

**Visa Inc. (V)****\$212.39** (As of 02/26/21)Price Target (6-12 Months): **\$228.00**

Long Term: 6-12 Months

**SEABRIDGE Recommendation: Neutral**

(Since: 10/01/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**SEABRIDGE Rank: (1-5)****3-Hold****SEABRIDGE Style Scores:**

VGM: D

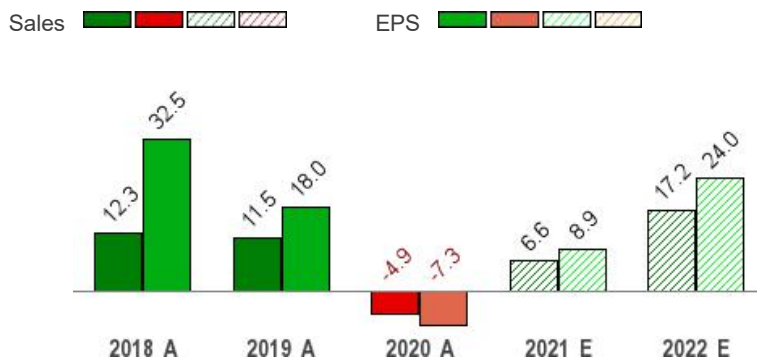
Value: D

Growth: C

Momentum: D

**Summary**

Shares of Visa have outperformed the industry in a year. Numerous acquisitions and alliances paved the way for long-term growth and consistently drove revenues. Technological upgrades via investments bode well for Visa. Shift in payments to the digital modes is a boon too. The acquisition of Visa Europe is a strategic fit as well. The coronavirus vaccine development and the gradual revival of consumer confidence will drive spending, expanding the company's business volumes in turn. A strong balance sheet enables investment in business. Its earnings of \$1.42 per share beat the SEABRIDGE Consensus Estimate by 11.8%, but were down 3% year over year. However, high operating expenses stress the operating margins. Ramped-up client initiatives will dent the top line. Also, a sluggish cross-border business due to coronavirus looms on.

**Data Overview**52 Week High-Low **\$220.53 - \$133.93**20 Day Average Volume (sh) **10,341,179**Market Cap **\$414.7 B**YTD Price Change **-2.9%**Beta **0.98**Dividend / Div Yld **\$1.28 / 0.6%**Industry **Financial Transaction Services**SEABRIDGE Industry Rank **Bottom 26% (187 out of 253)**Last EPS Surprise **11.8%**Last Sales Surprise **3.2%**EPS F1 Est- 4 week change **1.1%**Expected Report Date **04/29/2021**Earnings ESP **-0.5%**P/E TTM **42.6**P/E F1 **38.7**PEG F1 **2.4**P/S TTM **19.3****Price, Consensus & Surprise****Sales and EPS Growth Rates (Y/Y %)****Sales Estimates (millions of \$)**

	Q1	Q2	Q3	Q4	Annual*
2022	6,663 E	6,647 E	6,814 E	7,243 E	27,273 E
2021	5,687 A	5,561 E	5,810 E	6,246 E	23,278 E
2020	6,054 A	5,854 A	4,837 A	5,101 A	21,846 A

**EPS Estimates**

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.68 E	\$1.65 E	\$1.70 E	\$1.82 E	\$6.81 E
2021	\$1.42 A	\$1.27 E	\$1.35 E	\$1.47 E	\$5.49 E
2020	\$1.46 A	\$1.39 A	\$1.06 A	\$1.12 A	\$5.04 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the SEABRIDGE FINTECH Consensus EPS and sales estimates, is as of 02/26/2021. The report's text and the analyst-provided price target are as of 02/23/2021.

## 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 2020), **Data Processing revenues** (34%), **International Transaction revenues** (25%) and **Other revenues** (5%).



■ Consensus Estimate ■ 12 Month EPS



## Reasons To Buy:

■ **Share Price Movement:** Visa's shares have outperformed its industry, in a year's time. Shares of the company are expected to continue performing well in the days ahead courtesy of its robust fundamentals.

■ **Revenues to Grow Gradually:** Revenues have been growing consistently over the years witnessing 10-year CAGR (2009-2019) of 12.8%. However, 2020 revenues were down 5% and again 6% in the first quarter of fiscal 2021, due to coronavirus-led loss of business. However, in the first quarter of fiscal 2021, there was year-over-year growth in payments volume (the primary driver for service revenues) and the number of processed transactions (the primary driver for data processing revenues), reflecting improving operating conditions. We believe that the company will get back its revenue growth 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.

■ **Cost Control Efforts To Aid Margin:** The company's cost reduction strategy which included lowering of marketing and general and administrative expenses led to a 10% decline in total operating expenses. We believe the company's cost control efforts will aid its bottomline,

■ **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. Some of Visa's acquisitions are Earthport, Payworks, Verifi, YellowPepper, 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.

■ **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 6.67% hike in October 2020.

■ **Strong Solvency Position:** Visa's total debt is 66.5% of its total equity, has increased from 48.2% as of Sep 30, 2020 and higher than the industry average of 65.5%. Though its long-term debt as of Dec 31, 2020 was \$21.1 billion, lower than its cash and cash equivalents \$15.03 billion, it has ample liquidity with access to the commercial paper market on favorable terms. Thus, the company is well-equipped with sufficient resources to service its indebtedness. Also, its interest coverage ratio of 26.1 is substantially higher than its industry average of 16.6. 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 International Business:** International business forms nearly 53-55% of the company's total revenues and provides the company with cross-border revenues. The coronavirus outbreak impacted Visa's cross-border business volumes. International revenues declined 9% in the first quarter of fiscal 2021. We expect the company's cross border business to remain under pressure for the next few quarters, which will suppress top-line growth.

▼ **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 6% in the first quarter of fiscal 2021, representing 33% of total revenues. Increase in client incentives, which is a contra revenue item, will be a drag on the top line.

Higher client incentives, weak international business due to COVID-19 remain some headwinds for Visa.

## Last Earnings Report

### Visa Q1 Earnings Surpass Estimates, Revenues Down Y/Y

Visa's fiscal first-quarter 2021 earnings of \$1.42 per share, beat the SEABRIDGE Consensus Estimate by 11.8%. However, the bottom line declined 3% year over year.

Meanwhile, the company's net operating revenues of \$5.7 billion outpaced the SEABRIDGE Consensus Estimate by 3.2%. However, the top line fell 6% year over year.

Results benefited from improved payments volume and processed transactions, partly offset by decline in cross-border volumes

Quarter Ending	12/2020
Report Date Sales	Jan 28, 2021
Surprise EPS	3.17%
Surprise Quarterly	11.81%
EPS	1.42
Annual EPS (TTM)	4.99

### Financial Performance

On a constant-dollar basis, payments volume in the quarter was up 5% year over year. Also, processed transactions improved 4% from the prior-year quarter to 39.2 billion driven by domestic transactions.

Total cross border volume of Visa on a constant-dollar basis fell 21% year over year during the quarter. The company's cross-border volumes excluding transactions within Europe (which drive its international transaction revenues) slumped 33% year over year on a constant-dollar basis.

Service revenues were up 5% year over year to \$2.7 billion attributable to higher payments volume of the fourth quarter. On a year-over-year basis, data processing revenues were up 6% year over year to \$3 billion while international transaction revenues plunged 28% from the prior-year quarter to \$1.5 billion. Other revenues climbed 5% year over year to \$384 million.

Client incentives of \$1.9 billion grew 6% year over year.

Operating expenses declined 10% year over year to \$1.8 billion attributable to lower general and administrative, marketing, and network and processing expenses coupled with reduced professional fees.

Interest expense escalated 22.5% year over year to \$136 million.

### Balance Sheet (as of Dec 31, 2020)

Cash and cash equivalents were \$15 billion, down 7.7% from fiscal year end Sep 30, 2020. Total assets were \$80.4 billion, which declined 0.6% from fiscal year end Sep 30, 2020.

Long-term debt slid nearly 0.1% from fiscal year end Sep 30, 2020 to \$21.1 billion.

### Share Buyback and Dividend Update

During the quarter under review, the company made share repurchases worth \$1.8 billion.

On Jan 26, 2021, the company declared a quarterly cash dividend of 32 cents per share. The dividend will be paid on Mar 1, 2021 to its shareholders of record as of Feb 12.

### Business Update

In November 2020, the company unveiled that it has completed the buyout of YellowPepper. This acquisition is in line with Visa's endeavor to bolster its "network of networks" strategy to become a single point of access for initiating multiple transaction types and enabling a secure flow of funds.

On maturity of its senior notes, the payment processor repaid \$3 billion of principal in December 2020.

This month, Visa and fintech startup Plaid have called off their previously announced \$5.3-billion merger after facing a legal challenge from the Department of Justice (DoJ). The said deal was announced on Jan 13, 2020

## Recent News

### Visa Teams Up With ADP to Boost Digital Payments for Workers - Feb 18, 2021

Visa Inc. (V) recently teamed up with Automatic Data Processing to integrate the real-time push payments platform of Visa named Visa Direct into ADP. In the days ahead, the integration will be introduced across several use cases. Powered by Visa Direct, the tie-up will empower ADP in offering a digital and low-cost solution to its large and small clients, which will be beneficial for both employers and employees across the United States.

### Visa, Plaid Terminate Merger After Legal Complications - Jan 13, 2021

Visa and fintech startup Plaid have called off their previously announced \$5.3-billion merger after facing a legal challenge from the Department of Justice (DoJ). The said deal was announced on Jan 13, 2020.

### Visa Forays Further into Cryptocurrency Space With BlockFi - Dec 2, 2020

Visa has collaborated with BlockFi, to roll out a credit card, which will exclusively reward bitcoin to users after each purchase. Notably, BlockFi is best known for offering enhanced financial products and services to participants in cryptocurrency markets. Notably, Deserve, which is a credit card firm, and Evolve Bank will work in conjunction with the above-mentioned companies to introduce BlockFi Bitcoin Rewards Credit Card, which is the first credit card to be launched across the crypto ecosystem.

### Visa's Program to Aid Asia Pacific Startups Thrive Globally - Dec 1, 2020

Visa has introduced an accelerator program in an effort to provide startups with the opportunity to establish presence across newer markets after successfully launching their solutions in the home markets. The program usually runs for a time period of four to six months. This time around, Visa has invited several startups across Asia Pacific to participate in the Visa Accelerator program, out of which the company will select a maximum of six elite startups.

## Valuation

Visa's shares are down 0.9% in the year-to-date period and 15.8% over the trailing 12-month period. Stocks in the SEABRIDGE sub-industry and the SEABRIDGE Business Service sector are up 1.2% and 3.3%, respectively. Over the past year, the SEABRIDGE sub-industry and the sector are up 12.1% and 1.7%, respectively.

The S&P 500 index is up 5% in six months' period and 28.1% in past year.

The stock is currently trading at 36.43x forward 12-month earnings, which compares to 31.37x for the SEABRIDGE sub-industry, 30.55x for the SEABRIDGE sector and 22.72x for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.57x and as low as 20.76x with a 5-year median of 26.7x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$228 price target reflects 38.32x forward earnings.

The table below shows summary valuation data for V

Valuation Multiples - V					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	36.43	31.37	30.55	22.72
	5-Year High	40.57	32.16	30.67	23.8
	5-Year Low	20.76	20.77	18.71	15.3
	5-Year Median	26.7	23.65	21.62	17.84
P/S F12M	Current	17.21	11.29	5.75	4.58
	5-Year High	18.1	11.46	5.75	4.58
	5-Year Low	8.86	7.18	2.89	3.21
	5-Year Median	12.16	9.18	3.46	3.68
P/B TTM	Current	12.6	7.87	6.6	6.95
	5-Year High	14.06	12.55	6.6	6.97
	5-Year Low	5.22	5.1	3.22	3.84
	5-Year Median	9.68	8	4.96	4.97

As of 02/22/2021

Source: SEABRIDGE INVESTMENT RESEARCH



**Industry Analysis** SEABRIDGE Industry Rank: Bottom 26% (187 out of 253)



**Top Peers**

Company (Ticker)	Rec	Rank
Diebold Nixdorf, Inc...(DBD)	Outperform	1
Alliance Data System...(ADS)	Neutral	4
American Express Com...(AXP)	Neutral	3
Discover Financial S...(DFS)	Neutral	3
Fidelity National In...(FIS)	Neutral	4
Fiserv, Inc. (FISV)	Neutral	3
Mastercard Corpora...(MA)	Neutral	3
The Western Union Co...(WU)	Neutral	3

Industry Comparison		Industry: Financial Transaction Services			Industry Peers		
	V	X Industry	S&P 500	ADS	FIS	MA	
<b>SEABRIDGE Recommendation (Long Term)</b>	Neutral	-	-	Neutral	Neutral	Neutral	
<b>SEABRIDGE Rank (Short Term)</b>	3	-	-	4	4	3	
<b>VGM Score</b>	D	-	-	C	C	F	
Market Cap	414.65 B	2.32 B	27.20 B	4.61 B	85.72 B	351.50 B	
# of Analysts	19	6	13	16	17	19	
Dividend Yield	0.60%	0.00%	1.48%	0.87%	1.01%	0.50%	
<b>Value Score</b>	D	-	-	A	C	D	
Cash/Price	0.05	0.07	0.06	0.75	0.02	0.03	
EV/EBITDA	27.96	17.48	14.95	9.06	22.92	35.98	
PEG Ratio	2.35	1.81	2.32	0.50	1.41	2.42	
Price/Book (P/B)	12.20	4.66	3.80	3.03	1.74	54.18	
Price/Cash Flow (P/CF)	34.54	15.69	15.39	7.04	11.95	43.39	
P/E (F1)	38.69	23.08	20.41	8.16	21.71	44.08	
Price/Sales (P/S)	19.30	5.21	3.10	1.02	6.83	22.97	
Earnings Yield	2.58%	4.22%	4.82%	12.25%	4.61%	2.27%	
Debt/Equity	0.62	0.32	0.68	5.60	0.32	1.85	
Cash Flow (\$/share)	6.15	2.38	6.62	13.70	11.55	8.16	
<b>Growth Score</b>	C	-	-	F	B	C	
Hist. EPS Growth (3-5 yrs)	18.19%	16.99%	9.34%	-5.17%	13.76%	20.50%	
Proj. EPS Growth (F1/F0)	8.85%	18.54%	14.09%	25.93%	16.43%	24.85%	
Curr. Cash Flow Growth	-7.22%	0.01%	0.52%	-42.00%	43.42%	-15.47%	
Hist. Cash Flow Growth (3-5 yrs)	11.46%	11.46%	7.62%	-14.11%	34.80%	10.03%	
Current Ratio	2.12	1.14	1.39	1.72	0.80	1.61	
Debt/Capital	35.85%	30.84%	41.42%	84.84%	24.44%	65.00%	
Net Margin	49.91%	5.83%	10.59%	4.73%	1.25%	41.90%	
Return on Equity	35.50%	10.15%	14.65%	33.97%	6.96%	106.54%	
Sales/Assets	0.28	0.43	0.51	0.20	0.15	0.48	
Proj. Sales Growth (F1/F0)	6.56%	9.41%	6.75%	-3.07%	8.73%	18.34%	
<b>Momentum Score</b>	D	-	-	F	D	F	
Daily Price Chg	-0.64%	-0.76%	-0.84%	5.11%	-0.58%	-0.20%	
1 Week Price Chg	-2.49%	-0.37%	-0.16%	3.90%	-3.40%	-2.30%	
4 Week Price Chg	7.15%	7.59%	2.75%	36.32%	10.12%	9.12%	
12 Week Price Chg	2.09%	2.09%	5.58%	17.04%	-6.30%	5.58%	
52 Week Price Chg	17.99%	12.23%	20.43%	10.03%	-0.63%	23.80%	
20 Day Average Volume	10,341,179	579,788	2,018,241	903,093	4,275,884	4,171,431	
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
(F1) EPS Est 4 week change	1.08%	-0.22%	0.45%	-4.07%	-3.07%	-0.60%	
(F1) EPS Est 12 week change	0.11%	-0.49%	1.88%	-1.97%	-4.78%	-1.27%	
(Q1) EPS Est Mthly Chg	-4.67%	-3.62%	0.21%	-11.51%	-14.12%	-8.74%	

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

## SEABRIDGE Stock Rating System

We offer two rating systems that take into account investors' holding horizons: SEABRIDGE Rank and SEABRIDGE 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.

### SEABRIDGE Recommendation

The SEABRIDGE Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined SEABRIDGE Recommendation is trends in the company's estimate revisions and earnings outlook. The SEABRIDGE 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 SEABRIDGE quantitative rating system. But we have given our analysts the ability to override the SEABRIDGE 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.

### SEABRIDGE Rank

The SEABRIDGE 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 SEABRIDGE Rank is the same as the SEABRIDGE Recommendation, and reflects trends in earnings estimate revisions.

### SEABRIDGE Style Scores

The SEABRIDGE Style Score is as a complementary indicator to the SEABRIDGE 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 SEABRIDGE 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	C
Momentum Score	D
VGM Score	D

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

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the SEABRIDGE Consensus estimates, unless indicated otherwise on the report's first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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