



The Western Union Company (WU)

Updated October 31st, 2023 by Prakash Kolli

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$11 | 5 Year CAGR Estimate: | 13.0% | Market Cap: | \$4.00B |
| Fair Value Price: | \$15 | 5 Year Growth Estimate: | 0.0% | Ex-Dividend Date: | 12/16/23 ¹ |
| % Fair Value: | 71% | 5 Year Valuation Multiple Estimate: | 7.1% | Dividend Payment Date: | 12/30/23 |
| Dividend Yield: | 8.6% | 5 Year Price Target | \$15 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | C | Retirement Suitability Score: | A | Rating: | 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 two business segments, Consumer-to-Consumer (C2C) and Other (bill payments in the US and Argentina). Approximately 93% of revenue is now from C2C and 7% from Other. Western Union divested the Speedpay (US bill payments) and Paymap (mortgage payments) businesses in 2019, and Business Solutions in 2023. The company had ~\$4.5B in revenue in fiscal 2022.

Western Union reported Q3 2023 results on October 25th, 2023. Companywide revenue rose 1% to \$1,097.8M from \$1,089.6M and diluted GAAP earnings per share increased 2% to \$0.46 in the quarter compared to \$0.45 in the prior year. Revenue rose on higher volumes, especially in the Middle East, North America, 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 3% (constant currency) to \$1,019M from \$982.4M on a year-over-year basis due to 5% higher transaction volumes. Branded Digital Money Transfer C2C revenues increased 3% as volumes rose 12%. Digital revenue is now 21% of total C2C revenue and 28% of transactions. Cross border revenue rose 11%. Other revenue, which is mainly bill payments in Argentina and the U.S. and retail money orders, grew 22% to \$78.8M from \$64.6M.

Western Union completely divested the Business Solutions unit for \$910M in cash on July 1, 2023.

The firm raised adjusted earnings per share guidance to \$1.68 - \$1.75 and revenue to 0% to +1% 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 | \$1.72 | \$1.72 |
| 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 |
| Shares² | 552 | 522 | 502 | 482 | 459 | 441 | 418 | 411 | 394 | 373 | 366 | 331 |

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 divestures. 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 do not expect dividend growth out to 2028.

¹ Estimated, the firm has not yet announced the next dividend.

² 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 | 6.4 | 9.0 |
| Avg. Yld. | 3.0% | 3.0% | 3.2% | 3.3% | 3.6% | 3.9% | 3.6% | 4.0% | 4.0% | 5.8% | 8.6% | 6.1% |

Western Union's stock price is down again 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

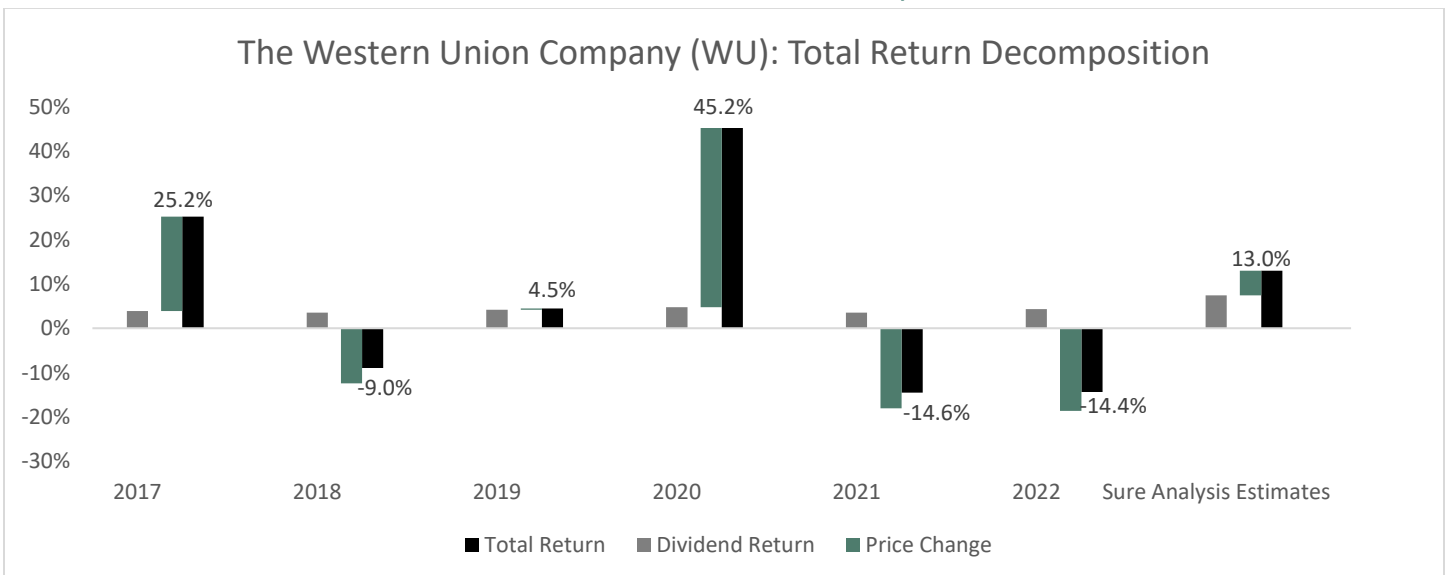
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 31% | 38% | 39% | 44% | 41% | 33% | 48% | 48% | 43% | 53% | 55% | 55% |

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 pricing. The company makes conservative use of debt with only \$2,309M of long-term debt that is offset by \$1,138.2M of cash and equivalents. Interest coverage is about 7.7X and the leverage ratio is about 1.13X.

Final Thoughts & Recommendation

At present we are forecasting 13.0% annualized total return over the next five years from a dividend yield of 8.6%, 0% EPS growth, and 7.1% P/E multiple expansion. Western Union's organic business was contracting because of slower retail transactions and closure of the business in Russia and Belarus but has stabilized under the new CEO. The company is 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 rate this stock 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 | 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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