Visa (V)

Updated May 10th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$130	**5 Year CAGR Estimate:**	10.9%	**Quality Percentile:**	N/A
Fair Value Price:	$102	**5 Year Growth Estimate:**	15.0 %	**Momentum Percentile:**	N/A
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Total Return Percentile:**	N/A
Dividend Yield:	0.7%	**5 Year Price Target**	$204	**Valuation Percentile:**	N/A

Overview & Current Events

Visa is the world's leader in digital payments, with activity in more than 200 countries. The stock went public in 2008 and its IPO has proved one of the most successful in U.S. history. Since its IPO, Visa has grown its earnings rapidly. As a result, the stock has rallied almost 12-fold from its IPO price of $11 and has significantly outperformed the market in almost any time horizon one can check. For instance, it has outperformed S&P in the last five years (182% vs. 61%) and in the last 12 months (41% vs. 12%).

Visa has ample room to keep growing thanks to the global transition towards a cashless society. Last year, global digital payment volume exceeded cash for the first time in history. However, there are still about 2 billion people worldwide who lack access to cashless payments. In addition, about $17 B of transactions were still executed in cash last year. Therefore, Visa has ample room to keep growing for several years. Notably China and India, which have almost 1.4 B people each, are still in the early phases of their transition towards a cashless economy. Therefore, the growth potential for Visa is immense in these two countries. It is critical to note that Visa enjoys high growth rates in all its geographical divisions, even in regions with mature economies. For instance, in fiscal Q2, its revenues rose 9.3% and 9.5% in the U.S. and Canada, respectively. All these facts confirm that the company has exciting growth potential ahead.

In its most recent earnings report, Visa grew its net revenues by 13% and its adjusted EPS by 30% thanks to strong growth in its cross-border and payment volume. Even better, it raised this fiscal year's EPS guidance from $4.20 to $4.40.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.56	$0.73	$0.98	$1.25	$1.55	$1.90	$2.27	$2.62	$2.84	$3.48	***$4.40***	***$8.85***
DPS	$0.03	$0.11	$0.13	$0.15	$0.22	$0.33	$0.42	$0.50	$0.59	$0.69	***$0.84***	***$1.60***

Thanks to the exceptional record Visa, it is reasonable to rely on its recently updated guidance for EPS of $4.40 in this fiscal year. In addition, the company has grown its EPS at a 16.3% average annual rate during the last five years. Moreover, its management recently forecasted 18% EPS growth for next year. However, it is prudent to be somewhat conservative, as it becomes harder for a company to grow quickly as it becomes larger. Therefore, it is reasonable to assume 15.0% average annual EPS growth for the next five years, from $4.40 this year to $8.85 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	32.6	20.3	20.5	15.7	18.2	21.8	23.3	25.3	27.2	25.8	***29.5***	***23.1***
Avg. Yld.	0.1%	0.7%	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	***0.7%***	***0.8%***

Thanks to the enthusiasm of the market about the recent acceleration in its EPS growth, Visa is currently trading at a P/E ratio of 29.5, which is much higher than its 10-year average P/E of 23.1. As it is reasonable to expect the stock to revert towards its average valuation level in the next five years, the stock is likely to incur a 4.8% annualized drag due to the contraction of its P/E ratio over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	13.5%	16.4%	16.3%	18.7%	18.5%	23.6%	24.4%	26.6%	17.9%	20.9%	***21.5%***	***23.0%***
Debt/A	36.3%	28.2%	25.1%	23.9%	30.9%	25.3%	28.9%	24.2%	48.6%	51.8%	***50.6%***	***49.0%***
Int. Cov.	10.3	35.8	63.7	N/A	N/A	N/A	966.5	2999.3	19.8	21.8	***31.0***	***50.0***
Payout	5.4%	15.1%	13.3%	12.0%	14.2%	17.4%	18.5%	19.1%	20.8%	19.8%	***19.1%***	***18.1%***
Std. Dev.	48.0%	32.1%	27.2%	22.9%	15.5%	16.1%	23.5%	17.1%	14.9%	8.4%	***12.0%***	***15.0%***

Visa essentially operates in a duopoly, as it processes the vast majority of global electronic payments along with Mastercard. Visa has built one of the strongest brands in the world and continues to invest in major sponsorships to enhance its brand strength. The company has such a strong brand that store owners are essentially forced by their customers to cooperate with Visa. Otherwise, they run the risk of losing a large portion of their revenues. This is one of the strongest competitive advantages a company can hope for.

Moreover, Visa spends very low amounts on capital expenses and hence almost all its earnings are available for shareholder distribution. While the current dividend yield is low, the company is likely to keep raising its dividend at double-digit rates for many years thanks to its strong free cash flows, its low payout ratio and its strong balance sheet. Therefore, even those who are near retirement should not reject this stock for its low current dividend yield.

As the earnings of Visa depend on the total amount of transactions worldwide, they should be affected by global economic growth. However, in the Great Recession, its EPS jumped 30%, from $0.56 in 2008 to $0.73 in 2009. Visa seems to be resilient even during recessions. Nevertheless, in the event of a recession, investors should expect a steep contraction of its P/E ratio

Final Thoughts & Recommendation

Thanks to its exceptional past performance and its exciting growth prospects, Visa almost always trades at a premium valuation. Visa has excellent long-term growth potential. The company is likely to continue growing its earnings-per-share at a double-digit rate over the next several years.

Despite the current rich valuation of Visa, the stock can still offer a 10.9% average annual return over the next five years thanks to 15.0% EPS growth and a 0.7% dividend, which will be partly offset by a 4.8% annualized P/E contraction. Now may not be the best time to buy Visa, but it is certainly an excellent long-term hold. This stock should be on most investor's buying list when it trades at or below fair value (which is likely during a bear market).

Total Return Breakdown by Year