues through Dec 7, for plans that take effect Jan 1, 2020.

Cigna Launches New Medicare Advantage Plan in Nashville Area - Oct 11, 2019

Global health service company Cigna today announced it will launch a new Medicare Advantage (MA) plan in the Nashville metropolitan area. In addition to Cigna's existing Medicare Supplement, Part D and MA HMO plans for the region, a new MA PPO offering will first be available for Medicare's Annual Election Period (AEP). All plans will be effective on Jan 1, 2020.

Valuation

Cigna's shares are up , over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 8.8% and 11.8%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 11.26X forward 12-month price to earnings , which compares to 9.44X for the Zacks sub-industry, 14.63X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.99X and as low as 8.06X, with a 5-year median of 14.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$222 price target reflects 11.82X price to earnings.

The table below shows summary valuation data for CI

Valuation Multiples - CI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.26	9.44	14.63	19.13
	5-Year High	19.99	12.61	16.21	19.34
	5-Year Low	8.06	8.4	12.01	15.16
	5-Year Median	14.2	10.22	13.98	17.43
P/S F12M	Current	0.53	1.34	6.56	3.56
	5-Year High	1.26	1.74	6.61	3.56
	5-Year Low	0.29	0.89	5.2	2.54
	5-Year Median	0.9	1.33	6.01	3
P/B TTM	Current	1.71	1.37	2.83	4.39
	5-Year High	4.07	1.98	2.89	4.39
	5-Year Low	1.23	0.94	1.83	2.85
	5-Year Median	2.91	1.46	2.5	3.6

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (169 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	CI Neutral	X Industry	S&P 500	AIG Neutral	LGGNY Outperform	ZURVY Neutral
VGM Score	A	-	-	A	D	D
Market Cap	78.89 B	5.04 B	24.65 B	45.46 B	24.38 B	63.55 B
# of Analysts	13	2.5	13	7	2	2
Dividend Yield	0.02%	1.96%	1.77%	2.45%	2.67%	3.74%
Value Score	B	-	-	B	C	C
Cash/Price	0.06	0.21	0.04	0.56	NA	NA
EV/EBITDA	22.65	9.02	13.98	8.00	NA	NA
PEG Ratio	0.93	1.15	2.05	1.03	NA	NA
Price/Book (P/B)	1.76	1.18	3.38	0.68	2.11	2.02
Price/Cash Flow (P/CF)	18.93	10.54	13.60	7.19	10.76	13.93
P/E (F1)	11.35	11.31	19.07	10.31	8.68	14.65
Price/Sales (P/S)	0.61	1.08	2.69	0.90	NA	NA
Earnings Yield	8.81%	8.84%	5.24%	9.70%	11.54%	6.83%
Debt/Equity	0.76	0.21	0.72	0.53	NA	NA
Cash Flow (\$/share)	11.16	3.14	6.94	7.26	1.90	3.05
Growth Score	A	-	-	A	F	C
Hist. EPS Growth (3-5 yrs)	17.05%	4.22%	10.60%	-13.65%	NA	NA
Proj. EPS Growth (F1/F0)	9.89%	9.89%	7.53%	10.32%	-6.36%	11.11%
Curr. Cash Flow Growth	31.48%	8.34%	13.90%	5.26%	-2.87%	17.11%
Hist. Cash Flow Growth (3-5 yrs)	10.93%	-0.76%	9.00%	-10.95%	9.01%	-2.46%
Current Ratio	0.63	0.38	1.22	0.26	NA	NA
Debt/Capital	43.26%	17.26%	42.99%	34.33%	NA	NA
Net Margin	3.30%	6.85%	11.21%	3.56%	NA	NA
Return on Equity	12.79%	6.77%	17.16%	4.17%	NA	NA
Sales/Assets	0.84	0.23	0.55	0.10	NA	NA
Proj. Sales Growth (F1/F0)	6.19%	3.75%	4.08%	1.18%	5.00%	3.78%
Momentum Score	F	-	-	C	C	F
Daily Price Chg	-0.82%	0.22%	-0.04%	1.14%	1.69%	1.00%
1 Week Price Chg	1.07%	0.91%	2.29%	1.67%	-3.20%	1.19%
4 Week Price Chg	3.55%	0.35%	2.05%	2.59%	0.64%	3.63%
12 Week Price Chg	19.74%	2.48%	6.92%	-0.67%	20.51%	8.06%
52 Week Price Chg	7.28%	12.32%	21.50%	22.05%	20.83%	35.94%
20 Day Average Volume	1,325,531	117,376	1,518,423	3,519,728	19,513	47,417
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.21%	4.20%	-1.86%
(F1) EPS Est 12 week change	-0.49%	0.12%	-0.23%	-1.09%	7.05%	-3.17%
(Q1) EPS Est Mthly Chg	0.03%	0.00%	0.00%	-0.91%	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	B
Growth Score	A
Momentum Score	F
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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