



Visa Inc. (V)

Updated January 31st, 2019 by Bob Ciura

Key Metrics

Current Price:	\$135	5 Year CAGR Estimate:	11.5%	Volatility Percentile:	4.3%
Fair Value Price:	\$121	5 Year Growth Estimate:	13.0%	Momentum Percentile:	81.0%
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Growth Percentile:	97.2%
Dividend Yield:	0.7%	5 Year Price Target	\$222	Valuation Percentile:	27.9%
Dividend Risk Score:	A	Retirement Suitability Score:	D	Total Return Percentile:	65.2%

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.

In late January (1/30/19) Visa reported financial results for its fiscal 2019 first quarter. Revenue of \$5.5 billion increased 13% from the same quarter a year ago, and beat analyst expectations by \$90 million. Visa experienced 11% growth in payments volume and processed transactions. Put simply, Visa shipped more cards to consumers, and customers used their Visa cards more. Adjusted earnings-per-share of \$1.30 beat analyst expectations by \$0.05 per share, and increased 21% year-over-year.

Visa also reiterated guidance for fiscal 2019. The company is expecting low-double digit revenue growth for the full year, along with adjusted earnings-per-share growth in the 'mid teens' on a percentage basis. 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.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.73	\$0.98	\$1.25	\$1.55	\$1.90	\$2.27	\$2.62	\$2.84	\$3.48	\$4.61	\$5.32	\$9.80
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	3036	2956	2828	2712	2624	2524	2215	2133	2076	2031	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 five-year estimated growth rate to 13% from 15% previously. We are projecting the dividend to grow at 13% as well over the next five 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	20.3	20.5	15.7	18.2	21.8	23.3	25.3	27.2	25.8	28.6	25.4	22.7
Avg. Yld.	0.7%	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.9%

Shares of currently trade for a price-to-earnings ratio of 25.4. The valuation multiple has expanded considerably since the Great Recession of 2008-2009. As a result, Visa now trades at a much higher valuation than its 10-year average

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price-to-earnings of 22.7. We expect Visa to revert to its historical average valuation multiple over the next five years. If this occurs, Visa shares will realize a 2.2% drag on annual returns due to valuation multiple contraction. Fortunately, Visa's high earnings growth will more than offset its overvaluation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	15.1%	13.3%	12.0%	14.2%	17.4%	18.5%	19.1%	20.8%	19.8%	18.6%	19.6%	19.6%

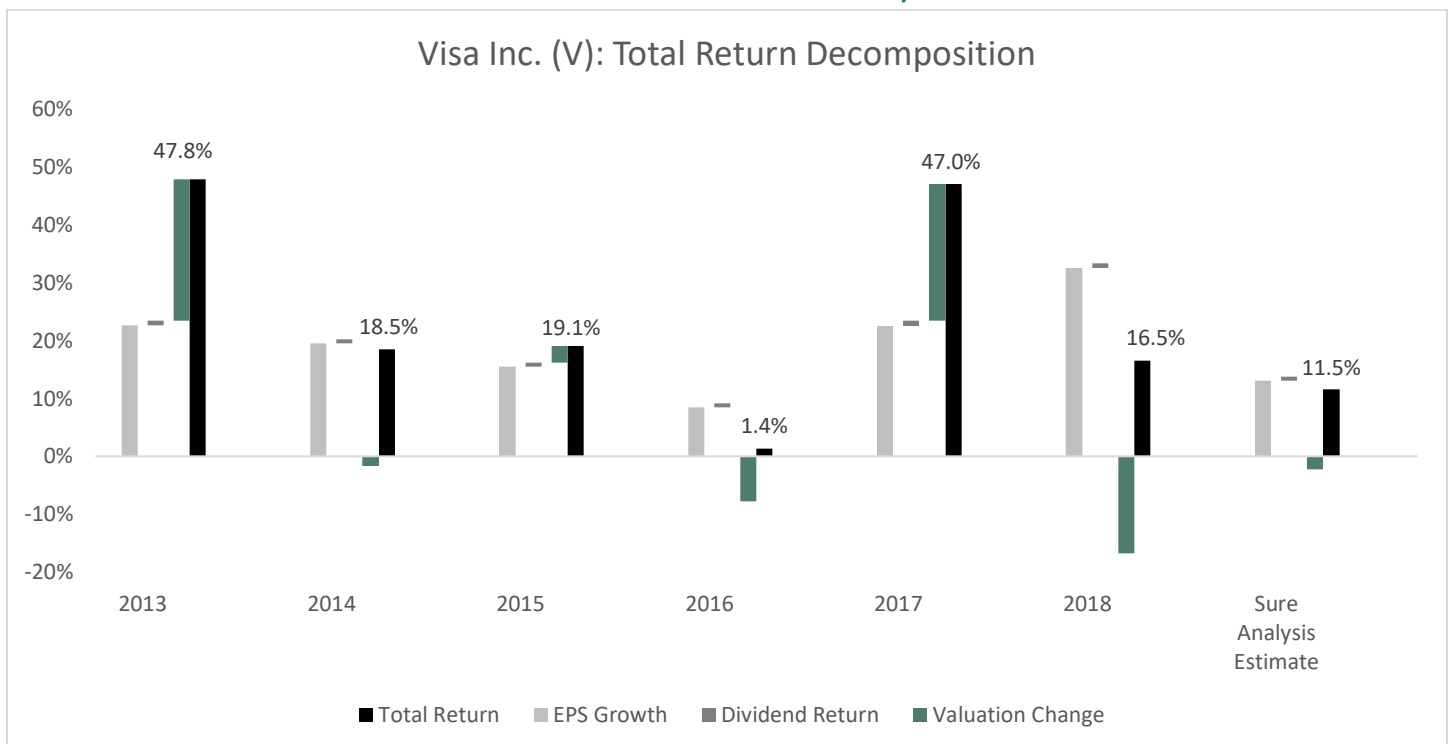
Visa has tremendous competitive advantages. It is one of the largest payment processors in the world. Visa has built a strong brand and it continues to invest in major sponsorships to further enhance its brand strength. Moreover, Visa spends very low amounts on capital expenses, giving it large free cash flows to either return to shareholders through share repurchases or dividends, or to reinvest in growth. Visa has a highly sustainable dividend, with a payout ratio below 20%. While the current dividend yield is low, Visa could raise its dividend at double-digit rates for many years.

That said, Visa is not a highly recession-resistant business. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	6911	8065	9188	10421	11778	12702	13880	15082	18358	20609
Gross Profit	5290	6418	7372	8281	9378	10320	11327	12318	15110	16753
Gross Margin	76.5%	79.6%	80.2%	79.5%	79.6%	81.2%	81.6%	81.7%	82.3%	81.3%
SG&A Exp.	1524	1609	1621	1709	1739	1735	1755	2054	2391	2579
D&A Exp.	226	265	288	333	397	435	494	502	556	613
Operating Profit	3540	4589	5456	2139	7239	7697	9064	9760	12144	12954
Operating Margin	51.2%	56.9%	59.4%	20.5%	61.5%	60.6%	65.3%	64.7%	66.2%	62.9%
Net Profit	2353	2966	3650	2144	4980	5438	6328	5991	6699	10301
Net Margin	34.0%	36.8%	39.7%	20.6%	42.3%	42.8%	45.6%	39.7%	36.5%	50.0%
Free Cash Flow	252	2450	3519	4633	2551	6652	6170	5051	8501	11995
Income Tax	1648	1674	2010	65	2277	2286	2667	2021	4995	2505

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	32281	33408	34760	40013	35956	38569	39367	64035	67977	69225
Cash & Equivalents	4617	3867	2127	2074	2186	1971	3518	5619	9874	8162
Acc. Receivable	444	476	560	723	761	822	847	1041	1132	1208
Goodwill & Int.	21091	22925	23104	23101	23032	23164	23186	42300	42958	42752
Total Liabilities	9088	8394	8323	12383	9086	11156	9525	31123	35217	35219
Accounts Payable	156	137	169	152	184	147	127	203	179	183
Long-Term Debt	56	44	0	0	0	0	0	15882	18367	16630
Total Equity	23189	25011	26437	27630	26870	27413	29842	27195	27234	28536
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.48	0.56	0.49

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.0%	9.0%	10.7%	5.7%	13.1%	14.6%	16.2%	11.6%	10.1%	15.0%
Return on Equity	10.4%	12.3%	14.2%	7.9%	18.3%	20.0%	22.1%	21.0%	24.6%	36.9%
ROIC	10.3%	12.3%	14.2%	7.9%	18.3%	20.0%	22.1%	15.2%	13.4%	20.2%
Shares Out.	3036	2956	2828	2712	2624	2524	2215	2133	2076	2031
Revenue/Share	2.28	2.73	3.25	3.84	4.49	5.03	5.65	6.25	7.67	8.85
FCF/Share	0.08	0.83	1.24	1.71	0.97	2.64	2.51	2.09	3.55	5.15

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

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