



# STOCKTRADES PREMIUM COMPANY SUMMARY

**VISA**

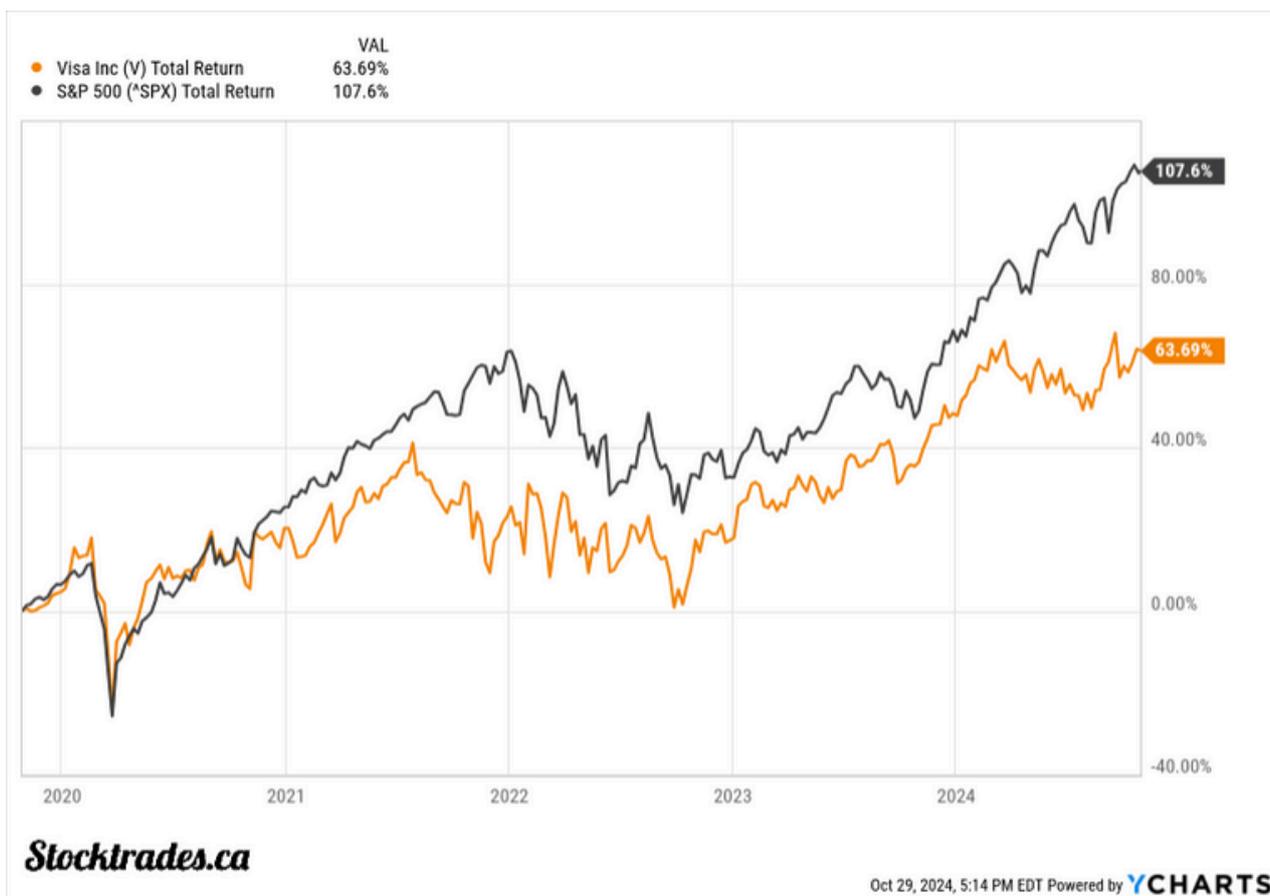
**V**

**UPDATED OCTOBER 29, 2024**

**NOTE: DAN IS LONG V**

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*Stocktrades Premium*



Visa is the largest payment processor in the world. In fiscal 2022, it processed over \$14 trillion in total volume. Visa operates in over 200 countries and processes transactions in over 160 currencies. Its systems are capable of processing over 65,000 transactions per second. The company operates VisaNet - a transaction processing network that enables authorization, clearing, and settlement of payment transactions. It also offers credit, debit, and prepaid card products, Visa B2B Connect - a multilateral business-to-business cross-border payments network, Visa Cross-Border Solution - a cross-border consumer payments solution, and Visa DPS that provides a range of value-added services, including fraud mitigation, dispute management, data analytics, campaign management, a suite of digital solutions, and contact center services.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	40	Dividend	94
Profitability	91	Outlook	85
Risk	52	Debt	74
Returns	42	Growth	46
Overall	66		

\*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

## PROS

- Has grown free cash flow per share by 13% over the last 5 years.
- Consistently buys back shares. Has reduced overall share count by 7%~ over the last 5 years and nearly 20% over the last decade.
- The company is focused more on the infrastructure instead of offering credit to consumers.
- Although still expensive, it is trading at attractive valuations relative to its peers.
- Has a 16-year dividend growth streak. Over the last 5 years, the company has grown the dividend by just shy of 17% annually.
- Arguably one of the strongest moats on the planet in terms of payment processing reach.
- Credit card spending is trending upwards in a big way. The average value of a credit card transaction is dipping, but this is simply due to consumers utilizing them for everyday transactions instead of just larger purchases.
- The company expects to continue to grow sales by 10% annually.
- There is still a ton of room for international expansion for the company.

## CONS

- Its consistent results and large economic moat have created expensive valuations. Visa is not for those that are sticklers for value.
- Although this is a strong dividend growth stock, it doesn't yield much.
- One could argue that buybacks are not necessarily efficient at higher valuations.
- Growth could stall in countries that are still cash transaction heavy, such as emerging markets, which would ultimately impact Visa's ability to grow.
- Competition in the space is fierce, particularly in emerging markets. Mastercard and American Express are two of the most notable.
- The investigation by the Department of Justice for monopolistic actions could have an impact on future earnings if restrictions are put in place.

## OVERALL THESIS

We're huge fans of companies with large economic moats. Visa has arguably one of the largest moats in the world. The company processes over \$15T of transactions globally, which has grown 8% annually over the last decade. Visa is arguably the strongest brand in the payment space, and this trend will likely continue despite fierce competition.

The company's margins are exceptionally strong, with gross margins coming in at just shy of 80% and operating margins of 67%. The company also boasts strong returns on equity of 46% and returns on invested capital of 30%. In layperson's terms, Visa has done an outstanding job generating capital for its shareholders. With a 15-year dividend growth streak and a 17%~ dividend growth rate over the last 5 years, along with a nearly 20% reduction in its overall share count over the last decade, the company has also proven it is committed to returning that capital to shareholders.

Although the main path for growth with Visa is in emerging markets where the infrastructure and brand power are not as developed, the company can continue to drive strong growth in its developed markets where its market share is significant. Although emerging markets are still utilizing cash, which is a large growth opportunity for Visa, developed markets are starting to use credit cards on more and more everyday transactions, primarily due to the perks they offer but also due to the convenience brought on by tap transactions. This wasn't feasible even 10-15 years ago, as credit card transactions primarily required a signature, and the cards had no tap or pin ability.

In addition to this, the network and infrastructure are cheap to operate and maintain. Visa's trailing twelve-month capital expenditures sit at only \$1.25B on revenue of \$34B. To put this into perspective, BCE had \$4.8B in capital expenditures on \$23B in revenue, most of which would be spent on maintaining and expanding its infrastructure.

The thesis summed up for Visa in a few sentences is quite simple. The shift to a cashless society is already well underway, and few companies will benefit more than Visa, particularly in markets where the shift is in the early stages. As spending increases due to money supply, inflationary pressures and just overall population growth, Visa should have a relatively easy path to double digit growth.

## POTENTIAL RISKS

Although we'd generally consider Visa to be non-cyclical, there is little doubt its operations would be impacted during periods of lower spending. When you think about it, this makes perfect sense. The company generates fees from transactions processed through its network. So, fewer transactions ultimately mean fewer fees.

Competition in the space is also intense. Mastercard and American Express are two of the most noteworthy competitors, and although there is certainly room for all of them to succeed, underlying fees charged by particular competitor cards could put a damper on Visa acceptances over other

<b>Beta</b>	<b>0.95</b>
<b>Alpha</b>	<b>-1.3</b>
<b>Our Risk Rating</b>	<b>Mod*</b>
<b>Max Drawdown</b>	<b>36.36%</b>

alternatives. A prime example of this would be Costco, which has never accepted Visa as the card of choice due to the higher fees. Instead, it negotiates the best fee with a single card provider, which at this point is Mastercard.

In addition to this, the margin of safety is minimal with a company like Visa due to its premium valuation. On one end, it is hard to imagine anything disrupting the company's operations, which is why valuations are so high. However, we cannot ignore the fact that the

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possibility is still there, and if it did happen, valuation multiples would no doubt drop. Although it is cheaper than its top competitor Mastercard, it is far from cheap.

International expansion is also going to be a significant growth element for Visa. Outsized growth in cash-heavy developing countries will be key to the company being able to maintain its high returns on equity, invested capital, and free cash flow growth. If growth slows in these countries, it will likely have an impact on Visa's forward growth trajectories which would likely put some pressure on the company's share price.

In addition to this, regulatory issues are always a risk in the financial sector. Regulatory risks in Visa's case would primarily be related to the fees it can charge for its services. Although we'd view this as a small risk, it still exists.

## VALUATION

	TTM	5 Year Average	Industry Average
P/E	30	32	21
P/S	16.47	17	4.7
P/B	14.2	13.57	4.7
P/FCF	30	30	21
PEG Ratio (FWD)	1.42	N/A	N/A

As mentioned in the earlier portions of this report, Visa is far from cheap. You're paying a premium to hold this company, trading at 30x trailing earnings and 30x cash flows. With the company's exceptional margins, profitability ratios, and economic moat, we believe the valuation to be justified at this point. We'd consider it a great GARP (Growth At a Reasonable Price) play. At least at this point, the company's premium valuation is protected by operations that are unlikely to be disrupted.

Interestingly enough, despite the large valuation multiples, Visa is trading at a discount to its 5-year historical averages. Although we aren't huge fans of utilizing valuation multiples during the COVID-19 pandemic (5-year averages would be from 2019-2024), it is certainly interesting to see that despite Visa's strong results, investors are paying less for it today than they typically have over the last decade.

The company's valuation on a forward basis sits at 22.4x expected earnings, which is likely a bit more comfortable of a valuation for many investors to pay. Although forward multiples are never guaranteed as it requires the company to hit growth targets, we feel Visa is in a pretty strong position to do so.

With double digit earnings and revenue growth expected for the foreseeable future, although Visa is expensive, we believe the valuation to be justified.

## COMPETITOR ANALYSIS

	V	MA	AXP
P/E	30	38	19.9
P/S	16.4	17.9	3
P/B	14.29	63	6.4
P/FCF	30	43	14.7

If you look at the chart above, it looks like American Express is the cheapest of the three by a long shot. However, it is important to understand that the business differs significantly from Visa and Mastercard. Although Mastercard and Visa are very much payment processing/infrastructure type companies, American Express is involved in lending, etc. The company has significantly lower gross and operating margins and returns on capital. There is no doubt that American Express looks relatively attractive in the grand scheme of things. Still, despite the premium, we like Visa's profitability and moat more at this point.

Regarding Mastercard, we feel Visa presents the strongest opportunity at this point simply because of the lower valuations. Mastercard is trading at a significant premium to Visa on practically all fronts.

## DIVIDEND ANALYSIS

Yield	Earnings Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
0.74%	21%	16.89%	16

Yield seekers may not find Visa's yield all that attractive. However, if you've been a member here for a while, you know that we focus primarily on strong dividend-growth stocks with underlying free cash flow growth. With Visa having a near 17% dividend growth rate over the last half decade and a 16-year dividend growth streak, there is only one way the yield could stay low: an increasing share price.

The dividend makes up only 21% of earnings, which should allow the company the flexibility

to either utilize cash to continue to raise the dividend at a double digit pace or buy back shares when it feels the stock price is attractive. Either way, they've shown a strong history of returning capital to shareholders, including a 13% dividend raise to close out 2024. Considering the current strong coverage ratios, it should be able to continue doing so.

## RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$9.91	\$11.07	\$12.53
Revenue	\$35.8B	\$39.4B	\$43.28B
EBITDA	\$25.2B	\$28.05B	\$30.85B
EBITDA Margins	70.5%	71%	71%

Visa closed out Fiscal 2024 on a strong note, topping expectations on all fronts. Revenue of \$9.6B came in ahead of expectations for \$9.4B, and earnings per share of \$2.71 came above estimates for \$2.55.

Revenue is up 12% year over year, and earnings per share increased by 16% over the same time period. Payment volume increased by 8% and processed transactions by 10%.

Despite a pretty rough economic backdrop when it comes to consumer spending, the company's extensive payment network is resulting in double-digit increases to transaction fees. It leaves me fairly bullish on the idea that once consumer discretionary spending does improve, Visa will have added tailwinds to the business.

The company generated over \$6.3B in free cash flow on the quarter. It allocated \$5.7B to share buybacks and \$1B to dividends. The company has been aggressively buying back shares over the last year or so, spending \$16.6B of its \$18.6B in free cash flow on share buybacks. Management is clearly bullish on the future outlook of the company and wants to capitalize on a relatively flat share price year-to-date.

The company released its fiscal 2025 outlook in which it expects high single-digit to low double-digit revenue and operating expense growth. In terms of earnings per share, it expects low double digit growth. This leads me to believe that Visa is likely going to continue buying back shares over the next year as well in order to boost EPS through more than revenue. Either that, or it has plans to improve its already rock-solid margin profile even further.

There have been some fears regarding the Department of Justice cracking down on the company amidst some accusations that it is using its monopolistic payment network to pretty much force businesses to use the network. However, at this point in time, there has been no ruling as to what will happen, and I will not be making any decisions based on pure speculation.

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