



Lowe's Companies (LOW)

Updated August 26th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$205	5 Year CAGR Estimate:	10.4%	Market Cap:	\$143.7 B
Fair Value Price:	\$227	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	10/21/2021
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Payment Date²:	11/04/2021
Dividend Yield:	1.6%	5 Year Price Target	\$318	Years of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	33%

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 \$143.7 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates or services more than 2,200 home improvement and hardware stores in the U.S. and Canada. Lowe's traders under the ticker symbol LOW on the NYSE.

Lowe's reported second quarter results on August 18th. Total sales for the quarter came in at \$27.6 billion compared to \$27.3 billion in the same quarter a year ago. Comparable sales decreased 1.6% year-over-year, while the U.S. home improvement comparable sales decreased 2.2%. Net earnings of \$3.0 billion rose from \$2.8 billion in 2Q 2020. Diluted earnings per share of \$4.25 rose 13.6% from \$3.74 a year earlier. After adjusting for strategic review costs, EPS of \$4.25 was a 13.3% increase from \$3.75.

The company repurchased 16.4 million shares in the quarter for \$3.1 billion. Additionally, they paid out \$430 million in dividends. The company remains in a strong liquidity position with \$4.8 billion of cash and cash equivalents.

The previous outlook of \$9 billion in share repurchases was maintained following the first quarter, and sales momentum is tracking for higher sales than anticipated for revenue of roughly \$92 billion (a 30% comparable sales growth on a two-year basis). The company also maintains \$2 billion in capital expenditures for 2021. Additionally, management is guiding for an operating margin of 12.2%, due to increased productivity across the company

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.69	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$11.33	\$15.89
DPS	\$0.53	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$3.20	\$4.49
Shares³	1241.0	1110.0	1030	960	910	866	830	801	763.0	735.0	690.0	500.0

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 2011 and 2020 Lowe's grew its earnings-per-share by 20% a year. In the recent 5-year period, LOW was able to compound earnings by 22%.

Earnings-per-share have been 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, and in the past, they have made good profits by buying back shares at a lower price. Housing has seen a large resurgence recently, and while some consumers today could be impacted by the COVID-19

¹ Estimate

² Estimate

³ In millions

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crisis, hardware stores have been doing very well. Lowé'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.

Lowé'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. Lowé's has raised its dividend by 13% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.1	17.3	20.4	19.8	21.8	18.6	18.7	18.7	18.9	21.4	18.1	20.0
Avg. Yld.	2.2%	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.6%	1.4%

Lowé's trades at 18.1 times this year's expected earnings-per-share right now, which is lower than the 5-year average of 19.3, but we see home improvement sector PE growing. The current valuation is slightly below our current fair value of 20 times expected earnings. We estimate a 2.0% annual tailwind due to valuation gains.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31%	35%	32%	33%	33%	33%	36%	36%	37%	27%	28%	28%

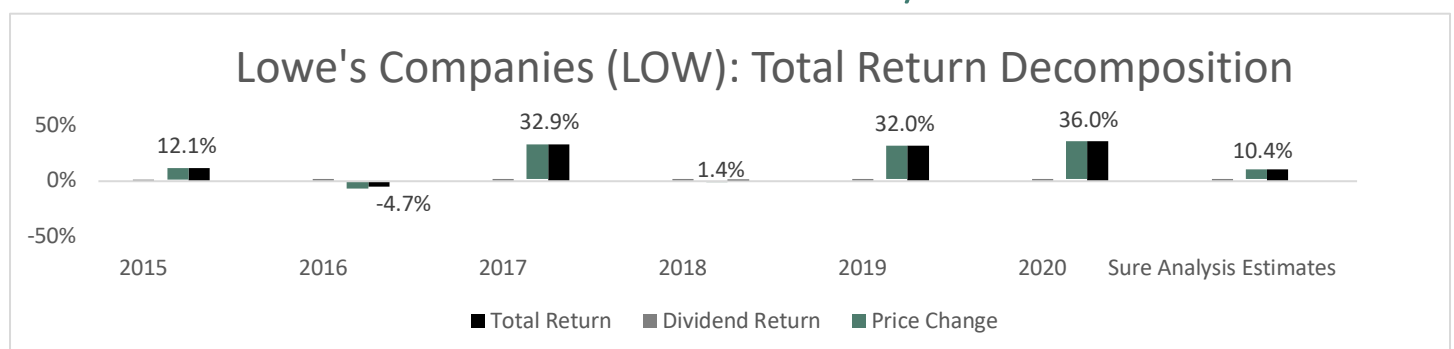
Lowé's is a Dividend King, the company has raised its dividend annually for more than 50 years in a row, even during recessions and the last financial crisis. This extraordinarily strong track record, coupled with the fact that Lowé's dividend payout ratio is quite low, shows that Lowé's is a reliable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

Lowé'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. Lowé'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

Lowé's offers 10.4% total return potential thanks to its strong expected growth performance. Shares are trading below our estimated fair value, and 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. Given shares are trading 9% below our estimated value and offer 10.4% in total expected returns, we rate LOW a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	50208	50521	53417	56223	59074	65017	68619	71309	72148	89597
Gross Profit	17350	17327	18476	19558	20570	22464	23409	22908	22943	29572
Gross Margin	34.6%	34.3%	34.6%	34.8%	34.8%	34.6%	34.1%	32.1%	31.8%	33.0%
SG&A Exp.	12593	12244	12865	13272	14105	15129	15376	17413	15367	18526
D&A Exp.	1579	1623	1562	1586	1587	1590	1540	1607	1410	1594
Operating Profit	3277	3560	4149	4792	4971	5846	6586	4018	6314	9647
Op. Margin	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%
Net Profit	1839	1959	2286	2698	2546	3093	3447	2314	4281	5835
Net Margin	3.7%	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%	6.5%
Free Cash Flow	2520	2551	3171	4049	3587	4450	3942	5019	2812	9258
Income Tax	1067	1178	1387	1578	1873	2108	2042	1080	1342	1904

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	33559	32666	32732	31721	31266	34408	35291	34508	39471	46735
Cash & Equivalents	1014	541	391	466	405	558	588	511	716	4690
Inventories	8355	8600	9127	8911	9458	10458	11393	12561	13179	16193
Goodwill & Int.	N/A	N/A	N/A	N/A	154	1082	1307	303	303	
Total Liabilities	17026	18809	20879	21753	23612	27974	29418	30864	37499	45298
Accounts Payable	4352	4657	5008	5124	5633	6651	6590	8279	7659	10884
Long-Term Debt	7627	9077	10521	11358	12649	15699	16995	16223	19306	21780
Total Equity	16533	13857	11853	9968	7654	6434	5873	3644	1972	1437
D/E Ratio	0.46	0.66	0.89	1.14	1.65	2.44	2.89	4.45	9.79	15.16

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%	13.5%
Return on Equity	10.6%	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152%	342%
ROIC	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%
Shares Out.	1241	1110	1030	960	910	866	830	812	763	735
Revenue/Share	39.44	43.86	50.35	56.79	63.73	73.88	81.79	87.82	92.74	119.46
FCF/Share	1.98	2.21	2.99	4.09	3.87	5.06	4.70	6.18	3.61	12.34

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

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