



Visa Inc. (V)

Updated February 4th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$205	5 Year CAGR Estimate:	4.2%	Market Cap:	\$398.8 B
Fair Value Price:	\$138	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	02/14/20
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	03/03/20
Dividend Yield:	0.6%	5 Year Price Target	\$242	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	20.0%

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 to be one of the most successful in U.S. history. Since its IPO, Visa has grown its earnings very rapidly. The stock is now worth 18 times the security's IPO price of \$11 and has significantly outperformed the market. Visa is headquartered in San Francisco, CA and trades with a \$399 billion market cap.

On January 30th, 2020 Visa reported Q1 fiscal year 2020 results for the period ending December 31st, 2020. (Visa's fiscal year ends September 30th.) For the quarter, Visa reported revenue of \$6.1 billion, adjusted Net Income of \$3.3 billion and adjusted earnings-per-share of \$1.46, representing increases of 10%, 10% and 12% respectively compared to Q1 2019 results. These results were driven by an 8% increase in Payments Volume, a 9% increase in Cross-Border Volume and an 11% increase in Processed Transactions.

Visa also reiterated its full-year fiscal 2020 outlook. The company continues to anticipate low double-digit revenue growth, an effective tax rate in the 19% to 19.5% range and adjusted earnings-per-share growth in the mid-teens.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.98	\$1.25	\$1.55	\$1.90	\$2.27	\$2.62	\$2.84	\$3.48	\$4.42	\$5.44	\$6.25	\$11.01
DPS	\$0.13	\$0.15	\$0.22	\$0.33	\$0.42	\$0.50	\$0.59	\$0.69	\$0.88	\$1.05	\$1.20	\$2.22
Shares¹	2,956	2,828	2,712	2,624	2,524	2,215	2,133	2,076	2,031	1,980	1,950	1,800

During the last decade, Visa has delivered very consistent earnings-per-share growth, as profits rose during every single year. The growth rate during that time frame was very impressive as well, as earnings-per-share rose by over 7 times between 2009 and 2019, for an average annualized growth rate of 22%.

While we do not anticipate that sort of growth moving forward, the runway forward is clear. This year Visa is projecting "mid-teens" adjusted earnings-per-share growth. Over the long-term we believe 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 number of cards, a rising number of transactions per card holder, general economic expansion and share repurchases, Visa should be able to generate attractive earnings-per-share growth over the coming years. However, given the significant size of Visa it becomes more and more difficult to grow off of a larger and larger base. We are projecting earnings-per-share growth at 12% annually over the coming five years, instead of the 20%+ growth rates from the past.

¹ In millions.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.5	15.7	18.2	21.8	23.3	25.3	27.2	25.9	28.7	28.7	32.7	22.0
Avg. Yld.	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.6%	0.9%

During the past decade shares of Visa have traded hands with an average P/E ratio of between 23- and 24-times earnings. With the company's growth rate is anticipated to slow somewhat (from exceptional to still very solid), we believe that 22 times earnings is a fair starting multiple; especially given the strong balance sheet of the company. Still, given that shares are presently trading over 32 times our estimate for this year's earnings, this could create a meaningful valuation headwind that offsets the growth prospects of the company.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13%	12%	14%	17%	19%	19%	21%	20%	20%	19%	19%	20%

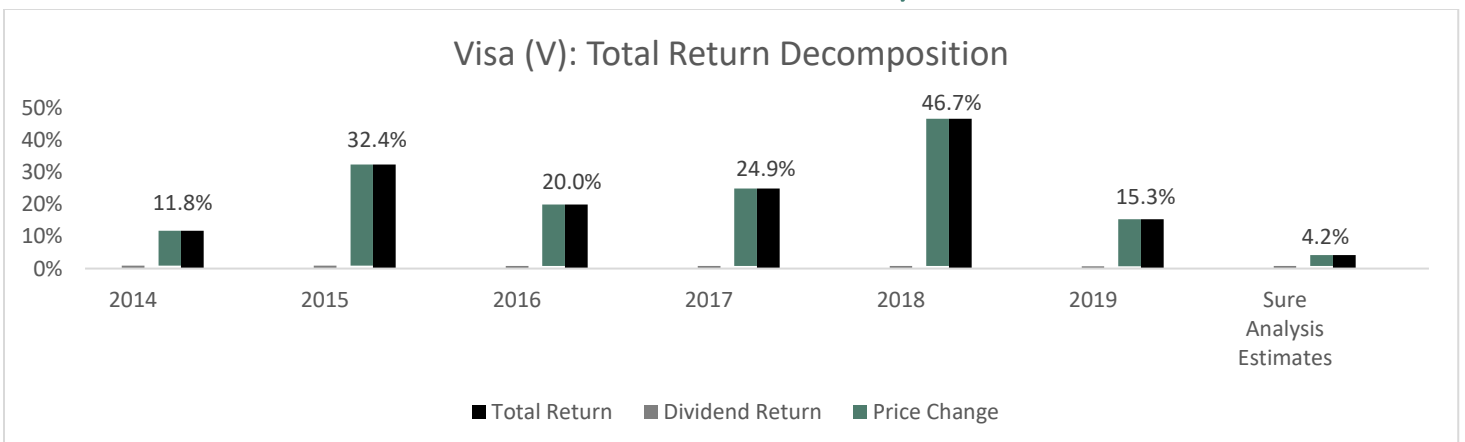
Visa has tremendous competitive advantages, as it is one of the largest payment processors in the world. Visa has built a strong brand and it continues to invest in major sponsorships to further enhance its brand strength. Visa spends very low amounts on capital expenditures, giving it large free cash flows to either return to shareholders through share repurchases or dividends, or to reinvest in acquisitions. However, Visa is not a highly recession-resistant business. Since Visa's profits depend on the total amount of transactions worldwide, they would be affected by an economic crisis, which would result in lower consumer spending, and thus lower transaction volumes.

As of the most recent quarterly report Visa held \$8.9 billion in cash, \$22.3 billion in current assets and \$74.8 billion in total assets (36% of which were intangible assets) against \$17.6 billion in current liabilities and \$39.5 billion in total liabilities. Long-term debt stood at \$13.7 billion compared to \$12+ billion in underlying annual earnings power.

Final Thoughts & Recommendation

Shares are up 15% since our last update. Visa has produced outstanding growth during the last decade, including significant profit, dividend and share price gains. Going forward we believe the 20%+ earnings-per-share growth rate will not be maintained, but Visa nevertheless has a very strong earnings growth outlook. We see 4.2% total annual return potential, stemming from 12% growth and a 0.6% dividend yield, offset by the potential for a significant valuation headwind. This idea could be too conservative if investors are willing to pay a much higher valuation over the long-term, but we are not yet ready to make that speculation. Visa earns a hold rating at the current quotation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	8065	9188	10421	11778	12702	13880	15082	18358	20609	22977
Gross Profit	6418	7372	8281	9378	10320	11327	12318	15110	16753	18812
Gross Margin	79.6%	80.2%	79.5%	79.6%	81.2%	81.6%	81.7%	82.3%	81.3%	81.9%
SG&A Exp.	1609	1621	1709	1739	1735	1755	2054	2391	2579	2755
D&A Exp.	265	288	333	397	435	494	502	556	613	656
Operating Profit	4589	5456	2139	7239	7697	9064	9760	12144	12954	15401
Operating Margin	56.9%	59.4%	20.5%	61.5%	60.6%	65.3%	64.7%	66.2%	62.9%	67.0%
Net Profit	2966	3650	2144	4980	5438	6328	5991	6699	10301	12080
Net Margin	36.8%	39.7%	20.6%	42.3%	42.8%	45.6%	39.7%	36.5%	50.0%	52.6%
Free Cash Flow	2450	3519	4633	2551	6652	6170	5051	8501	11995	12028
Income Tax	1674	2010	65	2277	2286	2667	2021	4995	2505	2804

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	33408	34760	40013	35956	38569	39367	64035	67977	69225	72574
Cash & Equivalents	3867	2127	2074	2186	1971	3518	5619	9874	8162	7838
Acc. Receivable	476	560	723	761	822	847	1041	1132	1208	1542
Goodwill & Int.	22925	23104	23101	23032	23164	23186	42300	42958	42752	
Total Liabilities	8394	8323	12383	9086	11156	9525	31123	35217	35219	42436
Accounts Payable	137	169	152	184	147	127	203	179	183	37890
Long-Term Debt	44	0	0	0	0	0	15882	18367	16630	156
Total Equity	25011	26437	27630	26870	27413	29842	27195	27234	28536	16729
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.48	0.56	0.49	29222

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.0%	10.7%	5.7%	13.1%	14.6%	16.2%	11.6%	10.1%	15.0%	17.0%
Return on Equity	12.3%	14.2%	7.9%	18.3%	20.0%	22.1%	21.0%	24.6%	36.9%	41.8%
ROIC	12.3%	14.2%	7.9%	18.3%	20.0%	22.1%	15.2%	13.4%	20.2%	23.7%
Shares Out.	2956	2828	2712	2624	2524	2215	2133	2076	2031	1980
Revenue/Share	2.73	3.25	3.84	4.49	5.03	5.65	6.25	7.67	8.85	10.11
FCF/Share	0.83	1.24	1.71	0.97	2.64	2.51	2.09	3.55	5.15	5.29

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

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