

Centene Corporation

Modest beat. 2024 revenue raise driven by Commercial (exchanges)

Maintain Rating: NEUTRAL | PO: 80.00 USD | Price: 74.07 USD

Commercial shines while Medicaid in line

Q4 adj EPS of \$0.45 was 1.4% above consensus as revenue and investment income beat while overall MLR was 40bps worse vs consensus. CNC raised the 2024 revenue guide by \$2.5b (+1.9%) but only reaffirmed the \$6.70 EPS guide. In general, Q4 was slightly better than expected driven by better Commercial membership and MLR, while Medicaid was in line, and Medicare was worse. Overall, the quarter implies the turnaround story is on track, with CNC not seeing MLR pressure from redeterminations (positive for Molina). However, redetermination uncertainty, the risk of RFP losses, and Medicare underperformance leave us Neutral. See page 2 for earnings variance tables.

MLR missed, SG&A in-line vs consensus

MLR of 89.5% was 10bps below our est but 40bps above consensus. Overall, MLR was up 80bps y/y driven by the \$250m MA PDR. At the product level, Medicaid MLR increased 60bps y/y to 90.6% and was in line with consensus. Commercial MLR decreased 150bps y/y to 82.1%, a bit surprising given the rapid exchange growth. Finally, Medicare MLR increased 780bps y/y to 95.3%, driven by the PDR which at \$250m was in-line with prior comments of "mid \$200m". DCPs were 54, up 1 day q/q and flat y/y, implying reserves strengthening. Adjusted SG&A of 9.7% increased 30bps y/y, but was in line with consensus.

Medicaid membership in line, Commercial better

Revenue was 11.3% above our est/10.0% above consensus. Total risk enrollment (incl. PDP) declined -2.0% q/q but was 0.7% above our est and 0.9% above consensus on better Commercial and PDP, offset by worse Medicare. Medicaid enrollment fell -5.0% q/q but was 0.5% above our est/0.3% above consensus. Meanwhile, Medicare enrollment was 2.0% below our est/1.6% below consensus. Total commercial enrollment increased 5.4% q/q and was 1.6% above our est/3.2% above consensus. Medicaid revs came in 0.4% below consensus. Commercial revs were 8.7% above consensus, while Medicare was 6.3% above consensus.

06 February 2024

Equity

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Stock Data

Price	74.07 USD
Price Objective	80.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-2-9
52-Week Range	60.83 USD - 79.83 USD
Mrkt Val (mn) / Shares Out (mn)	40,092 USD / 541.3
Free Float	99.3%
Average Daily Value (mn)	216.54 USD
BofA Ticker / Exchange	CNC / NYS
Bloomberg / Reuters	CNC US / CNC.N
ROE (2023E)	14.6%
Net Dbt to Eqty (Dec-2022A)	24.7%
ESGMeter™	High

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CNC = Centene

DCP = Days claims payable

MA = Medicare Advantage

MLR = Medical loss ratio

RFP = Request for proposal

PDP = Medicare Part D

PDR = Premium deficiency reserve

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Timestamp: 06 February 2024 08:04AM EST

Earnings Analyzer

Below we show key quarterly results vs. our estimates, consensus, and prior historical results.

Exhibit 1: CNC Earnings Analyzer

\$ values in millions except for per share data, membership in thousands; Δ, y/y and q/q growth metrics are differences for ratios and DCPs

Ticker	CNC										
4QFY-2023	Actual	Consensus	BofA	Δ vs Consensus	Δ vs Consensus	Δ vs BofA	Δ vs BofA	Growth Y/y	Growth Q/q	4QFY-2022	3QFY-2023
Key Metrics:											
Revenue	\$39,460	\$35,887	\$35,452	10.0%	BEAT	11.3%	BEAT	11.0%	3.7%	\$35,561	\$38,042
Adj. EPS	\$0.45	\$0.44	\$0.39	1.4%	BEAT	15.6%	BEAT	-47.7%	-77.5%	\$0.86	\$2.00
Medical Loss Ratio	89.5%	89.1%	89.6%	0.4%	MISS	-0.1%	IN-LINE	0.8%	2.5%	88.7%	87.0%
G&A	\$3,413	\$3,263	\$3,137	4.6%	BEAT	8.8%	BEAT	8.8%	13.4%	\$3,136	\$3,010
SG&A Ratio	9.7%	9.7%	9.3%	0.0%	IN-LINE	0.4%	MISS	0.3%	1.1%	9.3%	8.6%
Investment Income	\$401	\$261	\$214	53.7%	BEAT	87.4%	BEAT	-19.3%	87.4%	\$497	\$214
Adj. Pre-tax Income	\$343	\$308	\$87	11.5%	BEAT	295.4%	BEAT	-45.4%	-76.1%	\$628	\$1,436
Adj. Taxes	\$103	\$75	\$22	37.2%	MISS	374.9%	MISS	-30.9%	-70.4%	\$149	\$348
Adj. Tax Rate	30.0%	24.4%	25.0%	5.6%	MISS	5.0%	MISS	6.3%	5.8%	23.7%	24.2%
Share Count	537,614	536,109	534,349	0.3%	IN-LINE	0.6%	MISS	-4.0%	-0.7%	559,934	541,270
DCPs	54.0	N/A	N/A	RESERVES STRENGTHENING				0.0	1.0	54.0	53.0
Membership:											
Medicaid	14,472.0	14,429	14,400	0.3%	IN-LINE	0.5%	IN-LINE	-9.4%	-5.0%	15,975	15,241
Commercial	4,327.6	4,195	4,259	3.2%	BEAT	1.6%	BEAT	71.9%	5.4%	2,517	4,106
Medicare	1,284.2	1,305	1,311	-1.6%	MISS	-2.0%	MISS	-15.0%	-2.0%	1,511	1,311
Part D	4,617.8	4,560	4,564	1.3%	BEAT	1.2%	BEAT	9.3%	1.7%	4,226	4,540
Total Risk membership	24,701.6	24,489	24,534	0.9%	IN-LINE	0.7%	IN-LINE	2.0%	-2.0%	24,229	25,197
Tricare	2,773.2	2,780	2,773	-0.2%	IN-LINE	0.0%	IN-LINE	-2.1%	0.0%	2,832	2,773
Total Membership	27,474.8	27,269	27,307	0.8%	IN-LINE	0.6%	IN-LINE	1.5%	-1.8%	27,061	27,970
Revenues:											
Medicaid	\$21,114	\$21,193	\$20,304	-0.4%	IN-LINE	4.0%	BEAT	-1.0%	-2.3%	\$21,322	\$21,619
Commercial	\$7,406	\$6,814	\$7,004	8.7%	BEAT	5.7%	BEAT	68.3%	14.8%	\$4,400	\$6,453
Medicare	\$5,290	\$4,976	\$4,575	6.3%	BEAT	15.6%	BEAT	-2.9%	2.8%	\$5,449	\$5,146
Premium Revenue	\$34,232	\$32,614	\$32,725	5.0%	BEAT	4.6%	BEAT	7.4%	1.1%	\$31,884	\$33,866
Service Revenue	\$1,106	\$1,061	\$1,001	4.2%	BEAT	10.4%	BEAT	-33.7%	0.5%	\$1,669	\$1,101
Total Premium & Services Revenue	\$35,338	\$33,675	\$33,727	4.9%	BEAT	4.8%	BEAT	5.3%	1.1%	\$33,553	\$34,967
Product MLR:											
Medicaid	90.6%	90.6%	91.7%	0.0%	IN-LINE	-1.1%	BEAT	0.6%	-0.1%	90.0%	90.7%
Commercial	82.1%	84.1%	83.6%	-2.0%	BEAT	-1.5%	BEAT	-1.5%	3.2%	83.6%	78.9%
Medicare	95.3%	90.2%	89.4%	5.1%	MISS	5.9%	MISS	7.8%	13.1%	87.5%	82.2%

Source: BofA Global Research, Company Filings, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk

Centene Corporation (CNC)

Our \$80 price objective is based on an 11.9x multiple on our 2024E EPS estimate. This is below 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, as well as higher risk to 2023 and 2024 numbers due to significant swings in industry enrollment lowering pricing visibility, and uncertainty around RFP awards.

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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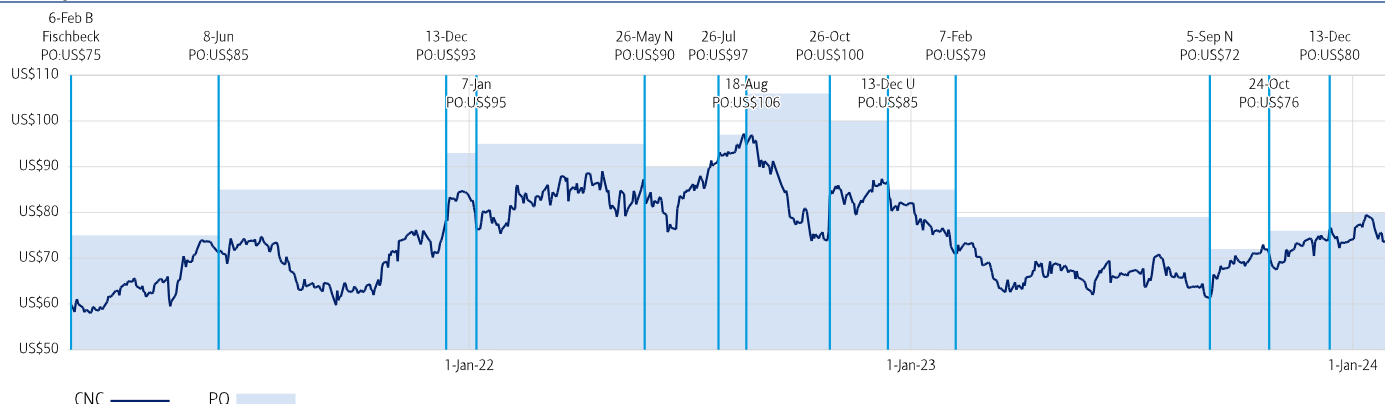
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Centene Corporation (CNC) Price Chart



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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%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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