



Lowe's Companies (LOW)

Updated August 26th, 2019 by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---------------------------------|-------|
| Current Price: | \$106 | 5 Year CAGR Estimate: | 9.1% | Volatility Percentile: | 76.8% |
| Fair Value Price: | \$101 | 5 Year Growth Estimate: | 8.2% | Momentum Percentile: | 55.1% |
| % Fair Value: | 105% | 5 Year Valuation Multiple Estimate: | -1.0% | Growth Percentile: | 85.7% |
| Dividend Yield: | 2.1% | 5 Year Price Target | \$150 | Valuation Percentile: | 35.8% |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Total Return Percentile: | 42.5% |

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 \$83 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates over 2,000 home improvement and hardware stores in the U.S. and Canada.

Lowe's reported second quarter results on August 21st, and recorded net earnings of \$1.7 billion, compared to \$1.5 billion in the same period a year ago. Diluted earnings per share also increased year-over-year to \$2.14 from \$1.86 last year, an increase of 15%. After adjusting for the winding down of their Mexico retail operations this quarter, adjusted earnings per share increased only 3.9% to \$2.15 from \$2.07 last year. The company generated revenues of \$21.0 billion, up 0.5% from \$20.9 billion last year. Total comparable sales increased by 2.3%, while comparable sales in the U.S. increased by 3.2%.

The company continued its generous share buyback program and purchased \$1.96 billion worth of stock, as well as paid \$382 million in dividends for the quarter. Diluted common shares outstanding are down 4.1% from one year ago.

The company maintained its guidance provided at the end of the first quarter, where they had previously lowered original earnings per share guidance by 8.3%. Adjusted earnings per share for 2019 is expected at \$5.45 to \$5.65. Revenue and comparable sales growth are expected to be 2% and 3%, respectively.

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 | \$2.20 | \$3.54 |
| Shares¹ | 1459 | 1354 | 1241 | 1110 | 1030 | 960 | 910 | 866 | 830 | 812 | 775 | 650 |

Lowe'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 Lowe'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 Lowe'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 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.

¹ In millions

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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Lowé'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. Lowé'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 | 19.1 | 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% | 2.4% |

Lowé's trades just above 19 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 slightly above our fair valuation of 18.2 times earnings. We estimate a 1.0% annual headwind 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% | 40% | 43% |

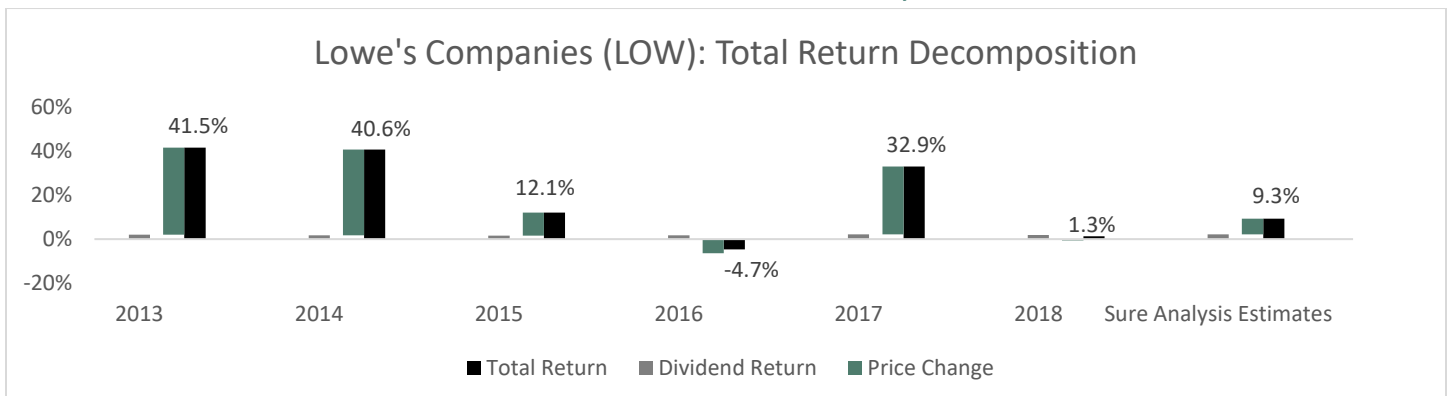
Lowé's is a Dividend King, the company has raised its dividend annually for more than 50 years in a row, even during recessions and the last financial crisis. This very strong track record, coupled with the fact that Lowé's dividend payout ratio is quite low, shows that Lowé's is a very reliable and 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.

Lowé'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. Lowé'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

Lowé's offers 9.1% total return potential thanks to its 2.1% dividend yield, expected 8.2% annual growth rate, and 1.0% expected annual multiple compression. Shares are trading slightly above fair value today, but also offer compelling growth potential for both earnings and the dividend. While growth prospects are intact, given shares currently trade above fair value, we rate Lowé's 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 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 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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