The Research on the Investment Value of Cigna based on SWOT, Financial and Valuation Methods

Runzhe Pan *

Hangzhou Dianzi University, Hangzhou, China

* Corresponding Author Email: 22030608@hdu.edu.cn

Abstract. Health insurance has always been an area of concern for investors. At the same time, the industry has also been strongly supported by the government in recent years and has always been in the forefront of development.The paper utilizes the SWOT method, financial analysis method, and valuation method to assess the investment potential of Cigna Company. The findings indicate that while Cigna demonstrates strong advantages in technology and innovation collaboration, it also faces challenges related to debt.Companies can adapt to the trend of digital technology and aging population, expand and seize growth opportunities. At the same time, it is reasonable to respond to threats such as disease, data risk, and so on.Through various financial indicators, it can be seen that the overall situation of the company is good and always in an upward trend, and has a good development prospect.Through the valuation method, it is evident that Cigna Enterprises holds a high stock investment value, making it a favorable choice for investors. This paper not only serves as a reference for investors to make more informed decisions, but also aids enterprises in gaining clarity on their strengths and weaknesses, thereby providing a foundation for enhancing market competitiveness.

Keywords: SWOT analysis; financial analysis; valuation analysis.

1. Introduction

In recent years, the government has introduced many policies concerning health insurance. In 2021, to reduce the impact of the epidemic, the government introduced the American Rescue Plan and the American Families Plan, which further increased premium subsidies and expanded Medicare coverage. In 2022, the administration proposed lowering the eligibility age for Medicaid from 65 to 60.In 2023, the U.S. Department of Health and Human Services, through the Centers for Medicare and Medicaid Services, proposed measures to further reduce prescription drug costs in Medicaid and build on President Biden's executive order to lower prescription drug costs for Americans. These policies reflect the US government's support for the development of the medical insurance industry. As a typical medical insurance company, Cigna is greatly affected by government policies. The increasing number of individuals purchasing health insurance has led to a continuous growth in Cigna's operating income in recent years, prompting heightened investor interest in the company. This paper utilizes Cigna as a case study to project the company's valuation and offer investors an enhanced decision-making framework.

On the analysis of stock investment value, some research is carried out according to the existing literature. For example, Zhao selected Haotaitai Technology Group Co., Ltd. as the research object, and analyzed the company's business development status and industry status in recent years by financial analysis method. The company has good development prospects and good investment value [1]. In addition, Zhang and Wang also adopted this method to study the investment value of BYD and American Airlines [2, 3].For the valuation method, there are also many methods such as P/E valuation method, P/B valuation method, DDM valuation method, DCF valuation method and so on. Chen took the chemical industry of Shanghai and Shenzhen A-share stock markets as the research object. The paper uses price-earnings ratio and price-to-book ratio as stock selection indicators and it proves that low price-earnings ratio and low price-to-book ratio during the ten-year period obtained the higher market returns [4]. Additionally, Tang and Cheng used the same method [5, 6]. Besides, based on the current situation of Beixinyuan Software Co., Ltd., Dong took the FCFF model to evaluate the

enterprise of the company. It is concluded that the current development status of North Xinyuan Enterprise can adopt a wait-and-see attitude, suggesting that investors can choose to wait for the two results [7]. Taking Industrial and Commercial Bank of China as an example, Deng used DDM model to estimate the intrinsic value of its stock. By comparing the intrinsic value of the stock with the market price, the potential reasons for the difference are obtained and relevant investment recommendations are provided [8].While Zhang adopts both financial analysis and stock valuation method to provide investors with the basis for rational investment [9]. Based on the analysis of price/earnings ratio, PEG valuation, price-to-book valuation, revenue growth rate and other indicators, Guo concludes that HERC HOLDINGS INC (HRI) has better profitability and stable stock market among the four globalized capital enterprises, and has good development prospects [10].

Therefore, on the basis of existing literature, this paper will specifically use SWOT to analyze the internal environment of Cigna Company. Through financial analysis, the financial trend of the company in recent years and the comparison with the same industry are presented. This paper makes a comparative analysis of Cigna's stock valuation by using valuation method, so as to get the future development of Cigna. Not only let investors more comprehensively understand the development status of the enterprise, clear the investment value of the enterprise; it also makes an important supplement to the relevant literature in this field.

2. Method

This paper mainly uses SWOT analysis, financial analysis and valuation methods to analyze Cigna.

SWOT analysis is based on the internal and external competitive environment and situation analysis under competitive conditions. It lists the main internal strengths, weaknesses and external opportunities and threats closely related to the research object through investigation, arranges them according to matrix form, and then uses the idea of systematic analysis to match various factors and analyze them. A series of corresponding conclusions are drawn, and the conclusions usually have a certain degree of decision-making. SWOT analysis includes four parts: S (strengths), W (weaknesses), O (opportunities), T (threats). Through SWOT analysis, Cigna's strengths and weaknesses, opportunities and threats can be clearly presented, so as to better analyze the future development of Cigna.

Financial analysis is a method of evaluating and analyzing the financial condition, operational performance, and future potential of a business. It provides quantitative and qualitative analysis of a company's financial statements, financial indicators and financial ratios to help investors, managers and other stakeholders understand the company's operations, risk levels and value potential. Financial analysis usually involves techniques such as comparison, trend analysis, ratio analysis and financial comparison. In the financial analysis part of this paper, revenue, gross profit to assets ratio, asset turnover ratio are mainly used to analyze and evaluate the profitability of enterprises.

Valuation is a method by which a business, asset or investment is evaluated and valued. It usually involves considering factors such as a company's financial position, future earnings potential, market environment, etc., to determine its reasonable market value. Common valuation methods include comparative market method, income method and assets method. Using valuation methods, it can be seen whether the company's stock is overvalued or undervalued. This paper mainly uses P/E ratio, PEG and other indicators to evaluate the Cigna Company.

3. Results and discussion

3.1. Result of SWOT analysis

3.1.1. Strengths

(1) Strong technical support. With deep clinical experience in pharmacy, medicine and behavioral sciences, Cigna has leading specialty pharmacy, clinical and care management expertise to provide users with the best possible healthcare. At the same time, powerful data and insights can

provide users with more precise and personalized care, so that their every need is well met. In terms of consulting, an experienced and talented team will give the best solution.

(2) Two growth platforms. Evernorth Health Services and Cigna Healthcare. Evernorth Health Services is the company's pharmacy benefits, specialty and care solution that is highly attractive to the clients and partners because of the depth of its capabilities and expertise. Evernorth Health Services also enables the company to deepen existing relationships across their entire book of business.

(3) Innovation and cooperation. Cigna is focused on developing innovative solutions that meet the needs of customers, patients and clients. These include integrated behavioral, medical and pharmacy management solutions. The company achieves sustainability by accelerating innovation and collaborating with others.

3.1.2. Weakness

(1) The downgrading of the financial strength ratings of insurance subsidiaries. A downgrade in the financial strength ratings of insurance subsidiaries could adversely affect new sales and retention of current business, and a downgrade in debt ratings would increase the cost of borrowed funds and could negatively affect the ability to access capital.

(2) Debt repayment problems. Cigna maintains significant debt in the day-to-day course of its operations and may incur further debt in the future. These liabilities may reduce its cash flow from operations and adversely affect the company's financial position. In addition, the asset turnover rate of Cigna is lower than that of MOH and CNC currently.

(3) A sharp drop in the stock market or interest rates. Currently, Cigna have overfunded obligations in the frozen pension plans. A significant decline in the value of plan equity and fixed income investments or adverse changes in applicable laws or regulations may substantially increase required expenses and alter the timing and amount of plan funds required. That could reduce the company's available cash. At the same time, companies are also exposed to interest rate and equity risks associated with pension obligations. A sustained decline in interest rates could adversely affect the funding position of pension plans and the reinvested yield of new investments.

3.1.3. Opportunities

(1) Digital transformation. Cigna is a global health company with many customer profiles. By strengthening digital transformation, the company develops and integrates deeper digital health solutions to meet the needs of customers. In addition, and the company uses data analysis and artificial intelligence application technology to conduct in-depth analysis of customers' health data. By upgrading the platform, users can more easily access insurance policy information, view health data, etc., and provide personalized services.

(2) Mergers and acquisitions. The company primarily generates revenue from its Medicare and Medicaid operations. Cigna can expand its business reach, bolster its technical capabilities, and increase market penetration through acquisitions or strategic supplier alliances in order to enhance its competitiveness.

(3) Population aging trend. At present, the aging of the global population is becoming more and more serious. In view of the aging trend of the population, people's demand for medical treatment is increasing. For the elderly, the company has developed new health management and insurance services to meet the needs of the growing elderly population.

3.1.4. Threats

(1) The risk of emerging and spreading diseases. The emergence of numerous novel diseases poses uncertainty and risk to the health insurance industry, which may exceed the company's expectations and reduce the company's revenue. The sudden spread of diseases, which can lead to large claims and increased medical costs, is a classic example.

(2) Price competition and other pressures. Client contracts are subject to negotiation as clients seek to contain their costs, including by reducing benefits offered. Increasingly, clients seek to

negotiate performance guarantees that require us to pay penalties if the guaranteed performance standard is not met. Customers will compare Cigna's pricing with that of other companies before making a decision, which presents a certain threat to the company's performance.

(3) Cyber-attack or other privacy or data security issue. As the number of PIs stored and shared digitally increases, Cigna is vulnerable to cyber-attacks or other privacy or data security incidents, and suppliers are prone to the same problem.

3.2. Result of financial analysis

Cigna healthcare is a health benefits provider that advocates for better health through every stage of life. In order to better analyze Cigna's development in the industry, we selected three other companies that are also engaged in the health care industry for comparative analysis. They are Molina Healthcare, Centene Corporation and Unitedhealth Group. The details are as follows.

3.2.1. Revenue

As shown in Figure 1, 2, Unitedhealth Group ranks first in both annual revenue and quarterly revenue, while Cigna ranked third in 2017.However, Cigna has grown rapidly in recent years, ranking second in 2023.Overall, and Cigna’s revenue situation is not as good as that of Unitedhealth Group, but both annual and quarterly revenue are on the rise. Cigna is in a good position for the future and its revenues will continue to grow in the future.

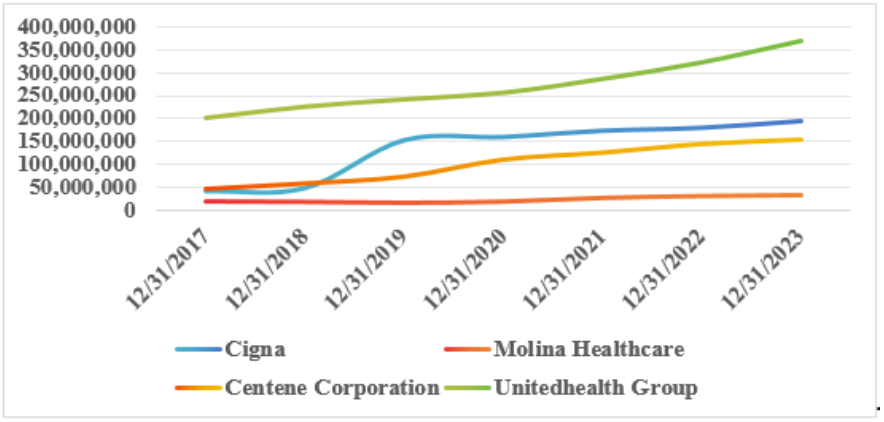


Fig. 1 Annual revenue.

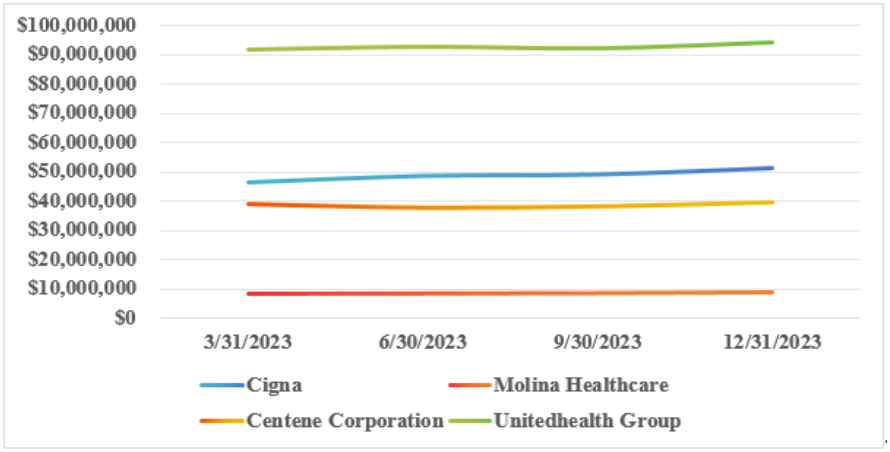


Fig. 2 Quarterly revenue.

3.2.2. Gross profit to assets ratio

As Figure 3 shows, prior to 2019, Cigna (CI) had the lowest gross profit to assets ratio of the four companies, at just 26.8%.However, between 2018 and 2019, Cigna company skyrockete. Until December 31, 2023, its Gross profit to assets ratio is as high as 104.1%, which is 2-3 times that of the other three companies.CI has the highest annual GP/A compared to the others, and it has a good trend.

That means that the enterprise product competitiveness is high and the profitability is good. On the contrary, CNC & MOH showed a downward trend. In contrast, Cigna has stronger profitability in the future.

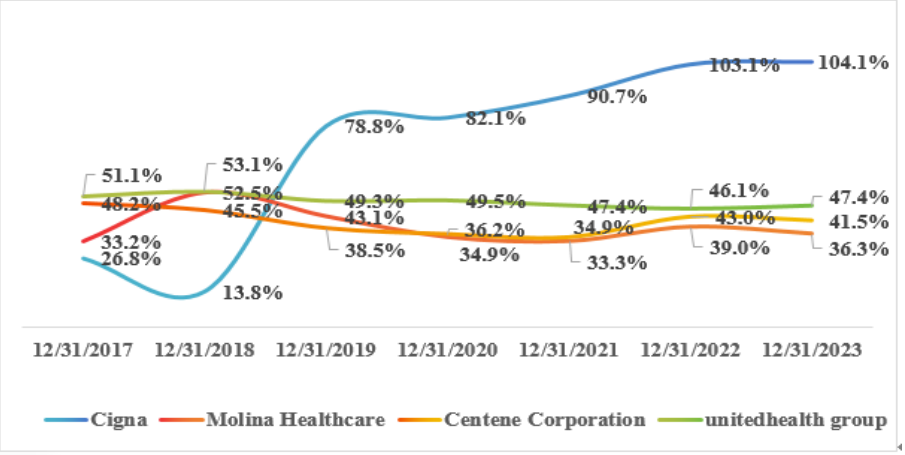


Fig. 3 Gross profit to assets.

3.2.3. Asset turnover

As shown in Figure 4, the asset turnover of Cigna enterprises is the lowest among the four enterprises, at only 67.7% in 2017.Molina Healthcare is the highest of the four companies at 234.7%.In recent years, the asset turnover of Cigna has gradually increased and is always on an upward trend, while the other three companies have declined. This means that Cigna enterprises are gradually improving their asset utilization efficiency. The company's financial flow risk is reduced, and the repayment ability is improved.

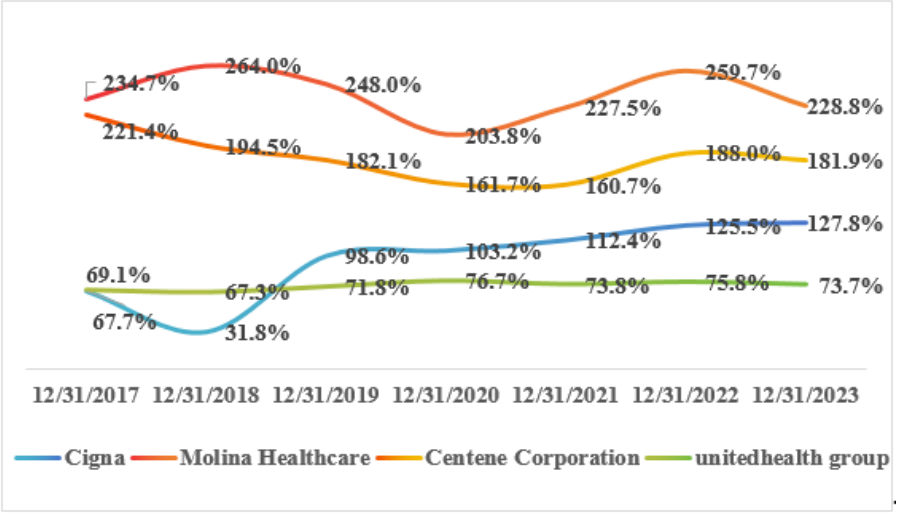


Fig. 4 Asset turnover.

3.3. Result of valuation analysis

From Table 1, it is evident that there is a significant disparity between the CNC companies and the other three corporations. In general, Cigna demonstrates a higher EPS, with a NTM EPS of 28.44, while Centene's EPS is merely over 6. When assessing the TTM and NTM P/E ratios, it becomes clear that the CNC companies possess the lowest P/E ratios, amounting to 10.82 for TTM and 10.69 for NTM. In terms of EPS growth rate, Cigna takes the lead, with an EPS growth rate of 13.3%. In contrast, the CNC Company’s EPS growth rate is merely 1.2%, placing it behind the other three companies in this regard. From a PEG perspective, CNC has the highest stock price at $9.01, while Cigna has a lower price of just $1.08.

Table 1. Valuation index.

2024.4.5	Molina Healthcare(MOH)	Cigna(CI)	Centene Corporation(CNC)	UnitedHealth Group(UNH)
Share price	$375.30	$360.37	$72.05	$456.98
TTM EPS	20.89	25.1	6.66	25.12
NTM EPS	23.57	28.44	6.74	27.72
EPS growth rate	12.8%	13.3%	1.2%	10.4%
TTM P/E	17.97	14.36	10.82	18.19
NTM P/E	15.92	12.67	10.69	16.49
PEG	1.40	1.08	9.01	1.76

4. Conclusion

This paper mainly uses SWOT analysis, financial analysis and valuation method to analyze the investment value of Cigna. From the SWOT analysis, we can see that the enterprise currently has the advantages of Strong technical support, two growth platforms, Innovation and cooperation. The disadvantages are mainly reflected in the downgrading of the financial strength ratings of insurance subsidiaries, debt repayment problems, and a sharp decline in the stock market or interest rates.

Currently, with the ongoing advancement of technology, Cigna is presented with a myriad of opportunities for future development, encompassing digital transformation, mergers and acquisitions, and the aging population trend. However, there are also many challenges along with opportunities. The risk of emerging and spreading diseases, price competition and other pressures, cyberattacks or other privacy or data security concerns can all hinder a company's future growth. We have carried out further financial analysis of Cigna Enterprises. According to the above chart analysis, Cigna's various indicators are basically in the forefront, and the company's future development trend is on the rise. In terms of valuation, Cigna has the lowest PEG of the four companies, and its stock is cheaper. The company's P/E ratio is also low, which means less investment risk and a shorter payback period. In general, Cigna has a good future development prospect and long-term investment value.

From an investor's perspective, this company has the best PEG ratio which is cheap enough. In addition, it has the highest NTM EPS, EPS growth rate, revenue growth rate and gross profit to total assets ratio. Its annual gross margin and quarterly gross profit are both high and maintain a steady growth trend. These make it potentially a compelling investment target. These analyses provide some reference and basis for investors.

From a corporate perspective, the asset turnover rate of enterprises is low and it have more liabilities. Enterprise is supposed to optimize the utilization of assets by speeding up the collection of accounts receivable. To reduce the cost of debt and financial risk, the company can reevaluate the debt structure of enterprises and seek more favorable financing methods. As new opportunities emerge, businesses can accelerate digitization, develop new products, and maximize their strengths.

In view of the microeconomy, although we have carried out a multi-dimensional analysis of this enterprise, the macro factors have not been taken into account, which can be further expanded in the future research process.

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