



MasterCard, Inc (MA)

Updated January 31st, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$449	5 Year CAGR Estimate:	12.0%	Market Cap:	\$421 B
Fair Value Price:	\$384	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	01/08/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date:	02/09/24
Dividend Yield:	0.6%	5 Year Price Target	\$772	Years Of Dividend Growth:	13
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 5th, 2023, MasterCard raised its quarterly dividend 15.8% to \$0.66, extending the company's dividend growth streak to 13 consecutive years.

On January 31st, 2024, MasterCard released fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue grew 13% to \$6.5 billion, which was \$20 million above estimates. Adjusted earnings-per-share of \$3.18 compared favorably to \$2.65 in the prior year and was \$0.10 better than expected. For 2023, revenue grew 13% to \$25.1 billion while adjusted earnings-per-share of \$11.83 compared to \$10.22 in the prior year.

On a local currency basis, gross dollar volumes for the quarter increased 10% worldwide to \$2.133 trillion during the quarter, with the U.S. growing 4% and the rest of the world higher by 13%. Cross border volumes remain strong with growth of 23% from the prior year. Switched transactions increased 12% to 38.1 billion and cards in use grew 8% to 3.322 billion. Expenses were up 21% to \$3.2 billion. The adjusted operating margin expanded 120 basis points to 56.2%. The company repurchased 4.5 million shares at an average price of \$400 during the quarter. Quarter-to-date through January 26th, 2024, MasterCard repurchased an additional 1.4 million shares, also at an average price of \$418.57. The company has \$13.6 billion, or 3.2% of its market capitalization, remaining on its share repurchase authorization.

We expect that MasterCard will earn \$14.21 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.10	\$3.35	\$3.69	\$4.58	\$6.49	\$7.77	\$6.43	\$8.76	\$10.22	\$11.83	\$14.21	\$28.58
DPS	\$0.44	\$0.64	\$0.76	\$0.88	\$1.00	\$1.32	\$1.60	\$1.76	\$1.96	\$2.28	\$2.64	\$5.31
Shares¹	1165	1116	1081	1054	1040	1008	1001	986	963	939	939	920

MasterCard has grown earnings-per-share at a rate of 16% per year over the last decade. We project that the company can continue to grow earnings by at least 15% annually through 2029. 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 growth projections, then MasterCard could earn \$28.58 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 13 years, and has paid an uninterrupted dividend since 2006. We see the dividend more than doubling to \$5.31 per share by 2029 as the payout ratio is quite low and earnings growth is strong.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.0	27.6	26.0	27.8	29.4	33.0	43.3	41.0	33.6	36.1	31.6	27.0
Avg. Yld.	0.6%	0.7%	0.8%	0.7%	0.6%	0.5%	0.6%	0.5%	0.6%	0.6%	0.6%	0.7%

MasterCard's share price has increased \$85, or 23.4%, since our October 28th, 2023 report. Based off 2024 earnings-per-share estimates, shares have a current price-to-earnings ratio, or P/E, of 31.6. We are reaffirming our 2029 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 2029, then valuation would be a 3.1% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

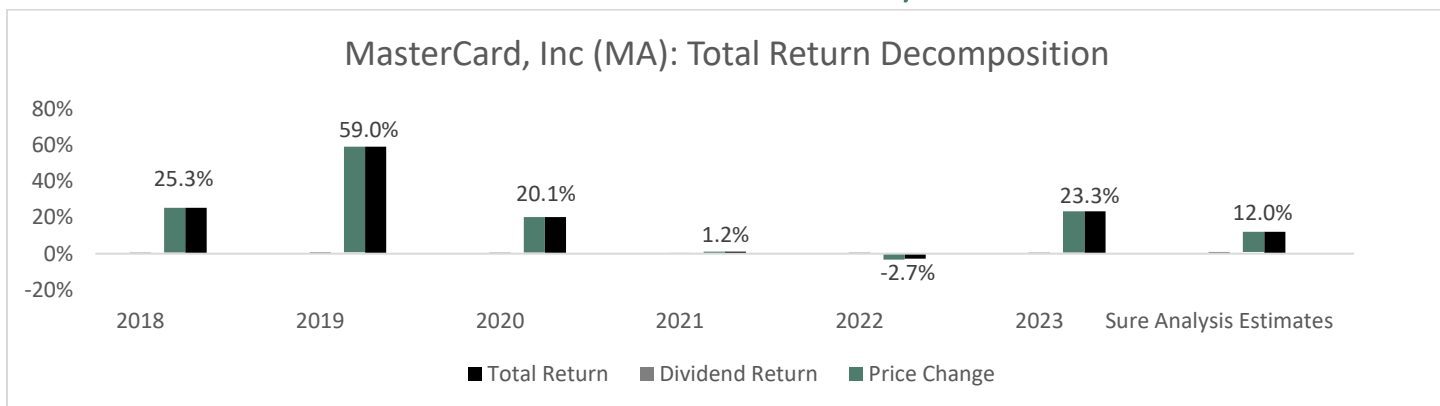
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	14%	19%	21%	19%	15%	17%	25%	20%	19%	19%	19%	19%

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

Following fourth quarter earnings results, MasterCard is expected to offer a total annual return of 12.0% through 2029, down from our previous estimate of 13.3%. This projected return stems from a 15% growth rate and a starting yield of 0.6%, offset by low single-digit multiple compression. MasterCard continues to show strong growth numbers. 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 \$111 to \$772 due to EPS estimates for 2024. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,441	9,667	10,776	12,497	14,950	16,883	15,301	18,884	22,237	25,098
SG&A Exp.	7,377	7,562	8,551	9,810	11,736	13,346	11,514	14,395	16,974	
D&A Exp.	78.1%	78.2%	79.4%	78.5%	78.5%	79.0%	75.2%	76.2%	76.3%	0.0%
Operating Profit	1,980	2,139	2,266	2,631	2,903	3,128	2,771	3,442	3,502	9,752
Operating Margin	321	366	373	437	459	522	580	726	750	799
Net Profit	5,076	5,057	5,912	6,743	8,374	9,696	8,163	10,227	12,722	14,547
Net Margin	53.8%	52.3%	54.9%	54.0%	56.0%	57.4%	53.3%	54.2%	57.2%	58.0%
Free Cash Flow	3,617	3,808	4,059	3,915	5,859	8,118	6,411	8,687	9,930	11,195
Income Tax	38.3%	39.4%	37.7%	31.3%	39.2%	48.1%	41.9%	46.0%	44.7%	44.6%

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	15,329	16,250	18,675	21,329	24,860	29,236	33,584	37,669	38,724	42,448
Cash & Equivalents	5,137	5,747	6,721	5,933	6,682	6,988	10,113	7,421	7,008	8,588
Accounts Receivable	1,109	1,079	1,416	1,969	2,276	2,514	2,646	3,006	3,425	4,060
Goodwill & Int. Ass.	2,236	2,694	2,478	4,155	3,895	5,438	6,713	11,333	11,381	11,746
Total Liabilities	8,505	10,188	12,991	15,761	19,371	23,245	27,067	30,257	32,347	35,451
Accounts Payable	419	472	609	933	537	489	527	738	926	834
Long-Term Debt	1,494	3,268	5,180	5,424	6,334	8,527	12,672	13,901	14,023	15,681
Shareholder's Equity	6,790	6,028	5,656	5,468	5,395	5,893	6,391	7,312	6,298	6,929
LTD/E Ratio	0.22	0.54	0.92	0.99	1.17	1.45	1.98	1.90	2.23	2.26

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	24.5%	24.1%	23.2%	19.6%	25.4%	30.0%	20.4%	24.4%	26.0%	27.6%
Return on Equity	50.7%	59.4%	69.5%	70.4%	107.9%	143.8%	104.4%	126.8%	145.9%	169.3%
ROIC	45.7%	43.2%	40.2%	35.8%	51.4%	61.6%	38.0%	42.9%	47.6%	52.0%
Shares Out.	1165	1116	1081	1054	1040	1008	1001	986	963	939
Revenue/Share	8.08	8.50	9.79	11.66	14.28	16.52	15.21	19.04	22.90	26.53
FCF/Share	2.63	3.31	3.86	4.89	5.46	7.29	6.48	8.72	10.40	11.51

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

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