



American Express (AXP)

Updated January 21st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	14.0%	Volatility Percentile:	30.2%
Fair Value Price:	\$114	5 Year Growth Estimate:	9.7%	Momentum Percentile:	62.6%
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.7%	Growth Percentile:	89.0%
Dividend Yield:	1.6%	5 Year Price Target	\$180	Valuation Percentile:	71.0%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	78.3%

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 trades with a market capitalization of \$86 billion.

American Express reported its fourth quarter and fiscal 2018 earnings results on January 17. The company generated revenues of \$10.5 billion during Q4, which was 7.9% more than the revenues that American Express recorded during the previous year's quarter. American Express was able to grow its revenues at a solid pace through a combination of growth from its consumer services and its commercial services group. Worldwide billed business growth, the main factor for American Express' revenue growth, remained at a solid level of 10%, although this represents a small deceleration versus the first three quarters of fiscal 2018. American Express was able to grow its earnings-per-share to \$1.74 during the fourth quarter, which represents a 10% growth rate versus the fourth quarter of fiscal 2017. Both American Express' revenues as well as its earnings-per-share were slightly lower than what the analyst community had forecasted. During all of fiscal 2018 American Express has nevertheless shown encouraging growth, as the company was able to grow its earnings-per-share by 24% compared to fiscal 2017. Earnings-per-share rose to a new record level of \$7.32.

American Express guides for earnings-per-share of \$7.85 to \$8.35 during fiscal 2019, which represents an earnings-per-share growth rate of 11% versus 2018. The company also sees revenues growing by 8%-10% year over year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.54	\$3.35	\$4.09	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.10	\$12.87
DPS	\$0.72	\$0.72	\$0.72	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.66	\$2.55
Shares	1171	1195	1184	1141	1089	1051	1003	935	886	859	835	750

American Express' profits declined during the last financial crisis, but over the last nine years its earnings-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 that took place during that time frame.

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 Q4 billed business growth remained solid at 10%. American Express also was able to grow its total loans by 13% year over year. The net interest yield remained at a high level of 10.7% during Q4.

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.

Fiscal 2018 included the positive impact of tax law changes, which is why earnings-per-share growth was outsized during the last four quarters. Going forward American Express will likely grow more in line with the long-term average.

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



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.5	12.4	11.6	12.7	15.0	16.2	14.5	11.3	14.4	13.0	12.3	14.0
Avg. Yld.	2.7%	1.7%	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	1.6%	1.6%	1.8%

American Express' shares have been valued at a low-to-mid-teens price to earnings multiple throughout most of the last decade, with the PE ratio ranging from 11.6 to 17.5 during those ten years. We believe that shares would be fairly valued at a price to earnings multiple of 14, which would be in line with the historic valuation. The current discount to fair value should add a nice boost to American Express' total returns over the coming years as multiples normalize.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	46.8%	21.5%	17.6%	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	20.2%	20.5%	19.8%

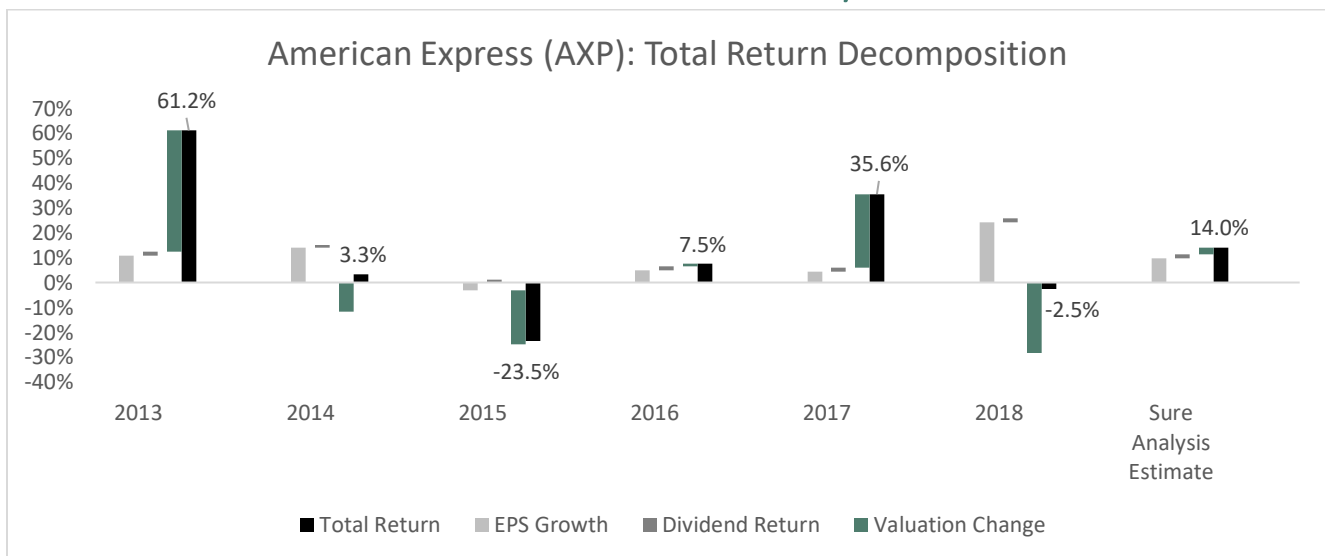
American Express' dividend payout ratio has been around 20% throughout most of the last decade, with 2009 being the sole outlier due to the below-average profitability during the financial crisis. Based on the low payout ratio American Express' dividend looks quite safe. Dividend growth will likely continue moving forward.

American Express' competition includes banks and peers such as Synchrony Financial. American Express' long history, strong brand, and the fact that it performed well during the last financial crisis are all reasons for customers to stick with the company. American Express' earnings-per-share declined by ~40% between 2008 and 2009. Compared to other financial corporations American Express has still been relatively stable during that crisis.

Final Thoughts & Recommendation

American Express is a high-quality company that produces consistent growth and that outperformed many of its peers during the last financial crisis. Its strong brand and global reach serve as competitive advantages. We believe that American Express will be able to produce solid earnings-per-share growth during the coming years, and total returns will also benefit from multiple expansion. Because of this, American Express earns a buy recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	24523	27582	29962	31555	25646	26435	24804	25411	24424	28865
SG&A Exp.	11547	14687	16560	16924	9509	9694	8430	9211	8751	11720
D&A Exp.	1070	917	918	991	1020	1012	1043	1095	1321	N/A
Net Profit	2130	4057	4935	4482	5359	5885	5163	5408	2736	6921
Net Margin	8.7%	14.7%	16.5%	14.2%	20.9%	22.3%	20.8%	21.3%	11.2%	24.0%
Free Cash Flow	5565	7851	8579	6029	7541	9795	9365	6916	12478	N/A
Income Tax	704	1907	2057	1969	2529	3106	2775	2688	4678	1201

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	125.15	146.69	153.34	153.14	153.38	159.10	161.18	158.89	181.16	189.00
Cash & Equivalents	16599	16356	24893	22250	19486	22288	22762	25208	32927	27000
Acc. Receivable	38204	40434	40452	42338	43777	44386	43671	46841	53526	55000
Goodwill & Int.	N/A	N/A	4321	4174	4015	3878	3545	3795	3908	N/A
Total Liab. (\$B)	110.74	130.46	134.54	134.25	133.88	138.43	140.51	138.39	162.93	167.00
Accounts Payable	9063	9691	10458	10006	10615	11300	11822	11190	14657	N/A
Long-Term Debt	54682	69830	65962	62696	60554	61939	53253	54802	61896	61000
Total Equity	14406	16230	18794	18886	19496	20673	20673	20501	18227	22000
D/E Ratio	3.80	4.30	3.51	3.32	3.11	3.00	2.58	2.67	3.40	2.77

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.7%	3.0%	3.3%	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%	3.7%
Return on Equity	16.2%	26.5%	28.2%	23.8%	27.9%	29.3%	25.0%	26.3%	14.1%	34.4%
ROIC	2.7%	5.2%	5.8%	5.4%	6.6%	7.2%	6.6%	7.2%	3.5%	8.5%
Shares Out.	1171	1195	1184	1141	1089	1051	1003	935	886	859
Revenue/Share	20.94	23.08	25.31	27.66	23.55	25.15	24.73	27.18	27.57	33.60
FCF/Share	4.75	6.57	7.25	5.28	6.92	9.32	9.34	7.40	14.08	N/A

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

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