

# American Express Co. (NYSE: AXP)

Sector: Financials (NAICS: 522291)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$96.49	\$84.55	\$96.24	\$78.41	1.11	16.70	\$87.5B (Large Cap)	1.23%

## Industry Trends

The Credit Services sector is continuing to grow as consumers shift from cash to credit payments. Currently 85% of world transactions use cash payments, so credit service providers will reap the benefit as transactions shift to credit. The consumer discretionary industry has improved as oil prices have decreased and interest rates have stayed low. The Improvements in the consumer discretionary industry shows consumer confidence and increased spending. As banks continue to lend at low interest rates and consumers continue to increase spending, the Credit Service sector will flourish.

## Investment Thesis

American Express is best positioned out of all the major global payment companies in the world because of their Closed-Loop and Speed-Centric Models. This allows them to control the purchasing information about customers, which will be extremely important in the future if there is a disruption in the global payment industry. They are also ingrained in the financial services industry because they are too important in the ecosystem regarding the securitization of credit. Corporations are also linked up with American Express where it would be too costly to change their companies' credit cards to a different brand.

## Business Summary

American Express Company is a global payment and travel company. The Company's principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. Operates through four segments: U.S. Card Services, International Card Services, Global Commercial Services, and Global Network and Merchant Services. They operates in a closed loop model which allows them issue credit cards and gives them the opportunity to gather important purchasing information about their customers. This will provide an advantage where they can provide better service to their cardholders.

## American Express 5-year stock performance vs. S&P 500:



(Yahoo Finance)

## Corporate Social Responsibility:

ESG Disclosure Rating	20.18 (Ind. Avg.: 17.51)
Environmental Disclosure Score	13.39 (Ind. Avg.: 10.82)
Carbon Disclosure Score	N/A (Ind. Avg.: 49.17)
Social Disclosure Score	3.33 (Ind. Avg.: 18.00)
Governance Disclosure Score	51.79 (Ind. Avg.: 52.62)
Equal Opportunity Policy	N/A (Ind. Avg.: 1)
Community Spending	N/A (Ind. Avg.: \$10.22M)
Total Energy Consumption (000s MWh)	N/A (Ind. Avg.: .21)

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance

## Competition:

American Express's major competitors are:

- Visa, Inc. (\$164.4bn)
- MasterCard, Inc. (\$97.8bn)
- Discover Financial Services (\$26.1bn)

## Pros:

- Competitive advantages from their Closed-Loop and Spend-Centric models
- Increasing dividends 13% and buying back \$4 billion worth of common shares
- 7<sup>th</sup> straight J.D. Power award for "Highest Customer Satisfaction Among U.S. Credit Card Companies"
- Largest corporate market share compared to competitors
- Effectively mitigates credit risk and has half the delinquency rate compared to competitors

## Cons:

- Small international presences
- High exposure to high-end customer
- Low transaction volume and cards in circulation compared to competitors

**Value Estimate: \$96-\$116 (2015-2020)**

**Estimated Real Annual Return: 8%-12%**

## Key Valuation Data:

Estimated Revenues	16%
WACC	10%
Terminal Growth Rate	3%
Calculated CAGR	11.8%

## Key Financial Data2

Expected inflation	2%
Current EPS	\$5.06
Forecasted EPS Growth	5%
Credit Quality	A3/A+/A
ROE	28.84%
ROA	3.77%
Price/Book	4.07
Debt/Equity	290.48
Debt/Assets	38.36
Current Ratio	2.96
Price/Cash Flow	12.50

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2/5/2015



Student Managed Fund