



The Western Union Company (WU)

Updated February 8th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	10.0%	Volatility Percentile:	15.3%
Fair Value Price:	\$23	5 Year Growth Estimate:	1.0%	Momentum Percentile:	41.2%
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Growth Percentile:	2.2%
Dividend Yield:	4.4%	5 Year Price Target	\$24	Valuation Percentile:	84.8%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	54.4%

Overview & Current Events

The Western Union Company is the world leader in the business of domestic and international money transfers. The company has a network of approximately 500,000 agents globally, with a presence in more than 200 countries. Western Union operates three business segments, Consumer-to-Consumer (C2C), Business Solutions, and Other (bill payments in the U.S. and Argentina). Approximately 80% of revenue is from C2C, 7% from Business Solutions and 13% from Other.

Western Union reported Q4 earnings on February 7, 2019. EPS of \$0.48 was inline and revenue of \$1.4B missed estimates. Revenue declined 3% on a YoY basis but increased 2% on a constant currency basis. The company continues to be negatively affected by high levels of inflation in its Argentina business. In C2C, transactions increased 4% but revenue declined 1%. In Business Solutions, revenue increased 3% while in Other revenue declined 11%. Notably the company is gaining traction in its Westerunion.com C2C effort where transactions increased 25%.

For 2018, revenue increased 1% to \$5,590M and diluted EPS was \$1.87 notably this was \$0.01 below increased guidance provided in Q3 2018. The number of total transaction grew from 276M in 2017 to 285M in 2018 for C2C and operating margins increased 40 bps to 23.5%. The C2C business is the core of the company's business and the remaining two business lines having operating margins in the mid-single digits. Furthermore, Western Union benefited from a much lower effective tax rate of 14.1% due to the U.S. Tax Reform Act with a full year tax expense of \$139M versus \$905M in the prior year. The company returned \$741M through \$342M in dividends and \$399M in share buybacks.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
EPS	\$1.29	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$1.89	\$1.97
DPS	\$0.06	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.97
Shares	687	654	619	572	552	522	502	482	459	445	427	363

Western Union's EPS increased 16.9% from 2017 driven by share buybacks and tax cut benefits. Share count decreased roughly 3% on a YoY basis indicating that the bottom line benefited significantly from the U.S. Tax Reform Act. Share buybacks have been a consistent theme since 2008 when the count was 710M shares. We expect share repurchases to continue over the next several years. We estimate an average annual 1% EPS growth out to 2023. However, this may prove low if strategic digital growth initiatives take hold. Westerunion.com is growing rapidly in the digital payments category and revenue was roughly 12% of total C2C revenue in Q4 2018. We expect this to increase over the next several years. The company is also making strategic moves in digital payments. Western Union is launching a new payment option for cross border transactions on Amazon's website to facilitate foreign exchange and settlement process. Western Union also entered an arrangement with JD Digits to explore ways to speed cross border transactions.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/E	12.8	12.0	12.1	9.7	11.5	10.5	12.0	11.8	12.3	10.5	9.6	12.0
Avg. Yld.	0.4%	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	4.4%	4.0%

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.



The Western Union Company (WU)

Updated February 8th, 2019 by Prakash Kolli

Western Union has consistently traded at a PE ratio multiple 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 9.6 using 2018 EPS. Thus, the company appears noticeably undervalued at current prices. If Western Union's PE ratio multiple expands to 12 over the next 5 years, this will add 4.6% to the company's annualized returns during this time period. The current dividend yield is about 4.4% and we expect it to be about 4% over the long-term, keeping Western Union firmly in the income stock category.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
Payout	5%	18%	20%	25%	35%	31%	38%	39%	44%	40%	42%	49%

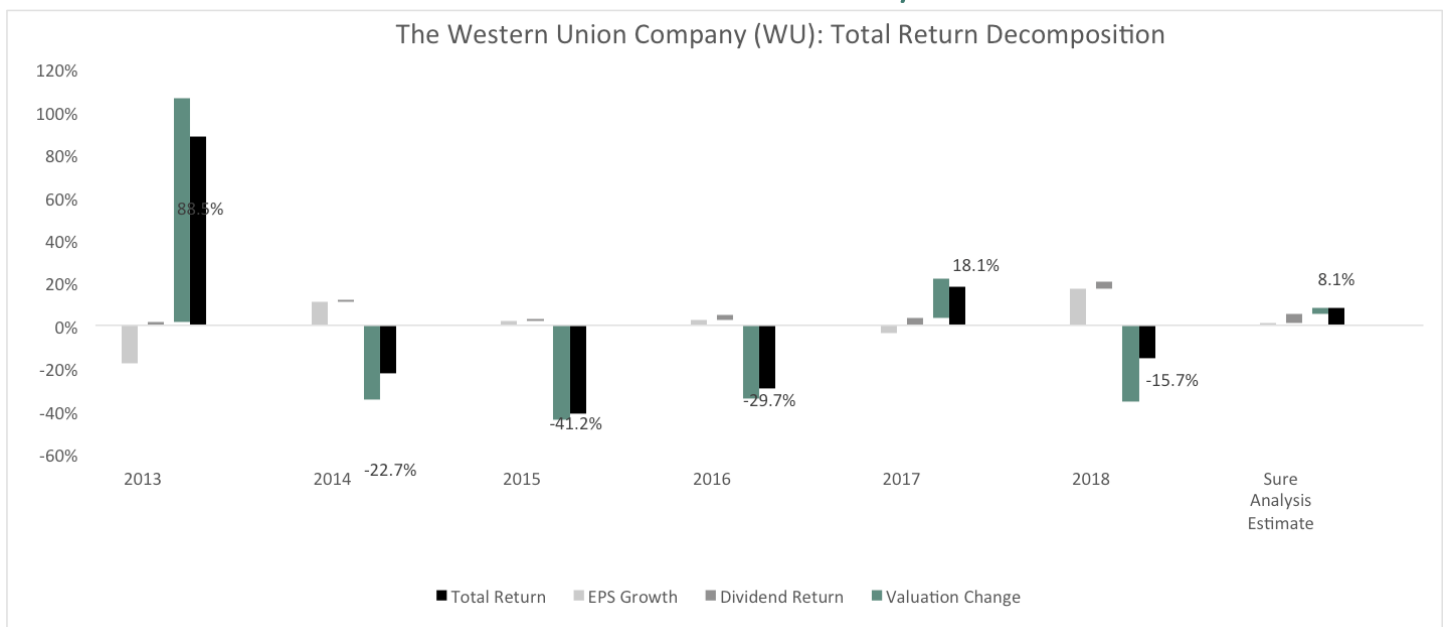
Western Union's competitive advantage stems from its C2C business and large network of agents that process transactions. Notably, Walmart is entering the cross border transaction business with its Walmart-2-World international money transfer platform in partnership with competitor MoneyGram International. If this platform gains transaction then Western Union's C2C business will likely be negatively affected through lower pricing. We do not believe that it has a competitive advantage in digital initiatives yet due to the large number of competitors.

The company makes conservative use of debt with only \$3,434M of long-term debt that is offset with \$973M of cash. We expect the payout ratio to be maintained at 40% - 50%.

Final Thoughts & Recommendation

At present we are forecasting 8.1% total annual return over the next five years comprised of 4.4% yield, 1.0% earnings gain, and 2.7% from PE multiple expansion. Although Western Union is the global market leader it faces new competition and pricing pressure in its core C2C business and strategic digital initiatives are still a small percentage of total revenue. In addition the company expects the effective tax rate to increase in 2019. Hence, we have lowered our 5-year price target and we rate Western Union as a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



The Western Union Company (WU)

Updated February 8th, 2019 by Prakash Kolli

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5084	5193	5491	5665	5542	5607	5484	5423	5524	5590
Gross Profit	2209	2214	2389	2471	2307	2310	2284	2153	2169	2289
Gross Margin	43.4%	42.6%	43.5%	43.6%	41.6%	41.2%	41.7%	39.7%	39.3%	41.0%
SG&A Exp.	926	914	1004	1141	1200	1169	1175	1669	1232	1167
D&A Exp.	154	176	193	246	263	272	270	263	263	265
Operating Profit	1283	1300	1385	1330	1107	1141	1109	484	937	1122
Operating Margin	25.2%	25.0%	25.2%	23.5%	20.0%	20.3%	20.2%	8.9%	17.0%	20.1%
Net Profit	849	910	1165	1026	798	852	838	253	-557	852
Net Margin	16.7%	17.5%	21.2%	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%
Free Cash Flow	1119	881	1012	917	847	867	805	812	559	482
Income Tax	283	235	109	143	129	116	104	89	905	140

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7353	7929	9070	9466	10121	9890	9449	9420	9231	8997
Cash & Equivalents	1685	2157	1371	1777	2073	1783	1316	878	838	973
Accounts Receivable	12	14	1062	1041	981	1007	1070	1327	1574	N/A
Total Liabilities	2633	2590	4046	4059	4006	3917	3869	3826	3314	3323
Accounts Payable	7000	7347	8175	8525	9017	8590	8044	8517	9723	9307
Long-Term Debt	501	520	535	556	639	600	607	1130	719	565
Shareholder's Equity	3049	3290	3583	4029	4213	3720	3216	2786	3034	3434
D/E Ratio	354	583	895	941	1105	1300	1405	902	-491	-310

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	13.1%	11.9%	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%
Return on Equity	492%	194.4%	158%	112%	78.1%	70.9%	61.9%	21.9%	-271%	-213%
ROIC	26.0%	25.0%	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%
Shares Out.	687	654	619	572	552	522	502	482	459	445
Revenue/Share	7.25	7.76	8.66	9.33	9.90	10.45	10.61	10.99	11.81	12.30
FCF/Share	1.60	1.32	1.60	1.51	1.51	1.61	1.56	1.65	1.19	1.06

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.