

Visa Inc. (V)

\$182.72 (As of 05/07/20)

Price Target (6-12 Months): **\$192.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/01/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Visa's earnings of \$1.39 per share beat the Zacks Consensus Estimate by 2.96% and also rose 9% year over year. This outperformance was driven by an expanded payments volume and processed transaction, partly offset by a decline in cross-border revenues that suffered due to spending cuts as a COVID-19 fallout. Visa's shares have outperformed the industry in a year's time. The company is likely to see a slowdown in its cross-border business due to coronavirus outbreak. Numerous acquisitions and alliances plus technology upgrades and effective marketing paved the way for long-term growth and consistently drove revenues. The acquisition of Visa Europe is a growth strategy for the long haul. Its strong capital position is another positive. However, high client incentives and expenses weigh on its operating margins.

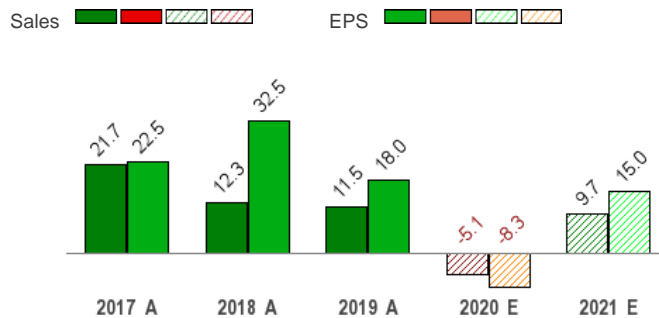
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$214.17 - \$133.93
20 Day Average Volume (sh)	11,036,779
Market Cap	\$358.6 B
YTD Price Change	-2.8%
Beta	0.92
Dividend / Div Yld	\$1.20 / 0.7%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 22% (198 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-10.1%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	32.1
P/E F1	36.6
PEG F1	2.2
P/S TTM	15.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,687 E	5,969 E	5,987 E	6,327 E	23,939 E
2020	6,054 A	5,854 A	4,762 E	5,118 E	21,816 E
2019	5,506 A	5,494 A	5,840 A	6,137 A	22,977 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.33 E	\$1.44 E	\$1.44 E	\$1.54 E	\$5.74 E
2020	\$1.46 A	\$1.39 A	\$1.00 E	\$1.10 E	\$4.99 E
2019	\$1.30 A	\$1.31 A	\$1.37 A	\$1.47 A	\$5.44 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/07/2020. The reports text is as of 05/08/2020.

Overview

Incorporated in 2007 as a Delaware stock corporation and headquartered in San Francisco, CA, Visa Inc. operates retail electronic payments network worldwide. The company went public in March 2008 via an initial public offering (IPO).

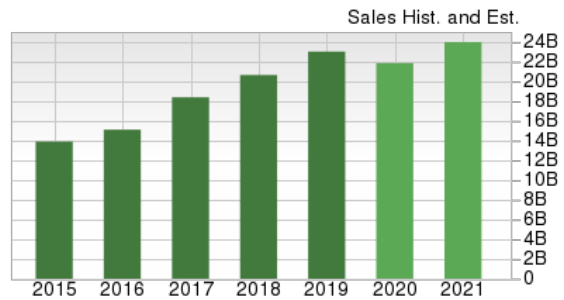
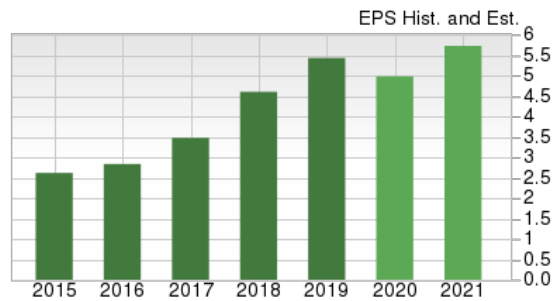
Though Visa has evolved and grown over the course of the last six decades:

- It provides transaction processing services (primarily authorization, clearing and settlement) to financial institutions and merchant clients through VisaNet, its global processing platform.
- It offers a wide range of Visa-branded payment products, which its financial institution clients would develop and offer core business solutions, credit, debit, prepaid and cash access programs for account holders (individuals, businesses and government entities).
- It provides other value-added services to its clients including fraud and risk management, debit issuer processing, loyalty services, dispute management, digital services like tokenization as well as consulting and analytics.
- It manages and promotes its brands to the benefit of its clients and partners through advertising, promotional and sponsorship initiatives with the Olympic Games, FIFA and the National Football League among others.

In recent years, the company has evolved its organization to accelerate the migration of digital payments across new channels including ecommerce, mobile and wearables.

- The company has adopted new digital payment and security technologies, such as contactless and tokenization.
- It has accelerated the pace of change in digital payments by making application programming interfaces (APIs) available in an effort to increase access to its network, products and services, offering innovation opportunities at its 10 global innovation network locations and building partnerships with new players, such as financial technology companies, commonly known as fintechs.

The primary revenue segments are: **Service revenues** (36% of gross revenues in fiscal 2019), **Data Processing revenues** (34%), **International Transaction revenues** (25%) and **Other revenues** (5%).



Reasons To Buy:

- ▲ **Share Price Movement:** Visa's shares have outperformed its industry, in a year's time. Given the company's robust fundamentals, share price is expected to perform well in the coming quarters.
- ▲ **Consistent Revenue Growth:** Revenues have been growing consistently over the years witnessing 10-year CAGR (2009-2019) of 12.8%. In the first half of fiscal 2020, the same grew 9% year over year. We believe that the company is likely to retain its revenue momentum in the coming quarters on the back of its strong market position and attractive core business that continues to be driven by new deals, renewed agreements, accretive acquisitions, increasing spending via cards, shift to digital form of payments and expansion of service offerings. Though the COVID -19 will likely create some pressure on the revenues, the metric should maintain its rising trend once normalcy returns.
- ▲ **Visa Europe Acquisition Delivering Strong Value:** Visa acquired Visa Europe in June 2016. Reuniting with Visa Europe was one of its most important long-term growth strategies. The company expects to gain a competitive edge from a robust business model and increased scale with the acquisition of Visa Europe as it projects Europe to be a \$3.3 trillion payments market and high growth region in the future. The deal has been accretive to the company, having contributed to its top line by bolstering payments volume, cross-border volume and processed transactions.
- ▲ **Inorganic Growth:** For Visa, mergers and acquisitions, partnerships, and minority investments are some of the ways to achieve growth. These moves have helped the company to maintain its leading position in the payment network space with 50% more payments volume than its closest competitor, Mastercard. Recently, Visa has acquired Earthport, Payworks, Verifi, and the ticketing and token services business of Rambus. These acquisitions and investments will accelerate its progress and extend the boundaries of its capabilities and network. The company is on track to acquire Plaid, which will be closed by the end of 2020.
- ▲ **Technological Innovations:** Visa continues to invest in technology to further boost its already leading position in the payments market and to minimize the impact of fraud, and protect consumer and merchant information. One of the main purviews of Visa is to ensure security of payments as these move from physical to digital environments. VisaNet, Visa Token Service, Visa Direct, and Visa Checkout are some of the platforms that have been developed by the company in the recent years to advance its digital platform. The company is also pushing technologies, including contactless and scan-to-pay, tap-to-pay, and secure remote commerce, which should be the main modes of payment in the near future. With only 15% of global payments occurring digitally, Visa has a huge runway for growth in the emerging payments industry in the years to come.
- ▲ **Strong Balance Sheet Position:** Visa enjoys a strong cash and available-for-sale investment position along with strong free cash flow. Its strong balance sheet enables it to make acquisition and fund capital expenditure that drives long-term growth. Backed by its strong cash position, the company remains committed to boost shareholders' value. Visa has increased its dividend each year since 2009, with the latest being a 20% hike in October 2019.
- ▲ **Strong Solvency Position:** Visa's net debt is 40% of its equity, down from 48% as of Sep 30, 2019. Though its long-term debt as of Mar 31, 2020 was \$13.89 billion, lower than \$9.74 billion, it has ample liquidity with access to the commercial paper market on favorable terms, and a \$5-billion revolver credit facility that remains undrawn. Thus, the company is well-equipped with sufficient resources to service its indebtedness. Also, its interest coverage ratio of 33.2 is substantially higher than its industry average of 22.81 and further improved 31.52 from its last-quarter level. Thus, the company's solvency status looks impressive.

Visa continues to benefit from Visa Europe acquisition, increasing business volumes, investment in digital technology and a solid balance sheet.

Reasons To Sell:

- ▼ **Weakness in Cross Border Business:** The coronavirus outbreak is likely to impact Visa's cross-border e-commerce growth. Visa's cross-border volumes in the last two weeks of January were negatively impacted by the shifts in the Chinese new year with potentially some initial effects of the coronavirus outbreak. As a result of the virus outbreak, we expect the company's cross border business to remain under pressure.
- ▼ **Higher Client Incentives:** Visa has been facing increased client incentives, which are paid to financial institutions, merchants and strategic partners to build payments volumes, increase Visa's product acceptance, win merchant routing transactions over its network and drive innovation. The same was up 17.6% in the first half of 2020 formed 29% of total revenues. Increase in client incentives, which is a contra revenue item, will be a drag on the top line.
- ▼ **Foreign Exchange Headwinds:** Visa derives nearly half of its revenues from its international markets, which expose it to currency volatility. Currency volatility will likely remain a headwind. The company expects nearly 1% of negative impact on its revenues for fiscal 2020.
- ▼ **Increasing Operating Expenses:** Visa has been witnessing a flare-up in operating expenses over the last many quarters and the same is weighing on its operating margin expansion. Operating expenses in the first half of fiscal 2020 were up 8%, primarily due to higher personnel-related expenses. The company undertook measures to control expenses to save margins. Cost-saving measures include scaling back hiring plan, redeploying existing resources to high-priority areas, reducing and re-implementing marketing spends, prioritizing projects to lower professional fees, and optimally using external resources.
While these will either lead to flat or lower operating expenses in the second half, non-operating expenses will be higher. The company expects non-operating expense to be within \$250 million in the second half excluding gains on losses compared with \$148 million in the first half. Although these measures undertaken to control operating expenses amid COVID-19 emergency will likely rein in costs once the situation resumes normalcy, we expect costs to shoot up.

Higher client incentives, increase in operating expenses, foreign exchange volatility remain some headwinds for Visa.

Last Earnings Report

Visa Q2 Earnings Beat Estimates

Visa's second-quarter fiscal 2020 earnings of \$1.39 per share, which beat the Zacks Consensus Estimate by 2.96% and also rose 9% year over year.

This outperformance was driven by expanded payments volume and processed transaction, partly offset by a decline in cross-border revenues that suffered due to spending cuts as a COVID-19 fallout.

Further, net operating revenues of \$5.9 billion topped the Zacks Consensus Estimate by 1.78% and improved 8% year over year as well. This upside was primarily driven by higher business volumes, partly offset by lower cross-border revenues and increase in client incentives, which constitute a contra revenue item.

Strong Financial Performance

On a constant-dollar basis, payments volume growth in the quarter was 5% year over year. Cross-border volume on a constant-dollar basis dipped 2%. Visa's processed transactions increased 7% from the prior-year quarter to 34.9 billion.

Service revenues increased 9% year over year to \$2.6 billion on higher nominal payments volume. On a year-over-year basis, data processing revenues rose 11% to \$2.7 billion and international transaction revenues grew 2% to \$1.8 billion. Other revenues increased 20% year over year to \$392 million.

Client incentives of \$1.7 billion increased 15% year over year.

Adjusted operating expenses inched up 3.3% year over year to \$1.9 billion, primarily due to higher personnel and depreciation and amortization. Interest expense declined 15.7% year over year to \$118 million.

Solid Balance Sheet

Cash and cash equivalents, and available-for-sale investment securities were \$9.7 billion as of Mar 31, 2020, up 24.3% from the level as of Sep 30, 2019.

Total assets were \$72.8 billion as of Mar 31, 2020, up 0.3% from the level as of Sep 30, 2019.

Share Buyback and Dividend Update

During the quarter, the company made share repurchases to the tune of \$3.2 billion.

On Apr 21, 2020, the company declared a quarterly cash dividend of 30 cents per share, payable Jun 2, 2020 to its shareholders of record as of May 14, 2020.

Developments During the Quarter

On Jan 13, 2020, Visa signed a definitive agreement to acquire Plaid for \$5.3 billion, a network that helps people easily and securely connect their financial accounts to the apps they use to manage their finances. The deal is expected to close by the end of 2020.

On Mar 31, 2020, the company issued senior notes worth \$4 billion, the proceeds from which will be used for general corporate purposes.

2020 Guidance

Given the impact of COVID-19-led uncertainty on the company's results, management has not provided any guidance for fiscal 2020.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	1.78%
EPS Surprise	2.96%
Quarterly EPS	1.39
Annual EPS (TTM)	5.69

Recent News

Visa and Accor Form Partnership to Launch Payment Card – Feb 19, 2020

Visa has entered into a global partnership with Accor to launch a payment card, as part of the relaunch of the ALL loyalty program. This move will provide the loyalty members with new payment experiences.

Visa views Accor as a suitable partner to launch a co-brand payment card, given its niche presence in the hospitality space. With a 64-million loyal member's base under the ALL-Accor Live Limitless program, Accor boasts a portfolio of strong and iconic brands across all segments in the most promising markets around the globe.

Visa to Acquire Plaid – Jan 13, 2020

The company has announced that it will acquire Plaid, a financial technology company based in San Francisco for \$5.3 billion. Visa will pay for the transaction in cash and debt. The deal will have no impact on the company's previously announced stock buyback program or dividend policy. The acquisition is expected to close in the next three to six months.

MFS Africa Partners Visa to Expand Global E-commerce Across Africa – Dec 11, 2019

Visa has partnered with the fintech platform MFS Africa to extend its services to 15 plus African countries. The online digital payment solutions of Visa will assist the growing mobile money ecosystem to provide safe, secure and convenient ways of transferring money to Africans.

Valuation

Visa's shares are down 2.7% in the year to date period but up 14.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Service sector are down 6.3% and 9.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 9.6% but the sector is down 2.9%.

The S&P 500 index is down 10.5% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 31.6x forward 12-month earnings, which compares to 29.97x for the Zacks sub-industry, 27.45x for the Zacks sector and 20.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.59x and as low as 20.75x with a 5-year median of 25.87x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$192 price target reflects 33.18x forward earnings.

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Diebold Nixdorf Incorporated (DBD)	Neutral	4
Fidelity National Information Services Inc (FIS)	Neutral	3
Fiserv Inc (FISV)	Neutral	4
Mastercard Incorporated (MA)	Neutral	4
The Western Union Company (WU)	Neutral	3
Alliance Data Systems Corporation (ADS)	Underperform	5
American Express Company (AXP)	Underperform	3
Discover Financial Services (DFS)	Underperform	5

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	V	X Industry	S&P 500	ADS	FIS	MA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	4
VGM Score	F	-	-	C	D	D
Market Cap	358.59 B	1.86 B	19.51 B	2.17 B	79.96 B	279.51 B
# of Analysts	16	7	14	7	14	16
Dividend Yield	0.66%	0.00%	2.15%	5.54%	1.08%	0.57%
Value Score	D	-	-	A	D	F
Cash/Price	0.04	0.08	0.06	2.02	0.01	0.04
EV/EBITDA	22.68	12.79	11.77	6.04	29.91	24.16
PEG Ratio	2.23	1.86	2.54	0.82	1.71	3.17
Price/Book (P/B)	12.31	3.19	2.67	1.99	1.63	51.56
Price/Cash Flow (P/CF)	27.70	11.34	10.44	1.86	15.92	29.21
P/E (F1)	36.62	23.81	19.30	5.88	23.06	43.64
Price/Sales (P/S)	15.01	3.50	1.99	0.38	7.04	16.44
Earnings Yield	2.73%	3.60%	4.91%	16.99%	4.33%	2.29%
Debt/Equity	0.48	0.39	0.75	11.00	0.39	2.30
Cash Flow (\$/share)	6.60	2.63	7.01	24.48	8.13	9.53
Growth Score	D	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	21.17%	17.05%	10.87%	7.47%	18.44%	23.08%
Proj. EPS Growth (F1/F0)	-8.28%	-9.11%	-9.87%	-53.89%	0.06%	-17.87%
Curr. Cash Flow Growth	14.82%	13.97%	5.88%	-34.53%	57.47%	13.13%
Hist. Cash Flow Growth (3-5 yrs)	8.28%	14.60%	8.55%	0.58%	26.53%	15.42%
Current Ratio	1.25	1.10	1.24	2.02	1.05	1.87
Debt/Capital	28.66%	34.92%	44.23%	91.67%	27.85%	69.81%
Net Margin	52.26%	7.80%	10.68%	3.41%	1.45%	46.75%
Return on Equity	43.45%	19.53%	16.36%	40.98%	7.89%	149.02%
Sales/Assets	0.33	0.47	0.55	0.21	0.16	0.61
Proj. Sales Growth (F1/F0)	-5.05%	-5.05%	-2.26%	-6.86%	20.54%	-9.49%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	2.20%	2.21%	1.52%	4.10%	-1.87%	2.21%
1 Week Price Chg	4.93%	4.63%	0.53%	14.80%	2.83%	3.86%
4 Week Price Chg	5.20%	10.23%	0.73%	17.94%	3.45%	3.37%
12 Week Price Chg	-11.90%	-17.89%	-21.09%	-56.03%	-16.12%	-17.08%
52 Week Price Chg	14.34%	-6.80%	-10.17%	-69.24%	11.71%	13.52%
20 Day Average Volume	11,036,779	553,896	2,398,409	1,838,929	3,821,481	5,699,417
(F1) EPS Est 1 week change	-2.37%	0.00%	0.00%	0.00%	0.00%	-1.92%
(F1) EPS Est 4 week change	-10.05%	-9.03%	-6.95%	-47.52%	-7.58%	-17.39%
(F1) EPS Est 12 week change	-18.86%	-24.41%	-15.68%	-67.08%	-11.14%	-29.12%
(Q1) EPS Est Mthly Chg	-21.65%	-14.50%	-13.12%	-70.83%	-14.50%	-40.12%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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