



The Western Union Company (WU)

Updated August 4th, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	11.1%	Market Cap:	\$6.64B
Fair Value Price:	\$20	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	09/15/22
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Dividend Payment Date:	09/30/22
Dividend Yield:	6.0%	5 Year Price Target	\$22	Years Of Dividend Growth:	7
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 US. Western Union operates three business segments, Consumer-to-Consumer (C2C), Business Solutions, and Other (bill payments in the US and Argentina). Approximately 87% of revenue is now from C2C, 8% from Business Solutions and 5% from Other. Western Union divested the Speedpay (US bill payments) and Paymap (mortgage payments) businesses in 2019. The company had ~\$5.1B in revenue in fiscal 2021.

Western Union reported poor Q2 2022 results on August 3rd, 2022. Companywide revenue fell (-12%) to \$1,138.3M from \$1,289.7M and diluted GAAP earnings per share decreased (-7%) to \$0.50 in the quarter compared to \$0.54 in the prior year. Revenue declined because of lower revenue and volumes in North America, Europe, and Asia. The conflict in Ukraine is reducing business and Western Union closed its operations in Russia and Belarus. Despite lower revenue, operating margins trended higher softening the impact on the bottom line.

C2C revenue declined (-9%) to \$1,026.9M from \$1,127.1M on a year-over-year basis due to lower transaction volumes. Digital Money Transfer C2C revenues decreased (-6%) and digital money transfer volume fell (-13%). Cross border transaction fell (-8%). Business Solutions revenue declined (-64%) to \$35.7M from \$99.3M. Other revenue increased 19% to \$75.7M from \$63.3M. Western Union is divesting the Business Solutions unit for \$910M in cash. Full closing is expected in 2022 after approvals. First closing was completed in March 2022.

Western Union maintained adjusted earnings per share guidance to \$1.75 - \$1.85 in 2022 and now expects revenue to decline (-11%) to (-13%).

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.74	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.87	\$2.19	\$1.80	\$1.99
DPS	\$0.43	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$0.94	\$0.98	\$1.19
Shares¹	572	552	522	502	482	459	441	418	411	394	386	359

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 are estimating a 2% annual reduction in share count each year out to 2027. Revenue and earnings were negatively impacted by COVID-19 in 2020 offset by strong growth in digital money transfer. After 2022, we are expecting 2% earnings per share growth due to strength in digital, the Walmart partnership, cost savings, and share reduction offset by slow long-term declines in retail transactions. Digital Money Transfer was growing at a double-digit rate until recently and revenue is now 25% 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 expecting a 4% growth rate in the dividend per share to 2027 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.7	11.5	10.5	12.0	11.8	12.3	10.4	12.2	12.9	10.2	9.0	11.0
Avg. Yld.	2.5%	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	4.0%	6.0%	5.5%

Western Union's stock price is down again since our last report because of weak results. We have pegged our 2022 earnings estimate at the mid-point of updated guidance, which accounts for the divestment of the Business Solutions unit. Our fair value multiple for the long haul is 11X, slightly lower than the trailing 10-year average and accounting for more competition. Our fair value estimate is now \$20. Our 5-year price target is now \$22.

Safety, Quality, Competitive Advantage, & Recession Resiliency

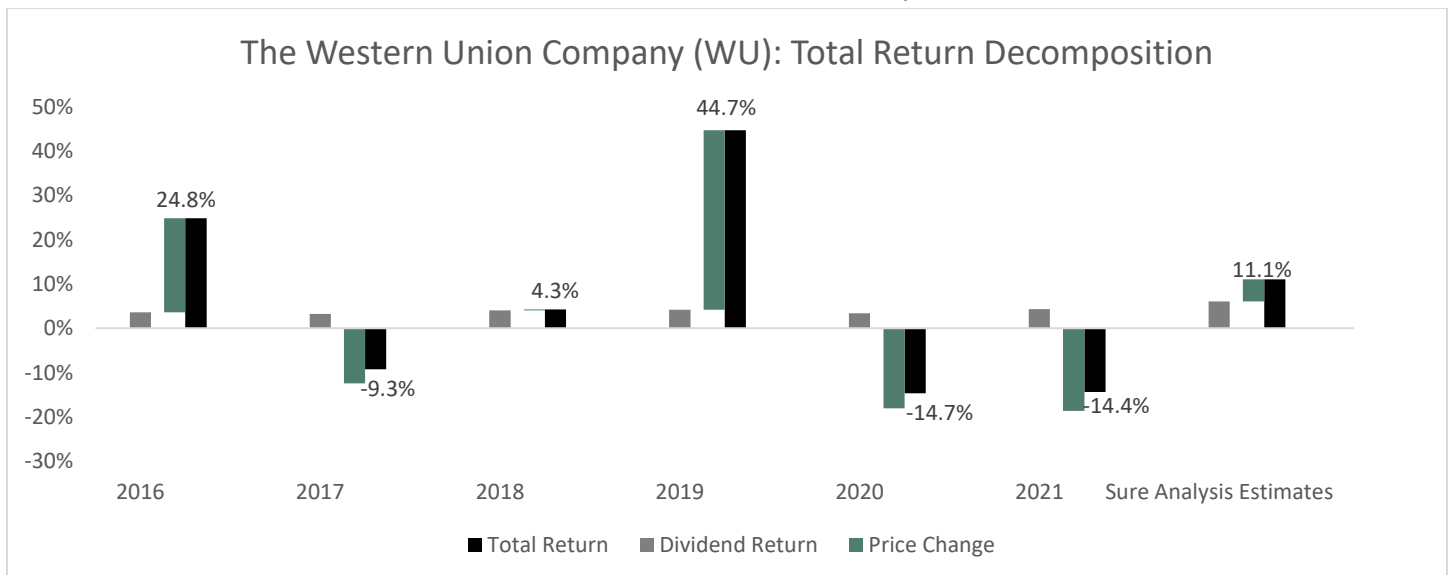
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	31%	38%	39%	44%	41%	33%	48%	48%	43%	54%	60%

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 volumes. The company makes conservative use of debt with only \$2,695.3M of long-term debt that is offset by \$1,201.9M of cash and equivalents. Interest coverage is about 11.2X and the leverage ratio is about 1.1X.

Final Thoughts & Recommendation

At present we are forecasting 11.1% annualized total return over the next five years from a dividend yield of 6.0%, 2% EPS growth, and 4.1% P/E multiple expansion. Western Union's organic business is contracting in 2022 because of slower retail transitions, the conflict in Ukraine, and closure of the business in Russia and Belarus. The company will be smaller but more focused after selling the Business Solutions unit. Western Union's dividend yield is very attractive, and the dividend safety is acceptable, but competition is rising. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5665	5542	5607	5484	5423	5524	5590	5292	4835	5071
Gross Profit	2471	2307	2310	2284	2156	2171	2289	2206	2009	2174
Gross Margin	43.6%	41.6%	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%	41.5%	42.9%
SG&A Exp.	1141	1200	1169	1175	1669	1232	1167	1272	1041	1051
D&A Exp.	246	263	272	270	263	263	265	258	226	208
Operating Profit	1330	1107	1141	1109	487	940	1122	934	967	1123
Operating Margin	23.5%	20.0%	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%	20.0%	22.1%
Net Profit	1026	798	852	838	253	-557	852	1058	744	809
Net Margin	18.1%	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%	15.4%	15.9%
Free Cash Flow	917	847	867	805	812	565	482	787	721	831
Income Tax	143	129	116	104	89	905	140	263	111	130

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9466	10121	9890	9449	9420	9231	8997	8759	9496	8824
Cash & Equivalents	2351	2612	2618	2392	2068	2103	2221	1819	1428	1208
Accounts Receivable	1041	981	1007	1070	1327	1574	1355	1230		
Total Liabilities	4059	4006	3917	3869	8517	9723	9307	8798	9310	8468
Accounts Payable	8525	9017	8590	8044	1130	719	565	602	501	450
Long-Term Debt	556	639	600	607	2786	3034	3434	3229	3067	3008
Shareholder's Equity	4029	4213	3720	3216	902	-491	-310	-40	187	356
LTD/E Ratio	941	1105	1300	1405	3.09	-6.17	-11.08	-81.75	16.44	8.45

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.1%	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%	8.2%	8.8%
Return on Equity	111.8%	78.1%	70.9%	61.9%	21.9%	-271.2%			1012%	297%
ROIC	21.7%	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%	23.1%	24.4%
Shares Out.	572	552	522	502	482	459	441	418	401	409
Revenue/Share	9.33	9.90	10.45	10.61	10.99	11.81	12.30	12.28	11.65	12.40
FCF/Share	1.51	1.51			1.65	1.21	1.06	1.83	1.74	2.03

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

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