

Visa

V-US; current price: \$111.88; target price range: \$130.00

Market Value: \$255.84 billion

Description: Visa is the world's largest transaction processor. Visa owns 44% of the credit card transaction market share and 65% of the debit card transaction market share. As industry leader, Visa is expected to benefit from both growth opportunity and downside protection in the years to come. Driven by continued growth in payments volume, net operating revenues increased by 14% yoy in the latest quarter. Operating margin increased by 5 percentage point to 66% yoy, primarily due the increase in operating revenue.

Investment thesis: As global economy continues to be moderately strong, the trend to shift from cash and checks to plastic and electronic, is still intact. Cash and check transactions around the world reached \$17 trillion in 2016 at a 2% CAGR since 2012, representing a huge potential for Visa and peers, especially in developing market. Additionally, the secular growth in global e-commerce transactions and the development of new business (e.g. P2P payment) also add to the tailwinds to Visa's growth, while Visa's established and growing network of users helps safeguard the company's competitive edge. Visa continues to trade at attractive forward P/E multiples as compared to peers such as MasterCard. After factoring 17% long term growth expectations, Visa becomes the most undervalued stock in the space, with a forward PEG of 1.5x. Visa has also seen a consistent strong dividend growth in the past 8 years, which can offer investors certain downside protection.

Paypal

PYPL-US; current price: \$73.99; target price range: \$85.00

Market value: \$88.93 billion

Description: PayPal Holdings, Inc. operates as a technology platform company that enables digital and mobile payments. It allows businesses to accept payments from various online platforms, as well as at offline retail locations through a range of payment solutions, including PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products. Revenue stream mainly comes from fees charged based on volume of activities processed as well as other value-added services.

Investment thesis: Paypal has a very exciting story in payment industry. It has accelerated organic revenue growth due to greater exposure to e-commerce and network effect. Its competitive advantage also lies in its strong brand recognition and global presence. In latest earnings, net revenue increased 22% yoy. Usage also grew by double digits, suggesting mature accounts have increased usage of Paypal services in the past quarter. Paypal's Venmo is also a catalyst for future revenue growth. Despite fierce competitions, Venmo still grew by 93% in the latest quarter and the company acquired more than 8 million accounts. Though Venmo has not been monetized, it increases active Paypal accounts which will lead to higher payment volumes. Despite recent gains, Paypal is currently trading on par with its peers such as Visa and Mastercard. On EV/EBITDA basis, Paypal trades at 19x, vs. Visa at 17x and Mastercard at 19x. Given the potential for future revenue growth, Paypal still has room to gain shares.

ACI Worldwide

ACIW-US; current price: \$23.33; target price range: \$28.00

Market Value: \$2.77 billion

Description: ACI Worldwide, Inc. engages in the development, market, installation, and support of broad line of software products and solutions primarily focused on facilitating real-time electronic payments. It operates through the following geographical segments: Americas, Europe/Middle East/Africa, and Asia/Pacific. ACI Worldwide expects new bookings growth to be in the upper single digits. The latest quarter saw revenue up 3%, adj. EBITDA up 34%, and EBITDA margin at 25% up from 19% in Q3 2016.

Investment thesis: We believe that ACIW is well positioned in today's world as major industry trends, such as immediate payment, e-commerce, cross border operations, and open access are all addressed by ACIW's portfolio. In particular, we believe that ACIW will continue to benefit from its shift to cloud adoption and subscription based model (cloud revenue grew from 11% in 2011 to 40% in 2016) as merchant customers focus on e-commerce and traditional on premise customers convert to cloud. The shifts in business model will enable ACIW to deliver strong organic revenue growth (high single digits) and incremental margin expansions (100bps margin expansion) in the next five years. The company is uniquely positioned to capitalize on ongoing global migration towards real-time payments. The recent one-time integration, divesture and litigation also create a short-term catalyst to increase exposure. ACIW currently trades at 13x EV/forward EBITDA, and forward P/E of 42x, which are below its closest competitors in the payment processing industry.

Total System Services, Inc.

TSS-US; current price: \$72.33; target price range: \$80.00

Market Value: \$13.3 billion

Description: Total System Services, Inc. provides electronic payment processing services to banks and other financial institutions. Revenue streams include: Issuer Solutions (46%) Merchant Services (33%) and NetSpend (21%). Particularly, NetSpend is the leading provider of prepaid debit cards for Visa, Mastercard and other card services companies. It also serves underbanked consumers who rely on alternative financial services other than traditional banks. TSS saw an accelerated solid organic revenue growth of 8.8% yoy in the latest quarter, with 15% yoy increase of adj. EBITDA during the same period. YTD 2017 Net Revenue saw 12.1% increase from YTD 2016., and adj. EBITDA also saw a 16.8% increase. Dividend payout ratio has averaged about 24.3% in the past 5 years.

Investment thesis: We view TSS as an under-covered stock that offers attractive fundamentals and growth potential. The ongoing strength in the core issuer processing business allows TSS to be well positioned to drive sustainable EPS growth. TSS has been strategically acquiring companies since 2013, which fueled part of its growth since then. The company is also well positioned to provide an ecosystem of payment-related and bank-like services for customers

outside of the banking system. It is a great way to get exposure in the payment space that is different in positioning and business model than other companies in this industry. A short-term catalyst is share-buybacks due to quicker-than expected debt reduction. TSS currently trades around 13x EV/EBITDA and 20x forward P/E. The target price implies 11x EV/EBITDA and 19x P/E multiple.