



MasterCard, Inc (MA)

Updated October 28th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$331	5 Year CAGR Estimate:	12.3%	Market Cap:	\$317 B
Fair Value Price:	\$286	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	10/6/2022
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	11/9/2022
Dividend Yield:	0.6%	5 Year Price Target	\$576	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Buy

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 3 billion credit and debit cards in use.

On November 30th, 2021, MasterCard raised its quarterly dividend 11.4% to \$0.49.

On October 27th, 2022, MasterCard announced third quarter results for the period ending September 30th, 2022. Revenue grew 15.5% to \$5.8 billion, which was \$140 million above estimates. Adjusted earnings-per-share of \$2.68 compared favorably to \$2.37 in the prior year and was \$0.10 better than expected.

On a local currency basis, gross dollar volumes increased 11% worldwide to \$2.1 trillion, with the U.S. growing 10% and the rest of the world improving by 12%. Cross border volumes were up 44%, though this was a slowdown on a sequential basis. Switched transactions grew 9% and cards in use increased 5% to 3.1 billion. Expenses were up 17% due to acquisitions, personnel expenses, advertising and data processing costs. The adjusted operating margin expanded 100 basis points to 57.7%. The company repurchased 4.7 million shares at an average price of \$340 during the quarter. Quarter-to-date through October 24th, MasterCard repurchased an addition 1.4 million shares at an average price of \$297. The company has \$5.1 billion, or 1.6% of its market capitalization, remaining on its share repurchase authorization.

Following third quarter earnings results, we reaffirm our adjusted earnings-per-share estimate of \$10.60 for 2022, compared to \$10.15 and \$9.84 previously.

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	\$10.60	\$21.32
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
Shares¹	1250	1211	1165	1116	1081	1054	1040	1008	1001	986	968	930

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 \$21.32 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.



MasterCard, Inc (MA)

Updated October 28th, 2022 by Nathan Parsh

MasterCard has increased its dividends for the last 11 years, and has paid an uninterrupted dividend since 2006. 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	31.2	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 decreased \$23, or 6.5%, since our July 30th, 2022 report. Based off of 2022 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 31.2. 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 a 2.9% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

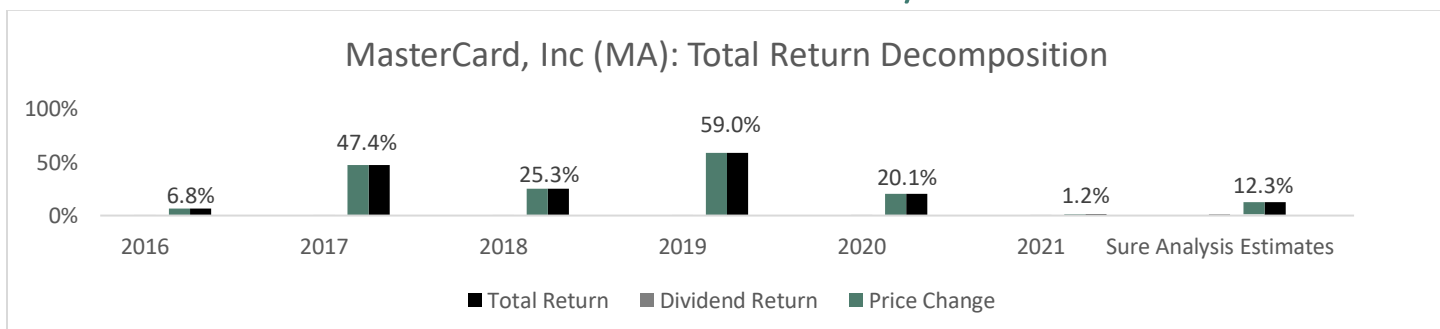
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	6%	11%	14%	19%	21%	19%	15%	17%	25%	20%	18%	18%

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 12.3% through 2027, up from our previous estimate of 10.8%. This projected return stems from a 15% growth rate and a starting yield of 0.6% offset by a low single-digit multiple compression. MasterCard continues to show strong growth numbers, though some metrics did slow from the second quarter of the year. That said, we are still enthused by the company's business model and its leadership position in its industry. We maintain our five-year price target of \$576 and continue to view shares of MasterCard as a buy due to projected returns.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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



MasterCard, Inc (MA)

Updated October 28th, 2022 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.