



UnitedHealth Group, Inc. (UNH)

Updated October 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$237	5 Year CAGR Estimate:	12.7%	Volatility Percentile:	27.0%
Fair Value Price:	\$261	5 Year Growth Estimate:	9.0%	Momentum Percentile:	25.0%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Growth Percentile:	88.7%
Dividend Yield:	1.8%	5 Year Price Target	\$401	Valuation Percentile:	72.7%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	84.3%

Overview & Current Events

UnitedHealth dates back to 1974 when Charter Med was founded by a group of health care professionals looking for ways to expand healthcare options for consumers. UnitedHealth has certainly done that in the decades since and now offers global healthcare services to tens of millions of people via a wide array of products. The company has two major reporting segments: UnitedHealth and Optum. The former provides global healthcare benefits to individuals, employers and Medicare/Medicaid beneficiaries. The Optum segment is a services business that seeks to lower healthcare costs and optimize outcomes for its customers. UnitedHealth's market capitalization is \$225 billion and it produces \$242 billion in revenue annually, making it one of the largest companies in America.

UnitedHealth reported Q3 earnings on October 15th and results were excellent once again, leading us to boost our estimate for this year. Total revenue came in at \$60.6 billion in Q3, up from \$56.6 billion in the year-ago period. The 6.7% gain was driven by yet another double-digit gain from the company's Optum business, while the UnitedHealth segment saw a 5% increase year-over-year. Operating earnings were up 9% against the year-ago period as net margin rose from 5.6% of revenue to 5.9%. Margin gains were driven by cost leverage in the Optum segment, while the UnitedHealth business saw margins decline slightly.

Adjusted earnings-per-share were up 14% to \$3.88 in Q3 and the company repurchased 2.6 million shares for a total consideration of \$600 million. This brings total repurchases to \$5.1 billion, or 20.8 million shares this year.

The company increased its outlook for this year by 15 cents to \$14.90 to \$15.00, prompting us to raise our estimate by 20 cents from \$14.70 to \$14.90.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.24	\$4.10	\$4.73	\$5.28	\$5.50	\$5.70	\$6.01	\$8.05	\$10.07	\$12.19	\$14.90	\$22.93
DPS	\$0.03	\$0.41	\$0.61	\$0.80	\$1.05	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.32	\$7.00
Shares¹	1,147	1,086	1,070	1,019	988	954	953	952	969	968	965	940

We see forward earnings-per-share growth of 9% annually as UnitedHealth continues to buy back stock and generate strong revenue growth. However, this would mean that growth is slowing somewhat from more recent rates as the buyback loses some of its effectiveness due to a higher stock price, and as sheer size makes it more difficult to grow. We do not believe the company's very impressive run of earnings-per-share growth is ending by any means, but a slight reduction in growth expectations over the next five years seems prudent. Margin expansion is also playing a meaningful part in the earnings growth story, despite relatively weak margins in the UnitedHealth segment in Q3.

We see a lot of growth potential left in the dividend as UnitedHealth began seriously returning cash to shareholders a number of years ago. Its dividend growth, as strong as it has been, has not been able to keep pace with the rapid rate at which earnings have grown, and the result is a payout ratio that is still very low. We see the dividend nearly doubling in the next five years as UnitedHealth capitalizes on its growth and continues its streak of sizable dividend increases.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	8.1	8.0	9.8	10.4	11.9	14.7	19.4	16.8	18.4	20.4	15.9	17.5
Avg. Yld.	0.1%	1.2%	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.8%	1.7%

UnitedHealth's price-to-earnings multiple has moved significantly lower since our last update and today, stands at 15.9. The business has posted continuously strong earnings growth rates and as such, investors have assigned a high-teens multiple in recent years. With shares trading below our fair value estimate of 17.5 times earnings, this could drive a modest tailwind to annual total returns. We see the yield remaining about where it is over time as dividend increases consume a slightly greater proportion of earnings, but the yield should remain below 2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	1%	10%	13%	15%	19%	24%	31%	29%	28%	28%	29%	31%

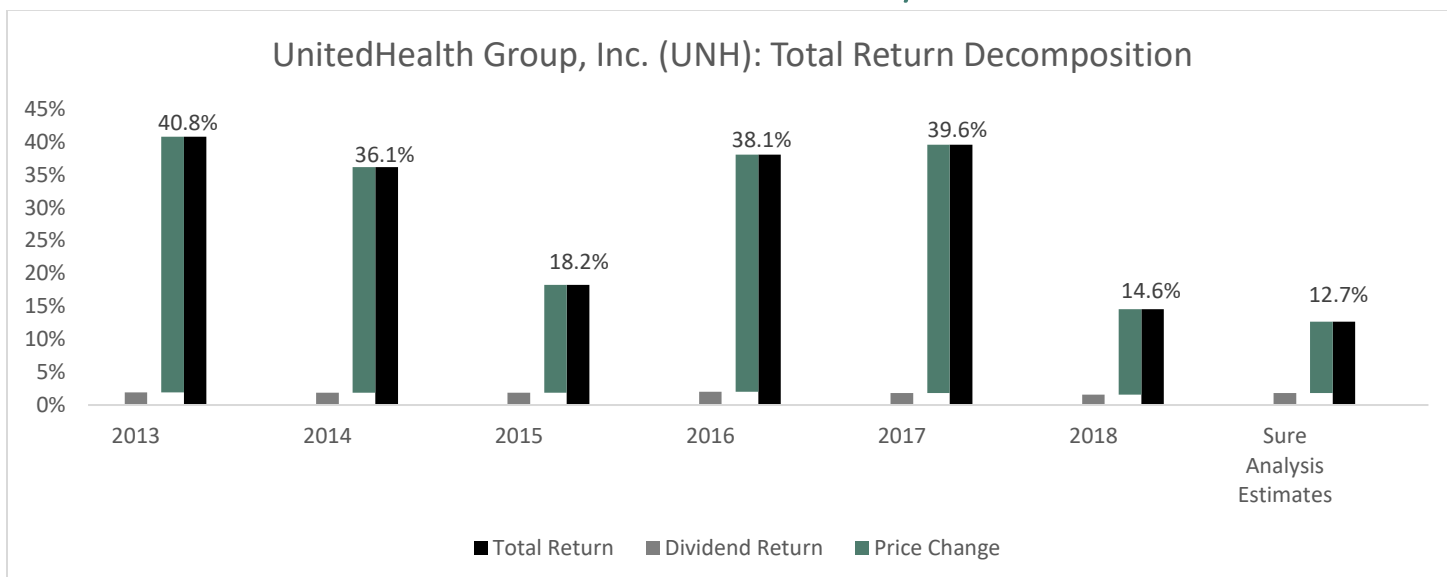
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At less than one-third of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

UnitedHealth's competitive advantage is in its gargantuan scale as well as its deeply entrenched customers with high switching costs. Like a utility, health and wellness providers have high switching costs, accruing significant benefits to incumbents like UnitedHealth. It is also quite resistant to recessions as its services are necessities in most cases.

Final Thoughts & Recommendation

We see UnitedHealth as a premier growth stock that is now trading slightly below its fair value. Its strong growth forecast makes it attractive to growth investors, while its high rate of dividend growth makes it attractive for those seeking longer term income. We forecast total annual returns of 12.7%, consisting of the current 1.8% yield, 9% earnings growth and a small tailwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. Thus, we continue to rate UnitedHealth as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	86.55	93.55	101.21	109.94	121.74	129.70	156.40	184.01	200.14	224.87
Gross Profit	19492	22589	24491	27189	29194	32236	36316	42558	45988	52470
Gross Margin	22.5%	24.1%	24.2%	24.7%	24.0%	24.9%	23.2%	23.1%	23.0%	23.3%
SG&A Exp.	12734	14270	15557	17306	18941	21263	24312	28401	29557	34074
D&A Exp.	991	1064	1124	1309	1375	1478	1693	2055	2245	2428
Operating Profit	5767	7255	7810	8574	8878	9495	10311	12102	14186	15968
Op. Margin	6.7%	7.8%	7.7%	7.8%	7.3%	7.3%	6.6%	6.6%	7.1%	7.1%
Net Profit	3822	4634	5142	5526	5625	5619	5813	7017	10558	11986
Net Margin	4.4%	5.0%	5.1%	5.0%	4.6%	4.3%	3.7%	3.8%	5.3%	5.3%
Free Cash Flow	4886	5395	5901	6085	5684	6526	8184	8090	11573	13650
Income Tax	1986	2749	2817	3096	3242	4037	4363	4790	3200	3562

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	59.05	63.06	67.89	80.89	81.88	86.38	111.25	122.81	139.06	152.22
Cash & Equivalents	9800	9123	9429	8406	7276	7495	10923	10430	11981	10866
Acc. Receivable	1954	2061	2294	2709	3052	4252	6523	8152	9568	11388
Goodwill & Int.	23108	25655	26770	35968	35448	36609	52844	56125	63045	68235
Total Liabilities	35439	37238	39597	49707	49733	53928	77529	84633	89225	97902
Accounts Payable	9362	9220	16652	17988	19033	21287	26324	29752	33051	36596
Long-Term Debt	13498	13503	11638	16754	16860	17406	31965	32970	31692	36554
Total Equity	23606	25825	28292	31178	32149	32454	33830	38274	47776	51696
D/E Ratio	0.57	0.52	0.41	0.54	0.52	0.54	0.94	0.86	0.66	0.71

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.7%	7.6%	7.9%	7.4%	6.9%	6.7%	5.9%	6.0%	8.1%	8.2%
Return on Equity	17.2%	18.7%	19.0%	18.6%	17.8%	17.4%	17.5%	19.5%	24.5%	24.1%
ROIC	10.8%	12.1%	13.0%	12.6%	11.6%	11.4%	10.1%	10.3%	13.8%	13.9%
Shares Out.	1,147	1,086	1,070	1,019	988	954	953	952	969	968
Revenue/Share	73.41	82.71	93.11	105.10	119.01	131.54	161.73	190.10	203.18	228.76
FCF/Share	4.14	4.77	5.43	5.82	5.56	6.62	8.46	8.36	11.75	13.89

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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