

October 28, 2020 | Equity Research



Visa, Inc.

## V: Cross Border Earnings Risk Persists; Solid FYQ4 Given the Environment

Overweight/\$210

Consumer Finance

Price Target Change

- **Summary** – V reported FYQ4 adj EPS of \$1.12, 5c above our estimate and 3c ahead of consensus. The beat vs our model was driven by lower incentives and slightly better cross border revs on fx volatility. Net revs were \$5.1B, down 17% y/y or -11% adjusting for the service rev lag. Net revs were slightly above our \$4.97B est and consensus at \$5.0B. Opex was \$1.94B, a tad above our \$1.92B est. Payment volumes were +4% y/y vs down 10% y/y last qtr. They repurchased \$1.6B of stock during the qtr. Quarterly dividend increased to \$0.32c.

- **October Spend Volumes Steady** – Cross border volumes (ex intra-Europe) stayed range bound and late October was down -37% y/y, the same as early September's temporary pick up. US volumes showed modest improvement in October but that likely benefited from the Amazon Prime Day, so we'll view it as unchanged.

- **2021 Guidance** – Mgt expects negative revenue growth in H1'21, then rebounding significantly in H2'21. Client incentives 25.5-26.5% though lower in Q1. This is an unusually high level of incentives for V and is a function of volume recovery price point. If processed trans and CB volume growth remains at October levels, they'd expect net revs to be down in the high single to low double digit range for FYQ1. Value-added services up mid-teens in '21. Opex H1'21 down 5% or roughly equal to H2'20 level. Then mid-single digit growth in Q2 and double digit growth in H2'21 partly on Olympics.

- **The Stock** – Solid qtr for V given the environment, but the results were a reminder that networks face earnings risk as cross border travel is still down hard. V noted that of 217 countries around the world, 74% still had complete or partial border closings, with most of the remainder requiring quarantine and COVID tests. This is at least some improvement from 87% last qtr. We expect some volatility as COVID levels increase, but we believe the long-term story remains intact and we are buyers through the weakness.

- **Estimate & Revisions** – We are lowering our 2021 EPS estimate to \$5.35 from \$5.90, reflecting a longer time frame for the cross border volume recovery. This is partially offset by lower operating expenses. Target down to \$210 (31x CY22 EPS est).

\$ EPS	2020A	2021E		2022E	
		Curr.	Prior	Curr.	Prior
Q1 (Dec.)	1.46	1.31	1.43	1.68	
Q2 (Mar.)	1.39	1.39	1.58	1.75	
Q3 (June)	1.06	1.26	1.50	1.57	
Q4 (Sep.)	1.12	1.39	1.38	1.60	
FY	5.04	5.35	5.90	6.60	
CY	4.95	5.72		6.82	
FY P/EPS	35.9x	33.8x		27.4x	
Rev.(MM)	21,846	23,096		26,735	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters  
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful  
 V = Volatile  
 excludes one-time litigation, market to market equity gains, and other one time charges

Ticker	V
Price Target/Prior:	\$210/\$230
Price (10/28/2020)	\$180.87
52-Week Range:	\$133-218
Shares Outstanding: (MM)	2,210.0
Market Cap.: (MM)	\$399,722.7
S&P 500:	3,271.03
Avg. Daily Vol.:	6,769,970
Dividend/Yield:	\$1.28/0.7%
LT Debt: (MM)	\$21,071.0
LT Debt/Total Cap.:	37.0%
ROE:	26.0%
3-5 Yr. Est. Growth Rate:	18.0%
CY 2020 Est. P/EPS-to-Growth:	2.0x
Last Reporting Date:	10/28/2020 After Close

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Donald Fandetti, CFA

Senior Analyst | 212-214-8069

don.fandetti@wellsfargo.com

Steven DeBartolo, CFA

Associate Analyst | 212-214-8053

steven.debartolo@wellsfargo.com

Michael Kaye, CFA, CPA

Senior Analyst | 212-214-8214

michael.kaye@wellsfargo.com

Please see page 3 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 10/28/20 unless otherwise stated. 10/28/20 21:20:18 ET

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## Price Target

Price Target: \$210 from \$230

We rate Visa shares Overweight with a price target of \$210. Our target is based on just over ~36x our CY21 estimate of \$5.72 and implies a 31x P/E on our 2022 CY EPS estimate. The primary risks to our price target include heightened regulatory scrutiny, litigation, disintermediation from banks and emerging payment types, and adverse currency movements.

## Investment Thesis

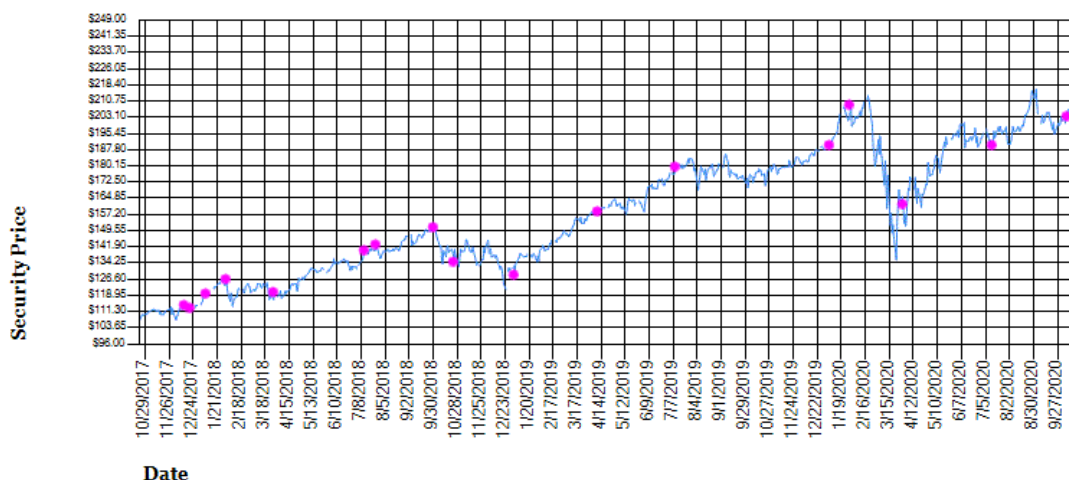
We remain constructive on V and believe they are well positioned to rebound solidly once we get through the challenging global environment due to the virus. Quarterly spend trends improved through the quarter, and cross-border is showing signs of life. The pandemic pulled forward secular trends, such as online and digital, where V has greater market share.

## Company Description

Visa is a global payments technology company that connects customers, merchants, banks, businesses, and governments in more than 200 countries and territories, and enables fast, secure, and reliable payments. Visa is a large global payment network that facilitates the authorization, clearing, and settlement of payment transactions globally. Visa recently closed the acquisition of Visa Europe. Visa became a public company in 2006 and is based in the San Francisco Bay Area.

## Required Disclosures

### Visa, Inc. (V) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
10/23/2017		Fandetti				
10/23/2017	NA	1	120	NE	NE	107.53
12/15/2017	112.92	1	124	NE	NE	113.82
12/21/2017	112.12	1	127	NE	NE	112.41
1/9/2018	119.34	1	135	NE	NE	119.11
2/1/2018	125.72	1	140	NE	NE	125.72
3/29/2018	116.99	1	143	NE	NE	119.62
7/12/2018	138.15	1	155	NE	NE	139.90
7/25/2018	142.64	1	161	NE	NE	142.64
10/1/2018	150.09	1	175	NE	NE	150.79
10/24/2018	134.26	1	165	NE	NE	134.26
1/3/2019	132.92	1	161	NE	NE	128.13
4/11/2019	158.34	1	181	NE	NE	157.86
7/10/2019	177.73	1	200	NE	NE	179.31
1/6/2020	189.60	1	213	NE	NE	189.19
1/30/2020	208.21	1	230	NE	NE	208.21
3/31/2020	165.57	1	205	NE	NE	161.12
7/13/2020	192.55	1	220	NE	NE	189.02
10/8/2020	202.47	1	230	NE	NE	202.98

\*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

#### Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

#### Rating Code Key

- 1 Overweight/Buy
- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

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**1=Overweight:** Total return on stock expected to be 10%+ over the next 12 months. BUY

**2=Equal Weight:** Total return on stock expected to be 0-10% over the next 12 months. HOLD

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**V =** A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: October 28, 2020

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