

Lowes's Companies Inc. (NYSE: LOW)

Sector: Consumer Cyclical

Industry: Home Improvement Stores

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$62.00	\$49.75	\$50.74	\$31.23	1.1	23.4	\$51.62B (Large Cap)	1.5%

Industry Trends

The Home Improvement market continues to be dominated by the two main players, Lowe's and Home Depot. Both companies have continued to leverage themselves through taking on more debt and using that cash to buyback stock and issue dividends. Going forward these companies will have to reduce their stock buyback programs as they are buying back more stock than they are producing in free cash flow. The companies operating in this industry will continue to face an improving economic environment as the economic recovery continues and the housing market proves to remain strong.

Investment Thesis

Lowe's is the second largest home improvement company who is producing \$3bn LTM FCF. Lowe's is using this FCF, as well as debt, to continue to buyback shares and issue quarterly dividends. In the latest quarter Lowe's CFO commented that EBIT margins were up 110 basis points quarter over quarter. We believe that Lowe's (4.0%) has the potential to narrow the net profit margin difference as compared to Home Depot (6.3%), which is turn will help its profitability.

Business Summary

Lowe's Companies operates a chain of 1,758 building materials and home improvement superstores in the United States, Canada, and Mexico. Lowe's product categories include: appliances, lumber/plywood, paint, flooring, millwork, building materials, seasonal living, fashion plumbing, tools, hardware and lighting.

LOW 5-year stock performance vs. S&P 500 and Home Depot:



Corporate Social Responsibility:

ESG Disclosure Rating	23.92 (Ind. Avg.: 20.66)
Environmental Disclosure Score	11.46 (Ind. Avg.: 22.85)
Carbon Disclosure Score	N/A (Ind. Avg.: 58.50)
Social Disclosure Score	17.54 (Ind. Avg.: 20.61)
Governance Disclosure Score	51.79 (Ind. Avg.: 48.45)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	\$4.0mm (Ind. Avg.: \$2.29mm)

Sources: Bloomberg Terminal, Value Line Investment Survey, Yahoo Finance

Competition:

- Lowe's major competitors are other home improvement stores such as Home Depot (\$108.1bn Market Cap), Lumber Liquidators Holding (\$3.1bn Market Cap) and Builders FirstSource (\$676mm Market Cap)

Pros:

- Buying back stock consistently over past 7 years (approximately 460 million total shares) and have announced they will renew a share buyback program for a total of \$5bn through 2014
- Dividends declared per share have gone from \$0.05 to \$0.72 over the past 10 years and it is probable that they will increase or at least remain steady in the near future
- Lowe's has announced its plans to significantly expand into foreign markets, including Canada and Mexico where Home Depot has already been operating profitability
- Lowe's is positioned to capitalize on the continuing economic and housing recovery that the United States has seen in the past few years

Cons:

- Impending tapering will result in higher mortgage rates, which might slow down the housing recovery
- Lowe's continues to depreciate more assets than it is spending in capital expenditures, which means in the future it will have to use its free cash flow to blow back into the business
- Potential for Margin compression due to competition

Value Estimate:

\$50 - \$70

(2016-2018)

Overall Rating:

Expected inflation	3%
Current EPS	1.95
Forecasted EPS Growth	8.5%
Credit Quality	A
ROE	15.5%
ROA	6.3%
Price/Book	2.84
Debt/Equity	0.70
Debt/Capital	0.17
Current Ratio	1.17
Price/Cash Flow	12.4
10 yr. Risk Free Rate	2.7%
WACC	10%

Two Stars

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