



Visa Inc. (V)

Updated May 7th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$162	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	5.7%
Fair Value Price:	\$121	5 Year Growth Estimate:	13.0%	Momentum Percentile:	81.0%
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.7%	Growth Percentile:	97.0%
Dividend Yield:	0.6%	5 Year Price Target	\$222	Valuation Percentile:	15.0%
Dividend Risk Score:	A	Retirement Suitability Score:	D	Total Return Percentile:	45.8%

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 proven 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, which is headquartered in San Francisco, CA, is valued at \$355 billion right now.

Visa reported its second quarter (fiscal 2019) earnings results on April 25. The company reported that it generated revenues of \$5.49 billion during the second quarter, which was 8.3% more than the company's revenues during the previous year's quarter, and which was also ahead of the consensus analyst estimate. Visa's top line growth was fueled by a 4% increase in payment volumes, to \$2.1 trillion dollars. At constant currencies, Visa's payment volume growth would have been even greater, at 8% compared to the previous year's quarter. The amount of transactions rose by 9% year over year, to 47 billion during the March quarter. Last but not least, Visa also was able to increase the amount of cards by 3% year over year, to 3.4 billion.

Through some operating leverage that allowed Visa to grow its earnings at a faster pace than its revenues, Visa was able to grow its net profits by 14% compared to the second quarter of fiscal 2018. Its earnings-per-share were impacted by a lower share count on top of that, which resulted in a highly attractive earnings-per-share growth rate of 17%, as earnings-per-share totaled \$1.31 during the second quarter. Visa guides for low double digit revenue growth during fiscal 2019, while earnings-per-share are forecasted to grow at a mid-teens pace during the current year.

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	\$1.00	\$1.92
Shares	3036	2956	2828	2712	2624	2524	2215	2133	2076	2031	2000	1750

During the last decade, Visa delivered very consistent earnings-per-share growth, as profits rose during every single year. The growth rate during that time frame was very attractive as well, as earnings-per-share rose by a factor of 6 between 2009 and 2018, for an annual growth rate of 23%.

During 2018 Visa produced a highly compelling earnings growth rate, and according to management, and when we factor in Visa's performance during the first half of fiscal 2019, the current year looks even better. Visa is projecting 'mid-teens' adjusted earnings-per-share growth this year. 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. 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. Through a combination of growing the amount of cards, a rising number of transactions per card holder, operating leverage, and share repurchases, Visa should be able to generate attractive earnings-per-share growth over the coming years. The already huge size of Visa makes it harder to maintain the extraordinary growth rates from the past, which is why we see earnings-per-share growth at 13% annually over the coming five years, instead of the 20%+ growth rates from the past.

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.



Visa Inc. (V)

Updated May 7th, 2019 by Jonathan Weber

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	30.5	22.7
Avg. Yld.	0.7%	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.6%	0.9%

Visa's shares have risen continuously over the last couple of months, which has made the stock's valuation expand further. Shares are currently trading for more than 30 times our estimate for 2019's net earnings, which is a very high valuation, even for a growth stock such as Visa. Visa currently trades at a much higher valuation than its 10-year average price-to-earnings of 22.7. The expected multiple normalization will be a major headwind for Visa going forward.

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%	18.8%	19.6%

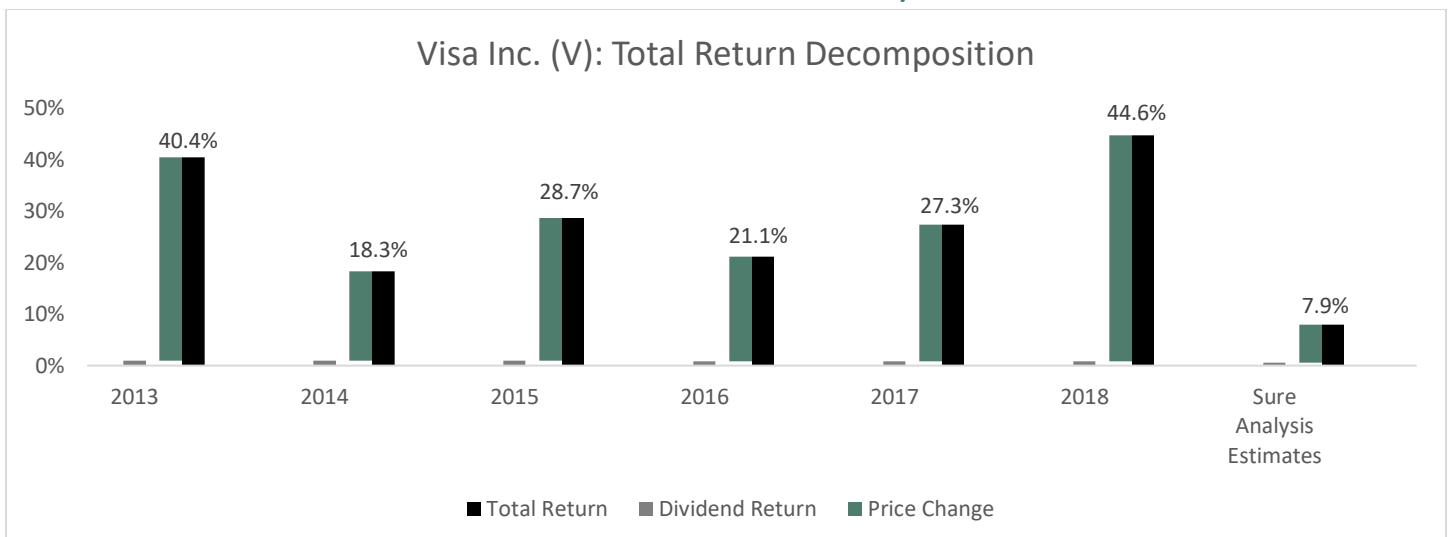
Visa's dividend payout ratio is very low, which means that the dividend looks very safe. Due to the low yield of just 0.6%, Visa is still not a suitable investment for income-oriented investors, though.

Visa has tremendous competitive advantages, as 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. Visa spends very low amounts on capital expenditures, giving it large free cash flows to either return to shareholders through share repurchases or dividends, or to reinvest in acquisitions. Visa is not a highly recession-resistant business, though. Since Visa's profits depend on the total amount of transactions worldwide, they should be affected by an economic crisis, which would result in lower consumer spending, and thus lower transaction volumes.

Final Thoughts & Recommendation

Visa has produced outstanding growth during the last decade, when it comes to profits, to dividend payments, and when it comes to share price gains. Going forward the huge 20%+ earnings-per-share growth rate will not be maintained, but Visa nevertheless has a strong earnings growth outlook. Its dividend yield is quite low, though, and due to trading at a very high valuation today, we believe that multiple compression will be a meaningful headwind over the coming years. We rate Visa a hold due to the fact that shares look overvalued.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Visa Inc. (V)

Updated May 7th, 2019 by Jonathan Weber

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.