



# Lowe's Companies (LOW)

Updated November 18<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$86	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Volatility Percentile:</b>	66.9%
<b>Fair Value Price:</b>	\$87	<b>5 Year Growth Estimate:</b>	8.2%	<b>Momentum Percentile:</b>	64.5%
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Growth Percentile:</b>	78.6%
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$129	<b>Valuation Percentile:</b>	48.0%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	54.8%

## Overview & Current Events

Lowe's Companies is the second-largest home improvement retailer in the US (after Home Depot). The company, which has a current market capitalization of \$71 billion, was founded in 1946 and is headquartered in Mooresville, NC. Through increasing its dividend for more than 50 years in a row Lowe's has become a Dividend King.

Lowe's reported its third quarter earnings results on November 18. The company generated revenues of \$17.4 billion during the third quarter, which represents an increase of 3.9% compared to the prior year's quarter. Lowe's revenues were driven by an increase in the company's comparable store sales (up 1.5% year over year) as well as by the impact of a 12% sales increase at Lowes.com, the company's ecommerce sales channel. Comparable store sales were strong during August (up 4% year over year), but growth slowed during September and October, when comp sales rose by only 0.7% and 0.0%, respectively. Due to some operating margin compression, Lowe's was not able to turn its revenue growth into earnings growth. The company's earnings-per-share were actually down 1% year over year to \$1.04. Lowe's has returned \$1.01 billion to its owners during Q3 through dividend payments that totaled \$390 million and through share repurchases that totaled \$620 million. This equates to an annualized buyback yield of 3.5%.

Lowe's also updated its guidance for fiscal 2018. The company now forecasts revenue growth of 4%, comparable store sales growth of 2.5%, a net addition of 8 new stores, and earnings-per-share in a range of \$5.08 to \$5.13. We have updated our estimates for this year's profits to reflect the new guidance numbers.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.49	\$1.21	\$1.44	\$1.69	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	<b>\$5.11</b>	<b>\$7.58</b>
<b>DPS</b>	\$0.34	\$0.36	\$0.42	\$0.53	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	<b>\$1.78</b>	<b>\$2.62</b>
<b>Shares</b>	1470	1459	1354	1241	1110	1030	960	910	866	830	<b>795</b>	<b>670</b>

Lowe's is not currently opening many new stores, but the company still managed to grow its earnings-per-share at a very attractive pace in the past. This is due to several factors, including a strong comparable store sales performance, which lifts revenues as well as margins. Between 2008 and 2017 Lowe's grew its earnings-per-share by 12.7% a year. 2008's profits were impacted by the financial crisis, though, which has resulted in a lower starting base for Lowe's earnings-per-share growth during that particular year.

Earnings-per-share were driven comparable store sales growth, by an increase in Lowe's margins, and 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 growth in per-share net income. Especially when Lowe's valuation was lower during the last couple of years these share repurchases were highly accretive. Lowe's would likely ramp up its buybacks if its valuation declined meaningfully. Housing has seen a bit of a hit recently, but consumers have plenty of disposable income. Lowe's should be able to grow its sales over the coming years, but its earnings-per-share growth will be somewhat lower going forward compared to the last couple of years.

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 was very high in recent years. Lowe's has raised its dividend by 21% per year over the last 5 years.

*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.*



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## 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	16.8	17.0
Avg. Yld.	1.5%	1.7%	1.8%	2.2%	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	2.2%	1.9%

Lowe's trades at just below 17 times this year's net profits right now, which is a lower valuation compared to how the company's shares were valued during the last couple of years. The current valuation is relatively in line with Lowe's long-term median price-to-earnings ratio. We believe that Lowe's is fairly valued at current prices

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	22.8%	29.7%	29.2%	31.4%	35.2%	32.4%	32.6%	32.5%	33.3%	36.0%	39.1%	38.9%

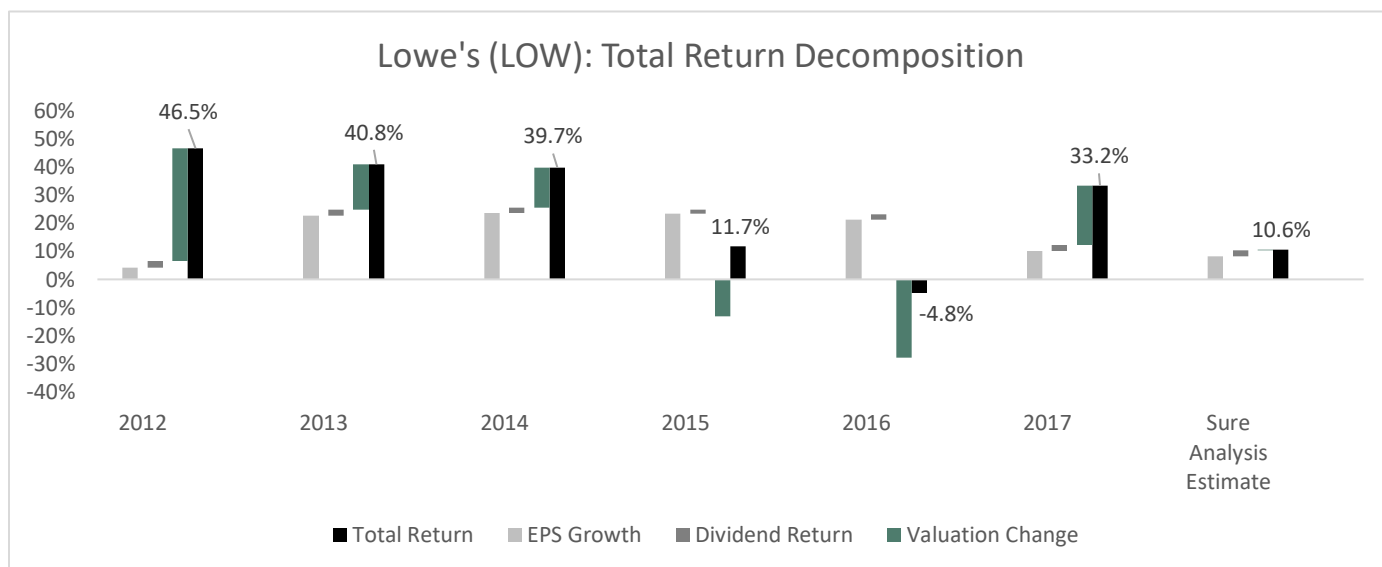
Lowe's debt, relative to all of the company's assets, has been increasing steadily, as Lowe's has taken on significant amounts of new debt. Its interest coverage remains high and has actually been increasing over the last five years, though, so debt levels are not threatening in any way. Lowe's business is somewhat cyclical, but the company performed relatively well during the last financial crisis. Earnings-per-share declined by less than 20%, despite the housing market hit. Lowe's operates 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 is the number two home improvement retailer in the US. Housing has been a bit of a headwind for Lowe's during Q3, and comparable sales did not rise as much as during previous quarters. The company should nevertheless be able to grow its earnings-per-share at a solid pace going forward, and total returns will be compelling as well. Shares are trading near fair value today, which is why we rate them a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	48230	47220	48815	50208	50521	53417	56223	59074	65017	68619
Gross Profit	16501	16463	17152	17350	17327	18476	19558	20570	22464	23409
Gross Margin	34.2%	34.9%	35.1%	34.6%	34.3%	34.6%	34.8%	34.8%	34.6%	34.1%
SG&A Exp.	11176	11737	12006	12593	12244	12865	13272	14105	15129	15376
D&A Exp.	1667	1733	1684	1579	1623	1562	1586	1587	1590	1540
Operating Profit	3786	3112	3560	3277	3560	4149	4792	4971	5846	6586
Op. Margin	7.8%	6.6%	7.3%	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%
Net Profit	2195	1783	2010	1839	1959	2286	2698	2546	3093	3447
Net Margin	4.6%	3.8%	4.1%	3.7%	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%
Free Cash Flow	856	2255	2523	2520	2551	3171	4049	3587	4450	3942
Income Tax	1311	1042	1218	1067	1178	1387	1578	1873	2108	2042

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	32625	33005	33699	33559	32666	32732	31721	31266	34408	35291
Cash & Equivalents	245	632	652	1014	541	391	466	405	558	588
Inventories	8209	8249	8321	8355	8600	9127	8911	9458	10458	11393
Goodwill & Int.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	154	1082	1307
Total Liabilities	14570	13936	15587	17026	18809	20879	21753	23612	27974	29418
Accounts Payable	4109	4287	4351	4352	4657	5008	5124	5633	6651	6590
Long-Term Debt	6060	5080	6573	7627	9077	10521	11358	12649	15699	16995
Total Equity	18055	19069	18112	16533	13857	11853	9968	7654	6434	5873
D/E Ratio	0.34	0.27	0.36	0.46	0.66	0.89	1.14	1.65	2.44	2.89

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	6.9%	5.4%	6.0%	5.5%	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%
Return on Equity	12.9%	9.6%	10.8%	10.6%	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%
ROIC	9.4%	7.4%	8.2%	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%
Shares Out.	1470	1459	1354	1241	1110	1030	960	910	866	830
Revenue/Share	32.85	32.25	34.79	39.44	43.86	50.35	56.79	63.73	73.88	81.79
FCF/Share	0.58	1.54	1.80	1.98	2.21	2.99	4.09	3.87	5.06	4.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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