

Company: CVS Health CORP	Ticker: CVS	Current Price: 67.08	Industry: HealthCare
Target Price: \$82.77 (23%)	TTM P/E: 12.37	Beta: 0.91	Market Cap: 69.03B
Stop Loss: \$57.8 (15%)	Forward P/E: 10.60	Credit Rating: BBB+	Avg Vol (3M): 3.821M
52 Week High/ Low: \$84/\$66.45	EPS: 5.5	Rating Outlook: Stable	Dividend Yield: 2.94%

Company Background:

CVS Health Corporation is an integrated pharmacy health care provider. The Company's offerings include pharmacy benefit management services, mail order, retail and specialty pharmacy, disease management programs, and retail clinics. The Company operates drugstores throughout the U.S., the District of Columbia, and Puerto Rico.

Industry Outlook:

Healthcare in United States is approximately 18% of GDP. There is an ongoing movement to reduce cost, increase access and improve quality. Healthcare supply-chain companies face continued challenges in the operating environment amid increased competition in 2018. Pricing pressures for both brand and generic drugs are unlikely to abate in the near term and Amazon.com's potential entrance into various facets of the market has weighed on the group. The strain on sentiment and the outlook has squeezed valuations, which now stand at 2013 levels. However, there is also a positive event: The CVS-Aetna deal could be a catalyst for further vertical integration.

Investment Thesis:

- Strong position in pharmacy
- Large PBM operation that will be amplified by merge with Aetna
- Expanding MinuteClinic location and offerings

Investment Risks:

- With new player like Amazon come to Healthcare industry, CVS may face more challenge than before.
- There is a probability the merge with Aetna may fall
- As the first company try to do industry integration, it may pay more operational cost

Most recent quarter financial highlights (July- Sept 2017):

- Continuous high revenue growth
- Even with high growth and aggressive acquisition, the debt to equity ratio stay lower than 1 and profitability is stable

Financial Performance:

Millions USD	2013	2014	2015	2016	2017	2018 Est	2019 Est
Revenue	126,761.0	139,367.0	153,290.0	177,526.0	184,765.0	189,248.7	205,269.8
Operating Income	8,037.0	8,799.0	9,454.0	10,338.0	9,517.0	10,010.7	11,988.3
Net Income	4,592.0	4,644.0	5,237.0	5,317.0	6,622.0	5,771.6	7,201.8
Revenue Growth %	2.96	9.94	9.99	15.81	4.08	2.43	8.47
EBITDA%	7.82	7.70	7.53	7.22	6.49	6.61	7.10
Operating Profit %	6.34	6.31	6.17	5.82	5.15	5.29	5.84
Net Income Margin	3.62	3.33	3.42	3.00	3.58	3.05	3.51
D/E%	35.33	33.95	73.74	74.74	71.63		
Diluted EPS	3.74	3.96	4.63	4.90	6.44	5.73	6.30
PE Ratio	19.29	22.79	20.25	14.50	13.52	10.65	9.87
Current Ratio	1.64	1.37	1.26	1.18	1.02		
ROE%	12.15	12.19	13.86	14.37	17.77		
ROA%	6.67	6.37	6.29	5.69	6.99		
Dividend P/S	0.90	1.10	1.40	1.70	2.00	2.21	2.36
FCF	3,799.0	6,001.0	6,045.0	7,917.0	6,089.0	7,485.3	8,238.1

Discounted Cash Flow

	2013-17	2018-22
Avg Revenue growth	8.56%	5%
Avg EBITDA Margin	7.35%	7.4%
Avg Net Income Margin	3.39%	3.4%
Avg Debt/Equity	57.88%	70%
Avg FCF / EBITDA Margin	0.52%	0.52%
Cost of Debt		3.8%
Tax Rate		39%
Cost of Equity		12%
WACC		9.74%
Perpetuity growth rate		5%

Analyst Opinion

Buy: 20	Hold: 7	Sell: 0
Target Price Range	\$86-\$100	Avg. \$89
Source: Bloomberg		

Relative Valuation

	CVS	Walgreen	Rite Aid	Jean Coutu Group	Industry median
P/E	12.42	15.01	-	24.35	15.01
P/B	1.84	2.66	2.54	3.5	2.6
Dividend Yield	2.93	2.23	0	2.1	2.16
Revn Grth	5.25	7.86	-5.57	-0.63	2.31
NI Grth	92.56	-22.11	439.85	-17.77	37.39
Operating Margin	6.42	4.66	0.3	7.43	5.54
Debt / Equity	71.63	52.34	368.14	0	61.99
Market Cap	69.30	68.94	2.1	3.5	36.22
Revenue TTM	184.77	120.45	29.35	2.34	74.9
Net Income TTM	6.62	3.85	0.155	0.14	2
FCF TTM	6.09	6.33	0.149	0.151	3.12

Total Return

	CVS	XLV	SPY
YTD	-6.98%	2.12%	2.56%
1 year	-14.18%	15.91%	17.26%
3 Years	-34.30%	19.73%	31.19%
5 Years	33.78%	96.50%	81.82%

CSR Characteristics

	CVS	Industry
Governance Disclosure Score	60.71	58.04
ESG Disclosure:	41.74	31.40
Social Disclosure Score	31.58	31.58
Environmental Disclosure Score	37.98	32.56

Data: Bloomberg data of FY 2016 (CSR)

* Resource: Bloomberg, all data updated to the latest quarter except for Revenue, Net Income, and FCF