

The Western Union Company (WU)

Updated August 17th, 2020 by Prakash Kolli

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	0.3%	Market Cap:	\$9.72B
Fair Value Price:	\$18	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	09/15/20
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	09/30/20
Dividend Yield:	3.8%	5 Year Price Target	\$19	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 550,000 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 88% of revenue is now from C2C, 7% from Business Solutions and 5% 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 Q2 2020 results on August 4th, 2020. Companywide revenue declined (14%) to \$1,115M from \$1,341M and diluted GAAP earnings per share fell (73%) to \$0.39 in the quarter compared to \$1.42 in the prior year. The decline in revenue was due to divestitures and lower transaction volumes caused by COVID-19. The decrease in earnings was affected by gains from divestitures in 2019. C2C revenue declined (12%) to \$976.6M from \$1,112.9M on a year-over-year basis driven by 8% lower transactions. Westernunion.com C2C revenues increased 50% and digital money transfer volume increased 96%. This service continues to grow and now represents 22% of C2C revenue. Business solutions revenue declined (17%) to \$79.4M from \$95.6M. Other revenue declined (56%) to \$58.7M from \$132.0M due to the divestitures of Speedpay and Paymap, and depreciation of Argentine peso.

Western Union announced several strategic partnerships including ones with AXA for insurance services (France), NyongHup (S. Korea), and Truemoney (Philippines). The main story though is the announcement of the acquisition of MoneyGram International. This deal if approved would combine the two largest providers of money transfer services. MoneyGram is valued at ~\$260M at the current stock price but has about \$878M in debt.

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	\$1.65	\$1.73
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	418	401	327

Western Union's traditional C2C business is highly profitable but is a mature 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 growth has benefited from significant share buybacks. We expect share repurchases to continue out to 2025. We are estimating a 4% annual reduction in share count each year. We now estimate EPS of \$1.65 in 2020 down from our earlier estimate due to the impact of COVID-19. Western Union withdrew guidance for 2020. After 2020, we are forecasting average annual 1% EPS growth out to 2025 due to share reduction combined with slightly declining organic EPS growth. Westernunion.com is growing rapidly in the digital payments category and revenue was roughly 22% of total C2C revenue. We expect this to increase over the next several years, especially as more consumers use digital payments due to COVID-19. The company is also making additional strategic moves mostly through partnerships that could bear fruit. 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	14.5	11.0
Avg. Yld.	1.5%	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	3.8%	6.0%

Western Union's stock price gained since our last report primarily due to the announcement of a takeover offer for MoneyGram International. The stock is not trading on fundamentals at the moment and is overvalued. Our fair value multiple for the long haul is 11X. Our fair value estimate is now \$18. Our 5-year price target is now \$19.

Safety, Quality, Competitive Advantage, & Recession Resiliency

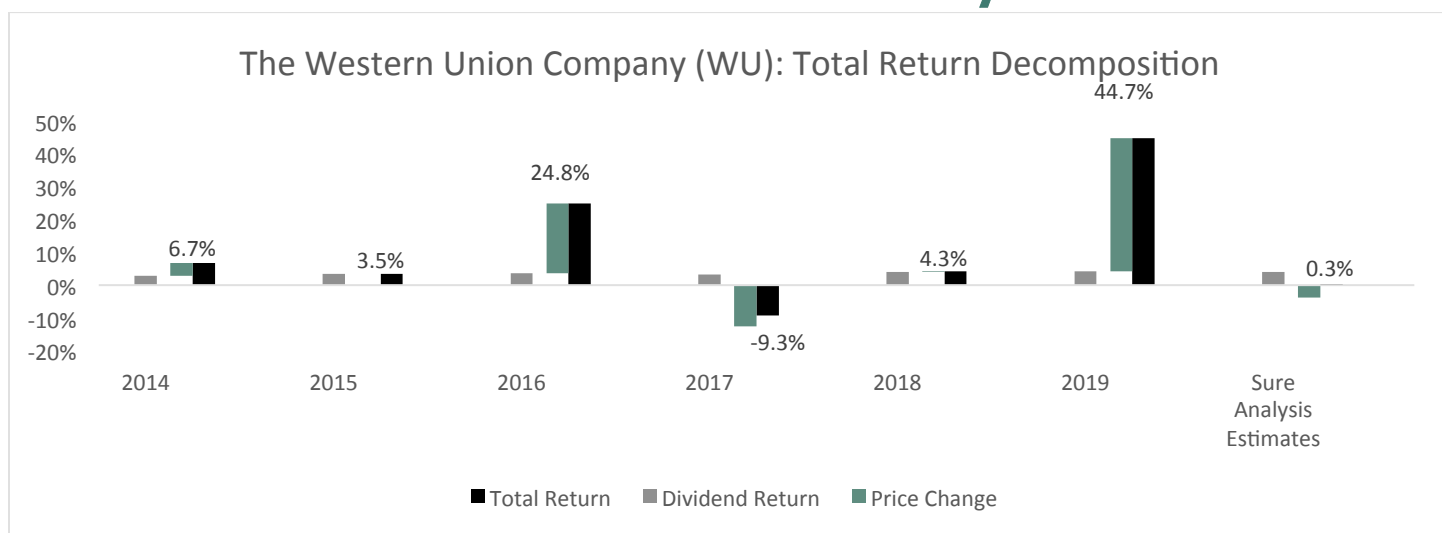
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	18%	20%	25%	35%	31%	38%	39%	44%	41%	33%	55%	66%

Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. But Walmart entered the cross-border transaction business with its Walmart-2-World International money transfer platform in partnership with competitor MoneyGram. Additionally, new online competitors are entering the market including Xoom owned by PayPal, Square, Stripe, Zelle, Libra Association, etc. As these platforms gain transaction, Western Union's C2C business will likely be negatively affected through lower pricing. Western Union has responded by inking new strategic partnerships to expand its network and expanding into an insurance partnership. If approved, the acquisition of MoneyGram would strengthen Western Union's C2C business. The company makes conservative use of debt with only \$3,085.8M of long-term debt that is offset with \$1,181.6M of cash and equivalents.

Final Thoughts & Recommendation

At present we are forecasting 0.3% annualized total return over the next five years. Western Union has been emphasizing its core C2C business and digital money transfer with its app. Revenue growth has been difficult to come by due to increasing competition in the digital space. Strategic partnerships may add incremental revenue. The MoneyGram acquisition will change the competitive landscape. The company is very profitable and generates solid cash flow leading to a relatively high dividend yield with decent safety. At the current price, we rate this stock a sell.

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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