



# The Western Union Company (WU)

Updated August 16<sup>th</sup>, 2023 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$12	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$4.35B
<b>Fair Value Price:</b>	\$15	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	09/14/23
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.4%	<b>Dividend Payment Date:</b>	09/29/23
<b>Dividend Yield:</b>	8.1%	<b>5 Year Price Target</b>	\$15	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 Q2 2023 results on July 26<sup>th</sup>, 2023. Companywide revenue rose 3% to \$1,170.0M from \$1,138.3M and diluted GAAP earnings per share decreased (-6%) to \$0.47 in the quarter compared to \$0.50 in the prior year. Revenue rose on higher volumes, especially in the Middle East and Latin and Central America. But lower revenue in Europe, North America, and Asia were headwinds. The conflict in Ukraine is affecting business and Western Union closed its operations in Russia and Belarus.

C2C revenue climbed 4% to \$1,072.2M from \$1,026.9M on a year-over-year basis due to 4% higher transaction volumes. Branded Digital Money Transfer C2C revenues decreased (-2%) but volumes rose 12%. Digital revenue is now 21% of total C2C revenue and 28% of transactions. Cross border revenue rose 17%. Business Solutions revenue declined (-60%) to \$14.3M from \$35.7M. Other revenue grew 10% to \$83.5M from \$75.7M.

Western Union completely divested the Business Solutions unit for \$910M in cash on July 1, 2023. The firm is making efforts to improve the customer experience. It also has a new prepaid debit card launching in North America.

The firm raised adjusted earnings per share guidance at \$1.63 - \$1.73 and revenue to flat at (-1%) to +1% in 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.43	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.87	\$2.19	\$1.76	<b>\$1.68</b>	<b>\$1.68</b>
<b>DPS</b>	\$0.50	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$0.94	\$0.94	<b>\$0.94</b>	<b>\$0.94</b>
<b>Shares<sup>1</sup></b>	552	522	502	482	459	441	418	411	394	373	<b>366</b>	<b>331</b>

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 a variable 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. Revenue and earnings per share are now declining to flat because of intense competition and loss of business in Russia and Belarus. We are currently expecting flat earnings over the next several years. Digital Money Transfer revenue was growing at a double-digit rate until recently but is now declining, despite higher transaction volumes. 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.

<sup>1</sup> 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	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	6.9	9.0
Avg. Yld.	3.0%	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	4.0%	5.8%	8.1%	6.2%

Western Union's stock price is down slightly since our last report. We have raised our 2023 earnings estimate to the mid-point of updated guidance, which accounts for the divestment of the Business Solutions unit and a difficult business environment. Our fair value multiple is 9X, accounting for more competition and growth struggles. Our fair value estimate is now \$15. Our 5-year price target is now \$15.

## 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%	56%	56%

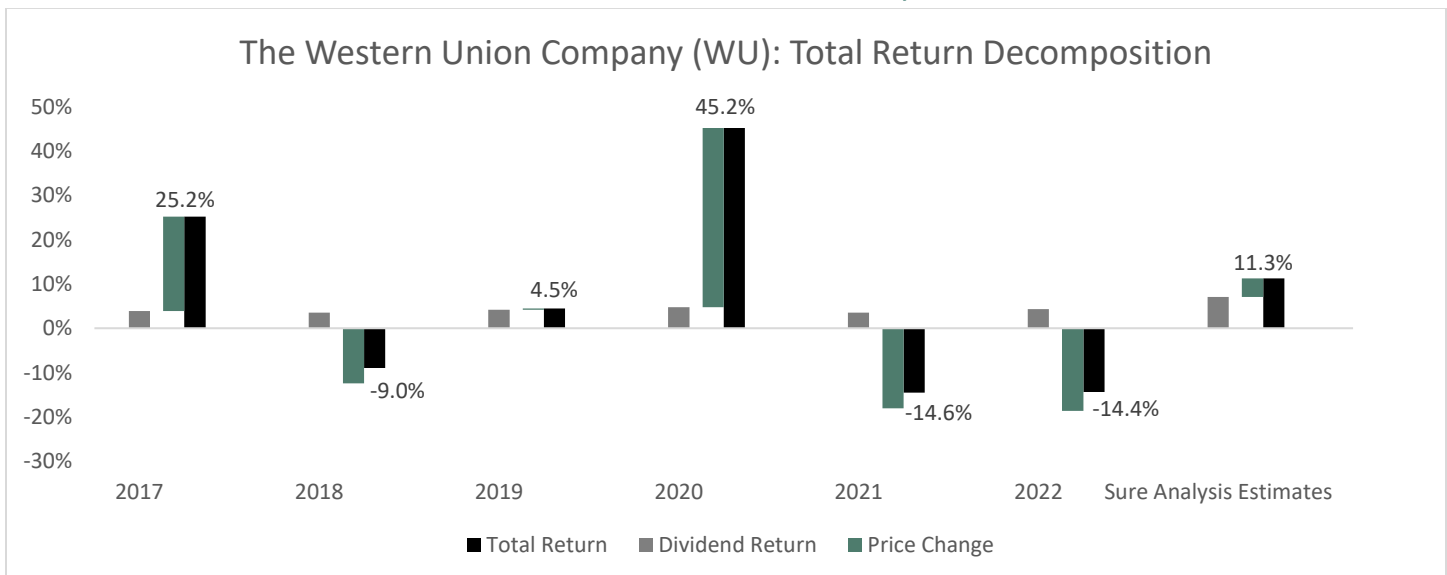
Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. The company strengthens its network effect with partnerships and now with its digital money transfer effort, app, and westernunion.com. Importantly, Western Union is now partnered 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 \$2,813M of long-term debt that is offset by \$1,585.9M of cash and equivalents. Interest coverage is about 7.7X and the leverage ratio is about 1.2X.

## Final Thoughts & Recommendation

At present we are forecasting 11.3% annualized total return over the next five years from a dividend yield of 8.1%, 0% EPS growth, and 5.4% P/E multiple expansion. Western Union's organic business is contracting 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 to flat. But at the current stock price, we have raised our rating to 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
<b>Revenue</b>	5542	5607	5484	5423	5524	5590	5292	4835	5071	4476
<b>Gross Profit</b>	2307	2310	2284	2156	2171	2289	2206	2009	2174	1849
<b>Gross Margin</b>	41.6%	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%	41.5%	42.9%	41.3%
<b>SG&amp;A Exp.</b>	1200	1169	1175	1669	1232	1167	1272	1041	1051	964
<b>D&amp;A Exp.</b>	263	272	270	263	263	265	258	226	208	184
<b>Operating Profit</b>	1107	1141	1109	487	940	1122	934	967	1123	885
<b>Operating Margin</b>	20.0%	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%	20.0%	22.1%	19.8%
<b>Net Profit</b>	798	852	838	253	-557	852	1058	744	809	911
<b>Net Margin</b>	14.4%	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%	15.4%	15.9%	20.4%
<b>Free Cash Flow</b>	847	867	805	812	565	482	787	721	831	373
<b>Income Tax</b>	129	116	104	89	905	140	263	111	130	98

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	10121	9890	9449	9420	9231	8997	8759	9496	8824	8496
<b>Cash &amp; Equivalents</b>	2612	2618	2392	2068	2103	2221	1819	1428	1208	1286
<b>Accounts Receivable</b>	981	1007	1070	1327	1574	1355	1230	1135		
<b>Total Liabilities</b>	4006	3917	3869	8517	9723	9307	8798	9310	8468	8019
<b>Accounts Payable</b>	9017	8590	8044	1130	719	565	602	501	450	464
<b>Long-Term Debt</b>	639	600	607	2786	3034	3434	3229	3067	3008	2617
<b>Shareholder's Equity</b>	4213	3720	3216	902	-491	-310	-40	187	356	478
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.2%	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%	8.2%	8.8%	10.5%
<b>Return on Equity</b>	78.1%	70.9%	61.9%	21.9%	-271%			1012%	297%	219%
<b>ROIC</b>	15.5%	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%	23.1%	24.4%	28.2%
<b>Shares Out.</b>	552	522	502	482	459	441	418	401	409	388
<b>Revenue/Share</b>	9.90	10.45	10.61	10.99	11.81	12.30	12.28	11.65	12.40	11.52
<b>FCF/Share</b>	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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