CVS Health Corporation (CVS) - NYSE

Sector: Healthcare

Price: 56.97$

Market Cap: 77.96B$

P/E ratio: 9.47

Dividend: 2$ yearly – 3.42%

KEY INFORMATIONS

290K employees

9900 pharmacies in US

1100 MinuteClinic locations

1 in 3 Americans use CVS at least once a year

Very aggressive expansion in last 5 years

27 years of consecutive growing revenue

26.6% of retail pharmacy prescriptions are filled by CVS

#1 US pharmacy by market share

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STRENGHT POINTS

One of the oldest and the biggest pharmacy and healthcare companies, founded in 1901 so they had their fair share or crisis, war and depressions. 290K employees and their huge market share allow them to negotiate better prices and advantages from local and national government agencies and to get better prices from suppliers and wholesale customers.

Great presence on the territory, 9900 pharmacies and 1100 MinuteClinics (walk-in clinics that can visit and detect 80% of what a typical primary care can treat, at 40% lower cost than a traditional clinic). Their great positioning cover 70% of US population within a 3 miles radius.

Very strong brand and reputation, a huge market share (26.6% of the retail prescriptions), united with their presence and services make them the biggest growing company in pharmacies sector.

A great history of performances, revenue growing for 27 years, with a wonderful management and the recent expansion both in pharmacy and in services will make them lead the sector for a long, long time..

Aetna acquisition in late 2018 is a great investment, the company can now sell their own health plan and wellness solutions which not only brings in money from premiums, but also customers for the pharmacies and MinuteClinics. Plus this segment has a better margin than the pharmacy, which makes it a great investment for the future.

The company always focused on bringing value to the investor in the past, they focused on the company growth in last 5 years – which is why the stock price declined, acquisitions take time to become part of the main business and show results – and they stopped raising dividends and buying back shares because they needed money for the acquisitions. In a couple years the debt will be reduced and the investor focus will be back.

The ongoing Covid-19 situation will only bring advantages to the company, as they sell more drugs and visits, while having no risk related to new drugs research and development. You take the advantages of healthcare and drugs sector without any of the disadvantages.

After the Aetna acquisition, they did a great job at reducing expenses and eliminating the less profitable plans and by tightening the requirements for new customers and health plans, meaning they have now less clients than before, but with a lot lower risk because they are not accepting the riskier ones anymore.

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The company is doing a great job at integrating new technologies in their business, they have apps for different uses and monitor patient's health using digital tools. They are even developing telemedicine, detecting minor illnesses and injuries using just a phone or a computer without the patients leaving home and at lower costs.

FINANCIALS

17.46B$ cash – 13.35$ par share

45B$ retained earnings – money they have and they can use any time for company's growth (companies usually use them for investing or just keep them in case of need, they still issue debt because it's cheaper to use other people's money than your own)

52.04$ book value par share – book value is the value of all assets, without looking at intangible ones, so it's the value of things they can sell and just shut down the business.

28B$ of treasury stock they bought back during last years, same as retained earnings they could just sell them back on the market and cash the money in.

Debt is 62.5B$ which could be seen as high and the debt equity ratio of 0.93 could look bad but it's not at all, the company has enough cash and retained earnings to repay it in no time. It wouldn't make any sense to do it, but they could so they have a great coverage for the debt. Plus most of the debt is very long term and companies usually just pay a fraction of it and refinance the rest. Again, keep your money and use other people's money at your advantage.

By calculating the fair value of the company – we add the cash to the book value – we can see that 65.39$ is the value of the assets and we're paying less than that. This means we're buying the stock 10% less than assets value, while usually companies trade for 2-3 times this price.

If we look at historic P/E ratio right now it's at its lowest, meaning we are paying at least 60% less than the fair value of the company. If we consider the cashflow and the future growth due to the acquisitions, we can estimate the fair value of the stock to be somewhere around 120$ a share.

Considering the actual ratios and the overall market situation I estimate a 1 year price estimate around 80$ which means a 40% gain in the first year – due to the very low price right now – and an annual gain around 20% for the next 10 years.

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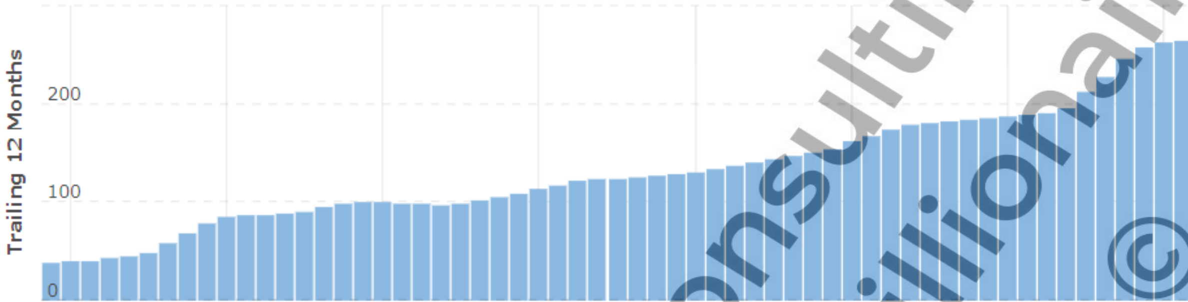
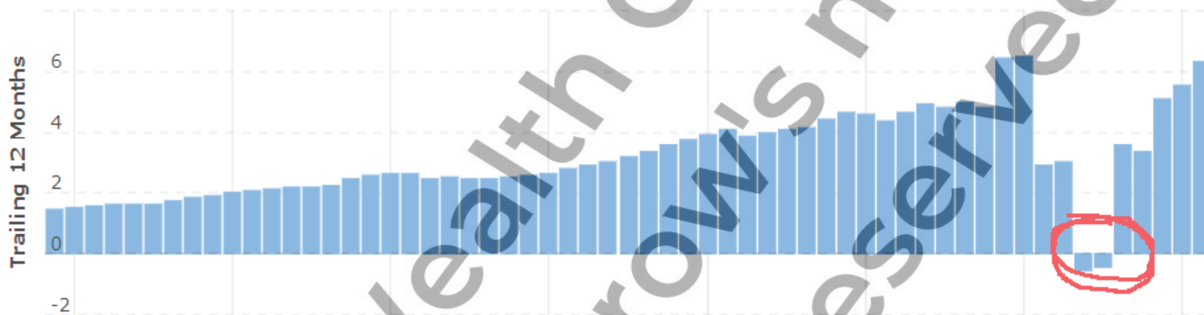
KEY GRAPHICS

Revenue 2005-2020

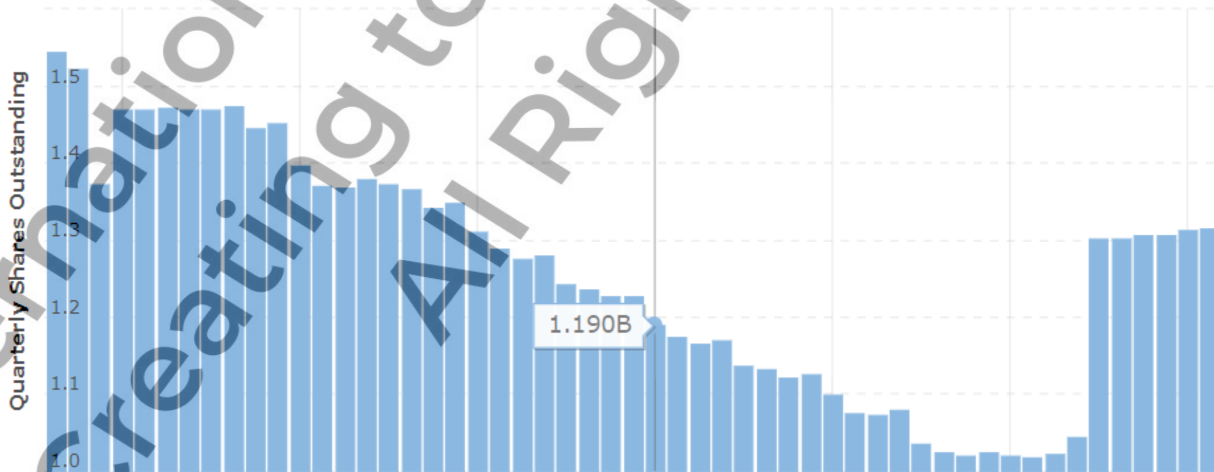


EPS 2005-2020



No need to worry about 2018 – the red circle with negative EPS – that happened because they had to pay 6.1B$ because of an error in the value of the intangible

Number of shares outstanding



assets of the year before. It was just a tax issue, the company had no problems at all.

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This shows company's focus on shares buyback. They stopped in 2018 to focus on Aetna acquisition.

POTENTIAL THREATS

Sector is highly regulated, laws change all the time and the company must consider multiple factors, legals and economic. I wouldn't worry about this one anyway, the company has been around for enough time to know how sector works.

Stock underperformed in last 5 years. This is due to: dividend staying the same, shares buyback program interruption, numerous acquisitions whose impact is still showing – in 2015 they bought more than 1600 pharmacies in Target malls and OmniCare Inc. In late 2018 they bought Aetna, a managed healthcare company that sells insurances and related services.

In 2018 they dilluted shares to get money for Aetna acquisition, doesn't really bother because they always had a repurchase program and it's only suspended until the debt goes down. Company announced that repurchase program will be back as soon as the management considers the debt ratios adequate.

Overall, the potential threats shouldn't really worry investors as the company has enough experience and managers are doing a good job and building a brighter future for a company that is already leading the sector.

Any price under 60$ is a bargain, the closer to 55$ the better. Actual price of 57$ looks good, I wouldn't miss the chance hoping it would go lower.

Potential downside is very low, no more than 10% (52$) but price raise potential is huge, as I already said.

Investment timeline goes from 10 to 20 years, with a minimum of 5 years to let the company show the results. Shouldn't be sold until other kind of issues appear. Dividend yield is decent, dividend reinvesting is always a good idea

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