



Lowe's Companies (LOW)

Updated November 28th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$209	5 Year CAGR Estimate:	12.9%	Market Cap:	\$128 B
Fair Value Price:	\$268	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	01/24/2023
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Payment Date²:	02/08/2023
Dividend Yield:	2.0%	5 Year Price Target	\$358	Years of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$128 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 traders under the ticker symbol LOW on the NYSE.

Lowe's reported third quarter 2022 results on November 16th. Total sales for the third quarter came in at \$23.5 billion compared to \$22.9 billion in the same quarter a year ago. Comparable sales increased 2.2%, while the U.S. home improvement comparable sales increased 3.0%. Of note, pro customer sales rose 19% year-over-year. The company took a \$2.1 billion pre-tax non-cash asset impairment charge related to its Canadian retail business. The sale of the Canadian retail business is expected to close in early 2023. Adjusted net earnings, which excludes this significant impairment charge, rose 19.8% year-over-year to \$3.27 per share.

The company repurchased 20.5 million shares in the third quarter for \$4.0 billion. Additionally, they paid out \$666 million in dividends. The company remains in a strong liquidity position with \$3.2 billion of cash and cash equivalents.

The company upgraded their fiscal 2022 outlook and believes they can achieve diluted EPS in the range of \$13.65 to \$13.80 (up from \$13.10 to \$13.60 previously) on total sales of roughly \$97.5 billion. Lowe's expects to repurchase \$13 billion (up from \$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
EPS	\$1.76	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$12.04	\$13.73	\$18.37
DPS	\$0.62	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$2.80	\$4.20	\$5.89
Shares³	1110.0	1030	960	910	866	830	801	763.0	735.0	676.0	530.0	450.0

Lowe's is not focused on significantly expanding its store count right now, but the company has 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

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 22% 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	15.2	19.5
Avg. Yld.	2.0%	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.2%	2.0%	1.6%

Lowé's trades at 15.2 times this year's expected earnings-per-share right now, which is lower than the 5-year average of 19.5. The current valuation is below our current fair value estimate of 19.5 times expected earnings. As a result, we estimate the potential for a strong valuation tailwind due to valuation expansion over the intermediate 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%	31%	32%

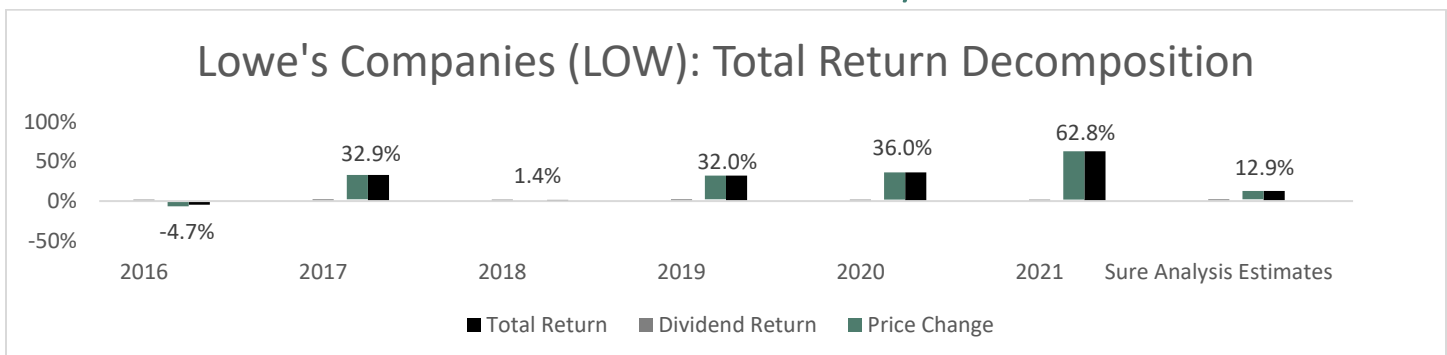
Lowé's is a Dividend King, the company has raised its dividend annually for 60 years in a row, even during recessions, the great financial crisis, and the covid pandemic. This extraordinarily strong track record, coupled with the fact that Lowé's dividend payout ratio is quite low, shows that Lowé's 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 12.9% 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 generate excellent total returns, we rate LOW as 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
Revenue	50,208	50,521	53,417	56,223	59,074	65,017	68,619	71,309	72,148	89,597
Gross Profit	17,350	17,327	18,476	19,558	20,570	21,674	22,434	22,908	22,943	29,572
Gross Margin	34.6%	34.3%	34.6%	34.8%	34.8%	33.3%	32.7%	32.1%	31.8%	33.0%
SG&A Exp.	12,593	12,244	12,865	13,272	14,105	14,375	14,444	17,413	15,367	18,526
D&A Exp.	1,579	1,623	1,562	1,586	1,587	1,590	1,540	1,607	1,410	1,594
Operating Profit	3,277	3,560	4,149	4,792	4,971	5,846	6,586	4,018	6,314	9,647
Op. Margin	6.5%	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%
Net Profit	1,839	1,959	2,286	2,698	2,546	3,091	3,447	2,314	4,281	5,835
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	2,520	2,551	3,171	4,049	3,587	4,450	3,942	5,019	2,812	9,258
Income Tax	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
Total Assets	33,559	32,666	32,732	31,721	31,266	34,408	35,291	34,508	3,9471	46,735
Cash & Equivalents	1,014	541	391	466	405	558	588	511	716	4,690
Inventories	8,355	8,600	9,127	8,911	9,458	10,458	11,393	12,561	13,179	16,193
Goodwill & Int.					154	1,082	1,307	303	303	311
Total Liabilities	17,026	18,809	20,879	21,753	23,612	27,974	29,418	30,864	37,499	45,298
Accounts Payable	4,352	4,657	5,008	5,124	5,633	6,651	6,590	8,279	7,659	10,884
Long-Term Debt	7,627	9,077	10,521	11,358	12,649	15,699	16,995	16,223	19,306	21,780
Total Equity	16,533	13,857	11,853	9,968	7,654	6,434	5,873	3,644	1,972	1,437
LTD/E Ratio	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
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%	152.5%	342.3%
ROIC	7.5%	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%
Shares Out.	1110.0	1030	960	910	866	830	801	763.0	735.0	676.0
Revenue/Share	39.44	43.86	50.35	56.79	63.73	73.80	81.69	87.82	92.74	119.46
FCF/Share	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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