

Mastercard Inc. (MA)

\$277.31 (As of 05/14/20)

Price Target (6-12 Months): **\$291.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

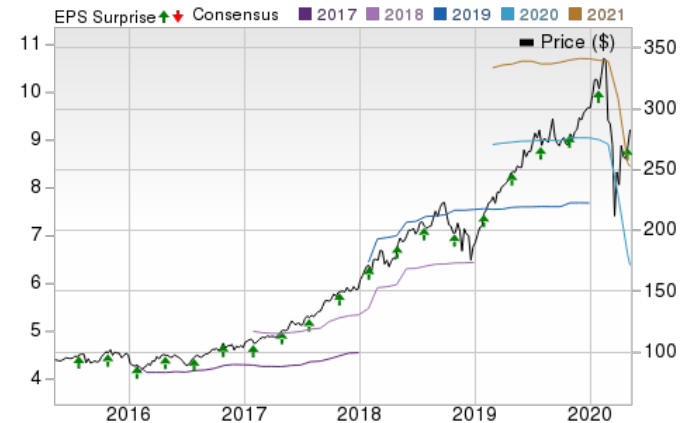
Growth: B

Momentum: D

Summary

Mastercard's stock has outperformed its industry in a year's time. The company is gaining from shifts in payments from physical to digital. Investment in technology keeps it at the forefront of the rapidly-evolving payments industry. Its solid capital position enables investment in business. However, escalating costs might put pressure on the margins. The company also cancelled its annual 2020 outlook for net revenue and operating expense growth due to coronavirus-induced business loss. Share buyback delays and low profitability are other woes. However, the company has announced second-quarter 2020 operating metrics regarding switched volumes, switched transactions and cross-border payments, which reflected stabilization in business volumes. Mastercard is also witnessing buoyant demand for its Data & Analytics and Cyber solutions.

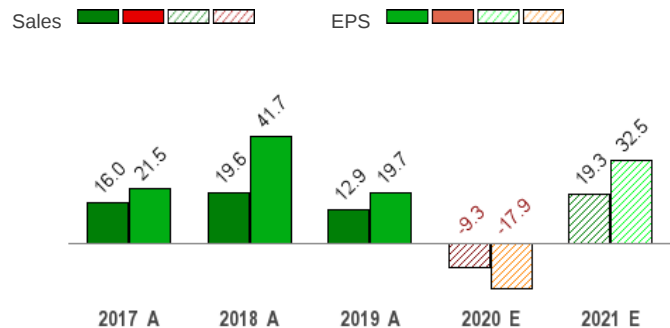
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$347.25 - \$199.99
20 Day Average Volume (sh)	5,061,286
Market Cap	\$278.3 B
YTD Price Change	-7.1%
Beta	1.06
Dividend / Div Yld	\$1.60 / 0.6%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 33% (170 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.4%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-16.8%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	35.4
P/E F1	43.5
PEG F1	2.6
P/S TTM	16.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,378 E	4,260 E	4,725 E	4,935 E	18,265 E
2020	4,009 A	3,119 E	3,812 E	4,313 E	15,316 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	\$1.99 E	\$1.94 E	\$2.26 E	\$2.26 E	\$8.45 E
2020	\$1.83 A	\$1.07 E	\$1.57 E	\$1.83 E	\$6.38 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 05/14/2020. The reports text is as of 05/15/2020.

Overview

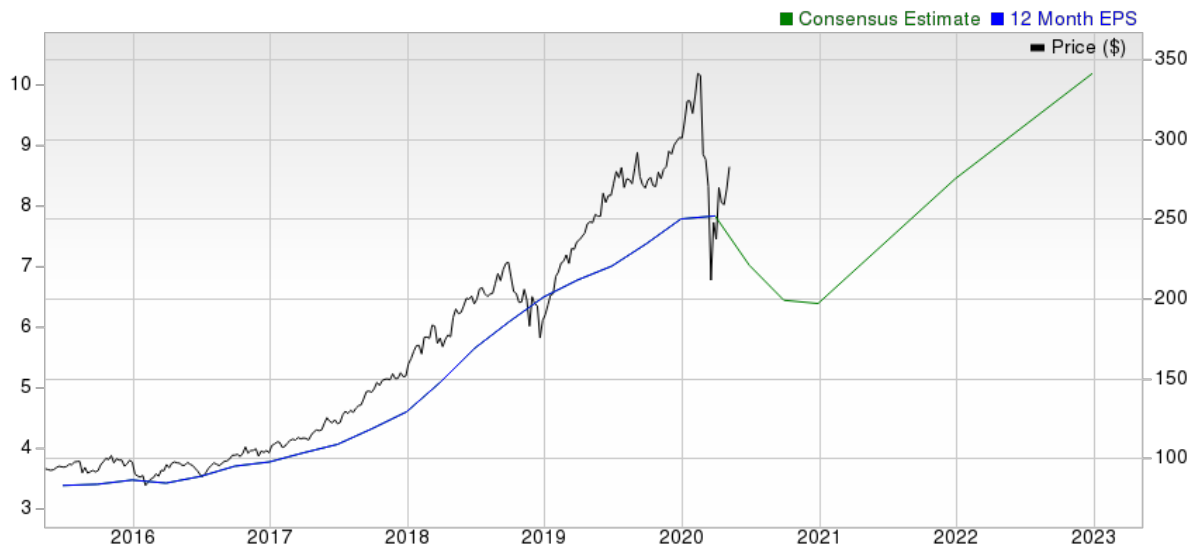
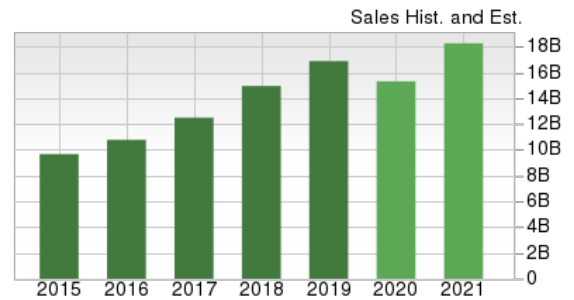
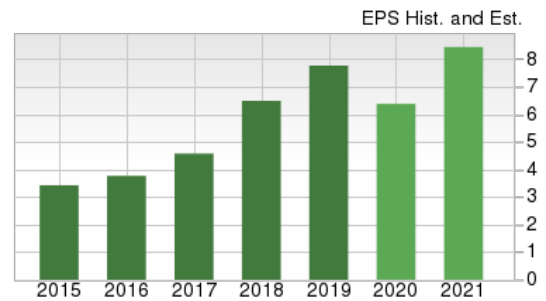
Founded in 1966 and headquartered in Purchase, NY, Mastercard Inc. is a leading global payment solutions company that provides an array of services in support of the credit, debit, mobile, web-based and contactless payments, and other related electronic payment programs to financial institutions and 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.
- ▲ **Business Volumes Catching Up:** Mastercard is experiencing a rebound in business volumes driven by normalization in some markets, driven by the gradual reopening of businesses. The company's switched volume and switched transactions are showing a better trend, partly backed by the easing of social-distancing measures in several markets and the positive impact drawn from the fiscal stimulus in the United States. We note that switched transactions, which were down 24% in the week ending Apr 7 improved to a decline of 12% in the week ending May 7. Also its cross-border business showed a modest progress, partly owing to an increase in intra-Europe travel. Thus, cross border volumes, which plunged 48% in the week ending Apr 7 recovered a bit over a month with 43% drop in the week ending May 7. Mastercard is also witnessing buoyant demand for its Data & Analytics and Cyber solutions. In the second quarter of 2020, the company expects services growth that provides diversification to its revenue stream to continue outperforming its core products.
- ▲ **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. The Scandinavian payments group Nets acquisition, which is expected to be closed soon, will further aid inorganic growth. Acquisition added about 1% to revenue growth in the first quarter of 2020.
- ▲ **Consistent Revenue Growth:** Organic growth remained a key factor at Mastercard as evident from a revenue CAGR of 13% from 2010-2019. It was up further 5% in the first quarter, slightly exceeding management's expectation of revenue growth in low-single digit range. 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.
- ▲ **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 should be a 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.
- ▲ **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.
- ▲ **Strong Solvency Position:** The company's long-term debt as of Mar 31, 2020 was \$12.5 billion, up 46% because a \$4-billion long-term debt was issued in March, which caused the debt load to deteriorate to 230% of its equity compared with 144% as of Dec 31, 2019. 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 a strong investment grade rating of A1 from Moody's and A+ from S&P ratings. Moreover, its times interest earned of 29.8X is sufficient enough to cover its interest obligation though the same went down from 39.5X in the fourth quarter. The company's strategy is to migrate to a more normalized mix of debt and equity over time. Given the company's ability to perk up revenues consistently and 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:

- ▼ **Impact of Coronavirus:** The company's cross-border business took a hit from reduction in cross-border travel as people around the globe are taking precautionary measures by staying put. The company is witnessing deterioration in its cross-border revenues, switched volume and switched transaction metrics. Mastercard also scrapped its annual 2020 outlook for net revenue and operating expense growth due to coronavirus-led volatility.
- ▼ **Share Repurchase Suspension:** Due to the uncertainty related to COVID-19, the company temporarily suspended its share buyback plans. This halt will eliminate the cushion provided to earnings per share.
- ▼ **High Expenses:** Mastercard continues face a rise in total expenses. Total operating expenses were up 8% in the first quarter of 2020, higher than the increase of 5% in revenues. 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 24% in the first quarter of 2020. We believe increasing client incentives will put pressure on the company's net revenues.
- ▼ **Low Return on Equity (ROE):** The company's ROE of 31% in the first quarter of 2020 declined from 35% in the fourth quarter of 2019 and 36% in the first quarter of 2019. The same is also lower than the industry average of 38%.
- ▼ **Exposure to Currency Volatility:** Due to the company's vast international operations, fluctuation in currency imparts volatility to its earnings. In the first quarter of 2020 foreign exchange had a 2% negative impact on revenues.

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

Last Earnings Report

Mastercard Q1 Earnings Beat Despite Coronavirus Fallout

Mastercard Inc.'s first-quarter 2020 earnings of \$1.83 per share beat the Zacks Consensus Estimate by 6.4% and also grew 6% year over year.

Better-than-expected results were primarily driven by higher switched transactions, increase in gross dollar volume and gains from acquisitions.

Rises in rebates and incentives, and a decrease in cross-border volume were partial dampeners. Following strong results, shares of the company were up 5.04% in pre-market trading.

Mastercard's revenues of \$4 billion beat the Zacks Consensus Estimate by 0.9% and also rose 5% year over year. This upside was driven by an increase in gross dollar volume, switched transactions and other revenues, partly offset by higher rebates and incentives and a decline in cross-border business.

Total adjusted operating expenses rose 8% to \$1.8 billion due to higher general and administrative expenses.

Adjusted operating margin of 55.3% was down 140 basis points year over year.

Gross dollar volume increased 8% to \$1.6 trillion but cross-border volumes slipped 1% on a local-currency basis.

As of Mar 31, 2020, the company's customers had issued 2.6 billion Mastercard and Maestro-branded cards.

Share Repurchase and Dividend Payout

During the reported quarter, Mastercard bought back shares worth \$1.4 billion and paid out \$403 million in dividends.

The company for the time being discontinued its share buyback plans as the plaguing impact of COVID-19-related uncertainty persists.

Strong Balance Sheet Position

The company's long-term debt as of Mar 31, 2020 was \$12.5 billion, up 46% because a sum of worth \$4-billion long-term debt was issued in March. However, its liquid cash 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 a strong investment grade ratings of A1 from Moody's and A+ from S&P ratings.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	1.12%
EPS Surprise	6.40%
Quarterly EPS	1.83
Annual EPS (TTM)	7.83

Recent News

Mastercard Sees a Steady Rebound in Business Volumes - May 14, 2020

Mastercard has announced second-quarter 2020 operating metrics, which reflected stabilization in business volumes.

the company's switched volume and switched transactions are showing a better trend over the past two weeks, partly backed by the easing of social-distancing measures in several markets and the positive impact drawn from the fiscal stimulus in the United States. We note that switched transactions, which were down 24% in the week ending Apr 7 improved to a decline of 12% in the week ending May 7.

Mastercard's cross-border volume is persistently squeezed because of lower travel frequency. However, the metric made a modest progress over the last week, partly owing to an increase in intra-Europe travel. Thus, cross border volumes, which plunged 48% in the week ending Apr recovered a bit over a month with 43% drop in the week ending May 7.

Mastercard is also witnessing buoyant demand for its Data & Analytics and Cyber solutions. In the second quarter of 2020, the company expects services growth that provides diversification to its revenue stream to continue outperforming its core products.

Mastercard Rolls out a Platform for Easing B2B Payments - May 13, 2020

Mastercard Incorporated has introduced the commercial version of Mastercard Track Business Payment Service. The platform has been launched in the United States with several distribution partners across the B2B channel. Track Business Payment Service was initiated as a trade platform by Mastercard in 2018 for simplifying payment processes.

Notably, the plan to launch this digital platform was taken in the previous year.

Encompassing several business payments products, Track Business Payment Service intends to offer a simplified payment procedure for the business world through digital means. While buyers will be able to pay more efficiently and avail early payment discounts, suppliers are likely to get a clear idea about the invoices received from several buyers along with their proper identification.

Valuation

Mastercard's shares are down 7% in the year-to-date period, but up 14.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.2% and 12.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 8.4% but the sector is down 3.6%.

The S&P 500 index is down 8.2% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 38.81X forward 12-month earnings, which compares to 29.44X for the Zacks sub-industry, 26.85X for the Zacks sector and 20.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.75X and as low as 21.36X, with a 5-year median of 27.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$291 price target reflects 40.76X 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	38.81	29.44	26.85	20.67
	5-Year High	39.75	29.44	26.85	20.79
	5-Year Low	21.36	20.78	18.68	15.19
	5-Year Median	27.39	23.16	20.69	17.45
P/S F12M	Current	17.01	10.41	3.65	3.22
	5-Year High	18.11	10.7	3.94	3.44
	5-Year Low	8.42	7.19	3.05	2.54
	5-Year Median	11.42	8.71	3.57	3.02
P/B TTM	Current	51.34	6.92	4.01	3.74
	5-Year High	61.06	12.79	6.69	4.55
	5-Year Low	14.85	5.23	3.18	2.84
	5-Year Median	24.78	8.08	5.18	3.65

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Capital One Financial Corporation (COF)	Neutral	4
Diebold Nixdorf, Incorporated (DBD)	Neutral	4
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Visa Inc. (V)	Neutral	3
The Western Union Company (WU)	Neutral	3
Alliance Data Systems Corporation (ADS)	Underperform	5
American Express Company (AXP)	Underperform	3

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	MA	X Industry	S&P 500	ADS	FIS	V
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	5	3	3
VGM Score	D	-	-	B	D	D
Market Cap	278.35 B	1.84 B	18.95 B	1.88 B	80.18 B	351.58 B
# of Analysts	16	6	14	8	14	16
Dividend Yield	0.58%	0.00%	2.2%	2.13%	1.08%	0.66%
Value Score	F	-	-	A	D	D
Cash/Price	0.04	0.08	0.06	1.98	0.02	0.04
EV/EBITDA	24.06	11.41	11.58	5.86	29.90	22.24
PEG Ratio	2.62	1.78	2.60	0.77	1.78	2.60
Price/Book (P/B)	51.34	2.84	2.59	1.72	1.63	12.11
Price/Cash Flow (P/CF)	29.09	9.82	10.20	1.61	15.96	27.42
P/E (F1)	43.52	23.52	19.00	4.76	23.87	36.26
Price/Sales (P/S)	16.37	3.45	1.93	0.33	7.06	14.72
Earnings Yield	2.30%	4.19%	5.05%	21.03%	4.19%	2.76%
Debt/Equity	2.30	0.39	0.75	11.00	0.39	0.48
Cash Flow (\$/share)	9.53	2.63	7.01	24.48	8.13	6.60
Growth Score	B	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	23.08%	18.08%	10.82%	7.47%	18.33%	21.17%
Proj. EPS Growth (F1/F0)	-17.87%	-11.14%	-10.48%	-50.63%	-3.08%	-8.28%
Curr. Cash Flow Growth	13.13%	13.97%	5.68%	-34.53%	57.47%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	15.42%	14.60%	8.52%	0.58%	26.53%	8.28%
Current Ratio	1.87	1.18	1.27	2.02	1.05	1.25
Debt/Capital	69.81%	37.24%	44.25%	91.67%	27.85%	28.66%
Net Margin	46.75%	7.54%	10.54%	3.41%	1.45%	52.26%
Return on Equity	149.02%	19.53%	16.29%	40.98%	7.89%	43.45%
Sales/Assets	0.61	0.48	0.54	0.21	0.16	0.33
Proj. Sales Growth (F1/F0)	-9.28%	-4.09%	-2.55%	-6.86%	19.15%	-5.05%
Momentum Score	D	-	-	A	F	D
Daily Price Chg	3.03%	1.72%	1.17%	6.26%	1.79%	2.15%
1 Week Price Chg	5.10%	5.07%	3.23%	1.72%	-0.82%	5.42%
4 Week Price Chg	12.38%	10.60%	1.06%	19.33%	5.51%	11.38%
12 Week Price Chg	-19.49%	-27.24%	-22.80%	-61.79%	-17.23%	-14.45%
52 Week Price Chg	9.43%	-20.62%	-12.40%	-73.34%	8.96%	9.72%
20 Day Average Volume	5,061,286	582,707	2,553,422	1,966,284	4,007,417	10,536,734
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.62%	0.00%
(F1) EPS Est 4 week change	-16.78%	-10.90%	-5.57%	-32.53%	-5.03%	-9.45%
(F1) EPS Est 12 week change	-29.12%	-24.13%	-16.22%	-58.79%	-13.71%	-18.86%
(Q1) EPS Est Mthly Chg	-39.32%	-20.37%	-11.63%	-53.68%	-15.27%	-20.78%

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	F
Growth Score	B
Momentum Score	D
VGM Score	D

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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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