

eBay: Big Buybacks, Cheaper Than MasterCard/Visa

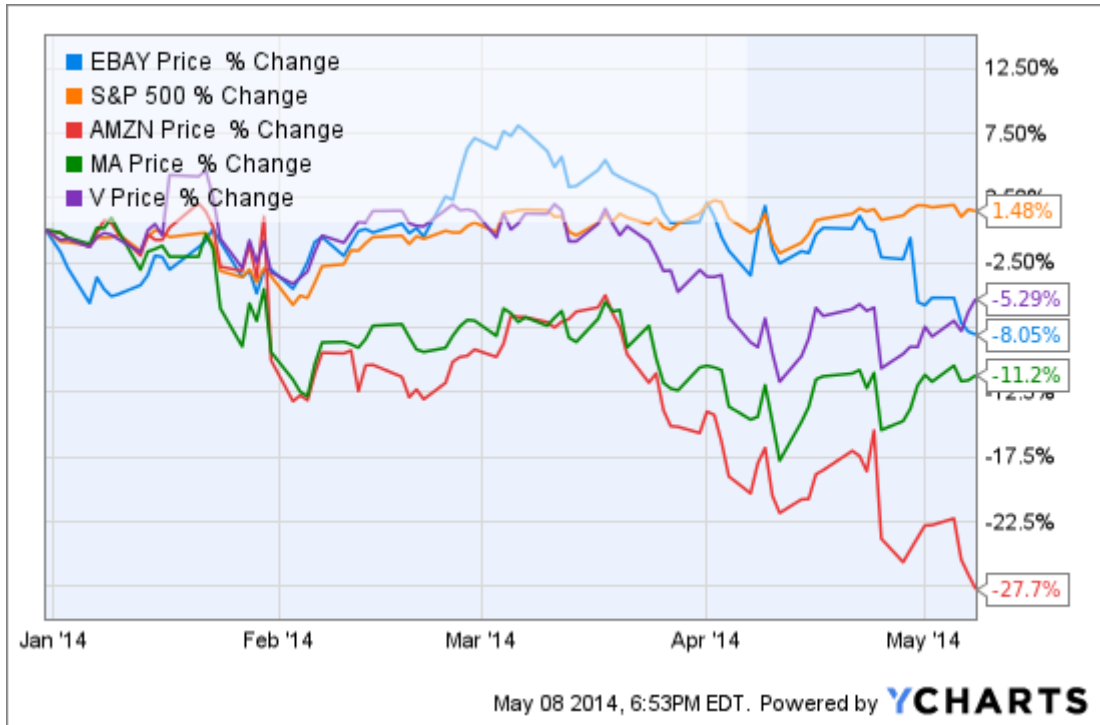
BY [JEFF BAILEY](#) MAY 08, 2014

If you'd bought eBay ([EBAY](#)) around its March peak, which came after Carl Icahn agitated mightily for a split-up of the company, separating its online merchandise market from its payments business, PayPal, you could be down about 15% right now and feeling crummy about it.



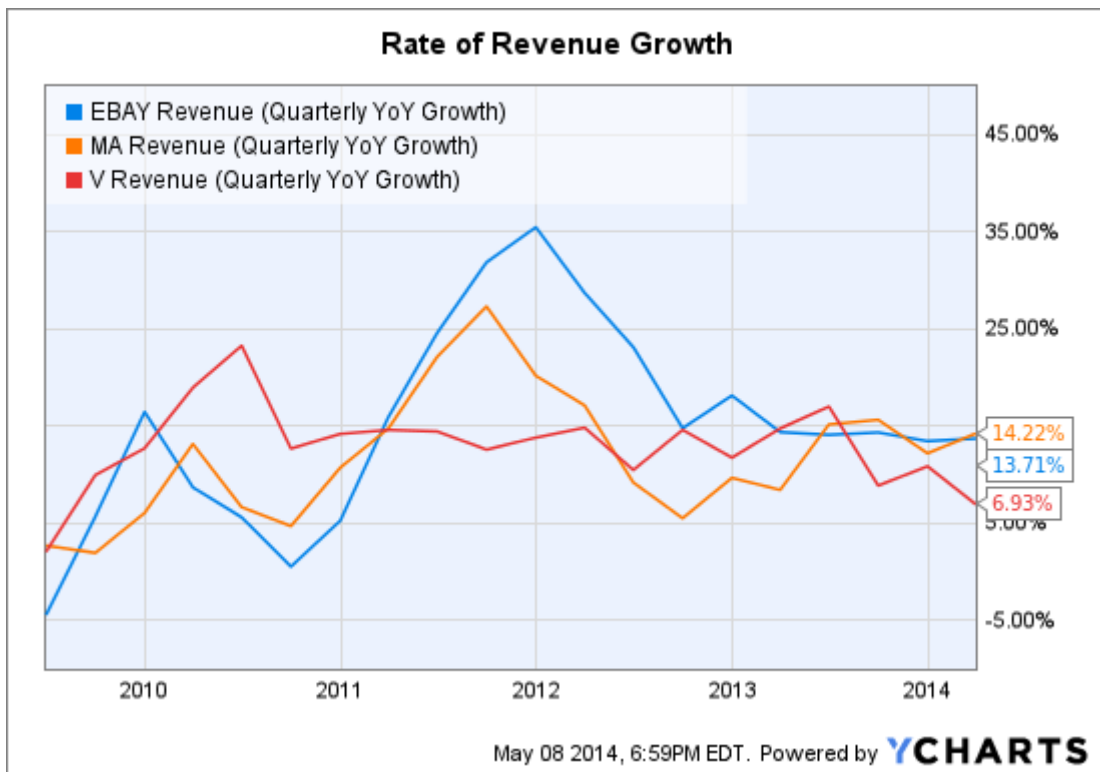
[EBAY](#) data by [YCharts](#)

But if you were already holding eBay shares, or are now considering acquiring them, there's a lot to feel good about. Year-to-date, eBay shares are down about 8%, with the S&P 500 roughly flat. But eBay's merchandise rival Amazon ([AMZN](#)) is down about 28% and eBay finds itself actually trading right where it increasingly belongs – alongside payments leaders MasterCard ([MA](#)) and Visa ([V](#)).



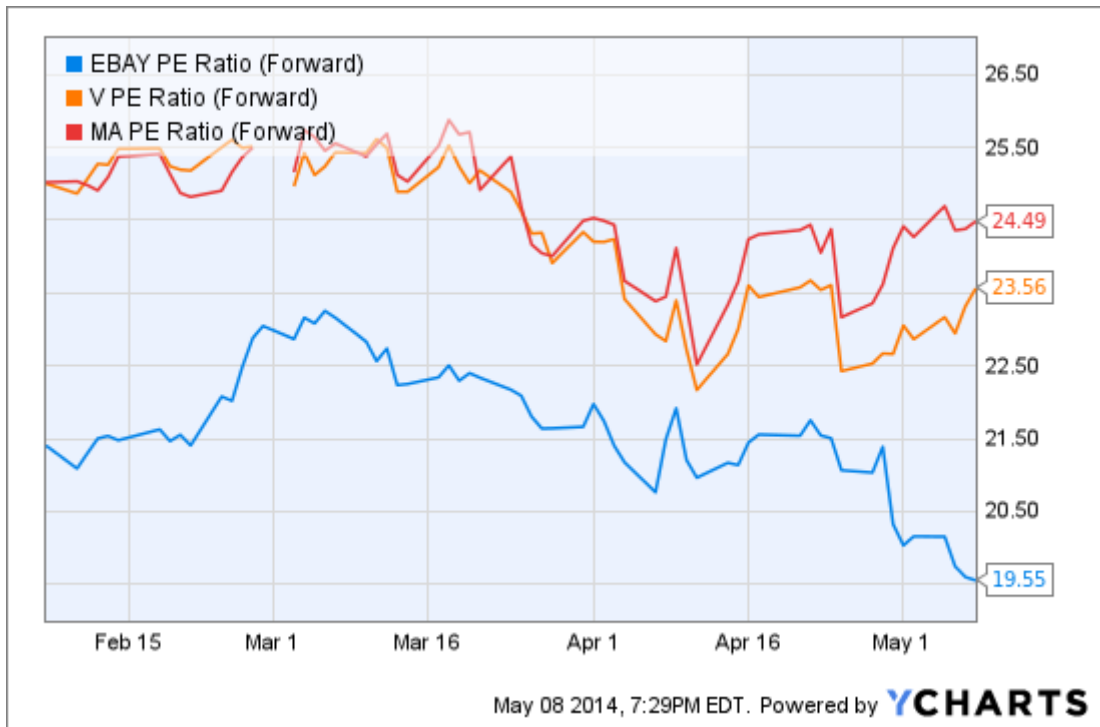
EBAY data by YCharts

eBay's payment business, PayPal is approaching the size of its merchandise business and is the faster-growing side of the company. PayPal grew by 19% last year and at the same rate during the first quarter. That's ahead of the rate of growth at Visa and MasterCard; eBay as a whole is growing at about MasterCard's rate right now and a big faster than Visa.



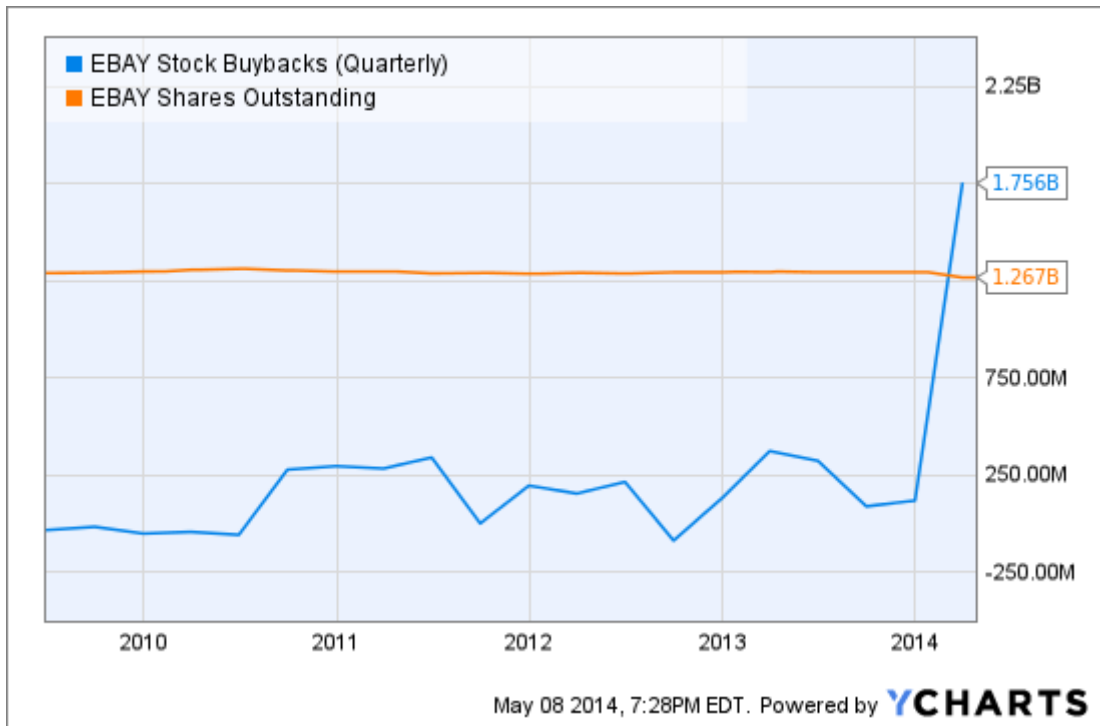
EBAY Revenue (Quarterly YoY Growth) data by YCharts

But eBay's a good deal cheaper, based on forward PE ratio.



EBAY PE Ratio (Forward) data by YCharts

One thing Carl Icahn can take at least partial credit for is the greatly increased stock buyback activity at eBay.



EBAY Stock Buybacks (Quarterly) data by YCharts

The company formerly did enough buybacks to counter stock issued from options exercises and the like, buying in \$1 billion or so a year. Now the company is seeking to reduce shares outstanding. It took the unusual step of repatriating \$9 billion of retained profit that had been stashed overseas, beyond the reach of the tax man, paying about \$3 billion in U.S. taxes, and using \$1.8 billion of cash during the first quarter alone to buy in shares.

The outlook for 2014 is for revenue of \$18 billion-to-\$18.5 billion, roughly in the 12%-to-16% range of growth. Ebay's online merchandise service grew about 12% last year and 10% during the first quarter; PayPal's the operation turbocharging growth.

eBay had a pretty good -- if not airtight -- argument against Icahn's breakup proposal: a substantial minority of PayPal charge volume involves eBay merchandise sales. And supporters of the company's keep-it-together plan like to say that eBay is the gateway frug for PayPal users, getting many to sign up for the payments service, making them comfortable with it and then getting them to use it elsewhere.

Running what are two distinct businesses may weigh on eBay's stock over time. And trading at a discount to MasterCard and Visa is understandable. Those credit card processing giants and more deeply woven into global commerce and likely have wider moats around their businesses. All three companies face increased competition as Amazon and others try to gain a significant foothold in the payments business. If eBay can continue its growth, in hindsight the months after Carl Icahn folded his tent and went home may look like a great entry point. YCharts' [eBay Rating](#) on fundamentals is a strong 9 of 10, and on a historical basis the shares are priced low. Unleash some [Financial Advisor Tools](#) to learn more.

Jeff Bailey, The Editor of YCharts, is a former reporter, editor and columnist at the Wall Street Journal and New York Times. He can be reached at editor@ycharts.com. Read the [RIABiz profile of YCharts](#). You can also request a [demonstration of YCharts Platinum](#).

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