



Lowe's Companies (LOW)

Updated March 3rd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$200	5 Year CAGR Estimate:	15.6%	Market Cap:	\$117 B
Fair Value Price:	\$261	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	04/19/2023
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.5%	Payment Date²:	05/04/2023
Dividend Yield:	2.1%	5 Year Price Target	\$384	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 \$117 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates or services more than 1,700 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 2022 results on March 1st, 2023. Total sales for the fourth quarter came in at \$22.4 billion compared to \$21.3 billion in the same quarter a year ago. Comparable sales decreased 1.5%, while the U.S. home improvement comparable sales declined 0.7%. Adjusted net earnings, which excludes the pre-tax transaction costs associated with the sale of the Canadian retail business, rose 28% year-over-year to \$2.28 per share.

For the full year, Lowe's generated diluted EPS of \$10.17, a 15% decrease compared to \$12.04 in 2021.

The company repurchased 10 million shares in the fourth quarter for \$2.0 billion. Additionally, they paid out \$643 million in dividends. For the full year, Lowe's repurchased 71 million shares for \$14.1 billion and paid \$2.4 billion in dividends.

The company initiated their fiscal 2023 outlook and believe they can achieve diluted EPS in the range of \$13.60 to \$14.00 on total sales of roughly \$89 billion.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$12.04	\$10.17	\$13.75	\$20.20
DPS	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$2.80	\$3.70	\$4.20	\$6.76
Shares³	1030	960	910	866	830	801	763	735	676	605	575	450

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 recent past. This is due to several factors, including a strong comparable store sales performance, which lifts revenues as well as margins. Between 2013 and 2022, Lowe's grew its earnings-per-share by 19% a year. In the recent 5-year period, LOW was able to compound earnings by 18% 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.

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.

¹ Estimate

² Estimate

³ 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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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 18% per year over the last 5 years. We expect this dividend growth to moderate in the coming years but still remain around double-digit territory.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	20.4	19.8	21.8	18.6	18.7	18.7	18.9	21.4	20.0	17.3	14.5	19.0
Avg. Yld.	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.2%	1.6%	2.1%	1.8%

Lowe's trades at 14.5 times this year's expected earnings-per-share right now, which is lower than the 10-year average of 19.6. The current valuation is below our current fair value estimate of 19.0 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	33%	33%	33%	36%	36%	37%	27%	23%	36%	31%	33%

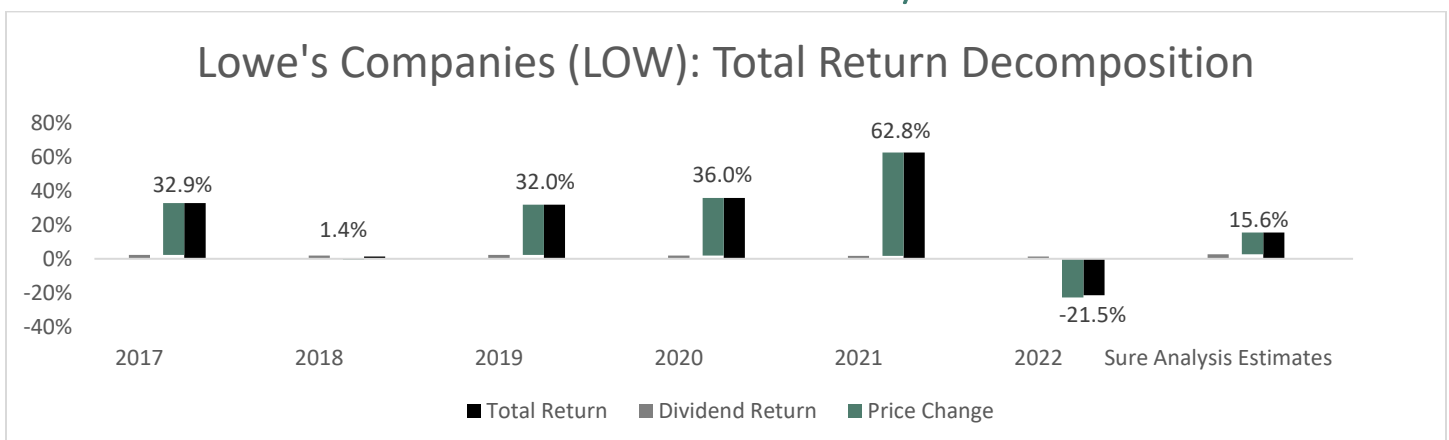
Lowe's is a Dividend King, the company has raised its dividend annually for 60 years in a row, even during recessions, the great financial crisis, and the covid pandemic. This extraordinarily strong track record, coupled with the fact that Lowe's dividend payout ratio is quite low, shows that Lowe's 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 great 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 great profits.

Final Thoughts & Recommendation

Lowe's offers 15.6% 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 as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	50,521	53,417	56,223	59,074	65,017	68,619	71,309	72,148	89,597	96,250
Gross Profit	17,327	18,476	19,558	20,570	21,674	22,434	22,908	22,943	29,572	32,056
Gross Margin	34.3%	34.6%	34.8%	34.8%	33.3%	32.7%	32.1%	31.8%	33.0%	33.3%
SG&A Exp.	12,244	12,865	13,272	14,105	14,375	14,444	17,413	15,367	18,526	18,301
D&A Exp.	1,623	1,562	1,586	1,587	1,590	1,540	1,607	1,410	1,594	1,882
Operating Profit	3,560	4,149	4,792	4,971	5,846	6,586	4,018	6,314	9,647	12,093
Op. Margin	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%	12.6%
Net Profit	1,959	2,286	2,698	2,546	3,091	3,447	2,314	4,281	5,835	8,442
Net Margin	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%	6.5%	8.8%
Free Cash Flow	2,551	3,171	4,049	3,587	4,450	3,942	5,019	2,812	9,258	8,260
Income Tax	1,178	1,387	1,578	1,873	2,108	2,042	1,080	1,342	1,904	2,766

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	32,666	32,732	31,721	31,266	34,408	35,291	34,508	39,471	46,735	44,640
Cash & Equivalents	541	391	466	405	558	588	511	716	4,690	1,133
Inventories	8,600	9,127	8,911	9,458	10,458	11,393	12,561	13,179	16,193	17,605
Goodwill & Int.				154	1,082	1,307	303			
Total Liabilities	18,809	20,879	21,753	23,612	27,974	29,418	30,864	37,499	45,298	49,456
Accounts Payable	4,657	5,008	5,124	5,633	6,651	6,590	8,279	7,659	10,884	11,354
Long-Term Debt	9,077	10,521	11,358	12,649	15,699	16,995	16,223	19,306	21,780	24,727
Total Equity	13,857	11,853	9,968	7,654	6,434	5,873	3,644	1,972	1,437	-4,816
LTD/E Ratio	0.66	0.89	1.14	1.65	2.44	2.89	4.45	9.79	15.16	-5.13

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%	13.5%	18.5%
Return on Equity	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152.5%	342.3%	
ROIC	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%	39.1%
Shares Out.	1152	1061	990	927	881	840	812	778	750	699
Revenue/Share	43.86	50.35	56.79	63.73	73.80	81.69	87.82	92.74	119.46	137.70
FCF/Share	2.21	2.99	4.09	3.87	5.05	4.69	6.18	3.61	12.34	11.82

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

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