



UnitedHealth Group, Inc. (UNH)

Updated April 22nd, 2021 by Josh Arnold

Key Metrics

Current Price:	\$397	5 Year CAGR Estimate:	7.7%	Market Cap:	\$375 B
Fair Value Price:	\$333	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/15/21 ¹
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date:	06/29/21
Dividend Yield:	1.3%	5 Year Price Target	\$536	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 \$375 billion, and it produces about \$280 billion in revenue annually, making it one of the largest companies in America by either measure.

UnitedHealth reported first quarter earnings on April 15th, 2021, with results coming in better than expectations on both the top and bottom lines. Total revenue was up 9% in Q1, rising to \$70.2 billion. UnitedHealthcare revenue grew 7.9% to \$55.1 billion, which was influenced by continued growth in member count and senior programs. Optum revenue was up 10.8% to \$36.4 billion, as that segment continues to outperform on a growth basis.

Operating margins were 9.6% on a consolidated basis, and the company's medical care ratio was essentially flat year-over-year at 80.9%. The medical care ratio is the amount of revenue the company spends on providing care, so lower is better. Adjusted earnings soared 42% year-over-year to \$5.1 billion, and adjusted earnings-per-share came to \$5.31, which was up 43% against the year-ago period.

The company guided for \$18.10 to \$18.60 in adjusted earnings-per-share this year, and our estimate has now been boosted to \$18.50 as a result.

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	\$18.50	\$29.79
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
Shares²	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, and sustained strength in both segments would seem to suggest there is some upside to the company's growth forecast. Margin expansion is also playing a meaningful part in the earnings growth story, as evidenced again in 2020, and indeed in Q1 2021. We don't believe the long-term outlook for UnitedHealth has been altered negatively by the COVID-19 situation, and we believe that 2021 should see a return to normalized growth trends.

¹ Estimated date

² 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	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	21.5	18.0
Avg. Yld.	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.3%	1.8%

UnitedHealth's price-to-earnings multiple is meaningfully higher than it was at the time of our last update, rising to 21.5 times forward earnings. 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.

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%	27%	32%

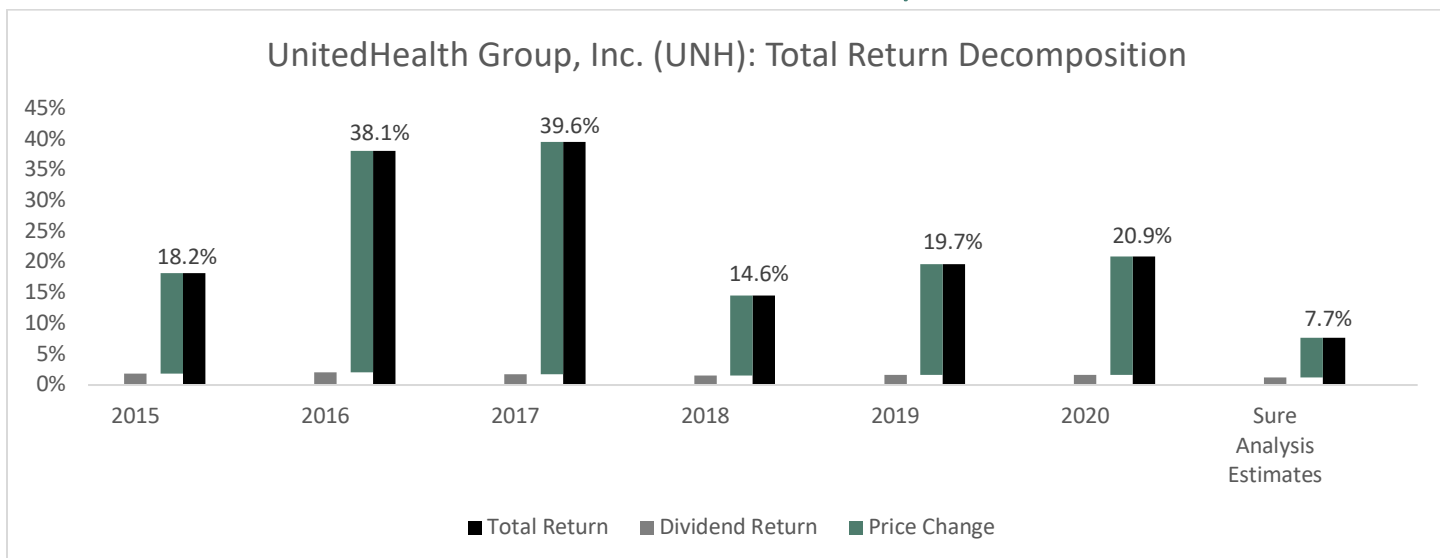
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At less than 30% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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 somewhat above our estimate of 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 7.7%, consisting of the current 1.3% yield, 10% earnings growth and a headwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. However, given the sharp rally in the stock since our last update, we're moving UnitedHealth from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	101.21	109.94	121.74	129.70	156.40	184.01	200.14	224.87	240.27	255.6
Gross Profit	24,491	27,189	29,194	32,236	36,316	42,558	45,988	52,470	55,712	65,498
Gross Margin	24.2%	24.7%	24.0%	24.9%	23.2%	23.1%	23.0%	23.3%	23.2%	25.6%
D&A Exp.	1,124	1,309	1,375	1,478	1,693	2,055	2,245	2,428	2,720	2,891
Operating Profit	7,810	8,574	8,878	9,495	10,311	12,102	14,186	15,968	17,799	20,903
Op. Margin	7.7%	7.8%	7.3%	7.3%	6.6%	6.6%	7.1%	7.1%	7.4%	8.2%
Net Profit	5,142	5,526	5,625	5,619	5,813	7,017	10,558	11,986	13,839	15,403
Net Margin	5.1%	5.0%	4.6%	4.3%	3.7%	3.8%	5.3%	5.3%	5.8%	6.0%
Free Cash Flow	5,901	6,085	5,684	6,526	8,184	8,090	11,573	13,650	16,392	20,123
Income Tax	2,817	3,096	3,242	4,037	4,363	4,790	3,200	3,562	3,742	4,973

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	67.89	80.89	81.88	86.38	111.25	122.81	139.06	152.22	173.89	197.3
Cash & Equivalents	9,429	8,406	7,276	7,495	10,923	10,430	11,981	10,866	10,985	16,921
Acc. Receivable	2,294	2,709	3,052	4,252	6,523	8,152	9,568	11,388	11,822	12,870
Goodwill & Int.	26,770	35,968	35,448	36,609	52,844	56,125	63,045	68,235	76,008	82,193
Total Liabilities	39,597	49,707	49,733	53,928	77,529	84,633	89,225	97,902	113,453	128,961
Accounts Payable	16,652	17,988	19,033	21,287	26,324	29,752	33,051	36,596	40,695	44,367
Long-Term Debt	11,638	16,754	16,860	17,406	31,965	32,970	31,692	36,554	40,678	43,467
Total Equity	28,292	31,178	32,149	32,454	33,830	38,274	47,776	51,696	57,616	65,491
D/E Ratio	0.41	0.54	0.52	0.54	0.94	0.86	0.66	0.71	0.71	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.9%	7.4%	6.9%	6.7%	5.9%	6.0%	8.1%	8.2%	8.5%	8.3%
Return on Equity	19.0%	18.6%	17.8%	17.4%	17.5%	19.5%	24.5%	24.1%	24.7%	25.0%
ROIC	13.0%	12.6%	11.6%	11.4%	10.1%	10.3%	13.8%	13.9%	14.4%	14.5%
Shares Out.	1,070	1,019	988	954	953	952	969	968	962	961
Revenue/Share	93.11	105.10	119.01	131.54	161.73	190.10	203.18	228.76	248.73	266.01
FCF/Share	5.43	5.82	5.56	6.62	8.46	8.36	11.75	13.89	16.97	20.94

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

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