



Visa Inc. (V)

Updated April 30th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$234	5 Year CAGR Estimate:	1.0%	Market Cap:	\$514 B
Fair Value Price:	\$134	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	05/13/21
% Fair Value:	174%	5 Year Valuation Multiple Estimate:	-10.5%	Dividend Payment Date:	06/01/21
Dividend Yield:	0.5%	5 Year Price Target	\$237	Years Of Dividend Growth:	13
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	6.7%

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 proven to be one of the most successful in U.S. history. The company's global processing network provides secure and reliable payments around the world and is capable of handling more than 65,000 transactions a second. Last year the company generated \$11 billion in profit. Visa is headquartered in San Francisco, CA and trades with a \$514 billion market cap.

On October 23rd, 2020 Visa declared a \$0.32 quarterly dividend, representing a 6.7% increase.

On January 12th, 2021 Visa announced that it had mutually agreed to terminate its merger agreement with Plaid.

On April 27th, 2021 Visa reported Q2 fiscal year 2021 results for the period ending March 31st, 2021. (Visa's fiscal year ends September 30th.) For the quarter, Visa reported revenue of \$5.7 billion, adjusted net income of \$3.0 billion and adjusted earnings-per-share of \$1.38, representing declines of -2%, -2% and -1% respectively. These results were driven by an 11% gain in Payments Volume and an 8% gain in Processed Transactions, offset by an -11% decline in Cross-Border Volume. During the quarter Visa repurchased \$1.7 billion worth of stock and the remaining share repurchase program equaled \$9.9 billion.

Due to the uncertainty related to the COVID-19 pandemic, Visa is not providing guidance.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.25	\$1.55	\$1.90	\$2.27	\$2.62	\$2.84	\$3.48	\$4.42	\$5.44	\$5.04	\$5.60	\$9.87
DPS	\$0.15	\$0.22	\$0.33	\$0.42	\$0.50	\$0.59	\$0.69	\$0.88	\$1.05	\$1.23	\$1.28	\$2.46
Shares¹	2,828	2,712	2,624	2,524	2,215	2,133	2,076	2,031	1,974	1,939	1,920	1,800

Until fiscal year 2020, Visa 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%.

Over the long-term we believe Visa has ample room to keep growing thanks to the global transition towards a cashless society. In 2019, 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 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.

With that being said, the COVID-19 pandemic has altered the growth thesis in the short-term, as was seen in 2020. Less global economic activity means that Visa will collect less revenue. We are forecasting 12% growth off 2021's estimate, which assumes the company will get back to a level of pre-pandemic profitability.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.7	18.2	21.8	23.3	25.3	27.2	25.9	28.7	29.9	34.9	41.8	24.0
Avg. Yld.	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.5%	1.0%

During the past decade shares of Visa have traded hands with an average P/E ratio of about 25 times earnings. With the company's growth rate anticipated to slow somewhat (from exceptional to still very solid), we believe that 24 times earnings is a fair starting multiple; especially given the strong balance sheet of the company. Still, given that shares are presently trading at 42 times our estimate for this year's earnings, this could create a meaningful valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	14%	17%	19%	19%	21%	20%	20%	19%	24%	23%	25%

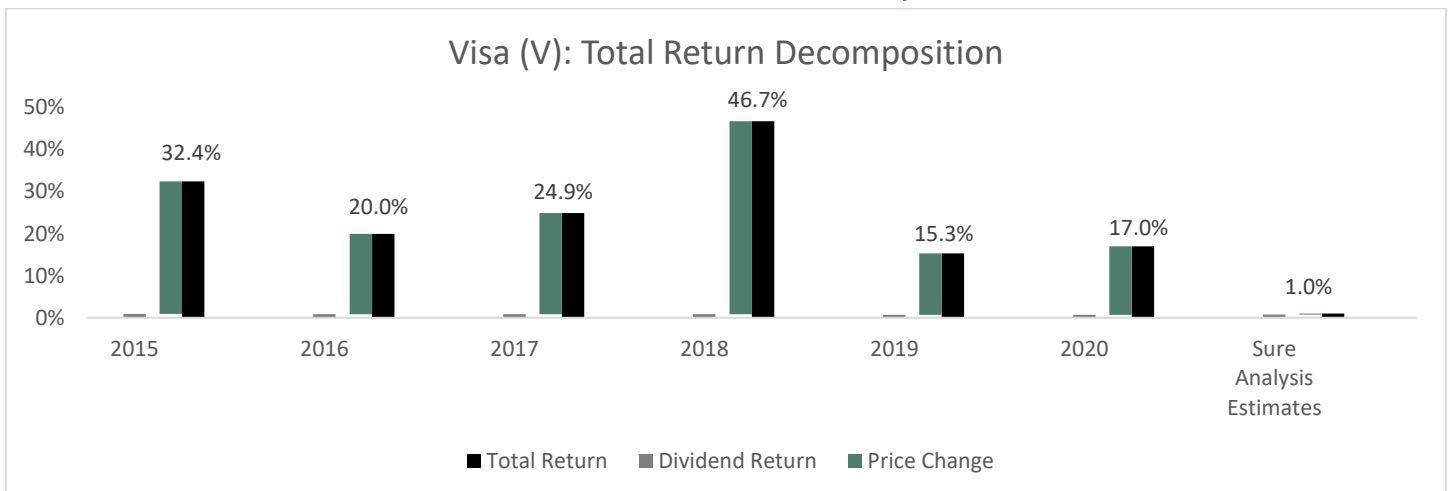
Visa has tremendous competitive advantages, as it is one of the largest payment processors in the world. Visa has built a strong brand and it continues to invest in major sponsorships to further enhance its brand strength. Visa spends very low amounts on capital expenditures, giving it large free cash 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, the company is affected by an economic crisis, which results in lower spending and lower transaction volumes. The current crisis has illustrated this idea.

As of the most recent quarterly report Visa held \$16.5 billion in cash, \$26.9 billion in current assets and \$80.2 billion in total assets (55% of which were intangible assets and goodwill) against \$12.7 billion in current liabilities and \$42.5 billion in total liabilities. Long-term debt stood at \$21.0 billion.

Final Thoughts & Recommendation

Shares are up 21% since our last report. 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. However, we forecast just 1.0% total annual return potential, stemming from 12% growth and a 0.5% dividend yield, offset by the potential for a 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 sell rating due to the elevated valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9188	10421	11778	12702	13880	15082	18358	20609	22977	21850
Gross Profit	7372	8281	9378	10320	11327	12318	15110	16753	18812	17330
Gross Margin	80.2%	79.5%	79.6%	81.2%	81.6%	81.7%	82.3%	81.3%	81.9%	79.3%
SG&A Exp.	1621	1709	1739	1735	1755	2054	2391	2579	2755	2475
D&A Exp.	288	333	397	435	494	502	556	613	656	767
Operating Profit	5456	2139	7239	7697	9064	9760	12144	12954	15401	14090
Operating Margin	59.4%	20.5%	61.5%	60.6%	65.3%	64.7%	66.2%	62.9%	67.0%	64.5%
Net Profit	3650	2144	4980	5438	6328	5991	6699	10301	12080	10870
Net Margin	39.7%	20.6%	42.3%	42.8%	45.6%	39.7%	36.5%	50.0%	52.6%	49.7%
Free Cash Flow	3519	4633	2551	6652	6170	5051	8501	11995	12028	9704
Income Tax	2010	65	2277	2286	2667	2021	4995	2505	2804	2924

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	34760	40013	35956	38569	39367	64035	67977	69225	72574	80920
Cash & Equivalents	2127	2074	2186	1971	3518	5619	9874	8162	7838	16290
Acc. Receivable	560	723	761	822	847	1041	1132	1208	1542	1618
Goodwill & Int.	23104	23101	23032	23164	23186	42300	42958	42752	---	43720
Total Liabilities	8323	12383	9086	11156	9525	31123	35217	35219	42436	44710
Accounts Payable	169	152	184	147	127	203	179	183	37890	174
Long-Term Debt	0	0	0	0	0	15882	18367	16630	16730	24070
Total Equity	26437	27630	26870	27413	29842	27195	27234	28536	16729	31120
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.48	0.56	0.49	0.48	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.7%	5.7%	13.1%	14.6%	16.2%	11.6%	10.1%	15.0%	17.0%	14.2%
Return on Equity	14.2%	7.9%	18.3%	20.0%	22.1%	21.0%	24.6%	36.9%	41.8%	36.0%
ROIC	14.2%	7.9%	18.3%	20.0%	22.1%	15.2%	13.4%	20.2%	23.7%	19.5%
Shares Out.	2,828	2,712	2,624	2,524	2,215	2,133	2,076	2,031	1,974	1,939
Revenue/Share	3.25	3.84	4.49	5.03	5.65	6.25	7.67	8.85	10.11	9.83
FCF/Share	1.24	1.71	0.97	2.64	2.51	2.09	3.55	5.15	5.29	4.37

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

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