



UnitedHealth Group, Inc. (UNH)

Updated January 15th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$490	5 Year CAGR Estimate:	13.7%	Market Cap:	\$457 B
Fair Value Price:	\$499	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	03/16/23 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	03/28/23
Dividend Yield:	1.3%	5 Year Price Target	\$879	Years Of Dividend Growth:	13
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

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 \$457 billion, and it produces about \$360 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 13th, 2023, and results were better than expected on both the top and bottom lines. The company posted adjusted earnings-per-share of \$5.34, which was 17 cents better than expected. Revenue was up more than 12% to \$82.8 billion, which was \$270 million ahead of estimates.

The company noted its full-year operating cost ratio was 14.7%, which was fractionally better than the prior year's 14.8%, as ongoing productivity gains were largely offset by business mix and investments in growth initiatives.

The medical care ratio was 82.0% for the year, and 82.8% for the fourth quarter, which met expectations from the company's prior guidance.

Revenue from UnitedHealthcare was up 11.8% to \$63.1 billion in Q4. Revenue from the Optum business was up 16.5% to \$47.9 billion.

Management guided for 2023 revenue of \$357 billion to \$360 billion, and adjusted net earnings-per-share of \$24.40 to \$24.90. We expect \$360 billion in revenue, and \$24.95 in earnings-per-share, respectively, as UnitedHealth has a long history of under promising when it comes to guidance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.50	\$5.70	\$6.01	\$8.05	\$10.07	\$12.19	\$15.11	\$16.88	\$19.02	\$22.19	\$24.95	\$43.97
DPS	\$1.05	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.14	\$4.83	\$5.60	\$6.40	\$6.60	\$12.71
Shares²	988	954	953	952	969	968	962	961	992	947	935	900

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 slowed to almost nothing in 2022, so investors would do well to watch that in the coming quarters. We don't believe the long-term outlook for UnitedHealth has been altered negatively by the COVID-19 pandemic, and we believe that 2023 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.9	14.7	19.4	16.8	18.4	20.4	16.5	17.8	21.2	23.9	19.6	20.0
Avg. Yld.	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.4%	1.2%	1.3%	1.4%

UnitedHealth's price-to-earnings multiple is lower than it was at the time of our last update, standing at 19.6 times 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 below our fair value estimate of 20 times earnings, this could drive a fractional tailwind 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 stock being essentially fairly valued, we don't see a large impact to the yield from that.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	19%	24%	31%	29%	28%	28%	27%	29%	29%	29%	27%	29%

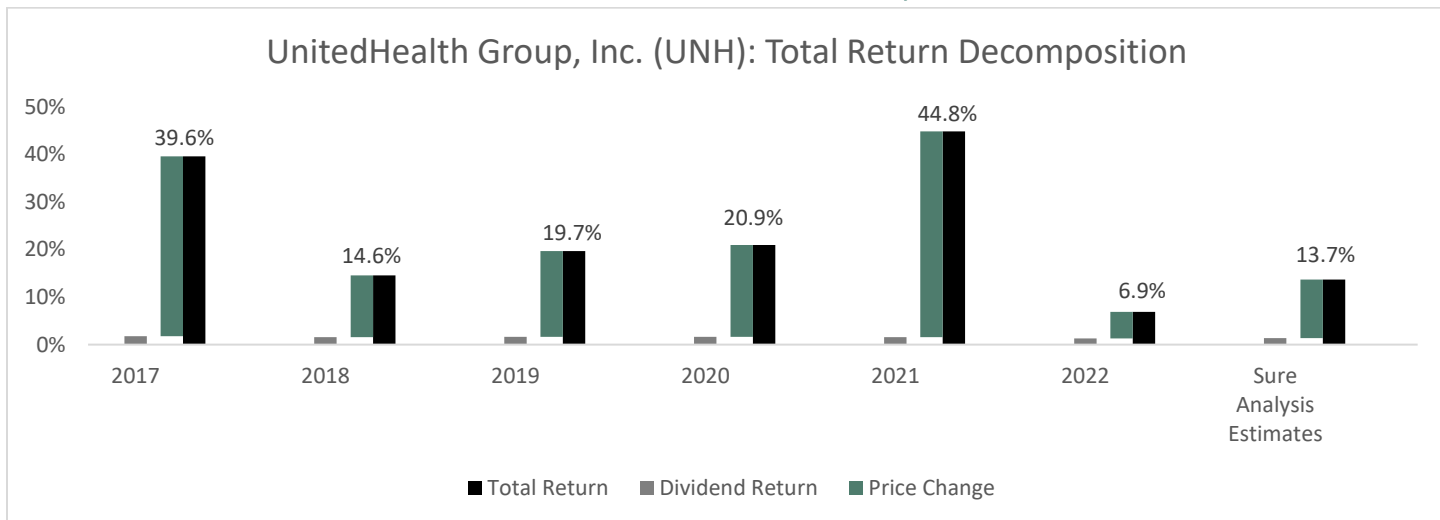
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At only 27% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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 now trading below 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 13.7%, consisting of the current 1.3% yield, 12% earnings growth and a 0.4% tailwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. With a continued strong outlook and improved valuation, we're upgrading the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	121.74	129.70	156.40	184.01	200.14	224.87	240.27	255.6	285.3	322.1
Gross Profit	29,194	32,236	36,316	42,558	45,988	52,470	55,712	65,498	67,328	77,587
Gross Margin	24.0%	24.9%	23.2%	23.1%	23.0%	23.3%	23.2%	25.6%	23.6%	24.1%
D&A Exp.	1,375	1,478	1,693	2,055	2,245	2,428	2,720	2,891	3,103	3,400
Operating Profit	8,878	9,495	10,311	12,102	14,186	15,968	17,799	20,903	21,646	26,405
Op. Margin	7.3%	7.3%	6.6%	6.6%	7.1%	7.1%	7.4%	8.2%	7.6%	8.2%
Net Profit	5,625	5,619	5,813	7,017	10,558	11,986	13,839	15,403	17,285	20,120
Net Margin	4.6%	4.3%	3.7%	3.8%	5.3%	5.3%	5.8%	6.0%	6.1%	6.2%
Free Cash Flow	5,684	6,526	8,184	8,090	11,573	13,650	16,392	20,123	19,889	23,404
Income Tax	3,242	4,037	4,363	4,790	3,200	3,562	3,742	4,973	4,578	5,704

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	81.88	86.38	111.25	122.81	139.06	152.22	173.89	197.3	212.2	245.7
Cash & Equivalents	7,276	7,495	10,923	10,430	11,981	10,866	10,985	16,921	21,375	
Acc. Receivable	3,052	4,252	6,523	8,152	9,568	11,388	11,822	12,870	14,216	17,681
Goodwill & Int.	35,448	36,609	52,844	56,125	63,045	68,235	76,008	82,193	85,839	
Total Liabilities	49,733	53,928	77,529	84,633	89,225	97,902	113,453	128,961	135,727	159,358
Accounts Payable	19,033	21,287	26,324	29,752	33,051	36,596	40,695	44,367	49,126	290,56
Long-Term Debt	16,860	17,406	31,965	32,970	31,692	36,554	40,678	43,467	46,003	57,623
Total Equity	32,149	32,454	33,830	38,274	47,776	51,696	57,616	65,491	71,760	81,450
LTD/E Ratio	0.52	0.54	0.94	0.86	0.66	0.71	0.71	0.66	0.64	0.71

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.9%	6.7%	5.9%	6.0%	8.1%	8.2%	8.5%	8.3%	8.4%	8.8%
Return on Equity	17.8%	17.4%	17.5%	19.5%	24.5%	24.1%	24.7%	25.0%	25.2%	26.3%
ROIC	11.6%	11.4%	10.1%	10.3%	13.8%	13.9%	14.4%	14.5%	14.6%	15.1%
Shares Out.	988	954	953	952	969	968	962	961	956	950
Revenue/Share	119.01	131.54	161.73	190.10	203.18	228.76	248.73	266.01	298.4	339.1
FCF/Share	5.56	6.62	8.46	8.36	11.75	13.89	16.97	20.94	20.80	24.64

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

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