



American Express (AXP)

Updated July 28th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$95	5 Year CAGR Estimate:	12.1%	Market Cap:	\$77B
Fair Value Price:	\$112	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/04/20 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	11/10/20 ²
Dividend Yield:	1.8%	5 Year Price Target	\$157	Years Of Dividend Growth:	8
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	10.3%

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, and is headquartered in New York, NY.

American Express reported its second quarter earnings results on July 24. The company generated revenues of \$7.7 billion during the quarter, which was 29% less than during the previous year's quarter. The revenue decline was based on lower transaction volumes, caused by the drop in consumer and business spending that was the result of the ongoing coronavirus crisis. At constant currency rates, American Express would have performed slightly better.

American Express was able to generate earnings-per-share to \$0.29 during the second quarter on a GAAP basis, the result of lower revenues and higher reserve builds. American Express' earnings-per-share still beat the analyst consensus, as analysts had forecasted a small net loss for the second quarter. American Express is preparing for the impact of the crisis through cost-cutting, and by increasing its provisions for loan losses to \$1.6 billion for the second quarter alone. 2020 will be a down year for American Express, but we forecast a recovery over the coming years, which is why we calculate fair value using an earnings power estimate of \$8.00 per share for the current year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.35	\$4.09	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.20	\$5.00	\$11.22
DPS	\$0.72	\$0.72	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.60	\$1.72	\$2.53
Shares³	1195	1184	1141	1089	1051	1003	935	886	859	830	810	750

American Express' profits declined during the last financial crisis, but over the last ten years its earnings-per-share still grew by an attractive 10% 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 growth in 2018 and 2019.

Billed business increases are a key factor for revenue growth for American Express, thus increased spending by cardholders is a good sign for American Express. During the last couple of years, billed business growth remained at a solid level of at least 6%, until the coronavirus started to impact consumer spending. American Express was able to grow its expenses at a slower pace than its revenues in the past, but we are unsure whether the company will be able to maintain that trend forever. American Express' margins might not grow further, which would mean that net earnings would grow more in line with revenues in the long run. Due to the impact of a strong pace of share repurchases, American Express will likely still be able to generate attractive earnings-per-share growth. American Express should remain profitable this year, but there will nevertheless be a hit to its profits. We use *earnings power* of \$8.00 per share as a metric that adjusts for the current crisis to determine future total returns.

¹ Estimated date

² Estimated date

³ In Millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.4	11.6	12.7	15.0	16.2	14.5	11.3	14.4	13.0	15.1	11.9	14.0
Avg. Yld.	1.7%	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	1.6%	1.3%	1.8%	1.6%

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 multiple ranging from 12 to 18 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. Right now, shares trade below that level based on the forecasted earnings power for the current year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	21.5%	17.6%	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	20.2%	19.5%	21.5%	22.5%

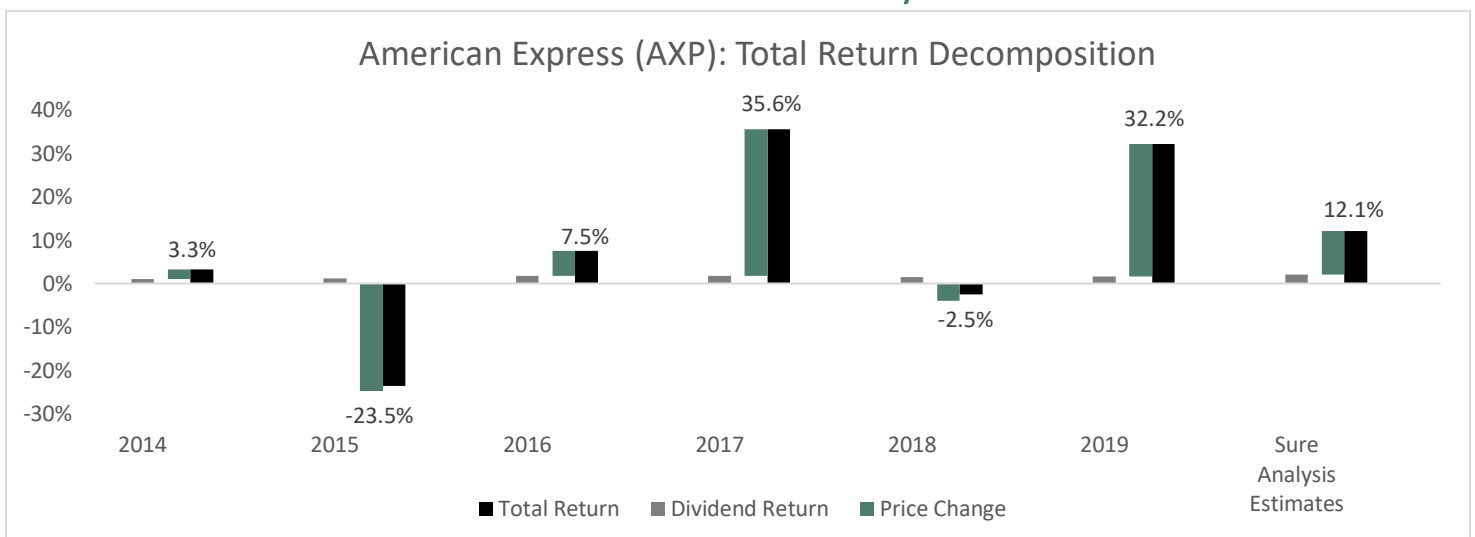
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio will rise above that level during 2020 on a reported-earnings basis. Based on the low payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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 compared to its peers, are all reasons for customers to stick with the company. American Express' earnings-per-share declined by ~40% between 2008 and 2009. Compared to many other financial corporations, American Express was not overly vulnerable during that crisis.

Final Thoughts & Recommendation

Credit card company American Express is a quality name that combines consistent earnings and dividend growth with a recession performance that was much better than that of its peers. 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, once the economy and the company have recovered from the coronavirus crisis. There could be volatility ahead, as it is not yet known what credit charge-offs may look like, but we believe that, based on underlying earnings power, American Express will generate strong returns in the long run, which is why we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	27582	29962	31555	25646	26435	24804	27737	26799	28865	30895
SG&A Exp.	14687	16560	16924	9509	9694	8430	11508	10980	11720	13025
D&A Exp.	917	918	991	1020	1012	1043	1095	1321	1293	1188
Net Profit	4057	4935	4482	5359	5885	5163	5375	2748	6921	6759
Net Margin	14.7%	16.5%	14.2%	20.9%	22.3%	20.8%	19.4%	10.3%	24.0%	21.9%
Free Cash Flow	7851	8579	6029	7541	9795	9365	6916	12478	7620	11987
Income Tax	1907	2057	1969	2529	3106	2775	2667	4677	1201	1670

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	146689	153337	153140	153375	159103	161184	158893	181196	188602	198321
Cash & Equivalents	16356	24893	22250	19486	22288	22762	25208	32927	27445	23932
Acc. Receivable	40434	40452	42338	43777	44386	43671	46841	53526	55320	56794
Goodwill & Int.		4321	4174	4015	3878	3545	3795	3908	3347	3582
Total Liab. (\$B)	130459	134543	134254	133879	138430	140511	138392	162935	166312	175250
Accounts Payable	9691	10458	10006	10615	11300	11822	11190	14657	12255	12738
Long-Term Debt	69830	65962	62696	60554	61939	53253	54802	61896	61504	64252
Total Equity	16230	18794	18886	19496	20673	20673	20501	18261	22290	23071
D/E Ratio	4.30	3.51	3.32	3.11	3.00	2.58	2.67	3.39	2.76	2.79

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.0%	3.3%	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%	3.7%	3.5%
Return on Equity	26.5%	28.2%	23.8%	27.9%	29.3%	25.0%	26.1%	14.2%	34.1%	29.8%
ROIC	5.2%	5.8%	5.4%	6.6%	7.2%	6.6%	7.2%	3.5%	8.4%	7.9%
Shares Out.	1195	1184	1141	1089	1051	1003	935	886	859	830
Revenue/Share	23.08	25.31	27.66	23.55	25.15	24.73	29.67	30.25	33.60	37.22
FCF/Share	6.57	7.25	5.28	6.92	9.32	9.34	7.40	14.08	8.87	14.44

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

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