

## Cigna Corp. (CI)

**\$195.92** (As of 05/26/20)

Price Target (6-12 Months): **\$204.00**

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: B

Momentum: A

### 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. Its strong capital position is another positive. Retaining its earnings guidance despite the COVID-19-led uncertainty boosts investor confidence. The company's strong capital position spurs investment in business and addition of shareholders' wealth via share buyback and dividend payout. Higher leverage might pose a financial threat. Also, rise in operating expenses may weigh on margins.

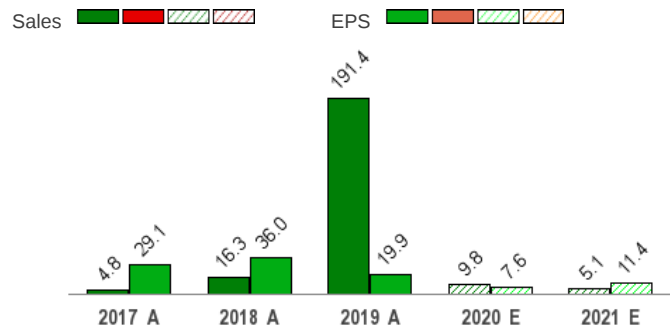
### Price, Consensus & Surprise



### Data Overview

|                            |                                        |
|----------------------------|----------------------------------------|
| 52 Week High-Low           | \$224.64 - \$118.50                    |
| 20 Day Average Volume (sh) | 1,386,344                              |
| Market Cap                 | \$72.3 B                               |
| YTD Price Change           | -4.2%                                  |
| Beta                       | 0.68                                   |
| Dividend / Div Yld         | \$0.04 / 0.0%                          |
| Industry                   | <a href="#">Insurance - Multi line</a> |
| Zacks Industry Rank        | Bottom 38% (156 out of 253)            |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 5.6%       |
| Last Sales Surprise       | 3.1%       |
| EPS F1 Est- 4 week change | 0.4%       |
| Expected Report Date      | 08/06/2020 |
| Earnings ESP              | -0.8%      |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | 39,983 E | 39,829 E | 40,828 E | 41,307 E | 161,787 E |
| 2020 | 38,392 A | 37,527 E | 38,733 E | 39,253 E | 153,904 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 | \$5.36 E | \$5.15 E | \$5.40 E | \$4.93 E | \$20.44 E |
| 2020 | \$4.69 A | \$4.84 E | \$4.66 E | \$4.23 E | \$18.34 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 | 11.0 |
| P/E F1  | 10.6 |
| PEG F1  | 0.9  |
| P/S TTM | 0.5  |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/26/2020. The reports text is as of 05/27/2020.

## 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."

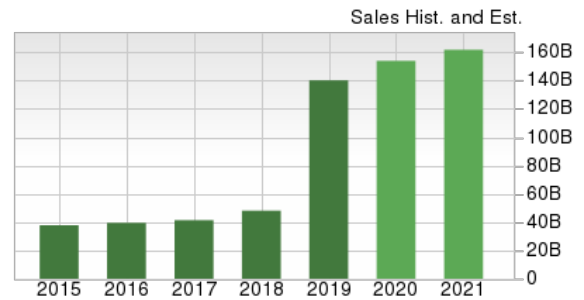
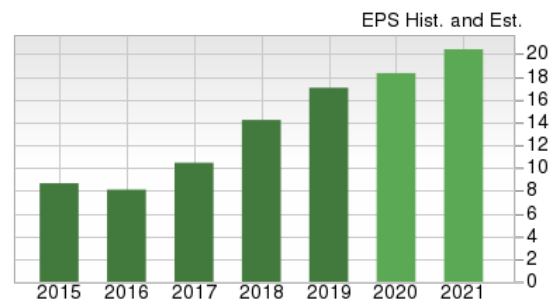
Cigna's results are now reported through the following segments;

**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 have been increasing consistently since the last several years. The same was up 15% in the first quarter 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%). This operating profitability has been maintained by control medical care cost and other operating costs. In the first quarter of 2020, 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.

▲ **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 Leverage:** Post the buyout of Express Scripts, the company's leverage ratio (debt-to-total capitalization) stands at 41.7 (as of Mar 31, 2020), higher than the industry average of 28.3. Such high debt levels increase its financial risk. Its times interest earned of 4.81X is lower than the industry average of 8.92X. The same also went down sequentially, though marginally.

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

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## Last Earnings Report

### Cigna Q1 Earnings Beat Estimates

Cigna's earnings of \$4.69 per share surpassed the Zacks Consensus Estimate by 5.6% and also grew 20.3% year over year.

Cigna's revenues of \$38.4 billion beat the Zacks Consensus Estimate by 3.1% and also inched up 15% year over year owing to the acquisition of Express Scripts.

Among the revenue components, pharmacy revenues were \$25.1 billion, almost flat year over year, premiums were up 8.7% year over year to \$10.8 billion while fees decreased 11.1% to \$2.2 billion.

The company's medical enrollment grew by 225,000 lives from the prior-year quarter to 17.218 million customers, attributable to a solid footprint in Commercial, Government and International markets.

Selling, general and administrative expense ratio was 8.9, up 80 basis points year over year on significant growth in revenues and cost-control measures.

#### Segment Details

Health Services: Adjusted revenues of \$27.2 billion were up 21% year over year, driven by growth in adjusted pharmacy script volumes including the insourcing of Integrated Medical pharmacy volumes and a strong performance in specialty pharmacy services.

Integrated Medical: Adjusted revenues of \$9.86 billion were up 7.2% year over year, driven by an increase in Medicare Advantage as well as the Select segment.

International Markets: Adjusted revenues of \$1.47 billion were up 5.5% year over year, reflecting continued business growth.

#### Capital Position

Cigna's debt-to-capitalization ratio improved to 44.7 as of Mar 31, 2020 from 45.2 as of Dec 31, 2019.

Shareholders' equity as of Mar 31, 2020 was \$45.1 billion, up 6.3% year over year.

#### 2020 Guidance Intact

The company kept its earlier-issued guidance for 2020 intact, indicating earnings per share to remain in the range of \$18-\$18.6 while adjusted revenues in the \$154-\$156 billion band.

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Quarter Ending 03/2020

| Report Date      | Apr 30, 2020 |
|------------------|--------------|
| Sales Surprise   | 3.09%        |
| EPS Surprise     | 5.63%        |
| Quarterly EPS    | 4.69         |
| Annual EPS (TTM) | 17.84        |

## 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 9.7% in the year-to-date period, but up 16.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 7.6% and 5.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 11.9% but the sector is down 11.9%.

The S&P 500 index is down 11.7% in the year-to-date period and 3.3% in the past year.

The stock is currently trading at 10.19X forward 12-month earnings, which compares to 15.84X for the Zacks sub-industry, 22.59X for the Zacks sector and 21.76X 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 13.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$204 price target reflects 10.69X 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       | 10.19 | 15.84        | 22.59  | 21.76   |
|                          | 5-Year High   | 19.99 | 20.58        | 22.59  | 21.76   |
|                          | 5-Year Low    | 6.83  | 12.48        | 15.93  | 15.23   |
|                          | 5-Year Median | 13.82 | 16.05        | 19     | 17.49   |
| 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 05/26/2020

## Industry Analysis Zacks Industry Rank: Bottom 38% (156 out of 253)



## Top Peers

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

| Industry Comparison Industry: Insurance - Multi Line |           |            |           | Industry Peers |         |         |
|------------------------------------------------------|-----------|------------|-----------|----------------|---------|---------|
|                                                      | CI        | X Industry | S&P 500   | AIG            | LGGNY   | ZURVY   |
| Zacks Recommendation (Long Term)                     | Neutral   | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                              | 3         | -          | -         | 3              | 4       | 3       |
| VGM Score                                            | A         | -          | -         | C              | A       | B       |
| Market Cap                                           | 72.29 B   | 3.12 B     | 21.18 B   | 26.71 B        | 14.66 B | 46.38 B |
| # of Analysts                                        | 13        | 2          | 14        | 6              | 2       | 2       |
| Dividend Yield                                       | 0.02%     | 2.89%      | 2.03%     | 4.13%          | 12.31%  | 5.50%   |
| Value Score                                          | A         | -          | -         | A              | A       | A       |
| Cash/Price                                           | 0.08      | 0.35       | 0.06      | 1.12           | 1.29    | NA      |
| EV/EBITDA                                            | 8.32      | 3.63       | 12.37     | 2.97           | 1.24    | NA      |
| PEG Ratio                                            | 0.87      | 1.20       | 2.88      | NA             | NA      | NA      |
| Price/Book (P/B)                                     | 1.62      | 0.83       | 2.90      | 0.44           | 1.22    | 1.48    |
| Price/Cash Flow (P/CF)                               | 7.22      | 7.22       | 11.55     | 2.97           | 6.34    | 10.17   |
| P/E (F1)                                             | 10.68     | 9.59       | 21.24     | 10.70          | 5.17    | 11.52   |
| Price/Sales (P/S)                                    | 0.47      | 0.78       | 2.24      | 0.52           | NA      | NA      |
| Earnings Yield                                       | 9.40%     | 10.07%     | 4.57%     | 9.35%          | 19.35%  | 8.68%   |
| Debt/Equity                                          | 0.71      | 0.24       | 0.76      | 0.58           | 0.54    | NA      |
| Cash Flow (\$/share)                                 | 27.12     | 3.27       | 6.96      | 10.45          | 1.94    | 3.05    |
| Growth Score                                         | B         | -          | -         | F              | A       | C       |
| Hist. EPS Growth (3-5 yrs)                           | 19.22%    | 9.02%      | 10.87%    | -1.48%         | NA      | NA      |
| Proj. EPS Growth (F1/F0)                             | 7.98%     | -6.11%     | -10.31%   | -36.89%        | 22.05%  | -2.18%  |
| Curr. Cash Flow Growth                               | 138.17%   | 9.45%      | 5.46%     | 41.46%         | 2.04%   | 17.11%  |
| Hist. Cash Flow Growth (3-5 yrs)                     | 31.41%    | 1.69%      | 8.55%     | -3.88%         | 8.60%   | -2.46%  |
| Current Ratio                                        | 0.67      | 0.48       | 1.29      | 0.27           | 3.27    | NA      |
| Debt/Capital                                         | 41.65%    | 21.55%     | 44.54%    | 36.41%         | 35.17%  | NA      |
| Net Margin                                           | 3.19%     | 4.72%      | 10.59%    | 8.59%          | NA      | NA      |
| Return on Equity                                     | 15.05%    | 6.97%      | 16.29%    | 4.31%          | NA      | NA      |
| Sales/Assets                                         | 0.99      | 0.21       | 0.55      | 0.10           | NA      | NA      |
| Proj. Sales Growth (F1/F0)                           | 10.22%    | 0.00%      | -2.34%    | -4.23%         | -88.19% | -46.45% |
| Momentum Score                                       | A         | -          | -         | C              | B       | C       |
| Daily Price Chg                                      | 3.66%     | 3.78%      | 2.82%     | 7.34%          | 6.50%   | 4.73%   |
| 1 Week Price Chg                                     | -0.60%    | 5.78%      | 4.99%     | 9.14%          | 3.18%   | 4.10%   |
| 4 Week Price Chg                                     | 3.34%     | -1.79%     | 3.55%     | 22.67%         | -2.67%  | -2.76%  |
| 12 Week Price Chg                                    | 3.52%     | -19.81%    | -4.95%    | -25.26%        | -26.51% | -23.46% |
| 52 Week Price Chg                                    | 33.74%    | -25.88%    | -3.04%    | -40.45%        | -25.35% | -4.91%  |
| 20 Day Average Volume                                | 1,386,344 | 196,254    | 2,429,758 | 6,950,256      | 42,757  | 157,306 |
| (F1) EPS Est 1 week change                           | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%   |
| (F1) EPS Est 4 week change                           | 0.44%     | -1.75%     | -2.27%    | -27.01%        | 0.00%   | -7.56%  |
| (F1) EPS Est 12 week change                          | -0.56%    | -20.27%    | -16.39%   | -37.38%        | -5.37%  | -9.27%  |
| (Q1) EPS Est Mthly Chg                               | 4.61%     | -6.13%     | -4.03%    | -27.33%        | NA      | NA      |

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## 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.

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### 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   | B |
| Momentum Score | A |
| 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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