

Lowe's Companies (LOW)

Updated June 16th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	\$132	5 Year CAGR Estimate:	11.6%	Market Cap:	\$99B
Fair Value Price:	\$132	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	07/22/2020
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Payment Date:	08/05/2020
Dividend Yield:	1.8%	5 Year Price Target	\$213	Years of Dividend Growth:	57
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	14.6%

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 \$99 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates nearly 2,000 home improvement and hardware stores in the U.S. and Canada.

Lowe's reported first quarter results on May 20th, and recorded net earnings of \$1.3 billion, compared to net earnings of \$1.0 billion in the prior year period. Diluted earnings per share increased 35% to \$1.76, while adjusted earnings per share rose 45% to \$1.71. The company generated revenue of \$19.7 billion, with comparable sales increasing 11.2%. Comparable sales specifically in the U.S. increased a bit more at 12.3% as it appears the stay-home COVID-19 pandemic may have resulted in many more home projects and renovations being taken on. Of note for the first quarter, Lowes.com sales increased 80% year-over-year as the retail landscape moves even more online.

Given the uncertainty raised by the COVID-19 pandemic, the company raised \$4 billion in notes, and increased its revolving credit facilities capacity by \$770 million. Currently the company has roughly \$6 billion of cash, and \$3 billion undrawn capacity on its revolving credit facilities in case further liquidity is needed.

In the first quarter, the company repurchased \$9.6 million shares for \$947 million (thus a purchase price of around \$98.60 per share, 33% below the current price), and paid \$420 million in dividends. At this time, the company is suspending further share repurchases and is not expecting to buy any more this year, whereas they previously were estimated to buy around \$5 billion worth of stock. We believe these plans will remain intact, however simply pushed off until further clarity is provided.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
EPS	\$1.44	\$1.69	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$6.60	\$10.63
DPS	\$0.42	\$0.53	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.35	\$3.78
Shares¹	1354	1241	1110	1030	960	910	866	830	801	763	733	660

Lowe's is not opening many new stores right now, but the company still managed to grow its earnings-per-share at an incredibly 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 2010 and 2019 Lowe's grew its earnings-per-share by 18.4% a year. Profits at the time 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 is lower, these share repurchases are highly accretive. Lowe's would likely ramp up its buybacks if its valuation declined meaningfully, however they made significant earnings on their first quarter repurchases. Housing has seen a bit of a resurgence recently, while consumers today could be impacted by the COVID-19 crisis, it appears

¹ In millions

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hardware stores are holding up well. 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.

Lowe'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 remarkably high in recent years. Lowe's has raised its dividend by 17% per year over the last 5 years. We expect this dividend growth to moderate in the coming years and potentially below double-digit territory.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	16.1	14.1	17.3	20.4	19.8	21.8	18.6	18.7	18.7	18.9	20.0	20.0
Avg. Yld.	1.8%	2.2%	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.8%	1.8%

Lowe's trades at 20 times this year's expected earnings-per-share right now, which is slightly higher than the 5-year average, but we see home improvement sector PE growing. The current valuation is directly in-line with our current fair value of 20 times expected earnings. We estimate no change in the valuation from its current PE in the near term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2024
Payout	29%	31%	35%	32%	33%	33%	33%	36%	36%	37%	36%	36%

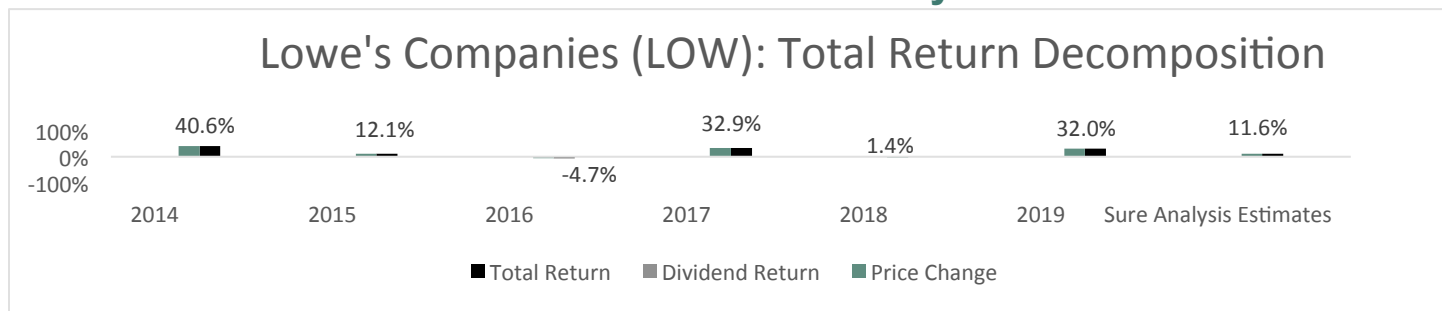
Lowe's is a Dividend King, the company has raised its dividend annually for more than 50 years in a row, even during recessions and the last financial crisis. This extraordinarily strong track record, coupled with the fact that Lowe's dividend payout ratio is quite low, shows that Lowe's is a reliable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

Lowe'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. Lowe'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

Lowe's offers 11.6% total return potential thanks to its strong expected growth performance. Shares are trading in-line with our estimated fair value, but also offer compelling growth potential for both earnings and the dividend. We expect that buying back their own stock will prove fruitful in the long-term. Despite a lack of margin of safety today, LOW is on a growth trajectory and we rate it a speculative buy but advise caution due to the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	48815	50208	50521	53417	56223	59074	65017	68619	71309	72148
Gross Profit	17152	17350	17327	18476	19558	20570	22464	23409	22908	22943
Gross Margin	35.1%	34.6%	34.3%	34.6%	34.8%	34.8%	34.6%	34.1%	32.1%	31.8%
SG&A Exp.	12006	12593	12244	12865	13272	14105	15129	15376	17413	15367
D&A Exp.	1684	1579	1623	1562	1586	1587	1590	1540	1607	1410
Operating Profit	3560	3277	3560	4149	4792	4971	5846	6586	4018	6314
Op. Margin	7.3%	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%
Net Profit	2010	1839	1959	2286	2698	2546	3093	3447	2314	4281
Net Margin	4.1%	3.7%	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%
Free Cash Flow	2523	2520	2551	3171	4049	3587	4450	3942	5019	2812
Income Tax	1218	1067	1178	1387	1578	1873	2108	2042	1080	1342

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	33699	33559	32666	32732	31721	31266	34408	35291	34508	39471
Cash & Equivalents	652	1014	541	391	466	405	558	588	511	716
Inventories	8321	8355	8600	9127	8911	9458	10458	11393	12561	13179
Goodwill & Int.	N/A	N/A	N/A	N/A	N/A	154	1082	1307	303	303
Total Liabilities	15587	17026	18809	20879	21753	23612	27974	29418	30864	37499
Accounts Payable	4351	4352	4657	5008	5124	5633	6651	6590	8279	7659
Long-Term Debt	6573	7627	9077	10521	11358	12649	15699	16995	16223	19306
Total Equity	18112	16533	13857	11853	9968	7654	6434	5873	3644	1972
D/E Ratio	0.36	0.46	0.66	0.89	1.14	1.65	2.44	2.89	4.45	9.79

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.0%	5.5%	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%
Return on Equity	10.8%	10.6%	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152.5%
ROIC	8.2%	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%
Shares Out.	1354	1241	1110	1030	960	910	866	830	812	763
Revenue/Share	34.79	39.44	43.86	50.35	56.79	63.73	73.88	81.79	87.82	92.74
FCF/Share	1.80	1.98	2.21	2.99	4.09	3.87	5.06	4.70	6.18	3.61

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

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