

# Mastercard (NYSE:MA)

## Company Overview

Mastercard is a financial technology company in the global payment industry, which connects businesses and individuals across the world with electronic payment systems and security. Mastercard identifies three main areas of focus as part of the general company strategy, those being consumer payments, commercial payment flows, and services/other solutions. While not extending lines of credit or cards, Mastercard generates high-margin profits through charging service fees for facilitating transactions between four main parties: consumers, financial institutions, merchants, and acquirers (the merchant’s financial institution. Additional services like securitization of financial information (tokenizing transactions), providing business data and insights, and other security solutions make up the majority of alternative revenue streams for the company. The company’s largest competitor is VISA, which offers very similar services and is equally proliferated and profitable.

## Catalysts and Risks

The credit services which Mastercard operates in is effectively a duopoly, executed by them and Visa. This industry dynamic leaves Mastercard exposed to intense regulatory scrutiny, effectively challenging every domestic expansion. Mastercard currently finds itself litigating trials related to their market share and dominance in the industry. Despite this, Mastercard is currently working on expanding their overall service capabilities, as well as financing global expansion. While they pulled back over \$100 million in commitment to the program, Mastercard’s anticipated expansion into Africa and Asia over the next few years is expected to unlock an entire landscape of transaction processing fees which can be capitalized on. Mastercard, additionally, is pursuing expansions into both AI and cybersecurity technology, acquiring companies like Recorded Future for \$2.65 billion to expand internal capabilities. The commitment to innovation, on top of its large brand recognition and broad web of infrastructure, strengthens its position as either a hold or buy, depending on the forward outlook on revenue and margin growth.

## Valuation

Based on a WACC (Weighted Average Cost of Capital) of 8.63%, and a perpetuity growth rate of 3.5%, Mastercard’s intrinsic value is \$516.55. While the valuation suggests a current overvaluation of the stock, the relative stability of the company in generating high-margin profits, as well as the broader expansions the company is doing, may warrant the premium paid. It is worth noting, however, that a 3.5% perpetuity growth rate is considerably bullish for a company like Mastercard that can be deemed at the mature stage of its life cycle. That aside, a sensitivity analysis (Figure 3) can give a more holistic picture on the broader value of the stock after factoring for changes in the growth rate and WACC. The WACC used is moderately conservative, signaling the less volatile nature of equity relative to the overall market as well.

**Overall Thesis:** Hold (Neutral)  
**Estimated Fair Value:** \$516.55  
**Current Price:** \$549.70 (6/25)  
**YTD Growth:** 5.23%  
**LTM Low-High:** \$428.86 - \$594.71

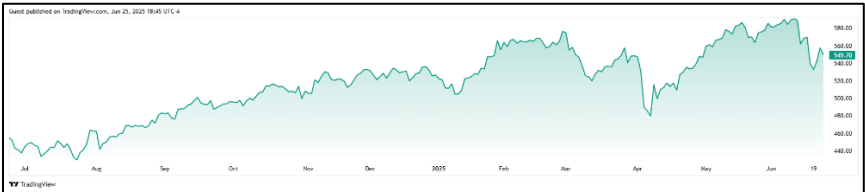


Figure 1: LTM Chart (Source: Trading view)

Figure 2: Comps Analysis

	P/E	EV/Revenue	EV/EBITDA
Mastercard	33.94	17.60	29.99
Visa	36.01	18.89	27.50
AmEx	19.43	2.99	25.12
Capital One	15.40	2.83	12.27
Fidelity	52.58	5.26	15.13
PayPal	14.80	2.22	9.93

High	52.58	18.89	29.99
75th	35.49	14.52	26.91
Median	26.69	4.13	20.13
25th	16.41	2.87	12.99
Low	14.80	2.22	9.93

Figure 3: Sensitivity Analysis

	516.55	8.23%	8.43%	8.63%	8.83%	9.03%
0.03	\$515.24	\$495.07	\$476.34	\$458.91	\$442.63	
0.03	\$537.89	\$515.89	\$495.53	\$476.64	\$459.06	
0.04	\$562.93	\$538.82	\$516.59	\$496.04	\$476.98	
0.04	\$590.77	\$564.20	\$539.81	\$517.35	\$496.60	
0.04	\$621.90	\$592.44	\$565.54	\$540.87	\$518.16	

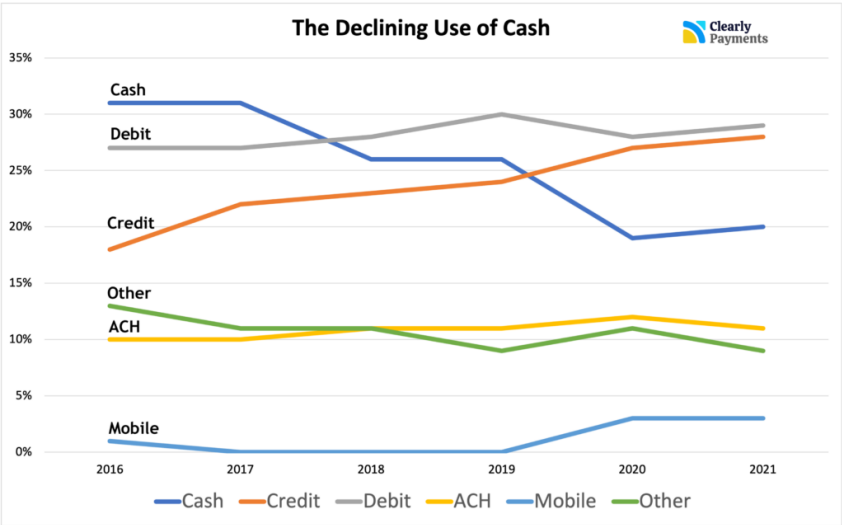
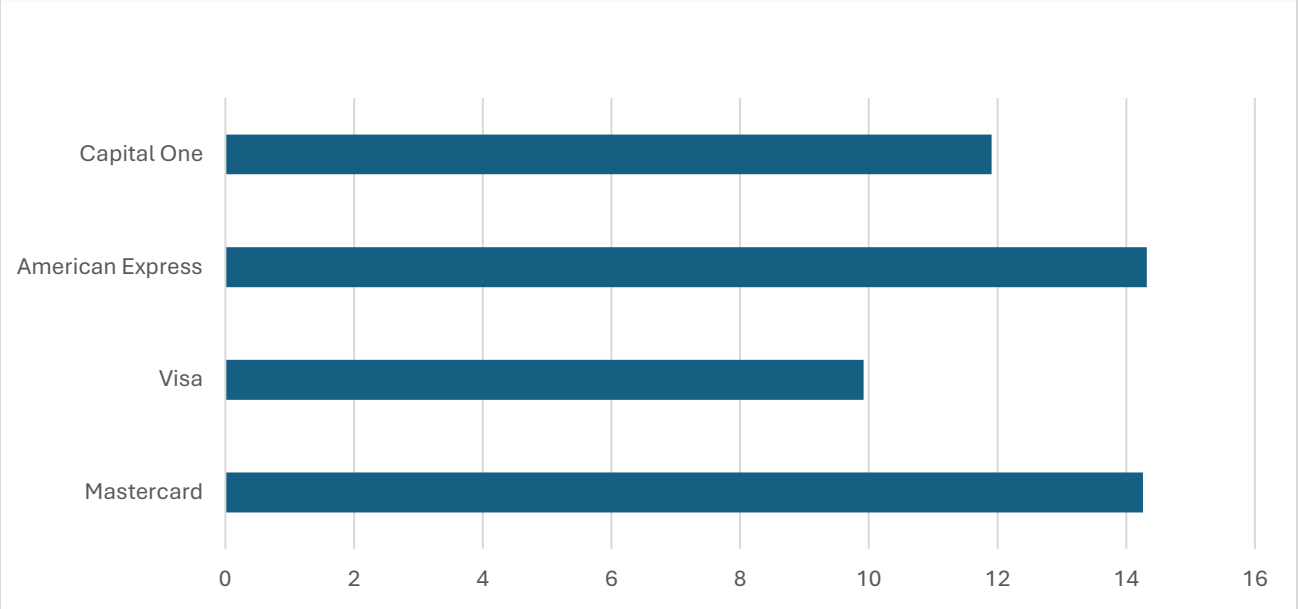


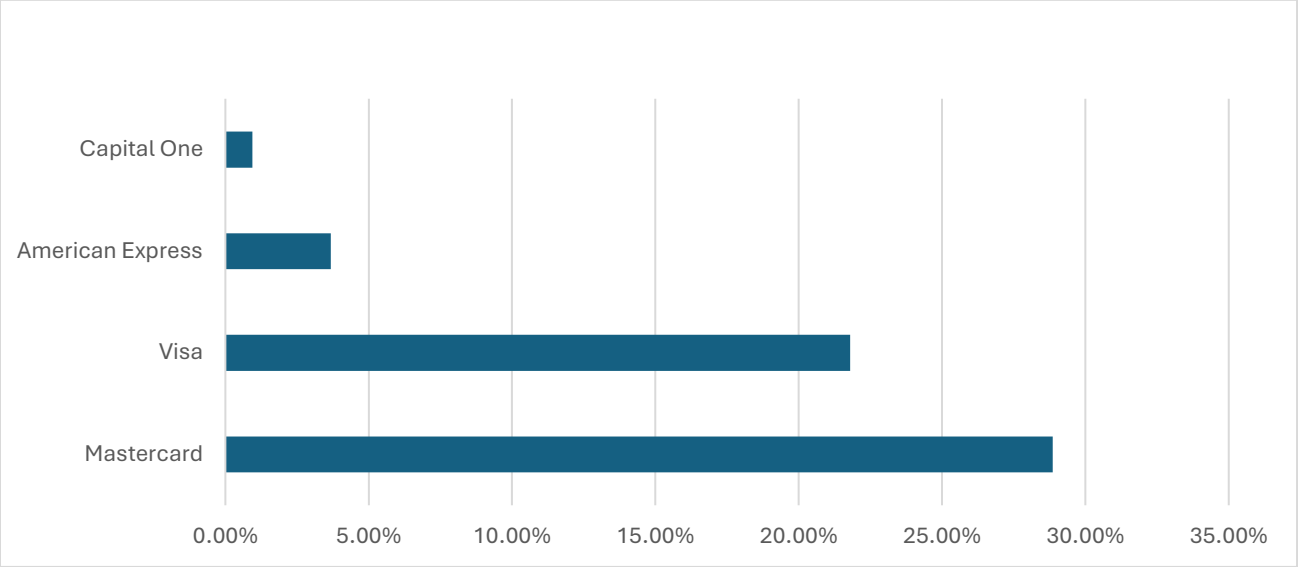
Figure 4: Declining Use of Cash

Other Analysis Metrics

Diluted EPS

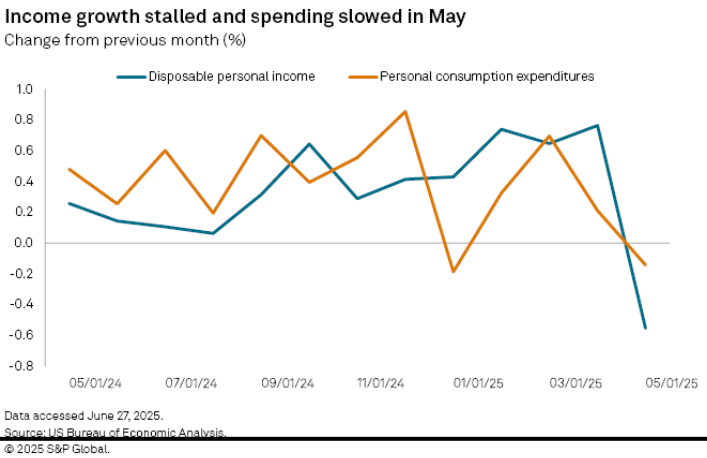


Return on Assets



Industry Overview

Beyond the brief industry dynamics discussed in the “Catalysts and Risks” section, other defining factors of the credit services industry prove to be uncertain drivers of future growth. From a macroeconomic lens, the apolitical US Federal Reserve is seen increasingly exercising caution over a rate cutting cycle, as trade dynamics threaten to raise prices. While as of now there is little clarity on the matter, the anticipated September cuts could benefit credit card holders and incentivize them into more transactions. On the tariff topic, credit servicing companies both face upside and downside risk. While consumers may turn to credit cards more to manage their cash flow as prices get more expensive, at the same time, a rise in prices decreases discretionary spending and thus transaction fees as well. At the same time, a rise in the price of necessities would directly correlate with higher transaction fee revenue, as fees are taken as a percentage of transactions for Mastercard. Lastly, a rise in prices is more likely to push people towards paying interest expenses to companies like Mastercard.



DCF						1	2	3	4	5										
Revenue	\$	15,301	\$	18,884	\$	22,237	\$	25,098	\$	28,167	\$	32,110.38	\$	36,766.39	\$	42,649.01	\$	49,472.85	\$	57,388.50
% growth	-			23.42%		17.76%		12.87%		12.23%		14.00%		14.50%		16.00%		16.00%		16.00%
EBIT	\$	8,081	\$	10,082	\$	12,264	\$	14,008	\$	15,582	\$	18,302.92	\$	20,956.84	\$	24,523.18	\$	29,188.98	\$	33,859.22
% margin		52.81%		53.39%		55.15%		55.81%		55.32%		57.00%		57.00%		57.50%		59.00%		59.00%
Taxes	\$	1,349.00	\$	1,620.00	\$	1,802.00	\$	2,444.00	\$	2,380.00	\$	2,928.47	\$	3,353.09	\$	3,923.71	\$	4,670.24	\$	5,417.47
% of EBIT		16.69%		16.07%		14.69%		17.45%		15.27%		16.00%		16.00%		16.00%		16.00%		16.00%
EBIAT						\$	15,374.45	\$	17,603.75	\$	20,599.47	\$	24,518.74	\$	28,441.74					
D&A	\$	580.00	\$	726.00	\$	750.00	\$	799.00	\$	897.00	\$	932.88	\$	970.20	\$	1,009.00	\$	1,049.36	\$	1,091.34
% of Sales		3.79%		3.84%		3.37%		3.18%		3.18%		4.00%		4.00%		4.00%		4.00%		4.00%
CapEx	\$	708.00	\$	814.00	\$	1,097.00	\$	1,088.00	\$	1,194.00	\$	1,253.70	\$	1,341.46	\$	1,462.19	\$	1,520.68	\$	1,581.51
% of sales		4.63%		4.31%		4.93%		4.34%		4.24%		5.00%		7.00%		9.00%		4.00%		4.00%
Changes in NWC	\$	2,268.00	\$	(3,479.00)	\$	(1,352.00)	\$	262.00	\$	(2,193.00)	\$	(2,017.56)	\$	(1,856.16)	\$	(1,707.66)	\$	(1,571.05)	\$	(1,445.37)
% of sales		14.82%		-18.42%		-6.08%		1.04%		-7.79%		-8.00%		-8.00%		-8.00%		-8.00%		-8.00%
Unlevered FCF						\$	17,071.19	\$	19,088.64	\$	21,853.95	\$	25,618.48	\$	29,396.94					
Present Value of FCF						\$	15,714.92	\$	16,176.02	\$	17,048.06	\$	18,396.99	\$	19,433.19					
Total Present Value of FCF												\$86,769.18								
Terminal Value												\$593,042.76								
Total Present Value of The Terminal Value												\$392,037.74								
Implied Enterprise Value												\$478,806.92								
Implied Equity Value												\$469,022.92								
Total Shares outstanding												908								
Implied Share Price												\$ 516.55								
Current Share Price												\$549.77								
Calculated Downside												6.04%								