



MasterCard, Inc (MA)

Updated October 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$295	5 Year CAGR Estimate:	2.6%	Market Cap:	\$298 billion
Fair Value Price:	\$161	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	1/8/2021 ¹
% Fair Value:	184%	5 Year Valuation Multiple Estimate:	-11.5%	Dividend Payment Date:	2/5/2021 ²
Dividend Yield:	0.5%	5 Year Price Target	\$323	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	21%

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 third quarter earnings results on 10/28/2020. The company's adjusted earnings-per-share of \$1.60 was a 25.6% decline from the previous year and \$0.06 lower than expected. Revenue fell 13.7% to \$3.84 billion, \$110 million below estimates.

Gross dollar volumes fell 0.4% in local currency to \$1.65 trillion. International volumes were flat, but U.S. improved 4% to \$513 billion. Switched transactions, up 2%, returned to growth, but cross-border volumes were down 29%. This was a deceleration from the prior quarter. Adjusted operating margins fell 460 basis points to 54.9%. Expenses fell 8% as MasterCard continues to control costs. The company retired 6.5 million shares of stock at an average price of \$323 during the quarter. Analysts expect the company to earn \$6.69 in 2020, up from \$6.63 previously.

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	\$6.69	\$13.46
DPS	\$0.06	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.60	\$3.22
Shares³	1309	1280	1250	1211	1165	1116	1081	1054	1040	1008	1001	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 \$13.46 based off of 2020 earnings estimates.

It is estimated by some research firms that a little more than 20% of point-of-sale purchase are 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 more than doubling to \$3.22 per share by 2025 as the payout ratio is quite low and earnings growth is strong.

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	44.1	24.0
Avg. Yld.	0.3%	0.2%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	0.5%	0.4%	0.5%	1.0%

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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 decreased \$14, or 4.5%, since our 7/30/2020 update. Based off of revised 2020 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 44.1. MasterCard shares have an average P/E ratio of 22.3 over the past ten years. Given results under more normal conditions and growth prospects for the company in the electronic payment space, we reaffirm our target P/E ratio of 24. If shares were to revert to this target P/E by 2025, then valuation would be an 11.5% 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 21.2% for the 2/7/2020 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

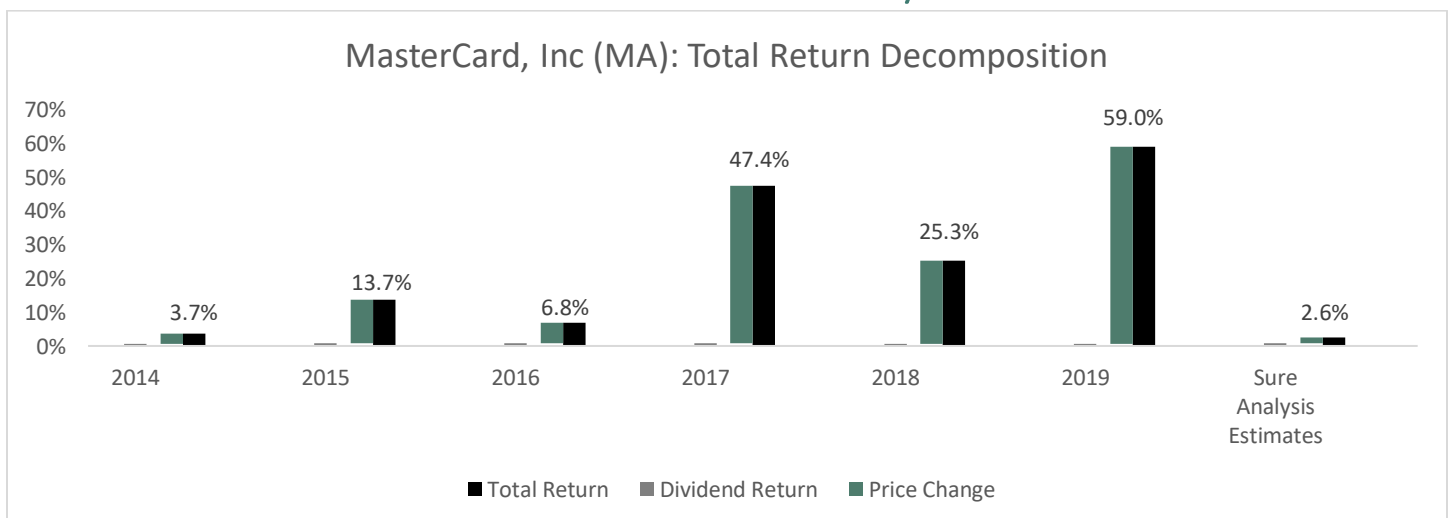
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	4%	3%	6%	11%	14%	19%	21%	19%	15%	17%	24%	24%

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 possesses. 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

Following third quarter earnings results, MasterCard is expected to offer a total annual return of 2.6% through 2025, up from our previous estimate of 1.5%. The company continues to feel the impact from COVID-19, especially when it comes to cross-border volumes. On the plus side, these declines were an improvement from the prior quarter. U.S. gross dollar volumes were also higher and expenses were down yet again. That said, shares remain very expensive and trade at 184% of our fair value estimate. We have raised our 2025 price target \$3 to \$323, but maintain our sell rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	5539	6714	7391	8312	9441	9667	10776	12497	14950	16883
SG&A Exp.	2636	3050	3177	3454	4044	4244	4491	5318	6117	6665
D&A Exp.	148	194	230	258	321	366	373	437	459	522
Operating Profit	2755	3470	3984	4600	5076	5057	5912	6743	8374	9696
Operating Margin	49.7%	51.7%	53.9%	55.3%	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%
Net Profit	1846	1906	2759	3116	3617	3808	4059	3915	5859	8118
Net Margin	33.3%	28.4%	37.3%	37.5%	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%
Free Cash Flow	1546	2507	2730	3836	3073	3759	4255	5241	5719	7455
Income Tax	910	842	1174	1384	1462	1150	1587	2607	1345	1613

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	8837	10693	12462	14242	15329	16250	18675	21329	24860	29236
Cash & Equivalents	3067	3734	2052	3599	5137	5747	6721	5933	6682	6988
Accounts Receivable	1147	1409	2042	2317	2161	2147	2509	3344	4728	5509
Goodwill & Int. Ass.	1207	1679	1764	1794	2236	2694	2478	4155	3895	5438
Total Liabilities	3621	4816	5533	6747	8505	10188	12991	15832	19442	23319
Accounts Payable	908	360	357	338	419	472	609	933	537	489
Long-Term Debt	-	-	-	-	1494	3268	5180	5424	6334	8527
Shareholder's Equity	5205	5868	6917	7484	6790	6028	5656	5468	5395	5893
D/E Ratio	-	-	-	-	0.22	0.54	0.92	0.99	1.17	1.45

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	22.6%	19.5%	23.8%	23.3%	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%
Return on Equity	42.4%	34.4%	43.2%	43.3%	50.7%	59.4%	69.5%	70.4%	108%	144%
ROIC	42.2%	34.4%	43.1%	43.2%	45.7%	43.2%	40.2%	35.9%	51.7%	62.0%
Shares Out.	1309	1280	1250	1211	1165	1116	1081	1054	1040	1008
Revenue/Share	4.23	5.23	5.88	6.84	8.08	8.50	9.79	11.66	14.28	16.52
FCF/Share	1.18	1.95	2.17	3.16	2.63	3.31	3.86	4.89	5.46	7.29

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

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