



# American Express (AXP)

Updated October 24<sup>th</sup>, 2023 by Jonathan Weber

## Key Metrics

|                             |       |  |       |                                  |                       |
|-----------------------------|-------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$144 | <b>5 Year CAGR Estimate:</b>               | 11.7% | <b>Market Cap:</b>               | \$105B                |
| <b>Fair Value Price:</b>    | \$168 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 01/06/24 <sup>1</sup> |
| <b>% Fair Value:</b>        | 86%   | <b>5 Year Valuation Multiple Estimate:</b> | 3.1%  | <b>Dividend Payment Date:</b>    | 02/10/24 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 1.7%  | <b>5 Year Price Target</b>                 | \$236 | <b>Years Of Dividend Growth:</b> | 2                     |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Buy                   |

## 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 20. The company generated revenues of \$15.4 billion during the quarter, which was 13% 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, with increased international travel being a tailwind for the company. Revenues were up sequentially, and they beat estimates slightly.

American Express was able to generate earnings-per-share to \$3.30 during the third quarter on a GAAP basis, which was up 34% year over year. American Express' earnings-per-share beat the analyst consensus, as analysts had forecasted net profits of \$2.94 per share. American Express forecasts that revenues will grow at an attractive pace in the current year, currently forecasting full-year revenue growth of around 16%. 2022 was slightly weaker than 2021 due to not benefitting from a reserve release. According to management's guidance, 2023 will be a new record year, with earnings-per-share being forecasted at \$11.00 to \$11.40 right now.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021    | 2022   | 2023           | 2028           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|----------------|----------------|
| <b>EPS</b>                | \$4.88 | \$5.56 | \$5.39 | \$5.65 | \$5.89 | \$7.32 | \$8.20 | \$3.77 | \$10.02 | \$9.85 | <b>\$11.20</b> | <b>\$15.71</b> |
| <b>DPS</b>                | \$0.86 | \$0.98 | \$1.10 | \$1.22 | \$1.31 | \$1.48 | \$1.60 | \$1.72 | \$1.72  | \$2.08 | <b>\$2.40</b>  | <b>\$3.53</b>  |
| <b>Shares<sup>3</sup></b> | 1089   | 1051   | 1003   | 935    | 886    | 859    | 830    | 806    | 790     | 752    | <b>720</b>     | <b>650</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 2023 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      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 15.0 | 16.2 | 14.5 | 11.3 | 14.4 | 13.0 | 15.1 | 31.6 | 16.4 | 15.0 | 12.9 | 15.0 |
| Avg. Yld. | 1.2% | 1.1% | 1.4% | 1.9% | 1.5% | 1.6% | 1.3% | 1.4% | 1.0% | 1.4% | 1.7% | 1.5% |

American Express' shares have been valued at a low-to-mid-teens price to earnings multiple throughout much 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 below our fair value earnings multiple, following a share price decline since our last update.

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

| Year   | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2028  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 17.6% | 17.6% | 20.4% | 21.6% | 22.2% | 20.2% | 19.5% | 45.6% | 17.2% | 21.1% | 21.4% | 22.4% |

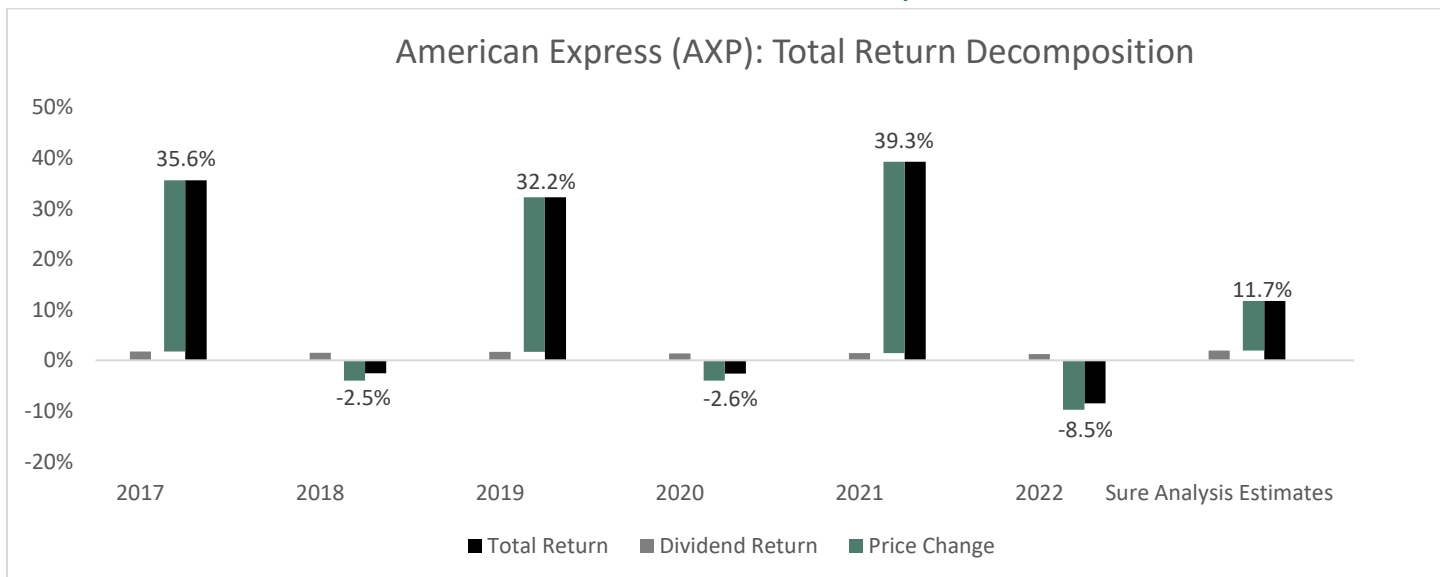
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio rose above that level during 2020 on a reported-earnings basis. Based on the low dividend payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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 in the long run between some business growth and the impact of share repurchases. We believe that American Express's total returns will be attractive going forward, which is why we rate the stock a buy at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year           | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue        | 32866 | 33444 | 32757 | 36656 | 36878 | 40315 | 43556 | 36087 | 43147 | 52560 |
| SG&A Exp.      | 9130  | 9311  | 8085  | 11508 | 10980 | 11727 | 13036 | 12465 | 15293 | 12710 |
| D&A Exp.       | 1020  | 1012  | 1043  | 1095  | 1321  | 1293  | 1188  | 1543  | 1695  | 1626  |
| Net Profit     | 5359  | 5885  | 5163  | 5375  | 2748  | 6921  | 6759  | 3135  | 8060  | 7514  |
| Net Margin     | 16.3% | 17.6% | 15.8% | 14.7% | 7.5%  | 17.2% | 15.5% | 8.7%  | 18.7% | 14.3% |
| Free Cash Flow | 7541  | 9795  | 9365  | 6916  | 12478 | 7620  | 11987 | 4113  | 13095 | 19224 |
| Income Tax     | 2529  | 3106  | 2775  | 2667  | 4677  | 1201  | 1670  | 1161  | 2629  | 2071  |

## Balance Sheet Metrics

| Year               | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets       | 153375 | 159103 | 161184 | 158893 | 181196 | 188602 | 198321 | 191367 | 188548 | 228354 |
| Cash & Equivalents | 19486  | 22288  | 22721  | 25093  | 32879  | 27381  | 24274  | 32826  | 21522  | 33537  |
| Goodwill & Int.    | 4015   | 3878   | 3545   | 3795   | 3908   | 3347   | 3582   | 4117   | 4005   | 3932   |
| Total Liab.        | 133879 | 138430 | 140511 | 138392 | 162935 | 166312 | 175250 | 168383 | 166371 | 203643 |
| Accounts Payable   | 10615  | 11300  | 11822  | 11190  | 14657  | 12255  | 12738  | 9444   | 10574  | 12133  |
| Long-Term Debt     | 60242  | 61404  | 52844  | 52547  | 59059  | 61504  | 64252  | 44813  | 40904  | 43918  |
| Total Equity       | 19496  | 20673  | 20673  | 20501  | 18261  | 22290  | 23071  | 22984  | 22177  | 24711  |
| LTD/E Ratio        | 3.09   | 2.97   | 2.56   | 2.56   | 3.23   | 2.76   | 2.79   | 1.95   | 1.84   | 1.78   |

## Profitability & Per Share Metrics

| Year             | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 3.5%  | 3.8%  | 3.2%  | 3.4%  | 1.6%  | 3.7%  | 3.5%  | 1.6%  | 4.2%  | 3.6%  |
| Return on Equity | 27.9% | 29.3% | 25.0% | 26.1% | 14.2% | 34.1% | 29.8% | 13.6% | 35.7% | 32.1% |
| ROIC             | 6.7%  | 7.3%  | 6.6%  | 7.3%  | 3.7%  | 8.6%  | 7.9%  | 4.0%  | 12.3% | 11.4% |
| Shares Out.      | 1089  | 1051  | 1003  | 935   | 886   | 859   | 830   | 806   | 790   | 752   |
| Revenue/Share    | 30.18 | 31.82 | 32.66 | 39.20 | 41.62 | 46.93 | 52.48 | 44.77 | 54.62 | 69.89 |
| FCF/Share        | 6.92  | 9.32  | 9.34  | 7.40  | 14.08 | 8.87  | 14.44 | 5.10  | 16.58 | 25.56 |

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

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