



MasterCard, Inc (MA)

Updated October 28th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$364	5 Year CAGR Estimate:	13.3%	Market Cap:	\$343 B
Fair Value Price:	\$329	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	10/05/23
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	11/09/23
Dividend Yield:	0.6%	5 Year Price Target	\$661	Years Of Dividend Growth:	12
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 3.2 billion credit and debit cards in use.

On December 6th, 2022, MasterCard raised its quarterly dividend 16.3% to \$0.57.

On October 26th, 2023, MasterCard reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue increased 12.6% to \$6.5 billion, which was \$6 million above estimates. Adjusted earnings-per-share of \$3.39 compared favorably to \$2.68 in the prior year and was \$0.18 better than expected.

On a local currency basis, gross dollar volumes for the quarter increased 11% worldwide to \$2.305 trillion, with the U.S. growing 5% and the rest of the world higher by 13%. Cross border volumes remain strong with growth of 21% from the prior year. Switched transactions increased 15% to 37.2 billion and cards in use grew 7% to 3.263 billion. Expenses were flat year-over-year. The adjusted operating margin expanded 120 basis points to 58.8%. The company repurchased 4.8 million shares at an average price of \$395.83 during the quarter. Quarter-to-date through October 23rd, 2023, MasterCard repurchased an additional 1.2 million shares, also at an average price of \$395.83. The company has \$4.5 billion, or 1.3% of its market capitalization, remaining on its share repurchase authorization.

We expect that MasterCard will earn \$12.17 in 2023, compared to \$12.11, \$12.30 in 2023, and \$12.19 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.56	\$3.10	\$3.35	\$3.69	\$4.58	\$6.49	\$7.77	\$6.43	\$8.76	\$10.22	\$12.17	\$24.48
DPS	\$0.29	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.60	\$1.76	\$1.96	\$2.28	\$4.59
Shares¹	1211	1165	1116	1081	1054	1040	1008	1001	986	963	943	920

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 2028. 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 \$24.48 based off of 2023 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 12 years, and has paid an uninterrupted dividend since 2006. We see the dividend more than doubling to \$4.59 per share by 2028 as the payout ratio is quite low and earnings growth is strong.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.1	25.0	27.6	26.0	27.8	29.4	33.0	43.3	41.0	33.6	29.9	27.0
Avg. Yld.	0.5%	0.6%	0.7%	0.8%	0.7%	0.6%	0.5%	0.6%	0.5%	0.6%	0.6%	0.7%

MasterCard's share price has decreased \$33, or 8.3%, since our July 27th, 2023 report. Based off 2023 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 29.9. We are reaffirming our 2028 target P/E of 27 to reflect the quality of earnings over the recent years. 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 2028, then valuation would be a 2.0% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

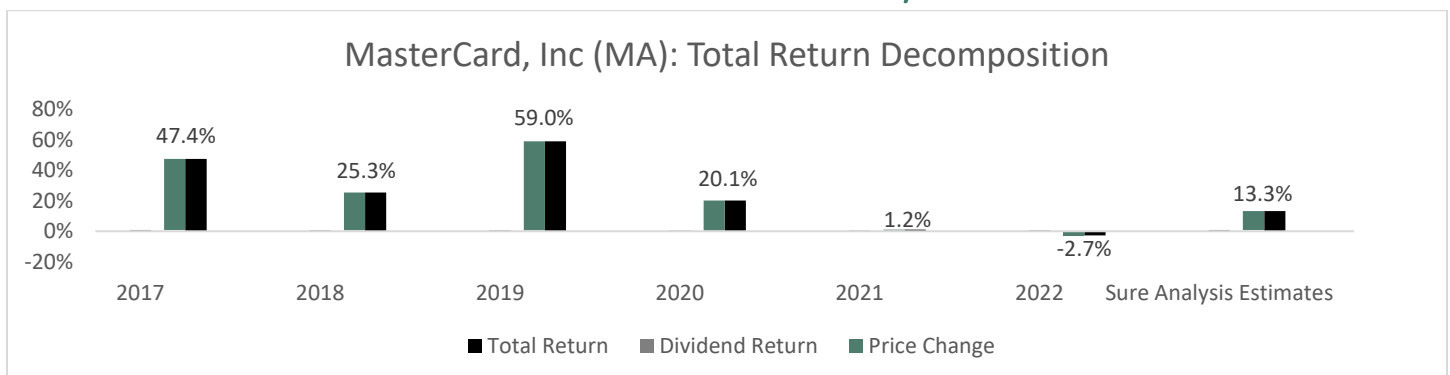
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	11%	14%	19%	21%	19%	15%	17%	25%	20%	19%	19%	19%

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 third quarter earnings results, MasterCard is expected to offer a total annual return of 13.3% through 2028, up from our previous estimate of 11.2%. This projected return stems from a 15% growth rate and a starting yield of 0.6%, offset by a low single-digit multiple contraction. MasterCard continues to show strong growth numbers, though these are down slightly sequentially. Still, we remain enthused by the company's business model, its leadership position in its industry, and the growth potential for electronic payments. We have increased our five-year price target \$3 to \$661 due to EPS estimates for 2023. We continue to view shares of MasterCard as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	8,312	9,441	9,667	10,776	12,497	14,950	16,883	15,301	18,884	22,237
SG&A Exp.	3,454	4,044	4,244	4,491	5,318	6,117	6,665	6,567	7,982	
D&A Exp.	258	321	366	373	437	459	522	580	726	0.0%
Operating Profit	4,600	5,076	5,057	5,912	6,743	8,374	9,696	8,154	10,176	8,867
Operating Margin	55.3%	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%	53.3%	53.9%	750
Net Profit	3,116	3,617	3,808	4,059	3,915	5,859	8,118	6,411	8,687	12,620
Net Margin	37.5%	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%	41.9%	46.0%	56.8%
Free Cash Flow	3,836	3,073	3,759	4,255	5,241	5,719	7,455	6,516	8,649	9,930
Income Tax	1,384	1,462	1,150	1,587	2,607	1,345	1,613	1,349	1,620	44.7%

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	14,242	15,329	16,250	18,675	21,329	24,860	29,236	33,584	37,669	38,724
Cash & Equivalents	3,599	5,137	5,747	6,721	5,933	6,682	6,988	10,113	7,421	7,008
Accounts Receivable	2,317	2,161	2,147	2,509	3,344	4,728	5,509	4,352	4,325	3,425
Goodwill & Int. Ass.	1,794	2,236	2,694	2,478	4,155	3,895	5,438	6,713	11,333	11,381
Total Liabilities	6,747	8,505	10,188	12,991	15,832	19,442	23,319	27,096	30,286	32,347
Accounts Payable	338	419	472	609	933	537	489	527	738	926
Long-Term Debt	-	1,494	3,268	5,180	5,424	6,334	8,527	12,672	13,901	14,023
Shareholder's Equity	7,484	6,790	6,028	5,656	5,468	5,395	5,893	6,391	7,312	6,298
LTD/E Ratio	-	0.22	0.54	0.92	0.99	1.17	1.45	1.98	1.90	2.23

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	23.3%	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%	20.4%	24.4%	26.0%
Return on Equity	43.3%	50.7%	59.4%	69.5%	70.4%	108%	144%	104%	126.8%	145.9%
ROIC	43.2%	45.7%	43.2%	40.2%	35.9%	51.7%	62.0%	38.2%	43.0%	47.6%
Shares Out.	1211	1165	1116	1081	1054	1040	1008	1001	986	963
Revenue/Share	6.84	8.08	8.50	9.79	11.66	14.28	16.52	15.21	19.04	22.90
FCF/Share	3.16	2.63	3.31	3.86	4.89	5.46	7.29	6.48	8.72	10.40

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

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