



Lowé's Companies (LOW)

Updated May 27th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	\$95	5 Year CAGR Estimate:	11.5%	Volatility Percentile:	71.9%
Fair Value Price:	\$101	5 Year Growth Estimate:	8.2%	Momentum Percentile:	41.0%
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Growth Percentile:	83.6%
Dividend Yield:	2.0%	5 Year Price Target	\$150	Valuation Percentile:	64.1%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	67.7%

Overview & Current Events

Lowé's Companies is the second-largest home improvement retailer in the US (after Home Depot). The company, which has a current market capitalization of \$76 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowé's operates over 2,000 home improvement and hardware stores in the U.S. and Canada.

Lowé's reported first quarter results on May 27th, 2019, and recorded net earnings of \$1.0 billion, compared to \$988 million in the same period a year ago. Diluted earnings per share also increased year-over-year to \$1.31 from \$1.19 last year. The company generated revenues of \$17.7 billion during the first quarter, which represents an increase of 2.2% over the prior year's quarter. Revenue was driven by an increase in the company's comparable sales, which were up 3.5% year-over-year. US home improvement comparable sales rose by an even better 4.2% year-over-year.

The company continued its generous share buyback program and purchased \$818 million worth of stock, as well as paid \$385 million in dividends for the quarter. Diluted common shares outstanding are down 3.6% from one year ago.

Gross margins contracted in the first quarter, and the company is focusing on systematically analyzing and implementing retail price changes to temper the cost pressures which the company is facing. As a result of this contracting margin, the company has lowered their previous guidance for fiscal 2019. Revenue and comparable sales growth were left unchanged at 2% and 3%, respectively. However, adjusted earnings-per-share guidance fell 8.3% at the midpoint, from the previous \$6.00 to \$6.10 down to \$5.45 to \$5.65.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.21	\$1.44	\$1.69	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.10	\$5.55	\$8.23
DPS	\$0.36	\$0.42	\$0.53	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.78	\$2.02	\$3.36
Shares	1459	1354	1241	1110	1030	960	910	866	830	812	790	650

Lowé's is not opening many new stores right now, 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 2009 and 2018 Lowé's grew its earnings-per-share by 17.3% a year. 2009's profits were impacted by the financial crisis, though, which has resulted in a low starting base for Lowé's earnings-per-share growth during that particular year.

Earnings-per-share are driven by comparable store sales growth, increasing margins, and the company's share repurchases, which have lowered the share count meaningfully. Significant buybacks mean that the company's net earnings are split over a lower number of shares, which accelerates growth in per-share net income. Especially when Lowé's valuation was lower during the last couple of years these share repurchases were highly accretive. Lowé'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. Lowé'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.

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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Lowes'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. Lowes's has raised its dividend by 21% per year over the last 5 years. We expect this dividend growth to moderate in the coming years but remain in double-digit territory.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.8	16.1	14.1	17.3	20.4	19.8	21.8	18.6	18.7	18.0	17.1	18.2
Avg. Yld.	1.7%	1.8%	2.2%	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	2.1%	2.1%	2.2%

Lowes's trades just above 17 times this year's expected earnings-per-share right now, which is a lower valuation compared to how the company's shares were valued since 2012. The current valuation is relatively in line with our fair valuation of 18.2 times earnings. We estimate a 1.3% annual tailwind in the coming 5 years from the valuation multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	30%	29%	31%	35%	32%	33%	33%	33%	36%	34%	36%	41%

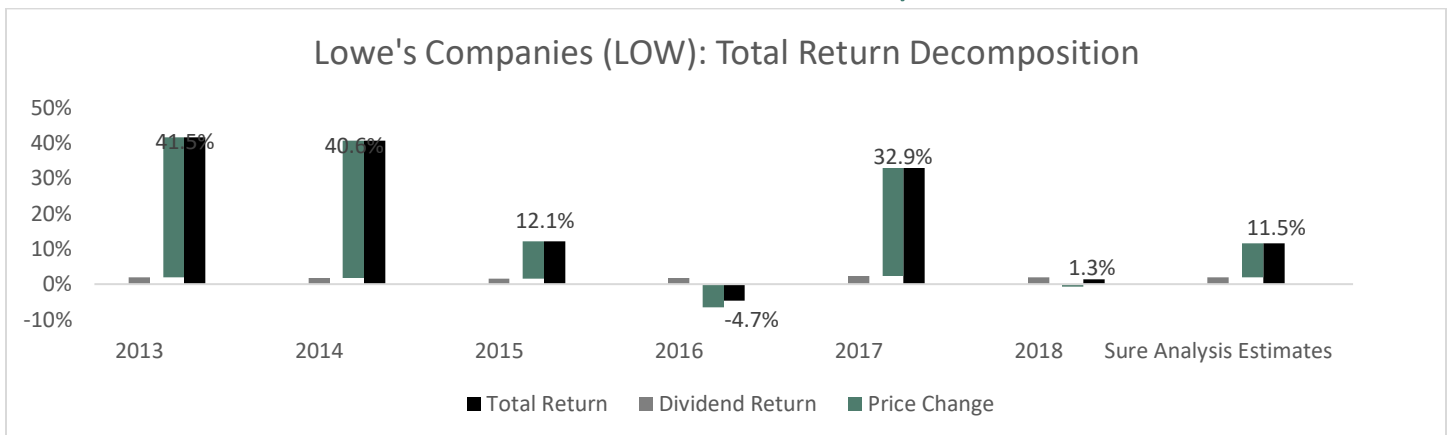
Lowes's is a Dividend King, the company has raised its dividend annually for more than 50 years in a row, even during recessions and the last financial crisis. This very strong track record, coupled with the fact that Lowes's dividend payout ratio is quite low, shows that Lowes's is a very reliable and low-risk dividend stock where investors do not have to worry about a dividend cut. In addition, many years of dividend growth should be in front of the company.

Lowes's business is somewhat cyclical, but the company performed relatively well during the last financial crisis nevertheless. Earnings-per-share declined by less than 20%, despite the housing market hit. Lowes's enjoys competitive advantages from scale and brand power as it 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.

Final Thoughts & Recommendation

Lowes's offers 11.5% total return potential thanks to its 2% dividend yield, expected 8.2% annual growth rate, and 1.3% expected annual multiple expansion. Shares are trading near fair value today, but also offer compelling growth potential for both earnings and the dividend. Given nearly double-digit expected total returns, we rate Lowes's a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	47220	48815	50208	50521	53417	56223	59074	65017	68619	71309
Gross Profit	16463	17152	17350	17327	18476	19558	20570	22464	23409	22908
Gross Margin	34.9%	35.1%	34.6%	34.3%	34.6%	34.8%	34.8%	34.6%	34.1%	32.1%
SG&A Exp.	11737	12006	12593	12244	12865	13272	14105	15129	15376	17413
D&A Exp.	1733	1684	1579	1623	1562	1586	1587	1590	1540	1607
Operating Profit	3112	3560	3277	3560	4149	4792	4971	5846	6586	4018
Op. Margin	6.6%	7.3%	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%
Net Profit	1783	2010	1839	1959	2286	2698	2546	3093	3447	2314
Net Margin	3.8%	4.1%	3.7%	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%
Free Cash Flow	2255	2523	2520	2551	3171	4049	3587	4450	3942	5019
Income Tax	1042	1218	1067	1178	1387	1578	1873	2108	2042	1080

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	33005	33699	33559	32666	32732	31721	31266	34408	35291	34508
Cash & Equivalents	632	652	1014	541	391	466	405	558	588	511
Inventories	8249	8321	8355	8600	9127	8911	9458	10458	11393	12561
Goodwill & Int.	N/A	N/A	N/A	N/A	N/A	N/A	154	1082	1307	303
Total Liabilities	13936	15587	17026	18809	20879	21753	23612	27974	29418	30864
Accounts Payable	4287	4351	4352	4657	5008	5124	5633	6651	6590	8279
Long-Term Debt	5080	6573	7627	9077	10521	11358	12649	15699	16995	16223
Total Equity	19069	18112	16533	13857	11853	9968	7654	6434	5873	3644
D/E Ratio	0.27	0.36	0.46	0.66	0.89	1.14	1.65	2.44	2.89	4.45

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.4%	6.0%	5.5%	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%
Return on Equity	9.6%	10.8%	10.6%	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%
ROIC	7.4%	8.2%	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%
Shares Out.	1459	1354	1241	1110	1030	960	910	866	830	812
Revenue/Share	32.25	34.79	39.44	43.86	50.35	56.79	63.73	73.88	81.79	87.82
FCF/Share	1.54	1.80	1.98	2.21	2.99	4.09	3.87	5.06	4.70	6.18

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

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