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Jul 03, 2020

Molina Healthcare (MOH)

$182.05 (As of 07/02/20)

Price Target (6-12 Months): **$191.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/22/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: C | Momentum: D	

Summary

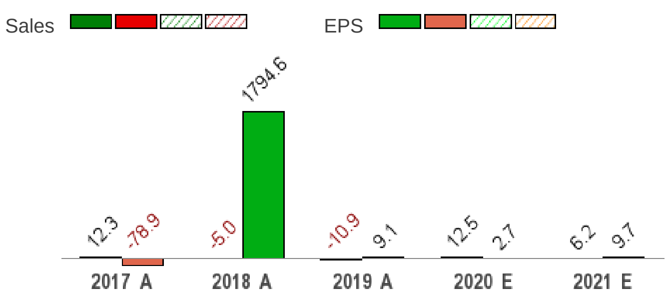
Molina Healthcare's shares have outperformed its industry year to date. The company has witnessed its 2020 and 2021 estimates move north over the past 30 days. It is poised for growth on the back of its developmental strategies, improving top line and its margin recovery. It began an enterprise-wide restructuring program to reduce expenses and enhance its overall operational efficiency. The buyout of Magellan Health is expected to boost its portfolio and add to its capabilities. The company's solid 2020 guidance should instill investor's confidence in the stock. Molina Healthcare also flaunts a solid capital position on balance sheet strength. However, its weak Marketplace business continues to bother. Its first-quarter results suffered due to high expenses.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$196.52 - $102.85
20 Day Average Volume (sh)	672,146
Market Cap	$10.8 B
YTD Price Change	34.2%
Beta	0.70
Dividend / Div Yld	$0.00 / 0.0%
Industry	[Medical - HMOs]
Zacks Industry Rank	Top 29% (74 out of 252)
Last EPS Surprise	-0.3%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	07/30/2020
Earnings ESP	33.3%
P/E TTM	15.6
P/E F1	15.3
PEG F1	1.2
P/S TTM	0.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,508 E	4,706 E	4,735 E	4,790 E	20,106 E
2020	4,549 A	4,700 E	4,814 E	4,845 E	18,931 E
2019	4,119 A	4,193 A	4,243 A	4,274 A	16,829 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$3.34 E	$3.26 E	$3.08 E	$3.05 E	$13.03 E
2020	$3.02 A	$3.92 E	$2.66 E	$2.66 E	$11.88 E
2019	$3.04 A	$3.11 A	$2.80 A	$2.73 A	$11.57 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 07/02/2020. The reports text is as of 07/03/2020.

Overview

Founded in 1980 and headquartered in Long Beach, CA, Molina Healthcare Inc. is a multi-state managed care organization participating exclusively in government-sponsored healthcare programs such as the Medicaid program and the State Children's Health Insurance Program (SCHIP), catering to low-income persons. It is a FORTUNE 500 company.

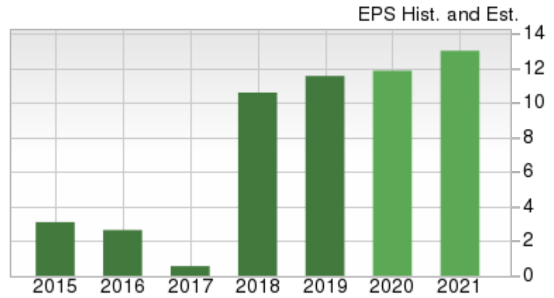
The company provides managed healthcare services under the Medicaid and Medicare programs, and through the state insurance marketplaces (the "Marketplace").

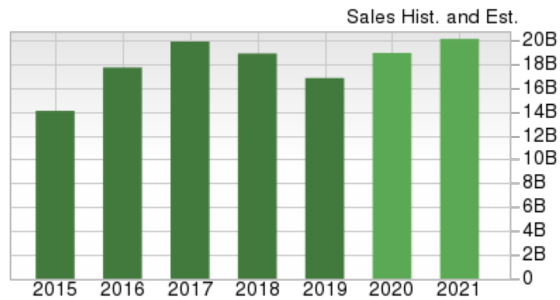
Molina Healthcare was formerly known as American Family Care Inc. until it changed its name in Mar 2000. The company currently operates in two segments: Health Plans and Other.

The company manages most of its operations through the Health Plans segment.

The Other segment mainly includes the results of the Pathways behavioral health unit, which Molina sold in the fourth quarter of 2018 apart from other corporate amounts not allocated to the segment.

As of Dec 31, 2019, the company served around 3.3 million members through its locally-operated health plans across several markets.





The health plans are locally operated by wholly owned subsidiaries of Molina, each of which is licensed as a health maintenance organization, or HMO. Molina Healthcare derives revenues primarily from premiums paid to its health plans by the relevant state Medicaid authority. The premium revenues are jointly financed by the federal government and the states.

The company also derives revenues from the federal Centers for Medicare and Medicaid Services (CMS) in connection with its Medicare services.

Reasons To Buy:

> Molina Healthcare's ability to engage in inorganic growth initiatives and capital deployment reflect an improved financial position. It solid 2019 guidance impresses.

- **Promising Top Line:** Molina Healthcare has seen consistent growth in its revenue base over the past several years. Total revenues have witnessed a five-year CAGR (2012-17) of 27.4%. Although the metric declined almost 5% and 11% year over year in 2018 and 2019, the same increased 10.4% year over year in the first quarter of 2020. Although the company has been noticing a decline in elective surgeries since the middle of March, we are hopeful that its revenue stream will be stable on the back of the restructuring initiatives and developmental strategies undertaken by the company. Management expects total revenues to grow to $3 billion within a couple of years.

- **Restructuring Initiative:** The company has been gaining from the restructuring and profitability improvement plan started back in 2017. The plan included streamlining of organizational structure to improve efficiency as well as the speed and quality of decision-making. This initiative led to a total expense decline by 13.2% and 11% in 2018 and 2019, respectively. Total operating expenses increased 11.4% year over year to $4.2 billion due to higher medical care costs, depreciation and amortization. We expect this initiative to help curb costs going forward. As a part of this initiative, the company sold its units, Pathways Health and Community Support, LLC and Molina Medicaid Solutions, which is expected to help it focus on core growth areas.

- **Membership to Rise:** Although the company's membership fell 14.2% and 12.8%, respectively, year over year in 2018 and 2019, the same inched up 0.3% in the first quarter of 2020. Management expects to witness a substantial increase in combined Medicaid and Marketplace enrolment. It is even affirmative about exceeding the revenue forecast on the back of higher membership.

- **Solid 2020 Guidance:** The company reaffirmed its initial guidance despite the COVID-19 effect. Total revenues are expected to be $18.3 billion, suggesting an 8.7% increase from the year-ago reported number. The company anticipates earnings in the range of $11.20-$11.70 per share.

- **Capital Deployment:** On the back of its balance sheet strength, the company has been deploying capital to enhance shareholder value. Its board of directors authorized a share repurchase plan of up to $500 million. Its operating cash flow also improved significantly in 2019 on premium receipt timing and government payments. Molina Healthcare completed its $500-million share repurchase program. In the first quarter, it bought back shares worth $450 million. Its impressive capital position, which assists in efficient capital management, should attract investors' attention.

- **Strong ROE**: Its return on equity — a profitability measure — is 40.9%, better than the industry average of 22.5%. The metric reflects the company's effectiveness in utilizing shareholders' money, which is impressive to investors.

- **Acquisition of Magellan Health's Line:** The company entered into an agreement to acquire the Magellan Complete Care (MCC) line of business of Magellan Health, Inc. for a total deal value of $820 million. The transaction, expected to close in the first quarter of 2020, will serve more than 3.6 million members under government-sponsored healthcare programs across 18 states. With this addition, the company is expected to build a better portfolio and gain an enhanced geographic diversity, etc. This will allow it to launch Medicare and Marketplace in new Medicaid geographies. The deal is expected to be accretive by around 50-75 cents in cash earnings per share in the first year of the company's ownership and by at least $1.75 in cash earnings per share in its second year.

- **Capital Position:** The company's solid balance sheet impresses. It total debt accounts for 49.6% (compared with 43.1% sequentially) of its capital, comparing favourably with the industry's average of 38.8%. Its times interest earned stands at 12.4X, higher than the industry average of 10.3X. Moreover, as of Mar 31, 2020, the company had cash and cash equivalents worth $2.3 billion, higher than its long-term debt of $1.5 billion. Thus, its solvency level is a positive.

- **Share Price Movement:** Shares of Molina Healthcare have outperformed its industry year to date. Over the past 30 days, it witnessed its 2020 and 2021 estimates move up 0.2% and 0.3%, respectively. Moreover, its solid fundamentals, such as the growing top line and the restructuring plan are likely to help the stock consistently perform well going forward.

Reasons To Sell:

- **Weak Marketplace Performance:** Due to disappointing performance of the Marketplace business, the company exited certain unprofitable exchanges. This, in turn, caused a membership decline of 14.2% and 24.3% from the business line in 2018 and 2019, respectively. In 2019, premium revenues from this business fell 21.7% year over year. In the first quarter of 2020, membership from this business slid around 1% year over year while premium revenues decreased 3.3% year over year. Contribution from this business line remains a concern.

High medical care costs, weak Marketplace platform and declining membership are headwinds for the company. High financial leverage also bothers.

- **Overvalued:** The company's valuation looks expensive at the moment. Its current price to book ratio stands at 6.5x, higher than the industry's average of 3.4x.

Last Earnings Report

Molina Healthcare Q1 Earnings Miss Mark, Slip Y/Y

Quarter Ending	03/2020
Report Date	Apr 30, 2020
Sales Surprise	2.74%
EPS Surprise	-0.33%
Quarterly EPS	3.02
Annual EPS (TTM)	11.66

Molina Healthcare's first-quarter 2020 adjusted earnings of $3.02 per share missed the Zacks Consensus Estimate by 0.3% due to escalating expenses. Moreover, the bottom line slid 0.7% year over year.

However, total revenues of $4.5 billion surpassed the consensus mark by 2.7%. The top line rose 10.4% year over year on the back of increased membership.

Quarterly Operational Update

The company's net income totaled $178 million, down 10.1% year over year.

Total operating expenses increased 11.4% year over year to $4.2 billion.
This deterioration was due to higher medical care costs, depreciation and amortization.

Molina Healthcare's interest expenses dropped 8.7% year over year to $21 million.

Total membership by Government Program at the end of first quarter stands at 3.4 billion, up 0.3% year over year.

Financial Update

As of Mar 31, 2020, Molina Healthcare's cash and cash equivalents decreased 3.5% to $2.3 billion from the level at 2019 end.

Total assets rose 5% from the level at 2019 end to $7.1 billion.

The company's shareholder equity declined nearly 16% from the figure at 2019 end to $1.6 billion.

For the first quarter, net cash flow from operating activities stands at $136 million, down 45.4% year over year.

Share Repurchase Update

Molina Healthcare completed its $500-million share repurchase program.

In the first quarter, it bought back shares worth $450 million.

2020 Guidance

Following first-quarter results, the company reaffirmed its full-year outlook.

It now expects earnings in the range of $11.20-$11.70 per share.

For the current year, the company anticipates total revenues to be $18.3 billion.

Recent News

Molina Healthcare Acquires to Boost Medicaid Business – Jul 1, 2020

Molina Healthcare acquired certain assets of YourCare Health Plan, Inc., a not-for-profit unit of Monroe Plan for Medical Care.

As part of this deal, the company will serve around 47,000 Medicaid members across seven counties in the Western New York and Finger Lakes regions. Monroe and its unit MP CareSolutions will provide certain post-closing management and administrative services related to member care and provider relations. The buyout will help the company cater better healthcare to members.

Molina Healthcare's New Deal to Boost Its Medicaid Business – May 30, 2020

Molina Healthcare unveiled that its Kentucky health plan subsidiary was awarded a new Medicaid managed care contract. The new agreement is likely to benefit enrollees of the company's Medicaid programs in Kentucky.

Per the new terms, the deal is likely to come into force from Jan 1 of the next year. The agreement will expire through Dec 31, 2024, and it even holds the potential to get six contract extensions of two years each.

Molina Healthcare to Waive Costs Related to COVID-19 Treatment – Apr 3, 2020

Molina Healthcare, Inc. decided to remove certain 'out-of-pocket' expenses required for treatment of its clients, who are intensely affected by the coronavirus outbreak. This initiative will provide coverage to those members who come under the company's Medicare, Medicaid and Marketplace businesses.

Valuation

Molina Healthcare shares are up 34.2% in the year-to-date period and 28% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 5% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.5% and 3.4%, respectively.

The S&P 500 index is down 2.3% in the year-to-date period and up 7% in the past year.

The stock is currently trading at 6.54x trailing 12-month tangible book value, which compares to 3.46x for the Zacks sub-industry, 4.3x for the Zacks sector and 3.47x for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.72x and as low as 1.47x, with a 5-year median of 3.17x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $191 price target reflects 6.86x tangible book value.

Valuation Multiples - MOH

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	6.54	3.46	4.3	3.47
	5-Year High	6.72	4.07	5.06	3.47
	5-Year Low	1.47	2.3	2.93	2.53
	5-Year Median	3.17	3.19	4.28	3.02
P/S F12M	Current	0.55	0.76	2.79	3.47
	5-Year High	0.59	0.85	3.74	3.47
	5-Year Low	0.12	0.48	2.21	2.54
	5-Year Median	0.26	0.69	2.9	3.01

As of 07/02/2020

Industry Analysis **Zacks Industry Rank:** Top 29% (74 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Anthem, Inc. **(ANTM)**	Neutral	3
Cigna Corporation **(CI)**	Neutral	2
Centene Corporation **(CNC)**	Neutral	2
Humana Inc. **(HUM)**	Neutral	3
The Joint Corp. **(JYNT)**	Neutral	4
Select Medical Holdings Corporation **(SEM)**	Neutral	3
UnitedHealth Group Incorporated **(UNH)**	Neutral	3
Magellan Health, Inc. **(MGLN)**	Underperform	3

Industry Comparison Industry: Medical - Hmos

Industry Peers

	MOH	X Industry	S&P 500	JYNT	MGLN	SEM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	B	-	-	B	A	B
Market Cap	10.78 B	1.88 B	21.98 B	206.77 M	1.82 B	1.94 B
# of Analysts	8	7	14	2	3	2
Dividend Yield	0.00%	0.00%	1.91%	0.00%	0.00%	0.00%
Value Score	A	-	-	F	A	B
Cash/Price	0.44	0.28	0.07	0.06	0.43	0.04
EV/EBITDA	7.14	8.40	12.74	39.81	7.00	9.10
PEG Ratio	1.23	1.30	2.89	NA	1.30	1.09
Price/Book (P/B)	6.54	2.06	2.98	29.85	1.27	1.99
Price/Cash Flow (P/CF)	13.64	10.93	11.75	39.36	8.02	5.04
P/E (F1)	15.32	16.42	21.41	211.86	23.52	16.42
Price/Sales (P/S)	0.62	0.62	2.30	4.02	0.25	0.35
Earnings Yield	6.53%	5.77%	4.42%	0.47%	4.25%	6.09%
Debt/Equity	1.11	0.60	0.76	2.02	0.45	4.53
Cash Flow ($/share)	13.35	6.68	6.94	0.38	9.10	2.87
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	49.59%	23.51%	10.93%	NA	0.94%	8.16%
Proj. EPS Growth (F1/F0)	2.68%	4.47%	-9.56%	-69.57%	-16.80%	-29.03%
Curr. Cash Flow Growth	-7.00%	14.42%	5.51%	142.70%	14.08%	10.32%
Hist. Cash Flow Growth (3-5 yrs)	30.21%	13.62%	8.62%	56.02%	3.37%	14.27%
Current Ratio	1.77	1.36	1.30	1.15	1.75	1.18
Debt/Capital	52.56%	38.01%	44.46%	66.93%	31.15%	83.78%
Net Margin	4.15%	3.86%	10.62%	6.20%	1.02%	2.90%
Return on Equity	40.87%	17.56%	15.75%	66.44%	8.02%	18.74%
Sales/Assets	2.53	1.40	0.55	1.22	2.30	0.77
Proj. Sales Growth (F1/F0)	12.41%	9.65%	-2.54%	2.23%	-30.22%	-3.24%
Momentum Score	D	-	-	A	F	D
Daily Price Chg	1.64%	0.00%	0.47%	-1.07%	0.00%	-0.55%
1 Week Price Chg	-5.93%	-1.96%	-3.90%	-1.21%	-1.20%	-4.42%
4 Week Price Chg	4.88%	0.00%	-3.77%	1.99%	-0.07%	-15.60%
12 Week Price Chg	18.77%	12.02%	8.02%	29.41%	36.19%	-12.42%
52 Week Price Chg	27.73%	-6.48%	-7.59%	-22.11%	-0.57%	-7.37%
20 Day Average Volume	672,146	444,941	2,649,865	119,674	178,549	804,917
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	75.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.21%	0.07%	0.00%	75.00%	0.00%	-9.28%
(F1) EPS Est 12 week change	0.99%	-1.15%	-9.53%	-68.18%	-17.90%	-35.77%
(Q1) EPS Est Mthly Chg	0.00%	-1.21%	0.00%	0.00%	0.00%	0.00%

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	C
Momentum Score	D
VGM Score	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.

Disclosures

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