

# American Express (NYSE: AXP)

Sector: Consumer Financials



Target Price:	Current Price:	52W High:	52W Low:	P/E:	MKT Cap:	Div. Yield:	Beta:
\$301.37	\$265.50	\$271.49	\$140.91	20.7x	\$191,228 B	1.04%	1.21

## Business Description:

American Express and its subsidiaries delivers credit and charge cards, payment and expense management solutions, and travel services to individuals and businesses, while facilitating global merchant transactions. It generates revenue through cardholder spending, merchant fees, and various financial services, supported by a large network of merchant partners and premium customer benefits. The business can be broken down into 4 segments: US Consumer Services, US Commercial Services, International Card Services, and Global Merchant & Network services.

## Industry Trends:

American express operates within two main industries, Card Lending and Payment Processing. Both of these spaces have seen moderate-to-good growth over the past 5Y. Current valuations have baked-in the expectation of Fed rate cuts (which indeed just happened). This has opened up the opportunity and potential for increases in the Net Interest Margin for those in the space. Additionally, Credit Card delinquency is on the decline, which directly impacts the bottom line for firms, reducing their Provisions for Credit Losses (PCL). Card delinquency generally operates as an inverse function to joblessness. Additionally, the industry is seeing an increase in loan balances, as individuals lean on their cards to combat waning spending power.

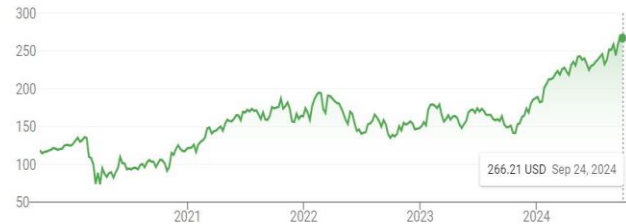
## Investment Thesis:

Because of the state of the industry, in addition to AXP's unique market positioning and competitive advantages, they are poised to continue expanding at a stable rate. AXP can capitalize on their solid revenue foundation through expanding their global network & merchant system and continuing to increase visibility among younger consumers. The recent fed rate cut has and will act as a 'mini' catalyst to realize its value, on top of a very strong, relatively economically inelastic business model.

## Valuation Assumptions:

<u>Perpetuity Growth:</u> 3.00%	<u>WACC:</u> 9.52%
<u>Current Price:</u> \$265.60	<u>Implied Price:</u> \$301.34
<u>Margin of Safety:</u> 13.46%	

## 5 Year Chart:



## Competitive Advantages:

American Express's closed-loop system gives them unique insights into customer spending and behavior, allowing for better customer relationships and increased revenue through fee-based services. Their high FICO score customers, who are less likely to default, contribute to low delinquency rates, ensuring strong financial stability. Amex's increased marketing spending has broadened its brand reach, strengthening its position as a global premium brand. This exclusivity is further amplified by their exclusive card offerings and superior Membership Rewards, which continue to attract affluent consumers. Lastly, their expanding global merchant network enhances acceptance, reinforcing Amex's dominance in corporate and premium consumer spending.

## Risks:

A recession poses a relative risk to American Express, as reduced consumer spending could negatively impact their revenue streams. Rising interest rates may further strain Amex by increasing the cost of borrowing, both for the company and its customers. Geopolitical risks, particularly in Eastern Asia and with the upcoming US presidential election, add uncertainty to global operations. Additionally, the sparse catalysts in the market, due to unpredictable economic outcomes, make it harder for Amex to drive growth. Mismanagement of their growth strategy, particularly in expanding into the mass market while maintaining their premium brand image, could dilute their competitive edge. Finally, increased M&A activity among competitors might lead to intensified competition, posing a challenge to Amex's market dominance.

## Report Prepared by:

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