



American Express (AXP)

Updated October 22nd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$188	5 Year CAGR Estimate:	0.7%	Market Cap:	\$148 B
Fair Value Price:	\$131	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/04/22 ¹
% Fair Value:	143%	5 Year Valuation Multiple Estimate:	-6.9%	Dividend Payment Date:	02/10/21
Dividend Yield:	0.9%	5 Year Price Target	\$184	Years Of Dividend Growth:	9
Dividend Risk Score:	A	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 third quarter earnings results on October 22. The company generated revenues of \$10.9 billion during the quarter, which was 25% more than during the previous year's quarter. The revenue increase was based on a recovery for American Express' business compared to the previous year's quarter, where the pandemic had a large negative impact on card holder spending. Revenues were also up sequentially, and they beat estimates by \$400 million.

American Express was able to generate earnings-per-share to \$2.27 during the third quarter on a GAAP basis, which was up by a highly attractive 75% year over year. American Express' earnings-per-share beat the analyst consensus easily, as analysts had forecasted net profits of just \$1.77 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 steep recovery in 2021 and beyond. American Express is forecasted to earn about \$8.75 this year on a per-share basis, and it seems likely that earnings-per-share will recover further in 2022 and beyond.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.09	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.20	\$3.77	\$8.75	\$12.27
DPS	\$0.72	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.60	\$1.72	\$1.72	\$2.53
Shares²	1184	1141	1089	1051	1003	935	886	859	830	806	790	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 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.

¹ Estimated date

² 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	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	21.5	15.0
Avg. Yld.	1.5%	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	1.6%	1.3%	1.4%	0.9%	1.4%

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 well 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%	19.7%	20.6%

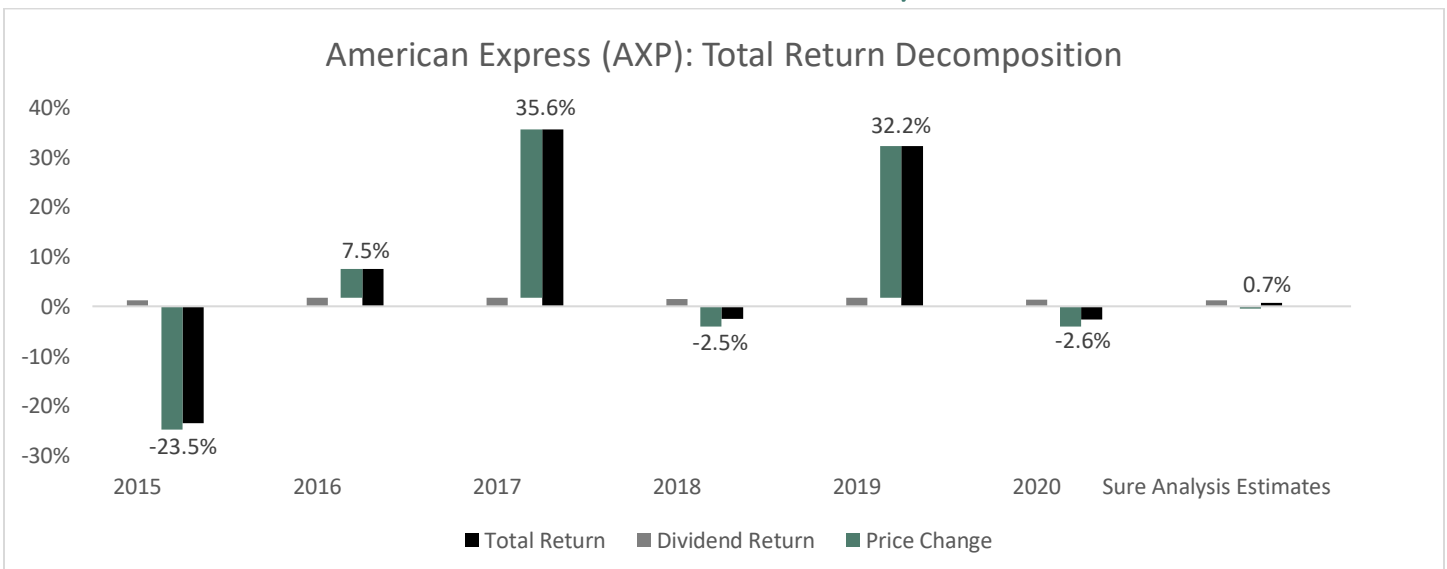
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio rose above that level during 2020 on a reported-earnings basis. Based on the low dividend payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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. We believe that American Express will not generate attractive returns, which is why we rate the stock a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	153337	153140	153375	159103	161184	158893	181196	188602	198321	191367
Cash & Equivalents	24893	22250	19486	22288	22721	25093	32879	27381	24359	32873
Acc. Receivable	40452	42338	43777	44386	43671	46841	53526	55320	56794	43434
Goodwill & Int.	4321	4174	4015	3878	3545	3795	3908	3347	3582	4117
Total Liab.	134543	134254	133879	138430	140511	138392	162935	166312	175250	168383
Accounts Payable	10458	10006	10615	11300	11822	11190	14657	12255	12738	9444
Long-Term Debt	63784	62169	60242	61404	52844	52547	59059	61504	64252	44813
Total Equity	18794	18886	19496	20673	20673	20501	18261	22290	23071	22984
D/E Ratio	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
Return on Assets	3.3%	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%	3.7%	3.5%	1.6%
Return on Equity	28.2%	23.8%	27.9%	29.3%	25.0%	26.1%	14.2%	34.1%	29.8%	13.6%
ROIC	5.9%	5.5%	6.7%	7.3%	6.6%	7.3%	3.7%	8.6%	7.9%	4.0%
Shares Out.	1184	1141	1089	1051	1003	935	886	859	830	806
Revenue/Share	25.31	27.66	29.48	31.75	31.70	38.03	40.05	44.89	49.80	43.25
FCF/Share	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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