

American Express (NYSE: AXP)

Sector: Financials



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$133.26	\$108.01	\$111.17	\$87.54	15.90x	\$92.951 B	1.44%	1.16

Business Description

American Express is a global payment and travel company. They offer charge and credit payment products and travel related services for consumers and businesses around the world. Their business can be broken down into US Consumer Services, Global Commercial Services, International Services and Global Merchant services. They are a truly global company, operating in more than 40 countries worldwide. The vast majority of their revenues come from their spend-centric business model.

Industry Trends

After taking a large hit during the recession; the payments industry is making a comeback during these strong economic times. While American Express operates in both the card issuing and bank issuing industries, its main competition is Discover because of their similar closed loop business model. However, American Express is far more global than Discover and has higher quality customers (better credit, higher spending). In this macroeconomic boom, American Express is well positioned to ride industry tailwinds to strong results.

Investment Thesis

American Express can deliver consistent value from their position in the expanding payments industry, their industry leading innovation and reputation as a premium brand. The expanding payments industry is led by the generally positive outlook for the economy and an increase in global card use. Amex's industry leading innovation is characterized by their top notch rewards program, expansion into the digital payments space and successful capture of high quality millennial customers. Their premium brand has never been in question, boasting the industry's best credit quality backed by their closed loop business model.

Valuation Assumptions and Key Financials

WACC: 8.5% Current stock price: \$108.01

Terminal Growth: 2.0% Intrinsic Value: \$133.26

Upside: 23.4%

Sources: Bloomberg, Annual reports

Corporate Social Responsibility

-Contributed \$36 million through employee gift matching in 2016

-30% carbon reduction compared to 2011 (beating goals by 10%)

-85% carbon-free electricity in US Building Operations

5-Year Stock Performance



Competitive Analysis

American Express's main competitors include card issuers like Visa and MasterCard along with bank issuers like JP Morgan Chase, Citigroup, Bank of America, Synchrony Financial and Discover. While they compete in both industries, their closed loop business model sets them apart from their competition. The only business with a similar system is Discover, and they are not nearly as global as American Express. Additionally, Amex boasts the lowest charge off rates and the best credit in the industry due to the premium nature of their customers. On top of that, American Express customers spend 5x as much per account compared to the industry account average. Since they have premium customers, they are also able to give larger lines of credit with more certainty, resulting in extremely high revenues.

Competitive Advantages

AXP's spend-centric model allows them to make back a percentage of every purchase facilitated by their card. Their extremely high spending customers (paired with their great credit) bolster this advantage. Additionally, their closed loop system gives them numerous fee-based and data based advantages unmatched by any other company. Their digital presence has increased with industry leading digital integration and capture of millennial customers. Thirdly, their premium brand is a competitive advantage in itself. No competitors can compete with their rewards program or market share of corporate spending, which essentially forces merchants all around the world to accept Amex.

Risks

Losing a branded card relationship like Costco could be catastrophic for the AXP stock price and the business in general. Additionally, Amex's premium brand is key to many of their competitive advantages and tarnishing that brand would severely hurt their business model. A third risk is increasing price competitiveness as rewards and merchant discount rates increase around the world. Credit risk is an inherent problem for companies like Amex, but their low charge off rate somewhat hedges this problem. However, an unexpected increase in their loan loss provision would substantially impact their ability to make money. A final risk facing American Express is technology risk, as their expansion into digital mediums increases threats of fraud and hackers.

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