

American Express (AXP)

\$135.87 (As of 02/14/20)

Price Target (6-12 Months): **\$143.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: C

Growth: C

Momentum: C

Summary

American Express' earnings of \$2.03 per share beat the Zacks Consensus Estimate by 1.5% and were up 16.7% year over year. The company's 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 and a strong economy, which are driving consumer spending. Its strong capital position and disciplined capital management 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.

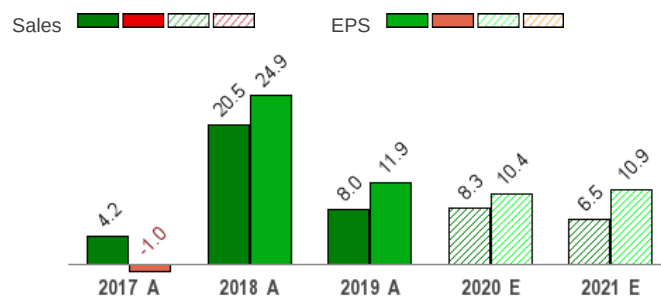
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.13 - \$106.32
20 Day Average Volume (sh)	3,135,350
Market Cap	\$111.2 B
YTD Price Change	9.1%
Beta	0.99
Dividend / Div Yld	\$1.72 / 1.3%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.6
P/E F1	15.0
PEG F1	1.4
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,143 E	12,636 E	12,694 E	13,186 E	50,235 E
2020	11,277 E	11,776 E	11,824 E	12,274 E	47,181 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	\$2.47 E	\$2.49 E	\$2.64 E	\$2.50 E	\$10.04 E
2020	\$2.20 E	\$2.31 E	\$2.37 E	\$2.19 E	\$9.05 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 02/14/2020. The reports text is as of 02/18/2020.

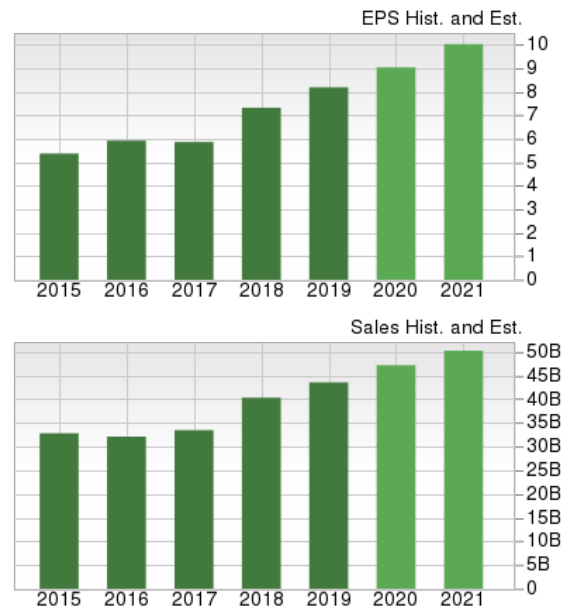
Overview

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 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.
- ▲ **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, modifying price, forging agreements and alliance and others. We are optimistic about the company's revenue growth going forward, 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 of 8-10% in 2020. This compares with 9% revenue growth reported in 2019, which when calculated at the mid-point reflects revenues to remain constant year over year.
- ▲ **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 6% in 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 12% in 2019. Management expects net interest income growth to continue to be a bit higher than loan growth, driven by continued benefits from pricing mix as well as the modest tailwind from 2019 rate cuts.
- ▲ **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 13.2% (at the end of the fourth quarter of 2019) is higher than the Basel III Standards of 10.5%. Maintenance of sufficient level of capital will provide flexibility to support future business growth.

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

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. Though its dividend yield of 1.3% is lower than the industry's average of 1.5%, the company's long payment history, consistent growth in earnings per share and low payout ratio makes American Express an attractive dividend paying stock.

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 25% 2019. Card member rewards increased 12% in 2018 and 8% in 2019. We expect cost of card member services to remain at elevated levels as the company continues to offer differentiated benefits and plans in order to retain existing and attract new customers. The company expects card member services to be its fastest growing expense category, as it includes the cost of many components of its differentiated value propositions, such as airport lounge access and other travel benefits, which is difficult for players in the same space to replicate. The company's differentiated strategy helps it to support the strong customer acquisition and engagement in its fee-based products. Going forward, the company expects its total customer engagement expenses to grow a bit faster than revenues as it continues to invest in share, scale and relevance.
- 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 10% 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. The company also expects further increase in the marketing and business development line of expenses. 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 18% in 2019, due to increase in debt levels. The company's current debt-to-equity ratio of 251% is higher than the industry's average of 175%. Consequently, the company's times interest earned ratio, which measures its interest paying capacity has declined since 2017. Higher debt levels, interest burden and reduced interest coverage ratio points to increased financial risk.
-

Last Earnings Report

American Express Q4 Earnings Beat on Higher Revenues

American Express' fourth-quarter 2019 earnings of \$2.03 per share, surpassed the Zacks Consensus Estimate by 1.5% and were up 16.7% year over year.

Total revenues of \$11.4 billion came in line with the Zacks Consensus Estimate and were up 9% year over year. This is the 10th straight quarter in which the company posted foreign exchange adjusted revenue growth of at least 8%. Increase in earnings was driven by a well-balanced mix of growth in fee, spend and lend revenues.

Total expenses of \$8.4 billion increased 9% year over year, due to growth in rewards and other customer engagement costs driven by increased Card Member spending, and higher usage of card benefits and operating expenses.

Quarter Ending 12/2019

Report Date	Jan 24, 2020
Sales Surprise	0.03%
EPS Surprise	1.50%
Quarterly EPS	2.03
Annual EPS (TTM)	8.19

2019 Results

The company reported earnings per share of \$8.20, up 11.9% year over year. Revenues net of interest expense for the full year were \$43.6 billion, up 9%, on a constant-currency basis.

In 2019, the company added 11.5 million new proprietary cards and continued to deliver solid billings growth.

Segment Update

American Express' Global Consumer Services segment reported net income of \$846 million, up 21% year over year. Total revenues, net of interest expenses of \$6.2 billion, were up 10% year over year, reflecting higher net interest income, card fees and Card Member spending.

Global Commercial Services' net income of \$617 million was down 1% year over year. Total revenues, net of interest expenses, increased 7% year over year to \$3.5 billion, primarily reflecting higher Card Member spending, net interest income and card fees.

Global Merchant and Network Services' net income rose 10% year over year to \$549 million in the reported quarter. Total revenues and net of interest expenses were up 3% year over year to \$1.7 billion.

2020 Guidance

For 2020, the company expects revenue growth in the range of 8% to 10%, on a foreign exchange-adjusted basis and earnings of \$8.85-\$9.25 per share.

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 26.5% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector is up 11.8% and 9.3%, respectively.

The S&P 500 index is up 20.9% in the past year.

The stock is currently trading at 14.8X forward 12-month price to earnings, which compares to 12.11X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X 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 \$143 price target reflects 15.54X 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	14.8	12.11	15.02	19.35
	5-Year High	17.2	14.15	16.21	19.35
	5-Year Low	9.23	8.7	12.01	15.18
	5-Year Median	13.43	11.66	14.15	17.47
P/S F12M	Current	2.32	1.12	6.55	3.58
	5-Year High	2.62	1.91	6.65	3.58
	5-Year Low	1.52	1.05	5.39	2.54
	5-Year Median	2.15	1.41	6.04	3
P/B TTM	Current	4.76	2.07	2.86	4.68
	5-Year High	4.83	2.77	2.89	4.68
	5-Year Low	2.4	1.58	1.83	2.85
	5-Year Median	3.75	2.04	2.51	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

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

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	AXP Neutral	X Industry	S&P 500	DFS Underperform	MA Neutral	V Neutral
VGM Score	C	-	-	C	C	D
Market Cap	111.18 B	257.15 M	24.61 B	23.96 B	343.97 B	412.70 B
# of Analysts	11	3	13	9	17	17
Dividend Yield	1.27%	0.00%	1.78%	2.30%	0.47%	0.57%
Value Score	C	-	-	A	D	D
Cash/Price	0.22	0.26	0.04	0.74	0.03	0.04
EV/EBITDA	13.11	5.54	14.06	6.93	29.63	25.98
PEG Ratio	1.41	1.86	2.09	1.40	2.35	2.21
Price/Book (P/B)	4.83	1.22	3.29	2.02	58.13	13.84
Price/Cash Flow (P/CF)	15.04	9.70	13.65	9.05	35.83	31.88
P/E (F1)	15.01	13.33	19.21	8.48	37.88	34.22
Price/Sales (P/S)	2.55	1.64	2.70	1.71	20.37	17.54
Earnings Yield	6.66%	7.45%	5.19%	11.79%	2.64%	2.92%
Debt/Equity	2.52	0.42	0.71	2.06	1.44	0.46
Cash Flow (\$/share)	9.03	0.55	6.92	8.45	9.52	6.60
Growth Score	C	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	8.87%	11.32%	10.85%	13.70%	21.99%	21.12%
Proj. EPS Growth (F1/F0)	10.40%	7.61%	7.17%	-0.76%	15.84%	12.97%
Curr. Cash Flow Growth	16.47%	8.09%	8.56%	20.79%	13.13%	14.82%
Hist. Cash Flow Growth (3-5 yrs)	3.90%	9.91%	8.36%	3.97%	15.42%	8.28%
Current Ratio	2.41	1.26	1.23	1.08	1.42	1.27
Debt/Capital	71.61%	34.62%	42.91%	67.61%	59.24%	27.96%
Net Margin	15.44%	13.92%	11.81%	20.94%	48.08%	52.60%
Return on Equity	30.24%	9.20%	16.86%	26.25%	150.46%	43.15%
Sales/Assets	0.22	0.22	0.54	0.13	0.65	0.33
Proj. Sales Growth (F1/F0)	7.82%	5.03%	3.85%	4.71%	15.06%	10.36%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	1.05%	0.00%	0.06%	0.29%	1.52%	1.39%
1 Week Price Chg	1.50%	1.02%	2.47%	0.21%	3.50%	1.89%
4 Week Price Chg	4.08%	0.00%	0.59%	-8.63%	6.45%	4.65%
12 Week Price Chg	14.37%	3.32%	6.98%	-7.84%	19.86%	16.90%
52 Week Price Chg	27.43%	-2.40%	16.62%	9.66%	55.11%	46.89%
20 Day Average Volume	3,135,350	49,891	2,020,569	2,918,881	3,726,387	8,714,711
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.30%	0.00%	-0.05%	-4.92%	-0.54%	-0.84%
(F1) EPS Est 12 week change	0.73%	-0.14%	-0.17%	-5.41%	-0.53%	-1.12%
(Q1) EPS Est Mthly Chg	2.77%	0.00%	-0.24%	-4.56%	-3.53%	-2.56%

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	C
Momentum Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.