



MasterCard, Inc (MA)

Updated May 14th, 2018 by Nate Parsh

Key Metrics

Current Price: \$194	5 Year CAGR Estimate: 9.1%	Quality Percentile: N/A
Fair Value Price: \$140	5 Year Growth Estimate: 15.0%	Momentum Percentile: N/A
% Fair Value: 139%	5 Year Valuation Multiple Estimate: -6.4%	Total Return Percentile: N/A
Dividend Yield: 0.5%	5 Year Price Target \$281	Valuation Percentile: N/A

Overview & Current Events

MasterCard is the world leader in electronic payments. The company partners with ~25,000 financial institutions around the world to provide an electronic payment network. MasterCard had almost 2.4 billion credit and debit cards in use during the first quarter of 2018. MasterCard has a market cap of more than \$202 billion and had sales of \$12.5 billion in 2017.

MasterCard reported 1st quarter 2018 earnings on 5/2/2018. The company earned \$1.50 in the quarter, \$0.26 above analysts' expectations and 49% higher than Q1 2017. Revenue grew 31% year over year to \$3.58 billion, beating estimates by \$330 million. On a currency neutral basis, sales improved 27% from Q1 2017. Cards in use increased 6%. Helping earnings results was a tax rate that fell from 27% to 17.3%. The lowered tax rate contributed \$0.04 to EPS.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.90	\$1.12	\$1.41	\$1.87	\$2.19	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	\$6.26	\$12.59
DPS	\$0.06	\$0.06	\$0.06	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$2.01

MasterCard has grown earnings per share at a rate of almost 18% per year over the last decade. Erroring on the side of caution, we project that the company can continue to grow earnings by at least 15% annually through 2023. If the company is able to hit our projections, then MasterCard could earn \$12.59 based off of 2018 earnings estimates.

It is estimated by some research firms that a little more than 20% of point-of-sale purchase were made with cash in the U.S. This trend is similar to other industrialized countries. Consumers are also turning towards online shopping to make their purchases, making a credit card essential to them. The conversion from cash to credit and debit cards should allow MasterCard an opportunity for growth for the foreseeable future. MasterCard generates revenue both on transaction volume and dollar volume. Last quarter, transactions were up 17% worldwide. Dollar volumes grew 14% in Q1, with 10% growth in U.S. and 16% in international markets. Mid double digit growth on both transactions and dollar amounts helped fuel impressive year over year growth for the company.

MasterCard has increased its dividend per share for only the last 7 years, but has paid an uninterrupted dividend since 2006. Dividends have grown at a rate almost twice that of earnings for the last ten years. Assuming earnings grow at the same rate as earnings, shares could produce \$2.01 in income by 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	23.7	16.8	16.3	15.9	19.7	24.1	25	27.6	26.0	27.8	31	22.3
Avg. Yld.	0.3%	0.3%	0.3%	0.2%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	0.5%	0.7%

Shares of MasterCard have an average price to earnings multiple of 22.3 over the past ten years. Based off of 2018 EPS estimates, shares have a current P/E of 31. If shares were to revert to their historical P/E, shareholders could see the multiple contract 6.4% per year over the next five years.

MasterCard is one of the lower yielding stocks in our coverage universe, but that doesn't mean the company should be ignored by dividend growth investors. The average raise over the past ten years is above 30%. While that type of

growth isn't sustainable indefinitely, it does show that management can offer aggressive dividend increases. Besides offering share price appreciation, MasterCard can help to increase the annual dividend growth rate within a diversified portfolio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	70.2%	53%	41%	45%	44.4%	47.4%	55.5%	62.7%	69.6%	74.2%	70.6%	56.3%
Int. Cov.	---	39.5	54	110.9	197.7	322.4	106.8	82.3	60.4	43.4	34.6	20.4
Payout	6.7%	5.4%	4.3%	3.2%	5.5%	11.3%	14.2%	19.4%	20.6%	19.2%	16%	16%
Std. Dev.	51.1%	31.5%	31.6%	20.5%	22.1%	12.5%	21.9%	15.1%	17.9%	9.1%	12%	23.3%

MasterCard was able to grow earnings during the last recession. While consumers will likely cut back on spending if/when the economy weakens, they will still need to buy items like gas, groceries and clothes. While total spending may fall, consumers' habits of using credit and debit cards to make purchases will likely remain the same if not increase in the future. It is clear that investors are willing to pay a premium for MasterCard's stock given the current valuation. A mid-teens earnings growth rate is somewhat supportive of a 31 P/E, but if that growth rate declines the share price will likely fall as well.

MasterCard sports a very attractive payout ratio. In fact, that ratio has often been below 20% over the last decade. This gives the company plenty of room to maintain its dividend even if EPS were to suffer a decline. The company seems content to maintain its payout ratio at this level so investors looking for dividend growth that is higher than earnings growth might be disappointed.

Final Thoughts & Recommendation

We expect MasterCard to return 9.1% annually through 2023. This total return estimate is based on growth (15%), dividends (0.5%) and multiple reversion (-6.4%). Our estimate for growth is slightly below what the company has managed to achieve over the past decade, so it is possible that the total return could be higher than projected.

MasterCard is one of the dominate companies in electronic payment space. With the trend of consumers shopping online and with a credit card likely to continue, MasterCard has an opportunity to continue to grow for years to come. MasterCard will be a strong buy when it trades at or below its fair value.

Total Return Breakdown by Year

