

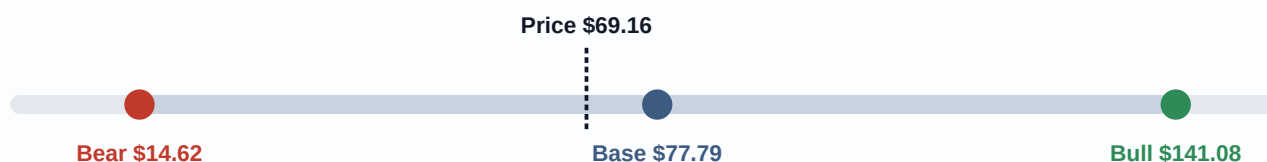
Initiated 2026-10-18 · Price \$69.16 (as of 2026-10-16, stockanalysis.com) · Mkt cap \$34.4bn (497.6mm diluted shares) · Health care / managed care (Medicaid, ACA Marketplace, Medicare) · Model: verified

Rating: Hold — Conviction: Low

Centene's 2026 recovery is real: Q2 earned \$1.1bn and guidance went from >\$3.40 to >\$4.80 on Medicaid and Marketplace repricing. At ~14x that guidance, the price already sits most of the way to a base case in which margins recover to 3.2% by 2030, still below 2023–24. What isn't priced is 2027: Medicaid work requirements, a smaller and less predictable Marketplace pool, and ~\$0.50 a share of 2026 one-offs that won't repeat. On a ~2% margin business with \$16bn of debt, small misses move the equity a lot in both directions.

Conviction tests (3a-v-c): T1 fail (Hold → Buy at -1pp: Base +32%; -3% at +1pp) · T2 pass (Gordon alone +20%, exit-multiple alone +5%; Hold on either given the bear case) · T3 pass · T4 pass (no pending deal, ruling or single-contract event worth >25%; work requirements are inside the bear case; Q3 print 2026-10-27 is routine)

MODEL VALUE RANGE VS PRICE



Business overview

Centene is the largest US Medicaid managed-care company. Its FY2025 total revenue was \$194.8bn, of which \$20.2bn was pass-through premium tax. At 2026-06-30 it had 25.9mm at-risk members: Medicaid 12.1mm (about half of membership and premium), Commercial 4.0mm (Marketplace 3.5mm, down from 5.9mm a year earlier) and Medicare Advantage 0.98mm, plus 8.8mm in standalone PDP. Pre-tax margin is 1–4% of revenue; three variables drive earnings. The first is the gap between state Medicaid rates (~5% composite for 2026) and member acuity, which rises as eligibility tightens. The second is Marketplace pricing and risk-adjustment transfers. The third is Medicare Advantage, which management targets at break-even or better in 2027. Investment income on ~\$44bn of regulated float (\$1.6bn in FY2025) adds rate sensitivity.

Competition

In Medicaid, Centene held 17.9% of HMAIS-tracked enrollment in June 2026. Elevance had 10.7%, UnitedHealth 8% and Molina 6% (Health Management Associates, Q2 2026). All large plans are losing members to redeterminations, not to rivals (Q1 2026: -3.1% Centene to -5.8% Molina; Georgetown CCF). Elevance has said it expects to exit some Medicaid markets over 12–18 months (KFF). Pressure shows up first in rates and acuity, not price competition: Molina, the purest listed comparable, trades at 29.5x forward earnings on depressed profits, against 15.8x for Elevance and 17.7x for UnitedHealth (stockanalysis.com, 2026-10-16).

Bull case

1. **Medicaid margin repair** — 2026's ~5% composite rates and acuity adjustments continue, pulling Medicaid HBR from 93.5% toward 91–92%. Plays out if states fund acuity as work requirements bite. *Model: ebitda_margin*
2. **Marketplace holds its repriced margin** — the guided 4.5–5% 2026 Marketplace margin persists through competitor exits, and membership stabilizes, so revenue regrows 4–5% a year from 2028. Plays out if 2027 risk-adjustment and enrollment data come in near plan. *Model: rev_growth, ebitda_margin*
3. **Re-rating on normalized earnings** — margins back near 3.9% earn a 10.5x exit and 3% terminal growth. Plays out if 2027 adjusted EPS grows despite losing the one-offs. *Model: exit_ev_ebitda, terminal_growth*

Bear case

1. **Work requirements shrink and sicken the Medicaid book** — eligibility rules from 2027 remove healthier members faster than rates reset, cutting revenue ~5% and margin toward 1.6%. Plays out if Q4 2026 and Q1 2027 Medicaid HBR rises above ~94% while rate updates lag. *Model: rev_growth, ebitda_margin*
2. **Marketplace re-shock** — H1 2026 included ~\$481mm of risk-adjustment favorability, \$180mm of it Q2's one-time 2025 settlement, and management cites ~\$0.50 a share of non-recurring items. Plays out if the 2027 pool shrinks and sickens as in 2025. *Model: ebitda_margin*
3. **Policy discount on a levered balance sheet** — Ba1 rating, 41.6% debt-to-capital and only \$715mm of parent cash. A higher risk premium (9.75% WACC) and a 7.0x exit compress the equity. Plays out if federal Medicaid financing tightens or ratings fall. *Model: wacc, exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$49.9bn = mkt cap \$34.4bn – parent cash \$0.7bn + debt \$16.1bn + NCI; EBITDA incl. investment income, pre-impairment)	19.7x FY2025; ~11.6x 2026E	8.1x / 8.0x on FY2023–24 EBITDA (\$6.1bn / \$6.2bn) at today's EV	ELV 13.7x · UNH 14.1x · HUM 16.0x · MOH 25.1x (aggregator TTM, all cash netted)	model-inputs.json ; stockanalysis.com 2026-10-16
Forward P/E (consensus)	14.85x; 14.4x on >\$4.80 2026 guide	adjusted EPS \$6.68 / \$7.17 / \$2.08 FY2023–25	ELV 15.8x · UNH 17.7x · HUM 33.3x · MOH 29.5x	stockanalysis.com 2026-10-16; Healthcare Dive
P/B	1.51x	n/a (unverified)	ELV 2.07x · UNH 3.48x · HUM 2.58x · MOH 2.59x	stockanalysis.com 2026-10-16

The aggregator's 5.67x EV/EBITDA and 26.2% FCF yield treat ~\$27bn of regulated cash as free.

Model-implied value range (from model-summary.json ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$14.62 · Base \$77.79 · Bull \$141.08 per share, i.e. implied returns of –78.9% / +12.5% / +104.0% vs \$69.16. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price is ~86% of the way from Bear to Base, so the market already credits most of the base-case recovery.
- **Re-rating.** The Base exit of 9.0x is a de-rating from today's 11.6x on 2026E EBITDA (19.7x on depressed FY2025). The methods differ by 14% (Gordon \$83.02, exit \$72.56): Gordon embeds the higher terminal multiple, so the re-rating sits in that method.
- **Tail.** Revenue –8% in 2027 and –3% in 2028, margin at 1.2–1.5%, 10.5% WACC, a 6.0x exit and 1% terminal growth give \$0.00 (floored): equity value doesn't cover net debt.

Balance sheet: net leverage 6.1x model-basis FY2025 EBITDA (gross 6.4x), ~3.7x gross on 2026E. Coverage 4.0x. Liquidity: \$715mm of unregulated cash at 2026-06-30; operating cash flow \$8.0bn in H1 2026, mostly at regulated subsidiaries. Debt-to-capital 41.6%. The

nearest material maturity is the 4.25% notes due December 2027 (amount n/a, unverified). Ratings: Moody's Ba1 (secondary bond listing, 2026-07-30), S&P and Fitch n/a (unverified).

Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs. No assumptions without basis. Scenario consistency `OK` on all 14 rows.

- **Sourcing.** FY2023–25 historicals from the FY2025/FY2024 10-Ks (EDGAR); balance sheet, shares and guidance from the Q2 2026 release and 10-Q.
- **EBITDA basis.** Investment income on the float is included, and only parent cash is netted. Restructuring and "other adjustments" stay in EBITDA (not added back). Capex includes ~0.1% of revenue for statutory capital retention (judgment).
- **Debt.** The debt is modeled as one \$16.1bn block with a placeholder 3.9% coupon and 2030 maturity (display only); tranche amounts were not retrieved.
- **EPS vs guidance.** Base Y1 EPS of \$4.90 is 2% above the >\$4.80 adjusted guide; amortization is excluded, as in adjusted EPS.
- **WACC.** 8.75% = CAPM cost of equity 10.74% (10Y 5.09%, beta 1.13, 5% ERP, no premium) and 4.44% after-tax debt (est.) at a 32% market weight; computes to 8.73%.

RELATIVE VALUE VS PEERS

Metric	CNC	ELV	UNH	HUM	MOH	Peer median	vs median
P/E (TTM)	n/a	19.1x	22.9x	39.0x	n/a	22.9x	
P/E (forward)	14.8x	15.8x	17.7x	33.3x	29.5x	23.6x	−37%
PEG	0.4x	4.3x	1.2x	1.6x	2.8x	2.2x	−82%
EV/EBITDA (TTM)	5.7x	13.7x	14.1x	16.0x	25.1x	15.1x	−62%
EV/Sales (TTM)	0.1x	0.6x	0.9x	0.4x	0.2x	0.5x	−71%
P/B	1.5x	2.1x	3.5x	2.6x	2.6x	2.6x	−42%
FCF yield	26.2%	6.8%	6.3%	3.9%	2.5%	5.1%	+21.1pp
Dividend yield	0.0%	1.6%	2.3%	0.9%	0.0%	1.2%	−1.2pp

P/E (TTM)

HUM

39.0x

UNH

22.9x

ELV

19.1x

P/E (forward)

HUM

33.3x

MOH

29.5x

UNH

17.7x

ELV

15.8x

CNC

14.8x

PEG

ELV

4.3x

MOH

2.8x

HUM

1.6x

UNH

1.2x

CNC

0.4x

EV/EBITDA (TTM)

MOH

25.1x

HUM

16.0x

UNH

14.1x

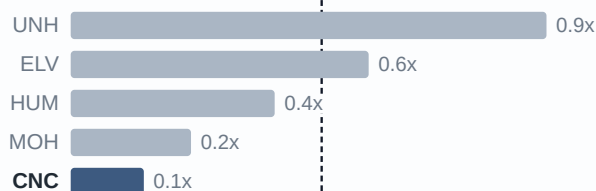
ELV

13.7x

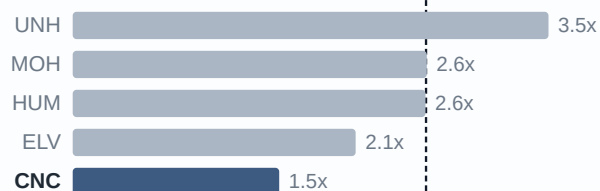
CNC

5.7x

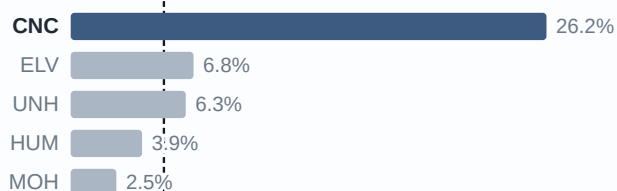
EV/Sales (TTM)



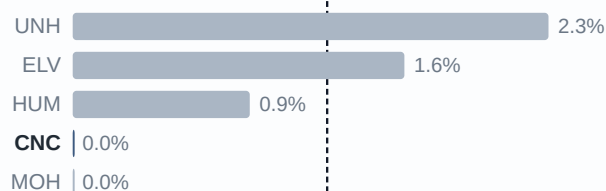
P/B



FCF yield



Dividend yield



As of 2026-10-18. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting all reported cash (for Centene that includes ~\$27bn held in regulated subsidiaries). Not the model's own EV basis (see the report's valuation table). All figures at the 2026-10-16 close, fetched 2026-10-18 (Sunday). Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-18.

Notes. Centene and Molina have negative trailing GAAP earnings (Centene: FY2025 \$7.3bn impairment), shown as n/a by the source. PEG as given by the source, resting on its consensus growth estimates; Centene's 0.39 reflects growth off a depressed 2025 base. Centene's 5.67x nets all ~\$27bn of reported cash, most of it regulated; on the model's basis (parent cash only, investment income in EBITDA) it is 19.7x FY2025 and ~11.6x 2026E. Centene's 26.2% TTM FCF includes regulated-subsidiary operating cash flow and risk-adjustment timing; it is not parent-distributable cash. Centene and Molina pay no dividend (0).

Scenario stress test

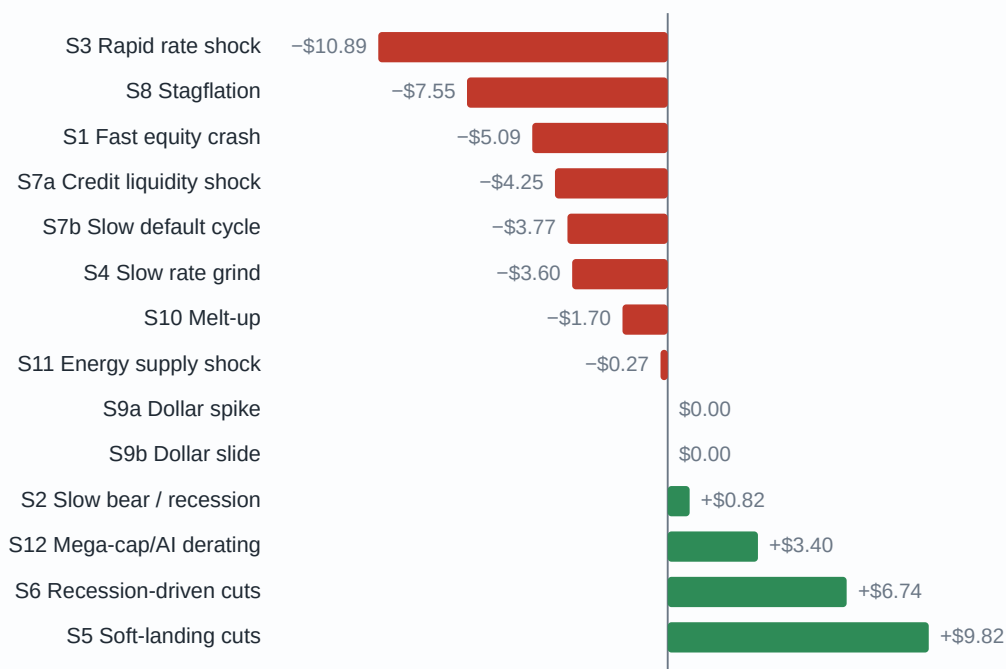
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	High-beta, policy-exposed equity de-rates; claims demand unaffected	Med	–\$5.09
S2 Slow bear / recession	±	Medicaid enrollment is counter-cyclical (revenue up), against slower state rate catch-up. Far milder than the bear case because the bear is a policy-driven membership and acuity loss, not a cycle	Low	+\$0.82
S3 Rapid rate shock	–	Higher discount rate on levered equity, partly offset by float reinvestment yield	High	–\$10.89
S4 Slow rate grind	–	Grinding discount-rate drag; float yield rises slowly	Med	–\$3.60
S5 Soft-landing cuts	+	Lower discount rate re-rates the equity; float income dips slightly	High	+\$9.82
S6 Recession-driven cuts	±	Rate relief and Medicaid enrollment gains vs state budget pressure and lower float yield	High	+\$6.74
S7a Credit liquidity shock	–	Ba1 issuer at 41.6% debt-to-cap: spreads gap and the equity is sold	Med	–\$4.25
S7b Slow default cycle	–	Pays more to refinance 2027–28 maturities; 99% IG portfolio limits losses	Med	–\$3.77
S8 Stagflation	–	Medical trend outruns annually set premiums and lagging Medicaid rates	High	–\$7.55
S9a Dollar spike	0	no material effect, not modeled	Low	\$0.00

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S9b Dollar slide	0	no material effect, not modeled	Low	\$0.00
S10 Melt-up	-	Momentum leadership leaves low-multiple managed care behind	Low	-\$1.70
S11 Energy supply shock	-	Second-round provider wage and pharmacy inflation leaks into trend	Low	-\$0.27
S12 Mega-cap/AI derating	+	Rotation into cheap, domestic, non-AI value	Med	+\$3.40

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: initial 2027 guidance shows adjusted EPS growth on the >\$4.80 base after removing the ~\$0.50 of one-offs, with Medicaid HBR at or below 93% and MA at break-even, or the price falls toward the lower half of the Bear–Base range with no change in fundamentals. **Downgrades if:** Medicaid HBR rises above 94% for two quarters, 2027 Marketplace pricing or membership comes in materially worse than 2026, or Centene loses a top-five state contract in re-procurement.

Watch items

- **W1:** Q3 2026 Medicaid HBR and full-year guide — HBR $\leq$ 94% and >\$4.80 reaffirmed or raised — Q3 2026 release — 2026-10-27 — *Model: ebitda_margin*
- **W2:** 2027 Marketplace pricing and enrollment — effectuated membership and margin commentary vs 2026's 4.5–5% — Q4 2026 release / investor day — ~February 2027 — *Model: rev_growth, ebitda_margin*
- **W3:** Medicaid membership after work-requirement start — decline within ~10% of the YE2026 base — Q1 2027 10-Q — ~April 2027 — *Model: rev_growth*

- **W4:** Parent cash and deleveraging — debt-to-cap below 40% and repurchases resuming — Q4 2026 release — ~February 2027 —
Model: none

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- 10Y Treasury 5.09% (2026-10-16) — logs/macro-2026-10.md (Treasury.gov par curve)

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.