

PayPal Stock: Definitely Undervalued, But Something Is Wrong

Dec. 09, 2021 12:05 PM ET | PayPal Holdings, Inc. (PYPL) | 137 Comments | 81 Likes

Summary

Three completely different approaches indicate that PayPal is fundamentally undervalued. Most likely it is so.

Are we so sure that the market has already bottomed out? A bottom, like a peak, is always well defined only after the fact.

The very fact that the company is clearly undervalued, but continues to fall, is very alarming. In fact, this means that we are not taking into account some important factors.



Michael V/iStock Editorial via Getty Images

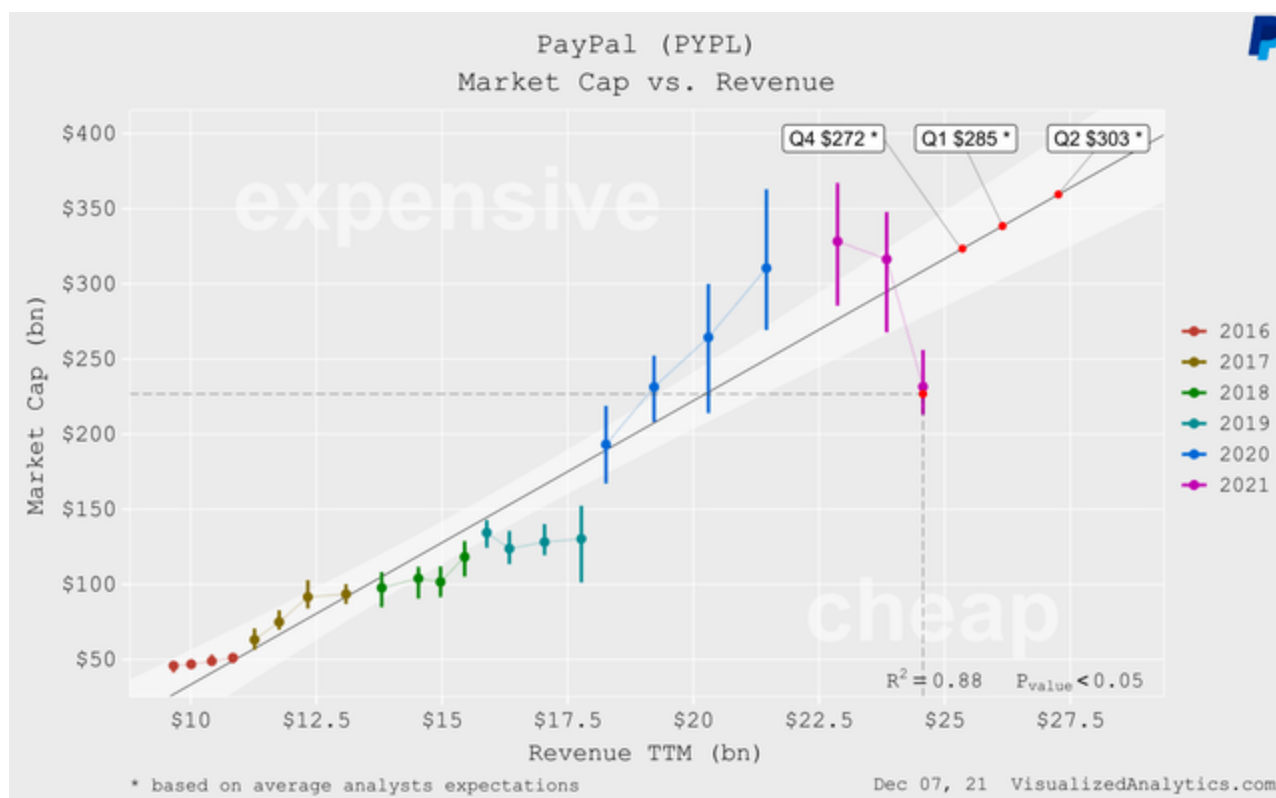
Definitely Undervalued

When it is argued that a company is undervalued, it usually means that the price of the given company is lower than its fundamental value. At the same time, the **price** is the result of the balance between supply and demand in the market. And the **value** is a kind of modeled price based on fundamental internal and external factors. *In other words, when we talk about the value of a company, we are always based on a certain model.*

In this block, I will present three models of PayPal's (PYPL) fundamental value. Each of these models has its own strengths and weaknesses, but the fact is that they all show approximately the same result.

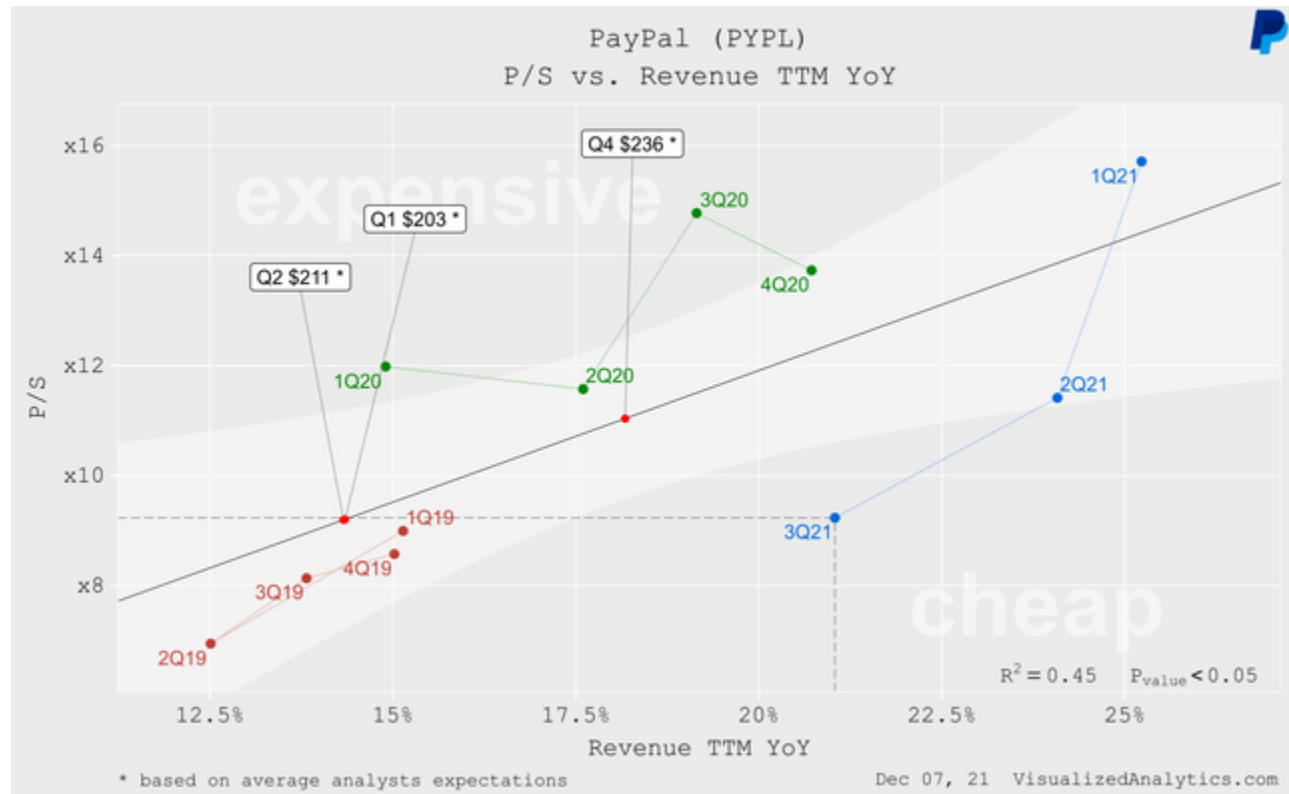
When building the first model, I proceed from the assumption that there are **three key factors** that determine a company's balanced level of capitalization.

PayPal is a growth company. This means that the quantitative growth of the company is currently of more interest to investors than the qualitative one. Therefore, the first factor is the absolute size of the company's revenue. This parameter determines the base level of the company's capitalization:



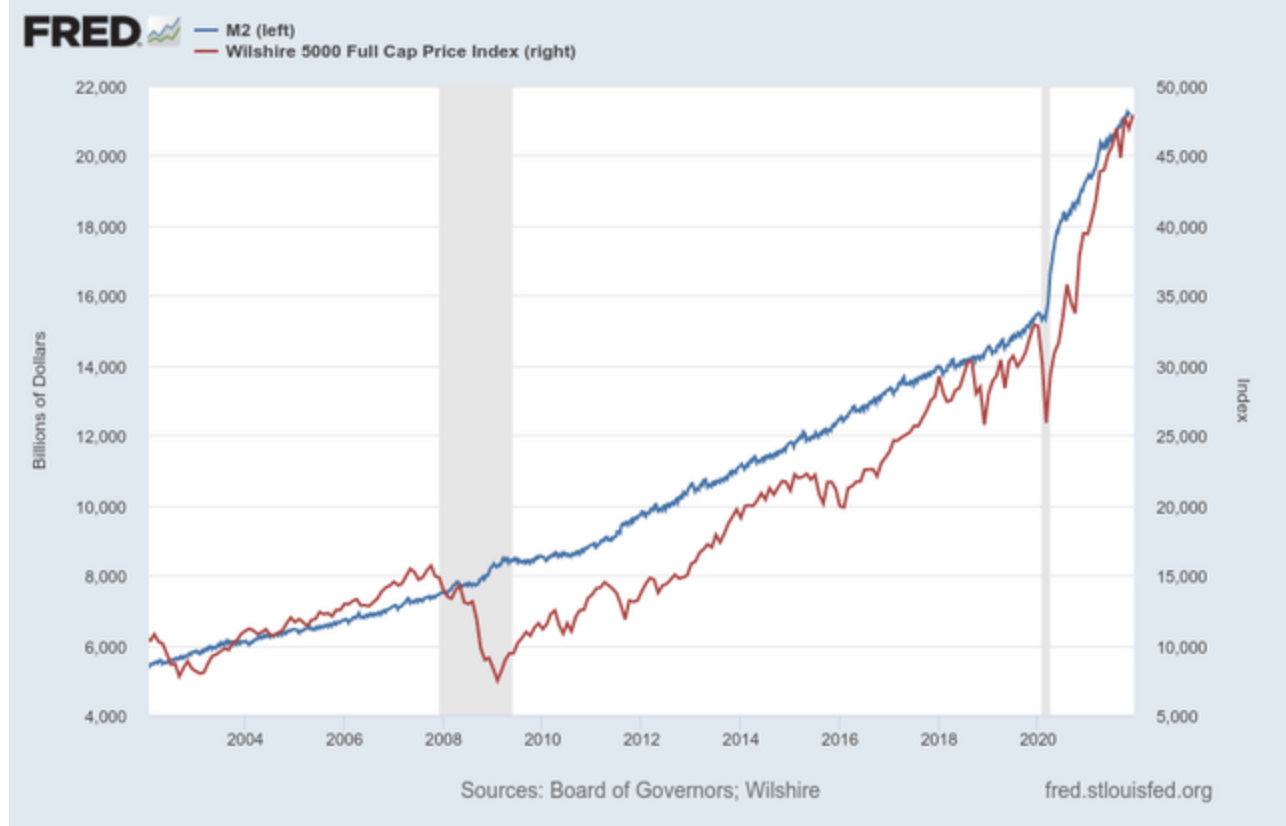
Source: visualizedanalytics.com

The second factor is the **rate of revenue growth**. The influence of this factor is confirmed by the fact that there is a direct relationship between the rate of growth of the company's revenue and the level of its multiples.



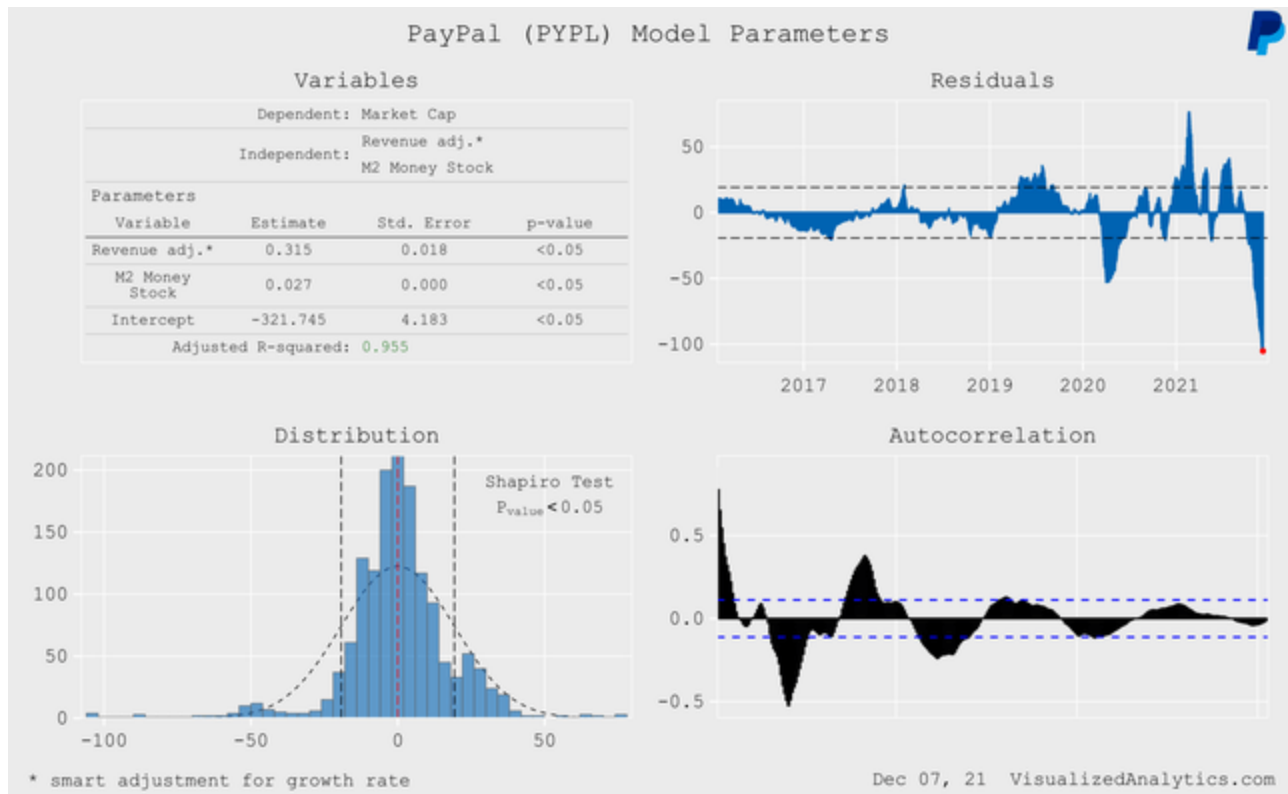
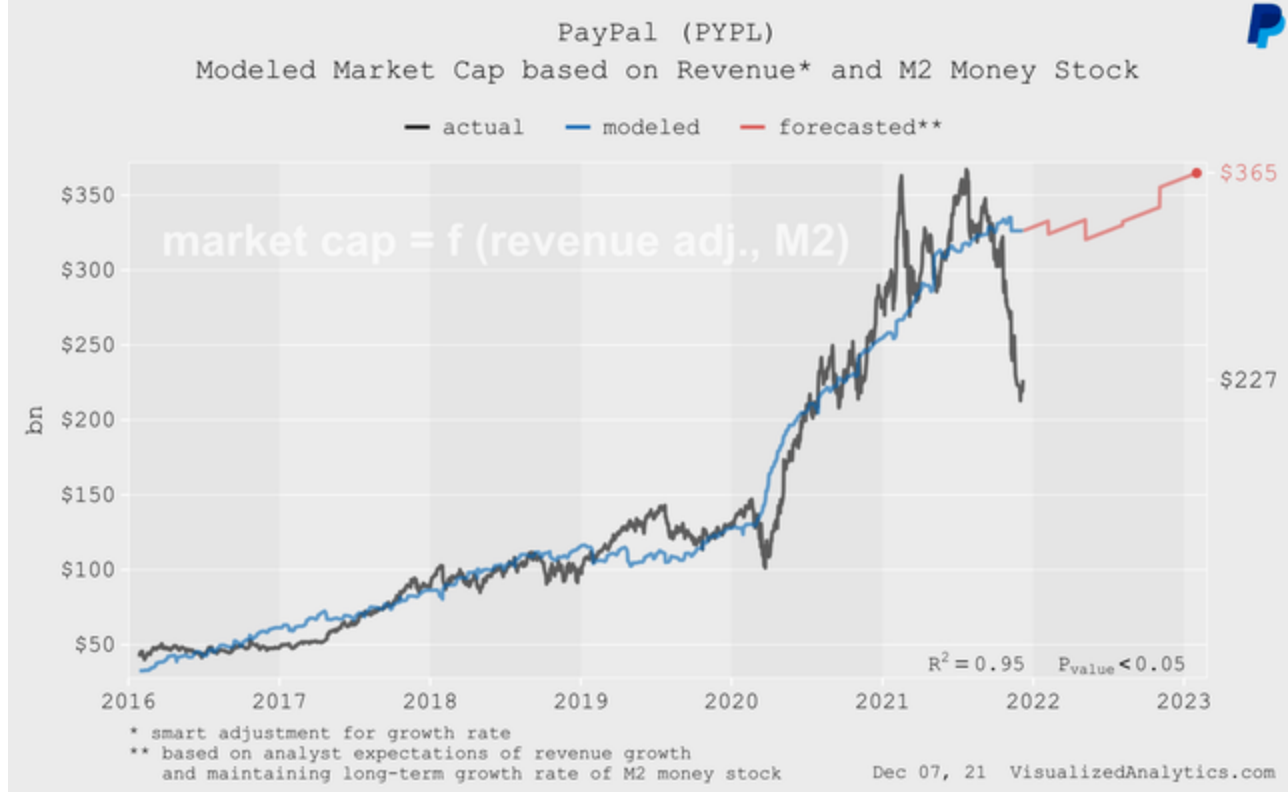
Source: visualizedanalytics.com

And finally, the third factor is **the U.S. money stock** (M2 aggregate). The influence of this factor is obvious. The greater the supply of money, the greater, in principle, the capitalization of the U.S. stock market can be.



Source: fred.stlouisfed.org

Using statistical methods, I get the following model:



Source: visualizedanalytics.com

According to this model, the current fundamental value of the company's share exceeds \$300.

Now let's look at the standard DCF model.

When predicting PayPal's revenue for the next ten years, I proceeded from the average expectations of [analysts](#). Also, the model assumes that the operating margin will gradually decline to 13%, which can be regarded as a pessimistic scenario. The relative size of CAPEX is assumed to be 7%, which is higher than the average for the previous five years.

Here is the calculation of the Weighted Average Cost of Capital:



PayPal (PYPL)	
Weighted Average Cost of Capital	
Risk-free Rate of Return*	1.48%
Equity Risk Premium**	4.72%
Expected Market Return	6.20%
3 year Beta	1.13
CAPM	6.83%
Market Value of Equity (bn)	\$226.74
Market Value of Debt (bn)	\$7.95
Total Market Value (bn)	\$235
Equity	96.61%
Debt	3.39%
Tax Rate***	25.76%
After Tax Cost of Debt	3.26%
Cost of Equity	6.60%
WACC	6.49%

* US 10-year Bond Yield

** According to <http://pages.stern.nyu.edu/~adamodar/>

*** According to OECD.Stat (COMB_CIT_RATE)

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Source: visualizedanalytics.com

And here is the model itself:

PayPal (PYPL)	Historical					Projected										Terminal Year
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Revenue	10.8	13.1	15.4	17.8	21.5	25.4	30.1	36.6	43.3	50.7	59	68	77.8	88.4	99.8	112
YoY		21.3%	17.6%	15.6%	20.8%	18.1%	18.5%	21.6%	18.3%	17.1%	16.4%	15.3%	14.4%	13.6%	12.9%	1.5%
Operating Income	1.6	2.3	2.5	2.8	3.4	4.4	5.1	6	6.9	7.9	8.9	10	11.1	12.2	13.4	14.6
Operating Margin	14.6%	17.2%	16.2%	15.7%	16.0%	17.3%	16.8%	16.4%	16.0%	15.6%	15.1%	14.7%	14.3%	13.9%	13.4%	13.0%
Tax	(0.2)	(0.4)	(0.3)	(0.5)	(0.9)	(1.1)	(1.3)	(1.5)	(1.8)	(2)	(2.3)	(2.6)	(2.9)	(3.2)	(3.5)	(3.7)
Tax Rate	14.5%	17.9%	12.7%	19.3%	25.2%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%
NOPAT	1.4	1.9	2.2	2.3	2.6	3.3	3.8	4.5	5.1	5.9	6.6	7.4	8.3	9.1	9.9	10.8
Adjustments for Non-Cash Charges																
Depreciation and Amortization	0.7	0.8	0.8	0.9	1.2	1.4	1.7	2.1	2.5	2.9	3.4	3.9	4.4	5	5.7	7.8
as % of Revenue	6.7%	6.1%	5.0%	5.1%	5.5%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Share-based compensation	0.4	0.7	0.9	1	1.4	1.5	1.7	2	2.2	2.5	2.7	2.9	3.1	3.2	3.3	3.4
as % of Revenue	4.0%	5.6%	5.5%	5.7%	6.4%	6.1%	5.8%	5.5%	5.2%	4.9%	4.6%	4.2%	3.9%	3.6%	3.3%	3.0%
Transaction and loan	1.1	1	1.3	1.4	1.7	2	2.4	2.9	3.4	4	4.7	5.4	6.2	7	7.9	8.9
as % of Revenue	10.0%	7.7%	8.2%	7.8%	8.1%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Net gains on investments			(0.1)	(0.2)	(1.9)	(0.9)	(1.1)	(1.3)	(1.5)	(1.8)	(2.1)	(2.4)	(2.8)	(3.1)	(3.5)	(4)
as % of Revenue			-0.6%	-1.2%	-8.9%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%	-3.6%
Other		(0)	(0.1)	(0.1)	0	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
as % of Revenue		-0.2%	-0.6%	-0.8%	0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Changes in Working Capital																
Accounts receivable	(0.1)	0	(0.1)	(0.1)	(0.1)											
Accounts payable	0	0.1	0	0	(0)											
Income taxes payable	0.1	0	(0)	(0)	(0.2)											
Other assets and liabilities	0.3	1.6	0.4	0.7	1											
Net Decrease / (Increase)	0.3	1.7	0.4	0.6	0.7	0.7	0.8	1	1.2	1.4	1.6	1.9	2.2	2.5	2.8	3.1
as % of Revenue	2.6%	13.2%	2.3%	3.2%	3.1%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
CAPEX	(0.7)	(0.7)	(0.8)	(0.7)	(0.9)	(1.8)	(2.1)	(2.6)	(3)	(3.6)	(4.1)	(4.8)	(5.4)	(6.2)	(7)	(7.8)
as % of Revenue	-6.2%	-5.1%	-5.3%	-4.0%	-4.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%
FCF						6.21	7.18	8.50	9.78	11.15	12.60	14.10	15.64	17.22	18.81	494.80
Discount Rate (WACC)						6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	5.9%
PV of FCF						5.83	6.33	7.04	7.61	8.14	8.64	9.08	9.46	9.78	10.03	278.93
Total PV of FCF	360.86															
Debt	(7.95)															
Cash	13.29															
Implied Equity Value	366.20															
Out. Shares	1.2															
Fair Price	\$309															Dec 07, 21 VisualizedAnalytics.com
Potential	62%															

(In high definition)

Source: visualizedanalytics.com

The DCF-based target price of PayPal's shares is ~\$310, offering 62% upside. Let me remind you that I considered a relatively pessimistic scenario for the future development of the company.

Now let's look at PayPal's multiples.

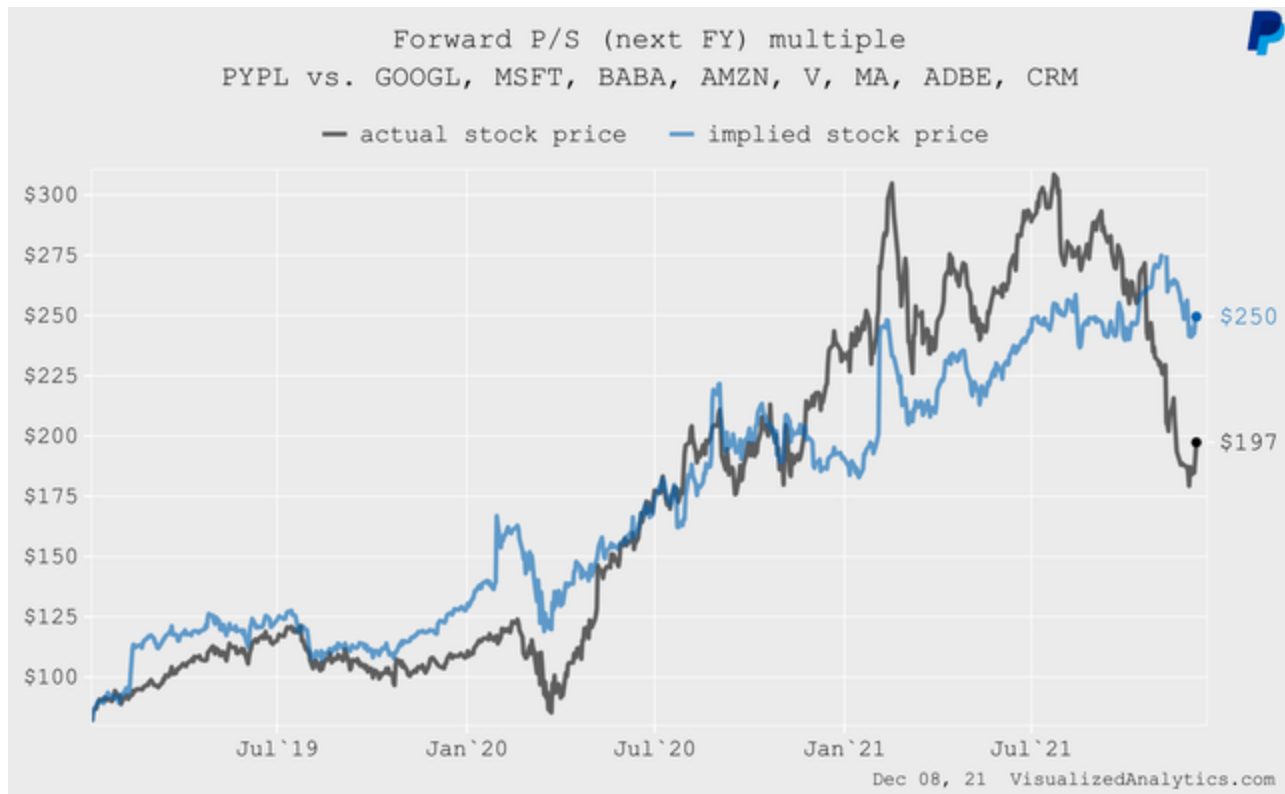
By choosing the forward P/S (next FY) multiple as a basis, we get a good model that indicates the stages when the company is overvalued and undervalued. And now the model indicates that PayPal is undervalued:

Comparable PayPal Valuation



Company	Ticker	Stock price	Shares (bn)	Market Cap (bn)	Avg. Revenue Estimate (next FY) (bn)	Forward P/S (next FY)
Alphabet	GOOGL	\$2,964	0.68	\$2,005.02	\$296.81	6.76
Microsoft	MSFT	\$335	7.57	\$2,534.72	\$224.12	11.31
Alibaba Group	BABA	\$125	2.72	\$340.72	\$161.37	2.11
Amazon	AMZN	\$3,523	0.52	\$1,814.43	\$554.28	3.27
Visa	V	\$209	2.17	\$454.55	\$32.26	14.09
Mastercard	MA	\$342	0.99	\$338.92	\$22.56	15.02
Adobe	ADBE	\$653	0.48	\$314.14	\$18.18	17.28
Salesforce	CRM	\$266	1.00	\$266.58	\$31.77	8.39
					1st Quartile	5.88
					Median	9.85
					3rd Quartile	14.32
PayPal	PYPL	\$197	1.19	\$234.25	\$30.07	7.79
					Implied Share Price	
					1st Quartile	\$149
					Median	\$250
					3rd Quartile	\$363

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Source: visualizedanalytics.com

If you adjust the previous multiple for the expected revenue growth, the result will not change much:

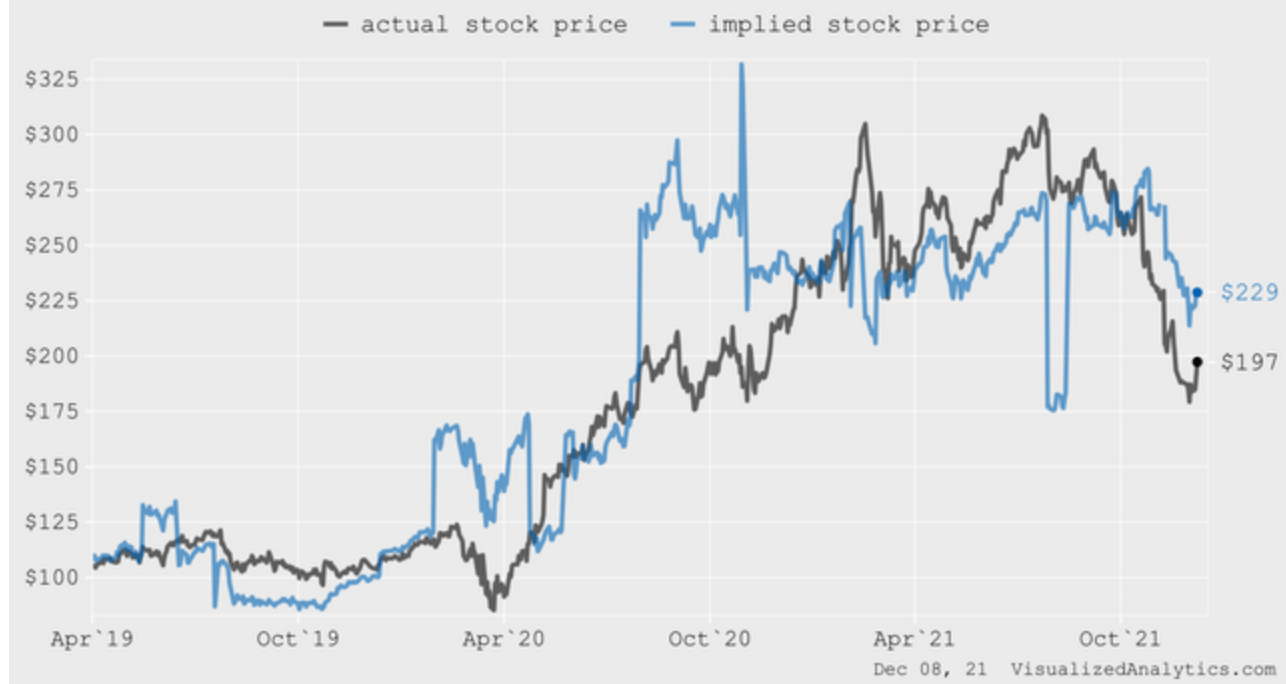
Comparable PayPal Valuation



Company	Ticker	Stock price	Avg. Revenue (last FY)	Avg. Revenue Estimate (bn) (current FY)	Estimated Annual Growth	Forward P/S to Growth (current FY)
Alphabet	GOOGL	\$2,964	\$182.53	\$254.09	39.21%	0.20
Microsoft	MSFT	\$335	\$168.09	\$196.75	17.05%	0.76
Alibaba Group	BABA	\$125	\$107.08	\$136.89	27.83%	0.09
Amazon	AMZN	\$3,523	\$386.06	\$470.56	21.89%	0.18
Visa	V	\$209	\$24.11	\$28.27	17.25%	0.93
Mastercard	MA	\$342	\$15.30	\$18.84	23.13%	0.78
Adobe	ADBE	\$653	\$12.87	\$15.76	22.47%	0.89
Salesforce	CRM	\$266	\$21.25	\$26.4	24.22%	0.42
					1st Quartile	0.19
					Median	0.59
					3rd Quartile	0.81
PayPal	PYPL	\$197	\$21.45	\$25.37	18.25%	0.51
					Implied Share Price	
					1st Quartile	\$76
					Median	\$229
					3rd Quartile	\$314

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Forward P/S to Growth (current FY) multiple
PYPL vs. GOOGL, MSFT, BABA, AMZN, V, MA, ADBE, CRM



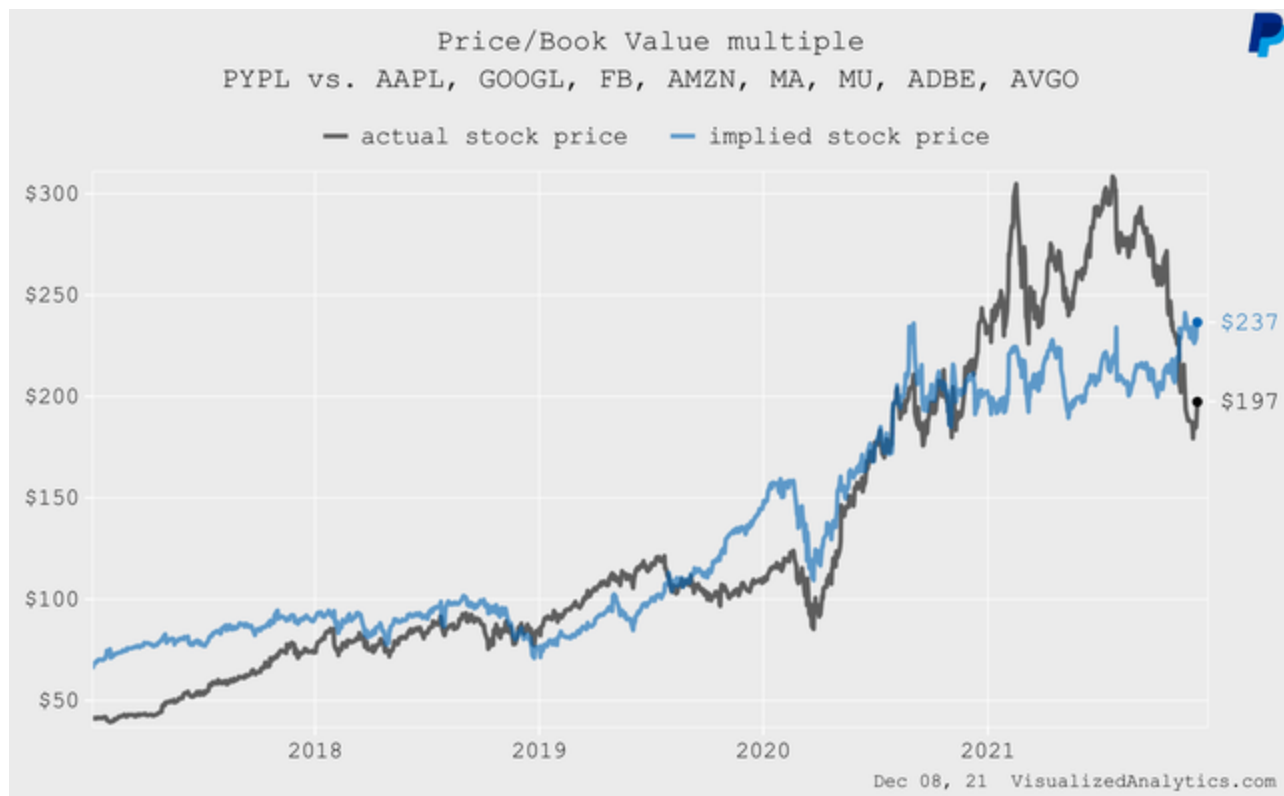
Source: visualizedanalytics.com

If we consider such a specific multiple as P/BV, then the company also does not look expensive:



Company	Ticker	Stock price	Shares (bn)	Book Value (bn)	P/B
Apple	AAPL	\$175	16.64	\$63.09	46.16
Alphabet	GOOGL	\$2,964	0.68	\$244.57	8.20
Facebook	FB	\$331	2.86	\$133.36	7.09
Amazon	AMZN	\$3,523	0.52	\$120.56	15.05
Mastercard	MA	\$342	0.99	\$6.70	50.56
Micron	MU	\$86	1.14	\$43.93	2.23
Adobe	ADBE	\$653	0.48	\$14.41	21.79
Broadcom	AVGO	\$589	0.43	\$24.34	10.37
				1st Quartile	7.92
				Median	12.71
				3rd Quartile	27.89
PayPal	PYPL	\$197	1.19	\$22.09	10.60
				Implied Share Price	
				1st Quartile	\$147
				Median	\$237
				3rd Quartile	\$519

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Source: visualizedanalytics.com

So, three different approaches indicate that PayPal is fundamentally undervalued. Therefore, in what follows, I will proceed from the assumption that this is so.

PART #2

But Something Is Wrong

I am definitely sure that I am not the smartest person on earth. I am even more confident that the information that I own is much more scarce than the information that large investors own. And understanding this helps me to assess the situation more sensibly.

I look at the market and this is what I see:



Source: TradingView, Author

Over the past five months, the company's price has dropped by more than 40%. And after the publication of the latest financial results, there was a an "exhaustion gap" (a strong bearish signal).

So, the company is undervalued, but at the same time demonstrates clearly bearish dynamics in the market. And this cannot be explained by the fact that other investors do not understand that the company is undervalued.

The situation will become somewhat clearer if you look at the weekly chart:

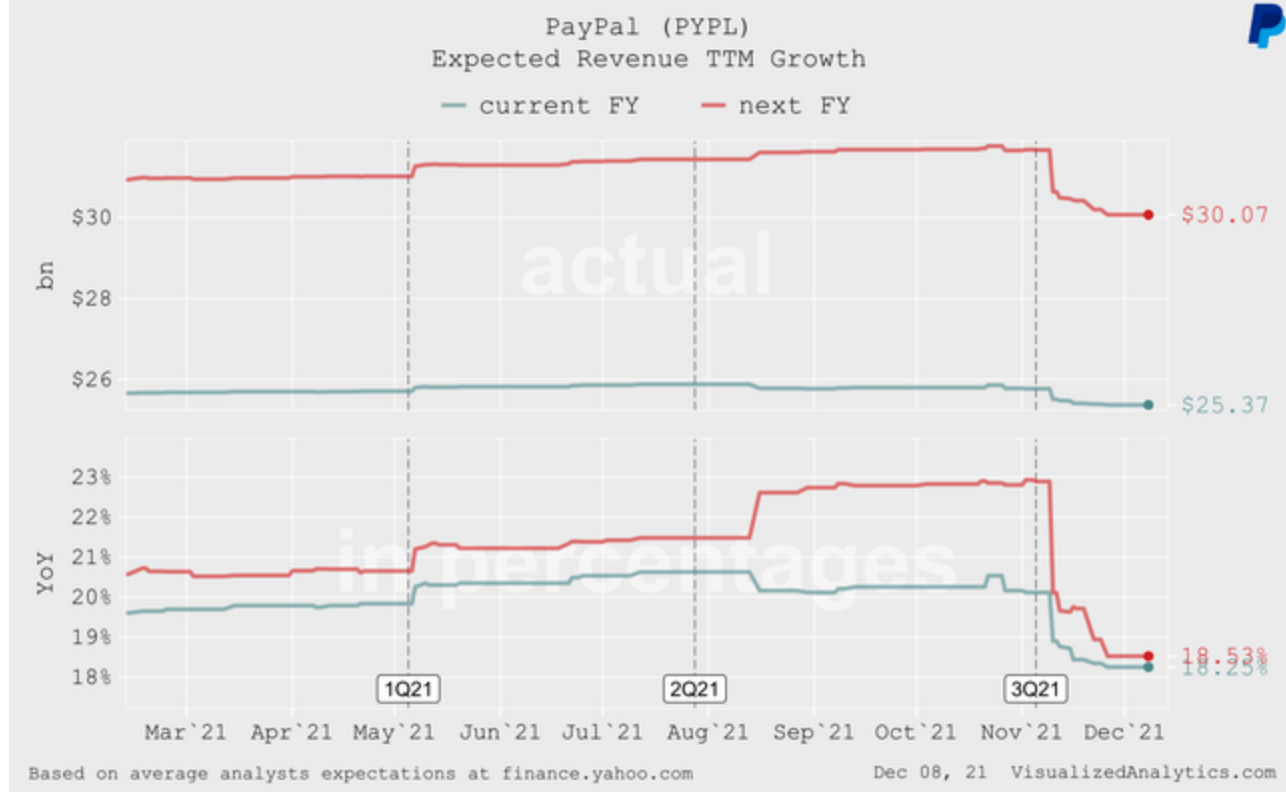


Source: TradingView, Author

If we consider the dynamics of the company's shares over the past two years, then the current decline looks like a logical correction. But are we so sure that the market has already bottomed out?

First, technically, strong support is at \$170. But even this may not be the limit. A bottom, like a peak, is always well defined only after the fact.

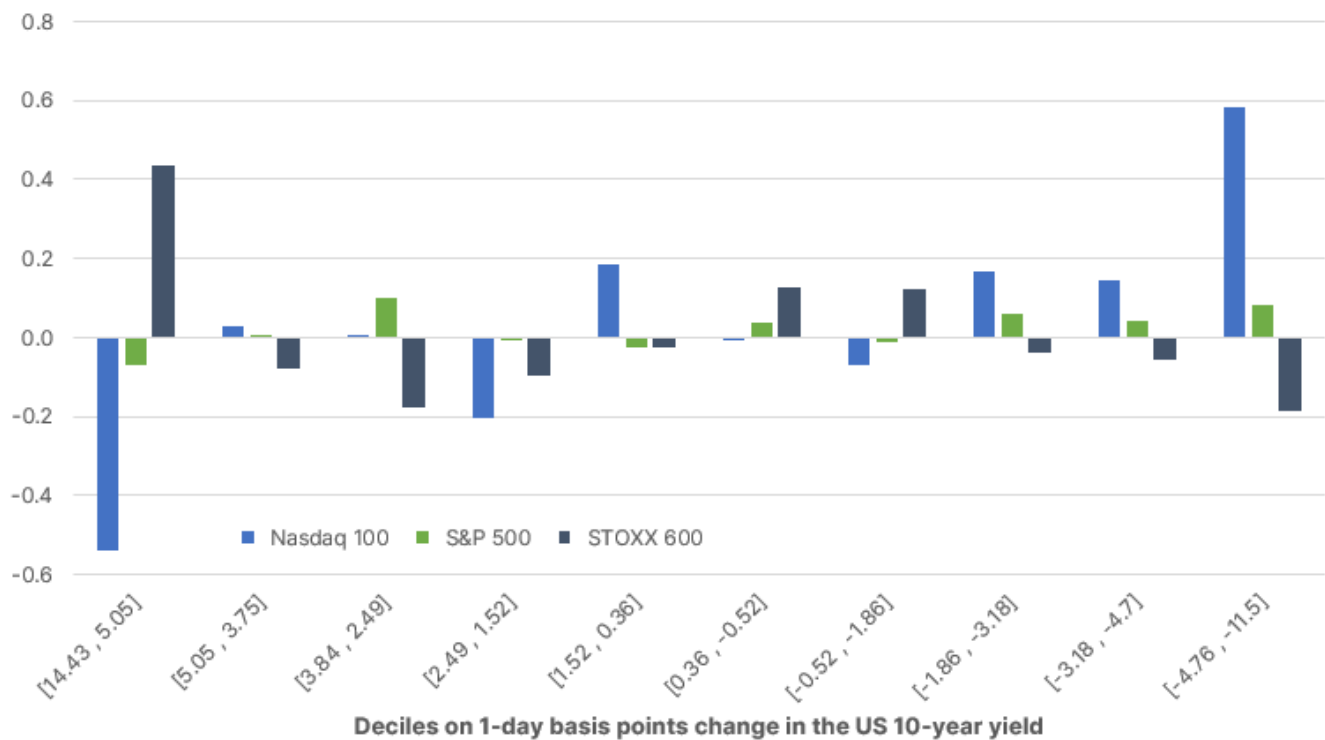
Secondly, the company's management expects a slowdown in growth rates in the near future. And at the moment, even judging by the dynamics of analysts' consensus, it is not clear how strong this slowdown can be:



Source: visualizedanalytics.com

Third, the risks of the coming year should not be underestimated. It turned out that the Omicron [strain](#) is not as dangerous as expected. But high inflation has not gone anywhere and the Fed will have to respond to this in the near future. At the same time, judging by history, technology stocks are most sensitive to changes in monetary policy:

Excess daily log returns over MSCI World in %



Source: Bloomberg and Saxo Group

Source: Saxo Group

In short, the very fact that the company is clearly undervalued, but continues to fall, is very alarming. In fact, this means that we are not taking into account some important factors. At the very least, we have no reason to assert that the market has already bottomed out.

Bottom Line

So what should you do in this situation? In my opinion, you just have to wait. Yes, the company is fundamentally undervalued, but judging by the market, this is not yet in the focus of a critical mass of investors.

The market itself will tell you when to buy. From the point of view of technical analysis, in my opinion, the entry point is the gap that happened in November:



Source: TradingView, Author

In any case, it is safest to buy when the upward dynamics of the market has already been formed. But at the moment, this is clearly not the case.

This article was written by



Oleh Kombaiev

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Disclosure: I/we have no stock, option or similar derivative position in any of the companies mentioned, and no plans to initiate any such positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

81 Likes

137 Comments

Comments (137)

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Newest





Glenn Abrett

12 Dec. 2021, 11:45 AM

Comments (2.96K) | + Follow

Wrong blog. This is the part of SA that is not behind a paywall. The part that is bloated by numerologists/astrologists (read chartists), doom and bloomers, dividend religion and so forth. Actual sensible analysis is pretty rare. Thanks for a great article Mr. Kombaiev. I own paypal and have been aghast at the recent fall. I don't really see any huge red flags. The only thing I can say here is that the market often behaves irrationally for fairly extended periods though earnings and earnings growth eventually prevail. I have added a little more during the fall but am now simply ignoring the stock and holding to my position.

[↪ Reply](#) [👍 Like \(4\)](#)

F

Florian Steinberg

13 Dec. 2021, 3:29 AM

Comments (3.27K) | + Follow

[@Glenn Abrett](#) It still trades at a PE of 40. I think Papyal was simply way to richly valued and the market realized this recently. Paypal is still not cheap so it could revalue a bit further.

I am slowly getting interested in Visa or Paypal.

[↪ Reply](#) [👍 Like \(2\)](#)

A

AlexZ5

14 Dec. 2021, 2:09 AM

Comments (44) | + Follow

[@Glenn Abrett](#) It's yet another wrong analysis simply because it's incomplete. If your model can't explain market's behavior then it's incomplete rather than the market being wrong. But these analysts have been trying to persuade us of the opposite. It isn't going to work except for the gullible. The market needs to go through a correction from inflated P/E to where it was before Covid. That means either a quick correction or a long stagnation.

[↪ Reply](#) [👍 Like](#)

R

raman07

12 Dec. 2021, 10:04 AM

Comments (60) | + Follow

[\\$V](#) & [\\$MA](#) to own this fintech.. they are rapidly evolving ..[\\$PYPL](#) growth is slowing.. it will come down and settle at [\\$V](#) multiple around PE=30..so may be another leg downside.. before earning catch-up..long term very good holding

[↪ Reply](#) [👍 Like \(2\)](#)

U

unknown genius

12 Dec. 2021, 5:47 AM

Premium Comments (19) | + Follow

Too many question marks and the moat is not that strong so the decision is I will sit this one out.

[↩ Reply](#) [👍 Like](#)**PaulBishop**

11 Dec. 2021, 8:47 PM

Premium Comments (91) | + Follow

I am a merchant that used to offer PayPal to our customers for many years. While we still offer it in limited circumstances, we removed it as an option at checkout. The problem was a PayPal policy change. PayPal Charges a 2.9% fee for USA customers and 5% or more from International customers. Our customers place large orders from time to time 10-15K. A little over a year ago after ignoring a PayPal policy change notification (my bad). We discovered on a 12K order that a customer had to cancel. That PayPal would not refund the \$348.00 fee. They had updated their policies that the fees they collect were no longer refundable. We had to update our policies to inform our customers that if they decide to cancel or return for any reason the fee that PayPal charges would not be refunded. PayPal used to be 10-20% of our payments. What we used to do with PayPal in a day is now what we do with them in a year. Also about 4 years ago PayPal approached us to gateway or Credit Card Charges direct with them. They offered us a 1.9% fee compared to the 2.9% we were paying at the time with the gateway we were using at the time. It turned out that on page 6 of the 13 page contract we signed with that gateway, were in year 2 under a 5 year obligation. PayPal tried to convince us to pay the hefty termination fee, citing the savings @ 1.9%. When PayPal refused to give us a contract guarantying the 1.9% we refused. I was pissed, I wanted that 1.9%. A 1% advantage is everything in a business sometimes. I went after the gateway we under contract with, we threatened to sue them for burying the 5 year term on page 6 of a 13 page contract. Further we would pull all of our other business and go elsewhere. After a few months of legal stuff they released us from the contract. We moved all of our Credit Card Processing to PayPal. After a year at 1.9% PayPal informed us they could not longer honor that fee. Had we paid the termination fee they were encouraging us to pay, we would have lost out big time. The 1.9% CC fee was nirvana for a year. That being said we will not be using PayPal for anything other than the odd customer who wont use anything else as payment.

[↩ Reply](#) [👍 Like \(13\)](#)

C

Cozyhilly

12 Dec. 2021, 5:14 AM

Comments (438) | + Follow

[@PaulBishop](#) Thanks for sharing your experience. If I may, after you removed PayPal as an option at checkout, did your sales drop as a result of it? Did you replace PayPal with another payment method?

[↩ Reply](#) [👍 Like \(1\)](#)

S

stozwald

12 Dec. 2021, 1:21 PM

Premium Comments (8) | + Follow

[@PaulBishop](#) Thank you for your account of your frustrations with PayPal--investors should certainly take note. However, it's also important to note that the policy of non-refundable fees for refunds is pretty much industry standard. Here is the URL for a Stripe support page that verifies that this is their policy: support.stripe.com/...

And here is a URL for adyen's Terms & Conditions (from 2017--I didn't find a later version) confirming the same policy (paragraph 7.6): www.adyen.com/...

PayPal certainly seems to have bungled their relationship with you, but I don't see that their non-refundable fees (which began over 2 years ago) are a reason to expect merchants to leave in droves.

[↩ Reply](#) [👍 Like \(2\)](#)**PaulBishop**

12 Dec. 2021, 7:41 PM

Premium Comments (91) | + Follow

[@Cozyhilly](#) no customers adjusted

[↩ Reply](#) [👍 Like](#)**PaulBishop**

12 Dec. 2021, 7:47 PM

Premium Comments (91) | + Follow

[@stozwald](#) stop advertising on SA with junk responses

[↩ Reply](#) [👍 Like \(1\)](#)

S**stozwald**

12 Dec. 2021, 9:59 PM

Premium Comments (8) | + Follow

[@PaulBishop](#) Clearly we're done talking about PayPal, but I now have no idea what you are talking about. What would I be advertising? I was correcting the false impression that PayPal's new-ish refund policy was somehow anomalous instead of what it is--industry standard.

[↩ Reply](#) [👍 Like](#)**F****fx_**

Yesterday, 4:25 PM

Comments (1.72K) | + Follow

[@PaulBishop](#) One of the best, because most insightful, comments I have ever read on SA in over a decade! Much appreciated, thank you very much, Sir. My takeaway of all what I know plus your insights is that paypal's best growth period is behind it and that they are now aggressively trying to improve their profit margins which in turn will cost them lots of business, the way they are doing it. Bottom line: paypal's revenue or profit growth or both will disappoint going forward and Mr market seems to sense that already. *(edited)*

[↩ Reply](#) [👍 Like](#)**D****drbob512**

11 Dec. 2021, 5:52 PM

Comments (1.73K) | + Follow

The main thing "wrong" with Paypal is that the hypergrowth & many growth stocks have crashed (see SQ, SOFI) as rotation away from growth into value stocks has been going on for a few weeks & could continue but eventually these beaten down fintech & tech stocks will recover strongly. PYPL, SQ and especially SOFI will do just fine as economy reopens.

[↩ Reply](#) [👍 Like \(1\)](#)



nick_the_professor

11 Dec. 2021, 4:55 PM

Comments (364) | + Follow

Their business model isn't something that cannot be executed by others like Apple Pay. I'm not sure what the rationale was behind potentially buying Pinterest but that also was questionable.

With that said I don't buy stocks that are massively slumping like PayPal is right now. Not really sure what is going on but someone is voting with their dollars and it is hard not to notice *(edited)*

[↩ Reply](#) [👍 Like \(1\)](#)

S

Skih20

11 Dec. 2021, 4:39 PM

Comments (272) | + Follow

A real smart acquisition announcement would go a long way toward easing investor skittishness (after the PINS fiasco). An end to tax-loss selling will likely create price support near current level.

[↩ Reply](#) [👍 Like](#)



DeadManInvesting

11 Dec. 2021, 12:18 PM

Premium Comments (81) | + Follow

Very interesting approach, and thank you for posting. I think the flaw in the argument is that you use high-multiple companies as the standard for comparison, and only on this basis PayPal appears undervalued relative to the others. Run the numbers using the multiples we've seen in sold-out bear markets and there isn't a name in the group that couldn't trade at a fraction of its current price. A lesser problem is the uncertainty in projecting revenue and earnings trends out farther than next week. I've no idea what the future holds, but it seems possible that investors looking backward on today might see that PayPal's weak action was a leading indicator.

[↩ Reply](#) [👍 Like \(4\)](#)

M

Mortmain

11 Dec. 2021, 12:00 PM

Comments (19) | + Follow

I'm not convinced it is undervalued. Neither does Morningstar, which has it at a 25% premium. P/E, P/B, EV/EBIT all seem to indicate high valuations, or at least higher than the index. If you chart its price over time, the more recent sizable decline looks like a reversion to the mean. So, you could argue it is headed to where it should be, which Morningstar puts as 150. That looks about right to me too, which might explain why investors will wish to sit it out.

Paypal has a narrow moat and I personally use it less and less. It acts as a secondary intermediary, and I think people find it expensive to use. Like Apple Pay, it doesn't seem to offer tangible advantages anymore. Just my tuppence.

[↩ Reply](#) [👍 Like \(6\)](#)

J

jackc77

11 Dec. 2021, 11:46 AM

Comments (1.03K) | + Follow

Hopefully those bag holders that bought around 300 won't need to wait 20 years to recoup their investment. They might never recoup it though, because there is no guarantee Pay Pal will be useful or relevant 5-10 years from now. Caveat Emptor (*edited*)

[↩ Reply](#) [👍 Like \(2\)](#)**sourdo**

11 Dec. 2021, 11:14 AM

Comments (1.75K) | + Follow

In all the years, I've used PayPal only a couple of times to buy some oddball item from Ebay.

The reality is for 99.9% of what I do, I only need a credit card. With PayPal, I still need a credit card.

I'm not sure why I need a middle man to buy something. I feel my BoA credit card is secure, and has been for well over 20 years.

I no longer have a paypal account, don't need it, and certainly don't miss it.

And why invest in a company I don't need? A big red flag for me.

[↩ Reply](#) [👍 Like \(6\)](#)



zoeshamu

12 Dec. 2021, 8:38 AM

Comments (1.18K) | + Follow

[@sourdo](#) Therein lies the issue. PayPal users want that middle man. Most websites where you use a CC has a problem with security. So, if their websites e.g Target, Tesco, or Macy's are hacked (which happened), your CC information might be compromised directly from their businesses that kept your CC info on file. Also, if you regularly shop on a number of websites, you have to update your CC info on those websites semi-regularly. If you use PayPal, you don't need to. Hence the middle man argument. You only need to keep your CC info on PayPal. PayPal acts as your firewall. Similar to why use a router analogy to prevent security intrusions.

(edited)

[↩ Reply](#)

[👍 Like \(4\)](#)



sourdo

12 Dec. 2021, 9:32 AM

Comments (1.75K) | + Follow

[@zoeshamu](#)

The reality is, credit cards are safe and convenient. I buy online frequently, and in well over 20 years of having the same credit card, there have been only a couple of times I've had to contest a charge (from Nigeria one time), those were quickly dealt with by the bank.

I tried Google pay once, it didn't work, confusing, here's my credit card, done deal.

[↩ Reply](#)

[👍 Like](#)



zoeshamu

12 Dec. 2021, 10:29 AM

Comments (1.18K) | + Follow

[@sourdo](#) I disagree. Storing CC card info on many websites is not safe and not convenient. The problem of identity theft will always be there if we make it easier for criminals. Again, its your choice, just not mine.

Its like going to many grocery stores to buy 10 items instead of going to one one store to buy all items. Pros and cons on both, but convenience is always there for you to choose which fits you. *(edited)*

[↩ Reply](#)

[👍 Like \(3\)](#)

F **Florian Steinberg**
Comments (3.27K) | + Follow

13 Dec. 2021, 3:37 AM

[@sourdo](#) Same here. I recently activated Google Pay on my phone and activated one of my credit cards for Google Pay. It didn't work at my local LIDL store, didn't work at the petrol station so I gave up.

[↩ Reply](#) [👍 Like \(1\)](#)

C **cramarion1**
Premium Comments (78) | + Follow

11 Dec. 2021, 10:33 AM

This is the perfect example of how the market is cyclical (and in my opinion manipulated). There are companies that the market will push down only to rebound later. This is where it takes conviction, do you believe in the company you are buying? I have found that patients usually wins. It is helpful to have articles like this one to helps us understand the company current status in its cycle.

[↩ Reply](#) [👍 Like](#)

T **tonyross1963**
Comments (91) | + Follow

11 Dec. 2021, 8:34 AM

Nicely done. Informative, with plenty of very pertinent data supporting upside potential, yet wisely cautious.

[↩ Reply](#) [👍 Like \(1\)](#)

D **Doggywag**
Comments (2.47K) | + Follow

11 Dec. 2021, 5:50 AM

Good article. I'd rather own the big credit-card companies in this space at this time.

[↩ Reply](#) [👍 Like \(4\)](#)

S

Stomp!

11 Dec. 2021, 1:36 AM

Comments (780) | + Follow

Does anyone think that PYPL is starting to look like a Covid 19 play ?
i mean look at the charts, most of it's growth has been at the peak of the pandemic.
Next possible support around level 179\$+/-2\$
if this breaks then the next possible level will be 169\$...
then 156\$ and 143\$ this one must hold because the next could be 120\$.

I have often seen this pattern , and it's usually caused by a major negative event, and none have taken place, i guess the near or longer... future will tell us.

Anyone ever try to imagine how low the stock could go down in a major market correction ?

i think im gonna simply buy a long PUT@190\$ - 60-90days or so.

[↩ Reply](#) [👍 Like](#)

M

mrbusco2

10 Dec. 2021, 9:34 PM

Premium Comments (6) | + Follow

Maybe Mr. Market foresees future competition. MA recently partnered with BKKT to process bitcoin transactions. Paypal charges 3.9%, whereas BTC transactions can be had for a fraction of that. BTC doesn't have the charge back capability in case of fraud, however, if MA can intervene and maintains an intermediate escrow of some sort then Paypal better watch out.

[↩ Reply](#) [👍 Like](#)



Dobbs99

10 Dec. 2021, 8:14 PM

Comments (209) | + Follow

Why is the company not buying back its shares ?

[↩ Reply](#) [👍 Like \(3\)](#)



msawi11

13 Dec. 2021, 4:21 PM

Premium Comments (519) | + Follow

[@Dobbs99](#) it does every month...but not at scale to move the needle, just to soak up insider dilution. They will need to now in 2022!

[↩ Reply](#) [👍 Like](#)

D

ding dong

10 Dec. 2021, 7:18 PM

Comments (3.44K) | + Follow

Your WACC of bout 7% is too low. And cost of equity of about 6-7% is also too low.

Also the M2 supply has been expanding. The revenue growth rate has expanded because of this. If the M2 stops growing (or even shrinks) they will have to fight for market share to keep revenues growing. So they have tailwinds now which might become headwinds later.

Everything I said would have been meaningless last year. Ultimately it all depends on sentiment of people buying or selling. Numbers mean nothing if people are crazy about buying (and viceversa.)

[↩ Reply](#) [👍 Like](#)



Uncle Pen

10 Dec. 2021, 6:08 PM

Premium Comments (11) | + Follow

I wish every analyst had this kind of humility. --- "I am definitely sure that I am not the smartest person on earth. I am even more confident that the information that I own is much more scarce than the information that large investors own. And understanding this helps me to assess the situation more sensibly."

Personally I think PayPal is slow to take advantage of their dominant market share. They should be heavy into Crypto currency and leading the way for POS transaction capability.

[↩ Reply](#) [👍 Like \(3\)](#)

R

RM16

11 Dec. 2021, 8:21 AM

Premium Comments (174) | + Follow

[@Uncle Pen](#) They had a huge portion of the earnings growth in the past year and half driven from Bitcoin transactions.

[↩ Reply](#) [👍 Like](#)

A

AlexZ5

10 Dec. 2021, 4:42 PM

Comments (44) | + Follow

I will buy at \$150 with more sustainable P/E 35. Buying a low moat stock like PYPL at P/E 45? No way.

[↩ Reply](#) [👍 Like \(3\)](#)

J

jpdejonghvi

10 Dec. 2021, 2:38 PM

Comments (91) | + Follow

Thank you for sharing author. For me the biggest item is investor trust right now and getting buyers to come back post-PINS acquisition attempt. From the time of the leak to confirming and then the failure of it was disappointing as investors took on major value destruction. But alas, that is investing right. While management on ER buy side calls indicated they were in uncharted territory with respect to creating new products and a 2-sided network I myself did not think that the consequence of the failed M&A would've been quite poor imo. Drive that event with the exiting of EBAY off of PYPL marketplaces and they are two headwinds on the company. PYPL will just need to execute from here. As a customer (merchant), I am liking their invoices feature and the opportunity there. Follows in another two letter ticker company's footsteps. Add that with Zettle PoS rollout, BNPL expansion (AUS & GER), other marketplaces growing for PYPL like SHOP or BABA in lieu of EBAY and their Super App ambitions. I believe R/R is worth it here. The scale of PYPL at +400M users and a \$1T GPV run-rate is a powerful advantage not to mention the opportunity is still enormous to add many more.

[↩ Reply](#) [👍 Like \(3\)](#)

R

rarted

10 Dec. 2021, 1:26 PM

Premium Comments (62) | + Follow

So, your three models tell you this should have a fwd pe of 60~70? Seriously? *(edited)*

[↩ Reply](#) [👍 Like \(3\)](#)

T

TWWT

10 Dec. 2021, 12:18 PM

Comments (2) | + Follow

Probably the best analysis I've seen in the last few months on here. Well done!

[↩ Reply](#) [👍 Like](#)



xomcvx

10 Dec. 2021, 11:57 AM

Premium Comments (2) | + Follow

I think it may have a lot to do with Ebay throwing them out

Reply Like (4)



Mark Biwojno

11 Dec. 2021, 9:18 AM

Comments (177) | + Follow

[@xomcvx](#) Great point.

Reply Like



YourHuckleberry

10 Dec. 2021, 11:37 AM

Comments (746) | + Follow

The lower it goes, the more I buy.

Simple as that.

Reply Like (4)

J

jason-marks

10 Dec. 2021, 11:46 AM

Comments (103) | + Follow

[@YourHuckleberry](#) not me, never try to catch a falling knife.. there is no support yet.

Reply Like (2)



GARPdude

10 Dec. 2021, 12:34 PM

Premium Comments (20) | + Follow

[@jason-marks](#) It has bounced off \$180 multiple times with massive buying volume at that price. I'm not saying that this is the ultimate bottom but saying there is no support yet is wrong.

Reply Like (7)



YourHuckleberry

Comments (746) | + Follow

10 Dec. 2021, 2:34 PM

[@jason-marks](#) I'm not catching a falling knife. I have it at a much lower cost basis, sold a few times as it went to the moon this summer and am now buying it back with utter glee. And given my time horizon is 10+ years I'm not worried in the slightest.

[Reply](#) [Like \(1\)](#)

A

AlexZ5

Comments (44) | + Follow

10 Dec. 2021, 4:44 PM

[@YourHuckleberry](#) It's not a monopoly unlike MSFT, GOOGL, FB. Its value in 10+ years is not guaranteed.

[Reply](#) [Like](#)



YourHuckleberry

Comments (746) | + Follow

10 Dec. 2021, 10:23 PM

[@AlexZ5](#) Nothing is guaranteed as even monopolies have unique risks associated with them. Even using one of your examples... it took Microsoft the better part of 20 years to recover from it's little encounter with regulators over monopolistic practices. And to me, a number of the current mega cap techs are far larger & more powerful than Microsoft ever was back in the day.

Which isn't to say I don't own MSFT & GOOGL, too. So I'm not sure what that has to do with me also having fintech in my portfolio with PYPL as my favorite but... whatever. *(edited)*

[Reply](#) [Like](#)

A

AlexZ5

Comments (44) | + Follow

11 Dec. 2021, 4:51 AM

[@YourHuckleberry](#) 10+ investment in GOOGL or MSFT is a lot more secure than in PYPL. Even if all three had exactly the same P/E, P/S, P/B, projected growth, profit margin then PYPL would still be the worst choice due to very specific business - online payments and mounting competition from well established giants. That and many other factors like interest rates hike on the horizon is what all these analyses fail to take into account and why we don't trust them.

[Reply](#) [Like](#)



YourHuckleberry

Comments (746) | + Follow

11 Dec. 2021, 9:19 AM

[@AlexZ5](#) So diversification isn't your thing, huh? Good luck with that.

[↩ Reply](#)

[👍 Like](#)

A

AlexZ5

Comments (44) | + Follow

11 Dec. 2021, 5:17 PM

[@YourHuckleberry](#) I'm all for diversification but not into overpriced and risky stocks.

[↩ Reply](#)

[👍 Like](#)



YourHuckleberry

Comments (746) | + Follow

12 Dec. 2021, 9:49 AM

[@AlexZ5](#) If you don't have any risky stocks... you aren't diversified by definition.

Cheers mate!

[↩ Reply](#)

[👍 Like](#)

A

AlexZ5

Comments (44) | + Follow

12 Dec. 2021, 3:57 PM

[@YourHuckleberry](#) The world isn't just binary...

[↩ Reply](#)

[👍 Like](#)



lebedevil

Comments (112) | + Follow

10 Dec. 2021, 11:37 AM

Good stuff Oleh! Спаси́бо за анализ (*edited*)

[↩ Reply](#)

[👍 Like](#)



Chris Lau

10 Dec. 2021, 11:03 AM

Marketplace Contributor Premium Comments (15.8K) | + Follow

The velocity of customer service (if it invests in it) and technology costs lags the security offered by credit card issuers.

Would you paypal or Visa? Pay by Visa.

Thus PYPL is dropping for a reason.

[↪ Reply](#) [👍 Like \(1\)](#)

9013185412

10 Dec. 2021, 11:01 AM

Comments (187) | + Follow

Didn't PayPal take sides in politics? Didn't allow people to donate to whistleblowers or people like Assange or Snowden?

Once a company takes sides in politics, they cut off half their user base. *(edited)*

[↪ Reply](#) [👍 Like \(11\)](#)



Orangejulius

10 Dec. 2021, 1:58 PM

Comments (3.83K) | + Follow

[@9013185412](#) Remember how poorly that went for Target?

[↪ Reply](#) [👍 Like](#)



BertSchipper

11 Dec. 2021, 4:18 AM

Premium Comments (15) | + Follow

[@9013185412](#) Agree. I'm still holding the shares, but cancelled my account. How ambivalent is that?

[↪ Reply](#) [👍 Like \(1\)](#)

Premium Comments (43) | + Follow

Excellent article. PYPL is an glaring massive bargain. In an ordinary market, buyers would swarm and drive the price up. But, as the author states, 'something is wrong' because PYPL is languishing. And it's not just Paypal. There are a lot of 'bargains' out there right now whose price is depressed and falling.

The author is clever too. I lack the ability to 'see' the problem with stocks like PYPL but something is wrong else institutional buyers would grab it. The 'big boys' seem to believe the future holds some bad news. What could it be?

It doesn't take a genius to assume the problem is that tech-related (and especially fintech) stocks have farther to fall in the months and perhaps years ahead.

And if we take a few steps back and think for a moment, the problems may not be so inscrutable after all. The naysayers might be right. We might really be in a big technology stock bubble that is soon to burst in a massive way. If so, Paypal could actually be a dangerous asset. We may see its value fall a lot more than seems possible---perhaps to less than \$100. I do not know. But somebody seems to.

Technology is the future. That is certain. But every couple of decades, investing becomes too manic and valuations rise ridiculously. We might be there. This may be time to get far away from these kinds of stocks.

Again, I do not know. But the article is excellent.

[↩ Reply](#)

[👍 Like \(8\)](#)



Orangejulius

10 Dec. 2021, 1:55 PM

Comments (3.83K) | + Follow

[@Persaltish](#) It's the valuation. I and other valuation hounds have been pointing at many of these tech stocks as being in a runaway bubble since mid-2020. Many are still in it, like AAPL.

Focusing on P/Sales or only revenue in a possible rising rate environment and ignoring actual earnings from a company that has been around for 5+ years is bonkers, and leads to times like these. These mature companies are being treated like startups, that the seed money will keep flying in to make up for losses. PYPL doesn't grow fast enough to be valued like these companies, and competition is ramping up.

PYPL doubled in less than a year despite only 13% OCF growth over the past 2 years. That's good, but not "double in 12 months" good. I see fair value for PYPL at \$166 from an EPS valuation, and \$150 from an OCF valuation. We're much closer to a reasonable valuation now than anytime since the start of Covid. *(edited)*

[↩ Reply](#) [👍 Like \(5\)](#)

A

AlexZ5

10 Dec. 2021, 4:51 PM

Comments (44) | + Follow

[@Orangejulius](#) Right. If these models presented to us cannot explain lack of interest then they are badly wrong. I agree with your price assessment.

[↩ Reply](#) [👍 Like](#)

A

Addams Family Trust

10 Dec. 2021, 5:54 PM

Comments (567) | + Follow

[@Orangejulius](#) i agree in principle esp if interest rates rise but shouldn't enthusiasm also be part of the equation? so many good value by the numbers names absolutely clobbered by Mr Market

[↩ Reply](#) [👍 Like](#)

D

dmau3

10 Dec. 2021, 6:26 PM

Comments (2.56K) | + Follow

[@Persaltish](#) as you said, no one knows.

[↩ Reply](#) [👍 Like](#)

A

Addams Family Trust

10 Dec. 2021, 9:55 AM

Comments (567) | + Follow

Thanks! Perhaps it's just about competition and seeing Paypal not making the best decisions. A small thing like not allowing accounts for under 18 year olds and offering no alternative for example. Kids need to learn about finance and for generations we have been able to have bank accounts for them. Instead of completely ignoring the fact that these may be your best customers in the future why not do something about it instead of pretending they dont exist. Seems like an easy fix. Maybe small potatoes but also a red flag about mgt
(edited)

 Reply  Like (1)

J

jason-marks

10 Dec. 2021, 11:35 AM

Comments (103) | + Follow

[@Addams Family Trust](#) this is the sort of problem with PYPL novice investors... They don't know or understand the company. You are not going to get an account at a bank as a minor without a signator. PYPL has venmo. kids use that. , you are wrong on your assumptions.

 Reply  Like (3)

A

Addams Family Trust

10 Dec. 2021, 12:17 PM

Comments (567) | + Follow

[@jason-marks](#) i admit to being a fintech novice but i wasnt assuming anything

 Reply  Like

H

HonestThoughts

10 Dec. 2021, 9:36 AM

Comments (1) | + Follow

You are missing the biggest factor that has nothing to do with numbers!!!! The people who invest in the stocks and trust the company. Paypal has lost the trust of the customer by making decisions to ban people's Paypal accounts and keeping Thousands of dollars from each person as a "Fine" for not using their payment system. I invest in stocks and personally know several people who lost 30k plus as PayPal banned their accounts and kept the money, which is NOT there to keep during a pandemic especially! Every person in America knows someone who has been banned from PayPal, with no explanation, and the ripple of this has affected the Trust level from the customers who are the people who invest in stocks.

I personally will Never invest in a company that wrongfully takes people's money because of rules they have buried in their agreement that no one reads!

[↪ Reply](#) [👍 Like \(7\)](#)**pdtor**

10 Dec. 2021, 9:58 AM

Comments (2.05K) | + Follow

[@HonestThoughts](#)

If what you say is true very worrisome, confiscation of \$\$\$\$ without due recourse is a woke investment strategy. As a longtime user of over 50 years of Gillett products, I will never buy an other products due to woke advertising. Voting with my\$\$\$\$\$

[↪ Reply](#) [👍 Like \(9\)](#)

C

Christo P

10 Dec. 2021, 12:17 PM

Comments (448) | + Follow

[@HonestThoughts](#) Hmm first comment makes some radical claims. " A "Fine" for not using their payment system?" What does that mean? If I was grading you I would give you an F for such a poorly constructed sentence. But there's more. "Every person in America knows someone who has been banned from Paypal, with no explanation" Really a bold statement. I am part of that cohort and don't know anyone so that in itself makes this statement false. Lastly if you "personally know several people who lost 30K for banned accounts....and kept the money" I've got to wonder about you. A basic search on this subject indicates why a person might get banned or have their account frozen, but keeping the money....very doubtful and certainly illegal, unless of course the activity was illegal then good luck. LOL

[↪ Reply](#) [👍 Like \(19\)](#)

N

nickfrancois

10 Dec. 2021, 9:21 AM

Comments (320) | + Follow

I love when a quality stock is undervalued.

And I love when something is wrong in the way markets are pricing the stock.

Tells me that this may be a good time to buy.

Especially for long term investors like myself.

Remember to be greedy when everybody is fearful.

And that you will be fine buying great companies at a fair price.

PYPL checks all the right boxes.

So I am buying the correction.

 Reply

 Like (8)



I always remind my self that discounted free cash flow analysis only makes sense if the "free cash" has no strings attached and could be returned to shareholders. In that case adding free cash flow and discounting to present value is equivalent to saying that the company will have enough cash to return more than it's market cap to shareholders in addition to an rate of return on the investment.

However there is a big big big problem. What companies report as "free cash flow" isn't free cash. Maybe a bit of it is. But generally most of it would be better described as "cash that we plan to spend in ways the accounting standards don't deduct from free cash flow". Hence plugging such numbers into discounted free cash flow analysis doesn't make any sense.

Since December 2016 PayPal cash is up \$8.3 billion. It has borrowed \$7.9 billion. It has bought back 33 million shares worth \$6.5 billion, which is generous as most were bought in 2018 and so they probably only spent about half this in reality. Hence being generous cash increase + capital returned - debt increase is \$6.9 billion in almost 5 years. They've reported \$18.7 billion in free cash flow.

Hence I think it would be generous to use half of PayPal's reported free cash flow in a discounted free cash flow model. That would then lead to the simple conclusion that if PayPal is to ever be able to return more than it's current market cap to share holders within a sensible timespan then it will need to grow free cash flow A LOT.

I have no idea if it can or not so I'm going to stay away.

On a side note I used to use PayPal but in lockdown many pubs got apps and they used Google pay. Yesterday was the first time I was offered Google pay as an alternative to Paypal when ordering a Dominos and I instinctively used Google pay. There are still a few online things I'd use PayPal for, such as Amazon, but the observation of this one data point isn't great for PayPal. It will surely remain a super competitive landscape. Fintech is worse than a commodity for a company like PayPal. It is a commodity where competitors like Google, Apple, Amazon etc so have a big built in advantage. *(edited)*

[↩ Reply](#) [👍 Like \(7\)](#)

A

Albert Meyer

10 Dec. 2021, 9:38 AM

Comments (693) | + Follow

[@LongTermAmateur](#) How many of 33 million shares that were repurchased were given to employees in lieu of cash wages? Let's assume 20 million (actual number in 10Ks). How to deal with cost of repurchasing 20 million shares that merely mop up shareholder dilution. Is free cash flow pre-repurchase costs or should we first deduct the said costs from conventionally calculated free cash flow, i.e. what I refer to as unfettered free cash flow?

[↩ Reply](#)

[👍 Like \(1\)](#)



[@Albert Meyer](#) You are right to be skeptical. Every tech company simultaneously issues and buys back stock. It should be treated as an expense up until the share count starts to decrease. I think it is correctly treated as an expense in GAAP earnings, or at least sometimes it is, however I'm almost certain it isn't deducted from free cash flow. It is one of the big reasons free cash flows tend to be overstated by tech companies. The other big reason that I'm aware of is that tech companies tend to acquire companies instead of spending more on research or infrastructure. There could well be other reasons that I haven't thought of.

I don't blame the standards. I suspect it is a general rule that accounting metrics can never be perfect. Capital is always pushed to whatever appears most efficient when measured by the metrics. Therefore naturally over time markets can be expected to distort in unproductive ways that over allocate resource to any item that appears a wonderful use of capital due to the flaws in the metrics. The better the area does the more people forget about the flaws in their assumptions. You get a feedback loop where the flawed metrics do better and better until eventually it blows up and then in the blood bath the accounting metric may well get changed, or at least the error noticed for a while. Then some new imperfection will start drawing the excess capital instead and a new bubble can form.

However as I share your scepticism I used the actual number of shares taken off the market, which was 33 million. 1207 million outstanding in December 2016 and 1174 million in September 2021. I used this to approximate the money spent on the shares (admittedly being lazy and estimating. I could have done it yearly and been more accurate). Then I used

Unfettered free cash flow = increase in cash - increase in debt + dividends paid out + money spent on buybacks

Then I used historical free cash flow accuracy = Unfettered free cash flow / reported free cash flow

I am sure this approach isn't perfect. To get something perfect you would also need to account for the fact that most companies die with a big balance sheet. Hence they neither pay all their debts nor return all their cash to shareholders. Stated another way, my equation is a pretty good reflection of what should be put into free cash flow analysis so long as nobody lends the business more than it will pay back... Which of course is a very flawed assumption! However as I said, every metric has flaws.

Also note I don't claim any of this is of any use for investing. I'm just looking at flaws in assumptions and trying to reduce them. However it may well be that it is more

Using flawed equations is definitely better for people who earn fees for making predictions. An accurate, cheap and quiet market would be a disaster for them. They are much better off with high priced turbulent markets regardless of whether they makes sense.

Sorry for such a long list. If you read it all, thanks for reading my ramblings! (*edited*)

[Reply](#)

[Like](#) (3)

H

herbert_21

10 Dec. 2021, 4:02 AM

[Comments](#) (151) | [+ Follow](#)

Another article from Oleh Kombaiev that helps you not losing money.

This is WAY ABOVE Seekingalpha average.

Also, you can't argue with backtesting and R^2 . I like.

[↩ Reply](#)

[👍 Like](#) (4)



Orangejulius

10 Dec. 2021, 1:52 AM

[Comments](#) (3.83K) | [+ Follow](#)

The simple answer appears to be that PYPL is simply reverting to its mean P/E and P/OCF. If you look at either metrics in FastGraphs, the share price went into a bubble, detaching from both metrics. It now looks like it's getting close to the stock's historic mean valuation(s), although it's still inflated.

Too much hype on P/Sales for many stocks caused some hard lessons Q4 2021. It's really exciting to see revenue growth, but long term, earnings matter.

OCF only grew 13% these past few years annualized, but adjusted operating earnings grew at a more impressive 22%. That doesn't justify a share price doubling inside 12 months, especially if pace of growth isn't increasing. So again, the stock is simply coming back down to a more reasonable expectation of growth and valuation.

[↩ Reply](#)

[👍 Like](#) (12)

K

Kunlun999

10 Dec. 2021, 1:38 AM

Premium | Comments (48) | + Follow

If you put PYPL SQ V MA and AFFM in a YTD chart comparison, you can see the former 4 moving downward together while AFRM along moving upward. I think it is because investors were overwhelmed by the idea that BNPL will overtake all the payments, ignoring that the incumbent players are also launching their own BNPL service. It's about time for those investors to cool down their head and go back to a more balanced stance among the payment companies.

[↩ Reply](#) [👍 Like \(9\)](#)

D

donaldlove

10 Dec. 2021, 7:03 AM

Comments (31) | + Follow

[@Kunlun999](#) I think you nailed it.[↩ Reply](#) [👍 Like](#)

N

nickfrancois

10 Dec. 2021, 9:26 AM

Comments (320) | + Follow

[@Kunlun999](#) remember that BNPL companies bear the risk of default by the buyers.

This is unlike credit card companies or payment providers who do not bear the credit risk.

So with the boom now in the economy, all is good for BNPL companies, but wait until we get a recession, and the BNPL business will take a big hit.

So I would prefer a MA or a PYPL any day compared with a pure BNPL provider.

(edited)

[↩ Reply](#) [👍 Like \(9\)](#)**pdtor**

10 Dec. 2021, 10:02 AM

Comments (2.05K) | + Follow

[@nickfrancois](#)

Please add Visa to list in total agreement

[↩ Reply](#) [👍 Like \(3\)](#)

K

Kunlun999

10 Dec. 2021, 9:10 PM

Premium Comments (48) | + Follow

[@nickfrancois](#) I totally agree with you. I was just trying to explain what was happening to the unusual price move of payment sector.

 Reply

 Like



jd99

10 Dec. 2021, 1:33 AM

Comments (208) | + Follow

Good article!

Excellent valuation information (though such deterioration in the margin on such strong revenue growth is highly unlikely given operating leverage). You are very wise to stop and ponder why the market is discounting this stock so much as it is obviously extremely widely followed. It really can only be competitors eroding PYPL's competitive position (and which possibly led to the quite extreme measure of trying to acquire Pinterest).

 Reply

 Like (1)



Vic Ferrari

09 Dec. 2021, 9:56 PM

Comments (410) | + Follow

"In short, the very fact that the company is clearly undervalued, but continues to fall, is very alarming. In fact, this means that we are not taking into account some important factors."

Nice article, but I was very surprised you failed to mention PayPal's biggest problem (in my opinion); competition from Apple and Amazon, two of the wealthiest companies in the world. To me, that is the 'important factor.'

The market realizes as great as PayPal is, it's a horrible thing when the big two (Apple and Amazon) are now your main competitors. PayPal is an excellent company with top notch leadership, but they can't compete with the unlimited financial resources of Apple and Amazon; no one can.

Digital payments is the next big 'thing,' along with Cloud computing. Apple, and Amazon are not going to ignore that multi-billion dollar market. PayPal will survive, but they are going to lose copious amounts of market share to the big two and their multi-multi-billion dollar reserves.

I have great respect for PayPal, but they are not competing against other start-ups; they are competing against two financial tsunamis on steroids'. IMO, the market is thinking, "As good as PayPal is, what's the point? You can't compete against trillion dollar companies."

[↩ Reply](#) [👍 Like \(14\)](#)



Dividend Power

09 Dec. 2021, 10:37 PM

Contributor Premium Comments (4.09K) | + Follow

[@Vic Ferrari](#) - PayPal has a deal with Amazon to allow payments from Venmo. The market is essentially valuing that at nothing.

[↩ Reply](#) [👍 Like \(12\)](#)

D

donaldlove

10 Dec. 2021, 7:05 AM

Comments (31) | + Follow

[@Dividend Power](#) Why?

[↩ Reply](#) [👍 Like](#)



StevenK1

10 Dec. 2021, 7:24 AM

Marketplace Comments (841) | + Follow

[@Dividend Power](#) and when PayPal finishes their separation from eBay completely, don't be surprised if Amazon goes one step further beyond Venmo with a full PayPal option.

[Reply](#) [Like \(2\)](#)



Dividend Power

10 Dec. 2021, 7:27 AM

Contributor Premium Comments (4.09K) | + Follow

[@donaldlove](#) - Maybe because it is in 2022 when it starts.

[Reply](#) [Like](#)



Dividend Power

10 Dec. 2021, 7:28 AM

Contributor Premium Comments (4.09K) | + Follow

[@StevenK1](#) - Possibly. Ebay is a really small percentage of PayPal's business now.

[Reply](#) [Like](#)

L

LongTermAmateur

10 Dec. 2021, 8:23 AM

Comments (1.05K) | + Follow

[@Vic Ferrari](#) IMO it's even worse than that. Most Fintech is pretty simple stuff. It should be a commodity over time. The markets are hugely overvaluing it because the companies are often being valued on revenue growth and it is an easy way to grow revenue. That flood of investment should drive Fintech to a commodity even faster and the profits should end up close to nothing. Then they aren't just competing against giants they are competing against giants who can choose for consumers within their ecosystem to use their commodity product instead of PayPal's. I also hope PayPal does well but I'll be impressed if they can ever return \$225 billion plus profit to their shareholders

[Reply](#) [Like \(3\)](#)



StevenK1

10 Dec. 2021, 9:33 AM

Marketplace Comments (841) | + Follow

[@Dividend Power](#) not looking at it from that perspective. PayPal was never on Amazon because they were in bed with eBay, a direct competitor. With PayPal separated, Amazon can integrate them without contributing to their competitions bottom line (eBay).

[↩ Reply](#) [👍 Like](#)



Dividend Power

10 Dec. 2021, 9:50 AM

Contributor Premium Comments (4.09K) | + Follow

[@StevenK1](#) -Yes, eBay owned PayPal and divested it.

[↩ Reply](#) [👍 Like](#)



Onex

10 Dec. 2021, 9:55 AM

Premium Comments (11) | + Follow

[@Vic Ferrari](#) and, you should add, Google!

[↩ Reply](#) [👍 Like \(1\)](#)

J

jason-marks

10 Dec. 2021, 11:43 AM

Comments (103) | + Follow

[@Dividend Power](#) exactly, PYPL is a payments giant. The amazon's of this world can't compete with the 20 plus years jump start they have on those entering the payment fray. The problem I see with PYPL is just that too many people jumped on the wagon trying to make a quick buck... Look how quickly PYPL went from \$150 to \$305. It was insane... the train slowed down and people started jumping off, for no reason other than the free money train was running outta gas. (I've owned pypl since it split from eBay, my cost was \$46 a share)

I jumped off for the simple reason I wanted to lock profits... but I am looking for an entry point... to me, it clearly wasn't in November and I still don't see it yet. The santa rally might bump it but as long as people keep re hashing the ebay split and the endless (baked in pricing) talk about how eBay hurt PYPL stops, no new news will be good enough for the uneducated investor.

Too bad it wasn't a dividend stock.

[↩ Reply](#) [👍 Like \(1\)](#)

J

jason-marks

10 Dec. 2021, 11:45 AM

Comments (103) | + Follow

[@StevenK1](#) PYPL will always be a payment option with eBay.

[↩ Reply](#) [👍 Like](#)



StevenK1

10 Dec. 2021, 1:53 PM

Marketplace Comments (841) | + Follow

[@jason-marks](#) No one said it wasn't. Where did you get that impression? Please re-read my post.

I'm referring to eBay and PayPal being separated as companies, not that PayPal wouldn't be a payment option on eBay. *(edited)*

[↩ Reply](#) [👍 Like](#)



[@jason-marks](#) - Yes, PayPal is a growth stock and it still has a long runway ahead of it.

[Reply](#) [Like](#)

I Investor since '73 09 Dec. 2021, 8:56 PM

Comments (2.6K) | + Follow

Seems that often growth stocks have a honeymoon cycle when investors just can't get enough of it but once it falls out of favor, it takes real earnings growth that compresses the PE ratio and even then, lots of great news to get back from the wilderness. Believers might want to nibble here, maybe 1/3 of a full position. If it does catch a bid, you've at least got that. Or maybe you get to buy the next 1/3 at a 10% discount and then reconsider the last 1/3.

[Reply](#) [Like](#) (3)

B byocarbon 09 Dec. 2021, 8:02 PM

Comments (5) | + Follow

Perhaps the stock has much further to fall as simply the discount rate in your DCF is too low? To hold a stock like PayPal I want a return of more like 15% - not 6.5%. Too much risk of things going wrong over 10 years. I can invest in preferreds and REITs for 6.5%.

[Reply](#) [Like](#) (5)



Kyle Fishman

09 Dec. 2021, 7:58 PM

Contributor Comments (2.64K) | + Follow

You make an unconvincing argument.

So many times in history people thought "something was wrong" with high-quality companies.

Something "was wrong" with Chipotle when they had that food outbreak in 2015-2016.....and CMG recovered strong.

Remember during the March 2020 pandemic, the market crashed, and people kept insisting "it's gonna crash further" ---- No--- actually, you're supposed to buy on dips!

long PYPL since IPO.
(or both IPOs, actually, 2002 and 2015).

Remember when Carl Icahn was on the board of Ebay pushing for them to split with PYPL....this went on for months and months....and to the surprise of many, he actually got his wish. He was right about PYPL; it was a high-growth company that did very well as a single stock.

Even despite its recent drop, it's up big since its IPO in 2015. gotta catch it from the beginning and pay attention to that IPO calendar. *(edited)*

[↩ Reply](#) [👍 Like \(4\)](#)



19432511

10 Dec. 2021, 2:59 PM

Comments (715) | + Follow

[@Kyle Fishman](#)

Remember during the March 2020 pandemic, the market crashed, and people kept insisting "it's gonna crash further"

Luckily I'm not people.

[↩ Reply](#) [👍 Like](#)



rebowley

09 Dec. 2021, 6:41 PM

Comments (353) | + Follow

Luv your style Mr. Kombaiev. Convincing and to the point. Try ZIM as it has me befuddled. 6 point drop from it's highs.

[↩ Reply](#) [👍 Like](#)

S

Stomp!

10 Dec. 2021, 2:11 AM

Comments (780) | + Follow

[@rebowley](#) Do like i did with ZIM, and other positions once your making a profit, set a sell stop-limit order , above your cost basis, and stop looking at it everyday, because this stock fluctuates alot....

Has long you dont get a sell confirmation message from your broker , you know that your in the profit zone !
Once stock starts to move up more you could change the price of your stop-limit or change it for a traling stop limit order instead choice is yours....

[Reply](#) [Like \(1\)](#)

G

genmont

09 Dec. 2021, 5:31 PM

Comments (52) | + Follow

Thx for sharing your DCF. Quick question - what did you use as your terminal growth rate?
Thx

[Reply](#) [Like](#)



Oleh Kombaiev

10 Dec. 2021, 4:41 AM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply [@genmont](#) UST10

[Reply](#) [Like](#)



Legacy Legends, LLC

09 Dec. 2021, 5:17 PM

Comments (4.21K) | + Follow

Pay-tience pays off...

[Reply](#) [Like \(9\)](#)



omnimoeish

09 Dec. 2021, 5:07 PM

Comments (745) | + Follow

In some ways I get the DCF model compressing multiples based on interest rates. But if there's a stock that benefits more from inflation than Square, Visa, Master Card, and a lot of the fintech stocks that are getting pummeled, I don't know what they would be (well except maybe oil and gas stocks). Inflation just feeds these beasts. I think it's just a correction as the multiples on these were pretty overvalued but a lot are oversold now. I'm buying up Upstart on these dips. Easy money over the next 3 years.

I'm expecting the second part of a double bottom after the FOMC meeting and then I'll go in heavy on these juicy ones. Even with some asset purchase tapering and a couple of interest rate hikes in 2022, there's literally over a trillion doll hairs on the sidelines just in reverse repos and there's still relatively easy money coming for at least another year and that's assuming the Fed doesn't delay anything.

The last paragraph seems like something out of the onion... wait until the price is \$220 to buy it when it's \$191 right now? Granted it could go lower obviously but it could always go lower, but why would you wait until the price goes up another 15% to buy? *(edited)*

[↪ Reply](#) [👍 Like \(4\)](#)



Snuffer

09 Dec. 2021, 7:57 PM

Marketplace Comments (281) | + Follow

[@omnimoeish](#) I feel like the author puts too much emphasis on technicals /momentum/trends when making decisions despite making good fundamental analysis. It was the same story on Alibaba, bullish until 11/15 then when it got *real* cheap, 30% lower in 2 weeks, suddenly neutral.

If I believe something is clearly undervalued and it goes down, I buy it. If it keeps going down, I buy more. I don't pay any attention to the voodoo magic produced by technicals.

[↪ Reply](#) [👍 Like \(4\)](#)



swilson3828

09 Dec. 2021, 4:32 PM

Comments (103) | + Follow

WOKE Dan Schulman needs to wake up and support the shareholder, not his ideological endeavors.

[↪ Reply](#) [👍 Like \(2\)](#)

V

vcccd

09 Dec. 2021, 4:23 PM

Comments (314) | + Follow

P/E needs to drop to ~120 to get back to normal P/E ~34

[↩ Reply](#) [👍 Like \(3\)](#)**Orangejulius**

10 Dec. 2021, 1:55 AM

Comments (3.83K) | + Follow

[@vcccd](#) From what I'm seeing in FastGraphs, a trailing P/E of 34 would be \$155. That seems a fair price from a historic valuation perspective.

[↩ Reply](#) [👍 Like \(2\)](#)

H

herbert_21

10 Dec. 2021, 4:04 AM

Comments (151) | + Follow

[@vcccd](#) Are you using normal P/E in the way Fastgraphs is using it? Average historic P/E of the stock?

[↩ Reply](#) [👍 Like](#)**Longbow Archer**

09 Dec. 2021, 3:16 PM

Comments (1.33K) | + Follow

Lol, it's called a "drawdown", happens all the time with all stocks.

[↩ Reply](#) [👍 Like \(10\)](#)

P

Pradiyie

09 Dec. 2021, 3:09 PM

Comments (867) | + Follow

PYPL is a buy in this range. Insiders can sell for many reasons but will only buy if it's undervalued.

[↩ Reply](#) [👍 Like \(9\)](#)



anomaly1

09 Dec. 2021, 2:57 PM

Comments (1.74K) | + Follow

wai until it is ugly cheap
NEUTRAL

[↩ Reply](#) [👍 Like \(3\)](#)



braisin-raisin

09 Dec. 2021, 2:08 PM

Comments (127) | + Follow

Long on Paypal - and I mean Warren Buffet-style long.

[↩ Reply](#) [👍 Like \(7\)](#)



Oleh Kombaiev

09 Dec. 2021, 2:50 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply @braisin-raisin bought and forgot?

[↩ Reply](#) [👍 Like](#)

L

Isebold

09 Dec. 2021, 2:03 PM

Comments (15) | + Follow

Profit taking in a great stock has to run it's course .

[↩ Reply](#) [👍 Like \(1\)](#)



zoeshamu

09 Dec. 2021, 1:20 PM

Comments (1.18K) | + Follow

Great analysis, Oleh K. I agree there could be something missing from equation above. Or it might be just Occam's Razor - sometimes the simplest explanation is usually the best one.

I'm long \$PYPL since when they split out of \$EBAY. At this prices vs when it was at \$300s, it looks like a great entry point for investors who don't and can't really time the market. Short of another covid shutdown, I really can't see why it would be treated differently then MA or V. The core businesses of the company are relatively stable. I'm going to look at this as a consolidation period before it ramps up after Xmas and New Year's spending from consumers coming from a tight labor market. Meaning, regardless of possible rate hikes, more people would be spending on online purchases using PYPL due to high employment globally.

[↩ Reply](#) [👍 Like \(7\)](#)



FoxSr

09 Dec. 2021, 1:56 PM

Comments (370) | + Follow

[@zoeshamu](#) [@Oleh Kombaiev](#) I was also long when PYPL split and didn't understand the rise up to 300\$. For 3 months now, ebay has overtaken the cash pool of all transactions: nethertheless, it is possible to pay by PYPL, but ebay has the cash pool and pays the seller pretty soon. Maybe in the past, PYPL was the cash pool/officer. So I was cautious about the transaction fees at PYPL, maybe they shrink too.

Finally, I would love to reinvest between 150 and 160\$. PYPL is very useful for its customers.

FoxSr

[↩ Reply](#) [👍 Like \(1\)](#)



Oleh Kombaiev

09 Dec. 2021, 2:49 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply [@zoeshamu](#) "Or it might be just Occam's Razor" a good model cannot be complicated.

[↩ Reply](#) [👍 Like \(1\)](#)

Y

YCS186

09 Dec. 2021, 1:05 PM

Comments (810) | + Follow

It's a very good analysis. Fibonacci clearly indicate there's room to fall. It will likely be driven by the overall market dynamics for the next 3-6 months.

[↩ Reply](#) [👍 Like \(2\)](#)**Oleh Kombaiev**

09 Dec. 2021, 2:46 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply @YCS186 yes, I also do not have the feeling that the bearish trend has fizzled out,

[↩ Reply](#) [👍 Like \(2\)](#)

H

herbert_21

10 Dec. 2021, 4:08 AM

Comments (151) | + Follow

[@Oleh Kombaiev](#) A nice article would compare laggards coming back, namely Cisco, Oracle and Intel. Those were hated stocks last year, the fact that the surprise to the upside w/ higher than expected earnings should provide some insight to Oleh's readers.

Maybe we can learn something about what the "normal P/E" in 2022 will look like.

Again, such a comparison from a quantitative perspective would provide insight to Oleh's readers, imho.

And clearly, PayPal is now such a hated stock, perhaps because the growth will decrease. We might learn something by looking at a stalwart Cisco.

[↩ Reply](#) [👍 Like \(1\)](#)

A

Albert Meyer

10 Dec. 2021, 10:01 AM

Comments (693) | + Follow

[@Oleh Kombaiev](#) I ditched the idea of investing in PayPal when I looked at the loans they make to merchants (their customers). How to assess the credit risks associated with such a business model is problematic.

[↩ Reply](#) [👍 Like](#)



grok42

09 Dec. 2021, 12:43 PM

Comments (1.6K) | + Follow

Very interesting article! Would be interesting to see a detailed analysis of what might be driving the downward trend from a business viewpoint. What are their competitors doing that is taking share? Are they saturating their market? Etc.

[↩ Reply](#) [👍 Like \(2\)](#)



dhughes327

09 Dec. 2021, 12:25 PM

Premium Comments (368) | + Follow

Also, can you please help me understand what value the consumer realizes by having PayPal charge their credit card rather than having the vendor charge their credit card directly? The majority of consumer protection is provided by the credit card.

[↩ Reply](#) [👍 Like \(2\)](#)

T

tcranley

09 Dec. 2021, 12:34 PM

Comments (20) | + Follow

[@dhughes327](#) one touch PayPal payment eliminates a lot of keystrokes (not just card, but name and address,etc) and I don't give my card out to a bunch websites with limited security. Getting card stolen is a nuisance even if there isn't financial liability.

[↩ Reply](#) [👍 Like \(21\)](#)



dhughes327

09 Dec. 2021, 12:35 PM

Premium Comments (368) | + Follow

[@tcranley](#) Thanks for your help!

[↩ Reply](#) [👍 Like](#)

S

stozwald

09 Dec. 2021, 1:04 PM

Premium Comments (8) | + Follow

[@dhughes327](#) Speaking for myself, I got in the habit of using Paypal years ago, when just handing over your credit card info to random small web sites seemed less secure than going through a big player like Paypal. Now that that is less of a concern with the rise of Shopify (Wix, whatever) storefronts, I still use Paypal because it's fast and convenient to have them fill in the payment and shipping information for me. It costs me nothing and saves me time.

[↩ Reply](#) [👍 Like \(15\)](#)**rebowley**

09 Dec. 2021, 6:34 PM

Comments (353) | + Follow

[@stozwald](#) agree, I used to use pypl a lot and now hardy but once in a blue moon.

[↩ Reply](#) [👍 Like](#)

L

lily1214

10 Dec. 2021, 12:24 AM

Comments (13) | + Follow

[@dhughes327](#)

I'm a regular buyer on eBay and on other shopping sites and I use PayPal for each and every transaction because using PayPal for purchase provides another layer of protection for my credit cards. The protection the card companies provide against fraud and/or theft is not enough by itself. Not once in the several years I've used PayPal this way have any of my credit cards been compromised.

[↩ Reply](#) [👍 Like](#)



StevenK1

10 Dec. 2021, 7:38 AM

Marketplace Comments (841) | + Follow

[@tcranley](#) and if you ever need to change payment source options, like if you have a new credit card card with better rewards, then you only need to update it once on PayPal. This is easier than visiting every website you use, or subscription bill you pay automatically, to update your new credit card info.

Couple this with PayPal Key for sites that don't do PayPal directly, and you have a massive improvement in managing your bills and shopping experience as well. Not to mention the security aspect of it all.

The PayPal app is so Venmo-like now that it's what I use to send money to friends and family with no fees. Throw in a little crypto buying capabilities and 0.4% savings account features with Direct Deposit....yeow.

I have the PayPal credit card too. 2% rewards on EVERYTHING across the board. No specific class of purchase needed.

[Reply](#) [Like \(1\)](#)

R

renzovelasco

09 Dec. 2021, 12:20 PM

Premium Comments (10) | + Follow

Excellent analysis and humble position, something rarely seen

[Reply](#) [Like \(14\)](#)



Oleh Kombaiev

09 Dec. 2021, 12:32 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply [@renzovelasco](#) thanks. good luck!

[Reply](#) [Like](#)



dhughes327

09 Dec. 2021, 12:19 PM

Premium Comments (368) | + Follow

Your revenue growth projections are astronomical. What crystal ball did you pull these out of? Can you give more explanation on what supports these assssumptions?

[Reply](#) [Like \(2\)](#)



Oleh Kombaiev

09 Dec. 2021, 12:25 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply @dhughes327 When predicting PayPal's revenue for the next ten years, I proceeded from the average expectations of analysts. In my opinion, the dynamics are quite acceptable.

[Reply](#) [Like \(5\)](#)



msawi11

09 Dec. 2021, 12:29 PM

Premium Comments (519) | + Follow

@Oleh Kombaiev who are, by practice, conservative in estimation *(edited)*

[Reply](#) [Like \(1\)](#)



Oleh Kombaiev

09 Dec. 2021, 12:31 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply @msawi11 this means the potential is even higher

[Reply](#) [Like \(6\)](#)



MikeFromNZ

09 Dec. 2021, 12:17 PM

Marketplace Comments (1.97K) | + Follow

I really enjoy your work.

Exhaustion gaps are often filled, especially with large cap stocks like PYPL. My guess is that PYPL is a short once the gap is filled based on competitive threats to its business model. *(edited)*

[Reply](#) [Like \(1\)](#)



Oleh Kombaiev

09 Dec. 2021, 12:27 PM

Contributor Premium Comments (2.06K) | + Follow

Author's Reply @MikeFromNZ "Exhaustion gaps are often filled, especially with large cap stocks like PYPL" I have no doubt, but the question is the timing

[Reply](#) [Like](#)



MikeFromNZ

09 Dec. 2021, 12:36 PM

Marketplace Comments (1.97K) | + Follow

[@Oleh Kombaiev](#) Ha I think whether the gap is filled and whether PYPL is a long or a short are bigger questions. It's possible that PYPL's balance sheet and management will be able to surmount its competitive challenges.

[↩ Reply](#)

[👍 Like \(6\)](#)