



The Western Union Company (WU)

Updated August 14th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	3.3%	Volatility Percentile:	15.9%
Fair Value Price:	\$19	5 Year Growth Estimate:	1.0%	Momentum Percentile:	74.2%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Growth Percentile:	4.0%
Dividend Yield:	3.8%	5 Year Price Target	\$20	Valuation Percentile:	35.3%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	14.4%

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 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 83% of revenue is now from C2C, 7% from Business Solutions and 10% from Other. Western Unions sold the Speedpay (U.S. bill payments) and Paymap (mortgage payments) businesses in 2019. The company had ~\$5.6B in revenue in 2018. The current market capitalization is approximately \$9.1B.

Western Union reported Q2 2019 results on August 1, 2019. Revenue declined 5% to \$1,340.5M from \$1,411.1M and diluted GAAP EPS increased to \$1.42 in the quarter compared to \$0.47 in the prior year due to the sale of the Speedway and Paymap businesses. Revenues were negatively impacted by foreign exchange headwinds. On an adjusted basis EPS declined \$0.01 to \$0.45 in the quarter from \$0.46 in the prior year. C2C revenue declined 1% (increased 1% constant currency) to \$1,112.9M from \$1,127.5M and operating income declined 6% to \$250.2M from \$266.2M on a year-over-year basis. Westernunion.com C2C revenues increased 18% (20% constant currency) and transaction volume increased 15%. This service continues to grow and now represents 13% of C2C revenue and is available in 70 countries. Business solutions revenue increased 3% (7% constant currency) to \$95.6M from \$93.1M and operating income was \$10.5M. Other revenue declined 31% to \$132.0M from \$190.5M and operating income declined 65% to \$5.6M from \$16.3M due to the divestitures of Speedpay and Paymap.

Western Union is undergoing a restructuring plan called Global Strategy that is intended to drive improved efficiency, profitability, and long-term revenue growth. The company is initially trying to obtain \$100M in annual savings in 2021.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.29	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$1.76	\$1.85
DPS	\$0.06	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$1.02
Shares¹	687	654	619	572	552	522	502	482	459	441	424	345

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 now estimate EPS of \$1.76 in 2019 and then an average annual 1% EPS growth out to 2024 due to share reduction combined with 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 Q2 2019. We expect this to increase over the next several years. The company is also making additional strategic moves in digital payments that could bear fruit. The

¹ In millions

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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 45.5% leaving room for further increases.

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	11.9	11.0
Avg. Yld.	0.4%	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.8%	5.0%

Our current fair value estimate is \$19, down from our last report. This is based on expected 2019 EPS and price-to-earnings ratio of 11.0. This is slightly below the 10-year average and we now slightly discount the multiple due to slow revenue growth and restructuring expenses. Western Union is trading at a price-to-earnings ratio of 11.9 and thus, the company is slightly overvalued at current prices. Our 5-year price target is \$20.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	4.7%	17.6%	19.7%	24.7%	35.0%	31.4%	38.3%	38.6%	43.8%	40.6%	45.5%	55.1%

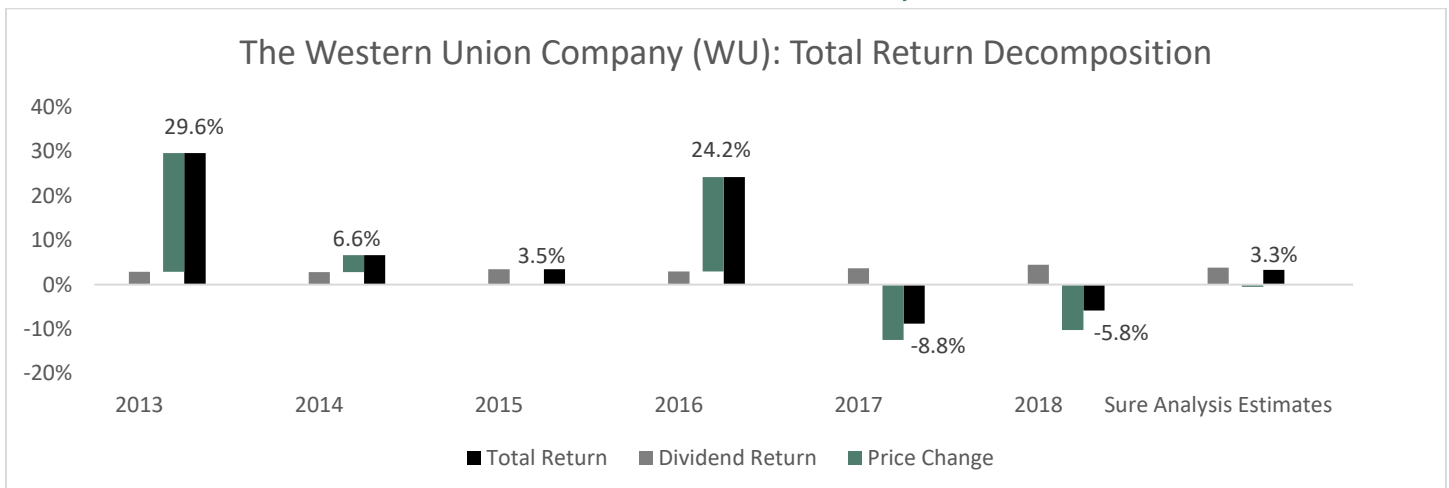
Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. Notably, Walmart is entering the cross-border transaction business with its Walmart-2-World International money transfer platform in partnership with competitor MoneyGram International. 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. The company also recently announced a new strategic partnership with Visa.

The company makes conservative use of debt with only \$3,080.2M of long-term debt that is offset with \$1,210.2M of cash. The company has indicated that some proceeds from the recent divestitures will be used to pay debt.

Final Thoughts & Recommendation

At present we are forecasting 3.3% annual total return over the next five years down from our last report. This is comprised of 3.8% yield, 1.0% earnings gain, and (1.5%) from PE multiple contraction. 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
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.

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