



UNION IIII
SECURITIES

Payment Technologies Update

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Payment Technologies

Visa- Daily



PayPal- Daily



- ❑ This week's **Barron's** cover story is about **Payment Technologies**. The article describes how **Visa**, **MasterCard** and **PayPal** are stronger than ever as big tech giants such as **Apple** have decided to partner with them rather than starting from scratch their own network.
- ❑ **Visa** and **MasterCard** benefit from an extensive network and experience that are impossible to replicate and **PayPal**, through organic and external growth, has achieved a unique scale in digital payments.
- ❑ They all benefit from the **network effect** of linking merchants, consumers, and banks. That network is defended by a moat of regulation, security, and fraud protection that no tech company wants to deal with.
- ❑ They are also protected from competition by their very low margin on each transaction (an estimated 15bps for **Visa** and **Mastercard**).
- ❑ The three now enjoy enormous economies of scale. They have a combined market capitalization of \$700bn and even have their own acronym: **MVP**.

Payment Technologies

- ❑ Growth opportunities lie in the move toward electronic payments, the increased use of banking in emerging economies and global economic growth.
- ❑ Valuation of the three is always high due to their unique profile. Though the stocks have performed a lot this year, do not hesitate to buy on weakness or to sell out-of-the money puts.
- ❑ **Visa** and **MasterCard** are in our **Global Leaders** portfolio. **PayPal** is a member of our **Next-Gen Leaders** portfolio.

Description

| Name | Mkt Cap (\$bn) | Revenue (\$bn) | Sub-Industry | Country Name | Currency |
|------------|----------------|----------------|--------------------------------|---------------|----------|
| Visa | 324.6 | 20.6 | Data Processing & Outsourced S | UNITED STATES | USD |
| Mastercard | 256.9 | 15.0 | Data Processing & Outsourced S | UNITED STATES | USD |
| Paypal | 129.1 | 15.5 | Data Processing & Outsourced S | UNITED STATES | USD |

Valuation

| Name | Est. PE - 12M Fwd | Est. PE - 24M Fwd | Est. PE GAAP | Est. EV/EBITDA | Est. Price/Sales | Est. EV/Sales |
|------------|-------------------|-------------------|--------------|----------------|------------------|---------------|
| Visa | 27.5 | 23.7 | 27.6 | 19.4 | 13.2 | 13.5 |
| Mastercard | 30.8 | 26.0 | 30.9 | 23.7 | 14.5 | 14.5 |
| Paypal | 34.4 | 28.8 | 48.4 | 25.6 | 6.7 | 6.4 |

Cash Flow Generation

| Name | Est. Dividend Yield | Dividend Payout Ratio | FCF Margin (3y avg.) | FCF Yield | Est. Gross Margin | Est. EBIT Margin | Est. Net Margin | CFO to Sales |
|------------|---------------------|-----------------------|----------------------|-----------|-------------------|------------------|-----------------|--------------|
| Visa | 0.7% | 18% | 46% | 3.6% | 89% | 68% | 54% | 62% |
| Mastercard | 0.5% | 15% | 41% | 2.4% | 100% | 58% | 47% | 42% |
| Paypal | 0.0% | 0% | 22% | 4.6% | 52% | 23% | 19% | 35% |

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