



American Express (AXP)

Updated October 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	11.2%	Volatility Percentile:	47.8%
Fair Value Price:	\$103	5 Year Growth Estimate:	9.7%	Momentum Percentile:	71.1%
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Growth Percentile:	88.0%
Dividend Yield:	1.5%	5 Year Price Target	\$164	Valuation Percentile:	49.8%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	65.6%

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 \$89 billion.

American Express has reported its third quarter earnings results on October 18. During the quarter American Express has produced revenues of \$10.1 billion, a 9.1% increase over the prior year's quarter. Higher billed business, a higher amount of loans, and a higher net interest yield were responsible for the attractive revenue growth rate. American Express' earnings-per-share grew by 25% year over year. Profits per share hit \$1.88. The high earnings-per-share growth rate was driven by higher revenues, as well as by lower taxes. American Express has raised its earnings-per-share guidance for 2018 to \$7.30-\$7.40. We have adjusted our estimate upwards accordingly.

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	\$7.35	\$11.68
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
Shares	1156	1171	1195	1184	1141	1089	1051	1003	935	886	850	760

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.

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 Q3 billed business growth was very solid at 10%, the highest level over the last year. 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 Q3. During 2018 American Express will also be positively impacted by tax law changes. Once 2018 has passed its EPS will not be driven by future tax rate declines, 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 American Express will likely be able to produce attractive EPS growth nevertheless.

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%	1.5%	1.5%

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American Express' shares trade perfectly in line with our fair value estimate today, as the price to earnings ratio is 14 based on the updated estimate for this year's earnings-per-share. We thus believe that share prices will move relatively in line with earnings-per-share growth going forward. American Express' dividend yield of 1.5% is below the broad market's yield, which means that American Express is not an attractive income investment, even though American Express has raised its dividend very consistently over the last couple of years. In addition, the company's low payout ratio allows it to earn a C rating for Dividend Safety, although its low yield prevents it from ranking higher than a D for Retirement Suitability.

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%	19.5%	19.7%
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%

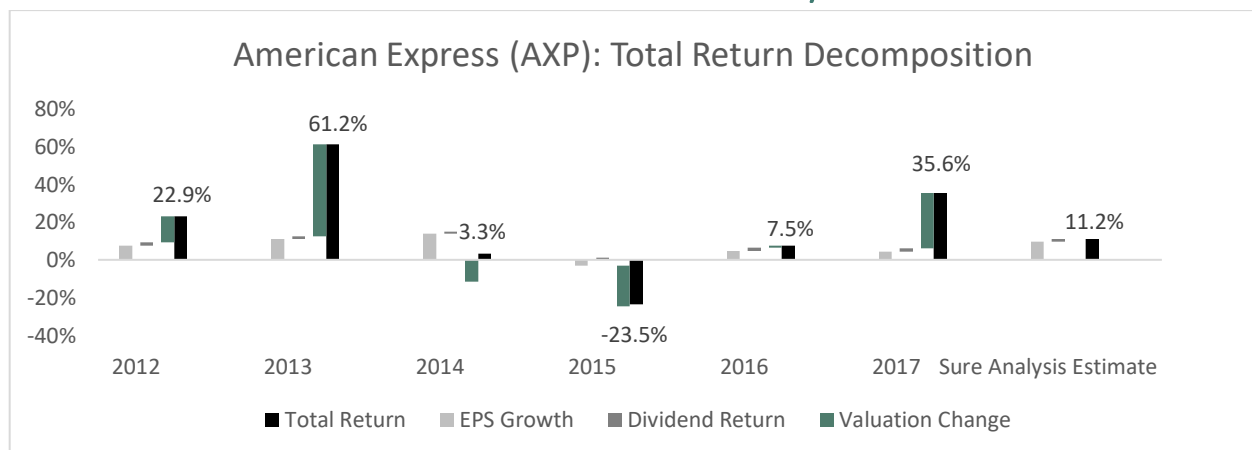
American Express is highly leveraged, which is not a surprise. The company's loan portfolio is financed via debt, as the company operates like a bank. American Express borrows money at low rates and lends it out at quite high rates, netting an interest margin of more than 10%, versus 2%-4% being usual numbers for banks. The higher net interest margins are based on the fact that American Express' loans are riskier than mortgages, which results in a higher charge-off rate.

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. Compared to other financial corporations American Express has still been relatively stable.

Final Thoughts & Recommendation

American Express was held back by the Costco co-branded portfolio sale a while back, but the company has gotten back on growth track since. Thanks to strong consumer spending and lower tax rates American Express will deliver highly compelling earnings growth during 2018. Going forward the earnings-per-share growth rate will come down a bit, but due to a combination of some revenue growth and ongoing buybacks American Express should still be able to deliver high-single digits total returns. Shares look like a buy for those seeking exposure to this industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	28365	24523	27582	29962	31555	25646	26435	24804	25411	24424
SG&A Exp.	13451	11547	14687	16560	16924	9509	9694	8430	9211	8751
D&A Exp.	712	1070	917	918	991	1020	1012	1043	1095	1321
Net Profit	2699	2130	4057	4935	4482	5359	5885	5163	5408	2736
Net Margin	9.5%	8.7%	14.7%	16.5%	14.2%	20.9%	22.3%	20.8%	21.3%	11.2%
Free Cash Flow	6796	5565	7851	8579	6029	7541	9795	9365	6916	12478
Income Tax	710	704	1907	2057	1969	2529	3106	2775	2688	4678

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	126.1	125.15	146.69	153.34	153.14	153.38	159.10	161.18	158.89	181.16
Cash & Equivalents	8128	16599	16356	24086	21912	18988	21818	22504	24057	32857
Acc. Receivable	36571	38204	40434	40452	42338	43777	44386	43671	46841	53526
Goodwill & Int.	N/A	N/A	N/A	4321	4174	4015	3878	3545	3795	3908
Total Liabilities	114.23	110.74	130.46	134.54	134.25	133.88	138.43	140.51	138.39	162.93
Accounts Payable	8428	9063	9691	10458	10006	10615	11300	11822	11190	14657
Long-Term Debt	75467	54682	69830	63784	62164	60112	61292	52844	52547	59059
Total Equity	11841	14406	16230	18794	18886	19496	20673	20673	20501	18227
D/E Ratio	6.37	3.80	4.30	3.39	3.29	3.08	2.96	2.56	2.56	3.24

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.0%	1.7%	3.0%	3.3%	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%
Return on Equity	23.6%	16.2%	26.5%	28.2%	23.8%	27.9%	29.3%	25.0%	26.3%	14.1%
ROIC	3.2%	2.7%	5.2%	5.9%	5.5%	6.7%	7.3%	6.6%	7.4%	3.6%
Shares Out.	1156	1171	1195	1184	1141	1089	1051	1003	935	886
Revenue/Share	24.54	20.94	23.08	25.31	27.66	23.55	25.15	24.73	27.18	27.57
FCF/Share	5.88	4.75	6.57	7.25	5.28	6.92	9.32	9.34	7.40	14.08

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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