

Visa (V)

Earnings Update

Buy | Outperform

William Errett | November 2, 2023



Overview

Summary

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 Advantaged 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 .65% and beat earnings per share (EPS) by almost 4%. 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 Q4 2023 came in at \$8.6 Bn up 11% from the prior year. This was driven off a 12% increase in service revenues, 13% increase in data processing revenues, and a 10% increase in international transaction revenues. These were partially offset by a 20% increase in Client Incentives.

Operating expenses for the quarter were up 15% to about \$3 Bn. This was primarily due to an 11% increase in personnel costs, a 22% increase in general and administrative expenses, and was partially offset by a 6% decline in marketing expenses. Taxes and interest expenses were roughly like the year prior. Bringing net income for the quarter to \$4.7 Bn, up 18% from the previous Q4. For the completed fiscal year revenues for the business grew 11% year over year (YoY) and GAAP EPS grew 18% YoY.

The volume of payments (\$) for the business increased by 9% during the quarter. Of these Cross-Border volumes (which are higher margin for the business) increased by 16% and increased by 18% excluding between European countries. Additionally, the number of processed transactions processed by Visa increased by 10%. 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 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.

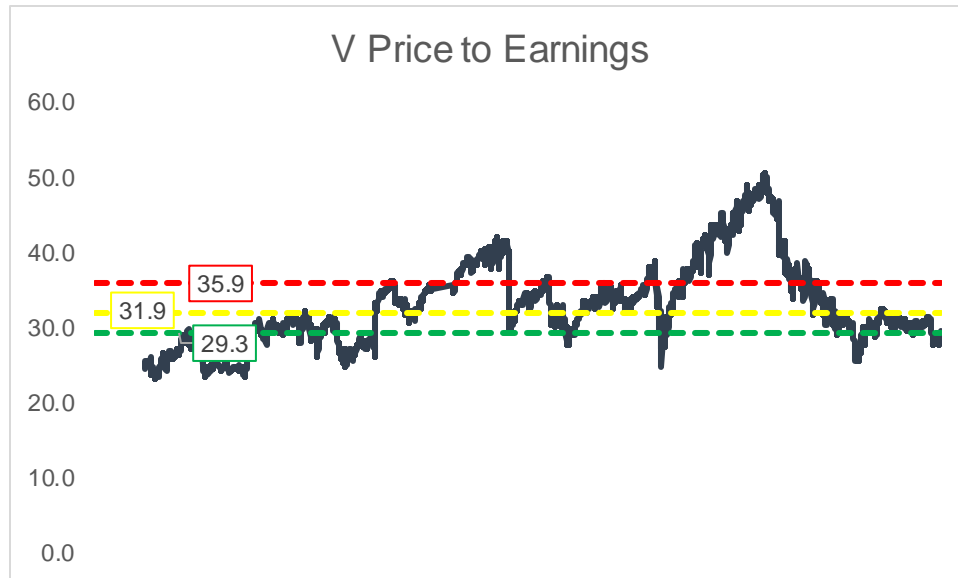
Visa is a fantastic business with good growth opportunities even going forward into some possible economic headwinds. Visa has no overwhelming exposure to things like interest rates and is a beneficiary to inflation. Assuming growth rates around 9% and exit multiples of 27x to 31x earnings there is a slight margin of safety on the business. Due to this I believe that Visa is a possible buy right now, as the last time they have traded at this P/E multiple is in March of 2020, and before that, in July of 2016.

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 46% 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	TTM
IOFS												
Revenue	\$	12,702	\$ 13,880	\$ 15,082	\$ 18,358	\$ 20,609	\$ 22,977	\$ 21,846	\$ 24,105	\$ 29,310	\$ 32,653	\$ 32,653
Gross profit	\$	10,320	\$ 11,327	\$ 12,318	\$ 15,110	\$ 16,753	\$ 18,812	\$ 17,334	\$ 19,135	\$ 23,577	\$ 26,086	\$ 26,086
Operating Income	\$	8,150	\$ 9,078	\$ 9,762	\$ 12,163	\$ 13,561	\$ 15,401	\$ 14,092	\$ 15,807	\$ 19,681	\$ 21,927	\$ 21,927
Net Income	\$	5,438	\$ 6,328	\$ 5,991	\$ 6,699	\$ 10,301	\$ 12,080	\$ 10,866	\$ 12,311	\$ 14,957	\$ 17,273	\$ 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	\$ 19,696
EBIT	\$	7,732	\$ 8,998	\$ 8,439	\$ 12,163	\$ 13,418	\$ 15,417	\$ 14,306	\$ 16,576	\$ 18,674	\$ 21,681	\$ 21,681
EBITDA	\$	8,167	\$ 9,492	\$ 8,941	\$ 12,719	\$ 14,031	\$ 16,073	\$ 15,073	\$ 17,380	\$ 19,535	\$ 22,624	\$ 22,624
Dividend Yield %		0.75	0.69	0.68	0.63	0.55	0.58	0.6	0.57	0.84	0.78	0.74
Gross Margin		81.2%	81.6%	81.7%	82.3%	81.3%	81.9%	79.3%	79.4%	80.4%	79.9%	79.9%
Operating Margin		64.2%	65.4%	64.7%	66.3%	65.8%	67.0%	64.5%	65.6%	67.1%	67.2%	67.2%
Net Margin		42.8%	45.6%	39.7%	36.5%	50.0%	52.6%	49.7%	51.1%	51.0%	52.9%	52.9%
FCF Margin		52.4%	44.5%	33.5%	46.9%	59.3%	52.3%	44.4%	60.2%	61.0%	60.3%	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%	3.6%
R&D/ Gross Profit		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SG&A/ Gross Profit		16.8%	15.5%	16.7%	15.8%	15.4%	14.6%	14.3%	13.2%	12.9%	12.3%	12.3%
SBC/ Revenue		1.4%	1.3%	1.5%	1.3%	1.6%	1.8%	1.9%	2.2%	2.1%	2.3%	2.3%
Capex/ Net Income		10.2%	6.5%	8.7%	10.6%	7.0%	6.3%	6.8%	5.7%	6.5%	6.1%	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%	21.7%
Shares Outstanding		2523.0	2457.0	2414.0	2395.0	2329.0	2272.0	2223.0	2188.0	2136.0	2085.0	2065.0
Returns %												
ROE		20.0	22.1	19.1	20.4	30.9	35.2	30.7	33.4	40.9	46.5	45.8
ROTE		134.5	116.1	Negative Tangi	Negative Tangi	Negative Tangi	Negative Tangi	Negative Tangi	Negative Tangi	Negative Tangi	Negative Tangi	10000.0
ROIC		18.3	19.9	16.9	12.8	19.5	21.7	18.3	18.9	24.5	26.3	26.3
ROCE		24.1	27.0	18.8	21.3	23.2	26.3	22.8	24.8	28.3	32.8	32.5
ROA		14.6	16.2	11.6	10.1	15.0	17.0	14.2	15.0	17.8	19.6	19.8
ROC		426.7	476.1	418.0	552.5	568.0	596.8	526.7	608.1	629.0	652.3	652.5
Leverage & Liquidity												
LT Debt		0	0	15882	16618	16630	16729	21071	19978	20200	20463	20463
ST Debt		0	0	0	1749	0	0	2999	999	2250	0	0
PF Stock		0	0	5717	5526	5470	5462	5086	3080	2324	0	0
Leases*7		0	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	\$ 16,286
Obligation Ratio ⁽¹⁾		(0.4)x	(0.6)x	2.7x	2.1x	1.4x	1.2x	1.2x	0.6x	0.6x	0.2x	0.2x
Cash/ Revenue		15.5%	25.3%	37.3%	53.8%	39.6%	34.1%	74.6%	68.4%	53.5%	49.9%	49.9%
Per Share Data												
Revenue	\$	5.03	\$ 5.65	\$ 6.25	\$ 7.67	\$ 8.85	\$ 10.11	\$ 9.83	\$ 11.02	\$ 13.72	\$ 15.66	\$ 15.66
Owners Earnings	\$	1.48	\$ 1.27	\$ 0.74	\$ 1.69	\$ 2.90	\$ 2.71	\$ 1.32	\$ 3.06	\$ 3.36	\$ 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	\$ 8.29
Operating Cash Flow	\$	2.86	\$ 2.68	\$ 2.31	\$ 3.89	\$ 5.56	\$ 5.63	\$ 4.70	\$ 6.96	\$ 8.82	\$ 9.95	\$ 9.97
Free Cash Flow	\$	2.64	\$ 2.51	\$ 2.09	\$ 3.60	\$ 5.25	\$ 5.29	\$ 4.37	\$ 6.64	\$ 8.37	\$ 9.45	\$ 9.46
Dividends	\$	0.40	\$ 0.48	\$ 0.56	\$ 0.66	\$ 0.83	\$ 1.00	\$ 1.20	\$ 1.28	\$ 1.50	\$ 1.80	\$ 1.80
Book Value	\$	11.14	\$ 12.31	\$ 11.50	\$ 11.86	\$ 12.73	\$ 13.36	\$ 14.46	\$ 16.10	\$ 15.65	\$ 18.72	\$ 18.72
Tangible Book Value	\$	1.73	\$ 2.75	\$ (6.39)	\$ (6.85)	\$ (6.34)	\$ (6.04)	\$ (5.85)	\$ (4.25)	\$ (4.52)	\$ (2.60)	\$ (2.60)

Valuation



Visa is currently trading at their undervalued range on their 10-year price-to-earnings value bands. This combined with excellent growth opportunities going forward creates a positive margin of safety between today's price and the fair value. Assuming growth rates of about 9% 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.

Ticker: V													
Price: \$244.71													
5 Year Discounted Cash Flow													

