



Humana Inc. (HUM)

Updated November 9th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$495	5 Year CAGR Estimate:	13.2%	Market Cap:	\$63 B
Fair Value Price:	\$509	5 Year Growth Estimate:	12.0%	Ex-Dividend Date¹:	12/28/23
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date¹:	01/26/24
Dividend Yield:	0.7%	5 Year Price Target	\$896	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	C	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 2022, the company had approximately 17.1 million members in medical benefit plans, as well as approximately 4.6 million members in specialty products. In 2022, 80% of premiums and services revenue were from contracts with the federal government. The company's \$63 billion market cap makes it the fifth-largest health insurer in the world and has about 67,100 employees.

On November 1st, 2023, Humana released its third quarter 2023 results for the period ending September 30th, 2023. For the quarter, the company reported revenues of \$26.4 billion and adjusted earnings-per-share of \$7.78 which compared to revenue of \$22.8 billion and adjusted earnings-per-share of \$7.31 in the same quarter of 2022. The third quarter 2023 figures showed that higher revenues were supported by member growth in its Medicare Advantage business and state-based contracts membership growth as well as higher Medicare Advantage premiums per member. Total premiums for Humana grew 17.3% year-over-year to \$25.5 billion. Humana reported income from operations of \$1.2 billion for the quarter, which climbed 2.9% year over year.

The company affirmed its 2023 earnings guidance. Adjusted EPS is estimated to be a minimum of \$28.25 (previously \$28.00), which suggests minimum growth of 11.9% compared to 2022. Management provided a revenue outlook for this year within the range of \$104.4 to \$106.4 billion, which implies a 13.5% increase from the \$88.8 billion in 2022.

Furthermore, Humana anticipates individual Medicare Advantage membership to witness a minimum membership growth of 825,000 in 2023, up from the earlier projection of an increase to 625,000. The benefit ratio of the Insurance unit is expected to stay around 87.5% for 2023. Humana remains optimistic to reach its target of adjusted earnings of \$37 per share by 2025.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$8.72	\$7.51	\$7.75	\$9.57	\$11.71	\$14.55	\$17.87	\$18.75	\$20.64	\$25.24	\$28.25	\$49.79
DPS	\$1.07	\$1.11	\$1.15	\$1.16	\$1.60	\$2.00	\$2.20	\$2.50	\$2.73	\$3.06	\$3.54	\$5.45
Shares²	154	150	148	149	138	136	132	129	129	128	124	123

Humana has grown earnings by 12.5% per year over the past nine years and 14.2% over the past five years. We expect earnings to increase by 12% per year for the next five years.

The company has been able to increase its yearly dividend payout for 12 consecutive years. Over the last five years, the average annual dividend growth rate was 19.2%, meaning that the dividend payout of Humana has doubled over this period. In February 2023, the quarterly dividend increased by 12.4% from \$0.7875 to \$0.8850 per share.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	9.8	16.3	22.7	18.7	19.7	20.7	16.0	20.3	20.6	18.6	17.5	18.0
Avg. Yld.	1.9%	0.9%	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%	0.6%	0.6%	0.7%	0.6%

During the past decade shares of Humana have traded with an average price-to-earnings ratio of about 18.3 times earnings and today, it stands at 17.5. We are using 18 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 0.7% which is just below the average yield over the past decade of 0.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	12%	15%	15%	12%	14%	14%	12%	13%	13%	12%	13%	11%

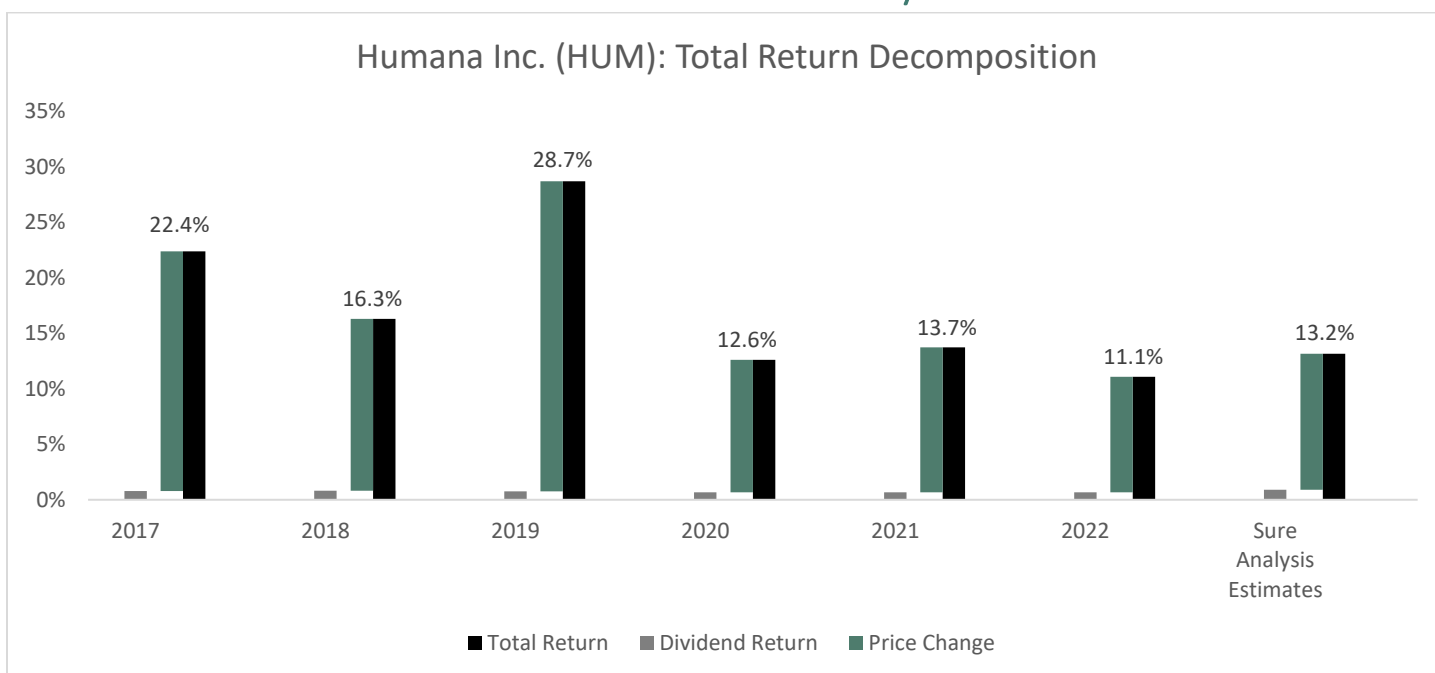
During the past five years, the company's dividend payout ratio has averaged around 13%. Humana's dividend is comfortably covered by both cash flow and earnings. Given the expected earnings growth, there is plenty of room for the dividend to continue to grow at the same pace and keep the payout ratio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

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 13.2% per year for the next five years based on 12% earnings-per-share growth, a 0.7% yield, and a small valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	41313	48500	54289	54379	53767	56912	64888	77155	83064	98870
Gross Profit	-	-	-	-	-	-	-	-	-	-
SG&A Exp.	-	-	-	-	-	-	-	-	-	-
D&A Exp.	426	449	447	465	485	534	575	616	713	845
Operating Profit	-	-	-	-	-	-	-	-	-	-
Op. Margin	-	-	-	-	-	-	-	-	-	-
Net Profit	1231	1147	1276	614	2448	1683	2707	3367	2933	2806
Net Margin	3.0%	2.4%	2.4%	1.1%	4.6%	3.0%	4.2%	4.4%	3.5%	2.8%
Free Cash Flow	1275	1090	345	1409	3527	1561	4548	4675	946	3467
Income Tax	690	1023	1155	938	1572	391	763	1307	485	762

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20735	23527	24678	25396	27178	25413	29074	34969	44358	43060
Cash & Equivalents	1138	1935	2571	3877	4042	2343	4054	4673	3394	5061
Acc. Receivable	950	1053	1161	1280	854	1015	1056	1138	1814	1674
Inventories	-	-	-	-	-	-	-	-	-	-
Goodwill & Int.	4426	3671	3622	3552	3507	4142	4105	4776	13731	10910
Total Liabilities	11419	13881	14332	14711	17336	15252	17037	21241	28255	27680
Accounts Payable	7921	8919	9339	9864	11660	8148	9758	12156	12798	14500
Long-Term Debt	3003	4159	4394	4304	5061	6240	5891	6980	12820	11420
Total Equity	9316	9646	10346	10685	9842	10161	12037	13728	16080	15310
LTD/E Ratio	0.32	0.43	0.42	0.40	0.51	0.61	0.49	0.51	0.80	0.75

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.0%	5.2%	5.3%	2.5%	9.3%	6.4%	9.9%	10.5%	7.4%	6.4%
Return on Equity	13.6%	12.1%	12.8%	5.8%	23.9%	16.8%	24.4%	26.1%	19.7%	17.9%
ROIC	10.2%	8.8%	8.9%	4.1%	16.4%	10.8%	15.8%	17.4%	11.8%	10.1%
Shares Out.	159.15	155.87	151.14	150.92	145.59	138.40	134.73	133.01	129.40	127.1
Revenue/Share	259.58	311.15	359.19	360.32	369.32	411.21	481.63	580.06	641.94	730.72
FCF/Share	8.01	6.99	2.28	9.34	24.23	11.28	33.76	35.15	7.31	27.28

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

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