



The Western Union Company (WU)

Updated November 5th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	14.3%	Market Cap:	\$3.68B
Fair Value Price:	\$16	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	12/19/24 ¹
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.7%	Dividend Payment Date:	12/29/24
Dividend Yield:	8.6%	5 Year Price Target	\$17	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 Money Transfer (CMT) and Consumer Services (bill payments, foreign exchange, prepaid cards, 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 Q3 2024 results on October 23rd, 2024. Companywide revenue decreased 6% to \$1,036M from \$1,097.8M and diluted GAAP earnings per share increased 70% to \$0.78 in the quarter compared to \$0.46 in the prior year. Revenue fell on challenges in Iraq despite higher retail, branded digital transactions, and Consumer Services volumes. Volumes are generally higher, but revenue is flat to declining in most geographies.

CMT revenue fell 9% to \$932.2M from \$1,019M on a year-over-year basis even with 3% higher transaction volumes. Branded Digital Money Transfer CMT revenues increased 9% as volumes rose 15%. Digital revenue is now 25% of total CMT revenue and 32% of transactions. Cross border was flat in constant currency. Consumer Services revenue rose 32% to \$103.8M from \$78.8M on new products and expansion of retail foreign exchange offerings.

The firm is implementing its Evolve 2025 Strategy to return to growth of its retail and branded digital services by improving the customer experience.

The firm kept adjusted earnings per share guidance at \$1.70 - \$1.80 and revenue of \$4,150 - \$4,225 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	\$1.75	\$1.84
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
Shares²	522	502	482	459	441	418	411	394	374	351	344	311

Western Union's traditional CMT business is highly profitable, but it is a mature business. The top and bottom lines have exhibited volatility in the past 10 years because of acquisitions, divestures, COVID-19, and geopolitical conflicts. Revenue and earnings were negatively impacted by COVID-19 in 2020, offset by strong growth in digital money transfer.

Digital Money Transfer revenue was growing at a double-digit rate until recently but has slowed. We expect this to increase over the next several years, especially as more consumers use digital payments. 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. We are now expecting flat to slowly growing earnings over the next several years due to intense competition.

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 Estimated dates. The firm has not yet announced the next dividend.

² Share count in millions.

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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	6.2	9.0
Avg. Yld.	3.0%	3.2%	3.3%	3.6%	3.9%	3.6%	4.0%	4.0%	5.8%	7.9%	8.6%	5.7%

Western Union’s stock price is down again since our last report. We have kept our 2024 earnings estimate to the midpoint of current guidance, which accounts for the divestment of the Business Solutions unit and a difficult business environment. Our fair value multiple is 9X, below the long-term average and accounting for more competition and growth struggles. Our fair value estimate is now \$16. Our 5-year price target is now \$17.

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%	54%	51%

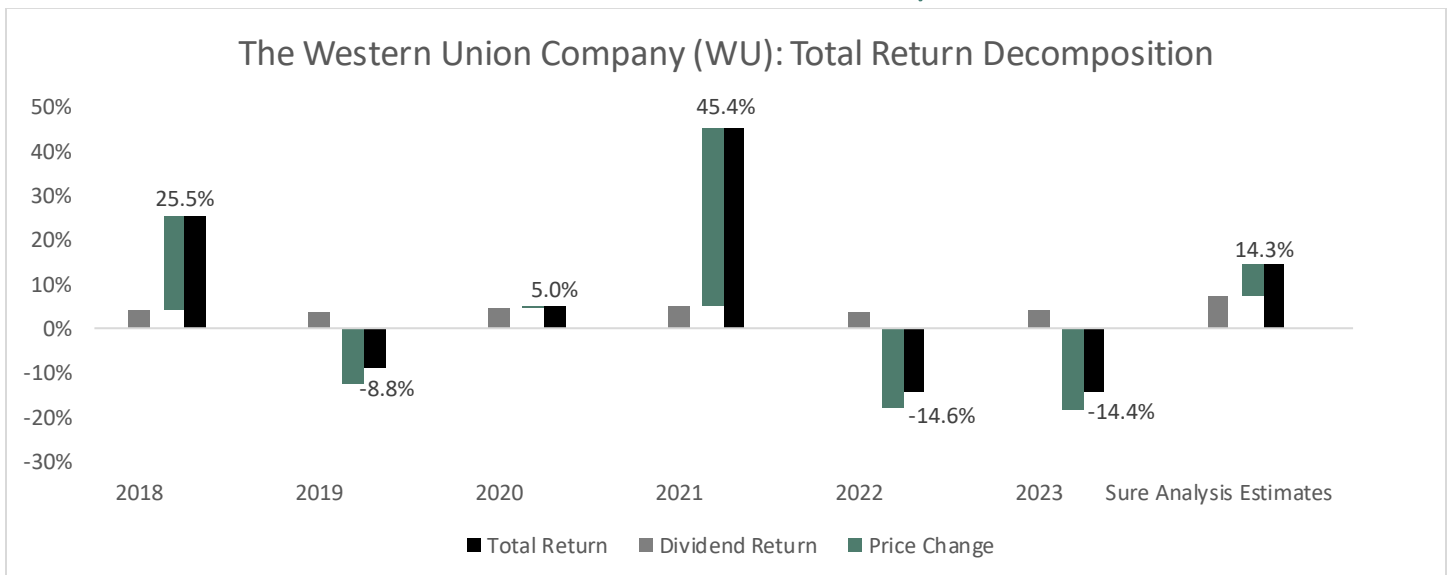
Western Union’s competitive advantage stems from its CMT business and unrivaled network of agents that process transactions. The company strengthens its network effect with partnerships and now with its digital money transfer effort, app, and westernunion.com. Western Union is partnered with Walmart and Visa. However, online competitors have entered the market including Xoom owned by PayPal, Square, Stripe, Zelle, Libra Association, etc. As these platforms gain transaction, Western Union’s CMT business will likely be negatively affected through lower pricing.

The company makes conservative use of debt with only \$2,587M of long-term debt that is offset by \$1,098M of cash and equivalents. Interest coverage is about 6.7X and the leverage ratio is about 1.5X.

Final Thoughts & Recommendation

At present we are forecasting 14.3% annualized total return over the next five years from a dividend yield of 8.6%, 1.0% EPS growth, and 7.7% P/E multiple expansion. Western Union’s organic business is contracting but the sale of the Business Solutions unit, a new CEO, efficiency efforts, and a strategic vision have seemingly refocused the firm. Western Union’s dividend yield is very attractive and supported by acceptable safety metrics. Income investors may want to look at this equity but do not expect significant growth. At the current share price, we have maintained our rating to Buy.

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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