

MasterCard Rises to Highest Since IPO on Target Boost

Hugh Son

5/29/08

MasterCard Inc., the world's second-biggest credit-card network, rose to its highest level in New York trading since going public in May 2006 after increasing its profit-growth target on expanding card use outside the U.S.

The network expects net income to increase an average 20 percent to 30 percent annually over the next three years starting in 2009, MasterCard said today in a conference, compared with a previous goal of 15 percent to 20 percent.

MasterCard is challenging the growth rate of its larger rival Visa Inc., which said last month that its earnings per share will rise 20 percent a year. MasterCard generates half its revenue from overseas and is less reliant on the U.S. than Visa, which gets about two-thirds from domestic transactions.

“They gave important reasons to believe the growth of this franchise has got a long route ahead of it,” said Dan Davidowitz, who helps manage \$375 million, including 80,000 MasterCard shares, at Boca Raton, Florida-based Polen Capital Management. “The rest of the world is far behind the U.S. in the transition to plastic from checks and cash.”

MasterCard rose \$22.11, or 7.7 percent, to \$309 at 4:15 p.m. in New York Stock Exchange composite trading. The Purchase, New York-based company has surged almost eightfold since its initial public offering. Visa, based in San Francisco, climbed \$3.33, or 4.1 percent, to \$85.25 and has advanced 94 percent since its March IPO.

U.S. consumers who can no longer tap home-equity loans are turning to plastic to fuel their lifestyles. Borrowers took in \$34 billion in the first quarter, according to the Federal Reserve, the most since 2001. MasterCard said today that purchase growth in its business will slow in the U.S. this year while accelerating abroad.

International Revenue

“The growth rates we're enjoying in Europe, Asia Pacific, the Middle East and Latin America, those do offset some of what we're experiencing in the U.S.,” Chief Financial Officer Martina Hund-Mejean said in an interview. Hund-Mejean and Chief Executive Officer Robert Selander spoke today to analysts.

The network also said revenue may grow an average 12 percent to 15 percent annually, from the previous 8 percent to 10 percent guidance. The estimates given today assume a constant currency conversion rate and a tax rate of about 35 percent. MasterCard's guidance is in net income, while Visa's is a per share figure.

The value of first-quarter transactions made by cardholders increased 8.9 percent in the U.S., compared with 30 percent in Europe, 28 percent in Asia, 29 percent in Latin America and 34 percent in South Asia, the Middle East and Africa.

Sidestep Defaults

Visa and MasterCard sidestep the rising customer defaults of American Express Co. and Discover Financial Services because they only process purchases and don't lend to consumers. Credit- card defaults rose 21 percent last year, according to Moody's Investors Service.

Discover, based in Riverwoods, Illinois, has dropped 40 percent in New York trading in the past year and New York-based American Express has slumped 27 percent. American Express and Discover extend credit to borrowers and also run transaction networks for other lenders.

Consumers will use credit and debit cards for 55 percent of all U.S. transactions by 2011, rising from 40 percent in 2005, according to the Nilson Report, an industry newsletter based in Carpinteria, California.

Visa processed 60 percent of the \$5.2 trillion spent on general purpose payment cards around the world in 2006, more than the 32 percent controlled by MasterCard, according to Cowen and Co. analyst Moshe Katri.

The networks face about 50 U.S. suits from merchants alleging the companies unfairly set fees that increase costs for consumers. The so-called interchange fees are paid by retailers and distributed to the cardholders' banks.

Visa and MasterCard also face legislation backed by retailers that intends to create a U.S. government tribunal to set the interchange. The proposal would force the companies to negotiate the fees with merchants.