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| **Company: Costco Wholesale Corporation** | **Ticker: V Current Price: $ 111.41** | **Industry: Financial Service**  |
| Target Price: 129 (15%)Stop Loss: $95(15%)52 Week High/ Low: $75.17 / $112.53 | TTM P/E: 41.62Forward P/E: 23.9EPS: $3.48 | Beta: 0.95Credit Rating: A++Rating Outlook: Stable | Market Cap: $254.68bAvg Vol (12 M): 6.6 milDividend Yield: 0.71% |

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| **Company Background:**  |
| Visa is a global payments technology company that connects consumers, merchants, financial institutions, businesses, strategic partners and government entities in more than 200 countries and territories to fast, secure and reliable electronic payments. We enable global commerce through the transfer of value and information among these participants. Our advanced transaction processing network facilitates authorization, clearing and settlement of payment transactions and enables us to provide our financial institution and merchant clients a wide range of products, platforms and value-added services. |
| **Industry Outlook:**  |
| * Digital growth is accelerating the pace at which payments are becoming faster, cheaper, and more convenient. That benefits both nimble startups and legacy providers that invest in innovation.
* Mobile payments are continuing to take off. On mobile devices, e-commerce, P2P payments, remittances, and in-store payments are each expected to rise as customer engagement shifts from more established channels.
* Power is shifting to companies that control the customer experience. As the selling power of physical storefronts shifts to digital devices, the companies that control the apps and platforms that occupy users’ attentions are increasingly encroaching on payment providers’ territory.
* Alternative technologies are moving from the idea stage to reality. Widespread investments in blockchain technology last year are beginning to result in services hitting the market, promising to further squeeze margins for payments providers.
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| **Investment Thesis:** |
| * Transaction activity overseas had slowed in recent periods, but may have turned a corner in the September term. On point, total volumes in Latin America, Asia/Pacific, and the segment comprised of Central Europe, the Middle East, and Africa increased 12%, 9%, and 20%, respectively, in the most recent quarter. Too, Visa’s business abroad accounts for 61% of the total. (All figures are presented on a constant-dollar basis.)
* Visa Europe Acquisition: Prior to our 2007 reorganization, Visa operated as a collection of member-owned associations, with each region serving its member financial institutions and administering Visa programs within a global framework.  In 2007, Visa reorganized, with all of the regions except Visa Europe coming together to form Visa Inc., a Delaware corporation. Visa Europe remained owned by its European member financial institutions.
* In 2016, Visa has made digital payment solutions available to support hundreds of financial institutions and technology partners such as Google, Microsoft and Samsung.
* Interesting business model: Paid rewards of 3.4B to the Visa customers to increase the customer relationship, and acceptance of Visa products.
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| **Investment Risks:**  |
| * Government-imposed restrictions on payment systems may prevent Visa from competing against providers in certain countries. For example, China(Union Pay)
* The global payments space is intensely competitive. As technology evolves, new competitors emerge and existing clients and competitors assume different roles.
* Bitcoin doesn’t need Cleaning system like Visa to process Payment
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| **Most recent quarter financial highlights (Jul - Sep 2017):**  |
| * The electronic payments processor rang up $4.86 billion of revenues in the fourth quarter, marking a 14% advance from the year-earlier period. On the bottom line, Visa earned $0.90 per share in the latest three-month stretch, which was a 15% improvement from last year’s figure.
* Payments volume growth, on a constant dollar basis and excluding Europe co-badge volume, was 10% over the prior year, total Visa processed transactions increased 13% over the prior year, and cross-border volume growth, on a constant dollar basis, was 10% over the prior year
* Returned approximately $2.1 billion of capital to shareholders in the form of share repurchases and dividends
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| **Financial Performance:** | **Discounted Cash Flow**  |
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| In Millions of USD | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 Est | 2018 Est |
| Revenue  | 10,421 | 11,778 | 12,702 | 13,880 | 15,082 | 18,351 | 20,199 |
| Operating Profit | 4,279 | 9,639 | 10,079 | 11,617 | 10,647 | 12,703 | 13,130 |
| Net Income  | 4,203 | 4,980 | 5,438 | 6,328 | 5,991 | 6,699 | 8,182 |
| Revenue Growth % | 11.5% | 13.0% | 7.8% | 9.3% | 8.7% | 21.7% | 10.1% |
| EBITDA% | 42.9% | 43.5% | 45.7% | 46.2% | 49.1% | 43.1% | 39.5% |
| Operating Profit % | 62.5% | 63.1% | 64.8% | 68.9% | 55.6% | 69.2% | 65.0% |
| Net Income Margin | 39.7% | 40.3% | 42.3% | 45.6% | 39.7% | 36.5% | 40.2% |
| D/E | N/A | N/A | N/A | N/A | 50% | 56% | 60% |
| EPS | 1.55 | 1.90 | 2.27 | 2.62 | 2.84 | 3.48 | 4.00 |
| PE Ratio  | 42.2 | 29.3 | 30.4 | 30.0 | 31.4 | 41.7 | 35 |
| Current Ratio | 1.25 | 1.54 | 1.31 | 1.84 | 1.81 | N/A | N/A |
| ROE | 15.2% | 18.5% | 19.8% | 21.2% | 18.2% | 20.5% | 22% |
| ROA | 10.5% | 13.8% | 14.1% | 15.7% | 9.4% | N/A | N/A |
| Dividend Per share  | 0.25 | 0.35 | 0.42 | 0.50 | 0.59 | 0.69 | 0.81 |
| FCF | 3,932 | 5,093 | 4,820 | 5,139 | 5,307 | 6,353 | 7,085 |

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|  | 2012-16 | 2017-21 |
| Avg Revenue growth  | 10.6% | 15.9% |
| Avg EBITDA Margin  | 45.5% | 50% |
| Avg Net Income Margin  | 41.5% | 45% |
| Avg Debt/Equity  | 50% | 58% |
| Avg FCF / Margin  | 38.2% | 40% |
| Cost of Debt | 3.4% |
| Tax Rate | 24% |
| Cost of Equity  | 9.8% |
| WACC | 9.5% |
| Perpetuity growth rate  | 4% |

**Analyst Opinion**

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| Buy:25 | Hold: 4 | Sell:0 |
| Target Price Range | 122 |  |
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| Source: Yahoo |

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| **Relative Valuation** | **Total Return** |
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|  | Mastercard | American Express | Discover Financial Service | Industry Avg.\* |
| P/E | 35 | 18.4 | 11.4 | 25.1 |
| P/B | 24.6 | 3.9 | 2.3 | 4.0 |
| Dividend Yield  | 0.6% | 1.4% | 1.9% | 0.8% |
| Revn Grth  | 11.5% | 0.5% | 5.01% | N/A |
| NI Grth  | 16.1% | 5.4% | -3.13% | N/A |
| Operating Margin  | 54% | 24% | 43% | -755% |
| Debt / Equity  | 80% | 230% | 250% | 230% |
| Market Cap | 158 B | 83 B | 24 B | 9 B |
| Revenue TTM | 10,776 | 32,119 | 9,099 | 190.03B |
| Net Income TTM | 4,057 | 5,328 | 2,393 | 6,057 |
| FCF TTM | 4,216 | N/A | N/A | N/A |

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|  | Visa | Financial Service | S&P 500 |
| YTD | 41.6% | 32.3% | 11.90% |
| 2016 | 33.6% | 35.7% | 9.54% |
| Last 3 Years  | 21.7% | 13.5% | 24.61% |
| Last 5 Years  | 26.3% | 20.0% | 71.46% |

**CSR Characteristics**

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|  | Visa | Industry  |
| Governance Disclosure Score | 67.86 | 51.79 |
| ESG Disclosure:  | 34.30 | 12.4 |
| Social Disclosure Score | 22.81 | 16.67 |
| Environmental Disclosure Score | 24.81 | 18.22 |

Data: Bloomberg |