



# The Western Union Company (WU)

Updated May 29<sup>th</sup>, 2019 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$19	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Volatility Percentile:</b>	14.9%
<b>Fair Value Price:</b>	\$23	<b>5 Year Growth Estimate:</b>	1.0%	<b>Momentum Percentile:</b>	47.8%
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Growth Percentile:</b>	2.7%
<b>Dividend Yield:</b>	4.4%	<b>5 Year Price Target</b>	\$24	<b>Valuation Percentile:</b>	73.0%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	42.0%

## 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 510,000 agents globally, with a presence in more than 200 countries. About 90% of agents are outside of the U.S. Western Union operates three business segments, Consumer-to-Consumer (C2C), Business Solutions, and Other (bill payments in the U.S. and Argentina). Approximately 79% of revenue is from C2C, 7% from Business Solutions and 14% from Other. The company had ~\$5.6B in revenue in 2018. The current market capitalization is approximately \$8.3B.

Western Union reported Q1 2019 earnings on May 7, 2019. The company missed both revenue and earnings per share estimates. Revenue declined 4% to \$1.3B on a comparable quarter basis. C2C money transfer revenues declined 3% to \$1,056.9 in Q1 2019 due to the impact of foreign exchange but revenue was flat on a constant currency basis.

Westernunion.com C2C revenues increased 17%, or 19% in constant currency, and transaction volumes increased 19%. Westernunion.com revenues represented 13% of total C2C revenue in Q1 2019. Business Solutions revenues declined 1% to \$95.6M, or increased 4% constant currency, driven by strong performance in Asia Pacific and Europe. Other revenues, which primarily consist of bill payments businesses in the U.S. and Argentina, declined 9% to \$184.5M due to the USD strengthening against the Argentine peso but positively impacted by the effects of inflation in Argentina. Operating margins declined to 18.8%. The tax rate increased to 19.9% in Q1 2019 from 8.9% in Q1 2018.

Western Union is selling the Speedpay business for approximately \$750M in cash with completion expected in May 2019. Speedpay is Western Union's domestic bill payments business and had revenue of ~\$100M in 2018. The company also completed a separate sale of the Paymap mortgage payments business. Paymap had revenue of only \$15M in 2018.

*Note that the earnings estimate below does not yet account for the sale of Speedpay.*

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.29	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	<b>\$1.89</b>	<b>\$1.99</b>
<b>DPS</b>	\$0.06	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	<b>\$0.80</b>	<b>\$1.02</b>
<b>Shares</b>	687	654	619	572	552	522	502	482	459	441	<b>424</b>	<b>345</b>

Western Union's traditional C2C business is highly profitable but is a mature slow growing business. The top line has exhibited some volatility in the past 10-years leading to volatility in the bottom line. Earnings per share has benefited from significant share buybacks. We expect share repurchases to continue out to 2024 and we are estimating a 4% annual reduction in share count each year. We estimate an average annual 1% EPS growth out to 2024 due to share reduction combined with to slightly declining organic EPS growth. However, this may prove low if strategic digital growth initiatives take hold. Westernunion.com is growing rapidly in the digital payments category and revenue was roughly 13% of total C2C revenue in Q1 2019. We expect this to increase over the next several years. The company is also making additional strategic moves in digital payments. Western Union recently signed a deal with Thunes, a payments company in emerging markets that will allow clients to transfer funds directly to recipients' mobile wallets. The dividend has been growing for five years. We are expecting a 5% growth rate in DPS to 2024 on average. The payout ratio is currently 42%.

*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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.8	12.0	12.1	9.7	11.5	10.5	12.0	11.8	12.3	10.4	10.9	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%

Our current fair value estimate is \$23. This is based on expected 2019 EPS and price-to-earnings ratio of 12.0. This is near the 10-year average and we account for Western Union’s digital initiatives gaining traction. Western Union is trading at a price-to-earnings ratio of 10.9 and thus, the company is undervalued at current prices. Our 5-year price target is \$24. Hence, there is not much forecasted capital appreciation over the next few years.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	5%	18%	20%	25%	35%	31%	38%	39%	44%	41%	42%	51%

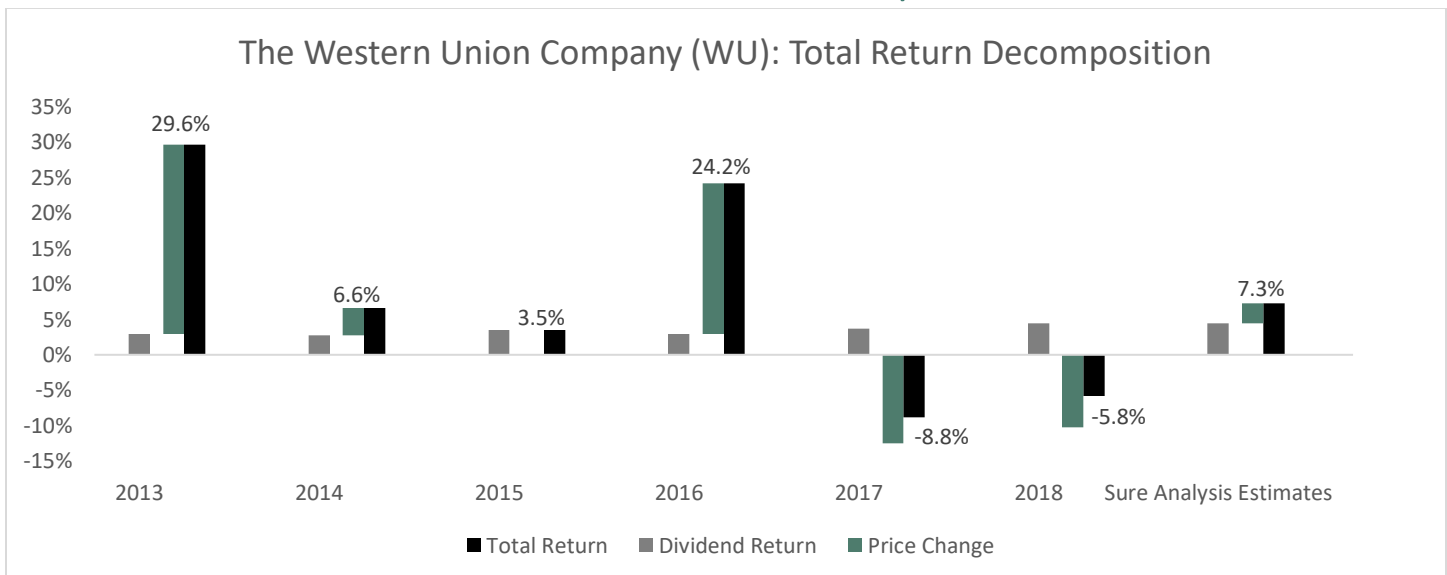
Western Union’s competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. Notably, Walmart is entering the cross border transaction business with its Walmart-2-World international money transfer platform in partnership with competitor MoneyGram International.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

The company makes conservative use of debt with only \$3,370.3M of long-term debt that is offset with \$833.1M of cash. The company has indicated that some proceeds from the sale of Speedpay will be used to pay debt.

## Final Thoughts & Recommendation

At present we are forecasting 7.3% total annual return over the next five years comprised of 4.4% yield, 1.0% earnings gain, and 1.9% from PE multiple expansion. Although Western Union is the global market leader it faces new competition and pricing pressure in its core C2C business. Investors seeking income may find the stock of interest due to the high yield and relatively safe dividend. We rate Western Union as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	7353	7929	9070	9466	10121	9890	9449	9420	9231	8997
<b>Cash &amp; Equivalents</b>	1685	2157	1371	1777	2073	1783	1316	878	838	973
<b>Accounts Receivable</b>	12	14	1062	1041	981	1007	1070	1327	1574	N/A
<b>Total Liabilities</b>	2633	2590	4046	4059	4006	3917	3869	3826	3314	3323
<b>Accounts Payable</b>	7000	7347	8175	8525	9017	8590	8044	8517	9723	9307
<b>Long-Term Debt</b>	501	520	535	556	639	600	607	1130	719	565
<b>Shareholder's Equity</b>	3049	3290	3583	4029	4213	3720	3216	2786	3034	3434
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	13.1%	11.9%	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%
<b>Return on Equity</b>	492%	194.4%	158%	112%	78.1%	70.9%	61.9%	21.9%	-271%	-213%
<b>ROIC</b>	26.0%	25.0%	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%
<b>Shares Out.</b>	687	654	619	572	552	522	502	482	459	445
<b>Revenue/Share</b>	7.25	7.76	8.66	9.33	9.90	10.45	10.61	10.99	11.81	12.30
<b>FCF/Share</b>	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.

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