Cigna Corporation (CI)

Updated November 3rd, 2024 by Nathan Parsh

Key Metrics

Current Price:	$316	**5 Year CAGR Estimate:**	14.9%	**Market Cap:**	$88 billion
Fair Value Price:	$369	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	12/04/2024
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	12/19/2024
Dividend Yield:	1.8%	**5 Year Price Target**	$595	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 ~$235 billion.

On January 31st, 2024, Cigna announced that it was selling its Medicare business to Health Care Service Corporation for $3.7 billion.

On February 2nd, 2024, Cigna announced that it was increasing its quarterly dividend 14% to $1.40.

On October 31st, 2024, Cigna reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue grew 30% to $63.7 billion, which was $4.1 billion better than expected. Adjusted earnings-per-share of $7.51 compared favorably to adjusted earnings-per-share of $6.77 in the prior year and was $0.26 ahead of estimates.

For the quarter, total customer relationships grew 11.8% to 183.5 million, but this was down from 186.2 million in Q2 2024. Total pharmacy customers grew 22% year-over-year to nearly 120 million, though this was down from 122.5 million in the preceding period. Total medical customers decreased 2.9% year-over-year to 19 million. Adjusted revenue for the Evernorth segment, which is the largest within the company, improved 36% to $52.6 billion due to client wins and organic growth. Adjusted revenue for Cigna Healthcare was higher by 3.1% to $13.2 billion due to premium rate increases, but was offset by a decrease in Individual and Family Plan customers.

Cigna provided an updated outlook for 2024 as well. Revenue for the year is now expected to be least $238.3 billion, up from $235 billion previously. Adjusted earnings-per-share is still projected to be at least $28.40, up from $28.25 previously. We maintain our prior adjusted EPS forecast as a result.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$7.43	$8.66	$8.10	$10.46	$14.22	$17.05	$18.45	$20.47	$23.27	$25.09	***$28.40***	***$45.74***
DPS	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$4.00	$4.48	$4.92	***$5.60***	***$9.02***
Shares[1]	264	257	257	244	381	373	355	327	305	293	***281***	***275***

Earnings-per-share have a compound annual growth rate of 12.9% for the 2014 through 2023 period. An increase in the share count during this time hides the fact that net profit has increased at a rate of 14.1% per year. Cigna's growth rate has remained solid in the medium-term as earnings-per-share have a compound annual growth rate of 8.0 % since 2019. 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

[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.

costs, which, overall, have risen much higher than inflation. We reaffirm our targeted earnings-per-share growth rate of 10% through 2029 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 payment date. The company followed that up with a double-digit increase or near double-digit increase each of the last three years. We now anticipate dividend growth of at least 10% annually through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.1	15.5	16.4	16.3	13.3	10.1	10.2	11.2	14.2	11.9	***11.1***	***13.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	1.7%	1.4%	1.6%	***1.8%***	***1.5%***

Shares of Cigna have declined $21, or 6.2%, since our August 4th, 2024 report. The stock has an average price-to-earnings ratio of 13.1 over the last decade. Currently, the stock is valued at 11.1 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 2029 target multiple of 13 times earnings could add 3.2% 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 slightly ahead of the average yield for the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	1%	0%	0%	0%	0%	0%	0%	20%	19%	20%	***20%***	***20%***

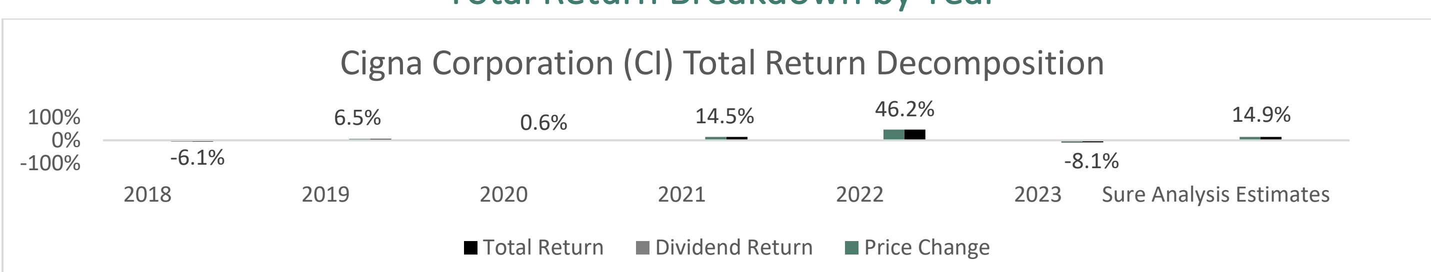
Cigna happens to operate in an industry that tends to hold up well during recessionary times as health insurance and pharmacy businesses are still in demand. Earnings-per-share fell from $3.96 in 2007 to $3.42 in 2008 (a 13.6% decrease), but rebounded to make a new high in 2009. Cigna has seen earnings-per-share grow each year since except for 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 14.9% through 2029, up from our prior estimate of 13.4%. Our projected return stems from a 10% earnings growth rate, a starting yield of 1.8%, and a low single-digit tailwind from multiple expansion. Cigna once again experienced growth throughout its business in the most recent quarter and the company is forecasted to have another strong year in 2024. Shares continue to earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	34914	37876	40007	42043	48569	153743	160577	174272	180021	195187
SG&A Exp.			9790	10030	11934	14053	14072	13030	13186	14822
Depr. & Amor.	588	585	610	566	695	3651	2802	2923	2937	3035
Net Profit	2102	2094	1867	2237	2637	5104	8458	5365	6668	5164
Net Margin	6.0%	5.5%	4.7%	5.3%	5.4%	3.3%	5.3%	3.1%	3.7%	2.6%
Free Cash Flow	1685	2423	3565	3615	3242	8435	9256	6037	7361	10240
Income Tax	1210	1250	1136	1374	935	1450	2379	1367	1607	141

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	55870	57088	59360	61759	153226	155774	155451	154889	143932	152761
Cash & Equivalents	1420	1968	3185	2972	3855	4619	10182	5081	5924	7822
Acc. Receivable	9837	10507	9555	8667	15704	16003	17199	19639	21713	23407
Goodwill & Int.	6698	6587	6404	6509	83508	81164	79827	79913	78303	75122
Total Liabilities	45081	45044	45633	48048	112191	110430	105123	107705	98981	106410
Accounts Payable	8444	8848	8946	489	15068	15544	18825	6655	7775	8553
Long-Term Debt	5126	5169	5032	5439	42478	37407	32919	33670	31093	30930
Total Equity	10774	12035	13723	13711	41028	45338	50321	47112	44872	46223
LTD/E Ratio	0.48	0.43	0.37	0.40	1.04	0.83	0.65	0.71	0.69	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	3.7%	3.2%	3.7%	2.5%	3.3%	5.4%	3.5%	4.5%	3.5%
Return on Equity	19.7%	18.4%	14.5%	16.3%	9.6%	11.8%	17.7%	11.0%	14.5%	11.3%
ROIC	13.2%	12.6%	10.4%	11.8%	5.1%	6.1%	10.2%	6.5%	8.5%	6.7%
Shares Out.	264	257	257	244	381	373	355	327	305	293
Revenue/Share	129.98	145.35	154.08	164.83	196.91	408.98	439.96	515.66	575.03	657.46
FCF/Share	6.27	9.30	13.73	14.17	13.14	22.44	25.36	17.86	23.51	34.49

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