Visa Profit Climbs 26% as Credit-Card Spending Picks Up

By Dakin Campbell - Feb 7, 2013 2:05 PM ET

Visa Inc., the world’s biggest payments network, posted a fiscal first-quarter profit that beat analysts’ estimates as consumer card spending accelerated.

Net income for the three months ended Dec. 31 advanced 26 percent to $1.29 billion, or $1.93 a share, from $1.03 billion, or $1.49, a year earlier, the Foster City, California-based company said yesterday in a statement. That beat the $1.79 average estimate of 32 analysts surveyed by Bloomberg.

“Results include significant continued investments in our core business, accelerating international expansion and the deployment of next-generation payment solutions,” Chief Executive Officer Charlie Scharf, who succeeded Joseph W. Saunders in November, said in the statement.

Scharf, 47, inherited a goal of deriving more than half of Visa’s revenue from outside the U.S. by 2015. A global consumer shift to electronic payments, particularly in the Asia-Pacific region, may help. Purchases there are projected to generate 42 percent, or $9.03 trillion, of worldwide card spending at merchants in 2016, up from 36 percent at the end of 2011, the Nilson Report, an industry newsletter, said in its latest issue.

Visa slipped 1.9 percent to $157.82 at 1:53 p.m. in New York after Timothy Willi, an analyst at Wells Fargo & Co., downgraded the shares to market perform from outperform. The stock, which climbed almost 50 percent in the past year, doesn’t provide enough “upside potential,” he wrote.

Price Targets

Still, Willi joined at least 10 other analysts, including JPMorgan Chase & Co.’s Tien-tsin Huang and Craig Maurer at CLSA Ltd., in raising their price targets for Visa this week. The stock is now projected to reach $172.26 within the next 12 months, up from $165.91 at the
end of last week, according to the average of 32 analysts’ predictions in a Bloomberg survey.

Spending on Visa debit and credit cards in the Asia-Pacific region, the firm’s second-biggest market after the U.S., climbed about 13 percent, the company said. Purchases surged almost 37 percent in Central Europe, the Middle East and Africa, while spending in Central and South America and the Caribbean rose about 22 percent.

China is an “interesting” opportunity for Visa, Scharf said in a conference call with analysts after results were announced. Payments in the country are dominated by Shanghai-based China UnionPay, which surpassed MasterCard Inc. in the first half of last year to become the world’s second-biggest payments network by customer spending.

‘Good Partner’

“We’re there, we make money there, and we’ve got some great partners there,” Scharf said of China. “It’s important for us to be a good partner to people within the country to bring the benefits of Visa to China. And in my conversations with people from China, they want us there. They think we can add value not just because of the brand but because of what our network is versus maybe what China UnionPay is today.”

Visa said it would generate about $6 billion in free cash flow in fiscal 2013, fueled by tax benefits related to a settlement of a lawsuit over credit-card “swipe” fees, or interchange. Guidance on taxes from California officials led Visa’s tax rate to fall to 28 percent in the quarter and boosted results by 11 cents a share, the company said.

Processed Transactions

Operating revenue rose 12 percent to $2.85 billion from a year earlier, beating the $2.82 billion estimate of analysts in the Bloomberg survey. Worldwide spending on Visa payment cards climbed to $1.08 trillion, an 8.7 percent increase when adjusted for currency fluctuations. Total processed transactions increased 4 percent to 14.2 billion.

Purchases on debit cards climbed 3.6 percent in the last three months of 2012 after a 0.2 percent decline in the preceding quarter. Credit-card spending surged 12 percent in the most recent period, up from 9.7 percent growth in the fiscal fourth quarter, the company said.

Visa’s lead in the U.S. debit-card market continued to erode as Dodd-Frank Act rules helped competitors gain share. Spending on Visa debit cards in the U.S. slid 3.6 percent in the fiscal first quarter even as volume in the rest of the world surged 29 percent, adjusted for currency changes.

MasterCard, led by CEO Ajay Banga, 53, said last week that fourth-quarter profit increased 18 percent, excluding litigation charges. On Feb. 5, the Purchase, New York-based company doubled its quarterly dividend to 60 cents a share and approved a stock repurchase program of as much as $2 billion. In October, Visa announced it was boosting its quarterly payout by 50 percent to 33 cents a share, and yesterday the company said it may buy back as much as $2.9 billion in stock.

Saunders, 67, who led Visa through a 2008 initial public offering that raised $19.7 billion, the most in U.S. history, is retiring and will step down as non-executive chairman at the end of March, Visa said in a statement last week. He will be succeeded by Robert W. Matschullat, a former chairman of Clorox Co., where he’s currently lead director. He also has been a director at Visa since 2007 and Walt Disney Co. since 2002.
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