Cigna Corporation (CI)

Updated February 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$221	**5 Year CAGR Estimate:**	17.5%	**Market Cap:**	$73 billion
Fair Value Price:	$291	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	3/8/2022
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.7%	**Dividend Payment Date:**	3/24/2022
Dividend Yield:	2.0%	**5 Year Price Target**	$469	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	12%

Overview & Current Events

Cigna is a leading provider of insurance products and services. The company's products include dental, medical, disability and life insurance that it provides through employer-sponsored, government-sponsored and individual coverage plans. Cigna operates four business segments, including Evernorth, which provides pharmacy services and benefit management, U.S. Medical, which provides commercial and government health insurance, International Markets and Group Disability. Evernorth contributes 70% of annual revenues while U.S. Medical accounts for 24%. Cigna has annual revenues of ~$180 billion.

Cigna reported fourth quarter and full year 2022 earnings results on 2/7/2022. For the quarter, revenue grew 9.6% to $45.7 billion, beating estimates by $1.7 billion. Adjusted earnings-per-share of $4.77 compared to adjusted earnings-per-share of $3.51 in the prior year and was $0.06 better than expected. For the year, revenue improved 8.6% to $174.1 billion while adjusted earnings-per-share of $20.47 compared to adjusted earnings-per-share of $18.45 in the prior year. Full year earnings-per-share was also ahead of company guidance of $20.35.

Total pharmacy customers grew 8.5% to 107.3 million. Total medical customers grew 2.6% year-over-year to 17.1 million and was marginally higher quarter-over-quarter. Revenue for the Evernorth segment, which is the largest within the company, grew 15% to $35.1 billion. U.S. Medical revenues were up 13% to $11.2 billion.

Cigna provided an outlook for 2022 as well, expecting revenue of at least $177 billion for the year. The company also guided towards adjusted earnings-per-share of at least $22.40. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.99	$6.78	$7.43	$8.66	$8.10	$10.46	$14.22	$17.05	$18.45	$20.47	***$22.40***	***$36.08***
DPS	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$4.00	***$4.48***	***$5.72***
Shares[1]	285	279	264	257	257	244	381	373	355	327	***325***	***310***

Earnings-per-share have a compound annual growth rate of 13.1% for the 2012 through 2021 period of time. An increase in the share count during this time hides the fact that net profit has actually increased at a rate of almost 17% per year. Cigna's growth rate has actually accelerated in recent years, as earnings-per-share have a compound annual growth rate of 14.4% since 2017. One reason that earnings have a CAGR in the double-digit range is that the need for pharmacy services and health care plans will increase as more people age. Cigna's merger with Express Scripts, one of the top pharmacy benefit managers in the market, in 2018 should also provide business tailwinds. In addition, Cigna has an ambitious goal to reduce its health care costs, which, overall, have risen much higher than inflation. We have lowered our targeted earnings-per-share growth rate to 10% from 15% through 2027 as some of the medium-term gains have been related to tax reform. Still, we find Cigna's business model very attractive.

Cigna's dividend had never been a priority for the company. After cutting its dividend by 20% in 2009, the company has paid the same amount every year up until 2020. It should be noted that Cigna had typically paid an annual dividend in April of each year. That all changed when the company declared a $1.00 quarterly dividend for the 3/25/2021 payment

[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

date. The company followed that up with a 12% increase for the 3/24/2022 payment date. We now anticipate dividend growth of 5% annually through 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.8	10.6	12.1	15.5	16.4	16.3	13.3	10.1	10.2	11.2	***9.9***	***13.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	1.7%	***2.0%***	***1.2%***

Shares of Cigna have decreased $5, or 2.2%, since our 11/4/2021 report. The stock has an average price-to-earnings ratio of 12.1 over the last decade. Currently, the stock is valued at just under 10 times earnings estimates for the year. Price-to-earnings ratios were likely lower during the early portions of the past decade due to market concerns over how health care plans would do. Those fears appear to have abated somewhat. Reaching our 2027 target multiple of 13 times earnings would add 5.7% to annual returns over the next five years.

Cigna's dividend has largely not played a role in the company's total returns. That has changed recently as Cigna's stock now offers a yield that is superior to the average yield of the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	1%	1%	1%	0%	0%	0%	0%	0%	0%	20%	***20%***	***16%***

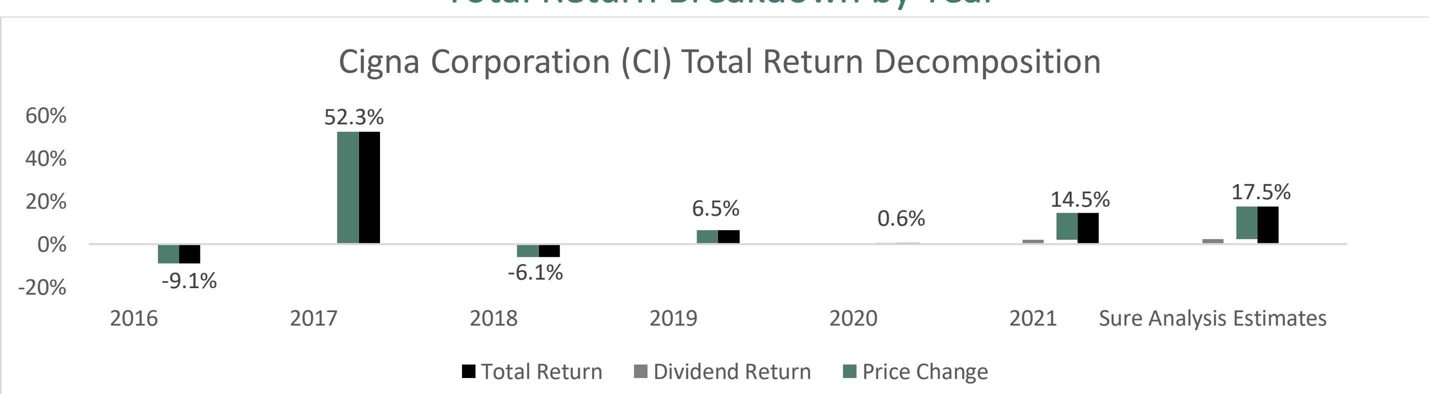
Cigna happens to operate in an industry that tends to hold up well during recessionary times as health insurance and pharmacy businesses are still in demand. Earnings-per-share fell from $3.96 in 2007 to $3.42 in 2008 (a 13.6% decrease), but rebounded to make a new high in 2009. Cigna has seen earnings-per-share grow each year thereafter outside of 2016.

We feel that Cigna has some immense competitive advantages. The company is one of the largest names in its industry, giving it a size and scale that is hard to match. Cigna's acquisition of Express Scripts appears to have been a solid move, strengthening the company's presence in its pharmacy business. Perhaps most important, an aging demographic will need increased pharmacy and medical services, giving Cigna an incredibly large pool of potential customers.

Final Thoughts & Recommendation

Cigna is now expected to produce total returns of 17.5% through 2027, down from our prior estimate of 19.6%. Our projected return stems from a 10% earnings growth rate, a starting yield of 2.0%, and a mid-single-digit contribution from multiple expansion. We reiterate our buy rating on shares of Cigna and again note that the stock has one of the highest expected returns in our coverage universe.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	21865	29119	32380	34914	37876	40007	42043	48569	153743	160577
SG&A Exp.						9790	10030	11934	14053	14072
Depr. & Amor.	345	560	597	588	585	610	566	695	3651	2802
Net Profit	1260	1623	1476	2102	2094	1867	2237	2637	5104	8458
Net Margin	5.8%	5.6%	4.6%	6.0%	5.5%	4.7%	5.3%	5.4%	3.3%	5.3%
Free Cash Flow	1069	1942	192	1685	2423	3565	3615	3242	8435	9256
Income Tax	615	853	698	1210	1250	1136	1374	935	1450	2379

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	50697	53734	54336	55870	57088	59360	61759	153226	155774	155451
Cash & Equivalents	4690	2978	2795	1420	1968	3185	2972	3855	4619	10182
Acc. Receivable	7614	8033	9290	9837	10507	9555	8667	15704	16003	17199
Goodwill & Int.	3534	7061	6931	6698	6587	6404	6509	83508	81164	79827
Total Liabilities	42703	43965	43755	45081	45044	45633	48048	112191	110430	105123
Accounts Payable	7932	8523	7506	8444	8848	8946	489	15068	15544	18825
Long-Term Debt	5094	5187	5247	5126	5169	5032	5439	42478	37407	32919
Total Equity	7994	9769	10567	10774	12035	13723	13711	41028	45338	50321
LTD/E Ratio	0.64	0.53	0.50	0.48	0.43	0.37	0.40	1.04	0.83	0.65

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.6%	3.1%	2.7%	3.8%	3.7%	3.2%	3.7%	2.5%	3.3%	5.4%
Return on Equity	17.2%	18.3%	14.5%	19.7%	18.4%	14.5%	16.3%	9.6%	11.8%	17.7%
ROIC	11.2%	11.6%	9.6%	13.2%	12.6%	10.4%	11.8%	5.1%	6.1%	10.2%
Shares Out.	271	285	279	264	257	257	244	381	373	355
Revenue/Share	79.73	100.57	113.74	129.98	145.35	154.08	164.83	196.91	408.98	439.96
FCF/Share	3.90	6.71	0.67	6.27	9.30	13.73	14.17	13.14	22.44	25.36

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.