MasterCard, Inc (MA)

Updated January 28th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$351	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$344 billion
Fair Value Price:	$266	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	1/6/2022
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.4%	**Dividend Payment Date:**	2/9/2022
Dividend Yield:	0.6%	**5 Year Price Target**	$534	**Years Of Dividend Growth:**	11
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 announced fourth quarter and full year earnings results on 1/27/2022. For the quarter, revenue grew 26.2% to $5.2 billion, which was $30 million more than anticipated. Adjusted earnings-per-share of $2.35 compared favorably to adjusted earnings-per-share of $1.64 in the prior year and was $0.14 ahead estimates. For the year, revenue improved 23% to $18.9 billion while adjusted earnings-per-share of $8.76 was a 38% increase from 2020.

MasterCard continues to lap the worst of the COVID-19 pandemic results and is now ahead of pre-pandemic results on most metrics. Gross dollar volumes grew 23% to $2.1 trillion. Both the U.S. and rest of the world were higher by 19%. Cross border volumes were higher by 53%, purchase volumes and switched transaction both increased 27% while cards in use grew 9% to just under 3 billion. Expenses increased 16% due to acquisitions, personnel expenses, advertising and data processing costs. The adjusted operating margin improved 320 basis points to 54.2%. The company repurchased 3.7 million shares at an average price of $351 in Q3. The company has $11.4 billion remaining on its share repurchase authorization.

Analysts expect that the company will earn $9.84 per share in 2022. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.19	$2.56	$3.10	$3.35	$3.69	$4.58	$6.49	$7.77	$6.43	$8.76	***$9.84***	***$19.79***
DPS	$0.12	$0.29	$0.44	$0.64	$0.76	$0.88	$1.00	$1.32	$1.60	$1.76	***$1.96***	***$3.94***
Shares[1]	1250	1211	1165	1116	1081	1054	1040	1008	1001	986	***986***	***975***

MasterCard has grown earnings-per-share at a rate of almost 17% per year over the last decade. We project that the company can continue to grow earnings by at least 15% annually through 2027. 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 $19.79 based off of 2022 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.

[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 has increased its dividends for the last 11 years, and has paid an uninterrupted dividend since 2006. On 11/30/2021, MasterCard raised its quarterly dividend 11.4%% to $0.49 for the 2/9/2022 payment date. We see the dividend more than doubling to $3.94 per share by 2027 as the payout ratio is quite low and earnings growth is strong.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.7	24.1	25.0	27.6	26.0	27.8	29.4	33.0	43.3	41.0	***35.7***	***27.0***
Avg. Yld.	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	0.6%	0.5%	0.6%	0.5%	***0.6%***	***0.7%***

MasterCard's share price has increased $15, or 4.5%, since our 10/30/2021 update. Based off of 2022 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 35.7. MasterCard shares have an average P/E ratio of 27.2 over the past ten years. We are reaffirming our 2027 target P/E of 27 to reflect the quality of earnings over the recent years as well as to match the average valuation over the last decade. 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 2027, then valuation would be an 5.4% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

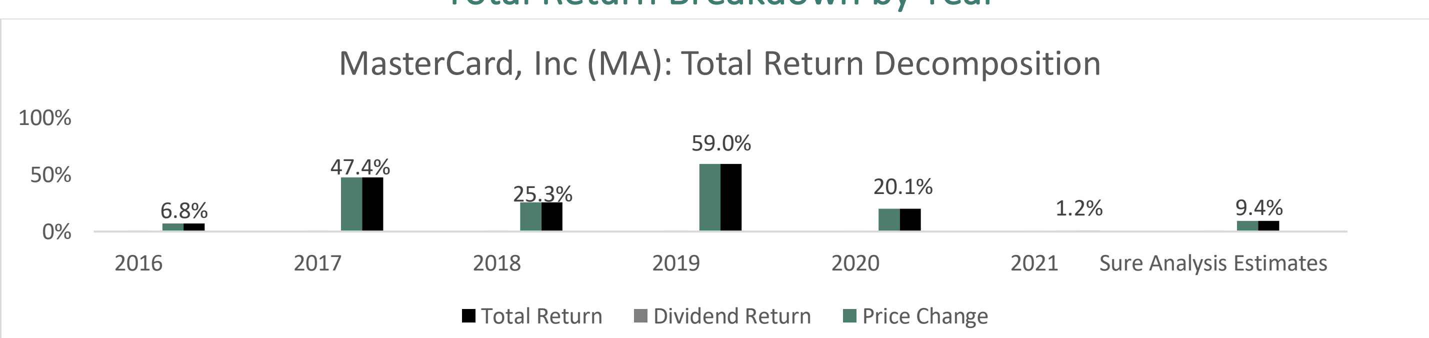
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	6%	11%	14%	19%	21%	19%	15%	17%	25%	20%	***20%***	***20%***

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 fourth quarter earnings results, MasterCard is expected to offer a total annual return of 9.4% through 2027, up from our previous estimate of 6.5%. This projected return stems from a 15% growth rate and a starting yield of 0.6% offset by a mid-single-digit multiple compression. The company continues to see strong numbers following the worst of the pandemic. Cross border volumes remain strong, though they slowed somewhat during the month of January compared to Q4. We have raised our five-year price target $87 to $534 and would be a buyer of MasterCard on a pullback.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	7,391	8,312	9,441	9,667	10,776	12,497	14,950	16,883	15,301	18,884
SG&A Exp.	3,177	3,454	4,044	4,244	4,491	5,318	6,117	6,665	6,567	7,982
D&A Exp.	230	258	321	366	373	437	459	522	580	726
Operating Profit	3,984	4,600	5,076	5,057	5,912	6,743	8,374	9,696	8,154	10,176
Operating Margin	53.9%	55.3%	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%	53.3%	53.9%
Net Profit	2,759	3,116	3,617	3,808	4,059	3,915	5,859	8,118	6,411	8,687
Net Margin	37.3%	37.5%	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%	41.9%	46.0%
Free Cash Flow	2,730	3,836	3,073	3,759	4,255	5,241	5,719	7,455	6,516	8,649
Income Tax	1,174	1,384	1,462	1,150	1,587	2,607	1,345	1,613	1,349	1,620

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	12,462	14,242	15,329	16,250	18,675	21,329	24,860	29,236	33,584	37,669
Cash & Equivalents	2,052	3,599	5,137	5,747	6,721	5,933	6,682	6,988	10,113	7,421
Accounts Receivable	2,042	2,317	2,161	2,147	2,509	3,344	4,728	5,509	4,352	4,325
Goodwill & Int. Ass.	1,764	1,794	2,236	2,694	2,478	4,155	3,895	5,438	6,713	11,333
Total Liabilities	5,533	6,747	8,505	10,188	12,991	15,832	19,442	23,319	27,096	30,286
Accounts Payable	357	338	419	472	609	933	537	489	527	738
Long-Term Debt	-	-	1,494	3,268	5,180	5,424	6,334	8,527	12,672	13,901
Shareholder's Equity	6,917	7,484	6,790	6,028	5,656	5,468	5,395	5,893	6,391	7,312
LTD/E Ratio	-	-	0.22	0.54	0.92	0.99	1.17	1.45	1.98	1.90

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	23.8%	23.3%	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%	20.4%	24.4%
Return on Equity	43.2%	43.3%	50.7%	59.4%	69.5%	70.4%	108%	144%	104%	126.8%
ROIC	43.1%	43.2%	45.7%	43.2%	40.2%	35.9%	51.7%	62.0%	38.2%	43.0%
Shares Out.	1250	1211	1165	1116	1081	1054	1040	1008	1001	986
Revenue/Share	5.88	6.84	8.08	8.50	9.79	11.66	14.28	16.52	15.21	19.04
FCF/Share	2.17	3.16	2.63	3.31	3.86	4.89	5.46	7.29	6.48	8.72

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