



MasterCard, Inc (MA)

Updated February 4th, 2019 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---------------------------------|-------|
| Current Price: | \$214 | 5 Year CAGR Estimate: | 10.9% | Volatility Percentile: | 12.8% |
| Fair Value Price: | \$168 | 5 Year Growth Estimate: | 15.0% | Momentum Percentile: | 92.7% |
| % Fair Value: | 127% | 5 Year Valuation Multiple Estimate: | -4.7% | Growth Percentile: | 99.1% |
| Dividend Yield: | 0.6% | 5 Year Price Target | \$338 | Valuation Percentile: | 13.9% |
| Dividend Risk Score: | A | Retirement Suitability Score: | D | Total Return Percentile: | 58.6% |

Overview & Current Events

MasterCard is a 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 and has a market cap of nearly \$221 billion.

MasterCard reported financial results for the fourth quarter and full year 2018 on January 31st. The company's earnings-per-share (EPS) totaled \$1.55 during the quarter, \$0.03 above consensus and growing 36% from the prior year. Revenue grew 15.2% to \$3.8 billion, in-line with what the market had expected. EPS for the year was \$6.49, which was \$0.23 above MasterCard's guidance. EPS grew 37% from 2017. Revenue increased 20% to \$15 billion for 2018.

MasterCard's worldwide gross dollar volumes increased 14% to \$1.55 trillion in local currency during the fourth quarter. U.S. gross dollar volumes were higher by 10%. Cross border volumes improved 17%. The company's effective tax rate was 18.3%, versus 26.8% during the fourth quarter of 2017. For 2018, gross dollar volumes increased 14% to \$5.9 trillion and cross-border volumes were higher by 18%. MasterCard's adjusted tax rate for the year decreased to 18.5% from 26.8%. Adjusted expenses for the quarter and full year grew by 14% and 15%, respectively, mainly due to higher rebates and incentives. Investors should be aware that new revenue recognition rules due to tax reform require companies to book revenue and expenses sooner. This contributed 5% to MasterCard's total revenue growth in the quarter and 3% to full year growth. MasterCard returned nearly \$6 billion in capital to shareholders during the year. The company paid \$1 billion in dividends and repurchased 26.2 million shares at an average price of \$187.

We forecast that shares can earn \$7.53 per share in 2019, which would represent 16% growth from 2018 if achieved.

Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|----------------|
| EPS | \$1.12 | \$1.41 | \$1.87 | \$2.19 | \$2.56 | \$3.10 | \$3.35 | \$3.69 | \$4.58 | \$6.49 | \$7.53 | \$15.15 |
| DPS | \$0.06 | \$0.06 | \$0.06 | \$0.12 | \$0.29 | \$0.44 | \$0.64 | \$0.76 | \$0.88 | \$1.00 | \$1.28 | \$2.57 |
| Shares | 1297.7 | 1309 | 1280 | 1250 | 1211 | 1165 | 1116 | 1081 | 1054 | 1040 | 1035 | 1000 |

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 2024. This growth will come primarily through an increase in revenue. If the company is able to hit our projections, then MasterCard could earn \$15.15 based off of 2019 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 for the last 8 years, and has paid an uninterrupted dividend since 2006.



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Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 16.8 | 16.3 | 15.9 | 19.7 | 24.1 | 25 | 27.6 | 26.0 | 27.8 | 30 | 28.4 | 22.3 |
| Avg. Yld. | 0.3% | 0.3% | 0.2% | 0.3% | 0.5% | 0.6% | 0.7% | 0.8% | 0.7% | 0.5% | 0.6% | 0.8% |

MasterCard's share price has increased \$26, or 14%, since our October 30th update. Based off of 2019 EPS estimates, shares have a current price-to-earnings ratio, or P/E, of 28.4. MasterCard have an average P/E ratio of 22.3 over the past ten years. If shares were to revert to their historical P/E, shareholders could see the multiple contract 4.7% per year through 2024, down from an estimated contraction of 5.8% 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 increased its dividend 32% for the upcoming February 8th payment, which is very much in line with the company's average growth rate over the past decade. This level of dividend growth can help raise the annual dividend growth rate within an investor's diversified portfolio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

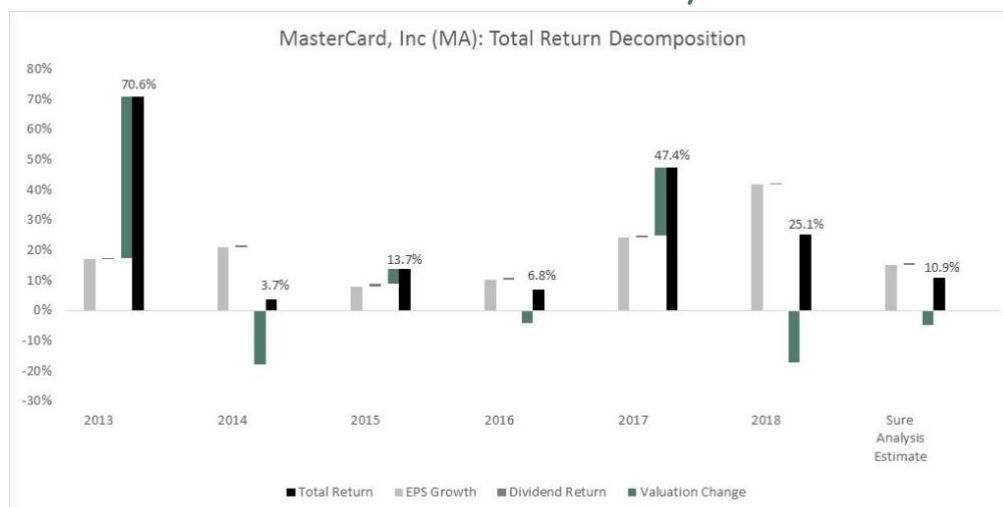
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|------|------|-------|-------|-------|-------|-------|-------|------------|------------|
| Payout | 5.4% | 4.3% | 3.2% | 5.5% | 11.3% | 14.2% | 19.4% | 20.6% | 19.2% | 15.4% | 17% | 17% |

MasterCard was able to grow earnings during the last recession. Consumers will likely cut back on spending if/when the economy weakens, but 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. As one of the largest companies in the electronic payment space, MasterCard is likely to benefit from increased use of debit and credit cards as a form of payment for goods and services.

Final Thoughts & Recommendation

After reviewing fourth quarter and full year financial results, we estimate that MasterCard can offer a total return of 10.9% per year through 2024, up from 9.7% previously. This total return estimate is based on growth (15%), dividends (0.6%) and multiple reversion (-4.7%). We believe that the switch from cash to credit and debit cards thesis remains intact as evident by the company's results for both the quarter and year. Despite strong expected total returns, MasterCard is overvalued. It is a hold at current prices, and will be a buy when trading at or below fair value.

Total Return Breakdown by Year



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



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Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 5099 | 5539 | 6714 | 7391 | 8312 | 9441 | 9667 | 10776 | 12497 | 14950 |
| SG&A Exp. | 2691 | 2352 | 2700 | 2778 | 3057 | 3506 | 3598 | 3793 | 4444 | 6081 |
| D&A Exp. | 141 | 148 | 194 | 230 | 258 | 321 | 366 | 373 | 437 | 459 |
| Operating Profit | 2267 | 2755 | 3470 | 3984 | 4600 | 5076 | 5057 | 5912 | 6743 | 8410 |
| Operating Margin | 44.5% | 49.7% | 51.7% | 53.9% | 55.3% | 53.8% | 52.3% | 54.9% | 54.0% | 56.3% |
| Net Profit | 1463 | 1846 | 1906 | 2759 | 3116 | 3617 | 3808 | 4059 | 3915 | 5859 |
| Net Margin | 28.7% | 33.3% | 28.4% | 37.3% | 37.5% | 38.3% | 39.4% | 37.7% | 31.3% | 39.2% |
| Free Cash Flow | 1238 | 1546 | 2507 | 2730 | 3836 | 3073 | 3759 | 4153 | 5132 | 5719 |
| Income Tax | 755 | 910 | 842 | 1174 | 1384 | 1462 | 1150 | 1587 | 2607 | 1345 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 7470 | 8837 | 10693 | 12462 | 14242 | 15329 | 16250 | 18675 | 21329 | 24860 |
| Cash & Equivalents | 2055 | 3067 | 3734 | 2052 | 3599 | 5137 | 5747 | 6721 | 5933 | 6682 |
| Accounts Receivable | 995 | 1147 | 1409 | 2042 | 2317 | 2161 | 2147 | 2509 | 3344 | 4728 |
| Goodwill & Int. Ass. | 724 | 1207 | 1679 | 1764 | 1794 | 2236 | 2694 | 2478 | 4155 | 3895 |
| Total Liabilities | 3958 | 3621 | 4816 | 5533 | 6747 | 8505 | 10188 | 12991 | 15832 | 19442 |
| Accounts Payable | 768 | 908 | 1059 | 1421 | 1771 | 1561 | 1338 | 1555 | 2276 | 2726 |
| Long-Term Debt | 22 | 0 | 0 | 0 | 0 | 1494 | 3268 | 5180 | 5424 | 6334 |
| Shareholder's Equity | 3504 | 5205 | 5868 | 6917 | 7484 | 6790 | 6028 | 5656 | 5468 | 5395 |
| D/E Ratio | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.22 | 0.54 | 0.92 | 0.99 | 1.17 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 21.0% | 22.6% | 19.5% | 23.8% | 23.3% | 24.5% | 24.1% | 23.2% | 19.6% | 25.4% |
| Return on Equity | 53.9% | 42.4% | 34.4% | 43.2% | 43.3% | 50.7% | 59.4% | 69.5% | 70.4% | 108% |
| ROIC | 51.9% | 42.2% | 34.4% | 43.1% | 43.2% | 45.7% | 43.2% | 40.2% | 35.9% | 51.7% |
| Shares Out. | 1297.7 | 1309 | 1280 | 1250 | 1211 | 1165 | 1116 | 1081 | 1054 | 1040 |
| Revenue/Share | 3.92 | 4.23 | 5.23 | 5.88 | 6.84 | 8.08 | 8.50 | 9.79 | 11.66 | 14.28 |
| FCF/Share | 0.95 | 1.18 | 1.95 | 2.17 | 3.16 | 2.63 | 3.31 | 3.77 | 4.79 | 5.46 |

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

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