

## American Express Company

## Continued business momentum and OpEx leverage drive 2024 guide

Reiterate Rating: BUY | PO: 224.00 USD | Price: 200.24 USD

## Shares up on full-year guide above expectations

We are not surprised to see shares trading higher for American Express (AXP) following its 4Q print, which included 2024 guidance above expectations (see our report, [Solid 2024 guide should be good enough - 26 January 2024](#)). While most of the concern had been on top-line growth, business momentum remains encouraging despite the macro pressure, and the 2024 guide should help quell some of the skepticism about AXP's long-term growth aspirations. American Express remains our top pick given its unique business model, super-premium cardholder base, and best-in-class credit. We reiterate our Buy rating.

## 2024 revenue growth: billings flat, NII decelerated, card fees up

We sense some investor skepticism regarding AXP's 9-11% revenue growth guidance, particularly following Visa's commentary noting a weather-driven slowdown in January. As such, much of the focus on the call was understanding the components and drivers of revenue growth. AXP noted that it expects billings to be consistent with prior quarters, with the company previously noting that this recent range would be enough to reach its long-term aspirations. Additionally, AXP expects net card fee growth to reaccelerate in 4Q24 from currently levels (17.4% y/y) given +40 card refreshes, ample premium card acquisitions, and high retention rates. It expects net interest income to slow as loan growth decelerates and pre-Covid balances are fully recouped.

## OpEx leverage even as AXP invests in engagement spend

AXP expects total expenses to increase in the mid- to high single digits in 2024. The primary driver of increased expenses is variable customer engagement spend, which AXP expects to grow slightly faster than revenue. This is primarily due to refreshing rewards on premium card products. The company plans to flex marketing dollars as opportunities arise and noted that demand increased in the end of 4Q. Other operating expenses are expected to be flat y/y, providing operating leverage for AXP. Additionally, all of the guidance does not include the impact of the sale of Accertify, which is expected to close in 1Q24, with gains redeployed to investment spending.

## Adjusting estimates and PO

Given 4Q results and guidance, we increase our 2024/2025 EPS estimates to \$12.97/\$14.92 from \$12.88/\$14.77 and adjust our PO to \$224, based on an 15x multiple to 2025e EPS (from \$206 on 16x 2024e previously). We lower our multiple to 15x from 16x as we roll forward our PO to be based on next year's earnings

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.84	11.21	12.97	14.92	17.20
EPS Change (YoY)	0.8%	13.9%	15.7%	15.0%	15.3%
Consensus EPS (Bloomberg)			12.40	14.16	13.14
DPS	2.08	2.40	2.80	2.80	2.80
Valuation (Dec)					
P/E	20.3x	17.9x	15.4x	13.4x	11.6x
Dividend Yield	1.0%	1.2%	1.4%	1.4%	1.4%

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26 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	206.00	224.00
2024E DPS	2.40	2.80

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## Stock Data

Price	200.24 USD
Price Objective	224.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-7
52-Week Range	140.91 USD - 189.51 USD
Mrkt Val / Shares Out (mn)	145,924 USD / 728.7
Free Float	72.5%
Average Daily Value	611.45 USD
BofA Ticker / Exchange	AXP / NYS
Bloomberg / Reuters	AXP US / AXP.N
ROE (2024E)	31.0%
ESGMeter™	High

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NII: Net interest income  
OpEx: operating expense

PO: price objective

# iQprofile<sup>SM</sup> American Express Company

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	9,895	13,134	14,868	17,111	19,615
% change	27.7%	32.7%	13.2%	15.1%	14.6%
Net Fee Income	42,967	47,381	51,739	56,455	61,519
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	52,862	60,515	66,607	73,566	81,134
Operating Expenses	(41,095)	(45,079)	(48,767)	(54,166)	(59,538)
% change	24.1%	9.7%	8.2%	11.1%	9.9%
Provisions Expense	(2,182)	(4,923)	(5,738)	(5,973)	(6,585)
% change	NA	125.6%	16.6%	4.1%	10.2%
Operating Pre-Tax Income	9,585	10,513	12,102	13,428	15,012
Operating Net Income to Comm S/Hold.	7,400	8,252	9,258	10,353	11,588
GAAP Net Income	7,514	8,374	9,379	10,474	11,709

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	228,354	261,000	287,483	312,119	339,455
Average Interest Earning Assets	99,413	120,850	136,495	151,931	169,062
Total Gross Customer Loans	111,747	131,118	146,306	163,169	182,138
% change	21.6%	17.3%	11.6%	11.5%	11.6%
Total Customer Deposits	110,239	129,000	139,320	149,072	159,507
% change	30.6%	17.0%	8.0%	7.0%	7.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	24,711	27,869	31,202	35,686	41,461

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	9.95%	10.87%	10.89%	11.26%	11.60%
Effective Tax Rate	21.6%	20.3%	22.5%	22.0%	22.0%
Loan / Deposit Ratio	101.4%	101.6%	105.0%	109.5%	114.2%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	31.4%	30.6%	31.0%	30.6%	29.6%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	21.1%	21.4%	21.6%	18.7%	16.3%
Efficiency Ratio (Cost / Income Ratio)	77.7%	74.5%	73.2%	73.6%	73.4%
Billings Growth	20.9%	8.2%	6.7%	7.3%	7.3%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(57)	(65)	(65)	(65)	(65)
Change in Debt	NA	NA	NA	NA	NA

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	81.3%	78.3%	77.7%	76.7%	75.8%
Loan Loss Reserves / Total Loans	3.47%	4.06%	4.28%	4.35%	4.40%

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

American Express is a fully integrated payments company. It is a card issuer, payment network and merchant acquirer. The company provides charge and credit cards to consumers and businesses, directly and to a much lesser extent through bank issuing partners across the world. It also operates a global merchant acquiring and card processing network.

## Investment Rationale

We rate AXP a Buy. AXP's strong execution during the pandemic should drive faster long-term revenue and EPS growth as it benefits from improved card member retention and new card acquisitions. Operating momentum is strong and AXP should also benefit from the continuing recovery in travel post-pandemic. Credit also remains firmly in check. We think risk-reward is attractive.

## Stock Data

Average Daily Volume 3,053,561

## Quarterly Earnings Estimates

	2023	2024
Q1	2.40A	3.02E
Q2	2.89A	3.20E
Q3	3.30A	3.35E
Q4	2.62A	3.40E

## Price objective basis & risk

### American Express Company (AXP)

Our \$224 price objective is based on a 15x multiple to our 2025 EPS forecast. The 15x PE multiple is the middle of the historical range (12-18x) for AXP, which we think is appropriate given the growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

## Analyst Certification

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### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia



## US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg
<b>RSTR</b>				
	EngageSmart	ESMT	ESMT US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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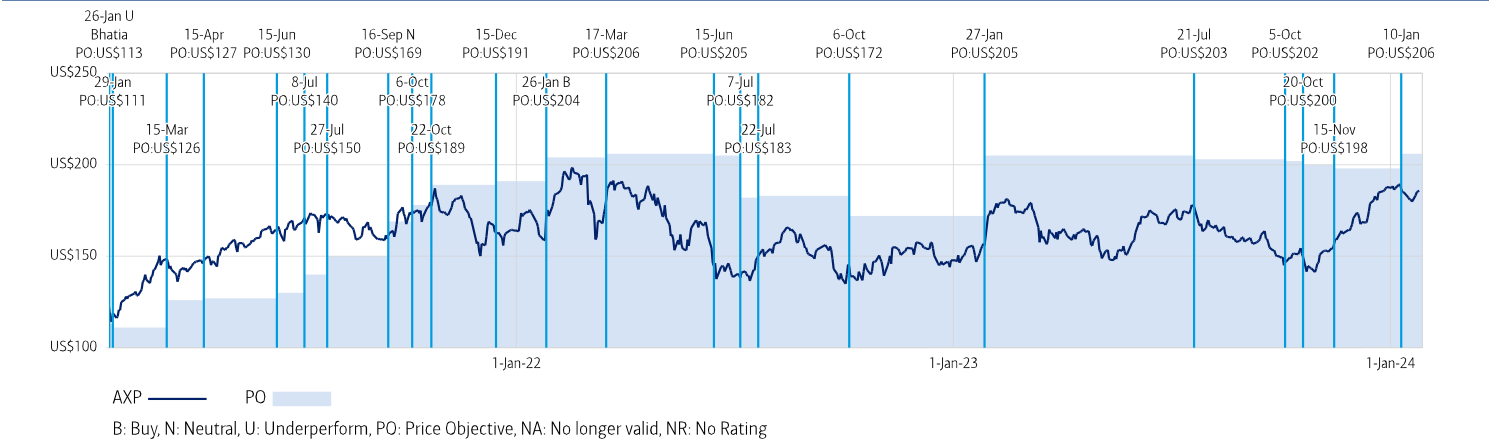
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American Express (AXP) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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