

Visa Inc (V)

Earnings Update

Hold | Market Perform

Analyst Name Here | January 25, 2024



Overview

Visa is a very wide moat business. They mainly benefit from the Network Effect. This is because as more people use a Visa (or Mastercard) card to pay for purchases more merchants are effectively forced to accept that means of payment, and because almost all merchants accept it as a means of payment, more users join the Visa network. Additionally, they benefit from Cost Advantages due to their operations being mostly fixed cost endeavors, so as volume increases, they can spread the costs over a wider base.

Visa printed strong results that came in slightly above expectations. They beat revenue by .91% and beat earnings per share (EPS) by 3%. The difference between the beat on revenue and EPS was primarily due to decreases in operating expenses and growth in cross-border transactions. Net revenue for Q1 2024 came in at \$8.6 Bn, up 9% from the prior year. This was driven off by an 11% increase in service revenues, a 14% increase in data processing revenues, and an 8% increase in international transaction revenues. These were partially offset by a 20% increase in Client Incentives.

Operating expenses for the quarter were down 6% to about \$2.6 Bn. This was primarily due to a decrease in litigation costs. Taxes and interest expenses were higher the year prior 19% effective tax rate compared to 16% last year. Bringing net income for the quarter to \$4.9 Bn, up 17% from the previous Q1.

The volume of payments (\$) for the business increased by 8% during the quarter. Of these Cross-Border volumes (which are higher margin for the business) increased by 16% and increased by 16% excluding European countries. Additionally, the number of processed transactions processed by Visa increased by 9%. This also insinuates a 1% decrease in the size of an average transaction processed by Visa. These growth rates are slightly lower than what they have been able to achieve in the past, however, that is expected because of the larger base they are working off of as well as economic headwinds now and going forward.

Going forward into the rest of FY24 Visa expects their Annual Net Revenues to be in the low double-digits after adjusting for foreign exchange rate changes, their operating expense to grow high single-digit to low double-digits, creating a growth in earnings per share that is in the low-teens.

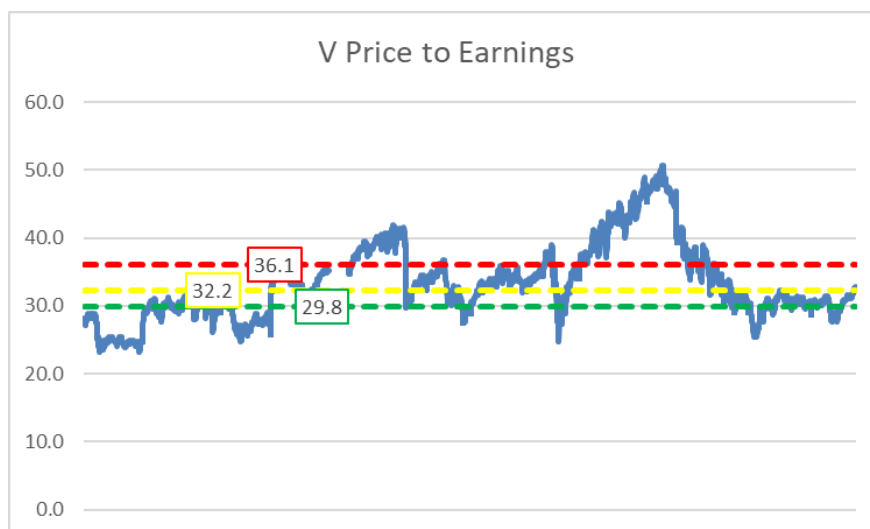
Visa is a fantastic business with good growth opportunities even going forward into some possible economic headwinds. Visa has no overwhelming exposure to things like interest rates and is a beneficiary to inflation. Assuming growth rates of around 11% and exit multiples of 27x to 31x the present value is very close to the now current price (\$265 after hours). Due to this I believe that Visa is a possible buy right now, but with a lower margin of safety I recommend that we hold and continue to evaluate for buying opportunities.

IOFS

Visa is a perfect IOFS (interpretation of financial statements) business meeting or far exceeding all of our thresholds. Growth in line items like revenue and net income is predictable and consistent over time. Margins are well over our threshold and have maintained similar levels over the past 10 years, with a gross margin of around 80%, operating margin of about 65% and net margin of about 50%. Visa has a return on equity of 45% and a return on capital of 26%. Their obligation ratio is also 0.2x, this positions the business greatly if we were to go into rough waters.

	2014-09	2015-09	2016-09	2017-09	2018-09	2019-09	2020-09	2021-09	2022-09	2023-09
IOFS										
Revenue	\$ 12,702	\$ 13,880	\$ 15,082	\$ 18,358	\$ 20,609	\$ 22,977	\$ 21,846	\$ 24,105	\$ 29,310	\$ 32,653
Gross profit	\$ 10,320	\$ 11,327	\$ 12,318	\$ 15,110	\$ 16,753	\$ 18,812	\$ 17,334	\$ 19,135	\$ 23,577	\$ 26,086
Operating Income	\$ 8,150	\$ 9,078	\$ 9,762	\$ 12,163	\$ 13,561	\$ 15,401	\$ 14,092	\$ 15,807	\$ 19,681	\$ 21,927
Net Income	\$ 5,438	\$ 6,328	\$ 5,991	\$ 6,699	\$ 10,301	\$ 12,080	\$ 10,866	\$ 12,311	\$ 14,957	\$ 17,273
Free Cash Flow	\$ 6,652	\$ 6,170	\$ 5,051	\$ 8,610	\$ 12,223	\$ 12,028	\$ 9,704	\$ 14,522	\$ 17,879	\$ 19,696
EBIT	\$ 7,732	\$ 8,998	\$ 8,439	\$ 12,163	\$ 13,418	\$ 15,417	\$ 14,306	\$ 16,576	\$ 18,674	\$ 21,681
EBITDA	\$ 8,167	\$ 9,492	\$ 8,941	\$ 12,719	\$ 14,031	\$ 16,073	\$ 15,073	\$ 17,380	\$ 19,535	\$ 22,624
Dividend Yield %	0.75	0.69	0.68	0.63	0.55	0.58	0.6	0.57	0.84	0.78
Gross Margin	81.2%	81.6%	81.7%	82.3%	81.3%	81.9%	79.3%	79.4%	80.4%	79.9%
Operating Margin	64.2%	65.4%	64.7%	66.3%	65.8%	67.0%	64.5%	65.6%	67.1%	67.2%
Net Margin	42.8%	45.6%	39.7%	36.5%	50.0%	52.6%	49.7%	51.1%	51.0%	52.9%
FCF Margin	52.4%	44.5%	33.5%	46.9%	59.3%	52.3%	44.4%	60.2%	61.0%	60.3%
D&A/ Gross Profit	4.2%	4.4%	4.1%	3.7%	3.7%	3.5%	4.4%	4.2%	3.7%	3.6%
Capex/ Net Income	10.2%	6.5%	8.7%	10.6%	7.0%	6.3%	6.8%	5.7%	6.5%	6.1%
Dividend Payout ratio	540.0%	537.5%	22.6%	23.6%	18.7%	18.8%	24.5%	22.7%	21.4%	21.7%
Shares Outstanding	2523.0	2457.0	2414.0	2395.0	2329.0	2272.0	2223.0	2188.0	2136.0	2085.0
Returns %										
ROE	22.1	19.1	20.4	30.9	35.2	30.7	33.4	40.9	46.5	44.6
ROTE	134.5	116.1	Negative Tangil	Negative Tangil	Negative Tangil	Negative Tangil	Negative Tangil	Negative Tangil	Negative Tangil	Negative Tangil
ROIC	18.3	19.9	16.9	12.8	19.5	21.7	18.3	18.9	24.5	26.3
ROCE	24.1	27.0	18.8	21.3	23.2	26.3	22.8	24.8	28.3	32.8
ROA	14.6	16.2	11.6	10.1	15.0	17.0	14.2	15.0	17.8	19.6
ROC	426.7	476.1	418.0	552.5	568.0	596.8	526.7	608.1	629.0	652.3
Leverage & Liquidity										
LT Debt	0	0	15882	16618	16630	16729	21071	19978	20200	20463
ST Debt	0	0	0	1749	0	0	2999	999	2250	0
PF Stock	0	5717	5526	5470	5462	5086	3080	2324	0	0
Leases*7	0	0	0	0	0	0	0	0	0	0
Pension SF										
Cash	\$ 1,971	\$ 3,518	\$ 5,619	\$ 9,874	\$ 8,162	\$ 7,838	\$ 16,289	\$ 16,487	\$ 15,689	\$ 16,286
Obligation Ratio ⁽¹⁾	(0.4)x	0.3x	2.6x	2.1x	1.4x	1.2x	1.0x	0.6x	0.5x	0.2x
Cash/ Revenue	15.5%	25.3%	37.3%	53.8%	39.6%	34.1%	74.6%	68.4%	53.5%	49.9%
Per Share Data										
Owners Earnings	\$ 1.48	\$ 1.27	\$ 0.74	\$ 1.69	\$ 2.90	\$ 2.71	\$ 1.32	\$ 3.06	\$ 3.38	\$ 3.38
Earnings	\$ 2.16	\$ 2.58	\$ 2.48	\$ 2.80	\$ 4.42	\$ 5.32	\$ 4.89	\$ 5.63	\$ 7.00	\$ 8.28
Dividends	\$ 0.40	\$ 0.48	\$ 0.56	\$ 0.66	\$ 0.83	\$ 1.00	\$ 1.20	\$ 1.28	\$ 1.50	\$ 1.80
Book Value	\$ 11.14	\$ 12.31	\$ 11.50	\$ 11.86	\$ 12.92	\$ 13.36	\$ 14.68	\$ 16.10	\$ 15.74	\$ 18.73
Tangible Book Value	\$ 1.73	\$ 2.75	\$ (6.39)	\$ (6.85)	\$ (6.43)	\$ (6.04)	\$ (5.94)	\$ (4.25)	\$ (4.54)	\$ (2.60)

Valuation



Visa is currently trading at their fair range on their 10-year price-to-earnings value bands. This combined with excellent growth opportunities going forward creates only a small gap between today's price and the fair value. Assuming growth rates of about 11% going forward for the next 5 years and Visa trading between 27x and 31x earnings there is a possible buying opportunity for this business. However, right now it is roughly 12% weight in our portfolio, not including the position in MasterCard.

Ticker: V Price: \$272.61 5 Year Discounted Cash Flow											
										Total Return	Annual
										Price	Return
										PV	5 YR Return
Bear	EPS	Current	2024	2025	2026	2027	2028	27.0x	29.0x	31.0x	
		\$ 8.28	\$ 9.03	\$ 9.84	\$ 10.72	\$ 11.69	\$ 12.74	\$ 354.78	\$ 380.26	\$ 405.74	\$ 221.64
			9.0%	9.0%	9.0%	9.0%	9.0%				30.1%
Base	EPS	Current	2024	2025	2026	2027	2028	27.0x	29.0x	31.0x	
		\$ 8.28	\$ 9.19	\$ 10.20	\$ 11.32	\$ 12.57	\$ 13.95	\$ 388.16	\$ 416.06	\$ 443.97	\$ 242.42
			11.0%	11.0%	11.0%	11.0%	11.0%				42.4%
Bull	EPS	Current	2024	2025	2026	2027	2028	27.0x	29.0x	31.0x	
		\$ 8.28	\$ 9.36	\$ 10.57	\$ 11.95	\$ 13.50	\$ 15.26	\$ 424.02	\$ 454.53	\$ 485.04	\$ 264.74
			13.0%	13.0%	13.0%	13.0%	13.0%				55.5%

