



The Western Union Company (WU)

Updated February 8th, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	6.9%	Market Cap:	\$5.35B
Fair Value Price:	\$14	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/16/23
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	03/31/23
Dividend Yield:	6.9%	5 Year Price Target	\$14	Years Of Dividend Growth:	0
Dividend Risk Score:	C	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 ~\$4.5B in revenue in fiscal 2022.

Western Union reported Q4 2022 and full-year results on February 7th, 2023. Companywide revenue fell (-15%) to \$1,091.9M from \$1,284.8M and diluted GAAP earnings per share increased 55% to \$0.65 in the quarter compared to \$0.42 in the prior year. Revenue declined because of lower volumes in North America, Europe, Asia, Middle East, and Africa offset by Latin and Central America. The conflict in Ukraine is affecting business and Western Union closed its operations in Russia and Belarus. On the plus side the company partnered with 7-11 and Rite Aid in the quarter.

C2C revenue declined (-11%) to \$985.2M from \$1,111.5M on a year-over-year basis due to lower transaction volumes. Branded Digital Money Transfer C2C revenues decreased (-6%) and digital money transfer volume rose 2%. Cross border transaction fell (-12%). Business Solutions revenue declined (-73%) to \$29.5M from \$109.2M. Other revenue grew 20% to \$77.2M from \$64.1M.

Western Union is divesting the Business Solutions unit for \$910M in cash. Full closing is expected in Q1 2023 after approvals. First closing was completed in March 2022. Second closing will occur in December 2022.

The firm set adjusted earnings per share guidance at \$1.55 - \$1.65 and expects revenue to decline (-2%) to (-4%) in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.87	\$2.19	\$1.76	\$1.60	\$1.60
DPS	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$0.94	\$0.94	\$0.94	\$0.94
Shares¹	552	522	502	482	459	441	418	411	394	386	378	342

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 2028. Revenue and earnings were negatively impacted by COVID-19 in 2020 offset by strong growth in digital money transfer. Western Union's revenue and earnings per share are declining because of intense competition and loss of business in Russia and Belarus. We are now expecting flat earnings over the next several years. 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 dividend was held constant in 2023. We are now expecting no dividend growth out to 2028.

¹ Share count in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.5	10.5	12.0	11.8	12.3	10.4	12.2	12.9	10.2	9.1	8.6	9.0
Avg. Yld.	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	4.0%	5.8%	6.9%	6.5%

Western Union's stock price is up slightly since our last report. We have pegged our 2023 earnings estimate at the mid-point of guidance, which accounts for the divestment of the Business Solutions unit and a difficult business environment. We again lowered our fair value multiple to 9X, accounting for more competition and growth struggles. Our fair value estimate is now \$14. Our 5-year price target is now \$14.

Safety, Quality, Competitive Advantage, & Recession Resiliency

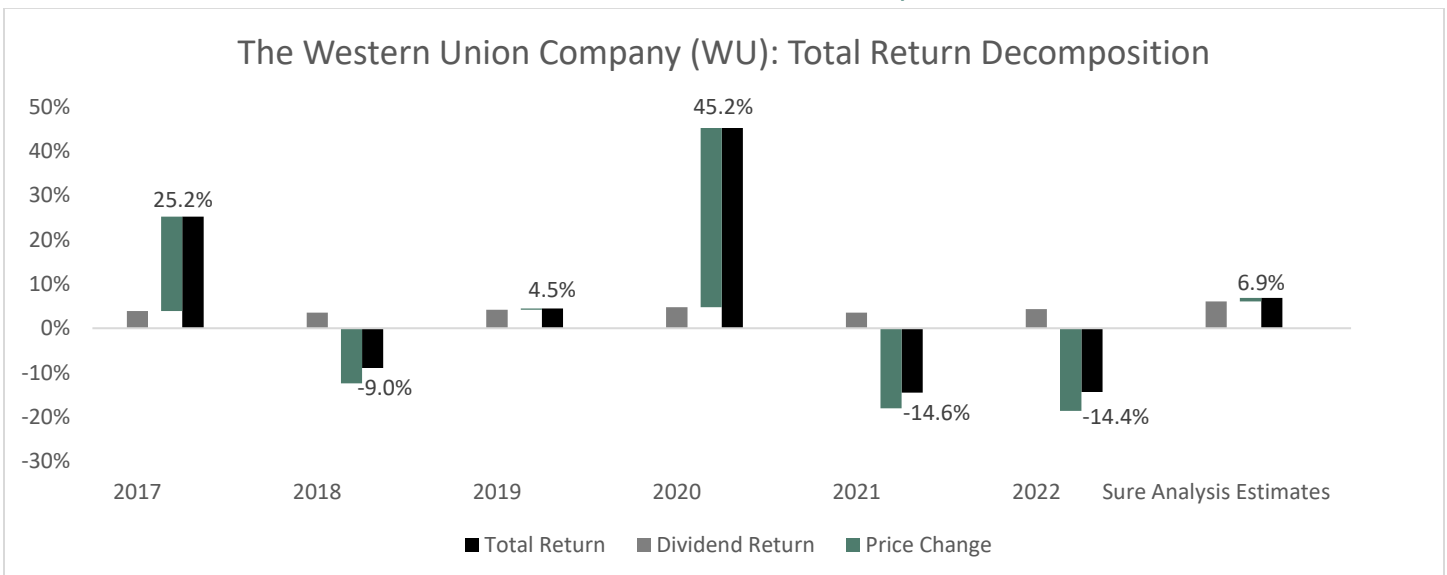
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	38%	39%	44%	41%	33%	48%	48%	43%	53%	59%	59%

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 \$2,616.8M of long-term debt that is offset by \$1,285.9M of cash and equivalents. Interest coverage is about 8.8X and the leverage ratio is about 1.3X.

Final Thoughts & Recommendation

At present we are forecasting 6.9% annualized total return over the next five years from a dividend yield of 6.9%, 0% EPS growth, and 1.0% P/E multiple expansion. Western Union's organic business contracted in 2023 because of slower retail transactions, 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, but revenue and earnings per share are declining. We have lowered our rating on this stock to a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5542	5607	5484	5423	5524	5590	5292	4835	5071	4476
Gross Profit	2307	2310	2284	2156	2171	2289	2206	2009	2174	1849
Gross Margin	41.6%	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%	41.5%	42.9%	41.3%
SG&A Exp.	1200	1169	1175	1669	1232	1167	1272	1041	1051	964
D&A Exp.	263	272	270	263	263	265	258	226	208	184
Operating Profit	1107	1141	1109	487	940	1122	934	967	1123	885
Operating Margin	20.0%	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%	20.0%	22.1%	19.8%
Net Profit	798	852	838	253	-557	852	1058	744	809	911
Net Margin	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%	15.4%	15.9%	20.4%
Free Cash Flow	847	867	805	812	565	482	787	721	831	373
Income Tax	129	116	104	89	905	140	263	111	130	98

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10121	9890	9449	9420	9231	8997	8759	9496	8824	8496
Cash & Equivalents	2612	2618	2392	2068	2103	2221	1819	1428	1208	1286
Accounts Receivable	981	1007	1070	1327	1574	1355	1230	1135		
Total Liabilities	4006	3917	3869	8517	9723	9307	8798	9310	8468	8019
Accounts Payable	9017	8590	8044	1130	719	565	602	501	450	464
Long-Term Debt	639	600	607	2786	3034	3434	3229	3067	3008	2617
Shareholder's Equity	4213	3720	3216	902	-491	-310	-40	187	356	478
LTD/E Ratio	1105	1300	1405	3.09	-6.17	-11.08	-81.75	16.44	8.45	5.48

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%	8.2%	8.8%	10.5%
Return on Equity	78.1%	70.9%	61.9%	21.9%	-271%			1012%	297%	219%
ROIC	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%	23.1%	24.4%	28.2%
Shares Out.	552	522	502	482	459	441	418	401	409	388
Revenue/Share	9.90	10.45	10.61	10.99	11.81	12.30	12.28	11.65	12.40	11.52
FCF/Share	1.51			1.65	1.21	1.06	1.83	1.74	2.03	0.96

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

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