



MasterCard, Inc (MA)

Updated January 29th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$320	5 Year CAGR Estimate:	6.9%	Market Cap:	\$323 billion
Fair Value Price:	\$217	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	1/8/2019
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.5%	Dividend Payment Date:	2/7/2020
Dividend Yield:	0.4%	5 Year Price Target	\$437	Years Of Dividend Growth:	8
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	32%

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 has more than 2.6 billion credit and debit cards in use.

MasterCard reported fourth quarter and full-year earnings results on 1/29/2020. The company's adjusted earnings-per-share of \$1.96 was \$0.09 above estimates and a 26.5% increase from the previous year. Revenue improved 16% to \$4.4 billion, \$14 million higher than expected. Adjusted earnings-per-share came to \$7.77, a 20% increase from the previous year and \$0.16 above our estimates. Revenue grew 13% to \$16.9 billion.

MasterCard's gross dollar volumes were up 12% in constant currency to \$1.73 trillion. U.S. growth was 9%, but the rest of the world saw a 14% increase. The company saw a 19% improvement in switched transactions while cross-border volumes was up 16%. Cards in use were up 5% to 2.6 billion. Total adjusted operating expenses were higher by 11% for the quarter due primarily to acquisitions and strategic investment initiatives. Operating margins increased 85 bps to 57.2% for the full year. MasterCard repurchased 3.6 million shares at an average price of \$278 during the quarter. Analysts expect MasterCard to earn \$9.05 per share in 2020, which would be a 16.5% improvement from 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.41	\$1.87	\$2.19	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	\$6.49	\$7.77	\$9.05	\$18.20
DPS	\$0.06	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.32	\$2.65
Shares¹	1309	1280	1250	1211	1165	1116	1081	1054	1040	1008	1008	990

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 2025. This growth will come primarily through an increase in revenue. If the company is able to hit our projections, then MasterCard could earn \$18.20 based off of 2020 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. We see the dividend nearly doubling to \$2.65 per share by 2025 as the payout ratio is quite low and earnings growth is outstanding.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.3	15.9	19.7	24.1	25.0	27.6	26.0	27.8	30.0	38.4	35.4	24.0
Avg. Yld.	0.3%	0.2%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	0.5%	0.4%	0.4%	0.6%

¹ Share count in millions

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



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MasterCard's share price has increased \$46, or 16.8%, since our 10/29/2020 update. Based off of 2020 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 35.4. MasterCard shares have an average P/E ratio of 22.3 over the past ten years. Given recent results and growth prospects for the company in the electronic payment space, we have increased our target P/E ratio to 24 from 22.3. If shares were to revert to this target P/E by 2025, then valuation would be a 7.5% headwind to annual returns over this time period.

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 2/8/2019 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

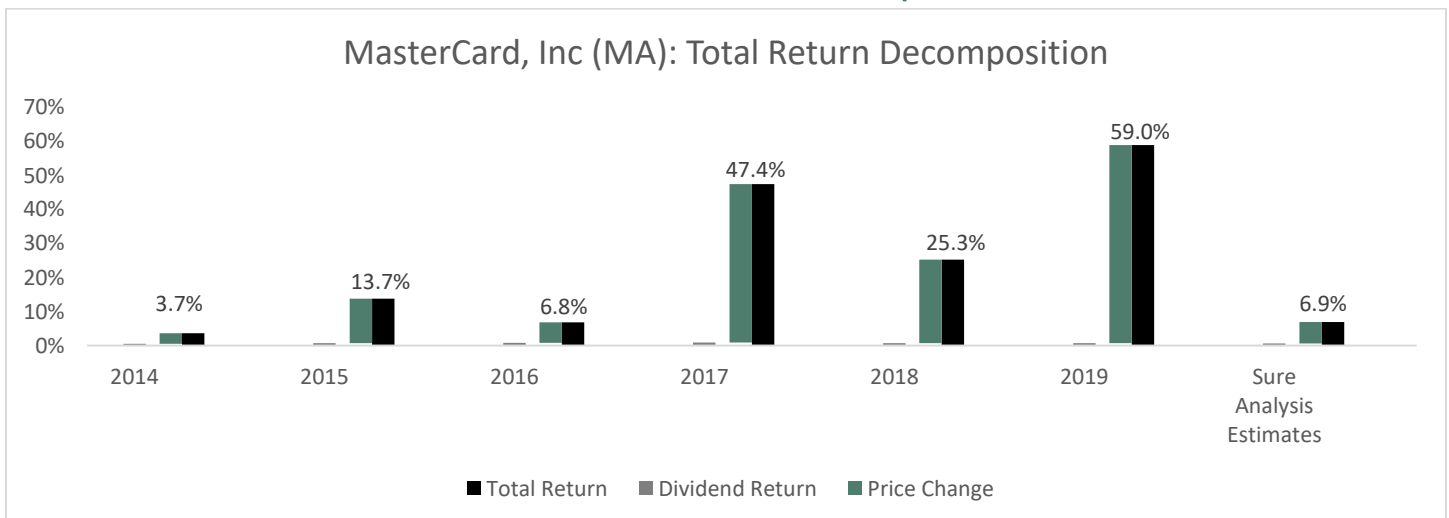
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	4%	3%	6%	11%	14%	19%	21%	19%	15%	17%	15%	15%

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. This is one of the key competitive advantages that MasterCard possess. 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. In addition, the company discussed several partnerships on the first quarter conference call with different corporations. For example, iPhone users will be able to access a digital version of their MasterCard in their Apple Wallet, making it easy and convenient to shop and spend.

Final Thoughts & Recommendation

MasterCard is expected to offer a total annual return of 6.9% through 2025, up from our previous estimate of 5.1%. Once again, the company had a strong quarter and full year. Earnings and revenue were both higher by double-digits. The company continues to see strength in gross dollar, switched and cross border volumes. Expenses increased, but these were due to investments in growing business. Shares of MasterCard were up nearly 61% in 2019, causing us to reiterate our hold rating on the stock. Due to estimates for 2020 and an increase in our 2025 target P/E ratio, we have increased our 2025 price target \$96 to \$437.

Total Return Breakdown by Year



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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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