

Centene Corporation

Quick takes from the call; updating ests

Reiterate Rating: NEUTRAL | PO: 84.00 USD | Price: 74.07 USD

Marketplace – growth + margin expansion

Disciplined exchange pricing, but grew better than expected due to broader growth in the overall market. Expects to grow well and expand margins in exchanges (strong retention should help margins). 4.3m members, now 26% share (up vs 23%) leading to \$2.5B increase in revenue (no change in EPS guide because it's still early). Membership skews slightly younger, Silver the majority of enrollment. With the quarter we are maintaining our 2024/25 EPS and rolling out 2026 ests. We are raising our PO to \$84 PO (12.5x 2024E EPS vs 11.9x previously) on the better revenue outlook and increasing visibility into 2024. We remain Neutral given low visibility into growth given MA performance, RFP risk and exchange regulatory risk.

Redeterminations on track, working on rates

80% of the way through redeterminations. Continues to work with states to get rates to match acuity. Achieved some (but not all) of the 2023 retrospective rate adjustments it expected in Q4, leading to 10bps of MLR pressure for the year. Feels good about 2024 Medicaid guidance. Membership to drop 13.2m at the low point in March, growing to 13.6m by year end.

Medicare Advantage (MA) as expected, 2025 a pressure

Sales, retention and disenrollment in MA on track. Refocus on lower income MA, and Duals have grown as a % of enrollment – will be 35% of total by year end. Focus on improving stars - Progress on a number of quality initiatives in 2023. Expanded member outreach – reaching 80% more members y/y. 2024 bids include elevated trend on non-inpatient services (ortho, DME, cardiac/cardiovascular) that it has seen since Q2, and believes that the bids reflect costs. Q4 saw some higher seasonal costs (similar to UnitedHealth Group) COVID pressured MLR, flu stepped up in Q4, but coming down and saw some respiratory syncytial virus costs in Q4 due in part to getting seniors in for wellness. Believes that preliminary rates for 2025 are insufficient relative to trend. Sees the rate as -1.3% to CNC, before CNC's ability to increase coding which would push it positive. Coding adjustment hits duals more. Sees the headwind as a 1% worse rate than the 2024 rate. Expects plans to have to cut benefits in 2025 if rates aren't better.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	
EPS	5.75	6.65	6.70	7.50	
GAAP EPS	2.03	4.91	5.60	6.06	
EPS Change (YoY)	11.7%	15.7%	0.8%	11.9%	
Consensus EPS (Bloomberg)	5.73	6.67	6.80	7.57	
Valuation (Dec)					
P/E	12.9x	11.1x	11.1x	9.9x	8.8x
GAAP P/E	36.5x	15.1x	13.2x	12.2x	10.8x
Dividend Yield	0%	0%	0%	0%	6.8%
EV / EBITDA*	8.1x	8.8x	9.4x	9.3x	8.6x
Free Cash Flow Yield*	12.8%	17.8%	11.0%	11.5%	12.9%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 06 February 2024 11:23AM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	84.00
2024E Rev (m)	143,981.4	146,499.9
2025E Rev (m)	149,774.5	152,222.6
2026E Rev (m)	NA	162,903.4
2026E EPS	NA	8.40

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Stock Data

Price	74.07 USD
Price Objective	84.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-2-9
52-Week Range	60.83 USD - 79.83 USD
Mrkt Val (mn) / Shares Out (mn)	39,821 USD / 537.6
Free Float	99.3%
Average Daily Value (mn)	213.62 USD
BofA Ticker / Exchange	CNC / NYS
Bloomberg / Reuters	CNC US / CNC.N
ROE (2024E)	13.6%
Net Dbt to Eqty (Dec-2023A)	2.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CNC = Centene, MA = Medicare Advantage, RFP = Request for proposal, MLR = Medical loss ratio, DME = Durable medical equipment

iQprofileSM Centene Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.2%	4.7%	4.1%	4.0%	4.1%
Return on Equity	13.1%	14.5%	13.6%	14.0%	13.6%
Operating Margin	2.3%	2.4%	2.4%	2.4%	2.5%
Free Cash Flow	5,092	7,082	4,393	4,579	5,156

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.8x	2.2x	1.4x	1.4x	1.5x
Asset Replacement Ratio	0.6x	0.6x	0.5x	0.5x	0.6x
Tax Rate	17.8%	21.8%	24.6%	24.6%	24.6%
Net Debt-to-Equity Ratio	24.7%	2.5%	0.9%	-7.7%	-15.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	144,547	153,999	35,600	37,816	NA
% Change	NA	NA	NA	NA	NA
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	5,189	4,752	4,434	4,502	4,894
% Change	NA	NA	NA	NA	NA
Net Interest & Other Income	644	668	704	702	690
Net Income (Adjusted)	3,328	3,629	3,509	3,701	4,005
% Change	NA	NA	NA	NA	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,202	2,699	2,948	2,998	3,285
Depreciation & Amortization	1,553	1,293	1,260	1,260	1,260
Change in Working Capital	2,194	3,374	500	500	500
Deferred Taxation Charge	(631)	(78)	(368)	(368)	(368)
Other Adjustments, Net	NA	NA	NA	NA	NA
Capital Expenditure	(1,004)	(799)	(640)	(680)	(760)
Free Cash Flow	5,092	7,082	4,393	4,579	5,156
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	(3,096)	(1,633)	(3,250)	(1,500)	(1,500)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1,130)	19	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	12,074	17,193	17,592	19,927	22,839
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	2,432	2,019	1,399	819	319
Other Non-Current Assets	NA	NA	NA	NA	NA
Total Assets	76,870	84,641	84,401	87,492	93,890
Short-Term Debt	82	119	119	119	119
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	17,938	17,710	17,710	17,710	17,710
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	52,757	58,685	58,766	60,359	62,330
Total Equity	24,113	25,956	25,635	27,133	31,560
Total Equity & Liabilities	76,870	84,641	84,401	87,492	93,890

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Managed Health Care

Company Description

Centene is a Managed Care Organization (MCO) operating in the Medicaid managed care and specialty services markets. The Medicaid business provides health insurance sponsored by the state and federal government for qualified lower income individuals, children and their families through programs such as Medicaid, State Children Health Insurance Programs (SCHIP), foster care, and the Aged Blind and Disabled (ABD) programs.

Investment Rationale

CNC's upside potential is subject to short-term redetermination risk, and medium-term Medicaid repurchase risk and low visibility into MA growth. That said, CNC's guidance and the below average multiple suggest many of the risks being priced in, likely somewhat limiting downside in the near term, leaving us Neutral.

Stock Data

Average Daily Volume 2,884,041

Quarterly Earnings Estimates

	2023	2024
Q1	2.11A	2.08E
Q2	2.10A	1.97E
Q3	2.00A	1.78E
Q4	0.45A	0.86E

Price objective basis & risk

Centene Corporation (CNC)

Our \$84 price objective is based on a 12.5x multiple on our 2024E EPS estimate. This is in-line with CNC's 2-year forward P/E multiple average of 12.6x as CNC should see slower growth in the near to medium term vs historical levels from Medicaid redeterminations and RFP risks, offset by an improving margin outlook from SG&A initiatives.

Upside risks to our price objective are better-than-expected enrollment growth, lower-than-expected medical costs and better than expected margin improvement.

Downside risks to our PO are lower-than-expected enrollment growth, higher-than-expected medical costs, Medicaid rate pressure, and the potential for unexpected RFP losses.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA

UNDERPERFORM

	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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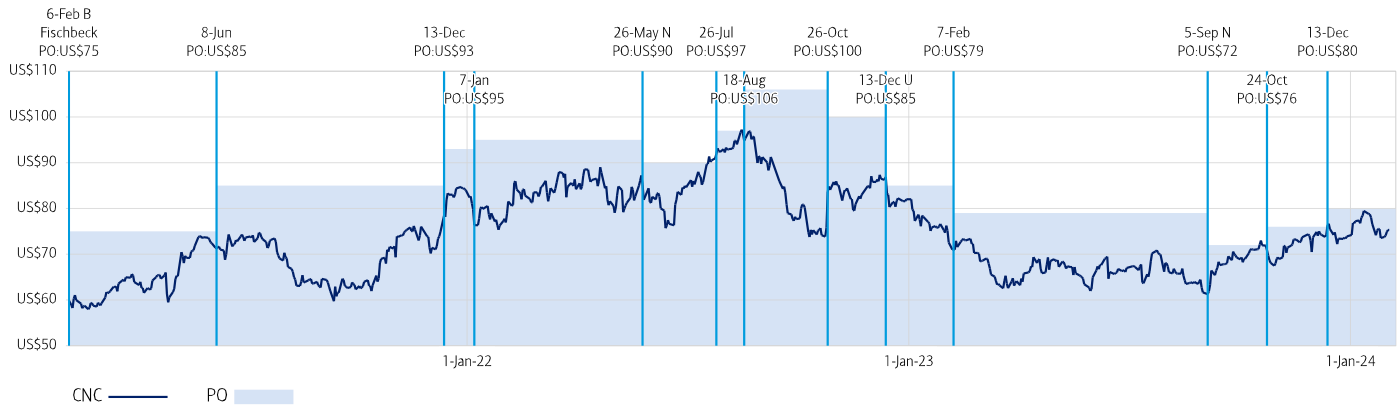
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Centene Corporation (CNC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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