



The Western Union Company (WU)

Updated February 22nd, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	9.1%	Market Cap:	\$4.52B
Fair Value Price:	\$15	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/14/24
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	03/29/24
Dividend Yield:	7.3%	5 Year Price Target	\$15	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 two business segments, Consumer Money Transfer (CMT) and Consumer Services (bill payments in the US, Argentina, and money orders). Approximately 93% of revenue is now from CMT. Western Union divested the Speedpay (US bill payments) and Paymap (mortgage payments) businesses in 2019, and Business Solutions in 2023. The company had ~\$4.36B in revenue in fiscal 2023.

Western Union reported Q4 2023 and full-year results on February 6th, 2024. For the quarter, companywide revenue fell 4% to \$1,052.3M from \$1,0941.9M and diluted GAAP earnings per share decreased 46% to \$0.35 in the quarter compared to \$0.46 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.

CMT revenue declined 1% (constant currency) to \$975.5M from \$985.2M on a year-over-year basis due to 5% higher transaction volumes. Branded Digital Money Transfer CMT revenues increased 4% as volumes rose 13%. Digital revenue is now 23% of total CMT revenue and 29% of transactions. Cross border revenue dropped 1%. Consumer Services revenue fell 1% to \$76.8M from \$77.2M.

The firm is implementing its Evolve 2025 Strategy to return to growth of its retail and branded digital services. Western Union renamed its segments to Consumer Money Transfer (previously C2C) and Consumer Services.

The firm set adjusted earnings per share guidance at \$1.65 - \$1.75 and revenue \$4,100 - \$4,200 million in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.59	\$1.62	\$1.66	\$1.60	\$1.87	\$2.46	\$1.87	\$2.19	\$2.19	\$1.74	\$1.70	\$1.70
DPS	\$0.50	\$0.62	\$0.64	\$0.70	\$0.76	\$0.80	\$0.90	\$0.94	\$0.94	\$0.94	\$0.94	\$0.94
Shares¹	522	502	482	459	441	418	411	394	374	351	344	311

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 2029. 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 rate was held constant in 2024. We do not expect dividend growth out to 2029. Moreover, the firm is focused on share repurchases with its free cash flow.

¹ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2059
Avg. P/E	10.5	12.0	11.8	12.3	10.4	12.2	12.9	10.2	9.1	6.9	7.6	9.0
Avg. Yld.	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	4.0%	5.8%	7.9%	7.3%	6.1%

Western Union's stock price is flat since our last report. We have set our 2024 earnings estimate to the midpoint of 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	39%	44%	41%	33%	48%	48%	43%	53%	54%	55%	55%

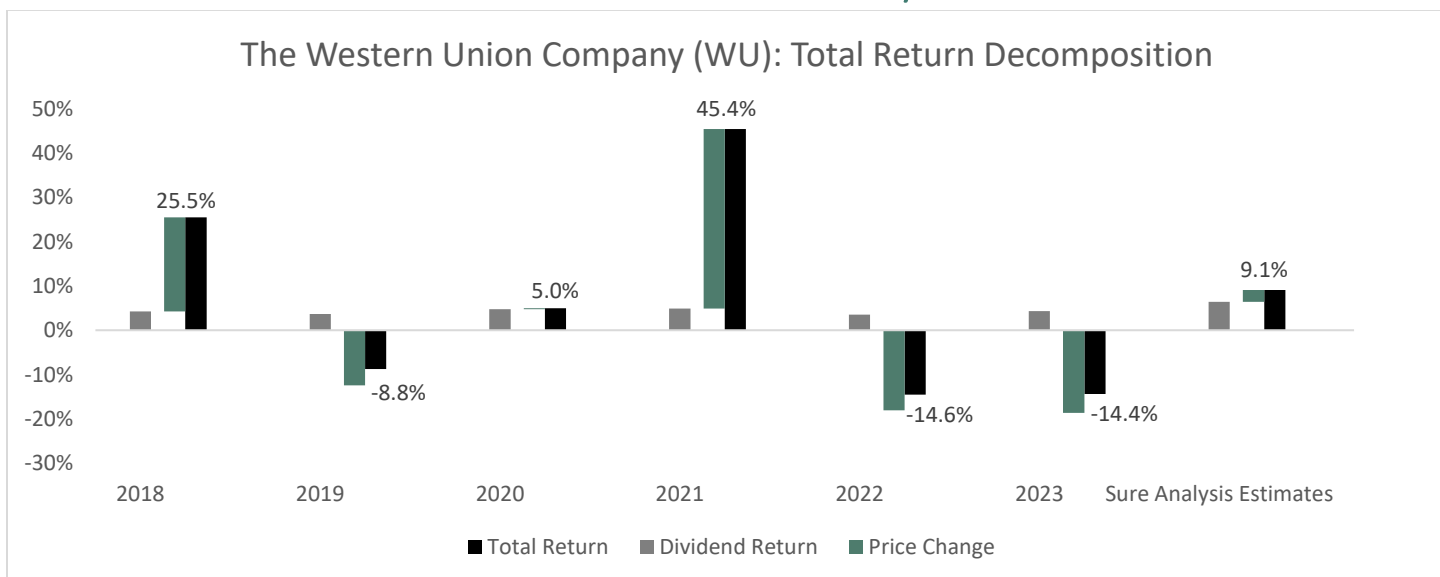
Western Union's competitive advantage stems from its C2C business and unrivaled network of agents that process transactions. The company strengthens its network effect with partnerships and now with its digital money transfer effort, app, and westernunion.com. Importantly, Western Union is now partnered 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 \$2,504.6M of long-term debt that is offset by \$1,268.6M of cash and equivalents. Interest coverage is about 7.8X and the leverage ratio is about 1.23X.

Final Thoughts & Recommendation

At present we are forecasting 9.1% annualized total return over the next five years from a dividend yield of 7.3%, 0% EPS growth, and 3.4% P/E multiple expansion. Western Union's organic business was contracting because of slower retail transactions caused by COVID-19 and business closure in Russia and Belarus. 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 hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5607	5484	5423	5524	5590	5292	4835	5071	4476	4357
Gross Profit	2310	2284	2156	2171	2289	2206	2009	2174	1849	1685
Gross Margin	41.2%	41.7%	39.8%	39.3%	41.0%	41.7%	41.5%	42.9%	41.3%	38.7%
SG&A Exp.	1169	1175	1669	1232	1167	1272	1041	1051	964	868
D&A Exp.	272	270	263	263	265	258	226	208	184	184
Operating Profit	1141	1109	487	940	1122	934	967	1123	885	818
Operating Margin	20.3%	20.2%	9.0%	17.0%	20.1%	17.6%	20.0%	22.1%	19.8%	18.8%
Net Profit	852	838	253	-557	852	1058	744	809	911	626
Net Margin	15.2%	15.3%	4.7%	-10.1%	15.2%	20.0%	15.4%	15.9%	20.4%	14.3%
Free Cash Flow	867	805	812	565	482	787	721	831	373	635
Income Tax	116	104	89	905	140	263	111	130	98	120

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9890	9449	9420	9231	8997	8759	9496	8824	8496	8199
Cash & Equivalents	2618	2392	2068	2103	2221	1819	1428	1208	1286	1269
Accounts Receivable	1007	1070	1327	1574	1355	1230	1135	---	---	---
Total Liabilities	3917	3869	8517	9723	9307	8798	9310	8468	8019	7720
Accounts Payable	8590	8044	1130	719	565	602	501	450	464	453
Long-Term Debt	600	607	2786	3034	3434	3229	3067	3008	2617	2505
Shareholder's Equity	3720	3216	902	-491	-310	-40	187	356	478	479
LTD/E Ratio	1300	1405	3.09	-6.17	-11.08	-81.75	16.44	8.45	5.48	5.23

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.5%	8.7%	2.7%	-6.0%	9.3%	11.9%	8.2%	8.8%	10.5%	7.5%
Return on Equity	70.9%	61.9%	21.9%	-271%			1012%	297%	219%	131%
ROIC	16.5%	17.4%	6.1%	-17.9%	30.1%	33.5%	23.1%	24.4%	28.2%	20.6%
Shares Out.	522	502	482	459	441	418	401	409	388	372
Revenue/Share	10.45	10.61	10.99	11.81	12.30	12.28	11.65	12.40	11.52	11.72
FCF/Share			1.65	1.21	1.06	1.83	1.74	2.03	0.96	1.71

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

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