



Lowe's Companies (LOW)

Updated June 7th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$217	5 Year CAGR Estimate:	12.2%	Market Cap:	\$124 B
Fair Value Price:	\$231	5 Year Growth Estimate:	9.0%	Ex-Dividend Date¹:	07/24/2024
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Payment Date¹:	08/07/2024
Dividend Yield:	2.1%	5 Year Price Target	\$355	Years of Dividend Growth:	61
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Lowe's Companies is the second-largest home improvement retailer in the US (after Home Depot). The company, which has a current market capitalization of \$124 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates or services more than 1,700 home improvement and hardware stores in the U.S. Lowe's trades under the ticker symbol LOW on the NYSE.

Lowe's reported first quarter 2024 results on May 3rd, 2024. Total sales came in at \$21.4 billion compared to \$22.3 billion in the same quarter a year ago. Comparable sales decreased by 4.1%, while net earnings-per-share of \$3.06 compared to \$3.77 in first quarter 2023. However, adjusted EPS in the year-ago period was \$3.67 when excluding the transaction costs related to the sale of the Canadian retail business in the prior year. The company continues to be negatively impacted from a reduction in DIY discretionary spending.

The company repurchased 3.0 million shares in the first quarter for \$743 million. Additionally, it paid out \$633 million in dividends.

The company reaffirmed its fiscal 2024 outlook and continues to expect to earn adjusted diluted EPS of \$12.00 to \$12.30 on total sales of \$84 to \$85 billion. Capex will likely come in at \$2 billion, and Lowe's expects an operating margin of 12.6% to 12.7%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$12.04	\$10.17	\$13.20	\$12.15	\$18.69
DPS	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$2.80	\$3.70	\$4.30	\$4.60	\$7.08
Shares²	960	910	866	830	801	763	735	676	605	575	560	450

Lowe's has increased its earnings-per-share at an incredibly attractive pace in the recent past, even though it hasn't significantly expanded its store count. This is due to several factors, including a strong comparable store sales performance, which raises revenues as well as margins. Between 2014 and 2023, Lowe's grew its earnings-per-share by 19% a year. In the recent 5-year period, LOW was able to compound earnings by 21% per year.

Earnings-per-share have been driven by comparable store sales growth, increasing margins, and the company's share repurchases, which have lowered the share count meaningfully. Significant buybacks mean that the company's net earnings are split over a lower number of shares, which accelerates growth in per-share net income. Especially when Lowe's valuation is lower, these share repurchases are highly accretive. Lowe's would likely ramp up its buybacks if its valuation declined meaningfully, and in the past, they have made good profits by buying back shares at a lower price.

Lowe's should be able to increase its sales over the coming years, but its earnings-per-share growth will be somewhat lower going forward compared to the last couple of years. We expect Lowe's to increase earnings-per-share at a 9.0% annual growth rate in the next five years.

¹ Estimate

² 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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Lowé's is a Dividend King - the company has raised the dividend annually for 61 years in a row - and its dividend growth rate was remarkably high in recent years. Lowé's has raised its dividend by 16% per year over the last 5 years. We expect this dividend growth to moderate in the coming years but still remain around double-digit territory.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.8	21.8	18.6	18.7	18.7	18.9	21.4	20.0	17.3	19.9	17.8	19.0
Avg. Yld.	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.2%	1.6%	2.0%	2.1%	2.0%

Lowé's trades at 17.8 times this year's expected earnings-per-share right now, which is lower than the 10-year average of 19.5. The current valuation is also below our fair value estimate of 19.0 times expected earnings. As a result, we estimate the potential for a small valuation tailwind due to valuation expansion over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	33%	33%	36%	36%	37%	27%	23%	36%	33%	38%	38%

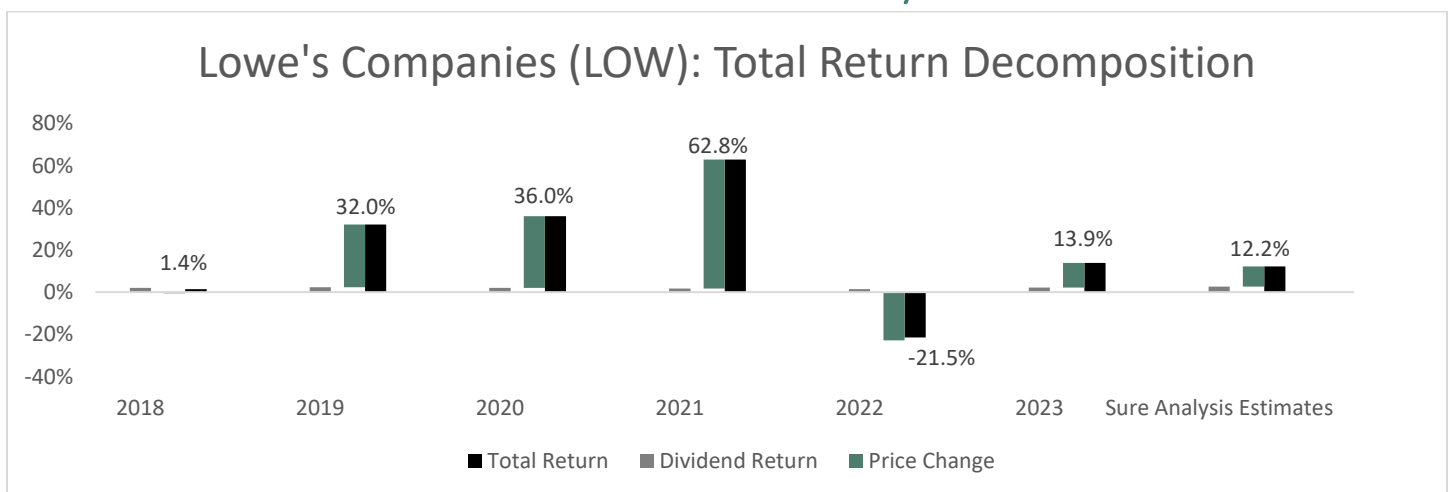
Lowé's is a Dividend King, the company has raised its dividend annually for 61 years in a row, even during recessions, the great financial crisis, and the covid pandemic. This extraordinarily strong track record, coupled with the fact that Lowé's dividend payout ratio is quite low, shows that Lowé's is a reliable and low-risk dividend stock where investors do not have to worry about a dividend cut. In addition, many years of dividend growth should be in front of the company.

Lowé's business is somewhat cyclical, but the company performed relatively well during the great financial crisis, nevertheless. Earnings-per-share declined by less than 20%, despite the housing market hit. Lowé's enjoys competitive advantages from scale and brand power as it operates in a duopoly with Home Depot. Neither of the two are expanding their store count significantly, and neither is interested in a price war. Both should remain highly profitable, as the home improvement market in the US is large enough for two companies to make great profits.

Final Thoughts & Recommendation

Lowé's offers 12.2% annualized total return potential thanks to its strong expected growth performance. Shares are trading below our estimated fair value and offer compelling growth potential for both earnings and the dividend. We expect that buying back their own stock will prove fruitful in the long term. We are upgrading LOW from hold to buy due to the recent share price reduction and lower valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	53,417	56,223	59,074	65,017	68,619	71,309	72,148	89,597	96,250	86380
Gross Profit	18,476	19,558	20,570	21,674	22,434	22,908	22,943	29,572	32,056	28840
Gross Margin	34.6%	34.8%	34.8%	33.3%	32.7%	32.1%	31.8%	33.0%	33.3%	33.4%
SG&A Exp.	12,865	13,272	14,105	14,375	14,444	17,413	15,367	18,526	18,301	15570
D&A Exp.	1,562	1,586	1,587	1,590	1,540	1,607	1,410	1,594	1,882	1923
Operating Profit	4,149	4,792	4,971	5,846	6,586	4,018	6,314	9,647	12,093	11560
Op. Margin	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%	12.6%	13.4%
Net Profit	2,286	2,698	2,546	3,091	3,447	2,314	4,281	5,835	8,442	7726
Net Margin	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%	6.5%	8.8%	8.9%
Free Cash Flow	3,171	4,049	3,587	4,450	3,942	5,019	2,812	9,258	8,260	6176
Income Tax	1,387	1,578	1,873	2,108	2,042	1,080	1,342	1,904	2,766	2449

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	32,732	31,721	31,266	34,408	35,291	34,508	39,471	46,735	44,640	41800
Cash & Equivalents	391	466	405	558	588	511	716	4,690	1,133	921
Inventories	9,127	8,911	9,458	10,458	11,393	12,561	13,179	16,193	17,605	16890
Goodwill & Int.			154	1,082	1,307	303				
Total Liabilities	20,879	21,753	23,612	27,974	29,418	30,864	37,499	45,298	49,456	56840
Accounts Payable	5,008	5,124	5,633	6,651	6,590	8,279	7,659	10,884	11,354	8704
Long-Term Debt	10,521	11,358	12,649	15,699	16,995	16,223	19,306	21,780	24,727	35920
Total Equity	11,853	9,968	7,654	6,434	5,873	3,644	1,972	1,437	-4,816	-15050
LTD/E Ratio	0.89	1.14	1.65	2.44	2.89	4.45	9.79	15.16	-5.13	-2.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%	13.5%	18.5%	18.1%
Return on Equity	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152.5%	342.3%		
ROIC	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%	39.1%	38.1%
Shares Out.	1061	990	927	881	840	812	778	750	699	584
Revenue/Share	50.35	56.79	63.73	73.80	81.69	87.82	92.74	119.46	137.70	147.91
FCF/Share	2.99	4.09	3.87	5.05	4.69	6.18	3.61	12.34	11.82	10.58

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

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