



UnitedHealth Group, Inc. (UNH)

Updated October 16th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$556	5 Year CAGR Estimate:	11.8%	Market Cap:	\$514 B
Fair Value Price:	\$540	5 Year Growth Estimate:	11.0%	Ex-Dividend Date:	12/15/24 ¹
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	12/28/24
Dividend Yield:	1.5%	5 Year Price Target	\$910	Years Of Dividend Growth:	15
Dividend Risk Score:	B	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 \$514 billion, and it produces about \$400 billion in revenue annually, making it one of the largest companies in America by either measure.

UnitedHealth posted third quarter earnings on October 15th, 2024, and results were better than expected, although the stock was pummeled after offering up weak guidance. Adjusted earnings-per-share for the quarter came to \$7.15, which was 12 cents ahead of expectations. Revenue was up 9.1% year-over-year to \$100.8 billion, which was \$1.52 billion better than estimates. The company noted it added 2.4 million new customers year-to-date, helping to drive revenue higher.

Medical care ratio was 85.2%, up from 82.3% in the year-ago period. The company's days claims payable was 47.4, up from 45.2 in Q2 but lower from 50.7 a year ago. Operating cost ratio was 13.2%, down from 13.3% in Q2, and off sharply from 15.0% a year ago. Management continues to focus on operating cost efficiency, which is helping to boost margins as revenue grows.

UnitedHealth's guidance was in the prior range provided, but at the low end, and it boosted the projected impact from the cyberattack. Investors took the news poorly, and we've updated our estimate to \$27 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	\$27.00	\$45.50
DPS	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.14	\$4.83	\$5.60	\$6.40	\$7.29	\$8.40	\$16.17
Shares²	954	953	952	969	968	962	961	992	947	935	925	875

We forecast forward earnings-per-share growth of 11% 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; margins in the third quarter of 2024 showed higher medical care costs, that were only very slightly offset by lower operating expenses. We note the comparisons for the first half of next year should be quite easy given the Change Healthcare cyber impact should be gone by then.

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	20.6	20.0
Avg. Yld.	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.4%	1.2%	1.4%	1.5%	1.8%

UnitedHealth's price-to-earnings multiple is about where it was for our last update, standing at 20.6 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 slightly ahead of our fair value estimate of 20 times earnings, this could drive a small headwind to annual total returns. We see the combination of the rising dividend, but also higher share price from rising earnings as roughly offsetting each other, resulting in a potentially slightly higher dividend yield for the foreseeable future.

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%	31%	36%

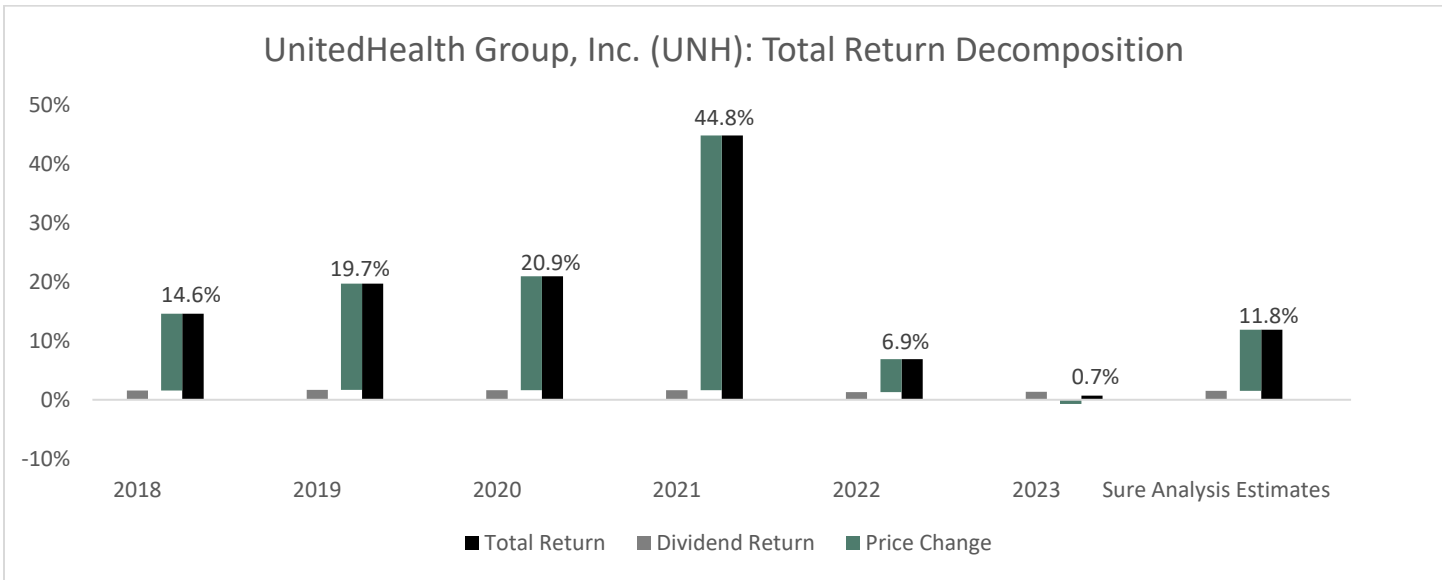
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At only 31% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

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 near 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 11.8%, consisting of the current 1.5% yield, 11% earnings growth and a 0.6% headwind 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	25,427
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	118,926
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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