



The Western Union Company (WU)

Updated February 17th, 2020 by Prakash Kollu

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	0.9%	Market Cap:	\$10.97B
Fair Value Price:	\$21	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/16/20
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	03/21/20
Dividend Yield:	3.4%	5 Year Price Target	\$22	Years Of Dividend Growth:	5
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	12.5%

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 and operates 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 86% of revenue is now from C2C, 7% from Business Solutions and 7% from Other. Western Union divested the Speedpay (U.S. bill payments) and Paymap (mortgage payments) businesses in 2019. The company had ~\$5.3B in revenue in 2019.

Western Union reported Q4 2019 and full year results on February 11th, 2020. Companywide revenue declined (7%) to \$1,307.7M from \$1,401.6M and diluted GAAP earnings per share decreased (33%) to \$0.32 in the quarter compared to \$0.48 in the prior year due to restructuring expenses, divestitures, and changes in the tax rate. C2C revenue increased 1% to \$1,125M from \$1,113M a year-over-year basis driven by cross border transactions. Westernunion.com C2C revenues increased 17% and cross border transaction volume increased 26%. This service continues to grow and now represents 15% of C2C revenue and is available in over 70 countries. Business solutions revenue grew 1% to \$97M from \$96.8M. Other revenue declined (52%) to \$85.7M from \$177.1M due to the divestitures of Speedpay and Paymap.

For the year, companywide revenue declined (5%) to \$5,292.1M from \$5,589.9M and diluted GAAP earnings per share increased to \$2.46 from \$1.87. The gain in earnings was primarily due to the sale of the Speedpay and Paymap businesses.

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 targeting operating margins of 23%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.42	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.92	\$2.02
DPS	\$0.25	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$1.15
Shares¹	654	619	572	552	522	502	482	459	441	424	407	390

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 due to acquisitions and divestitures. Earnings per share has benefited from significant share buybacks. We expect share repurchases to continue out to 2025 and we are estimating a 4% annual reduction in share count each year. The sale of businesses increased earnings per share in 2019. But we now estimate EPS of \$1.92 in 2020 and then an average annual 1% EPS growth out to 2025 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 15% of total C2C revenue in Q4 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 dividend has been growing for five years. We are expecting a 5% growth rate in dividend per share to 2025 on average.

¹ Share count 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.0	12.1	9.7	11.5	10.5	12.0	11.8	12.3	10.4	12.2	13.7	11.0
Avg. Yld.	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	3.4%	5.2%

Western Union now trades at a multiple of 13.7 due to a run up in the stock price, which means its trading above its trailing average valuation of ~11.5 over the past decade. We use long-term fair value multiple estimate of 11.0. Our fair value estimate is now \$21. Our 5-year price target is now \$22.

Safety, Quality, Competitive Advantage, & Recession Resiliency

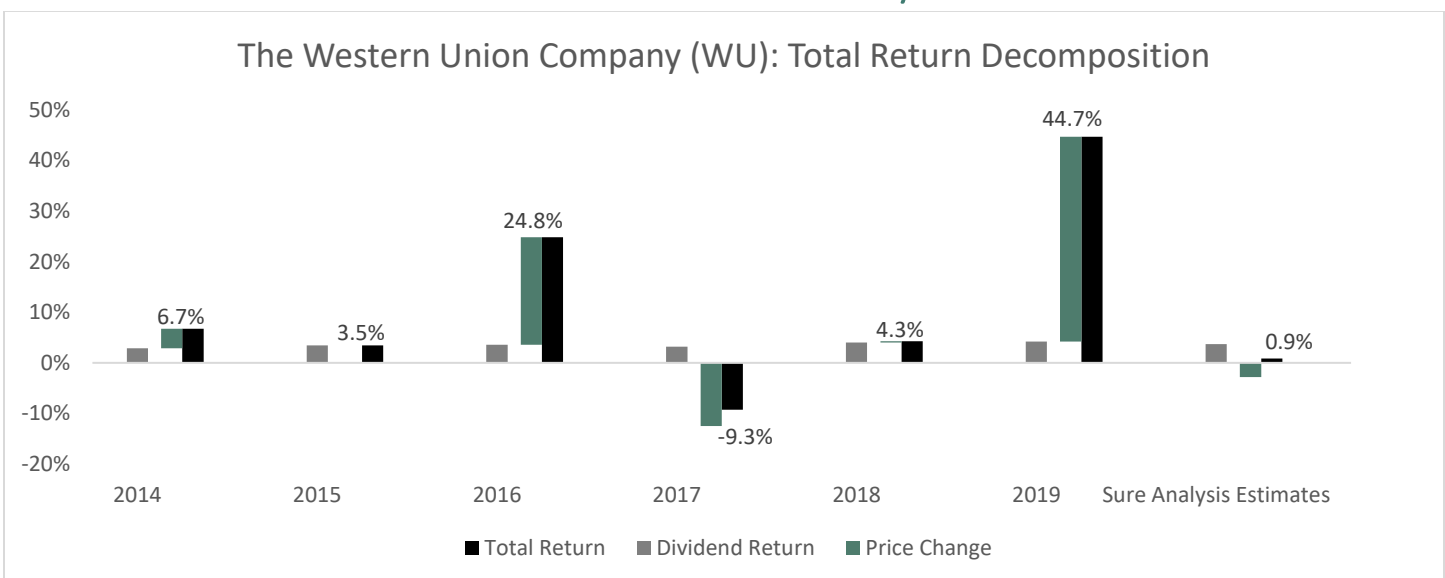
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18%	20%	25%	35%	31%	38%	39%	44%	41%	33%	47%	57%

Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. But 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. Additionally, new online competitors are entering the market. But saying that, Western Union has rapidly been inking new strategic partnerships to expand its network. This includes deals with Dollar General, Visa, Amazon, and several Asian businesses. The company is increasingly focused on cross border transactions. The company makes conservative use of debt with only \$3,229.3M of long-term debt that is offset with \$1,450.5M of cash and equivalents.

Final Thoughts & Recommendation

At present we are forecasting 0.9% annualized total return over the next five years up from our last report. Western Union has been emphasizing its core business while divesting other operations. The company is focusing on partnerships and cross border payments. However, competition is intense. We do not expect much in the way of price gains for the stock. But Western Union has a relatively safe dividend and may interest those seeking income. But the stock is trading at an elevated valuation and we rate it a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5,193	5,491	5,665	5,542	5,607	5,484	5,423	5,524	5,590	5,292
Gross Profit	2,214	2,389	2,471	2,307	2,310	2,284	2,156	2,171	2,289	2,206
Gross Margin	42.6%	43.5%	43.6%	41.6%	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%
SG&A Exp.	914	1,004	1,141	1,200	1,169	1,175	1,669	1,232	1,167	1,272
D&A Exp.	176	193	246	263	272	270	263	263	265	258
Operating Profit	1,300	1,385	1,330	1,107	1,141	1,109	487	940	1,122	934
Operating Margin	25.0%	25.2%	23.5%	20.0%	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%
Net Profit	910	1,165	1,026	798	852	838	253	(557)	852	1,058
Net Margin	17.5%	21.2%	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%
Free Cash Flow	881	1,012	917	847	867	805	812	565	482	787
Income Tax	235	109	143	129	116	104	89	905	140	263

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	7929	9070	9466	10121	9890	9449	9420	9231	8997	8759
Cash & Equivalents	2157	1371	1777	2073	1783	1316	878	838	973	1451
Accounts Receivable	14	1062	1041	981	1007	1070	1327	1574	1355	1230
Total Liabilities	7347	8175	8525	9017	8590	8044	8517	9723	9307	8798
Accounts Payable	520	535	556	639	600	607	1130	719	565	602
Long-Term Debt	3290	3583	4029	4213	3720	3216	2786	3034	3434	3229
Shareholder's Equity	583	895	941	1105	1300	1405	902	-491	-310	-40
D/E Ratio	5.65	4.00	4.28	3.81	2.86	2.29	3.09	-6.17	-11.08	-81.75

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.9%	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%
Return on Equity	194.4%	158%	112%	78.1%	70.9%	61.9%	21.9%	-271%	-213%	
ROIC	25.0%	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%
Shares Out.	654	619	572	552	522	502	482	459	441	424
Revenue/Share	7.76	8.66	9.33	9.90	10.45	10.61	10.99	11.81	12.30	12.28
FCF/Share	1.32	1.60	1.51	1.51	1.61	1.56	1.65	1.19	1.06	1.83

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

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