



## Centene Reward/Risk Seen Favorable after WellCare Deal Reaction

**Ticker/Price:** CNC (\$57.35)

### Analysis:

**Centene (CNC)** trades another 10,000 September \$60/\$47.5 bull risk reversals today, spot where 20,000 have accumulated recently. CNC has seen buyers active in the June \$57.50 calls as well over the week, more than 12,000, while the September \$62.50 calls have also seen buyers. The June \$55 calls also saw 7,000 bought over the last week. Shares traded down to \$49.50 recently after their \$17B deal for Wellcare (WCG) was announced but rebounding well up more than 15% from the lows. Shares are clearing a small downtrend today from the post-earnings highs in February and room back to cloud resistance and the 200-EMA at \$61.50. Longer-term, CNC has been a strong performer which pulled back to the 50% retracement and held up well. The \$24B company trades 11.74X earnings, 0.39X sales, and 41.65X FCF. CNC expects 12-14% EPS growth through 2021 with revenue growth around 8%. CNC expects the deal to be dilutive in the first year but significant synergies through year five as they add integrate across pharmacy and IT. The deal gives them a massive position in the Medicaid market with 12M members. Importantly, it also gives them big exposure in Medicare Advantage which is the fastest growing segment in managed care. Analysts have an average target for shares of \$77 with 14 buy ratings and 3 hold. CNC has 1% of the float short. Wells Fargo positive on the deal on 3/27 and thinks next steps post-deal could include CNC internalizing Wellcare's PBM business. Argus was cautious on 3/29 noting that there will almost certainly be antitrust scrutiny due to overlaps in certain states. CNC is expected to explore divestitures in NE and MO. Cowen with an interesting note on 4/5 speculating that Centene itself may be an M&A target for Humana who is looking to buy a scaled Medicaid asset. Institutional ownership fell 10.5%.

### Hawk Vision:



**Trading Strategy:** CNC is a messy situation until we get more clarity around this deal closing and prefer best of breed UNH, though if playing CNC these structures are the way to go.

**Confidence Ranking:** \$\$