

17 April 2014 | 7 pages

Computer Services & IT Consulting  
North America | United States

## Western Union Co. (WU)

### Alert: New Walmart Service Add to Pricing Threat; Sell WU

**Key Takeaway(s)** – This morning, Walmart (WMT.N; US\$77.42; Not Rated) and Euronet (EEFT.O; US\$42.90; Not Rated), announced a new money transfer service that will allow consumers to send money Walmart-to-Walmart in the US for prices below the competition. This is a competitive threat to WU's US-to-US business, which represents ~8% of total revenue. The direct impact will depend on various factors, though we believe it increases the likelihood of a potential price cut by WU later in 2014, which has been central to our bearish thesis. Maintain Sell on WU.

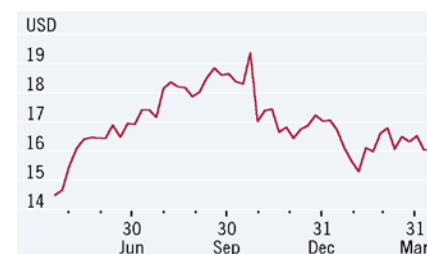
**Details of WMT Service** – Walmart will offer a new money transfer service called Walmart-2-Walmart that will allow consumers to send and receive money domestically in the US at its 4,000+ stores beginning next week. Walmart will charge \$4.50 for up to \$50 in principal sent and \$9.50 for \$50-\$900 transactions.

**Impact to WU** – WU's US-to-US money transfer business represents ~8% of total revenues. Currently, WU charges \$5 for \$50 transactions and varying rates for larger transactions (ranging from 6-10% of principal). Many of Walmart's transactions are under \$200 – WU charges \$12 for \$200 (WMT is priced ~20% below) and \$24 for \$300 (WMT is priced ~60% below). Surprisingly, WU's pricing is fairly rich for larger US-to-US transactions and we believe there may have to be a competitive response for this type of transaction. Note that WU has ~50k agents in the US, which is a competitive advantage vs. WMT's 4k stores, but we note that WMT still has wide US coverage and a lot of experience selling financial services and products. WU last made significant changes to its US-to-US pricing in late 2009 with the start of the \$5 for \$50 promotion. A hypothetical 10% average price reduction for WU's US-to-US business would represent a ~2% impact to EPS.

**Other Negative Pricing Data-points** – (1) Facebook has recently discussed the possibility of its entering the EU money transfer market. See [Mark May's note](#) on this (2) The Overseas Development Bank Institute (ODI) issued a recent report that found that Africans face some of the highest charges in the world for international transfers – pressure from institutions such as this and the World Bank is persistent on pricing in the industry.

<b>Sell</b>	<b>3</b>
Price (17 Apr 14)	US\$15.19
Target price	US\$15.00
Expected share price return	-1.3%
Expected dividend yield	3.3%
<b>Expected total return</b>	<b>2.0%</b>
Market Cap	US\$8,185M

### Price Performance (RIC: WU.N, BB: WU US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Western Union Co.

### Valuation

Our 12-month target price of \$15 for WU is based on the average of our P/E and DCF analyses.

**P/E Analysis:** We use a 10x target multiple, which is within our targeted 10x-12x P/E range, and our 2015 EPS estimate of \$1.53 to reach our \$15.50 (rounded) P/E target for WU. Our targeted multiple range is consistent with WU's historical average multiple of ~12x (per FactSet).

**Discounted Cash Flow (DCF) Analysis:** Based on our ten-year DCF analysis, we derive a \$14.50 price target for WU. Our analysis incorporates the following assumptions: Weighted Average Cost of Capital (WACC) of 7.5% (calculated), based upon a Beta of 1.03 (Bloomberg adj. 5-yr weekly), a Risk-Free Rate of 1.81% (Citi Estimate) and a Market Risk Premium of 6.54% (Citi Estimate); Terminal Growth Rate of (4%)-(3.5%), which helps capture the long-term risk of competitive displacement and continued price competition.

### Risks

The key risks to our investment thesis on WU are:

- **Economic Impact on Remittances** – Due to soft global economic conditions, remittance growth is expected to remain below historical norms. However, if the global economy recovers faster than we anticipate, WU could exceed our financial projections.
- **Cyclicality of Bill Payment Unit** – WU's Consumer-to-Business (C2B) unit (11% of revs) is predominately its US urgent bill payment platform, which largely depends on the health of the US economy.
- **Regulatory Changes** – WU's C2C business is highly regulated and changes to regulations could have an impact. If these regulatory changes are applied equally to competitors, WU's relative positioning could improve.
- **Technology Displacement** – Over the LT, emerging alternatives to cash money transfer, such as online or mobile payments, could gain traction. If WU's investments in these offerings work out, the company could see better financial performance.
- **Foreign Currency** – Nearly 60% of WU's revenue are originated outside the US, making it exposed to fluctuations in foreign currency.
- **Taxes** – Any changes on how the US taxes foreign profits or repatriated funds could alter WU's tax rate and/or capital availability.

If any of these risk factors has a greater upside impact than we anticipate, WU could surpass our target price.

## Appendix A-1

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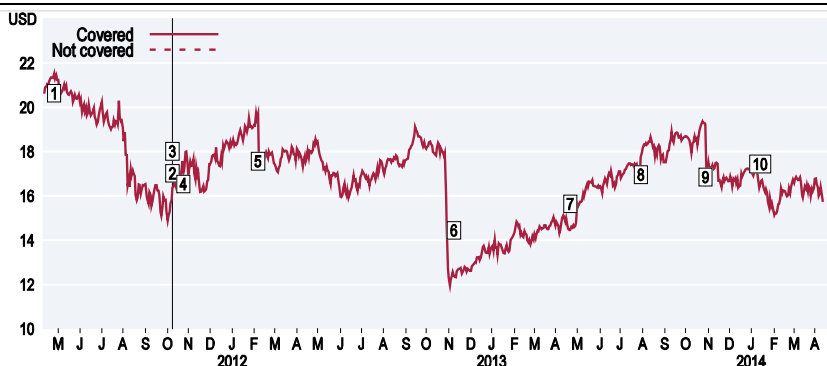
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##### Ratings and Target Price History

##### Fundamental Research

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	26-Apr-11	1M	*26.00	21.53
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*1	26.00	15.82
4	25-Oct-11	1	*23.00	17.07

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	7-Feb-12	1	*24.00	19.70
6	8-Nov-12	1	*14.50	12.39
7	22-Apr-13	*2	*15.00	14.47
8	30-Jul-13	2	*19.00	17.75

	Date	Rating	Target Price	Closing Price
9	29-Oct-13	2	*17.00	19.24
10	14-Jan-14	*3	*15.00	16.52

Rating/target price changes above reflect Eastern Standard Time

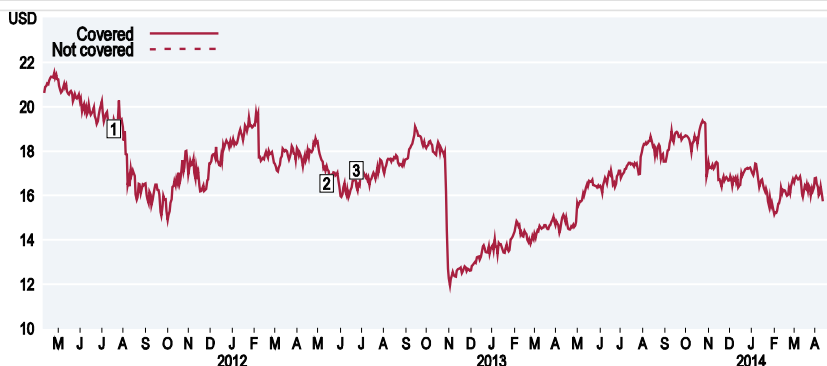
#### Western Union Co. (WU)

##### Ratings and Target Price History

##### Best Ideas Research

##### Relative Call (3 Month)

Analyst: Ashwin Shirvaikar, CFA



	Date	Rating	Target Price	Closing Price
1	19-Jul-11	*REM MP	-	19.42

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	14-May-12	*ADD MP	-	17.32

	Date	Rating	Target Price	Closing Price
3	25-Jun-12	*REM MP	-	16.40

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