



American Express (AXP)

Updated January 29th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$201	5 Year CAGR Estimate:	7.5%	Market Cap:	\$148B
Fair Value Price:	\$194	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	04/06/24 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	05/10/24 ²
Dividend Yield:	1.4%	5 Year Price Target	\$271	Years Of Dividend Growth:	3
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 26. The company generated revenues of \$15.8 billion during the quarter, which was 11% more than during the previous year's quarter. The revenue increase was based on the ongoing 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, but they missed estimates slightly.

American Express was able to generate earnings-per-share to \$2.62 during the fourth quarter on a GAAP basis, which was up 27% year over year. American Express' earnings-per-share missed the analyst consensus, as analysts had forecasted net profits of \$2.63 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 10%. 2022 was slightly weaker than 2021 due to the company not benefitting from a reserve release, but 2023 was a new record year for the company. According to management's guidance, 2024 will be another record year, with earnings-per-share of \$12.65 to \$13.15.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.56	\$5.39	\$5.65	\$5.89	\$7.32	\$8.20	\$3.77	\$10.02	\$9.85	\$11.21	\$12.90	\$18.09
DPS	\$0.98	\$1.10	\$1.22	\$1.31	\$1.48	\$1.60	\$1.72	\$1.72	\$2.08	\$2.40	\$2.80	\$4.11
Shares³	1051	1003	935	886	859	830	806	790	752	735	720	650

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 2024 and that we will see further earnings growth in coming years.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.2	14.5	11.3	14.4	13.0	15.1	31.6	16.4	15.0	16.8	15.6	15.0
Avg. Yld.	1.1%	1.4%	1.9%	1.5%	1.6%	1.3%	1.4%	1.0%	1.4%	1.3%	1.4%	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 slightly above our fair value earnings multiple, following a share price increase since our last update.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17.6%	20.4%	21.6%	22.2%	20.2%	19.5%	45.6%	17.2%	21.1%	21.4%	21.7%	22.7%

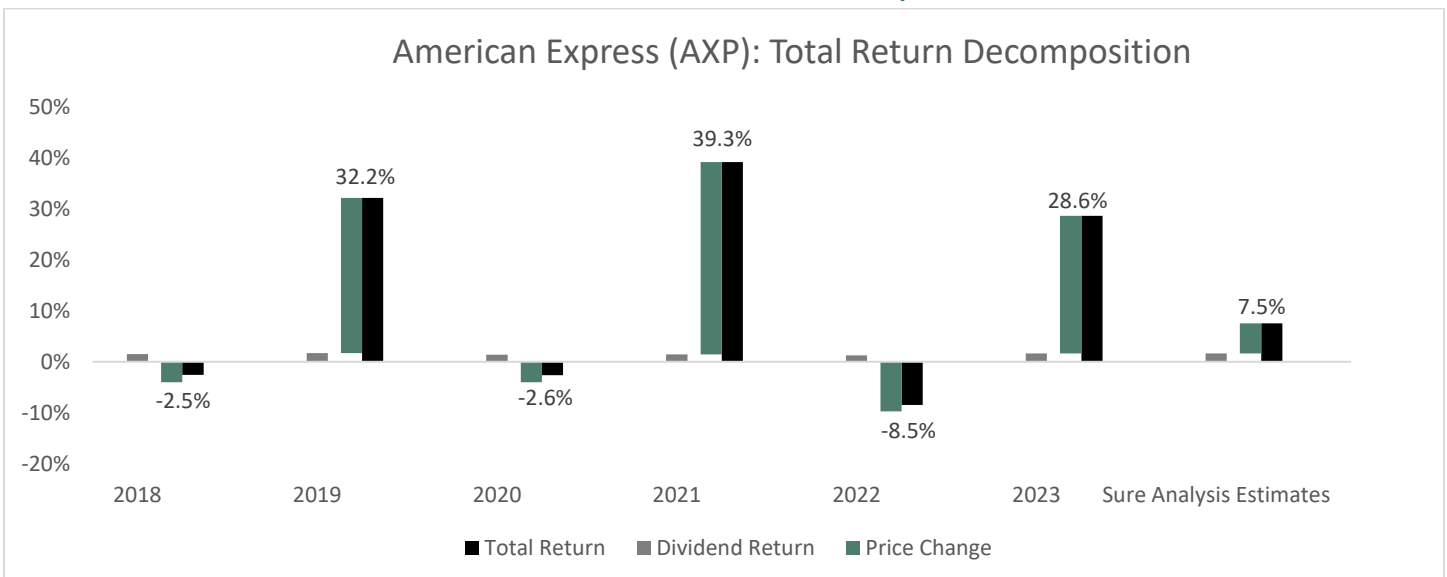
American Express' dividend payout ratio has been around 20% throughout more than a decade, although the payout ratio rose above that level during 2020 on a reported-earnings basis. Based on the low dividend payout ratio, American Express' dividend looks quite safe. Dividend growth will most likely continue 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 appealing 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 solid going forward, which is why we rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	33444	32757	36656	36878	40315	43633	36239	43147	52560	60515
SG&A Exp.	9311	8085	11508	10980	11727	13036	9414	11531	12710	13280
D&A Exp.	1012	1043	1095	1321	1293	1188	1543	1695	1626	
Net Profit	5885	5163	5375	2748	6921	6759	3135	8060	7514	8374
Net Margin	17.6%	15.8%	14.7%	7.5%	17.2%	15.5%	8.7%	18.7%	14.3%	13.8%
Free Cash Flow	9795	9365	6916	12478	7620	11987	4113	13095	19224	
Income Tax	3106	2775	2667	4677	1201	1670	1161	2629	2071	2139

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	159	161	159	181	189	198	191	189	228	261
Cash & Equivalents	22288	22721	25093	32879	27381	24274	32826	21522	33537	47000
Goodwill & Int.	3878	3545	3795	3908	3347	3582	4117	4005	3932	
Total Liab. (\$B)	138	141	138	163	166	175	168	166	204	233
Accounts Payable	11300	11822	11190	14657	12255	12738	9444	10574	12133	
Long-Term Debt	61404	52844	52547	59059	61504	64252	44813	40904	43918	49000
Total Equity	20673	20673	20501	18261	22290	23071	22984	22177	24711	28000
LTD/E Ratio	2.97	2.56	2.56	3.23	2.76	2.79	1.95	1.84	1.78	1.75

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	3.2%	3.4%	1.6%	3.7%	3.5%	1.6%	4.2%	3.6%	3.4%
Return on Equity	29.3%	25.0%	26.1%	14.2%	34.1%	29.8%	13.6%	35.7%	32.1%	31.8%
ROIC	7.3%	6.6%	7.3%	3.7%	8.6%	7.9%	4.0%	12.3%	11.4%	11.5%
Shares Out.	1051	1003	935	886	859	830	806	790	752	735
Revenue/Share	31.82	32.66	39.20	41.62	46.93	52.57	44.96	54.62	69.89	82.22
FCF/Share	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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