



The Purely Canadian Way to Profit From Apple Pay

Description

I'm kind of a geek, so I did a little research on perhaps the most exciting new feature on the **Apple Inc.** ([NASDAQ: AAPL](#)) iPhone 6, Apple Pay.

It works like this. Customers put their credit card information in an app called Passbook, which comes preloaded on every new iPhone. When paying, the customer simply waves their iPhone over a special kind of detection device, which sends an encrypted message between the credit card data and the merchant, leading to a purchase that's more secure than a normal credit card transaction without needing the customer to remember a PIN number.

While the service isn't yet available in Canada (and even in the United States, it's quite limited), it's easy to see the potential. A lot of us are so attached to our phones that it would be easier to pay with it compared to digging around for a wallet. The transaction is more secure, and there's certainly a cool factor to it.

But on the flip side, it's easy to be skeptical about the idea. Apps that allow people to pay with their phones have been around for years now, with very little success. Apple has less than half of the smartphone market share in North America. Will merchants put in expensive new equipment that half the population can't even use?

I've spent time in both Japan and South Korea, two of the most tech-savvy nations on Earth. Both nations have had offerings like Apple Pay for years. I have spotted people paying with their phones, but they're still vastly outnumbered by people using cash and cards.

The way to invest in it

Still, even if Apple can just grab a small percentage of the market, it could lead to billions' worth of transactions that it would receive a small cut from. That's not such a bad opportunity.

Do you know what's a better opportunity? Investing in the underlying credit card issuer.

Even if Apple Pay is a screaming success, it's still great news for the two major credit card companies, **Visa**

and **Mastercard**. They're still going to take their cut of each transaction, and anything that might encourage people to switch from cash or debit cards to credit cards is good for them.

There's one group of companies that stand to benefit even more — the Canadian banks.

First of all, most of the debit and credit card terminals you see used in stores are supplied by the banks. Depending on the type of transaction, the bank either collects a flat fee or a percentage of the total purchase. If the customer is using a different bank's card, that fee gets split.

The transaction business is really just a front for the really profitable part of the transaction, which is credit card debt. The bank is happy to lend you money to buy things, hoping that it takes years to pay it back. Encouraging more credit card transactions will inevitably lead to more credit card debt.

Which bank to buy?

Based on this, if you're looking to profit from this trend, I'd look at the Canadian banks with the strongest credit card divisions.

My first choice would be **Toronto-Dominion Bank** ([TSX: TD](#))([NYSE: TD](#)). The company recently acquired half of the Aeroplan card's customers, which is Canada's most popular rewards credit card. Management expects the transaction to add 10 cents per share to the bottom line in 2014 and 15 cents in 2015.

The Bank of Nova Scotia ([TSX: BNS](#))([NYSE: BNS](#)) has also been aggressive in its credit card business, including paying \$500 million to **Canadian Tire Corporation** for 25% of its credit card portfolio earlier in 2014. The company is also having success with its line of Scene cards, which lets customers earn points toward free movies.

Ultimately, Apple Pay could end up being just another gimmick. Even if it catches on, the banks will still be the big winners. Invest in them instead.

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