

Western Union Co. (WU)

\$24.55 (As of 06/05/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

Western Union has streamlined its business with the sale of SpeepPay and Paymap mortgage payments services business. Its Business Solutions segment has started to show growth after remaining under pressure for three years. Its continuous investment to develop digital platform is impressive. Its disciplined capital management is another positive. Its shares have underperformed industry in a year's time. However, the company's consumer-to-consumer segment is under pressure due to competition in its domestic money transfer business. Increase in expenses weighs on its margin. Western Union has withdrawn its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty. Nevertheless, its earnings of 44 cents per share beat the Zacks Consensus Estimate by 7.32% and was up 12.8% year over year.

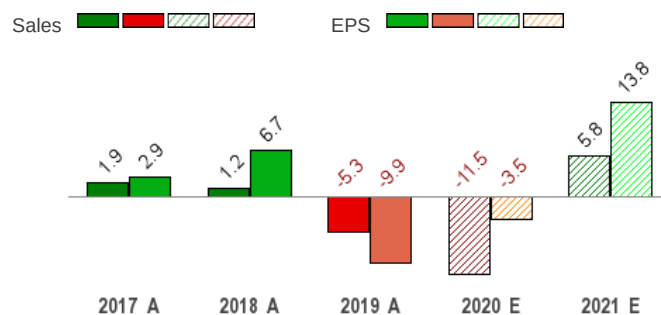
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.45 - \$17.39
20 Day Average Volume (sh)	7,545,611
Market Cap	\$10.1 B
YTD Price Change	-8.3%
Beta	0.89
Dividend / Div Yld	\$0.90 / 3.7%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 34% (87 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	14.7
PEG F1	0.6
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,232 E	1,223 E	1,277 E	1,309 E	4,953 E
2020	1,190 A	1,091 E	1,161 E	1,247 E	4,682 E
2019	1,337 A	1,341 A	1,307 A	1,308 A	5,292 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.47 E	\$0.52 E	\$0.48 E	\$1.90 E
2020	\$0.44 A	\$0.35 E	\$0.42 E	\$0.45 E	\$1.67 E
2019	\$0.39 A	\$0.45 A	\$0.49 A	\$0.38 A	\$1.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

Overview

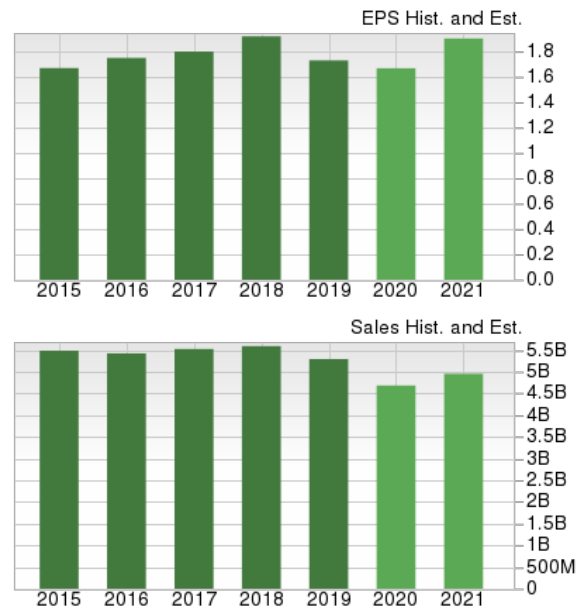
The Western Union Company, a leader in global money transfer, was formed as a result of a spin-off from First Data Corporation on Sep 29, 2006. Since then, it has been trading on the New York Stock Exchange (NYSE) under the symbol "WU".

Today, the company's vast platform capabilities include both digital and physical money movement networks with over 550,000 locations across more than 200 countries and territories, digital send capabilities in over 70 countries and bank account payout capabilities in over 100 markets offering access to billions of accounts.

Western Union's business consists of the following segments:

- **Consumer-to-Consumer:** (83% of 2019 revenues) The Consumer-to-Consumer operating segment facilitates money transfer between two consumers, primarily through a network of third-party agents. This segment also includes money transfer transactions that can be initiated through websites and mobile devices. A substantial majority of the transfer in this segment is cross-border. The segment faces competition from global money transfer providers, regional money transfer providers, electronic channels, banks, post banks and post offices, informal networks, and also alternative channels.
- **Business Solutions:** (7%) facilitates payment and foreign exchange solutions, primarily cross-border, cross currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchange of currency at spot rates, which enable customers to make cross-currency payments. Other: (13.4%) which primarily consists of bill payments businesses in the U.S. and Argentina.
- **Other:** (10%) which primarily consists of bill payments businesses in the U.S. and Argentina.

In May 2019, the company sold its Speedpay business and Paymap mortgage payments services business.



Reasons To Buy:

- ▲ **Business Streamlining:** Western Union sold its Speedpay business to ACI world for \$750 million. It also sold its Paymap mortgage payments services business. With the divestitures and smaller domestic money transfers, the company's business is now primarily focused on cross-border services for consumers, financial institutions, banks and other businesses. The company's focus aligns with its core competencies in foreign exchange, cross-border settlement, compliance and global retail and account payout network.
- ▲ **Growth of Digital Platform:** Digitally initiated money transfer, which includes westernunion.com and Mobile Money Transfer, is the fastest-growing segment of the market that is adding new customers and increasing business for the company. Revenues from the company's digital platform have been increasing over the years. The company's digital business continued its impressive run with 22% revenue growth in the first quarter of 2020. westernunion.com is becoming an increasingly important part of the company's business, representing nearly 15% of total money transfer revenues in 2019, up from 6% in 2015. In digital solutions, the company expects revenue growth to be led by adding more business verticals. The company continues to expand existing high-growth areas, such as education payments, while also leveraging its EDGE platform and digital self-service offerings. It has also taken initiatives to help its customers through its digital platform amidst coronavirus chaos.
- ▲ **Efficiency Improvement Initiative:** The company has started the implementation of its new Global Strategy, designed to drive improved efficiency, profitability, and long-term revenue growth. These initiatives are focused on improving efficiency and are expected to deliver approximately \$50 million of annual savings in 2020, \$100 million in 2021 and \$150 million by 2022, in addition to providing additional funds for reinvestment in the growth of the business.
- ▲ **Growth at Business Solutions Unit Catching Up:** After suffering from revenue declines for three years till 2018, the segment is now recovering. The company achieved constant currency revenue growth for the sixth straight quarter in this segment. The segment continued its growth trend, led by strong performance in the education and financial institution verticals, which translated into solid revenue growth of 4% on a constant-currency basis for 2019 and was up further 5% in the first quarter of 2020.
- ▲ **Focus on Enhancing Shareholders' Value:** Western Union remains committed to enhance shareholders' value through share buybacks and dividend payments. Recently, the company increased its quarterly dividend by 13%. The company's current dividend yield of 4.4% is way higher than 0.6% for the industry.
- ▲ **Stable Solvency Position:** As of Mar 31, 2020, the company had cash worth \$1.1 billion, zero borrowings left under its \$1.5-billion revolving credit facility and no significant debt maturities until 2022. The company continues to finance its working capital through the commercial paper market and had \$85-million outstanding at the first-quarter end. Thus, its solvency position looks favorable.
- ▲ **Share Price Performance:** In a year's time, shares of the company underperformed its industry. However, its strong fundamentals should support its stock price.

Expanding digital platform, recovering Business Solutions unit, initiatives to streamline business will drive long term growth at the company.

Reasons To Sell:

- ▼ **Consumer to Consumer Unit Under Pressure:** The company's C2C business has shown anemic revenue growth in the previous quarters. In the first quarter of 2020, revenues from the segment declined 3% year over year. The business remains highly affected by competition from other fintech players that have the ability to provide services at low cost. Moreover, pricing action taken in some markets have also brought revenues under pressure. At April-end, the World Bank issued a forecast projecting 20% decline in global remittances for 2020. This decline in remittance is likely to keep the company's revenues stressed from the concerned segment. The current forecast for 2020 global remittances varies between a 3.5% and 20% cut.
- ▼ **Forex Volatility:** The company is faced with foreign exchange volatility, given its vast international operations. The impact of currency translation reduced 2017 revenues by 1%. The strengthening of the dollar against the Argentine peso restricted revenue growth by approximately 2% to 2.5% in 2019. Reflecting the weakness of the euro, the Argentine peso, and other major currencies against the U.S. dollar, we expect a pressure on revenues from the same.
- ▼ **Increase in Expenses:** The company incurred restructuring expenses of approximately \$115.5 million in 2019 and further estimates nearly \$35 million in 2020 related to these changes. These expected expenses are comprised primarily of severance and employee related benefits, but also include costs for relocation of various operations, facility closures, consulting and other expenses. These costs might weigh on margins, before yielding results.
- ▼ **Return on Equity:** The company's return on equity (ROE) of -1692.2% remains significantly below the 33.9% positive returns for the industry. This reflects the company's inefficiency in using shareholders' funds.
- ▼ **Scraps 2020 Guidance and Share Buyback Due to Coronavirus:** Western Union has withdrawn its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty. The temporary suspension of activities in several places resulted in lower consumer and commercial operations across multiple markets and also closed down some Western Union Agent locations. This might have a negative impact on the company's overall revenues. Also, the company scrapped its share buyback plans, leaving its bottom line bereft of the support provided by lower share count.

We remain cautious due to pressure on its main business Consumer to Consumer and foreign exchange volatility.

Last Earnings Report

Western Union Q1 Earnings Beat Estimates

The Western Union operating earnings of 44 cents per share surpassed the Zacks Consensus Estimate by 7.32% and also grew 12.8% year over year.

Better-than-expected bottom line was owing to productivity savings, lower compensation expense, a lower effective tax rate and fewer shares outstanding, partially offset by the divestitures of Speedpay and Paymap in May 2019.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-1.96%
EPS Surprise	7.32%
Quarterly EPS	0.44
Annual EPS (TTM)	1.76

Behind the Headlines

Total revenues of \$1.19 billion missed the Zacks Consensus Estimate by 1.96% and also dropped 11% year over year on a reported basis and 1% on constant currency basis. Weakening of Argentine Peso caused a 3% slip in revenues, partly offset by the 1% positive effect of inflation on the company's Argentina-based business.

Total expenses of \$0.96 billion were down 12% year over year due to a decline in cost of services and selling, general and administrative expenses.

Segment Update

Consumer-to-Consumer (C2C)

Revenues of \$1.02 billion declined 4% year over year on a reported basis and 3% on constant-currency basis. Total transactions dipped 3%. Decline was due to lower cross-border sends originated in Europe, the United States and the Asia Pacific, partially offset by revenue gains in the Middle East.

Operating income of \$209.9 million decreased 10% year over year. Operating margin contracted 140 basis points year over year to 20.7%. Revenues from westernunion.com C2C improved 21% on a reported basis and 22% in constant currency. Notably, digital money transfer revenues represented 16% of total C2C revenues in the reported quarter.

Business Solutions

Revenues of \$98.4 million inched up 3% on a reported basis and 5% on constant currency, driven by a strong performance in foreign exchange hedging.

The segment reported operating income of \$13.9 million, up 61% year over year. Operating margin soared 510 basis points year over year to 14.1%.

Balance Sheet (as of Mar 31, 2020)

Cash and cash equivalents were \$1.07 billion, down 26% from the level at 2019 end.

Borrowings declined nearly 4.9% to \$3.07 billion from the level at 2019 end.

Stockholders' equity was a deficit of \$149.7 million compared with a deficit of \$39.5 million at the end of 2019.

The company generated net cash of \$112.4 million from operations, down 53% year over year.

Recent News

Western Union Sees Improved Transaction Growth in C2C Business – May 28, 2020

Western Union witnessed a decline of 30% in transactions related to its Consumer-to-Consumer (C2C) business in late March. The downside can primarily be attributed to the COVID-19 pandemic-induced financial turmoil. Nevertheless, decline rate of transactions in its C2C business improved to 21% in the month of April. This uptick can be attributed to a surge of 77% in the company's digital money transfer business and favorable retail business trends. Moreover so far in May, Western Union has witnessed rise in transactions for its C2C business.

Western Union Offers Paycheck Protection Program Loans – May 13, 2020

Western Union is now helping agents and businesses affected by the coronavirus outbreak. Small businesses, which are integral to the U.S. economy, have been adversely impacted by the COVID-19 pandemic. These businesses will now be able to get loans from Western Union via its U.S. Small Business Administration Paycheck Protection Program, which will partly solve their financial crunch.

Western Union Ramps Up Digital Efforts Amid Coronavirus Woes – Mar 31, 2020

Western Union continues to enhance its digital money transfer services for encouraging customers to stay at home and contain the coronavirus spread. The digital money transfer services are now available across 75 countries and pay out into a global widespread network of four billion accounts and wallets in 100 countries along with an impressive retail network across 200 countries and territories.

Western Union Discards 2020 View Due to Coronavirus Insecurity – Mar 28, 2020

Western Union has withdrawn its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty. The company's business remained unaffected through the mid of March except in China and Italy. Nevertheless the rapid spread of the coronavirus-led disease across regions in which the company operates, is making it feel the heat. The temporary suspension of activities in several places resulted in lower consumer and commercial operations across multiple markets and also closed down some Western Union Agent locations.

Valuation

Western Union shares are down 8.3% year to date and up 22.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 3.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the Zacks sector are up 13.1% and 2%, respectively.

The S&P 500 index is down 1% year to date but up 10.5% in the past year.

The stock is currently trading at 13.86x forward 12-month earnings, which compares to 32.8x for the Zacks sub-industry, 30.63x for the Zacks sector and 23.07x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.09x and as low as 8.77x, with a 5-year median of 11.79x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 14.55x forward earnings.

The table below shows summary valuation data for WU

Valuation Multiples - WU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.86	32.8	30.63	23.07
	5-Year High	15.09	32.8	30.63	23.07
	5-Year Low	8.77	23.03	20.94	16.41
	5-Year Median	11.79	26.92	24.14	17.68
P/S F12M	Current	2.1	11.67	4.19	3.59
	5-Year High	2.25	11.67	4.19	3.59
	5-Year Low	1.39	8.52	3.08	2.8
	5-Year Median	1.79	10.38	3.63	3.19

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	2
Diebold Nixdorf, Incorporated (DBD)	Neutral	4
Equifax, Inc. (EFX)	Neutral	4
FleetCor Technologies, Inc. (FLT)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
Ingenico Group (INGIY)	Neutral	3
MoneyGram International Inc. (MGI)	Neutral	4
WEX Inc. (WEX)	Neutral	3

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	WU	X Industry	S&P 500	ADS	DBD	GPN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	3
VGM Score	B	-	-	C	B	B
Market Cap	10.09 B	2.28 B	23.09 B	2.87 B	491.47 M	56.65 B
# of Analysts	8	6	14	8	2	15
Dividend Yield	3.67%	0.00%	1.82%	1.39%	0.00%	0.41%
Value Score	A	-	-	A	D	D
Cash/Price	0.13	0.08	0.06	2.02	1.41	0.03
EV/EBITDA	6.98	11.84	13.17	6.49	11.59	36.49
PEG Ratio	0.57	2.18	3.13	1.21	NA	2.04
Price/Book (P/B)	NA	4.23	3.15	2.64	NA	2.07
Price/Cash Flow (P/CF)	10.26	13.31	12.43	2.47	2.26	26.95
P/E (F1)	14.66	31.27	22.80	7.46	NA	31.27
Price/Sales (P/S)	1.96	4.30	2.52	0.51	0.11	9.55
Earnings Yield	6.80%	3.19%	4.19%	13.39%	-7.74%	3.20%
Debt/Equity	-20.51	0.37	0.76	11.00	-3.31	0.35
Cash Flow (\$/share)	2.39	2.39	7.01	24.48	2.80	7.03
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	2.47%	18.08%	10.87%	7.47%	-37.80%	21.71%
Proj. EPS Growth (F1/F0)	-3.54%	-16.27%	-10.79%	-51.80%	-250.00%	-2.62%
Curr. Cash Flow Growth	-11.92%	14.82%	5.48%	-34.53%	27.22%	50.80%
Hist. Cash Flow Growth (3-5 yrs)	-2.25%	14.60%	8.55%	0.58%	2.99%	39.74%
Current Ratio	0.91	1.21	1.29	2.02	1.24	1.34
Debt/Capital	NA%	34.80%	44.75%	91.67%	NA	25.93%
Net Margin	20.64%	7.54%	10.59%	3.41%	-7.02%	7.79%
Return on Equity	-1,692.22%	19.20%	16.26%	40.98%	-1.98%	6.46%
Sales/Assets	0.59	0.49	0.55	0.21	1.10	0.16
Proj. Sales Growth (F1/F0)	-11.52%	-4.84%	-2.61%	-6.86%	-16.24%	22.38%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	4.47%	3.21%	2.89%	10.65%	2.76%	3.21%
1 Week Price Chg	5.31%	2.38%	4.60%	10.18%	-8.41%	1.55%
4 Week Price Chg	26.22%	18.50%	15.60%	32.62%	26.35%	8.38%
12 Week Price Chg	18.71%	29.90%	29.34%	28.88%	49.64%	20.55%
52 Week Price Chg	23.00%	0.75%	2.76%	-57.56%	-31.27%	20.03%
20 Day Average Volume	7,545,611	465,143	2,537,324	1,822,423	1,413,401	1,536,011
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.27%
(F1) EPS Est 4 week change	-3.61%	0.00%	-0.08%	0.00%	-176.56%	2.40%
(F1) EPS Est 12 week change	-16.09%	-21.12%	-16.19%	-58.79%	-151.58%	-21.71%
(Q1) EPS Est Mthly Chg	-8.94%	-8.94%	0.00%	0.00%	-118.18%	3.95%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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