

American Express Company

Nov op data: Loss rates improve and loan growth holds strength

Reiterate Rating: BUY | PO: 198.00 USD | Price: 178.86 USD

Positive November metrics

American Express (AXP) reported strong operating metrics highlighted by steady loan growth and improved loss rates on a m/m basis. Overall, we view the results positively as sequential loan growth exceeded historical seasonality and net write-off rates strengthened in a period in which they typically weaken slightly. The company's credit results remain best-in-class and are trending below consensus forecasts. We believe the credit performance will be well received under a backdrop in which most other card issuers are seeing continued weakening in charge-off results. Maintain Buy.

Loan growth at 16.8% vs 16.9% in October

November loan balances of \$107.2B were up 16.8% y/y, essentially the same pace as October. US Consumer loan growth was 15.5% (15.7% in October) and US Small Business growth accelerated to 21.0% y/y from 20.8% y/y in the prior month. Sequentially, loan balances grew 249bps m/m which is 30bps above typical seasonality for November (10yr average: +219bps). December balances typically increase an additional 125bps m/m, but given the strength in November, we remain comfortable with our \$109.2B estimate, in-line with the street.

Net write-off rate at 1.77%, down 15bps m/m

The net write-off rate was 1.70% in US Consumer and 2.00% in US Small Business, which resulted in an overall loss rate of 1.77%. The net-write off rate improved 15bps m/m which is better than historical performance in November during which losses are historically up 2bps (10yr average). Losses typically increase 3bps in December, as a result we tweak our loss rate to 1.90% from 2.00% previously, consensus appears high at 2.08%. The 30+ day DQ rate increased 8bps m/m to 1.38%, which implies slight upward trajectory in near-term loss rates.

Tweaking estimates

We tweak our 4Q estimate to \$2.57 from \$2.51 previously as we account for better credit performance. We maintain our \$198 PO based on an unchanged 16x multiple to 2024e EPS. Reiterate Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.76	9.84	11.16	12.39	14.97
GAAP EPS	10.02	9.84	11.16	12.39	14.97
EPS Change (YoY)	158.9%	0.8%	13.4%	11.0%	20.8%
Consensus EPS (Bloomberg)			11.21	12.33	14.28
DPS	1.72	2.08	2.40	2.40	2.40
Valuation (Dec)					
P/E	18.3x	18.2x	16.0x	14.4x	11.9x
GAAP P/E	17.9x	18.2x	16.0x	14.4x	11.9x
Dividend Yield	1.0%	1.2%	1.3%	1.3%	1.3%

15 December 2023

Equity

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Stock Data

Price	178.86 USD
Price Objective	198.00 USD
Date Established	15-Nov-2023
Investment Opinion	B-1-7
52-Week Range	140.91 USD - 182.15 USD
Mrkt Val / Shares Out (mn)	130,343 USD / 728.7
Free Float	72.6%
Average Daily Value	522.36 USD
BofA Ticker / Exchange	AXP / NYS
Bloomberg / Reuters	AXP US / AXP.N
ROE (2023E)	30.5%
ESGMeter™	High

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Timestamp: 15 December 2023 01:03PM EST

iQprofileSM American Express Company

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	7,750	9,895	12,992	14,585	15,882
% change	-2.9%	27.7%	31.3%	12.3%	8.9%
Net Fee Income	34,630	42,967	47,642	51,881	56,639
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	42,380	52,862	60,633	66,466	72,521
Operating Expenses	(33,110)	(41,095)	(45,375)	(49,809)	(53,689)
% change	22.4%	24.1%	10.4%	9.8%	7.8%
Provisions Expense	1,419	(2,182)	(4,857)	(5,358)	(5,701)
% change	-130.0%	NA	122.6%	10.3%	6.4%
Operating Pre-Tax Income	10,689	9,585	10,402	11,299	13,131
Operating Net Income to Comm S/Hold.	7,917	7,400	8,219	8,808	10,255
GAAP Net Income	8,060	7,514	8,338	8,926	10,373

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	188,548	228,354	263,426	278,736	302,187
Average Interest Earning Assets	78,268	99,413	120,719	134,913	149,066
Total Gross Customer Loans	91,905	111,747	130,352	144,326	159,539
% change	16.7%	21.6%	16.6%	10.7%	10.5%
Total Customer Deposits	84,382	110,239	130,082	140,489	150,323
% change	-2.9%	30.6%	18.0%	8.0%	7.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	22,177	24,711	27,773	30,947	35,630

Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	9.90%	9.95%	10.76%	10.81%	10.65%
Effective Tax Rate	24.6%	21.6%	19.8%	21.0%	21.0%
Loan / Deposit Ratio	108.9%	101.4%	100.2%	102.7%	106.1%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	31.9%	31.4%	30.5%	29.7%	30.3%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	17.1%	21.1%	21.5%	19.3%	16.0%
Efficiency Ratio (Cost / Income Ratio)	78.1%	77.7%	74.8%	74.9%	74.0%
Billings Growth	23.7%	20.9%	8.4%	6.8%	7.7%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(76)	(57)	(62)	(62)	(62)
Change in Debt	NA	NA	NA	NA	NA

Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	81.7%	81.3%	78.6%	78.1%	78.1%
Loan Loss Reserves / Total Loans	3.73%	3.47%	4.05%	4.24%	4.25%

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.

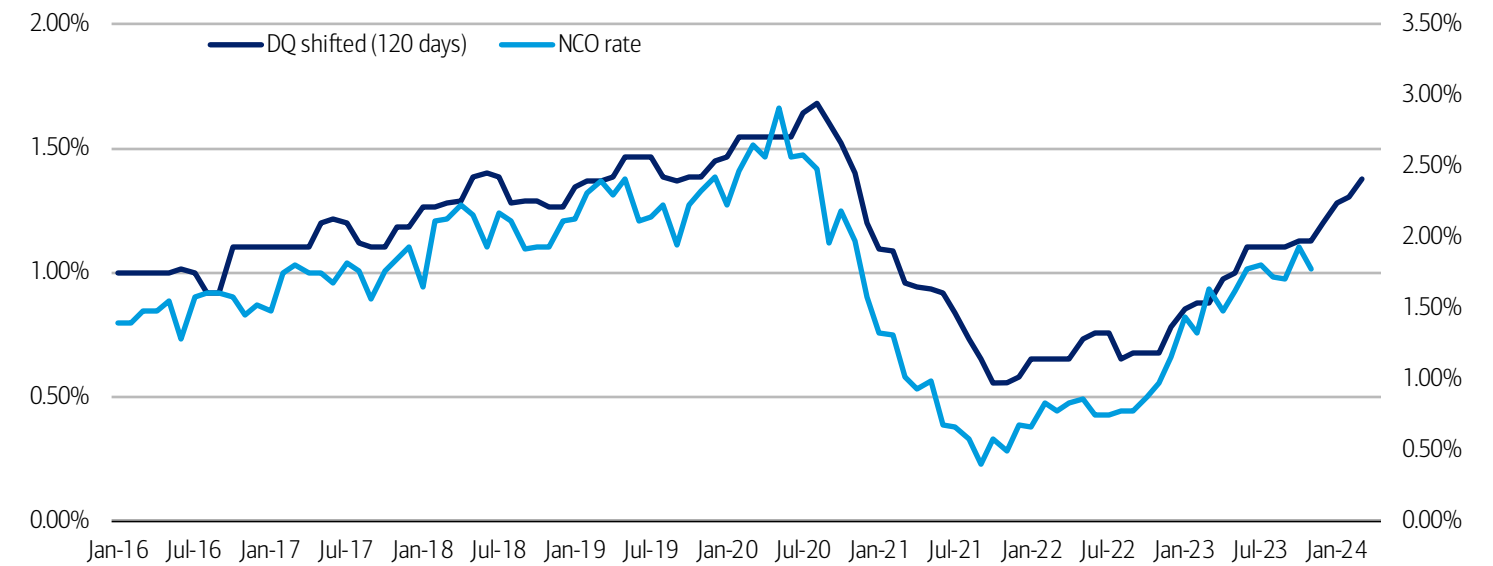
Stock Data

Average Daily Volume 2,920,480

Quarterly Earnings Estimates

	2022	2023
Q1	2.73A	2.40A
Q2	2.57A	2.89A
Q3	2.47A	3.30A
Q4	2.07A	2.57E

Exhibit 1: DQs suggest sight upward trajectory for near-term loss rates
Net charge-offs (NCO) vs lagged DQs



Source: BofA Global Research estimates, company reports

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Price objective basis & risk

American Express Company (AXP)

Our \$198 price objective is based on a 16x multiple to our 2024 EPS forecast. An 16x PE multiple is on the higher end of the historical range (12-18x) for AXP, which we think is appropriate given the faster 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
BUY				
	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
NEUTRAL				
	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
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	ADP	ADP	ADP US	Jason Kupferberg

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

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	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
RSTR				
	EngageSmart	ESMT	ESMT US	Jason Kupferberg

IQmethodSM 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 & 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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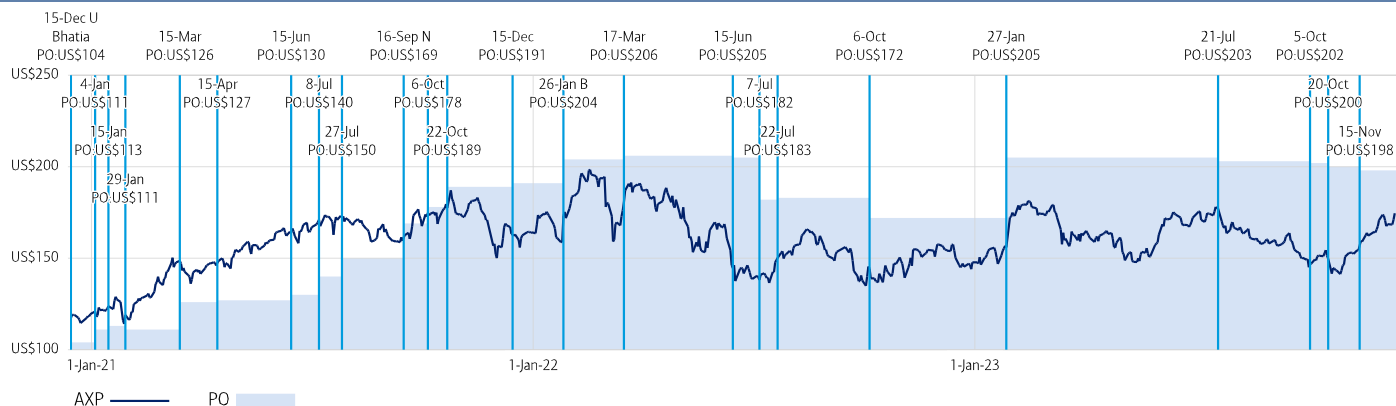
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American Express (AXP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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