



The Western Union Company (WU)

Updated October 9th, 2018 by Nick McCullum

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	12.3%	Volatility Percentile:	20.6%
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Momentum Percentile:	28.6%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Growth Percentile:	30.0%
Dividend Yield:	4.2%	5 Year Price Target	\$27	Valuation Percentile:	80.0%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	76.8%

Overview & Current Events

The Western Union Company is the world leader in the industry of money movement and payment services. The company operates approximately 500,000 money management locations globally, with a presence in more than 200 countries. Importantly, only about 10% of Western Union's locations are in the United States. Western Union is headquartered in Englewood, Colorado and trades on the New York Stock Exchange with a market capitalization of \$8.1 billion.

In early August, Western Union reported (8/2/18) financial results for the second quarter of fiscal 2018. In the quarter, the company generated revenue of \$1.4 billion, which represents a 2% increase over the same period a year ago. This growth improves to 3% on a constant-currency basis. On the bottom line, GAAP earnings-per-share of \$0.47 increased 34.3% over the \$0.35 reported in last year's comparable period, while adjusted earnings-per-share actually declined from last year's \$0.50. Western Union's decline in adjusted earnings-per-share was primarily attributable to contracting profit margins caused by a higher effective tax rate in the current reporting period.

Despite Western Union's lackluster growth in the most recent reporting period, the company continues to be a very shareholder-friendly capital allocator. In the most recent three-month reporting period, Western Union returned \$336 million of capital to shareholders. This capital return program was composed of \$250 million in share repurchases and \$86 million of dividend payments. Western Union's capital return activities have accelerated recently – the company returned just \$87 million to shareholders in the first quarter of fiscal 2018. Given the company's cheap valuation, we expect Western Union to continue aggressively repurchasing stock moving forward.

Looking ahead, Western Union is scheduled to report third quarter financial results on November 1st, 2018. We will be reading the report closely and reporting any material developments back to you in our next quarterly research update.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.24	\$1.29	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.75	\$2.23
DPS	\$0.04	\$0.06	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.85	\$1.40
Shares	709.60	686.50	654.00	619.40	572.10	552.20	521.50	502.40	481.50	459.00	440	375

Western Union's earnings-per-share have increased by 2.9% per year between 2008 and 2017. During the same time period, the company managed to reduce its share count by 4.7% per year. Said another way, stock buybacks accounted for *all of Western Union's per-share earnings over the last ten years, and then some*. We do not expect this trend to continue, although share repurchases will still play an important role in Western Union's future returns. We believe that investors can reasonably expect Western Union to deliver long-term earnings-per-share growth of about 5% per year. The company is likely to generate earnings-per-share of about \$1.75 in the current fiscal year. Applying a 5% growth rate to this earnings estimate allows us to compute a 2023 earnings-per-share estimate of \$2.23. Historical trends indicate that Western Union's dividend growth is likely to outpace its earnings growth for the foreseeable future.

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.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	17.3	12.8	12.0	12.1	9.7	11.5	10.5	12.0	11.8	12.3	10.3	12.0
Avg. Yld.	0.2%	0.4%	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	4.2%	-

Western Union has consistently traded at a price-to-earnings ratio in the low double-digits over the last 10 years. Because of this, we believe that a fair valuation for the company is an earnings multiple of approximately 12. Western Union is trading at a price-to-earnings ratio of 10.3 using our 2018 earnings-per-share estimate of \$1.75. The company appears noticeably undervalued at current prices. If Western Union's price-to-earnings ratio expands to 12 over the next 5 years, this will add 3.1% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

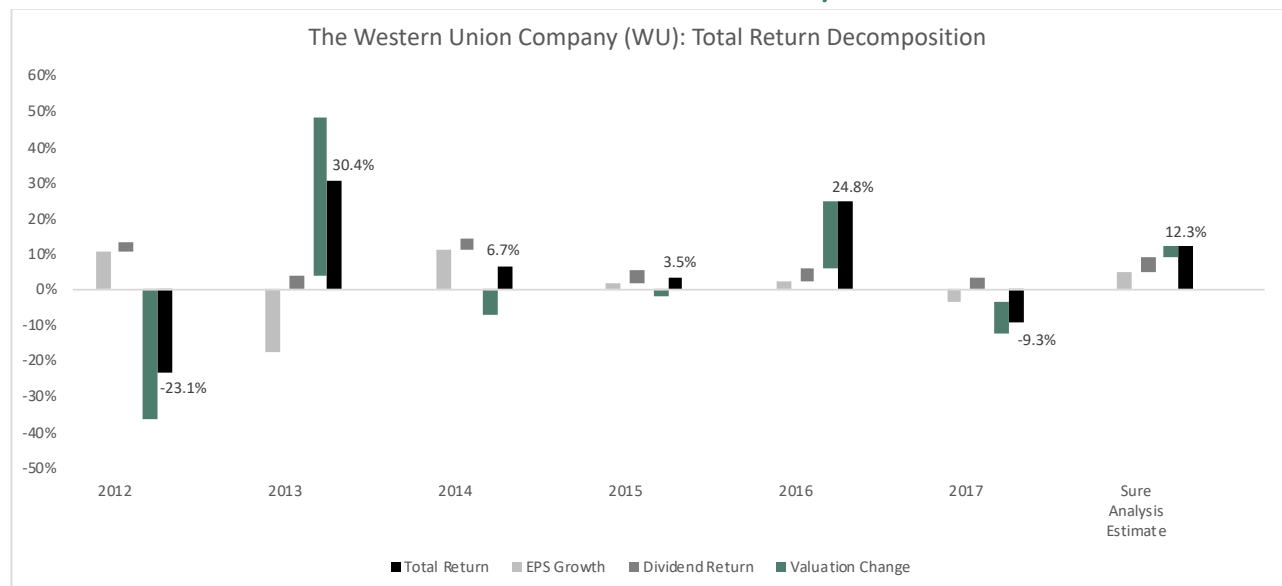
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.2%	30.0%	27.9%	26.3%	26.1%	22.8%	23.4%	24.2%	24.2%	23.5%	25.0%	25.0%
Debt/A	100%	95.2%	92.7%	90.1%	90.1%	89.1%	86.9%	85.1%	90.4%	105%	100%	95%
Int. Cov.	11.2	8.7	7.9	8.2	7.7	6.0	6.9	7.1	3.3	3.6	3.5	3.5
Payout	3.2%	4.7%	17.6%	19.7%	24.7%	35.0%	31.4%	38.3%	38.6%	43.8%	48.6%	62.8%
Std. Dev.	48.9%	43.3%	24.3%	25.8%	35.8%	18.5%	20.3%	22.2%	17.2%	13.6%	18.0%	18.0%

Western Union scores quite well on the majority of our quantitative measures of business quality. While the firm's stock price deviation was elevated during the 2007-2009 financial crisis, this is true of essentially all financial services companies. Separately, the company generates a tremendous amount of gross profits relative to its total assets, has a below-average payout ratio, and consistently covers its interest expense several times over with operating profits. Western Union also earns a B rating for Dividend Safety because of its reasonable dividend payout ratio and appealing dividend history.

Final Thoughts & Recommendation

Western Union is the undisputed global leader in transferring money around the globe. The company's size and entrenched industry positioning gives it a durable competitive advantage. Moreover, Western Union is priced to deliver total returns in the low double-digits. Accordingly, Western Union earns a buy recommendation at current prices. The company also earns an A rating for Retirement Suitability due to its combination of dividend yield and safety.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	5.28	5.08	5.19	5.49	5.66	5.54	5.61	5.48	5.42	5.52
Gross Profit	2.19	2.21	2.21	2.39	2.47	2.31	2.31	2.28	2.15	2.17
Gross Margin	41.4%	43.4%	42.6%	43.5%	43.6%	41.6%	41.2%	41.7%	39.7%	39.3%
SG&A Expense	0.83	0.93	0.91	1.00	1.14	1.20	1.17	1.17	1.67	1.23
D&A Expense	0.14	0.15	0.18	0.19	0.25	0.26	0.27	0.27	0.26	0.26
Operating Profit	1.36	1.28	1.30	1.39	1.33	1.11	1.14	1.11	0.48	0.94
Operating Margin	25.7%	25.2%	25.0%	25.2%	23.5%	20.0%	20.3%	20.2%	8.9%	17.0%
Net Profit	0.92	0.85	0.91	1.17	1.03	0.80	0.85	0.84	0.25	-0.56
Net Margin	17.4%	16.7%	17.5%	21.2%	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%
Free Cash Flow	1.10	1.12	0.88	1.01	0.92	0.85	0.87	0.80	0.81	0.56
Income Tax Prov.	0.32	0.28	0.24	0.11	0.14	0.13	0.12	0.10	0.09	0.90

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	5.58	7.35	7.93	9.07	9.47	10.12	9.89	9.45	9.42	9.23
Cash & Equivalents	1.30	1.69	2.16	1.37	1.78	2.07	1.78	1.32	0.88	0.84
Accounts Receivable	0.02	0.01	0.01	1.06	1.04	0.98	1.01	1.07	1.33	1.57
PP&E	0.48	0.54	0.58	0.63	0.58	0.64	0.68	0.77	0.82	0.85
Goodwill	2.02	2.63	2.59	4.05	4.06	4.01	3.92	3.87	3.83	3.31
Intangible Assets	5.59	7.00	7.35	8.18	8.53	9.02	8.59	8.04	8.52	9.72
Total Liabilities	0.39	0.50	0.52	0.54	0.56	0.64	0.60	0.61	1.13	0.72
Accounts Payable	3.14	3.05	3.29	3.58	4.03	4.21	3.72	3.22	2.79	3.03
Long-Term Debt	-0.01	0.35	0.58	0.89	0.94	1.10	1.30	1.40	0.90	-0.49
Shareholders' Equity	-388	8.62	5.65	4.00	4.28	3.81	2.86	2.29	3.09	-6.17
D/E Ratio	5.58	7.35	7.93	9.07	9.47	10.12	9.89	9.45	9.42	9.23

Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	16.2%	13.1%	11.9%	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%
ROIC	28.2%	26.0%	25.0%	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%

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