Western Union Co. (WU)

$21.68 (As of 06/18/20)

Price Target (6-12 Months): **$23.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/29/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: C | Momentum: A	

Summary

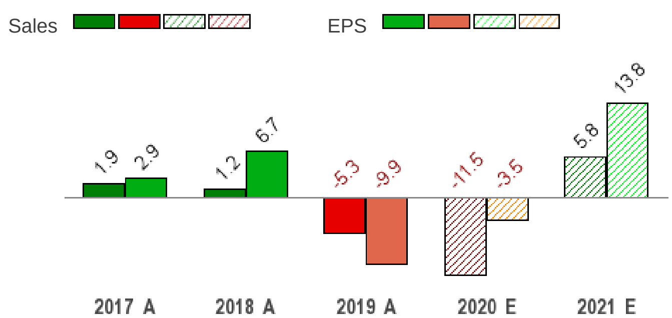
Shares of Western Union have outperformed its industry in a year. It has streamlined its business with the sale of SpeedPay and Paymap mortgage payments services business. The company's Business Solutions segment has started to show growth after remaining under pressure for three years. The company's C2C business is recovering from the gradual opening of economy. Its continuous investment to develop digital platform is impressive. Its disciplined capital management is another positive. 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 Western Union has withdrawn its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$28.45 - $17.39
20 Day Average Volume (sh)	7,818,795
Market Cap	$8.9 B
YTD Price Change	-19.0%
Beta	0.89
Dividend / Div Yld	$0.90 / 4.2%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 45% (140 out of 253)
Last EPS Surprise	7.3%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	13.0
PEG F1	0.5
P/S TTM	1.7

Sales and EPS Growth Rates (Y/Y %)



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.

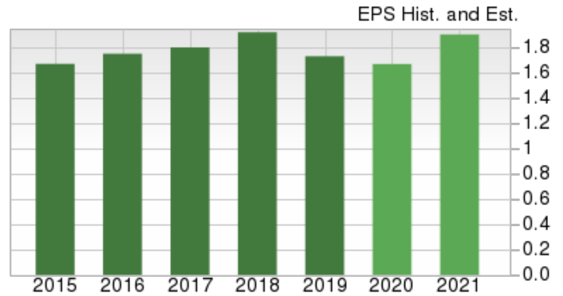
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/18/2020. The reports text is as of 06/19/2020.

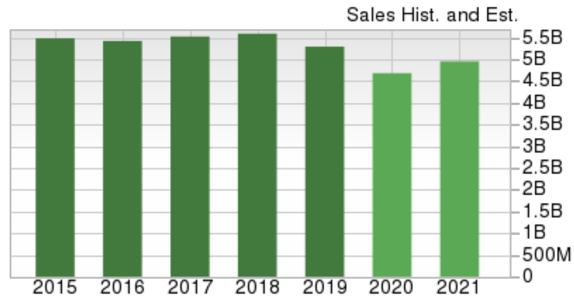
Overview

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 across 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:

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

- **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 4.2% 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 outperformed its industry. Moreover, its strong fundamentals will continue to boost the stock's rally.

Reasons To Sell:

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

- **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.

Last Earnings Report

Western Union Q1 Earnings Beat Estimates

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

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.

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 up3% 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 Ties up With AXA to Offer Insurance Products – Jun 18, 2020

Western Unionrecently collaborated with AXA, which has a solid insurance and asset management business. The tie-up basically aims to provide life and disability insurance products at reasonable costs, thereby benefiting Western Union's clients in France. Further, the insurance offerings will be provided through the company's global omni-channel platform. Initially launched as a pilot program in France this week, the 'Transfer Protect' program provided a EUR1,000 AXA life and disability insurance product for one month at free of cost. The product has primarily beenoffered to those clients of Western Union, who send money to 10 countries in Africa through its digital platform.

Western Union & ELITE to Help Potential Growth Firms in UK – Jun 16, 2020

Western Union's unit —Western Union Business Solutions —recently tied up with ELITE, which is the international business support and capital raising programme of London Stock Exchange. The collaboration is intended to provide enhanced services suite to fast-growing companies in the U.K.The alliance involves integration of invaluable expertise of Western Union Business Solutions with ELITE's international business platform. Together they will work on devising effective payment strategies for fast-growing businesses with high growth potential.

Western Union Sees Significant Improvement in Consumer-to-Consumer Transaction – Jun 2, 2020

The company provided an update in its Consumer-to-Consumer (C2C) business for the month of May 2020 in response to the evolving business environment amid the COVID-19 pandemic. Due to the coronavirus outbreak, the company witnessed a nearly 30% contraction in business volumes, both in late March and early April.Total transactions declined 21% to 7% in April-May period compared with 30% decline in MArch to April period. Digital money transfer transaction increased 77% to 90% compared with nearly 50%.

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.

Valuation

Western Union shares are down 19.1% year to date and up 10% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks sector are up 0.4% and down 2.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the Zacks sector are up 10.1% and down 1.1%, respectively.

The S&P 500 index is down 3.3% year to date but up 6.4% in the past year.

The stock is currently trading at 12.2x forward 12-month earnings, which compares to 31.38x for the Zacks sub-industry, 29.47x for the Zacks sector and 22.4x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.09x and as low as 8.53x, with a 5-year median of 11.04x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $23 price target reflects 12.92x 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	12.2	31.38	29.47	22.4
	5-Year High	15.09	31.68	29.47	22.4
	5-Year Low	8.53	20.78	18.68	15.23
	5-Year Median	11.04	23.19	20.77	17.49
P/S F12M	Current	1.85	11.22	4.04	3.49
	5-Year High	2.25	11.28	4.04	3.49
	5-Year Low	1.27	7.18	3.05	2.53
	5-Year Median	1.67	8.69	3.57	3.02

As of 06/18/2020

Industry Analysis **Zacks Industry Rank:** Bottom 45% (140 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation **(ADS)**	Neutral	3
Diebold Nixdorf, Incorporated **(DBD)**	Neutral	4
Equifax, Inc. **(EFX)**	Neutral	3
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	-	-	3	4	3
VGM Score	A	-	-	B	B	C
Market Cap	8.91 B	2.28 B	21.93 B	2.32 B	422.37 M	53.97 B
# of Analysts	8	6	14	8	1	15
Dividend Yield	4.15%	0.00%	1.93%	1.72%	0.00%	0.43%
Value Score	A	-	-	A	C	D
Cash/Price	0.12	0.08	0.06	1.80	1.24	0.03
EV/EBITDA	6.30	11.25	12.69	6.14	11.25	34.97
PEG Ratio	0.51	1.98	2.97	1.01	NA	1.94
Price/Book (P/B)	NA	3.67	3.02	2.14	NA	1.97
Price/Cash Flow (P/CF)	9.06	13.10	11.62	1.99	1.94	25.67
P/E (F1)	13.10	27.49	21.45	6.25	NA	29.67
Price/Sales (P/S)	1.73	4.24	2.33	0.41	0.10	9.10
Earnings Yield	7.70%	3.38%	4.37%	16.01%	-3.13%	3.37%
Debt/Equity	-20.51	0.37	0.77	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%	-10.52%	-10.65%	-53.44%	-21.43%	-2.24%
Curr. Cash Flow Growth	-11.92%	13.06%	5.46%	-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%	45.14%	91.67%	NA	25.93%
Net Margin	20.64%	7.54%	10.53%	3.41%	-7.02%	7.79%
Return on Equity	-1,692.22%	19.20%	16.06%	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%	-4.40%	-2.61%	-6.86%	-16.24%	22.38%
Momentum Score	A	-	-	C	F	B
Daily Price Chg	-0.87%	0.00%	-0.07%	-3.58%	-2.51%	-0.29%
1 Week Price Chg	-8.27%	-4.19%	-7.25%	-13.67%	-13.74%	-5.71%
4 Week Price Chg	14.77%	13.28%	6.92%	13.28%	6.67%	2.28%
12 Week Price Chg	4.43%	28.45%	16.91%	29.91%	21.97%	18.03%
52 Week Price Chg	9.00%	-6.34%	-5.63%	-64.70%	-42.92%	11.55%
20 Day Average Volume	7,818,795	442,907	2,574,456	2,050,545	1,442,531	1,608,873
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.56%
(F1) EPS Est 12 week change	-15.99%	-19.62%	-14.21%	-52.04%	-117.99%	-21.16%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
VGM Score	A

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.

Disclosures

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