



Visa (V)

Updated October 26th, 2018 by Nick McCullum

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---------------------------------|-------|
| Current Price: | \$139 | 5 Year CAGR Estimate: | 11.2% | Volatility Percentile: | 5.0% |
| Fair Value Price: | \$122 | 5 Year Growth Estimate: | 13.0% | Momentum Percentile: | 88.6% |
| % Fair Value: | 114% | 5 Year Valuation Multiple Estimate: | -2.5% | Growth Percentile: | 97.3% |
| Dividend Yield: | 0.7% | 5 Year Price Target | \$225 | Valuation Percentile: | 26.3% |
| Dividend Risk Score: | B | Retirement Suitability Score: | D | Total Return Percentile: | 58.5% |

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 more than 12-fold from its IPO price of \$11 and has significantly outperformed the market.

Visa reported 4th quarter and full year earnings on October 24th. Adjusted earnings-per-share surged 34% versus the same quarter a year ago, and 32% for full fiscal 2018 versus fiscal 2017. Revenue grew 12%, both against the same quarter a year ago and versus the prior fiscal year. Visa's growth was driven by 11% payment volume growth in fiscal 2018. Strong payment volume growth shows Visa's business continues to be very healthy. Additionally, the company continues to repurchases shares – although we view this activity as value destroying due to the company's overvalued share price (see the valuation section for more on this). Visa also announced guidance for fiscal 2019. The company is expecting adjusted earnings-per-share growth in the 'mid teens'. Earnings-per-share growth is expected to come from a mix of revenue growth (expectations of 10% to 12%), combined with modest margin improvements and share buybacks. Finally, the company's board of directors announced a 19% dividend hike, which brings the company's dividend to \$0.25/quarter.

Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.73 | \$0.98 | \$1.25 | \$1.55 | \$1.90 | \$2.27 | \$2.62 | \$2.84 | \$3.48 | \$4.61 | \$5.30 | \$9.76 |
| DPS | \$0.11 | \$0.13 | \$0.15 | \$0.22 | \$0.33 | \$0.42 | \$0.50 | \$0.59 | \$0.69 | \$0.88 | \$1.04 | \$1.92 |
| Shares | 3080 | 3036 | 2956 | 2828 | 2712 | 2624 | 2524 | 2215 | 2133 | 2076 | 2000 | 1750 |

Visa beat our expected adjusted earnings-per-share estimate of \$4.52 in fiscal 2018 by \$0.09. The company has grown its EPS at a 19.4% average annual rate during the last five years. Visa is projecting 'mid teens' adjusted earnings-per-share growth in fiscal 2019. We believe this growth rate will fall slightly as the company continues to grow larger. As a result, we are reducing our 5 year estimated growth rate to 13% from 15% previously. We are projecting the dividend to grow at 13% as well over the next 5 years, in line with earnings-per-share growth.

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 | 26.2 | 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% |

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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Shares of Visa have declined ~6% over the last month. Still, the stock's price-to-earnings ratio has increased by more than 50% since 2011. Visa is trading for a price-to-earnings ratio of 26.2, which is much higher than its 10-year average price-to-earnings of 23.1. We expect Visa to revert to its historical average valuation multiple over the next 5 years. If this occurs, Visa shares will realize a 2.5% drag on returns due to valuation multiple contraction.

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 is one of the largest payment processors in the world; its biggest competitor is Mastercard. Visa has built a strong and respected brand and continues to invest in major sponsorships to further enhance its brand strength. Visa's global scale and strong brand create its strong competitive advantage.

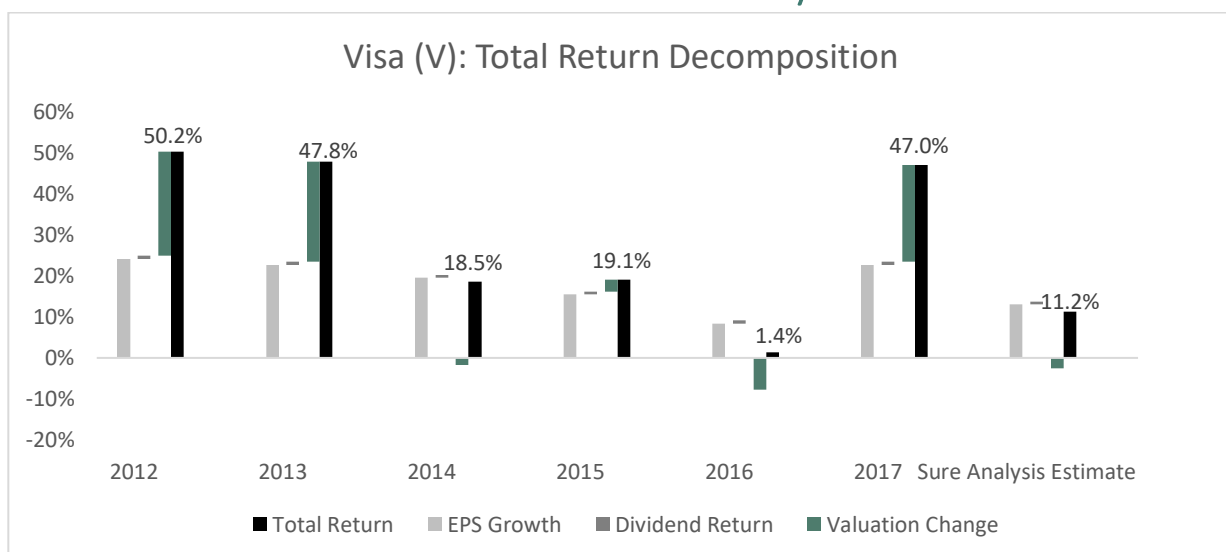
Moreover, Visa spends very low amounts on capital expenses, giving it large free cash flows to either return to shareholders through share repurchases or dividends, or to reinvest in growth. While the current dividend yield is low, the company is likely to keep raising its dividend at double-digit rates for many years.

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. Nevertheless, in the event of a recession, investors should expect a steep contraction of its P/E ratio.

Final Thoughts & Recommendation

Visa has excellent growth prospects ahead. It is coming off of another strong fiscal year. With that said, the company continues to be overvalued, although the valuation has come down somewhat since our last report. We expect Visa to generate expected total returns of 11.2% over the next 5 years thanks mainly to its growth and offset by its valuation. Visa earns a hold recommendation from Sure Dividend at current prices due to its valuation.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 6263 | 6911 | 8065 | 9188 | 10421 | 11778 | 12702 | 13880 | 15082 | 18358 |
| Gross Profit | 4725 | 5290 | 6418 | 7372 | 8281 | 9378 | 10320 | 11327 | 12318 | 15110 |
| Gross Margin | 75.4% | 76.5% | 79.6% | 80.2% | 79.5% | 79.6% | 81.2% | 81.6% | 81.7% | 82.3% |
| SG&A Exp. | 1786 | 1524 | 1609 | 1621 | 1709 | 1739 | 1735 | 1755 | 2054 | 2391 |
| D&A Exp. | 237 | 226 | 265 | 288 | 333 | 397 | 435 | 494 | 502 | 556 |
| Operating Profit | 2702 | 3540 | 4589 | 5456 | 2139 | 7239 | 7697 | 9064 | 9760 | 12144 |
| Operating Margin | 43.1% | 51.2% | 56.9% | 59.4% | 20.5% | 61.5% | 60.6% | 65.3% | 64.7% | 66.2% |
| Net Profit | 804 | 2353 | 2966 | 3650 | 2144 | 4980 | 5438 | 6328 | 5991 | 6699 |
| Net Margin | 12.8% | 34.0% | 36.8% | 39.7% | 20.6% | 42.3% | 42.8% | 45.6% | 39.7% | 36.5% |
| Free Cash Flow | 116 | 252 | 2450 | 3519 | 4633 | 2551 | 6652 | 6170 | 5051 | 8501 |
| Income Tax | 532 | 1648 | 1674 | 2010 | 65 | 2277 | 2286 | 2667 | 2021 | 4995 |

Balance Sheet Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 34981 | 32281 | 33408 | 34760 | 40013 | 35956 | 38569 | 39367 | 64035 | 67977 |
| Cash & Equivalents | 4979 | 4617 | 3867 | 2127 | 2074 | 2186 | 1971 | 3518 | 5619 | 9874 |
| Acc. Receivable | 342 | 444 | 476 | 560 | 723 | 761 | 822 | 847 | 1041 | 1132 |
| Goodwill & Int. | 21096 | 21091 | 22925 | 23104 | 23101 | 23032 | 23164 | 23186 | 42300 | 42958 |
| Total Liabilities | 12704 | 9088 | 8394 | 8323 | 12383 | 9086 | 11156 | 9525 | 31123 | 35217 |
| Accounts Payable | 159 | 156 | 137 | 169 | 152 | 184 | 147 | 127 | 203 | 179 |
| Long-Term Debt | 106 | 56 | 44 | 0 | 0 | 0 | 0 | 0 | 15882 | 18367 |
| Total Equity | 22277 | 23189 | 25011 | 26437 | 27630 | 26870 | 27413 | 29842 | 27195 | 27234 |
| D/E Ratio | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.48 | 0.56 |

Profitability & Per Share Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|------|-------|-------|-------|------|-------|-------|-------|-------|-------|
| Return on Assets | 4.1% | 7.0% | 9.0% | 10.7% | 5.7% | 13.1% | 14.6% | 16.2% | 11.6% | 10.1% |
| Return on Equity | 7.4% | 10.4% | 12.3% | 14.2% | 7.9% | 18.3% | 20.0% | 22.1% | 21.0% | 24.6% |
| ROIC | 7.3% | 10.3% | 12.3% | 14.2% | 7.9% | 18.3% | 20.0% | 22.1% | 15.2% | 13.4% |
| Shares Out. | 3080 | 3036 | 2956 | 2828 | 2712 | 2624 | 2524 | 2215 | 2133 | 2076 |
| Revenue/Share | 2.04 | 2.28 | 2.73 | 3.25 | 3.84 | 4.49 | 5.03 | 5.65 | 6.25 | 7.67 |
| FCF/Share | 0.04 | 0.08 | 0.83 | 1.24 | 1.71 | 0.97 | 2.64 | 2.51 | 2.09 | 3.55 |

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

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