



# The Western Union Company (WU)

Updated November 11<sup>th</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$19	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Volatility Percentile:</b>	20.1%
<b>Fair Value Price:</b>	\$23	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	35.6%
<b>% Fair Value:</b>	82%	<b>5 Year Valuation Multiple Estimate:</b>	4.1%	<b>Growth Percentile:</b>	30.3%
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$29	<b>Valuation Percentile:</b>	83.8%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	78.7%

## 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, with only about 10% of its 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 \$8.3 billion.

Western Union reported Q3 earnings on 11/1/18 and results were better than expected, including a guidance raise. Revenue increased 3% on a constant-currency basis but declined 1% on a reported basis. In particular, the company struggled with its business in Argentina where high levels of inflation have taken hold. The strengthening of the US dollar against the Argentine Peso reduced revenue by 3% in Q3, while the higher transaction amounts associated with the devalued currency helped offset that decline slightly. Western Union's immense global reach has a diversifying effect on its financials, but it also opens the firm up to significant currency risk. Strong digital transfer revenue helped consumer transfers post a 2% currency-neutral revenue gain in Q3, although on a reported basis, it was flat. The company's digital transfer option is now available in more than 50 countries and Western Union is now collaborating with Amazon to allow consumers to make payments on the e-commerce behemoth's website.

Adjusted operating margins rose 110bps in Q3 as Western Union saw higher compensation and marketing expenses in the year-ago quarter. Operationally, nothing changed in the margin outlook. Earnings-per-share declined by one penny to 52 cents as revenue was essentially flat and operating margins rose, but a higher tax rate offset those modest gains. Western Union boosted guidance and now expects full-year earnings-per-share to come in at \$1.88 to \$1.95, which is up significantly from the prior range of \$1.80 to \$1.90. We've boosted our estimate for this year accordingly.

Western Union also continues to return enormous amounts of capital to shareholders via its dividend and buyback. The company has returned \$608 million to shareholders in the first three quarters of this year, including about \$350 million on share repurchases. The company's high yield and ever-shrinking share count are very shareholder-friendly.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.24	\$1.29	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	<b>\$1.92</b>	<b>\$2.45</b>
<b>DPS</b>	\$0.04	\$0.06	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	<b>\$0.76</b>	<b>\$1.20</b>
<b>Shares</b>	710	687	654	619	572	552	522	502	482	459	<b>440</b>	<b>375</b>

Western Union's earnings-per-share have increased by 2.9% per year between 2008 and 2017. During the same period, the company managed to reduce its share count by 4.7% per year, meaning the buyback was responsible for all of its earnings-per-share growth (and then some). We do not expect this trend to continue, although share repurchases will still play an important role in Western Union's 5% projected growth. The company's digital capabilities are the way forward and management is investing heavily in it, such as the Amazon partnership. We see this as the main driver of revenue and margin growth, although the company is subject to currency risks due to the very global nature of its business. We expect the payout ratio to move higher as the company boosts its dividend in excess of the rate of earnings growth.

*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	17.3	12.8	12.0	12.1	9.7	11.5	10.5	12.0	11.8	12.3	9.8	12.0
Avg. Yld.	0.2%	0.4%	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	4.0%	4.1%

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 9.8 using our 2018 earnings-per-share estimate. Thus, 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 4.1% to the company's annualized returns during this time period. We also expect the yield to remain about where it is today in the area of 4%, keeping Western Union firmly in the income stock category.

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

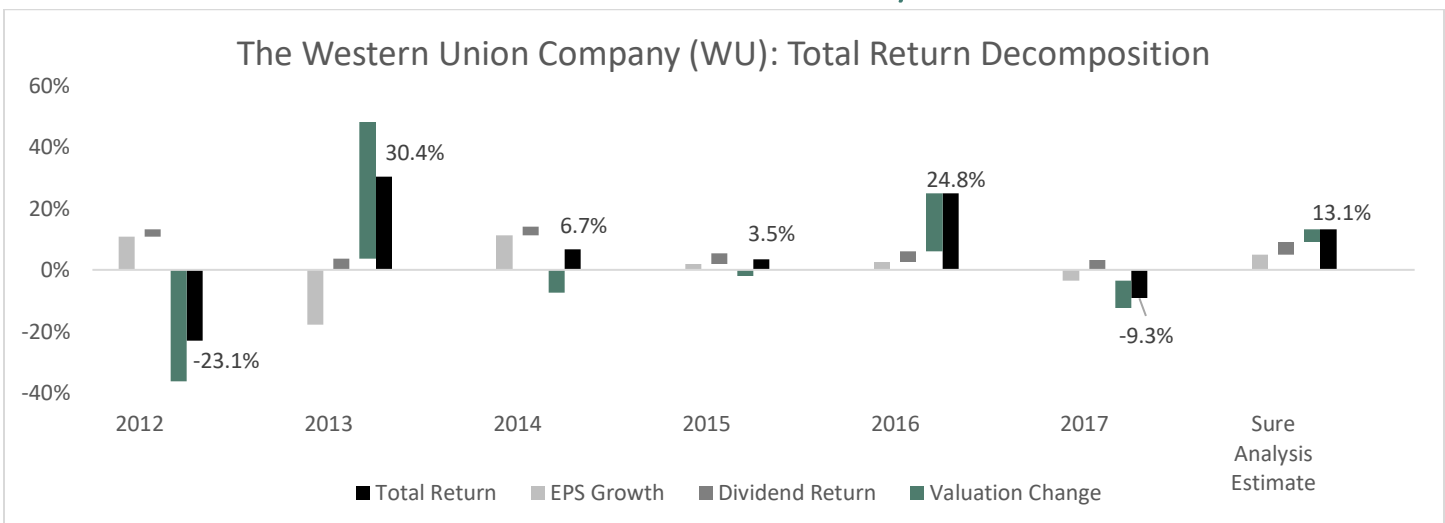
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.2%	30.0%	27.9%	26.3%	26.1%	22.8%	23.4%	24.2%	24.2%	23.5%	25.0%	25.0%
Debt/A	100%	95.2%	92.7%	90.1%	90.1%	89.1%	86.9%	85.1%	90.4%	105%	100%	95%
Int. Cov.	11.2	8.7	7.9	8.2	7.7	6.0	6.9	7.1	3.3	3.6	3.5	3.5
Payout	3%	5%	18%	20%	25%	35%	31%	38%	39%	44%	40%	49%
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.

## 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.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	5282	5084	5193	5491	5665	5542	5607	5484	5423	5524
<b>Gross Profit</b>	2189	2209	2214	2389	2471	2307	2310	2284	2153	2169
<b>Gross Margin</b>	41.4%	43.4%	42.6%	43.5%	43.6%	41.6%	41.2%	41.7%	39.7%	39.3%
<b>SG&amp;A Exp.</b>	834	926	914	1004	1141	1200	1169	1175	1669	1232
<b>D&amp;A Exp.</b>	144	154	176	193	246	263	272	270	263	263
<b>Operating Profit</b>	1355	1283	1300	1385	1330	1107	1141	1109	484	937
<b>Operating Margin</b>	25.7%	25.2%	25.0%	25.2%	23.5%	20.0%	20.3%	20.2%	8.9%	17.0%
<b>Net Profit</b>	919	849	910	1165	1026	798	852	838	253	-557
<b>Net Margin</b>	17.4%	16.7%	17.5%	21.2%	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%
<b>Free Cash Flow</b>	1100	1119	881	1012	917	847	867	805	812	559
<b>Income Tax</b>	320	283	235	109	143	129	116	104	89	905

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	5578	7353	7929	9070	9466	10121	9890	9449	9420	9231
<b>Cash &amp; Equivalents</b>	1296	1685	2157	1371	1777	2073	1783	1316	878	838
<b>Accounts Receivable</b>	20	12	14	1062	1041	981	1007	1070	1327	1574
<b>Goodwill &amp; Int. Ass.</b>	2025	2633	2590	4046	4059	4006	3917	3869	3826	3314
<b>Total Liabilities</b>	5586	7000	7347	8175	8525	9017	8590	8044	8517	9723
<b>Accounts Payable</b>	386	501	520	535	556	639	600	607	1130	719
<b>Long-Term Debt</b>	3144	3049	3290	3583	4029	4213	3720	3216	2786	3034
<b>Shareholder's Equity</b>	-8	354	583	895	941	1105	1300	1405	902	-491
<b>D/E Ratio</b>	-388	8.62	5.65	4.00	4.28	3.81	2.86	2.29	3.09	-6.17

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	16.2%	13.1%	11.9%	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%
<b>Return on Equity</b>	N/A	491.5%	194%	158%	112%	78.1%	70.9%	61.9%	21.9%	-271%
<b>ROIC</b>	28.2%	26.0%	25.0%	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%
<b>Shares Out.</b>	710	687	654	619	572	552	522	502	482	459
<b>Revenue/Share</b>	7.16	7.25	7.76	8.66	9.33	9.90	10.45	10.61	10.99	11.81
<b>FCF/Share</b>	1.49	1.60	1.32	1.60	1.51	1.51	1.61	1.56	1.65	1.19

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

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