

# 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 | <b>16.3%</b>      |
| Price      | \$359 → \$464     |
| Upside     | <b>+29%</b> (DCF) |
| Dividend   | 0.7%              |

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|             |             |
|-------------|-------------|
| Market Cap  | \$68B       |
| 2026E Rev   | \$340B      |
| Op. Margin  | 1.5%        |
| <b>Beta</b> | <b>0.36</b> |

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## 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%) → 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

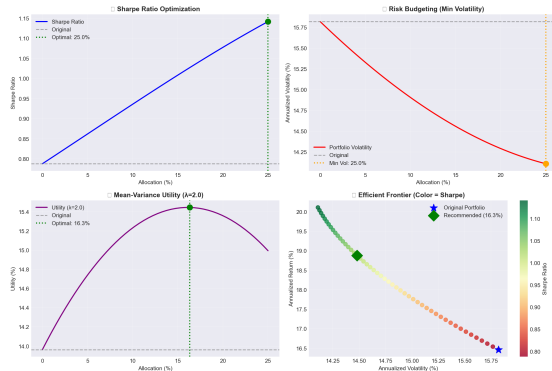
# Methodology: Screening & Allocation

## Screening Criteria:

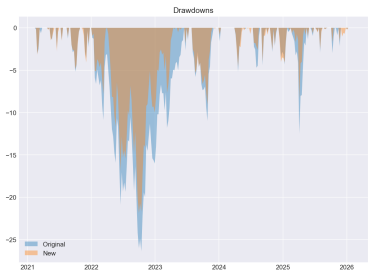
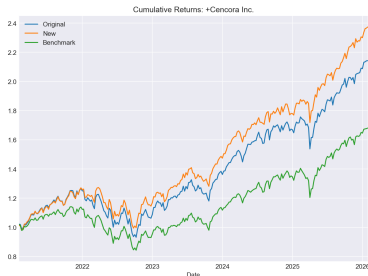
- **Sector:** Healthcare  
*(Pharma, MedTech, Services)*
- **Market Cap:** > \$20B  
*Large caps ensure liquidity*
- **Beta:** < 0.8  
*Low volatility / defensive*
- **Revenue Growth (5y):** > 5%  
*Avoid declining businesses*
- **ROIC:** > 10%  
*Quality capital allocation*
- **FCF:** Positive  
*Cash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

## Portfolio Allocation:

Optimal Allocation Analysis: Cencora Inc. (COR)  
Recommended: 16.3% via Mean-Variance Utility ( $\lambda=2.0$ ,  $\gamma=0.5$ )



# Portfolio Impact: Growth With Stability



## Before vs After (+16.3% COR)

| Metric     | Before | After         |
|------------|--------|---------------|
| Return     | 16.47% | <b>18.88%</b> |
| Volatility | 15.82% | <b>14.48%</b> |
| Sharpe     | 0.788  | <b>1.027</b>  |
| 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%         |
| <b>Enterprise Value</b> | <b>\$93.5B</b> | <b>100%</b> |
| (-) Net Debt            | -\$3.3B        |             |
| <b>Equity Value</b>     | <b>\$90.2B</b> |             |

## 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 | <b>\$464</b> | \$499 |
| 8.0% | \$376 | \$405        | \$436 |

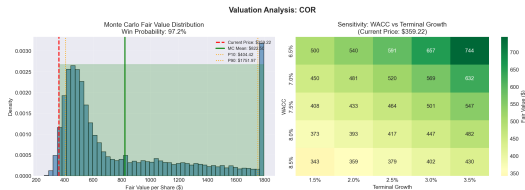
## Conclusion:

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



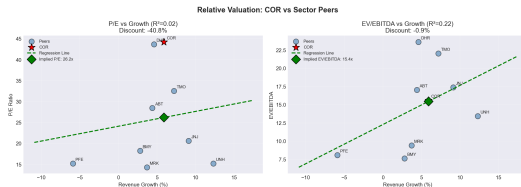
# Valuation: Robustness (Monte Carlo & Relative)

## 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             | 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% |

## Questions?

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

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

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