

Visa Inc. (V)

\$204.70 (As of 01/17/20)

Price Target (6-12 Months): **\$215.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/04/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Visa's shares have outperformed the industry over past six months. Numerous acquisitions and alliances plus technology upgrades and effective marketing have paved the way for long-term growth and consistent increase in revenues. Shift in payments to new methods such as mobile, cards, online and via wearables paves way for long term growth. The acquisition of Visa Europe is a long-term growth strategy for the company. Its international business has been expanding and adds diversification benefits. Its strong capital position is another positive. However, high client incentives and expenses weigh on its operating margin. Also, adverse foreign exchange volatility imparts instability to the company's earnings.

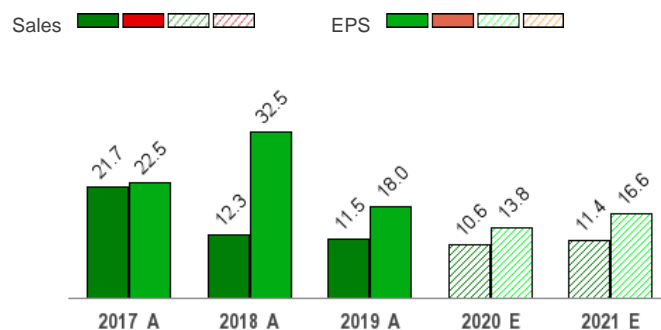
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$204.75 - \$133.30
20 Day Average Volume (sh)	6,293,025
Market Cap	\$403.1 B
YTD Price Change	8.9%
Beta	0.93
Dividend / Div Yld	\$1.20 / 0.6%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 23% (58 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	01/30/2020
Earnings ESP	-0.3%
P/E TTM	37.6
P/E F1	33.1
PEG F1	2.0
P/S TTM	17.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,778 E	6,824 E	7,139 E	7,599 E	28,295 E
2020	6,058 E	6,094 E	6,392 E	6,861 E	25,402 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	\$1.71 E	\$1.71 E	\$1.82 E	\$1.97 E	\$7.22 E
2020	\$1.46 E	\$1.45 E	\$1.56 E	\$1.71 E	\$6.19 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 01/17/2020. The reports text is as of 01/20/2020.

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).

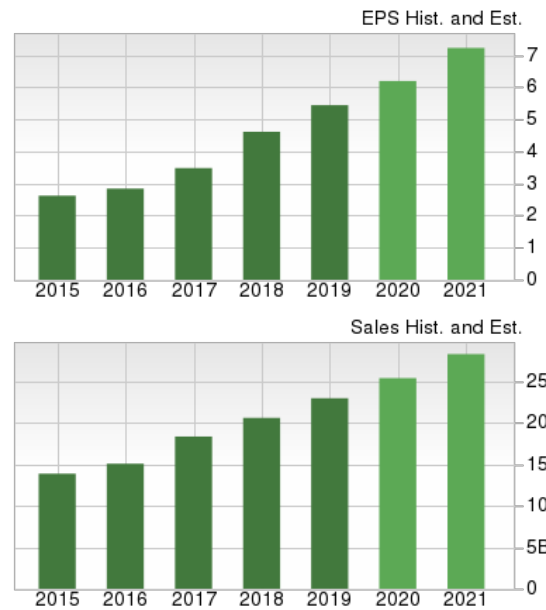
Though Visa has evolved and grown over the course of the last six decades, its fundamental business model has remained the same:

- 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%. 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. For fiscal 2020, Visa expects annual net revenues to grow in low double digits on a nominal basis, with approximately 1% to 1.5% of negative foreign currency impact and nearly 0.5% of positive impact from acquisitions.
- ▲ **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 expects acquisitions to add nearly 0.5% to its 2020 revenues.
- ▲ **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 free cash flow after dividends was up 86% in 2017 and 45% in 2018. 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.

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

Reasons To Sell:

- ▼ **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 12% in 2019 and formed 21.2% of total revenues. Increase in client incentives, which is a contra revenue item, will be a drag on the top line. Visa expects client incentives, as a percentage of gross revenues, to be in the range of 22.5% to 23.5% for 2020.
- ▼ **Foreign Exchange Headwinds:** Visa derives nearly half of its revenues from its international markets, which expose it to currency volatility. For the first three quarters of fiscal 2019, exchange rates dragged net revenue and EPS growth by approximately 1.5%. Currency volatility will likely remain a headwind. The company expects 1%-1.5% of negative impact on earnings per share growth and revenues for fiscal 2020.
- ▼ **Increasing Operating Expenses:** Visa has been witnessing an increase in operating expenses over the last few quarters that is weighing on its operating margin expansion. Operating expenses in 2019 was up 11%, primarily driven by personnel and marketing-related expenses. We expect operating costs to remain elevated as the company continues to invest in personnel and marketing for growth. The company expects full-year 2020 expenses to grow by mid to high-single digit.

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

Last Earnings Report

Visa Q4 Earnings and Revenues Beat Estimates, Up Y/Y

Visa Inc. reported fourth-quarter and fiscal 2019 earnings of \$1.47 per share, beating the Zacks Consensus Estimate by 2.8%. The bottom line improved 21% year over year.

The results were driven by growth in payments volume, cross-border volume and processed transactions.

Net operating revenues of \$6.1 billion beat the Zacks Consensus Estimate by 1% and were up 13% year over year. This upside was primarily driven by an increase in all the components of net revenues such as service, data processing, international transaction revenues and others.

However, increase in client incentives, which constitute a contra revenue item, acted as a partial dampener to revenue growth.

Strong Financial Performance

On a constant-dollar basis, payments volume growth in the quarter was 9% year over year. Cross-border volume growth, on a constant-dollar basis, was 7%. Visa's processed transactions increased 12% from the prior-year quarter to 35.4 billion.

Service revenues increased 9% year over year to \$2.5 billion on higher nominal payments volume. Notably, other revenue components are based on the reported quarter's activity. On a year-over-year basis, data processing revenues rose 16% to \$2.8 billion and international transaction revenues grew 11% to \$2.2 billion. Other revenues increased 35% year over year to \$345 million.

Client incentives of \$1.7 billion increased 17% year over year.

Adjusted operating expenses increased 11% year over year to \$2 billion, primarily due to marketing, and general and administrative costs. Interest expense declined 20% year over year to \$120 million.

Full-Year Result

Net revenues of \$23 billion increased 11% year over year, and earnings of \$5.44 per share were up 18%.

Solid Balance Sheet

Cash and cash equivalents, and available-for-sale investment securities were \$7.8 billion as of Sep 30, 2019, down 4% year over year.

Total assets were \$72.6 billion as of Sep 30, 2019, up 5% year over year.

2020 Guidance

For fiscal 2020, Visa expects annual net revenues to grow in low double digits on a nominal basis, with approximately 1% to 1.5% of negative foreign currency impact and nearly 0.5% of positive impact from acquisitions. Client incentives, as a percentage of gross revenues, are projected in the range of 22.5% to 23.5% (earlier 21.5-22%). Annual adjusted operating expense is expected to increase by mid-to high-single digit) and the effective tax rate is estimated between 19% and 19.5%.

The company expects annual earnings per share growth in mid-teens.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.99%
EPS Surprise	2.80%
Quarterly EPS	1.47
Annual EPS (TTM)	5.45

Recent News

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.

Visa Makes a Strategic Investment in NovoPayment - Dec 03, 2019

Visa and NovoPayment strengthened their strategic partnership in Latin America and the Caribbean. This will open up Visa's digital solutions to a larger customer base and facilitate money movements within financial institutions and merchants in those regions.

Visa Completes Acquisition of Rambus Payments Portfolio - Oct 22, 2019

The company closed its acquisition of Rambus Payments Portfolio, a premier silicon IP and chip provider. Enhancing its tokenization capabilities, Visa will be able to extend its reach to domestic card networks as well. Moreover, it will provide security and convenience to its transactions more than before.

Revolut Chooses Visa as Lead Issuing Partner to Drive Rapid Global Expansion - Sep 30, 2019

Visa and Revolut, the leading fintech in Europe, have agreed to expand the latter's business globally. Leveraging Visa's brand, scale and global acceptance footprint, Revolut will be able to bring its product offerings to five new regions, reaching 24 new markets, for a total of 56 markets globally. Under the terms of the agreement, Revolut will primarily issue Visa-branded cards in the global expansion.

Valuation

Visa shares are up 47.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Business sector are up 29% and 47.3%, respectively. The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 31.47X forward 12-month price-to-earnings, which compares with 28.76X for the Zacks sub-industry, 25.96X for the Zacks sector and 19.2X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 32.83X and as low as 22.01X with a 5-year median of 25.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$215 price target reflects 33.08X forward 12-month earnings.

Valuation Multiples - V					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	31.47	28.76	25.96	19.2
	5-Year High	32.83	28.76	25.96	19.34
	5-Year Low	22.01	20.78	18.76	15.17
	5-Year Median	25.61	22.92	20.56	17.44
P/S F12M	Current	15.34	10.88	4.12	3.57
	5-Year High	15.34	11.65	5.13	3.57
	5-Year Low	8.86	7.19	3.09	2.54
	5-Year Median	11.18	8.69	3.63	3
P/B TTM	Current	13.8	8.4	5.08	4.55
	5-Year High	13.8	12.79	6.71	4.55
	5-Year Low	5.04	5.34	4.13	2.85
	5-Year Median	7.96	7.88	5.31	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 254)



Top Peers

Diebold Nixdorf, Incorporated (DBD)	Outperform
The Western Union Company (WU)	Outperform
Alliance Data Systems Corporation (ADS)	Neutral
American Express Company (AXP)	Neutral
Discover Financial Services (DFS)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Fiserv, Inc. (FISV)	Neutral
Mastercard Incorporated (MA)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	V Neutral	X Industry	S&P 500	ADS Neutral	FIS Neutral	MA Neutral
VGM Score	D	-	-	B	C	C
Market Cap	403.12 B	2.51 B	24.65 B	5.20 B	90.40 B	326.53 B
# of Analysts	17	6	13	10	13	16
Dividend Yield	0.59%	0.00%	1.73%	2.23%	0.95%	0.49%
Value Score	D	-	-	A	D	D
Cash/Price	0.03	0.07	0.04	0.87	0.01	0.02
EV/EBITDA	25.64	18.99	14.11	5.77	37.14	36.08
PEG Ratio	2.01	1.76	2.08	0.44	2.61	2.24
Price/Book (P/B)	13.83	4.78	3.39	3.47	1.83	65.71
Price/Cash Flow (P/CF)	31.03	18.12	13.81	3.57	15.18	39.32
P/E (F1)	33.07	22.91	19.19	5.55	23.30	35.74
Price/Sales (P/S)	17.54	5.18	2.69	0.84	9.87	20.06
Earnings Yield	3.02%	4.33%	5.21%	18.01%	4.29%	2.80%
Debt/Equity	0.57	0.34	0.72	8.91	0.34	1.55
Cash Flow (\$/share)	6.60	2.62	6.94	31.61	9.69	8.23
Growth Score	B	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	20.76%	16.43%	10.56%	13.11%	17.58%	20.73%
Proj. EPS Growth (F1/F0)	13.83%	17.60%	7.57%	20.64%	14.62%	17.76%
Curr. Cash Flow Growth	14.82%	10.67%	14.73%	10.08%	10.67%	33.76%
Hist. Cash Flow Growth (3-5 yrs)	8.28%	10.92%	9.00%	12.90%	16.71%	16.01%
Current Ratio	1.56	1.15	1.24	2.10	0.86	1.39
Debt/Capital	32.54%	36.09%	42.99%	89.90%	25.61%	61.08%
Net Margin	52.57%	10.25%	11.14%	7.54%	8.24%	42.50%
Return on Equity	42.57%	19.33%	17.16%	47.40%	12.07%	146.92%
Sales/Assets	0.32	0.44	0.55	0.21	0.22	0.66
Proj. Sales Growth (F1/F0)	10.55%	10.47%	4.16%	3.11%	27.54%	13.40%
Momentum Score	F	-	-	C	B	A
Daily Price Chg	1.87%	0.37%	0.27%	-0.98%	0.58%	1.05%
1 Week Price Chg	2.20%	2.07%	0.39%	1.53%	2.10%	3.57%
4 Week Price Chg	9.74%	6.02%	2.95%	2.57%	6.53%	8.78%
12 Week Price Chg	16.20%	9.24%	7.76%	5.50%	13.84%	20.43%
52 Week Price Chg	49.11%	44.46%	22.29%	-33.46%	41.15%	62.39%
20 Day Average Volume	6,293,025	406,787	1,536,375	572,305	2,509,952	2,793,376
(F1) EPS Est 1 week change	-0.15%	0.00%	0.00%	0.00%	0.00%	0.08%
(F1) EPS Est 4 week change	-0.25%	0.00%	0.00%	0.00%	0.00%	0.08%
(F1) EPS Est 12 week change	-0.81%	0.16%	-0.40%	-8.21%	-0.83%	0.81%
(Q1) EPS Est Mthly Chg	-0.39%	0.00%	0.00%	0.00%	-0.24%	0.00%

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	B
Momentum Score	F
VGM Score	D

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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