



# MasterCard, Inc (MA)

Updated October 30<sup>th</sup>, 2018 by Nate Parsh

## Key Metrics

<b>Current Price:</b>	\$188	<b>5 Year CAGR Estimate:</b>	9.7%	<b>Volatility Percentile:</b>	18.2%
<b>Fair Value Price:</b>	\$140	<b>5 Year Growth Estimate:</b>	15.0%	<b>Momentum Percentile:</b>	90.0%
<b>% Fair Value:</b>	134%	<b>5 Year Valuation Multiple Estimate:</b>	-5.8%	<b>Growth Percentile:</b>	98.8%
<b>Dividend Yield:</b>	0.5%	<b>5 Year Price Target</b>	\$281	<b>Valuation Percentile:</b>	6.6%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	47.1%

## 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 than 2.4 billion credit and debit cards in use. MasterCard has a market cap of more than \$198 billion.

MasterCard reported 3<sup>rd</sup> quarter earnings on October 30<sup>th</sup>. MasterCard earned a company record \$1.78 per share, \$0.10 above estimates and a 33% increase year over year. Revenue grew 14.7% to \$3.9 billion, \$40 million above estimates.

MasterCard generates revenue both on transaction volume and dollar volume. Transaction volumes grew 12% (16% excluding Venezuela) while gross dollar volumes increased 13% to \$1.5 trillion. U.S. dollar volumes grew 9% while international volumes increased 15%. 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 3% to MasterCard's total revenue growth. Expenses climbed 10% as rebates and incentives increased. Still, MasterCard saw gross margins improve to 59.4% from 57.1% year over year. The company's tax rate was 16.1% in the quarter, versus 26% for the 3<sup>rd</sup> quarter of 2017 and the number of cards in use climbed 4% to 2.5 billion.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$0.90	\$1.12	\$1.41	\$1.87	\$2.19	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	<b>\$6.26</b>	<b>\$12.59</b>
<b>DPS</b>	\$0.06	\$0.06	\$0.06	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	<b>\$1.00</b>	<b>\$2.01</b>
<b>Shares</b>	1292.4	1297.7	1309	1280	1250	1211	1165	1116	1081	1054	<b>1040</b>	<b>1020</b>

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 has increased its dividends 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. We feel dividends can grow at the same rate as earnings going forward.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	23.7	16.8	16.3	15.9	19.7	24.1	25	27.6	26.0	27.8	<b>30</b>	<b>22.3</b>
<b>Avg. Yld.</b>	0.3%	0.3%	0.3%	0.2%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	<b>0.5%</b>	<b>0.7%</b>

MasterCard's stock has decreased \$15, or 7.4%, in price since our August 8<sup>th</sup> update. Based off of 2018 EPS estimates, shares have a current P/E of 30, down from 32.4 earlier. Shares of MasterCard have an average price to earnings

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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 5.8% per year through 2023, down from 7.2% previously.

MasterCard is one of the lower yielding stocks in our coverage universe, but we feel that the stock shouldn't be ignored by dividend growth investors. MasterCard last increased its dividend for this past February by 13.6%, which is well below the ten-year average raise of 32%. While 30%+ growth is not sustainable indefinitely, it does show that management can offer aggressive dividend increases. This can help raise 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%	<b>70.6%</b>	<b>56.3%</b>
Int. Cov.	---	39.5	54	110.9	197.7	322.4	106.8	82.3	60.4	43.4	<b>34.6</b>	<b>20.4</b>
Payout	6.7%	5.4%	4.3%	3.2%	5.5%	11.3%	14.2%	19.4%	20.6%	19.2%	<b>16%</b>	<b>16%</b>
Std. Dev.	51.1%	31.5%	31.6%	20.5%	22.1%	12.5%	21.9%	15.1%	17.9%	9.1%	<b>12%</b>	<b>23.3%</b>

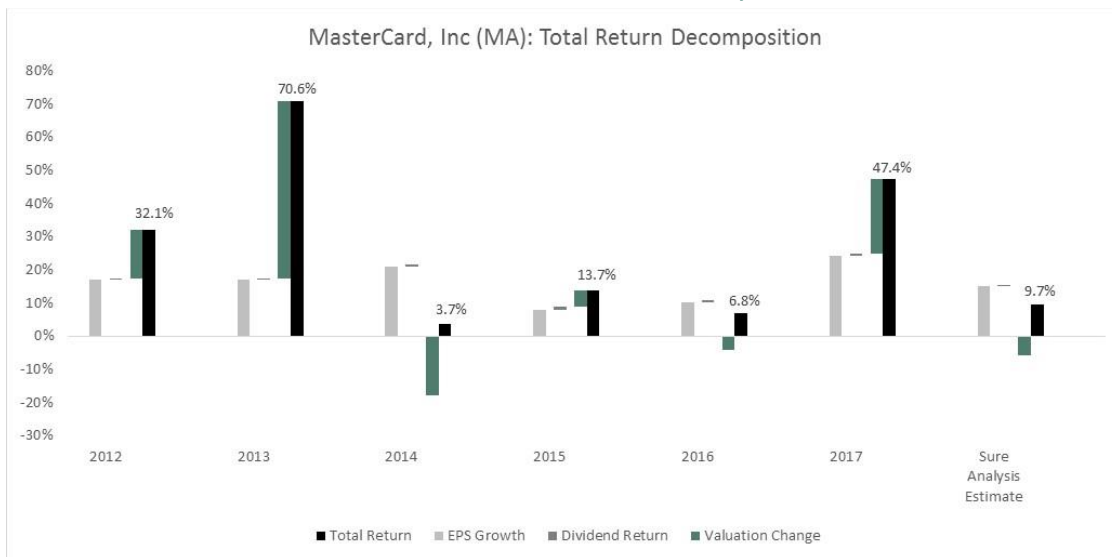
MasterCard was able to grow earnings during the last recession. While consumers will likely cut back on spending if/when the economy weakens, they will still need to buy items like gas, groceries and clothes. While total spending may fall, consumers' habits of using credit and debit cards to make purchases will likely remain the same if not increase in the future. MasterCard also has a very attractive payout ratio, below 20% for the last decade.

## Final Thoughts & Recommendation

After taking into account 3<sup>rd</sup> quarter earnings, we forecast that shares of MasterCard can offer total annual returns of 9.7%, up from 8.3% previously. This total return estimate is based on growth (15%), dividends (0.5%) and multiple reversion (-5.8%). We believe that the switch from cash to credit and debit cards investing thesis remains intact as seen by the impressive increase in international transactions growth.

Although we feel that shares of Visa (V) have slightly higher potential return over the next five years, we continue to recommend growth investors consider hold shares of MasterCard. We maintain our 2023 price target of \$281. The company is not a buy today (it is a hold), but would be a strong buy if it traded at or below fair value.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	4992	5099	5539	6714	7391	8312	9441	9667	10776	12497
<b>SG&amp;A Exp.</b>	2931	2691	2352	2700	2778	3057	3506	3598	3793	4444
<b>D&amp;A Exp.</b>	112	141	148	194	230	258	321	366	373	437
<b>Operating Profit</b>	1948	2267	2755	3470	3984	4600	5076	5057	5912	6743
<b>Operating Margin</b>	39.0%	44.5%	49.7%	51.7%	53.9%	55.3%	53.8%	52.3%	54.9%	54.0%
<b>Net Profit</b>	-254	1463	1846	1906	2759	3116	3617	3808	4059	3915
<b>Net Margin</b>	-5.1%	28.7%	33.3%	28.4%	37.3%	37.5%	38.3%	39.4%	37.7%	31.3%
<b>Free Cash Flow</b>	243	1238	1546	2507	2730	3836	3073	3759	4153	5132
<b>Income Tax</b>	-129	755	910	842	1174	1384	1462	1150	1587	2607

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	6476	7470	8837	10693	12462	14242	15329	16250	18675	21329
<b>Cash &amp; Equivalents</b>	1505	2055	3067	3734	2052	3599	5137	5747	6721	5933
<b>Accounts Receivable</b>	1153	995	1147	1409	2042	2317	2161	2147	2509	3344
<b>Goodwill &amp; Int. Ass.</b>	692	724	1207	1679	1764	1794	2236	2694	2478	4155
<b>Total Liabilities</b>	4544	3958	3621	4816	5533	6747	8505	10188	12991	15832
<b>Accounts Payable</b>	795	768	908	1059	1421	1771	1561	1338	1555	2276
<b>Long-Term Debt</b>	169	22	0	0	0	0	1494	3268	5180	5424
<b>Shareholder's Equity</b>	1927	3504	5205	5868	6917	7484	6790	6028	5656	5468
<b>D/E Ratio</b>	0.09	0.01	0.00	0.00	0.00	0.00	0.22	0.54	0.92	0.99

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	-4.0%	21.0%	22.6%	19.5%	23.8%	23.3%	24.5%	24.1%	23.2%	19.6%
<b>Return on Equity</b>	-10%	53.9%	42.4%	34.4%	43.2%	43.3%	50.7%	59.4%	69.5%	70.4%
<b>ROIC</b>	-9.5%	51.9%	42.2%	34.4%	43.1%	43.2%	45.7%	43.2%	40.2%	35.9%
<b>Shares Out.</b>	1292	1297.7	1309	1280	1250	1211	1165	1116	1081	1054
<b>Revenue/Share</b>	3.84	3.92	4.23	5.23	5.88	6.84	8.08	8.50	9.79	11.66
<b>FCF/Share</b>	0.19	0.95	1.18	1.95	2.17	3.16	2.63	3.31	3.77	4.79

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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