

American Express (AXP)

\$103.26 (As of 08/11/20)

Price Target (6-12 Months): **\$108.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

American Express' earnings of 29 cents per share beat the Zacks Consensus Estimate by 123% but plunged 86% year over year. The quarter also reflected softness in spending volumes as a result of the adverse COVID-19 impact. American Express' strategic initiatives will help it achieve growth and recover from the current bleak market environment. A decline in marketing expenses and card member service is likely to boost margins. Its shares have underperformed its industry year to date. Nevertheless, maintenance of sufficient capital will provide flexibility to support business growth. However, due to the COVID-19 outbreak, American Express is witnessing lower spending volumes, which are likely to hurt its full-year operating performance. Drained profitability might continue, given the adverse operating scenario.

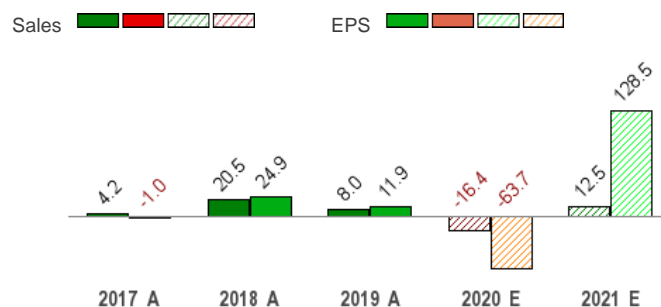
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.13 - \$67.00
20 Day Average Volume (sh)	3,772,505
Market Cap	\$83.1 B
YTD Price Change	-17.1%
Beta	1.09
Dividend / Div Yld	\$1.72 / 1.7%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 21% (201 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	123.1%
Last Sales Surprise	-2.9%
EPS F1 Est- 4 week change	-4.8%
Expected Report Date	10/16/2020
Earnings ESP	0.0%
P/E TTM	16.2
P/E F1	34.7
PEG F1	3.3
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,858 E	9,778 E	10,479 E	11,272 E	40,952 E
2020	10,310 A	7,675 A	8,802 E	9,655 E	36,392 E
2019	10,364 A	10,838 A	10,989 A	11,365 A	43,556 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.37 E	\$1.62 E	\$2.04 E	\$2.27 E	\$6.81 E
2020	\$1.98 A	\$0.29 A	\$1.27 E	\$1.25 E	\$2.98 E
2019	\$2.01 A	\$2.07 A	\$2.08 A	\$2.03 A	\$8.20 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

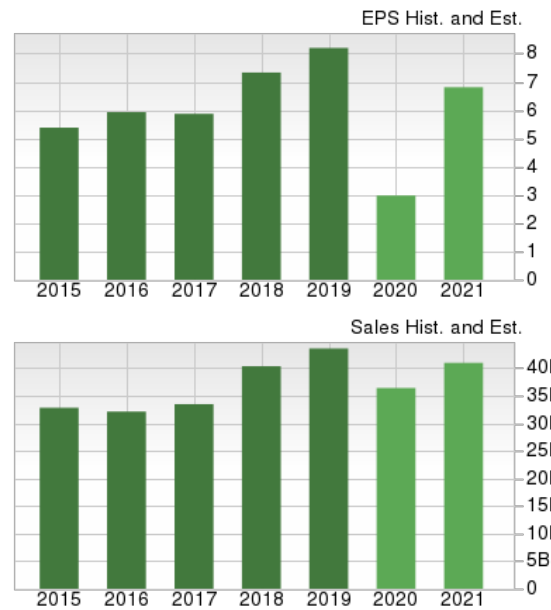
Overview

Founded in 1850, NY-based American Express Company is a diversified financial services company, offering charge and credit payment card products, and travel-related services worldwide. American Express and its main subsidiary – American Express Travel Related Services Company, Inc. ("TRS") – are bank holding companies under the Bank Holding Company Act of 1956. The company offers business travel-related services through its non-consolidated joint venture, American Express Global Business Travel (the GBT JV).

The company's range of products and services include charge card, credit card and other payment and financing products; Merchant acquisition and processing, servicing and settlement, and point-of-sale marketing and information products and services for merchants; Network services; other fee services, including fraud prevention services and the design and operation of customer loyalty programs; Expense management products and services and Travel-related services.

The company's reporting segments are as follows:

- **Global Consumer Services Group (GCSG)**, (53% of 2019 total net revenues) including proprietary consumer cards globally, consumer services including travel services and non-card financing products, certain international joint ventures and the company's partnership agreements in China;
- **Global Commercial Services (GCS)**, (31%) offers a wide range of card and payment programs, expense management tools, consulting services, business financing and cross-border payments solutions to small businesses, mid-size companies and large corporations around the world.
- **Global Merchant and Network Services (GMNS)**, (16%) operate a global payments network that processes and settles card transactions, acquires merchants and provides fraud-prevention tools, marketing solutions, data analytics and other programs and services to merchants that leverage the capabilities of the company's integrated network.



Reasons To Buy:

▲ **Share Price Movement:** American Express' shares have underperformed its industry year to date. Nevertheless, its progress on fundamentals is likely to drive the stock's steady performance in the quarters ahead.

▲ **Decrease in Marketing Expense:** The company has been witnessing increase in marketing and business development expenses for a while now with a 13% rise in 2018 and a further 10% jump in 2019 due to higher spending on growth initiatives including new card acquisition, global brand campaign, continued investments in co-brand partnerships and higher corporate client incentives.

However, for now, given the COVID-19 fallout, the company halted traditional advertising, marketing, sponsorships and customer-acquisition activities. It is also slowing down the development launches of some products that the company had in pipeline this year. This will decline marketing expenses in the current year, which were down 22% in the first six months of 2020, aiding margins in the process, especially at a time when revenue growth is hard to achieve.

▲ **Decrease in Card Member Services and Card Member Rewards:** The company has been experiencing a rise in Reward expenses and card member services for the past many years. These two categories constitute nearly 40% of the company total expenses. However, these expenses declined in the first half of 2020. While card member rewards fell due to decrease in billed business, card member services were down due to decrease in usage of travel-related benefits following the COVID-19-related travel restrictions. This decline in card member rewards and card member services is expected to continue for some time now, given the uncertainty related to COVID-19, which will continue to minimize billed business and travel. A decline in the expense category will in turn, aid the bottom line.

▲ **Favorable Debt Ratings:** The company's unsecured debt carries investment grade ratings with a stable outlook from Moody's and S&P. Its investment grade rating along with a stable outlook places it in a favorable position to secure funding at reasonable costs and keep intact its borrowing capacity.

▲ **Adequate Capital Levels and Capital Return:** In 2019, the company returned nearly 25% of total capital generated via dividend and share repurchase. Also, the company's risk based capital ratio of 16.5% (as of Jun 30, 2020) is higher than the Basel III Standards of 10.5%. Maintenance of sufficient level of capital will provide flexibility to support future business growth.

Recently, the company increased its dividend by 10% to 43 cents. Its dividend payout ratio of nearly 20% is quite low and implies that dividend payout ratio has more room for upside, going forward. Also, the company's dividend has been stable over the past 10 years, which reflects its resilience to the business and its dividends. The company's long payment history and low payout ratio makes American Express an attractive dividend paying stock.

Decrease in marketing expense, cost of rewards and card member services, favorable debt ratings, and solid balance sheet are some of the positives.

Reasons To Sell:

- ▼ **Revenue Growth to Remain Stressed:** The company's revenues have been increasing since 2016, led by a number of growth initiatives, such as launching products, enhancing the existing features, modifying price, reaching agreements and forging alliances among others. However, the COVID-19-led fall in business volumes, which hurt the company's cross border as well as domestic business is likely to weigh on the company's full year revenues. In the first six months of 2020, revenues declined 15% year over year.
- ▼ **Increase in Provision:** Provisions for credit losses in the first half of 2020 increased due to a significant reserve build that reflected the deterioration of the estimated global macroeconomic outlook as a result of the COVID-19 impact. The latest macroeconomic view mirrors a more significant downside in the United States Gross Domestic Product (GDP) and unemployment. If economic factors worsen going into the second half of 2020, the company is likely to have another large reserve build up.
- ▼ **Decline in Profitability:** The company's return on equity at the end of the first half of 2020 was down 1350 basis points year over year. The company also suspended share repurchases to maintain its financial strength, given the high level of uncertainty in the business environment. Given a difficult operating environment, we expect profitability to remain under pressure in the coming quarters.
- ▼ **High Debt and Interest Coverage:** The company's debt to equity level of 231% has remained stable over the past many years although it lies above the industry's average of 180%. Moreover, its interest earned ratio of 4.3x is weaker than the industry average of 5.2x. The company's long-term debt and liabilities of \$73.4 billion are higher than its cash and cash equivalents of \$41.5 billion. The company's higher-than-average debt position and weaker debt servicing capacity raises financial risk.

Pressure on revenue growth, decline in profitability, suspension of share buyback, high debt level and reduced interest payment capability are some of the headwinds facing the company.

Last Earnings Report

American Express Q2 Earnings Beat Estimates, Decline Y/Y

American Express' second-quarter 2020 earnings of 29 cents per share, beat the Zacks Consensus Estimate by 123%. However, the bottom line plunged 86% year over year.

The quarter also reflected softness in spending volumes as a result of the adverse COVID-19 impact.

Further, total revenues of \$7.7 billion missed the Zacks Consensus Estimate by 2.5% and also declined 28.7% year over year. The top line was affected by a drop in Card Member spending and lower average discount rate.

Meanwhile, total expenses of \$5.5 billion decreased 29% year over year owing to lower customer engagement costs on the back of limited Card Member spending as well as controlled usage of travel-related Card Member benefits.

Total provision of \$1.6 billion soared 86% year over year as the company added \$628 million to its capital reserves in a bid to strengthen its balance sheet in the light of a significant deterioration in the global macroeconomic outlook as a result of the coronavirus adversity.

Return on equity of 18.9% declined 1450 basis points year over year.

Lackluster Performance at Segments

American Express' Global Consumer Services segment reported net income of \$527 million, down 40% year over year. Total revenues, net of interest expenses of \$4.6 billion decreased 23% year over year, reflecting a fall in Card Member spending and a lower average discount rate from the prior-year levels.

Global Commercial Services incurred a net loss of \$60 million against net income of \$561 million a year ago. Total revenues, net of interest expenses, were \$2.3 billion. This, in turn, plunged 30.3% year over year, mirroring a decline in Card Member spending and a lower average discount rate.

Global Merchant and Network Services' net income plummeted 88% year over year to \$66 million in the reported quarter. Total revenues and net of interest expenses were down 41% year over year to \$929 million.

Strong Financial Position (as of Jun 30, 2020)

Cash and cash equivalents were \$41 billion, up 52% year over year. Total long-term debt of \$49 billion was down 15.5% year over year.

Quarter Ending **06/2020**

Report Date	Jul 24, 2020
Sales Surprise	-2.85%
EPS Surprise	123.08%
Quarterly EPS	0.29
Annual EPS (TTM)	6.38

Recent News

American Express Launches First Automated Accounts Payable Solution — Jul 15, 2020

The company launched American Express One AP, its first proprietary automated accounts payable (AP) solution that enables U.S. businesses to process supplier payments more easily and efficiently. The new American Express One AP, which is built on the technology acquired as part of the company's purchase of acompany in 2019, offers complete end-to-end payment processing that supports multiple payment methods, including virtual Card payments, check, and ACH. The solution is designed to work seamlessly with businesses' existing accounting systems.

American Express Boosts Small Businesses Hurt by Coronavirus Loss — Jun 30, 2020

In a bid to give some relief to the worst-affected business group, the small and micro business (SMBs), American Express has come forward to provide a much-needed support by committing a \$200-million incentive over the next several months. To help encourage consumers to Shop Small, eligible and enrolled U.S. card members can get back \$5 after they spend \$10 or more at an eligible U.S. small merchant when they shop online, curbside or in-store for maximum 10 times beginning today through Sep 20, 2020. Similar offers are rolling out globally in Australia, Canada and the UK with many more countries like France, Germany, Italy, Japan, Mexico and Spain to follow suit.

American Express Receives Nod to Start Operations in China — Jun 13, 2020

American Express has been granted approval for a network clearing license from People's Bank of China (PBOC). Being the first foreign payments network to receive the license, it will start processing RMB transactions in China through its joint venture —Express Company. Notably, Express Company has been formed by collaborating with a Chinese fintech services company —Lianlian DigiTech Co., Ltd. Expected to start operations later this year, the license approval is likely to strengthen the foothold of American Express on China, which in turn will boost the Chinese payment industry.

American Express Approves Quarterly Dividend — May 7, 2020

The company's board of directors declared a regular dividend of 43 cents per share. The dividend will be paid out on Aug 10, 2020 to shareholders of record as on Jul 2.

Valuation

American Express shares are down 17% and 18% in the year-to-date and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.1% and 6.9%, respectively.

The S&P 500 index is up 4.3% in the year-to-date period and up 14.9% in the past year.

The stock is currently trading at 19.38x forward 12-month earnings, which compares to 13.42x for the Zacks sub-industry, 16.83x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.58x and as low as 8.03x, with a 5-year median of 13.84x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$108 price target reflects 20.35x forward earnings.

The table below shows summary valuation data for AXP

Valuation Multiples - AXP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.38	13.42	16.83	22.8
	5-Year High	19.58	14.15	16.83	22.8
	5-Year Low	8.03	8.69	11.59	15.25
	5-Year Median	13.84	11.58	14.26	17.58
P/S F12M	Current	2.12	1.44	6.22	3.67
	5-Year High	2.62	1.76	6.66	3.67
	5-Year Low	1.2	1.02	4.96	2.53
	5-Year Median	2.12	1.35	6.06	3.05
P/B TTM	Current	3.95	1.93	2.48	4.68
	5-Year High	4.83	2.77	2.91	4.56
	5-Year Low	2.4	1.12	1.71	2.83
	5-Year Median	3.72	1.97	2.53	3.7

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Equitable Holdings, Inc. (EQH)	Outperform	3
Jefferies Financial Group Inc. (JEF)	Outperform	2
Globe Life Inc. (GL)	Neutral	3
Mastercard Incorporated (MA)	Neutral	3
Moodys Corporation (MCO)	Neutral	3
Synchrony Financial (SYF)	Neutral	3
Visa Inc. (V)	Neutral	3
Orix Corp Ads (IX)	Underperform	5

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	AXP	X Industry	S&P 500	EQH	IX	SYF
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	5	3
VGM Score	B	-	-	B	A	B
Market Cap	83.14 B	203.49 M	23.61 B	9.79 B	15.55 B	14.65 B
# of Analysts	9	3	14	3	3	7
Dividend Yield	1.67%	0.00%	1.69%	3.12%	5.33%	3.51%
Value Score	B	-	-	A	B	A
Cash/Price	0.52	0.34	0.07	NA	2.13	1.18
EV/EBITDA	7.85	3.49	13.32	NA	3.10	2.53
PEG Ratio	3.25	3.30	2.95	NA	3.38	3.30
Price/Book (P/B)	3.95	0.99	3.22	NA	0.56	1.31
Price/Cash Flow (P/CF)	10.27	8.73	12.79	NA	2.79	4.98
P/E (F1)	34.65	17.20	22.02	5.05	7.42	18.13
Price/Sales (P/S)	2.06	1.63	2.57	0.48	0.74	0.82
Earnings Yield	2.89%	5.26%	4.29%	19.79%	13.48%	5.50%
Debt/Equity	2.32	0.40	0.77	NA	1.44	1.44
Cash Flow (\$/share)	10.05	0.62	6.94	NA	21.88	5.04
Growth Score	C	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	9.28%	10.78%	10.41%	NA	98.25%	10.78%
Proj. EPS Growth (F1/F0)	-63.67%	-19.03%	-6.51%	-11.07%	-24.55%	-67.73%
Curr. Cash Flow Growth	5.23%	5.71%	5.22%	NA	-0.09%	5.34%
Hist. Cash Flow Growth (3-5 yrs)	3.21%	13.95%	8.55%	NA	5.66%	9.07%
Current Ratio	1.56	1.30	1.34	NA	1.78	1.24
Debt/Capital	69.85%	30.79%	44.59%	NA	59.13%	57.46%
Net Margin	10.02%	7.50%	10.13%	NA	12.44%	11.79%
Return on Equity	24.08%	7.54%	14.59%	NA	9.31%	14.73%
Sales/Assets	0.21	0.23	0.51	NA	0.18	0.18
Proj. Sales Growth (F1/F0)	-16.45%	0.00%	-1.45%	38.36%	-3.90%	-14.30%
Momentum Score	C	-	-	D	D	F
Daily Price Chg	1.61%	0.00%	-0.17%	0.88%	0.94%	2.07%
1 Week Price Chg	6.26%	2.98%	2.30%	4.84%	11.28%	7.05%
4 Week Price Chg	8.88%	5.36%	6.41%	11.01%	-0.46%	11.80%
12 Week Price Chg	18.34%	19.89%	15.42%	26.41%	1.84%	42.37%
52 Week Price Chg	-18.26%	-9.52%	2.88%	4.96%	-12.95%	-27.62%
20 Day Average Volume	3,772,505	112,011	2,007,486	2,301,366	48,775	5,831,335
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.45%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.81%	0.00%	1.84%	-0.15%	-6.06%	-15.17%
(F1) EPS Est 12 week change	-7.06%	4.76%	2.40%	1.37%	-25.94%	6.94%
(Q1) EPS Est Mthly Chg	-1.29%	0.71%	0.72%	-0.31%	NA	-50.23%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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