

Visa Closes Up 28% After \$17.9 Bil IPO, Largest Ever In U.S.

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Wall Street offered a friendly welcome to Visa v on its first day of trading Wednesday, in the midst of a turbulent week on the market.

Banks' Big Payday

Visa's owners made out from the credit card giant's IPO

Bank	Shares	Gross proceeds
JPMorgan	28.7 mil	\$1.3 bil
Bank of America	14.2 mil	626 mil
National City	9.9 mil	436 mil
Citigroup	6.8 mil	300 mil
USB	6.3 mil	277 mil
Wells Fargo	6.2 mil	273 mil

Sources: Company reports

The credit card giant priced its 406 million shares at \$44 late Tuesday, above its projected \$37-\$42 range. It crossed the gate at 59.50, peaked at 69 soon after, and eventually settled at 56.50, up 28%, as stock markets sold off. The \$17.86 billion was the most ever raised in the U.S., and the third largest in world markets. Underwriters have the option to buy another 40.6 million shares, which would lift the IPO to \$19.7 billion.

The IPO is a boon to Visa's bank owners: Top shareholder JPMorgan Chase reaped \$1.3 billion. The stock debuted just a few days after a major bloodbath for financial stocks, as the fire-sale buyout of Bear Stearns (NYSE:BSC) bsc by JPMorgan ratcheted up credit fears. Credit, But No Risk

But because Visa merely manages the transactions and doesn't lend its own money, it's really in a different realm, analysts say. In this way it resembles Wall Street darling MasterCard ma rather than Discover Financial Services (NYSE:MS) (NYSE:DFS) dfs, whose stock slid 13% after reporting first-quarter results Wednesday. "Obviously (the market likes) the fact that Visa is a financial services company without the credit risk," said Morningstar analyst Michael Kon. "The growth comes from overseas markets, and obviously when the dollar is in free-fall, exposure to foreign markets is something that people like to see." Kon estimated the fair value of the stock at 74 in a Wednesday note. Despite sluggish U.S. consumer spending, what's really driving Visa's growth is the world's conversion to plastic, he says.

"In some locations in the world, when people move from lower to middle or upper classes, they skip checks and go straight from cash to cards," Kon said. Visa's results have rocked and rolled over the last year. The company enjoyed triple-digit profit growth for three quarters before suffering a loss in the third quarter of 2007. In its prospectus, Visa credited a fee hike for the growth. The loss came from a legal settlement, one of many lawsuits that are sucking up Visa's funds.

But Visa's management has pledged 20% annual profit growth for at least the next two years. Brian Hamilton, CEO of financial-analysis software firm Sageworks, says he likes Visa's honesty about these issues in its prospectus.

"I like their language -- it's very clear," he said. "I think they're managing expectations well in the offering documents."

In a market that more than one analyst has called "schizophrenic," it remains to be seen whether Visa can keep its momentum. MasterCard has surged 432% since its May 2006 IPO. But Visa's current price already gives it a similar price-earnings ratio to its smaller rival, notes analyst Nicholas Einhorn of Renaissance Capital. They may leave little room for aftermarket growth. Einhorn also says the market might also be chasing Visa because it's something like the last unicorn. All the other major U.S. credit card companies have gone public. And there's nothing remotely similar on the horizon for 2008's dismal IPO market, which is turning out new issues at less than half the rate of 2007. As if to underscore the point, Wednesday also saw the debut of CardioNet, a tiny young medical device maker. This more conventional IPO told a familiar story for 2008: It cut its terms on Tuesday, priced at the low end of its range and still dropped on its first day. "I don't think investors are going to start conflating Visa with other IPOs," said Einhorn. "But when investment banks see people putting money into Visa, maybe they'll start thinking it's a good time to go public."