UnitedHealth Group, Inc. (UNH)

Updated January 21st, 2021 by Josh Arnold

Key Metrics

Current Price:	$351	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$333 B
Fair Value Price:	$328	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	03/15/21[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	03/29/21[2]
Dividend Yield:	1.4%	**5 Year Price Target**	$528	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	15.7%

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 $333 billion, and it produces about $278 billion in revenue annually, making it one of the largest companies in America by that measure.

UnitedHealth reported fourth quarter and full-year earnings on January 20th, 2021 with results once again coming in ahead of expectations. Revenue was up nearly 8% year-over-year and beat consensus by nearly half a billion dollars at $65.5 billion. Premiums revenue was up 6.2% to $50.6 billion, while Products revenue rose 14% to $8.7 billion, and Services revenue was up 10.2% to $5.8 billion. Investment and other income was up fractionally to $445 million. By business line, Optum once again proved the growth driver, as has been the case for some time. That segment saw revenue soar 20% to $35.9 billion, while UnitedHealthcare was up 4.3% to $50.3 billion.

The company's medical care ratio for the full-year was just 79.1%, down from 82.5% in 2019 based upon the return of the health insurance tax, which was offset by the massively disrupted care patterns that took place due to COVID-19-driven office closures and lack of patient demand. We expect the company's medical care ratio to begin to rebound to more normalized levels in 2021.

Earnings came to $16.88 for the full year, up from $15.11 in the prior year as the health insurance tax and certain operational investments offset some of the gains from the medical care ratio moving lower. The company guided for adjusted earnings of $17.75 to $18.25 per share for 2021, but given its chronic tendency to underestimate, we initiate 2021 at $18.20 in earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$4.73	$5.28	$5.50	$5.70	$6.01	$8.05	$10.07	$12.19	$15.11	$16.88	***$18.20***	***$29.31***
DPS	$0.61	$0.80	$1.05	$1.41	$1.88	$2.38	$2.88	$3.45	$4.14	$4.83	***$5.00***	***$9.63***
Shares[3]	1,070	1,019	988	954	953	952	969	968	962	961	***960***	***955***

We see forward earnings-per-share growth of 10% annually as UnitedHealth continues to boost margins and generate revenue growth. We note that the sheer size of UnitedHealth makes it more difficult to grow over time, but Optum continues to be outstanding in pushing the top line higher. 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, as evidenced again in

[1] Estimated date
[2] Estimated date
[3] 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.

2020. We don't believe the long-term outlook for UnitedHealth has been altered in any way by the COVID-19 situation, and that 2021 should see a return to normalized growth trends.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.8	10.4	11.9	14.7	19.4	16.8	18.4	20.4	16.5	17.8	***19.3***	***18.0***
Avg. Yld.	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	***1.4%***	***1.8%***

UnitedHealth's price-to-earnings multiple is nearly identical to where it was at the time of our last update at 19.3. 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 above our fair value estimate of 18 times earnings, this could drive a small headwind to annual total returns. We see the yield rising over time as UnitedHealth has proven its commitment to increasing the dividend at meaningful rates. With the most recent dividend increase, UnitedHealth boosted its payout by 16% on top of the 20% increase prior to that.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	15%	19%	24%	31%	29%	28%	28%	27%	29%	***28%***	***33%***

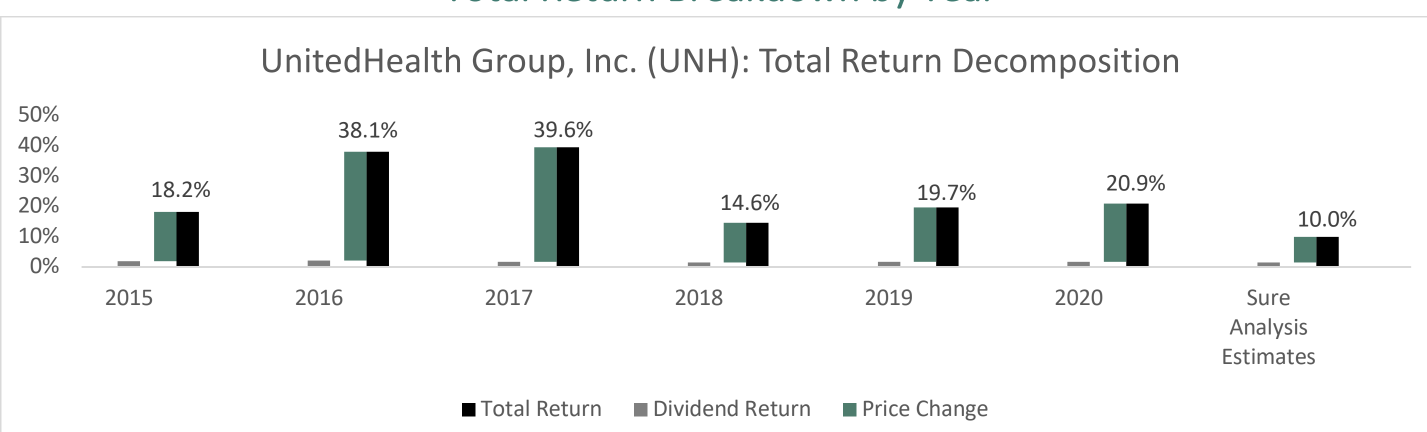
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At less than one-third of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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 trading only somewhat above 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 10.0%, consisting of the current 1.4% yield, 10% earnings growth and a small headwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. Given the total return outlook at 10% annually, we reiterate the stock at a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	93.55	101.21	109.94	121.74	129.70	156.40	184.01	200.14	224.87	240.27
Gross Profit	22589	24491	27189	29194	32236	36316	42558	45988	52470	55712
Gross Margin	24.1%	24.2%	24.7%	24.0%	24.9%	23.2%	23.1%	23.0%	23.3%	23.2%
SG&A Exp.	14270	15557	17306	18941	21263	24312	28401	29557	34074	---
D&A Exp.	1064	1124	1309	1375	1478	1693	2055	2245	2428	2720
Operating Profit	7255	7810	8574	8878	9495	10311	12102	14186	15968	17799
Op. Margin	7.8%	7.7%	7.8%	7.3%	7.3%	6.6%	6.6%	7.1%	7.1%	7.4%
Net Profit	4634	5142	5526	5625	5619	5813	7017	10558	11986	13839
Net Margin	5.0%	5.1%	5.0%	4.6%	4.3%	3.7%	3.8%	5.3%	5.3%	5.8%
Free Cash Flow	5395	5901	6085	5684	6526	8184	8090	11573	13650	16392
Income Tax	2749	2817	3096	3242	4037	4363	4790	3200	3562	3742

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	63.06	67.89	80.89	81.88	86.38	111.25	122.81	139.06	152.22	173.89
Cash & Equivalents	9123	9429	8406	7276	7495	10923	10430	11981	10866	10980
Acc. Receivable	2061	2294	2709	3052	4252	6523	8152	9568	11388	11822
Goodwill & Int.	25655	26770	35968	35448	36609	52844	56125	63045	68235	76010
Total Liabilities	37238	39597	49707	49733	53928	77529	84633	89225	97902	113453
Accounts Payable	9220	16652	17988	19033	21287	26324	29752	33051	36596	21690
Long-Term Debt	13503	11638	16754	16860	17406	31965	32970	31692	36554	40678
Total Equity	25825	28292	31178	32149	32454	33830	38274	47776	51696	60436
D/E Ratio	0.52	0.41	0.54	0.52	0.54	0.94	0.86	0.66	0.71	0.67

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.6%	7.9%	7.4%	6.9%	6.7%	5.9%	6.0%	8.1%	8.2%	8.5%
Return on Equity	18.7%	19.0%	18.6%	17.8%	17.4%	17.5%	19.5%	24.5%	24.1%	24.7%
ROIC	12.1%	13.0%	12.6%	11.6%	11.4%	10.1%	10.3%	13.8%	13.9%	14.4%
Shares Out.	1,086	1,070	1,019	988	954	953	952	969	968	962
Revenue/Share	82.71	93.11	105.10	119.01	131.54	161.73	190.10	203.18	228.76	248.73
FCF/Share	4.77	5.43	5.82	5.56	6.62	8.46	8.36	11.75	13.89	16.97

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