

Mossberg's Investor Digest

Best Idea Profile

Triple-S Management Corporation. (NYSE:GTS)

DESCRIPTION:

Headquartered in San Juan, Triple-S Management is the largest managed care company in Puerto Rico, serving approximately 1.3 million members across all regions, and holds a leading market position which covers approximately 34% of the population. With 50 years of experience in the managed care industry, GTS has the exclusive right to use the Blue Cross and Blue Shield ("BCBS") names and marks throughout Puerto Rico and U.S. Virgin Islands. GTS offers a broad portfolio of managed care and related products in the Commercial, Medicare and the Government of Puerto Rico Health Insurance Plan. GTS serves a full range of customer segments including corporate accounts, federal and local government employees and individuals. GTS also offers complementary products and services, including life insurance, accident and disability insurance and property and casualty insurance. Substantially all premiums generated by GTS' insurance subsidiaries are from customers within Puerto Rico. In addition, all of GTS' long-lived assets, other than financial instruments, are located within Puerto Rico.

KEY INVESTMENT CONSIDERATIONS:

Dominant Franchise - GTS is the largest managed care company in Puerto Rico, serving approximately 34% of the population. GTS' relationships with managed care providers, physicians, hospitals, other facilities and ancillary managed care providers are guided by standards established by applicable regulatory authorities. GTS has provider contracts with 5,185 primary care physicians, 3,615 specialists and 64 hospitals. These assets along with 50 years of managed care experience make Triple-S a seasoned and dominant player in the Puerto Rican managed care market.

Sector Consolidation – The managed care sector is ripe for consolidation. WellPoint Inc. and competing U.S. health insurers approved \$10 billion in stock repurchases in the past year. WellPoint alone is buying back stock which equals nearly 20% of its market capitalization. With lots of cash and past M & A activity in the sector, GTS is a logical candidate for a takeout.

Essential Service – HMOs represent an essential insurance which is here to stay, despite changes to the healthcare industry. Using efficiencies of scale, managed care helps reduce costs for recipients with rates negotiated by the provider.

Call option on employment growth – The managed care business is a defensive economic play, yet has some upside. The business represents a "call option" on any future growth in employment.

Recurring Revenue with Annual Increases – Managed care client relationships are typically long-term. However, the insurance industry regularly passes on revenue increases each year to clients. Effectively, industry practices provide Triple-S with a solid stream of regularly re-priced and recurring revenues.

Cost Containment – Until 2006 GTS was a private company. The conversion to being a publicly traded company has created a new level of scrutiny and created an internal catalyst for cost control.

Free Cash Flow: The Company has a business model which is a strong cash generator. Triple-S' Free Cash Flow is slightly above its EPS and has historically had multiples in the teens.

VALUATION:

Despite its dominant market position, the company currently trades at less than 7x EPS. The company may prove an interesting acquisition candidate for an industry with lots of cash that is in transition. This could leave the company with a multiple that expands, potentially into the mid-teens.

(NYSE: GTS)	
Investment Data (as of 10/29/10)	
Recent Price	\$16.87
52-Week Range	13.04 - 21.36
Fiscal Year End	DEC
Shares Outstanding	29MM
Average Trading Volume (3 mos)	89,705
Market Capitalization	492MM
Cash	34MM
Long Term Debt	\$185MM
Enterprise Value (EV)	\$643MM
LT Debt/ Equity	0.3x
BV/ Share	\$20.48
TTM Revenue	\$2B
P/ Revenue	0.2x
TTM EPS	\$2.47
P/ EPS	6.8x
TTM EBITDA	\$113MM
EV/ EBITDA	5.7x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.