

Mastercard Inc.

4Q21 Preview: Fundamentals Appear Solid, but Omicron Impact Is Top of Mind

We believe MA is well positioned as it closes out FY21. Using V's intra-qtr Oct/Nov volumes and other macro indicators as a read-thru, we anticipate continued improvement in the US vs. 2019 levels. Investors still focused on cross-border vols, with concern about Omicron's impact on Dec vols + Q1/F22 expectations.

MA reports Q4 earnings on Thursday, January 27 before the open. For the quarter we forecast net revenues of \$5,180M (vs. Street of \$5,168M), Adj. EBIT of \$2,783M (vs. Street of \$2,782M) and adj. EPS of \$2.23 (vs. Street of \$2.21).

Read-thru to MA from V's intra-quarter release indicates healthy volumes through November. In December 2021, V published a November QTD update for US payment volumes, global cross-border volumes and processed transactions (see our note [Cross-Border Stages Impressive Recovery](#), 12/1/2021). In contrast, MA has not published an intra-quarter update since early 2021. Per the filing, V's US credit volumes are 23% higher vs. 2019 levels (a 2-year CAGR of 10.9%) and US debit volumes are 44% higher than 2019 levels (a 2-year CAGR of 20.0%). Cross-border volumes (excl. intra-Europe) QTD are in-line with 2019 levels. Versus 3Q21, the growth of V's US credit, debit and cross-border volumes accelerated q/q.

Omicron's impact on December's travel and cross-border volumes remains a watch-out. Recall that the new Omicron variant emerged in late November 2021. Its impact will most likely be observed in December 2021's spend volumes following the airlines' cancellations of thousands of flights. We believe this may drive some softness in MA's reported cross-border filings for Q4.

Travel data point to continuing improvement in Q4 offset by weakness in December Passenger throughput data from the TSA indicates a modest slowdown in recent weeks (vs. 2019) but overall Q4 US travel volumes vs. 2019, improved vs. Q3. Regarding cross-border travel, US outbound flight purchases (from Bloomberg: NI AIRLNINT <GO>) were at 59% of 2019 levels, up 9 ppt from Q3. But this also reflects a December softening (vs. some strengthening in November) as airlines canceled flights in late 2021. For the quarter, we forecast cross-border volume fees of \$1,318M, improving vs. Q3 on a 2-year CAGR basis (though still below 2019 levels). We see the softening in outbound flight purchases as a watch-out item for MA's cross-

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CORE Earnings Preview

MA	OVERWEIGHT Unchanged
U.S. Payments, Processors & IT Services	POSITIVE Unchanged
Price Target	USD 430.00 lowered -5% from USD 455.00
Price (19-Jan-22)	USD 360.73
Potential Upside/Downside	+19.2%
Market Cap (USD mn)	354438
Shares Outstanding (mn)	982.56
Free Float (%)	88.29
52 Wk Avg Daily Volume (mn)	4.1
Dividend Yield (%)	0.54
Return on Equity TTM (%)	129.50
Current BVPS (USD)	6.81
Source: Bloomberg	

Price Performance	Exchange-NYSE
52 Week range	USD 401.50-306.00



Source: IDC
[Link to Barclays Live for interactive charting](#)

U.S. Payments, Processors & IT Services

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border volumes in the next few periods. We currently forecast cross-border volume fees to surpass F19 levels in 2Q22.

Card issuers show improving credit volumes

Earnings data from card-issuing banks also pointed to an improving spending environment, driven by an acceleration in credit and debit (on a 2-year CAGR basis). Outside the US, C's International business declined slightly though with a 300 bps improvement vs. 3Q21's 2-year CAGR (notably, C is primarily a MA issuer).

Staying above consensus but modestly trimming 4Q21's cross border revenues

Based on our expectations of a weaker December 2021 for cross-border volumes (driven by flight cancellations) due to the overhang on travel from Omicron, we trim our Q4 Cross-Border Volume Fee revenues to \$1,318M (52% y/y vs. 55% previously). Our EPS estimate of \$2.23 is unchanged.

Trimming price target to \$430

Based on declines in market multiples for growth stocks in the Payments space, we are reducing our price target to \$430 from \$455 prior. Our new PT is based on 34x our F23 EPS estimate of \$13.06 vs. 36x prior + DCF. We maintain our Overweight rating.

Other puts and takes on F21 guidance:

- **Net Revenues:** MA is expecting y/y revenue growth of mid-20s on a reported basis, including a ~0.5 ppt tailwind from FX and ~2-3 ppt tailwind from M&A. As a reminder, MA has inorganic benefits from in the quarter from M&A which includes: Finicity (closed 11/19/20), Nets' Corporate Services (closed 3/5/21), Ekata (closed 6/9/21), CipherTrace (closed 9/9/2021), Wameja (closed 9/27/2021), Aiia (closed 11/17/2021) and Arcus (11/24/2021).
- **Rebates & Incentives:** for Q4, rebates and incentives as a percentage of gross revenue are expected to be "up sequentially" vs. the Q3 ratio of 36.3%.
- **Operating expenses:** Q4 operating expense growth is expected to be mid-teens, including ~3 ppt from litigation, ~0.5 ppt from FX and ~8 ppt from M&A.
- **Interest expense:** the company expects a \$120M per quarter run rate given the current interest rate environment.
- **Tax rate:** Given the current geographic mix of business, management expects an 18-19% tax rate for the full year.

MA: Quarterly and Annual EPS (USD)

	2020	2021			2022			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	1.68A	1.83A	1.83A	1.74A	2.27E	2.27E	2.27E	9%	24%
Q2	1.41A	2.08A	2.08A	1.95A	2.55E	2.55E	2.50E	48%	23%
Q3	1.51A	2.44A	2.44A	2.37A	2.79E	2.79E	2.83E	62%	14%
Q4	1.78A	2.23E	2.23E	2.21E	2.95E	2.95E	2.91E	25%	32%
Year	6.37A	8.58E	8.58E	8.29E	10.55E	10.55E	10.50E	35%	23%
P/E	56.6		42.1			34.2			

Consensus numbers are from Bloomberg received on 20-Jan-2022; 13:50 GMT
Source: Barclays Research

U.S. Payments, Processors & IT Services

POSITIVE

MasterCard Inc. (MA)

OVERWEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	15,301	18,848	22,631	26,264	19.7%
Incentives	-8,315	-10,847	-12,710	-14,625	N/A
Gross revenue	23,616	29,695	35,342	40,889	20.1%
EBIT	8,154	10,132	12,894	15,459	23.8%
Pre-tax income	7,833	10,259	12,503	15,087	24.4%
Net income	6,484	8,600	10,252	12,372	24.0%
EPS (reported) (\$)	6.37	8.58	10.55	13.06	27.0%
Diluted shares (mn)	1,006.0	992.3	972.0	948.0	-2.0%
DPS (\$)	1.60	1.76	1.94	2.13	10.0%
Margin and return data	2020A	2021E	2022E	2023E	Average
EBIT margin (%)	53.3	53.8	57.0	58.9	55.7
Pre-tax margin (%)	51.2	54.4	55.2	57.4	54.6
Net margin (%)	42.4	45.6	45.3	47.1	45.1
ROA (%)	19.3	23.6	24.9	27.1	23.7
ROE (%)	99.9	127.6	121.8	122.5	118.0
Balance sheet (\$mn)	2020A	2021E	2022E	2023E	CAGR
Tangible fixed assets	1,902	1,884	1,980	2,076	3.0%
Intangible fixed assets	1,753	3,661	4,059	4,457	36.5%
Cash and equivalents	10,113	6,656	7,973	9,217	-3.0%
Total assets	33,584	36,462	41,119	45,670	10.8%
Short and long-term debt	12,023	13,211	13,211	13,211	3.2%
Other long-term liabilities	15,044	16,413	19,393	22,257	13.9%
Total liabilities	27,067	29,624	32,604	35,468	9.4%
Net debt/(funds)	1,910	6,555	5,238	3,994	27.9%
Shareholders' equity	6,488	6,739	8,417	10,103	15.9%
Valuation & leverage metrics	2020A	2021E	2022E	2023E	Average
P/E (reported) (x)	56.6	42.1	34.2	27.6	40.1
EV/EBITDA (x)	41.3	33.6	26.6	22.3	30.9
Dividend yield (%)	0.4	0.5	0.5	0.6	0.5
Net debt/EBITDA (x)	-0.2	-0.6	-0.4	-0.2	-0.4
Net debt/equity (%)	29.4	97.3	62.2	39.5	57.1
Selected operating metrics	2020A	2021E	2022E	2023E	
Total volumes (\$k)	6,342	7,749	8,884	9,787	
Total volume growth (%)	-0.4	25.7	15.4	10.3	
Purchase volumes (\$k)	4,742	5,959	6,877	7,584	
Purchase volume growth (%)	-0.4	25.7	15.4	10.3	
Transactions processed (\$mn)	90,064	111,663	130,321	147,810	
Transactions processed growth (%)	3.2	24.0	16.7	13.4	
Purchase volume (% Credit)	63.3	57.8	55.9	55.6	
Purchase volume (% Debit)	36.7	42.2	44.2	44.4	
Purchase volume (% US)	35.7	36.8	36.3	36.3	
Purchase volume (% International)	64.3	63.2	63.7	63.7	
Net revenue/purchase vol	32.3	31.6	32.9	34.6	
Incentives % of gross revenue	35.2	36.5	36.0	35.8	

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (19-Jan-2022) **USD 360.73**
Price Target **USD 430.00**

Why OVERWEIGHT?

MA is well aligned to the long-term global secular tailwind for electronic payments, and enjoys one of the deepest competitive moats in Payments. The company is also innovating via tokenization, open API architecture, and faster payments to protect its dominant market position in the context of software-embedded payments.

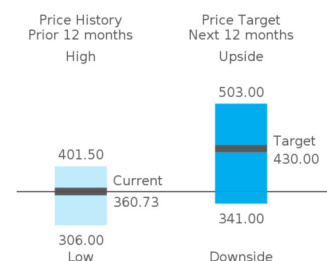
Upside case **USD 503.00**

Tech-enabled payments further accelerate the global shift from paper to electronic transactions. VocaLink enables the company to penetrate off-network categories. Margin expansion pace accelerates.

Downside case **USD 341.00**

Legal and regulatory pressure increases. Global macro slowdown negatively impacts volumes. Disruptive technologies (such as blockchain or Faster Payments) gain traction.

Upside/Downside scenarios



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Mastercard Inc. (MA, 19-Jan-2022, USD 360.73), Overweight/Positive, A/CD/CE/D/J/K/L/M/N

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Mastercard Inc. (MA)	MoneyGram International, Inc. (MGI)	Paychex, Inc. (PAYX)

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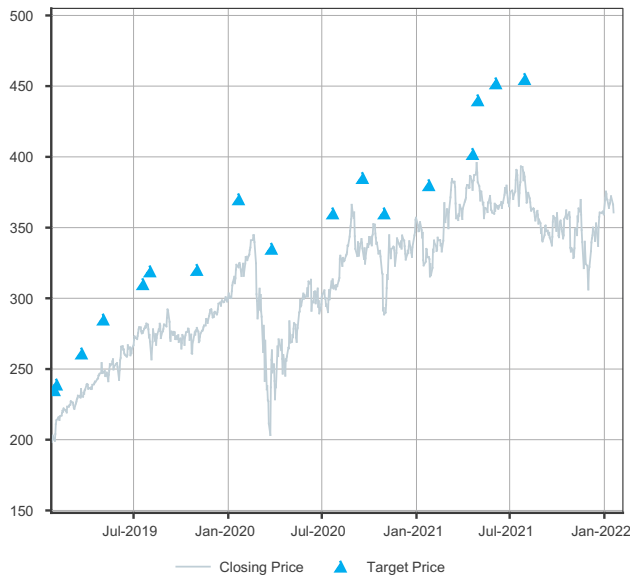
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Mastercard Inc. (MA / MA)Stock Rating: **OVERWEIGHT**Industry View: **POSITIVE****USD 360.73** (19-Jan-2022)**Rating and Price Target Chart - USD (as of 19-Jan-2022)**

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price	Rating	Adjusted Price Target
30-Jul-2021	385.94		455.00
04-Jun-2021	366.02		452.00
30-Apr-2021	382.06		440.00
20-Apr-2021	376.63		402.00
25-Jan-2021	329.19		380.00
30-Oct-2020	288.64		360.00
18-Sep-2020	335.26		385.00
22-Jul-2020	313.37		360.00
25-Mar-2020	256.48		335.00
21-Jan-2020	321.93		370.00
01-Nov-2019	279.05		320.00
02-Aug-2019	269.45		319.00
19-Jul-2019	275.60		310.00
03-May-2019	247.95		285.00
22-Mar-2019	230.76		261.00
01-Feb-2019	213.77		239.00
28-Jan-2019	200.16		235.00

On 20-Jan-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 240.00.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our \$430 price target is derived from a blend of two valuation techniques, equally weighted: 1) relative P/E valuation, which yields a value of \$445 per share, and 2) our discounted cash flow (DCF) model, which also yields a value of \$414. Relative P/E: We apply a multiple of 34x to our 2023 EPS estimate of \$13.06. The multiple is a premium with the average P/E multiple of a group of merchant acquirer and network peers (based on 2023 consensus EPS estimates), reflecting MA's growth profile and potential for margin expansion. DCF: We assume free cash flow growth at a 15.1% CAGR from 2021 to 2030, a WACC of 8.1%, and a terminal growth rate of 3.5%.

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