Earnings Preview: UnitedHealth reports 4Q earnings

The Associated Press

Managed care company UnitedHealth Group Inc. becomes the first major health insurer to report on its fourth-quarter and full-year performance for 2010 when it releases earnings results Thursday before the market opens.

WHAT TO WATCH FOR: A couple big trends that helped health insurers top Wall Street profit expectations in the third quarter could return to boost the sector's fourth quarter numbers.

Insurers saw health care use sink in the third quarter of 2010 compared to 2009, when claims were elevated in part by swine flu-related cases. They also saw claims fall as coverage ran out for some people who lost their jobs but continued their employer-sponsored insurance under the federal law known as COBRA.

COBRA coverage is a claims generator for insurers. The people who use it normally do so because they have health conditions that make continued coverage a necessity. That means they generate more in claims than they contribute in premiums.

Bernstein analyst Ana Gupte said in a note previewing earnings reports that both trends should help ensure healthy commercial insurance margins and stable enrollment in the fourth quarter.

The analyst also labeled UnitedHealth her top pick for the first quarter of this year. She said in a separate note the insurer has priced conservatively, or avoided dropping rates too low to gain customers.

Gupte said she still sees the potential for margin expansion in the insurer's commercial business, which includes employer-sponsored coverage, even though it could pay an estimated $300 million in rebates due to a new health care regulation governing medical-loss ratios that starts this year.

Analysts expect to hear more insight about how the new regulation will affect companies as insurers report on their fourth-quarter performance.

WHY IT MATTERS: UnitedHealth is the largest publicly traded health insurer based on total revenue and the second-largest based on enrollment, trailing only WellPoint Inc. It is the first big health insurer to release its earnings every quarter, and many analysts and investors see it as a bellwether for the sector.

Health insurance is UnitedHealth's biggest business, but it also operates segments that sell wellness programs and information services.

WellPoint reports earnings on Jan. 27, Cigna Corp. follows on Feb. 3, Aetna Inc. reports Feb. 4 and Humana Inc. rounds out the five largest health insurers on Feb. 7.

WHAT'S EXPECTED: Analysts surveyed by FactSet expect, on average, UnitedHealth earnings of 84 cents per share on $23.73 billion in revenue. For the full year, analysts expect earnings of $3.94 per share on $93.76 billion in revenue.

UnitedHealth said last month it expects 2010 earnings of about $3.95 per share on $94 billion in revenue.

LAST YEAR'S QUARTER: Premium increases and a big legal charge that weighed down results in the final quarter of 2008 contributed to 30-percent profit growth in 2009's fourth quarter. But commercial enrollment slid as employers cut jobs.

UnitedHealth reported net income of $944 million, or 81 cents per share, on $21.78 billion in revenue in the fourth quarter of 2009, a performance that topped analyst expectations. For the full year, the insurer reported net income of $3.8 billion, or $3.24 per share, on $87.14 billion in revenue.

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