

PayPal (PYPL) is a financial technology company that provides software that allow people to easily transfer money between each other. Their product has been in the market for more than two decades and has millions of users, mostly in the US. The company makes money by taking a fee of the total transaction value in the platform, small credit platforms such as buy now pay later, fees from merchants using their platform (Braintree, a platform owned by PayPal, is a key payment processor of Uber and Airbnb) and their other platforms P2P platforms, mainly Venmo, that has gained a lot of popularity in the last few years for a fast and reliable payment system.

The company is generally in great shape, growing revenue 7% YoY, increasing total value of transactions also by 7%. Their biggest revenue driver has been their checkout platforms that classify as branded and unbranded. Branded is when the PayPal button is clearly visible in the checkout and the customer knows that they're buying with PayPal and unbranded is when the payment is processed by PayPal but the customer is not necessarily aware when checking out.

Venmo takes up 17% of their total revenue and has been a great vehicle for people to easily transact money among themselves. This has the ability to expand in numbers and in margins in the short term, since, even with the introduction of Zelle as a competitor, people prefer to pay using Venmo and PayPal has developed a great brand and trust behind it.

However, PayPal's valuation is what really attracts me to the stock right now. The stock currently trades at 17x Unlevered FCF and 15x earnings, way below their mean of 35x since 2020. Their margins are still very stable and healthy, hovering around 20% FCF margin and 40% gross. I understand that the company will probably not go back to their 30x FCF levels now that their growth has stabilized at around 4-7% per year.

They could, by all means, develop new products or improve current ones in order to foster more growth. This is mainly about the short term credit segment (buy now pay later) that PayPal has been offering and their debit card, which has seen nearly 100% of growth YoY. PayPal could keep growing at a great pace in the future by exploring new markets or solutions, however, keeping myself on the conservative end, I will not evaluate the stock as if they're going to grow substantially like years prior. I'll keep my valuation at an expected growth of 4% per year for the next 5 years.

The great aspect of PayPal that attracts me to the stock right now, is their announced \$15 Billion share buyback program. The company repurchased \$1.2 Billion worth of shares in 2024, under their now expired program, and intend to repurchase \$6 Billion more in 2025. At this moment, PayPal trades at around \$60B in market capitalization, which means that, assuming no growth, we could see a repurchase of 10% of shares in 2025, which could boost their earnings per share figures and massively increase shareholder value.

I intend to have a solid position of PayPal stock in my portfolio, at around 10-12% weight, as the company is very solid, presents a really strong MOAT and is dedicated to delivering shareholder value.

Assuming 4% revenue growth, 20% FCF margin and a regression to around 20x FCF multiple, I expect 21% CAGR for the stock over the next 5 years - not even considering the share buybacks. I'll assume "only" 8% of shares are repurchased in the first year and this number decreases for later years. Considering the buybacks we can predict around 25% CAGR

for the next 5 years. This is a spectacular return for a great company and I intend to harness it as much as possible

	Revenue (M)	Revenue Growth	FCF margin	Share count (M)	share change		
Y0	\$31.797,00	4%	20%	1039	-8%	Company	PYPL
Y1	\$33.068,88	4%	20%	955,88	-6%		
y2	\$34.391,64	4%	20%	898,5272	-3%		
y3	\$35.767,30	4%	20%	871,571384	-3%		
y4	\$37.197,99	4%	20%	845,4242425	-3%	market cap (M)	59.591,96
y5	\$38.685,91	4%	20%	820,0615152	-3%	Future MKT Cap(M)	154.743,65
						Multiple	20
Y5 FCF	\$7.737,18			current share price	\$60,27	per share	188,6976117
						return (CAGR)	25,64%