Once more unto the breach: PayPal hits the high street

The whole, wrote Aristotle, is more than the sum of its parts. Metaphysics aside, the opposite seems to hold in the world of corporate spin offs. Following the announcement that eBay would list its fast growing subsidiary, PayPal, as a publicly traded company, shares in eBay jumped more than 7.5%, indicating that investors at large do not buy into the Aristotelian dictum. In this regard, we may sit briefly on our laurels, having long suspected an end to the conglomerate discount.

Bought for $1.5bn in 2002, PayPal now has an estimated market capitalisation of $31.5bn – almost half of eBay's $64bn stock market value – reflecting the fact that while eBay currently draws $8.3bn in revenue to PayPal's $6.6bn, PayPal is growing at 20% compared to eBay's more modest 10%. With a user base of 152m and a service that (so eBay claim) facilitates one in every six dollars spent online, PayPal has a significant economic moat to the challenges of competitors.

The move comes months after eBay rejected proposals by activist investor Carl Icahn to split. He argued a split would allow each company to focus on its own strengths, which would generate more value for shareholders. His warning proved prophetic. In the intervening months, the race for dominance in the mobile commerce market has well and truly begun with the launch of Apple Pay, a payment system for the iPhone and Apple Watch. In the face of new competitors, keeping the two companies together is no longer so important. Rather, stepping out from under eBay's mantle leaves PayPal better placed to fend off such competition, and pursue partnerships with eBay's competitors, notably Amazon, who currently do not accept PayPal in the US.

Ironically, the new frontier in electronic payments is the old world of bricks and mortar it once left behind, and where 90% of purchases are still conducted. Here the name of the game is convenience: PayPal has rolled out in-store payment options as an alternative to traditional cash and card. A string of recent acquisitions have helped cement PayPal's mobile services: such as Braintree, a mobile payments processor that also owns Venmo, a peer-to-peer payments app. Part of the appeal of PayPal is that some of its transactions are funded via automated clearing houses or balances already in users' accounts. Given this, PayPal could cut cards out of the loop entirely by offering merchants a lower fee for processing payments.

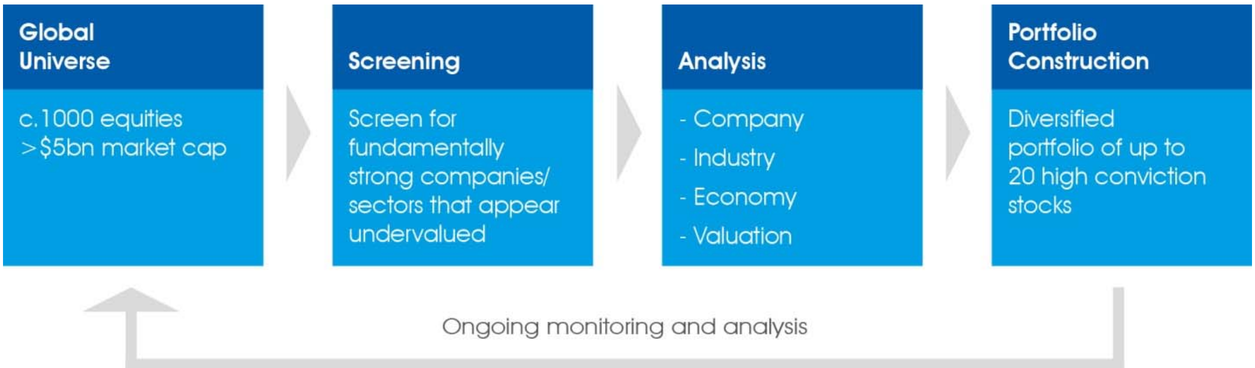
With its fingerprint technology, Apple Pay will allow users to pay for transactions with a single touch, but PayPal has been quick to take the wind out of their sails. "We the people want our money safer than our selfies" quipped their ad campaign; a pointed reference to Apple's recent iCloud security breaches. Beyond the fanfare, PayPal remains the more functional service, offering credit to buyers and even business loans based on flat fees rather than interest (and doesn't require updating to the latest iPhone to use). But Apple are not the only new entrants: Amazon, Google, and a host of start-ups are planning their own payments services.

So far, PayPal's own efforts to get their mobile payments supported by more retail terminals have had limited success. Fortunately, the invisible hand works unabated: Visa and MasterCard have mandated that merchants upgrade their terminals to accept new, more secure cards. As the market develops, merchants will have little incentive to limit payment support to a single processor, and the battle for market share can begin in earnest. But for now, PayPal is primed for the first round.

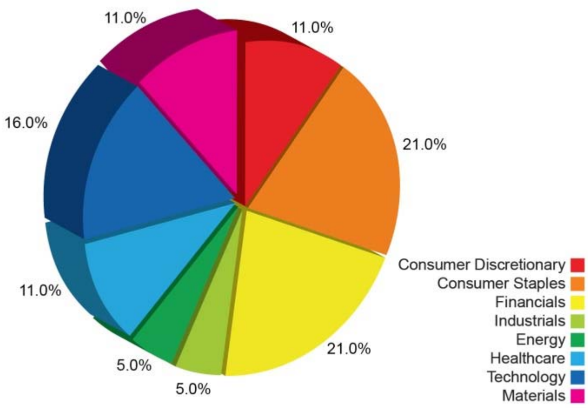
BESTIDEASPORTFOLIO

The Credo Best Ideas Portfolio is a diversified portfolio (not a fund) of global equities which we believe to be well-positioned to outperform the wider equity market over the longer term. The portfolio has a bias towards developed market, large capitalisation stocks. Our aim is to generate sustainable excess returns versus global market indices through careful stock selection.

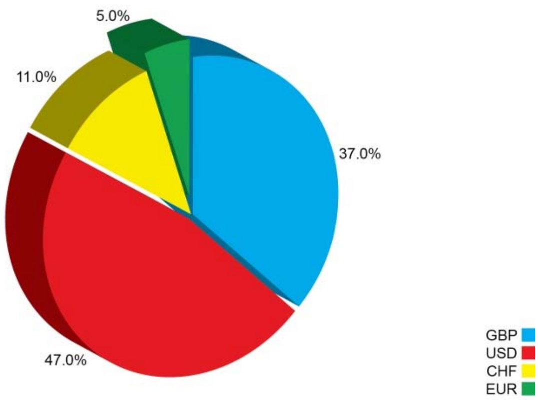
Investment Process



Sector Allocation



Currency Allocation



Performance / Stats[1]

	Trailing 12 Month P/E	12 Month Forward P/E	Dividend Yield	Return Since Inception (14/04/2011)[2]	Annualised Return Since Inception
Best Ideas Portfolio	15.2x	13.4x	2.9%	45.4%	11.4%
MSCI World Index	17.8x	16.0x	2.5%	37.3%	9.6%

(1) Source: Bloomberg pricing as of 30/09/2014 close.
(2) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas Portfolio. Portfolio incorporates all additions and removals. Portfolio may not be fully invested at a point in time and therefore can hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes gross dividends, not reinvested.

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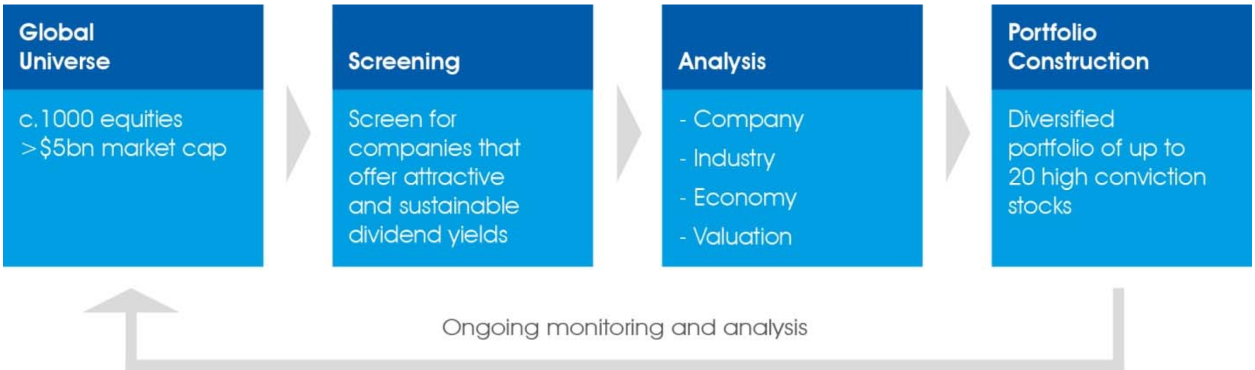
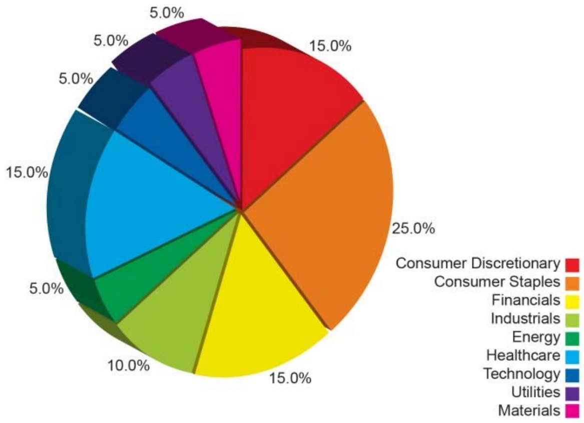
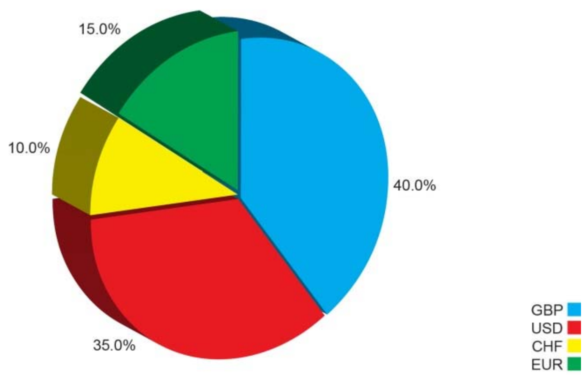
Investment Process



Sector Allocation



Currency Allocation



Performance / Stats[1]

	Trailing 12 Month P/E	12 Month Forward P/E	Dividend Yield	Return Since Inception (28/12/2012)[2]	Annualised Return Since Inception
Dividend Growth Portfolio	15.0x	13.7x	3.7%	31.7%	16.9%
MSCI World Index	17.8x	16.0x	2.5%	30.6%	16.4%

(1) Source: Bloomberg pricing as of 30/09/2014 close.
(2) Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Dividend Growth Portfolio. Portfolio incorporates all additions and removals. Portfolio may not be fully invested at a point in time and therefore can hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes gross dividends, not reinvested.

How to Invest

If you wish to make an investment in the Best Ideas Portfolio or Dividend Growth Portfolio please contact one of our Relationship Managers.

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