



MasterCard, Inc (MA)

Updated July 30th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$389	5 Year CAGR Estimate:	3.0%	Market Cap:	\$385 billion
Fair Value Price:	\$217	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	7/8/2021
% Fair Value:	179%	5 Year Valuation Multiple Estimate:	-11.0%	Dividend Payment Date:	8/9/2021
Dividend Yield:	0.5%	5 Year Price Target	\$437	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 second quarter earnings results on 7/29/2021. Revenue was up 36.4% to \$4.5 billion, which was \$130 million better than expected. Adjusted earnings-per-share of \$1.95 compared favorably to adjusted earnings-per-share of \$1.36 in the prior year and was \$0.25 above estimates.

MasterCard has begun to lap the worst of the COVID-19 pandemic results. Gross dollar volumes improved 33% to \$1.9 trillion. U.S. growth was 34% with the rest of the world increasing 32%. Cross border volumes were higher by 58% following declines of 17%, 29% and 34% over the past three quarters, respectively. Purchase volumes climbed 36%, switched transaction were higher by 41% and card in use was up 8% to 2.85 billion. Expenses increased 34% due to acquisitions, personnel expenses, advertising and data processing costs. The adjusted operating margin contracted 70 basis points to 53%. The company repurchased 4.6 million shares at an average price of \$370 in Q2. The company has \$6.4 billion, or 1.7% of its market capitalization, remaining on its share repurchase authorization.

Analysts expect that the company will earn \$8.04 per share in 2021, up from \$7.88 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	\$8.04	\$16.17
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	990	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 \$16.17 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	33.0	43.3	48.4	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 \$7, or 1.8%, since our 5/1/2021 update. Based off of 2021 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 48.4. MasterCard shares have an average P/E ratio of 27.2 over the past ten years. We are reaffirming our 2026 target P/E of 27 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

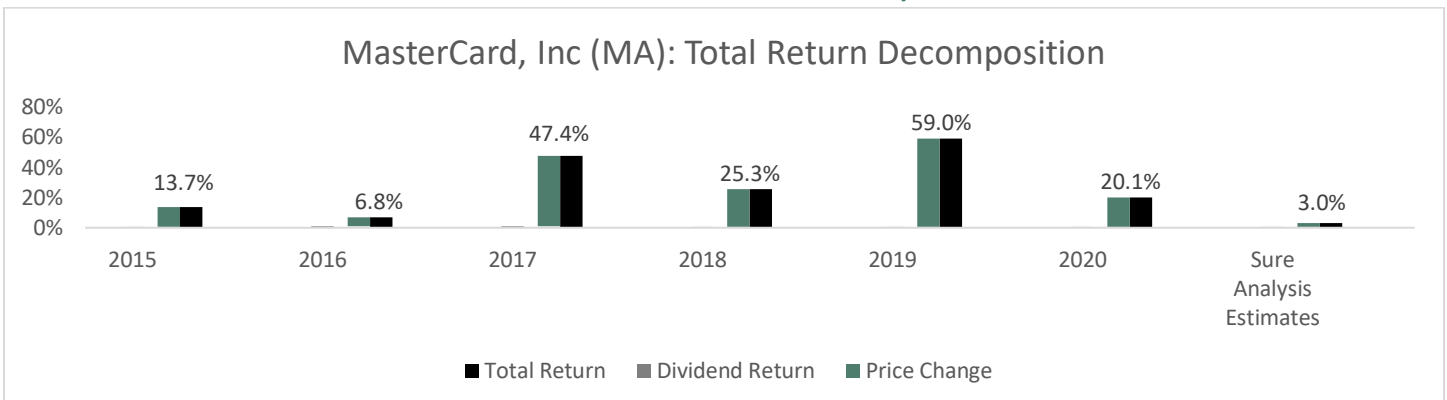
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	3%	6%	11%	14%	19%	21%	19%	15%	17%	25%	22%	22%

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 second quarter earnings results, MasterCard is expected to offer a total annual return of 3.0% through 2026, up from our previous estimate of 2.9%. This projected return stems from a 15% growth rate and starting yield of 0.5% offset by a low double-digit multiple reversion. MasterCard continues to recover from the COVID-19 pandemic and produced excellent results, albeit against a very weak comparison. Still, the growth was across the board and we remain enthused by the company's leadership position in the electronic payment space. However, we believe that the share price reflects these positives. We have raised our 2026 price target \$9 to \$437, but view shares as 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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