



# American Express Company (AXP)

Updated July 19<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b> \$103	<b>5 Year CAGR Estimate:</b> 10.8%	<b>Volatility Percentile:</b> 45.7%
<b>Fair Value Price:</b> \$102	<b>5 Year Growth Estimate:</b> 9.7%	<b>Momentum Percentile:</b> 71.5%
<b>% Fair Value:</b> 101%	<b>5 Year Valuation Multiple Estimate:</b> -0.3%	<b>Valuation Percentile:</b> 64.4%
<b>Dividend Yield:</b> 1.4%	<b>5 Year Price Target:</b> \$161	<b>Total Return Percentile:</b> 75.0%

## Overview & Current Events

American Express is a credit card 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 \$88 billion.

American Express' most recent quarterly results were announced on July 18. The company reported earnings of \$1.84 per share, an increase of 25% year over year. Revenues were up 9% year over year, reaching \$10.0 billion. Operating leverage and lower taxes allowed for profit growth to vastly outpace revenue growth. Management has stated that earnings per share during 2018 will likely come in close to the upper end of the guidance range (\$6.90 to \$7.30).

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$2.48	\$1.54	\$3.35	\$4.09	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	<b>\$7.25</b>	<b>\$11.52</b>
<b>DPS</b>	\$0.72	\$0.72	\$0.72	\$0.72	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	<b>\$1.43</b>	<b>\$2.30</b>

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. 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. During Q2 billed business growth remained solid at 9%, although this was a small deceleration versus the 10% growth rate during Q1 of 2018. American Express also was able to grow its total loans by 16% year over year. The net interest yield remained at a high level of 10.6% during Q2. During 2018 American Express will also be positively impacted by tax law changes, as the second quarter saw its tax rate drop to 20% 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 we are 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
<b>Avg. P/E</b>	15.3	17.5	12.4	11.6	12.7	15.0	16.2	14.5	11.3	14.4	<b>14.2</b>	<b>14.0</b>
<b>Avg. Yld.</b>	1.9%	2.7%	1.7%	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	<b>1.4%</b>	<b>1.5%</b>

*Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.*

Shares of American Express have been trading at a relatively inexpensive valuation throughout the last decade, despite the strong operational performance over that time frame. Based on this year's expected earnings shares look fairly valued, as the earnings multiple is almost perfectly in line with the historic median.

## 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%	<b>90.0%</b>	<b>90.0%</b>
Payout	29.0%	46.8%	21.5%	17.6%	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	<b>19.7%</b>	<b>20.0%</b>
Std. Dev.	41.5%	83.9%	28.0%	24.6%	16.3%	14.4%	16.6%	13.2%	29.7%	10.6%	<b>16.0%</b>	<b>18.0%</b>

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).

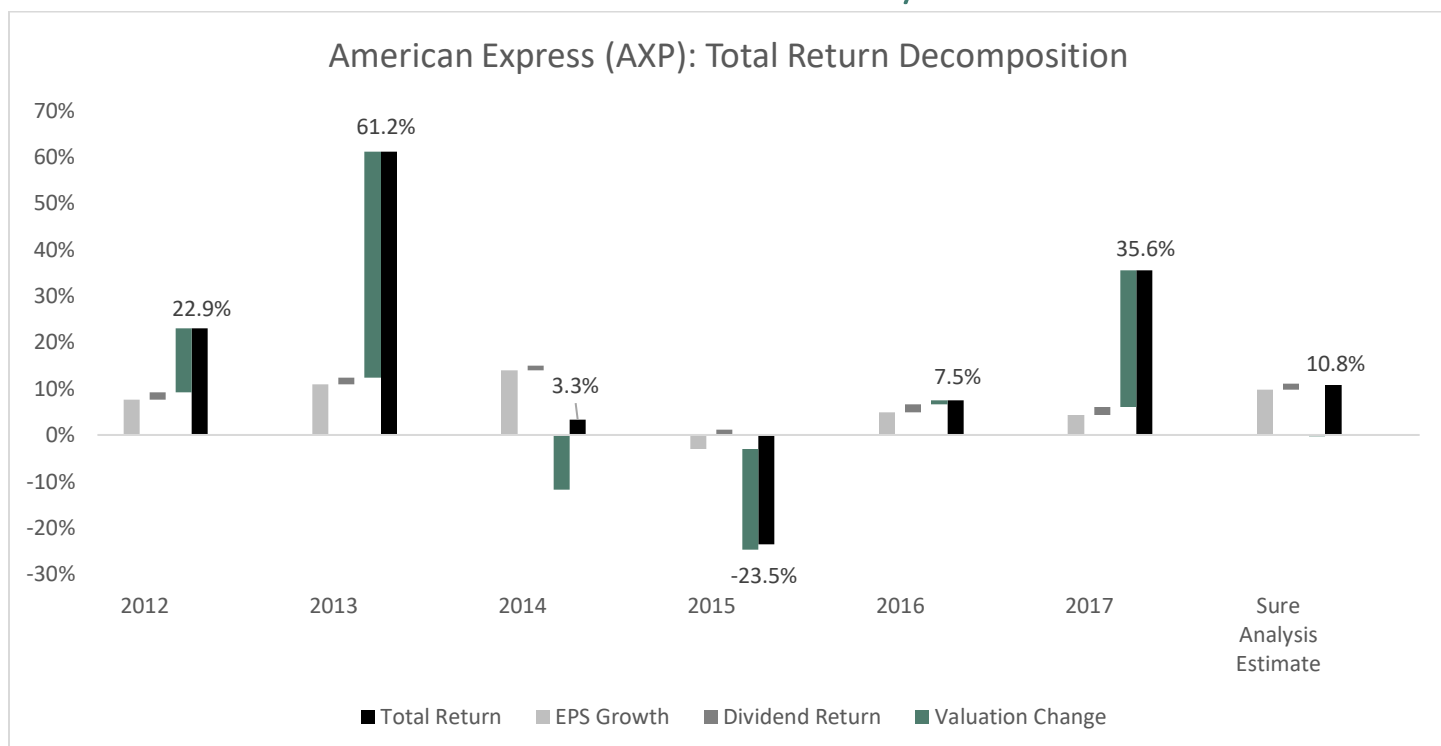
American Express' competition includes traditional banks, as well as peers such as Synchrony Financial. American Express' long history, strong brand and the fact that it did not get into trouble during the last financial crisis are all reasons for customers to stick with the company. Despite remaining 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 that is valued in line with the historic average right now.

Due to a high-single digits earnings growth rate, combined with a dividend yield of 1.4%, American Express should be able to deliver low-double-digits annual returns going forward, which makes shares a potential buy at current prices.

## Total Return Breakdown by Year



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