Lowe's Companies (LOW)

Updated April 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	10.9%	**Quality Percentile:**	N/A
Fair Value Price:	$93	**5 Year Growth Estimate:**	8.2%	**Momentum Percentile:**	N/A
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Total Return Percentile:**	N/A
Dividend Yield:	1.9%	**5 Year Price Target**	$138	**Valuation Percentile:**	

Overview & Current Events

Lowe's is the second biggest home improvement retailer in the US (after Home Depot). The company, which has a market cap of $74 billion, was founded in 1946 and has become a Dividend King over the decades.

The last quarterly results, which were announced in February, included another strong comparable sales showing (up 4.1% year-over-year) and earnings per share of $0.74. Lowe's business is rather seasonal (sales and earnings are higher in spring and summer), hence full year results are more meaningful. Lowe's did very well on that front, too, full year EPS grew to $4.39 (up 10% year-over-year).

Guidance for 2018 looks positive as well, Lowe's expects a 3.5% comparable sales increase and diluted EPS of $5.45 (an increase of 24% versus 2017, partially due to a lower tax rate).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.49	$1.21	$1.44	$1.69	$1.76	$2.16	$2.67	$3.29	$3.99	$4.39	***$5.45***	***$8.10***
DPS	$0.34	$0.36	$0.42	$0.53	$0.62	$0.70	$0.87	$1.07	$1.33	$1.58	***$1.76***	***$2.62***

Lowe's is not opening a lot of new stores, but the company still managed to grow its profits at a very attractive pace in the past. This is due to several factors, including strong comparable store sales performance, which lifts revenues as well as margins. Earnings per share were further driven by the company's share repurchases, which have lowered the share count meaningfully. This means that the company's net earnings are split over a lower number of shares, which accelerates EPS growth.

Lowe's is a Dividend King (the company has raised the dividend annually for more than 50 years in a row), and its dividend growth rate has been quite high in the recent past: During the last five years Lowe's has raised its dividend by 21% annually. Right now the dividend yield is 1.9%.

Since the housing market and the economy are doing well, and since consumers have a lot of disposable income, Lowe's should be able to perform well over the foreseeable future, further sizeable earnings increases seem very likely.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.1	16.8	16.1	14.1	17.3	20.4	19.8	21.8	18.6	18.7	***16.3***	***17.0***
Avg. Yld.	1.5%	1.7%	1.8%	2.2%	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	***1.9%***	***1.9%***

Lowe's has experienced strong earnings growth over the last couple of years, and the company's profits will continue to rise during 2018. Lowe's valuation bottomed in 2011, peaked in 2015 and has been declining since. Based on the estimated earnings for the current year Lowe's is valued relatively inexpensively, at about 16 times expected 2018 earnings. The company's valuation could expand slightly over the coming years, to be more in line with the historic average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.6%	50.1%	51.0%	51.8%	52.9%	56.6%	61.8%	65.8%	65.4%	66.3%	***68.0%***	***70.0%***
Debt/A	44.7%	42.1%	46.3%	50.6%	57.5%	63.9%	68.8%	75.4%	81.4%	83.3%	***85.0%***	***85.0%***
Int. Cov.	13.6	10.9	10.8	8.9	8.5	8.8	9.3	9.0	9.1	10.4	***12.0***	***12.0***
Payout	22.8%	29.7%	29.2%	31.4%	35.2%	32.4%	32.6%	32.5%	33.3%	36.0%	***32.2%***	***32.3%***
Std. Dev.	57.7%	40.8%	27.5%	29.0%	27.4%	23.0%	18.9%	20.6%	21.1%	21.9%	***16.0%***	***15.0%***

Gross profits as a percentage of total assets have been rising steadily. This is a positive, and can be explained by the rising comparable store sales, which lead to higher gross profits, with the asset base not changing much (since Lowe's isn't opening many new stores). Debt relative to all assets has been increasing steadily, as Lowe's has taken on significant amounts of new debt. That is not a major headwind though, as interest coverage remains high (and has actually been increasing over the last five years).

Lowe's business is somewhat cyclical, but the company performed well during the last financial crisis, earnings declined by less than 20%. Lowe's is operating in a duopoly with Home Depot, neither of the two are expanding their store count significantly and neither is interested in a price war. Both should remain highly profitable, as the home improvement market in the US is large enough for two companies to make a lot of money.

Due to the low payout ratio the dividend looks very safe, and as earnings will continue to rise at an attractive pace, the dividend will likely continue to increase meaningfully going forward.

Final Thoughts & Recommendation

Lowe's dividend yield of 1.9% is not especially high, but the company has a great track record of total returns and should continue to deliver high total returns going forward. Earnings growth, some multiple expansion and the dividend combined should result in double digit annual returns over the coming years.

Compared to other retailers Lowe's (and its peer Home Depot) look rather safe from the Amazon threat and have a good growth outlook at the same time. With its inexpensive valuation Lowe's looks like an attractive brick & mortar retail investment at current prices.

Total Return Breakdown by Year