



MasterCard, Inc (MA)

Updated August 8th, 2018 by Nate Parsh

Key Metrics

Current Price: \$203	5 Year CAGR Estimate: 8.3%	Volatility Percentile: 14.8%
Fair Value Price: \$140	5 Year Growth Estimate: 15.0%	Momentum Percentile: 95.7%
% Fair Value: 145%	5 Year Valuation Multiple Estimate: -7.2%	Valuation Percentile: 7.0%
Dividend Yield: 0.5%	5 Year Price Target \$281	Total Return Percentile: 55.8%

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 currently has more 2.4 billion credit and debit cards in use. MasterCard has a market cap of more than \$210 billion and had sales of \$12.5 billion in 2017.

MasterCard reported 2nd quarter earnings on July 26th. The company earned \$1.66 in the quarter, \$0.13 above estimates and a 51% improvement year over year. Revenue grew 20.3% to \$3.67 billion, \$20 million above estimates.

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. Erring 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. Transactions improved 13% (17% excluding Venezuela) in the 2nd quarter. Gross dollar volumes were up 14% overall, with 9% growth in the U.S. and 16% growth in international markets. Cards in use grew 5%. Investors should be aware that new revenue recognition rules that came about due to tax reform require companies to book revenue and expenses sooner. This contributed 4% to MasterCard's total revenue growth. Excluding this, MasterCard still produced 16% revenue growth. MasterCard's effective tax rate was 18.8% in the 2nd quarter, down 27.7% from the previous year.

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	32.4	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%

MasterCard's stock has increased \$9 in price since our May 14th update. Based off of 2018 EPS estimates, shares have a current P/E of 32.4, up from 31 earlier. Shares of MasterCard have an average price to earnings multiple of 22.3 over the past ten years. If shares were to revert to their historical P/E, shareholders could see the multiple contract 7.2% per year through 2023, up from 6.4% previously.

Disclosure: This analyst has a long position in the security discussed in this research report

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 is not 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 an investor's diversified portfolio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

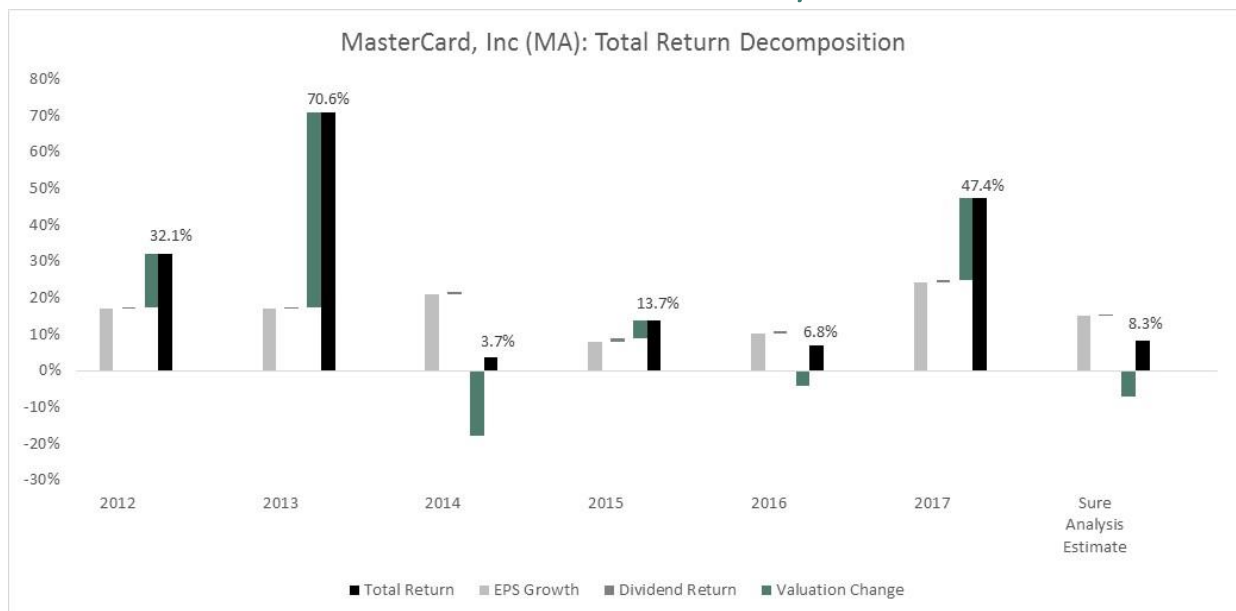
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	70.2%	53%	41%	45%	44.4%	47.4%	55.5%	62.7%	69.6%	74.2%	70.6%	56.3%
Int. Cov.	---	39.5	54	110.9	197.7	322.4	106.8	82.3	60.4	43.4	34.6	20.4
Payout	6.7%	5.4%	4.3%	3.2%	5.5%	11.3%	14.2%	19.4%	20.6%	19.2%	16%	16%
Std. Dev.	51.1%	31.5%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

Shares of MasterCard have returned more than 34% in 2018. This gain has decreased our expected total return going forward. We now expect MasterCard to return 8.3% annually through 2023, down from 9.1% previously. This total return estimate is based on growth (15%), dividends (0.5%) and multiple reversion (-7.2%). 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. Value investors, however, will likely avoid MasterCard due to its high P/E ratio relative to its own history. Those investors are encouraged to wait until MasterCard trades closer to its fair value. Growth investors who think that MasterCard can capture more of the electronic payment space may want to consider purchasing shares of the company. We maintain our 2023 price target of \$281.

Total Return Breakdown by Year



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