



Bulls Stick with United Health as Managed Care Headwinds Overblown

Ticker/Price: UNH (\$253)

Analysis:

United Health (UNH) with 1,000 September \$260 calls bought today for \$12.85 in a stock replacement and follows buyers recently in the April \$240, \$250, and May \$250 calls. The April \$260 calls also with 3,000 in OI from buyers while the April 12th (W) \$255 calls with 1,000 from buys. Shares have pulled back to weekly cloud support where they formed a double-bottom against \$240 and a breakout above the downtrend at \$260 targets new highs. The long-term measured move is out to \$330 from the recent range. The \$243B managed care leader trades 15X earnings, 1.07X sales, and 22.37X cash with a 1.45% yield and mid-double digit EPS growth. They see 8.2% and 8.3% revenue growth over the next two years driven by growth in services at Optum. The company sees growth in higher acuity markets like Medicare as a tailwind for the business. UNH is coming off a strong MA enrollment cycle and investing in digital/tech experience to help separate themselves from peers in terms of retention numbers. Long-term, the company sees tailwinds from healthcare spending trends which are expected to rise 5.5%/year over the next 10 years with Medicare spending up 7.4% during the same timeframe. Analysts have an average target for shares of \$300 with 20 buy ratings and 1 hold. BAML positive on 3/12 with a \$320 PT. They note their recent POS rebate pilot program is a leading example of how the industry is shifting away from rebates and should greatly reduce the risk to earnings from potential changes to regulation. Short interest is 0.6%, near the lowest level in six years. Institutional ownership fell 9.2% last quarter.

Hawk Vision:



Trading Strategy: UNH has bounced sharply and we have seen similar positioning in managed care peers, and UNH is best of breed, but a lot of key MA overhead resistance to jump in here.

Confidence Ranking: \$\$