



Humana Inc. (HUM)

Updated November 3rd, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	\$557	5 Year CAGR Estimate:	10.9%	Market Cap:	\$71 B
Fair Value Price:	\$475	5 Year Growth Estimate:	14.0%	Ex-Dividend Date¹:	12/29/22
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date¹:	01/27/23
Dividend Yield:	0.6%	5 Year Price Target	\$915	Years Of Dividend Growth:	11
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Humana is one of the largest private health insurers in the U.S. with a focus on administering Medicare Advantage plans. The firm has built a niche specializing in government-sponsored programs, with nearly all its medical membership stemming from individual and group Medicare Advantage, Medicaid, and the military's Tricare program. At the end of 2021, the company had approximately 17 million members in medical benefit plans, as well as approximately 5 million members in specialty products. In 2021, 83% of premiums and services revenue were from contracts with the federal government. The company's \$71 billion market cap makes it the fifth-largest health insurer in the world and has about 95,500 employees.

On November 2nd, 2022, Humana released its third quarter 2022 results for the period ending September 30th, 2022. For the quarter the company reported revenues of \$22,799 million and adjusted earnings-per-share of \$6.88 which compared to revenue of \$20,697 million and adjusted earnings-per-share of \$4.83 in the third quarter of 2021. The third quarter 2022 figures showed higher revenues were supported by membership growth and higher Medicare Advantage premiums per member.

The company also increased its 2022 earnings guidance for the third time this year. Adjusted EPS is now expected to be \$25, up from the previous estimate of \$24.75, which is an increase of approximately 21% compared to the 2021 adjusted EPS of \$20.64. Management provided a revenue outlook for this year within the range of \$91.6-\$93.2 billion, which implies a 12% increase from the \$83.1 billion in 2021. Furthermore, Humana intends to serve Medicare patients in around 250 clinics by end of 2022 and add 30-50 facilities annually through the next three years. Via a joint venture with the private-equity firm Welsh, Carson, Anderson & Stowe \$1.2 billion will be invested in this expansion plan. Humana also targets adjusted earnings of \$37 per share for 2025, seeing a CAGR of 14% from the 2022 EPS guidance.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$7.65	\$8.72	\$7.51	\$7.75	\$9.57	\$11.71	\$14.55	\$17.87	\$18.75	\$20.64	\$25.00	\$48.14
DPS	\$1.03	\$1.07	\$1.11	\$1.15	\$1.16	\$1.60	\$2.00	\$2.20	\$2.50	\$2.73	\$3.15	\$4.85
Shares²	158	154	150	148	149	138	136	132	129	129	128	127

Humana has grown earnings by 11.7% per year over the past nine years and 16.4% over the past five years. We expect earnings to increase by 14% per year for the next five years.

The company has been able to increase its yearly dividend payout for 11 consecutive years. Over the last five years, the average annual dividend growth rate was 19.5%, meaning that the dividend payout of Humana has doubled over this period. In February 2022, the quarterly dividend increased by 12.5% from \$0.70 to \$0.7875 per share. Furthermore, Humana announced a \$1 billion accelerated share buyback on November 3rd, 2022.

¹ Estimated date.

² 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	10.2	9.8	16.3	22.7	18.7	19.7	20.7	16.0	20.3	20.6	22.3	19.0
Avg. Yld.	1.9%	1.3%	0.9%	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%	0.6%	0.6%	0.5%

During the past decade shares of Humana have traded with an average price-to-earnings ratio of about 17.5 times earnings and today, it stands at 22.3. We are using 19 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 0.6% which is just below the average yield over the past decade of 0.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	13%	12%	15%	15%	12%	14%	14%	12%	13%	13%	13%	10%

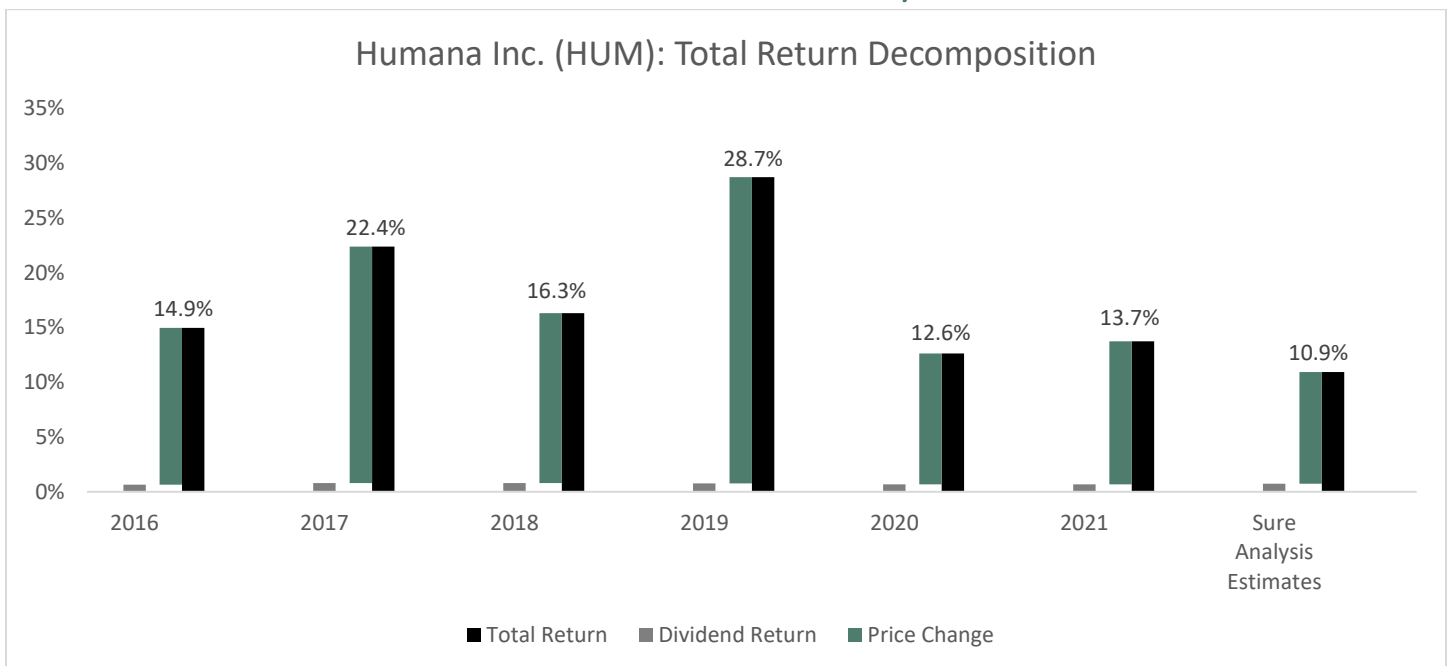
During the past five years, the company's dividend payout ratio has averaged around 13%. Humana's dividend is comfortably covered by both cash flow and earnings. Given the expected earnings growth, there is plenty of room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which is very safe.

Humana is a well-established player in the healthcare plans business and has a strong dependency on the federal government with respect to revenues. Rising healthcare costs and an increase in chronic medical care will result in substantial medical membership growth in the coming years. Humana's status as a leading health insurer will also enable the company to increase its health insurance premiums and keep up with inflation and increasing healthcare costs. The joint ventures mentioned before will also help the company to grow its revenue.

Final Thoughts & Recommendation

Humana is a low-yield dividend stock with a high dividend growth rate, combined with a sustainable payout ratio below 15%. We estimate total return potential of 10.9% per year for the next five years based on a 14% earnings-per-share growth, a 0.6% yield, and a valuation headwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	39126	41313	48500	54289	54379	53767	56912	64888	77155	83064
Gross Profit										
SG&A Exp.										
D&A Exp.	338	426	449	447	465	485	534	575	616	713
Operating Profit										
Op. Margin										
Net Profit	1222	1231	1147	1276	614	2448	1683	2707	3367	2933
Net Margin	3.1%	3.0%	2.4%	2.4%	1.1%	4.6%	3.0%	4.2%	4.4%	3.5%
Free Cash Flow	1513	1275	1090	345	1409	3527	1561	4548	4675	946
Income Tax	689	690	1023	1155	938	1572	391	763	1307	485

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19979	20735	23527	24678	25396	27178	25413	29074	34969	44358
Cash & Equivalents	1306	1138	1935	2571	3877	4042	2343	4054	4673	3394
Acc. Receivable	733	950	1053	1161	1280	854	1015	1056	1138	1814
Inventories										
Goodwill & Int.	4371	4426	3671	3622	3552	3507	4142	4105	4776	13731
Total Liabilities	11132	11419	13881	14332	14711	17336	15252	17037	21241	28255
Accounts Payable	7679	7921	8919	9339	9864	11660	8148	9758	12156	12798
Long-Term Debt	2935	3003	4159	4394	4304	5061	6240	5891	6980	12820
Total Equity	8847	9316	9646	10346	10685	9842	10161	12037	13728	16080
LTD/E Ratio	0.33	0.32	0.43	0.42	0.40	0.51	0.61	0.49	0.51	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.5%	6.0%	5.2%	5.3%	2.5%	9.3%	6.4%	9.9%	10.5%	7.4%
Return on Equity	14.5%	13.6%	12.1%	12.8%	5.8%	23.9%	16.8%	24.4%	26.1%	19.7%
ROIC	11.2%	10.2%	8.8%	8.9%	4.1%	16.4%	10.8%	15.8%	17.4%	11.8%
Shares Out.	163.46	159.15	155.87	151.14	150.92	145.59	138.40	134.73	133.01	129.40
Revenue/Share	239.37	259.58	311.15	359.19	360.32	369.32	411.21	481.63	580.06	641.94
FCF/Share	9.26	8.01	6.99	2.28	9.34	24.23	11.28	33.76	35.15	7.31

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

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