



UnitedHealth Group, Inc. (UNH)

Updated January 21st, 2022, by Josh Arnold

Key Metrics

Current Price:	\$465	5 Year CAGR Estimate:	10.6%	Market Cap:	\$435 B
Fair Value Price:	\$411	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	03/15/22 ¹
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	03/29/22
Dividend Yield:	1.2%	5 Year Price Target	\$725	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	16.0%

Overview & Current Events

UnitedHealth dates 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 \$435 billion, and it produces about \$319 billion in revenue annually, making it one of the largest companies in America by either measure.

UnitedHealth reported fourth quarter and full-year earnings on January 19th, 2022, and results were once again better than expected. Earnings-per-share came to \$4.48, beating estimates by 17 cents. Revenue was up 13% to \$73.7 billion, which beat estimates by nearly \$900 million. Optum drove the revenue increase once again, adding 14% year-over-year growth to \$41.4 billion, while UnitedHealthcare was up 12% to \$56.4 billion.

The medical care ratio was 83.7%, which is still quite strong and reflects a favorable medical reserve development of \$440 million. Full-year operating cost ratio was 14.8% of revenue, down from 16.2% in the year-ago period.

Our initial estimate for this year is \$21.65 in earnings-per-share as management provided bullish guidance once again for the coming year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.28	\$5.50	\$5.70	\$6.01	\$8.05	\$10.07	\$12.19	\$15.11	\$16.88	\$19.02	\$21.65	\$38.15
DPS	\$0.80	\$1.05	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.14	\$4.83	\$5.60	\$5.80	\$11.17
Shares²	1,019	988	954	953	952	969	968	962	961	992	980	940

We forecast forward earnings-per-share growth of 12% 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, and UnitedHealth has picked up its growth in recent quarters as well. 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 2021. We don't believe the long-term outlook for UnitedHealth has been altered negatively by the COVID-19 pandemic, and we believe that 2022 is going to show yet more strong growth in normalized conditions.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.4	11.9	14.7	19.4	16.8	18.4	20.4	16.5	17.8	21.2	21.5	19.0
Avg. Yld.	1.5%	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.4%	1.2%	1.5%

UnitedHealth's price-to-earnings multiple is lower than it was at the time of our last update but is still at 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 19 times earnings, this could drive a 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	15%	19%	24%	31%	29%	28%	28%	27%	29%	29%	27%	29%

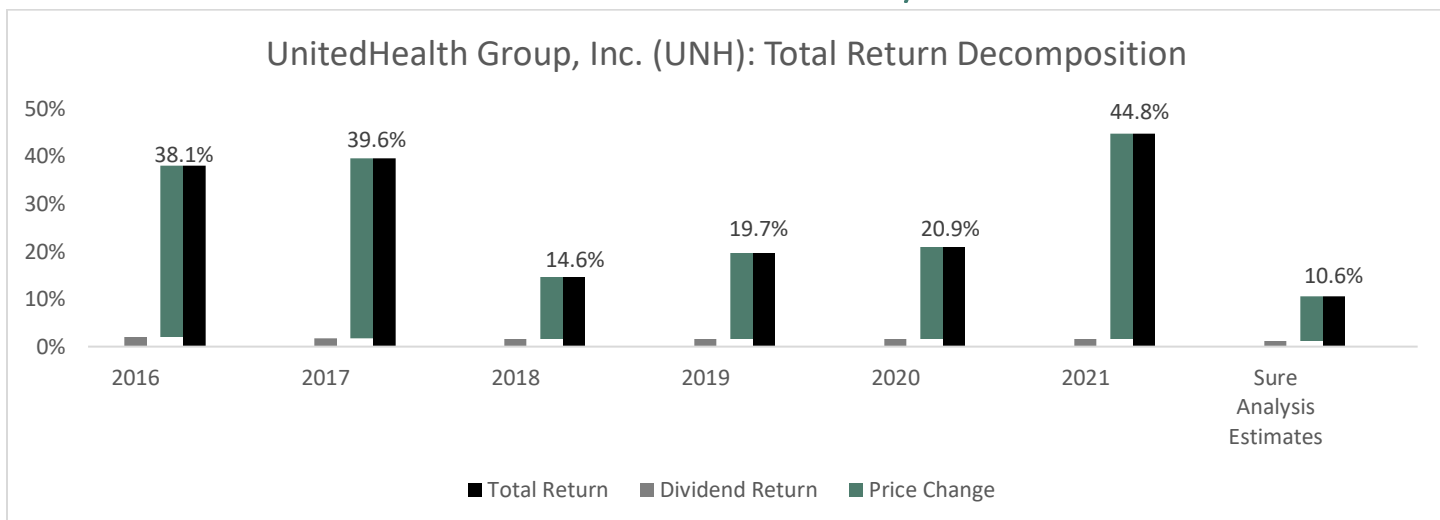
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At less than 30% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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. Optum remains an outstanding growth engine as well as it continues to outperform UnitedHealthcare.

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 10.6%, consisting of the current 1.2% yield, 12% earnings growth and a headwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. With the increase in expected total returns, we're moving UnitedHealth from a hold rating to a buy rating.

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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