



The Western Union Company (WU)

Updated February 15th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	4.7%	Market Cap:	\$9.86B
Fair Value Price:	\$23	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/16/21
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	03/31/21
Dividend Yield:	3.9%	5 Year Price Target	\$25	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	4.4%

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 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 ~\$4.8B in revenue in 2020.

Western Union reported Q4 2020 and full year results on February 10th, 2021. For the quarter, companywide revenue declined (3%) to \$1,272M from \$1,308M and diluted GAAP earnings per share increased 34% to \$0.43 in the quarter compared to \$0.32 in the prior year. The decline in revenue was due to the adverse impact of COVID-19 offset by strong 36% growth in digital money transfer. The increase in earnings was driven by cost savings, lower share count and lower tax rate. C2C revenue was flat at \$1,122M from \$1,125M on a year-over-year basis driven by 6% more transactions but lower profitability per transaction. Digital Money Transfer C2C revenues increased 36% and digital money transfer volume increased 83%. Business solutions revenue declined (8%) to \$89.2M from \$97.0M due to the negative impact of COVID-19. Other revenue declined (29%) to \$61.1M from \$85.7M due to negative impact of COVID-19.

For the year, total revenue fell (9%) to \$4,835M from \$5,292M due to COVID-19 and divestitures. Western Union provided guidance of mid-to-high single-digit revenue increase and \$2.00 - \$2.10 earnings per share in 2021. The company is seemingly focused in cost savings, enhancing its network effect with partnerships, and growing cross-border principals and volumes while focusing on digital money transfer.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.57	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.87	\$2.05	\$2.26
DPS	\$0.31	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$0.94	\$1.14
Shares¹	619	572	552	522	502	482	459	441	418	401	385	327

Western Union's traditional C2C business is highly profitable but it 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 2026. We are estimating a 4% annual reduction in share count each year. Revenue and earnings were negatively impacted by COVID-19 in 2020 offset by strong growth in digital money transfer. After 2020, we are now expecting 2% earnings per share growth due to strength in digital, the Walmart partnership, cost savings, and share reduction offset by long-term declines in retail transactions. Digital Money Transfer is growing at a high double-digit rate and revenue was roughly 21% of total C2C revenue. We expect this to increase over the next several years, especially as more consumers use digital payments. The company is also making additional strategic moves mostly through partnerships that could bear fruit. We are now expecting a 4% growth rate in the dividend per share to 2026 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.1	9.7	11.5	10.5	12.0	11.8	12.3	10.4	12.2	12.9	11.7	11.0
Avg. Yld.	1.6%	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	3.9%	4.6%

Western Union's stock price is up since our last report. The company finished 2020 strong beating our estimate and guided higher for 2020. We have pegged our 2021 earnings estimate at the mid-point of guidance. Our fair value multiple for the long haul is 11X. Our fair value estimate is now \$23. Our 5-year price target is now \$25.

Safety, Quality, Competitive Advantage, & Recession Resiliency

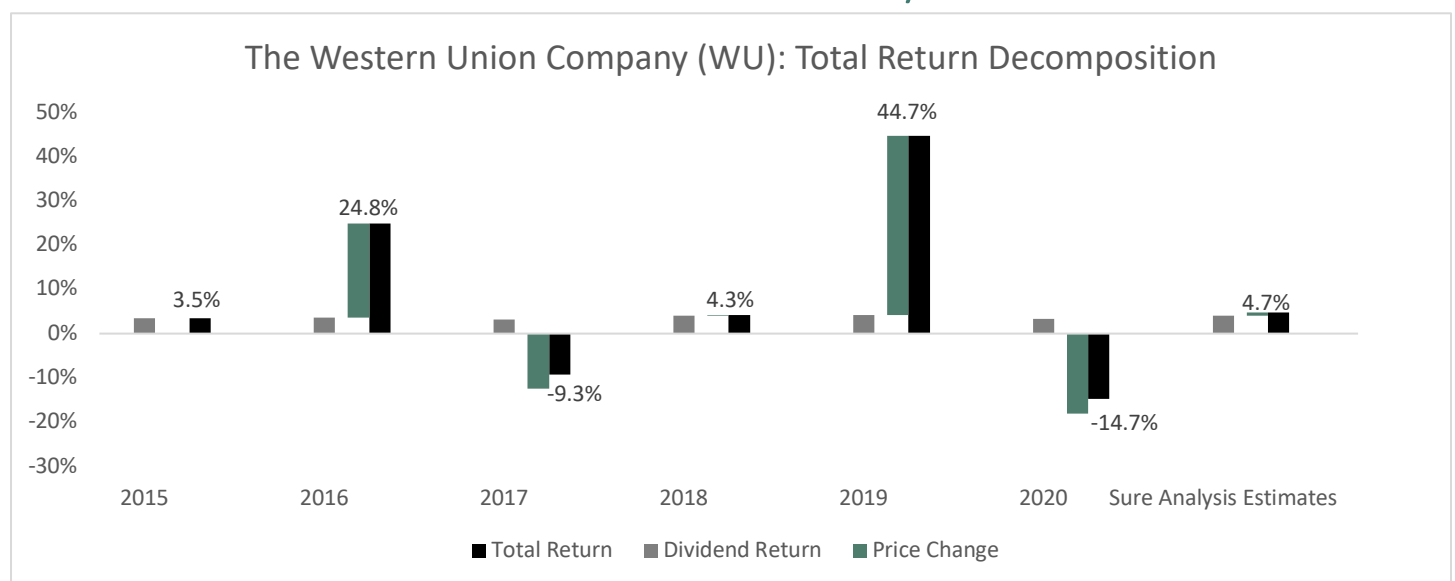
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	35%	31%	38%	39%	44%	41%	33%	48%	46%	46%	51%

Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. The company strengthens its network effect with partnerships and now with its digital money transfer effort, app, and westernunion.com. Importantly, Western Union is now partnered with Walmart. 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. The company makes conservative use of debt with only \$3,067.2M of long-term debt that is offset with \$1,428.2M of cash and equivalents. Interest coverage is about 8.5X and the leverage ratio is about 1.4X.

Final Thoughts & Recommendation

At present we are forecasting 4.7% annualized total return over the next five years. Western Union initially faced a tough 2020 as the COVID-19 pandemic closed retail outlets globally. This adversely affected money transfer payments. But growth in digital payments and a recovering economy bolstered the second half. Digital money transfers are experiencing rapid transaction volume growth and revenue growth. Western Union generates solid cash flow leading to an above average dividend yield with decent safety. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5491	5665	5542	5607	5484	5423	5524	5590	5292	4835
Gross Profit	2389	2471	2307	2310	2284	2156	2171	2289	2206	2009
Gross Margin	43.5%	43.6%	41.6%	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%	41.5%
SG&A Exp.	1004	1141	1200	1169	1175	1669	1232	1167	1272	1041
D&A Exp.	193	246	263	272	270	263	263	265	258	226
Operating Profit	1385	1330	1107	1141	1109	487	940	1122	934	967
Operating Margin	25.2%	23.5%	20.0%	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%	20.0%
Net Profit	1165	1026	798	852	838	253	-557	852	1058	744
Net Margin	21.2%	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%	15.4%
Free Cash Flow	1012	917	847	867	805	812	565	482	787	721
Income Tax	109	143	129	116	104	89	905	140	263	111

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9070	9466	10121	9890	9449	9420	9231	8997	8759	9496
Cash & Equivalents	2083	2351	2612	2618	2392	2068	2103	2221	1819	1428
Accounts Receivable	1062	1041	981	1007	1070	1327	1574	1355	1230	
Total Liabilities	4046	4059	4006	3917	3869	8517	9723	9307	8798	9310
Accounts Payable	8175	8525	9017	8590	8044	1130	719	565	602	501
Long-Term Debt	535	556	639	600	607	2786	3034	3434	3229	3067
Shareholder's Equity	3583	4029	4213	3720	3216	902	-491	-310	-40	187
D/E Ratio	895	941	1105	1300	1405	3.09	-6.17	-11.08	-81.75	16.44

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.7%	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%	8.2%
Return on Equity	157.8%	111.8%	78.1%	70.9%	61.9%	21.9%	-271.2%			1012.0%
ROIC	27.9%	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%	23.1%
Shares Out.	619	572	552	522	502	482	459	441	418	401
Revenue/Share	8.66	9.33	9.90	10.45	10.61	10.99	11.81	12.30	12.28	11.65
FCF/Share	1.60	1.51	1.51			1.65	1.21	1.06	1.83	1.74

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

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