

Mastercard Inc. (MA)

\$328.00 (As of 08/05/20)

Price Target (6-12 Months): **\$344.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

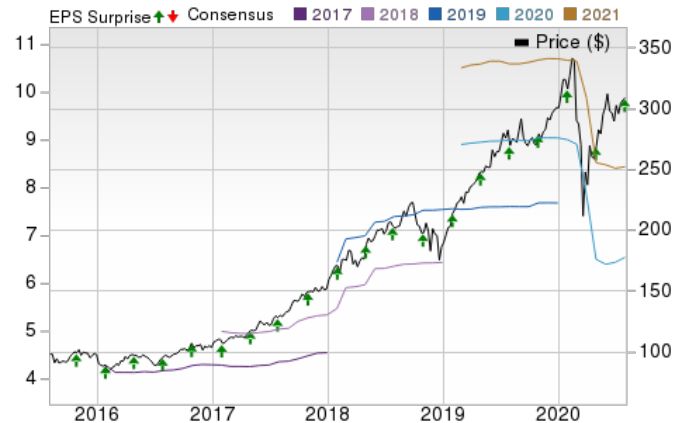
Growth: C

Momentum: B

Summary

Mastercard's earnings of \$1.36 per share beat the Zacks Consensus Estimate by 18.3% but was down 26% year over year, due to a contraction in gross dollar volume, lower switched transactions and a weak cross-border business. The stock has outperformed its industry in a year's time. The company is gaining from transitions in payments from physical to digital. Investment in technology keeps it at the forefront of the rapidly-evolving payments industry. Mastercard is also witnessing buoyant demand for its Data & Analytics and Cyber solutions. Its solid capital position enables investment in business. However, escalating costs might put pressure on the company's margins. It also cancelled its annual 2020 outlook for net revenues and operating expense due to coronavirus-induced business loss.

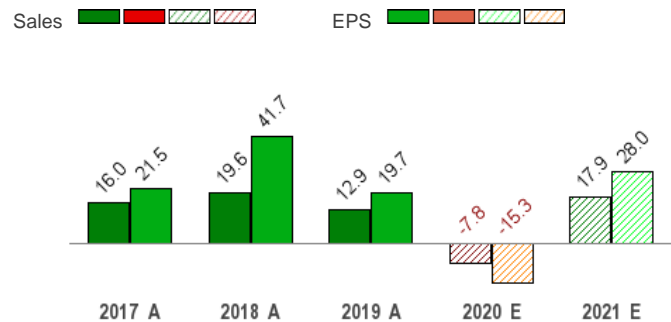
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$347.25 - \$199.99
20 Day Average Volume (sh)	3,847,064
Market Cap	\$329.2 B
YTD Price Change	9.9%
Beta	1.06
Dividend / Div Yld	\$1.60 / 0.5%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 26% (66 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.3%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	11/03/2020
Earnings ESP	0.4%
P/E TTM	44.9
P/E F1	49.9
PEG F1	3.0
P/S TTM	20.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,181 E	4,303 E	4,836 E	5,112 E	18,363 E
2020	4,009 A	3,335 A	3,914 E	4,326 E	15,570 E
2019	3,889 A	4,113 A	4,467 A	4,414 A	16,883 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.83 E	\$1.99 E	\$2.28 E	\$2.38 E	\$8.42 E
2020	\$1.83 A	\$1.36 A	\$1.62 E	\$1.80 E	\$6.58 E
2019	\$1.78 A	\$1.89 A	\$2.15 A	\$1.96 A	\$7.77 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

Overview

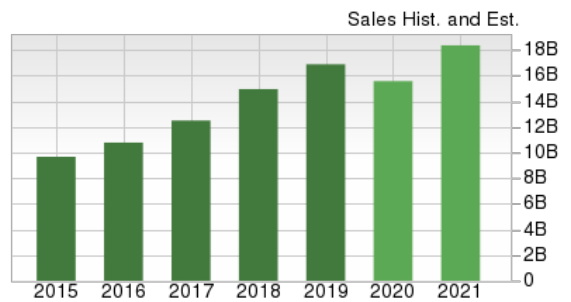
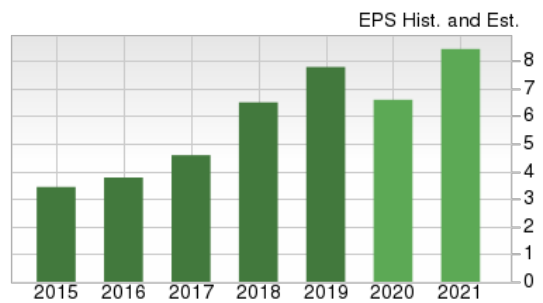
Founded in 1966 and headquartered in Purchase, NY, Mastercard Inc. is a leading global payment solutions company that provides an array of services in support of the credit, debit, mobile, web-based and contactless payments, and other related electronic payment programs to financial institutions and other entities.

The company's payment solutions include payment programs, marketing, product development, technology, processing, consulting and information services. It also provides worldwide transaction processing and other payment-related services, which include facilitating the authorization, clearing and settlement process of transactions, as well as processing cross-border and currency conversion transactions.

In May 2001, the company was incorporated as a Delaware stock corporation.

MasterCard manages and licenses payment card brands including MasterCard, Maestro and Cirrus. The company generates revenues from the fees it charges its customers for transaction processing and other payment-related services. It also earns revenues by charging customers for assessments based on the gross dollar volume (GDV) of activity on the cards that carry MasterCard brands. Revenues of the company are based on factors such as cross-border volumes, number of transactions, GDV and pricing changes.

The company operates a unique and proprietary global payments network that links issuers and acquirers around the globe to facilitate the switching of transactions, permitting account holders to use a Mastercard product at millions of acceptance locations worldwide. Its core network facilitates an efficient and secure means for receiving payments, a convenient payment method for consumers to access their funds and a channel for businesses to receive insight that is derived from its network. Mastercard authorizes, clears, and settles transactions through its core network for issuer customers in more than 150 currencies and in more than 210 countries and territories.



Reasons To Buy:

- ▲ **Share Price Performance:** Mastercard's shares have outperformed its industry in a year's time. Given its progress on fundamentals, the stock should keep performing well in the quarters ahead.
- ▲ **Accretive Acquisitions:** Over the years, Mastercard used acquisitions to supplement its organic efforts and diversify its revenues. Most of the acquisitions made by the company focused in areas such as data analytics, cyber and intelligence, loyalty and costs in developing multi-rail solutions for its customers. This has helped expand its addressable markets, drive new revenue streams and strengthen core product solutions. In 2019, the company acquired several businesses in separate transactions for total consideration of \$1.5 billion. Some of the recent acquisitions made by the company are Vyze, Nets, RiskRecon, Finicity among others. During the six months ending Jun 30, 2020, the company acquired businesses worth \$185 million in cash. It expects acquisitions to contribute about 1 ppt to revenues for the ongoing year.
- ▲ **Revenues Set for Long-Term Growth:** Organic growth remained a key factor at Mastercard as evident from a revenue CAGR of 13% from 2010-2019. It was, however, down 8.2% in the first six months of 2020 due to a decline in transactions and volumes due to the effects of border restrictions and social-distancing measures. Despite this temporary downside, we believe, the company's revenues are set for strong growth given its solid market position and an attractive core business that continues to be driven by new deals, renewed agreements and an expansion of service offerings. Ongoing initiatives including digital strategy and continued widening geographic footprints create further optimism.
- ▲ **Shift to Digital Payments:** The COVID crisis accelerated the use of electronic forms of payment with much greater adoption of digital and contactless solutions. The digital form of payments is expected to sustain beyond the pandemic. Key trends include a preference for contactless transactions, rapid adoption of e-commerce and an increased aversion to cash, merchant requirements for omnichannel acceptance and a need to automate business-to-business payments. Each of these provides an opportunity for the company's business to expedite the shift to digital forms of payment.
- ▲ **Strong International Operations:** International markets provide growth and diversification benefits to Mastercard. A major part of the company's revenues is generated from international regions such as the Asia-Pacific, Canada, Europe, Latin America, Africa and the Middle East. Strategic alliances with the governments, banks and corporations of these regions along with the developed nations of Germany, the U.K., Australia, and Japan bode well for expansion into e-commerce in the emerging e-money sector. These markets have the potential to generate growth in the coming years, led by a shift toward card usage and higher consumer spending. The company also received the preliminary approval for its license application to operate in China, which will allow it to set up a joint venture in the region. China is a vital market for the company and should drive long-term growth. The company's strong international business led to an increase in cross-border volume growth for the past several years. For 2020, however, cross-border business is expected to remain under pressure due to COVID-19-related disruption in customer spending. Nevertheless, this downturn is a temporary blip and the company should be back on track in terms of reaping cross-border revenues once the pandemic subsides.
- ▲ **Continuous Investment in Technology:** The company has been making significant progress in its digital strategy and continuously investing in technology. Some of the company's digital innovations are MasterPass, investment in tokenization technology with its Mastercard Digital Enablement Service (MDES), which supports contactless payments and Digital Secure Remote Payments. The company also plans to offer token services on all of its cards by 2020, allowing consumers to store credentials with merchants without exposing their actual card details. Recently, the company rolled out its solution named Mastercard Identity Check globally, which uses data-rich EMV 3D secure authentication standard, and applies AI and behavioral biometric capabilities to verify the consumer with a single touch or click. It also launched its Secure Remote Commerce framework (SRC) in the second half of 2019, which provides a safe, streamlined and standardized online checkout experience for all the key stakeholders. The company's continuous investments in technology will keep it ahead in the dynamic payments industry. The company has started click to pay service, enabled by new data, AI and machine learning technology.
- ▲ **Service Business Set to Grow:** The crisis also drove demand for the company's services offerings including cybersecurity and data analytics capabilities. These services which offer differentiated solutions that are valued by a wide variety of customer segments and provide the company with a level of revenue diversification. This became particularly evident amid the COVID environment as the company's services lines grew much faster than its core operations in the second quarter.
- ▲ **Strong Cash Generation:** Mastercard has been successfully generating cash flow from operations over the years. Its cash flow generated from operating activities has been increasing since 2009 except in 2014. The same was up 16.5% year over year in the first six months of 2020. This cash flow enables capital management by way of share buyback and dividend payouts. In December 2019, the company increased its quarterly dividend by 21.2% and also authorized share repurchase program of \$8 billion. We believe the company will continue to generate favorable cash from operations on the back of its growing business volumes. Its strong capital position also enables it to pursue acquisitions, which have driven inorganic growth.
- ▲ **Strong Solvency Position:** The company's long-term debt as of Jun 30, 2020 was \$12.5 billion, unchanged sequentially. However, its cash balance of \$10.7 billion along with \$6 billion in credit facility is enough to service its debt. The company has significant capacity to take on additional debt, given its strong investment grade rating of A1 from Moody's and an A+ from S&P. Moreover, its times interest earned of 30.3X is sufficient enough to cover its interest obligation and is higher than the industry average of 21.6X. The company's strategy is to migrate to a more normalized mix of debt and equity over time. Given its ability to generate positive cash flows, a spike in debt should not be a matter of concern for investors.

Mastercard's strategic acquisitions, alliances and technology upgrades, along with product-diversification and geographic-expansion initiatives augur long-term growth.

Reasons To Sell:

- ▼ **High Expenses:** Mastercard continues face a rise in total expenses. The company is accelerating investments in strategic areas such as safety and security, digital and B2B (business-to-business) products. The company is also witnessing increased operating costs related to higher revenues, particularly to some of its services such as loyalty. We expect growth in operating expenses, driven by investments in digital solutions, safety and security products, data analytics, geographic expansion, and platforms to address new payment flows. The company's continued investments in digital, analytics and security products and platforms to address new payment flows will keep operating expenses at elevated levels.
- ▼ **High Rebates and Incentives:** The company has been incurring quite high levels of cost under rebates and incentives (it is a contra revenue item), over the past many years, in order to gain customers and new business. The same was up 5.7% in the first six months of 2020. The company expects rebates and incentives as a percentage of gross revenues to increase sequentially reflecting increased deal activity in Q3. We believe increasing client incentives will put pressure on the company's net revenues.

Higher expenses, high rebates and incentives might drag the company's margins.

Last Earnings Report

Mastercard's Q2 Earnings Beat Estimates

Mastercard Inc.'s second-quarter 2020 earnings of \$1.36 per share beat the Zacks Consensus Estimate by 18.3%. However, the bottom line declined 26% year over year.

The year-over-year downside was due to a contraction in gross dollar volume, lower switched transactions and a weak cross-border business. However, decreased rebates and incentives helped earnings to some extent.

Mastercard's revenues of \$3.3 billion beat the Zacks Consensus Estimate by 2.3% but fell 17% on a currency-neutral basis. Total adjusted operating expenses declined 5% to \$1.6 billion owing to a dip in advertising and marketing, travel and professional fee spend.

Adjusted operating margin of 51.8% was down 600 basis points year over year.

Gross dollar volume was down 10% to \$1.4 trillion while cross-border volumes plunged 45% on a local-currency basis.

Switched transactions, which indicate the number of times a company's products were used to facilitate transactions, declined 10% year over year.

Share Repurchase and Dividend Payout

During the second quarter, Mastercard paid \$401 million in dividends. The company resumed its share buyback program at the end of the second quarter. Quarter to date through Jul 27, the company bought back shares worth \$1.0 billion, leaving \$5.9 billion under the current repurchase authorization.

Balance Sheet Position

The company's long-term debt as of Jun 30, 2020 was \$12.5 billion, up 46% from the level as of Dec 31, 2019 because a \$4-billion long-term debt was issued in March. However, cash and cash equivalents of \$11.1 billion soared 59.4% from the level as of Dec 31, 2019.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	3.40%
EPS Surprise	18.26%
Quarterly EPS	1.36
Annual EPS (TTM)	7.30

Recent News

Mastercard Partners tonik to Boost Presence in Philippines – Jul 9, 2020

Mastercard has announced a new partnership agreement with tonik, a two-year-old startup, which recently received a bank license in the Philippines. Per the pact, Mastercard will further enhance tonik's market proposition by enabling the latter to issue a range of electronic payments products that utilizes the company's global network and extensive business intelligence when tonik launches operationally later this year.

Mastercard Rolls Out Recovery Insights for Small Businesses – Jul 8, 2020

In a bid to support small businesses, which are badly hit by a business loss from the plaguing coronavirus pandemic, Mastercard has announced its Recovery Insights program. This includes twin initiatives, namely the geographic expansion of ShopOpenings.com and a global project named Digital Acceleration for Small Business.

Mastercard Sees Business Normalization in Most Markets - Jun 24, 2020

The company has provided an update on second-quarter 2020 operating metrics, which showed stability in its business volumes. Switched transactions, which were down 7% in May, improved to 1% in the week ending Jun 21. Cross-border volumes, which contracted 44% in May, saw a 41% plunge in the week ending Jun 21.

Mastercard to Enhance Open Banking via Finicity Acquisition – Jun 23, 2020

Mastercard announced that it has entered into an agreement to acquire Finicity, a leading North American provider of solutions for financial management, payments and credit decisioning. Finicity's acquisition is in line with its strategy to grow and strengthen Mastercard's Open Banking platform.

Mastercard Brings Tokenization to Amazon to Ease Payments – Jun 17, 2020

Mastercard has announced that it will provide tokenization service to Amazon customers in 12 countries across North America, Latin America, the Middle East and Europe. The company will begin using Mastercard tokens via the Mastercard Digital Enablement Service (MDES) for transactions through 2020. Mastercard's MDES is a frictionless commerce platform, which is live with more than 2,600 issuers and 1,200 token requestors around the world.

Valuation

Mastercard's shares are up 9.8% in the year-to-date period, and up 11% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 0.8% and 3.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 4.2% and 8.6%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period but up 14.9% in the past year.

The stock is currently trading at 42.71x forward 12-month earnings, which compares to 31.53x for the Zacks sub-industry, 30.51x for the Zacks sector and 22.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.99x and as low as 21.36x, with a 5-year median of 28.08x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$344 price target reflects 44.85x forward earnings.

The table below shows summary valuation data for MA

Valuation Multiples - MA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	42.71	31.53	30.51	22.58
	5-Year High	42.99	31.68	30.51	22.58
	5-Year Low	21.36	20.78	18.7	15.25
	5-Year Median	28.08	23.25	20.93	17.55
P/S F 12M	Current	19.23	11.39	4.24	3.63
	5-Year High	19.23	11.39	4.24	3.63
	5-Year Low	8.42	7.19	3.07	2.53
	5-Year Median	11.85	8.74	3.59	3.04
P/B TTM	Current	50.67	7.93	4.83	4.52
	5-Year High	61.06	12.79	6.72	4.56
	5-Year Low	14.85	5.23	3.28	2.83
	5-Year Median	31.68	8.08	5.22	3.73

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ingenico Group (INGIY)	Outperform	3
Alliance Data Systems Corporation (ADS)	Neutral	4
Diebold Nixdorf, Incorporated (DBD)	Neutral	2
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	2
Global Payments Inc. (GPN)	Neutral	3
Visa Inc. (V)	Neutral	3
The Western Union Company (WU)	Neutral	2

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	MA	X Industry	S&P 500	FIS	FISV	V
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	B	B	D
Market Cap	329.23 B	2.62 B	22.93 B	90.77 B	65.61 B	381.12 B
# of Analysts	16	6	14	14	14	16
Dividend Yield	0.49%	0.00%	1.76%	0.96%	0.00%	0.61%
Value Score	D	-	-	D	D	D
Cash/Price	0.04	0.07	0.07	0.02	0.01	0.05
EV/EBITDA	28.37	16.55	13.16	31.89	25.90	24.05
PEG Ratio	3.00	1.87	2.99	2.13	1.71	2.99
Price/Book (P/B)	50.67	4.40	3.20	1.85	1.99	12.61
Price/Cash Flow (P/CF)	34.41	14.59	12.45	18.01	14.63	29.72
P/E (F1)	49.85	28.24	21.78	26.83	22.09	39.25
Price/Sales (P/S)	20.29	4.63	2.47	7.44	4.55	16.66
Earnings Yield	2.01%	3.49%	4.33%	3.73%	4.53%	2.55%
Debt/Equity	1.92	0.43	0.77	0.30	0.65	0.59
Cash Flow (\$/share)	9.53	2.39	6.94	8.13	6.70	6.60
Growth Score	C	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	23.16%	18.33%	10.46%	18.33%	17.52%	20.82%
Proj. EPS Growth (F1/F0)	-15.27%	-7.56%	-7.14%	-2.69%	10.93%	-8.16%
Curr. Cash Flow Growth	13.13%	13.06%	5.47%	57.47%	147.85%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	15.42%	14.80%	8.55%	26.53%	29.38%	8.28%
Current Ratio	1.95	1.26	1.32	0.71	1.07	1.55
Debt/Capital	65.88%	34.80%	44.59%	23.27%	39.67%	33.48%
Net Margin	45.12%	6.75%	10.15%	0.25%	5.82%	51.37%
Return on Equity	129.52%	16.87%	14.46%	6.60%	8.29%	40.65%
Sales/Assets	0.55	0.48	0.51	0.15	0.19	0.31
Proj. Sales Growth (F1/F0)	-7.78%	-4.27%	-1.68%	20.73%	35.98%	-5.16%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	4.33%	1.31%	0.59%	-0.48%	-1.66%	1.98%
1 Week Price Chg	0.52%	0.09%	0.14%	1.82%	-0.83%	-2.43%
4 Week Price Chg	9.28%	7.31%	5.31%	7.09%	0.93%	0.53%
12 Week Price Chg	21.86%	27.96%	19.84%	14.91%	-0.87%	10.73%
52 Week Price Chg	21.79%	-3.84%	2.73%	8.94%	-6.64%	11.85%
20 Day Average Volume	3,847,064	483,904	2,098,555	3,275,908	4,060,460	8,071,411
(F1) EPS Est 1 week change	1.53%	0.00%	0.00%	1.07%	0.49%	0.23%
(F1) EPS Est 4 week change	2.17%	0.00%	1.10%	1.30%	0.58%	0.00%
(F1) EPS Est 12 week change	3.17%	0.00%	1.04%	-1.21%	-0.56%	0.14%
(Q1) EPS Est Mthly Chg	-0.98%	0.00%	0.39%	3.07%	1.22%	-1.62%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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