

Mastercard Inc. (MA)

\$315.21 (As of 01/13/20)

Price Target (6-12 Months): **\$331.00**

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:D

Value: D

Growth: B

Momentum: C

Summary

Mastercard's stock has outperformed its industry in a year's time. The company's revenues are gaining from higher switched transactions, increase in cross-border volume and gross dollar volume. Numerous acquisitions made over the years have fueled its inorganic growth. 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.

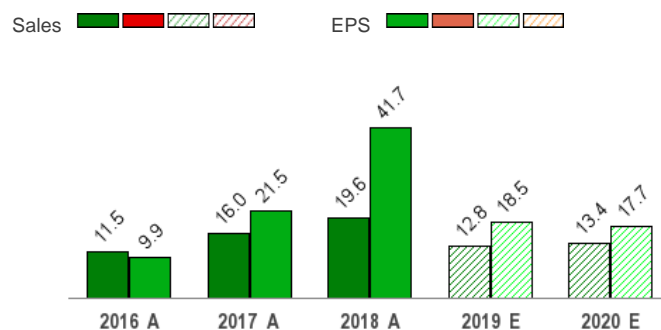
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$315.64 - \$193.10
20 Day Average Volume (sh)	2,586,114
Market Cap	\$318.0 B
YTD Price Change	5.6%
Beta	1.03
Dividend / Div Yld	\$1.60 / 0.5%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 19% (47 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.3%
P/E TTM	42.8
P/E F1	34.8
PEG F1	2.1
P/S TTM	19.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,383 E	4,685 E	5,012 E	4,999 E	19,115 E
2019	3,889 A	4,113 A	4,467 A	4,394 E	16,861 E
2018	3,580 A	3,665 A	3,898 A	3,807 A	14,950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.02 E	\$2.25 E	\$2.45 E	\$2.31 E	\$9.05 E
2019	\$1.78 A	\$1.89 A	\$2.15 A	\$1.86 E	\$7.69 E
2018	\$1.50 A	\$1.66 A	\$1.78 A	\$1.55 A	\$6.49 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

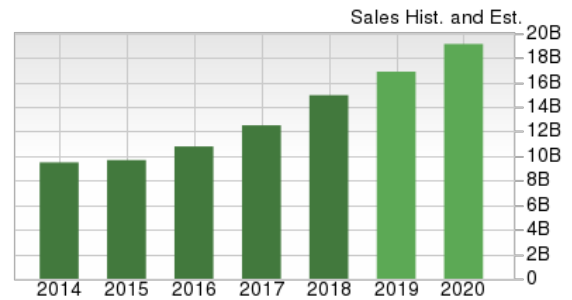
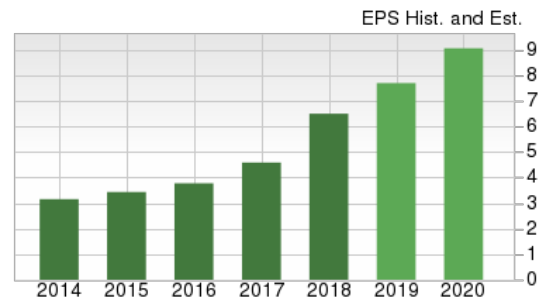
Founded in 1966 and headquartered in Purchase, NY, Mastercard Inc. is a leading global payment solutions company that provides an array of services in support of the credit, debit, mobile, web-based and contactless payments, and other related electronic payment programs to financial institutions and 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:** Mastercard also remains focused on inorganic growth via acquisitions as part of its long-term growth strategy. During the nine months ended Sep 30, 2019, the company acquired several businesses in separate transactions for total consideration of \$1.2 billion, primarily in cash. The company has announced to acquire RiskRecon, a market-leading provider of AI and data analytics solutions to help companies support their cyber systems and infrastructure. These acquisitions align with its strategy to grow, diversify and build its business.

▲ **Consistent Revenue Growth:** Organic growth remained a key factor at Mastercard as evident from a revenue CAGR of 13% from 2010-2018. The same was up 12% in the first nine months of 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 to deliver a low-teens compound annual net revenue growth rate from 2019 to 2021.

▲ **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 15% in the first nine months of 2019, and we expect the trend to continue in the coming quarters.

▲ **Continuous Investment in Technology:** The company has been making significant progress in its digital strategy and continuously investing in technology. With MasterPass, the company became the first network to deliver digital payment service across all devices and channels. It is also investing 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. The company will also roll out its solution named Mastercard Identity Check globally in 2019, 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 will also roll out a Secure Remote Commerce framework (SRC) in the second half of 2019, which will provide 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 6% year over year in the first nine months of 2019. This cash flow enables capital management by way of share buyback and dividend payouts. Recently, 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 147% 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.
- ▼ **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.
- ▼ **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.

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

Last Earnings Report

Mastercard Q3 Earnings & Revenues Beat on Volume Growth

Mastercard reported third-quarter earnings of \$2.15 per share, beating the Zacks Consensus Estimate by 7%. Earnings improved 21% 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.

Quarter Ending 09/2019

Report Date	Oct 29, 2019
Sales Surprise	0.97%
EPS Surprise	6.97%
Quarterly EPS	2.15
Annual EPS (TTM)	7.37

Strong Operational Performance

Mastercard's revenues of \$4.5 billion beat the Zacks Consensus Estimate by 1.7% and were up 15% year over year.

Total adjusted operating expenses rose 15% to \$1.8 billion, due to the company's continued investment in strategic initiatives. Interest expenses of \$63 million increased 31% year over year.

Adjusted operating margin remained unchanged year over year at 59.4%.

Gross dollar volume increased 14% to \$1.7 trillion while cross-border volumes were up 17% on a local-currency basis.

As of Sep 30, 2019, the company's customers had issued 2.6 billion Mastercard and Maestro-branded cards.

Financial Update

As of Sep 30, 2019, the company's cash and cash equivalents were \$5.1 billion, down 23.6% from year-end 2018 level. Long-term debt was \$7.7 billion, up 33% from Dec 31, 2018.

Share Repurchase and Dividend Payout

During the reported quarter, Mastercard repurchased shares worth \$1.8 billion and paid out \$335 million in dividends.

Recent News

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 Acquires 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.

Announced Quarterly Dividend and Share Repurchase Program — Dec 3, 2019

MasterCard has announced a quarterly cash dividend of 40 cents per share to its holders of Class A Common Stock to be paid out on Feb 7, 2020 and those of Class B Common Stock to be paid out on Jan 9, 2020. This reflected an increase of 7 cents from the last paid out dividend of 33 cents per share.

The board of directors also authorized the company to buy back up to \$8 billion of Class A Common Stock, which will come into effect only after the completion of its previous repurchase program of \$6.5 billion.

Mastercard and PayPal expand their Instant Transfer feature to Singapore and Europe — Nov 27, 2019

Mastercard and partner PayPal, having succeeded with its Instant Transfer feature in the United States, extended the same to Singapore and multiple European economies to facilitate further consumer engagement. With Mastercard Send, users can transfer their PayPal account balances to their eligible Mastercard account in real time.

Valuation

Mastercard shares are up 61.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 44.5% and 28.3%, respectively.

The S&P 500 index is up 26% in the past year.

The stock is currently trading at 34.62X forward 12-month price to earnings, which compares to 27.61X for the Zacks sub-industry, 25.28X for the Zacks sector and 18.87X 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 26.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$331 price target reflects 36.37X price to earnings.

The table below shows summary valuation data for MA

Valuation Multiples - MA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.62	27.61	25.28	18.87
	5-Year High	39.46	27.61	25.28	19.34
	5-Year Low	21.36	20.78	18.76	15.17
	5-Year Median	26.32	22.92	20.56	17.44
P/S F12M	Current	16.56	10.42	3.98	3.5
	5-Year High	18.15	11.65	5.13	3.5
	5-Year Low	8.42	7.19	3.09	2.54
	5-Year Median	10.61	8.67	3.63	3
P/B TTM	Current	63.92	8.04	4.92	4.46
	5-Year High	63.92	12.79	6.73	4.47
	5-Year Low	13.64	5.34	4.13	2.85
	5-Year Median	23.44	7.86	5.32	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 254)



Top Peers

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	MA Neutral	X Industry	S&P 500	ADS Neutral	FIS Neutral	V Neutral
VGM Score	D	-	-	C	D	D
Market Cap	318.00 B	2.51 B	24.03 B	5.18 B	87.72 B	384.67 B
# of Analysts	16	6	13	10	14	16
Dividend Yield	0.51%	0.00%	1.78%	2.24%	0.98%	0.61%
Value Score	D	-	-	A	D	D
Cash/Price	0.02	0.07	0.04	0.87	0.01	0.03
EV/EBITDA	35.14	18.38	14.04	5.76	36.20	24.49
PEG Ratio	2.10	1.73	2.02	0.44	2.53	2.03
Price/Book (P/B)	63.99	4.48	3.32	3.46	1.78	13.19
Price/Cash Flow (P/CF)	38.30	17.60	13.52	3.56	14.73	29.61
P/E (F1)	34.83	22.13	18.82	5.53	22.65	31.50
Price/Sales (P/S)	19.54	5.13	2.63	0.84	9.58	16.74
Earnings Yield	2.87%	4.47%	5.31%	18.08%	4.41%	3.17%
Debt/Equity	1.55	0.34	0.72	8.91	0.34	0.57
Cash Flow (\$/share)	8.23	2.62	6.94	31.61	9.69	6.60
Growth Score	B	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	20.73%	16.43%	10.56%	13.11%	17.58%	20.76%
Proj. EPS Growth (F1/F0)	17.71%	17.59%	7.49%	20.57%	12.32%	14.01%
Curr. Cash Flow Growth	33.76%	10.67%	14.83%	10.08%	10.67%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	16.01%	10.92%	9.00%	12.90%	16.71%	8.28%
Current Ratio	1.39	1.15	1.23	2.10	0.86	1.56
Debt/Capital	61.08%	36.09%	42.99%	89.90%	25.61%	32.54%
Net Margin	42.50%	10.25%	11.08%	7.54%	8.24%	52.57%
Return on Equity	146.92%	19.33%	17.16%	47.40%	12.07%	42.57%
Sales/Assets	0.66	0.44	0.55	0.21	0.22	0.32
Proj. Sales Growth (F1/F0)	13.37%	10.50%	4.20%	3.11%	27.54%	10.83%
Momentum Score	C	-	-	D	F	D
Daily Price Chg	1.30%	0.73%	-0.33%	0.31%	0.56%	0.81%
1 Week Price Chg	3.57%	2.07%	-0.30%	1.53%	2.10%	2.20%
4 Week Price Chg	6.15%	4.53%	1.71%	3.14%	4.17%	4.88%
12 Week Price Chg	14.91%	8.19%	6.05%	-9.90%	10.79%	10.71%
52 Week Price Chg	61.29%	42.27%	22.39%	-33.14%	37.69%	42.47%
20 Day Average Volume	2,586,114	413,682	1,580,816	590,848	2,665,549	6,191,953
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.02%	0.00%	0.00%	-0.35%	-0.09%	-0.05%
(F1) EPS Est 12 week change	0.71%	0.09%	-0.50%	-8.21%	-1.14%	-0.58%
(Q1) EPS Est Mthly Chg	-0.44%	0.00%	0.00%	-0.11%	-1.50%	-0.19%

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	B
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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