American Express Company (AXP)

Updated May 28th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$101	**5 Year CAGR Estimate:**	11.1%	**Quality Percentile:**	N/A
Fair Value Price:	$101	**5 Year Growth Estimate:**	9.7%	**Momentum Percentile:**	N/A
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Total Return Percentile:**	N/A
Dividend Yield:	1.4%	**5 Year Price Target**	$160	**Valuation Percentile:**	

Overview & Current Events

American Express is a credit cards company that operates the following business units: US Card Services, International Consumer and Network Services, Global Commercial Services and Global Merchant Services. American Express was founded in 1850, is headquartered in New York, NY, and is valued at $87 billion.

American Express' most recent results were announced on April 18, the company reported earnings per share of $1.86 (up 38% from $1.35 in the prior year's quarter), and revenues totaled $9.7 billion (up 12% year-over-year). American Express has announced that its earnings per share for fiscal year 2018 would likely come in at the high end of its previously set guidance of $6.90 to $7.30, and revenues would be up at least 8% year-over-year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.48	$1.54	$3.35	$4.09	$4.40	$4.88	$5.56	$5.39	$5.65	$5.89	***$7.20***	***$11.45***
DPS	$0.72	$0.72	$0.72	$0.72	$0.78	$0.86	$0.98	$1.10	$1.22	$1.31	***$1.43***	***$2.30***

American Express' profits declined during the last financial crisis, but over the last nine years its profits per share still grew by an attractive 10.1% annually. In the 2014-2017 time frame its growth was muted, but the company experienced some restructuring and was impacted by the loss of its partnership with Costco (American Express had issued Costco co-brand cards, but sold that portfolio to Citigroup and Visa a couple of years ago).

After the Costco-related impact passed, American Express has gotten back to delivering solid organic growth. During the most recent quarter the company recorded billed business growth of 10%, an acceleration from an already strong pace in Q4 2017, which saw a 9% increase in billed business, and 8% growth in Q3 2017. Billed business increases are the key factor for revenue growth for American Express, thus increased spending by card-holders is a good sign for American Express. Another factor for revenue growth is interest income, which grew by 23% during the most recent quarter due to a 16% increase in its loans and another increase in American Express' net interest yield on its loans (to a very compelling 10.8%). During 2018 American Express will also be positively impacted by tax law changes, during Q1 its tax rate dropped to 22% from 32% one year earlier. Once 2018 has passed its EPS will not be driven by future tax rate declines, though, which is why the high earnings growth rate in 2018 will not be sustainable in the long run.

American Express has been able to grow its expenses at a slower pace than its revenues, but it is unsure whether the company will be able to maintain that trend. With a weaker economy American Express might be forced to increase its sales and marketing expenses to grow its business, which is why net earnings growth could fall more in line with revenue growth (which will, likely, also slowdown from the current 10% pace in the long run). Due to the impact of a strong pace of share repurchases (5% of the company's shares were bought back during the last year) American Express will likely be able to produce attractive EPS growth even without margin expansions and with a slower revenue growth rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.3	17.5	12.4	11.6	12.7	15.0	16.2	14.5	11.3	14.4	***14.0***	***14.0***
Avg. Yld.	1.9%	2.7%	1.7%	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	***1.4%***	***1.5%***

Despite producing solid growth over the last decade American Express' shares have not been trading at an especially high valuation at all, its earnings multiple has been in a range of 11 to 17. American Express' median P/E ratio over the last decade is 14.0, exactly in line with its current valuation (based on expected earnings for the current year). It thus seems likely that its valuation will not change much over the coming years, which is why its current valuation will neither be a headwind nor a tailwind for future total returns.

American Express provides a 1.4% dividend yield, which is nice to have, but not enough to make shares attractive for income focused investors. American Express returns a lot of cash to its owners, but primarily via stock buybacks, not via dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	90.5%	88.8%	88.4%	88.2%	87.5%	87.6%	86.8%	87.6%	86.8%	90.1%	***90.0%***	***90.0%***
Payout	29.0%	46.8%	21.5%	17.6%	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	***19.9%***	***20.1%***
Std. Dev.	41.5%	83.9%	28.0%	24.6%	16.3%	14.4%	16.6%	13.2%	29.7%	10.6%	***16.0%***	***18.0%***

American Express is highly leveraged, which isn't a surprise. The company's loan portfolio is financed via debt, as the company operates like a bank. American Express borrows money at low rates and lends it out at quite high rates, netting an interest margin of more than 10% (versus 2%-3% being usual numbers for banks). The high liabilities to assets ratio is thus not a problem per se, but it is opportune to take a look at the quality of the loans American Express gives to its customers. American Express' lending net write-off rate during the most recent quarter was 2.0%, which would be a very high number for any bank. But since American Express' loans are more risky than traditional bank loans (e.g. mortgages) it is not surprising that its write-off rate is higher, and this is one of the reasons why American Express charges substantially higher interest rates than traditional banks. The increase in the write-off rate (from 1.7% in Q1 2017) nevertheless is something investors should keep an eye on, although there is no threat yet.

American Express' competition includes traditional banks, as well as peers such as Synchrony Financial. American Express' long history, strong brand and the fact that it did not get into trouble during the last financial crisis are all reasons for customers to stick with the company. Despite remaining profitable during the last financial crisis American Express' profits still took a hit (EPS declined by 38% 2008-2009), which isn't surprising, as consumers as well as corporations spend less money during recessions (which means lower billed business and thus lower revenues for American Express).

Final Thoughts & Recommendation

American Express has now seemingly stomached the negative impact of the Costco co-branded portfolio sale, and returned to strong organic revenue growth. American Express is a great business trading at a fair price. It is potentially a buy, and certainly a long-term hold at current prices.

Total Return Breakdown by Year