

Mastercard Inc. (MA)

\$334.16 (As of 02/12/20)

Price Target (6-12 Months): **\$351.00**

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: A

Momentum: F

Summary

Mastercard's earnings of \$1.96 per share beat the Zacks Consensus Estimate by 4.81% and grew 26% year over year. Results reflected higher switched transactions, increase in cross-border volume and gross dollar volume, and gains from acquisitions. Increase in rebates and incentives year over year was a partial dampener. Mastercard's stock has outperformed its industry in a year's time. The company is benefiting from shifts in payments, from physical to digital. Investment in technology has also kept the company at the forefront of the rapidly changing payments industry. Its solid capital position enables investment in business. However, escalating costs might put pressure on margins. In order to gain customers and new business, Mastercard has been incurring high levels of costs under rebates and incentives, which remain a concern.

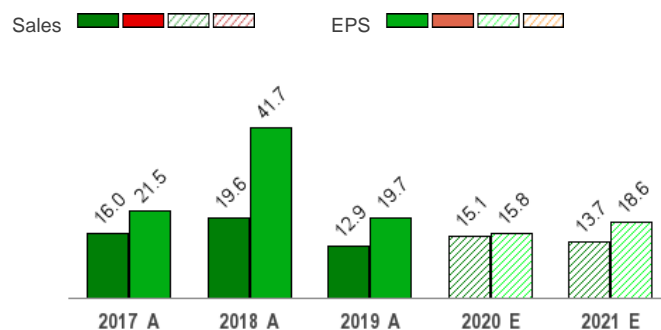
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$335.52 - \$215.93
20 Day Average Volume (sh)	3,742,482
Market Cap	\$337.1 B
YTD Price Change	11.9%
Beta	1.01
Dividend / Div Yld	\$1.60 / 0.5%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 40% (102 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	43.0
P/E F1	37.1
PEG F1	2.2
P/S TTM	20.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,952 E	5,405 E	5,846 E	5,857 E	22,082 E
2020	4,322 E	4,742 E	5,167 E	5,197 E	19,426 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	\$2.33 E	\$2.65 E	\$2.93 E	\$2.75 E	\$10.67 E
2020	\$1.95 E	\$2.23 E	\$2.48 E	\$2.33 E	\$9.00 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 02/12/2020. The reports text is as of 02/13/2020.

Overview

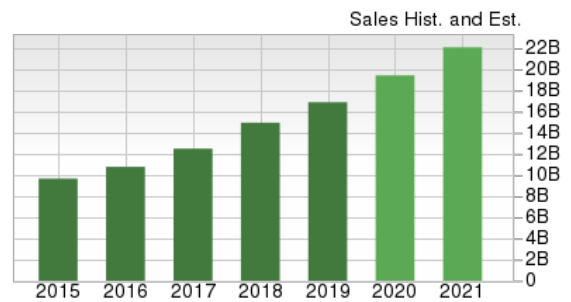
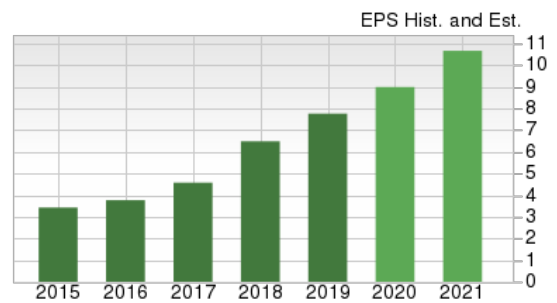
Founded in 1966 and headquartered in Purchase, NY, Mastercard Inc. is a leading global payment solutions company that provides an array of services in support of the credit, debit, mobile, web-based and contactless payments, and other related electronic payment programs to financial institutions and 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. For 2020, in terms of net revenues, the company expects acquisitions to add about 2%, assuming that the transaction with Scandinavian payments group Nets closes in the second quarter.
- ▲ **Consistent Revenue Growth:** Organic growth remained a key factor at Mastercard as evident from a revenue CAGR of 13% from 2010-2019. We believe that the company should retain its revenue momentum in the coming quarters on the back of its strong market position and 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. The company expects net revenues to grow at a low-teens rate on a currency-neutral basis, excluding acquisitions in 2020.
- ▲ **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. Moreover, these markets remain less penetrated than the U.S. markets. The company's strong international business has led to an increase in cross-border volume growth for the past several quarters (17% in 2018, 13% in 2017 and 12% in 2016) and was up 16% in 2019. For 2020, the company expects cross-border growth to be in the mid-teens range.
- ▲ **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.
- ▲ **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 31.5% year over year in 2019. 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.
- ▲ **Growing ROE:** Mastercard's trailing 12-month return on equity (ROE) of 150% remains significantly higher than industry's 42.6% and reinforces its growth potential. It also reflects the company's tactical efficiency in using shareholders' funds. Moreover, the company's ROE has grown steadily over a period of five years.

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 to face headwinds in maintaining the cost of operations of its vastly expanded business. Total operating expenses have been increasing over the last five years (2012-2018) and the same was up 10% in the first nine months of 2019. 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. For 2020, the company expects operating expenses to grow at the high end of the high single-digit range on a currency-neutral basis, excluding acquisitions and special items. This will be driven by continued investments in digital, analytics and security products and platforms to address new payment flows.
- ▼ **High Rebates and Incentives:** The company has been incurring quite high levels of cost under rebates and incentives (it is a contra revenue item) in order to gain customers and new business. The company witnessed an increase of nearly 22% and 18% in rebates and incentives in 2017 and 2018, respectively, reflecting higher volumes and incentives for new and renewed deals. The same was up 18% in the first nine months of 2019. We believe increasing client incentives will put pressure on the company's net revenues. In 2020, rebate and incentive growth is expected to be higher year over year, driven by renewed and expanded deals.
- ▼ **High Leverage:** The company carries a high debt component in its capital structure, as long-term debt has consistently increased over the years from \$3.3 billion as on Dec 31, 2015 to \$7.7 billion as of Sep 30, 2019. Its debt-to-equity ratio of 155.5% is way higher than the industry average of 53.3%. Such high levels of debt raise financial risk.
- ▼ **Exposure to Currency Volatility:** Due to the company's vast international operations, fluctuation in currency imparts volatility to its earnings. For 2019, the company expects foreign exchange to be about a 2% headwind to annual growth given the current strength in the U.S. dollar. For 2020, foreign exchange is expected to have a minimal impact to operating expenses.

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

Last Earnings Report

Mastercard Q4 Earnings Beat Estimates, Revenues Match

Mastercard reported fourth-quarter earnings of \$1.96 per share, beating the Zacks Consensus Estimate by 4.81%. Earnings improved 26% year over year.

Better-than-expected results were primarily driven by higher switched transactions, increase in cross-border volume and gross dollar volume, and gains from acquisitions. Increase in rebates and incentives year over year was a partial dampener.

Mastercard's revenues of \$4.4 billion met the Zacks Consensus Estimate and grew 16% year over year.

Full-Year Results

The company reported earnings per share of \$7.77, up 20% on revenues of \$16.9 billion, up 13% year over year.

Total adjusted operating expenses rose 12% to \$2 billion, due to the company's continued investment in strategic initiatives.

Adjusted operating margin of 54.4% was up 210 basis points year over year.

Gross dollar volume increased 12% to \$1.7 trillion while cross-border volumes were up 16% on a local-currency basis.

As of Dec 31, 2019, the company's customers had issued 2.6 billion Mastercard and Maestro-branded cards.

Share Repurchase and Dividend Payout

During the reported quarter, Mastercard repurchased shares worth \$1 billion and paid out \$333 million in dividends.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	0.29%
EPS Surprise	4.81%
Quarterly EPS	1.96
Annual EPS (TTM)	7.78

Recent News

Mastercard and NetsUnion JV Approved for Domestic Operations in China – Feb 11, 2020

Mastercard announced that it has received in-principle approval from the People's Bank of China (PBOC) to begin formal preparations to set up a domestic bankcard clearing institution in China. The application was submitted by Mastercard NUCC Information Technology (Beijing) Co., Ltd, a joint venture of Mastercard and NetsUnion Clearing Corporation (NUCC).

Within one year, the company will be able to apply to the People's Bank of China for formal approval to begin domestic bankcard clearing activity.

Mastercard Announces Quarterly Dividend – Feb 4, 2020

The company has announced a quarterly cash dividend of 40 cents per share. The cash dividend will be paid out on May 8, 2020 to holders of record of its Class A common stock and Class B common stock as of Apr 9, 2020.

Mastercard Offers Augmented Reality Experience – Jan 8, 2020

Mastercard recently introduced an augmented reality application, enabling cardholders to explore and use the benefits of their Mastercard. This industry-first card benefits application provides a photorealistic AR experience, which transports users into a 360-degree virtual environment wherein a series of interactive portals activates their card benefits

MasterCard to Acquire RiskRecon – Dec 23, 2019

The company has announced that it will acquire RiskRecon to protect its cyber systems. This acquisition will help accelerate Mastercard's cyber solutions, which further aids financial institutions and other stakeholders to secure their digital assets.

Mastercard to Bring New Digital Service – Dec 11, 2019

The company tested a new program that would introduce the Digital Identity to real world. This new digital service will have the potential to confirm a person's identity in the real and digital world. The consumers can control the data being used to verify their identity. The first test will take place in Australia for which the company entered into a separate partnership with Australia Post.

Valuation

Mastercard shares are up 51.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 40.5% and 23.1%, respectively.

The S&P 500 index is up 21.1% in the past year.

The stock is currently trading at 36.33X forward 12-month price to earnings, which compares to 28.77X for the Zacks sub-industry, 26.13X for the Zacks sector and 19.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.46X and as low as 21.36X, with a 5-year median of 26.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$351 price target reflects 38.14X price to 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	36.33	28.77	26.13	19.29
	5-Year High	39.46	28.77	26.13	19.34
	5-Year Low	21.36	20.78	18.77	15.18
	5-Year Median	26.67	23	20.57	17.47
P/S F12M	Current	17.08	10.88	4.16	3.56
	5-Year High	18.15	11.65	5.13	3.56
	5-Year Low	8.42	7.19	3.09	2.54
	5-Year Median	10.72	8.69	3.63	3
P/B TTM	Current	56.98	8.45	5.11	4.33
	5-Year High	61.06	12.79	6.72	4.42
	5-Year Low	14.69	5.34	4.13	2.85
	5-Year Median	23.76	8.05	5.27	3.62

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 254)



Top Peers

Diebold Nixdorf, Incorporated (DBD)	Outperform
Alliance Data Systems Corporation (ADS)	Neutral
American Express Company (AXP)	Neutral
Capital One Financial Corporation (COF)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Fiserv, Inc. (FISV)	Neutral
Visa Inc. (V)	Neutral
The Western Union Company (WU)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	MA Neutral	X Industry	S&P 500	ADS Neutral	FIS Neutral	V Neutral
VGM Score	C	-	-	D	D	D
Market Cap	337.12 B	2.51 B	24.31 B	4.82 B	90.94 B	407.10 B
# of Analysts	17	6.5	13	8	13	17
Dividend Yield	0.48%	0.00%	1.78%	2.41%	0.95%	0.58%
Value Score	D	-	-	A	D	D
Cash/Price	0.03	0.07	0.04	0.79	0.01	0.04
EV/EBITDA	29.04	19.29	13.97	7.12	37.33	25.63
PEG Ratio	2.23	1.69	2.06	0.44	2.62	2.18
Price/Book (P/B)	56.97	5.06	3.24	2.97	1.84	13.68
Price/Cash Flow (P/CF)	35.12	17.79	13.65	4.27	15.27	31.44
P/E (F1)	37.13	23.30	19.12	5.10	23.43	33.76
Price/Sales (P/S)	19.97	5.12	2.67	0.86	9.93	17.31
Earnings Yield	2.69%	4.28%	5.23%	19.61%	4.27%	2.96%
Debt/Equity	1.44	0.34	0.70	6.44	0.34	0.46
Cash Flow (\$/share)	9.52	2.73	6.94	24.48	9.69	6.60
Growth Score	A	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	21.99%	17.05%	10.85%	10.76%	17.58%	21.12%
Proj. EPS Growth (F1/F0)	15.84%	16.50%	7.30%	22.37%	14.64%	12.97%
Curr. Cash Flow Growth	13.13%	10.67%	8.92%	-34.53%	10.67%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	15.42%	10.92%	8.36%	0.58%	16.71%	8.28%
Current Ratio	1.42	1.15	1.22	1.77	0.86	1.27
Debt/Capital	59.24%	36.09%	42.90%	86.57%	25.61%	27.96%
Net Margin	48.08%	8.51%	11.81%	5.57%	8.24%	52.60%
Return on Equity	150.46%	19.10%	16.98%	42.81%	12.07%	43.15%
Sales/Assets	0.65	0.46	0.54	0.20	0.22	0.33
Proj. Sales Growth (F1/F0)	15.06%	10.06%	3.90%	1.17%	31.16%	10.36%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	0.98%	0.00%	0.65%	0.91%	-1.04%	1.72%
1 Week Price Chg	3.50%	2.57%	2.47%	3.05%	1.95%	1.89%
4 Week Price Chg	6.34%	0.90%	1.35%	-7.55%	2.41%	3.82%
12 Week Price Chg	17.09%	7.52%	5.63%	3.37%	7.63%	14.19%
52 Week Price Chg	51.52%	34.16%	16.19%	-38.24%	38.55%	44.57%
20 Day Average Volume	3,742,482	423,348	1,995,746	856,432	2,794,691	8,739,133
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.02%	0.00%
(F1) EPS Est 4 week change	-0.51%	0.00%	0.00%	-3.96%	0.22%	-0.89%
(F1) EPS Est 12 week change	-0.53%	0.00%	-0.19%	-1.31%	0.33%	-1.12%
(Q1) EPS Est Mthly Chg	-3.53%	0.00%	0.00%	0.61%	-2.96%	-2.53%

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	A
Momentum Score	D
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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