



MasterCard, Inc (MA)

Updated May 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$382	5 Year CAGR Estimate:	2.9%	Market Cap:	\$379 billion
Fair Value Price:	\$213	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	4/8/2021
% Fair Value:	180%	5 Year Valuation Multiple Estimate:	-11.0%	Dividend Payment Date:	5/7/2021
Dividend Yield:	0.5%	5 Year Price Target	\$428	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	10%

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 nearly 3 billion credit and debit cards in use.

MasterCard reported first quarter earnings results on 4/29/2021. Revenue grew 3.6% to \$4.16 billion, \$101 million more than expected. Adjusted earnings-per-share of \$1.74 was 4.9% lower than the prior year, but topped estimates by \$0.18.

Gross dollar volumes continue to recover from the prior year, growing 8% to \$1.7 trillion. U.S. growth was especially impressive as gross dollar volumes were higher by 14%. The rest of the world was up 5%. Cross border volumes, which were down 17%, remain challenged. This was a sequential improvement from the 29% and 34% declines seen in Q4 2020 and Q3 2020, respectively. Purchase volumes grew 10%, switched transaction were higher by 9% and card in use up 6% to 2.8 billion. Adjusting for acquisitions and hedging gains and losses, expenses were flat compared to the prior year. The adjusted operating margins fell 240 basis points to 52.9%. The company repurchased 3.9 million shares at an average cost of \$359 in Q1. The company has \$8.1 billion, or 2.1% of its market capitalization, remaining on its share repurchase authorization. Analysts expect that the company will earn \$7.88 per share in 2021, down from \$8.13 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.87	\$2.19	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	\$6.49	\$7.77	\$6.43	\$7.88	\$15.85
DPS	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.60	\$1.76	\$3.54
Shares¹	1280	1250	1211	1165	1116	1081	1054	1040	1008	1001	994	980

MasterCard has grown earnings-per-share at a rate of almost 15% per year over the last decade. We project that the company can continue to grow earnings by at least 15% annually through 2026. This growth will come from a combination of through an increase in revenue, a recovery from the pandemic and share buybacks. If the company is able to hit our projections, then MasterCard could earn \$15.85 based off of 2021 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. We also believe that a recovery from COVID-19, and any additional direct payments from governments to consumers, will result in accelerated spending amongst consumers, which will benefit the electronic payment companies in general and MasterCard specifically given its leadership in the space.

MasterCard has increased its dividends for the last 10 years, and has paid an uninterrupted dividend since 2006. On 12/8/2020, MasterCard raised its quarterly dividend 10% to \$0.44. We see the dividend more than doubling to \$3.54 per share by 2026 as the payout ratio is quite low and earnings growth is strong.

¹ Share count in millions

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



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.9	19.7	24.1	25.0	27.6	26.0	27.8	29.4	33	43.3	48.5	27.0
Avg. Yld.	0.2%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	0.6%	0.5%	0.6%	0.5%	0.8%

MasterCard's share price has increased \$66, or 20.9%, since our 1/30/2021 update. Based off of 2021 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 48.5. MasterCard shares have an average P/E ratio of 27.2 over the past ten years. We are raising our 2026 target P/E to 27 from 24 to reflect the quality of earnings over the recent years as well as to match the average valuation since 2011. Growth prospects for the company in the electronic payment space also contribute to our higher target multiple. If shares were to revert to this target P/E by 2026, then valuation would be an 11% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

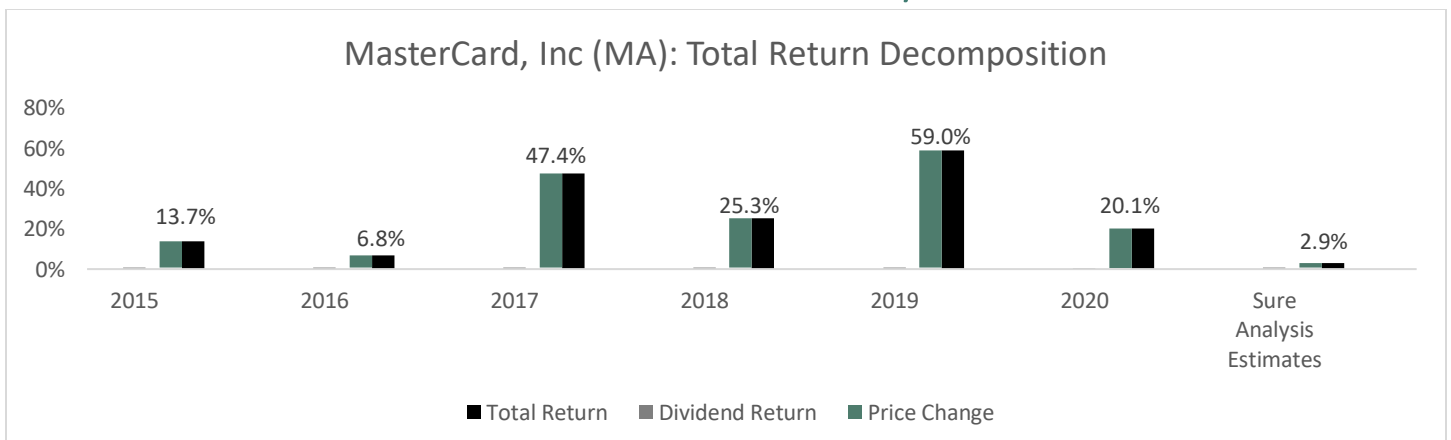
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	3%	6%	11%	14%	19%	21%	19%	15%	17%	25%	22%	22%

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

After first quarter earnings results, MasterCard is expected to offer a total annual return of 2.9% through 2026, down from our previous estimate of 5.1%. This projected return stems from a 15% growth rate and starting yield of 0.5% offset by a low double-digit multiple reversion. MasterCard has begun to see some recovery from the COVID-19 pandemic. Gross dollar volumes have turned positive and purchase volumes are higher. Cross border activity remains lower than the prior year, but this has at least deaccelerated from the two prior quarters. We have increased our 2026 price target \$36 to \$428, but rate the stock a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6,714	7,391	8,312	9,441	9,667	10,776	12,497	14,950	16,883	15,301
SG&A Exp.	3,050	3,177	3,454	4,044	4,244	4,491	5,318	6,117	6,665	6,567
D&A Exp.	194	230	258	321	366	373	437	459	522	580
Operating Profit	3,470	3,984	4,600	5,076	5,057	5,912	6,743	8,374	9,696	8,154
Operating Margin	51.7%	53.9%	55.3%	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%	53.3%
Net Profit	1,906	2,759	3,116	3,617	3,808	4,059	3,915	5,859	8,118	6,411
Net Margin	28.4%	37.3%	37.5%	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%	41.9%
Free Cash Flow	2,507	2,730	3,836	3,073	3,759	4,255	5,241	5,719	7,455	6,516
Income Tax	842	1,174	1,384	1,462	1,150	1,587	2,607	1,345	1,613	1,349

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	10,693	12,462	14,242	15,329	16,250	18,675	21,329	24,860	29,236	33,584
Cash & Equivalents	3,734	2,052	3,599	5,137	5,747	6,721	5,933	6,682	6,988	10,113
Accounts Receivable	1,409	2,042	2,317	2,161	2,147	2,509	3,344	4,728	5,509	4,352
Goodwill & Int. Ass.	1,679	1,764	1,794	2,236	2,694	2,478	4,155	3,895	5,438	6,713
Total Liabilities	4,816	5,533	6,747	8,505	10,188	12,991	15,832	19,442	23,319	27,096
Accounts Payable	360	357	338	419	472	609	933	537	489	527
Long-Term Debt	-	-	-	1,494	3,268	5,180	5,424	6,334	8,527	12,672
Shareholder's Equity	5,868	6,917	7,484	6,790	6,028	5,656	5,468	5,395	5,893	6,391
D/E Ratio	-	-	-	0.22	0.54	0.92	0.99	1.17	1.45	1.98

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	19.5%	23.8%	23.3%	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%	20.4%
Return on Equity	34.4%	43.2%	43.3%	50.7%	59.4%	69.5%	70.4%	108%	144%	104%
ROIC	34.4%	43.1%	43.2%	45.7%	43.2%	40.2%	35.9%	51.7%	62.0%	38.2%
Shares Out.	1280	1250	1211	1165	1116	1081	1054	1040	1008	1001
Revenue/Share	5.23	5.88	6.84	8.08	8.50	9.79	11.66	14.28	16.52	15.21
FCF/Share	1.95	2.17	3.16	2.63	3.31	3.86	4.89	5.46	7.29	6.48

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

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