# Cencora Inc. (COR)

Strategic Portfolio Addition

ESSEC Club of Economics

February 4, 2026

**Recommendation:** BUY Target: **16.3%** Upside: **+29%** (DCF)

# Current Portfolio: High Vulnerability

### Sector Allocation

| | |
|---|---|
| Technology | 26.5% |
| Financials | 12.5% |
| Commodities | 12.1% |
| Healthcare | 9.5% |
| Other | 39.4% |

### Geographic Exposure

- US: 60%  EU: 35%  Other: 5%

### Risk Metrics

| | |
|---|---|
| Volatility | 15.82% |
| Sharpe Ratio | 0.788 |
| VaR (95%) | -20.7% |
| Max Drawdown | -26.4% |

### Key Issues

- Tech concentration: 26.5%
- Healthcare underweight
- High correlation in top holdings

**"We need a structural hedge, not a speculative bet."**

# Why Healthcare? The Structural Diversifier

## 1. Low Correlation with Tech

- Correlation: **0.45** (vs 0.7+ for others)
- Stability during tech corrections

## 2. Defensive Characteristics

- Sector Beta: 0.6–0.7
- Demographics-driven demand

## 3. Portfolio Gap

- Current: 9.5% / Optimal: 12–15%
- Underweight: 3–5%

## Structural Tailwinds

**Demographics**
Aging population, chronic diseases

**Infrastructure**
Pharma distribution, supply chain

**2026 Macro**
Rates favor quality, defensive rotation

## 4. 2026 Context

- Rising rates pressure growth stocks
- Geopolitical uncertainty

# Cencora Inc.: The Distribution Powerhouse

**BUY**

| | |
|---|---|
| Allocation | **16.3%** |
| Price | \$359 → \$464 |
| Upside | **+29%** (DCF) |
| Dividend | 0.7% |

| | |
|---|---|
| Market Cap | \$68B |
| 2026E Rev | \$340B |
| Op. Margin | 1.5% |
| **Beta** | **0.36** |

**Why COR?**

1. **Pharma Distribution Leader**
   - Top 3 US distributor (90% market)
   - Essential healthcare infrastructure
2. **Stable Cash Flow**
   - Revenue: \$321B+ (FY25)
   - 5–7% growth guidance (FY26)
   - Investment grade credit
3. **2026 Catalysts**
   - Specialty pharma expansion
   - Biosimilar distribution growth

# Methodology: Portfolio Reconstruction

**Challenge:** Only Top 10 holdings (36%) $\rightarrow$ Need 100% for analysis

**Solution: ETF Proxy Approach**

| Sector | ETF Proxy | Gap |
|---|---|---|
| Healthcare | IXJ (Global Healthcare) | 9.5% |
| Commodities | MXI (Global Materials) | 12.1% |
| Real Estate | REET (Global REIT) | 8.7% |
| Communications | IXP (Global Telecom) | 6.5% |
| Industrials | EXI (Global Industrials) | 5.5% |
| Consumer Staples | KXI (Global Staples) | 5.0% |
| Consumer Disc. | RXI (Global Discretionary) | 5.0% |
| Other (Energy, Fin, Util) | IXC, IXG, JXI | 9.2% |

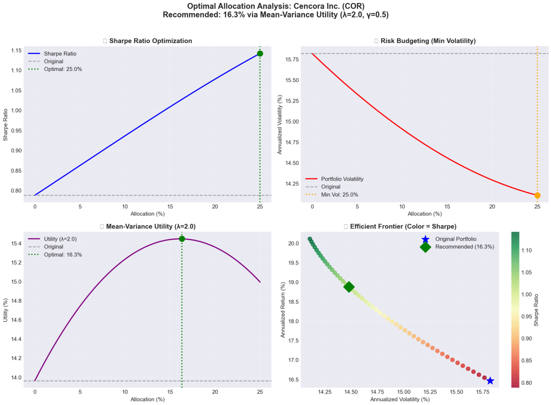
**Result:** Top 10 (36%) + ETF Proxies (64%) = **100% Portfolio**

# Methodology: Screening & Allocation

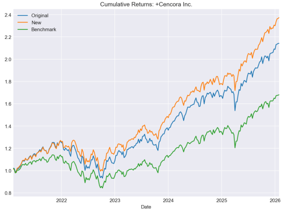
## Screening Criteria:

- **Sector:** Healthcare
  *(Pharma, MedTech, Services)*
- **Market Cap:** > $20B
  *Large caps ensure liquidity*
- **Beta:** < 0.8
  *Low volatility / defensive*
- **Revenue Growth (5y):** > 5%
  *Avoid declining businesses*
- **ROIC:** > 10%
  *Quality capital allocation*
- **FCF:** Positive
  *Cash generation capability*

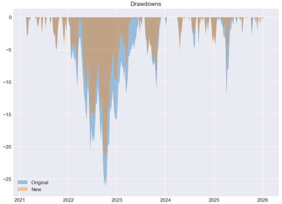
## Portfolio Allocation:



# Portfolio Impact: Growth With Stability








## Before vs After (+16.3% COR)

| Metric | Before | After |
|---|---|---|
| Return | 16.47% | **18.88%** |
| Volatility | 15.82% | **14.48%** |
| Sharpe | 0.788 | **1.027** |
| Max DD | -26.4% | -21.8% |

**+2.4% return AND 1.3% vol reduction**

**New Weights:** (assuming proportional reduction of original positions)

- Tech: 26.5% → 22.2%
- Health: 9.5% → **23.3%**

# Valuation: DCF Base Case (Conservative)

**Current Price: $359 → Fair Value: $464 → Upside: +29%**

## 1. Conservative Assumptions

- **WACC (7.46%):** Reflects defensive profile (Beta 0.67) and stable cash flows.
- **Growth (8.6%):** Capped below historical 3Y CAGR (10.4%).
- **FCF Margin (1.0%):** Maintained flat despite scaling benefits.

## 2. Value Breakdown

| Component | Value | % EV |
|---|---|---|
| PV of FCFs (10y) | $31.9B | 34% |
| PV of Terminal | $61.6B | 66% |
| **Enterprise Value** | **$93.5B** | **100%** |
| (-) Net Debt | -$3.3B | |
| **Equity Value** | **$90.2B** | |

## 3. Sensitivity Analysis *Impact of WACC and Terminal Growth on Fair Value*

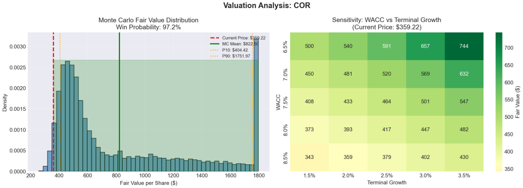
| WACC | 2.0% | 2.5% | 3.0% |
|---|---|---|---|
| **7.0%** | $505 | $542 | $588 |
| **7.5%** | $428 | **$464** | $499 |
| **8.0%** | $376 | $405 | $436 |

**Conclusion:**

- Base case offers strong margin of safety
- Even in stress case (WACC 8%), price > $376 (Positive Upside)

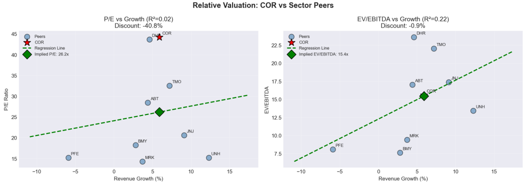
# Valuation: Robustness (Monte Carlo & Relative)

## 1. Monte Carlo (Upside Case)




- **Method:** 10,000 randomized scenarios
- **Mean Fair Value: $822.50** (+129%)
- **Win Prob:** 97.2%
- *Captures significant tail upside*

## 2. Relative Valuation (Market Check)




- **Method:** Regression (P/E vs Growth)
- **Insight:** COR trades **below** trend
- **Peers:** MCK, CAH,...
- *Confirms structural undervaluation*

# Risk Assessment

| Risk | Prob. | Impact | Mitigation |
|---|---|---|---|
| Drug Pricing | Med-Hi | Revenue | Diversified customer base. Essential service. |
| Opioid Liability | Low | Legal | Major state settlements complete. |
| Competition | Med | Margins | Oligopoly structure. High barriers. |
| M&A Risk | Low | Delays | Strong integration history. |
| Margin Pressure | Med | Earnings | Specialty pharma growth offsets. |

**"Essential infrastructure, oligopoly protection, stable cash flows."**

# Recommendation: Build Resilience for 2026

## Problem

- Tech overweight: 26.5%
- VaR too high: -20.7%

## Solution

- COR at 16.3%
- Sharpe: +30%
- Volatility: -1.34%

## Result

- Downside protection
- 18.9% annualized return

## BUY COR

| | |
|---|---|
| Allocation | **16.3%** |
| Entry | $359 |
| DCF Target | $464 (+29%) |
| MC Mean | $823 (+129%) |
| Horizon | 12–24 months |

| | **Before** | **After** |
|---|---|---|
| Return | 16.5% | 18.9% |
| Volatility | 15.8% | 14.5% |
| Sharpe | 0.788 | 1.027 |
| Tech | 26.5% | 22.2% |
| Health | 9.5% | 23.3% |

# Thank You

# Questions?

All metrics, backtests, and visualizations were generated using my custom engine:

```
https://github.com/joshsssn/ECE-Portfolio-Analysis-Engine
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