



# MasterCard, Inc (MA)

Updated October 30<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$336	<b>5 Year CAGR Estimate:</b>	6.5%	<b>Market Cap:</b>	\$331 billion
<b>Fair Value Price:</b>	\$222	<b>5 Year Growth Estimate:</b>	15.0%	<b>Ex-Dividend Date:</b>	1/8/2022 <sup>1</sup>
<b>% Fair Value:</b>	151%	<b>5 Year Valuation Multiple Estimate:</b>	-7.9%	<b>Dividend Payment Date:</b>	2/9/2022 <sup>2</sup>
<b>Dividend Yield:</b>	0.5%	<b>5 Year Price Target</b>	\$447	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	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 announced third quarter earnings results on 10/28/2021. Revenue grew 30.2% to \$5 billion, which was \$50 million higher than expected. Adjusted earnings-per-share of \$2.37 compared favorably to adjusted earnings-per-share of \$1.60 in the prior year and was \$0.18 above estimates.

MasterCard continues to lap the worst of the COVID-19 pandemic results. Gross dollar volumes improved 20% to just under \$2 trillion. Both the U.S. and rest of the world were higher by 20%. Cross border volumes were up 52%, purchase volumes climbed 23%, switched transaction were higher by 25% and card in use grew 8% to 2.9 billion. Expenses increased 30% due to acquisitions, personnel expenses, advertising and data processing costs. The adjusted operating margin improved 180 basis points to 56.7%. The company repurchased 4.3 million shares at an average price of \$372 in Q3. The company has \$4.8 billion, or 1.5% of its market capitalization, remaining on its share repurchase authorization.

Analysts expect that the company will earn \$8.24 per share in 2021, up from \$8.04 and \$7.88 previously.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.87	\$2.19	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	\$6.49	\$7.77	\$6.43	<b>\$8.24</b>	<b>\$16.57</b>
<b>DPS</b>	\$0.06	\$0.12	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.60	<b>\$1.76</b>	<b>\$3.54</b>
<b>Shares<sup>3</sup></b>	1280	1250	1211	1165	1116	1081	1054	1040	1008	1001	<b>986</b>	<b>975</b>

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 \$16.57 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.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend date

<sup>3</sup> 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	40.8	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 decreased \$53, or 13.6%, since our 7/30/2021 update. Based off of 2021 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 40.8. 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 7.9% headwind to annual returns over this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

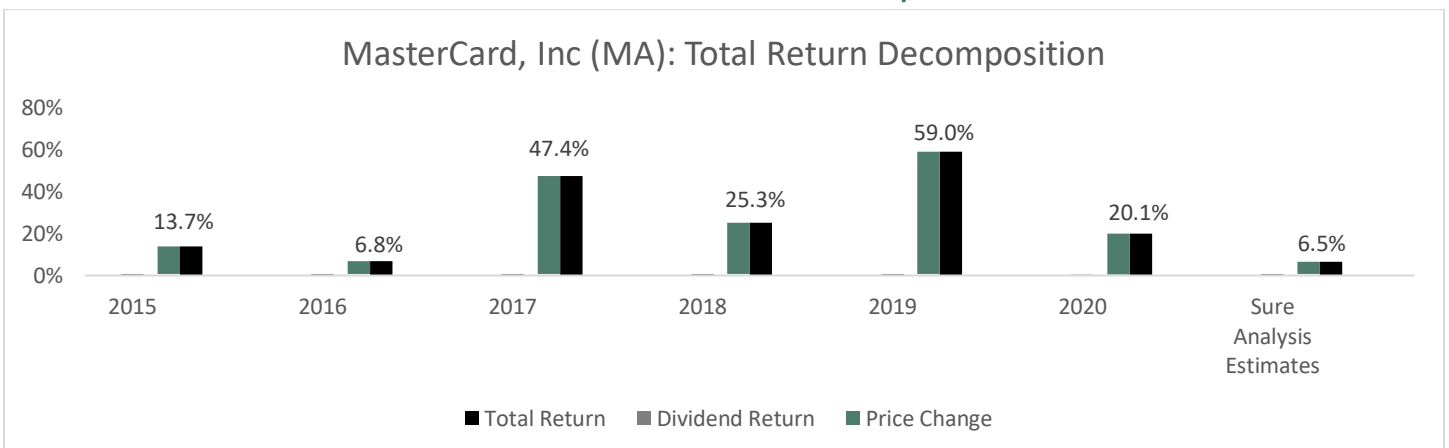
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	3%	6%	11%	14%	19%	21%	19%	15%	17%	25%	21%	21%

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 quarter earnings results, MasterCard is expected to offer a total annual return of 6.5% through 2026, up from our previous estimate of 3.0%. This projected return stems from a 15% growth rate and starting yield of 0.5% offset by a high single-digit multiple compression. The company once again posted solid growth rates on nearly every metric. This was against the second weakest quarter of last year, but the recovery from the worst of the pandemic continues to take shape. We have raised our 2026 price target \$10 to \$447 to reflect updated EPS estimates for the year and now view shares as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	6,714	7,391	8,312	9,441	9,667	10,776	12,497	14,950	16,883	15,301
<b>SG&amp;A Exp.</b>	3,050	3,177	3,454	4,044	4,244	4,491	5,318	6,117	6,665	6,567
<b>D&amp;A Exp.</b>	194	230	258	321	366	373	437	459	522	580
<b>Operating Profit</b>	3,470	3,984	4,600	5,076	5,057	5,912	6,743	8,374	9,696	8,154
<b>Operating Margin</b>	51.7%	53.9%	55.3%	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%	53.3%
<b>Net Profit</b>	1,906	2,759	3,116	3,617	3,808	4,059	3,915	5,859	8,118	6,411
<b>Net Margin</b>	28.4%	37.3%	37.5%	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%	41.9%
<b>Free Cash Flow</b>	2,507	2,730	3,836	3,073	3,759	4,255	5,241	5,719	7,455	6,516
<b>Income Tax</b>	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
<b>Total Assets</b>	10,693	12,462	14,242	15,329	16,250	18,675	21,329	24,860	29,236	33,584
<b>Cash &amp; Equivalents</b>	3,734	2,052	3,599	5,137	5,747	6,721	5,933	6,682	6,988	10,113
<b>Accounts Receivable</b>	1,409	2,042	2,317	2,161	2,147	2,509	3,344	4,728	5,509	4,352
<b>Goodwill &amp; Int. Ass.</b>	1,679	1,764	1,794	2,236	2,694	2,478	4,155	3,895	5,438	6,713
<b>Total Liabilities</b>	4,816	5,533	6,747	8,505	10,188	12,991	15,832	19,442	23,319	27,096
<b>Accounts Payable</b>	360	357	338	419	472	609	933	537	489	527
<b>Long-Term Debt</b>	-	-	-	1,494	3,268	5,180	5,424	6,334	8,527	12,672
<b>Shareholder's Equity</b>	5,868	6,917	7,484	6,790	6,028	5,656	5,468	5,395	5,893	6,391
<b>D/E Ratio</b>	-	-	-	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
<b>Return on Assets</b>	19.5%	23.8%	23.3%	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%	20.4%
<b>Return on Equity</b>	34.4%	43.2%	43.3%	50.7%	59.4%	69.5%	70.4%	108%	144%	104%
<b>ROIC</b>	34.4%	43.1%	43.2%	45.7%	43.2%	40.2%	35.9%	51.7%	62.0%	38.2%
<b>Shares Out.</b>	1280	1250	1211	1165	1116	1081	1054	1040	1008	1001
<b>Revenue/Share</b>	5.23	5.88	6.84	8.08	8.50	9.79	11.66	14.28	16.52	15.21
<b>FCF/Share</b>	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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