



# American Express (AXP)

Updated April 25<sup>th</sup>, 2021 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$144	<b>5 Year CAGR Estimate:</b>	1.2%	<b>Market Cap:</b>	\$116B
<b>Fair Value Price:</b>	\$101	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	07/04/21 <sup>1</sup>
<b>% Fair Value:</b>	142%	<b>5 Year Valuation Multiple Estimate:</b>	-6.8%	<b>Dividend Payment Date:</b>	08/10/21 <sup>2</sup>
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$142	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 first quarter earnings results on April 23. The company generated revenues of \$9.1 billion during the quarter, which was 12% 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. The revenue decline was less pronounced compared to the previous quarter, however.

American Express was able to generate earnings-per-share to \$2.74 during the first quarter on a GAAP basis, up year over year, and also up quite a lot on a sequential basis. American Express' earnings-per-share beat the analyst consensus easily, as analysts had forecasted net profits of just \$1.61 per share. American Express benefited from a provision for loan losses release during the quarter, which had a positive impact on reported net profits. 2020 was a down year for American Express, but we forecast a recovery over the coming years. American Express is forecasting earnings per share of \$6.00 to \$7.50 for the current year, and further increases in 2022 and beyond.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$4.09	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.20	\$3.77	<b>\$6.75</b>	<b>\$9.47</b>
<b>DPS</b>	\$0.72	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.60	\$1.72	<b>\$1.72</b>	<b>\$2.53</b>
<b>Shares<sup>3</sup></b>	1184	1141	1089	1051	1003	935	886	859	830	806	<b>800</b>	<b>750</b>

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 got 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 remained profitable in 2020, but there nevertheless was a hit to its profits. We believe that American Express' profitability will improve meaningfully in 2021 and that we will see further earnings growth in coming years.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> In Millions

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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.6	12.7	15.0	16.2	14.5	11.3	14.4	13.0	15.1	31.6	<b>21.3</b>	<b>15.0</b>
Avg. Yld.	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	1.6%	1.3%	1.4%	<b>1.2%</b>	<b>1.8%</b>

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, backing out 2020. We believe that shares would be fairly valued at a price to earnings multiple of 15, which would be in line with the historic valuation. Right now, shares trade above that level based on the forecasted earnings-per-share for the current year.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	17.6%	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	20.2%	19.5%	45.6%	<b>25.5%</b>	<b>26.7%</b>

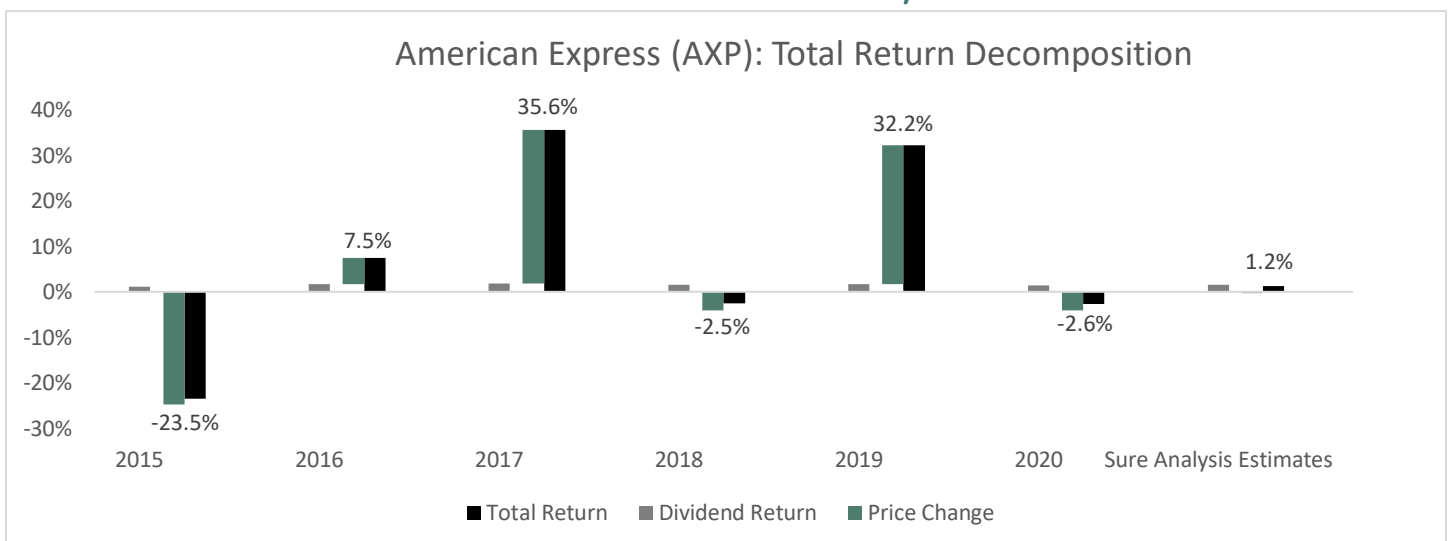
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio rose above that level during 2020 on a reported-earnings basis. Based on the low dividend payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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 roughly half between 2008 and 2009. Compared to many other financial corporations, American Express was not too 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 many 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. We believe that, based on our current total return forecast, American Express will not generate attractive returns, though, which is why we rate the stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	29962	31555	32103	33366	31800	35556	35486	38561	41333	34857
<b>SG&amp;A Exp.</b>	16182	16541	9130	9311	8085	11508	10980	11727	13036	12465
<b>D&amp;A Exp.</b>	918	991	1020	1012	1043	1095	1321	1293	1188	1543
<b>Net Profit</b>	4935	4482	5359	5885	5163	5375	2748	6921	6759	3135
<b>Net Margin</b>	16.5%	14.2%	16.7%	17.6%	16.2%	15.1%	7.7%	17.9%	16.4%	9.0%
<b>Free Cash Flow</b>	8579	6029	7541	9795	9365	6916	12478	7620	11987	4113
<b>Income Tax</b>	2057	1969	2529	3106	2775	2667	4677	1201	1670	1161

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	153337	153140	153375	159103	161184	158893	181196	188602	198321	191367
<b>Cash &amp; Equivalents</b>	24893	22250	19486	22288	22721	25093	32879	27381	24359	32873
<b>Acc. Receivable</b>	40452	42338	43777	44386	43671	46841	53526	55320	56794	43434
<b>Goodwill &amp; Int.</b>	4321	4174	4015	3878	3545	3795	3908	3347	3582	4117
<b>Total Liab.</b>	134543	134254	133879	138430	140511	138392	162935	166312	175250	168383
<b>Accounts Payable</b>	10458	10006	10615	11300	11822	11190	14657	12255	12738	9444
<b>Long-Term Debt</b>	63784	62169	60242	61404	52844	52547	59059	61504	64252	44813
<b>Total Equity</b>	18794	18886	19496	20673	20673	20501	18261	22290	23071	22984
<b>D/E Ratio</b>	3.39	3.29	3.09	2.97	2.56	2.56	3.23	2.76	2.79	1.95

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	3.3%	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%	3.7%	3.5%	1.6%
<b>Return on Equity</b>	28.2%	23.8%	27.9%	29.3%	25.0%	26.1%	14.2%	34.1%	29.8%	13.6%
<b>ROIC</b>	5.9%	5.5%	6.7%	7.3%	6.6%	7.3%	3.7%	8.6%	7.9%	4.0%
<b>Shares Out.</b>	1184	1141	1089	1051	1003	935	886	859	830	806
<b>Revenue/Share</b>	25.31	27.66	29.48	31.75	31.70	38.03	40.05	44.89	49.80	43.25
<b>FCF/Share</b>	7.25	5.28	6.92	9.32	9.34	7.40	14.08	8.87	14.44	5.10

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

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