



# Lowe's Companies (LOW)

Updated February 25<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$213	<b>5 Year CAGR Estimate:</b>	12.6%	<b>Market Cap:</b>	\$144 B
<b>Fair Value Price:</b>	\$274	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/20/2022
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.1%	<b>Payment Date<sup>2</sup>:</b>	05/05/2022
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$366	<b>Years of Dividend Growth:</b>	59
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$144 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates or services about 2,200 home improvement and hardware stores in the U.S. and Canada. Lowe's trades under the ticker symbol LOW on the NYSE.

Lowe's reported fourth quarter and full year results on February 23<sup>rd</sup>. Total sales for the fourth quarter came in at \$21.3 billion compared to \$20.3 billion in the same quarter a year ago. Comparable sales increased 5%, while U.S. home improvement comparable sales increased 5.1%. Net earnings of \$1.2 billion rose from \$978 million in 4Q 2020. Diluted earnings per share of \$1.78 was a 35% increase from \$1.32 a year earlier. For the full fiscal year, Lowe's generated diluted EPS of \$12.04.

The company repurchased 16.3 million shares in 2021 for \$13.1 billion. Additionally, they paid out \$2 billion in dividends. The company remains in a strong liquidity position with \$1.1 billion of cash and cash equivalents.

The company provided a fiscal 2022 outlook and believes they can achieve diluted EPS in the range of \$13.10 to \$13.60 on total sales of roughly \$98 billion. Lowe's expects to repurchase \$12 billion worth of common shares in 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$12.04	<b>\$13.35</b>	<b>\$17.87</b>
<b>DPS</b>	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$2.80	<b>\$3.20</b>	<b>\$4.49</b>
<b>Shares<sup>3</sup></b>	1110.0	1030	960	910	866	830	801	763.0	735.0	676.0	<b>530.0</b>	<b>450.0</b>

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 2012 and 2021 Lowe's grew its earnings-per-share by 24% a year. In the recent 5-year period, LOW was able to compound earnings by 25% per year.

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 crisis, hardware stores have been doing very 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.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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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 15% per year over the last 5 years. We expect this dividend growth to moderate in the coming years and potentially be below double-digit territory.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.3	20.4	19.8	21.8	18.6	18.7	18.7	18.9	21.4	20.0	16.0	20.5
Avg. Yld.	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.2%	1.5%	1.2%

Lowe's trades at 16.0 times this year's expected earnings-per-share right now, which is higher than the 5-year average of 19.5, but we see home improvement sector PE growing. The current valuation is below our current fair value estimate of 20.5 times expected earnings. We estimate 5.1% gains due to valuation expansion in the medium term.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	32%	33%	33%	33%	36%	36%	37%	27%	23%	24%	25%

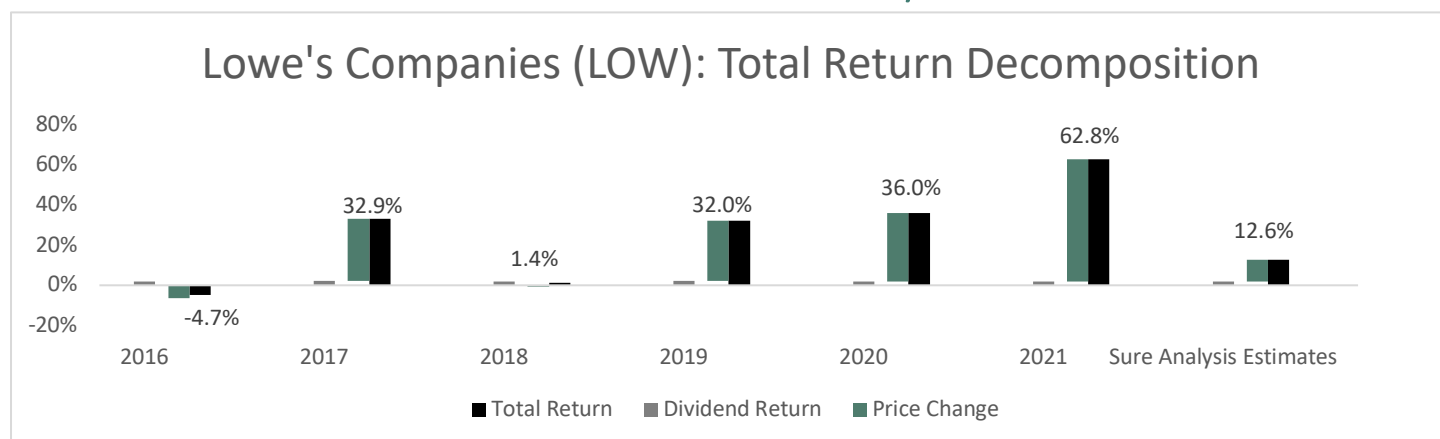
Lowe's is a Dividend King, the company has raised its dividend annually for more than 50 years in a row, even during recessions and the last financial crisis. This extraordinarily strong track record, coupled with the fact that Lowe's dividend payout ratio is quite low, shows that Lowe's is a reliable 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 12.6% annualized total return potential thanks to its strong expected growth performance. Shares are trading below our estimated fair value and 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 anticipated to generated excellent total returns, we rate LOW a Buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	50,208	50,521	53,417	56,223	59,074	65,017	68,619	71,309	72,148	89,597
<b>Gross Profit</b>	17,350	17,327	18,476	19,558	20,570	21,674	22,434	22,908	22,943	29,572
<b>Gross Margin</b>	34.6%	34.3%	34.6%	34.8%	34.8%	33.3%	32.7%	32.1%	31.8%	33.0%
<b>SG&amp;A Exp.</b>	12,593	12,244	12,865	13,272	14,105	14,375	14,444	17,413	15,367	18,526
<b>D&amp;A Exp.</b>	1,579	1,623	1,562	1,586	1,587	1,590	1,540	1,607	1,410	1,594
<b>Operating Profit</b>	3,277	3,560	4,149	4,792	4,971	5,846	6,586	4,018	6,314	9,647
<b>Op. Margin</b>	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%
<b>Net Profit</b>	1,839	1,959	2,286	2,698	2,546	3,091	3,447	2,314	4,281	5,835
<b>Net Margin</b>	3.7%	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%	6.5%
<b>Free Cash Flow</b>	2,520	2,551	3,171	4,049	3,587	4,450	3,942	5,019	2,812	9,258
<b>Income Tax</b>	1,067	1,178	1,387	1,578	1,873	2,108	2,042	1,080	1,342	1,904

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	33,559	32,666	32,732	31,721	31,266	34,408	35,291	34,508	3,9471	46,735
<b>Cash &amp; Equivalents</b>	1,014	541	391	466	405	558	588	511	716	4,690
<b>Inventories</b>	8,355	8,600	9,127	8,911	9,458	10,458	11,393	12,561	13,179	16,193
<b>Goodwill &amp; Int.</b>					154	1,082	1,307	303	303	311
<b>Total Liabilities</b>	17,026	18,809	20,879	21,753	23,612	27,974	29,418	30,864	37,499	45,298
<b>Accounts Payable</b>	4,352	4,657	5,008	5,124	5,633	6,651	6,590	8,279	7,659	10,884
<b>Long-Term Debt</b>	7,627	9,077	10,521	11,358	12,649	15,699	16,995	16,223	19,306	21,780
<b>Total Equity</b>	16,533	13,857	11,853	9,968	7,654	6,434	5,873	3,644	1,972	1,437
<b>LTD/E Ratio</b>	0.46	0.66	0.89	1.14	1.65	2.44	2.89	4.45	9.79	15

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	5.5%	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%	13.5%
<b>Return on Equity</b>	10.6%	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152.5%	342.3%
<b>ROIC</b>	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%
<b>Shares Out.</b>	1110.0	1030	960	910	866	830	801	763.0	735.0	676.0
<b>Revenue/Share</b>	39.44	43.86	50.35	56.79	63.73	73.80	81.69	87.82	92.74	119.46
<b>FCF/Share</b>	1.98	2.21	2.99	4.09	3.87	5.05	4.69	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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