



American Express (AXP)

Updated January 28th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$176	5 Year CAGR Estimate:	3.6%	Market Cap:	\$130 B
Fair Value Price:	\$142	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	04/04/22 ¹
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	05/10/22 ²
Dividend Yield:	1.0%	5 Year Price Target	\$199	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 fourth quarter earnings results on January 25. The company generated revenues of \$12.2 billion during the quarter, which was 30% 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 \$600 million.

American Express was able to generate earnings-per-share to \$2.18 during the fourth quarter on a GAAP basis, which was up by an attractive 24% year over year. American Express' earnings-per-share beat the analyst consensus easily, as analysts had forecasted net profits of just \$1.84 per share. American Express forecasts that profits will continue to rise in the current year on an adjusted basis. On an unadjusted basis, 2021 was a record year due to a large reserve release, which will not occur again, which is why profits, on a GAAP basis, will be down in 2022. American Express is forecasted to earn \$9.25 to \$9.65 on a per-share basis in fiscal 2022 on the back of a high-teens revenue growth rate.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.40	\$4.88	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.20	\$3.77	\$10.02	\$9.45	\$13.25
DPS	\$0.78	\$0.86	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.60	\$1.72	\$1.72	\$1.72	\$2.53
Shares³	1141	1089	1051	1003	935	886	859	830	806	790	770	720

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 Estimated date

³ In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.7	15.0	16.2	14.5	11.3	14.4	13.0	15.1	31.6	16.4	18.6	15.0
Avg. Yld.	1.4%	1.2%	1.1%	1.4%	1.9%	1.5%	1.6%	1.3%	1.4%	1.0%	1.0%	1.3%

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17.7%	17.6%	17.6%	20.4%	21.6%	22.2%	20.2%	19.5%	45.6%	17.2%	18.2%	19.1%

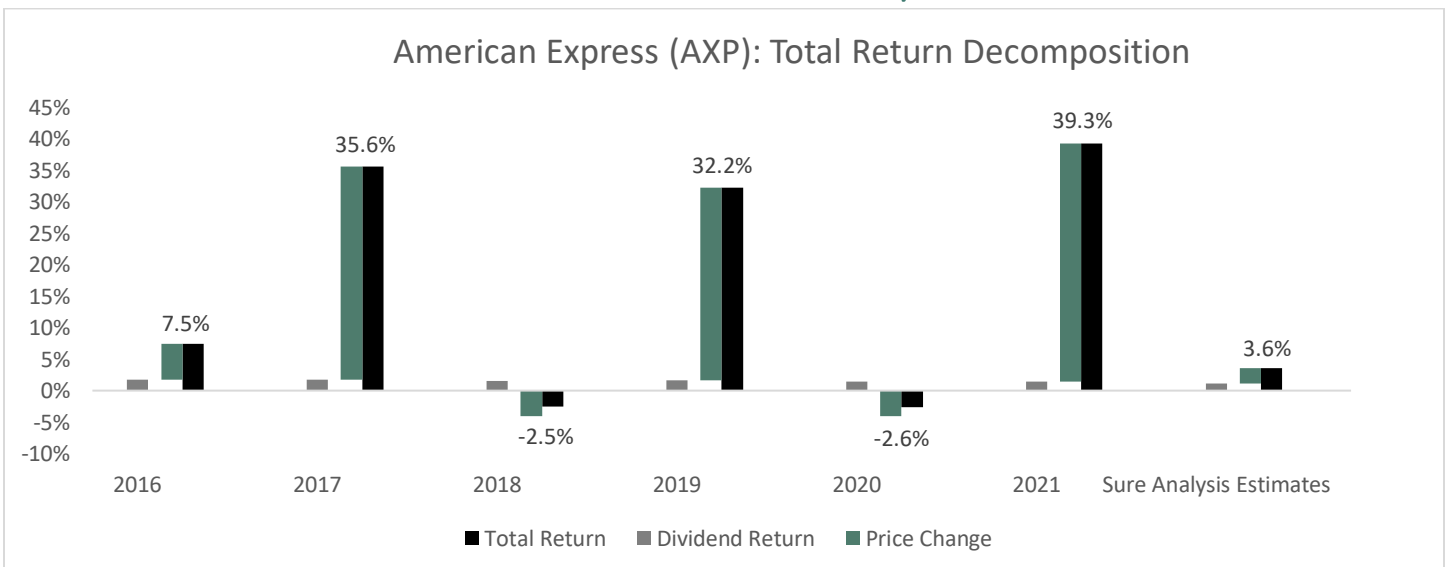
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio rose above that level during 2020 on a reported-earnings basis. Based on the low dividend payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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 as the economy and the company recover 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	31555	32866	33444	32757	36656	36878	40315	43556	36087	42380
SG&A Exp.	16541	9130	9311	8085	11508	10980	11727	13036	12465	15293
D&A Exp.	991	1020	1012	1043	1095	1321	1293	1188	1543	
Net Profit	4482	5359	5885	5163	5375	2748	6921	6759	3135	8060
Net Margin	14.2%	16.3%	17.6%	15.8%	14.7%	7.5%	17.2%	15.5%	8.7%	19.0%
Free Cash Flow	6029	7541	9795	9365	6916	12478	7620	11987	4113	
Income Tax	1969	2529	3106	2775	2667	4677	1201	1670	1161	2629

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	153140	153375	159103	161184	158893	181196	188602	198321	191367	189000
Cash & Equivalents	22250	19486	22288	22721	25093	32879	27381	24274	32826	22000
Goodwill & Int.	4174	4015	3878	3545	3795	3908	3347	3582	4117	
Total Liab.	134254	133879	138430	140511	138392	162935	166312	175250	168383	167000
Accounts Payable	10006	10615	11300	11822	11190	14657	12255	12738	9444	
Long-Term Debt	62169	60242	61404	52844	52547	59059	61504	64252	44813	41000
Total Equity	18886	19496	20673	20673	20501	18261	22290	23071	22984	22000
LTD/E Ratio	3.29	3.09	2.97	2.56	2.56	3.23	2.76	2.79	1.95	1.86

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.5%	3.8%	3.2%	3.4%	1.6%	3.7%	3.5%	1.6%	4.2%
Return on Equity	23.8%	27.9%	29.3%	25.0%	26.1%	14.2%	34.1%	29.8%	13.6%	35.8%
ROIC	5.5%	6.7%	7.3%	6.6%	7.3%	3.7%	8.6%	7.9%	4.0%	12.3%
Shares Out.	1141	1089	1051	1003	935	886	859	830	806	790
Revenue/Share	27.66	30.18	31.82	32.66	39.20	41.62	46.93	52.48	44.77	53.65
FCF/Share	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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