



Humana Call Buyer as Managed Care M&A Continues

Ticker/Price: HUM (\$261)

Analysis:

Humana (HUM) buyer of 800 August \$280 calls today for \$12.10, stock replacement and follows buyers of 2,400 April \$270 calls yesterday around \$7. HUM has 1,000 May \$280 calls and 2,000 of the May \$300 calls in OI as well from buyers. Shares have been weak recently but back to a big volume support level from late 2017 at \$265 as well as the 38.2% Fibonacci of the strong rally from 2016. A move back above \$280 and downtrend resistance key to shifting the narrative with upside targets \$300 and then \$320. The \$36.2B managed care company trades 13.65X earnings, 0.64X sales, and 15.5X cash. HUM sees 20.7% and 10.7% EPS growth as well as 11.5% and 8.7% revenue growth through 2020. HUM has returned to strong MA growth while projecting 12% to 13% growth for the year, above expectations. The company has benefited from the HIF moratorium which is set to return next year and the company expects congress to take up legislative action this Summer to permanently repeal HIF which would be a positive catalyst. Analysts have an average target for shares of \$357 with 13 buy ratings and 3 hold ratings. Short interest is 1.9%. CSFB positive on 3/20 after meetings with management noting that MA utilization trends have been consistent with enrollment trends improving. Tailwinds into 2020 include improved margin on new MA members added in 2019, the benefit from industry leading STARS ratings in MA, productivity initiatives, return on strategic initiatives, and potential MA growth from PDP disruption. Institutional ownership fell 1.4% last quarter.

Hawk Vision:



Trading Strategy: HUM has value at these levels but price action is terrible for the whole group and need to let some near-term news-driven headwinds clear with ACA.

Confidence Ranking: \$\$