

American Express (AXP)

\$97.36 (As of 07/15/20)

Price Target (6-12 Months): **\$102.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

American Express' strategic initiatives will help it in achieving growth and recover from the current weak market environment. A decline in marketing expenses and card member service is likely to aid margins. The company's 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. Its shares have underperformed its industry year to date. Nevertheless, maintenance of sufficient level of capital will provide flexibility to support future business growth. However, due to the COVID-19 outbreak, American Express is persistently witnessing weakness in spending volumes, which is likely to hurt its full-year operating performance. Drained profitability might continue given the adverse operating scenario.

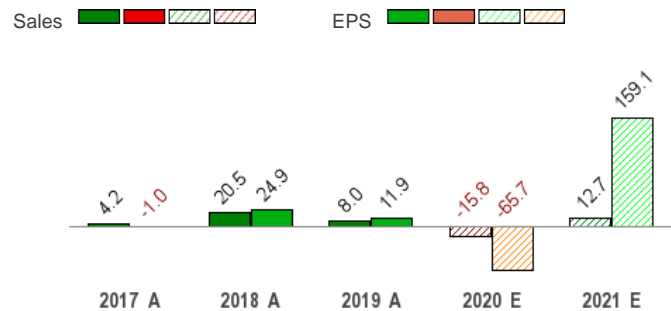
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.13 - \$67.00
20 Day Average Volume (sh)	4,903,489
Market Cap	\$78.4 B
YTD Price Change	-21.8%
Beta	1.12
Dividend / Div Yld	\$1.72 / 1.8%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 42% (146 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.2%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	07/24/2020
Earnings ESP	-102.7%
P/E TTM	11.9
P/E F1	34.7
PEG F1	3.3
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,191 E	9,679 E	10,426 E	11,338 E	41,310 E
2020	10,310 A	8,250 E	9,010 E	9,905 E	36,657 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	\$1.52 E	\$1.68 E	\$2.10 E	\$2.20 E	\$7.28 E
2020	\$1.98 A	\$0.52 E	\$1.28 E	\$1.22 E	\$2.81 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 07/15/2020. The reports text is as of 07/16/2020.

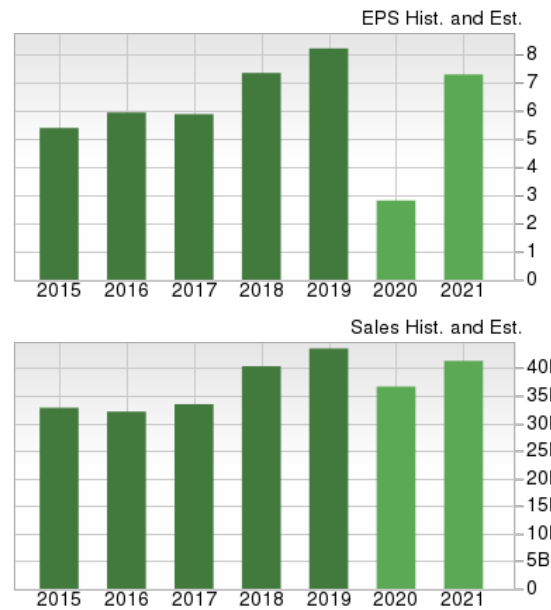
Overview

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 of the new products that the company had in pipeline this year. This will lead to a decline in marketing expenses this year, which should aid margins, 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 quarter 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 that aid margins.

▲ **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 14.4% (at the end of the first quarter of 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. Its dividend yield of 1.9% is higher than the industry's average of 1.83%. The company's long payment history, consistent growth in earnings per share 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.

The company is accelerating investments in mobile, servicing and credit and collections capabilities that will poise the company for continued growth over the longer term. It is also continuing with its activities in a number of areas including acquiring new merchants globally, ongoing efforts to launch network in China, its network re-platforming initiative, its premium product refresh strategy in both consumer and commercial, its consistent integration and development of new digital capabilities and long-term enhancements in its servicing platform and other key areas of growth. Despite these initiatives, we choose to remain on the side lines until revenues show visible growth.

- ▼ **Increase in Provision:** Provisions for credit losses in the first quarter 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 reflects a more significant deterioration in United States Gross Domestic Product (GDP) and unemployment. If economic factors worsen going into the second quarter, 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 quarter was down 750 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 250.4% has remained stable over the past many years although it lies above the industry's average of 181%. Moreover, its interest earned ratio of 4.9x is weaker than the industry average of 5.2x. 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 Q1 Earnings Beat Estimates

American Express Co. delivered first-quarter 2020 earnings of \$1.98 per share, beating the Zacks Consensus Estimate by 17.2%. However, the bottom line was down 1.5% year over year.

The quarter reflected softness in spending volumes beginning the last few days of February that significantly accelerated in March as a result of the COVID-19 impacts.

Total revenues of \$10.3 billion missed the Zacks Consensus Estimate by 3.7% and also dipped 1% year over year. The top line was affected by weak spending volumes due to the COVID-19 impacts.

Total expenses of \$7.2 billion decreased 5% year over year owing to a decline in operating costs.

Total provision of \$2.6 billion skyrocketed 221% year over year as the company added \$17 billion 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.

Segmental Update

American Express' Global Consumer Services segment reported net income of \$201 million, down 79% year over year. Total revenues, net of interest expenses of \$6 billion, were up 4% year over year, reflecting higher net interest income and card fees, partially offset by lower Card Member spending.

Global Commercial Services' net income of \$38 million plunged 92% year over year. Total revenues, net of interest expenses, were flat year over year at \$3.1 billion as increased net interest income and card fees were offset by softness in Card Member spending.

Global Merchant and Network Services' net income dropped 27% year over year to \$417 million in the reported quarter. Total revenues and net of interest expenses were down 10% year over year to \$1.4 billion.

Quarter Ending **03/2020**

Report Date	Apr 24, 2020
Sales Surprise	-3.35%
EPS Surprise	17.16%
Quarterly EPS	1.98
Annual EPS (TTM)	8.16

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 21.8% and 23.3% 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 12% and 19.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18% and 14.5%, respectively.

The S&P 500 index is down 0.5% in the year-to-date period and up 7.9% in the past year.

The stock is currently trading at 18.62x forward 12-month earnings, which compares to 13.93x for the Zacks sub-industry, 16.21x for the Zacks sector and 22.72x 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 13.37x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$102 price target reflects 19.55x 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	18.62	13.93	16.21	22.72
	5-Year High	19.58	14.15	16.21	22.72
	5-Year Low	8.03	8.7	11.59	15.25
	5-Year Median	13.37	11.58	14.16	17.52
P/S F12M	Current	1.97	1.3	6.04	3.55
	5-Year High	2.62	1.78	6.66	3.55
	5-Year Low	1.2	1.02	4.96	2.53
	5-Year Median	2.12	1.35	6.06	3.02
P/B TTM	Current	3.73	1.87	2.35	4.38
	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 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (146 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Equitable Holdings, Inc. (EQH)	Outperform	2
Jefferies Financial Group Inc. (JEF)	Outperform	1
Globe Life Inc. (GL)	Neutral	4
Mastercard Incorporated (MA)	Neutral	3
Moody's Corporation (MCO)	Neutral	3
Visa Inc. (V)	Neutral	3
Orix Corp Ads (IX)	Underperform	5
Synchrony Financial (SYF)	Underperform	3

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	AXP	X Industry	S&P 500	EQH	IX	SYF
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	2	5	3
VGM Score	C	-	-	A	A	B
Market Cap	78.37 B	185.59 M	22.66 B	9.27 B	15.52 B	13.80 B
# of Analysts	9	3	14	4	3	5
Dividend Yield	1.77%	0.00%	1.83%	3.30%	5.34%	3.72%
Value Score	B	-	-	A	B	A
Cash/Price	0.48	0.35	0.07	NA	2.00	1.04
EV/EBITDA	8.23	4.07	12.99	NA	3.17	3.02
PEG Ratio	3.25	3.32	2.97	0.84	2.32	3.35
Price/Book (P/B)	3.73	0.88	3.12	NA	0.55	1.23
Price/Cash Flow (P/CF)	9.69	8.18	12.14	NA	2.78	4.69
P/E (F1)	34.65	14.52	22.04	4.76	6.96	14.52
Price/Sales (P/S)	1.80	1.64	2.38	0.45	0.74	0.74
Earnings Yield	2.89%	5.77%	4.32%	20.99%	14.37%	6.90%
Debt/Equity	2.50	0.40	0.76	NA	1.40	1.54
Cash Flow (\$/share)	10.05	0.55	6.94	NA	21.88	5.04
Growth Score	F	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	9.99%	11.02%	10.85%	NA	97.77%	12.06%
Proj. EPS Growth (F1/F0)	-65.76%	-26.39%	-9.64%	-10.93%	-19.68%	-62.05%
Curr. Cash Flow Growth	5.23%	5.28%	5.51%	NA	-0.09%	5.34%
Hist. Cash Flow Growth (3-5 yrs)	3.21%	13.16%	8.55%	NA	5.66%	9.07%
Current Ratio	1.76	1.26	1.30	NA	1.79	1.26
Debt/Capital	71.46%	30.25%	44.46%	NA	58.32%	59.03%
Net Margin	12.74%	8.98%	10.59%	NA	13.28%	15.58%
Return on Equity	30.21%	7.13%	15.75%	NA	10.00%	18.25%
Sales/Assets	0.22	0.22	0.54	NA	0.18	0.18
Proj. Sales Growth (F1/F0)	-15.84%	0.00%	-2.52%	42.00%	-3.90%	-14.17%
Momentum Score	B	-	-	C	D	A
Daily Price Chg	2.66%	1.18%	1.91%	4.89%	-0.65%	5.30%
1 Week Price Chg	-1.17%	0.00%	-0.41%	1.00%	0.07%	3.20%
4 Week Price Chg	-6.35%	0.00%	1.88%	2.03%	-8.60%	-4.48%
12 Week Price Chg	17.95%	15.47%	16.37%	33.98%	9.22%	47.29%
52 Week Price Chg	-23.39%	-17.66%	-4.22%	-7.30%	-20.97%	-33.48%
20 Day Average Volume	4,903,489	205,872	2,266,132	3,342,997	51,457	7,180,775
(F1) EPS Est 1 week change	0.28%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.54%	0.00%	0.00%	1.05%	-21.17%	22.70%
(F1) EPS Est 12 week change	-29.64%	-11.77%	-5.76%	-3.19%	-21.17%	-26.49%
(Q1) EPS Est Mthly Chg	17.15%	0.00%	0.00%	3.56%	NA	59.26%

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	F
Momentum Score	B
VGM Score	C

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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