

## Humana Inc

## Quick takes from the call - how conservative is the guide?

Maintain Rating: BUY | PO: 470.00 USD | Price: 402.40 USD

## 2025 guide is not new baseline, upside potential from there

The \$22-\$26 EPS guidance for 2025 (50% growth at the midpoint) seems high, but when moving off of a margin of 0-1% in MA, it does not take significant improvement to drive that kind of EPS. To this point, even with that expected growth in 2025, management believes that 2025 is not a new baseline and it expects to continue to see above-average growth from there (still only 1.5-2.5% margin). Management believes that cost trend is an industry issue and expects the industry to reprice to better margins, creating a tailwind to earnings growth that HUM can leverage. That said, the 2025 rate notice is unknown and right now assumes another negative rate update, which it has to mitigate first before it can reprice/cut costs to grow earnings. There are limits to how much benefits can change y/y by law, and this limit is why the EPS increase is not even higher (so 2025 is about 1-1.5% better MA margin) and part of the reason why HUM sees this as a multi-year repricing. That said, HUM expects to grow EPS \$6-\$10 in 2025 and to price before it fully knows 2024, so if 2024 outperforms, it would also lift the implied 2025 EPS. The near-term results at HUM are well below expectations, but we see little reason to believe that the business long term is fundamentally different, and we expect at least 3 years of above-average growth off of these depressed levels. We maintain our Buy rating.

## Color on the wide range of 2025 guidance

HUM's guide assumes another rate cut in 2025 (management believes that there could be a lag before 2023 trend is fully built into future MA rates), but a number of factors could push it to the high or low end of the range: 1) Although HUM expects the industry to reprice, growth will depend on how competitors price; the low end of the 2025 range would include losing hundreds of thousands of members. HUM is evaluating exiting counties or plans to restore margins but would start by assuming that it can fix things through benefit cuts (in some cases with steep cuts). 2) Higher utilization could help coding, but HUM is not building that in. 3) There is still a lot of uncertainty around 2024 trend levels off of unusually high growth in 2023, but HUM would be surprised if 2024 trend comes in above its guide.

## 2024 reset, likely conservative making it easier to work

Management acknowledged that 2024 guidance implies MA margin in the 0-1% range. Through the call, the company made a number of comments that implied that it thinks that this is potentially overly conservative. To this end, the good news is that with a conservative guidance, the set-up for beats and raises is much easier. With 50% growth expected for 2025, getting confidence that HUM has a handle on the base will be key to the stock working from today's reset.

## Competitive environment has not really changed

HUM disagreed with the argument that the market is more competitive than normal, noting that there are usually 1-2 players who get aggressive on growth in a given year, but then they pull back in the following years when they realize that margins are too low. HUM is committed to pricing to trend – a “win” on lower pricing is not sustainable.

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**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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## Equity

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## Stock Data

Price	402.40 USD
Price Objective	470.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-1-7
52-Week Range	390.50 USD - 541.21 USD
Mkt Val (mn) / Shares Out	49,891 USD / 124.0 (mn)
Free Float	98.7%
Average Daily Value (mn)	793.37 USD
BofA Ticker / Exchange	HUM / NYS
Bloomberg / Reuters	HUM US / HUM.N
ROE (2023E)	20.2%
Net Dbt to Eqty (Dec-2022A)	39.5%
ESGMeter™	High

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HUM = Humana

MA = Medicare Advantage

## Price objective basis & risk

### Humana Inc (HUM)

Our \$470 PO is based on 15.5x our 2025 EPS estimate, below its 5-year average of 17.1x given lower visibility on a degrading margin environment, but supported by opportunity for future improvements.

Upside risks are potential for share repurchase and several non-healthcare catalysts, margin normalization, and the rebound in risk coding.

Downside risks are regular industry sensitivity points (cost trend, MA rates), as well as unknowns from a new administration.

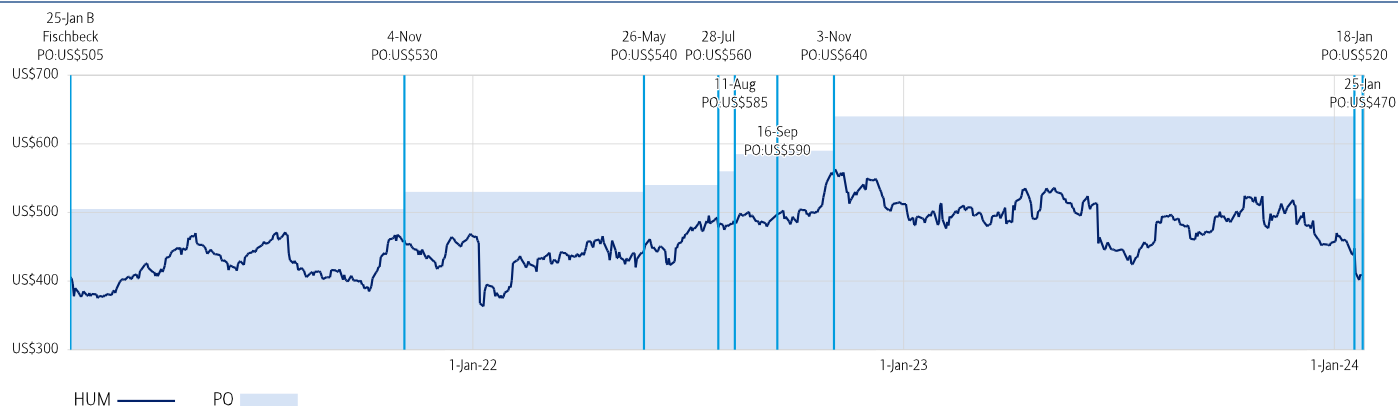
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### Humana Inc (HUM) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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