



CIGNA Calls Adjust Looking for Upside with ESRX Deal Closed

Ticker/Price: CI (\$196.75)

Analysis:

CIGNA (CI) yesterday afternoon with February \$200 calls opening in size and now 3,185X in open interest, a name that has a lot of bullish positioning in Jan. 2019 that may need to adjust in coming days. CI shares recently retested the \$175 level where shares broke out of in mid-2018 from a long base, and held that level with a bounce now taking shares to the 21 week MA and just above its weekly cloud. Shares look to have near-term room up to \$210 resistance. The \$73.8B managed care company trades 11.8X Earnings, 1.64X Sales, and 19.7X FCF with earnings set to be reported on 2-1. The DoJ cleared its \$67B acquisition of Express Scripts (ESRX) last year. It will provide its first combined company guidance on 2/1. Analysts have an average target of \$243 on shares and short interest is high at 7.1% of the float mostly due to the M&A arbitrage. CSFB has an Outperform rating and \$250 target on shares, seeing confidence in the deal accretion and management indicating business is strong across all service lines into 2019. Cantor Fitzgerald has a \$245 target and sees investors under-appreciating the synergies and cash flows from the ESRX deal. Stephens started shares Overweight with a \$251 target this morning seeing \$20/\$21 EPS in 2021. Jefferies sees shares as the cheapest value in its peer group and expects estimates to rise. Hedge Fund ownership fell 7.7% in last quarter's filings, Partner Fund disclosing a notable call option position, while Veritas and Sanders Capital are notable concentrated holders.

Hawk Vision:



Trading Strategy: CI looks like an attractive synergy story in 2019 and trades cheap, though UNH still my favorite growth name in the group.

Confidence Ranking: \$\$