

American Express Co. (NYSE: AXP)

Sector: Financials

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$85.00	\$80.90	\$83.83	\$53.02	0.91	19.37	\$87.96B (Large Cap)	1.13%

Industry Trends

The Credit Services sector continues to grow as more shoppers shift from cash to credit payments. The financial industry as a whole has improved over the last five years as banks take advantage of the low interest rate environment. In addition to the improvement of the financial industry, the consumer discretionary industry has also improved as a result of the low interest rates. The improvement in the consumer discretionary industry is a positive sign that consumers are spending. As the banks continue to lend and consumers continue to spend, the Credit Service sector will continue to flourish.

Investment Thesis

American Express is a global service company that manages charge and credit payment methods. They separate themselves from the other credit card companies by using a unique strategy. They rely on a closed-loop and spend-centric business model as opposed to an opened-loop and lend-centric model used by their competitors. Their model allows them to have the largest spending per card, lowest delinquency rate, best customer service, largest merchant discount and the largest corporate market share. They are returning equity to shareholders through their 150 million-share buy back program. The program began during the second quarter of 2013 and will finish during the first quarter in 2014. In addition to aggressively buying back stock, they recently increased their dividend by 15%.

Business Summary

The first part of American Express's business model is their closed-looped model. A closed-loop models means that they actively manage relationships with both the cardholders and merchants. This is different than an opened-loop model where cards are issued and merchant networks are built by third parties such as banks. American Express's closed-loop model allows them to provide more competitive information and analytics to their merchants about spending habits. Their Spend-Centric model provides them with a customer base of wealthy individuals and corporations that are big spenders. American Express is very selective with whom they issue cards to. There are fewer transactions associated with American Express because they have a lot less cards in circulation. However, this means that there are larger transactions; in fact, American Express cardholders spend eight times more than any other cardholder. That strategy provides American Express with bargaining power over merchants, which allows them to charge merchants double what their competitors charge. With few cardholders, American Express focuses heavily on customer service. American Express is a luxury card company and has won J.D Power and Associates best customer service award for six straight years. Because they are selective about who they give cards to, their customers typically have much higher credit scores, which translates to low accounts receivables and bad debt write offs.

Corporate Social Responsibility:

ESG Disclosure Rating	24.56 (Ind. Avg.: 27.21)
Environmental Disclosure Score	13.39 (Ind. Avg.: 24.53)
Carbon Disclosure Score	89.00 (Ind. Avg.: 62.55)
Social Disclosure Score	16.67 (Ind. Avg.: 20.86)
Governance Disclosure Score	55.36 (Ind. Avg.: 56.14)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	25.90 (Ind. Avg.: 91.82)
Total Energy Consumption	N/A (Ind. Avg.: 2.5)

Source: Bloomberg Terminal, Value Line Investment Survey, Google Finance

Report Prepared By:

Joseph Grieco
11/06/2013

AXP 5-year stock performance vs. S&P 500:



Competition:

Three of American Express's major competitors are:

- Visa, Inc. (\$154.4bn)
- MasterCard, Inc. (\$86.8bn)
- Discover Financial Services (\$24.8bn)

Pros:

- Their Closed-Loop and Spend-Centric models provide them with significant competitive advantages.
- Their efforts to increase shareholders value by aggressively buying back 150 million shares and increasing dividends by 15%.
- Cardholders spend eight times more per card than competitors.
- Bargaining power over merchant discounts as a result of competitive analytics and large cardholder spending.
- J.D. Power and Associates award for best customer service for 6 straight years.
- Largest corporate market share compared to competitors.
- Prestigious travel agency that offers exclusive benefits to customers.

Cons:

- Small international presences.
- Revenues and profits are highly correlated with consumer spending and market conditions.
- Low transaction volume and cards in circulation compared to competitors.
- Subject to strict regulation through their bank holding division.

Value Estimate:

- \$130 - \$210 (2018 - 2023)
- Estimated Real Annual Return: 8% - 12%

Overall Rating:

Four Stars

Expected inflation	3%
Current EPS	4.95
Forecasted EPS Growth	10%
Credit Quality	A++
ROE	25%
ROA	3.1%
Price/Book	4.6
Debt/Equity	2.7
Debt/Capital	0.7
Current Ratio	1.10
Price/Cash Flow	19.3
10 yr. Risk Free Rate	2.7%
WACC	7%

