

Humana Inc

2024 outlook disappoints, but where to from here?

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

2024 guide a low bar, but EPS power two years behind

HUM's 2024 guide surprised even the most bearish skeptics we spoke to, outlining 2024 EPS of \$16 (vs consensus of \$29.32), with a 90% MLR guide that assumes that the elevated Q4 trend persists into 2024. After pre-announcing an issue last week, investors wanted HUM to "pull off the band aid" and reset the guide, and this certainly achieves that. The set up for 2024 is now much better as HUM looks likely to outperform from here. The bigger question is what multiple to put on these earnings, with 2025 commentary pointing to \$22-\$26 of EPS. The 50% growth in 2025 looks high at first blush, but given depressed margins isn't really a meaningful way of looking at it in our view. A better way of thinking about it is that HUM is guiding for EPS to be flat to down 15% from 2023-2025 (when 2023 margins are depressed) despite 10%+ top line growth, which feels easily achievable. However, this implies that HUM is not getting to \$37 of EPS until 2027 (2 years behind schedule) at the earliest. HUM should be poised to grow at least 15% per year off of the 2025 guide, implying a higher multiple, but the stock will be down today given the uncertainty surrounding the guide down. We are lowering our PO to \$470 (15.5x 2025E which is the low end of the long-term average range vs 17.1x previously) given the uncertainty around the new trend commentary.

Reconciling HUM vs Peers? Does UNH have a problem?

Although it appears that HUM is taking a very conservative stance for 2024, the obvious question is whether HUM is right and UNH isn't being conservative enough. Comparing commentary across the space because companies acknowledged problems at different points through the year and although outpatient is a common thread, other items have been cited to varying degrees, confusing the picture. UNH's commentary that Q4 trend was largely seasonal always felt a little off given how trend appeared to continue to surprise peers to the negative through the year. At this point, it is probably fair to assume that MA MLR will be towards the higher end of guidance for the industry until we see evidence otherwise. But from here, that likely means that UNH will grow EPS "only" 11% without the normal 3-4% upside we have been accustomed to, rather than a meaningful guide down from here.

MLR volatility is comparable to what peers are seeing

To this end, HUM's 2024 outlook assumes a further step up of +200bps in Insurance MLR after climbing +140bps in 2023, with MLR now expected to be +340bps above 2022 levels or +400bps if we assume this is all driven by HUM's MA business (divide by MA premium mix). However, its closest peers UNH and CVS are also guiding for 2024 to see implied MA MLR compression of +330bps and +640bps respectively vs 2022. Therefore, in context HUM is seeing fairly comparable headwinds to the rest of the industry as these three companies collectively represent 55% of total enrollment. Unlike peers, HUM is more exposed to MA and was unable to offset the pressure through outperformance in other segments.

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Timestamp: 25 January 2024 09:14AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	520.00	470.00

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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 (mn)	49,891 USD / 124.0
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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MA = Medicare Advantage

MLR = Medical Loss Ratio

PDP = Prescription Drug Plan

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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.

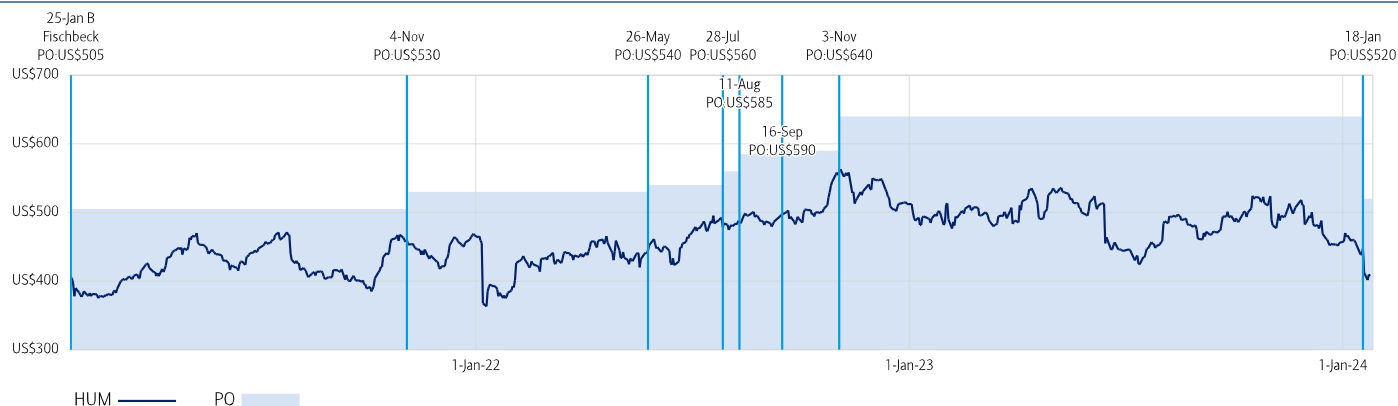
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Humana Inc (HUM) Price Chart



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

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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)

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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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