



PayPal Holdings, Inc. (PYPL)

Updated January 14th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$115	5 Year CAGR Estimate:	8.3%	Market Cap:	\$135.4B
Fair Value Price:	\$85	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	N/A
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$172	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

PayPal Holdings is a leader in the digital and mobile payments industry. The company was originally a subsidiary of eBay, but was spun off to become an independent company in 2015, when it went public. PayPal offers services to customers and merchants globally through PayPal, PayPal Credit, Xoom, and Venmo, among others. The company has nearly 300 million users globally and completes more than 10 billion transactions annually across its platforms. PayPal has more than 20,000 employees and has a market capitalization of \$135 billion, while producing about \$18 billion in annual revenue.

PayPal reported Q3 earnings on October 23rd and results beat expectations, including a guidance raise for fiscal 2019. Revenue for Q3 came to \$4.38 billion, a 19% year-over-year increase. Total payment volume rose 25% year-over-year to \$178.7 billion, driven in part by a 16% increase year-over-year in active accounts, which now total 295 million globally. Total payment transactions also rose 25% against the year-ago period, coming to 3.1 billion in Q3. Payments per active account on a trailing-twelve-months basis were up 9% to an impressive 39.8. In short, PayPal continues to show very strong top line metrics, which are translating to impressive profit growth.

Indeed, operating margins rose on an adjusted basis by 200bps in Q3 to 23.4% of revenue. We believe that as PayPal continues to grow the top line, expenses will be leveraged down over time, as they were again in Q3.

Free cash flow during the quarter was very strong at \$923 million, and the company bought back 3.3 million shares of stock for a total consideration of \$350 million. Adjusted earnings-per-share rose 31% to \$0.76 in Q3.

PayPal guided for full-year 2019 revenue of \$17.7 billion and earnings-per-share of ~\$3.05. Subsequent to the earnings report, PayPal announced it would acquire Honey Science, a technology platform for shopping rewards. PayPal is paying \$4 billion for Honey, and expects the transaction to be accretive beginning in 2021.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	---	\$1.00	\$1.15	\$1.47	\$1.71	\$3.05	\$6.13
DPS	---	---	---	---	---	---	---	---	---	---	---	---
Shares¹	---	---	---	---	---	---	1,224	1,207	1,200	1,174	1,188	1,100

We see an impressive growth track in front of PayPal, building upon years of already-strong top and bottom line growth. PayPal should be able to deliver double-digit annual revenue growth for the foreseeable future driven by new accounts, higher transactions per account, and higher volumes per account. In addition, PayPal continues to acquire growth – with Honey being a recent example – and has stated it wants to spend \$1 billion to \$2 billion annually on acquisitions, on average.

This growth in the top line should lead to gradual margin improvements as costs are leveraged down, but we caution that PayPal's investment in its own business as well as acquisitions means that margin growth may be incremental in most years. In addition, heavy competition from other players in the very crowded payments space is curbing pricing

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



PayPal Holdings, Inc. (PYPL)

Updated January 14th, 2020 by Josh Arnold

power, which could harm PayPal's margins over time. In total, we still see PayPal growing earnings-per-share at a very impressive rate of 15% annually in the coming years.

PayPal does not pay a dividend and we don't expect that it will anytime soon, so it is not an option for income investors.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	---	33.2	37.8	48.2	37.8	28.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	---	---

PayPal has traded for very high P/E multiples since going public, with the lowest average annual value being its first full year as a public company – 2016 – which saw an average P/E of 33. Given 15% projected earnings-per-share growth, as well as concerns that mounting competition in the payments industry will crimp margins over time, in addition to the potential for PayPal to lose part of its significant market share, we see 28 times earnings as fair value. PayPal has a very strong growth outlook, but concerns over pricing power and additional competition have us being a bit cautious with the multiple, and we cannot justify 37 times earnings. Should the stock revert to 28 times earnings, it would introduce a nearly 6% annual headwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	---	---	---	---	---

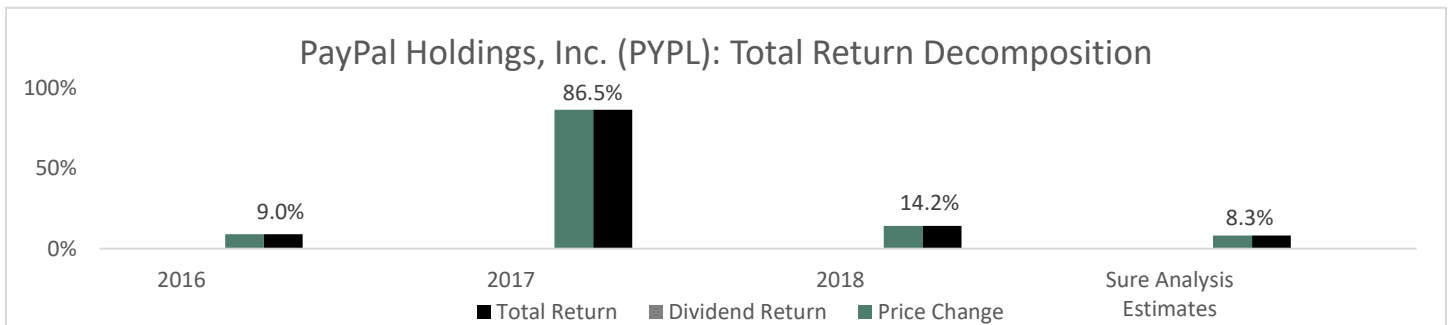
PayPal's main competitive advantage is its first mover status in the payments industry. PayPal has been around much longer than most of its competitors, and has built an enormous customer base. However, PayPal's product is very similar to any other payment company, so we don't see its advantage as having a significant moat against new entrants. PayPal relies upon the hassle of switching payment providers as being a deterrent for customers to go to a different provider, and we don't necessarily see this as a strong advantage.

PayPal has only been public during a period of strong economic growth, so we have no data on how it would perform during a recession. However, we believe PayPal would suffer modestly during a recession given that there would be a slowdown in economic activity and thus, payments volume. We don't see recession as a large risk, but it is a risk.

Final Thoughts & Recommendation

PayPal is in an enviable position with its market share and growth track. However, we see the valuation as a sizable headwind to total returns, offsetting a significant portion of our projection for 15% earnings-per-share growth. Given this, we see total annual returns at 8.3%, making the stock a hold. Should shares revert back closer to our fair value estimate, we'd reevaluate as a buy. But with no dividend and a very expensive valuation, PayPal is a hold now.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



PayPal Holdings, Inc. (PYPL)

Updated January 14th, 2020 by Josh Arnold

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	---	---	---	5,662	6,727	8,025	9,248	10,842	13,094	15,451
Gross Profit	---	---	---	2,965	3,440	4,218	4,719	5,141	6,300	7,114
Gross Margin	---	---	---	52.4%	51.1%	52.6%	51.0%	47.4%	48.1%	46.0%
SG&A Exp.	---	---	---	1,007	1,169	1,687	1,810	1,997	2,283	2,764
D&A Exp.	---	---	---	382	453	516	608	724	805	776
Operating Profit	---	---	---	899	1,091	1,268	1,509	1,586	2,259	2,503
Operating Margin	---	---	---	15.9%	16.2%	15.8%	16.3%	14.6%	17.3%	16.2%
Net Profit	---	---	---	778	955	419	1,228	1,401	1,795	2,057
Net Margin	---	---	---	13.7%	14.2%	5.2%	13.3%	12.9%	13.7%	13.3%
Free Cash Flow	---	---	---	1,054	1,602	1,728	1,824	2,489	1,864	4,660
Income Tax	---	---	---	113	129	842	260	230	405	319

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	---	---	---	---	19,160	21,917	28,881	33,103	40,774	43,332
Cash & Equivalents	---	---	---	---	1,604	2,201	1,393	1,590	2,883	7,575
Accounts Receivable	---	---	---	---	9,329	10,677	12,398	14,577	18,525	20,375
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	3,445	3,345	4,427	4,270	4,507	7,109
Total Liabilities	---	---	---	---	11,770	13,669	15,122	18,391	24,780	27,946
Accounts Payable	---	---	---	---	9,350	10,727	12,406	15,355	19,999	21,843
Long-Term Debt	---	---	---	---	1,612	1,093	---	---	1,000	1,998
Shareholder's Equity	---	---	---	---	7,390	8,248	13,759	14,712	15,994	15,386
D/E Ratio	---	---	---	---	0.22	0.13	---	---	0.06	0.13

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	---	---	---	---	---	2.0%	4.8%	4.5%	4.9%	4.9%
Return on Equity	---	---	---	---	---	5.4%	11.2%	9.8%	11.7%	13.1%
ROIC	---	---	---	---	---	4.6%	10.6%	9.8%	11.3%	12.0%
Shares Out.	---	---	---	---	---	---	1,224	1,207	1,200	1,174
Revenue/Share	---	---	---	---	---	6.56	7.52	8.90	10.72	12.84
FCF/Share	---	---	---	---	---	1.41	1.48	2.04	1.53	3.87

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.