

Aetna Inc Ticker: AET Sector: Health Care Industry: Health Care	Intrinsic Value: \$81.26 Current Price: \$65.20 Stop Loss: \$55.42 Upside Review: \$96.26	TTM P/E: 13.05 Forward P/E: 12.08 FV Imp. P/E: 16.42 Beta: 0.85	Market Cap: \$24.53B Dividend Yield: 1.30% 52 Wk Range: \$46.04 - \$72.16
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Industry Trends:

Health Care Reform - The recently enacted health care laws, predominantly from the Patient Protection & Affordable Care Act (ACA), makes efforts to decrease the uninsured population, set floors for level of coverage in a policy, and to decelerate the cost of health services by encouraging value over quantity. Implementing the numerous provisions of the Affordable Care Act still remains under debate, as a result add more uncertainty to the industry. Rising costs of healthcare and government involvement are a challenging environment for the next coming years.

Business Summary:

Aetna (AET) is an American healthcare Services Company headquartered in Hartford, CT. Founded in 1853, they have a long history. Both their name and service offerings have evolved over the years. The businesses is segmented into health care, group insurance, and large case pensions. Almost all of AET's revenues, 90% come from the health care division. Inside of this, most is risk and administrative health insurance services. The commercial risk business line contributes 55% of the revenues. In addition, Medicare and Medicaid – government business – account for 23% and 7% respectively

Investment Thesis:

Good revenue mix - Although, the MCOs are in a difficult operating environment, AET has revenue exposure to all major healthcare business lines. Moreover, it has a good and expanding position in government business, currently contributing 22% to the revenue.

Large geographic reach - With Coventry, AET now has a large geographic reach that will increase flexibility to participate in exchanges in many states.

Low leverage and risk - AET has a strong balance sheet with a low leverage. It has an excellent cash generating ability which support its acquisition activities, share repurchase and predictable shareholder dividend. Its beta of 0.91 indicates a lower systematic risk than the market and its peers, shown. In addition, it receives decent credit ratings from Moody's, S&P, and A.M. Best which are Baa2, A-, and bbb+ respectively.

Competitive Analysis:

AET's margins and ROE are in the middle of its peers- For the LTM (Q4 2012 – Q3 2013), AET's operating profit margin and net margin were 7.7% and 3.8% respectively. The operating margin was in line with the peers group; however, the net margin was considerably lower than

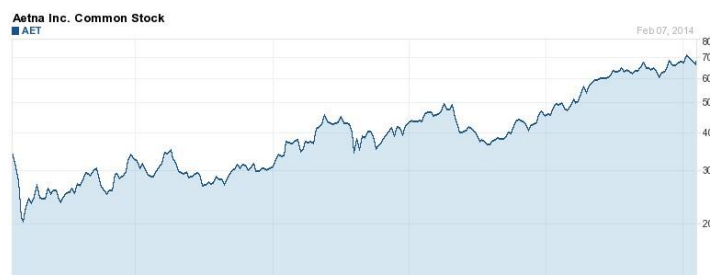
Pros:

- Large membership base - Aetna has a sizable membership base, which gives it significant competitive advantages
- One of the most profitable MCOs - The firm's solid operations within the group market positions it well
- Aetna's large geographic reach should allow it to participate in several exchanges nationwide.

Risk Factors:

- The overhaul of the U.S. health-care market has built unprecedented uncertainty into the operating environment for Aetna
- Greater transparency and competition will pressure pricing and profits for MCOs
- Aetna's growth prospects are strong; however this will most likely come at a lower level of profitability.

AET 5 year stock performance:



Total Return Estimates:

3 Yr FV Reversion*: 6.77%
5 Yr FV Reversion*: 4.01%

(* - From limit order price of \$42.67)

Key Valuation Assumptions:

Cost of equity 9.9%
Terminal Growth Rate 2.5%
10 yr. Risk Free Rate 3%
Cost of debt 3%

Key Financial Data:

Est. 2014 EPS \$6.1
Est. 2015 EPS \$6.2
Price /Book 1.8
Price/Cash Flow 10.7
Debt/Equity market value 25%

CSR Scores

Human Rights 0/0
Business Ethics Policy 1/1
ESG Disclosure Score 19.83/14.88
Equal Opportunity Score 1/1
Emission Reduction 1/0
Environmental Disclosure Score 6.98/5.94

Direct Competitor Comparison

	AET	CI	UNH	WLP	Industry
Market Cap:	24.53B	21.41B	72.36B	25.55B	N/A
Employees:	35,000	35,800	N/A	N/A	N/A
Qtrly Rev Growth (yoy):	0.46	0.10	0.08	0.15	0.00
Revenue (ttm):	44.04B	31.85B	122.49B	71.02B	N/A
Gross Margin (ttm):	0.25	0.38	0.27	0.21	0.00
EBITDA (ttm):	3.92B	3.73B	11.00B	5.50B	N/A
Operating Margin (ttm):	0.08	0.11	0.08	0.06	0.00
Net Income (ttm):	1.73B	1.52B	5.62B	2.63B	N/A
EPS (ttm):	4.95	5.30	5.50	-0.48	N/A
P/E (ttm):	13.50	14.61	12.98	N/A	N/A
PEG (5 yr expected):	1.20	0.99	1.55	1.15	N/A
P/S (ttm):	0.57	0.74	0.59	0.37	N/A

Sources:

Yahoo Finance

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