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Payments Volume Growth Boosts Visa's 2018 Earnings; Key Initiatives To Drive Future Value



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 Markets

Visa (NYSE: V), the US-based financial services company, reported a solid financial performance for its fourth quarter and fiscal year 2018, with its revenue rising 12% on the back of global payment volumes growth. The company's adjusted earnings came in at \$1.21 per share, 34% higher on a year-on-year basis, beating the consensus estimate by \$0.01 per share. Accordingly, the company's stock jumped almost 4.6% and is currently trading at \$140 per share. For fiscal 2019, the company expects its overall revenue to grow in low double-digits while its adjusted operating expense are likely to grow in the mid-to-high single-digit range. We expect the company's key initiatives such as Visa Direct, contact-less cards, and digital solutions to drive its value in the coming years.

We currently have a **price estimate of \$145 per share for Visa**, which is higher than its market price. You can view our interactive dashboard – **Visa's 2019 Price Estimate** and alter the key drivers to visualize the impact on its valuation.



An Indian women purchases fabric inside a shop in Gauhati, India, Tuesday, Oct. 16, 2018. Global credit card and payments companies like American Express, Visa and MasterCard are facing a challenge in meeting a requirement to store transaction data for all Indian customers within the country. (AP Photo/Anupam Nath)

VISA - EXHIBIT 1020

Visa's Price Estimate of \$145/share Based On 2019 P/E Multiple of 29x



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Key Highlights Of 4Q'18 Results

- Visa's 4Q revenue grew by 12% due to robust growth in payment volume backed by the strengthening US economy, partially offset by a slowdown in dual-branded card volume in China. The full year revenue stood at \$20.6 billion, 12% higher compared to the last year.
- In fiscal 2018, Visa's number of cards (including virtual cards) increased by about 80 million to 3.3 billion. The total volume surpassed a record \$11 trillion, driven by 182 billion transactions during the year. The company's payments volume growth remained strong across the globe, with double-digit growth (in constant dollars) in all regions except Europe.
- Cross-border revenue (on a constant dollar basis) rose 10% on a year-on-year basis, driven by processed transaction growth during the quarter.
- As expected, the company's adjusted EPS showed a strong improvement and grew 34% to \$1.21 per share, higher than the company's guidance. The earnings growth was driven by lower tax expense due to the US Tax Reform, which was slightly offset by the exchange rate fluctuations. For the full year, the adjusted earnings were \$4.61 per share, up 32% on a y-o-y basis.
- During the quarter, Visa returned roughly \$2.1 billion to its shareholders in the form of share repurchases (\$1.6 billion) and dividends (\$500 million). For the full year, the company repurchased shares worth \$7.2 billion, and paid \$1.9 billion in dividends. In addition, the company's Board authorized an increase of 19% in its quarterly dividend to \$0.25 per share per quarter.

Going Forward

- Overall, Visa expects its net revenue to grow in low double-digit (nominal basis) in fiscal year 2019. The company expects the macro-economic environment in its key markets to remain strong, which will continue to drive double-digit payment volume growth for the company in fiscal 2019.
- The company anticipates growth rates in North America to slow down in the second half of 2019. International payments volume growth is forecast to remain strong and stable, with market share gains in several markets likely to be offset by slowing dual-brand issuance in China.
- Visa's cross-border growth will be highly dependent on exchange rates, geopolitical factors, and macroeconomic shifts in fiscal 2019. Assuming no significant changes in the current environment, the company forecasts a double-digit growth in its cross-border revenue as well. Processed transaction growth is expected to be steady in fiscal 2019.
- Client incentives are expected to be in the range of 22% to 23% of the gross revenue. The higher proportion of client incentives will be driven by the full-year impact of renewals and new deals signed in fiscal 2018 and anticipated in fiscal 2019.
- Visa expects its 2019 adjusted operating expense growth to be in the mid-to-high single-digit range. This includes a 1.5-2.0 percentage point impact from adopting the new accounting standard. Also, the company projects its 2019 tax rate to be in the 20% to 20.5% range.
- Visa's capital spending for fiscal 2019 is estimated to be around \$800 million, which includes capital associated with hardware, support growth, resiliency and cybersecurity, and an upgrade of its data center in the UK. Moreover, the company anticipates returning at least \$11 billion to shareholders via dividends and stock buybacks.
- The company is building upon Visa Direct's unique reach by rapidly scaling solutions through use case expansion and large platform enablement. For instance the company signed new partnerships with a couple of insurance companies to enable more real-time disbursements to their customers. We expect Visa Direct and its associated partnerships to be one of the key drivers of the company's long term growth.

- In addition, Visa aims to penetrate further in the domestic as well as international contact-less card market. The company expects to issue 100 million Visa contact-less cards in the US markets by end of 2019. This is likely to boost the company's volume growth in the long term.
- Further, Visa has renewed its contract to be the sponsor of the next four Olympic Games to be held at Tokyo, Beijing, Paris, and Los Angeles through 2032. Since Olympic Games are the world's largest sporting event, they will enable Visa to promote its brand at a regional and global level while showcasing product innovation and launching new business initiatives to boost its top-line and overall value.

Overall, fiscal 2018 was a great year for Visa as the company delivered strong financial performance driven by growth in global payment volumes. The company's key initiatives such as Visa Direct, contact-less cards, and digital solutions are likely to drive its value in the coming years.

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