

Mastercard (MA)

Rachel Dax & Sophia Spittlemeister

Senior Analysts: Kenzie Meyer, James Luessman, Jake Bresser

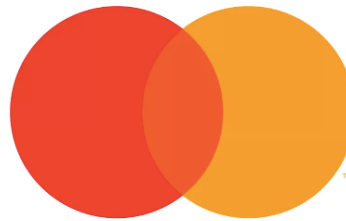
Ticker: MA

Current Price: \$288.46

Sector: Financials

NYSE

Headquarters: Purchase, NY



Introduction

Mastercard, according to their 2018 Annual Report, is a “Technology Company in the Global Payments Industry”. Mastercard was founded in 1966 as a response to the BankAmericard which was issued by Bank of America. This eventually became the Visa credit card. Mastercard was created by numerous bankcard associations that formed an alliance to compete with Visa. Mastercard primarily processes payments between banks of buyers and banks of the sellers.

Mastercard is accepted in the greatest number of countries, relative to competitors such as Visa, Discover, and American Express. Mastercard is accepted in more than 210 countries and territories while operating in more than 150 currencies. There are 22 countries where Mastercard is the most popular type of credit card including Australia, Canada, and Brazil.

Recommendation

We are recommending a **BUY** of Mastercard stock. We project that in one year the stock will be in the price range of \$316.42-\$329.47 which translates to an upside of 9.69% and 14.22%.

Investment Thesis

There are many things that Mastercard is doing to prepare them for success in the years to come. Mastercard makes themselves a promising investment for the following reasons: the future of payment is digital, their capacity to be a multi-rail network, Mastercard International, and Mastercard’s partnerships.

Future of Payment is Digital

Mastercard is consistently working on evolving their company and their brand. They recognize that the digital age leans toward modern simplicity. Mastercard has spent more than two years researching to see if people would be able to recognize their logo without the words “Mastercard” written through the middle of the logo. The research

showed that upwards of 80% of people surveyed were able to recognize the logo without the words. Because of these results, Mastercard felt that it was necessary to take the next step and change the logo to what it currently is today. Mastercard also recognizes that it may be necessary to shift their strategy and create a “more virtual financial space”. The CEO of Mastercard, Ajay Banga, notes that the future is going to be shifting away from cards, which is another reason they removed “Mastercard” from the logo. They know that soon customers will shift away from cards. Shifting away from cards leads to shifting to cloud. Mastercard CEO, Banga, recently spoke out and noted that he is expecting that all payments, from subway rides to governments are going to be fully digital. Banga is ensuring that his company is ready for this transition by making sure his transaction systems are state of the art.

Consumers are “spoiled” in the sense that they have the ability to insert a card with a chip into a machine or send payments through with the touch of a button (i.e. Apple Pay). Business-to-business (B2B) transactions are a whole different story and a whole world behind. B2B transactions are very inefficient and can be very costly. On average, it takes about 45 days for the payment process to be completed. Mastercard introduced Mastercard Track in September of 2018. Mastercard Track was developed jointly with Microsoft and is a cloud-based payment created specifically for B2B transactions. This development allows transactions to happen much faster with a high level of reliability.

Capacity to be a Multi-Rail Network

Mastercard is a rapidly growing corporation that has expanded into a multi-rail network. These multi-rail networks include the ability to send and receive payments on several different platforms. Some of which include, domestic, cross-border, card based and account to account. The multi-rail networks allow for simpler payment methods for customers in addition to more payment methods. The additional payment methods convenience the customers making this corporation more appealing.

Mastercard International

The largest opportunity for Mastercard to grow is in the International Market. In August, Mastercard paid \$3.2 billion for Nets. Nets is a Danish firm with an incredible innovative platform. This firm receives transactions which then processes and clears them in a very short amount of time with a high amount of reliability. Nets operates in the most digitized region in Europe and their network is available to 240 Northern European banks. Mastercard also has plans for further development in India and countries in Africa where electronic payment services are minimal to non-existent.

Partnerships

Mastercard offers many benefits for members, but especially for World and World Elite cardholders. In addition to stricter security benefits for these cardholders, they can reap the benefits of many of Mastercard's partnerships. Mastercard's partnerships reach a variety of markets for their customers. Some of the benefits from Partnerships include, a monthly \$10 Lyft credit, discounted food delivery through Postmates and discounted movie tickets through Fandango, among others.

Income Sources

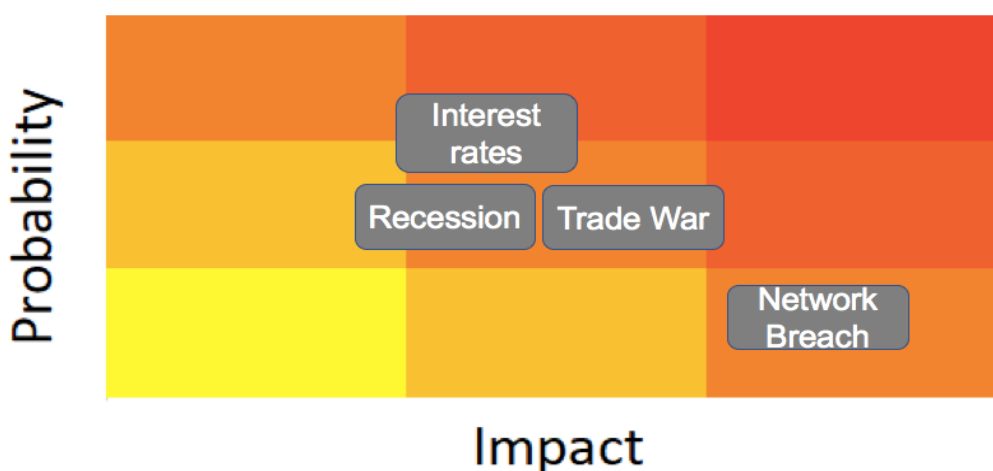
Mastercard makes money by acting as an intermediary. They connect different participants within many kinds of transactions. Their largest portion of revenue comes from fees paid by their customers. (It is important to distinguish the difference of customers and consumers in this case) Everyday consumers are not the customers. Customers are the financial institutions (banks/credit unions) and they pay a fee to issue any sort of credit and debit cards with the Mastercard logo on it. These banks and credit unions are charged a fee based on the Gross Dollar Volume of account holder activity. Mastercard also gains revenue through switched transactions fees. These fees cover costs associated with authorization, clearing, settlement, etc.

A typical Mastercard transaction includes four parties other than themselves: consumer/account holder, consumer issuer bank, merchant, and merchant issuer bank. An account holder makes their purchase with a Mastercard, authorizing the purchase. Following the authorization, the purchaser's bank pays the cost of the purchase to the bank of the seller. The account holder is then charged the cost of the purchase.

Valuation

For computing the valuation, we used the Multiples Method with Price/Earnings as well as the EVA application. We used rather conservative numbers in the possible case that a recession would happen at some point next year. We weighted the Multiples Method at 35% and the EVA at 65% as we felt that the EVA gave a more complete and accurate representation with more details than the multiples method using Price/Earnings. We used 5.92% as the cost of capital. Our projected target range for Mastercards stock price in one year is \$316.42-\$329.47 which is an upside of 9.69%-14.22%.

Risks



Interest Rates

Being a credit card company, Mastercard faces the risk of fluctuating interest rates. The probability of interest rates changing constantly is very high but the impact it would have on Mastercard is not very significant.

Recession

The majority of Mastercard's business is international. However, there is an expected recession in the US economy in the coming years. This recession can impact global markets because the US market performance affects the global markets.

Trade War

The trade war has a high impact on the global market and affects consumer spending. If consumer spending decreases, Mastercard can expect a negative impact in regard to revenue.

Network Breach

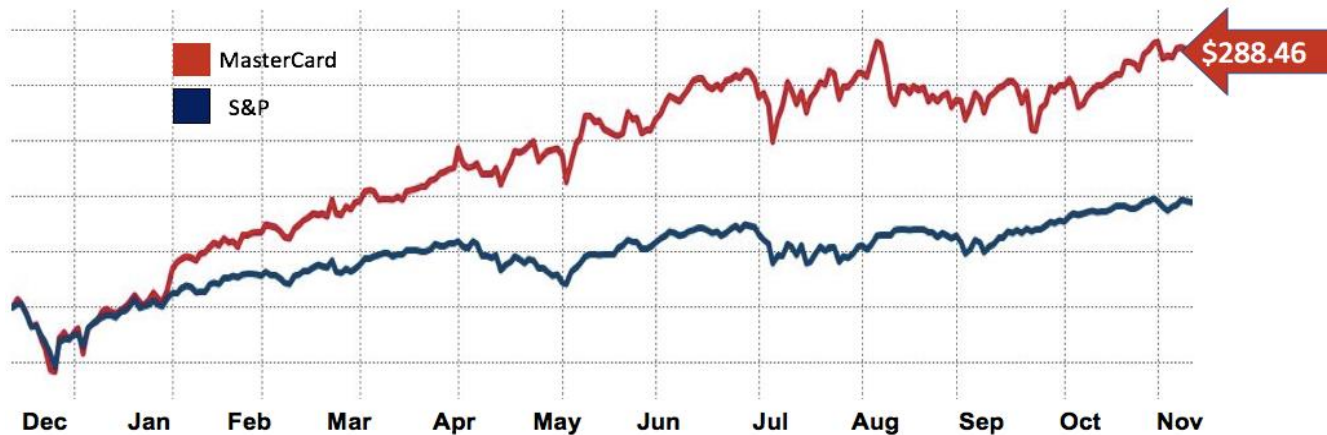
Safety is at the heart of Mastercard's story. Their goal is to build a "World Beyond Cash" where every person, every payment, and every device is protected. This risk is of lower probability but would have a large impact on Mastercard.

Management

On July 1, 2010, Ajay Banga was appointed CEO of Mastercard. Banga has a long history of leadership such as CEO of Citigroup Asia Pacific, co-founder of The Cyber Readiness Institute, first vice chairman of the International Chamber of Commerce, and a trustee of the United States Council for International Business. Mastercard was worth \$31.2 billion in 2010 when Banga was first appointed CEO. Nine years later, the market capitalization is \$247 billion, increasing shares an astonishing 885%.

Along with Banga, there are five other executives and the average age is 58 years old. Each of the key management positions are heavily compensated by stock bonuses, which is a positive for the company.

Stock History & Performance



Over the last year, Mastercard has consistently outperformed the S&P. Currently, Mastercard is at a nearly 50% increase in terms of stock price over the past year, which is an extraordinary amount.

Peer Analysis

Company	Revenue	Y/Y Growth (Revenue)	ROA	EPS
Mastercard	\$12.5 B	19.42%	23.57	\$6.74
Visa	\$20.61 B	12.26%	16.65	\$4.78
Discover	\$10.5 B	4.86%	2.5	\$8.84

Mastercard compared to their peers outperforms in year to year growth in revenue and Return on Assets. Although the magnitude of Mastercard's business isn't as large as that of Visa in terms of revenue, their year to year growth in revenue is over 50% higher than Visas and is nearly 400% higher than Discover. This high year to year growth percentage is very attractive to investors and shows that Mastercard is a company that is well prepared for growth in the future.

Ownership of Shares

Top 5 Shareholders

Ownership Layout

