Cigna Corporation (CI)

Updated August 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$287	**5 Year CAGR Estimate:**	13.7%	**Market Cap:**	$85 billion
Fair Value Price:	$321	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	09/05/2023
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Dividend Payment Date:**	09/21/2023
Dividend Yield:	1.7%	**5 Year Price Target**	$517	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 Cigna Healthcare accounts for 24%. Cigna has annual revenues of ~$190 billion.

On February 3rd, 2023, Cigna announced that it was increasing its quarterly dividend 9.8% to $1.23.

On August 3rd, 2023, Cigna announced second quarter results for the period ending June 30th, 2023. For the quarter, revenue grew 6.8% to $48.6 billion, which was $1.41 billion more than expected. Adjusted earnings-per-share of $6.13 compared to adjusted earnings-per-share of $6.20 in the prior year, but was $0.09 above estimates.

For the quarter, total pharmacy customers grew 4.1% to 98.7 million. Total medical customers grew 9.5% year-over-year to 19.5 million. Adjusted revenue for the Evernorth segment, which is the largest within the company, increased 9.6% to $38.2 billion due to organic growth in specialty and care delivery services and management solutions. Adjusted revenue for Cigna Healthcare was up 12.2% to $12.7 billion due to customer growth and premium rate increases.

Cigna provided an updated outlook for 2023 as well. Revenue is now expected to be least $190 billion this year, up from $188 billion previously. The company still forecasts adjusted earnings-per-share of at least $24.70 for the year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$6.78	$7.43	$8.66	$8.10	$10.46	$14.22	$17.05	$18.45	$20.47	$23.27	***$24.70***	***$39.78***
DPS	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$4.00	$4.48	***$4.92***	***$6.28***
Shares[1]	279	264	257	257	244	381	373	355	327	305	***296***	***285***

Earnings-per-share have a compound annual growth rate of 13.1% for the 2013 through 2022 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 16% per year. Cigna's growth rate has remained strong in the medium-term as earnings-per-share have a compound annual growth rate of 10.4% since 2018. 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 tailwinds. In addition, Cigna has an ambitious goal to reduce its health care costs, which, overall, have risen much higher than inflation. We reaffirm our targeted earnings-per-share growth rate of 10% through 2028 as 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 March 25th, 2021

[1] Share count in millions

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payment date. The company followed that up with a double-digit increase in 2022. We now anticipate dividend growth of at least 5% annually through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.6	12.1	15.5	16.4	16.3	13.3	10.1	10.2	11.2	14.2	***11.6***	***13.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	1.7%	1.4%	***1.7%***	***1.2%***

Shares of Cigna have increased $36, or 14.3%, since our May 22nd, 2023 report. The stock has an average price-to-earnings ratio of 13.0 over the last decade. Currently, the stock is valued at 11.6 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 2028 target multiple of 13 times earnings could add 2.3% to annual returns over the next five years.

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	1%	1%	0%	0%	0%	0%	0%	0%	20%	19%	***20%***	***16%***

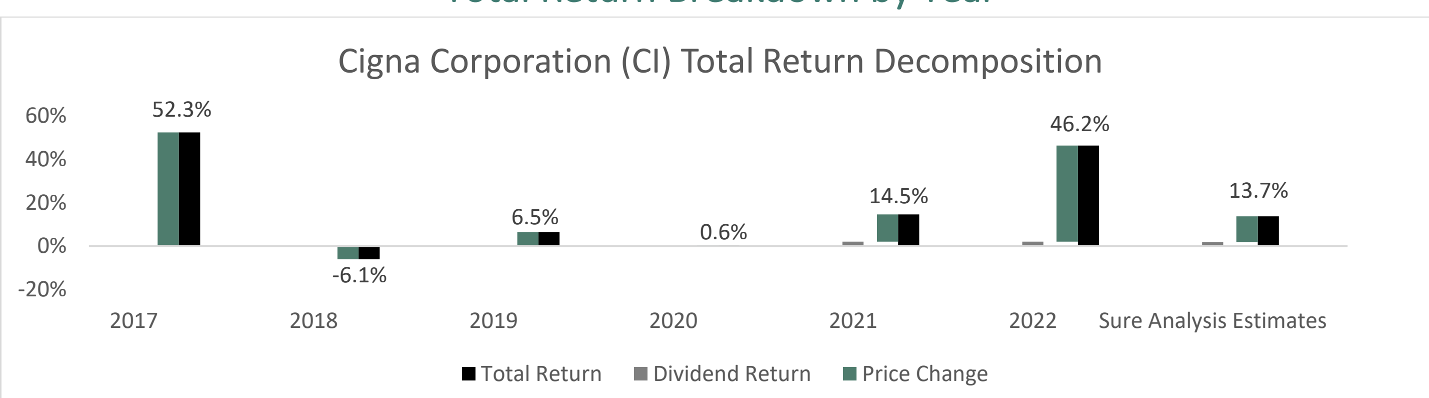
Cigna happens to operate in an industry that tends to hold up well during recessionary times as health insurance and pharmacy businesses are still in demand. Earnings-per-share fell from $3.96 in 2007 to $3.42 in 2008 (a 13.6% decrease), but rebounded to make a new high in 2009. Cigna has seen earnings-per-share 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 13.7% through 2028, down from our prior estimate of 16.8%. Our projected return stems from a 10% earnings growth rate, a starting yield of 1.7%, and a low single-digit tailwind from multiple expansion. Cigna continues to produce solid growth rates, something we expect to continue in 2023. The company also raised its revenue guidance slightly following results. Shares earn a buy rating due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	32380	34914	37876	40007	42043	48569	153743	160577	174272	180021
SG&A Exp.				9790	10030	11934	14053	14072	13030	13186
Depr. & Amor.	597	588	585	610	566	695	3651	2802	2923	2937
Net Profit	1476	2102	2094	1867	2237	2637	5104	8458	5365	6668
Net Margin	4.6%	6.0%	5.5%	4.7%	5.3%	5.4%	3.3%	5.3%	3.1%	3.7%
Free Cash Flow	192	1685	2423	3565	3615	3242	8435	9256	6037	7361
Income Tax	698	1210	1250	1136	1374	935	1450	2379	1367	1607

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	54336	55870	57088	59360	61759	153226	155774	155451	154889	143932
Cash & Equivalents	2795	1420	1968	3185	2972	3855	4619	10182	5081	5924
Acc. Receivable	9290	9837	10507	9555	8667	15704	16003	17199	19639	21713
Goodwill & Int.	6931	6698	6587	6404	6509	83508	81164	79827	79913	78303
Total Liabilities	43755	45081	45044	45633	48048	112191	110430	105123	107705	98981
Accounts Payable	7506	8444	8848	8946	489	15068	15544	18825	6655	7775
Long-Term Debt	5247	5126	5169	5032	5439	42478	37407	32919	33670	31093
Total Equity	10567	10774	12035	13723	13711	41028	45338	50321	47112	44872
LTD/E Ratio	0.50	0.48	0.43	0.37	0.40	1.04	0.83	0.65	0.71	0.69

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	3.8%	3.7%	3.2%	3.7%	2.5%	3.3%	5.4%	3.5%	4.5%
Return on Equity	14.5%	19.7%	18.4%	14.5%	16.3%	9.6%	11.8%	17.7%	11.0%	14.5%
ROIC	9.6%	13.2%	12.6%	10.4%	11.8%	5.1%	6.1%	10.2%	6.5%	8.5%
Shares Out.	279	264	257	257	244	381	373	355	327	305
Revenue/Share	113.74	129.98	145.35	154.08	164.83	196.91	408.98	439.96	515.66	575.03
FCF/Share	0.67	6.27	9.30	13.73	14.17	13.14	22.44	25.36	17.86	23.51

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