



Visa (V)

Updated July 26th, 2018 by Ben Reynolds

Key Metrics

Current Price: \$143	5 Year CAGR Estimate: 9.5%	Volatility Percentile: 8.4%
Fair Value Price: \$104	5 Year Growth Estimate: 15.0 %	Momentum Percentile: 89.2%
% Fair Value: 138%	5 Year Valuation Multiple Estimate: -6.1%	Valuation Percentile: 11.8%
Dividend Yield: 0.6%	5 Year Price Target \$210	Total Return Percentile: 63.7%

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.

Visa reported 3rd quarter earnings for fiscal 2018 on July 25th. Versus the same quarter a year ago, Visa generated 11% constant currency payment volume growth, 15% operating revenue growth, and 39% *adjusted earnings-per-share* (EPS) *growth*. Adjusted results exclude a \$600 million litigation provision, and certain tax benefits. Visa is benefitting from a one-time growth boost of around 10 percentage points from US tax reform, and a 1.5 percentage point currency tailwind. Additionally, the company returned \$2.2 billion to shareholders through dividends and share repurchases, which equates to 0.7% of the company's market cap at current prices. Finally, Visa updated its expected adjusted EPS growth rate for fiscal 2018. The company is now expecting to grow adjusted EPS in the 'low 30's' on a percentage basis. Visa's 3rd quarter showed excellent results and continued positive momentum for this payment processor giant.

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	\$4.52	\$9.09
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 strong results in its most recent quarter, we are boosting our expected adjusted EPS for Visa in 2018 from \$4.40 to \$4.52. The company has grown its EPS at a 16.3% average annual rate during the last five years. 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 \$4.52 this year to \$9.09 in 2023.

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 billion of transactions were still executed in cash last year. Notably China and India, which have almost 1.4 billion 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.

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	31.6	23.1
Avg. Yld.	0.1%	0.7%	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.6%	0.8%

Thanks to the enthusiasm of the market about the recent acceleration in its EPS growth, Visa is currently trading at a price-to-earnings ratio of 31.6, which is much higher than its 10-year average price-to-earnings 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 6.1% annualized drag due to the contraction of its price-to-earnings 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%	18.6%	17.6%
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. 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.

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 9.5% average annual return over the next five years thanks to 15.0% EPS growth and a 0.6% dividend, which will be partly offset by a 6.1% annualized valuation 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 only likely during a bear market).

Total Return Breakdown by Year

