

American Express (AXP)

\$130.55 (As of 01/16/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

American Express' shares have outperformed its industry in a year's time. Its expanding presence in the business-to-business market and investment in technology should drive long-term growth. Its revenue growth is driven by a strong brand, continued efforts toward building business in new growth verticals, shift toward digital, focus on initiatives and a strong economy, which are driving consumer spending. Its strong capital position and disciplined capital management by way of share buyback and dividend payouts are impressive. However, the company's reward expenses have been increasing over the past many quarters, which weigh on margins. Cost of card member services has been increasing over the years, indicating higher engagement level across its premium travel services.

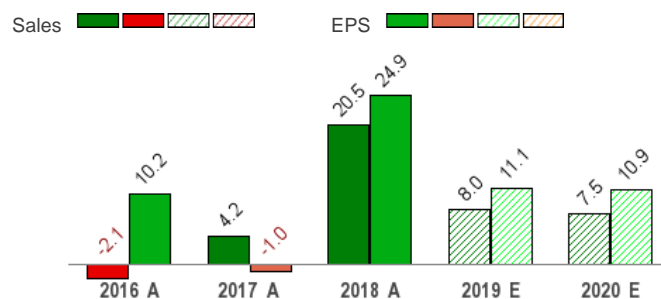
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$130.93 - \$96.37
20 Day Average Volume (sh)	2,460,487
Market Cap	\$106.8 B
YTD Price Change	4.9%
Beta	1.05
Dividend / Div Yld	\$1.72 / 1.3%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 16% (214 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.5%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	01/24/2020
Earnings ESP	0.4%
P/E TTM	16.5
P/E F1	14.5
PEG F1	1.4
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	11,249 E	11,738 E	11,783 E	12,255 E	46,845 E
2019	10,364 A	10,838 A	10,989 A	11,364 E	43,576 E
2018	9,718 A	10,002 A	10,144 A	10,474 A	40,338 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.14 E	\$2.30 E	\$2.35 E	\$2.29 E	\$9.03 E
2019	\$2.01 A	\$2.07 A	\$2.08 A	\$2.01 E	\$8.14 E
2018	\$1.86 A	\$1.84 A	\$1.88 A	\$1.74 A	\$7.33 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 01/16/2020. The reports text is as of 01/17/2020.

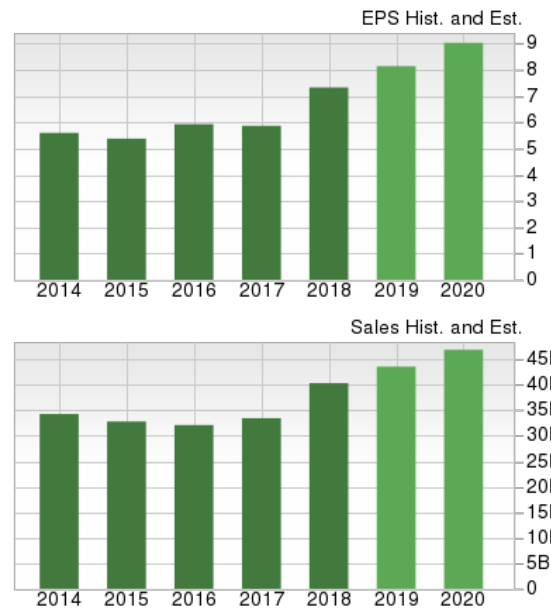
Overview

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 2018 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 outperformed its industry in a year's time. Its progress on fundamentals is likely to help the stock keep performing well in the quarters ahead.
- ▲ **Favorable Guidance:** For 2019, the company expects earnings per share in the range of \$7.85 to \$8.35, which indicates an increase of 2.5% year over year. Revenues are estimated to be up 8% to 10% compared with 9% growth posted in 2018.
- ▲ **Top-Line Growth:** The company's revenues have been increasing since 2016, led by a number of growth initiatives such as launching new products, enhancing features of existing ones, and modifying price. We are optimistic about the company's revenue growth in the months ahead, given its strong brand, continued efforts toward building business in new growth verticals, shift toward digital, focus on initiatives and a strong economy, which are driving consumer spending. The company expects to achieve revenue growth in the range of 8-10% in 2019. This compares with 9% revenue growth reported in 2018.
- ▲ **Increase in Billed Business:** Billed business is one of the key performance indicators and represents transaction volumes (including cash advances) on cards and other payment products issued by American Express (proprietary billed business) and cards issued under network partnership agreements with banks and other institutions, including joint ventures (GNS billed business). The same has been growing for several quarters and was up 5% in the first nine months of 2019. The company's billed business is expected to increase going forward, given its efforts surrounding upgrading premium card products, launching new and refreshed Platinum cards and expansion of partnerships.
- ▲ **Net Interest Income to Gain on Dovish Interest Rate Outlook:** Rising rates present a modest headwind for the company as it raise the cost of funds. The company has, however, witnessed growth in its online personal savings deposit program. It expects this to be the fastest-growing part of its funding stack. Moreover, the latest interest rate cut will provide a modest upside to the company's net interest income. The same was up 13% in the first nine months of 2019.
- ▲ **Investment in Digital Arena:** The company is working earnestly to provide digitalized services to its customers. It has acquired a number of digital companies over the past 18 months including Mezi, LoungeBuddy, Cake Technologies, Pocket Concierge and Resy, the US restaurant booking and management platform. These acquisitions, along with new digital features and contents that the company is building in-house, will enable its card members to engage more. These buyouts are likely to drive card usage volumes and consequently revenues.
- ▲ **Adequate Capital Levels and Capital Return:** In 2018, the company returned nearly 41% of total capital generated via dividend and share repurchase. Also, the company's risk based capital ratio of 22.2% (at the end of the third quarter of 2019) is higher than the Basel III Standards of 10%. 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.

American Express growth prospects look encouraging given the growing shift toward digital payments, strategic initiatives, strong global reach and a solid capital position.

Reasons To Sell:

▼ **Increasing Reward Expenses and Cost of Card Member Services:** Reward expenses have been rising due to enhancement of the company's U.S. platinum products, as well as strong growth in its Delta cobrand portfolio. Also, the cost of services provided to the card members has been increasing over the past four years, reflecting higher engagement levels across its premium travel services. Card member services costs were the fastest growing expense line, up 28% in 2018 and 30% in the first nine months of 2019. Card member rewards increased 12% in 2018 and 7% in the first nine months of 2019. We expect cost of card member services to remain at elevated levels as the company continues to offer differentiated benefits and plans.

Higher rewards expense and cost of card member service and rise in marketing expenses are likely to pressurize margins. Increased financial leverage is another concern.

▼ **Increase in Marketing Expense:** The company has been witnessing increase in marketing and business development expenses (up 13% in 2018) and further 11% in the first nine months of 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. The company also expects further increase in the marketing and business development line of expenses, due to the recent co-brand deal signed with Delta. Though these expenses are slowly paying off, the company is experiencing margin pressure.

▼ **Increase in Interest Expense and Debt Levels:** The company's interest cost rose 24% in 2017 and 39% in 2018 and 26% in the first nine months of 2019, due to increase in debt levels. The company's current debt-to-equity ratio of 253.9% is higher than the industry's average of 174.7%. Consequently, the company's times interest earned ratio, which measures its interest paying capacity has declined to 5.3 in the third quarter of 2019, compared with 8.3 in 2016. Higher debt levels, interest burden and reduced interest coverage ratio points to increased financial risk.

Last Earnings Report

American Express Q3 Earnings & Revenues Beat Estimates

American Express Co. third-quarter 2019 earnings of \$2.08 per share surpassed the Zacks Consensus Estimate by 0.4% and were up 10.7% year over year.

Total revenues of \$11 billion beat the Zacks Consensus Estimate by 0.35% and were up 8% year over year. This is the ninth straight quarter in which the company posted foreign exchange adjusted revenue growth of at least 8%. Earnings growth was driven by higher Card Member spending, net interest income and card fees.

Provisions for loss totaled \$879 million, up 8% year over year, due to slightly higher net write-offs and delinquencies.

Total expenses of \$7.8 billion increased 9% year over year, due to growth in rewards and other customer engagement costs driven by increased Card Member spending and continued investments in co-brand partnerships.

Segment Update

American Express' **Global Consumer Services** segment reported net income of \$857 million, up 10% year over year. Total revenues and net of interest expenses of \$6 billion, were up 11% year over year, reflecting card fees and Card Member spending.

Global Commercial Services' net income of \$629 million was up 4% year over year. Total revenues and net of interest expenses increased 7% year over year to \$3.4 billion, primarily reflecting higher Card Member spending.

Global Merchant and Network Services' net income rose 3% year over year to \$600 million in the reported quarter. Total revenues and net of interest expenses were up 5% year over year to \$1.7 billion.

Dividend and Share Buyback Update

During the quarter, the company hiked its quarterly dividend by 10% to 43 cents a share. It also announced a stock buyback of up to 120 million common shares over time or roughly 14% of the total.

Guidance Update

American Express has reaffirmed its financial guidance for 2019. The company expects revenue growth of 8–10% in 2019. In addition, its adjusted EPS guidance range for the same year is \$7.85–\$8.35.

Quarter Ending **09/2019**

Report Date	Oct 18, 2019
Sales Surprise	0.34%
EPS Surprise	0.48%
Quarterly EPS	2.08
Annual EPS (TTM)	7.90

Recent News

American Express Declares Dividend — Dec 12, 2019

The company has announced a quarterly dividend of \$0.43 per share, payable on Feb 10, 2020, to the shareholders of record on Jan 3, 2020.

American Express Partners With Nova Credit — Oct 25, 2019

American Express has teamed up with Nova Credit to share their international credit reports with American Express when applying for an American Express U.S. Personal Card. At present, the feature can access credit reports from Australia, Canada, India, Mexico and the United Kingdom, and will be made available in more countries over time.

Valuation

American Express shares are up 29.9% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector is up 14.2% and 10.5%, respectively.

The S&P 500 index is up 22.3% in the past year.

The stock is currently trading at 14.37X forward 12-month price to earnings, which compares to 11.05X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.2X and as low as 9.23X, with a 5-year median of 13.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$137 price target reflects 15.08X price to earnings.

The table below shows summary valuation data for AXP

Valuation Multiples - AXP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.37	11.05	14.79	18.96
	5-Year High	17.2	14.19	16.21	19.34
	5-Year Low	9.23	8.71	12.01	15.17
	5-Year Median	13.43	11.69	13.98	17.44
P/S F12M	Current	2.27	1.15	6.53	3.53
	5-Year High	2.62	1.92	6.61	3.53
	5-Year Low	1.52	1.05	5.2	2.54
	5-Year Median	2.15	1.44	6.04	3
P/B TTM	Current	4.64	2.02	2.83	4.5
	5-Year High	4.83	2.66	2.89	4.5
	5-Year Low	2.4	1.58	1.83	2.85
	5-Year Median	3.75	2.06	2.5	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (214 out of 254)



Top Peers

Bank of America Corporation (BAC)	Neutral
Citigroup Inc. (C)	Neutral
Discover Financial Services (DFS)	Neutral
Global Payments Inc. (GPN)	Neutral
Mastercard Incorporated (MA)	Neutral
PayPal Holdings, Inc. (PYPL)	Neutral
Square, Inc. (SQ)	Neutral
Visa Inc. (V)	Neutral

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	AXP Neutral	X Industry	S&P 500	DFS Neutral	MA Neutral	V Neutral
VGM Score	C	-	-	B	D	D
Market Cap	106.83 B	316.29 M	24.22 B	26.22 B	323.14 B	395.74 B
# of Analysts	7	3	13	8	16	17
Dividend Yield	1.32%	0.00%	1.75%	2.10%	0.50%	0.60%
Value Score	B	-	-	A	D	D
Cash/Price	0.23	0.24	0.04	0.24	0.02	0.03
EV/EBITDA	12.74	6.14	14.11	9.96	35.71	25.18
PEG Ratio	1.35	1.92	2.06	1.19	2.22	2.09
Price/Book (P/B)	4.64	1.34	3.34	2.35	65.03	13.57
Price/Cash Flow (P/CF)	14.45	9.52	13.57	9.90	38.92	30.46
P/E (F1)	14.46	11.63	18.90	8.83	35.38	32.45
Price/Sales (P/S)	2.50	1.63	2.65	1.89	19.85	17.22
Earnings Yield	6.92%	8.39%	5.29%	11.32%	2.83%	3.08%
Debt/Equity	2.54	0.42	0.72	2.19	1.55	0.57
Cash Flow (\$/share)	9.03	0.55	6.94	8.45	8.23	6.60
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	7.66%	9.30%	10.56%	12.36%	20.73%	20.76%
Proj. EPS Growth (F1/F0)	10.94%	9.51%	7.59%	4.57%	17.73%	13.83%
Curr. Cash Flow Growth	16.47%	4.38%	14.73%	20.79%	33.76%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	3.90%	9.91%	9.00%	3.97%	16.01%	8.28%
Current Ratio	1.86	1.26	1.24	1.28	1.39	1.56
Debt/Capital	71.75%	39.26%	42.99%	67.61%	61.08%	32.54%
Net Margin	16.51%	13.70%	11.14%	20.97%	42.50%	52.57%
Return on Equity	29.68%	9.25%	17.16%	26.79%	146.92%	42.57%
Sales/Assets	0.22	0.22	0.55	0.13	0.66	0.32
Proj. Sales Growth (F1/F0)	7.61%	5.03%	4.23%	4.82%	13.40%	10.55%
Momentum Score	C	-	-	B	C	F
Daily Price Chg	0.56%	0.42%	0.27%	0.38%	1.93%	0.58%
1 Week Price Chg	2.15%	0.00%	0.39%	-1.43%	3.57%	2.20%
4 Week Price Chg	4.58%	0.00%	2.17%	-3.10%	7.65%	7.72%
12 Week Price Chg	12.15%	3.80%	6.65%	4.89%	19.18%	14.07%
52 Week Price Chg	31.22%	1.63%	22.43%	29.59%	60.70%	46.38%
20 Day Average Volume	2,460,487	77,616	1,545,017	1,209,616	2,793,376	6,293,025
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.08%	-0.15%
(F1) EPS Est 4 week change	0.27%	0.00%	0.00%	-0.12%	0.08%	-0.25%
(F1) EPS Est 12 week change	0.49%	-2.84%	-0.41%	-0.99%	0.81%	-0.81%
(Q1) EPS Est Mthly Chg	0.09%	0.00%	0.00%	-0.33%	0.00%	-0.39%

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	C
Growth Score	D
Momentum Score	C
VGM Score	D

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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