

UnitedHealth Group

Has DoJ or CHNG changed anything for UNH? UNH now our top pick

Reiterate Rating: BUY | PO: 675.00 USD | Price: 472.60 USD

UNH overly penalized on DoJ and CHNG concerns

In the past month, UNH (which was already pressured by MA trend and rate concerns) was beset by a DoJ probe and a cyber attack. Although neither piece of news is welcome, the magnitude of the sell-off far outweighs the likely impacts, in our view. UNH is now trading at 82% of the market multiple (has traded above this level 95% of the time over the past 10 years), making it a compelling value, and we are making it our Top MCO Pick.

DoJ a potentially bigger issue, but not likely big

The DoJ antitrust probe into UnitedHealthcare has a particular focus on the relationship with Optum's vertically integrated physician practices. We did not view the announcement as a surprise, given scrutiny around vertical integration in health care from the Administration, and it builds on what has been increased scrutiny on health care M&A. We see no grounds for a breakup, and note that recent UNH deals have been well scrutinized by the government before being approved (or approved by the courts). As a result, we see the most likely worst case as being larger deals being more difficult to complete (although that was already the default assumption). Meanwhile, the probe is happening so late in Biden's term that any kind of enforcement action seems unlikely until after the election, when such a focus could easily change should a Republican become President.

Exposure to CHNG limited, can impact claims visibility

Change Healthcare (formerly CHNG) experienced a cyberattack which has disrupted its ability to process claims on behalf of providers. While CHNG is just a fraction of UNH's overall earnings (2% of EPS), many downstream insurers and providers rely on the company for processing claims, which explains the outsized attention. We see it as very unlikely for CHNG to impact EPS even 1%, as the network problems should eventually be resolved (past stocks with cyberattacks have generally returned to normal within months of resolving them), likely making this a transitory issue, in our view. Even if the company loses some customers as a result, we believe the run-rate exposure is likely less than 1%.

Visibility into claims could delay the rally to Q2

For context, a major insurer (HUM) has already said 15-20% of its medical claims have been impacted, and that it is facing reduced visibility into claims development as a result. Given the acceleration in trend in the MA industry in 2023, the Market has been hoping to see hard evidence that trend has normalized, but claims processing disruption is likely to leave investors waiting for Q2 results before feeling fully comfortable that companies have true visibility into trend (a key milestone for improved sentiment).

5 potential catalysts through Year End

1) Final MA rate could be 1% better (by April 1), 2) Q1 results could show stabilizing trend (mid-April), 3) CHNG gets fully back on line (likely next several weeks), 4) Q2 results a potential "all clear" for investors if trend stabilizes. 5) Elections either status quo (Biden) or likely viewed positively (Trump) given Trump's historical support for MA and Republicans' traditionally more hands-off approach to M&A.

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Equity

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Stock Data

Price	472.60 USD
Price Objective	675.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-1-7
52-Week Range	445.68 USD - 554.70 USD
Mkt Val (mn) / Shares Out (mn)	442,354 USD / 936.0
Free Float	99.7%
Average Daily Value (mn)	2041.94 USD
BofA Ticker / Exchange	UNH / NYS
Bloomberg / Reuters	UNH US / UNH.N
ROE (2024E)	26.3%
Net Dbt to Eqty (Dec-2023A)	33.3%
ESGMeter™	High

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DoJ: Department of Justice

MA: Medicare Advantage

MCO: Managed Care Organization

UNH: UnitedHealth Group

Price objective basis & risk

UnitedHealth Group (UNH)

Our \$675 price objective (PO) is based on a 2024E EPS multiple of 24.0x, a premium to UNH's five year historical average of 19.6x. This is justified, in our opinion, by the growing share of earnings coming from Optum as well as the significant growth potential of Optum, UNH's Health Care Services platform, which has higher margins and unregulated cash flow. Our PO is also supported by our sum-of-the-parts (SOTP) valuation.

Downside risks to our PO are that healthcare utilization rebounds faster than expected, that growth targets for Optum are not achieved, or that political/regulatory risk intensifies.

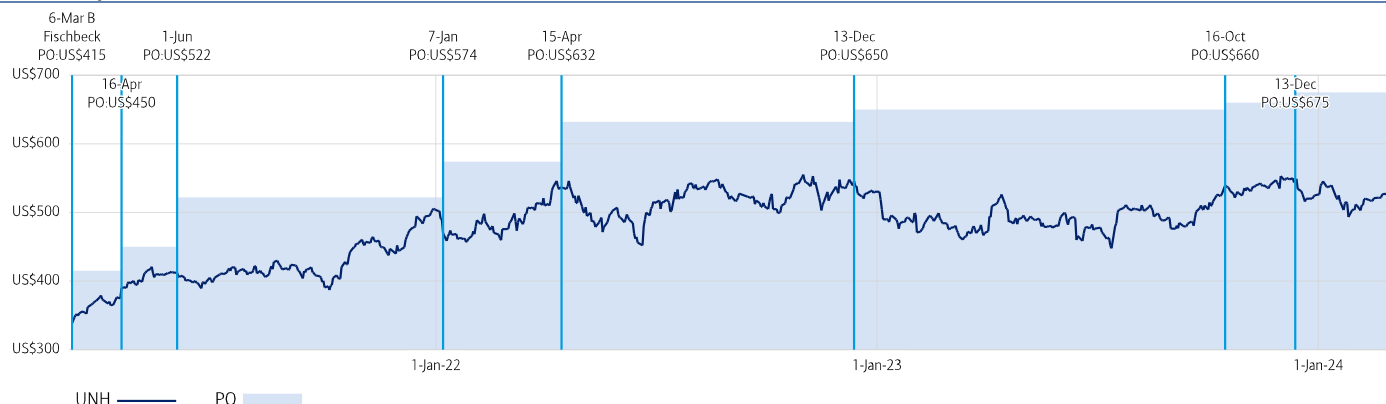
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UnitedHealth Grp (UNH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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