



UnitedHealth Group, Inc. (UNH)

Updated January 17th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$519	5 Year CAGR Estimate:	14.7%	Market Cap:	\$480 B
Fair Value Price:	\$553	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	03/15/24 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	03/28/24
Dividend Yield:	1.4%	5 Year Price Target	\$975	Years Of Dividend Growth:	14
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 \$480 billion, and it produces about \$400 billion in revenue annually, making it one of the largest companies in America by either measure.

UnitedHealth posted fourth quarter and full-year earnings on January 12th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$6.16 for the quarter, 17 cents better than expected. Revenue soared 14% year-over-year to \$94.4 billion, beating estimates by a staggering \$2.22 billion.

UnitedHealthcare posted 12% growth for the quarter, coming in at \$70.8 billion in revenue. The membership base actually declined slightly from the third quarter to 52.75 million. This was due to a decline of about 0.3 million members in its Medicaid business from ongoing eligibility reviews. The Optum business saw revenue soar 24% higher for the full year as it continues to be the primary driver of growth.

For the year, the combined company's medical care ratio rose to 83.2% from 82.0%, which was attributable to higher demand for outpatient care. However, the company kept its operating cost ratio steady at 14.7%, so damage to operating margins was minimized.

We see largely on-trend growth for 2024, with an initial estimate of \$27.65 in earnings-per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.70	\$6.01	\$8.05	\$10.07	\$12.19	\$15.11	\$16.88	\$19.02	\$22.19	\$25.12	\$27.65	\$48.73
DPS	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.14	\$4.83	\$5.60	\$6.40	\$7.29	\$7.52	\$14.48
Shares²	954	953	952	969	968	962	961	992	947	935	925	875

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 note that 2023 margins are thus far showing slight deterioration, but we believe that once 2023 results are lapped, margin expansion will resume.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.7	19.4	16.8	18.4	20.4	16.5	17.8	21.2	23.9	21.0	18.8	20.0
Avg. Yld.	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.4%	1.2%	1.4%	1.4%	1.5%

UnitedHealth's price-to-earnings multiple is lower than it was at the time of our last update, standing at 18.8 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 slightly below our fair value estimate of 20 times earnings, this could drive a small 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 slightly undervalued, we don't see a large impact on the yield from that.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	31%	29%	28%	28%	27%	29%	29%	29%	29%	27%	30%

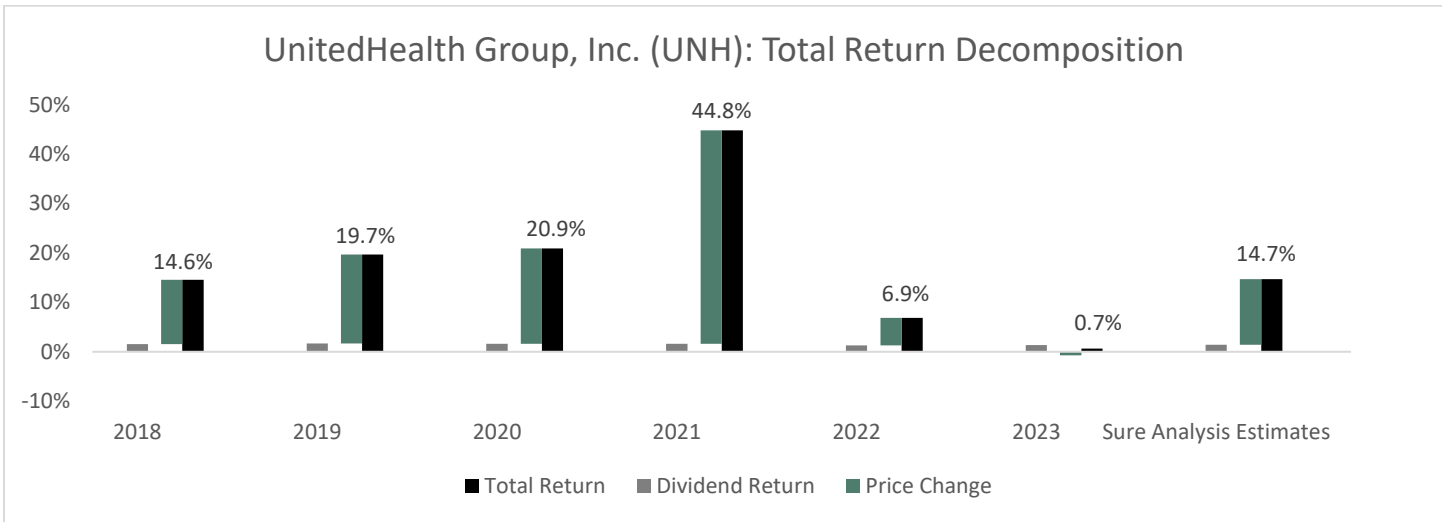
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At only 27% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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 14.7%, consisting of the current 1.4% yield, 12% earnings growth and a 1.3% tailwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. With a continued strong outlook, we're reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	129.70	156.40	184.01	200.14	224.87	240.27	255.6	285.3	324.2	371.6
Gross Profit	32,236	36,316	42,558	45,988	52,470	55,712	65,498	67,328	77,587	90,958
Gross Margin	24.9%	23.2%	23.1%	23.0%	23.3%	23.2%	25.6%	23.6%	24.1%	24.5%
D&A Exp.	1,478	1,693	2,055	2,245	2,428	2,720	2,891	3,103	3400	3972
Operating Profit	9,495	10,311	12,102	14,186	15,968	17,799	20,903	21,646	28435	32358
Op. Margin	7.3%	6.6%	6.6%	7.1%	7.1%	7.4%	8.2%	7.6%	8.2%	8.7%
Net Profit	5,619	5,813	7,017	10,558	11,986	13,839	15,403	17,285	20,120	22,381
Net Margin	4.3%	3.7%	3.8%	5.3%	5.3%	5.8%	6.0%	6.1%	6.2%	6.0%
Free Cash Flow	6,526	8,184	8,090	11,573	13,650	16,392	20,123	19,889	23,404	25,682
Income Tax	4,037	4,363	4,790	3,200	3,562	3,742	4,973	4,578	5,704	5,968

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	86.38	111.25	122.81	139.06	152.22	173.89	197.3	212.2	245.7	273.7
Cash & Equivalents	7,495	10,923	10,430	11,981	10,866	10,985	16,921	21,375	23,365	---
Acc. Receivable	4,252	6,523	8,152	9,568	11,388	11,822	12,870	14,216	17,681	21,276
Goodwill & Int.	36,609	52,844	56,125	63,045	68,235	76,008	82,193	85,839	107,753	---
Total Liabilities	53,928	77,529	84,633	89,225	97,902	113,453	128,961	135,727	159,358	174,801
Accounts Payable	21,287	26,324	29,752	33,051	36,596	40,695	44,367	49,126	29,056	32395
Long-Term Debt	17,406	31,965	32,970	31,692	36,554	40,678	43,467	46,003	57,623	62,537
Total Equity	32,454	33,830	38,274	47,776	51,696	57,616	65,491	71,760	81,450	94,421
LTD/E Ratio	0.54	0.94	0.86	0.66	0.71	0.71	0.66	0.64	0.71	0.66

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.7%	5.9%	6.0%	8.1%	8.2%	8.5%	8.3%	8.4%	8.8%	8.6%
Return on Equity	17.4%	17.5%	19.5%	24.5%	24.1%	24.7%	25.0%	25.2%	26.3%	26.0%
ROIC	11.4%	10.1%	10.3%	13.8%	13.9%	14.4%	14.5%	14.6%	15.1%	14.7%
Shares Out.	954	953	952	969	968	962	961	956	950	938
Revenue/Share	131.54	161.73	190.10	203.18	228.76	248.73	266.01	298.4	339.1	396.2
FCF/Share	6.62	8.46	8.36	11.75	13.89	16.97	20.94	20.80	24.64	27.38

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

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