

Molina Healthcare (MOH)

\$143.78 (As of 01/08/20)

Price Target (6-12 Months): **\$151.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: C

Summary

Molina Healthcare 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 company's solid 2019 guidance should instill investor's confidence in the stock. Molina Healthcare has also been selling its units to focus on its core growth areas. Its shares have underperformed its industry in a year's time. The company's shares have witnessed its 2019 earnings estimate move north over the past 60 days. However, rising medical care costs along with dependence on debt financing has been draining its bottom line. Poor performance at its Marketplace business continues to bother. Declining membership due to loss of contracts is another concern.

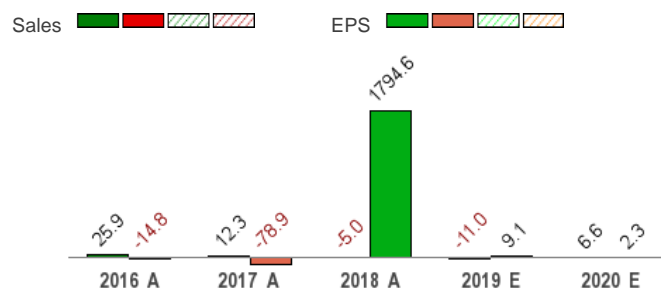
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$159.00 - \$106.50
20 Day Average Volume (sh)	481,123
Market Cap	\$9.0 B
YTD Price Change	6.0%
Beta	1.15
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Medical - HMOs</u>
Zacks Industry Rank	Bottom 32% (172 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/10/2020
Earnings ESP	0.0%
P/E TTM	11.2
P/E F1	12.1
PEG F1	1.0
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,432 E	4,580 E	4,520 E	4,500 E	17,907 E
2019	4,119 A	4,193 A	4,243 A	4,272 E	16,805 E
2018	4,646 A	4,883 A	4,697 A	4,664 A	18,890 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.28 E	\$3.10 E	\$2.91 E	\$2.60 E	\$11.84 E
2019	\$3.04 A	\$3.11 A	\$2.80 A	\$2.60 E	\$11.57 E
2018	\$1.71 A	\$2.25 A	\$2.72 A	\$3.88 A	\$10.61 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 01/08/2020. The reports text is as of 01/09/2020.

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.

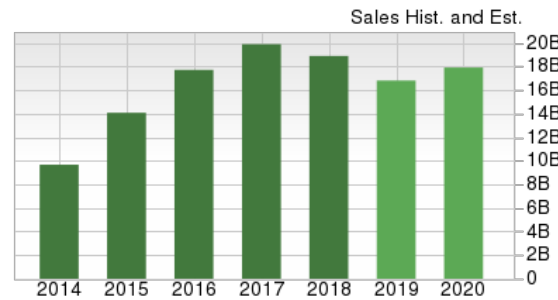
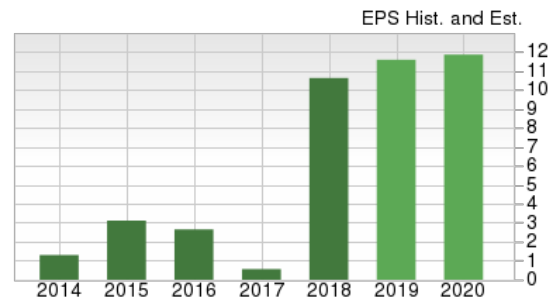
Molina Healthcare was formerly known as American Family Care Inc. until it changed its name in Mar 2000. The company currently operates in two segments: Health Plans and Other.

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, 2018, the company served around 3.8 million members through its locally-operated health plans across 14 states and the Commonwealth of Puerto Rico. Its footprint includes the five largest Medicaid markets, namely California, Florida, New York, Ohio, and Texas.

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:

- ▲ **Share Price Movement:** Shares of Molina Healthcare have underperformed its industry's gain in a year's time. The company has witnessed its 2019 earnings estimate move north by 0.2% over the past 60 days. Solid fundamentals, such as the growing top line and the restructuring plan are likely going to help the stock bounce back going forward.
- ▲ **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 11.7% year over year in 2018 and the first nine months of 2019, the company's solid fundamentals, such as premium revenues would likely help the same grow going forward. Given the restructuring initiatives and developmental strategies, we expect revenues to continue rising going forward. The company estimates 10-12% revenue growth over the long term.
- ▲ **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 has resulted in a total expense decline by 13.2% and 12.3% in 2018 and the first nine months of 2019, respectively. 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.
- ▲ **Solid 2019 Guidance:** Following third-quarter results, the company hiked its 2019 outlook. It now expects its earnings in the range of \$11.30-\$11.55, up from the earlier guidance of \$11.20-\$11.50 per share. This should instill investor's confidence in the stock. In the fourth quarter of 2019, the company expects its earnings in the band of \$2.50-\$2.75 per share.
- ▲ **Strong ROE:** Its return on equity — a profitability measure — is 49.1%, better than the industry average of 23.4%. The metric reflects the company's effectiveness in utilizing shareholders' money, which is impressive to the investors.

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

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 25% from the business line in 2018 and the first nine months of 2019, respectively. This will dent the top line to some extent. The company has projected its 2019 Marketplace enrollment to decline by 2,70,000 members due to attrition. The company expects Marketplace revenues to decrease in 2019.

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

▼ **Membership to Decline:** Although its membership has been growing consistently over the past few years through the creation of health plans and development of the existing ones, membership in 2018 and during the first nine months of 2019 fell 14.2% and 16.3%, respectively, year over year. The company expects its 2019 Marketplace end-of-year enrollment to decline to around 270,000 members due to attrition. Moreover, the company's Medicaid membership suffered due to loss of contracts in Florida and New Mexico during late 2018 and early 2019, which remains a concern.

▼ **High Financial Leverage:** Molina Healthcare's rising debt level has led to a rise in interest expenses. On average, long-term debt rose at 27% rate from 2012 to 2017. Although the metric declined 22.6% in 2018, it again increased 21.5% in the first nine months of 2019 compared with the 2018-end level. Its debt-to-equity ratio stands at 69%, higher than its industry's average of 65.8%. The company's high leverage raises financial risk.

Last Earnings Report

Molina Healthcare's Q3 Earnings Surpass, Increase Y/Y

Molina Healthcare's third-quarter 2019 adjusted earnings of \$2.80 per share surpassed the Zacks Consensus Estimate by 3.3%. Moreover, the bottom line improved 2.9% year over year, mainly owing to lower expenses.

Also, for the quarter under review, total revenues of \$4.2 billion came ahead of the Zacks Consensus Estimate by 2.9%. However, the top line declined 9.7% year over year, mainly due to lower Medicaid membership.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	2.92%
EPS Surprise	3.32%
Quarterly EPS	2.80
Annual EPS (TTM)	12.83

Quarterly Operational Update

The company's net income totaled \$175 million, down 11.2% year over year.

Total operating expenses decreased about 10.2% year over year to \$3.9 billion. This improvement was attributable to lower medical care costs and no health insurer fees as well as cost of service revenues.

For the third quarter, medical care cost was down 7% year over year to nearly \$3.5 billion.

Molina Healthcare's interest expenses dropped 15.4% year over year to \$22 million owing to constant repayment of convertible notes.

Total membership by Government Program for 2019 stands at 3.3 billion, down 16.3% year over year.

During the third quarter, Molina Healthcare received \$430 million of dividends from regulated health plan subsidiaries.

Financial Update

As of Sep 30, 2019, Molina Healthcare's cash and cash equivalents saw a reduction of 5.2% to \$2.7 billion from the level at 2018 end.

Total assets fell 6.3% from 2018 end to \$6.7 billion.

The company's shareholder equity improved nearly 11.2% from the figure at 2018 end to \$1.8 billion.

For the first nine months of 2019, net cash outflow from operating activities stands at \$398 million.

2019 Guidance

Following third-quarter results, the company hiked its 2019 outlook. It now expects earnings in the range of \$11.30-\$11.55 per share, indicating a rise from the prior estimate of \$11.20-\$11.50.

Recent News

Molina Healthcare to Acquire NextLevel — Jan 6, 2020

Molina Healthcare has entered into a definitive agreement to purchase all the capital stocks of NextLevel Health Partners, Inc., a Medicaid managed care organization. This all-cash deal of around \$50 million is subject to closing conditions. The transaction is expected to be completed in early 2020.

Molina Healthcare Announces New Share Repurchase Plan — Dec 13, 2019

Molina Healthcare's board of directors recently authorized a share repurchase plan worth up to \$500 million of its outstanding common shares, which will extend through Dec 31, 2021.

Molina Healthcare Wins Kentucky Medicaid Managed Care Deal — Dec 2, 2019

Molina Healthcare announced that its Kentucky health plan subsidiary was awarded a new five-year Kentucky Medicaid managed care contract.

Molina Healthcare to Expand Existence in New York — Oct 16, 2019

Molina Healthcare recently announced its agreement to purchase certain assets of YourCare Health Plan, Inc., a not-for-profit unit of Monroe Plan for Medical Care. Through this deal, Molina will assume the right to cater to around 46,000 Medicaid members across seven counties in the Western New York and Finger Lakes regions. The \$40-million worth acquisition, subject to closing conditions, will be funded via cash.

Valuation

Molina Healthcare shares are up 8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 19% and 4%, respectively.

The S&P 500 index is up 24% in the past year.

The stock is currently trading at 4.92X trailing 12-month tangible book value, which compares to 3.73X for the Zacks sub-industry, 4.47X for the Zacks sector and 4.42X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.92X and as low as 1.47X, with a 5-year median of 2.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$151 price target reflects 5.16X tangible book value.

The table below shows summary valuation data for MOH

Valuation Multiples - MOH					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	4.92	3.73	4.47	4.42
	5-Year High	5.92	4.09	5.01	4.45
	5-Year Low	1.47	2.44	3.42	2.85
	5-Year Median	2.98	3.1	4.26	3.6
P/S F12M	Current	0.5	0.8	2.8	3.47
	5-Year High	0.57	0.87	3.8	3.47
	5-Year Low	0.12	0.48	2.42	2.54
	5-Year Median	0.22	0.66	2.94	3

As of 01/08/2019

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 254)



Top Peers

WellCare Health Plans, Inc. (WCG)	Outperform
Anthem, Inc. (ANTM)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
The Joint Corp. (JYNT)	Neutral
Select Medical Holdings Corporation (SEM)	Neutral
UnitedHealth Group Incorporated (UNH)	Neutral
Magellan Health, Inc. (MGLN)	Underperform

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	MOH Neutral	X Industry	S&P 500	MGLN Underperform	SEM Neutral	WCG Outperform
VGM Score	A	-	-	A	A	B
Market Cap	9.02 B	2.47 B	23.84 B	1.85 B	3.08 B	16.90 B
# of Analysts	8	4	13	3	2	7
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.53	0.28	0.04	0.38	0.04	0.22
EV/EBITDA	4.88	10.98	13.88	8.63	10.98	15.91
PEG Ratio	0.98	1.25	2.02	0.70	1.21	1.33
Price/Book (P/B)	4.92	3.46	3.33	1.36	3.44	3.48
Price/Cash Flow (P/CF)	10.22	14.39	13.76	9.40	8.90	23.91
P/E (F1)	12.25	17.01	18.76	16.09	17.01	19.65
Price/Sales (P/S)	0.52	0.61	2.63	0.26	0.58	0.63
Earnings Yield	8.23%	5.72%	5.32%	6.21%	5.88%	5.09%
Debt/Equity	0.80	0.60	0.72	0.51	4.61	0.42
Cash Flow (\$/share)	14.07	6.35	6.94	8.05	2.58	14.04
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	46.35%	23.12%	10.56%	-1.22%	3.97%	53.28%
Proj. EPS Growth (F1/F0)	2.33%	9.34%	7.46%	35.80%	21.08%	8.93%
Curr. Cash Flow Growth	319.37%	16.31%	14.83%	-23.15%	16.18%	39.40%
Hist. Cash Flow Growth (3-5 yrs)	38.83%	14.42%	9.00%	-1.10%	12.24%	23.15%
Current Ratio	1.78	1.16	1.23	1.70	1.21	1.16
Debt/Capital	44.57%	37.53%	42.99%	33.78%	84.99%	29.47%
Net Margin	4.47%	3.34%	11.08%	0.10%	2.62%	2.34%
Return on Equity	49.14%	15.97%	17.16%	3.21%	15.97%	17.00%
Sales/Assets	2.45	1.77	0.55	2.35	0.78	2.07
Proj. Sales Growth (F1/F0)	6.56%	8.91%	4.16%	3.56%	4.52%	16.01%
Momentum Score	C	-	-	A	A	C
Daily Price Chg	3.25%	1.73%	0.39%	1.34%	0.66%	1.34%
1 Week Price Chg	-2.62%	-1.36%	-0.30%	-3.09%	0.91%	-2.42%
4 Week Price Chg	12.47%	0.33%	2.38%	-3.32%	0.66%	6.17%
12 Week Price Chg	21.85%	22.76%	6.40%	23.68%	37.40%	25.01%
52 Week Price Chg	10.10%	9.49%	22.97%	24.06%	55.56%	37.51%
20 Day Average Volume	481,123	279,165	1,610,101	125,247	621,483	344,013
(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%	0.00%	0.00%	0.57%
(F1) EPS Est 12 week change	-1.23%	-1.04%	-0.50%	-6.37%	7.71%	3.21%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	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	C
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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