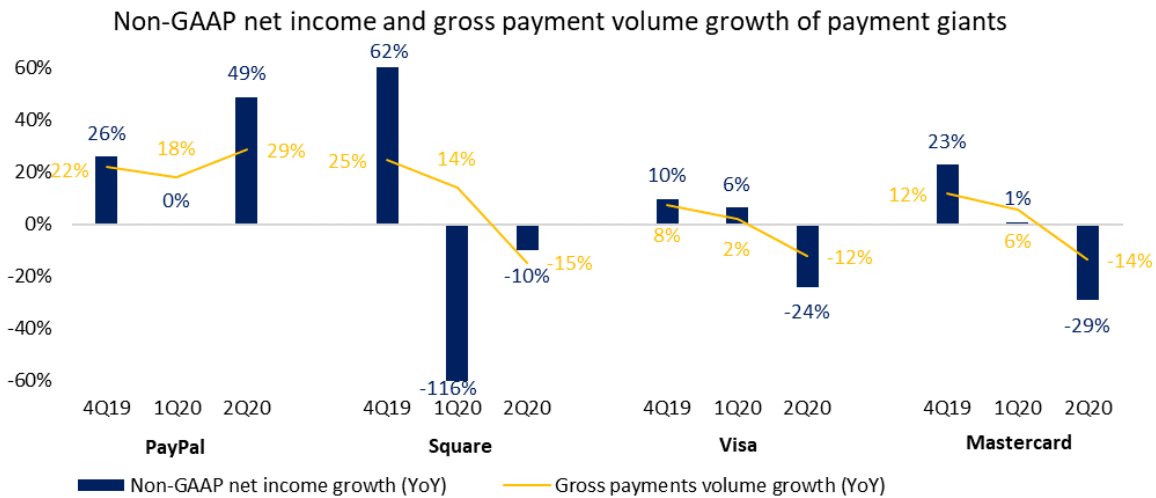




Highlight of this issue – Global payment giants 2Q20 results: the pandemic accelerates payment digitalization

Figure 1: PayPal outperformed peers with its online payment strength



Source: Company disclosure, AMTD Research

Note: 1) Square's big loss in non-GAAP net income in 1Q20 was mainly due to the increase in provision for transaction and loan losses; if excluding the item, the 1Q20 YoY growth of non-GAAP net income would be 23%.

2) For Visa, 4Q19, 1Q20 and 2Q20 refer to 1QFY20, 2QFY20 and 3QFY20, respectively.

Global payment giants beat expectations in 2Q20; online and contactless payments uplifted earnings

Global payment giants' 2Q20 results outperformed market consensus on the whole. Although the offline payments and cross-border payments experienced a heavy blow, contactless payments and online payments expanded dramatically and partially offset the declines. PayPal, which focuses on online payments, posted record growth, with its gross payment volume (GPV), adjusted net income and net margin all reaching their historic highs. As the world has entered a new phase in the fight against the pandemic, the global consumer payment market gradually recovers, and the GPVs of payment giants improve month by month since April.

Online payments in the US grew rapidly in the quarter, while offline payment volume declined less than expected due to the US economic stimulus package. China's consumer spending recovery unfolded as the pandemic went under control. In both developed and developing markets, offline contactless payments and online digital payments penetration rates are fast increasing, and payment giants are strengthening their digital offerings to ride on the contactless digitalization trend. Recovery of the economy and stimulus packages remain a key driver of the payment market in the future.

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### **The surge in global e-commerce is a key driver of digital payments**

2Q20 has witnessed a surge in online payments with the e-commerce boom across the world. In the US, stores are speeding up to move online. According to the US Department of Commerce, in 2Q20 e-commerce sales rose by 32% QoQ, and accounted for 16.1% of total US retail sales, up from 11.8% in the previous quarter. Online payments thus became the main impetus of GPV growth. The GPV of PayPal grew by 29% YoY; Square's online channel GPV increased by 52% YoY, taking up 25% of total GPV. US digital wallets witnessed strong signups and user activities – customer deposits in Square's Cash App increased significantly by 257% YoY and 83% QoQ, indicating enhanced user stickiness. In China, online shopping continued to be popular – online retail sales of consumer goods surged by 7.3% YoY, which supported the growth of online payments. Boosted by new business models such as live-streaming e-commerce, the growth of China's courier sector accelerated to 40% in May and June, up from 12% in the first four months of 2020, according to the State Post Bureau of China.

Online cross-border payments also prospered. PayPal's cross-border GPV increased by 22% YoY; Cross-border transactions processed by Visa and Mastercard halved due to the decline in travel, but online payments excluding travel (mainly cross-border e-commerce) maintained a growth of over 20%.

As more and more consumers are used to online shopping, the online payment market is expected to further expand. PayPal guided a 30% YoY growth in GPV, and a 25% YoY increase in non-GAAP EPS for the next quarter.

### **"Social distancing" may persist, demand for contactless payments soaring**

With the pandemic becoming the lasting norm, more and more merchants and consumers are taking contactless payments as their first choice. In the US, according to Entrust Datacard survey in July, 75% of cardholders preferred contactless cards to other payment methods. Banks issued more than 80 million contactless Visa cards in 1H20, while the number of contactless Visa cards worldwide has just surpassed 100 million by the end of 2019. QR code payment solutions are gaining popularity globally. PayPal has announced the deployment of QR code technology in 28 markets globally, and plans to roll out a QR code-based offline POS solution in 2H20. In China, offline consumer spending revives rapidly with the recovery of the pandemic. The offline GPV of WeChat Pay during the May Day holiday increased by 30% compared with that in March. Payment companies have also been offering more convenience to contactless payments adoption. Alipay introduced a night light merchant QR code in June and 50,000 shopkeepers applied for the service the day it was launched. As the pandemic is hard to be eradicated, more merchants and consumers around the world will turn to contactless payment solutions.

### **The pandemic has reduced consumption propensity and affected credit spending**

The pandemic has led to lower consumer confidence thus resulting in a severer decline on credit spending. In 2Q20, credit payments processed by Visa and Mastercard went down by about 20% YoY, while debit payments were more resilient, rising by around 10% in the US market, according to their quarterly results.

### **US stimulus package boosted the US payment market, but it remains to be seen what the future holds**

In this quarter, the US government's economic stimulus package drove the popularity of digital payments in the US. US residents who don't have bank accounts are getting into digital payments by receiving stimulus checks through PayPal's Venmo digital wallet, Square Cash App, Visa prepaid card, etc. Nearly 4 million people received the relief payments through prepaid Visa cards. The sustainability of account balance and activities of digital wallets such as Venmo and Cash App is questionable without a new round of stimulus. It would be vital to convert the new users into long-term users.

## Payment companies continue to diversify their product portfolios to offer one-stop solutions for consumers and SMEs and improve user stickiness

Coexisting with the epidemic may become the “new normal” for a period of time in the future. It is difficult to predict how fast the economy and consumer spending can recover. Payment companies that previously focused on consumer payment have increased investment in new businesses to diversify its revenue stream.

- In terms of B2C business, payment companies are developing more investment tools, and cryptocurrency payment service is a key offering to improve the stickiness of digital wallet accounts. Square saw a 7x increase YoY in bitcoin transactions this quarter. Payment companies are rolling out more bitcoin products. In July, Mastercard partnered with WireX to launch the first Mastercard-branded crypto debit card; PayPal plans to introduce crypto trading; Square, together with Coinbase, is piloting a feature that enables customers borrow cash backed by their bitcoin holdings to access liquidity.
- Payment companies are also extending their business scope from B2C to B2B. Visa will launch the blockchain-based cross-border B2B solution Visa B2B Connect in 80 markets by the end of this year, to make cross-border payments more accessible for enterprises; Mastercard launched the Mastercard Track Business Payment Service in May to provide businesses with a payment system that is easier to track and manage.
- Payment giants are introducing new programs to help SMEs digitalize. Square Online Store and Mastercard's Digital Doors initiative empower SMEs' digital transformation, and bring new customers to their online payment products; Visa, Mastercard and other card networks are jointly promoting the online checkout solution Click to Pay around the world.
- Visa and Mastercard are actively tapping new FinTech market through investments and acquisitions. Following Visa's US\$5.3bn acquisition of open banking startup Plaid earlier this year, Mastercard in June acquired open banking and data aggregation startup Finicity for US\$825mn, to further enrich its open banking portfolio.

### PayPal

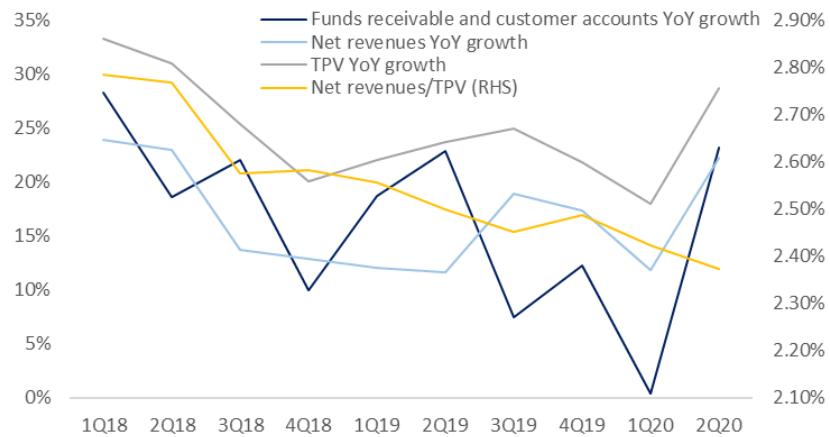
#### PayPal 2Q20: A record quarter with e-commerce boom; Venmo and offline QR code POS are key things to monitor in 2H20

**2Q20 was PayPal's strongest quarter in its history, thanks to the rapid growth of online payments, contactless payments and international businesses.** PayPal's growth in 2Q20 was the strongest among global payment giants given the pure digital nature of its business. The company guided for a growth of 25% in net revenues and 30% in Total Payment Volume (TPV) in 3Q20.

- PayPal's quarterly net revenues reached a record high of US\$5.26bn, up 22% YoY. Transaction revenues had its strongest growth at 28% YoY and 17% QoQ, accounting for 94% of total net revenues (up from 90% in the previous quarter), mainly due to the solid growth of PayPal checkout – which offset the negative impact from reduction of travel, business and credit spending.
- TPV reached an all-time high of US\$221.73bn, up 29% YoY and 16% QoQ, with travel and advance volumes down 60% YoY; P2P TPV, including PayPal, Venmo and Xoom, exceeded US\$64bn, up 38% YoY. TPV from eBay grew by 32% YoY to about US\$20bn.

- Non-GAAP net income was US\$1.26bn, up 49% YoY. Non-GAAP operating margin and net margin were 28.2% and 24%, respectively, the highest ever.

**Figure 2: Growth (YoY) trends of PayPal's net revenues, customer accounts and TPV, and ratio of net revenues to TPV by quarter**



Source: Company data, AMTD Research

**The pandemic has fundamentally reshaped consumer behavior, accelerating the penetration of e-commerce and thus the demand for online payments – good news to PayPal.** The penetration of e-commerce has outpaced prior forecasts by 3 to 5 years – according to US Department of Commerce, e-commerce sales accounted for 16.1% of total US retail sales by 2Q20, higher than previous eMarketer’s 2020 forecast. As a result, the demand for online payments has also surged. With 21 million new active accounts added to PayPal portfolio during the quarter, total active accounts reached 346 million. On average, every active account transacts 39 payments on a trailing twelve months basis. Most of the new cohorts are “Silver Tech” who aged 60 and beyond.

Shopping and rewards platform Honey, acquired in 2019, doubled its revenue in 2Q20 compared to 1Q20 with 1.9 million active users added, nearly 3x the number in the first quarter, thanks to the rapid growth of e-commerce and the increasing price sensitivity of consumers under economic pressure. PayPal plans to integrate Honey shopping tools into the two digital wallets, PayPal and Venmo, by API, and add PayPal checkout service to Honey's merchant interface.

**Contactless payments gained importance in PayPal’s strategy under the pandemic. PayPal continues to promote contactless payments.** In addition to iZettle contactless cards and integration with both Google Pay and Samsung Pay, PayPal launched the offline QR code payment solution for small and micro merchants in 28 markets around the world in May, and will roll out the QR code-based POS solution in the US in the fourth quarter. In 2Q20, nearly 1.7 million merchant accounts were added, and total merchant accounts surpassed 26 million. With more and more merchants signing up, the proportion of offline payments in PayPal's revenue may increase further, and other contactless payment solutions and store management may become new profit drivers.

**User activity and stickiness of the two digital wallets were boosted during the quarter, with the distribution of government stimulus funds to be the main catalyst.**

Venmo and PayPal digital wallets had 150 million and 175 million users by 2Q20, with Venmo's total active accounts within 12 months exceeding 60 million, up 15% from last year end. In the second quarter, Venmo's TPV grew 52% YoY, to US\$37bn. PayPal helped the US government to distribute economic stimulus checks with its new direct deposit function. Many consumers without bank accounts received subsidies through this channel. As a result, the customer account balance increased by US\$6.21bn from 1Q20 – comparable to the overall increase in the past three years.

**Digital wallet is the focus of recent efforts. PayPal continues to enrich the user experience to make PayPal and Venmo digital wallets into daily payment tools.**

PayPal unveiled direct deposit in April, introduced Business Profile in July to help small businesses track transactions and promote their business, and will launch Venmo credit card later this year. Over the next few quarters, PayPal plans to integrate Bill Pay, subscriptions and rewards management, credit scoring, budgeting tools and more into PayPal and Venmo digital wallets gradually.

**International revenues were the main driver of revenue growth in the quarter, and presence in international markets was further strengthened.**

According to Datanyze, PayPal takes a leading position in US digital payments with a market share of more than 55%, and international markets are crucial in future expansion.

- In 2Q20, PayPal's international revenues increased 30% YoY to US\$2.61bn, accounting for 50% of total net revenues (up from around 47% previously), mainly due to the explosive growth in Mexico, Japan, Brazil and Western Europe. Meanwhile, the pandemic has driven up demands for online cross-border remittance services – PayPal's online remittance platform Xoom's daily active users rose by about 40% YoY in 2Q20, and new active users were sevenfold compared to 1Q20.
- After acquiring 70% stake of Chinese payment company GoPay last year and becoming the first licensed foreign online payment platform in mainland China, PayPal invested in Indonesia's ride-hailing giant Gojek in June. Users of Gojek's payment system, GoPay, will gain access to the PayPal merchant network.

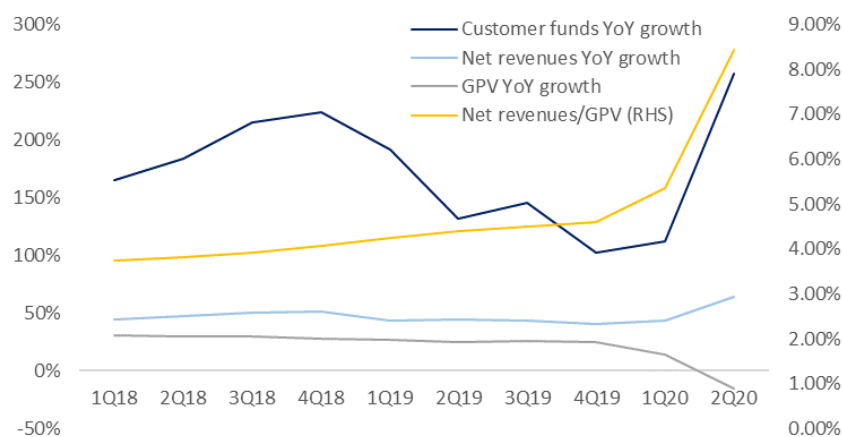
**Expansion is the theme of 2H20.**

In the second quarter, incremental margin reached an all-time high of 50% (70% excluding losses related to the credit reserve and acquisitions). Transaction expense rate (transaction cost as % of TPV) and transaction and credit loss rate are both at a new low of 0.83% and 0.12%, respectively, indicating the improvement of operating efficiency, benign asset quality and the scalability of PayPal's business. PayPal plans to invest an additional US\$300mn in its businesses in 2H20, mainly in the areas of in-store payment and digital wallet, to strengthen its presence in the payment industry. PayPal expects net revenue growth to remain at 25%, TPV growth to stay at 30%, and net margin to expand further.

## Square 2Q20: Not as bad as expected, with strong growth in online payments and Cash App

Square's 2Q20 performance was much better than expected, mainly due to the strong growth from online payments and contactless payments. In 2Q20, Square's revenue reached US\$1.92bn, up 64% YoY and 39% QoQ. Transaction-based revenue fell by 10% QoQ to US\$683mn. Subscription and services-based revenue rose by 17% QoQ to US\$346mn. Bitcoin revenue surged to US\$875mn, up 7x YoY and 186% QoQ, and was the main driver of revenue growth. Gross profit was US\$597mn, up 28% YoY; Net loss was US\$11mn, adjusted net income was US\$89mn, and adjusted EBITDA was close to US\$100mn. We see a significant increase in user activity within the Cash App, as Square assists the US government to distribute stimulus checks.

Figure 3: Growth (YoY) trends of Square's net revenues, customer funds and GPV, and ratio of net revenues to GPV by quarter



Source: Company data, AMTD Research

**The rapid growth in online payments and contactless payments partly offset the pandemic's impact on offline payments.** Gross Payment Volume (GPV) in Square's Seller ecosystem decreased by 15% YoY, in which online channel GPV increased by 52% YoY, accounting for 25% of the total GPV, up from 14% in the same period last year; Offline channel GPV fell by 26% YoY. Meanwhile, with consumers' increasing preference for contactless payments, merchants' demand for contactless payment terminals surged – according to Entrust Datacard, 75% of cardholders in the US prefers contactless cards to other payment methods. More and more merchants are operating "cashless" – according to Square, one in four of its sellers were cashless by the end of June, up from 1/12 in March.

In addition, offline payments gradually climb as social distancing requirements begin to relax in some states in the US. **As a result, the overall GPV improved month by month from April to June** – Seller GPV dollar-based retention (percentage of GPV from retained customers) in July was down approximately 10% to 15% YoY, a significant improvement from being down 50% in late April. The management guided during the earnings call that GPV may improve further in the remaining two months of 3Q20, and the proportion of online payments and contactless payments will continue to expand.

**Many merchants began to go online - Square has become the first choice for many offline merchants' digitalization with its one-stop services from website construction, online checkout tools to offline payment terminal upgrade.** After the acquisition of Weebly in 2018, Square launched its own Square Online Store, which offers free online shop building tools. One in three new online sellers onboarded in the second quarter were entirely new to Square, and many of these sellers adopted other services of Square ecosystem, including in-person commerce – this suggests a strong cross-sell and user stickiness. Square has also launched On-Demand Delivery for merchants, making it easier for them to fulfill the online transition.

**Square continues to increase its investment in integrated digital solutions for SMEs.** In July, Square acquired Stitch Labs, a business management platform, and will build out Square tools utilizing Stitch Labs' inventory and order management, channel management, and fulfillment solutions.

**In 2Q20, Cash App was particularly strong, contributing a gross profit of US\$281mn (47% of total gross profit), up 167% YoY, with its user stickiness greatly enhanced.** Like PayPal's Venmo, Cash App allows consumers without bank accounts to receive US government stimulus checks directly with the Cash App. Square's Cash App had more than 30 million active users by June, up about 25% from the end of last year, with the customers transacting more than 15 times per month on average.

The new cohorts of Cash App customers had higher attach rates to products beyond peer-to-peer payments, such as Cash Card, Boost, direct deposit and bitcoin investing. Cash Card has been growing dramatically, with over 7 million monthly active Cash Card customers, which doubled YoY, and the majority of them are spending on their Cash Card an average of five times per week.

The number of people spending by their Cash App balance increased significantly, with users' total deposits in the Cash App reaching US\$1.73bn, up 257% YoY and 83% QoQ.

**The one-year-old bitcoin trading service has become an important part of Square's revenue stream and has opened the door to crypto for many new bitcoin players.** Bitcoin transactions in the Cash App are simple and easy to operate, promoting its popularity – there are many first-time bitcoin buyers on the Cash App. In June, Square unveiled Bitcoin Auto Payments Tool that allows users to set up automatic purchases denominated in SAT (1 SAT =  $10^{-8}$  bitcoin), further lowering the entry barrier for investing into cryptocurrency.

**Cash App will remain the key to Square's business layout; Europe entry through acquisition of Verse.** Square has been ramping up advertising for its Cash App, planning to spend an additional US\$100mn in 3Q20 on product development as well as sales and marketing, most of which will go to innovative marketing. Square worked with NASCAR racer Bubba Wallace to bring a Cash App and bitcoin-designed race car and uniform. In July, the company teamed up with Hood by Air, a phenomenal streetwear brand, to launch a limited edition of HBA Cash Card, with the proceeds going to Black and LGBTQ communities. In addition to user acquisition, these campaigns have also helped Square build a social presence and a positive brand image. In June, Square acquired Verse, a P2P payment platform in Spain, with an intention to enter Europe.

**The US federal stimulus package was a core contributor of Square's 2Q20 resilience.** Square helped distribute stimulus checks, thus attracted a flood of new active users for its Cash App. Square revealed that gross margin for Cash App grew more than 200% YoY in July. Cash App growth would probably slowdown in the third quarter without a new round of stimulus. How to improve retention and increase consumer usage will become a key issue for Square. In the second quarter, Square has provided a financial lifeline to more than 80,000 small businesses around the US for a total of US\$873mn in Paycheck Protection Program (PPP) loans, with an average loan amount of less than US\$11,000. Those small merchants may also enter Square's Seller ecosystem in the future.

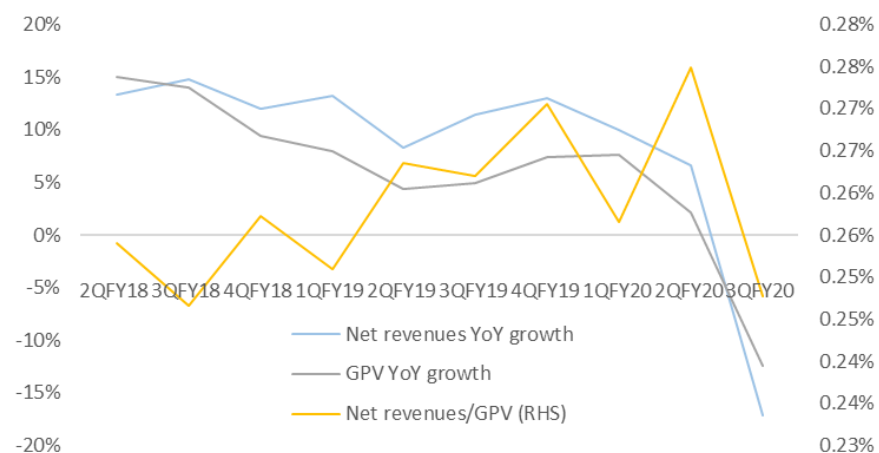
Visa

**Visa 3QFY20: international transactions suffered most from pandemic, new business takes shape**

**Visa suffered a decline in the third quarter, mainly due to a fall in cross-border transactions, particularly those related to travel. Visa is strengthening its presence in B2B and FinTech, which may become new growth drivers.** In the third quarter of fiscal year 2020, Visa reported net revenues of US\$4.84bn, down 17% YoY. The decline was mainly driven by a 44% YoY decline in international transactions to US\$1.11bn. In 3QFY20, Visa slashed its marketing spending, down 38% YoY.

Total payments volume was US\$2.0tn, down 10% YoY, including a 47% fall in cross-border volume excluding intra-Europe. Overall transaction value and number of transactions improved month by month, with YoY decline of transactions narrowing from 24% in April to 4% in June, but cross-border transactions recovered more slowly. Non-GAAP net income fell 24% to US\$2.35bn YoY.

**Figure 4: Growth (YoY) trends of Visa's net revenues and GPV, and ratio of net revenues to GPV by quarter**



Source: Company data, AMTD Research

**The shift from cash to digital and contactless payments is accelerating.** Contactless payments and online payments may become the growth drivers in the future.

- Visa has helped more than 50 countries improve tap-to-pay penetration and increase tap-to-pay limits this quarter. In the first 6 months of 2020, Visa



deepened its partnership with card issuers including Permanent TSB, UBS and Banco Caminos, which issued more than 80 million contactless cards in total. Contactless payments may become more widespread as travel recovers.

- During the quarter, Visa Direct platform grew by over 75%, with more frequent use of P2P payments, insurance payments, payroll payments, etc. Visa entered a new global partnership with PayPal in July to further extend the reach of Visa Direct and strengthen PayPal's real-time transfer capabilities around the world. Card-not-present spend (mostly online shopping) has been growing at over 20% this quarter.
- The pandemic accelerates e-commerce boom worldwide, with online payments volume soaring. Online retail spending has risen by about 30% since mid-April globally. In the US, Visa credentials active in e-commerce excluding travel were 12% higher in June than in January, and the spending per active credential increased by over 25%. Even in places such as Argentina and other markets where e-commerce was less developed witnessed their online shopping volume doubled.

**Consumers prefer debit/prepaid payments to credit payments.** In the quarter, credit payments fell 20% YoY, while debit payments rose 3% YoY, in virtue of an 8% YoY increase in US debit payments. Consumers may have shifted towards more conservative spending patterns - from credit to debit. The strong growth in debits also came from:

- 1) The US Treasury distributed relief payments to 4 million people through Visa prepaid cards, and the Spanish and French governments also paid subsidies through prepaid cards;
- 2) The increase of online shopping;
- 3) Credit card customers tend to use credit for discretionary spending in categories such as entertainment, catering and travel which have been severely hit by the epidemic.

**The blue ocean market of B2B payments remains a focus of Visa's business layout.** Although in 3QFY20, corporate services were heavily affected by the pandemic, Visa continued to invest in B2B applications such as corporate cards, receivables and payables management, and cross-border B2B payments. In May, Visa teamed up with Conferma Pay, a British virtual card provider, to launch a virtual corporate card that supports contactless payments. Visa continues to build out its blockchain-based cross-border payment network B2B Connect, which will all go live in 80 markets by the end of this year.

**Visa continues to be an active investor in FinTech.** During 3QFY20, Visa continued to invest in FinTech companies, including Neat, a business account provider for SMEs based in Hong Kong; Railsbank, an open banking platform based in UK; Nium, cross-border online remittance service based in Singapore; Good Data, US data analytics platform; and MagicCube, a US software security platform for mobile devices and IoT. Visa also invested in US payment solution provider Volante in August. Earlier this year, Visa acquired open banking startup Plaid for US\$5.3bn. The deal is still awaiting regulatory approval and may close by the end of the year.

Visa has also built important partnerships with challenger banks to drive card growth – Visa launched a credit card with Chime; unveiled a debit card with Vivid Money, the German neo bank; and integrated Visa Direct to the payment app of Careem, the largest ride-hailing company in the Middle East and Africa.

**Revenue from value-added services decreased by 8% in 3QFY20, and will continue to decline in the next quarter according to the earning call (the revenue has a lag in recognition).** But given the great potential of the value-added services market, value-added services may become an important source of revenue in the future. Visa's three value-added services are fraud management and security services, consulting and analytics, merchant and acquirer solutions. CyberSource, the secure payment platform, saw transactions rise almost 50% YoY in 3QFY20, driven by merchants' need in online orders risk management. During the pandemic, merchants' needs for business consulting and data analysis increased. The client activity on Visa analytics platform has risen by 60% since 2QFY20, with almost 60% more projects completed than 3QFY19. Strong growth momentum will generate a positive cash flow in the future.

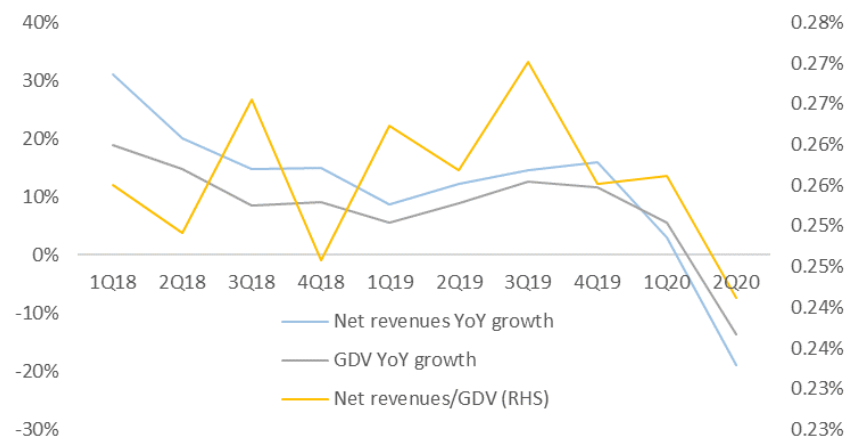
## Mastercard

**Mastercard's emerging service segment will ease the downward pressure on its traditional business**

**Mastercard beat earnings estimates in 2Q20; the resilient domestic transactions and services business in the United States partially offset the decline in cross-border and international business.**

- 2Q20 net revenue decreased by 19% YoY to US\$3.34bn, with transaction-related revenue down 21% YoY, mainly due to travel restrictions triggered by the pandemic. The revenue of services business was relatively stable, with a YoY increase of 12% to US\$1.08bn – at similar level as the previous quarter, reflecting the resilience of Mastercard's business structure.
- 2Q20 gross dollar volume (GDV) was US\$1.4tn, down 14% YoY and 12% QoQ, mainly driven by a 18% YoY decline in the GDV outside the US to US\$919bn, while the GDV in the US market was flat YoY and QoQ. Cross-border volume was down 45% YoY, and cross-border volume fees declined by 54% to US\$640mn. Mastercard enables authorization, clearing and settlement of transactions between issuers and acquirers through its network, and 2Q20 switched transactions volume over Mastercard network was US\$19.4bn, down 10% YoY. Since April, GDV has improved month by month as the economy has been recovering and travel bans have been gradually lifted. Meanwhile, with the opening of borders and the revival of cross-border travel starting from Europe, related GDV has slowly rebounded.
- Net income was US\$1.42bn, down 31% YoY; Non-GAAP net income was US\$1.37bn, down 29% YoY.

**Figure 5: Growth (YoY) trends of Mastercard's net revenues and GDV, and ratio of net revenues to GDV by quarter**



Source: Company data, AMTD Research

**Consumers were more cautious in spending during the quarter thus dragged down credit card spending.** 2Q20 GDV for credit and charge programs worldwide fell by 22% YoY, while GDV for debit and prepaid programs only fell by 5% YoY. US debit and prepaid programs GDV rose by 12% YoY, offsetting some of the declines in other countries. The total number of Mastercard and Maestro-branded cards increased by 14 million to 2.6 billion worldwide, with credit cards growing by 5% and debit and prepaid cards up 8% YoY.

Mastercard is actively working with FinTech issuers to introduce debit cards that meet consumer demands. In July, Mastercard partnered with WireX to launch its first cryptocurrency debit card, following Visa's introduction of two cryptocurrency cards. Cryptocurrency gradually becomes a major part in payments.

**Mastercard is working on B2B payments to diversify revenue.** In May, Mastercard launched its Mastercard Track Business Payment Service, providing a payment system easier for businesses to track and manage. The company aims to enlarge its presence in the US\$120tn B2B payment market and diversify its portfolio from consumer card payments. This service may create synergies with Mastercard's previous acquisitions of bank account-based payment company Vocalink, cross-border payment network Transfast, and account-to-account payment platform Nets.

**Open banking is a key strategic priority.** In June, Mastercard acquired open banking and data aggregation startup Fincity for US\$825mn. Fincity provides solutions for financial management, payments and credit decisioning through a real-time financial data aggregation and insights platform. It shows that Mastercard is further deepening its open banking layout following the launch of the comprehensive open banking solution in Europe in 2019. In July, Mastercard announced that three FinTech companies – digital bank Aion, wearable pre-paid tech provider DiPocket and payment service provider Modulr, have begun to use Mastercard's Open Banking Protect, which marks further enrichment of Mastercard's open banking ecosystem.

**Contactless payments and e-commerce are driving growth; Mastercard is working on helping SMEs go digital.**

- In 2Q20, the decline in GDV of cross-border card-not-present payments (mostly from online shopping) was not as severe as the decline in cross border card-present payments (mostly from offline shopping and spending). Excluding travel, the GDV growth rate of cross-border card-not-present payment (remained at over 20%, reflecting the strong demands for online shopping. This quarter, contactless payments penetration reached 37% of overall offline payments, compared with 28% one year ago. Mastercard is working with American Express, Discover, and Visa to promote the connected online checkout solution Click to Pay globally, with more than 10,000 merchants signing up currently in the US.
- Mastercard recently launched Digital Doors curriculum to help SMEs reopen after the Covid by equipping them with resources and guidance for digital transformation, helping them go online. It is also part of Mastercard's US\$250mn SME support program.

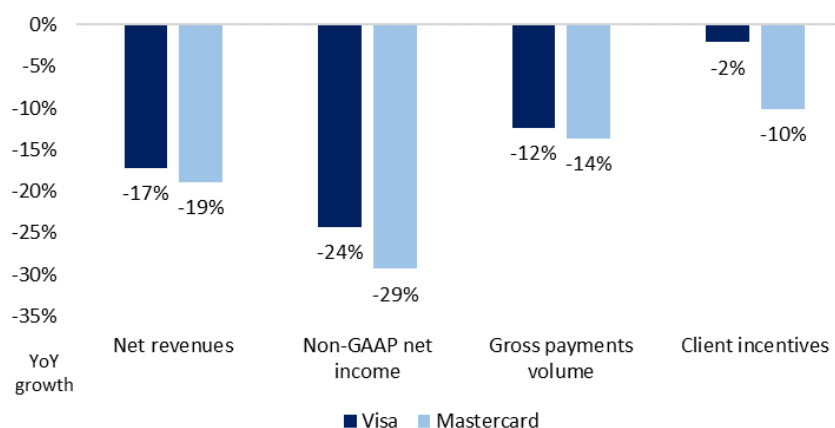
**Visa vs Mastercard**

**Visa vs. Mastercard: a brief comparison**

**Over the past quarter, Visa and Mastercard both witnessed a drop of over 15% in net revenues.** Mastercard has shown higher declines in nearly all items, including net revenues, cross-border transactions revenue, and adjusted net income. The only exception was services revenue – while Mastercard had a 12% YoY growth, Visa presented an 8% decrease. **The two companies also had similar trends in GPVs** – better performance in debit than in credit, as well as better performance in the US than in the rest of the world. Their GPVs both improved month by month, and card-not-present GPVs regarding online shopping reported a strong growth of over 20% despite overall declines.

**The two companies adopted different client incentives policies and investment strategies.** Visa’s client incentives only decreased by 2% YoY while its GPV went down by 12% YoY; Mastercard’s rebates and incentives dropped by 10% YoY while its GPV declined by 14% YoY. Mastercard invested more in payments technology, while Visa seemed more focused in expanding its overall ecosystem.

**Figure 6: Key ratios comparison of Visa and Mastercard in 3QFY20/2Q20**



Source: Company data, AMTD Research

## News of the week

25 Aug 2020

Payment

Ant Group

### Ant Group filed for IPO in Shanghai and Hong Kong

Ant Group filed for a dual listing on Shanghai's STAR Market and in Hong Kong and could raise as much as US\$30bn at a valuation of over US\$200bn. It would be the world's largest IPO. Ant Group generated a revenue of RMB72.5bn and a net profit of RMB21.9bn in 1H20. Digital payments and merchant services accounted for 36% of revenues in 1H20, while CreditTech platform took up 39%; Alipay now has more than 1 billion active users and the total payment volume in mainland China reached RMB118tn during the 12 months ended 30 June 2020. Proceeds from the IPO will be used to expand cross-border payments and boost R&D. (Source: [Bloomberg](#))

25 Aug 2020

Funding

Asia-Pacific

### 2Q20 Asia-Pacific FinTech funding up 9% QoQ

According to S&P Global Market Intelligence, FinTech funding in Asia-Pacific increased by 9% QoQ to US\$1.4bn in 2Q20. Investors are turning to firms in Australia and Southeast Asia – the two regions attracted US\$455mn and US\$371mn, roughly thrice and twice the funds raised in the 1Q20, respectively. In China, number of deals halved to 10 with funding dropping from US\$205mn in 1Q20 to US\$41mn. Payment companies, especially online payment companies, were the most popular, raising US\$623mn across the quarter that accounted for 45% of total. Other attractive segments are digital lending, banking technology, investments and capital markets technology, financial media and data solutions, and insurance technology. (Source: [Business Times](#))

24 Aug 2020

Payment

Visa

### Visa increased its investment in MagicCube

Visa provided another round of investment in MagicCube, the creator of the world's only Software Trusted Execution Environment platform. Visa is the company's original investor. As part of the investment, MagicCube and Visa will seek to further strengthen the partnership by exploring new use cases in the payment industry, such as Tap to Phone, to bring next-generation security, operability, and ease of integration of payments. (Source: [Business Insider](#))

21 Aug 2020

Digital bank

JPMorgan

### JPMorgan to launch UK digital bank in early 2021

JPMorgan Chase plans to launch its UK digital challenger bank in the first quarter of 2021. The planned venture will compete with Goldman Sachs' Marcus and startups such as Monzo and Starling, which are trying to break the dominance of the "Big Four" banks in the UK. JPMorgan Chase has signed up with suppliers such as Amazon Web Services and 10x Future Technologies for its cloud and digital banking infrastructure. (Source: [Reuters](#))

21 Aug 2020

Payment

Wirecard

### Wirecard sold off UK and Brazil businesses

Railsbank is set to acquire collapsed German payments processor Wirecard's UK arm, including payment card technology, clients and some staff. The deal is expected to be completed in November. Wirecard has also signed an agreement to sell its Brazilian business to New York-listed PagSeguro Digital, and is in the process of its North American operations sale which may be completed shortly. (Source: [FT](#))

20 Aug 2020

Insurance

Waterdrop

### China's InsurTech Waterdrop plans US IPO after US\$230mn funding round

Chinese InsurTech platform Waterdrop has completed its Series D round of funding at US\$230mn. The round was led by reinsurer Swiss Re and Tencent, as well as Waterdrop's existing investors IDG Capital and Wisdom Choice Global Fund. The company plans to use the new capital to develop AI and big data capacity for its offerings and accelerate its presence in healthcare. It is said that Waterdrop was valued at nearly US\$2bn. Waterdrop is planning a US IPO. (Source: [Reuters](#))

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17 Aug 2020

Consumer finance

Ant Group

### Ant Group plans consumer finance firm

Ant Group plans to set up a consumer finance firm to offer online loans. Ant will hold a 50% stake, while Nanyang Commercial Bank, China TransInfo Technology, Contemporary Amperex Technology and other companies will take the remaining shares. Ant is in the process of securing a consumer finance license for the company, which will be based in Chongqing and will have about US\$1.2bn in registered capital. (Source: [Reuters](#))

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17 Aug 2020

Trading

Robinhood

### Robinhood raised US\$200mn at US\$11.2bn valuation

Stock trading app Robinhood has raised US\$200mn in its Series G funding round from D1 Capital Partners. Its current valuation reached US\$11.2bn. Robinhood has completed multiple round of funding this year, including a US\$280mn round at a US\$8.3bn valuation in May, and a US\$320mn round in July that brought its valuation to US\$8.6bn. The firm has added millions of funded accounts just this year and in recent weeks it has seen record revenue growth. (Source: [Tech Crunch](#))

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17 Aug 2020

Digital bank

Standard Chartered

### Standard Chartered to open digital-only bank in Singapore

Standard Chartered is planning its second digital-only bank in Singapore through a joint venture in partnership with National Trade Union Congress Enterprise. The business, code-named Project Phoenix, will be led by Alex Twigg, who left Australian startup Judo Bank in June where he was its co-founder. Standard Chartered's first digital bank Mox is in trial run in Hong Kong. (Source: [Finews.Asia](#))

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17 Aug 2020

Corporate management

American Express

### American Express acquired Kabbage

American Express has entered into an agreement to acquire substantially all of online small business lender Kabbage, including its team and its full suite of financial technology products, data platform and IP built for small businesses. Kabbage's pre-existing loan portfolio will not be included. With the addition of Kabbage's technology, products and people, American Express plans to offer a broader set of cash flow management tools and working capital products to its millions of small business customers in the US. Financial terms were not disclosed. (Source: [American Express](#))

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